

A stylized world map composed of a grid of dots. Most dots are light gray, but several are red, highlighting specific regions: North America, Western Europe, East Africa, and Southeast Asia.

Bi or Multi?

German Interests and Development Policy Strategies

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- The coalition agreement of the new German government, which expresses a clear preference for a bilateral development policy, has rekindled the debate on bi- and multilateral approaches to development policy. But the two approaches should not be played off against one another; instead, their benefits should be combined effectively.
- The pros and cons of multilateral development policy in comparison to the bilateral approach do not lend themselves to sweeping statements, since the effects of such a policy are influenced by diverse factors on both the donor and the recipient side, as well as by the international framework. In this *Perspective* Thomas Fues discusses the two approaches, among other things in terms of their visibility, effectiveness and influence, as well as the issues of partnership and upheavals in the global system.
- The quota regulation currently in place is not adequate for dealing with complex German interests in a globalised world. How large the multilateral portion should be in future can be decided only in the political sphere, taking account of current exigencies arising from the dynamic formation of German and European foreign relations. This is conditional on an interministerial and multilateral strategy which defines a coherent programme for international cooperation.



A New Preference

The strengths and weaknesses of international institutions are a popular topic of discussion in development policy. Many governments prefer direct forms of cooperation with their partner countries. Bilateral instruments are best, it is commonly believed, in the pursuit of foreign economic and geopolitical interests. The high domestic visibility of projects under the national flag is another attraction. In contrast, donors are less keen on multilateral cooperation, which tends to go through channels such as the World Bank, the United Nations or the European Union. With considerable generalisation, multilateralism is often charged with engendering bureaucratisation, politicisation and ineffectiveness.

The coalition agreement of the new German government also expresses a clear preference for bilateral development policy: the multilateral portion of German outputs – this refers to the budget of the Ministry for Economic Cooperation and Development (BMZ) – is to be cut to one-third. In this way, a decision by the Budget Committee in the German Parliament in 1993 is elevated to the official government position. By way of justification, it is argued that bilateral aid enables a higher degree of influence and effectiveness.

The present text calls into question the sense and purpose of a fixed quota. It is not a matter of playing off bilateral against multilateral cooperation. Both approaches have their advantages and disadvantages and, what is more, can be combined effectively. Nor is doubt cast on the legitimacy of German interests as a target dimension. The main thrust of the argument presented here is rather that the multilateral portion of aid should be regarded as a derived value, not as something to be fixed in advance. In this perspective, decisions on the funding of international programmes are related to the optimal implementation of strategic goals and should be adapted flexibly to changing global circumstances. Given the upheavals in the global system there is a danger that the central establishment ex ante of a control variable is likely rather to hinder than promote German interests and development policy concerns.

Quota Problems

Germany is the only donor country besides Switzerland which manages the distribution of development funding between bilateral and multilateral instruments in accordance with a fixed quota.¹ The coalition's decision puts the BMZ under considerable pressure to conform since the multilateral portion of all German development funding (official development assistance or ODA) has been set at around 40 per cent since the mid-1990s. In 2009, according to provisional calculations by the OECD, Germany hit a peak of just under 42 per cent, which was exceeded only by France, with 45 per cent. The levels of other European donors are considerably lower: Spain (35 per cent), Sweden (34 per cent), the UK (32 per cent) and the Netherlands (25 per cent). The figures for Japan (37 per cent), Canada (22 per cent) and the USA (12 per cent) cannot be compared with those of Europe because there are no financial flows to a regional organisation. In global surveys EU levels are therefore excluded.

Looking at the BMZ budget alone the multilateral portion, according to Ministry figures, falls to around 37 per cent. But here too the coalition agreement falls far short. A major factor in the increase in multilateral funding in recent years is the increased payments to the European development funds: from just under 470 million euros in 2000 to 875 million euros in 2010. The German contribution to the global fund for combating AIDS, tuberculosis and malaria has increased considerably: from 38 million euros in 2004 to 204 million euros in 2010. This alone receives more money from Germany than all the development policy funds and programmes of the UN put together.

After the change of government the German Parliament, in its revision of the 2010 budget, instituted cuts above all in voluntary payments to the UN: the UN development programme this year will receive only 22.4 million euros (original proposal: 30 million euros), while the world population programme will have to make do with 14.2 million euros (originally: 18 million). The discrepancy between regular and voluntary payments to the UN is striking. Berlin is the third highest contributor as regards obligatory payments to the UN, but

1. DAC (Development Assistance Committee) (2010), DAC Report on Multilateral Aid, Paris: OECD.



when it comes to the core budget of the UN development programme in 2009 – that is, even before the recent cut – Germany ranked only eleventh.

The attitude of the BMZ towards international actors is not unambivalent. The fixing of a multilateral quota contradicts the Ministry's expressed intention to make decisions about resource allocation to individual institutions flexibly, based on their capacities. In pursuit of this logic, Denmark replaced its previous quota with a results-oriented approach to multilateral transfers. The BMZ's attempt to increase its strategic influence at the international level while at the same time reducing its financial contributions would seem to be tilting at windmills. As in the bilateral domain, the concept of »effectiveness« is linked to German interests in the multilateral domain and therefore detached from the Paris/Accra Process's aid-effectiveness agenda.

The BMZ's objective scope for reducing the multilateral portion of the frozen total budget is minimal, if its international engagement is not to be substantially jeopardised. In contrast to the European Development Fund, the World Bank and other institutions the German government has undertaken legally binding commitments. Cutbacks would at some point have to be made good, if need be by others, and presumably »new« donors, such as China, India and Brazil would welcome the opportunity to expand their presence. It is undoubtedly considerations of this kind that have prevented the BMZ from putting the level of the German contribution on the agenda in the ongoing negotiations on the International Development Association and the African Development Fund.

Development Policy Strategies in Comparison

The pros and cons of multilateral development policy in comparison to a bilateral approach cannot be dealt with categorically. The effects are subject to diverse factors on both the donor and the recipient sides, not to mention the international framework. For example, small donors tend to favour multilateral contexts since the costs of running their own programmes with a substantial number of partners would be unacceptably high. In contrast, large donors with extensive development administrations overseas as a rule prefer a strongly bilateral

approach since this enables them – besides the relevant development goals – to promote their own interests. In politically sensitive situations – for example, democracy-building or crisis prevention – on the other hand, it can be advisable for all national donors to provide aid through international organisations since the latter are perceived as neutral actors.

The following seven categories are of particular significance in any comparison of bilateral and multilateral cooperation:

- *Visibility*: From the donor's viewpoint, bilateral aid enjoys the not to be underestimated advantage that the funded project or programme can be manifestly associated with him (the »flag effect«). The public at home and visiting MPs can identify with national projects emotionally. In the multilateral domain, in contrast, funding flows into collaborative activities and its proportionate effect cannot really be attributed to individual donors. On the recipient side, however, bilateral approaches – in particular, in small or fragile states – bring with them the danger of overstretching local administrative capacities. Parallel project budgets can give rise to the erosion of public finances in the partner country and impair the overall effectiveness of development policy.

- *Influence*: With regard to control options in planning, implementation and monitoring results, the bilateral level, from the donor's point of view, has clear advantages over the multilateral approach. The funding side can marshal development policy priorities combined with foreign economic and geopolitical concerns, for example, in the funding of infrastructure in the water sector with the participation of companies from the donor country. On the other hand, multilateral institutions have leverage potential: if an individual donor wields influence at international level they can mobilise – for example, from the World Bank – additional resources in support of their own efforts.

- *Effectiveness*: Multilateral development policy is often accused of serious shortcomings in terms of effectiveness and efficiency. It is on this that the supposition of the general superiority of the bilateral level with regard to the realisation of development policy targets is grounded. But even the international development organisations have signed up to global obligations to increase effectiveness in accordance with the Paris Declaration

and the Accra Agenda for Action and have set reform processes in motion. The achievements or otherwise of multilateral institutions have not yet been assessed systematically; the same applies to the bilateral level, at which the evaluation of projects across the board is still only rudimentary. At present, to be sure, there are a number of promising efforts to introduce uniform evaluation procedures within the UN development framework. In 2008, the OECD had an assessment made of the implementation of the Paris Declaration. This highlighted the UN's strengths in terms of partner-orientation and in the conduct of joint audit missions and country analyses.² Weaknesses were apparent with regard to cooperation with other donors and in the consolidation of administrative partnership structures. Questionable, in the perspective of the Paris Declaration, is the restricted plannability of UN development projects – a result of the funding problems arising from the fact that member state contributions are voluntary and subject to annual renewal.

- *Economies of scale*: It can be generally assumed that multilateral projects give rise to lower transaction costs and are less of a burden on the recipient side than a corresponding number of bilateral activities. In addition, the development policy benefits of a multilateral approach increase if potential synergies are exploited and possible donor-side rivalries can be nipped in the bud. Coordinated donor action can sometimes come at the cost of innovation, however, since competition between different systems is eliminated. Furthermore, expenditure due to multi-layered coordination processes should not be underestimated.

- *Partnership*: In this respect, multilateral arrangements tend to exhibit comparative advantages in relation to bilateral programmes. For example, the developing countries are involved on an equal footing in the steering bodies of UN development organisations (»one country, one vote«). In the regional development banks, the controlling interest is with local member states. This encourages the developing countries' integration in processes of global regulation, in particular in disputed areas, such as democracy, human rights and good governance, in respect of which the urging of Western donors tends

to be dismissed as ideological interference.³ In addition, multilateral institutions are of particular importance for the practical human rights situation in developing countries, for example, with regard to food, health and education or in relation to target groups, such as children and women.

- *Global policy*: Complex global interdependencies call for a higher degree of cross-border cooperation in order to counter systemic risk and to work out solutions on which a consensus can be built. The current proliferation of objectives, actors and instruments is jeopardising the international community's ability to act and giving rise to a worrying backlog of problems. Against this background, the French development experts Severino and Ray⁴ have formulated a new ideal model for multilateral lead institutions. As trustees of the global good, they should no longer implement their own projects or programmes, but concentrate on creating a binding frame of reference for the collective provision of global public goods (»conductor rather than violinist«). The requisite resources, according to the authors, should no longer be designated »official development assistance« (ODA), but rather as »global public finance«. Whether international specialised institutions or bilateral actors are the most appropriate instruments for the implementation of joint decisions is ultimately of secondary importance and to be determined pragmatically.

- *Power shifts*: The final category refers to the current upheaval in the global system. The supersession of the G8 by the G20 as the forum of the most powerful heads of state and government illustrates the phenomenal rise of the large emerging countries. The restructuring of voting rights at the World Bank and the IMF at the expense of Germany and Europe is a move in the same direction. Besides its core mandate, the coordination of international economic and financial policy, the G20 will increasingly deal with development policy. It is becoming apparent that the developing countries in this circle will insist on putting the implementation and monitoring of development policy decisions in the hands of multilateral institutions. Only if the German government establishes an

2. Thomas Fues (2010), »Zur Wirksamkeit der Entwicklungszusammenarbeit der Vereinten Nationen«, in Jörg Faust and Susanne Neubert (eds), *Wirksamere Entwicklungspolitik*, Baden-Baden: Nomos, pp. 403ff.

3. Silke Weinlich (2010), *Die Reform der Entwicklungszusammenarbeit der Vereinten Nationen*, Bonn: Deutsches Institut für Entwicklungspolitik (Studies 55).

4. Jean-Michel Severino and Olivier Ray (2010), »The End of ODA (II): The Birth of Hypercollective Action«, Working Paper 218. Washington, DC: Center for Global Development.



adequate presence there will it be able to exert influence and to assume responsibility for particular areas, among other things by deploying its bilateral instruments.

Flexibility, Not Quotas

The growing pressure from global problems and the increasing strength of the large emerging countries indicate that it will not be possible for Germany to look after its interests properly without a strategic engagement in the multilateral system. Also from the standpoint of recipient countries and to ensure global welfare there is a great deal to be said for extending worldwide cooperation. Experience shows that national opportunities to exert influence in the international realm are determined decisively by a country's financial commitment, in accordance with its economic and political weight. If Germany cuts back in this respect it will not be in a position to demand more of a say. In terms of a more coherent foreign and development policy, particularly to be recommended is the extension of its financial engagement in the UN's development domain in order to improve the prospects of success of German efforts to obtain a seat on the Security Council, whether as permanent or non-permanent member. As a major donor, Germany has good reason to maintain an extensive bilateral portfolio. However, the increased

focus on the bilateral realm which the BMZ is aiming at might bring a number of negative effects in its wake. Although in the short term the national profile can be raised and the needs of the economy and civil society met, in the medium and long term there is reason to fear that German interests will not be best promoted in this way. The heightened deployment of German implementing organisations in multilateral contexts without at the same time ensuring a presence in global decision-making centres risks the dissipation of German influence and impairs the BMZ's ability to exert control within its own purview. Given the increasing fragmentation of the global cooperation system it may also be expected that a marked bilateralism would be to the detriment of the effectiveness agenda laid down in the Paris/Accra Process.

The quota regulations currently being applied cannot meet the requirements of complex German interests in a globalised world. Precisely how high the multilateral portion should be in future – whether above or below its current level – can be determined only in accordance with current needs within the framework of the dynamic state of German and European foreign relations. However, a targeted approach is conditional on Germany developing an inter-departmental multilateral strategy which coordinates the various, sometimes conflicting aims and lays down coherent programmes for international cooperation.



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This contribution represents the author's own opinions exclusively.

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