



Overview Paper

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Bilateral and EU Development Cooperation: Delivering More and Better Aid

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This overview paper accompanies the EU policy seminar “Community or bilateral development cooperation”, which takes place on 22 October 2008 at the Netherlands Institute of International Relations Clingendael. It covers the topics discussed in the three sessions of the seminar: i) The EU Code of Conduct- Experiences thus far; ii) Financing for Development- Towards Doha; and iii) Bilateral or multilateral aid. The paper will discuss relevant policy questions and developments with regard to these topics. It will address how they affect the balance between EU and national development cooperation with regard to the principles of complementarity and coordination, and how they influence the need for effectiveness and legitimacy of EU development cooperation efforts.

It is realised that the topic choice is rather EU-focused, whereas development cooperation typically involves both the viewpoints of donor and recipient countries. However, we believe that developments such as the 2004 and 2007 enlargements, a changing world order in which emerging economies play an increasingly important role, and ongoing discussions on (institutional) reform and a strengthening of the EU’s foreign policy position and its external relations in general, justify a seminar debate on future directions in EU development cooperation among EU Member States and the European Commission. In that respect it is particularly important to continue discussions on how development cooperation efforts are shared between the EU and the Member States and how to justify and continue their financial basis.

1. Introduction: EU development cooperation

Development cooperation, since the Maastricht Treaty (1992), is a shared competence between the European Community and the EU Member States. As a consequence, there is an EU development policy and there are national development policies. EU development cooperation is underpinned by three basic principles: complementarity, coordination and coherence. The first principle stipulates that Community policy in the sphere of development

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cooperation shall be complementary to the policies pursued by the Member States (art. 177, EC Treaty). The second that the Community and the Member States shall coordinate their policies and shall consult each other on their aid programmes, including in international organisations and during international conferences (art. 180, EC Treaty). The third that development cooperation objectives shall be taken into account in all EU policies which are likely to affect developing countries (art. 178, EC Treaty). Notwithstanding the importance of policy coherence for development², this paper concentrates on the first two principles that address the relationship between EU development policy and the national development policies of the EU Member States. In addition, it focuses on the important question of financing for development. It will also briefly compare advantages and disadvantages of bilateral, EC and multilateral aid.

Jointly the EC and the EU Member States are the largest aid donor in the world, providing more than 55% of the global Official Development Assistance (ODA). Currently about 1/5 of total aid money is spent by the EC and the other 4/5 by the Member States. The balance between Member States and EC efforts and the added value of EC activities are subject to a continuous debate. Some argue that the European Commission is just the 28th donor and not very good in delivering development aid. Others consider EC development cooperation as the only way to really make a difference in terms of scale and political clout (Bigsten, 2007).

The origins of EC development cooperation go back to a desire by some EU Member States, notably France, to establish a preferential relationship between the EU and former colonies (Frisch, 2008). The EC would be able to exert a more neutral stance and EC involvement was necessary to ensure continued market access. The relationship with the 79 former colonies and other closely related countries, known as the African, Caribbean and Pacific (ACP) states, is nowadays organised within the context of the Cotonou Agreement, which covers three areas: politics, trade and development. Its policies are developed by DG Development and funded from the European Development Fund, which falls outside the EU budget. The relationship with other (non-ACP) developing countries and with the countries of the European Neighbourhood Policy (ENP) are covered by EC policies developed by DG External Relations (RELEX). The most important instruments are the Development Cooperation Instrument (DCI) and the European Neighbourhood Partnership Instrument (ENPI), which in addition to the ENP countries covers Russia as well (see for an overview of the funds table 1). All EC development funds are disbursed by DG EuropeAid Co-operation (AIDCO). The EC is moreover a major provider of humanitarian aid. Through its agency ECHO, and its partners, it provides emergency assistance and relief to victims of natural disasters or armed conflicts.

² Relevant studies on Policy Coherence for Development are CEPS (2006) and ECDPM & ICLEI (2008).

Table 1 - EU Development Cooperation instruments

European Development Fund (2008-2013) ACP Countries, financed outside EU budget	22,7 billion
Development Cooperation Instrument (2007-2013) Other countries + funds for specific themes, such as education, health, infrastructure	16,9 billion
European Neighbourhood Partnership Instrument (2007-2013) ENP countries + Russia	12 billion
European Instrument for Democracy and Human Rights (2007-2013) All countries	1,1 billion
Stability Instrument (2007-2013)	2,1 billion
Humanitarian Aid instrument (2007-2013)	7,4 billion
Pre-accession assistance (2007-2013)	0,01 billion

Development cooperation is a key element of the EU's external relations agenda. In many parts of the world it influences how other countries see the EU. Critics claim that the political dimension at times has undermined a much-needed focus on poverty reduction and achieving the Millennium Development Goals (MDGs). These fears have increased with the Lisbon Treaty proposing an EU foreign policy coordinator³ and a European External Action Service. But since discussions on the implementation of the Lisbon Treaty are currently stalled following the Irish no-vote to the Treaty, we decided not to devote further attention to it in this paper.

2. The EU Code of Conduct

The EU Code of Conduct on Division of Labour and complementarity was adopted in May 2007 and forms part of the EU's efforts to increase the effectiveness of its development cooperation activities. It can be considered the key instrument to ensure that efforts of EU donors, i.e. both the Member States and the European Community, are complementary and coordinated. The Code of Conduct holds – although it is presented as a voluntary and self-policing document – unambiguous and strong commitments (WECA, 2008). Concrete examples of these commitments are (European, 2007a):

- EU donors strive to focus their active involvement in a partner country to a maximum of three sectors;
- EU donors aim at a long term engagement in a given sector;
- EU donors will seek to limit the number of active donors to a maximum of 3-5 per sector.

These guidelines for a division of labour of EU donors were considered necessary, since in practice it proved difficult to ensure that efforts from EU donors were truly complementary and coordinated. Whereas some developing countries received relatively large sums of ODA by EU donors (aid darlings), others received relatively little (aid orphans). Spending resources in certain sectors, such as health and education, proved moreover more popular than devoting resources to other sectors like for instance rural development. The (small) scale of activities by the EU donors led to unnecessary duplications of work and inefficiency in terms of money

³ Officially the function is entitled High Representative of the Union for Foreign Affairs and Security Policy. In addition to the current position of the High Representative for the Common Foreign and Security Policy, the function is combined with the Vice-Presidency of the Commission and the chairmanship of the Foreign Affairs Council.

spent to activities. National priorities and the preference for national visibility sometimes appeared more important than effective and coordinated assistance of the EU as a whole (ECDPM, 2007). For instance, in the area of trade capacity building, coordination efforts among EU donors have increased, but due to a lack of consensus on the relevance of developing a common European approach, efforts are still largely overlapping (ECDPM, 2007).

The Code of Conduct is primarily an instrument to improve aid effectiveness and is intimately linked to the EU's input in the international discussions on this subject. The Paris Declaration (2005) was one of the first results of an international discussion in which aid effectiveness was prominently highlighted. Most of the EU Member States were actively involved in its development and subscribed to the final version of the declaration that was agreed upon by a large number of countries, international organisations and development NGOs⁴. The Paris Declaration included a strive for country ownership for development cooperation activities by the partner country, harmonisation of aid delivery methods and alignment between donors, in particular, at partner country level. In the EU, the Paris Declaration triggered the development of the European Consensus on Development, the key policy document on development cooperation that was adopted by the European Council, the Commission and the European Parliament in November 2005. The Consensus sets out, for the first time in fifty years of cooperation, a framework of common principles under which the EU and its Member States will implement their development policies in a spirit of complementarity. This encouraged the Finnish and German presidencies and the European Commission to take the initiative for an EU Code of Conduct on Division of Labour and complementarity, which was eventually adopted in May 2007.

A division of labour: from theory to practice

An ECDPM/ActionAid paper on the Code of Conduct (2007) mentions three factors that hamper the implementation of the commitments from the Code of Conduct. First of all, the finalisation of the EU decision has not been accompanied by more pragmatic guidelines, obscuring judgement on what progress should be achieved by when. Secondly, because partner countries define the sectors, and because the maximum number of total donors in these sectors should range between 3 and 5, implementation is done in different ways in developing countries, which makes it difficult to compare across countries. Thirdly, given the required leadership of the partner-country, as well as the desire to involve non-EU donors, it is difficult to determine the degree to which the EU is accountable for any (lack of) progress. To date, it moreover still is difficult to determine how EU donors compare, given that they are slow to produce self-assessments on comparative advantages, which they agreed to establish⁵.

The European Commission wrote in April 2008 that the implementation of the Code of Conduct is still at an embryonic stage, and that it has to be implemented more proactively by all actors involved. Therefore the Commission made specific proposals for each country by proposing a fast-track initiative to implement the EU Code of Conduct. In a letter addressed to all Development Ministers, Commissioner Michel underlined the importance of the Code of Conduct in the EU's efforts to make the Paris Declaration concerning the division of labour

⁴ Cf. <http://www1.worldbank.org/harmonization/Paris/FINALPARISDECLARATION.pdf>

⁵ An interesting study comparing the aid delivery of the EC, the UK, France, Sweden and the Netherlands can be found on the website of DG Europeaid:
http://ec.europa.eu/europeaid/what/delivering-aid/documents/final_comparative_study_en.pdf

more specific. He called for the Member States to delegate some of their development cooperation activities to the Commission and indicated a willingness to delegate the Commissions' actions in some countries entirely or in part to a Member State. This initiative illustrates that the Commission considers it very important to implement the Code and considers a leading role of the Commission necessary to take this agenda further. The future will tell whether Member States are also willing to adjust the number of sectors they are in, to work actively together in partner countries, and to reduce the number of aid orphans by working on cross-country complementarity.

The same counts for *Co-financing*. Co-financing is an agreement between donors to jointly finance a project or programme. This can be done by two or more donors. Co-financing between bilateral donors or with multilateral institutions such as the UN or the World Bank already exists for some time. Co-financing with the European Commission however is relatively new, for it only became allowed after the adjustment of the financial regulations of the Commission in May 2007.

In order to implement the EU Code of Conduct, co-financing is an important instrument. The willingness among Member States to co-finance will bring implementation of the Code closer. Reducing the number of sectors an EU donor is involved in, whilst at the same time continuing the financial support given to the country concerned, can only be done when a donor gives its money to a trustful other donor, such as an EU Member State or the European Commission. Co-financing also gives the receiving donors an important coordinating role, because once the money is transferred to that country it has reporting responsibilities to the other donors. This makes the management burden of developing countries much less labour intensive because the partner country only needs to make one evaluating report to account for all the received funds. For EU Member States, implementing the Code makes it easier to spend the larger sums of development aid, which would follow from the pledged increase of ODA (see below the section on financing for development).

The Accra meeting on aid effectiveness

In the beginning of September 2008 the effectiveness of aid in general was discussed during the High Level Meeting in Accra. Division of labour was one of the issues concerned. The participants to the conference agreed on a few basic principles until 2010, the year in which the principles of the Paris Declaration should be accomplished.

Accelerated action on implementing the Paris Declaration was one of the most important principles agreed. The importance of equal partnership and mutual accountability were reiterated. On transparency, the donors agreed to give full insight in their yearly planning and expenses and in their rolling indicative programmes for the coming 3 to 5 years. For further untying of aid, one of the key issues of the Paris Declaration, was not much support. Another issue that came to a result in the Accra Agenda for Action (AAA) included an initiative taken by developing countries on the recognition of principles of non-interference in south-south cooperation. On division of labour, agreement was reached on the principle that developing countries will not receive less funds per year as a result of division of labour. The countries also came to the agreement that a dialogue on international division of labour across countries will start in June 2009.

Although Accra was not a European event, it will have consequences for the EU division of labour agenda. The agreement not to decrease the total amount of support given to a country

by donors for instance, is the result of concern expressed by partner countries about the EU Code of Conduct. The AAA may thus pave the way for accelerating progress on division of labour within the EU, with partner countries actively involved.

In conclusion it appears that the implementation of the Code of Conduct does not show much progress since the document was accepted in May 2007, but perhaps it is still too early to make a final judgement. Moreover, the AAA, the Commissions Fast Track Initiative, and the new provisions on co-financing could bring implementation nearer.

Seminar questions for discussion:

- What more is needed to ensure an effective division of labour between the development cooperation activities of EU donors?
- What could be done to facilitate the implementation of the Code of Conduct and what in this respect is the role of the Accra Agenda of Action?
- In which circumstances would it be advantageous to bundle development cooperation efforts under the responsibility of one lead donor and which conditions should such a lead donor fulfil?
- What are the advantages and disadvantages of having various EU donors being active in one developing country?
- How can a situation in which there are donor orphans and donor darlings be avoided?

3. Financing for Development

The issue of (increased) financing for development stood at the centre of the European Council in Barcelona (2002), where the EU agreed to almost double its ODA contribution by 2015, as its input for the Monterrey Summit on Financing for Development. These commitments were reconfirmed in May 2004 by all Member States, including the new ones. In May 2005, the EU announced that half of the pledged increase in aid would be allocated to the poorest countries in Sub-Saharan Africa. In May 2008, the EU's objectives were reaffirmed as input for the Doha Conference, implying annual ODA figures would double to over 66 EUR billion in 2010⁶. The fifteen old EU Member States committed themselves to meeting a target of spending 0.51% of gross domestic product on ODA. The 12 new Member States agreed to a target of 0.17%. Collectively a target of 0.56% would be the intention. Strange as it may seem, this target is feasible since the spending level of some EU member states is already above the 0.51% threshold. In 2015 the EU objective would be the 0.7% target adopted by the UN General Assembly in 1970. Thus far, several Member States lag behind their commitment and the overall trend is also rather sobering, particularly in the light of the current crisis in the financial markets. Expressed in euro and as percentage of gross national income, European aid stood at 0.38% in 2007 as opposed to 0.41% in 2006.⁷

For national governments it has proven difficult to increase ODA figures on a yearly basis. A principle challenge is to ensure (a continuation of) legitimacy of development cooperation efforts. Although a transfer of financial resources to developing countries may to a certain extent be in the interest of the richer countries, and may be considered important by majorities of the population who realise solidarity is important, and aid flows should not be taken for

⁶ Council Conclusions: Speeding up progress towards the Millennium Development Goals (MDGs), 2870th External Relations Council meeting, Brussels, 26 and 27 May 2008.

⁷ European Commission (2008), The EU – a global partner for development. Speeding up progress towards the Millennium Development Goals, Communication no. COM(2008), 177 final.

granted. Truth is that they often compete with other important spending priorities of national governments, such as health care, education, social security and infrastructure.

The Doha Summit (November 2008), where the issue of financing for development will be addressed is a follow-up to the Monterrey Consensus (2002), which was signed by all UN Member States. The Monterrey Consensus describes possibilities on how countries can find the necessary resources for development in order to reach internationally agreed development goals. The agreement took into account developments in the world that may influence economic development, like for instance the globalising world economy and the attacks of 11 September 2001.

Important priorities for the Doha conference are clear engagements on ODA, attention for innovative sources of financing, and improved understanding on relatively new issues such as climate change, taxation and illicit financial flows. The expectation is that there will also be attention for debt policy and gender in the ultimate outcome document.

Innovative financing

Since it has proven difficult to increase ODA, and since ODA flows are unlikely to be sufficient to cover the financial needs estimated for achieving the MDGs, other sources of financing are increasingly considered important as a source for development activities. These include domestic resource mobilisation, foreign direct investment inflows, and proceeds from international trade and remittances. In addition, (potential) sources of innovative financing have increasingly been discussed and received attention. This discussion is partially linked to the discussion of financing climate change adaptation and mitigation activities in developing countries. This section will look into what is meant by “innovative financing”, and to what extent we can expect it to contribute to achieving the MDGs. The next section will discuss in more detail the financing of climate change related activities in developing countries.

Innovative mechanisms for development cooperation are alternative or creative ways of mobilising enough external resources to help reach the MDGs. Although no generally agreed definition exists, it is clear that innovative financing consists of resources which are additional to ODA. Ideally, they are generated in such a way that they provide a stable and predictable source of income for development activities. They include new international taxes on financial transactions, arms trade and the use of environmental resources; frontloading of development resources through borrowing against future aid commitments; a global solidarity lottery; and the issuance of vast quantities of new special drawing rights (SDRs) in the IMF, dedicated to development (Kapoor and Kapoor, 2005). EU Member States are generally very much interested in innovative finance, but thus far only four mechanisms are in place to which only a limited number of EU Member States contribute (see box 1). They cover activities in the health sector and climate change adaptation. This demonstrates that it is difficult to put the ideas on innovative financing into practice.

Box 1 – an overview of innovative mechanisms to which EU Member States and/or the European Commission contribute

- *The International Drug Purchasing Facility*: this is funded by solidarity levies on aviation raised in inter alia France. For the time being, UNITAID is the sole beneficiary, receiving more than 200 million euro per annum to combat HIV/AIDS, malaria and tuberculosis.
- *The International Finance Facility for Immunization (IFFI)*: within this facility, the UK, France, Italy, Spain and Sweden (together with Norway) are raising 1 billion USD to vaccinate children.
- *The Advance Market Commitment (AMC)*: this project aims to speed up the development and market introduction of new vaccines. Donors commit money to guarantee the price of vaccines once they have been developed, thus creating the potential for a viable future market. A first pilot project targets pneumococcal disease that kills 1.6 million people in developing countries every year. Funds are received by the UK, Italy, Canada, Norway, Russia and the Bill and Melinda Gates Foundation.
- *Clean Development Mechanism (CDM) levy*: under the CDM projects can be implemented in developing countries to fulfil a greenhouse gas reduction commitment related to the Kyoto Protocol. 2% of the monetary value of the credits earned by CDM projects are transferred to a so-called Adaptation Fund that is to provide funds for climate change adaptation in developing countries. EU Member States and EU companies covered by the emissions trading scheme are eligible to use credits from CDM projects to achieve their emission reduction target, thereby contributing to the Adaptation Fund.

Financing climate change activities

There is an increased realisation that developing countries will suffer the most from climate change and that costs incurred by climate change may by far exceed the annual amount of ODA the EU is providing (Klein et. al. 2008). In addition to these costs of climate adaptation, costs will also emerge from ensuring a climate-friendly development by reducing greenhouse gas emissions in developing countries. In total about \$100-200 billion is expected to be needed per year to invest in clean energy, improved energy access, and making development less vulnerable to climate change (UNFCCC, 2007b; Kok et al., 2008). Currently available funds, such as those of the Adaptation Fund are of a much smaller magnitude (\$80-300 million per year in the period 2008-2012).

The EU realises that developed countries have a historic responsibility for the emergence of climate change problems. Within the context of the international climate change negotiations, it has acknowledged the importance of assisting developing countries to cope with the effects of climate change, and to provide funds for technology transfer and other means to bring down greenhouse gas emissions⁸. This also seems a prerequisite for an international agreement on climate change agreement that is to succeed the Kyoto Protocol after it expires in 2012. Developing countries have indicated only to support such a new agreement when more finances are offered. They demand these funds to be additional to ODA.

For the EU it is not an easy task to raise additional funds for climate change activities and therefore innovative mechanisms appear a particularly attractive option. Revenues generated

⁸ The Bali Action Plan (2007) calls for “adequate, predictable and sustainable financial resources”.

from the auctioning of permit rights originating from emission trading schemes and levies on carbon market transactions are most often mentioned as a potential source of funding. Using them would be consistent with the ‘polluter pays principle’. EU Member States have already indicated an intention to use parts of the revenues from auctioning emission permits to the aviation sector for climate change-related activities, once this sector will be incorporated in the EU emissions trading scheme⁹. In the proposal for a complete revision of the EU emissions trading scheme, the European Commission has moreover proposed that for all covered sectors, 20 per cent of the revenues from auctioning permits should be used to adapt to combating climate change, to promote renewable energy and to address social impacts. Using auction revenues for climate change activities in developing countries is also preferred by the European Parliament¹⁰. Since, in the proposal, much larger percentages of the permits would be auctioned, and since their price is expected to increase due to more stringent targets, the revenues are expected to be considerable in the future. In the impact assessment supplementing its proposal the Commission estimates revenues of around 50 billion EUR annually by 2020. However, these would only come available when the proposal would be adopted as proposed and auctioning would not be reduced or restricted to a number of sectors. In the negotiations, several Member States have moreover indicated a preference to consider revenues from allocating emission rights as national income. How it would be spent would be subject to normal budgetary procedures and decision-making. This implies it would be more difficult to ensure them being directed towards financing climate change-related activities in developing countries and to ensure availability of funds that would be additional to already earmarked ODA. Even if the revenues would still be dedicated to climate change-related activities in developing countries, Member States’ governments may still want to count them as ODA, since they may need them in order to reach their ODA commitment.

Following the rules of the OECD’s Development Assistance Committee, many climate change-related activities can also be labelled as ODA. It appears in any case often difficult to disentangle climate change adaptation activities from regular development cooperation activities (cf. McGray et al., 2007). Under the heading of “climate mainstreaming” it is moreover realised that development cooperation activities should not be inconsistent with climate change objectives (e.g. building dirty power plants, building non-climate resilient infrastructure). To increase awareness and to “climate proof” development cooperation, many initiatives are undertaken, such as high-level discussions in the OECD DAC, the EU Action Plan on Climate Change in the Context of Development Cooperation and the International Commission on Climate Change and Development that is supported by the Swedish government.

Internationally, much will depend on the future of the CDM in the post-2012 climate change regime. Scaling up the CDM would lead to an increase of the Adaptation Fund, which is funded by the 2 per cent levy on CDM transactions. The proposal for a revision of the emissions trading scheme which is linked to the CDM market has made the use of additional CDM credits conditional on developing countries joining a future international agreement on climate change. This implies that industry sectors covered by the EU emissions scheme, who

⁹ A proposal to include aviation into the emissions trading scheme is already under discussion since 2006. EU Member States have indicated they intend to use a percentage of the revenues from the 15 per cent of the emission rights that will be auctioned for financing climate change related activities in developing countries, but they are not legally bound to this intention. Formal approval on the inclusion of aviation into the EU’s emissions trading scheme in the EU Council is expected this autumn.

¹⁰ The Environment Committee in its vote on 7 October indicated 50% should be used for climate activities of which half should be used for adaptation in countries that ratified the future international agreement on climate agenda.

are responsible for about 45 per cent of the EU's total emissions, will only be allowed to engage in new CDM projects after 2012, if the 2009 Climate Summit in Copenhagen will be successful. In that case also EU Member States may decide to buy more emissions on the international carbon market in order to reach their national greenhouse gas reduction target in the remaining sectors that are not covered by the emissions trading scheme.

However, there are concerns about the CDM. One is that its activities would be concentrated mainly in a few developing countries (notably China). They would also not really contribute to sustainable development and slow down a much needed transition to a low carbon economy inside the EU. The CDM would furthermore not provide an answer to concerns over international competitiveness of industrial activity in the EU caused by third countries not being subject to a carbon constraint. In addition, there have been frictions between developing countries and the developed countries over the governance structure of the Adaptation Fund. On this issue agreement was reached only recently at the Bali Climate Summit (2007), which has tremendously delayed the Fund in becoming operational.

Other options which are discussed to generate funds for climate change related activities in developing countries include a levy on bunker fuels used in the maritime sector, measures addressing investments in the energy sector (e.g. greening FDI and export credit facilities), insurance mechanisms to deal with increased climate variability¹¹, and establishment of new budget lines for climate change activities in developing countries (i.e. in addition to regular ODA that would primarily be focused on poverty reduction and reaching the MDGs).

Towards Doha and beyond: outstanding questions

The Doha Conference will take stock of progress regarding the Monterrey Consensus agreed in 2002. The conference is expected to reaffirm goals and commitments, share best practices and lessons learned and identify obstacles and constraints encountered and initiatives to overcome them.

The Monterrey Consensus will not be renegotiated but the impact of new challenges and emerging issues to the implementation of the Consensus needs to be reconsidered. The three challenges/emerging issues that were ranked as being the most relevant ones by the EU Member States are climate change, aid predictability and emerging donors (EC, 2008). Its position is somewhat undermined because collectively, the EU is falling behind its targets set for increasing ODA. On the positive side, EU aid to the poorest countries in Sub-Saharan Africa is on the increase, as well as programmable aid (excl. debt relief measures).

Generally it is expected that the recent crisis in the financial sector will decrease chances for a strong outcome of the Doha Conference. It will be even more difficult for the developed countries to commit to ODA increases. At the same time, developing countries are increasingly faced with challenges distorting their chances for reaching the MDGs, such as the increased food prices, already felt effects of climatic changes, and a general worsening of the global economic activities (with progress in the WTO negotiations being stalled). In addition, it will be more difficult for them to access international capital markets. From the above discussion on mechanisms for innovative financing, it becomes clear that they are no magic solution either. In general they do not create "new money", since funds will be derived from the private sector, consumers, foundations, loans, etc. Another complication is that some

¹¹ These mechanisms could be (partly) backed by public funds. See for a good overview on the potential of insurance mechanisms Linnerooth-Bayer and Mechler (2006).

of the resources would otherwise flow to the government budget (e.g. auctioning revenues emissions trading). On the other hand, the crisis in the financial sector may perhaps trigger a reform which will also address rules for FDI, export credits, tax havens, the international financial infrastructure as governed by the IMF and World Bank, and so on.

Seminar questions for discussion:

- What are your expectations for the Doha Summit?
- What can be done to ensure that developing countries will still be assisted, despite the current financial crisis?
- What can we expect from innovative finance mechanisms in terms of contributing to reaching the MDGs?
- Is it realistic to expect financing for climate change activities to be (fully) additional to ODA and how could this be achieved?

4. The advantages and disadvantage of bilateral, multilateral and European Community development cooperation

In this paragraph about the aid architecture we focus on the differences between the development cooperation activities of national governments, international organisations (mainly UN and World Bank) and the European Community. The latter category is sometimes considered to be multilateral development cooperation, but given the scope of the paper and the seminar, and the specific features of Community development cooperation, we will consider the European Community as a separate level of governance. An overview of the advantages and disadvantages of the aid allocations of the levels of governance is given in table 2.

Development cooperation by national governments

In addition to the moral argument to engage in development cooperation, countries by means of giving aid in general hope to receive something in return, for example a stronger trade relation, easy access to natural resources, or the ability to exert political pressure on a receiving country (Berthélemy, 2006; Bigsten 2007). Larger countries, such as the US, tend to give more bilateral aid and these countries at the same time benefit from a large return flow from multilateral aid. They also tie their aid to make sure the money is spent in their own country and their economy can benefit from it. Although it is clear that untied aid is more effective than tied aid, the further untying of aid is difficult, both within the EU and with donors outside the EU.

Another reason why states engage in bilateral aid activities is that these do not need to be coordinated with other countries. Although donor coordination among bilateral donors has become more common in the past few years, especially among EU donors, there are still many development cooperation activities states can undertake on their own behalf without the need for prior consultation with other donors. If a country wants to disburse aid quickly and easily, bilateral aid is still the most obvious thing to do.

Disadvantages of bilateral aid are that it generally is piecemeal in terms of projects and activities, and that receiving countries can be suspicious about the motives. For smaller donor countries it is moreover difficult to exert political pressure in states where considerable violations of human rights occur. When withdrawing or upholding aid, usually only

populations suffer, whereas governments are hardly affected. In order to exert more effective political pressure upon governments, coordinated efforts by all donors are generally required, for instance by means of a UN Security Council resolution or a statement by the EU Council. Another clear disadvantage is that in combination, the plethora of bilateral donors lead to over-activity in certain countries and sectors, and confront developing countries with a range of different procedures. Also, the quality of aid delivery may suffer from the small scale of the activities.

Development cooperation by multilateral institutions

The World Bank is the oldest and largest financial institution that tries to contribute to economically less developed countries. Poverty reduction is an important objective of the Bank since the seventies. Economic growth has remained important, but mostly as a mean to reach other goals. Since the seventies, these other goals have been: more money for the poorest countries, an expansion of lending facilities in the area of education and agriculture, and a change of priority into a focus on poverty and the reduction of poverty (Tims, 1997).

The bigger donors seem to be convinced that the financial institutions are more competent, that they meet the wishes of the donors better, and that they are less vulnerable for political influence from developing countries. The International Finance Institutions would better take care of implementation of development cooperation than the UN. As a consequence, much of the technical cooperation has been transferred to them with the UN losing ground.

But there are also complaints about the World Bank being not accountable and its governance structure being dominated by the 'Western World'. Within the World Bank, there is an ongoing process taking place to reform the governance structure. It is expected to reach consensus on a package of proposals by the 2009 World Bank spring meeting. The current crisis on the financial market may accelerate the reform effort.

When compared to the World Bank, the UN agencies receive much larger amounts of gifts than loans. During the sixties and the seventies, the bilateral donors could not find enough well-prepared projects to work effectively. That is when the United Nations Development Program (UNDP) started to implement its own projects for technical assistance and later on the UNDP focused more and more on strengthening institutional capacity in developing countries. This may seem as if the UN is the largest provider of technical assistance. However, the programme of the World Bank and some of the regional banks is much larger. The bureaucratic approach within the UN is for sure one of the explaining factors for that. In addition to the UNDP, many other UN agencies became active in the field of development cooperation, and many new ones were established to tackle specific issues, notably in the area of humanitarian aid.

Within the UN, the proliferation of activities has led to a call for more coordination in the beginning of the nineties. This coordination was supposed to lead to less duplication, thus preventing the waste of resources. More recently – in 2006 – the One UN initiative was launched with the report 'Delivering as One', made by the High-Level Panel on System-Wide Coherence. The ultimate goal of Delivering as One at country level is to bring the MDGs closer. In practice, Delivering as One means that all UN institutions in one country will work on one programme, with one budget, led by one resident coordinator, and where possible in one building. To try this new approach, eight pilot countries were selected. In a country like Vietnam, with strong ownership from the government, this pilot was very successful. It

resulted in improved effectiveness of, and results from, the operational activities of the United Nations development machinery, which is an important part of the global aid effectiveness agenda. The EU therefore fully supports the UN reform process on system-wide coherence, including its aims to improve the effectiveness and coherence of UN actions at country level through the “One UN” approach.

The UN reform is also much supported by the so-called middle powers, such as Canada and Norway and several EU Member States. These countries in general have open economies and thus consider foreign aid as an instrument to achieve vital foreign policy objectives, in particular peace and economic stability. Their interests would be served by international agreements and international regimes to solve conflicts and maintain peace and economic stability. An active engagement in aid-giving may allow such countries more influence internationally, in particular in the global organisations, than their relative strength might warrant. Therefore middle powers generally are among the highest contributors to the UN system.

Development Cooperation by the European Community

To come to a conclusion, this paper ends where it started; with European development cooperation. Although this can be seen as multilateral development cooperation it will be treated differently here. The EU consists of a more limited number of Member States and the influence of Member States is therefore bigger than in the UN.

The EU is first and foremost an economic block. Collaboration on development cooperation touches on the national sovereignty of Member States. That is why European development cooperation has for a long time been a patchwork with the Commission being barely more than just an extra EU donor (Bigsten, 2007). In 1997 the Member States managed 80% of their funds themselves without much coordination among Member States. The European Consensus (2005) has changed that situation. But it cannot be denied that the European Development Cooperation was established gradually and ad hoc. The same counts for the effectiveness and efficiency of aid delivery by the European Commission, something much criticised in the past, but lately judged more positively (AIV, 2008; OECD DAC, 2007; Wanlin, 2007).

Community aid is said to be allocated to a disproportionately high amount to the ACP countries and would be used to promote commercial interests (Berthélemy, 2006). Within the EU, there has always been tension between free trade and protectionism. Improving trade relationships with developing countries by granting them preferred access to the European market has been considered an important element to stimulate their economic development. It has however also been criticised for not really being development friendly, since non-tariff barriers, such as food safety standards, still make it difficult to export to the EU (Orbie, 2008). The reciprocity of market access is the other point of criticism, with development NGOs increasingly arguing that developing countries should be able to protect their infant industries against products imported from the EU. These tensions were clearly felt during the negotiations on the Economic Partnership Agreements last year. Another feature of EU development cooperation is its preferred method of aid delivery, namely through budget support. Although this is in line with the principle of partner ownership, and requires less staff to oversee the implementation of projects, critics argue that it supports corrupted governments and helps them to stay in power. On the other hand, it could be argued that providing budget support is perhaps the only way in which some influence can be exerted on governments.

Indeed, perhaps the EU level is the more appropriate one for exerting political pressure to respect human rights, to promote democracy, to establish rule of law and to reduce poverty. It helps in this respect that the Commission is active in more poor countries (and fragile states) than any of the EU Member States.

Other key issues in EU development cooperation policy are the role of the Member States that joined the EU in 2004 and 2007, and the place of development cooperation in EU foreign policy. The new EU Member States affect EU development cooperation since they are expected to become more substantial donors, but most likely have different spending priorities than the old Member States. The discussion on the contribution of development cooperation to foreign policy, centres around the key objective of poverty reduction as overarching goal in relationship to other goals, such as bringing peace, the promotion of human rights and democracy, stabilising countries neighbouring the EU, and stimulating their prosperity.

Finally, EU Member States and the European Commission also try to coordinate their viewpoints within the UN and the World Bank. It is often argued that because of internal disunity, the EU does not seem to be able to influence the policy of the multilateral institutions as much as its combined voting power and financial contributions would warrant (Bini Smaghi, 2004; Sapir, 2007; Wanlin, 2007), but perhaps this issue will also be addressed in the ongoing reform discussions of these institutions.

Table 2: Different levels of governance delivering development aid

Level of governance	Advantages	Disadvantages
Bilateral aid	<ul style="list-style-type: none"> - Relatively simple and quick decisions on own spending priorities - Relatively clear and simple procedures for developing countries to apply for funds - Easier to justify spending to own tax payers; to maintain a legitimate basis for development cooperation - Taking a political decision on the future of an aid relation is easier to take 	<ul style="list-style-type: none"> - Only relatively small sums can be made available, for a limited amount of countries and sectors - Political pressure by one country is much weaker than a coordinated political message from a multilateral institution. - Developing countries have to deal with many donors with different procedures, etc. - Developing countries may be suspicious about economic self-interest of donor country or fear for political domination (colonialism)
Multilateral aid (UN/ World Bank)	<ul style="list-style-type: none"> - Economies of scale (specialisation; overview of balance activities in countries and sectors) - More donor neutrality - More political leverage (but only in case there is a UN Security Council resolution) - Large confidence in multilateral institutions, especially in crisis situations 	<ul style="list-style-type: none"> - Large responsibility for multilateral institutions to decide on spending priorities with no democratic control - Complaints about supposedly bureaucratic procedures and slow disbursement of money (especially about UN agencies) - A wide range of different agencies, programmes, etc.
European Community aid	<ul style="list-style-type: none"> - Economies of scale (specialisation; overview of balance activities in countries and sectors) - More political leverage - More donor neutrality 	<ul style="list-style-type: none"> - An important and powerful role for the European Commission, with weak democratic control - Complaints about supposedly bureaucratic procedures and slow disbursement of money - Council takes decisions on policy not on spending priorities

Seminar questions for discussion:

- Should more development cooperation be allocated through multilateral channels?
- Should more development cooperation be allocated through the European Community instruments?
- To what extent and under which conditions can development cooperation become more of an instrument of EU foreign policy?
- How can we improve the international aid infrastructure with a view to accelerating progress to reaching the MDGs?

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