

# INTERNATIONAL: 'New donors' fuel aid fragmentation

Tuesday, April 5 2011

**SUBJECT:** Fragmentation in foreign aid efforts.

**SIGNIFICANCE:** Despite the global recession, disbursements of foreign aid are continuing to rise, as part of the effort to achieve the Millennium Development Goals by the 2015 deadline. However, the effectiveness of aid disbursements is undermined by the problem of fragmentation. [Go to conclusion](#)

**ANALYSIS:** Foreign aid has been increasing over the last decade. Traditional aid donors -- the members of the Development Assistance Committee (DAC) of the OECD -- increased their average net official development assistance (ODA) from 73 billion dollars in 1995-08 to 119 billion dollars in 2005-08.

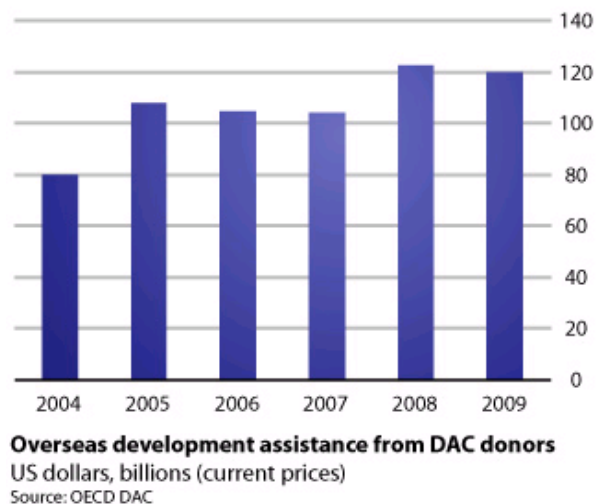
At the same time, rising economic powers have directed larger financial flows to developing countries. Well-known examples are China ([see INTERNATIONAL: China enters mainstream aid industry - January 25, 2008](#)), India, Brazil, oil-rich Arab states ([see AFRICA: Arab/Islamic aid targets poorest regions - December 1, 2009](#)) and countries such as Turkey and Poland. None of these are members of the DAC. It is not possible to determine exactly what part of these financial flows constitutes genuine 'development assistance', because the non-DAC donors do not publish data using the DAC definitions of aid. However, it is estimated that ODA from non-DAC donors grew from 1 billion dollars in 1995 to 14.5 billion dollars in 2008.

**Agency proliferation.** The larger volume of aid has been accompanied by a proliferation of aid agencies. Aid from official sources alone now flows through 263 multilateral agencies, 197 bilateral agencies and 42 donor countries. As many agencies were set up between 1996 and 2006 as had been set up in the previous 50 years. In the area of climate change, the Overseas Development Institute (ODI), an independent organisation based in London, lists 22 funds, 16 of which started to operate in 2008 or later.

The causes of this rapid growth were twofold. One was the arrival on the aid scene of the non-DAC donors. The other was the preference among the traditional aid donors to match each new aid initiative with a new organisation to manage it. Examples of this tendency are:

- The US government set up its AIDS relief initiatives and its Millennium Challenge Corporation outside the long established US Agency for International Development (USAID), citing the bureaucratic ossification of the latter ([see US/INTERNATIONAL: USAID policy muddle deepens - August 2, 2010](#)).
- Inside existing multilateral agencies, 'special trust funds' have been established to allow the trustee countries to exert exclusive control over the expenditure of the funds. Currently, about one-third of all the funds channelled to multilateral agencies flow to the special trust funds rather than to the core activities of the multilateral organisation.

**Consequences.** Aid fragmentation has a number of consequences:



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- The increasingly large number of donor-recipient relationships have inflicted dead-weight losses incurred through high transaction costs, reaching an estimated 5 billion dollars per year.
- Certain governments in African countries, such as Tanzania and Mozambique, have to deal with as many as 40 different donors, each with its own accountability requirements.
- The finance ministries of some African countries, such as Ghana, Kenya and Zambia, now confine meetings with donors to certain times of year, to allow them time to discharge their other responsibilities.
- It becomes more difficult to predict the overall volume of aid inflows, because it is more difficult to track the timing of disbursements by individual donors.
- Donor fragmentation leads to recipient government fragmentation, as the different ministries find it easier to prevent aid inflows being gathered in to the national budgetary system.

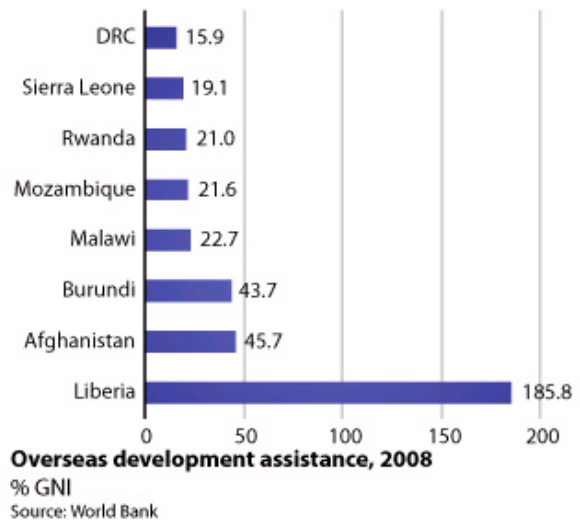
The international community has subscribed to repeated calls for international action to tackle the problem of donor fragmentation. Recent examples are the Rome Declaration on Harmonization (2003), Paris Declaration on Aid Effectiveness (2005), Accra Agenda of Action (2008) and UN High-level Plenary Meeting on the Millennium Development Goals (2010).

**Methods of aid coordination.** Aid coordination refers to efforts made by some aid donors to harmonise their aid operations by adopting more cooperative methods. Increased aid coordination can mitigate some of the negative aspects of donor fragmentation. Various methods, adopted over the last decade, go beyond merely exchange of information by donors and joint pledging. They include:

- agreements that state that a single donor is given responsibility for managing all aid to one sector in a country -- for example, the health sector or the forestry sector -- in line with that donor's proven technical skills;
- moving the composition of aid away from individual projects towards larger programmes to which several donors contribute;
- pooling of aid funds to provide general budget support for the recipient country government -- in support of a mutually agreed strategy, such as poverty reduction; and
- agreements of all donors to adhere to a set of common loan conditions, usually negotiated with the recipient government by the international financial institutions.

It is clear that aid coordination can be strengthened (indeed it has been strengthened) while aid fragmentation worsens (as it also has), though both processes work against each other. progress in aid coordination has been too weak to neutralise the effect of fragmentation, despite restraint by the administration of President Barack Obama in creating new US aid institutions, and efforts by the UN to create an 'interagency cluster system' for aid.

**New donors.** The number of new players on the aid field is an important source of fragmentation, and their radically different attitudes to those of DAC members also undermines the prospect of better aid coordination ([see INTERNATIONAL: Changes in aid pose challenges - April 15, 2010](#)):



- The element of 'aid' in their hybrid financing packages is not clearly identified, as it is by DAC members. Instead, aid is combined with investment and long-term trade agreements in a way that renders the true element of aid opaque. Hence, it is difficult to say exactly how much aid new donors are giving.
- While in recent years DAC members have gone a long way in untying their aid from a requirement that it be spent in their own countries, this is not so for new donors. The avoidance of competitive tendering adds extra opacity to the estimation of the true aid element.
- DAC members coordinate by pooling their aid as general budget support for an agreed strategy of development, secured by loan conditions. By contrast, new donors do not apply any explicit conditions to their financial flows, proclaiming non-interference in the internal affairs of other countries. Yet there are often non-transparent conditions of 'good behaviour' towards the provider of finance.

**CONCLUSION:** Public declarations in favour of better aid coordination ignore the fact that the near-monopoly of aid exercised by DAC countries a decade ago has now been decisively broken. Paradoxically, that near-monopoly made it possible to increase aid-effectiveness and aid co-ordination. New players will not impose DAC-type disciplines of transparency and cooperation on their operations in the foreseeable future.

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*Word Count (approx): 1110*