

## Donor Fragmentation and Aid Effectiveness

*Aid is more effectively delivered by fewer donors*

Collective action theory suggests that when numerous donors each provide only a small fraction of a country's total aid, responsibility for the country's development success or failure is diffused. Donors may "shirk" larger overall development goals of the country in favor of specific development, commercial, and security objectives to show visible, quantifiable results directly linked to their own activities and to justify their budgets. The urge by donors to maximize the appearance of short-term success for their projects, however, may be coming at the expense of public sector capacity in the recipient country.<sup>1</sup>

One common manifestation of this dilemma was observed in Mozambique in the early 1990s: "Donor-driven competition for skilled personnel is creating immense problems for government. The preoccupation of many donors with ensuring that their local administrations have a full complement of qualified staff and with securing, at all costs, the manpower required to implement their projects is depriving the government of the capacity to effectively manage its administration."<sup>2</sup>

### Skilled public sector managers are in strong demand by donors

Luring skilled public managers into donor-funded positions may appear to be a self-defeating strategy for a donor. After all, the success of almost any donor-funded project depends, in part, on the presence of competent counterparts in the relevant public agencies. Furthermore, aid projects are likely to have little or no sustained impact in a poor sector-policy environment, and where projects are not well-integrated into other donor-funded or government programs.

If each donor in its hiring decisions treats the government bureaucracy as a common-pool resource, the collective donor community may end up hiring an excessive number of highly qualified public managers away from government. A donor is more likely to ignore the potential "negative externalities" on recipient country systems where it is funding only a small fraction of all projects, and as a result the hiring problem worsens as the number of donors increases.

The hiring problem is less acute when a single donor has a large share of aid projects in a particular country. A donor with a large share of aid projects has an "encompassing interest"<sup>3</sup> in maintaining the quality of the government administration, hiring

fewer high-quality managers away from the public sector to run them.

The degree to which donors will care more about the success of their own activities and care less about the success of others, varies. Those less constrained by commercial or security objectives, or by the need to contrive tangible results for legislators and taxpayers skeptical of aid's effectiveness, will value the success of other donors' projects more. "Altruism" of this sort should be strongest in multilateral institutions, established in part precisely to avoid the parochial constraints faced by bilateral agencies.

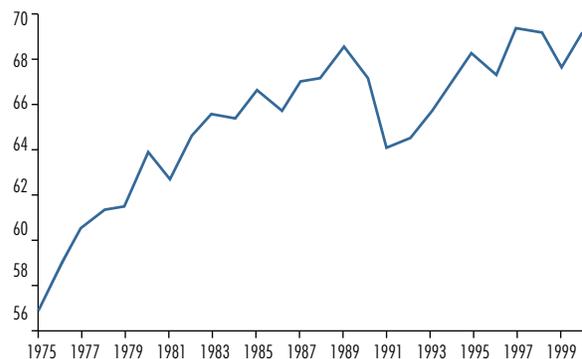
### Data show that fragmentation erodes bureaucratic quality in recipient countries

The International Country Risk Guide (ICRG) provides a subjective index of bureaucratic quality for most countries and indexes of donor fragmentation can be calculated from data on aid volumes and projects reported by donors to the OECD-Development Co-operation Directorate (DAC).

Values for this fragmentation index range from 0 to 1, and increase with the number of donors providing aid to the country, or with greater equality of aid shares among donors, reflecting the absence of a dominant donor. Year-by-year changes in aid fragmentation, averaged over all countries, show an upward trend from 1975 onward, largely reflecting an increase in the number of DAC donors (figure 1).

**Figure 1. Trend in mean donor fragmentation**

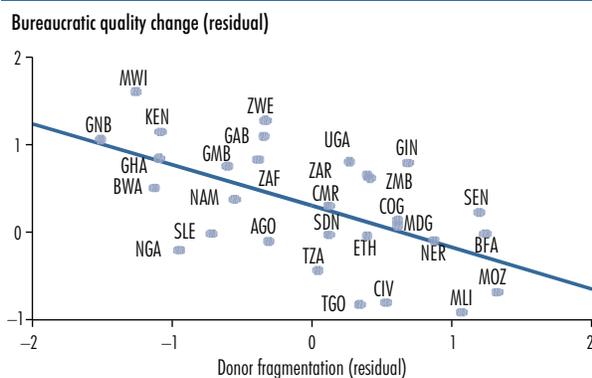
Donor fragmentation (in disbursements)



Note: Fragmentation is averaged over all OECD-DAC aid recipients, and is computed from the DAC data on aid volumes.

Source: Knack and Rahman (2007).

**Figure 2: Donor fragmentation and bureaucratic quality (partial plot, Sub-Saharan Africa)**



Note: Bureaucratic quality data are from the International Country Risk Guide. Donor fragmentation data are computed from the Development Gateway's AiDA (Accessible Information on Development Activities) database. Control variables include aid's share of national income, population and income growth, and initial level of bureaucratic quality.  
Source: Knack and Rahman (2007).

The relationship between fragmentation of aid and changes in bureaucratic quality for 30 countries in Sub-Saharan Africa, the most aid-intensive region, is negative and statistically significant (figure 2). Further regression analysis shows that the share of aid coming from multilateral agencies is positively associated with bureaucratic quality, consistent with the view that they are more “altruistic” in the sense defined above.

### Fragmentation undermines budgets, increases transactions costs and the risk of uncontrolled donor spending

A donor with a small share of the aid market in a country is less likely to be concerned about the sustainability of future recurrent spending implied by today's investment projects, and about whether the projects are mutually consistent. It is more likely to bypass central finance and planning ministries to work directly with line ministries or local governments, which view future budgets as a common resource pool.<sup>4</sup>

Fragmented aid implies higher transactions costs of aid incurred by governments, as the number of donor missions and required reports to donors increase, along with greater diversity in donor rules and procedures for managing aid projects and programs. For example, it took 18 months and the involvement of 150 government workers to purchase five vehicles for a donor-funded project in Vietnam because of differences in procurement policies among aid agencies.<sup>5</sup>

### Four ways to address important aid issues

- *Manage competitive donor practices.* India has essentially banned small donors from the country. Uganda has decreed that all donor projects must be managed by the government, rather than via project implementation units. Tanzania has declared a moratorium on donor missions during its budget preparation season.

- *Be more selective about the aid.* Donors could encourage each recipient to select a lead donor, at least for each sector receiving significant volumes of aid. Presumably, recipients would select a lead donor with the most relevant expertise (based on region or sector) or which comes with the least commercial and security baggage.
- *Encourage interagency funding.* For example, Norway and Sweden both fund education and health sector programs in Ethiopia, but Sweden is arranging to channel its health funding through Norway, and Norway is arranging to channel its education funding through Sweden.<sup>6</sup>
- *Publicize measures of donor performance.* Performance measures might include the share of aid that is tied, as well as measures of how each donor spreads aid across recipients and sectors<sup>7</sup>; the share of aid channeled through multilateral organizations; the number of missions and reports required relative to aid levels; and the frequency of delegations to lead donor agencies.

Scaled-up aid to Africa is often touted as a “new Marshall Plan.” But the original Marshall Plan was administered by a single donor, not dozens of bilateral and multilateral agencies and hundreds of NGOs characteristic of today's burgeoning aid business. Efforts to build support among donor-country taxpayers for scaled-up aid may fail unless the various costs of aid fragmentation among donors are effectively addressed.

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### Notes

- <sup>1</sup> Stephen Knack and Aminur Rahman. 2007. “Donor Fragmentation and Bureaucratic Quality in Aid Recipients.” *Journal of Development Economics* 83(1): 176–97.
- <sup>2</sup> Peter R. Fallon and Luiz A. Pereira da Silva. 1994. “Recognizing Labor Market Constraints: Government-Donor Competition for Manpower in Mozambique.” In *Rehabilitating Government: Pay and Employment Reform in Africa*, ed. D. L. Lindauer and Barbara Nunberg. Washington, DC: World Bank.
- <sup>3</sup> Mancur Olson. 1965. *The Logic of Collective Action*. Cambridge: Harvard University Press.
- <sup>4</sup> Deborah Brautigam. 2000. *Aid Dependence and Governance*. Stockholm: Almqvist & Wiksell International.
- <sup>5</sup> World Bank. 2003. “Cutting the Red Tape: Better Aid Delivery Through Better Donor Coordination.” World Bank Press Release, February 21.
- <sup>6</sup> OECD. 2003. *Harmonizing Donor Practices for Effective Aid Delivery*. Paris: OECD.
- <sup>7</sup> Arnab Acharya, Ana de Lima, and Mick Moore. 2006. “Proliferation and fragmentation: Transactions costs and the value of aid.” *The Journal of Development Studies* 42(1): 1–21.