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# Small donors in world politics: The role of trust funds in the foreign aid policies of Central and Eastern European donors

**This is the post-acceptance version**

## 1. Introduction

The Central and Eastern European (CEE) member states of the European Union (EU) have emerged as donors of international development assistance after the turn of the Millennium. Although these policies are still relatively small in terms of resources and capacities, academic research has provided a detailed understanding of why, how, and where these countries engage in international development activities (Horký-Hlucháň and Lightfoot, 2015; Szent-Iványi and Lightfoot, 2015).. However, research on the CEE donors has tended to focus almost exclusively on the bilateral components of their development assistance policies, and has neglected the analysis of their multilateral aid, (Szent-Iványi and Lightfoot, 2015: Ch. 4).

A number of issues question just how tenable this position is. First, research into multilateral aid decisions of donors in general seems to have gained ground in recent years (see e.g. Milner and Tingley, 2013; Annen and Knack, 2016; Kersting and Kilby, 2016). This research has provided important insights into why donors delegate the implementation of large shares of their development budgets to international organisations; and how donors can use these organisations to further their own development policy goals. Second, contributions to multilateral institutions from the five CEE countries which are members of the OECD's Development Assistance Committee (DAC)<sup>1</sup> range from 67 per cent of their total aid budgets in case of Slovenia to 83 per cent in Poland. Sizeable parts of CEE foreign aid policies are therefore not covered by the existing literature. Third, the literature on small states as donors implies that multilateral aid is an efficient mechanism for delivering aid in light of capacity constraints imposed by size (Hawkins *et al.*, 2006). This assumption is yet to be empirically tested in case of the CEE countries.

Contributions to trust funds, a specific form of multilateral aid which shares some characteristics with bilateral aid, and has thus been labelled by some as “multi-bi aid” (Reinsberg *et al.*, 2015), is an especially interesting area to examine the multilateral aid policies of the CEE countries. Trust funds are usually hosted by multilateral donors, are set up to channel development resources to achieve specific

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<sup>1</sup> The Czech Republic, Hungary, Poland, Slovakia and Slovenia.

goals, contribution to them is voluntary, and allow participating donors to retain some control over the funds they provide through earmarking (Graham 2017). There is evidence of CEE countries voluntarily contributing to such funds: for example, the Czech Republic has contributed to the Doha Development Agenda Global Trust Fund in 2007, and more recently in 2015, together with Poland, to the Green Climate Fund. Almost all CEE member states have contributed in 2016 to the EU's Regional Trust Fund in Response to the Syrian Crisis, in stark contrast to some established donors like the UK, Belgium or the Netherlands, which have not. The actual extent to which such contributions happen however is unclear, and so are the motivations of the CEE countries.

Given this context, the paper aims to explain the decisions and motivations of selected CEE countries in engaging (or not engaging) with trust funds. It uses quantitative aid allocation data to explore the degree to which these donors make use of trust funds in their international development policies, as well as qualitative data from interviews and official documents to explain these choices. Based on this mixed-methods approach, the paper finds that the CEE donors have been less keen to use trust funds than expected. While they engage with some high profile funds which match their foreign policy priorities, or they see clear and direct material benefits from engagement, donating to trust funds is generally not seen as a priority. The most significant inhibitors to greater CEE contributions to trust funds are the loss of visibility and control such contributions entail, and their negative impacts on access to funding for donor country NGOs and private firms, which is much better ensured through (tied) bilateral aid.

Most of the data used in the paper relates to two small CEE donors, the Czech Republic and Slovenia. These two countries have the longest history of reporting detailed quantitative data on their aid to the OECD DAC, which allows the examination of their approach to trust funds in detail. While a significant portion of the qualitative data also relates to these two countries, data has also been collected for Hungary and Lithuania, as well as the broader region through the interviews with staff working for the United Nations Development Programme (UNDP). There are strong reasons to expect that the results from this dataset are generalizable, with a certain degree of caution, to the other CEE donors as well, including Poland, Slovakia, Latvia and Lithuania. The comparative literature on the international development policies of the CEE countries has identified strong similarities between these policies in terms of their historical trajectories, motivations, target countries, preferred instruments and challenges (Horký-Hlucháň and Lightfoot, 2015; Szent-Iványi and Lightfoot, 2015). The issues regarding trust funds identified in the Czech Republic, Slovenia, Lithuania and Hungary also point to strong similarities. Based on this, we expect that the other CEE countries may view engagement with trust funds similarly, although caution is always advised when making such generalizations.

The relevance of this topic also goes beyond the CEE donors. The broader context is how small donors can assert their foreign aid preferences in multilateral settings. CEE donors are particularly interesting to study in this regard, as they account for less than 1% of all aid, while individually allocating less aid than other donor countries in the same income bracket, whether 'old' or 'new', for example Korea, Portugal, or Turkey. The aid allocation literature highlights that any donor faces a trade-off between burden sharing achieved through multilateral aid and control conveyed through bilateral aid (Milner and Tingley, 2013). The same trade-off applies to the range of multi-bi aid mechanisms (Reinsberg *et al.*, 2017). Opting for multi-bi aid seems to be a double-edge sword. On the one hand, it increases the potential impact of donors' aid by pooling with resources from other donors, but on the other hand, it limits their ability to influence how it is spent. The literature on small states in global politics highlights that they face severe structural limitations due to their size and resources in influencing international negotiations, and need to rely on various counter-balancing strategies to make up for these deficiencies, such as alliance building and normative suasion (Panke, 2012). There is evidence from organizations such as the IMF and the OECD DAC that if small countries speak with a united voice, they can alter development discourse and policy (Kentikelenis and Seabrooke, 2017; Verschaeve and Orbie, 2018). With multi-bi aid, one solution is to pool small donor voices through informal institutions, such as the Visegrad Four (V4), a loose framework for cooperation between the Czech Republic, Hungary, Poland and Slovakia.

The paper is structured as follows. Section 2 presents the paper's theoretical framework and develops hypotheses on how CEE countries engage with trust funds. This is followed by descriptive details about the multilateral and multi-bi aid policies of the CEE countries. Section 4 presents empirical evidence for the hypotheses, while the final section offers some brief concluding remarks.

## **2. Theoretical Framework: How to Explain CEE Engagement with Trust Funds?**

There are a number of reasons to expect small and new(ish) donors like the CEE countries to make significant use of multi-bi aid in their international development policies. First, by pooling donor resources, trust funds have been seen as a way of achieving international aid effectiveness requirements such as the goals of the Paris Declaration (Michaelowa *et al.*, 2017). The CEE countries have emphasized the importance of aid effectiveness in several policy documents, and have all signed the Paris Declaration and the Accra Agenda, thus committing themselves to meeting the targets (Szent-Iványi and Lightfoot, 2015: 101). In practice however, most of them have done relatively little to reform their bilateral aid policies, which are characterised by high levels of tied aid, a lack of measures that could ensure recipient country ownership, and a reluctance to coordinate with other development

actors. The CEE countries have received significant criticism for not implementing their commitments on aid effectiveness, especially from their domestic development NGO communities (CONCORD 2015). Channelling parts of their multilateral aid through trust funds could be a way for these donors to counter these criticisms, without actually making any significant changes in their bilateral policies.

Second, trust funds can increase the influence of relatively small donors. Small states tend to contribute more to multilateral initiatives than larger states (Addison *et al.*, 2004), and this can apply to trust funds as well. Donating to a trust fund “buys” the donor a seat at the table, and the ability to influence how the allocation decisions of the fund are made (Reinsberg *et al.*, 2017). Qualitative evidence on the World Bank shows that especially mid-sized donors wield considerable influence through trust funds (Reinsberg 2017), but there is increasing evidence that some CEE countries are also able to punch above their weight in international development diplomacy (Szent-Iványi *et al.*, 2018). As Western donors typically contribute more to these funds than the CEE countries, having a say on how the resources are spent can allow the CEE donors to leverage their own contributions. This of course is not automatic, and influencing how specific multilateral donors or trust funds allocate their resources requires skilled diplomats, negotiation strategies, and alliance building (Schneider and Tobin 2013). The literature on influence in international organisations however has shown that the CEE countries can be influential in issues that are highly salient to them (Kajnič 2011; Roth 2011; Törő *et al.* 2014), and so it is possible that they could impact the workings of trust funds.

Third, there are a number of trust funds which fit the declared international development goals of the CEE countries very well, and channelling parts of their aid budget through them would be an effective way of reaching these goals. Donors prefer to delegate to multilateral agencies where members have similar foreign policy preferences as they do (McLean, 2012) or to agencies which allocate aid similarly to them (Schneider and Tobin, 2011). The international development priorities of the CEE countries tend to focus on supporting countries in their neighbourhoods and transferring their experience in democratic and economic transformation to countries in transition (Panchuk *et al.*, 2017), and so one may expect them to contribute to trust funds with similar focuses.

Fourth, there are critical capacity constraints in the international development assistance policies of the CEE countries, as their administrations do not have the same institutional history of foreign aid-giving as their Western counterparts do. Their aid bureaucracies, especially in the Development Departments in Ministries of Foreign Affairs (MFAs), are relatively small, which means that they are unable to provide attention to all aspects of international development policy. These problems are exacerbated by frequent staff turnover. Tortora and Steensen (2014) explicitly mention the Czech Republic as an example of capacity-driven delegation. Similarly, Slovenia’s 2017 OECD DAC peer review

specifically highlighted how by utilising multi-bi aid Slovenia could be present in countries such as Mali and South Sudan, where the size of its bilateral budget would normally not allow such activity (OECD, 2017b).

However, there are also a number of reasons to expect that the CEE countries will not use trust funds to a large degree as channels of their foreign aid. The remainder of this section formulates five hypotheses which can explain this behaviour. First, CEE countries might simply lack knowledge and information about multi-bi aid. Development departments in MFAs are usually staffed by career diplomats, who view their position in the department as temporary. As mentioned, staff rotation is high, and these diplomats may thus put little effort into learning the intricacies of international development assistance (Horký, 2012; Timofejevs Henriksson, 2013: 183). The Czech Republic has created a separate implementing agency in 2007, the CzDA, where staff is made up of development experts as opposed to diplomats, but the CzDA's mandate does not cover multilateral aid. Also, a significant part of multilateral aid (such as contributions to the World Bank's International Development Association (IDA)) is often managed by Ministries of Finance in the CEE countries (Szent-Iványi and Lightfoot, 2015). Staff of these ministries has relatively less knowledge about development, and coordination between them and MFAs is generally weak, which can also lead to a lack of information.

H1: CEE countries do not make extensive use of trust funds as they lack knowledge and information about them.

Second, related to the issue of knowledge and information, capacities to engage with trust funds may also be low in CEE ministries. While trust funds may relieve capacity issues which prevent increasing bilateral aid, some capacities are needed to engage with the funds effectively. The issue of low capacities in CEE MFAs and international development agencies has been pointed out by a number of academic studies, and the fact that established donors have provided significant capacity development assistance to them also underlines this point (Szent-Iványi and Tétényi, 2013). Beyond the issue of staff turnover and the issues this causes with expertise, staff numbers are also relatively low. As discussed above, ensuring that a donor gets the most out of trust funds requires engagement with the specific funds, which may be difficult if staff resources are stretched thin. CEE donors may therefore simply decide there is little point in donating to trust funds if they cannot actively engage with their work.

H2: CEE countries do not make extensive use of trust funds because they have low capacities to engage with them.

A third plausible explanation is that the CEE countries prefer bilateral aid as opposed to multilateral arrangements. As discussed, their multilateral aid shares are very high in all CEE countries, due to historical and institutional reasons. Adoption of the EU's development acquis in the run-up to EU accession was the main driving force for the creation of bilateral international development policies in the region, and many countries only created tokenistic policies meeting minimal requirements (Carbone, 2011: 153; Szent-Iványi and Lightfoot, 2015: 55). After accession however, their compulsory contributions to the EU's aid budget and the EDF, dwarfed these small bilateral aid budgets, leading to high multilateral aid shares, which are not typical for more established donors. Given this imbalance, many CEE countries have viewed increasing their bilateral aid as a long-term priority, and assuming there is a trade-off between channelling aid bilaterally or through trust funds, the CEE countries may see a stronger rationale for increasing bilateral resources. More bilateral aid increases their visibility as donors (Knack and Rahman, 2007), something which contributing to trust funds would not achieve to the same degree. Visibility has been shown to be an important consideration for CEE governments (Szent-Iványi and Tétényi, 2013: 79), as they feel the need to demonstrate the tangible benefits from foreign aid to often sceptical publics. Bilateral aid also allows a greater degree of donor control over how their resources are spent, including ensuring that domestic firms and NGOs also benefit from these resources. While contributing to trust funds comes with its own advantages, as discussed above, the CEE countries may perceive these to be outweighed by the need for visibility and control.

H3a: Bilateral aid is preferred by the CEE countries as opposed to contributing to trust funds due to the greater degree of visibility and donor control it allows.

There are other reasons which can lead to a preference for bilateral aid. Trust funds clearly have transaction costs, as a certain percentage of contributions is usually deducted to cover the management expenses of the funds (Reinsberg, 2016). These deductions can be rather substantial in some cases (i.e. up to 15 per cent in some UN specialized agencies). Given their limited recourses, the CEE countries may view these transaction costs as prohibitively high. The marginal transaction costs of using resources for bilateral aid on the other hand may be lower, given how government salaries and external expert fees are generally lower in the CEE countries.

H3b: Bilateral aid is preferred by the CEE countries as opposed to contributing to trust funds because the marginal transaction costs of contributing to trust funds are larger than the marginal transaction costs of bilateral aid.

A final potential explanation on why bilateral aid may be preferred relates to the preferences of domestic constituencies for aid. A significant source of funding for domestic development NGOs comes from bilateral aid, and they may thus put pressure on governments to keep voluntary multilateral funding minimal (see McLean, 2015, who considers economic interest groups). Some domestic companies also benefit from bilateral foreign aid related contracts and procurement. CEE development NGOs may see money put into the 'common pot' as lost for actors from the country. Much of these discourses have focused on the EDF, and to a lesser extent the IDA, arguing that CEE-based NGOs and companies have to compete for contracts and grants with their more competitive peers from established donors. Given their smaller size and lower levels of experience, they are seen as unlikely to be successful. The same logic can apply to resources channelled to trust funds, and thus domestic actors benefitting from the 'aid business' may lobby the government to use bilateral channels.

H3c: Domestic firms and NGOs favour bilateral aid in order to maintain their own access to funding.

In order to investigate these hypotheses, two sources of qualitative data were used. First and foremost, qualitative interviews were carried out with 25 foreign aid decision-makers from the CEE countries, as well as experts at the UNDP and other stakeholders, between May and December 2017, and a second round in June 2018. Most of the interview data collected relates to the Czech Republic and Slovenia, and interviewing a large number of officials and experts from these countries provided an in-depth understanding about the politics and processes of contributing to trusts funds. Further interviews were carried out with officials from Hungary and Lithuania to examine whether findings from the Czech and Slovenian cases are supported by these two countries, and whether there is scope for some generalization to other CEE countries. Given the low number of officials and other experts working on trust funds in these countries, we aimed to get as full a sample as possible. In case of the Czech Republic, we have managed to attain a large variety of respondents (several departments in the MFA, the Ministry of Finance and civil society) who provide a close to full coverage of all people working on trust funds. Slovenia also represents a wide range of respondents, including MFA official, civil society and independent experts. Respondents in each country were identified using snowball techniques. Semi-structured interview techniques were used, and respondents were asked relatively open-ended questions with little guidance regarding the details and motivations of their country's engagement with trust funds. Due to reasons of confidentiality, all respondents remain



anonymous. Second, a number of official documents, most of which are publically available, have been analysed, mainly to cross-validate interview data.

However, before investigating our hypotheses, we provide some descriptive quantitative details about CEE multi-bi aid, focusing on the Czech Republic and Slovenia, the only two countries from the region for which longer time series data are available.

### **3. Czech and Slovenian Multilateral and Multi-bi Aid**

In this section, we present descriptive evidence on how CEE donors, with a focus on the Czech Republic and Slovenia, use multilateral aid, with a particular focus on multi-bi aid. Compared to other OECD DAC members, CEE donors on average do not use multi-bi aid extensively, but if they do, they are highly selective. The presentation below draws on two main OECD DAC data sources: the Creditor Reporting System (CRS), a database of individual aid projects from which we draw total amounts of bilateral aid and multi-bi aid (OECD 2017); as well as the DAC1 table on aggregate aid flows, notably multilateral aid (OECD 2016). To identify multi-bi aid activities in the CRS, we followed the coding scheme by Eichenauer and Reinsberg (2017) and updated their data for CEE donors for 2013-15.

Multilateral aid makes up the bulk of the international development assistance expenditures of most CEE donors. As shown in Figure 1, most of their multilateral aid is made up of core contributions, which includes membership fees and voluntary, but non-earmarked funding to multilateral organisations. With the exception of Estonia, this left only a very small percentage of CEE multilateral aid that was channelled through trust funds in 2014. While these ratios are similar to those of the Mediterranean donors and France, it is clear from Figure 1 that most established donors make a much stronger use of multi-bi aid.

<Figure 1 about here>

Figure 2 compares the evolution of CEE multi-bi aid between 2011 and 2015 to that of the United Kingdom as an example of an established donor. As many of the CEE donors have only recently begun reporting these expenditures to the DAC, data for this period is only available for the Czech Republic and Slovenia. Although there is evidence of a recent upswing in the case of these two countries (the Czech Republic increased its multi-bi contributions more than five-fold), due to the relatively low

amounts involved it is difficult to tell from these data alone whether this represents a shift in strategy, or only the impact of large *ad hoc* contributions.

<Figure 2 about here>

Overall distribution of aid delivery channels is similar across the two CEE countries. Both countries channel more than two-thirds of their aid multilaterally; bilateral aid accounts for at least 20 per cent, and multi-bi aid for only up to 2 per cent. These figures stand in stark contrast for example to the West European donors, which on average give more than 60% bilaterally, 28% multilaterally, and 12% as multi-bi aid (Reinsberg *et al.*, 2015).

Further disaggregation of aid delivery channels—net of multilateral aid—reveals some differences (Figure 3). To be sure, both countries channel less than 5 per cent of their bilateral aid to trust funds, compared to more than 25 per cent in the case of the United Kingdom. However, both CEE countries differ in terms of how they divvy up the remaining part of their bilateral aid budget. In particular, the Czech Republic channels about 45 per cent of its foreign aid through its own bilateral agencies, compared to over 70 per cent for Slovenia. Moreover, the Czech Republic makes comparatively greater use of research institutes and (international) non-governmental organizations (NGOs). In both countries, the fraction delegated directly to recipient governments is negligible. When using the number of projects—rather than aid amounts—as denominator, all three donors in this figure channel about one out of ten projects to trust funds. This implies that the two CEE donors use trust funds for projects involving small aid amounts, hinting to a different use pattern in comparison to the United Kingdom.

<Figure 3 about here>

Significant differences across the two CEE donors also emerge when considering the allocation patterns of multi-bi aid. The data indicate quite different multilateral implementing partners for both donors (Table 1). Based on data between 2013 and 2015, the top-5 agencies for the Czech Republic were the European Commission, the UN High Commissioner for Refugees (UNHCR), the UN Development Program (UNDP), the Organization for Security and Cooperation in Europe (OSCE), and the World Food Program (WFP). Conversely, Slovenia maintained significant cooperation with the UN

Industrial Development Organization (UNIDO), the European Bank for Reconstruction and Development (EBRD), the UN Children Fund (UNICEF), and UNHCR. The top-5 would be different when using the number of projects instead of aid volumes. Over the 2013-15 period, the Czech Republic cooperated with 23 different multilaterals, Slovenia with 16 (Table 1).

<Table 1 here>

An important issue to look at is the depth of earmarking--how much a donor pre-specifies the use of funding and thus limits the discretion of multilateral agencies in the use of funds. While both CEE donors are comparatively strong earmarkers, the Czech Republic grants agencies somewhat more discretion than Slovenia, based on figures unadjusted for the type of organizations with which these donors cooperate (Figure 4). Further analysis reveals that this is due to the prevalence of soft earmarking (i.e., for broad themes) by the Czech Republic in the thematic dimension while Slovenia engages more in hard earmarking (i.e., for specific projects). This is also consistent with the relatively greater use of multi-donor trust funds by the Czech Republic (about 27 per cent of its multi-bi aid, compared to 1.7 per cent for Slovenia). On a geographic dimension, both donors mainly target individual countries and sometimes earmark programs for specific regions, notably Europe and its neighbourhood. We also find some evidence that the Czech Republic sustains some institutional cooperation with multilaterals, for instance through the secondment of Czech experts to multilaterals and the financing of study tours in the Czech Republic for capacity-building purposes (Figure 5).

<Figure 4 here>

<Figure 5 here>

Finally, an analysis of project descriptions reveals some specific motives and intended uses of the respective multi-bi aid programs. Consider first the Czech Republic. The top-5 multi-bi aid recipients between 2013 and 2015 were the Middle East (USD 3.7 million), Jordan (USD 2.1 million), Ukraine (USD 1.57 million), Afghanistan (USD 1.47 million), and Iraq (USD 1.46 million). The countries that follow this list are all located in Europe and its immediate neighbourhood (besides funding allocated to non-

recipient specific global thematic trust funds). In terms of priority sectors—besides humanitarian assistance—Czech multi-bi aid primarily supported multi-sector activities (USD 4.73 million), conflict prevention (USD 2.94 million), and sectors related to (sustainable) energy (USD 3.55 million).

Overall, the UNDP has been the single most important collaborator of the Czech Republic; in fact, the country has set up its own trust fund with the UNDP in 2004, which “supports development activities that involve sharing the experiences, best practices and lessons learned from the Czech transitional period both to a market economy and to European Union membership” (UNDP 2013). The majority of Czech contributions therefore supported “regional projects under the Czech-UNDP trust fund,” (47 contributions), followed by contributions to this trust fund earmarked for “regional projects focused on industrial development and waste management” (17 contributions). The Czech-UNDP Trust Fund has funded projects across 13 countries all of them in Eastern Europe and Central Asia. One contribution per year also supports the UNDP’s “Law and Order Trust Fund for Afghanistan.” The Czech Republic also devotes a significant part of its multi-bi aid to support OSCE missions in various Eastern European countries, including, Bosnia, Kosovo, Moldova, Montenegro, and Ukraine, but also in Armenia, Azerbaijan, Georgia, and Uzbekistan—primarily through the financing of Czech experts participating in such missions (37 contributions). A few projects also support human rights operations by the Office for Democratic Institutions and Human Rights (ODIHR) based at OSCE. A further cluster of contributions emerges in the support for the IAEA. Here, the Czech Republic had five activities benefiting education on nuclear safety in Armenia, in addition to global program support for nuclear safety in each year.

In recent years, the Czech Republic has significantly increased its earmarked assistance to the refugee crisis through various multilaterals. While the Czech Republic has long contributed funds to UNHCR, IOM, and UNRWA—earmarked for the Middle East, the Balkans, Ethiopia, and Afghan refugees in Iran—it contributed to the newly established EU trust funds in 2015, including the EU Regional Trust Fund in Response to the Syrian Crisis (the “Madad fund”) and the EU Emergency Trust Fund for Africa. This latter fund was established during the international summit on migration which took place in November 2015 in Malta's capital city Valletta (see Niemann and Zaun 2018). It covers 23 African countries which are affected by internal displacement and migration, or are located on migration routes, i.e. the Sahel and Lake Chad region, the Horn of Africa and North Africa. The current value of the Trust Fund is 1.88 billion Euros, including contributions from donors, both from EU and non-EU countries.

Turning to Slovenia, the top-5 list of multi-bi aid recipients from 2013 to 2015 was led by unallocated global funding (USD 1.43 million), followed by the Balkan states (with an average aid volume of around

USD 0.5 million). A focus on Africa also existed but is less pronounced than in case of the Czech Republic. Furthermore, the focus sectors of Slovenian multi-bi aid included environmental protection (USD 1.30 million), government and civil society (USD 0.83 million), water and sanitation (USD 0.55 million), and energy (USD 0.37 million), besides humanitarian emergency assistance. UNIDO is by far the most important multilateral implementing partner. Slovenia earmarked almost all activities in the 2013-15 period for countries in Europe and the European region; project descriptions further indicate a high level of funding specificity and a diversity of activities, with a focus on environmental sustainability. For example, one project supports “ecological cleaning of lake Modrac” in Bosnia. Other ones include a “four-year regional Sustainable Consumption and Production Programme for the countries of the Eastern Partnership Region”, and an “International Conference on Industrial Parks.” Further activities in the European region included support to the EBRD-administered Chernobyl Shelter Trust Fund, and monitoring missions through the OSCE in Montenegro and Ukraine. Outside Europe, Slovenia provided multi-bi support to the Syrian refugee crisis, for instance through annual contributions to UNHCR, WFP, and UNICEF. In 2015, Slovenia made its first contribution to the EU Emergency Trust Fund for Africa. Overall, these patterns suggest a selective use of multi-bi aid by Slovenia, clustering around two focal issues—industrial development and environmental protection in the Balkans, and the refugee crisis in the Mediterranean (INT#13).

Summing up, the two CEE countries use multi-bi relatively sparingly, and even if they do, they aim to retain control over their funding with strong earmarking. While data for the other CEE countries is more sporadic, a similar picture seems to emerge. In a comparative perspective, the Czech Republic has made a much greater use of multi-bi aid, but this is to be expected given its much larger foreign aid programme than that of Slovenia. The following section turns to developing theoretical explanations for these observed patterns.

#### **4. Findings**

The data provides no support for H1, which argued that CEE countries lack information on trust funds. Government officials in the region actually seem to be well informed about the activities of multilateral donors and trust funds. Although some officials have shown a lack of knowledge about details of specific trust funds and at times conflated some issues during interviews, in general they were knowledgeable about what trust funds exist, how they work, and what purposes they serve. Officials in both MFAs and Ministries of Finance had several channels to gain information about trust funds. Most importantly, these officials have extensive international contacts, and are engaged in the work of the EU Council’s working groups, the OECD DAC, or the various multilateral development banks. As

mentioned, five CEE countries are now full members of the OECD DAC, and a further two (Estonia and Latvia) observe the DAC's work. The UNDP, whose regional office for Europe and Central Asia was located in Bratislava until 2014, was also an important forum for facilitating the flow of information and knowledge between government officials. The UNDP played a key role in capacity building among the CEE donors, and while the regional office moved to Istanbul in 2014, supporting new donors in building their capacities for international development is still one of its key activities (e.g., RoAid). All donors in the CEE region have regular ties with the UNDP and take part in information sharing events (INT#03). Furthermore, many trust funds, especially smaller, or lower profile ones, tend to actively solicit contributions by approaching government officials (INT#07), which provides CEE officials with a further source of information.

There is little support for H2 as well, which stated that CEE countries have low capacities to engage with trust funds, although the findings here are slightly more nuanced than in the case of H1. On the one hand, it is true that the CEE donors struggle with capacity issues as discussed above, and wider government interest in development is often lacking. However, a clear emerging picture from the interviews is that if a CEE country makes a decision to contribute to a trust fund, it will create the capacities needed to monitor the fund's activities, actively earmark funding, and even make attempts to influence the decisions of the fund (INT#04; INT#05; INT#20). This finding is supported by the descriptive facts presented earlier, which showed that the Czech Republic and Slovenia have both been active in earmarking their contributions and Slovenia was the driving force behind the creation of the ITF Enhancing Human Security (INT#14).

In fact, trust funds can be used to relieve capacity constraints which make the expansion of bilateral development aid difficult. The Czech Republic, for example, does not have capacities to engage with all countries which it sees as important, but it can still provide assistance to them through the Czech-UNDP Trust Fund (INT#01). The UNDP's capacities, processes, and network of country offices are in place, and donor countries can use these without the need to develop their own networks. Romania channels a significant portion of its bilateral assistance through the UNDP (INT#03). Hungary also considers using trust funds where it does not have enough experience to use the resources bilaterally (INT#12). Whilst Lithuania tends to use Trust Funds only 'in exceptional cases' (INT#16), they can be a useful policy tool 'when something should be done' (INT#17), notably in Ukraine Trust funds are not just used however to relieve capacity constraints for bilateral aid, but also to actively develop capacities. The Czech-UNDP Trust Fund, and in fact all similar donor-specific trust funds run by the UNDP's Europe and Central Asia office, are managed by staff from the donor seconded to the UNDP. These staff members are trained by the UNDP, they are exposed to how the UN system works, and thus gain significant experience (INT#01). The Czech Republic has used similar donor-specific trust

funds at other multilateral institutions as well, such as the EBRD and FAO, with the view of developing its own capacities (INT#07).

The last three hypotheses looked at reasons why CEE countries may prefer bilateral aid to multi-bi aid. H3a stated that this can be due to the greater visibility and control provided by bilateral aid. Data from interviews provides strong support for this hypothesis. The CEE countries feel they have little control over how trust funds spend their resources, and some respondents have even stated that the loss of control is the single greatest cost of contributing to trust funds (INT#04; INT#09; INT#20). Earmarking possibilities with many trust funds are seen as rather broad and do not really ensure much control (INT#04; INT#07). In case of the EU's Emergency Trust Fund for Africa for example, the funds can be earmarked only for broad objectives and broad regions, such as the Horn of Africa. Given their small contributions, the CEE countries feel they do not have any influence on which specific projects are selected for funding (INT#07; INT#10), although there is evidence that states would prefer to 'lobby from the back' rather than lead (INT#13). In case of the EU, this is compounded by the fact that some of its trust funds, by bypassing the comitology system, give less control to member states to begin with (INT#04; see also Hauck *et al.*, 2015). Other trust funds, such as the UNDP's donor-specific trust funds, allow greater degrees of control for donors in terms of setting priorities, but ultimately it is the UNDP that selects and implements the projects, not the donor.

Despite this, there is evidence that CEE countries can work together to achieve greater influence: in case of the EU's Emergency Trust Fund for Africa, the Visegrad Four were given their own collective constituency in the governing board, headed by one of these countries under a rotating chair (INT#12). Individually, none of the Visegrad states met the minimum financial contribution to ensure a seat on the decision-making bodies of the fund. However, by pooling their contributions they reached the threshold of 3 million Euros, thereby earning themselves a collective vote in the Trust Fund Board and its Operational Committees (see Carrera *et al* 2018). This however seems a rather unique case of cooperation, and even if working together, the weight and influence of these four countries remains small in the trust funds they donate to (INT#07).

Closely related to control, losing visibility is also an issue for the CEE countries, and they see bilateral aid as the best way to ensure it. In case of the Czech-UNDP Trust Fund, beneficiaries are often not aware that the funding comes from the Czech Republic, although the UNDP makes efforts to ensure that the donor is visible (INT#02; INT#03). Nonetheless, such donor specific trust funds still guarantee a much greater degree of donor visibility as opposed to funds where many donors contribute. Providing core funding to a multilateral donor is not considered as an alternative to contributing to trust funds, as visibility would be even lower in that case (INT#02). However, some respondents argued

that multi-bi aid can also generate additional visibility. Slovenia, for example, saw contributing to the European Investment Bank's Economic Resilience Initiative as a way to increase its visibility as a donor committed to stability in the Western Balkans (Int#13).

H3b argued that CEE donors prefer bilateral aid due to the high transaction costs involved with trust funds. Based on the interviews, CEE officials seem to have given this issue little consideration, and had rather different understandings of what transactions costs are. Some focused only on financial costs, while others included political costs as well. Even among those who understood transaction costs only in financial terms, there was no clear agreement on how relevant they are. The slight majority of respondents held that transaction costs are not an issue; with most trust funds, they are not higher than with other agencies, such as national project implementers (INT#01; INT#12). Some also argued that if there is political will to contribute to a trust fund, the issue of transaction costs will not come up at all (INT#04), or the benefits from taking part in a fund outweigh the costs (INT#03). On the other hand, a few respondents did argue that transaction costs are an issue, especially in case of trust funds run by the World Bank (INT#07). Others stated that their country is not in favour of funding transaction costs and that trust funds "need to find other ways to sustain themselves" (INT#10) although it is unclear how this could be done. Nonetheless, based on this evidence, it is difficult to argue that transaction costs play a large role in explaining why CEE countries do not contribute more to trust funds.

The final hypothesis, H3c related to the preferences of domestic firms and NGOs, stating that these actors prefer bilateral aid, to which they have better access. Two different narratives emerged from the data, an optimistic one which does not support H3c, and a more pessimistic interpretation. According to the first narrative, trust funds are additional sources of funding for domestic actors, and contributing to them provides buy-in and the possibility for these actors to bid for funding (INT#04; INT#05; INT#08). NGOs especially appreciate this opportunity, and some larger Czech NGOs have had some successes in winning funding from trust funds (INT#05). The NGO People in Need for example, leading a large pan-European consortium, has been awarded funding from the EU Emergency Trust Fund for Africa for a project aimed at creating employment opportunities in Ethiopia (INT#08). Domestic support is even greater for trust funds where funding is tied. The UNDP's donor-specific trust funds tie funding to donor "expertise", e.g. the Czech-UNDP Trust Fund only funds projects which involve "Czech expertise", although this need not mean Czech companies or Czech nationals (INT#01; INT#03). CEE governments provide assistance to NGOs and companies to increase their competitiveness and achieve greater international funding success, not only in case of trust funds, but also with other multilateral sources like the EDF or the IDA. Nonetheless, even this narrative acknowledges that building an internationally competitive domestic NGO and corporate sector is a



long process, and actors from CEE countries, in all likelihood, have not won as much total funding from trust funds as their governments had contributed (INT#05).

The second narrative sees trust funds as a total waste of money in terms of providing access to funding for domestic actors (INT#07). Despite some successes, NGOs have a very hard time winning funding,<sup>2</sup> as they are not competitive with Western ones, and private companies from the region are hardly interested in international development (INT#04). Beyond the UNDP's "loophole" of national expertise, all multilateral donors have untied their funding, and there are no possibilities for special treatment for actors from CEE. If the UNDP were no longer allowed to tie funding to expertise from the donor, many donors of UNDP trust funds would probably have these funds closed (INT#01). Despite government support, including awareness-raising, training events, and even financial support so NGOs can meet co-funding requirements, the competitiveness of local actors has not improved. The regional focus of many trust funds does not help either; regions like Africa are seen as too far away for CEE actors. If given the choice, NGOs would prefer bilateral aid (INT#12).

Possibly, this second interpretation is more realistic. It was mainly respondents in MFAs who argued for the first, who had strong political interests in justifying existing trust fund contributions both towards the public and themselves. There is an argument that CEE elites learn from international organisations (Jacoby 2001) and given how deeply MFA staffs from most of these countries are now involved in international forums like the OECD DAC, there is a strong element of learning from others. Previous research highlights that networks around trust funds promote a sense of good practice (Dietrich *et al.*, 2018) and it is possible that CEE elites have learnt that trust funds are a "preferred" aid modality in the international development community. Once such learning has taken place actors construct a world view around that policy with the aim to reduce cognitive dissonance (Jervis 2017).

## 5. Conclusions

This paper aimed at examining how CEE EU member states engage with various multi-bi aid initiatives, and explain the choices these countries make in providing multi-bi aid. Despite theoretical expectations to the contrary, CEE countries seem to use trust funds only sparingly for channelling their aid. Based on the emerging empirical evidence, the most significant inhibitors to greater CEE contributions to trust funds are the loss of visibility and control such contributions entail, and their negative impacts on domestic actors' access to funding. We found little evidence that a lack of

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<sup>2</sup> In fact, a Slovakian official reported that its aid agency had been awarded a contract as a result of a V4 joint bid to the EU Emergency Trust Fund for Africa (INT#20).

knowledge about trust funds, low government capacities to engage with them, or the transaction costs associated with these funds can explain the low level of CEE engagement.

It makes sense to briefly reflect on the reasons why CEE countries contribute to the trust funds that they do. Based on the data, three such reasons can be identified. First, CEE countries are more likely to contribute to high-profile funds which match their foreign policy priorities and can act to leverage their influence in specific areas. A clear example for this relates to the EU Emergency Trust Fund for Africa and its Regional Trust Fund in Response to the Syrian Crisis, both of which aim at reducing migration flows to the EU. As almost all CEE countries have been hostile towards immigration, contributing to these funds serves their own policy goals. Second, they may contribute to multi-bi initiatives because they want to be seen as doing so, for example they need to back up their rhetoric with actions, or want to portray themselves as taking part in international burden sharing. In this sense, contribution to the EU's trust funds can be seen a way to back up their anti-migration rhetoric. Similarly, the Czech Republic's contribution to the EU's Colombia Trust Fund, for example, can serve to reinforce its own image as a champion of democracy or in the case of Slovenia and the ITF, highlight an expertise in demining and post conflict reconstruction. Third, there are examples where CEE countries see material benefits from contributing to trust funds. The UNDP's donor-specific trust funds are a clear example of these, as they allow a certain degree of tied aid, capacity development, and bring other benefits for national actors. However, these motivations seem mainly restricted to these donor-specific funds, and are clearly not relevant for the majority of (multi-donor) funds in existence. Therefore, whilst it is hard to identify normative suasion occurring within the allocation of trust funds, it is clear that a number of trust funds have policy goals that resonate with those of the CEE states and thus offer a vehicle for small donors to leverage their influence.

A further finding worth reflecting upon is that there is evidence of the Visegrad donors in particular utilising alliance building to maximise their influence within the governance structures of specific trust funds. The realisation that getting a seat at the table has costs has prompted the Visegrad states to pool sovereignty and work together to ensure a voice. While such collaboration has been rather isolated thus far, the relative newness of the CEE states as donors along with the relatively small amounts of their trust fund contributions means that working together is prudent. The relative homogeneity between the four states around key foreign policy questions such as migration means that trust funds that support their preference are good arenas for cooperation. Whether this will lead to cooperation in other trust funds, and more broadly decision making in international organizations is unclear, but working together as part of the V4 has public support and so the group can achieve its wider political aims whilst at the same time highlighting the benefits of the Visegrad approach for other

policy areas. Their policy preferences might be different from other DAC donors but their use of a wide range of aid modalities to achieve them is very similar.

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## **Interviews**

INT#01: Former UNDP expert, 5 October 2017, Skype

INT#02: UNDP expert, 5 October 2017, Skype

INT#03: UNDP expert, 11 October 2017, Skype

INT#04: Czech MFA senior official, 13 November 2017, Prague

INT#05: group interview, two Czech MFA officials, 13 November 2017, Prague

INT#06: group interview, three Czech MFA officials, 13 November 2017, Prague

INT#07: group interview, three Czech Ministry of Finance officials, 14 November 2017, Prague

INT#08: Czech NGO expert, 18 December 2017, Skype

INT#09: Slovenian MFA officials, 29 May 2017, email

INT#10: group interview, two Slovenian Ministry of Finance officials, 5 December 2017, Skype

INT#11: Lithuanian MFA official, 24 May 2017, email

INT#12: Hungarian MFA official, December 2017, phone

INT#13: Slovenian expert on development cooperation, June 2018, email

INT#14: Slovenian expert on development cooperation, June 2018, Ljubljana

INT#15: Slovenian NGO expert, 30 January 2018, email

INT#16: Lithuanian MFA senior official, 4 May 2018, Vilnius

INT#17: Lithuanian NGO expert, 4 May 2018, Vilnius.

INT#18: UNDP Official, Office for Central and Eastern Europe, Bucharest

INT#19: Lithuanian MFA official, 15 June 2018, phone 🗨

INT#20: Slovakian MFA official, 15 June 2018, presentation 🗨