Should a donor country spend aid money through bilateral or multilateral channels? What are the comparative merits of each aid channel and how should a bilateral donor begin to choose between them?

This working paper informs the calculus of bilateral donors struggling to optimise their resource allocation across these two implementation channels and emphasises the value of thinking strategically about the choice to be made. Based on an extensive literature review, it presents what is potentially gained through the use of multilateral and bilateral channels, as well as what might be risked. Finally, it discusses the role of multi-bi aid and whether this provides an opportunity to exploit the advantages of both channels.

The paper thus aims to nudge donors to make more informed choices in the utilisation of the principal channels for official development assistance.
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Acknowledgements

This paper was inspired by a literature review of publications comparing bilateral and multilateral aid channels commissioned by Coffey International and funded by the UK Department for International Development. The paper extensively builds on this original review, incorporating new literature, new claims and an additional focus on multi-bi aid. The author is extremely grateful for helpful comments from Mikaela Gavas, Romilly Greenhill and Myles Wickstead that have strengthened the quality and coherence of the argument. Raphaelle Faure provided invaluable assistance collating and presenting comparative data. Elize Hefer is to be thanked for help with editing and production. The Bill and Melinda Gates Foundation is to be thanked for supporting this research. Needless to say, all conclusions and errors are the author’s alone.

Acronyms and abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>DAC</td>
<td>Development Assistance Committee (OECD)</td>
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<tr>
<td>GAVI</td>
<td>Global Alliance for Vaccines and Immunization (The Vaccine Alliance)</td>
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<tr>
<td>GFATM</td>
<td>Global Fund for Aids, Tuberculosis and Malaria</td>
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<tr>
<td>GPG</td>
<td>global public good</td>
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<tr>
<td>FDI</td>
<td>foreign direct investment</td>
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<td>IDA</td>
<td>International Development Association (World Bank)</td>
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<td>IFI</td>
<td>International Financial Institution</td>
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<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
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<tr>
<td>MOPAN</td>
<td>Multilateral Organisation Performance Assessment Network</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>SDG</td>
<td>Sustainable Development Goals</td>
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Introduction

Aid donors face growing demands to explain and justify the allocation choice between multilateral and bilateral aid channels. Among other reasons, this is because the aid disbursements of multilateral agencies looks, in many cases, quite similar to the disbursements of bilateral donors, offering aid on similar terms, within the same countries and to the same sectors (Annen and Knack, 2015). The possibility of substitution across these two channels creates a strategic opportunity for donors to direct funding through either bilateral or multilateral institutions.

A number of trends in the aid landscape are pushing donors to think carefully about the nature of this choice. First, there are options to consider because official aid organisations exist in a crowded marketplace. The multilateral system includes over 210 major organisations and funds, as well as numerous smaller trust funds (OECD, 2011). Meanwhile, there are 28 bilateral donor members within the Organisation for Economic Co-operation and Development’s (OECD) Development Assistance Committee (DAC), and a growing group of non-DAC donors consists of at least 28 states. The growth of new donor actors and agencies also creates interest in organisational practices within more established donors. The professionalisation of the development industry has made the ratio of bilateral to multilateral assistance now a matter of greater comparative interest. Approaches to aid allocation are being looked at more closely to assess their desirability and potential for replicability.

Aid allocation provides a framework for thinking about the concrete manifestations that the Sustainable Development Goals (SDGs) may take. As currently framed, the SDG text is relatively ambiguous about the roles that official development assistance, either bilateral or multilateral, should or could play. In Goal 17, ostensibly it is that implementation may be adjusted to prevailing conditions and circumstances. In this way, the SDGs are expected to have a myriad of implementation strategies attached to them. Thinking strategically about bilateral and multilateral aid channels can thus be a way for a donor to make sense of the SDG agenda, allowing it to focus on objectives that fully exploit the advantages of each channel.

The growing need to justify and account for aid spending in donor countries provides stimulus for understanding the relative benefits of bilateral and multilateral aid channels. To date, this accountability imperative has triggered efforts to benchmark the individual performance of donor organisations, for example, through the Multilateral Organisation Performance Assessment Network (MOPAN) that engages in joint assessments of the major multilateral institutions. There is a burgeoning academic literature that purports to assess performance across donors by ranking them on a number of criteria (Birdsall et al., 2010; Easterly and Pフトze, 2008; Easterly and Williamson, 2011; Knack et al., 2011, Palagashvili and Williamson, 2014). Value-for-money concerns superimposed on constrained fiscal environments in many donor countries may also encourage a discussion about the strategic allocation across aid channels. For example, in the UK, the Committee for Public Accounts has asked the Department for International Development to demonstrate that any increase in funding to multilaterals represents better value than bilateral alternatives (Comptroller and Auditor General, 2015: 12). As a result, the UK is undertaking parallel reviews of its multilateral and bilateral investments in order to make better choices across these two spending channels. Better allocative choices can allow for the achievement of goals that would otherwise not be reached.3

While there is an extensive literature examining why bilateral donors delegate to multilaterals, this paper distinguishes itself by asking the more normative question of how bilateral donors should direct funds given the

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1 Among non-members, 18 currently report their financial flows to the OECD, while 10 conduct their own statistical reporting that is then used by the OECD to estimate development spending (see http://www.oecd.org/development/stats/non-dac-reporting.htm).
2 This is specified in the SDG text: ‘[A]ll of us will work to implement the Agenda within our own countries and at the regional and global levels, taking into account different national realities, capacities and levels of development and respecting national policies and priorities We will respect national policy space for sustained, inclusive and sustainable economic growth, in particular for developing states, while remaining consistent with relevant international rules and commitments’ (see Clause 21: https://sustainabledevelopment.un.org/post2015/transformingourworld).
3 For example, greater fiscal absorptive capacity of multilateral channels allowed the UK to attain the legislated 0.7% ODA/GNI target (Barder, 2015; ICAI, 2015; OECD, 2015).
strengths and weaknesses of each channel. As a former chair of the OECD DAC claims: ‘[I]n many donor countries there is almost a built-in notion (in governments and perhaps still more in legislatures) that ‘bilateral is best’ (OECD, 2015: 82). To date, where concerns about the allocation of aid resources are expressed, they have primarily directed attention to the range of options within each channel, rather than calculated consideration across the bilateral and multilateral spectrum.

In order to advance the cause of comparative evidence-based policy-making, this paper is anchored in an extensive review of academic and grey literatures dealing with both bilateral and multilateral channels. The initial review sought to investigate the empirical basis for a range of untested donor assumptions about the relative advantages of each channel, fully aware that at the micro-level there is much diversity within the bilateral and multilateral categories. Those assumptions for which there was the greatest published evidence provided the basis for a deeper exploration of claims of comparative advantage. Overall, the paper explores six claims against published evidence: (1) the relative politicisation of each channel; (2) the nature of aid-recipient preferences; (3) the selectivity exhibited by each channel; (4) the role of each as a provider of global public goods; (5) the relative efficiency of each channel; and (6) the tendency to fragment aid.

The evidence suggests there are particular strengths and weaknesses to each channel that should at minimum inform the allocation decision. More broadly, a holistic assessment suggests that the advantages of multilateral channels derive from their ability to collectively organise, pool and advance common global causes, while bilateral channels are conduits for donor control, visibility and preferences. Given this, donors should reflect on their own motivations for aid-giving and seek to align these motivations with the channel best able to advance them. The analysis concludes by considering multi-bi aid and explores its possible merits as a ‘third way for foreign aid’. The literature indicates that multi-bi aid, rather than steering a course between multilateral and bilateral channels, may be only marginally superior to bilateral channels but considerably worse than multilateral ones. This is primarily due to multi-bi aid destabilising the performance, credibility and governance of multilateral institutions. The paper concludes that there are critical opportunities for donors to be more reflective in the comparative allocation of aid to bilateral and multilateral conduits. Making an informed choice between bilateral and multilateral aid channels is arguably both good management practice and good for development.
Aid channels: options and practices

The terms bilateral and multilateral are technically used to distinguish flows of Official Development Assistance (ODA). The OECD defines bilateral transactions as those undertaken by a donor country directly with a developing country. They also include transactions with NGOs active in development and other, internal development-related transactions like debt relief, administrative costs and spending on development awareness. A multilateral contribution, in contrast, can be delivered only by an international institution conducting all or part of its activities in favour of development. Moreover, the flow itself must lose its identity and become an integral part of the recipient institution’s assets such that donors cannot track and pre-define its uses.

If donors maintain control over multilateral contributions to the degree that decisions regarding fund disposal are on balance taken at the donor’s discretion, flows are recorded as bilateral. This is even if in practice they are referred to as ‘multi-bi’ flows or ‘earmarked non-core’ contributions (OECD, 2015: 24). Unlike ‘core’ multilateral finance, multi-bi assistance is an expression of donors preferred countries, themes and sectors. Excluding multi-bi aid, DAC donors disbursed over 60% of ODA bilaterally and roughly 25% multilaterally, as measured in two-year averages over the 2008-2013 period (Figure 1). These average DAC figures mask differences in the use of bilateral and multilateral channels across individual donors (Figure 2). For example, the proportion of pure bilateral aid as a percentage of total gross ODA ranged from 14% (Poland) to 72% (United States and New Zealand). At least 17 out of 28 DAC countries provide over 50% of their ODA through bilateral channels. The use of multilateral channels as a percentage of total gross ODA also ranges widely, from 14% (United States and Australia) to 83% (Poland).

A channel of delivery refers to the first-level implementing partner that has responsibility for funds by contract or agreement. Bilateral channels therefore cover the public sector, NGOs, public–private partnerships and other categories (Table 1). Although bilateral flows can technically be spent through a variety of channels, the bulk of bilateral transactions are through public-sector channels. By contrast, multilateral flows can be spent only through multilateral channels, as per the definition above. These are typically clustered around five groups of multilaterals: the European Union, the World Bank International Development Association, the Regional Development Banks, the United Nations Programmes, Funds and Specialized Agencies and the Global Fund for Aids, Tuberculosis and Malaria (GFATM).

While bilateral and multilateral channels are distinctive aid conduits, there is sufficient reason to see them as possible substitutes from a donor country’s perspective. First, aid within both can be offered at varying levels of concessionality ranging from grants to market terms. Second, the first-level implementing partners of both channels are, in the main, public institutions (albeit international in the case of multilaterals and domestic in the case of bilaterals). Third, both channels operate in countries facing similar development and humanitarian conditions, and often their span of engagement covers the same states and sectors. Finally, bilateral and multilateral donors are both implicated in comparable policy debates, global fora and country relations with their participation often occurring in parallel.

The processes by which donors choose to allocate contributions to multilateral organisations or choose their own bilateral channels can involve a number of government actors. Disbursement to multilaterals can involve up to 15 ministries, with five government actors being the DAC average (OECD, 2015: 60, 104). Emerging evidence suggests allocation decisions tend to path dependency, the consequence of disaggregated decision-making streams that are automatically aligned with previous years’ allocation (Greenhill and Rabinowitz, forthcoming). In a recent survey of DAC members, only 14 of 22 respondents said that the balance between bilateral and multilateral ODA is explicitly discussed and

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4 Core contributions to multilaterals can be either determined by assessment (e.g. based on a country’s ability to pay) or voluntary. Core contributions to UN Specialized Agencies and the EU budget are provided on the basis of assessed funding.

5 The exception to this is pass-through funding, where the contribution of bilateral donors to these funds are treated as multilateral but the contributions that these pass-through funds make are classified as bilateral. An example of this is the Global Environment Facility. See Reinsberg et al. (2015) for a more extensive discussion.
even here the allocative ratio is flexible. Only two DAC members have quantitative targets for the balance. A small number of DAC members (5 out of 22 respondents) indicate having a policy or guiding framework for the balance between core and multi-bi funding (Austria, Finland, the Netherlands, Belgium and France). No DAC members have a quantitative target for multi-bi assistance although certain multilaterals have introduced minimum multi-bi financial thresholds (OECD, 2015: 103; Tortora and Steensen, 2014: 20). Interestingly, a multilateral organisation can have varying ratios of core-to-earmarked finance from individual donors; for example, the Food and Agriculture Organisation is financed with 100% earmarked funding from some DAC members and entirely through core funding from others (Tortora and Steensen, 2014: 20). This suggests that there is a range of donor-specific factors involved when arriving at allocation decisions.

Figure 1. DAC countries’ share of ODA, two-year averages, gross disbursements

Source: In-house calculations, OECD Development Cooperation Report, 2015

Table 1. Types of aid channels

<table>
<thead>
<tr>
<th>Aid channel</th>
<th>First-level implementing partners</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bilateral</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public sector</td>
<td>Donor governments* – central state and local institutions Aid recipients – central, state and local institutions</td>
<td>Development Ministry Ministry of Finance Ministry of Foreign Affairs</td>
</tr>
<tr>
<td>Non-governmental</td>
<td>Non-profit entities</td>
<td>Cooperatives Foundations</td>
</tr>
<tr>
<td>Public–private partnership</td>
<td>Private actors Bilateral/multilateral agencies</td>
<td>Development finance institutions Challenge Funds</td>
</tr>
<tr>
<td>Other</td>
<td>For-profit entities</td>
<td>Consultancies Think tanks</td>
</tr>
<tr>
<td><strong>Multilateral</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multilateral</td>
<td>Inter-governmental institutions</td>
<td>World Bank UN EU</td>
</tr>
</tbody>
</table>

Source: OECD, 2013

*Note: Within donor governments, there is often more than one government body that can be an implementing partner although spending authorities will be held with central agencies. If budgetary authorities are formally transferred from central aid authorities to other public sector agencies, the channel will be determined by the latter’s first-level implementing partners.

Ireland committed to maintaining a 70/30 ratio between bilateral and multilateral (core) aid. In Switzerland, the share to multilateral is set at 40% and is limited to 13 organisations. Until 2013, Germany had a cap on ODA allocation, with one-third to multilateral channels and two-thirds to bilateral channels (OECD, 2015: 30, 60, 64-5; Tortora and Steensen, 2014: 12). Denmark and Norway have also, until recently, had ‘more or less officially’ had a policy of a 50/50 split between bilateral and multilateral aid channels (Selbervik and Nygaard, 2006).
Figure 2. Gross ODA allocation across bilateral, multilateral and multi-bi channels, 2013

Source: OECD, 2015
How do bilateral and multilateral channels compare? Examining the evidence

This paper is based on a literature review of publications that examined bilateral and multilateral assistance in comparative perspective. This review was undertaken to explore the validity of a range of untested donor assumptions about the relative advantages and disadvantages of each channel. Where a large quantity of materials on specific assumptions were found, these assumptions were examined as claims of comparative advantage and analysed against the quality of evidence amassed. Annex I outlines the methodology adopted in both identifying relevant literatures and assessing their quality. Overall, this section explores six claims relating to: (1) the relative politicisation of each channel; (2) the nature of aid-recipient preferences; (3) the selectivity exhibited by each channel; (4) the role of each channel as a provider of global public goods; (5) the relative efficiency of each channel; and (6) the tendency to fragment aid. This section examines the nature of each claim against all the evidence that emerged, while the next section assesses the validity of the claims based on a holistic assessment of the quality of this evidence.

Claim 1. Bilateral channels are more politicised than multilateral channels

Bilateral channels are thought to be easily captured by vested interests and this desire for political gain is often claimed as characteristic of their assistance (Verdier, 2008). Multilateral agencies are assumed to possess a degree of autonomy from the states that control and fund them that prevents political capture. Being at arm’s length from major shareholders is, in most people’s minds, indicative of greater objectivity in decision-making regarding the aims and modalities of development cooperation, minimising the exploitation of aid for the purposes of securing the national interest. Such neutrality is perceived to be an institutionalised advantage for multilateral channels, inherent to the OECD definition of multilateral aid as transactions ‘made to a recipient institution which conducts all or part of its activities in favour of development’ (Reddy and Minoiu, 2009).

There is a growing body of econometric evidence indicating that bilateral channels are, indeed, more vulnerable than multilateral channels to political capture with real consequences for development. Bilateral donor interests appear to skew the aid allocation process in favour of strategic and political considerations, as opposed to country need or potential for development impact (Nunnenkamp and Thiele, 2006; Sippel and Neuhoff, 2009). This can slow opportunities for economic growth in comparison with aid through multilateral channels (Girod, 2008). Indeed, when recipients are of less strategic interest to bilateral donors, it has been demonstrated that these channels become more effective at reducing infant mortality (Girod, 2012).

And yet, there is some evidence to suggest that political bias in bilateral channels can actually encourage greater use of multilateral channels. For example, a donor’s decision to delegate to a multilateral institution can be driven by the need to protect and advance strategic geopolitical interests or insulate from domestic political pressures (Greenhill and Rabinowitz, forthcoming). Political capture of bilateral channels may also have positive intended consequences as well as unintended spillover effects, as a number of illustrative examples suggest. For example, bilateral aid that is tied to counterterrorism activities can mitigate the adverse effects of terrorism on flows of foreign direct investment (FDI) to developing countries (Bandyopadhyay et al., 2014). The US has used aid to promote democratic development through the implementation of preferential trade agreements and both donor and recipients have benefitted from welfare effects (Baccini and Urpelainen, 2012). DAC states, particularly EU members, display sensitivity to positive political reform and reward political transitions in recipients with more country-programmable
aid (Reinsberg, 2015). Meanwhile, Taiwan uses its bilateral aid programme to promote its trade in aid-receiving countries in such a way that also allows it to secure international recognition as a sovereign actor (Lee, 1993). Bilateral donors can use longstanding relationships, personal affinities, shared histories and similar institutional structures to create these positive consequences (Ram, 2003). For example, Nordic exceptionalism unites the bilateral aid programmes of Denmark, Finland, Norway and Sweden and has tended to signify a well-regarded, generous, poverty focused, politically aware approach to aid-giving (Hansen and Gjøsen, 2015). Bilateral donors thus appear to have the capacity to advance moral visions in ways that are both in line with and come at the expense of their material interests (Lumsdaine and Schopf, 2007; Lumsdaine, 1993).

To some degree a tendency to multilateral objectivity is structural, for example in the case of many International Financial Institutions (IFIs) where articles of agreement enshrine neutrality as an operational principle, where members have a more heterogeneous set of preferences and when voting shares are equally distributed (Thompson, 2006). Moreover, multilateral channels are more remotely located from electoral pressures and public opinion when compared to bilaterals, insulating them from these sources of political influences (Reinsberg, 2015). Nevertheless, the empirical record indicates that multilaterals are not as impartial as their structure might suggest. The influence of major shareholders and internal bureaucratic factors has been shown to result in sub-optimal allocation of resources. While American interests are a common focus for critical attention, the influence of other national interests is also very real. For example, one study demonstrates that the Pakistani Executive Director can influence aid allocations to Pakistan at the International Development Association and the Asian Development Bank (Anwar, 2006).

The possibility does exist for partisan multilateral action to be positive, however. Multilaterals have been shown to respond to human rights violators by selectively reducing overall aid when obtaining a clear signal from the United Nations Commission on Human Rights (Lebovic and Voeten, 2009). Moreover, there are claims that multilateral channels exceed bilateral channels’ ability to improve the quality of governance in aid-receiving countries (Charron, 2011). The fact that multilateral channels possess the veneer of neutrality may be one reason why they are able to intervene and demand policy concessions from recipients, allowing ‘sovereign governments to swallow a bitter pill without appearing to cave in to either another sovereign government or a private entity’ (Rodrik, 1996: 177).

**Claim 2. Aid recipients prefer multilateral to bilateral channels**

There has long been an assertion that aid-receiving countries view multilateral institutions as more legitimate and trustworthy partners than their bilateral brethren. In the postwar period, the multilateral system seemed to guard against the coercive interests of Western powers overwhelming newly independent states (Andreopoulos et al., 2011; Mills, 1964). By way of contrast, developing countries continued to suspect bilateral channels of neo-imperial aspirations, even when such aid was provided unconditionally. The perception of the UN, in particular, was that it allowed for recipient voice because developing countries were members of committees with authority to allocate and disburse funding.

A recent OECD survey suggests this perception among aid recipients may still hold, notwithstanding some evidence that multilaterals impose coercive conditionalities and represent global hegemonic interests (Andreopoulos et al., 2011; Murphy, 2008a; 2008b). This survey asked 40 aid-receiving officials about their satisfaction with three broad categories of development-assistance provider: DAC bilateral donors, non-DAC bilateral donors and multilateral organisations. Overall, there was significantly more satisfaction with multilateral channels than with bilateral channels, with a preference for DAC over non-DAC donors (Table 2). Multilaterals are perceived as more flexible and responsive and in possession of valuable technical skills and policy expertise. While DAC countries remain important, they are perceived as unpredictable, liable to reduce aid budgets and abruptly end relationships (Davies and Pickering, 2015: 46).

A more extensive survey conducted by AidData of 6,750 development policy-makers and practitioners in 126 low- and middle-income countries confirms an in-country preference for multilateral channels. Survey participants from host-government institutions rate multilaterals as higher performing than bilaterals across three dimensions:

<p>| Table 2. Aid recipient satisfaction by type of donor (%) |
|---------------------------------|----------|------|-----|-------|</p>
<table>
<thead>
<tr>
<th>Very satisfied</th>
<th>Satisfied</th>
<th>Neutral</th>
<th>Dissatisfied</th>
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<tbody>
<tr>
<td>Multilateral</td>
<td>19</td>
<td>64</td>
<td>14</td>
</tr>
<tr>
<td>OECD-DAC</td>
<td>12</td>
<td>62</td>
<td>23</td>
</tr>
<tr>
<td>Non-DAC</td>
<td>7</td>
<td>52</td>
<td>27</td>
</tr>
</tbody>
</table>

*Source: Davies and Pickering, 2015*
usefulness of advice (seven of the top ten donors here being multilateral), agenda-setting influence (all of the top ten are multilateral) and helpfulness in implementation (eight of the top ten are multilateral) (Custer et al., 2015: 47). A handful of smaller ‘middle-power’ DAC bilateral channels also received high marks for performance, with non-DAC bilaterals trailing behind. Again, multilateral channels are perceived as exhibiting flexibility and responsiveness: for example, they are seen as more aligned with country systems and quicker to respond to requests. If the choice of aid channel were a response to recipient demand, multilateral channels would certainly outweigh the popularity of bilateral ones.

While these surveys converge on the claim that aid recipients prefer multilateral channels to bilateral ones, there are indications that their methodologies may exaggerate the depth of support due to small sample sizes of self-selecting recipients, among other concerns (Kenny and Sandefur, 2015). In the absence of countervailing evidence, however, it seems fair to suggest that recipients do exhibit a preference for multilateral channels over bilateral ones.

**Claim 3. Multilateral channels are more selective than bilateral ones**

Selecting recipients on the basis of rational criteria is widely assumed to contribute towards aid effectiveness. Effectiveness is thought to be enhanced if aid is given to the poorest countries (in terms of targeting development needs) and to better-governed countries (in terms of being well spent). Examining the evidence base for the claim that multilateral channels are more selective than bilateral channels suggests the need for greater nuance. Where there is some emerging consensus, it is that bilaterals display greater selectivity of recipients on the basis of institutional quality while multilaterals exhibit greater emphasis on recipient need.

In a widely cited study, Dollar and Levin (2006) claimed that multilateral aid is more selective than bilateral aid in targeting countries with democracy and good rule of law. However, a number of studies since have qualified this finding. Nunnenkamp and Thiele (2006) suggested that the response of both bilateral and multilateral donors to changing institutional and policy conditions is weak, and that claims that multilateral aid selectivity is superior are unjustified. There is also, importantly, variation across the bilateral donor community. For example, one study found that donors that are less corrupt themselves respond to corruption in aid recipients with greater stringency (Schudel, 2008). Donors with no colonial history or limited export-related interests are also thought to be more selective on governance grounds (Nunnenkamp and Thiele, 2006).

Overall, recent evidence suggests that bilaterals are selective on the basis of governance criteria, exceeding multilateral donor aid shares to democratic countries and matching multilateral shares going to non-corrupt countries (Palagashvili and Williamson, 2014). Non-DAC donors, however, do worst in allocating to well-governed countries. In another study, outcome-oriented bilateral donors are shown to bypass governments in poorly governed countries and use alternative (civil society) channels (Dietrich, 2011). Bilateral channels also tend to filter their sectoral allocations on the basis of governance criteria. For example, compared to multilaterals, bilaterals invest in primary education only when recipients demonstrate higher control of corruption. Such conditioning is significantly correlated to improved primary school enrolment (Christensen et al., 2011).

Even when multilaterals are choosing recipients more likely to use aid well, they are not choosing the aid modalities best suited to working with more effective governments. For example, multilaterals tend to use more fungible programmatic aid in countries that are poorly governed, instead of project aid that can be more easily monitored (Winters and Martinez, 2015). There is also econometric evidence that the World Bank’s International Development Association (IDA) directs more fungible forms of finance to poorly governed countries, partly attributed to the influence exercised by donor countries within IDA replenishments (Winters, 2010).

While bilaterals may be more attuned to the quality of governance in recipient states, there is strong indication that multilaterals express greater selectivity based on poverty and developmental need. A number of empirical studies find stronger statistical correlations between cross-country multilateral aid allocations and measures of development needs, including income levels and disease burden (Allen, 2006; Dollar and Levin, 2006; Easterly and Williamson, 2011; Maizels and Nissane, 1983; Steele, 2011). Palagashvili and Williamson (2014) provide the most comprehensive and recent analysis to date, underlining the superiority of multilateral channels in terms of their selectivity towards low-income countries. Non-DAC and DAC bilateral agencies give only about 19% of their aid to low-income countries whereas multilateral agencies give on average 55%.

**Claim 4. Multilateral channels are better suppliers of global public goods**

Although the use of aid to fund global public goods (GPGs) has been perceived, by some, as a diversion from the real poverty-eradication mission of international development (Anand, 2004), it is now widely acknowledged that GPG provision constitutes one of aid’s primary purposes (Deaton, 2013; Wickstead, 2015). Multilateral channels are perceived as better conduits for global collective action than bilateral ones, spurring the provision of shared global norms, information and
products where benefits are dispersed across geographies, socioeconomic groups and generations.

Some of the arguments in favour of this claim derive from the fact that multilaterals have been created as instruments for global burden-sharing (Martens, 2005; Milner and Tingley, 2013). This is useful given that the open-access nature of international public goods like clean air, peace and security, and pandemic control creates incentives for states to free-ride on others’ GPG production. Moreover, unilateral GPG provision risks private interests overwhelming global public interests, for example, by encouraging spending on diseases reflective of domestic health burdens rather than international ones (Anand, 2004; Steele, 2011). There is evidence that bilateral agencies recognise their limited comparative advantage in GPG provision, and allocate funding for climate change, humanitarian assistance and health through multilateral channels accordingly (OECD, 2015: 30, 60).

In addition, multilateral channels are information clearinghouses with international reach. Unlike bilateral channels, their inter-governmental structures allow them to compile globally relevant information and disseminate knowledge internationally. This can include implementing worldwide/regional surveys, hosting international forums and conferences and dispersing technical expertise (Revelle, 1968). For example, the multilateral development banks supply high-quality information on investment climates from which all investors can potentially benefit, smoothing the operations of international capital markets (Rodrik, 1996). Related to this, multilaterals are perceived to possess high levels of experience and knowledge that can assist with GPG production, dissemination and monitoring. While claims of expertise superior to that of bilateral channels are hard to substantiate empirically, it is true that multilateral agencies undertake internationally competitive recruitment searches that are rarely matched in scope by bilateral channels (Mellor and Masters, 1991). Furthermore, it should be expected that the benefits and international remit of multilateral channels are attractive to qualified candidates.

Notwithstanding these advantages, multilateralism can still fail to deliver GPGs or at least incur delays in production. As an alternative, GPGs may be produced ‘mini-laterally’, that is by a restricted group of countries for the benefit of all other countries (Morgera, 2012). As with unilateral efforts at GPG production, there is no assurance that regional coalitions or ‘club-based’ mini-lateral efforts will sufficiently take into account the interests of all countries. Bilateral channels may also complement existing multilateral efforts, generating compliance to support GPG delivery. Nevertheless, ‘mini-lateral’ and bilateral arrangements are considered sub-optimal channels for GPG production.

Claim 5. Multilateral channels are more efficient than bilateral channels

Multilateral channels are commonly assumed to be more efficient than bilateral ones (Lumsdaine, 1993; Milner and Tingley, 2013). The meaning of efficiency can extend to a range of measures, including lower overhead costs, economies of scale (lower marginal costs per additional unit of production) and economies of scope (efficiencies gained by variety). Value for money is also a close conceptual cousin of efficiency.

The published evidence base supporting multilateral claims of superior efficiency is somewhat fragile. Multilateral channels certainly have the capacity to achieve harmonised positions, coordinate interventions, achieve common standards, procedures and policy stances (Andreopoulos et al., 2011; OECD, 2012; Wright and Winters, 2010). One multilateral institution may also be more efficient than multiple bilateral channels as pooling resources increases the potential for economies of scale and economies of scope (Mellor and Masters, 1991; Villanger, 2006). Nevertheless, there is no evidence that multilateral assistance is resulting in rationalisation across the bilateral landscape. If anything there is suggestion that each channel has maintained distinct geographic and sectoral foci and is susceptible to waste, duplication and overlap (Loehr et al., 1976; Renninger, 1979). Hicks et al. (2008) fail to prove that bilateral agencies exploit economies of scale by delegating to multilaterals and suggest there are complications in measuring foreign aid costs that make claims of comparative efficiency challenging to verify. At least two studies suggest that running large multilateral organisations can be extremely expensive at any scale (Andreopoulos et al., 2011; Loehr et al., 1976).

If multilateral channels were more efficient, one would expect that states with relatively modest aid budgets would be better served using multilateral channels; yet, this is not a noticeable trend. In fact, larger donors allocate a greater share of their budget to the multilateral system (OECD, 2015: 66). Multi-bi assistance is now a growing share of aid passing through multilaterals and is partly a response to perceived inefficiencies within multilateral channels. The irony is that such earmarked financing can exacerbate rather than alleviate real cost burdens (Tortora and Steensen, 2014: 10, 15). A proliferation of multilateral performance reviews conducted by bilateral donors further contributes to administrative burdens within multilateral channels; over 2012-2014 there were 205 assessments carried out by DAC members alone (OECD, 2015: 30, 76, 79).

A recent comparison of donor overhead costs provides an empirical basis for refuting the claim that multilaterals are more efficient than bilaterals. Examining three measures of overhead – administrative costs, the ratio of salaries and benefits to aid flows and total aid

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9 For example, the International Finance Facility for Immunization emerged from a 2004 French-British commitment to underwrite a bond for vaccine development.
disbursements per employee – Palagashvili and Williamson (2014) establish a composite ranking and suggest DAC donors are the best in maintaining low overheads followed by non-DAC members and multilaterals. Their finding builds on and is in line with two earlier studies using similar, if somewhat patchy, data (Easterly and Pfutze, 2013; Easterly and Williamson, 2011). They suggest that this multilateral–bilateral overhead differential, while perhaps symptomatic of differing levels of bureaucratic mismanagement, may institutionally derive from bilaterals’ outsourcing their overhead costs by disbursing aid multilaterally, the diffuse nature of multilateral governance structures that reduce control over salary and other administrative costs and the work programmes of many multilateral institutions.

Claim 6. Multilateral channels are less fragmented than bilateral channels

Fragmentation can be understood as the ‘extent of dispersion in the sources of aid received by an aid recipient’ (Acharya et al., 2006: 12). The cited negative effects of fragmentation include a decrease in bureaucratic quality, increased transaction costs, hampered growth and increased corruption (Han and Koenig-Archibugi, 2015; Palagashvili and Williamson, 2014). The iconic example of fragmentation is the example of Tanzanian government officials having to prepare about 2,000 reports to donors and receiving more than 1,000 donor delegations each year (World Bank, 2003). Lack of specialisation overstretches the capacity of government to manage aid and thinly spreads donor expertise across countries, sectors and projects (Knack et al., 2011).

The ‘bilateral bane’ is its close association to the problem of fragmentation (OECD, 2012: 17). Certainly, when compared to multilateral channels, bilateral channels have more incentives to maintain visibility and ‘plant their flag’ in as many countries as possible. Unlike multilaterals, multilaterals also often have a regional or sectoral mandate that limits excessive aid dispersion. In terms of the empirical evidence, there are a number of studies of donor practices that penalise aid fragmentation and suggest it is a bilateral affliction (Acharya et al., 2006; Birdsall et al., 2010; Easterly and Pfutze, 2013; Easterly and Williamson, 2011; Knack et al., 2011). Concentration ratios do seem to indicate that geographic specialisation is a comparative advantage of multilateral institutions. One of the most comprehensive and recent examinations of fragmentation ascertains that multilaterals are less fragmented than DAC bilateral donors on both geographic and sectoral measures, although non-DAC donors achieve the highest concentration levels (Palagashvili and Williamson, 2014). Interestingly, the authors also show that DAC donors are becoming less specialised over time while multilateral donors are increasingly specialised, notwithstanding vocal DAC commitments to reduce aid fragmentation. The UK in particular is singled out for having a poor and deteriorating record on aid fragmentation among DAC donors, notwithstanding its championship of the principle of donor specialisation as a vehicle for aid effectiveness (Palagashvili and Williamson, 2014: 16).

Despite the potential costs of aid fragmentation, some have suggested that a larger and more diverse pool of donors can help in the pursuit of shared donor goals. This allows for a greater diversity of perspectives and creates a more competitive filter for policy selection. Adopting this theoretical position, Han and Koenig-Archibugi (2015), test whether donor fragmentation in the health sector has a negative impact on under-five mortality. They demonstrate that the relationship between fragmentation and child mortality is not negative but U-shaped, with lower levels of fragmentation generating marginal increases in child survival outcomes but higher levels resulting in marginal decreases. They suggest that the optimal level of fragmentation for aid effectiveness will not be zero but will involve an intermediate level of donor competition.

10 In 2009, 34% of multilateral relations were non-significant in contrast with 45% of bilateral relations (OECD, 2011; OECD, 2012).
Choosing between bilateral and multilateral channels: weighing evidence against claims

Overall, the analysis above indicates that there are grounds for specific claims concerning the comparative advantages of multilateral and bilateral aid channels. Claim 1 – that bilateral channels are more politicised than multilateral channels – is a relatively strongly substantiated claim, even if there are caveats to be made regarding the potential benefits of politicisation and the fact that multilateral assistance may also be quite partisan. Claim 2 – that aid recipients prefer multilateral to bilateral channels – is a strong claim made by two extensive and recent surveys of aid recipients. Claim 3 – multilateral channels are more selective than bilateral ones – is assessed as moderate. This is because, although multilaterals may be selective on poverty criteria, they are less so on governance criteria (compared to bilateral channels) and even where selective on governance they do not align aid modalities to governance quality. Claim 4, concerning the superiority of multilateral channels as suppliers of global public goods, is of moderate strength, mainly because even multilaterals tend to under-provide GPGs and bilateral channels may still contribute through ‘mini-lateral’ arrangements. The only relatively weak claim in this review concerns the relative efficiency of bilateral and multilateral channels – Claim 5. The patchy and incomparable nature of the data involved and the fact that the most comprehensive study to date highlights that bilateral channels exhibit lower administrative costs than multilaterals, undermine the direction of this claim. Moreover, the higher overheads exhibited by multilaterals may have institutional sources including the structure and mandates of multilateral institutions. Finally, Claim 6 concerning aid fragmentation indicates that multilateral channels do tend to be less fragmented, even if there are some doubts that fragmentation is everywhere and always a negative attribute for aid effectiveness. Table 3 presents the summary findings for the six claims.

Overall, these claims suggest specific attributes of multilateral and bilateral channels. Multilateral channels are empirically found to be less politicised, more demand-driven, more selective in terms of poverty criteria and a better conduit for global public goods. Bilateral channels come out as more politicised, more selective on governance criteria, having slightly lower administrative costs and much more fragmented. The nature of these respective attributes is suggestive of a critical division between multilateral and bilateral channels, one where bilateral channels are primarily chosen to satisfy donor needs for control, accounting and visibility while multilateral channels are driven by donor imperatives around pooling and advancing common global cause. This essential division has been highlighted before by the OECD, who in its discussion of the choice between multilateral and bilateral channels, highlights the ‘edge’ that bilateral channels have in controlling how resources are spent and apportioning blame and credit. In contrast, multilateral channels are thought to be less politicised and more removed from domestic special interests (OECD, 2012: 16-17).

What this literature review uncovers is that specific channels seem to sustain and carry forward certain kinds of donor motivations and preferences better than others. If donors seek predominantly to exercise influence over aid flows, maintain a global presence notwithstanding relatively small budgets, reduce risk of failure by delivering aid to well-governed countries and minimise inefficiencies and ensure domestic public’s value for money, they would be best served by channelling their assistance bilaterally. Meanwhile, if donor inclination is to advance global concerns and adopt collective approaches, multilateral channels would be most suited to this impulse. One might even go so far as to suggest that divergent motivations for aid-giving shape the comparative advantages of bilateral and multilateral channels. This is because there is clearly no intrinsic reason why bilateral aid must conform to the
imperative of control and influence and that all aid flowing through multilateral channels should be driven by the need for harmonious global advancement. Some of the exceptions to the claims above illustrate this possibility quite clearly.

Given this, donors would do well to reflect frankly on their motivations for aid-giving before allocating aid to a particular channel. While donors have been shown to possess multiple motivations for aid-giving, ranging from self interest, international cooperation and global humanitarianism (Lumsdaine and Schopf, 2007; Lumsdaine, 1993), it is often the case that one will predominate at a particular time. What is the balance they want to strike between the need to be visible and maintain control as against the benefits of pooling resources and acting responsively to global priorities? A proportionate allocation should derive from the relative emphasis placed on each type of motivation. This would lead one to hypothesise that donors articulating a strong motivation for aid-giving in the national interest will tend to allocate proportionately less aid through multilateral channels. There is certainly evidence in the other direction: namely that donors motivated to promote global public goods, human rights and global collective action are more likely to delegate their aid to multilateral channels (Greenhill and Rabinowitz, forthcoming; Lebovic and Voeten, 2009). Future research may well test the proposition of a significant relation between donor motivation and channel choice.

As a related but secondary step to donor internal reflection, the marginal operational advantages of each channel may also warrant examination. This assessment of donor claims of comparative advantage against evidence hints at some of these, for example relative efficiency or global burden-sharing, which seem to be less dependent on donor predilections. Moreover, aid-recipient preferences may also be worth considering. And yet, the fundamental aid-allocation decision does appear to rest on the donor’s predominant motivation for giving aid. An informed choice on aid allocation will require donors to first and foremost be clear about their fundamental desires and expectations from the use of foreign aid.

Table 3. Summary evaluation of claims concerning relative benefits of bilateral and multilateral channels

<table>
<thead>
<tr>
<th>Claim</th>
<th>Strength of Conclusion</th>
<th>Caveats</th>
</tr>
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<tbody>
<tr>
<td>1 Bilateral channels are more politicised than multilateral channels.</td>
<td>Strong</td>
<td>*Politicisation can be a good thing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Multilaterals are also politicised</td>
</tr>
<tr>
<td>2 Aid recipients prefer multilateral to bilateral channels.</td>
<td>Strong</td>
<td>*Survey methodology may exaggerate results</td>
</tr>
<tr>
<td>3 Multilateral channels are more selective than bilateral ones.</td>
<td>Moderate</td>
<td>*On poverty but not on governance criteria</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Multilaterals not meeting second-order criteria</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Non-DAC donors do worst in allocating to well governed countries</td>
</tr>
<tr>
<td>4 Multilateral channels are better suppliers of global</td>
<td>Moderate</td>
<td>*Even multilaterals under-privilege GPGs</td>
</tr>
<tr>
<td>public goods.</td>
<td></td>
<td>*Mini-lateral initiatives suggest a role for bilaterals</td>
</tr>
<tr>
<td>5 Multilateral channels are more efficient than bilateral channels.</td>
<td>Weak</td>
<td>*Bilaterals exhibit lower administrative costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Problems of patchy/accessible data</td>
</tr>
<tr>
<td>6 Multilateral channels are less fragmented than bilateral channels.</td>
<td>Strong</td>
<td>*Fragmentation is not always negative</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Non-DAC donors have high geographic and sectoral concentration ratios</td>
</tr>
</tbody>
</table>
Multi-bi assistance: a third way?

While countries have traditionally faced a binary choice between bilateral and multilateral channels, multi-bi is in pure mechanical terms a hybrid of the two. The two defining characteristics of multi-bi aid are its voluntary and earmarked nature. The trend to provide voluntary funding to complement core budgets originates with the creation of several of the large UN development funds and programmes in the 1960s, allowing donors to assert influence ‘through the backdoor’ (Reinsberg et al., 2015). Earmarking, by contrast, began in the early 1990s and though also relating to the desire for political influence, stemmed from frustrations with the slow pace of governance reforms, the desire to engage non-state actors and the emergence of new global challenges. Earmarking rather than voluntarism is the reason why multi-bi aid is often described as the ‘bilateralisation’ of multilateral institutions.

Such bilateralisation is a large and growing phenomenon. OECD data suggests multi-bi assistance constitutes a little over 10% of total DAC ODA and 30% of total multilateral spending (Figure 1). Nevertheless, a new dataset suggests that these figures may be gross under-estimates, with multi-bi aid standing at over 20% of total ODA and almost 60% of total multilateral contributions (Reinsberg et al., 2015). In 2013, the donors channelling the greatest proportion of multilateral assistance as multi-bi aid included Iceland (65%), Australia (57%) and the United States (49%) (Figure 3).

Given the growing prevalence of multi-bi flows, could it possibly offer the best of both channels? In other words, is it equivalent to a ‘Third Way for Foreign Aid’? To answer these questions, it seems sensible to reflect on the value of multi-bi aid against the same criteria as above. This section will provide an initial rather than an exhaustive exploration of the potential for multi-bi aid to serve as an effective halfway house between bilateral and multilateral channels based on six criteria: politicisation, client preference, selectivity, global public good provision, efficiency and fragmentation.

In a survey of DAC motives for aid-giving, the desire for visibility and influence is attributed as the paramount driver for donors channelling their assistance through multi-bi channels (Reinsberg et al, 2015: 23; Tortora and Steensen, 2014: 16). Earmarking allows donors to sidestep fragmented multilateral governance systems (e.g. the UN General Assembly) or voting shares that do not reflect global balance of power (e.g. the World Bank). Sridhar and Woods (2013) suggest multi-bi aid is used by wealthy donors to bilateralise international institutions with their pet projects, describing this phenomenon as ‘Trojan multilateralism’. They claim multi-bi aid can re-align objectives of multilateral institutions to favour donors, reduce informational asymmetries and tighten donor monitoring over the multilateral’s work and outcomes. This works especially in favour of large providers of earmarked funds (OECD, 2015: 109). The consequence is not only policies that favour certain donors and deepen democratic deficits in multilateral institutions but also the erosion of impartial organisational capacities to create, collate and disseminate information.

Indeed, multi-bi aid may be worse than politicised bilateral aid as it can potentially ruin the credibility of sincere, developmentally motivated multinational programmes. In this regard, earmarked aid does not fulfil the ambition of the Paris principles of aid effectiveness to enhance country ownership and devolve control to aid recipients. Multi-bi assistance usually flows into international organisations via trust funds11 that have distinct governance structures from the host institution. This legal separation can potentially allow multi-bi aid to widen membership to unofficial organisations and different partners, including foundations and NGOs, making them more representative multi-stakeholder initiatives. And yet, even country-specific multi-donor trust funds have not been able to secure robust country leadership and dialogue processes (OECD, 2015: 134). Multi-bi aid is ultimately a supply-driven instrument.12

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11 Trust funds can be hosted for either individual donors (single-donor trust funds) or a group of donors that jointly finance a common priority (multi-donor trust funds or vertical funds).

12 For example, the discussion about the role of the World Bank in climate finance was not in line with the preferences of many developing countries (Reinsberg et al, 2015: 25).
The ability to be selective implies being able to fulfil some donor criteria through aid allocation. Obviously to some degree, donors are pursuing geographic and thematic priorities through earmarked funds. Some recent work suggests that trust funds are selective, although the dimensions of selectivity are not always clear (Eichenauer and Knack 2016; Wagner 2016). Yet, the possibility for donors to exercise strategic influence over multilateral priorities through multi-bi channels may be overstated. This is because donors have not exploited their multilateral hosts as full institutional partners (OECD, 2015: 105, 117). Dialogue between donor and multilateral has tended to involve operational issues regarding fund administration rather than higher-level goals and consultation. This is further exacerbated by scattered decision-making on multi-bi flows within donor countries, which makes coherence and coordination difficult for a donor seeking a holistic picture of total investment in a multilateral institution. Although portfolio reviews of multi-bi flows are an emergent way to discuss shared priorities and good practices, they remain exceptional rather than standard practice. Multi-bi aid allocation would appear more piecemeal than strategically selective.

Multi-bi funds are mechanisms for pooling funding and risk towards global public good provision (Reinsberg et al., 2015: 4). This happens by leveraging resources from a variety of actors, expanding the activities of multilaterals beyond what would have been possible with core funding alone and doing so in a timely fashion. In this regard, vertical funds like the Global Alliance for Vaccines and Immunization (GAVI) and the Global Fund for AIDS, Tuberculosis and Malaria (GFATM) are considered replicable successes that brought visibility and funding to under-provided GPGs (OECD, 2015: 55). The sectoral focus

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**Figure 3. DAC donors’ share of core and non-core ODA going through the multilateral system in 2013**

![Image of a chart showing the share of total ODA going to the multilateral system by country. The chart is a bar chart with the x-axis representing different countries and the y-axis representing the share of ODA going to the multilateral system, with labels for Australia, Austria, Belgium, Canada, and so on, showing their respective shares in various categories such as Core ODA to the multilateral system as a share of total flows to multilaterals. The source of the data is OECD, 2015.]
of the SDGs and the need to leverage public and private actors are indicative of the continued relevance of multi-bi channels for GPG production. At the same time, there are worries that the use of multi-bi channels can have negative effects on global policy, for example by shifting priorities in the global health space in favour of short-term donor-driven goals rather than longer-term public health priorities (Shiffman, 2006; Sridhar and Woods, 2013; Sridhar, 2012).

While multi-bi aid may be a response to perceived inefficiency and waste in multilateral institutions, it can also worsen problems of efficiency. This can happen when it overwhelsms the multilateral system with unpredictable finance flows, incentivises mission creep and disparate decision-making, encourages the proliferation of bilateral assessments of multilaterals that add to administrative burdens, and depletes core administrative resources if costs are not adequately recovered (OECD, 2015: 30, 61, 109, 113). It is also still unclear whether multi-bi aid displaces core finance that would otherwise be provided by donors (Reinsberg et al., 2015; Tortora and Steensen, 2014). Overall, to the extent that there are efficiency gains for the bilateral donor providing multi-bi aid these are counterbalanced by efficiency losses at the level of the multilateral institution (Reinsberg et al., 2015: 23; Tortora and Steensen, 2014: 16).

Joint trust funds hosted by multilateral institutions appeared to be the ideal instrument to coordinate, harmonise and avoid sectoral and geographic fragmentation of individual donor interventions. And yet, empirical examination has shown that the vast majority of multi-bi aid occurs through single-donor trust funds where opportunities to consolidate are least (Reinsberg et al., 2015). Moreover, the number of new trust funds itself is seen to represent a proliferation of donors and a more fragmented global system. Given that multi-bi aid agreements are negotiated by individual operational departments independent of any strategic assessment by the multilateral organisation, internal fragmentation is also a problem. Multi-bi finance generates autonomy for certain organisational units from upper management and is a stimulus for intra-organisational competition for resources.

Table 4 presents the comparative attributes of multilateral and bilateral channels from the previous section alongside the tentative conclusions emerging from this initial examination of literatures on multi-bi aid.

Table 4. Comparing attributes of multilateral, bilateral and multi-bi channels

<table>
<thead>
<tr>
<th></th>
<th>Multilateral</th>
<th>Bilateral</th>
<th>Multi-bi (initial)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Politicised</td>
<td>x</td>
<td>X</td>
<td>x</td>
</tr>
<tr>
<td>Demand-driven</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selective</td>
<td>X</td>
<td>X</td>
<td>x</td>
</tr>
<tr>
<td>Promotes GPGs</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efficient</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Fragmented</td>
<td></td>
<td>X</td>
<td>x</td>
</tr>
</tbody>
</table>

X = strongly linked
x = weakly linked

Overall, multi-bi aid is not as politically influential as we might like to think. For all but the largest providers, multi-bi assistance remains a signalling device to national publics rather than a real influence on multilateral agency priorities. And yet, multi-bi channels come at considerable cost to the performance, credibility and governance of multilateral systems, worsening selectivity and fragmentation, propping up donor-driven development and enhancing administrative burdens. They appear to diminish the comparative advantages of bilateral channels by reducing opportunities for selectivity and efficiency, though they may also be less politicised and a better vehicle for global public good provision than pure bilateral channels. Meanwhile, unlike multilateral channels, multi-bi aid struggles to respond to aid recipients’ development needs and wants and, with a few notable exceptions, tends to address the global public good imperative from the particular vantage point of its financial backers even if governance structures are more pluralistic. Rather than being the best of both worlds, there are reasons to believe that multi-bi aid may be a sub-optimal Third Way. While the conclusion that it is marginally superior to bilateral channels may be further examined and researched, based on the criteria here it is an inferior choice to pure multilateral channels because of its deleterious effects on the institutional functioning of the multilateral system itself.
Conclusion

The new aid environment puts a premium on the strategic allocation of aid across the bilateral-multilateral aid spectrum. To date, there is no accepted wisdom on what a sensible allocation across bilateral and multilateral channels should look like or by what criteria this decision should be informed. This paper has asked how bilateral donors should direct funds after an extensive literature review of comparative evidence on the strengths and weaknesses of bilateral and multilateral channels. What emerges is that multilateral channels appear less politicised, more demand-driven, more selective in terms of poverty criteria and a better conduit for global public goods. Bilateral channels come out as more politicised, more selective on governance criteria, having slightly lower administrative costs and much more fragmented.

The nature of these respective attributes suggests a division between multilateral and bilateral channels. Donors use bilateral channels when motivated by the need to control, account and be visible, while multilateral channels are chosen when motivated by the donor imperative of pooling and advancing a common global cause. Consideration of a donor’s over-arching motivation for providing aid should therefore centrally inform aid allocation in a bilateral or multilateral direction. While operational strengths and the nature of client demand may also be relevant at the margins, a frank assessment of donor motivations will be the best way to exploit the advantages and minimise the costs of each channel.

While there are hopes pinned on multi-bi aid as steering a middle path between bilateral and multilateral channels, indications are that the bilateral tendency to control and influence dominates the multilateral preference for pooled resources advancing common global causes. In terms of specific attributes, multi-bi aid may have some peripheral advantages over bilateral channels but overall it exacerbates weaknesses within multilateral institutions and can generate systemic challenges to the international system. Donors would be advised to give more careful consideration to their allocation across pure bilateral and multilateral channels rather than assuming multi-bi assistance provides an alternative ‘Third Way’.

In the current international environment of foreign aid, there is little space for donors to allocate across bilateral and multilateral channels haphazardly. Thinking strategically about the choice of channel is a new norm, one that requires greater reflection on donor motivations for aid-giving. Such self-reflection can go some way towards improving foreign aid’s allocative efficiency as well as its political possibilities.
Bibliography


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Annex I. Methods for literature review

Research for this paper included the review of over 100 published documents in order to establish both the claims contained in the paper and evidence for these claims. This represented a manageable sub-sample of hits generated from key-word searches using multiple combinations of the terms ‘bilateral,’ ‘multilateral’ and ‘aid’ across eight databases (J-STOR, Directory of Open Access, Google Scholar, Web of Knowledge, Proquest, Webcat, Google Scholar, OECD). A combination of peer-reviewed articles, reports and unpublished studies was sought for this review. No exclusionary limits were placed in terms of dates of publication, mainly because it was thought there was merit in examining the historical approaches to understanding debates about channels of aid delivery. Secondary references from the sample and known relevant sources that did not appear in the search findings were also reviewed.

Appraising the technical quality of literatures occurred after reading and summarising each article. An in-house quality scale was devised and each article was graded holistically as low, medium or high quality. The overall grade took into account five factors: (1) the appropriateness of the conceptual framework for answering the question posed by the author; (2) the rigor of evidence-gathering or theorising; (3) the level of logical causal plausibility between the evidence and conclusions; (4) degree of potential external validity and (5) critical awareness of limitations of the work and openness to alternative interpretations. Subsequent assessments of the collective body of evidence by claim considered the technical quality of each individual study but also the size, context and consistency of all the literatures gathered. In this way, individual assessments of sources’ technical quality fed into but did not wholly determine wider assessments about the collective body of evidence amassed for each claim. These wider assessments enabled the classification of each claim by the strength of the body of evidence amassed i.e. weak, moderate or strong.