

RESHAPING THE MULTILATERAL LANDSCAPE TO DELIVER AID

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1 Introduction

In this paper we address a multitude of issues regarding the multilateral landscape which works to deliver development aid. We have strived to answer numerous questions that have been posed by representatives from SECO, Switzerland's State Secretariat for Economic Affairs. In the process of analyzing the historical evolution of multilateral institutions and the current development aid landscape, we have found that there is no one-size-fits-all solution to its real and perceived problems. Especially after receiving feedback from SECO representatives in April 2008, we realized that no reform will fix all the problems and that even reform models which may appear to be quite promising will find critics. Due to this fact our paper does not so much try to prescribe solutions to perceived problems, as it tries to bring all the issues to the table, outline different positions and perspectives, and offer multiple viewpoints. Although we do identify some potential areas for reform, we note the shortcomings of the proposals. We hope to provide a fair and balanced assessment of the multilateral development aid landscape and its reform potential.

The paper is structured around the questions which were posed by SECO. First we will address the question of whether or not there is a need for reforms. Approaching this question from an unconventional angle, we will examine the arguments against reform to then show that reform is indeed desirable. Once we have determined that reform is needed, we will turn to the individual institutions that form this landscape. In the second part of the paper we will take a closer look at several of the specific institutions to shed light on the question of whether or not we really need the UNCTAD and the WTO, the UNDP and the World Bank, or the IMF and the World Bank. We will explain each institution's role in the multilateral landscape, along with some analysis of the culture, legitimacy, funding mechanisms, and membership of the organizations. The goal of this exercise will be to identify in which areas these institutions have a comparative advantage over other institutions and where there is duplication of efforts. In the third section we will address the question of whether or not we really need both the Bretton Woods and UN institutions. To do this we first examine what would happen if these two groups of institutions were merged into one. Our analysis uses elements of merger theory from business administration studies to identify the advantages and disadvantages of a merger between the Bretton Woods institutions and the UN institutions. We determine that a grand merger would not be a positive development. In the fourth section we turn to more practical

ways to deal with duplication of efforts. Expanding on some of the ideas introduced in the UN report “Delivering as One,” we propose more coordination at the country-level and increased competition in the market for development aid to increase efficiency and effectiveness. In a fifth section we look at another way to stimulate competition within the field of development aid by looking at award competitions for innovative projects.

2 Is there a need for reform?

The fact that there is a need to reform multilateral institutions always seems to be taken for granted. That is why we first ask ourselves if reform is the right path. One of questions posed by SECO was precisely: “Is there a need for reforms?” It would be very easy to just say that we can always do things better, and therefore we must reform. To make things more interesting we will approach this question from a different angle: Why should we *not* reform the international architecture and multilateral landscape to deliver aid? In other words, what are the arguments against reform? This would imply maintaining the status quo. In the following section we will outline a few of the potential arguments against reform including: (1) reforming multilateral institutions has been tried over and over again without much success, (2) the system functions well enough that reform is unnecessary, (3) only hegemons can successfully reform institutions, (4) real far-reaching reform is only possible after shocks to the international system, (5) or reform only leads to more bureaucracy and mission creep. Following these arguments we will list counter-arguments in section 2.2 that show that reform is indeed desirable.

2.1 Arguments against reforms

A famous quote that has been attributed to Albert Einstein, among others, is that “insanity is doing the same thing over and over again and expecting different results.” This quote, while not being the proper definition of insanity, does sum up the first potential argument against reforming the multilateral aid landscape: it is a waste of resources because it clearly has been tried many times before and has not succeeded. There have been efforts to reform these organizations ever since they were created and these reform programs have always ended running up against resistance that has either halted the reform process completely or watered-down the reforms so that in the grand scheme of things the situation remains the same. The UN has internally led a succession of initiatives to try to address duplication and overlap of

roles and activities, to achieve greater coordination and collaboration, and to find a more efficient use of expertise and resources that tend to be replicated across many different agencies (Riddell, 2007). One of the earliest initiatives was in 1969, nearly 40 years ago, and the latest was the Secretary-General's High-Level Panel Report "Delivering as One" in November 2006 (Riddell, 2007). Clearly the need for reform never seems to go away when dealing with international institutions, so maybe it is not worth it to keep trying to reform.

A popular saying that originated in the United States in the twentieth century is: "If it ain't broke, don't fix it." It basically means that any attempt to improve on a system that already works is pointless and may even be detrimental. This could be a further argument against reforms: The international system to deliver development aid functions well enough that reform is not needed and could indeed be detrimental. The World Bank estimates that there are thousands of small and large institutions active in more than 300,000 projects worldwide in development aid (Deutscher, 2006). Why should we view this as a negative thing? We should just let the organizations do their work and support them in this role rather than constantly trying to reform them. This argument against reform could go further and say that the nature of multilateral institutions is that they are imperfect. Simply the fact that multiple countries must agree on issues in a multilateral context means that compromises must be made and that typically second best or third best agreements are reached. The only reform that could end this is if the "multilateral" element was removed, essentially destroying the object of reform.

Another argument against reform comes from realism, a strand of international relations theory. Many realists view international institutions to be at the complete mercy of powerful states, especially hegemon (Jackson and Sorenson, 2007). These realists view multilateral organizations as tools in the hands of the most powerful countries. Thus, any reform of these multilateral institutions would need to be undertaken by a hegemon, otherwise it would be bound to fail. The logic to stick with the status quo in this case is due to the fact that reforms on international institutions will not succeed by themselves and need the support of the most powerful states. In order to get this support, the reforms must be in the interests of the hegemon(s) and something must make these reforms a priority to the hegemon, who otherwise has plenty of other issues to handle.

The fourth argument against reform also rests on the idea that whether reform is successful or not is beyond our control. In this argument only great shocks to the international system will

motivate the powers to change their ways and force them to be open to far-reaching reforms. A good example of this theory is that following the traumatic, cataclysmic event of World War II (preceded by the Great Depression), GATT, the UN, the IMF, and the World Bank were all created because the massive shock of economic depression and global war jolted the states to dramatic policy initiatives. The amended state-power argument from Krasner argues that it is these kinds of external events that create the environment conducive for policy changes (Krasner, 1976). This argumentation can be transferred to the multilateral aid landscape, which includes many of the institutions created after World War II. In the absence of a large shock to the international system, there will not be enough urgency or support for reforming these institutions. The argument would conclude that large shocks are beyond our control, so extensive reform must wait until such a shock comes.

A fifth and final argument for the status quo and against reform is that reform often just leads to more bureaucracy and mission creep. It is often the case that within reform efforts new committees will be set up solely to address the issue of streamlining bureaucracies and changing procedures. Reform also occurs when the original purpose of an organization disappears and new missions need to be found. One could argue that the roles of many of the international institutions mentioned in the previous argument, such as the IMF, have dramatically evolved over the years and as one challenge ceased to exist, new goals were found. This has led to a convergence around development aid by many organizations and it is exactly the reform efforts that have brought us to this point. Bureaucracies wish to sustain themselves and through reforms they can expand their roles and this does not necessarily lead to greater efficiency, but often exactly the opposite.

Now we will touch on some of the counter-arguments that show that reform is desirable.

2.2 Reform is desirable

Many of the arguments against reform have a rather negative view of the world. The quote attributed to Albert Einstein in the first argument can be countered with a more optimistic saying: “If at first you don’t succeed, try, try again.” Just because reform may not have been successful in the past does not guarantee that it will fail in the future. If we keep trying different strategies and work together to come up with creative solutions there is a chance for reform.

The second argument stated that the international system to deliver aid functions well enough so that reform would be unnecessary. This argument goes against a history of human advancement. At any point in history, mankind could have decided that we have reached a satisfying level of development and stopped innovating and improving our way of life. The whole point of development aid is to increase the welfare of regions of the world that have not yet been able to benefit from advances made elsewhere. A second counter-argument would be that the world is in a constant state of flux, which requires constant adjustment to changing circumstances. We cannot afford to stand still while the world changes and perhaps new opportunities for reform open up.

In response to the realist argument that only hegemons can successfully reform institutions, one can turn to the institutional liberalist argument that international institutions are more than mere handmaidens to strong states and that they have independent importance (Jackson and Sorenson, 2007). Powerful states still play a major role, but multilateral institutions force the interaction of the powerful states to be in a “repeated game” with the less powerful states, making them more aware of the results of their actions. Being in a repeated or reoccurring game with other states should force rationally acting states to not only look after their own interests, but to consider how others will react to them, perhaps making real reform more likely when it appears to be a win-win situation.

There are also examples of reform occurring in the absence of shocks to the international system. Currently the IMF is undertaking quite extensive reforms in the absence of a traumatic shock. Of course, one could argue that the financial crises in the late 1990s led to the reforms, but a sense of urgency is currently missing and the reforms are still being approved by the member states.

While there may be a danger of reform leading to a temporary build-up in bureaucracy and possibly mission creep, measures can be taken to prevent this from happening. It is up to the members of each multilateral institution to ensure that any committees that are created to handle reforms have a temporary mandate and are dissolved after they have completed their duties. In addition, a clear mission and focus can prevent mission creep.

While the arguments against reform can be convincing, it appears that they take a more pessimistic view of reform. We do not side with the pessimists and believe that, while substantial

reform is difficult to achieve and often a daunting task, it should still be attempted and strived for. We find that there is always room for improvement, even when the status quo seems like the best we can do. We also fear that without an honest effort to address duplication and overlap of roles and activities, to aim for greater coordination and collaboration, and to find a more efficient use of expertise and resources that tend to be replicated across many different agencies, the Millennium Development Goals (MDGs) will not be reached (Riddell, 2007). In the next part of this paper we will examine the individual institutions that form this multilateral landscape to deliver aid.

3 A closer look at the institutions

SECO listed several institutions that play similar roles in the multilateral landscape to deliver aid and asked us to determine if all these institutions are necessary. In this section of the paper we wish to shed some light on the question of whether or not we really need UNCTAD and the WTO, the UNDP and the World Bank, and the IMF and the World Bank. We will explain each institution's role in the multilateral landscape, along with some analysis of the culture, legitimacy, funding mechanisms, and membership of the organization. The goal of this exercise will be to identify in which areas these institutions have a comparative advantage over other institutions and where there is duplication of efforts.

3.1 UNCTAD and the WTO

The first two institutions we will examine are the UN Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO). We will look at the roles, legitimacy, funding mechanisms, comparative advantages, and the duplication of efforts between UNCTAD and the WTO and offer some ideas of how they could cooperate in a better way to allow a more efficient allocation of aid resources.

3.1.1 The World Trade Organization (WTO)

Simply put: The World Trade Organization (WTO) deals with the rules of trade between nations at a global or near-global level. Upon first glance, this would not appear to be an organization that has a large role to play in the development aid landscape, especially when the WTO describes itself as:

“It [the WTO] is an organization for liberalizing trade. It’s a forum for governments to negotiate trade agreements. It’s a place for them to settle trade disputes. It operates a system of trade rules. Essentially, the WTO is a place where member governments go to try to sort out the trade problems they face with each other. Where countries have faced trade barriers and wanted them lowered, the negotiations have helped to liberalize trade. But the WTO is not just about liberalizing trade, and in some circumstances its rules support maintaining trade barriers – for example to protect consumers or prevent the spread of disease” (WTO, 2007).

Indeed, the WTO is not just about liberalizing trade, although it’s contribution to development aid is by facilitating the opening of markets to trade, which is supposed to improve the welfare of developing countries. Three quarters of WTO members are developing countries and countries in transition to market economies, so the impact that the WTO can have on these countries is great. A ministerial decision adopted at the end of the Uruguay Round of WTO negotiations says that better-off countries should accelerate implementing market access commitments on goods exported by the least-developed countries, and it seeks increased technical assistance for them. Currently the WTO is in a round of negotiations called the Doha Development Agenda which is supposed to focus on developing countries’ concerns. Unfortunately this round is at a deadlock and there is little hope for a successful completion of the negotiations.

3.1.2 The United Nations Conference on Trade & Development (UNCTAD)

Established in 1964, UNCTAD promotes the development-friendly integration of developing countries into the world economy. UNCTAD has progressively evolved into an authoritative knowledge-based institution whose work aims to help shape current policy debates and thinking on development, with a particular focus on ensuring that domestic policies and international action are mutually supportive in bringing about sustainable development. UNCTAD has three main pillars of work: consensus-building, research and analysis, and technical cooperation. The organization has five main work programs:

- Globalization and development strategies
- Investment, technology, and enterprise development

-
- International trade in goods, services, and commodities
 - Services infrastructure and trade efficiency
 - Africa, least developed countries and special programs

UNCTAD has 192 members and a budget of \$56 million (in 2006) that is part of the UN's regular budget. In addition, UNCTAD received \$29 million in voluntary contributions from member states in 2006. UNCTAD is the focal point, within the United Nations system, for the integrated treatment of trade and development and interrelated issues in the areas of finance, technology, investment, services and sustainable development. It provides a strategic and comprehensive overview of the international trading system in its different facets - North-South, South-South, North-North - from a development perspective.

3.1.3 Culture of the UNCTAD and the WTO

While the WTO is the international organization that grew out of the General Agreement on Trade and Tariffs (GATT) in 1995, the UNCTAD is an organ of the UN General Assembly and hence an integral part of the UN secretariat proper. The WTO's predecessor, GATT, went into force in 1947, shortly after the conclusion of World War II and originally consisted of a relatively small group of countries which wanted to progressively lower barriers to trade in goods. The initial rules were mainly set by the most powerful states of the time, the victors of the war. Over the years the membership of the organization grew and today it is an organization with 151 members and many more goals than the original ones set by the founders. As former colonies gradually gained their independence and joined GATT, they realized that they were generally at a disadvantage in the world economic order that was structured around GATT and the Bretton Woods institutions, the IMF and World Bank. As part of a movement to create a New Economic Order, the UN created UNCTAD in 1964 to have an organization dealing with trade and development issues where the developing countries would have a majority. In both the WTO and the Bretton Woods Institutions, the power clearly rests in the hands of the rich industrialized countries who fund the organizations and dominate rules, negotiations, and decision-making. Today, despite the fact that the developing countries have abandoned the principles of the New Economic Order in favor of liberalism, they still want a greater degree of development support, both in terms of finance and in terms of policies. This is why developing countries continue to prefer the UN-based organizations over the WTO.

The rule-making and rule-enforcing nature of the WTO is substantively different from a development-oriented, policy-driven nature of UNCTAD. UNCTAD takes a holistic or integrated view of sectors by looking simultaneously at trade, finance, debt, investment, and technology issues that affect developing countries' overall trade and development performance. The WTO mandate takes a narrower view by confining only to important, but still limited legal instruments such as the GATT 1994, the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Intellectual Property Rights (TRIPS), and whatever agreements are specifically negotiated.

3.1.4 Comparative Advantages and the Duplication of Efforts between UNCTAD and the WTO

The WTO has been a very successful organization for trade negotiations and enforcing trade rules, however, negotiations have stalled now that development is the key item on the agenda. Most experts question whether or not the Doha Round of negotiations will ever be satisfactorily completed. It is clear that trade can have a positive impact on development, but the WTO is not a development organization and should stick to trade rules as opposed to focusing on development issues. The WTO is unique because of the Dispute Settlement Body which acts as an independent decision making body when states disagree on the rules of trade. Such functions make the WTO strong, while it's concentration on development has not only made it weaker, but it has also duplicated much of what UNCTAD has been doing.

Despite the fact that the WTO and UNCTAD have a strategic alliance to ensure that trade serves development goals and to assist the beneficial integration of the developing and least developed countries into the global economy and the multilateral trading system, the WTO should consider focusing less on the Doha Development Agenda and instead concentrate on enforcing and strengthening the rules of the multilateral trading system. Meanwhile, UNCTAD should focus on the research and technical assistance it has been offering to developing countries, which form its comparative advantage as the organization with more legitimacy.

3.1.5 Example of cooperation between UNCTAD and the WTO: ITC

An example of beneficial cooperation between UNCTAD and the WTO would be the ITC. The International Trade Center UNCTAD/WTO is the joint technical cooperation agency of

the UN Conference on Trade and Development (UNCTAD) and WTO for business aspects of trade development. ITC handles strategic and operational aspects of trade development, focusing on exports. While both UNCTAD and WTO work principally with governments, ITC works with the business community. ITC clarifies the business implications of multilateral trade agreements and assists business in understanding, shaping and benefiting from trade rules. The ITC is a collaboration that makes sense for the two organizations. UNCTAD should train negotiators and help governments develop and harmonize negotiating positions while the WTO should help countries prepare to be WTO members, disseminate the agreements, and assist in legal compliance with the agreements. Both institutions are necessary, but should stick to their comparative advantages to avoid a duplication of efforts.

3.2 UNDP and the World Bank

This chapter examines the roles, legitimacy, funding mechanisms, comparative advantages and duplications of and between the UNDP and the World Bank as the second pair of institutions in the system of multilateral aid. The chapter gives some advice to how they could cooperate in a better way to allow a more efficient allocation of aid resources.

3.2.1 The World Bank

The main focus of the World Bank is to provide financial and technical assistance to developing countries:

“Our mission is to help developing countries and their people reach the goals by working with our partners to alleviate poverty. To do that we concentrate on building the climate for investment, jobs and sustainable growth, so that economies will grow, and by investing in and empowering poor people to participate in development” (World Bank, 2008).

The ultimate goal of the World Bank is to reduce poverty by achieving the Millennium Development Goals they formulated in 2000.



Figure 1 Millennium Development Goals (Source: World Bank, 2008)

The World Bank has defined five key factors that are necessary for economic growth in every country which it helps them to achieve. These key factors are (World Bank, 2008):

1. *Capacity Building*: Strengthening governments and educating government officials
2. *Infrastructure*: Implementation of legal and judicial systems for the encouragement of business, the protection of individual and property rights.
3. *Development of Financial Systems*: The establishment of strong systems capable of supporting endeavors from micro credit to the financing of larger corporate ventures
4. *Fight corruption*: Support for countries' efforts at eradicating corruption
5. *Research, Consultancy and Training*: The World Bank provides platform for research on development issues, consultancy and conducts training programs.

The World Bank is active in these five fields in most developing countries in the world.

The World Bank has around 185 member states. Since they all represent shareholders of the World Bank, they all contribute financially to the projects of the World Bank and fund them. Therefore the World Bank is one of the financially most powerful multilateral organizations. As seen above, its main focus lies on helping countries to establish the five key factors necessary for economic growth. We will now show how the bank does this exactly.

Loans

The World Bank gives loans to developing countries. It offers two basic types of loans and credits (World Bank, 2008):

- *Investment loans:* Investment loans are given to countries for goods and services in support of economic and social development projects in a broad range of economic and social sectors.
- *Development policy loans:* Development policy loans provide quick-disbursing financing to support countries' policy and institutional reforms. Most of them are interest free.

The World Bank supervises the implementation of each loan and evaluates its results, the borrower implements the project or program according to the agreed terms. The loans are interest free but contain a small service tax of 0.75 per cent of funds paid out.

Grants

Besides loans, the World Bank also provides grants to facilitate development projects by encouraging innovation, co-operation between organizations and local stakeholders' participation in projects. Grants have been used for achieving the following goals (World Bank, 2008):

- Relieve the debt burden of heavily indebted poor countries
- Improve sanitation and water supplies
- Support vaccination and immunization programs to reduce the incidence of communicable diseases like malaria
- Combat the HIV/AIDS pandemic
- Support civil society organizations
- Create initiatives to cut the emission of greenhouse gasses

From the list above, it becomes obvious that the World Bank does not only give financial support (like "relieving the debt burden"), but also engages in other projects, like support of civil society organizations or fighting against HIV/Aids. Therefore the World Bank acts like any other aid agency in providing material aid to developing countries.

Analytic and Advisory Services

As a third business area, the World Bank also offers Analytic and Advisory Services to developing countries and development agencies and donors. These services consist of the following research fields (World Bank, 2008): Poverty Assessments, Public Expenditure Reviews, Country Economic Memoranda, Social and Structural Reviews, Sector Reports, Topics in Development.

3.2.2 The United Nations Development Program (UNDP)

The United Nations Development Program (UNDP) is fully financed by voluntary contributions of its 192 member states. Its main goal is the achievement of the MDGs, like the World Bank (see above). Today the UNDP's global development network on the ground in 166 countries is uniquely positioned to help advocate for change, connect countries to knowledge and resources, and coordinate broader efforts at the country level (UNDP, 2008).

Main focus areas of the UNDP lie in the following fields (UNDP JPO Services, 2006):

- *Poverty Reduction*: UNDP helps to connect national policies to the MDGs, since poverty strategies work best when they are based on local needs and priorities.
- *HIV/Aids*: Since HIV/Aids is threatening to halt and reverse progress in development, UNDP is engaged to prevent the spread of the disease.
- *Democratic Governance*: Successful human development needs to build on state institutions and processes that are more responsive to the needs of ordinary citizens, including the poor.
- *Energy and Environment*: The poor are disproportionately affected by environmental degradation and lack of access to clean affordable energy services. Therefore, energy and environment are essential for sustainable development and eradication of poverty.
- *Crises prevention and recovery*: Conflicts and disasters can erase decades of development and further entrench poverty and inequality. While the ideal is to prevent crises, the UNDP also supports countries in post-conflict situations like Afghanistan or Iraq.

Integrated into most programs, we find the protection of human rights and the promotion of women's empowerment.

The UNDP has permanent offices in 135 developing countries. Most employees are locals. To avoid dependencies on local governments, some leading positions in the offices are held by foreign employees of the UNDP.

The UNDP is, more so than the World Bank, a typical development agency that provides material aid to developing countries or countries struck by war or other crises. It does not give loans or credits to developing countries, but provides them with assistance in the above mentioned areas of concern. The following chapter focuses on the cultural differences between the two organizations and later gives an overview of coordination potentials between them.

3.2.3 Culture of the UNDP and the World Bank

Since the World Bank is, together with the IMF, one of the Bretton Woods institutions, it has a very different self-perception than the UNDP, as an UN organization.

The World Bank was founded to support the rebuilding process of Europe after the Second World War. It then evolved into a multilateral institution that expanded its actions for development to developing countries in the entire world. It is sponsored by its 185 member states which represent its shareholders and therefore define its strategy of engagement. The World Bank does not see itself as a classic development agency, it sees itself as a “bank for the poor” (Klingebiel, 1998) and an enabler of trade. Therefore the World Bank is often classified as neoclassical in its ideological direction.

Meanwhile, the UNDP was founded in the 1960s to establish a UN institution that focuses on the coordination of all UN actions in the field of aid. Its 192 member states give their funds to the UNDP on a voluntary basis. The UNDP is supposed to be an actual aid agency that provides material aid to developing countries (although today it also conducts research in related fields). Every member state has one vote independent of its donations to the organization. Therefore the UNDP can be said to be more democratic than the World Bank which gives voting rights to the countries according to their financial power. Furthermore, the UNDP sees itself as a representative of the multilateral aid conducted through the UN system and not the one conducted through the Bretton Woods institutions.

3.2.4 Comparative Advantages and the Duplication of Efforts between the UNDP and the World Bank

Since overlapping projects and coordination problems between different development agencies absorb significant administrative and political capacities in developing countries (Klingebiel, 1998), it is important to elaborate on duplication of effort and define comparative advantages between different organizations.

Overlapping fields of aid engagement between the World Bank and the UNDP arise automatically because they both focus on the achievement of the Millennium Development Goals. This is not a bad thing, since it helps to focus international actions on the same targets, boosting the likelihood of success for certain projects. However, there is obviously some duplication between the two organizations, since both see themselves as multilateral coordination sites in the developing countries where they have their offices located. Furthermore, they are both engaged in government capacity building, the fight against HIV/Aids and many other development aid projects. From an economic perspective, it is desirable that each multilateral organization focuses on a set of core competencies to achieve a comparative advantage in what it does. This leads to a more efficient allocation of resources in development assistance and therefore enables the distribution welfare more equally between recipient countries.

In case of the World Bank, we see a comparative advantage in its financial supports: The World Bank should mainly focus on giving loans, credits and grants to developing countries, if they have adequate projects to invest the money they get in. In contrast, the UNDP should boost its comparative advantage in its poverty reduction programs. This should include the focus on material aid to the least developed countries in the fields mentioned above. It also seems to be more useful, if the UNDP limits its advisory and research services to a minimum, since the World Bank also provides those in a wide range of subjects.

Furthermore, it is said that the World Bank has more clout and better capacity in analyzing and shaping recipient governments' economic policies while the UN, with its more open governance structure and its "capillary presence at country level" may be more relied upon by those same governments to assess and monitor the possible impact of reform or proposing alternative solutions (Menocal et al., 2006, p. 18). Therefore the World Bank and the UNDP should cooperate more in the countries they have their offices in. One of them should take

over the lead as coordinating agency for all multilateral aid in the concerned country and coordinate the actions of the Bretton Woods institutions and the United Nations. This would allow it to save transaction costs and allocate resources more efficiently. As seen above, the cultures and self-perceptions of the two organizations are very different and are a major threat to coordination and cooperation between them. Nevertheless, there have been a couple of projects that were jointly conducted by the World Bank and the UNDP. We will shortly present two of them in the following section.

3.2.5 Two Cases: Examples of past cooperation between the UNDP and the World Bank

Gabriel (2000) gives an overview of projects that were conducted in teamwork between UNDP and the World Bank:

- The Economic Governance Group (EGG) in Kenya, chaired by the World Bank, included the IMF, UNDP, European Community, and the primary bilateral donors. A matrix of proposed policy commitments and actions to improve governance was developed and used by the group for policy dialogue with the government. They agreed on a joint donor strategy, which focused on early action by government to complete investigations into financial scandals, and to establish and finance an effective anti-corruption effort. EGG received a well-coordinated donor response that contributed to the government's position as reflected in current reforms.
- Another possible starting point for donor collaboration on corruption is work at the country level on governance issues. In Indonesia, the government, World Bank, UNDP, and civil society are jointly carrying out a governance assessment, which identifies priority areas for action and donor funding. A similar approach by the two agencies in Bolivia led directly to joint anti-corruption activities. Government and donors need to establish close links to share information, coordinate policy, and agree on priorities for governance and anti-corruption activities. In Indonesia, a board chaired jointly by the UNDP and the Bank has been established to undertake policy dialogue and develop governance programs with representatives from government and all the main donors. They have also established a trust fund to channel donor funds and finance work on governance and corruption issues. It is also important that the World

Bank and UNDP identify the donor best suited to take the lead in areas or activities where they have particular expertise or large commitments.

3.3 IMF and the World Bank

There is hardly any development agency that polarizes as much as the Bretton Woods institutions. For development activists, the IMF and the World Bank are largely creatures of their G-7 shareholders. For so-called free-market advocates, they have manifestly failed in their task of promoting productive, entrepreneurship-based societies (Messner et al., p. 31).

Results from a survey¹ which was held in different industrial nations shows that only 45-51 percent of respondents felt that the World Bank had a mainly positive role in the aid architecture and only 37 percent of respondents in the US support the IMF. By contrast, 64-80 percent of rich country respondents feel that NGOs have principally positive effect (Kharas, 2007, p. 5). This generally negative perception of the Bretton Woods Institutions in the public is also reflected in the literature.

There is an overall agreement within experts about the need for reform of the international financial architecture and in particular the restructuring of the Bretton Wood twins (see for example Messner et al., 2005; Kharas, 2007; Adams et al., 2004; Burall & Maxwell, 2006; Hauskrecht, 2000; Mukherjee et al., 2007, Kalowinski, 2006).

3.3.1 Role of the Bretton Woods institutions in the multilateral landscape and their relation to each other

The main responsibility of the IMF is to ensure the stability of the international monetary and financial system (IMF, 2007), whereas the World Bank, as the biggest development organization, is currently involved in more than 1,800 projects worldwide in almost every sector and developing country (World Bank, 2007). Generally it is differentiated between macro- and growth-critical areas, where the IMF has the lead in the former and the Bank in the latter. Even though the two institutions have separate mandates, they are inherently linked. For example, macroeconomic stability (a major Fund concern) will not be sustained unless it is linked with supply side measures and improves overall quality of public spending (a major

¹ For more information see BBC World Service Poll at <http://www.worldpublicopinion.org/pipa/articles/btglobalizationtradera/162.php?nid=&id=&pnt=162&lb=btgl>

Bank issue). Similarly, global monetary stability (a Fund responsibility) will have direct influence on overall development prospects, which is a Bank focus (Malan et al, 2007, p. 18). Due to the fact that the Bank and the Fund are partners and not independent players, there is a need for more than just avoiding overlaps between institutions with separate mandates. The following paragraphs analyze some shortcomings in collaboration, describe duplication of efforts, and recommend a focus on comparative advantages and enhanced cooperation.

Expansion of responsibilities

According to an External Review Committee on Bank and Fund Collaboration, the Fund has become *unfocused* in low-income countries and involved in issues such as civil service, land and energy sector reforms, privatization, property rights and judicial reforms (Malan et al., 2007, p. 43). One explanation driving the Fund beyond its core responsibilities is the recognition that its work on macroeconomic stability and the aggregate effects of aid cannot be separated from what is happening in the sectoral level. Another Funds' justification for getting into areas of the Bank was that the growth-critical areas were not receiving appropriate attention from the Bank (Malan et al., 2007, p. 45). It is indeed difficult to distinguish strictly in each case between macro- and growth-critical areas. Nevertheless, Malan et al. (2007) propose that the Bank, the Fund and the specific countries, along with other relevant development partners should agree on what is growth-critical or macro-critical, to drive the Fund back to its core competencies in macro-economic areas.

The IMF take-over of the extension of *long-term loans* was also a questionable combination of a task of the World Bank and regional development banks on one side and the IMF on the other (Hauskrecht, 2000, p. 137). Evaluations of the Bank-Fund cooperation pointed out, that the IMF should focus on borrowing short-term credits to bridge problems of balance of payments whereas the Fund should leave long-term development finance as a World Bank task (E+Z, 2007, p. 51). Important is that the delineation of lead responsibilities not be based on a country's income level. Instead, the delineation should be around *issues* rather than countries, and the involvement in a country should depend on a country's views of its needs and circumstances and also on the relative expertise of the institutions (Malan et al, 2007, p. 9-10).

Encouragement of private-sector initiatives

Most multilateral agencies largely bypass significant support to the private sector. In the case of the World Bank, its entity designated to fund private-sector initiatives, the IFC (International Finance Corporation), account for less than 15% of the World Bank's annual outflows. Moreover, only 2% of IFC loans target small and medium entrepreneurs (Messner et al., 2005, p. 37). But there has to be more importance given to the advancement of *Micro Finance Programs* to support small and medium-sized businesses as well as projects from the poor which often don't have access to the credits of formal banks. There is, especially for women, a failing supply of credit from formal financial institutes. The World Bank has to focus on an adequate participation of women in programs and projects (Enquete-Kommission, 2002).

Another fact is that experiences have shown that the attempt of International Financial Institutions to run their micro-entrepises initiatives through central governments have often proven disastrous ending in a kind of patronage-based lending (Messner et al. 2005, p. 38-39). The World Bank has therefore to foster medium and small enterprises, because they are mostly representing a dynamic sector for employment generation and innovation as well as to try to work around the constraints to work through central governments.

Another proposal to enhance the accountability of the money flowing process, according to a report of the International Financial Institution Advisory Commission, is the form of lending *monitored grants* with payments to vendors for performance in place of loans (Meltzer, 2003). The idea behind the proposal to shift part of its subsidized development lending to monitored grants was to raise the quality of aid especially in countries with corrupt governments.

Lack of Accountability

The governance problems of the World Bank and the IMF have mainly to do with a lack of accountability to the stakeholders and outdated governance structures. Menocal et al. (2006) state that one of the biggest challenges that the International Development Assistance (IDA) faces is that of legitimacy, because there is a perception among recipient countries that they don't have any input into IDA and that the institution is dominated by donors (p. 13). It follows, that any reform of the Bank and the Fund needs to include changes to the composition of the Executive Boards, quota formulae, governance arrangements and majority voting (Mukherjee et al., 2007). Even though the political realities have changed, the voting structure is essentially still the same as decades ago (Deutscher, 2006, p. 217). Developing countries and economies in transition account for over half of the global GDP in Purchasing Power Par-

ity terms and 84% of the world's population. The votes of the 30 developed countries account for 61% of the overall total, while the 154 developing countries and transition economies account for 39% (Mukherjee et al., 2007, p. 16). As an example: One African Executive Director represents more than 24 African countries (Kalinowski, 2006, p. 235). The idea behind a redistribution of voting rights is to avoid a blocking minority at important structural decisions (Enquete-Kommission, 2002) and on the other hand to facilitate the legitimation of the Bretton Wood institutions in emerging as well as low-income countries.

Spirit of Collaboration

In the Committee's view the spirit of collaboration and trust within the Bank and the Fund needs to be strengthened and embedded in the culture of each institution. Effective collaboration requires shared objectives, a commitment to joint goals, and open *communication* (p. 30). Regarding the lack of information, it is noteworthy that 65 percent of Bank respondents believe that they *always* receive inputs from their Fund colleagues in a timely manner, whereas only 38 percent of Fund respondents claim always to receive *timely inputs* from bank staff.² (Adams et al., 2004, p. 17). A specific concern by some countries is that one institution may be using the other as 'shield' or an excuse for a slow response on its part. The different time horizons or organizational structures should, in opinion of the Committee, also not be used as an excuse for poor coordination. Malan et al. (2007) recommend that the Fund provide the Bank with comprehensive macroeconomic assessments on all countries, and in particular all low-income countries, and not only those that have a program with the Fund. Similarly, the Bank should provide timely and relevant inputs to the Fund (p. 41). There also has to be a much closer dialogue in considering their future strategies. A way to reach this, is the creation of a standing Bank-Fund Board working in a group instead of ad hoc and informal groups to actively promote and monitor collaboration (E+Z, 2007, 51). Furthermore, staff exchange between the institutions as a way to strengthen the culture of collaboration is highly recommended.

² The results base on a survey of Bank country directors and Fund mission chiefs 2004.

3.3.2 Cooperation between the World Bank and the IMF

According to the Report of the External Review Committee on Bank-Fund Collaboration (2007) some of the best examples of coordination occur when both institutions have essentially been *mandated*, often by their shareholders, to pursue joint products, such as Poverty Reduction Strategy Papers, FSAPs, Anti-Money Laundering and Combating the Financing of Terrorism initiatives, and Reports on Standards and Codes (p. 25). Pursuant to, for example, the Poverty Reduction Strategy Papers (PRSPs), in a number of cases collaboration at the country level appears to work well when a country's authorities have the capability and capacity to define priorities, implement policies, and coordinate the activities of the Bank and Fund. But many low-income countries do not have the capacities to insist on good collaboration between the Bank and the Fund. In these cases, on one hand, a highest degree of cooperation between the two Bretton Woods institutions is essential. On the other hand, the question for the Bank and the Fund is how they can help strengthen national ownership (Malan et al, p. 30). After all, global development assistance represents only a sliver of the resources available in the developing world. Sustaining the intensive and long-term efforts needed to meet the MDGs must ultimately come from the people and governments of developing societies themselves. The international community can at best play a complementary and supportive role (Messner et al., p. 32).

4 Do we really need both the Bretton Woods Institutions and UN institutions?

When examining how the multilateral landscape to deliver aid could be newly organized, the question of whether we really need both the Bretton Woods institutions and UN institutions to deliver aid is always striking. Since these two blocks of institutions dominate the market of multilateral aid, it can be assumed that every country that engages in multilateral aid has to decide how much of its resources should go to the UN institutions and how much should go to the Bretton Woods institutions. Taking this further, we can argue that the duplication of multilateral aid that we face today leads to inefficiencies and synergies between the two organizations that are not taken into account.

As we have seen in the chapter above, there are many coordination and cooperation potentials inside and between the different organizations mentioned. Last but not least, the UN report

“Delivering as One” (United Nations, 2006) proposes a whole row of advances that could make the system of multilateral aid more efficient. To extend this view, we want to examine an extreme position: This chapter therefore pictures the advantages and disadvantages that emerge from a fusion or merger of the two big blocks of multilateral institutions. We will examine a merger into a large single multilateral aid agency from the economic perspective of the theories concerning mergers and acquisitions.

4.1 A Definition of Merger and its success factors

DePamphilis (2001) defines fusions and mergers as the following:

„From a structural standpoint, a merger is a combination of two firms in which only one firm’s identity survives” (p. 20).

With the examined merger of all multilateral aid institutions into one new institution we therefore mean a melting of the UN institutions and the Bretton Woods institutions into one new, big multilateral development agency. This new agency would be in charge of coordination of all multilateral aid in the world.

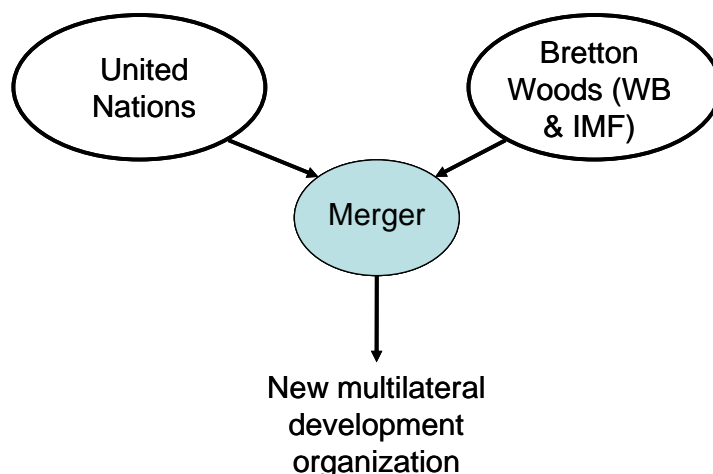


Figure 2 Merger of all multilateral development institutions into one (source: own illustration)

The following two chapters provide an insight into the pro and cons of a merger in general (from an economic perspective) and then specifically applied to our model of a merger of multilateral development institutions.

4.2 Pro Merger

There are a couple of intercessional arguments for a merger. They all arise from merger theory as part of management theory (DePamphilis, 2006, p. 18):

- Synergies:* Synergies arise in the operational and financial parts of an organization when merging with another organization. The operational efficiency can be altered through economies of scale and economies of scope. These emerge especially compared to private Non-Governmental Organizations (NGOs) and other suppliers of development aid. Furthermore, financial economies of scale can be generated when merging the assets of two organizations.
- Diversification* The organization or firm can be positioned in higher growth products or markets. A new multilateral development agency could alter its position compared to NGOs or others by supplying a more diverse range of instruments and services for development.
- Market power* Increase market share to improve the ability to set and maintain prices above competitive levels. In the case of development aid this means that a new big multilateral organization can provide bigger resources and therefore decides where it wants to apply aid. Furthermore, it is able to direct public attention to the regions it classifies as important.
- Strategic realignment* Technical, regulative and political changes can be conducted via a merger. This allows an organization to adapt faster to an ever-changing organizational environment.
- New Management* A merger can be the perfect event to establish a new and better management body in an organization.
- Managerialism* Mergers can be „abused“ to enlarge one’s own political and administrative power. In the case of the mentioned organizations this would lead to a concentration of power in the bureaucracies of both institutions (Heuel, 1997).

The special case of a merger of multilateral development aid organizations, two other aspects which do not typically appear in merger theory should to be taken into account:

Abolition of duplication Duplication in development agencies can lead to serious administrative and political absorptions and capacities in developing countries (Klingebl, 1998). Therefore, a merger into one new development agency could erase duplication and use synergies to deliver qualitatively better aid to the ones who need it.

Saving costs Synergy effects lead to cost savings. This potential of cost savings can only be applied in a limited manner to mergers in the field of development aid. A bigger institution leads to more bureaucracy and therefore does not necessarily save costs (Heuel, 1997).

4.3 Contra Merger

This chapter explains why mergers of firms and organizations fail or do not meet their expectations. We focus here on the special situation and framework that development aid faces.

Different field Development agencies act in a totally different field of action than private firms do. They face different goals and different performance indicators than private firms. Some points in favor of merger like synergy potentials, cost savings, or the abolition of duplication can indeed be applied to multilateral development aid, but often lose their applicability in central points. As an example, economies of scale and of scope can be applied to the development industry, but most projects need individual and qualitative solutions more than quantitative scales. Only the above mentioned technical realignment could raise advantages in a merged multilateral development agency.

Stakeholders/ Veto power The United Nations needs to consider its stakeholders when making decisions. Its member states possess veto powers and would probably not agree to a merger with the Bretton Woods institutions due to disparate cultures and self-perceptions (see above). It would be extremely difficult to determine voting

quotas for each country in the new institution.

Democratic Legitimacy The Bretton Woods institutions as well as the United Nations are unions of (mainly) democratic national states. Their decisions inside both institutions need to be democratically legitimate or at least politically legitimate. This makes it hard to merge the two institutions just out of functional reasons and according to efficiency aspects.

Culture As mentioned earlier, both institutions were established facing totally different historic contexts and each has developed its own culture and philosophy. Following Jansen et al. (2006), a key success factor of mergers is a successful integration of different performance cultures in the new firm or organization. It is questionable if it would be possible to merge both cultures into one that follows the same goals.

Weak core competencies DePamphilis (2001) mentions that one of the main reasons why mergers do not make companies more successful is weak core competencies. This means that organizations which already lack established core competencies will not be able to make use of synergies after a merger. In the case of multilateral development aid this is where the main problem is located. Because the different organizations do not follow their core competencies strictly enough, a call for more effectiveness, efficiency, and consolidation emerges. A better focusing on their own competencies and competitive advantages would direct both institutions to more effectiveness and efficiency, without a merger.

Abolition of competition A merger of the two organizations into one multilateral development agency would eliminate competition in the development industry. Besides a few NGOs, the new multilateral organization would not have any serious competitors and almost all resources for development aid would flow into its programs. This would lead to a dangerous concentration of aid in certain regions and on certain problems. Much of the poor could miss out on the benefits of aid if this were to occur.

4.4 Conclusion concerning a Merger in the Development Industry

Listing the pros and cons of a merger of the Bretton Woods institutions and the UN institutions it becomes evident that this is not the way forward for multilateral development aid. We showed that the advantages of mergers that apply to private firms do not fully apply to the development industry and that a new, big multilateral development agency would be a dangerous threat to the system of multilateral development aid as we know it. Since the organizations we looked at are democratically legitimate and politically organized it is impossible to generate the same synergies as can be generated when private firms merge. Those organizations can not be merged due to efficiency or cost aspects, since they have another focus than financial returns. Last but not least, such a merger would lead to an even bigger bureaucratic machinery in which especially small donors and recipients would lose influence and rights.

5 Practical ways to deal with duplication of efforts

This chapter will show our ideas and thoughts about how we could deal with duplication of efforts in multilateral aid and show some propositions to make the system more competitive and therefore more efficient and effective.

5.1 Expand on ideas from the UN report “Delivering as One”

The United Nations report “Delivering as One” by the Secretary-General’s High-level Panel on UN System-wide Coherence in the Areas of Development, Humanitarian Assistance, and the Environment offers a great starting point for finding practical methods of reform within the UN. The vision for “Delivering as One” is of a unified United Nations presence in countries, which speaks, acts, and delivers as one. The overall goal of Delivering as One is to ensure the delivery of concrete results in support of national development objectives and priorities by a more coherent, better coordinated, funded and managed UN.

Delivering as One is based upon the following key principles:

- Maximizing development results and impact, while minimizing transaction costs;
- Full ownership and lead role by the Government on financial, operational, programmatic and managerial engagement at national and decentralized levels;

-
- A strengthened, empowered and accountable Resident Coordinator, guiding the efforts of the UN system, with the support of a cohesive, proactive and fully inclusive UN Country Team;
 - Continuous consultations with all development partners, through active engagement in all relevant coordination mechanisms;
 - Resolve to build on country UN reform experience and seize the opportunity of the new momentum based on one program, one leader, one budgetary framework, and a unified country presence that speaks with one voice; and
 - Full commitment and support to this initiative by the totality of the UN system at the regional and global levels.

The report recommended that the “United Nations should deliver as one by establishing, by 2007, five One Country Programs as pilots”, on the basis of four “key features”, namely: one program, one leader, one budgetary framework, and, where appropriate, one office. Pilot programs have now been initiated in eight member countries willing to participate. We believe that this program is a first step in the right direction, but more should be done to promote coordination and cooperation both within the UN and with the other countries which form the multilateral landscape.

5.2 Propose more coordination on country-level

The fact that the development aid architecture today is more fragmented than ever before has led to the discussion about harmonization and alignment. Agreements amongst donors for example in the context of the Paris Declaration were also set around the topic of coordination.

As we have seen in the previous chapters, one feature of effective coordination of multilateral intervention is that coordination begins “at home”, i.e. in each organization (OECD, 2007, p. 31). The problem of the bureaucracy in development organizations, in particular the one of the United Nations as well as the World Bank remains huge and there has to be much more done to enhance internal procedures. A closer look at an upper level of coordination, which means coordination amongst different donors, shows, that the current system of coordination proceeded haltingly and is beset with fundamental problems (O’Keefe, 2007, p. 3). Whilst

opportunities of better coordination are to make the engagement of the donors more coherent and to avoid gaps in development help, we can still identify a lot of weaknesses in the system of coordination.

A first important issue with respect to coordination, is the one of transaction costs. De Renzio et al. (2005) points out that rather than enjoying lower transaction costs through coordination, transaction costs (particularly) in the short term are actually higher. Indeed, one of the biggest obstacles to better aid coordination is the capacity of planning and budgeting agencies within the developing nations (p. 15). Furthermore, according to Hermias & Kharas (2008), so far the most advanced results among donors have been achieved in the field of coordination. Unfortunately, this is the area of harmonization where the net benefits are likely to be the lowest, given the considerable transaction cost of coordination (p. 57). Another point, according to O'Keefe (2007), is that no sooner had the grand bargain of aid coordination been struck than donor countries walked away from fulfilling their aid promises.

Important is that coordination should take place at country level, which means that a system of emerging delegating coordination might be a welcome innovation for both donor and recipient (Cohen & Katseli, 2007). If we look at the current capability of developing countries there should be differentiated between middle income and low income countries. In the case of middle income countries it is much more possible that they can do their own coordination unlike for small, poor, or post-conflict countries. There, country ownership must form the starting point of coordination (OECD, 2007, p. 31). That means that there needs to be much more focus on the process of capacity building, because an important precondition of coordination by recipient country is capacity (OECD, 2007, p. 38). For this reason it is necessary that multilaterals spend adequate resources on the capacity-building process, involving the main actors in a recipient country (i.e. government, parliament, and civil society).

One way to enhance coordination at the country-level is through PRS (Poverty Reduction Strategies). The PRS-approach was created to increase country ownership and participation, as well as to enhance donor alignment, harmonization, and coordination by forcing donors to adjust their strategies to the priorities of the recipient country. But even if a lot of low-income developing nations have developed their PRS, middle-income countries have largely opted out of the PRS process (O'Keefe, 2007, p. 3), which has in turn negative effects on coordination efforts.

To enhance coordination there is a need of better mechanisms for sharing information, analysis, and general knowledge about the fundamental problems and situations of recipient countries in the form of a new information platform. It should be a target that the aid industry provides donors and recipients with information to catalyze efficiency and innovation.

Before we look at the topic of competition in development aid, it is important to clarify the relation between coordination and competition. According to an OECD Workshop on Performance and Coherence in Multilateral Development Finance (2007) there should be made a distinction between policy and procedures. Whereas competition for best policies (finance, sector, and conditionality) has to be enforced, the aim for procedures should be harmonization (p. 29). That means as well, that competition in development aid should be altered. The presentation of World Banks Development Marketplace in a later chapter will show that there has to be a lot of coordination to make competition in development assistance work.

A lot of advantages are expected if more mechanisms for increasing competition in development aid can be established. For example, it may provide political leverage to recipient countries because it gives clients a voice as well as may streamline procedures and lower interest rates (OECD, 2007, p. 38). Another argument in favor of enforcing competition in the area of development aid is that aid is more fragmented today than ever before. The average number of donors per recipient country rose from 12 in 1960 to approximately 33 in the 2001-2005 period (O'Keefe, 2007), which makes coordination more difficult but allows more rivalry amongst donors, which would force donors to focus more on their comparative advantages. From the perspective of Mavrotas and Reisen (2007) donor fragmentation in principle to be welcomed if it goes along with more competition since it undermines donor cartels.

Before we present some ways to enforce competition in the market for development aid, we first look at the lack of competition in development aid.

5.3 Increased competition in the market for development aid

As we have seen above, there is definitely a need for more and better coordination between the different organizations that deliver aid (Messner et. al, 2005). We would also like to propose ways to increase competition in the market for development aid, since we believe that this would make the distribution of aid more efficient and allocate resources to the places

where they are really needed. We will first show where market deficits exist and then propose ways how to avoid them and how to establish a functioning market for development aid.

5.3.1 Lack of competition in market for development aid

We examined four major factors which impede competition in the market for development aid. On the supply side of the market there is a *lack of information* and *responses from the market via price mechanism* are missing. On the demand side of the market it is also a *lack of information* as well as the *canalization of aid through recipient's governments*. You see these factors displayed in the following table.

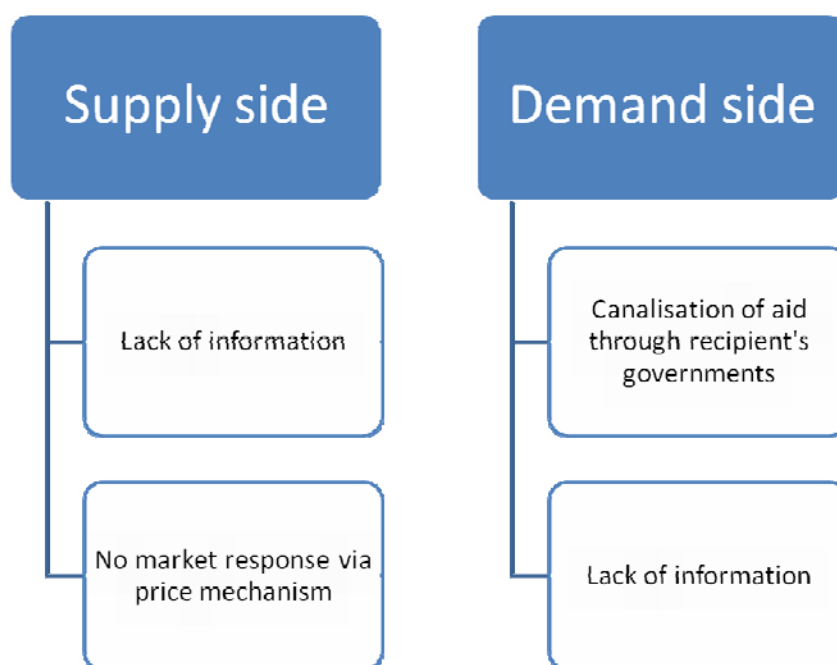


Figure 3 Market deficits in the development assistance market (Source: own design)

We will now explain these four main factors which impede competition in the market for development aid according to whether they appear on the supply side or on the demand side of the market.

5.3.1.1 Supply Side

On the supply side of the development aid market, we examined a major problem for establishing a functioning market by the fact that there is a *lack of information* for the supplier. This leads to a couple of distortions in the allocation of aid resources. Firstly, it leads to a distortion of priorities in the development aid market. Since suppliers do not know exactly where and what kind of aid is needed, they distribute it according to their discretion. Secondly, do-

nors do not know exactly, what other donors do with their development aid and where they introduce it. Furthermore, countries that want to deliver aid do not know what multilateral aid organizations do and where they are engaged. This leads to distortions in the allocation of resources. To conclude: If multilateral organizations would focus clearly on a number of core competencies and if they communicated this clearly to donor countries, this lack of information could be diminished.

A second problem on the supply side of the development aid market arises from the *lack of a functioning price mechanism*. Usually, suppliers in a market rely on the price signals they get from the demand side to know how much and what they should produce and offer on the market. Since development aid is not a product in the sense of usual markets, there is no price attached to it. The quantity of development aid is normally defined by national governments or parliaments that decide how much money they want to spend on development aid. Supply is therefore not demand driven, but constitutes itself independently from what is demanded. This leads again to a non-efficient distribution of resources and an insufficient gearing to needs of recipients.

5.3.1.2 Demand Side

Messner et al. (2005) estimated that around 93% of all development aid goes through the national governments of recipient's countries. We call this the *canalization of aid through recipient's governments*. This leads to a situation where donors are in a weaker bargaining position than recipients since they all direct their aid resources through the same channel. Therefore donors are indeed competing, but in an artificial marketplace that does not distribute resources according to needs, but according to which projects will appeal to recipient governments. "National governments have little incentive to improve development performance and are in a strong position to play one donor off against the other. Donors, meanwhile, face more pressure to channel their resources than to target them effectively. [...] If one holds back additional funding due to malfeasance on the part of the government or lack of progress toward previously agreed-to objectives, another is quick to step in and fill the funding "gap". Any message of accountability that might have been communicated by the first donor is muffled" (Messner et al. 2005).

The second problem on the demand side is again a *lack of information* that makes it hard for recipients to know what is offered on the aid development market. This results, firstly, from the fact that recipient governments do not know the needs they have for development aid in their country well enough. Secondly, recipient governments do not know what multilateral organizations and other donors offer as aid development. This can be traced back to the insufficient definition of core competencies or competitive advantages of multilateral organizations mentioned above and by Hermias und Kharas (2008).

5.3.2 Propositions for more competition in the market for development aid

The most striking barrier to more competition on the demand as well as on the supply side is the lack of information we addressed earlier. This leads to an inefficient allocation of resources and stimulates wrong incentives (Hermias and Kharas, 2008). On the supply side we therefore propose that multilateral organizations should specialize more and use their comparative advantage in certain fields better. This would lead to a better informed market since recipients, NGOs, and other market participants would know which organization is active in which field of development aid. This information would diminish the problem of a lacking price mechanism on the development aid market since participants would then more precisely know where to offer what kind of aid. Furthermore, they could alter the quality of their aid programs since they are able to focus on a smaller number of fields where they specialize in. “This would move the system toward a reality where innovation, accountability, and impact are encouraged and rewarded. Competition among a variety of implementers would set up a circumstance where the performance bar is constantly edging upward” (Messner et al. 2005, p. 37). To assist this development on the supply side, donors and especially multilateral organizations need to offer their help on local levels and should stop providing aid resources only to recipient governments. Avoiding the canalization of aid through recipient’s governments and helping where help is really needed, would allocate resources much more efficiently. To support sustainable development in recipient countries, Messner et al. (2005) also propose that the private sector be tapped more and the flow of development assistance into the private sector be increased. Since the private sector is the major engine of productivity, employment and wealth in a society, the dynamics of this sector need to be supported by multilateral aid if it wants to focus on a sustainable development.

Furthermore, multilateral organizations should engage more with NGOs. Messner et al. (2005) list the advantages of NGOs: They provide valuable services at community level, they usually have long-term commitment and the ability to mobilize community participation and they often attract additional financial and technical resources to communities. These reasons clearly speak for a loosening of the restrictions against providing resources to NGOs, since they are an important actor in the drive to meet the MDGs. From a market perspective it is also very important to integrate all actors: Only an open market, where every organization can offer its core competences and build comparative advantages, is able to benefit from the specialization proposed above. Critics against coordination between public sector development aid and NGOs are disproved by Messner et al. (2005) with the following arguments: “The current near monopolization of [...] funding by national governments has not provided incentives for improved public-sector performance. Furthermore, it may take many years or decades before even developmentally motivated national governments can field and sustain extensive public health, education, and agricultural networks throughout the country. By coordinating with national and provincial governments, NGOs can help fill that gap in the meantime. The aim is to improve development effectiveness; therefore, NGOs should be part [...]” (p. 38).

5.3.3 A model to establish a market for development aid

Based on the previous chapters about the mechanism of coordination and competition, we developed a proposition to allow more competition in multilateral development aid and presented this to SECO. This new concept tries to include the enhancement of coordination of aid delivery as well as to enforce competition between aid donors. Since it is a model, we are aware of the fact that it would not be applicable in every detail to reality. Still, we are persuaded that it is a good proposition to start thinking about new ways of introducing more competition into development aid. The model includes three important elements.

First, as we stated before, the demand-side has to define the supply of development aid. Such a strengthening of the demand side is achieved by focusing on the ownership principle: A recipient country should always have ownership of its development projects. The ideas of ownership, participation and responsiveness which lie behind the PRS approach should be strengthened in all of multilateral aid, as we already stated in the chapters above. The PRS-process in particular should be improved in the way that the PRSPs should more exactly ex-

press the priorities of the country as well as empower civil society and parliaments in the whole process. In our model, this is expressed in the form of a pyramid, that underlines the bottom-up approach of our model, as you can see in the following figure.

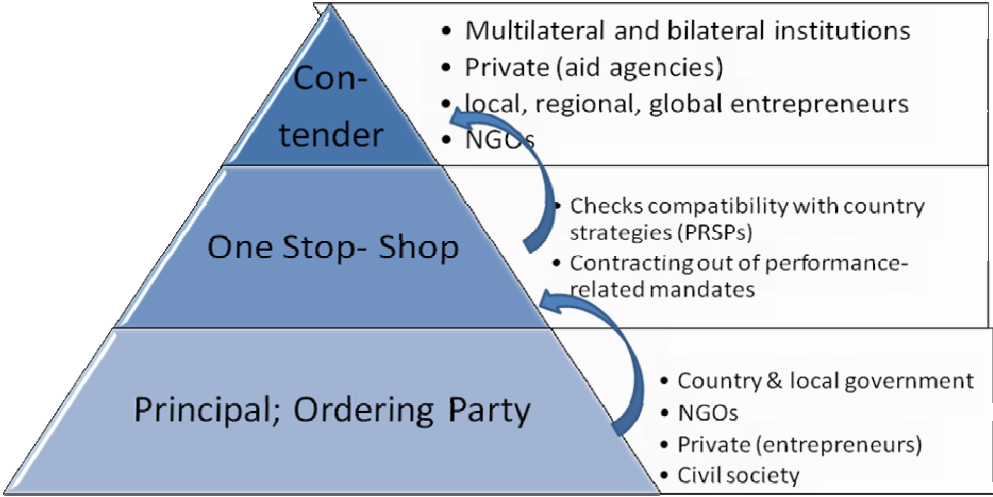


Figure 4 "One-Stop-Shop"-concept for increasing competition (source: own illustration)

On the second level of the pyramid, we find the concept of the ‘one stop shop’, which has its roots in public management theory. Since many developing countries do not know exactly which agency they should contact with their particular needs and concerns (information deficit on the demand side), we propose to create one single point of contact (“one stop shop”) between those seeking assistance and the multilateral aid agencies. Already existing country agencies from UNDP or World Bank would be pooled and used as one stop shops in each development country. Inside the “shop”, we propose to make representatives from the donor side, as well as the recipient side (local agents, representatives from the civil society and local NGOs) available. Like a brains trust, which is able to check the enquiries from the demand side (requests are open not just for governments to avoid canalization), representatives in the one stop shop are in charge of checking if enquiries conform to the country strategy (for example PRS). The most adequate requests that meet most priorities of a recipient country are then contracted out as performance-related mandates to all multilateral organizations.

The third level, therefore, is open for tender offers by local, regional or global entrepreneurs, private foundations, NGOs, multilateral or bilateral institutions. This would help to enforce competition amongst donors because they have to clearly state which target or obligation they are able to take care of considering their core competences and available resources. It is im-

portant that the whole process of contracting out is visible for all stakeholders and participants. Therefore a shared information platform needs to be developed. After selecting the best offer to accomplish the help demanded by recipients, there needs to be a monitoring of the project: Standardized evaluation methods need to be established including surveys among aid recipients to enable multilateral organizations to get a response from their “customers” and therefore give them a chance to improve their performance. This makes different projects comparable and therewith success or failure visible.

6 Other ways to stimulate competition

Apart from our propositions to increase competition in the market for development aid we want to display another way to stimulate competition by award competitions for innovative projects in the development assistance industry that are already in place in some parts of the world. Furthermore, the chapter shows some initiatives that are launched to convey better ways of evaluation of development aid projects.

6.1 The Development Marketplace

Whilst the concept of the ‘one stop shop’ is so far just a vision to handle development aid in more market-like manner, there are already established forms of competition enforcement in the field of multilateral development aid. The Development Marketplace (DM) is a competitive grant program administrated by the World Bank and supported by various partners. The target is to identify and thereafter fund innovate early-stage projects with high potential for development impact.

DM competitions are held at the global, regional and country level and attract ideas from a range of innovators, including society groups, social entrepreneurs, academia and businesses. The broad range of actors which are able to take part at the competition process reinforce the topic of participation as well as ideas are promoted to come from the bottom up. The example of the Lighting Africa 2008 verifies this statement: The 400 proposals (from which were selected 54 projects to compete for the winning titles) were received from 56 countries, among them 38 African countries.

Since its start in 1998, DM has awarded more than 46 Million Dollars in grants, supporting project through their proof of concept phase. Using DM funding as a launching pad, projects

often go on to scale up or be replicated elsewhere. The Global Development Marketplace is held every 12-18 months and is open to all ideas that meet the published eligibility criteria. Awards range from \$50,000 USD to \$200,000 USD while the average award size is roughly \$140,000 USD. In recent years, DM has forged partnerships with the Gates Foundation, Global Environment Facility, Google Foundation, MacArthur Foundation, UNAIDS and the Global Village Energy Project, among others to fund DM winners of global competitions

‘Lighting Africa 2008’, the first global business conference and development marketplace competition for off-grid lighting in Africa, was held in Ghana in early May 2008. 20 winners of the Development Marketplace Competition were announced featuring innovation in lighting projects design and execution as well as sharing experiences of the global lighting industry, local entrepreneurs, and service providers. Stakeholders invited to attend range from multilateral and bilateral organizations, to senior policy makers, energy service companies, private developers, venture capital firms and end users.

The idea of creating a market place for development aid projects should be subject to continuous improvement and the idea should be adapted much more from other donors. A possible way to establish and stimulate more forms of competition like DM would be the introduction of a fixed percentage-clause in the mandates of (amongst others) multilateral organizations which have to be awarded through competition. That would signify a further step to introduce some more market-like instruments in the sector of development aid and enforce the culture of effectiveness and accountability. The DM process leads the development suppliers to focus more on their core competences, as we have demanded in this paper.

6.2 Better and more Evaluation: Result Measurement

The debates regarding the (often poor) performance and the value of multilateral agencies in general in the past, has led to discussion among donors and within the donor’s administrations on whether to continue funding them (Wolff, 2007). Predominant evaluation methods are a mix of ‘informed political judgement’, i.e. based on experience, and multilateral organisations’ self-assessments (Wolff, 2007). According to OECD (2007) there are currently two

joint approaches (MOPAN³ and COMPAS) involving several development agencies and four bilateral agencies which are evaluating Performance of Multilateral Organizations (p. 47). An overview of the approaches is given in the following figure.

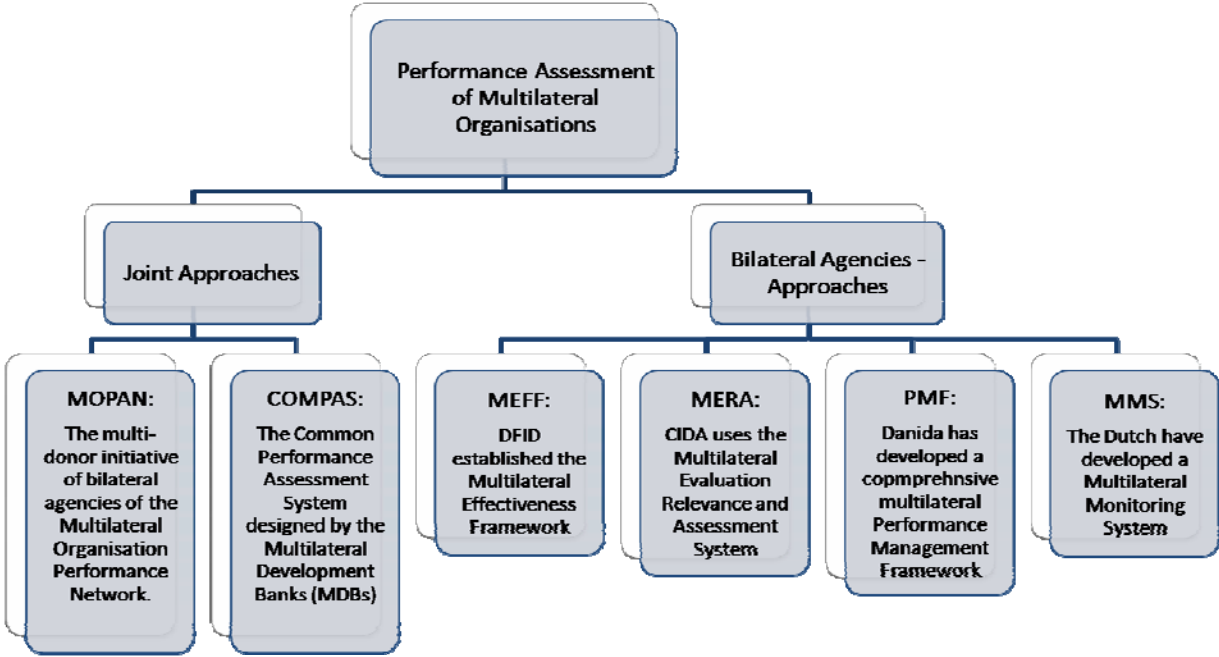


Figure 5 Performance Assessment of Multilateral Organisations: Current Practises in Comparison (Source: Own illustration based on OECD, 2007)

Surprisingly, none of the mentioned approaches gives a voice to the *perspective of aid recipients* in evaluating the multilateral organizations (OECD, 2007, p. 55). As a pioneering attempt to fill this missing gap, there was recently a survey-based methodology developed for performance evaluation of aid assistance through the demand side (i.e. the recipients) by Debt Relief International (DRI). However, the limited “pre-occupation with technical matters bothering on financial management and policy concerns limits the scope of issues that should have been covered.” (OECD, 2007, p. 55).

According to the Expert Workshop of the OECD (2007), the Commonwealth Secretariat has fostered this initiative by carrying out surveys of recipient countries’ assessment performance

³ MOPAN members are: Austria, Canada, Denmark, Finland, Netherlands, Norway, Sweden, Switzerland, UK. Three agencies are reviewed each year, including AfDB, ADB, FAO, ILO, UNAIDS, UNDP, UNFPA, UNICEF and the World Bank (Kharas, 2007).

of (mostly multilateral) donors on a very broad range of issues. There were regional survey meetings held (for example in Cameroon and Bangladesh) in 2006, where civil society representatives participated as well as government officials. They were asked to identify best practice criteria and use such criteria in ranking the donors. One of the results of the meeting was that the World Bank's IDA generally scored highly on aid volume, technical expertise, sector focus, long-term impact and predictability, but scored poorly for terms of finance, transparency and flexibility. Results in case of the UNDP were that the institution scored highly in transparency and response to national priorities but not in volume of assistance, efficiency and speed of disbursement (p. 55-56). Pursuant to O'Keefe (2007) that kind of workshop was extended to 12 aid recipient nations in 2006 with findings which were illuminating (p. 11). This approach has shown that there are some ways of increasing transparency of development aid and ways to indicate comparative advantages of the particular aid agencies. But there should be a greater effort made to implement the structures and processes in the recipient countries for measuring the effects and impacts of the donors. Goal-oriented interventions that provide technical capacity so that governments (and other stakeholders) can record comprehensive information about donor operations in-country and compare and contrast donor performance would be helpful (O'Keefe, 2007).

Regrettably, none of the current approaches are able to give a full picture of multilateral effectiveness on their own. A more accurate picture of multilateral effectiveness would require a wider range of approaches to be combined which would cause considerable transaction costs (Scott et al., 2008, p. 32).

Menocal (2006) points out, that a global forum in a neutral institution is required, such as the UNDP, where governments of developing countries can express their concerns to donors and visions for improving aid without fearing negative consequences for their aid relationship if they express a negative opinion of donor's performance (p. 19). The idea, that assessment development should include not just evaluations of multilateral agencies but also bilaterals (Scott et al., 2008, p. 39), would help to enforce transparency of the overall aid effort and therewith also generate a base for more competition. Competition and an improved aid-evaluation system will be helpful to increase the reach of "best-practice sectors and project-level standards" (O'Keefe, 2007, p. 11) in the developing world.

In summary, independent impact assessment is very rare among aid agencies. According to O'Keefe (2007) pooling funds or allowing cross-agency assessments of aid impact would fundamentally increase the credibility of such studies and enable aid recipients to be much more effective since one of the most powerful interventions capable of influencing market behavior is the introduction of reliable information about performance (p. 11-12).

7 Conclusion

In this paper we focused our attention on the multilateral landscape which works to deliver development aid. We have strived to touch on many of the issues, outline different positions and perspectives, and offer multiple viewpoints on reform. We have identified some potential strategies for reform and would now like to provide a brief summary of our main points and offer some suggestions for ways to proceed.

We first addressed some potential arguments against reform and offered counter-arguments which reaffirmed our view that reform is indeed desirable. We then focused on a few of the institutions which had similar mandates and goals to look for duplication of effort and identify comparative advantages. Comparing the WTO and UNCTAD we found that both institutions actually differ quite a lot and both do have valuable things to offer the multilateral landscape, although the WTO negotiations may not be the best venue to address development issues. It is probably best if the WTO would focus solely on trade negotiations, while UNCTAD and the organization it supports together with the WTO, the ITC, should be the organizations offering technical assistance to developing countries.

Comparing the UNDP and the World Bank we found that while they share similar goals, the cultures and self-perceptions of the two organizations are very different and can be a major threat to coordination and cooperation between them. We found that the World Bank should mainly focus on giving loans, credits and grants to developing countries, while the UNDP should focus on its poverty reduction programs, especially material aid to the least developed countries. The UNDP should limit its advisory and research services to a minimum and there should be cooperation between the UNDP and World Bank at the country-level.

Comparing the IMF and the World Bank we found that the two Bretton Woods institutions have a complex relationship that calls for close cooperation in some areas and clarification of

roles and legitimacy in others. In addition we found that the governance structures of the institutions were outdated and that there was room to expand the support for private-sector initiatives.

We also used merger theory to determine that a merger between the Bretton Woods institutions and the UN institutions would create more problems than solutions. Thus radical change is not the answer to reform and more pragmatic steps need to be taken.

We offered some practical ways to increase coordination at the country-level and raise the level of competition in the market for development aid by expanding on some of the ideas introduced in the UN report “Delivering as One.” We firmly believe that following this advice would lead to an increase in efficiency and effectiveness. Coordination and competition emerged as two key concepts, along with identifying and focusing on comparative advantages. We introduced a model featuring a bottom up approach to country-level coordination that allows for more competition in the market for development aid.

In a fifth section we looked at another way to stimulate competition within the field of development aid by looking at award competitions for innovative projects. In a final chapter we examined ways to have better evaluation and measurement of results.

In the process of writing this paper several things became very clear. First, the multilateral landscape is not only large, but very complex. Second, reform is not simple (no one-size-fits-all solutions) and there are entrenched interests that resist reform of organizations. Third, while we have recommended certain reforms for specific institutions as well as more general ways to reform the whole development aid market, the way forward will require even more creative reform initiatives and willingness from the stakeholders to improve the system. It is fostering this willingness to implement reforms and improve the multilateral framework to deliver aid that will be most difficult and there are no easy ways to do this.

Willingness needs to come from the bottom up, starting with getting involved in DM-like competitions and moving up through societies in both the developed and developing countries. Reshaping the multilateral landscape can definitely bring about some change in the system delivering aid, but moving beyond development aid to actual development will take the mobilization of more actors. Reshaping the multilateral landscape is indeed a positive first step.

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