Multi-bi Aid in European Development Assistance: The Role of Capacity Constraints and Member State Politics

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Abstract

We analyse the patterns of multi-bi aid in the European Union. Using newly available multi-bi aid data and a large number of staff interviews at the European Commission, the World Bank, and bilateral donors, we draw three conclusions. First, the Commission's capacity constraints and lack of specific expertise have prevented it from becoming an important host of trust funds like other international development organisations. Second, the same capacity constraints can generally explain its extensive participation in trust funds at other international development organisations. In the case of large global funds, however, Commission participation often reflects the outcome of member state politics. Third, once the Commission delegates its aid to multilateral agencies, it does not impose strong substantive earmarking, but requires a high level of legal and administrative controls.

Key words: European Union, multilateral agencies, delegation, multi-bi aid, earmarking

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1 Introduction

Since the early 1990s, donor governments have increasingly channelled their development assistance through trust funds hosted at international development organisations (IDOs).[1] They did so on a voluntary basis (i.e., without long-term international commitments) and without generally dismissing their rights to determine the concrete project specification or geographical or sectoral allocation, which they enforced through various degrees of earmarking (Reinsberg, Michaelowa and Eichenauer, 2015; Graham, 2015). To many donors, this so-called “multi-bi aid,” situated somewhere in between pure bilateral and core multilateral assistance, seems to appear as an ideal response to the requirements of the Paris Declaration calling for donor co-operation and harmonization (Barakat, 2009: 108; Woods, 2005: 394; Barakat, Rzeszut and Martin, 2012: 2f.), and as a useful instrument to pool resources for the funding of global public goods that have received increasing attention over time (Heimans, 2004; IEG, 2011).

The European Union (EU) is a particularly interesting donor to examine in the multi-bi aid context. First, it simultaneously plays a role as a bilateral donor and as an IDO. It can hence be examined both on the demand and on the supply side of multi-bi aid. As a bilateral donor, it may make use of trust funds located at other IDOs, and as an IDO, it can be the host of trust funds for development assistance provided by other bilateral donors. Second, the EU already represents a sub-group of bilateral donors, and is supposed to ensure coordination and harmonization among its members. If individual EU members want to coordinate with other donors, they can directly become members of trust funds at other IDOs. If the EU itself also becomes a member of such funds, this involves double-delegation (and related transaction costs), which runs against the spirit of the complementarity principle included in the EU’s Code of Conduct (EC, 2007). Moreover, it calls into question whether the coordination and harmonization arguments for multi-bi aid provided above truly reflect the central motivation of the EU to use trust funds. Third, within other IDOs, the EU is frequently identified as a particularly burdensome partner for multi-bi aid. It appears important to examine the reasons for such assessments and how they can be reconciled with the EU’s willingness to participate in those trust funds in the first place. Finally, with an aid volume of over 16 billion USD in 2014 (about 25% of its individual members’ development assistance), the EU institutions have emerged as the single largest multilateral donor and one of the largest bilateral donors on the global scene (OECD, 2015).[2] Given the sheer size of its interventions it becomes interesting to look at its strategy, politics, and the resulting efficiency of its operations.

Along with Michaelowa, Reinsberg and Schneider (2015) this paper is the first to analyse the politics of multi-bi aid in the EU.[3] In this paper, we focus on the presentation of the complex economic and political considerations that determine the European Commission (EC)’s strategy in this context. Theoretically, we suggest that the patterns of multi-bi aid in the EU can be linked to the collective

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[1] As opposed to Reinsberg, Michaelowa, and Eichenauer (2015), where we need to distinguish between organisations with and without implementing capacity, we use the term IDO more generally here for any type of international organisation engaged in the area of development (international or regional development banks, multilateral aid agencies, global funds, etc.).

[2] In 2011 and 2012, regarding their disbursements of Official Development Assistance (ODA) the EU institutions ranked second directly after the United States. In 2014, the United Kingdom and Germany ranked on positions 2 and 3.

[3] Schneider and Tobin (2013) provide an analysis of multilateral aid allocation in the EU.

action problems among its member states that have also been identified in other articles of this special edition. To set the stage, Section 2 presents some historical data on the EU institutions' involvement in multi-bi aid, and discusses the multiple puzzles with which we are confronted when examining this evidence. Section 3 draws on information from numerous interviews with officials at the EC, at other IDOs, and in bilateral donor agencies to examine these puzzles from an empirical perspective. This information is triangulated with evidence from official reports, and with statistical evidence that is mostly based on a new dataset focusing on multi-bi aid, compiled by Eichenauer and Reinsberg (2015). Section 4 provides some discussion of the results and concludes.

2 Some empirical evidence on the use of multi-bi aid

Whereas EU members still provide most of their development aid through their own bilateral agencies, they coordinate their activities closely. About 17 percent of their foreign aid resources are provided through one of the three EU channels relevant for development aid: the common EU budget, the European Development Fund (EDF), and the European Investment Bank (EIB).[4] The concessional side of these programs has been managed and implemented largely by the European Commission (EC).[5] With these instruments, the EU is a recipient of foreign aid resources and at the same time can be considered as a bilateral donor of foreign aid (which includes the provision of multi-bi aid). In the following, we refer to the EC when we discuss multi-bi aid given through the European institutions in order to distinguish it from bilateral EU member aid, even though technically EU governments have influence over the EU's foreign aid resources through the EDF Committee, the Council of Ministers, and other intergovernmental bodies in the EU.

Let us first consider the EC's use of multi-bi aid in its role as a bilateral donor. Figure 1 shows the development of its aid channelled through trust funds at other IDOs, both in absolute terms (panel 1) and relative to (pure) bilateral aid. The dashed lines show the development of multi-bi aid of the EU member countries for comparison. Ignoring the peak in 2005 that is due to the specific event of debt relief in the framework of the Highly Indebted Poor Country Initiative (HIPC), we observe a relatively steady increase of multi-bi aid for EU members. This trend in bilateral EU aid did not translate into similar trends at the European level, where the level of multi-bi aid constantly stayed at very low levels until the mid-2000s.

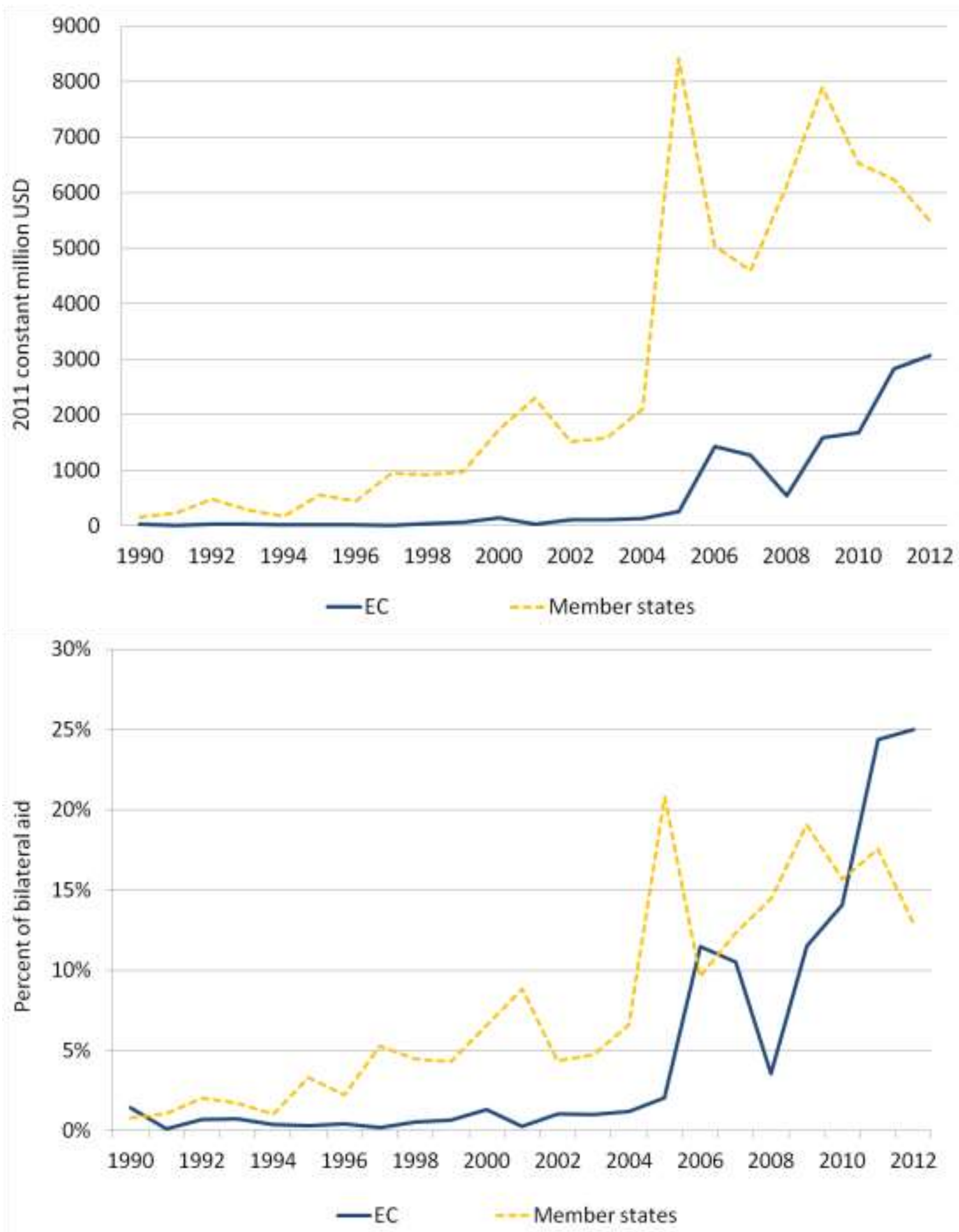
From the mid-2000s onwards, the EC also started using trust funds hosted at other IDOs. Very quickly, the share of the EC's multi-bi aid increased to a similar proportion of bilateral aid as for other bilateral donors, and in 2012, at more than 25% of the EC's total aid, this share was even substantially higher than for EU member countries (about 13%). Provisional data from the Development Assistance

[4] See the introduction to this special edition for more information on EU aid, and Carbone (2007) for an excellent and comprehensive discussion.

[5] This includes the development activities through the common EU budget as well as the EDF. The grant portfolio of the EIB is negligible, mainly consisting of debt relief on loans provided earlier. Hence, we can focus on the EDF and the EC budget for development aid. While both the EC and the External Action Service (EEAS) are involved in aid programming, DG-ECHO and EuropeAid implement EC aid in the areas of humanitarian aid and development aid, respectively. At the field level, EC country delegations are jointly staffed by EEAS and EuropeAid and enjoy considerable budget autonomy.

Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD, 2015) indicate that the EC's multi-bi aid has further increased substantially in 2013.

Figure 1: The development of multi-bi aid



Source: Eichenauer and Reinsberg (2015).

At the same time, the EC did not seize the opportunity to generate own trust funds and thereby collect additional funding by like-minded donors (sub-sets of member countries) for specific fields of intervention. While other IDOs administer hundreds of such funds and the related financial volume is often greater than the core funding of these institutions (see Reinsberg, Michaelowa and Eichenauer, 2015), the EC came up with its very first "Union Trust Funds", the European Trust Fund for the Central African Republic and the EU Regional Trust Fund in response to the Syrian Crisis only in 2014 (EC, 2015).[6]

This reluctance to set up own trust funds is as surprising as the extensive delegation of EC aid to external IDOs. Would the EU not be an ideal institution to help some of its members to coordinate when they are willing to move forward on certain issues? Should the EC not have incentives to generate additional inflows of funding that would allow it to expand its field of activities?

And why are member countries willing to contribute to the EC if the EC simply channels these funds through IDOs to which the member countries could have contributed bilaterally? Why are they willing to accept the transaction cost related to double delegation (the other IDOs often charge considerable fees for their services)? A simple answer could be the EC's capacity constraints. But if channelling aid through other IDOs is a means of reducing the EC's own workload, why is the EC then simultaneously known for formulating a number of burdensome requirements, micromanaging the work of these other IDOs?

In the following, we attempt at answering these questions, one by one, based on rich evidence from a large number of interviews at the EC and the EEAS, other IDOs, and with aid agency staff of EU member countries. Our Brussels-based interviews covered the EC, notably the Directorates-General for International Co-operation and Development (DEVCO / EuropeAid), for Humanitarian Aid and Civil Protection (ECHO), as well as the European External Action Service (EEAS). Overall, we carried out 30 semi-structured interviews, partially group interviews, mostly at the EC and EEAS in Brussels in November 2014, and at the World Bank headquarters in Washington in summer 2013. In 2012, the World Bank was the single largest IDO with respect to multi-bi aid received from EU institutions, and the organisation hosting the largest variety of different funds. Some complementary interviews were held by telephone at a later stage. Overall, the opinion of about 40 officials is included in our analysis. In the following sections, we refer to individual interviews with specific numbers (I1, I2, …) to provide the reader with an idea of the number of separate interviews supporting a particular view. However, to protect the identity of our respondents, we do not reveal the corresponding names. The list of interviews (without attribution to the individual numbers in the text) can be obtained from the authors upon request.

Information from statements of these officials is then put in perspective by drawing on the general literature, formal agency reports, and descriptive statistics based on a recent, comprehensive update of the OECD's Creditor Reporting System (CRS) data to include multi-bi aid (Eichenauer and Reinsberg, 2014, 2015) and other DAC data (OECD, 2015).

[6] In our reading, "Union Trust Funds" are the first actual trust funds in which the EC implements the program and invites potential contributions (also) from donors other than the EU member states. This draws them apart from prior funding facilities, for example the EU-Africa Infrastructure Trust Fund (EU-AITF), managed by the EIB and jointly governed by EU member states and the EC, or the Africa Peace Facility, which is legally based on the Cotonou Agreement and financed from EDF and hence governed by the EDF committee.

3 Assessing the EU institutions' engagement in multi-bi aid

When assessing the reasons behind the surprising behaviour of the EC regarding the use of multi-bi aid, we consider both economic efficiency, and political or bureaucratic efficiency. While the former optimizes development outcomes, the latter optimizes the utility of different actors within the EU (member states, European Parliament, EC staff) that may not or only partly be related to economic efficiency. Considerations about preserving the budget, about the visibility of one's interventions, and about pleasing one's constituency fall in this category.

3.1 Why has the EC been so reluctant in setting up trust funds?

While several of our interview partners at the EC proudly reported about the activities to set up the first Union Trust Fund in 2014, a fund focussing on stabilisation and reconstruction of the Central African Republic, co-funded by the EU, Germany, France and the Netherlands, nobody mentioned why it took so long for the EU to engage in such activities in the first place. We explore several potential explanations.

The first is that EU actors are quite aware about the downsides of trust funds. These funds may distort the EC's program priorities due to bypassing their standard decision-making procedures, raise concerns regarding the transparency of the EC's overall activities and the stringency of the monitoring and evaluation procedures applied, and increase aid fragmentation (see for example, IEG, 2011; Tortora and Steensen, 2014; Reinsberg, 2015).

However, it does not seem that such concerns have been responsible for the EC's reluctance to set up such funds. First, if the anticipation of such problems had led to them to avoid setting up own trust funds, it would be difficult to understand why they would start with this now when these problems are even better understood.[7] Second, at least regarding monitoring and evaluation, our respondents within the EC unanimously expected that their own funds would be more successful. In fact, some EuropeAid officials mentioned that better monitoring will be one of the distinctive advantages of Union Trust Funds (I-21). Some of our respondents argued that the quality of monitoring should be regarded as the main comparative advantage of the Union Trust Funds as compared to those hosted by other IDOs, and that the inadequacy of monitoring elsewhere was one of the reasons why the EC had eventually moved to setting up funds by themselves (I-19; I-20; I-26). Concerns about EU visibility were mentioned by EC officials (I-19; I-20; I-21; I-22) and also by World Bank staff speculating on why the EC entered the trust fund business (I-9; I-14; I-15; I-16; I-17).

A second explanation for the emergence of Union Trust Funds refers to the removal of legal constraints, preventing the EC's engagement in this area (I-19; I-21). Only in 2012, a new Financial Regulation authorised the EC to set up and manage trust funds under an agreement concluded with other donors, including non-EU donors (EC, 2012). However, such regulations are endogenous to the

[7] Nonetheless, the growing awareness about trust funds' potential for fragmentation and duplication may explain why the legal framework for the establishment of "Union Trust Funds" as set by the member states is so restrictive. In particular, it allows trust funds only in "[…] (post-)emergency situations where […] the fragmentation and weakness of local actors together with the complexity of aid delivery in a crisis requires the international community to respond in a fully coordinated and joined-up manner to avoid duplication and loss of impact […]" (Art. 178(1) of the Financial Regulation).

influence of EU member countries. Had there really been a strong demand for such activities, the constraints could have been lifted earlier. Hence, in essence, lack of demand for such activities seems to be the key to explaining why such funds were not created. In the context of trust funds at other IDOs, such demand emerges from member countries – partly stimulated by IDO middle management in charge of individual units or departments. From the member country perspective, a major determinant of delegation to IDOs is their development expertise and capacity (Milner and Tingley, 2013; Schneider and Tobin, 2013; specifically on trust funds, see Reinsberg, Michaelowa and Knack, 2015). It seems that the EU member countries did not believe that the EC was as an IDO with a competitive edge in this regard. This is even more plausible as the DAC Peer Review of the EC reveals a strong deficit in development relevant knowledge and experience, and calls for "greater investment in expertise and knowledge management to improve their reputation and convince Member States of the real added value of their role" (OECD, 2012: 20).

A third explanation focuses on the bureaucratic interests of EC staff. From an IDO's middle management's perspective, pushing for new trust funds is appealing as a means to acquire more funding or to expand one's area of interest (see for example, Michaelowa and Michaelowa, 2011). None of these appear to have been strong motives within EuropeAid in recent years. Between 1980 and 2012, financial means for development aid at the EU institutions increased by over 500% in real terms (OECD, 2015). Hence, a lack of money was not the problem. In one of our interviews, our interlocutors explicitly stated that money inflows at times were so large that the existing staff faced difficulties in handling them efficiently (I-24). There is also no evidence that the middle management had any ambitions to expand specific areas of development co-operation beyond the boundaries set by these funds. In addition to the expanding financial means of the EC, this may also be related to a lack of development-specific experience and capacity already mentioned above. However, capacity has improved in recent years, as shown by two metrics. The development of administrative cost hints to greater investment in staff capacity (see Figure 3 and discussion below). In addition, capacity has also increased in terms of general staff numbers at the EC (assuming a proportional increase in all directorates).

For a long time, there was hence no reason for anyone to push for Union Trust Funds. However, in view of the aggravating humanitarian situation in the EU's own neighbourhood, the EU initiated its own trust funds. In this regard, it was indispensable that member states lifted legal constraints and increased the EC's capacity for effective response. In the multilateral system, Union Trust Fund seized their niche and hence could be seen as a successful instance of collective action among member states in addressing a burgeoning development challenge. In particular, focusing on the Central African Republic and Syria, these trust funds operate in two central regions of EU aid activities, in which the EU institutions' expertise should hence be higher than elsewhere.

3.2 Why the EC has been so strongly engaged in delegating to other IDOs

EC officials themselves acknowledged that the strong evidence for double delegation – from EU members to the EC and then to other IDOs – is puzzling, and that many observers question the efficiency of such arrangements.[8] For instance, the (standard) fee charged to host a trust fund is 5% of the aid volume to be administered at the World Bank, and even 7% at the United Nations. This is considered as quite expensive even as compared to the EC's own service charges (I-22). Moreover, EU member countries can join these trust funds directly if they wish to do so, thereby avoiding one layer of administration. Furthermore, the visibility of the EC within such trust funds is generally lower than for the EC's own bilateral aid. And finally, is it not the key function of the EC itself, in fact its *raison d'être*, to co-ordinate the activities of its member countries?

The reasons for delegation to other IDOs that were provided by different EC officials varied considerably depending on their professional background and related experience. We can broadly distinguish between arguments related to EC staff capacity and arguments related to member country politics. The latter is mentioned primarily (if not exclusively) in the context of large multi-donor trust funds, the so-called global funds. The former relates to a wide variety of funds including single-donor trust funds with the EU institution as the sole contributor.

3.2.1 Capacity Constraints

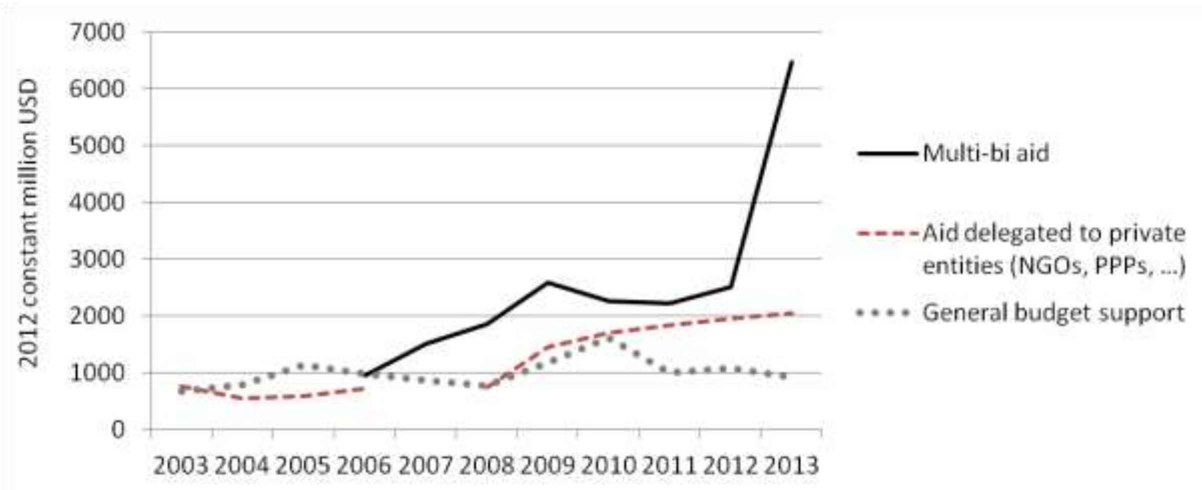
Capacity constraints were the most frequently mentioned reason for delegation to IDOs, and, in fact, for the delegation of aid in general – including delegation to member country agencies like the British *Department for International Development* (DFID), the French *Agence Française de Développement* (AfD) and the German *Gesellschaft für Internationale Zusammenarbeit* (GIZ), or delegation to the private sector. EC staff argued that in recent years, the EC faced increasing demands while witnessing its own capacities decline. According to our interview partners, additional issues emerged on the agenda, but at the same time EC staff numbers declined (I-22; I-24; I-29). In this context, delegation was considered very useful since it was tying up less administrative resources than "direct management" by EC staff, and thus enabled the EU to "do more with less" (I-22).

Since "lack of capacity" is always an easy answer to provide, we cross-check the information from the interviews with other data. We expect that if capacities are scarce, the EC should delegate more aid in general, not just delegate more to IDOs. Moreover, we should expect a strong use of instruments such as general budget support. These instruments are intended to fund the recipient countries' priorities and hence do not require the development of concrete project ideas on the donor side. While there is no aggregate data on EC aid delegated (back) to bilateral agencies, EC aid channelled through the private sector can indeed be shown to also have increased substantially since the early 2000s reaching a similar magnitude as multi-bi aid in 2012, albeit not following the strong jump of multi-bi aid in the provisional 2013 data (see Figure 2). The data also reveal that the EC made a very extensive use of general budget support, much more so than any other bilateral donor (OECD, 2015). The trend peaked in 2010 when the EU's general budget support was almost 2.5 times as high as DFID's (the second largest bilateral donor regarding budget support). In most recent years, however, popularity of budget support declined among member states (who now underscore the problems of political capture), and

[8] From a purely legal perspective, as mentioned by one EC official, there is no "double delegation" because the EC has own legal personality. However, from a principal-agent perspective, the EC is the agent of its member states and hence their respective policy positions should be similar, hence implying duplication in the representation of EU policy positions.

this decline seems to have prevented a further increase in EC budget support, hence further expediting the turn towards IDOs.

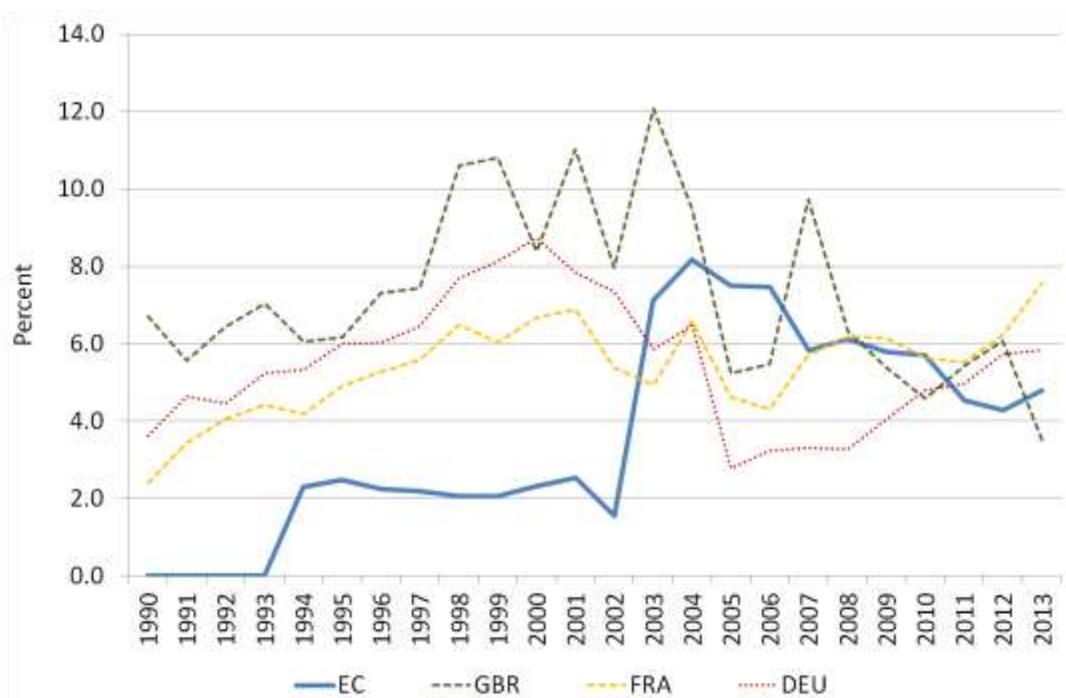
Figure 2: Aid channels avoiding EC capacity constraints



Source: OECD (2015).

When talking about capacity, our interlocutors at the EC primarily pointed at staff numbers. Unfortunately, the EC does not provide any data in this respect. As a proxy, we consider the development of administrative cost as a share of the EC's overall bilateral aid budget (pure bilateral and multi-bi aid). Figure 3 shows the development of this share (in percent) as compared to the three major bilateral donors.

Figure 3: The development of administrative cost in percent of total bilateral aid*



* Total bilateral aid includes pure bilateral aid and multi-bi aid, i.e., all aid except core multilateral.

Source: OECD (2015).

The figure indicates that after a strong upward adjustment in the early 2000s, the EC's administrative costs slowly declined relative to the aid volume under its administration. The period of decline started just before the EC's move towards multi-bi aid. This is in line with the arguments we heard in our interviews.

Yet, administrative costs as a share of aid are about as high as for the three major bilateral donors, the United Kingdom, Germany and France. If they can be interpreted as an investment in staff capacity, despite the decline during the last few years, the EC should not be in such a bad situation. However, capacity cannot only be measured in staff numbers and related expenses, but also in the way the existing capacities are managed or in subject-related expertise based on development specific knowledge and experience. These are the areas in which the DAC Peer Review of the EC spotted the greatest deficits. The review states that the lack of specific expertise was criticised by partners, member states and internal reviews alike (OECD, 2012: 20). The lack of expertise can be explained by the EC's human resource regulations in this area. Development experts can be hired on short-term contracts that may not exceed six years when employed in the headquarters in Brussels. In the field, they can remain in their positions for a longer period, but have no formal way to improve their position, so that retention is limited here, too.

Some of our interviewees also conceded the knowledge and experience-based side of capacity limitations. One EuropeAid official stated, for instance, that while the EC has a global presence through its 141 country offices, its country offices are primarily concerned with policy dialogue, and not with expert knowledge to supervise aid activities (I-27). The devolution of EC staff to the field may have further increased the perceived knowledge gaps (I-25). A World Bank official further stated that the "EC does not have enough experts available even in its neighbourhood countries" – in contrast to the World Bank (and other IDOs) that have a "broad network of contacts on the ground needed for rapid implementation" (I-2). Recent studies have also revealed delays in the absorption of IPA funds (to support accession to the EU) partly due to a lack of EC capacities (Mrak and Tilev, 2008; Knezevic, 2011).

Given the recognition of its own capacity deficits, the EC considers the delegation of aid to other institutions often as efficient despite additional transaction costs. And it seems that among the different partners to whom EC staff can delegate its aid, IDOs are most highly valued. IDOs were identified as the "most efficient alternative" for delegated aid (I-21). Due to unique expertise and their concrete mandate they have become the primary partner for EC officials. One EC official said that EC staff relied on IDOs "when nobody else can do it" (I-30); another official explained that IDOs had an explicit mandate in some country contexts and hence nobody would work around them (I-21). One official also praised the flexibility implied by the partnerships with IDOs. In one case, the EC and the implementing agency jointly developed a project, each actor assuming responsibility for the project components in which it had a specific expertise and both actors could learn from each other. In another case, the EC pursued a hands-off approach and fully delegated its contribution to a multi-donor trust fund (I-22). In this case, supporting "multilateralism" is the primary objective of delegation (I-25).

In sum, despite the additional transaction cost incurred, multi-bi aid may turn out to be efficient given current capacity constraints at the EC. Of course, the first-best solution to this problem – at least in the long run – is to lift the capacity constraint or to better manage existing capacities (OECD, 2012). From a collective action perspective, one could argue that the member states do not allow the EC to expand its capacities – possibly because they may want to maintain a lever of influence on the EC's policies. From the perspective of the EC, delegation to IDOs then is the second-best alternative to fulfil its development mandate in the presence of its own capacity deficits.

3.2.2 Member state politics

As opposed to capacity concerns that drive the EC itself into soliciting arrangements with other IDOs, there appear to be situations where this move is more directly driven by member countries. As already mentioned above, this happens primarily in the context of large multi-donor trust funds, namely the global funds. Global funds are legally independent multilateral institutions that address specific development sectors and that have their aid programs executed by IDOs through multi-bi aid (Heimans, 2004; Isenman and Schakow, 2010; Reinsberg, Michaelowa and Eichenauer, 2015). Prominent examples of such funds with EU involvement are the Global Fund (to Fight Aids, Tuberculosis and Malaria), the Heavily Indebted Poor Countries (HIPC), the Consultative Group on International Agricultural Research (CGIAR), the Afghanistan Reconstruction Trust Fund (ARTF), or the Global Partnership on Education.

EU members' participation patterns in global funds are generally diverse. For example, only Germany, France, and the United Kingdom are CGIAR council members, but the fund has 13 European donors including the EC (CGIAR, 2015). Whereas the EC is no council member in the CGIAR, it is a council member in the Global Fund, contributing about 4.5% of the total fund resources (it assumes a share of 0.7% in the CGIAR fund).

Oftentimes, both the EU and member states individually are represented in the respective fund governing boards. Arguably, this double representation increases overall transaction costs and runs counter the complementarity principle in the EU's Code of Conduct. From a policy perspective, to the extent that the EU member states determine the "EC policy" toward global funds, a separate "EU seat" in the fund governing boards becomes superfluous. From a financial perspective, it also seems likely that EU member states base their own contribution to global funds on the extent to which the EC participates in these funds (I-25). For these reasons, some of our interlocutors at the EC rather doubted the financial value-added of the EC in global funds and argued that symbolic reasons underlie such policies (I-19).

A simple interpretation of this "double representation" of the EC and its member states in global funds would be lack of mutual coordination (I-20; I-24). Several EC officials pointed out that the EC has some degree of autonomy regarding the decision to participate in specific global funds (I-21; I-25; I-30), and hence the EC may make participation decisions in an ad-hoc manner, without much coordination with member states.

However, our interviews suggest an alternative explanation. In fact, double representation implies tangible political benefits for all involved actors that counterbalance the potentially higher transaction costs. As one official put it, "[t]here is no economic rationale – but politically, it makes a lot of sense" (I-29). Similar views were expressed by officials of an important EU donor country (I-28). On the one hand, the EC itself has tangible benefits from its participation in global funds. An "EU chair" enhances its visibility as an (independent) development actor. One official mentioned that a global fund may be convenient when the Commissioner must fulfil a public pledge to act on a certain issue. In addition, the EU believes that it can bring "added value" to the practices of the global fund by insisting on strong fiduciary frameworks and strict monitoring (I-19). Within the EC, the economic and political advantages and disadvantages of participation are well reflected. In some cases, in which staff was not convinced that the EC's contribution would be wisely used, it eventually refrained from participating in the fund (I-19). On the other hand, and more importantly, the member states (collectively) benefit from a distinctive EC contribution to global funds. Financially, EC contributions enable the member states to reduce their own contribution without losing policy influence and without violating the international burden-sharing commitment underlying most global funds (I-25). Politically, EC'a participation in global funds helps EU member states to demonstrate their commitment to a multilateral effort in which every donor must contribute. This is particularly relevant for smaller member states that cannot directly participate in all major multilateral funds and still wish to show to their national constituencies that they take part in the global effort. The "EU chair" effectively gives these states a possibility to "free-ride" on the international attention to a high-profile development issue – an argument originally developed in the alliance literature (Olson and Zeckhauser, 1966; Sandler and Hartley, 2001; Addison et al., 2004). Given the broad donor base of global funds that may include diverse donors such as the United States, Japan, emerging economies and philanthropic foundations, in fact, the EU as a whole benefits from a strong leverage effect of its participation. According to some officials, EC support may also be a "seal of approval", serving as catalyst for such complementary contributions (I-22; I-25).

To influence decision making within the global funds, a distinct "EU chair" may also be helpful. Given the large number of non-EU actors represented, a distinct EU perspective may be more easily advocated if both member states and the EC have a voice at the table. Pre-pooling funds at the European level also gives small EU member states some influence to alter policies at these global funds that they could not exert individually (I-24).[9]

Yet another reason why individual member states sometimes push for EC participation is related to strategic considerations of larger member states. It has been observed that they try to make strategic use of the EC's involvement in global funds by claiming the "EU chair," thereby increasing the weight of their own contribution (I-24). In this case, it is not a separate "EU chair" that is promoted, but a substantial financial contribution of the EC. The EU member state that already participates in the fund then takes over the representation of its own along with the EC's interests and thereby substantially increases its influence over funding decisions. This view in which the "EU chair" merely serves the interests of the big powers is reminiscent of the inter-governmentalist approach (Moravcsik 1993). The visibility of the EC itself is rather limited.

[9] Similar small-donor behavior occurs in multi-donor budget support (see Faust, Koch, Leiderer and Moleaners, this issue).

In sum, the benefits from the EC's participation in global funds tend to be high for the member states, possibly higher than for the EC itself. It thus is not surprising that most interviewees said that the impetus for EC participation in most funds came from the member states. In as much as the EC thereby bundles and represents the interests of all EU member states, this can be regarded as a rather successful example of collective action. This also holds if individual EU members enter a fund along with the EC and the EC reinforces their interest while simultaneously representing the interests of the non-participating EU members. The EC thereby provides more weight to European positions. However, this is possible only if member country preferences are sufficiently homogeneous.

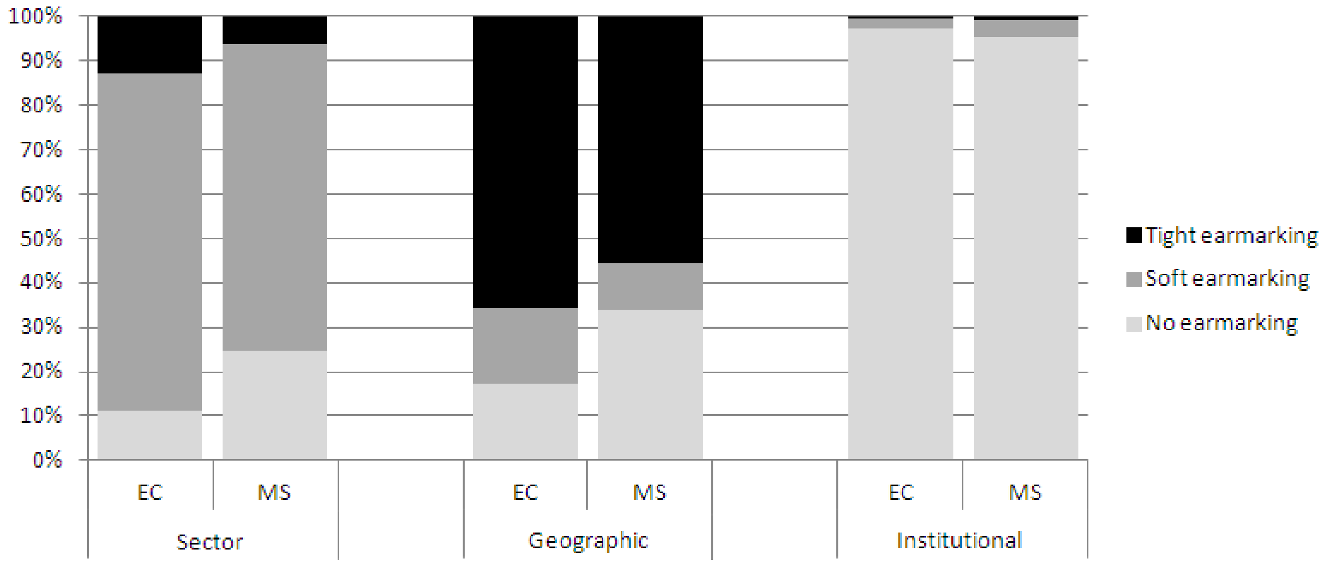
3.3 Why EC participation in trust funds is so burdensome

Once the EC decides to participate in a trust fund, be it on its own initiative or on the initiative of individual member states, there seems to be an understanding that this co-operation will be beneficial. If so, why would the EC increase transaction cost for all actors involved and counteract the efficiency of this co-operation by its own exigencies? And why would the EC want to rule into IDOs implementation activities given that its own lack of capacity was one of the key reasons for delegation in the first place? Yet, virtually all IDO representatives we interviewed reported that co-operation with the EU institutions is excessively burdensome, and EC officials, when confronted with this statement, never denied that this corresponds to reality. What are the reasons for this behaviour?

The academic literature suggests that the burden for IDOs may be related to the intensity of earmarking associated with multi-bi aid since it limits the IDOs discretion in aid allocation and imposes the bilateral donors' priorities (see, e.g., Sridhar and Woods, 2013; Reinsberg, Michaelowa and Eichenauer, 2015). We hence examine the earmarking intensity of EU multi-bi aid as compared to multi-bi aid of other bilateral donors. The Eichenauer and Reinsberg (2015) dataset allows us to categorize multi-bi aid with respect to thematic, geographic and institutional earmarking, with three degrees of intensity for each category (no earmarking, soft earmarking, and tight earmarking). For thematic earmarking, soft earmarking refers to specific sectors or fields of intervention, tight earmarking to specific projects. For geographic earmarking, soft earmarking includes (sub-) regional earmarking while tight earmarking refers to specific countries. For institutional earmarking, soft earmarking is a contribution to (sub-) division in the organisation, while tight earmarking implies the delegation of staff for a concrete task. Many aid flows are earmarked on more than one dimension.

Figure 4 presents the available data for the period since 2006 when EU multi-bi aid became a non-negligible quantity. The data show that generally, institutional earmarking is negligible, while thematic and geographic earmarking is widely spread. Along these two dimensions, as compared to member countries, the EC has a somewhat stronger tendency to use earmarking, and to use tight rather than soft earmarking. In relative terms, the greatest difference takes place for thematic earmarking where the EC pre-defines concrete projects about twice as often as the aid agencies of its member states. Nevertheless, this happens only for 13% of all multi-bi aid that the EC channels through other IDOs. It appears surprising that such relatively small shares (and even smaller absolute differences vis-à-vis the earmarking intensity of individual member agencies) should have led IDO staff to complain so heavily about the burden of co-operating with EU institutions.

Figure 4: The intensity of earmarking by EU institutions and member states (MS), 2006-2012



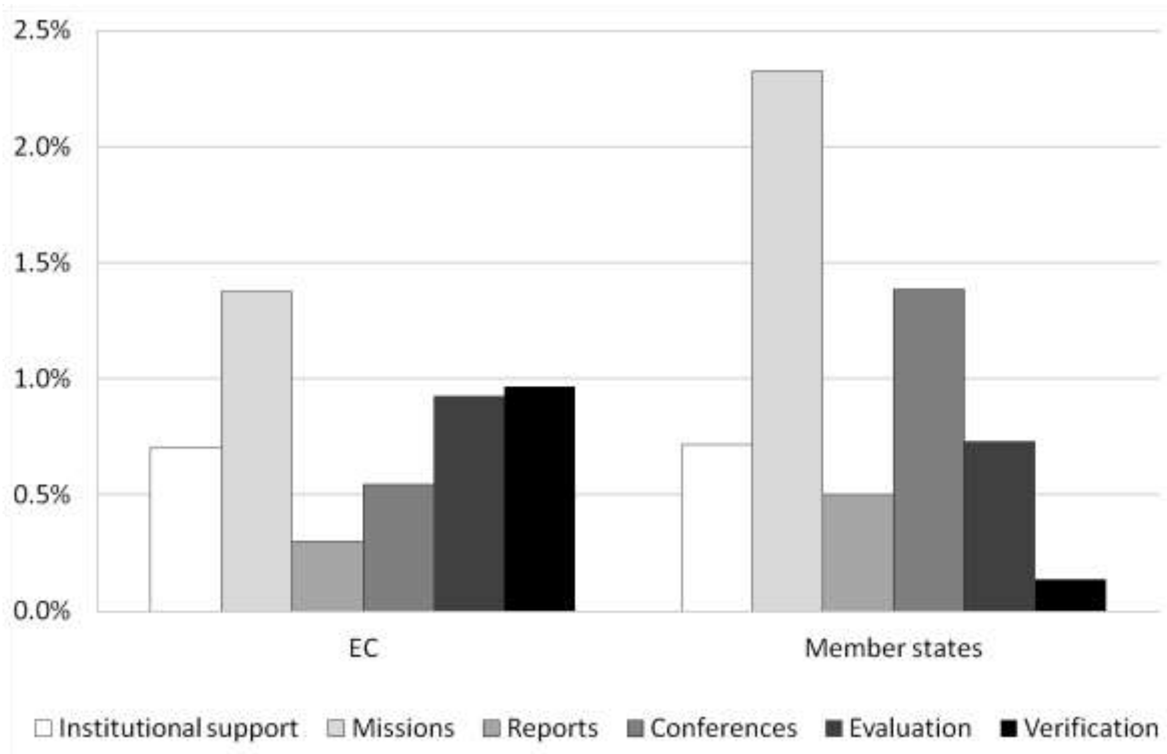
Note: Within each category, percentages refer to earmarked projects as a share of multi-bi aid. By definition, multi-bi aid is always earmarked in at least one category.
Source: Eichenauer and Reinsberg (2015).

According to our interviewees, it seems to be the procedural and administrative requirements rather than the depth of earmarking that are considered the primary concern by IDO staff. World Bank officials state that dealing with the EU "is a nightmare" involving cumbersome procedures and strict controls (I-1; I-6). In particular, Bank staff faces separate audits from the EU, which require information at a level of detail that even the Bank itself sometimes cannot provide (I-8). To verify results, the EU also performs joint evaluation missions sponsored by the EU and must provide verification of results (I-3; I-4; I-13). One Bank official wondered about the "schizophrenia" of the EU, which sometimes "seems to forget its commitment to aid effectiveness when being obsessed with financial details" (I-10). All queried Bank staff complained about "unprecedented levels of procedural controls", going way beyond the requirements of most other donor countries (I-8; I-18).

These statements are again in line with findings from the DAC Peer Review. In the recommendations for organisation and management the 2007 review already identified the need to simplify procedures, and the 2012 review considers that "there is still a pressing need to simplify procedures further" (OECD, 2012: 113).

We also find some confirmation in the Eichenauer and Reinsberg (2015) data that include separate codes for specific ancillary activities pursued through multi-bi aid (as far as these activities are reported in the qualitative project descriptions of the CRS database). Results presented in Figure 5 show that the EC more frequently contributes funds for evaluation and verification than the member states. For verification, the difference is particularly striking and clearly significant (t-statistic of 14.6), even if overall shares of aid activities for which any such activities have been reported, are quite small. In contrast to the EC's procedural orientation, EU member states tend to focus their ancillary activity in areas that signal a more substantial interest, namely missions and conferences.

Figure 5: Ancillary activities financed by multi-bi aid, 2006-2012



Notes: Percentages refer to the share of activities in the CRS database, for which the specific purpose was explicitly mentioned in the qualitative project description. This may underestimate the true shares, since such detailed reporting was not required. The different categories are not mutually exclusive as they can be funded within a single aid activity.
Source: Eichenauer and Reinsberg (2015).

In sum, it appears that the EC earmarks its multi-bi aid somewhat more strongly than individual EU member states, but that the central reason for the burden it creates for IDOs are procedural requirements rather than the depth of earmarking. As this kind of "micromanagement" (I-7; I-12) is of a more legal-administrative nature and does not require specific development expertise, it is not constrained by the limited development-related knowledge and experience of the EC staff. In fact, EC staff capacity in terms of legal and procedural knowledge may even be relatively high. This can explain why we witness a delegation of aid to IDOs that is (at least partly) due to capacity constraints, while the EC staff simultaneously spends much time and effort on monitoring these activities.

An additional, complementary explanation may be that the burden created for IDOs is not primarily due to the EC staff's own preferences, but imposed upon them by member countries and/or the European Parliament. According to EC officials, the Financial Regulation of the EU requires such rules (I-6; I-20; I-29; I-30). In particular, the Financial Regulation stipulates that the EC reserves itself the "right to verify the financial management of a specific action performed by the [IDO]" (EC, 2013: 18). The Financial Regulation also encourages the EC to conduct "joint evaluation missions" and to "perform evaluation missions as a donor" (EC, 2013: 17). The costs of these evaluations must be borne by the EU, but they are administratively burdensome to IDOs.

Many EC officials underscored that these rules were beyond their own control. In some interviews, EC officials pointed to the fact that it is the finance ministers of the member states and the Court of Auditors that repeatedly tightened up the Financial Regulation requirements in this respect (I-24). At the same time, the European Parliament pressured for greater visibility of EC aid. In 2008, it adopted a policy reform that set clear guidelines for ensuring the visibility of EC contributions under delegated co-operation (I-25). Against this background, EC officials are obliged to ensure the traceability of delegated funds (I-20; I-21; I-24). This sometimes forces EC officials into less efficient multi-bi aid instruments, for example single-donor trust funds, even if the underlying purpose is to support the effort of existing multi-donor trust funds (I-11; I-21; I-22). This is indeed reflected in a very high share of single-donor trust funds within the overall number of funds the EC participates in. For the period from 2006-12, this share was about 85% (as compared to about 65% for EU member states; see Eichenauer and Reinsberg, 2015). As of 2012, the new Financial Regulation somewhat loosened these constraints (I-24), but results remain yet to be seen. Last, the European Parliament and the European Court of Auditors also force the EC to negotiate liability clauses to ensure refunds from IDOs in case EC resources are lost.

World Bank staff deplores that "pressures [from influential donor countries] are scaled up at the European level", and that the EC "is unable to liberate itself from its own accountability pressures" (I-7). Especially when compared to the World Bank, "the EC is governed by constraints rather than by incentives" (I-2; I-5). This again echoes concerns voiced repeatedly in DAC Peer Reviews:

> *The development co-operation programme is under high scrutiny from both Council and European Parliament. As was recommended in 2007, this oversight could be made more strategic and focus more on the expected results, beyond controlling inputs and outputs. Detailed scrutiny currently leads to micromanaging the programme and hampers its effective delivery in the field (delays, lack of flexibility to respond to emerging needs, time consuming procedures) (OECD, 2012: 111).*

However, not all EC officials we interviewed considered these strict regulations as a constraint on their freedom of action. In fact, a significant part of EC officials even consider these strict rules as a value added of the EC. According to one respondent, given that the EC does not have any vital substantive policy interest, it can credibly be the custodian of aid effectiveness by ensuring the proper use of funds (I-19). As one official put it: "The EC is complicated because we want accountability – the member states just give money and forget about it" (I-24).

Overall, at least outside the EU, there seems to be a broad consensus that procedural regulations are overly strong and inefficient. Within the EU, and even within EC staff, the opinions are mixed. Some reforms towards greater flexibility have been carried out over time, but many problems remain. Among other things, EC staff seems to be more experienced in these administrative and legal procedures than in substantive areas of international development co-operation. Hence in terms of their own work management, delegating aid while retaining the monitoring tasks appears like a sensible strategy that matches their profile. In terms of overall aid effectiveness, this specialisation may, however, be problematic.

We can interpret the patterns of multi-bi aid in the EU from a collective action perspective. In particular, delegation to trust funds appears to be a solution to a looming collective problem in that member states do not allow the EC to build up enough capacity to manage its aid program on its own. As sometimes IDOs actually are in the best position to address certain development issues, trust funds can still be an efficient solution for all EU actors, but certainly these benefits must be balanced against efficiency losses on the part of implementing IDOs.

4 Conclusion

Since the mid-2000s, the EC has become very active in the area of multi-bi aid. By doing so, it has followed and then even surpassed the general trend by bilateral donors to channel their funds through international development organisations. Given that the EU is already a multilateral institution that combines the resources of its member countries, its strong participation in trust funds at such IDOs seems like an inefficient double-delegation strategy. However, given that the development-related capacity (and notably expertise) at the EC is scarce (while it is in ample supply at several specialised IDOs) from the EC's perspective, multi-bi aid can be rightly considered as a promising approach.

These IDOs, however, perceive the EC as a particularly burdensome donor. Its micromanagement is legendary – a fact that appears puzzling in light of its capacity constraints. Yet, these constraints relate to the appropriate deployment of development-related expertise while the EC's micromanagement focuses primarily on legal and administrative procedures (where capacity within the EC is much higher). In addition, this micromanagement is usually not a deliberate choice of EC staff, but the EC merely passes on the pressure for control from other EU actors, notably the European Parliament and the Court of Auditors.

We argue that, until recently, the EC's lack of own development expertise has also prevented the organisation from setting up and administering its own trust funds. The gradual removal of important regulatory constraints and greater demand from member states in the last few years has catalysed the creation of the first two Union Trust Funds (in which the EC is the sole implementer) in 2014.

Without going as far as other IDOs (which generates new problems of transparency, oversight, and fragmentation), having just a few trust funds may be an interesting way for the EC to implement its coordination function, not necessarily involving all members at a time. Moreover, this would move the focus from procedural aspects to subject-related ones, which could in turn be very helpful for the fruitful (and efficient) co-operation between the EU institutions and other IDOs.

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