

## **Conflict of Interest over Official Development Assistance (ODA) and Its Influence on Shifting Paradigm in Development Financing: Learning from Multi-Bi ODA**

**Chong-Sup Kim and Ki-Seok Lee\***

*This study investigates why conflict of interest occurs in multi-bi ODA – a hybrid form of bilateral ODA and multilateral ODA – and focuses on the bilateral relations between donor countries and multilateral organizations for analysis. Significantly, donor countries and multilateral organizations can each have their respective interests due to the hybrid nature of multi-bi ODA, and consequently, the relationship of donor countries and multilateral organizations is not always cooperative and mutually beneficial in multi-bi ODA. In Particular, this study focuses on the reason why conflict arises in multi-bi ODA based on the ‘Principal-Agent Model’ to analyze the conflict-based relationship of donor countries and multilateral organizations.*

***Keywords: Donor Country, Multilateral Organization, Multi-Bi ODA, Conflict of Interest, Principal Agent Model***

### 1. INTRODUCTION

Since Official Development Assistance (ODA)<sup>1</sup> – development financing (also referred to as financing for development) contributed by the member countries<sup>2</sup> of the Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) – was developed by the OECD in 1972, the overall size of ODA has gradually expanded and large-scale expansion of ODA was observed in the era of MDGs (Millennium Development Goals). Since then, the type of ODA has been diversified which includes budget support, basket funding, pooled funding, and project-type interventions. However, the growth rate of ODA has currently slowed and UN agencies (also generally referred to as multilateral organizations in development) have been facing budget constraints since donor countries began limiting their spending on ODA. In addition, ODA/GNI has gradually declined resulting in diverging gaps between required amount and actual support of ODA in development. This originated from a few reasons such as global economic crisis and rising pressures from domestic stakeholders<sup>3</sup> (OECD, 2010b; OECD 2011a). Further, the fact that multilateral organizations heavily depend on the financial contribution from donor countries also becomes the reason for the financial limitations of UN agencies engaging in

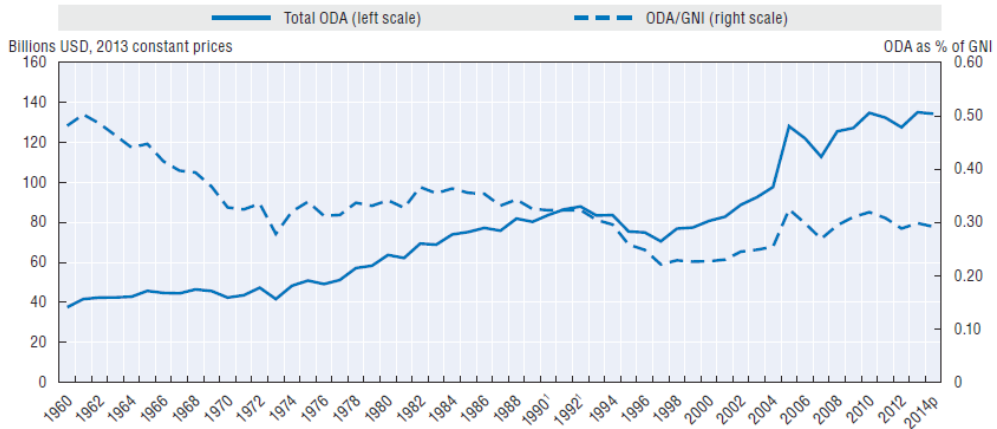
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\* Corresponding author

<sup>1</sup> Definition of the OECD: “1) Provided by official agencies, including state and local governments, or by their executive agencies; and 2) each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).”

<sup>2</sup> 30 member countries of OECD DAC (as of May 2017).

<sup>3</sup> Legislative organizations and civil societies.

**Figure 1.** Total ODA and ODA/GNI (1960-2014)

Source: OECD (2015b: 164)

development.

However, ODA contribution to UN agencies – particularly based on voluntary conditions – has expanded even though the incremental curves of overall ODA has been slowed down as shown in Figure 1.

This phenomenon provided a ground for the research on why donor countries have a tendency to expand ODA contribution to multilateral organizations at least it is voluntarily contributed. In particular, this study focused on multi-bi ODA – which is termed by the OECD and delivers bilateral ODA through multilateral organizations – in that 1) it is the ODA voluntarily contributed by donor countries and 2) it possesses commonality with multi-bi ODA. In light of these financial contexts of ODA in development, this study examined the underlying reason for the contribution of multi-bi ODA to the revitalization of ODA and its implication regarding the relationship between donor countries and multilateral organizations. By doing so, this study attempts to analyze the reason why conflict of interest occurs in multi-bi ODA – a hybrid form of bilateral ODA and multilateral ODA – and focuses on the bilateral relations between donor countries and multilateral organizations for analysis.

To interpret the questions, this study focused on the fact that most of multilateral ODA have been delivered into limited numbers of multilateral organizations (i.e. United Nations, World Bank Group, EU Institutions, and Regional Development Banks). It is also significant that the United Nations remains the entity that receives the majority of the multi-bi ODA. Second, taking the insufficient pools of academic material and statistical resource into account, this study extensively reviewed and cross-checked the statistics, documents, and academic papers of the OECD, UN agencies, and bilateral agencies of donor countries. Third, this study conducted focused-group interview and adopted the Principal Agent Model to verify the research questions focused on the relationship between donor countries and multilateral organizations.

## 2. HISTORICAL CONTEXT OF MULTI-BI ODA

From the emergence of ODA in 1970s, there has been continuous discussion on which type of ODA facilitates better aid between bilateral ODA and multilateral ODA.<sup>4</sup> In general, small donor countries have a tendency to prefer multilateral ODA since the cost of project management can be costly for them without relevant supports from multilateral organizations. On the contrary, large donor countries which have relatively abundant experience, financial resources, and overseas networks prefer bilateral ODA since the capabilities of large donor countries are enough to independently expedite developmental projects and related activities (Fues, 2010: 1-3).

Regarding the historical context of two different types of ODA, it is notable that demand for multilateral ODA has gradually increased due to the globalizing world and growing interactions among countries as a consequence. As interactions increase among countries in global context, activities of multilateral cooperation have also expanded to tackle the increasing global issues. This shifting trend on the growing need for multilateral cooperation has encouraged donor countries to strengthen the collaboration with multilateral organizations. By this increasing need for multilateral cooperation, donor countries and multilateral organizations have contributed to the emergence of a ‘new and hybrid’ type of ODA and it was termed multi-bi ODA by the OECD (OECD, 2011a; Sagasti, 2005).

Encompassing both features of bilateral ODA and multilateral ODA, multi-bi ODA (also referred to as multi-bilateral ODA) has common interests of donor countries and multilateral organizations and this entails either ‘competition or collaboration’ between donor countries and multilateral organization. The core feature of multi-bi ODA lies on the fact that multi-bi ODA<sup>5</sup> allows donor countries to 1) decide the themes, sectors regions, and countries prior to the ODA commitment and 2) track the records of their ODA contributions by the reports of budget allocation of multilateral organizations. This particularly enables multilateral organizations to attract ‘easier and bigger’ financial contribution from donor countries since multi-bi ODA can help raise ODA visibility for the domestic constituents in donor countries.

## 3. SHIFTING TREND OF ODA

### 3.1. Emergence of Multi-Bi ODA

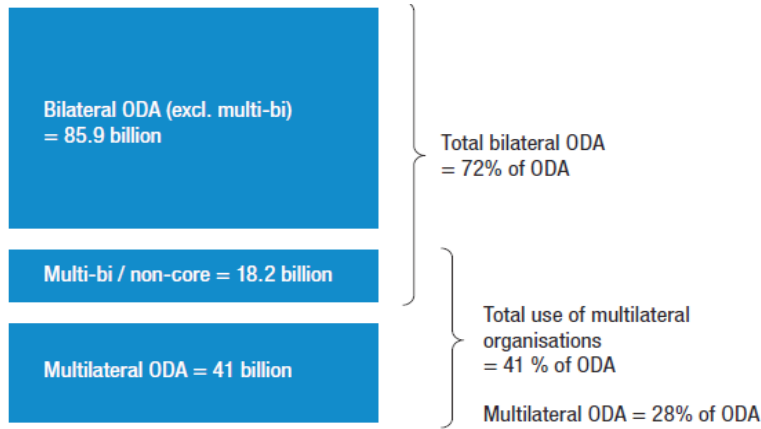
Since ODA was coined by the OECD, the absolute volume of ODA has continued to rise over the past decades. In particular, ODA has considerably expanded in the era of MDGs due to a series of high-level international conferences on development financing<sup>6</sup> and globally

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<sup>4</sup> To date, bilateral ODA accounts for approximately 70% of entire ODA whereas multilateral ODA accounts for 30%. Among the entire activities of multilateral cooperation, approximately 40% of ODA has been delivered through multilateral organizations including multilateral ODA and multi-bi ODA.

<sup>5</sup> Definition of the OECD: “contributions to multilateral organizations that are earmarked at any level – to a specific country, region, sector or theme.” Multi-bi ODA is reported as part of donors’ bilateral ODA (OECD, 2011a).

<sup>6</sup> International Conference on Financing for Development, held in Monterrey, Mexico in 2002.

**Figure 2.** Breakdown of Total ODA (2013)

Source: OECD (2015a: 2)

agreed development goals (i.e. MDGs and EFA<sup>7</sup>).

On the contrary, ODA as a share of GNI (ODA/GNI) has gradually decreased and the decrease of ODA/GNI was generally originated from the economic downturn and resistance from tax payers in donor countries. The historic low of ODA/GNI (0.22%) was observed in 2001 (OECD homepage) and the decrease of ODA/GNI implies that the preference of donor countries for ODA contribution has also continued to decline in that the ODA contribution and economic growth of donor countries have respectively gone in an opposite direction.

Nonetheless, 1) rising global issues such as HIV/AIDS, extreme poverty, natural disaster, energy, and environment in today's globalizing world and 2) the 15 years of MDGs have boosted the numbers and ranges of ODA activities particularly in multilateral context. Besides, on politically sensitive issues such as democracy-building and crisis prevention, bilateral donor countries particularly tend to choose multilateral aid since multilateral organizations are regarded as being politically neutral in relative terms (Finn Tarp, 2002, pp. 28-29; OECD, 2012a). The increased volume of ODA and enhanced complexity of aid architectures have made the choice between bilateral and multilateral aid more difficult due to the growing numbers of global challenges as well as the addition of new stakeholders in the process of international development (Acharya, 2006). These factors, however, also serve to underscore the increased importance of multilateral aid, which has been hailed as one of the most effective vehicles for coping with these global challenges (OECD, 2011a).<sup>8</sup> The reasoning behind this evaluation is that multilateral aid has a comparative advantage over bilateral aid due to its superiorly skilled workforce, professional expertise, and abundant

<sup>7</sup> Millennium Development Goals (MDGs) and Education for All (EFA) targeting on 15 years between 2000 and 2015

<sup>8</sup> "Multilateral aid has a vital role to play in responding to global challenges such as food security, climate change, and conflict. We have shaped a complex multilateral system with structures to suit diverse objectives and subject to responsibility to ensure its effectiveness for the benefit of our partner countries," by J. Brian Atwood (DAC Chair)

**Table 1.** Examples of Multi-Bi ODA Channeled Through Multilateral Organizations

Description	Multilateral channel
Afghanistan Reconstruction Trust Fund	World Bank
Clean Technology Fund	World Bank
Education For All - Fast Track Initiative	World Bank
Environment Transformation Fund	World Bank
Jakarta Multi-donor Trust Fund	World Bank
DRC Humanitarian Pooled Fund	UNDP
Law and Order Trust Fund - Afghanistan	UNDP
Emergency Program in the Horn of Africa	World Food Programme (WFP)
Congo Basin Forest Fund	African Development Bank

Source: OECD (2011a: 30)

fieldwork experiences.<sup>9</sup>

In line with the expansion of ODA funded activities in multilateral context, the entire ratio of ODA which is channelled through multilateral organizations – multilateral ODA and multi-bi ODA – has also increased. As described in Figure 2, the ratio of multilateral ODA and multi-bi ODA accounts for 41% together (as of 2013) and it is almost compatible with that of bilateral ODA. This implies that the roles of multilateral organizations have expanded in relations with the growing activities of multilateral cooperation.

In particular, multi-bi ODA has been increasing for the past decades while multilateral ODA has turned into a stalemate due to the economic downturn and resistance from domestic stakeholders in donor countries (OECD, 2013). Currently, the breakdown of multi-bi ODA out of total ODA is found to be between 10% and 20% on average and a few countries have shown even higher preference for multi-bi ODA (OECD CRS).<sup>10</sup> Due to the nature of multi-bi ODA, the increase of multi-bi ODA escalated the leverage of donor countries over the management of multi-bi ODA and it implies that the chances of conflict between donor countries and multilateral organizations have been also increased.

According to the OECD, multi-bi ODA is defined as “contributions to multilateral organizations that are earmarked at any level – to a specific country, region, sector or theme” and it is reported as part of donors’ bilateral ODA (OECD, 2011a). In another definition, the OECD says that multi-bi ODA includes earmarked contributions to trust funds (TFs), joint programmes (JPs), and specific activities within a country programme (OECD, 2012). Table 1 shows the examples of multi-bi ODA, and notably, a number of trust funds are being managed by the World Bank<sup>11</sup> and the United Nations.

<sup>9</sup> For example, many UN agencies have a number of Country Offices (CO) and local staffs in developing countries and UNDP, UNICEF, and WFP are the exemplary entities which are particularly field-oriented.

<sup>10</sup> The ratio in Sweden and Norway marked over 20% (DAC reports on multilateral aid). In Sweden, all multi-bi ODA is determined by the development agency (SIDA), while it is usually the responsibility of governmental ministries in other DAC countries (OECD, 2011a).

<sup>11</sup> The World Bank alone manages over 1,000 main trust funds and the UN also has various trust funds particularly administered by UNDP (Reinsberg, 2012).

**Table 2.** Types of United Nations Resource

Assessed Contributions (Mandatory Funding)	Voluntary Contributions	
	Unearmarked VC	Earmarked VC
Core Resources	Core Resources	Non-core Resources

Source: Compiled by author

### 3.2. Growth of Non-Core Resources in the United Nations

United Nations (UN), largest international organization working on global issues such as sustainable development, food production, climate change, and gender equality, is financed by ‘assessed contributions’<sup>12</sup> and ‘voluntary contributions.’<sup>13</sup> These contributions are defined in different terminologies in each of the involved UN agencies and this makes the structures of UN finances look seemingly more complex.

Assessed contributions are mandatory funding contributed from the UN member states and they are widely utilized as ‘regular budget resources’ in the entire UN system. Since it is used for operating the organization (i.e., operational expenditures, administrative fees), it is also termed ‘core resources (United Nations, 2007).’

On the other hand, voluntary contributions are not mandatory, but voluntary funding as it is named, and it is also called ‘extra-budgetary resources.’ Besides, voluntary contributions are generally regarded as ‘non-core resources’ because donor countries do not favorably contribute their aid resources by labeling them as core resources. But in broader context, there are also some amounts of core-resources in voluntary contributions as shown in Table 2 (United Nations, 2007). In general, core-resources are the most pivotal funding to support the organizational operations in the United Nation and the organization has recently confronted financial limitation due to the imbalance between core-resources and non-core resources caused by the decreasing ratio of core-resources compared to the increasing non-core resources in recent years.<sup>14</sup>

Significantly, core resources (regular budget resources) are also termed ‘unearmarked resources’ since the resources are provided without any conditions attached to them. Contrarily, non-core resources (extra-budgetary resources) can be replaced by ‘earmarked contributions’ for they are earmarked for certain subjects on their disbursement (United Nations, 2007). Table 2 shows the general pattern of resource terminologies being used in the

<sup>12</sup> “Assessed contribution finances the regular budgets of the United Nations, the specialized agencies, and the International Atomic Energy Agency (IAEA). Payment of the assessed contribution is one of the legal obligations accepted by a country when it joins the Organization (Browne, 2013).”

<sup>13</sup> “Voluntary contributions finance special programs and offices created by the U.N. system, such as the United Nations Development Program (UNDP), the United Nations Environment Program (UNEP), the United Nations Children’s Fund (UNICEF), and the U.N. Democracy Fund (UNDEF). Payment of these contributions is entirely up to each individual country; no country is legally obliged to contribute to these programs (Browne, 2013).”

<sup>14</sup> Certain amount of core-resources is necessarily required to be embedded for the operation of UN agencies even in the voluntary funding system regardless of the preferences of donor countries (Graham, 2012).

**Table 3.** Different Terms Used in UN Agencies for Core and Non-Core Resources

Core	Entity	Non-core (Multi-Bi)	Entity
Regular Resources	UNDP, UNIFEM, UNICEF, UNFPA	Other Resources	UNDP, UNIFEM, UNICEF, UNFPA
Multilateral Contribution	WFP	Directed Multilateral Contribution	WFP
Regular Budget	UNRWA, UNDESA, UN-HABITAT,	Projects and Emergency Appeals	UNRWA
Un-earmarked Contribution	UNHCR, OCHA, IFAD, OHCHR	Earmarked Contribution	OCHA, UNEP, UN-HABITAT, OHCHR
Core Resources	UNAIDS, OECD/DAC	Extra-budgetary Contribution	FAO, IAEA, ILO, UNESCO,
General Purpose Fund	UNODC	Special Purpose Fund	UNODC
Assessed Budget	FAO, ILO, ITU, UNESCO,	Voluntary Contributions - Specified	WHO

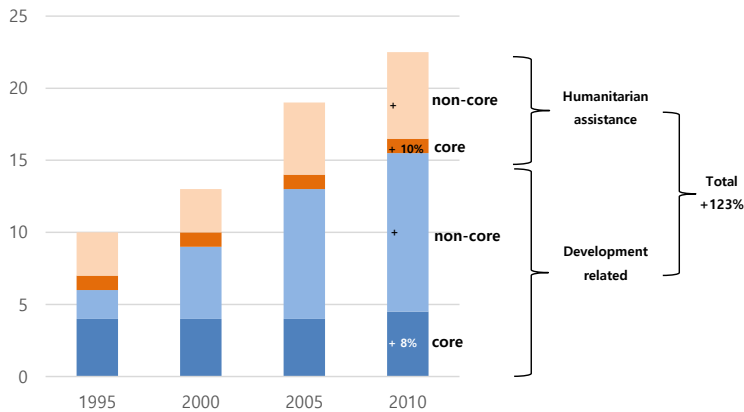
Source: Compiled by author based on United Nations (2012: 52-53)

UN and non-core resources share some commonality with earmarked resources and voluntary contribution in the entire UN system.

In relations with multi-bi ODA, non-core resources can be also replaced by ‘multi-bi ODA’ since multi-bi ODA is used as resources for direct cost of developmental activities. Non-core resources are also earmarked for specified areas of resource disbursement which are the same as multi-bi ODA and both terminologies are often used for the same item in the United Nations. Regarding the terminologies of core and non-core resources, they are named differently in respective UN agencies and they can be categorized as Table 2 (United Nations, 2012).

Significantly, there has been expansion of non-core resources (also referred to as multi-bi ODA) in the United Nations over the past decades, and abrupt growth of non-core resources was particularly made in the era of MDGs as described in Figure 3. The increase of non-core resources implies that donor countries have come to prefer non-core resources to core resources for their resource contribution to the United Nations and this made an influence on the emergence of multi-bi ODA as well (OECD, 2013). With regard to the preference of donor countries for non-core resources, this has particular relations with the changed perceptions of donor countries towards the United Nations. This can be backed up by the continued decrease of ODA/GNI of the United States – largest donor to the UN system – towards the United Nations. The decrease of ODA contribution by the United States resulted from its favourability towards non-core resources as well as its changed perception toward the United Nations. The United States preferred to earmark their ODA contribution for certain areas (i.e. theme, country, region) from its initial ODA commitment to actual disbursement. Hence, this also made an influence on the other donor countries and expansion of non-core resources was followed in the entire UN system as a result (Graham, 2012).



**Figure 3.** Growth of Non-Core Resources in UN Agencies (1995-2010)<sup>15</sup>

Source: United Nations (2012: 14), UN Operational Activities for Development

#### 4. CONFLICT OF INTEREST OVER MULTI-BI ODA

Along with the growth of non-core resources in the United Nations, donor countries and UN agencies have gradually faced increasing conflict of interest between them when their interests are not compatible in the operation of non-core resources.<sup>16</sup> The conflict of interest is caused when donor countries and multilateral organizations – which include UN agencies – encounter diverging interest between the two sides over the use of multi-bi ODA. This is backed by the cases of trust funds in operation in that trust funds belong to an aid modality of multi-bi ODA by the definition of OECD (OECD, 2011a). For instance, the Republic of Korea has been strengthening the monitoring process on the operation of Korean Trust Funds contributed to UNESCO by increasing the numbers of inter-organizational meetings and dialogues between the two sides. It includes increasing the numbers of monitoring-related publications by the Korean side as the amount of Korean trust funds have gradually expanded.<sup>17</sup>

Since 2010,<sup>18</sup> Korean government and UNESCO have been holding annual ‘Review & Monitoring Meetings’ on Korean trust funds to UNESCO in the presence of stakeholders

<sup>15</sup> Regarding the activities of development, they are termed ‘Operational Activities for Development (OAD)’ in the United Nations and the breakdown of OAD is represented by the focus on development and humanitarian assistance (United Nations, 2012). Most importantly, the main activities of the United Nations lie in the areas of development (63%) and non-core resources (multi-bi ODA) take up the majority (74%) out of the overall funding (United Nations, 2012). The development-focused nature of the United Nations became one of the reasons why this study selected the UN among hundreds of multilaterals for further study and analysis.

<sup>16</sup> Referred to the articles from the United Nations, 1) <https://www.un.org/press/en/2014/gaef3408.doc.htm>, 2) <https://www.un.org/press/en/2015/gaef3424.doc.htm>.

<sup>17</sup> Korean trust funds (also referred to as KFIT; Korean Fund in Trust) to UNESCO approximately amount to 26 million USD (36 trust funds) according to the Ministry of Education.

<sup>18</sup> Korea joined the OECD DAC as the 24<sup>th</sup> member country.



from policy and working levels in both sides.<sup>19</sup> In particular, the meeting has gained more importance for the Korean side since the Korean government has sought to increase its intervention in the process of fund management and operation as the fund size becomes larger. The Korean Ministry of Education has also endeavoured to maintain its control over the trust funds by dispatching a fund manager to UNESCO Headquarter and Korean National Commission for UNESCO.<sup>20</sup> This is because Korean trust funds contributing to UNESCO on education have doubled from 2.4 million USD to 4.4 million USD and the number of trust funds was also expanded from 2 to 6 between 2013 and 2016 (according to the internal documents of the Ministry of Education).<sup>21</sup> Along with the expansion of Korean trust funds to UNESCO, the need for result-oriented fund management and tighter monitoring on fund operation has also increased for the Korean side.

Likewise, UNESCO also tends to leverage its stance over the trust fund to make it more advantageous for the benefit of the organization even though UNESCO simultaneously seeks to cooperate with the Ministry. However, the leveraging efforts of UNESCO to increase its stance face many limitations in reality since the organization has gone through deepening financial risks due to growing conflict of interest with traditional big donor countries such as the U.S. and Japan in recent years. Compared to UNESCO, the case of World Bank shows the leveraging efforts of multilateral organization against donor countries can work out in practice. Unlike UNESCO, the World Bank does not allow donor countries to dispatch a person to the Bank as a seconded fund manager in the aim of fund monitoring and management. Since 2010, World Bank has been transforming the trust fund operation system into recipient-driven one to maximize the benefits of recipient countries and minimize the interests of donor countries (World Bank, 2011). It is evident that the financial status of World Bank is much more robust and stable than UNESCO since the U.S. heavily supports the Bank in financial terms. This makes the difference between UNESCO and World Bank on how multilateral organizations can behave in order them to escalate their interests against donor countries.

To sum up, the relationship between donor countries and multilateral organizations can be either cooperative or competitive according to the features of their mutual interests since the respective interest of donor countries and multilateral organizations cannot always lie on the same side in multi-bi ODA. However, the relationship of either cooperation or competition can be affected by the financial factors in reality.

This also implies that the continuous expansion of non-core resources (multi-bi ODA) in the United Nations – as shown in Figure 3 – may drive the two stakeholders (donor countries and multilateral organizations) into larger chances of conflict of interest when they do not agree on the operation of multi-bi ODA. Interestingly, dependence on non-core resources (multi-bi ODA) was found to be the highest in the UN agencies which belongs to ‘UN Funds and Programmes’ as shown in the Table 4. It is estimated that this originates from the fact that

<sup>19</sup> These monitoring meetings have been annually organized between Seoul and Bangkok (UNESCO) in turn.

<sup>20</sup> In 2017, UNESCO hired a seconded Korean trust fund manager at the UNESCO Headquarter for the purpose of fund monitoring and cooperation with the Korean government.

<sup>21</sup> Korean trust funds to UNESCO targeted on education are largely ranged from TVET (Technical and Vocational Education and Training), higher education and GCE (Global Citizenship Education) on curriculum development, teacher training and provision of equipment & facilities according to the Ministry of Education.

**Table 4.** Share of non-Core Resources in the United Nations and Other Multilateral Organizations

Organization	Core Resources	Non-Core Resources	Non-Core Share of Overall Funding
EU	13120	420	3%
World Bank Group	10352	4002	28%
UN Funds and Programmes	<b>3319</b>	<b>8759</b>	<b>73%</b>
UNDP	1001	2160	68%
WFP	381	2895	88%
UNICEF	685	1572	70%
UNFPA	466	343	42%
UNRWA	335	410	55%
Other UN	1519	2913	66%
ILO	190	148	44%
OHCHR	48	25	35%
UNESCO	158	65	29%
WHO	401	731	65%
Regional Development Banks			
AfDB	2052	243	11%
ADB	1617	256	14%

Source: Compiled by author based on United Nations (2013: 8)

the UN agencies in the Funds and Programmes heavily rely on voluntary contribution which is mostly composed of non-core resources; multi-bi ODA (OECD 2010a; 2011a; 2012).

Significantly, the dependence on non-core resources (multi-bi ODA) has relations with the gradual decrease of revenues in the United Nations over the past decades. The declining revenues in the United Nations were initially derived from economic downturn which was once globally prevalent in the 1990s and this led to the weakening of advantageous positioning of UN agencies over donor countries. To overcome the decrease of revenue in the United Nations, the UN General Assembly tried to direct the governing bodies of the UN agencies – such as UNDP, UNICEF, and WFP – to develop achievable and specific targets for additional resource mobilization to make the operation of the United Nations financially more stable and sustainable (United Nations, 2007). Accordingly, this made an influence on the emergence of multi-bi ODA and the gradual increase of non-core resources in the United Nations.

With regard to the conflict of interest between donor countries and multilateral countries, the expansion of multi-bi ODA in the United Nations has relevant implications since it can increase the additionality of revenues in the United Nations. In particular, this intertwined relationship in multi-bi ODA can be best explained by the theories of Principal Agent Model (PA Model) due to the similar structures of conflict of interest in both sides.

## 5. THEORETICAL ANALYSIS

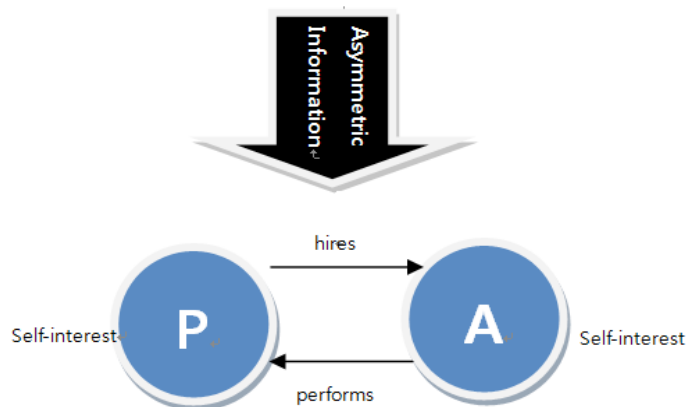
### 5.1. Why Do Conflicts Arise in Multi-Bi ODA?

In multi-bi ODA, the relation of conflict between a donor country and a multilateral organization (hereinafter referred to as DC-MO relations) can be theoretically analyzed based on Principal Agent Model (PA model).<sup>22</sup> It is because the structures of PA model can best explain the DC-MO relation (hereinafter abbreviated as ① DC = Donor Country, ② MO = Multilateral Organization) of multi-bi ODA since Principal and Agent can be respectively replaced by DC and MO due to the structural similarity of multi-bi ODA and PA Model (Milner and Tingley, 2010).

As shown in Figure 4, DC and MO cooperate on multi-bi ODA and the cooperation entails the fact that DC (Principals, P) will hire MO (Agents, A) to delegate its authority to the specialized MOs (agents). However, it was proven that this cooperation inevitably entails some degree of conflict in the DC-MO relations as the case studies conducted in Chapter 4.

This has an implication that balanced DC-MO relation can be either distorted or broken by the increasing intervention of DC even after the act of delegation. Undoubtedly, MO can be unfavorable toward the cooperation with the DC as a counter response (Hawkins, et al., 2006). United States and UNESCO can be the exemplary case for this conflict relation since they have struggled over the mandates of contributed finance to the organization. Particularly, the United States has sought to maintain its strong voice over the UNESCO by controlling the finance which had been heavily contributed by it and the conflict relation between the two sides resulted in the separation of ties in the end.<sup>23</sup>

Figure 4. Description of PA Model



Source: Compiled by author based on Hawkins, et al. (2006)

<sup>22</sup> The Principal-Agent Model (or theory) was originally developed in other areas of social sciences, economics, and the study of American and comparative politics (Hawkins, et al., 2006).

<sup>23</sup> In 2017, the United States even terminated its status of member country in the UNESCO and UNESCO lost the largest donor to the organization as a result.

According to the PA model, this shift of DC's authority to MO can be termed 'delegation relationship' since DC (principal delegates its part of tasks and authorities to MO (agent) and allow MO (agent) act independently as a result (Vaubel, 2006; Nielson and Tierney, 2006; Groenedijk, 1997; Oestreich, 2012). Based on the qualitative analysis, it was proven that the conflict of interest in the DC-MO relation has a high tendency to arise when the two parties respond to a different set of incentives and DC knows more than MO resulting in asymmetric structures of information between the two sides. Second, the conflict can also arise when the DC falls short of sufficient skills (or experiences), and in turn, the MO has a professional advantage over the DC. Third, the fact that a donor country might lose a supremacy over multi-bi ODA originating from the delegation relationship also affects the increase of conflict.

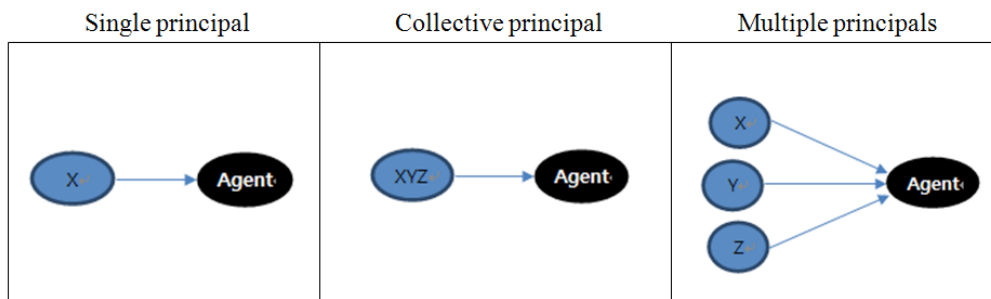
After all, the MO will try to balance the power relation with the DC and the possibility of MO's moral hazard (also referred to as cheating) might increase as explained by PA model. However, actual cases of MO's moral hazard in multi-bi ODA is believed to far less happen in practice since the specific mandates of multi-bi ODA are agreed upon between the DC and MO in advance.

## 5.2. Types of PA Model in Relations with DC-MO Relation

Along with the increase of multilateral cooperation and expansion of multi-bi ODA, the DC-MO relation has also diversified over the past decades. Based on the qualitative analysis, it was a significant finding that the DC-MO relation can be classified by either single DC (principal) or multi DCs (principals) as described in Figure 5 and this becomes the very different point of multi-bi ODA in comparison with the ordinary PA model (OECD, 2012).

In the DC-MO relations, the simplest description is represented by the 'Single Principal Model' as the Figure 4, which involves a single donor and a single agent. However, if more than a single principal are added in the DC-MO relations,<sup>24</sup> PA explanations become more complex. Typically, principals are regarded as more complex entities than agents and this brings about the diversification of the PA model. According to the PA model, the relations of

Figure 5. Different Types of PA Model in Relation with DC-MO Relation



Source: Compiled by author based on Hawkins, et al. (2006)

<sup>24</sup> A recent paper concluded that "a delegation relationship can have one or more principals, and a principal can either be an individual or a corporate entity containing more than one individual (Lyne, et al., 2006)."

DC (principal) and MO (agent) can be sub-categorized into three different types as: 1) single-principal, 2) collective-principal, and 3) multiple-principal types as shown in Figure 5 (Lyne, et al., 2006).

First, the Collective Principal Model can be explained by the cases of the United Nations and the OECD. In those organizations, member states normally make collective decisions by a majority on issues about fund operations, setting up strategies, and facilitating developmental programmes/projects. That is, the principals are not the independent actors in this model (collective-principal) and there is just a single contract between the agent and collective principals. This means that the principals delegate their authorities and tasks to an agent by collective decisions (Hawkins, et al., 2006).

Second, in comparison with the Collective Principal Model, the aid frameworks of multi-bi ODA is best explained by the Multiple Principal Model since multi-bi ODA is operated based on multiple decision making process. In other words, each donor country is given an individual authority when determining the operational directions of its funding in multi-bi ODA (United Nations, 2007). That is, the Multiple Principal Model also has an implication for the United Nations since each member state in the United Nations – in addition to its collective actions and responsibilities – is occasionally empowered to independently decide its mandates based on multiple decision making processes which are often observed in the United Nations (Barnett and Finnemore, 2004).

### **5.3. Bilateralization of Multilateral ODA or Multilateralization of Bilateral ODA?**

Based on the PA model and case studies on the United Nations, the reason why conflict of interest between DC and MO arises in multi-bi ODA was examined in the previous chapter. Most significantly, it was proven that DC tries to control MO, and vice versa, MO also tries to strengthen its self-protective measures as a counter response to balance the DC-MO hegemonic relations in multi-bi ODA. In particular, this study found out that the intervention of DC (termed ‘control mechanisms’ of principals by PA model) primarily appears in the forms of 1) monitoring and evaluation, 2) rules and sanctions and 3) screening and selection procedures (Hawkins, et al., 2006). Specifically, these findings have substantial implications to this study in that the mentioned 3 forms of DC’s interventions trigger DC-MO conflict relations as previously investigated.

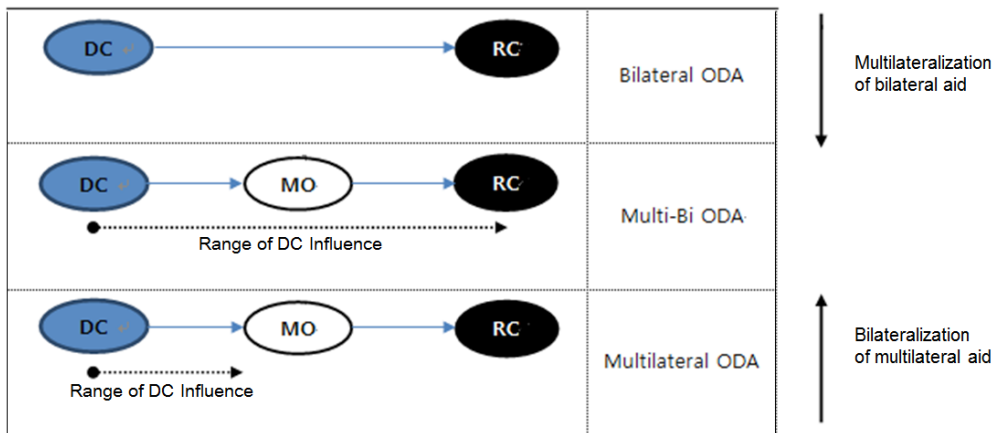
In this sense, this study focused on the conflict relations between DC and MO and conceptualized the key characteristics of conflict relations based on the proximity of multi-bi ODA towards either multilateral ODA or bilateral ODA in comparative terms. This was very interesting since the term – multi-bi ODA – will have to be frequently renamed into ‘bi-multi ODA (calculated as multilateral ODA)’ if the so-called multi-bi ODA is estimated as being actually closer to multilateral ODA in practice. As a result, this study specified the conflict-affected multi-bi ODA into two categorizations; ① ‘bilateralization of multilateral ODA (BMO)’ and ② ‘multilateralization of bilateral ODA (MBO)’ taking the DC’s interventions and MO’s self-protective measures into consideration as well. Significantly, this was analyzed by literature reviews ( mainly academic journals, ③ document reviews of donor agencies, UN agencies and other developmental organizations and ④ OECD statistics), interviews (UNICEF, UNDP, WFP, JICA, USAID, DFID, and DFAT) and theoretical investigation. The analysis was particularly conducted focusing on the UN agencies and donor countries in which multi-bi ODA has been actively operated in large volumes compared to other organizations and countries.

First, bilateralization of multilateral ODA (BMO) frequently appeared when DC expands its contribution of non-core resources to the United Nations and excess of voluntary contribution over assessed contribution to the United Nations takes place since both cases can be an effective tool of control mechanism for donor countries. In line with this, the United States can be a good example since the United States, which contributes the largest amount of ODA to the United Nations, has doubled its contribution of non-core resources to the United Nations in the aim of increasing its influence on the organization while gradually reducing its assessed contribution to the organization. This eventually resulted in the decrease of revenues in the UN and shortage of operational budgets in the organization which simultaneously strengthened voices of the United States over the UN agencies (Graham, 2012).

Likewise, it is highly anticipated that the Republic of Korea will confront a conflict relation with multilateral organization in the coming years since it has been increasing the volumes of multi-bi ODA (mainly trust funds, referred to as KFIT; Korean Funds-in-Trusts) since 2010 when it joined the OECD DAC as the 24<sup>th</sup> member country. Nevertheless, the Republic of Korea has not developed specified guidelines for the operational plan of multi-bi ODA unlike the donor countries such as the U.K., the U.S., Canada and Australia which have been operating multi-bi ODA in large volumes. This study found that the countries heavily dependent on multi-bi ODA have specific laws, guidelines and operational plans for multi-bi ODA which clarified the roles of DC and MO lessening the possibility of clash of DC-MO interest and moral hazard of MO throughout the operational process of multi-bi ODA. Thus, the operational status of multi-bi ODA in the Republic of Korea can be defined as transition period moving toward bilateralization of multilateral ODA (BMO).

On the contrary, multilateralization of bilateral ODA (MBO) appeared when MO builds up its self-protective measures against DC's increasing interventions mainly arising from the DC's concerns about MO's moral hazard (cheating). This particularly took place when DC's interventions go beyond MO's expectation and MO's professional expertise as well as informational supremacy outweighs that of DC (Sagasti, 2005). Significantly, this study found that MO (UN agencies) tries to minimize the interventions of DC. The case of the World Bank previously explained in Chapter 4 can best explain the MBO in that the MO can protect itself by rejecting the seconded fund manager from DC to be stationed in MO. In general, multilateral development banks – which are more stable and robust in financial terms than the UN agencies – such as the World Bank, the IDB (Inter-American Development Bank) and the AfDB (African Development Bank) belong to the same side as the case of World Bank (i.e. no allowance of a DC fund manager's stationing at the bank). However, those efforts in UN agencies these days have turned out to be not really successful since the voices of DC have been continuously strengthened due to the gradual expansion of non-core resources in the UN as previously analyzed. To sum up, multi-bi ODA holds a unique position in its DC-MO conflict relation and both 'bilateralization of multilateral ODA' and 'multilateralization of bilateral ODA' stand for the key features of multi-bi ODA. Besides, in terms of DC's financial influence, multi-bi ODA can also encompass recipient countries as well and the triangular relationship among donor countries, multilateral organizations and recipient countries can be described as Figure 6. In line with MDGs and SDGs, this has a particular implication to the donor countries, UN agencies and international communities on development since the voices of donor countries have been escalating due to the expansion of rather donor-driven development financing such as non-core resources, voluntary contribution, earmarked contribution and multi-bi ODA as previously investigated. This calls for further discussion and continued research on how international community can make

**Figure 6.** Shift of DC’s Influence by Either Bilateralization or Multilateralization



Source: Compiled by author

development reciprocally beneficial based on cooperative partnership in the coming years.

#### 5.4. Statistical Review of Multi-Bi ODA and Its Implication

Below is the table which shows the average amount of multi-bi ODA contributed by DAC member countries during the recent years of MDGs (between 2007 and 2015) and the OECD CRS data was used for analysis. Significantly, the largest donor countries in terms of ODA contribution – such as the United States, the United Kingdom, Canada, and Australia – were proven to be highly dependent on multi-bi ODA as well as a few Scandinavian countries<sup>25</sup>. This supports the argument that donor countries have a tendency to prefer earmarked multi-bi ODA contribution to ordinary multilateral ODA while contributing their bilateral ODA through multilateral channels as analyzed by the PA model in previous chapter.

Interestingly, the amount of multi-bi ODA contributed by the Republic of Korea has gradually increased even though the other figures such as absolute size of ODA contribution and ODA/GNI were way behind than those of the other countries at the list. The absolute size of multi-bi ODA of Republic of Korea in 2015 expanded by 10 times compared to that of 2007. This is backed by the recent trend of increasing numbers and absolute size of diverse trust funds contributed by Republic of Korea as the Government of Korea has been stressing the need for increasing aid visibility, project outcomes, and transparent ODA monitoring system over the past few years. Not only has Republic of Korea been increasing the size of multi-bi ODA, but other donor countries has also increased multi-bi ODA as the interactions among countries increase. In particular, this reflects the shifting trend of ODA due to the conflicting interests between donor countries and multilateral organizations as analyzed by the PA model in this study. For instance, France increased the size of multi-bi ODA by 17 times from 6.57 to 113.23 and Japan increased from 378.52 to 1,662.46 (2007-2015, USD

<sup>25</sup> ODA/GNI was over 1.00 in both Sweden and Norway and the ratio is one of the highest among all the DAC member countries.



**Table 5.** Donor Countries Highly Depending on Multi-Bi ODA (2007-2015)

Unit: USD Million

Country	Total ODA	Bilateral ODA	Multilateral ODA	ODA/GNI	Multi-Bi ODA	Multi-Bi/ Total ODA
Norway	40,647	31,080	9,567	1.00	9,609	23.64%
Canada	42,662	31,492	11,170	0.30	9,623	22.55%
Australia	35,317	29,769	5,549	0.32	7,159	20.27%
U.K.	129,130	78,960	50,169	0.57	25,405	19.67%
U.S.A.	263,678	226,684	36,994	0.19	40,024	15.17%
Sweden	48,145	32,390	15,754	1.06	7,047	14.64%
Netherlands	54,601	39,513	15,087	0.75	7,738	14.17%
Finland	11,854	7,003	4,851	0.52	1,856	15.66%
Ireland	8,523	5,665	2,858	0.48	1,216	14.26%
Korea	11,937	8,858	3,079	0.11	867	7.26%

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Korea	16.14	43.61	49.67	45.21	80.60	129.82	152.77	167.00	182.41

Source: Compiled by author based on the data from OECD CRS

**Table 6.** Quadrant Perspectives towards Multi-Bi ODA

	Pros	Cons
Principal (DC)	<ol style="list-style-type: none"> <li>1. Prevent diversion of ODA and corruption in MOs</li> <li>2. Fund activities visible to the public in donor countries</li> </ol>	<ol style="list-style-type: none"> <li>1. Some concerns about diversion of ODA</li> <li>2. Increased burdens compared to voluntary contributions</li> </ol>
Agent (MO)	<ol style="list-style-type: none"> <li>1. Support stable funding and achieving tangible results</li> <li>2. Escalate predictability in aid allocation and budget plans</li> </ol>	<ol style="list-style-type: none"> <li>1. Limit the roles of MOs</li> <li>2. Lead to inflexibility of budgets</li> <li>3. Lead to a misallocation of ODA</li> </ol>

Source: Compiled by author

Million).<sup>26</sup>

Considering the features of multi-bi ODA as analyzed in this study, different aspects of principals (DC) and agents (MO) towards multi-bi ODA was categorized as the Table 6 and the description was based on the PA model.

<sup>26</sup> Germany (203.50 → 1035.91), Denmark (70.38 → 367.97), Switzerland (162.20 → 626.96)

## 6. CONCLUSION

In line with the nature of multi-bi ODA, this paper has sought to analyze the reason why conflict of interest occurs in multi-bi ODA. For analysis, key characteristics of multi-bi ODA such as ‘multilateralization of bilateral ODA (MBO)’ and ‘bilateralization of multilateral ODA (BMO)’ were theoretically studied based on the PA model. This was further explained by the cases of World Bank, UNESCO, U.S. and Korea. Interestingly, the BMO of Korea turned out to be strengthening the monitoring on multi-bi ODA while the BMO of the U.S. was based on the large-scale of fund contribution itself. The difference came from the different volumes of fund contribution of donor countries leading to the differentiation of types of control mechanisms.

On the contrary, the degree of MBO also turned out to be not identical between World Bank and UNESCO since the financial stability of the organizations was different.

In light of betterment of multi-bi ODA frameworks, if the conflict between donor countries and multilateral organizations is an unavoidable trend as analyzed by the PA model, donor countries and multilateral organizations are required to make an effort to minimize the chances of that conflict of interest between them, and at the same time, they need to make an endeavour to maximize the interests of both sides for aid effectiveness and better outcomes of their multi-bi projects and programmes in recipient countries. In fact, both donor countries and multilateral organizations can benefit from control mechanisms when the mandates and responsibilities of both donor countries and multilateral organizations are clearly demarcated by mutual agreement and binding regulations as the guideline of multi-bi ODA of DFAT (formerly referred to as AusAID).

On the other hand, control mechanisms of donor countries left some problems because installing control mechanisms in multi-bi ODA frameworks can be very challenging and costly for donor countries since the numbers of multilateral organizations are over two hundreds, and in addition, the fragmented systems in the United Nations can restrain donor countries from installing control mechanisms to supervise multilateral organizations.

From another PA perspective, the findings in this study could also imply that multilateral organizations may face difficulties in resource mobilization once the trust-based relationship is broken between donor countries and multilateral organizations. This can be explained by the case of UNESCO which has difficulties in mobilizing sufficient amount of development financing since the US – previously biggest donor to the UNESCO – has decided to cut back on its contribution to the UNESCO.

Furthermore, large volumes of ODA contribution are made by just a few donor countries. For example, the United States has been constantly ranked as the largest donor country by the size of its ODA contribution, with ODA levels averaging almost US\$30 billion a year between 2009 and 2011, and other four countries – Germany, United Kingdom, France, and Japan – have averaged more than US\$10 billion a year over this period. Surprisingly, the ODA contribution of these five countries accounts for about two-thirds of total ODA and the top 15 donor countries constituted 95% of total ODA between 2009 and 2011.

Most importantly, this implies that multilateral organizations may face a difficulty in resource mobilization once the trust-based relationship is broken with major donor countries.<sup>27</sup> Nonetheless, this paper has proven that multi-bi ODA has some positive aspects

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<sup>27</sup> Along with these concerns, ‘Declaration on Innovative Sources of Financing for Development’ was

which need to be highlighted even though it is earmarked by donor countries for certain subjects (countries, regions, sectors, and themes) for its disbursement in recipient countries.

Most of all, multi-bi ODA could provide a breakthrough to many multilateral organizations that are going through severe budget constraints in recent years since it increases the additionality of development financing as explained. This additionality of multi-bi ODA comes from the preferences of donor countries to constrain multilateral organizations since donor countries seek to have their ODA contributions used in the areas in which they can escalate aid visibility on transparent basis.. Of course multilateral organizations are further constrained by the earmarking of donor countries on their ODA contribution compared to the cases of multilateral aid but multilateral organizations can benefit from the additional ODA contribution of donor countries as shown by the increase of voluntary contribution in the United Nations. In sum, multi-bi ODA is like a two-edged sword for donor countries and multilateral organizations according to different conditions but multi-bi ODA can also best contribute to the expansion of development financing due to the nature of additionality of itself. In this sense, multi-bi ODA gains its significance for the sustainable development in financial terms and donor countries and multilateral organizations are required to cooperate even though the cooperation inevitably entails some degree of competition.

Lastly, multi-bi ODA - earmarked funding - has to be re-evaluated and further studied since multi-bi ODA has only recently emerged and it has come to draw attentions from development societies because of its additional nature as a development financing (OECD, 2013). Moreover, multi-bi ODA has many facets that have not yet been explored, and as a result, there is a clear need and strong motivation for donor countries and multilateral organizations – the key stakeholders in multi-bi aid frameworks - in unveiling the underlying impacts and possibilities of multi-bi ODA by analytical methods that can make their efforts to be more accountable to sustainable development in the years of SDGs.<sup>28</sup>

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first adopted by France, Germany, Spain, Algeria, Brazil, and Chile in 2005 to develop an innovative financing strategy for the sustainable development in the coming years.

<sup>28</sup> Sustainable Development Goals

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*Chong-Sup Kim, Professor, Graduate School of International Studies, Seoul National University, 1 Gwanak-ro, Gwanak-gu, Seoul, 08826, Korea, Tel: +82-2-880-5812, E-mail: chongsup@snu.ac.kr*

*Ki-Seok Lee, Researcher, Korea Educational Development Institute, 7 Gyohak-ro, Deoksan-myeon, Jincheon-gun, Chungcheongbuk-do, 27873, Korea, Tel: +82-43-5309-428, E-mail: chris012@snu.ac.kr*