Competition or Chaos? Donor Fragmentation and the Politics of Aid Effectiveness

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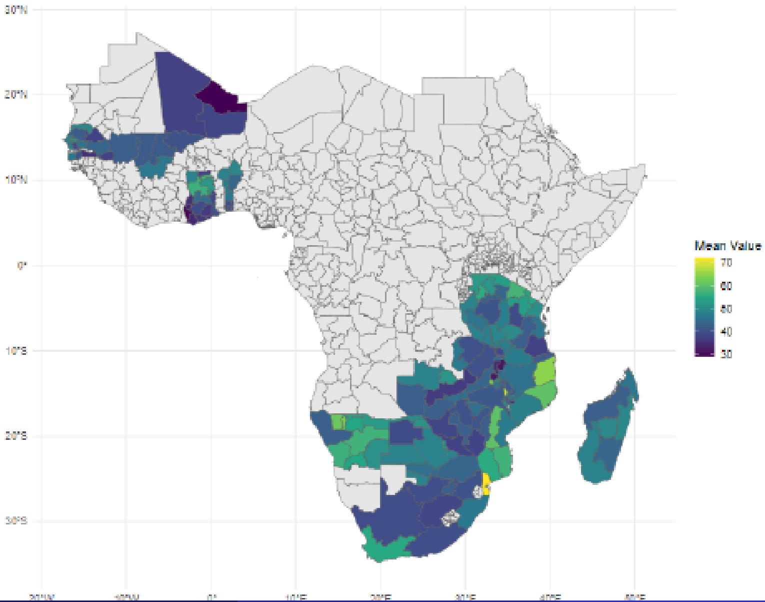
Variation in Fragmentation



Introduction

- Aid fragmentation criticized for inefficiencies (transaction costs, duplication, administrative burdens).
- Recent arguments: fragmentation fosters competition and innovation.
- **Puzzle:** Why does fragmentation hinder growth in some cases but enhance it in others?
- **Our Argument:** Local government capacity determines whether fragmentation is a liability or an asset.

The Conventional View on Aid Fragmentation

- Increases transaction costs, burdens local governments (Acharya et al., 2006; Knack and Rahman, 2007).
- Leads to inefficiencies, duplication, and weakened institutions.
- Example: Mozambique case study (2005), lack of donor coordination (Killick et al., 2005).
- **Key:** Governments struggle to manage multiple uncoordinated donors.

The Alternative Perspective: Fragmentation as an Opportunity

- Can create donor competition, spurring innovation (Han and Koenig-Archibugi, 2015; Gehring et al., 2017).
- Reduces reliance on a single donor, increases recipient bargaining power (Carlitz and Ziaja, 2023).
- Example: Healthcare, specialized interventions benefit from donor diversity.
- **Key:** Governments need capacity to bring about benefits

The Role of Local Government Capacity

- **Argument:**
  - Fragmentation varies within countries
  - Government capacity is different at the local level then at the national level
  - Stronger subnational governments mitigate fragmentation's negative effects.
- **Three Mechanisms:**
  - Improved donor coordination.
  - Reduced transaction costs.
  - Ability to leverage donor competition.
- **Hypothesis:** Local capacity mitigates the negative relationship between fragmentation and economic growth.

Empirical Strategy and Data

$$\Delta NL_{i,t} = \beta_1 \ln(Aid_{it-1}) + \beta_2 Frag_{it-1} + \beta_3 \ln(Pop_{it-1}) + \alpha_{it} + \lambda_i + resid_{it-1}$$

- Split sample by high/low capacity
- **Key Data Sources:**
  - GODAD dataset (donor fragmentation).
  - Afrobarometer surveys (subnational governance quality).
  - Nightlights data (proxy for economic development).
- **Geographic Scope:** 13 Sub-Saharan African countries (2005-2015).
- **Estimation Strategy:** Control Function, Two-way Fixed Effects, and Pooled OLS

Key Results

Dependent Variable:	Δ Night Light			
	High Admin1	Low Admin1	High Admin2	Low Admin2
Model:	(1)	(2)	(3)	(4)
Lag Fragmentation	3.191	-6.498	0.0229	0.1909
	(3.353)	(3.842)	(2.104)	(1.895)
Lag LN(Total Aid)	-0.4277*	2.235	0.0223	-0.2336
	(0.2203)	(2.508)	(0.1492)	(0.2091)
Lag LN(Population)	39.26	1.292	15.31	-13.81
	(28.94)	(14.66)	(21.71)	(16.33)
Fit statistics				
Observations	580	1,741	1,613	4,840
R^2	0.42316	0.26123	0.41194	0.28028

Clustered (GID_0) standard-errors in parentheses
*Signif. Codes: ***: 0.01, **: 0.05, *: 0.1*

Next Steps

- Cluster level analysis
- Additional DVs: Simpler nightlights, mortality, perceptions, . . . ?
- Run by type of aid (health, disaster, where does capacity matter more/less)?
- 5-year moving averages

Conclusion

- **Main Takeaway:** Aid fragmentation is not inherently bad—it depends on local governance capacity.
- **Policy Implications:**
  - In low-capacity environments, reducing donor fragmentation might be important for aid effectiveness.
  - In higher-capacity environments, fragmentation may not be as problematic and could even be beneficial, possibly due to better absorption and management of diverse aid sources.
  - Strengthening local government capacity could help mitigate the negative effects of donor fragmentation and allow aid to be more effectively channeled into growth-promoting activities.

Thank You

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Measuring Donor Fragmentation

- **Five Fragmentation Metrics:**
  - **Herfindahl-Hirschman Index (HHI)**.
  - Share of aid by top 1 and top 3 donors.
  - Share of aid from small donors (¡10
  - Count of donors per region.
- **Fragmentation varies within and across countries.**

Measuring Local Government Capacity

- **Subnational Governance Indicators:**
  - Afrobarometer survey responses (government performance perception)
    - Level of corruption of sub-national government officials (e.g. frequency of bribes);
    - Trust of respondents in sub-national officials;
    - Perceived performance in office of local government actors;
    - Quality of the services local govt. actors responsible for.
  - Robustness check: Count of public services and facilities per region.
- **Expectation:** Stronger governance reduces negative effects of fragmentation.

Robustness Checks

- Pooled OLS vs. Two-Way Fixed Effects.
- Alternative fragmentation measures confirm findings.
- Facility-based governance measure strengthens results.

Regression Framework

- **Dependent Variable:** Nightlight growth as proxy for economic development.
- **Key Independent Variables:**
  - Fragmentation index.
  - Governance quality index. [1]
  - Total Aid.
- **Control Function:**
  - Stage One :

$$Resid_{i,t-1} = \beta_1 IV_{it-1} + \beta_2 \ln(Aid_{it-1}) + \beta_3 \ln(Pop_{it-1}) + \alpha_{it} + \lambda_i + \epsilon_{it}$$

    Where $IV_{it} = BUDGET_{jt} \times Prob_{ji}$, with $BUDGET_{jt}$ measuring aid commitments by donor j in year t. $Prob_{ji}$ is a region's probability to receive aid from a particular donor j in admin i.
  - Stage Two:

[1] We split the sample at the 75th percentile into high and low.

(Possible) Policy Implications

- In low-capacity environments, reducing donor fragmentation might be important for aid effectiveness.
- In higher-capacity environments, fragmentation may not be as problematic and could even be beneficial, possibly due to better absorption and management of diverse aid sources.
- Strengthening local government capacity could help mitigate the negative effects of donor fragmentation and allow aid to be more effectively channeled into growth-promoting activities.