

Donor fragmentation and bureaucratic quality in aid recipients[☆]

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Abstract

We analyze the impact of donor fragmentation on the quality of government bureaucracy in aid-recipient nations. A formal model of a donor's decision to hire government administrators to manage donor-funded projects predicts that the number of administrators hired declines as the donor's share of other projects in the country increases, and as the donor's concern for the success of other donors' projects increases. The model's predictions are consistent with results from cross-country empirical tests, using an index of bureaucratic quality available for aid-recipient nations over the 1982–2001 period.

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1. Introduction

The success of Marshall Plan aid, relative to aid to less developed countries more recently, is partly attributable to differences between the groups of recipients. Western Europe had huge advantages in putting aid to effective use. Unlike most aid recipients of subsequent decades, it had skilled labor, experienced managers and entrepreneurs, and a history of reasonably effective financial and judicial systems, and public administrations (Degnbol-Martinussen and Engberg-Pedersen, 2003: 288). However, differences on the donor side also may have contributed to the

[☆] The conclusions of this paper are not intended to represent the views of the World Bank, its Executive Directors, or the countries they represent.

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Marshall Plan's greater success. Marshall Plan recipients had to deal only with a single donor, in contrast to the dozens of bilateral and multilateral agencies and hundreds of NGOs in the aid business today. Also, Marshall Plan aid, "history's most successful structural adjustment program" (DeLong and Eichengreen, 1993), was not disbursed in the form of hundreds of separate donor-managed projects in each recipient nation.¹ Aid success stories in Taiwan, Botswana and Korea have also been attributed in part to the presence of a single or dominant donor (Brautigam, 2000; Azam et al., 1999).

In contrast, recent recipients of development assistance interact with dozens of donors, each with projects in a large and increasing number of economic sectors (World Bank, 2001). The UNDP Resident Representative in Lesotho in 1981 counted 61 donors financing 321 projects, in a country of only 1.4 million people (Morss, 1984). In 2002, there were 25 bilateral and 19 multilateral donors and about 350 international NGOs operating in Vietnam, accounting for over 8000 development projects (Acharya et al., 2003). In the typical African country, aid is provided by "some thirty official donors in addition to several dozen international NGOs...through over a thousand distinct projects and several hundred resident foreign experts" (Van de Walle, 2001: 58). Hundreds of missions monitor and evaluate these projects and programs annually in many recipients, and each mission expects to meet with key government officials and to obtain comments from officials on its reports (Van de Walle and Johnston, 1996).

There are several reasons why aid may be more effective when it is delivered by a single or dominant donor. In a recipient with many donors, each responsible for only a small part of development assistance, responsibility for success or failure is diffused, and any single donor will rarely have much of a stake in the country's economic and social development (Belton, 2003). Aid entails a set of collective action problems when there are multiple donors, each concerned with development in the recipient country, but with their own national goals as well, that sometimes conflict with development objectives. Donor countries all have their own commercial and security objectives, and their aid agencies additionally have the objective of maximizing aid budgets, requiring them to cater to key domestic constituencies in parliament and among aid contractors and advocacy groups. This latter objective often requires making the results of aid programs visible, quantifiable, and directly attributable to the donor's activities—even when doing so reduces the developmental impact of aid. From the perspective of a recipient country's welfare, incentives for any one donor to shirk on activities that maximize overall development in favor of activities that contribute to donor-specific goals strengthen as the number of donors increases.

Because supplier cartels are typically created to raise the price of their products, donor coordination may be viewed as a hindrance to development in aid recipients. However, donors have a common interest in development, as well as their separate "private" goals which lead to practices such as tying aid, hiring away key government staff to run their projects, etc. Collusion by suppliers in this setting often reduces rather than increases the "price" of aid, and some forms of competition among donors can increase its price. Donor cooperation (collusion) sometimes takes the form of imposing unwelcome policy conditions, although government resistance to them is not always motivated by concern over their possible adverse effects on poor people's welfare.

¹ In her foreword to Kanbur and Sandler (1999), Nancy Birdsall writes: "The Marshall Plan worked because there was one donor, the U.S., and the U.S. set up rules that ensured the Europeans would themselves take charge."

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