

# Views on Development

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## Challenges for Multilateral Development Cooperation

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Development cooperation (DC) is in principle either organised bilaterally – in Germany primarily by the KfW and GIZ – or run by multilateral institutions (EU, World Bank, regional development banks, thematic funds or the United Nations). The pros and cons of bilateral and multilateral DC are the subject of intense debate at present, such as in the Bundestag committee for economic cooperation and development at the end of March 2012. The debate stems from the coalition agreement between the CDU, CSU and FDP in October 2009, which had charged the German government to "[to review] ...the efficiency of development policy and its ability to co-ordinate multilateral institutions..." and on this basis to elaborate "...initiatives to reform the international development architecture to establish a clearly defined task structure and division of labour...".

### DC allocation to bilateral and multilateral institutions based on comparative advantages and efficiency

Any assessment of the allocation of funding to the bilateral or multilateral institutions needs to consider two aspects: 1) What are the comparative benefits of achieving the political development targets efficiently and effectively? 2) Which institution realises the interests of the partner country and donor country more effectively? The political decision to allocate funding for bilateral implementation is thus influenced by the size of the donor coun-

try, its existing bilateral implementation institutions and its development-related expertise.

On the other hand, the greater the influence the donor country has on the multilateral institutions, the more willing it will be to finance multilateral DC. It is also the responsibility of the partner countries to put a stop to the fragmentation of the aid offered to it; a rejection of offered aid will of course affect small bilateral donors more than those able to offer extensive funding and technology.

### Germany's share of multilateral DC is above the DAC average

Where – unlike in Germany – local implementation structures scarcely exist, this consideration is frequently avoided by the 'bilateralised' granting of earmarked funding to multilateral institutions. The German contributions, by contrast, are predominantly counted as a contribution to the core budget of the multilateral institutions (93.4 per cent, compared with the DAC average of 71.3 per cent). The greater core budget share of the German multilateral contributions is to be welcomed for reasons of transparency, control and incentive compatibility. Germany, the world's third largest provider of multilateral DC in 2010 at just under 5 billion dollars (including payments to the EU), is one of the few DAC members to cap – to one third – the multilateral share of its DC through guidelines. Nevertheless, Germany – unlike the USA – is not the odd one out with its share of multilateral DC aid; at

34.4 per cent, the percentage share in 2010 was well above the DAC average (26.8 per cent).

Germany's bilateral DC is typically project and programme-related, which allows scope for a large number of German institutions. The GIZ and KfW in particular ensure Germany's visibility in the partner country and facilitate financial monitoring. Klasen (2011)<sup>1</sup> refers to (his own) studies, according to which every euro in (bilateral) DC translates into exports averaging between EUR 1.30 and EUR 1.80 from the donor country. This is not because of tied aid, but because bilateral DC helps to "open doors for a general improvement in bilateral relations", which in turn helps to stimulate closer trade relations. So much for the donor's perspective.

### Multilateral organisations have comparative advantages in some fields

Multilateral organisations are generally considered to have some genuine advantages over bilateral donors: know-how (in fighting poverty and disease), fundamental research (such as in agriculture), climate change, terrorism, water, food and energy scarcity and unstable global financial markets are considered classic global public goods that establish the need for multilateral organisations in respect of DC. The fight against pandemics is probably the clearest example of the benefits of multilateral DC (global public goods are also financed and offered through bilateral DC, as in the construction of climate-friendly cities in China). The large multilateral organisations are particularly useful when it comes to setting the development policy agenda and as a platform for development policy dialogue. For development loans, too, multilateral banks can have an edge thanks to their ability to bundle financial resources, information advantages and greater sanction potential (conditionality); however, the prolonged defensive lending by the multilateral banks to highly indebted developing countries in the nineties has considerably undermined their reputation as better collectors of debt.

<sup>1</sup> Klasen, Stefan (2011), "Vom Unsinn der Lieferbindung in der EZ", KfW, Meinungsforum Entwicklungspolitik, 19 October 2011. Compare also the response from Braun, Hans-Gert (2012), "Lieferbindung: Die Kritiker springen zu kurz!", KfW, Meinungsforum Entwicklungspolitik, 10 February 2012.

### German bilateral DC shows measurable progress in specialisation

From the perspective of partner countries, empirical studies have rated the quality of German bilateral aid compared with alternative multilateral usage as moderate.<sup>2</sup> (However, the authors of these analyses are former or current employees of the World Bank). If it were only about enhancing the effectiveness and efficiency of German aid, these empirical studies would appear to suggest

- that German bilateral aid is of less service in terms of efficiency, poverty orientation, the administrative burden on the partner countries and the (non-)tying of aid than the three major multilateral institutions (World Bank, EU and United Nations);
- that German bilateral aid in the areas of governance orientation (the political quality of its partner countries) and institution forming ('ownership') is on a par with or superior to the multilateral institutions.

Fresh empirical studies by the Kiel Institut für Weltwirtschaft cast doubt on whether the multilateral institutions are still superior to German bilateral DC when it comes to efficiency<sup>3</sup>. The Kiel authors analysed the progress since the *Paris Declaration* was issued in 2005 made by bilateral and multilateral donors (EU, World Bank) towards co-ordination and greater specialisation in DC, focusing on the avoidance of costly duplication of activities and fragmentation into countless unrelated programmes and projects in the partner countries. While the analyses revealed that neither the EU and the World Bank nor bilateral donors have made quantifiable progress, German bilateral DC has succeeded in producing a stronger sector and country focus. Neither the EU nor the World Bank have made quantifiable progress in the degree of specialisation in the above period of time.

### Multilateral DC facing key challenges

The advantages of multilateral DC are currently being undermined by three unresolved challenges:

- The greater presence of bilaterally oriented industrialising countries in co-operation with poor countries and the imminent 'Balkanisation' of multilateral DC.

- The multilateral 'donor chaos', with mission creep, overlap and fragmentation.
- The rise in earmarked contributions in the budgets of multilateral institutions.

That the economic (and political) weight in the world has shifted eastwards is also becoming apparent in the development co-operation sector (Reisen, 2010).<sup>4</sup> By their own accounts, the new DC partners from China and other industrialising countries prefer bilateral co-operation in south-south co-operation even while they are increasingly engaging multilaterally in financial interrelations. The intellectual case for Western-style standards (with the marked inclination of multilaterals to declamatory "governance rhetoric") to be linked with the project-oriented, growth-friendly practices in economic south-south co-operation has not yet been made, and is also leading to a lack of focus in the multilateral organisations. The debate between industrialised and industrialising countries about who should be appointed as World Bank president and new plans to establish a BRIC bank are further indications of the creeping danger of the *Balkanisation* of multilateral DC, in particular so long as China, the highly capitalised creditor nation, is unable to assert itself against the USA in Western institutions.

The transfer of far-reaching economic policy competence to the G20 has laid bare especially to insiders in the development sector the enormous competitive struggle between the multilateral DC institutions, the overlapping of their areas of activity and the problem of mission creep. There is no doubt that the administrative burden imposed on partner countries by donors represents a real problem not only from a bilateral but also from a multilateral viewpoint. Some 280 institutions are currently recognised by the DAC as multilateral DC institutions, and the trend is upwards: 60 UN agencies, funds and commissions; four EU institutions; five IMF facilities; seven institutions of the World Bank group; three of the WTO; 15 regional development banks and their funds; and 118 other multilateral institutions. Added to this list are about 60 international NGOs, 14 international PPPs and four international networks<sup>5</sup>. The fragmentation of

multilateral DC is a problem not just for developing countries, but also for donors. The personnel resources of many multilateral institutions, with 10,000 staff and more in both the World Bank and the EU, for instance, accentuates the principal-agent problem in the management and control of multilateral organisations.

Earmarked contributions to multilateral institutions (often in the form of funds, public-private partnerships and targeted programmes) are increasingly weakening their core funding and exacerbating the problem of how member governments control the work programmes. The hollowing out of core funding – also criticised as *cherry-picking* – has particularly affected the United Nations in the last decade, but the effects keep rippling ever further out. The associated 'fund shopping' of the multilateral organisations distracts their management from their real tasks, increases their administrative expenditure and paves the way for multilateral mission creep and duplication of activities, as the cost of monitoring is also greatly increased. From the perspective of the partner countries, the rise in earmarked multilateral aid has the effect of damaging their political self-responsibility and diminishing the ability to plan the multilateral financial resources. The resulting greater fragmentation and proliferation of multilateral DC undermines their effectiveness and, with it, the Paris Declaration and its subsequent conferences that were produced by the donors at considerable expense.

### DC map can enhance efficiency and effectiveness of multilateral donors

Competence and liability go hand in hand in the multilateral sector too. A DC map can strengthen the efficiency and effectiveness of the multilateral institutions through consolidation, clear allocation of roles and co-ordination (instead of the current wooing for mandates from the G20). Given major conflicts of interest (patronage of ministry multilaterals), this map cannot, of course, be left to the responsibility of the specialist ministries, as in Great Britain recently. It should instead be created by the German Federal Audit Office on behalf of the Federal Chancellery; one model is the report by the British audit office entitled "DFID: Dealing with Multilaterals" from 2005. A suitable juncture would be the preliminary discussions on the follow-up to the Millennium Development Goals. ■

<sup>2</sup> See for instance Seebens, Holger (2011), "Quoda – was sagt das neue Meßinstrument über die deutsche EZ aus?" KfW, Fokus Entwicklungspolitik No 4, 1 April 2011.

<sup>3</sup> Nunnenkamp, Peter, Hannes Öhler und Rainer Thiele (2012), "In der Entwicklungszusammenarbeit fehlt die Koordination", *Ökonomenstimme*, 21 March 2012.

<sup>4</sup> Reisen, Helmut (2010), "Die Neuvermessung der Welt: Konsequenzen für die Entwicklungszusammenarbeit", KfW, Meinungsforum Entwicklungspolitik, 16 December 2010. In the past DC was the traditional terrain of developed industrialised countries. Despite their markedly independent existence, even the multilateral donor institutions have to date largely been dominated by the USA and its allies.

<sup>5</sup> OECD (2011), DAC Statistical Reporting Directive, DCD/DAC (2010)40/REV1.