

UNIVERSITY OF NAIROBI

INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

//  
The Impact of Donor Fragmentation and Proliferation on Aid  
Effectiveness in Kenya //

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R51/63621/2010

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A Project Submitted in Partial Fulfillment of the Degree of Master of  
Arts in Diplomacy, Institute of Diplomacy and International Studies,  
University of Nairobi

November, 2012

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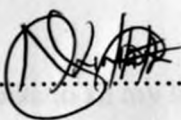
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## DECLARATION

I, (*Marion Njoki Kimani*) hereby declare that this research project is my original work and has not been presented for a degree in any other University.

Signed.......... Date..... *6/11/2012* .....

*Marion Njoki Kimani*

*R51/63621/2010*

This project has been submitted for examination with my approval as University Supervisor;

Signed.......... Date..... *9/11/12* .....

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## **ACKNOWLEDGEMENTS**

First I would like to thank the Almighty God for giving me life and helping me throughout this thesis. He is before all things, and in him all things hold together.

Second, I would like to profusely thank my Supervisor Professor Makumi Mwagiru for his invaluable support and words of wisdom, without which this thesis would not have been possible.

Third many thanks to all my loved ones for putting up with my absenteeism during the conduct of research for this thesis. My love and gratitude for you all, abounds.

## **DEDICATION**

**I would like to dedicate this thesis to my amazing mother. Her love and prayers have seen me through it all. She is truly the wind beneath my wings.**

## ABSTRACT

The debate on aid effectiveness has been raging for a long time with various calls for it to be increased or dramatically reduced. The calls for aid reform have been the major motivation for researching on this issue with a keen emphasis on the impact donor fragmentation and proliferation has had on aid effectiveness especially in Kenya. The major issues which have been investigated in this study are whether fragmentation is an impediment to aid effectiveness and whether there are significant efforts been made to address the issue. The thesis was approached from a theoretical framework of realism basically to determine the donor-recipient relationship and the methodology used was a combination of primary data collected from significant personnel in two government ministries and UN agencies tasked with coordinating donor resources. The study has found fragmentation and proliferation to be a critical issue which must be addressed and one which has led to the significant steps being made towards donor harmonization and coordination. It has also found that fragmentation is not the only issue impeding aid effectiveness in Kenya.

## **ABBREVIATIONS**

<b>AMREF</b>	<b>The African Medical and Research Foundation</b>
<b>CCM</b>	<b>Country Coordinating Mechanism</b>
<b>CG</b>	<b>Consultative group</b>
<b>CGK</b>	<b>Consultative Group for Kenya</b>
<b>DAC</b>	<b>Development Assistance Committee</b>
<b>DCG</b>	<b>Donor Coordination Group</b>
<b>EC</b>	<b>European Commission</b>
<b>EU</b>	<b>European Union</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>GJLOS</b>	<b>The Governance, Justice, Law and Order Sector</b>
<b>HLP</b>	<b>High-level Panel</b>
<b>HSWAp</b>	<b>Health Sector Wide Approaches</b>
<b>HAC</b>	<b>Harmonization, Alignment and Coordination Group</b>
<b>KJAS</b>	<b>The Kenya Joint Assistance Project</b>
<b>LDCs</b>	<b>Least Developed Countries</b>
<b>MDGs</b>	<b>Millennium Development Goals</b>
<b>NGO</b>	<b>Non – Governmental Organisation</b>
<b>OA</b>	<b>Official assistance</b>
<b>ODA</b>	<b>Official Development Assistance</b>
<b>OECD</b>	<b>Organisation for Economic Co-operation and Development</b>
<b>PEPFAR</b>	<b>The President's Emergency Plan For AIDS Relief</b>
<b>PSDS</b>	<b>The Private Sector Development Strategy</b>
<b>SIDA</b>	<b>The Swedish International Development Cooperation Agency</b>
<b>SWAP</b>	<b>Sector Wide Approach</b>
<b>SWGs</b>	<b>Sector Working Groups</b>
<b>UN</b>	<b>The United Nations</b>
<b>UNAIDS</b>	<b>The Joint United Nations Programme on HIV and AIDS</b>
<b>UNDAF</b>	<b>The UN Development Assistance Framework (UNDAF)</b>
<b>UNDP</b>	<b>The United Nations Development Program</b>
<b>UNEP</b>	<b>The United Nations Environment Programme</b>
<b>UNFPA</b>	<b>The United Nations Population Fund</b>
<b>UNICEF</b>	<b>The United Nations Children's Fund</b>
<b>USAID</b>	<b>United States Agency for International Development</b>
<b>USSR</b>	<b>The Union of Soviet Socialist Republics</b>
<b>WFP</b>	<b>The World Food Programme</b>
<b>WHO</b>	<b>World Health Organization</b>



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### Figure 4.1 ODA in Kenya

Foreign aid has been the subject of many debates over the past few years. Many critics have claimed that aid has gone a long way in perpetuating bad governments, fueling corruption and generally providing the means to keep dictatorial regimes in place. The other side of the debate has been that foreign aid has played a key role in poverty reduction and growth in some countries and has helped move the world into development, a situation that most countries have gratefully shared themselves to. The performance of aid programmes is considered primarily by various scholars who are constantly on the look out for new evidence. Some scholars have attributed this to donor fragmentation and proliferation, a term used in the world of aid to refer to various donors funding different projects in recipient countries.

#### 1.1 Donor Fragmentation and Proliferation

There are a large number of aid agencies and NGOs in Kenya today and each of them have multiple or conflicting objectives. Aid generally involves a set of collective action problems. There are multiple players, each concerned with development in the recipient country, but each with narrow goals of its own, and sometimes distinct from development objectives. Systems of development assistance consist of a large number of donors. In the typical African country, aid is provided by about thirty official donors in addition to several dozen international NGOs funding over a thousand distinct projects and several hundred smaller

# **Chapter One**

## **Introduction to the Study**

### **1.1 Introduction**

Foreign aid has been the subject of many debates over the past few years. Many critics have claimed that aid has gone a long way in perpetuating bad governments, fuelling corruption and generally providing the means to keep dictatorial regimes in place. The other side of the debate has been that foreign aid has played a key role in poverty reduction and growth in many countries and has helped slow the descent into statelessness, a situation that many countries have inadvertently found themselves in. The performance of aid programmes is considered abysmal by various scholars who are constantly on the look out for new aid initiatives. Some scholars have attributed this to donor fragmentation and proliferation, a term used in the world of aid to refer to various donors funding different projects in recipient countries.

#### **1.1.1 Donor Fragmentation and Proliferation**

There are a large number of aid agencies and NGOs in Kenya today and each of them have multiple or conflicting objectives. Aid normally involves 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 detract from development objectives. Recent recipients of development assistance interact with dozens of donors. 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.”<sup>1</sup> Thousands of quarterly project reports are submitted to multiple oversight agencies. Hundreds of missions monitor and evaluate these projects and programmes annually in many recipients, and each mission expects to meet with key government officials and to obtain comments from officials on its reports.

In the past aid had been reserved to a small number of partnerships, and global quantities were given quite selectively. However, in the last four decades, aid partnerships have boomed, new bilateral and multilateral donors have emerged and the trend is still ongoing today with emerging countries that have evolved from being aid recipients to aid donors (Brazil, China, Russia, Saudi Arabia or Venezuela).<sup>2</sup> The issue is complicated even more when we analyze the situation within each specific country because many old and new donors have more than one agency giving aid. Brainard (2007) estimated that the United States for example, the largest bilateral donor and dominant player, had more than 50 bureaucracies by the mid 2000s involved in aid giving. The major aid unit in the US is the aid agency USAID but according to Oxfam only 45% of total US foreign aid is overseen by this agency. All in all, US foreign assistance programmes are fragmented across 12 departments, 25 different agencies and nearly 60 government offices.<sup>3</sup>

Not only are new sovereign donors emerging but traditional donors are also splintering into many specialized agencies while the number of private nonprofits is exploding. This new reality of aid amplifies the pressing need and search for more aid efficiency. With the multiplication of actors on the aid stage, disbursements have started to become more fragmented:

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<sup>1</sup> N. Van de Walle, & T. Johnston, 'Improving Aid to Africa', *ODC Policy Essay No. 21*, Washington DC: Overseas Development Council, 1996.

<sup>2</sup> N. Wood, 'Whose aid? Whose Influence? China, Emerging Donors and the Silent Revolution in Development Assistance,' *International Affairs*, 84(6), 2008, pp. 1205-1221:1212.

<sup>3</sup> L. Brainard, "Organizing US foreign assistance to meet twenty first century challenges" in L. Brainard, ed., *Security by other means: foreign assistance, global poverty, and American leadership* (Chapter 2), Washington DC, Brookings Institution Press, 2007.

aid is received in many small pieces from many donors and effectiveness of aid is in danger of being reduced.

## **1.2 Statement of the Research Problem**

Development efforts today benefit from an increasing diversity of stakeholders that contribute important resources and knowledge for achieving development goals. At the same time, the proliferation of donors and funding channels, and the resulting fragmentation of aid at country and sector level pose critical challenges to the effectiveness and impact of development co-operation. This fact was already acknowledged in the Paris Declaration on Aid Effectiveness (2005), which called for a pragmatic approach to harmonization and co-ordination of aid efforts to increase effectiveness. Nonetheless, fragmentation continues to increase in all regions with the largest increase in low-income countries with limited institutional capacity to manage an increasing number of actors. Fragile and conflict-affected states in particular are suffering from small-scale interventions from donors.

Many developing countries have been receiving foreign aid for a long time. Given that the main reason for aid is to increase the economic capacity of these countries, it is therefore worrying to note that most of the countries receiving aid have shown little or no improvement despite the huge amount of funds given to them as aid. Is donor fragmentation an issue that has helped bring about this worrying state of events?

## **1.3 Objectives of the Research**

- Analyze the effectiveness of Foreign Aid.
- Analyze donor fragmentation and proliferation and its effect on aid performance.
- Determine the effect donor fragmentation has had on Kenya's aid sector

## 1.4 Literature Review

The literature on foreign aid is wide and varied and controversies about its effectiveness or lack thereof, go way back. There have been stinging criticisms leveled against aid by writers such as William Easterly, Dambisa Moyo and Peter Bauer, who claim that aid has been a means of perpetuating corrupt governments, lining pockets of a few elite or altogether being wasted. Citing widespread poverty in Africa and South Asia despite three decades of aid, and pointing to countries that have received substantial aid yet have had disastrous records such as the Democratic Republic of the Congo, Haiti, Papua New Guinea, and Somalia, they call for aid programmes to be dramatically reformed, substantially curtailed, or eliminated altogether. The other side of the debate has been captured by writers such as Jeffrey Sachs and Burnside & Dollar, who claim that though aid on a large-scale has not been as successful as envisioned, it has still managed to reduce poverty, boost economic growth in some countries and prevented worsening performance in others. Citing examples such as Botswana, Korea and more recently, Tanzania and Mozambique, they argue that aid has significantly assisted such countries and much of their development can be directly attributed to foreign aid.

The problems arising from donor fragmentation and proliferation figure prominently in the aid debate. In the literature on aid allocation patterns, the term 'fragmentation of aid' is increasingly used to describe the unwanted situation of having many small aid activities initiated by many different donors.<sup>4</sup> The international aid effort is remarkably fragmented along many dimensions. The worldwide aid budget is split among a multitude of small bureaucracies. Even

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<sup>4</sup> W. Easterly, & T. Pfitze, 'Where Does the Money Go? Best and Worst Practices in Foreign Aid,' *Journal of Economic Perspectives*, vol. 22 (2), 2007, pp. 29-52:30

the small agencies fragment their effort among many different countries and many different sectors.

The major debates on the issue of fragmentation have had to deal with the problem of too much or too little fragmentation. Some scholars have argued that fragmentation is detrimental and creates co-ordination problems and high over-head costs for both donors and recipients. These issues have been the chronic complaints of agencies, recipients, and academic researchers ever since the aid business began. The other side of the debate comprises of those that argue that too little fragmentation may cause over-reliance on one donor and that if a donor enjoys a monopoly in aid disbursements in a country, it is doubtful that aid will be disbursed in the most efficient fashion. It is ideal that one has some competition, to not have developing countries depending on a single country for aid, but not so much competition that the costs of administering all the partnerships become unmanageable.<sup>5</sup>

#### **1.4.1 Excessive Fragmentation**

Many scholars contend that donor fragmentation has become a serious issue in the world of aid today. Judging by the number of aid agencies in the country, this is a valid argument. Recipient countries are faced with an increasing number of donors engaged in delivering development assistance. For instance, in 1960 a developing country received aid from less than two donors on average, while in 2006 the average number of donors per recipient had risen to more than twenty eight.<sup>6</sup> The Paris Declaration on Aid Effectiveness of 2005 called for more co-ordination and less donor fragmentation. It called for better harmonisation and

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<sup>5</sup> E. Frot & J. Santiso, 'Crushed Aid: Fragmentation in Sectoral Aid,' *Working Paper No. 6*, Stockholm University, Stockholm Institute of Transition Economies, 2009, P.3

<sup>6</sup> E. Frot & J. Santiso, 'Development Aid And Portfolio Funds: Trends, Volatility And Fragmentation,' *OECD Development Centre*, 2008

coordination of aid, as well as greater country ownership and deeper alignment of external assistance. More specifically, the declaration states in paragraph 33: 'Excessive fragmentation of aid at global, country or sector level impairs aid effectiveness. A pragmatic approach to the division of labour and burden sharing increases complementarity and can reduce transaction costs.' Donors therefore committed themselves to 'make full use of their respective comparative advantage at sector or country level by delegating, where appropriate, authority to lead donors for the execution of programmes, activities and tasks' and to 'work together to harmonise separate procedures.'<sup>7</sup>

The Accra Agenda for Action specifies these commitments in paragraph 17 by stating that: 'We will reduce the fragmentation of aid by improving the complementarity of donors' efforts and the division of labour among donors, including through improved allocation of resources within sectors, within countries and across countries.'<sup>8</sup>

Several studies argue that this proliferation of donors imposes high transaction costs on recipient governments, thereby reducing the value of aid. Today's development assistance scenario is characterized by a multiplicity of actors who provide external contributions to the development of so-called partner countries. In doing so, they pursue their own policies and strategies, use many different instruments and approaches and broadly follow their own rules and regulations regarding the deployment of development assistance. In addition to the 'traditional' providers of official development assistance – the so-called DAC donors – a growing number of new actors have entered the stage over the last decade, including so-called new donors, new global thematic funds, international foundations, civil society organizations and private financial

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<sup>7</sup> OECD (2005): *Paris Declaration on Aid Effectiveness. Ownership, Harmonization, Alignment, Results and Mutual Accountability*, Paris, Internet: <http://www.oecd.org/dataoecd/30/63/43911948.pdf>, accessed 14 August 2012

<sup>8</sup> OECD (2008): *Accra Agenda for Action, Accra*, Internet: <http://www.oecd.org/dataoecd/30/63/43911948.pdf>, accessed 14 August 2012



players. Many partner governments, especially those in highly aid dependent countries, are overburdened with the task of stringently managing the inflow of development assistance. The result is duplication and fragmentation of efforts, contradictory initiatives and an undue increase in transaction costs for both partner countries and donors related to the provision of external assistance.<sup>9</sup>

Knack and Rahman show that where aid is more fragmented among donors, the quality of government bureaucracy in the recipient country deteriorates more. They argue that when donors each have only a small share of the aid market, they tend to focus more narrowly on delivering successful projects, even at the risk of undermining government capacity by hiring away the most talented public managers. Competitive donor practices, where there are many small donors and no dominant donor, erode administrative capacity in recipient country governments. In their need to show results, donors each act to maximize performance of their own projects, and shirk on provision of the public sector human and organizational infrastructure essential for the country's overall long-term development.<sup>10</sup> Bureaucratic quality suffers where aid is fragmented more severely across donors.

Donor fragmentation can damage institutional capacity in recipient nations through distortion of labour markets for qualified administrators. It is widely recognized that donors often hire away the most highly-skilled civil servants, often at salaries that are a large multiple of what they could earn from the government, to manage donor-funded projects.<sup>11</sup> Larger aid programmes – particularly in the form of project aid as opposed to programme aid or technical assistance – in general require donors to hire more staff. To the extent aid is spent on highly-paid

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<sup>9</sup> *Trends in In-country Aid Fragmentation and Donor Proliferation*, Report on behalf of the OECD Task Team on Division of Labor and Complementarity, Urs Bürcky – 10 June 2011

<sup>10</sup> S. Knack, & A. Rahman, 'Donor Fragmentation and Bureaucratic Quality in Aid Recipients,' *Journal of Development Economics*, vol. 83 (1), 2007, pp.176-197:194.

<sup>11</sup> D. Brautigam, 'Aid Dependence And Governance,' *Stockholm: Almqvist & Wiksell International*, 2000

Western consultants to ensure project success, donors can prevent local bureaucracies from building administrative capacity.<sup>12</sup> Some of these effects may be exacerbated, for a given level of aid, by donor fragmentation. In recipient nations where there are more donors operating, salaries for qualified administrators are likely to be bid up further than in the case of a monopolist donor, as donors compete for qualified staff. For example, tying aid to the employment of donor country contractors has been estimated in an OECD study to reduce its real value by between 15 and 30 percent.<sup>13</sup>

Anderson shows that fragmenting a donor's aid across many recipients is associated with higher reported administrative costs by the donor. This effect is aggravated to the extent that each additional donor bears fixed administrative costs of administering a country aid programme, so that for a given total level of aid in a recipient nation, a larger number of donors implies a need for more administrators.<sup>14</sup> Transactions costs associated with numerous and diverse donor rules and procedures for managing aid projects and programmes, different languages and fiscal calendars, etc. can also be viewed as detracting from aid's value.<sup>15</sup> There is also a lot of duplication in "country analytic work" such as poverty assessments and public expenditure reviews.

Some examples of other reducing-value practices include providing aid through projects rather than through budget support, bypassing central government units (for example, by the use of project implementation units), relying on expatriates instead of subsidizing "learning by doing" by hiring local staff, and funding investment projects that in the long-run imply

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<sup>12</sup> S. Knack & A. Rahman, 'Aid Intensity, Donor Fragmentation and the Quality of Governance,' *Southern Economic Journal*, Vol. 68(2): pp.310-29:313

<sup>13</sup> J. Catrinus, 'The Tying of Aid,' *Paris: OECD Development Center*, 1991

<sup>14</sup> E. Anderson, *Aid Fragmentation And Donor Transaction Costs*, University of East Anglia, School of International Development, 2001

<sup>15</sup> E. Berg, *Rethinking Technical Cooperation: Reforms for Capacity Building in Africa*, New York: UNDP, 1993, p.148

unrealistically high recurrent expenditures in future years. In the latter case, donors in effect treat the budget for recurrent expenditures as a common-pool resource producing a tragedy of the commons in which roads are built but not repaired, and schools are built but not staffed.<sup>16</sup> Donors engage in these practices to increase the visibility of their efforts and the short-term appearance of success for their individual projects, at the expense of coherent policy making and capacity building in the recipient country's public sector.<sup>17</sup>

Kimura et al. claim that donor proliferation hinders economic growth, and Djankov et al. renew this argument, presenting evidence that donor fragmentation reduces economic growth in part through increased corruption. Easterly points out that both government bureaucracies and private corporations in high-income countries tend to specialize. In contrast, aid agencies split their assistance between too many donors, too many countries, and too many sectors for each donor, where "too many" reflects the view that having multiple donors and multiple projects forfeits the gains of specialization and leads to higher-than-necessary overhead costs for both donors and recipients.<sup>18</sup>

#### **1.4.2 Inadequate Fragmentation**

There are those scholars who argue that too little fragmentation may be harmful in the long-run mostly due to the monopoly effect it creates. Too little fragmentation, or rather too little competition, may also be an issue in many countries because there is a real tension between reducing fragmentation and avoiding the creation of aid monopolies. Frot and Santiso argue that The Paris Declaration and the Accra Agenda for Action strive to define a set of

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<sup>16</sup> D. Brautigam & S. Knack (forthcoming). "Foreign Aid, Institutions and Governance in Sub-Saharan Africa." Economic Development and Cultural Change, p.52

<sup>17</sup> World Bank. 1998. *Assessing aid: What Works, What Doesn't, and Why*. New York: Oxford University Press. P.84

<sup>18</sup> W. Easterly, & T. Pfutze, 'Where Does the Money Go? Best and Worst Practices in Foreign Aid,' *Journal of Economic Perspectives*, vol. 22 (2), 2008, pp. 29-52.p.38

recommendations to make aid more efficient but could be complemented by a debate about the 'right' level of fragmentation that would avoid monopolies and excessive superimposition of donors.<sup>19</sup>

Some observers, also, warn about harmful effects on recipients from excessive donor harmonization. As Rogerson and Stevensen similarly argued, the pressure on donors to focus on fewer countries runs the risk of creating new aid orphans. They regard fragmentation as an indicator of healthy competition among aid agencies, and argue that high aid fragmentation may similarly reflect more competition among donors, to the benefit of recipients.<sup>20</sup>

The DAC itself in describing the costs of fragmentation also acknowledges that a recipient may benefit from having a diversified set of funding sources and from working with numerous donor agencies with different areas of expertise.<sup>21</sup> In addition to the policy autonomy that might be forfeited from dependence on one key donor, "the recipient would also likely face a riskier ODA environment" if subject to the foreign policy whims and changes in economic circumstances of a single large bilateral donor.<sup>22</sup> A donor agency evaluation found that government officials in some countries (including Benin and Malawi) favoured a single assistance strategy guiding all donors' activities in their countries, but other governments were not interested, as they preferred to have options, which would be undermined if donors coordinated on a joint strategy.<sup>23</sup>

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<sup>19</sup> E. Frot, & J. Santiso, *Crushed Aid: Fragmentation in Sectoral Aid*, Working Paper No. 6, 2009, Stockholm University, Stockholm Institute of Transition Economies, P.33

<sup>20</sup> A. Rogerson, 'Aid Harmonization and Alignment: Bridging the Gaps between Reality and the Paris Reform Agenda,' *Development Policy Review*, 2005, Vol. 23 (5), 531-552.

<sup>21</sup> OECD, 2011. *Aid effectiveness 2005-10: Progress in implementing the Paris Declaration*, OECD Publishing.

<sup>22</sup> D. Rowlands & I. Ketcheson, *multilateral aid coordination by the international financial institutions: an examination of Canadian development assistance to sub-Saharan Africa. New perspectives on foreign aid and economic development*. Praeger, Westport, 2002

<sup>23</sup> IEG, 2011. *World Bank progress in harmonization and alignment in low income countries*, World Bank.

Gibson et al. assert more specifically that donors with monopoly power in a country may exploit it by tying more of their aid. If so, progress toward an improved division of labour among donors could slow progress on untying aid.<sup>24</sup> In general, therefore, these scholars argue that benefits to the recipient from this competition, diversity of ideas and more consistent flow of total funds should be balanced against the higher transactions costs of fragmentation.

### 1.4.3 Conclusion

It is evident from the literature presented above that donor fragmentation is an important aspect of the aid business today. Those that claim fragmentation is an impediment to aid effectiveness have raised valid arguments in their defence while those that call for more fragmentation also challenge the notion of a single donor or co-ordinated aid foreseeing a case of monopoly in the long-run. It is evident that the situation of fragmentation and donor proliferation has already occurred and is much more visible now. However it is safe to say that the concept of single-donor co-ordination and harmonization has not been fully explored.

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.<sup>25</sup> However, differences on the donor side also may have contributed to the Marshall Plan's greater success. Marshall Plan recipients had to deal only with a single donor, in contrast to the dozens of

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<sup>24</sup> C. Gibson & K. Andersson, et. al., *The Samaritan's Dilemma: The Political Economy of Development Aid*, Oxford University Press, 2005, p.25

<sup>25</sup> J. Degnbol-Martinussen & P. Engberg-Pedersen, *Aid: Understanding International Development Cooperation*, 2003, London: Zed Books

bilateral and multilateral agencies and hundreds of NGOs in the aid business today. Also, Marshall Plan aid, “history’s most successful structural adjustment programme”<sup>26</sup> was not disbursed in the form of hundreds of separate donor managed projects in each recipient nation. Aid success stories in Taiwan, Botswana and Korea have also been attributed in part to the presence of a single or dominant donor.<sup>27</sup>

In a recipient with many donors, each of which is 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. The “Marshall Plan” is hailed as one of the greatest aid success stories to date and the recipient countries of development assistance have much to learn from the European experience. The need for a political thrust, strategic purpose, institutional support and bold reform initiatives to supplement the receipt of development assistance cannot be overemphasized. Efforts to successfully integrate into the global economic system, is also a pre-condition for these countries for better enjoying the fruits of foreign economic assistance.

It is important that this study evaluate the merits and de-merits of a single donor and gain a deeper understanding of the issue by also analyzing the countries in which a single donor has led to improved aid effectiveness, especially in the case of a country like Botswana which has been hailed as a great reformer due to the aid it has received and successfully applied. Kenya is experiencing major donor fragmentation and there are dozens of aid agencies operating in the country today, all from different regions and with different development objectives. As is the case with many African countries, we can safely say that aid has not produced the results

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<sup>26</sup> J. B. DeLong & B. Eichengreen, “The Marshall Plan: History’s Most Successful Structural Adjustment Programme.” In Rudiger Dornbusch, Wilhelm Nolling, and Richard Layard, eds., *Postwar Economic Reconstruction and Lessons for the East Today*. Cambridge, MA: MIT Press, pp 68-106:72

<sup>27</sup> Azam, Jean-Paul, et al... “*Equilibrium Aid Dependence*.” Unpublished manuscript, University of Toulouse, 2002

expected both by the donors and the recipients alike. We must take a step back and look at the mode of operation used in the aid business here and ask ourselves whether there is a better way, a way that can bring about more permanent solutions and sustainable growth and development.

### **1.5 Justification of the Research**

The justification of this research study is that this is a relatively new area and has not been written on before.

### **1.6 Theoretical Framework**

From the literature reviewed, it is evident that most donor countries have a say in the implementation of aid programmes. Their views on the matter generally stem from their national interests and foreign policies. This concept clearly brings out the theory of realism where states are seen as rationally pursuing their own interests. The desire to retain power is clearly evident in the conditionalities attached to the aid and the choice of projects that will receive aid. There are those that call for escalation of aid efforts in these states arguing that they need more funding to bridge the gap between them and other developing states. Others call for reduction of foreign aid efforts claiming that results are yet to be seen and that aid is only useful in places where well functioning institutions are in place and where peace and stability are already visible.

Donor fragmentation is a clear case of realism playing out in the international arena. Most donors pursue their own interests and have a variety of reasons for doling out aid to recipient countries. It is no secret that most aid programmes are made with support from the citizens back home who sometimes decide which kind of projects their country should finance. This fact is often used as political mileage when running political campaigns or used as a

political platform to launch a party into the race if they are seen to have the right ideas for development. These reasons have led to massive proliferation of donors in recipient countries, each formulating their own strategies and programmes which may sometimes mean duplication of efforts.

Realism has also been clearly brought out by some of the donor practices that have emerged like the “tying of aid.” Tying aid is a practice whereby donors require that goods and services given to recipient countries be purchased from the donor’s home country, or be used specifically to support some organizations or firms in the donor country. Automobiles, airline tickets, and consulting services financed by U.S. foreign aid in most cases must be purchased from U.S. firms. Tying aid ensures maximum support from the citizens and government of the donor country but at the same time can make it more costly and less effective but may strengthen political support for larger aid budgets in some donor countries. Tying aid is a means by which donor countries seek to maximize they leverage they wield when giving out aid. They do this to ensure that most of their revenue almost always makes its way back home. Even when it comes to humanitarian assistance, some countries require that the food be purchased from the donor country and in some instances even shipped in vessels owned by the donor countries. This shows quite evidently that donors look out for themselves more often times than not and put their own objectives ahead of the recipients’.

### **1.7 Hypotheses**

1. The effectiveness of aid is greatly influenced by the policy environment it is employed in.
2. Donor fragmentation does impede aid effectiveness.
3. Kenya’s aid effectiveness has been affected to a great extent by donor fragmentation.



## **1.8 Research Methodology**

### **1.8.1 Research Objective**

The major aim of this research is to establish whether donor fragmentation and proliferation has had an effect on the overall performance of aid.

### **1.8.2 Data Collection**

The data for this study will be collected from a selected number of people employed in various aid agencies in order to get a feel of what they do exactly and whether they think aid has achieved the objectives it was set out to do. It will be important to get their opinion on fragmentation and whether they feel there is a high incidence of duplication of efforts in the field. Where projects are similar with those of other aid agencies is it possible for them to harmonize and co-ordinate their projects in order to achieve better results.

### **1.8.3 Data Collection Methods**

This study will collect information both from primary data and secondary data. Primary data will consist of both oral and written sources. Oral sources will include interviews and focus groups. The methods used in collection of primary data will rely on interviews with mostly personal interviews. The collection of primary data through interviews will involve carefully selecting various aid agencies in operation especially UN agencies in Kenya like UNDP and UNAIDS and Government ministries like the Ministry of Finance and the Ministry of Public Health and Sanitation with an insightful look at their operations as well.

There are a number of aid agencies with different donor affiliations actively participating in the Kenyan environment and would prove to be invaluable in analyzing the trend of donor fragmentation. Interviews will be given to individuals within the organization who may have an insight on the workings of the research topic and who may be able to give an unbiased

opinion that will advance this research. The focus of the study will be on a limited number of organizations working in Kenya. Information will also be gathered through focus groups with people who have a keen interest on aid effectiveness and who have either worked in or have vast knowledge of the aid industry, its failings and expectations.

Primary data will also be collected from written sources. These sources will include government publications and statistics on the current and past performance of aid in Kenya. These written sources will be able to give a position on the number of aid agencies working in the country, their goals and whether there are other organizations in the same industry with the same objectives or working towards the same goals and offer insight on the major areas of focus.

Information will also be obtained from secondary data both published and unpublished. Published data will include various publications of foreign governments or of international bodies and their subsidiary organizations, journals, books, magazines and newspapers, reports and publications of various associations connected with the aid industry, reports prepared by research scholars, universities and economists in different fields; and public records and statistics, historical documents, and other sources of published information.

Unpublished data will include letters, unpublished biographies and autobiographies which may also be available with scholars and research workers, and other public/private individuals and organizations.

## **1.9 Chapter Outline**

This study is structured around five chapters:

Chapter One introduces the topic of the research study by first setting the broad context of the research, the statement of the problem, justification of the research, the theoretical framework, literature review, hypotheses and the methodology of the research.

Chapter Two will be a conceptual chapter on donor fragmentation and proliferation, its causes and impact on aid effectiveness and ways to reduce it.

Chapter Three provides the background and historical overview of Foreign Aid, its challenges, successes and effectiveness.

Chapter Four analyses the impact of donor fragmentation on aid effectiveness in Kenya using the data collected in the previous chapters.

Chapter Five draws out the conclusions and provides suggestions on areas for further research.

## Chapter Two

### Donor Fragmentation and Proliferation

#### 2.1 Introduction

The debate on aid effectiveness and the reasons behind its successes or failures goes way back with various scholars giving their opinions on the reasons they think enhance or reduce aid effectiveness. The terms donor fragmentation and proliferation have recently been mentioned in the aid debate as factors that greatly contribute to the delivery and outcome of aid. In order to analyze this effectively, we must first understand the basics about aid, identify the major donors and the relationships they have with the recipients and closely analyze the terms fragmentation and proliferation.

#### 2.2 Major Aid Donors

According to political realism, foreign aid began as a foreign policy tool during the cold war to influence the judgments of the recipients. The US and USSR actively pursued this policy in the third world creating a choice for states to decide which superpower to align with. However, the two super powers had different techniques of doling out aid: Soviet aid tended to emphasize symbolism and display, such as their huge monument at the Aswan High Dam in Egypt, as well as a penchant for military parades, complete with tanks and armored vehicles and high dignitaries presiding. US aid, by contrast, was viewed as a much quieter affair, elaborated more in the academy than on the parade ground.<sup>1</sup> The 1970s saw the rise of multilateral development assistance from multilateral organizations such as the World Bank and the

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<sup>1</sup> T. Hattori, 'Reconceptualizing Foreign Aid,' *Review of International Political Economy*, Vol. 8, No. 4 (Winter, 2001), pp. 633-660:641

International Monetary Fund (IMF) where the concept of structural adjustment programmes was developed. Development grants followed next with many of the developed states giving third world countries grants to boost development mainly for altruistic reasons.

From this brief history it is quite shocking to see how many governments and institutions are involved in the aid business today. Several dozen international organizations, like the World Bank, the Asian, African and Inter- American Development Banks, and the United Nations Development Programme (UNDP), plus approximately thirty governments have significant programmes of foreign aid, including all the rich countries of North America, Western Europe and Japan as well as oil-producing countries in the Middle East and “middle-income” developing countries like Korea, Thailand and Turkey. In the recent past, China has arisen as a major force to contend with given its various development programmes in Africa and the amount of aid it continues to give to the countries it has vested interests in.

Many of the countries in the developed world have significant aid portfolios in developing countries, each acting under the umbrella of the mother country. Some of the major aid donors in the aid industry include USA, France, Britain, Germany, Japan, Denmark and China. In terms of total dollars, the United States has consistently been the world’s largest donor (except in the mid-1990s when Japan briefly topped the list). However, when aid is measured as a share of donor income, the most generous donors are Norway, Denmark, Luxembourg, the Netherlands, and Sweden, each of which provided between 0.79-0.92 percent of GDP in 2004.<sup>2</sup> The table below shows the major DAC donors who give official development assistance to developing countries.

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<sup>2</sup> S. Radelet, *A primer on Foreign Aid*, Centre for Global Development, Working Paper No. 92, July 2006, p.5

**Table 2.1 Total Net Flows by DAC Country**

	USD million						
	1994- 1995 average	1999- 2000 average	2006	2007	2008	2009	2010
Australia	2 336	2 002	9 003	10 249	3 828	3 133	14 531
Austria	893	1 588	3 455	20 405	10 831	3 273	4 830
Belgium	971	3 904	5 308	3 818	4 425	3 224	7 896
<b>Canada</b>	<b>5 680</b>	<b>6 737</b>	<b>14 233</b>	<b>17 161</b>	<b>24 069</b>	<b>7 340</b>	<b>22 629</b>
Denmark	1 559	2 084	2 686	4 807	5 150	3 757	4 794
Finland	578	972	1 413	2 149	-222	3 185	4 312
<b>France</b>	<b>12 597</b>	<b>7 359</b>	<b>22 329</b>	<b>43 126</b>	<b>40 641</b>	<b>38 420</b>	<b>35 198</b>
<b>Germany</b>	<b>22 572</b>	<b>16 168</b>	<b>25 992</b>	<b>36 739</b>	<b>35 727</b>	<b>29 130</b>	<b>31 197</b>
Greece	..	212	2 896	3 391	1 166	850	761
Ireland	223	496	5 237	5 840	6 101	4 188	2 695
Italy	3 110	11 092	5 512	4 422	5 581	5 569	9 608
<b>Japan</b>	<b>35 391</b>	<b>14 528</b>	<b>26 179</b>	<b>30 333</b>	<b>31 805</b>	<b>45 444</b>	<b>48 076</b>
Korea	1 996	389	6 514	11 582	10 700	6 442	11 834
Luxembourg	68	127	299	384	426	428	411
Netherlands	5 724	7 466	28 616	18 142	-14 022	6 045	13 013
New Zealand	146	153	338	404	433	387	426
Norway	1 575	1 748	5 459	6 377	3 759	4 977	4 589
Portugal	332	3 539	666	2 215	1 528	-1 060	162
Spain	2 778	26 250	11 146	21 662	30 087	12 812	10 340
Sweden	2 297	3 422	4 175	6 911	5 896	7 164	5 127
<b>Switzerland</b>	<b>598</b>	<b>2 561</b>	<b>12 555</b>	<b>5 825</b>	<b>12 141</b>	<b>9 106</b>	<b>21 968</b>
<b>United Kingdom</b>	<b>12 673</b>	<b>12 764</b>	<b>26 941</b>	<b>49 887</b>	<b>41 878</b>	<b>24 713</b>	<b>25 632</b>
<b>United States</b>	<b>53 361</b>	<b>37 695</b>	<b>90 897</b>	<b>129 862</b>	<b>13 678</b>	<b>115 276</b>	<b>214 378</b>
<b>TOTAL DAC</b>	<b>167 460</b>	<b>163 255</b>	<b>311 849</b>	<b>435 693</b>	<b>275 607</b>	<b>333 804</b>	<b>494 409</b>
<i>of which:</i>							
DAC-EU countries	66 377	97 442	146 670	223 898	175 193	141 699	155 976

**Table 2.1 OECD Statistics on resource flows to developing countries**

Table 2.1 shows the number of donors involved through the DAC in the giving of official development assistance. The figures show that official development assistance has grown considerably over the last fifteen years with a country like Australia going from approximately 2 million in 1995 to 14 million in 2010.<sup>3</sup>

The largest donor by far is the US whose contribution far outnumbers those of the other donors according to the table which shows its contribution to be 214 million in 2010, a figure rivaled only by Japan's 4 million which in comparison falls way behind the US' contribution. The US is arguably the largest aid donor far outstripping the total aid provided by other countries. Most of the aid is disbursed through the US Agency for International Development (USAID) which disburses aid to more than four continents. Currently there are 283 US AID – funded projects which in itself brings out a clear picture of fragmentation.<sup>4</sup>

Japanese Aid which comes in second according to the table recognizes the contribution of Japan, once considered an "aid superpower" and whose aid has always been commercially motivated even from the beginning with their need to expand exports and ensure access to raw materials imports. The Japanese government's fundamental goals have always been prosperity, autonomy and international respect and their allocation of aid has therefore been tailored to coincide with its goals hence the commercial nature of its economic assistance. However Japan has been unable to retain its title of "aid superpower" due to its own domestic economic crises and has never been able to fully align its aid policies with those of other

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<sup>3</sup> OECD Development Assistance Committee (2009), Development co-operation report 2009, Paris, OECD, Available at [www.oecd.org/dac/dcr](http://www.oecd.org/dac/dcr)

<sup>4</sup> <http://www.usaid.gov/where-we-work>, last accessed 29 August, 2012

governments. Japan aid has therefore reduced drastically and now remains heavily focused on funding infrastructure, especially in East Asia.

The third major donor is France which in 2010 gave out approximately 35 million in aid to developing countries. French aid is said to be the most politically motivated form of aid disbursed by a major aid-giving country. Its allocation by country, its use and its organization clearly reflect the role that aid has played in France's foreign policy especially in western and sub-Saharan Africa. From supporting authoritarian regimes and dictatorships in West Africa, French aid has been accused of merely protecting France's influence in Africa without being fully committed to increasing development. However, in 1998 the French government undertook a major re-organization of its fragmented aid system to divert its use from an instrument of France's post-colonial policies of maintaining a sphere of influence and cultural presence in its former colonies in Africa to a more development-oriented aid programme, with better transparency and alignment with DAC norms and practices.

Germany and Britain are also on the list of major donors and have a major presence in developing countries. Britain has supported most of its colonies and is known for its major interest in the promotion of education while Germany is well known for its commitment to development. Canada is also a major player with its aid in 2010 totaling 22 million. The goal is to make Canada's international assistance more focused, more effective and more accountable.<sup>5</sup> Its commitment to the Paris Declaration is evident and as part of its Aid Effectiveness Agenda, the Government of Canada announced in 2009 that it would be focusing 80 percent of bilateral resources in 20 countries of focus. These 20 countries were chosen based on their real needs, their capacity to benefit from aid, and their alignment with Canadian foreign policy priorities.

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<sup>5</sup> <http://www.acdi-cida.gc.ca/acdi-cida/ACDI-CIDA.nsf/eng/NIC-5482847-GN3>, accessed on 29 August 2012



Denmark is among the smallest aid-giving countries but is also considered one of the most generous givers of aid relative to its economy. It has slowly gained recognition as a leader in development aid by emphasizing poverty reduction in its aid programmes. As a result, Denmark has been termed as both a “humane internationalist” (along with other Scandinavian countries) and a “front-runner” in aid-giving. Sweden also provides substantial amounts of aid through SIDA. SIDA is a government agency working on behalf of the Swedish parliament and government, with the mission to reduce poverty in the world. It carries out enhanced development cooperation with a total of 33 countries in Africa, Asia, Europe and Latin America and their selection of cooperation countries are based on political decisions made by the Swedish government.<sup>6</sup>

Another form of aid not highlighted by the table is UN aid. This is by far the most disbursed form of aid in many developing countries. The UN through its various agencies is actively involved in various programmes in recipient countries. For instance, in Kenya we have a variety of UN agencies operating for example UNICEF, UNEP, WFP, UNFPA, UNDP, among others. This is the same in many other recipient countries in which the UN operates, a fact which further compounds the fragmentation and proliferation issue. UN aid poses an even greater dilemma due the fact that most of its aid is highly specialized and is disbursed to various sectors by specific agencies which have been created solely to act in those sectors. In a sense, it is highly efficient but the end result is increased fragmentation of its aid and duplication of efforts as most agencies tend to have overlapping duties owing to the nature of the country it is operating in.

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<sup>6</sup> Alesina, A. & Dollar, D. “Who Gives Foreign Aid to Whom and Why?” *Journal of Economic Growth*, March 2000, pp. 33-63:42.

## **2.3 Conflicts Arising Between Donors and Recipients**

A lot has been said about the various relationships between aid donors and their recipients and the problems that arise from these relationships. Both the critics and reformists agree that there are a myriad of problems between donors and recipients but they have differing opinions on what to do about this problem with the critics calling for drastic measures such as curtailing or eliminating aid programmes altogether while the reformists call for harmonization and better co-ordination of aid programmes.

### **2.3.1 Lack of Ownership**

A major problem that occurs between donors and recipients is the lack of ownership of the aid programmes initiated in the recipient countries. Majority of the donors come up with projects on their own that they deem feasible and transplant them into the recipients which in most cases do not turn out so smoothly. In most cases, they set up NGOs with the aim of implementing the aid programmes; bring in expatriates to provide technical assistance and hire local staff to perform basic office functions. The lack of involvement of the locals in the design or implementation of aid programmes leads to lack of ownership and a situation where locals only want to work for NGOs due to the hefty salaries paid. They lack awareness on the projects and are not affected by the performance or failure of the programmes themselves.<sup>7</sup> Donors on the other hand also lack ownership of the projects due to the problem of proliferation. Because of the large number of donors involved in one sector, there lacks one single donor who can be held accountable if the projects do not produce the desired result. Thus many donors give an image back home of implementing aid projects but fail to “own” them in the recipient country.

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<sup>7</sup> Anderson, E, Aid Fragmentation and Donor Transaction Costs, University of East Anglia, School of International Development, 2011

### **2.3.2 Lack of Focus**

This is a major problem in the aid industry today because there are too many donors involved in various development sectors and infusing resources into more than one sphere of influence. Due to a certain pressure to see results, donors engage in a number of projects in order to project an image of hard work and permeating influence. This, however is to the detriment of the recipient country because the lack of focus ends up splitting up resources which if they had been confined would have had a much greater impact on one sector than the effect it is having in various sectors. At any one time donors may be involved in sectors such as education, health, infrastructure, giving each sector a certain percentage of its aid while it would have been more successful investing all its resources in one sector and achieving good results. China has been the master of this game preferring to give its aid in the form of infrastructure projects and not interfering in the politics of the recipient country. Their track record in infrastructure development has been unrivalled so far. Donors must determine which field they want to focus on. Working in various fields with minimal expertise does not lead to a positive outcome. Donors can attain more tangible and quantifiable results by working in fewer, more specific fields.<sup>8</sup>

### **2.3.3 Lack of Extensive Research and Survey**

There are unfortunately many donors who fail to conduct extensive research into the countries and projects they will be funding. This might be due to the fact that it requires a lot of money and may exhaust valuable resources intended for development projects. The end result is that donors may invest in projects that are not feasible or whose returns may not be seen for a very long time thus making the aid given seem like a waste of time and creating friction between donors and the governments. Donors must invest time and resources in studying the environment

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<sup>8</sup> R. Rahmani, 'Donors, Beneficiaries, or NGOs: Whose Needs Come First? A Dilemma in Afghanistan,' *Development in Practice*, Vol. 22, No.3, 2012, pp. 295-304:302

they want to work in and set their strategic plan based on their findings, which should be regularly updated. Although this may seem to exhaust resources at first, it will enhance the impact of their work later. The lack of emphasis on good evaluation has been immensely costly. In the absence of timely, credible, and independent evaluation, many aid dollars have been misdirected. It took more than a decade, for example, before the IMF “discovered” the repeatedly waived conditionality of its often failed adjustment programmes in poor countries—and only then when the multilateral debt of the poorest countries had become so high that the IMF and World Bank were pressed into what appeared to be “defensive lending.”<sup>9</sup>

#### **2.3.4 Imposition of Ideologies**

This has been a major problem between donors and recipients from the advent of aid giving. This is due to the fact that in the beginning, aid started off as a way to buy allies in the ideological cold war. Aid was given as an incentive by the US in order to curb the rise and spread of communism while soviet aid was given for the exact opposite reason, to foster acceptance and entrenchment of communist ideals. Though the political landscape has changed somewhat, the giving of aid to support ideologies has not waned. The US is constantly accused of trying to impose its cultural norms and beliefs on the rest of the world, and it is no secret that they are actively involved politically in the recipient countries. This creates a lot of tension due to the fact that recipient countries resent the fact that much of aid comes with strings attached and numerous conditionalities. This tends to cause a lot of friction between donors and recipients in the long-run. Donors have the power to impose conditions on their grants and loans, to insist on the establishment of parallel financial and/or operating units, and to withdraw the funds if those conditions are not met. Although recipient governments can successfully resist some

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<sup>9</sup> Birdsall, N. Claessens, S. & Diwan, I. “Policy Selectivity Foregone: Debt and Donor Behavior in Africa.” *World Bank Economic Review*, Vol. 17(3) 2004, pp.409–435.

conditions and modify others final decisions rest with the donor.<sup>10</sup> Aid 'partnerships' are therefore in the real sense very unequal relationships in which the donor has greater power than the recipient even though they personally interact with the recipients and in most cases very cordially. Such unequal relationships may however impact negatively on donor-government coordination.

### **2.3.5 Donor Impatience**

Donors are generally impatient for results and this can have detrimental effects in the long run. This impatience has created a need for short-term, more visible projects which tend to have immediate outcomes or whose results can be directly attributed to new programmes financed by donors such as a reduction in infant mortality or a decline in the cost of transportation due to a well built road. However, this impatience leads to donors' reluctance in investment in long-term projects and programmes like budgeting or even accounting which may which reinforce institutions yet do not produce immediate results.

### **2.4 Donor Fragmentation**

Fragmentation is a relatively new term in the aid industry that has become a major issue in the practice and delivery of foreign aid. The concept can be explained as the unwanted situation where there are a large number of donors giving aid in a variety of sectors in a recipient country. The fact that virtually every developed nation is giving aid of some sort to a developing country and is involved in a number of sectors in that country brings out the real meaning of fragmentation. Donor aid is heavily fragmented especially with a country like the US which

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<sup>10</sup>I. Bergamaschi, 'Mali: Patterns and Limits of Donor-Driven Ownership,' *Working Paper No. 2007/31*. Oxford: University of Oxford, 2007

operates in various countries at once and funds various projects in different sectors in the recipient country. Proliferation though an issue on its own, is derived from the fragmentation of aid and refers to the increase in the number of donors who are operating in a recipient country at any given time. Both concepts seem to derive each other or lead to the same conclusion. Developing countries differ greatly in their potential for development and in the challenges they face, but at least in one respect, many share a common problem: too little aid from too many donors. This is often referred to as fragmentation of aid. This is the definition of fragmentation given by the Organization for Economic Co-operation and Development (OECD).<sup>11</sup>

Fragmentation comes about as a result of having too many donors running different projects in a recipient country. Fragmentation inadvertently leads to donor proliferation, a term used to describe the situation where there is a huge increase in the number of donors operating in a certain recipient country. There is therefore a classic case of donors with a large portfolio size and a very low concentration. Concentration in this aspect refers to the amount of aid given to one specific country. Fragmentation is occurring heavily because donors have many countries that they give aid to but in reality give very little aid to each of those countries. They give a small aid share to many countries, and so contribute to the overall level of fragmentation along both dimensions. The OECD warns against “aid that comes in too small slices from too many donors, creating unnecessary and wasteful administrative costs and making it difficult to target funds where they are needed most”.<sup>12</sup> Proliferation has been derived from fragmentation in a case where many new donors have entered the market but the main effect for recipients has been an increase in the number of small disbursements. The proliferation of donors (i.e. the tendency of donors to operate in many countries and in many sectors within countries) creates what is now

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<sup>11</sup> 2009 OECD Report on *Division of labor; Addressing fragmentation and concentration of aid across countries*

<sup>12</sup> OECD (2009a) p. 2

called fragmentation at the recipient country level, with the measure of fragmentation rising for each recipient country with the number of donors and the smaller these donors' aid shares.

Portfolios have become more fragmented over time. This is true for most donors, but some stand out. The US has kept the same level of fragmentation for 45 years. Finally, donors such as Australia and Japan, that are quite specialized geographically, have less fragmented portfolios. With multilateral donors, it is observed that some of them have highly fragmented portfolios. The European Commission and UN agencies give aid to most countries and so have the most fragmented portfolios.<sup>13</sup> Recipient countries are faced with an increasing number of donors engaged in delivering development assistance. For instance, in 1960 a developing country received aid from less than two donors on average, while in 2006 the average number of donors per recipient had risen to more than twenty eight.<sup>14</sup>

## **2.5 Causes of Fragmentation and Proliferation**

Various ideas have been advanced to explain the reasons why aid has become fragmented and why there is a proliferation of donors in the aid industry today. One author has attributed fragmentation and proliferation to the "One-Country, One-Vote" system in the UN General Assembly. Since each country has only one vote, it is important for countries that have an issue of interest to receive support for their motions by getting other votes for it. It therefore makes it much cheaper to buy influence by giving aid to small countries in order to assure themselves of that crucial vote. The end result of this is that there ends up being a various number of donors running a number of small aid programmes in a wide range of small countries.

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<sup>13</sup> E. Frot & J. Santiso, *Development Aid and Portfolio Funds: Trends, Volatility and Fragmentation*, OECD Development Center, Working paper No. 275, p.35

<sup>14</sup> *Ibid* p.31

Hence the more support needed for their issues, the more aid is given to the countries who can vote favorably for them.<sup>15</sup>

Frot and Santiso note that donors are increasingly attracted to poorer and more democratic countries for various reasons. They may be attracted to them for purely altruistic reasons and may feel a genuine desire to help them improve economically and boost development. They may also be interested in enhancing democracy in these countries. A second reason they may be interested in these types of countries is the fact that it might garner support for aid at home. Many countries require their citizens' approval for aid programmes in the developing world and hence poorer countries tend to evoke more of a reaction thereby leading to support for their aid programmes. The net effect of many donors in a given country, for whatever reason, is increased fragmentation of aid.

Donors also worry about the impact of their actions relative to other donors. This donor competition for aid impact partly arises because it is very hard to measure a donor's total impact on poverty reduction in a recipient country.<sup>16</sup> Thus, in their need to justify aid budgets, donors compare their impact with other donors in order to make their case. This is especially true due to the entry of new players in the aid industry such as China who have proven to be a formidable force and whose aid activities have been steadily increasing especially in Africa. Competition among donors for aid impact ultimately leads to aid fragmentation.

The issue of aid partnerships has been a major factor that has led to donor fragmentation and proliferation. Many countries give out aid on the basis of previous or current partnerships and most of them have evolved over time. Early on donors established a small

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<sup>15</sup> Acharya, A., A.T. Fuzzo de Lima and M. Moore, 'Proliferation and Fragmentation: Transaction Costs and the Value of Aid,' *Journal of Development Studies*, 42 (1), 2006, pp. 1-21:16.

<sup>16</sup> K. Annen & L. Moers, *Donor Competition for Aid Impact, and Aid Fragmentation*, IMF Working paper, WP/12/204, P.4



number of partnerships and then carefully created new ones over time. Today, the biggest donors are providing development aid to practically every developing country. The process of partnership building has taken place over years, with donors choosing some priority recipients and then allocating additional resources to others.<sup>17</sup> Donors provide relatively more aid to recipients they have contact with early on, even decades after the partnership was established. This is especially true with colonial relationships as most colonial masters give the most of their aid to their former colonies. While favoring early entrant recipients, donors have also continuously expanded their recipient portfolios. Emerging new actors and expanding portfolios have ultimately led to aid fragmentation.

## 2.6 Effects of Fragmentation

Various scholars have written about the adverse effects of fragmentation and their impact on aid efficiency. For instance, Whittington and Calhoun argued more than 20 years ago that uncoordinated aid is “at least partly responsible for the failure of African economies to utilize their development assistance effectively.”<sup>18</sup> The World Bank claimed that “the weaknesses of uncoordinated aid” were increasingly recognized by both recipient and donor countries.<sup>19</sup>

Today’s aid industry is characterized by a multiplicity of actors who provide external contributions to the development of recipient countries. However, in their attempt to do so, they pursue their own policies and strategies, use a variety of different approaches and generally

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<sup>17</sup> E. Frot & J. Santiso, *Early vs. Late in Aid Partnerships and Implications for Tackling Aid Fragmentation*, Working Paper No. 1, 2009, Stockholm University, Stockholm Institute of Transition Economies, p.2

<sup>18</sup> Whittington, D., and C. Calhoun, ‘Who Really Wants Donor Co-ordination?’ *Development Policy Review*, Vol. 6 (3), 1988, pp.295-309:296

<sup>19</sup> World Bank, *Toward Sustained Development in Sub-Saharan Africa: A Joint Programme of Action*, Washington, DC: World Bank, 1984.

follow their own rules and regulations with regards to the distribution of development assistance. Even with the usual providers of official development assistance – the DAC donors – a growing number of new actors have emerged on the scene over the last decade, including some new donors, new global funds, international foundations, civil society organizations and private financial players. Many recipient governments, especially those in highly aid dependent countries, are overburdened with the task of stringently managing the inflow of development assistance. The result is duplication and fragmentation of efforts, contradictory initiatives and an undue increase in transaction costs for both partner countries and donors related to the provision of external assistance.<sup>20</sup>

A large portion of recipient countries receive aid from 25 donors or more. Similarly, more than half of those donors reporting to the DAC distribute their aid over more than 50 recipient countries, often addressing a great number of policy areas in a given country. Recipient countries, particularly those very dependent on aid, see themselves in a weak position to negotiate or even refuse particular aid offers, as they fear losing some of their development assistance. Proliferation and fragmentation impose high transaction costs on the recipient countries, especially the poorest among them, with multiple donor missions, different sets of policy conditions and inconsistent reporting requirements absorbing scarce administrative resources.<sup>21</sup>

According to Morss, during the first two decades of foreign aid to developing countries, the 1950s and 1960s, most aid was given in the form of “programme support.” This meant funding for large infrastructure projects or broad support for a sector such as agriculture or

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<sup>20</sup> *Trends in In-country Aid Fragmentation and Donor Proliferation*, Report on behalf of the OECD Task Team on Division of Labor and Complementarity, Urs Bürcky – 10 June 2011, p.7

<sup>21</sup> I. Aldasoro, P. Nunnenkamp & R. Thiele, *Less Aid Proliferation and More Donor Coordination? The Wide Gap between Words and Deeds*, Kiel Working paper No. 1516, April 2009, p.4

health, support that could include grants, loans, technical assistance, and commodities. However, in the 1970s, doubts about the effectiveness of aid, compounded by demands from legislatures for clear results, led to a shift toward project aid. Aid was committed and disbursed in smaller packets and goals were more limited and measurable—say, the building of a certain number of schools. More than 20 years ago, Morss wrote that:

The proliferation of donor projects is having a negative impact on the major government institutions of developing nations. Instead of working to establish comprehensive and consistent national development objectives and policies, government officials are forced to focus on pleasing donors by approving projects that mirror the current development “enthusiasm” of each donor. Further, efforts to implement the large number of discrete, donor-financed projects, each with its own specific objectives and reporting requirements, use up far more time and effort than is appropriate. Project consolidation is needed, but this is unlikely to occur on a significant scale because of the competitive nature of donor interactions.<sup>22</sup>

Fragmentation has led to undue competition in some form thereby reducing aid effectiveness to a certain degree. Rodman argues that if there are multiple donors who care most about the success of their own projects, a negative externality arises through competition for scarce recipient resources. This creates an incentive for “competitive proliferation” and leaves the recipient worse off<sup>23</sup> Due to the proliferation of donors on the scene and the multiplicity of projects, each donor desires to perform better on their projects and mostly in a way that will garner support from the public back home. The level of public support for aid affects not only the quality of aid but also the effectiveness of each dollar spent on aid. Paul Collier, in *The Bottom Billion* asserts: ‘The key obstacle to reforming aid is public opinion’ in donor countries. Where there is relatively little support for aid, aid agencies are overly risk averse, according to Collier,

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<sup>22</sup> Morss, E.R. (1984), “Institutional Destruction Resulting from Donor and Project Proliferation in Sub-Saharan African Countries’. *World Development Review*, 12 (4): 465–470:468.

<sup>23</sup> Roodman, D. (2006b). *Competitive Proliferation of Aid Projects: A Model*, Working Paper 89, Washington, DC: Center for Global Development, June 2006.

and are constrained to deliver aid in sub-optimal ways – for example, on projects that provide photo opportunities for politicians.

The concept of poaching has been discussed by various scholars who argue that the presence of donor agencies in recipient countries has an adverse impact on their' administrative capacity. The hiring of local staff to work in the aid agencies at hefty salaries is said to be drawing away highly qualified staff from government ministries and agencies. This has been argued by Arndt where he asserts that because of donors' need to show tangible results for their projects, excessive recourse is made to expatriate experts, especially long-term advisers. To the extent donors must work with counterparts in the local bureaucracy, these same pressures commonly lead donors to pay salary supplements to the more talented local staff. This practice distorts incentives for civil servants to turn their attention away from their other responsibilities—even those with greater impact on development—and toward the donor's projects.<sup>24</sup> It also creates incentives for officials to protect and extend aid projects from which they benefit, regardless of their merit, and to help perpetuate the practice of spending aid funds in the form of independent projects rather than in the form of coordinated, sector-wide programmes or budget support.<sup>25</sup>

Aid donors and projects come with particular agendas and schedules which are well intentioned but disrupt the organizational learning of recipient agencies. And the pressure on donors to show results quickly and disburse funds often leads to the establishment of parallel organizations which can end up weakening the capacity of recipient governments to design and implement policies and programmes. To the extent that donor fragmentation is said to impede

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<sup>24</sup> Arndt, Channing. "Technical Cooperation," In F. Tarp, ed., *Foreign Aid and Development: Lessons Learnt and Directions for the Future*. London: Routledge.2000, pp.166-167:166.

<sup>25</sup> Acharya, A. A, Fuzzo de Lima, & M, Moore. *The Proliferators: Transactions Costs and the Value of Aid*. Institute of Development Studies, 2003.

aid effectiveness, there is a growing number of scholars who contend that there is too little fragmentation. This situation they say is harmful in the long-run due to the fact that when there are a limited number of donors in the field, the chances of creating aid monopolies is very high. In this respect, it is highly probable that the recipient country, due to lack of other options, may be forced to accept whatever conditions come with the aid. They claim that there ought to be a healthy level of competition among donors to reduce the prioritizing of some projects by one donor agency against another. Frot and Santiso argue that if a donor enjoys a monopoly in aid disbursements in a country, it is doubtful that aid will be disbursed in the most efficient fashion.<sup>26</sup>

## 2.7 Suggested Solutions to Reducing Fragmentation

There have been calls for better aid delivery for quite a long time now. Cases of misappropriation, waste and misallocation are rife within the aid industry with some scholars calling for the drastic curtailing or elimination of aid efforts entirely. Others have called for increases in amounts of aid given to developing countries with the year 2005 being the year that the west tried harder than ever to save Africa. British Prime Minister Tony Blair called at the world economic forum in Davos in January 2005 for a “big, big push forward” in Africa to end poverty, financed by an increase in foreign aid. Gordon brown and tony Blair put the cause of ending poverty in Africa at the top of the agenda of the G-8 summit in Scotland in 2005.<sup>27</sup> However recently there has been a greater concern aimed at harmonization and co-ordination of aid efforts, with greater calls for reducing fragmentation and proliferation.

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<sup>26</sup> E. Frot, & J. Santiso, *Crushed Aid: Fragmentation in Sectoral Aid*, Working Paper No. 6, 2009, Stockholm University, Stockholm Institute of Transition Economies, P.3

<sup>27</sup> W. Easterly, 'Can the West Save Africa,' *Journal of Economic Literature*, vol.47, No. 2 (Jun., 2009) pp.373-374:373.

The Paris Declaration on Aid Effectiveness calls for better harmonization and coordination of aid, as well as greater country ownership and deeper alignment of external assistance. More specifically, the declaration states in paragraph 33: 'Excessive fragmentation of aid at global, country or sector level impairs aid effectiveness. A pragmatic approach to the division of labor and burden sharing increases complementarity and can reduce transaction costs.' Donors therefore committed themselves to 'make full use of their respective comparative advantage at sector or country level by delegating, where appropriate, authority to lead donors for the execution of programmes, activities and tasks' and to 'work together to harmonize separate procedures.'<sup>28</sup> The Accra Agenda for Action specifies these commitments in paragraph 17 by stating that: 'We will reduce the fragmentation of aid by improving the complementarity of donors' efforts and the division of labor among donors, including through improved allocation of resources within sectors, within countries and across countries.'<sup>29</sup>

It is evident from these two commitments on the part of the international community that the issue of donor co-ordination and harmonization is one which many feel may change how aid is delivered and in the long-run ultimately impact on its effectiveness. One argument that has been brought forth is that donors ought to specialize in one contextual area instead of being involved in all sectors in the recipient state. Donors may also decide unilaterally to focus on specific purposes which aid is meant to serve such as aid for education ("aid sectors"). Unilateral action of this sort would help overcome coordination failure - but only if donors concentrated on

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<sup>28</sup> OECD (2005): *Paris Declaration on Aid Effectiveness. Ownership, Harmonization, Alignment, Results and Mutual Accountability*, Paris, Internet: <http://www.oecd.org/dataoecd/30/63/43911948.pdf>, accessed 29 August 2012

<sup>29</sup> OECD (2008): *Accra Agenda for Action*, Accra, Internet: <http://www.oecd.org/dataoecd/30/63/43911948.pdf>, accessed 29 August 2012.

different recipient countries and aid sectors, rather than all engaging with the same “aid darlings” and crowding in the same high-publicity sectors.<sup>30</sup>

Analyzing donor actions from a collective action perspective, some scholars argue that higher aid shares give donors a more “encompassing interest” in a country's development.<sup>31</sup> Where numerous donors operate and each provides only a small part of development assistance, responsibility for development outcomes is diffused. “The more donors there are, the easier it is to assume or assert that the lack of development progress is “someone else's fault” and any single donor has little reputational stake in the success or failure of the recipient's development programme.<sup>32</sup> The major argument that has been made for donor co-ordination and harmonization is the fact that less fragmented aid may alleviate the collective action problems by providing a single or dominant donor with stronger incentives to accept responsibility for success or failure of aid delivery in a particular sector to a particular recipient country.

Responsibility is rather diffused when there are many donors involved, giving incentives “for any one donor to shirk on activities that maximize overall development in favor of activities that contribute to donor-specific goals”<sup>33</sup> This argument has been supported greatly by the advocates of the Marshall plan, an aid programme deemed to have been very successful in the economic recovery of post-war Europe. The main reason for its success has been said to be the fact that the recipients had to deal with only a single donor, in contrast to the dozens of bilateral and multilateral agencies and hundreds of NGOs in the aid business today. In addition

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<sup>30</sup> I. Aldasoro, P. Nunnenkamp & R. Thiele, *Less Aid Proliferation and More Donor Coordination? The Wide Gap between Words and Deeds*, Kiel Working paper No. 1516, April 2009, p.1

<sup>31</sup> Olson, M., 1982. *The Rise and Decline of Nations: Economic Growth, Stagnation and Social Rigidities*. Yale University Press, New Haven.

<sup>32</sup> Acharya, A., de Lima, A. T. F., Moore, M. *Proliferation and fragmentation: Transactions costs and the value of aid*. *The Journal of Development Studies* 42 (1), 2006, pp.1-21.

<sup>33</sup> Knack, S. Rahman, A. ‘Donor Fragmentation and Bureaucratic Quality in Aid Recipients,’ *Journal of Development Economics*, 83 (1), 2007, pp.176-197.

the Marshall plan was helped by the fact that it was not disbursed in the form of dozens of separately managed donor projects in each recipient country. In her foreword to Kanbur and Sandler, 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."<sup>34</sup>

Increased donor harmonization and co-ordination can lead to the process of untying aid, a concept that has been severely criticized and named as one of the main impediments to achieving aid effectiveness. Tying aid is a practice whereby donors require that goods and services given to recipient countries be purchased from the donor's home country, or be used specifically to support some organizations or firms in the donor country. The concept of tying aid has been mentioned in the 2005 Paris Declaration on Aid Effectiveness. Besides taking other actions, the agreement urges donors to reduce aid fragmentation and to untie more of their aid. The practice of tying aid providing it conditional on using it to purchase goods and services from suppliers based in the donor country has been estimated to increase costs by 5% to 30%, or even more for food.<sup>35</sup> The OECD's Development Assistance Committee (DAC) therefore issued a recommendation to its members in 2001 to untie aid to the Least Developed Countries (LDCs) to the largest extent possible, but exempting food aid, technical assistance, and aid channeled through NGOs instead of recipient governments.<sup>36</sup>

Aid untying is monitored under the Millennium Development Goals, as one of many indicators under the 8th goal of developing a global partnership for development. Tying aid not only reduces its value to the recipient, but is considered to be inconsistent with the Paris Declaration principles of country ownership and alignment with country priorities and systems.

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<sup>34</sup> Kanbur, R. & Sandler, T. *The Future of Development Assistance: Common Pools and International Public Goods*, 1999, ODC Policy Essay No. 25. Washington DC: Overseas Development Council.

<sup>35</sup> Jepma, C. J., 1991. *The Tying of Aid*. OECD Development Center, Paris.

<sup>36</sup> OECD, 2008. DAC Recommendation on Untying ODA, OECD.



The share of aid that is untied is thus included as one of the 12 Paris Declaration Indicators for improved aid effectiveness.<sup>37</sup> A donor with a larger share of the aid market in a country has a stronger incentive to maximize the development impact of its aid instead of pursuing commercial or other non- development objectives. Thus, more concentrated aid should be associated with less tying of aid.

## 2.8 Conclusion

The UN Secretary-General commissioned a High-level Panel (HLP) to report on UN system-wide coherence in development, humanitarian assistance and the environment. The HLP released the report, “Delivering as One”, in 2006. The report concluded that there was systemic fragmentation of UN work on development and the environment, that policy was incoherent, and that there was duplication and operational ineffectiveness across the system.<sup>38</sup> Co-operation had been hindered by competition for funding, mission creep and by outdated business practices. The key recommendation was to establish “One UN” at country level with One Leader, One Programme, One Budget and, where appropriate, One Office. The “One UN” reform aims to establish appropriate governance, managerial and funding mechanisms, to make operations more coherent and effective, to harness expertise and experience from across the UN system, to reduce transaction costs and to create synergies – in short, to “enable the UN to achieve more than the sum of its parts”<sup>39</sup>

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<sup>37</sup> OECD, 2011. *Aid effectiveness 2005-10: Progress in implementing the Paris Declaration*, OECD Publishing.

<sup>38</sup> United Nations (2006), “*Delivering as One*”, *Report of the Secretary-General's High-level Panel*, New York, [http://www.undg.org/archive\\_docs/9021-High\\_Level\\_Panel\\_Report.pdf](http://www.undg.org/archive_docs/9021-High_Level_Panel_Report.pdf)

<sup>39</sup> *Ibid.* “Delivering as One”.

It is therefore evident from the literature reviewed in this chapter that the donor community is aware of the fact that fragmentation exists and the negative connotations that come with it. As seen from the "One UN" agenda, the UN appreciates the fact that due to the number of agencies it has and how they are involved in development projects, their work has been quite segmented leading to duplication of efforts and unnecessary waste. Due to the Paris Declaration and the Accra Agenda, the donor community seems to be fully committed to reducing fragmentation and harmonizing their projects. A study in Tanzania found that almost all of the UN agencies work on HIV/AIDS and gender issues. In the case of HIV/AIDS this indicates excessive fragmentation. The study went on to note that the "One UN" reform process in Tanzania is leading to clearer prioritization of sectors and assignment of lead roles within the UN system.<sup>40</sup>

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<sup>40</sup> 2008 DAC report on multilateral aid, p.16

## Chapter Three

### Dynamics of Foreign Aid

#### 3.1 Introduction

Foreign aid has been the subject of many debates over the past few years. Many critics have claimed that Aid has gone a long way in perpetuating bad governments, fuelling corruption and providing the means to keep dictatorial regimes in place. The other side of the debate has been that foreign Aid has played a key role in poverty reduction and growth in many countries and has helped slow the descent into statelessness, a situation that many countries have inadvertently found themselves in.<sup>1</sup> In order to enter this debate, we must first define foreign Aid, who are the donors and recipients of Aid, the reasons for giving of Aid, the kind of relationships that exist within the aid sector and its purported successes and failures.

#### 3.2 Definition of Foreign Aid

Foreign assistance or what has come to be termed as foreign aid can be described as money or other aid made available to help states speed up economic development or simply meet basic humanitarian needs.<sup>2</sup> The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) has given a standard definition of foreign Aid, which defines foreign Aid (or the equivalent term, foreign assistance) as financial flows, technical assistance, and commodities that are designed to promote economic development and

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<sup>1</sup> W. Easterly, 'Can the West Save Africa,' *Journal of Economic Literature*, vol.47, No. 2 (Jun., 2009) pp.373-374

<sup>2</sup> G. Crawford, *Foreign Aid and Political Reform: A Comparative Analysis of Democracy Assistance and Political Conditionality*, Palgrave, 2001 p.484

welfare as their main objective (thus excluding Aid for military or other non-development purposes); and are provided as either grants or subsidized loans.<sup>3</sup>

Foreign aid takes a variety of forms. One of them is grants which are funds given free to a recipient state, usually for some stated purpose. Technical cooperation refers to grants given in the form of expert assistance in some project rather than just money or goods. The U.S. peace corps provides U.S volunteers for technical development assistance in developing countries. They work at the request and under the direction of the host state but are paid an allowance by the U.S. government. Credits are grants that can be used to buy certain products from the donor state. For instance, the United States regularly gives credits that can be used to purchase U.S grain.

Loans are funds given to help in economic development, which must be repaid in the future out of the surplus generated by the development process. Unlike commercial loans, government-to-government loans are often on concessionary terms, with long repayment times and low interest rates. Although still an obligation for the recipient country, such loans are relatively easy to service. Loan guarantees which are used only occasionally are promises by the donor state to back up commercial loans to the recipient. If the recipient state services such debts and ultimately repays them, there is no cost to the donor. But if the recipient cannot make the payments, the donor has to step in and cover the debts. A loan guarantee allows the recipient state to borrow money at lower interest from commercial banks.<sup>4</sup>

Military aid is money or weaponry that flows from government to government to be used in the military service. However it is the least efficient and geared to political alliances

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<sup>3</sup> <http://www.oecd.org>

<sup>4</sup> J. Goldstein & J. Pevehouse, *International Relations*, Longman, 2008, p.87.

rather than actual development needs. Dambisa Moyo in her book - *Dead Aid* - asserts that there are three types of aid: humanitarian or emergency aid, which is mobilized and dispensed in response to catastrophes and calamities – for example aid in response to the 2004 Asian tsunami or monies which targeted the cyclone-hit Myanmar in 2008; charity-based aid, which is disbursed by charitable organizations to institutions or people on the ground; and systematic aid – that is, aid payments made directly to governments either through government-to-government transfers (in which case it is termed as bilateral aid) or transferred via institutions such as the World Bank (known as multi-lateral aid).<sup>5</sup>

The DAC classifies Aid flows into three broad categories. Official development assistance (ODA) is the largest, consisting of Aid provided by donor governments to low- and middle-income countries. Official assistance (OA) is aid provided by governments to richer countries with per capita incomes higher than approximately \$9,000 (For example, Bahamas, Cyprus, Israel and Singapore) and to countries that were formerly part of the Soviet Union or its satellites. Private voluntary assistance includes grants from non-government organizations, religious groups, charities, foundations, and private companies. This study deals with official development assistance (ODA).<sup>6</sup>

### **3.3 Donors and Recipients of Foreign Aid**

Most foreign aid is given as bilateral assistance directly from one country to another. Donors also provide aid indirectly as multilateral assistance, which pools resources together from many donors. Some of the major multilateral institutions include the World Bank; the

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<sup>5</sup> D. Moyo, *Dead Aid: Why Aid is not Working and How There is Another Way for Africa*, Penguin books, 2010, p.7.

<sup>6</sup> M. Elm, 'Who is Helping Whom in the Mirage of Foreign Aid,' in *Columbia Journal of World Business* (New York), July-August 1968, pp. 11-18.

International Monetary Fund; the African, Asian, and Inter-American Development Banks, and various United Nations agencies such as the United Nations Development Programme. Most donors are from the developed countries, USA, UK, most of Europe, China and other Asian countries while recipients are mostly from Africa, the Middle East and a few Asian countries.

### 3.4 Historical Background of Foreign Aid

The history of foreign aid pretty much begins as early as the Bretton woods conference in July, 1944 where over 700 delegates from some forty four countries resolved to establish a framework for a global system of financial and monetary management. It is from this gathering that the dominant framework of aid-infused development would emerge.<sup>7</sup> John Maynard Keynes, the pre-eminent British economist and Harry Dexter, the then US secretary of state, led the discussions that laid the table for the foundations of three organizations: the International Bank for Reconstruction and Development (commonly known as the World Bank), the International Monetary Fund (IMF) and the International Trade Organization.<sup>8</sup>

On 5<sup>th</sup> June, 1947 at Harvard University, the US secretary of state, George C. Marshall, outlined a radical proposal by which America would provide a rescue package of up to \$20 billion for a ravaged Europe. In return, European governments would draw up an economic revival plan. General Marshall argued for an aggressive financial intervention by the United States due to the aftermath of the Second World War on Europe. Under the Marshall plan, the U.S. embarked on an aid programme to fourteen European countries which saw the transfer of assistance worth roughly \$13 billion throughout the five year life of the plan from 1948 to 1952.<sup>9</sup>

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<sup>7</sup> [www.worldbank.org](http://www.worldbank.org)

<sup>8</sup> E.J. Labs, *The Role of Foreign Aid in Development*, Congress of the U.S, Congressional Budget Office, 1997, p.35

<sup>9</sup> M. Hogan, *The Marshall Plan: America, Britain and the Reconstruction of Western Europe, 1947-1952*, Cambridge, Cambridge University Press, 1987, p.57

The plan was clearly successful in bringing Western Europe back onto a strong economic footing, providing the U.S with the vehicle to influence foreign policy, winning it allies in Western Europe and building a solid foundation for US-led multilateralism.<sup>10</sup> Seeing as the Marshall plan was quite a success in Europe, focus then shifted to Africa.

Africa was ripe for aid. The continent was characterized by a largely uneducated population, low-salaried employment, a virtually non-existent tax base, poor access to global markets and insufficient infrastructure. Armed with the ideas and experience of the Marshall plan, richer countries saw Africa as a prime target for aid and aid began to appear. Richer countries saw this as a way to help the poorer countries by giving them huge sums of money. Foreign aid was seen as a way to trigger higher investment, which would thus lead to higher economic growth. The cold war saw aid being used as a tool to gain allies and cement relationships. From the 1960's, Africa was awash with aid mainly for large-scale industrial projects and infrastructure. The 1970's saw a gradual shift from aid funding infrastructure projects to funding projects in agriculture and rural development, social services like housing, education, health as well as food for the malnourished.<sup>11</sup>

By the 1980's, and sparked by the 1979 oil crisis, higher interest rates led to worldwide recession and emerging countries were unable to service their accumulated debts. The solution to this crisis was to restructure the debt and this led to the IMF forming the Structural Adjustment Facility which was meant to lend money to defaulting nations to help them repay what they owed.<sup>12</sup> However, this only led to the poor countries' aid-dependence and put them deeper into debt. The 1990's saw the emergence of aid being a question of good governance as a

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<sup>10</sup> D. Moyo, *Dead Aid: Why Aid is not Working and How There is Another Way for Africa*, Penguin books, 2010, p.12

<sup>11</sup> A. Mazrui, *Africa since 1935*, UNESCO, 1993, p.806.

<sup>12</sup> J. Vreeland, *The International Monetary Fund: Politics of Conditional Lending*, Taylor & Francis, 2006, p.75.

critical evaluation of Africa revealed rampant corruption and even more corrupt leaders. For instance, after his meeting with President Reagan, Zaire's president Mobutu Sese Seko had asked for easier terms to service the country's \$5 billion debt; he then promptly leased a Concorde to fly his daughter to her wedding in the Ivory Coast.<sup>13</sup> However, despite the corruption and bad governance, aid continued to flow albeit with strings attached indicating the west's need to see changes in governance and more transparent institutions. The 2000's saw the rise of "glamour aid" with superstars joining the government in singing songs for aid. Concerts were organized whose proceeds were to go to Africa to help the "poor."<sup>14</sup>

However, despite all this, Africa has nothing much to show for all the billions of dollars that have been poured into this continent. Rwanda's president Paul Kagame put it most simply:

The primary reason [that there is little to show for the more than US\$ 300 Billion of aid that has gone to Africa since 1970 is that in the context of post-second world war geopolitical and strategic rivalries and economic interests, much of this aid was spent on creating and sustaining client regimes of one type or another, with minimal regard to developmental outcomes on our continent.]<sup>15</sup>

With this history, it is quite evident that aid has not done much in uplifting Africa in terms of development or its economies. In fact, many argue that Africa is far worse now than before it began to receive aid. However, aid is still trickling in with funding for education programmes, health, development and many other public sectors.

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<sup>13</sup> *New York Times*, 4th February 1987

<sup>14</sup> P. Lieshout, R. Went & M. Kremer, *Less Pretension, More Ambition: Development Policy in Times of Globalization*, Amsterdam University Press, 2011, P.63

<sup>15</sup> Interview with Rwanda's president Kagame, *Time*, September 2007, <http://www.time.com/time/magazine/>



Without doubt, there has been a growing disillusionment with the performance of aid. Fighting poverty by supporting economic growth and development in the least-developed countries has been and continues to be a major objective of aid. However, in many countries it has been difficult to see any positive connection between aid and growth and development. Africa is a particularly sad case in this respect. The region has fallen behind the rest of the developing world by virtually any measure. The gap between Africa and the rest of the developing world continues to grow. Is aid a major cause of this development? Or has it prevented an even worse decline in living standards? Or has it had no effect at all? As long as aid agencies and host countries are unable to provide clear answers to these questions, aid will be under fire. Aid effectiveness will therefore continue to occupy a central position in the debate on development in Africa<sup>16</sup>.

### **3.5 Reasons for Giving Foreign Aid**

Over the years there have been various reasons advanced as to why countries choose to give aid to developing countries. The need for richer countries to boost weaker countries goes a long way back to when the business of aid began. However much has changed since then and now aid has evolved into a tool used to advance interests of developed states. We will look analyze in more detail the reasons why aid is given.

#### **3.5.1 Strategic and National Interest**

Aid has long been used as a foreign policy tool by some of the major aid donors especially the US. Being the largest donor as compared to the others, the US allocates its aid primarily in alignment with its foreign policies and strategic interests. Aid allocations have been

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<sup>16</sup> J. Carlsson, G. Somolekæ & N. V. Walle, *Foreign Aid in Africa: Learning from Country Experiences*, Nordiska Afrikainstitutet, Uppsala, 1997, pp.7-8.

massively influenced by national security issues, with the majority of its' aid channeled to Americas' allies. The Marshall plan is a good example of aid used for strategic and national interests. The main reason behind the US offering aid to Europe after the effects of the Second World War was to curb the spread of communism and prevent more countries from adopting it. It was a strategy to ensure that allies were made and cemented and to prevent those that were on the verge of turning to communism into aligning themselves with the US. However, within this broad framework, development and humanitarian goals have also been important since President Kennedy's Alliance for Progress. Development has been an explicit aid priority and in the early 1970s Congress passed the New Directions legislation which mandated an emphasis on recipient needs as a criterion for the allocation of US aid.<sup>17</sup>

Taiwan and China have used aid (among other policy tools) to try to gain support and recognition for their governments from countries around the world. Japan, like the United States, provides aid explicitly to enhance its own security and prosperity, with poverty way down the list of priorities. This was quite clearly expressed in 2006 by the minister of foreign affairs: 'it must not be forgotten that in the end ODA is implemented for Japan's own sake. In other words, ODA is implemented to enhance the happiness and to raise the profile of Japan and its people in the world'.<sup>18</sup> This explains why Japan's aid is highly concentrated in Asia. Likewise, Australia and New Zealand view their aid programmes as a contribution to their wider foreign policy objectives, and, therefore their aid is heavily concentrated in Asia and the Pacific.

Many donors provide significant Aid to their former colonies as a means of retaining some political influence. For France and the United Kingdom in particular, as well as for

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<sup>17</sup> R. Riddell, *Does Foreign Aid Really Work*, Oxford University Press, 2007, p.94

<sup>18</sup> Speech by Mr. Taro Aso, Japan National Press Club, 19 Jan.2006; available at [www.mofa.go.jp/announce/fm/aso/speech0601-2.html](http://www.mofa.go.jp/announce/fm/aso/speech0601-2.html) (accessed 25 sep.2012).

Portugal, Spain, Belgium and the Netherlands, aid allocation has been influenced by their former colonial histories. However, like all other major donors, their aid-giving has balanced development interests on the one hand with political, strategic and also commercial interests on the other. France has been known to employ this strategy by focusing its aid on its former colonies and thus trying to increase its spheres of influence. Their aid allocations can be argued to be an example of cultural diplomacy where they aim to promote their values, language and culture and hence will fund such endeavors in the recipient countries.

### 3.5.2 Commercial Interests

The majority of donors have a commercial interest when allocating aid. This is witnessed by the common practice of tying aid, a concept perfected by the US. Tying aid refers to the practice whereby donor countries condition their giving of aid on the purchase of items from the donor countries.<sup>19</sup> This is especially true with humanitarian aid where the purchase of food is normally required to be done from the donor country and even shipped by vessels belonging to the same. The US is particularly notorious in this regard requiring that purchases be made from home and shipped on US Vessels to the recipient country.<sup>20</sup> A recent study found that Australia also had a large tendency to tie its' aid. In 1997, a major review of Australia's aid programme was published, chaired by Paul Simons, former Executive Chairman of the private corporation Woolworths. The report noted that Australia tied more of its aid than any other country. It recommended that, 'as the minimum credible first steps in a process of completely untying all aid', all aid to the poorest countries should be totally untied and for other programmes recipient countries should be allowed to procure goods from domestic suppliers if

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<sup>19</sup> J. Ansari & H. Singer, *Rich and Poor Countries: Consequence of International Economic Disorder*, Routledge, 2012, p.188.

<sup>20</sup> E. Preeg, *The Tied Aid Credit Issue: U.S. Export Competitiveness in Developing Countries*, Center for Strategic and International Studies, Washington D.C., 1989, p.34

cost-effective.<sup>21</sup> The concept of tying has been critically condemned because of the increased costs it imposes on the recipient country. Several recommendations have been made to ensure that countries untie their aid in order to increase aid effectiveness.

### 3.5.3 Public's Approval of Aid

It is no secret that there is a great link between the allocation of aid and the public support for aid. Support for aid comes from the public's conviction that aid is performing well and is doing all that it set out to do. Thus, the higher the level of support from the public, the greater the amount of aid that will be allocated and vice versa. In many countries there is usually a lot of support for aid from the public. This is mostly due to the fact that the public is constantly inundated with images, from the developing countries, of the plight of the needy and the woeful standards of living in those countries. This in turn leads to calls for their respective governments to be involved in reducing poverty and helping the plight of those countries. The US is particularly vulnerable in this regard as there are always aid issues brought up in congress to be voted upon and debated and there can be decisions to increase or decrease aid programmes.<sup>22</sup>

However there is a sense of naivety in this assumption due to the fact that majority of the public are sometimes unaware of the extent of their governments' aid programmes. Majority believe that aid is mostly humanitarian assistance and fail to take into account the long-term aspect of development aid. Hence assumptions of failure have been largely borne out of this misconception. The public also are never aware of how much their governments give in terms of

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<sup>21</sup> Simons, H.P.G. Hart, & C. Walsh, *One Clear Objective: Poverty Reduction Through Sustainable Development*, Report of the Committee to Review the Australian Overseas Aid Programme (Simons Report) (Canberra: AusAID), 1997, p.192

<sup>22</sup> Lancaster C. *Foreign Aid: Diplomacy, Development, Domestic Politics*, Chicago, Chicago University Press, 2006, p.57

aid and are known to overstate the amounts they think are given. All these are reasons that may lead to the negative perception that aid is ineffective in some cases.

#### 3.5.4 The Moral Case for Aid

This is by far the most widely known and misused reason for the giving of aid and there has always been a strong moral case for its provision. Aid in many instances is regarded as an act of charity, a gift or act of kindness given to the recipient nations by the wealthier and more prosperous donors. It has been argued in many circles that rich countries have a moral obligation to help poor countries and that this ought to be the major motive for giving aid. The moral case for aid has been built mostly due to the extreme poverty and human suffering, especially as it exists within the poorest countries of the world.<sup>23</sup> Majority of these countries are mainly from Africa which tends to explain why Africa has received the bulk of foreign aid. This case for aid has also been built up due to the fact of the enormous wealth contrasting against this poverty (especially within the richest countries of the world) which therefore ought to provides the means to assist and are morally obligated to do so.<sup>24</sup>

The ever-widening gap between the rich and poor can be said to be a major case for aid as evidenced by the importance attached to it when formulating the Millennium Development Goals (MDGs). The western goals are quite ambitious, not limited to promoting overall economic growth. A 2000 U.N. Summit agreed upon "Millennium Development Goals" (MDGs) for the year 2015 in areas such as cutting poverty in half, reaching universal primary enrollment,

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<sup>23</sup> D. Clark, *The Elgar Companion to Development Studies*, Edward Elgar Publishing, 2006, p.144.

<sup>24</sup> W. Easterly, 'The Cartel of Good Intentions,' *Foreign Policy*, No. 131 (Jul. - Aug., 2002), pp. 40-49:44

reducing mortality of infants and mothers, achieving gender equality, dramatically increasing access to clean water, and other social indicators.<sup>25</sup>

### 3.5.5 Governance

The effectiveness of aid cannot be discussed without bringing up the issue of governance. Governance is a term used to describe the activities, institutions and processes involved in effectively running and managing a country's affairs in all its different spheres including economic, political and administrative including the relationship between the state and the society. Donors have varying views on what constitutes good governance and this is mirrored in the kind of programmes they initiate in recipient countries. Donors also disagree on the priority they should give to governance but in the context of fragile states they agree that their engagement should "do no harm." The problem of aid and governance comes mostly from the donors' understanding of governance and how they approach the issue. Some donors argue that governance is concerned primarily with rules and institutions while others believe that governance has more to do with the way policy is put into practice.<sup>26</sup>

There is a strong link between the quality of governance and aid effectiveness. It has long been argued that good governance goes a long way in increasing aid effectiveness and that donors ought to give aid to those countries that have a history of good governance and have effective policies and institutions in place that can administer aid effectively. However, this argument negates the fact that aid ought to be given to those countries that need it the most, and those countries may be the ones that lack institutional capacity and good governance. Development aid is given because of a country's poverty yet poverty is manifested in poor

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<sup>25</sup> United Nations (2007). The Millennium Development Goals Report. New York

<sup>26</sup> Gunning, J. "Rethinking Aid," in B. Pleskovic & Nicholas Stern, eds. *Annual World Bank Conference on Development Economics*, World Bank, 2001, p.36

economy low growth, weak institutions and systems of governance and weak accountability. What is unclear in these situations is what exact aspect of poor governance undermines aid effectiveness or what aspect of good governance promotes aid effectiveness. It is difficult to determine the role aid plays in addressing the problems of weak governance and the challenge therefore is how donors can provide aid in this context where a country is faced by various systemic and deep-seated problems.<sup>27</sup>

Fragile states have been known to include countries which are either in conflict, emerging from conflict or vulnerable to conflict, a factor which in itself may affect the performance of aid. The common argument here is that these types of countries are characterized by an environment in which it is difficult for aid to be effective. Many African states by this virtue can be classified in the failed states category and may help explain why the general view of aid in these states is that it is not working. The issue is not a cut and dry situation where the lines are clearly defined but rather there are huge problems when it comes to institutional and administrative capacity in these states. The main challenge for donors in this context is whether to channel aid into those countries whose conditions are deemed to be conducive with aid effectiveness. The reality however is much different in that the environment in most of these states is likely to be constrained by one or more serious systemic weaknesses. Only a few countries have provided a long-term environment that has been considered conducive to aid performing effectively.<sup>28</sup>

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<sup>27</sup> D. Brautigam & S. Knack, 'Foreign Aid, Institutions, and Governance in Sub-Saharan Africa,' *Economic Development and Cultural Change*; No. 52, 2; Jan 2004, pp. 255-286:270.

<sup>28</sup> T. Addison & M. McGillivray, 'Aid to conflict-affected countries: lessons for donors,' *Conflict, Security & Development*, 4:3, pp.347-367:352

It has taken a long time for donors to acknowledge this problem and they are normally faced with two choices in this situation; to withdraw aid completely or to continue giving aid and try to address the problems identified as impeding aid effectiveness. In the long-run, donors have largely chosen the option of continuing to engage in aid and trying to address the problems affecting aid effectiveness. Indeed the OECD/DAC's Principles for Good International Engagement in Fragile States do not merely state that all fragile states 'require substantial international engagement but that 'given low capacity and the extent of the challenges facing fragile states, investments in development, diplomatic and security engagement may need to be of longer duration than in other low-income countries.'<sup>29</sup>

### 3.5.6 Politics and Democracy

The problems of aid in recipient countries stem from a variety of issues and occur in a wide political context. Politics have been known to have an impact on aid effectiveness and donors have just recently begun to appreciate this fact. Many have tried to understand the link between some of the main weaknesses affecting aid performance and the different political forces operating within these recipient countries. One author has suggested that the 'root cause' of Africa's governance problems lies in the nature of its political systems.<sup>30</sup> This is a valid argument and is hugely important when trying to understand the context in which aid operates in these states. In many instances, donors have provided aid without adequately understanding or trying to understand the political context within which the aid they give is meant to work. Their knowledge of country contexts and history has been found to be wanting with donor staff who

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<sup>29</sup> OECD (2005): Paris Declaration on Aid Effectiveness. Ownership, Harmonization, Alignment, Results and Mutual Accountability, Paris, Internet: <http://www.oecd.org/dataoecd/30/63/43911948.pdf>, accessed 25 September 2012.

<sup>30</sup> O. Iheduru, *Contending Issues in African Development: Advances, Challenges, and the Future*, Greenwood Publishing Group, 2001, p.5.



are responsible for the making of crucial decisions on aid allocation and administration quite ignorant of the history of the country they are working in and the important factors to be considered.

A number of studies done on state behavior argue that most African countries are highly patrimonial and that access to services and allocation of state funds are significantly influenced by patronage.<sup>31</sup> One of the major issues derived from this is that aid which is provided with the aim of strengthening institutions and building good governance in such countries not only fails, but in most cases may actually have the unintended effect of reinforcing some of the very key problems that it was intended to ease such as patronage.<sup>32</sup> The issue of politics and failure of aid can be attributed to lack of ownership and commitment. The new mantra on aid effectiveness is that aid will only be effective if the recipient is committed to using it well. Yet this is a concept that is increasingly hard to define in a political context. This is because, particularly in many African states, political leaders can promise in all sincerity to use aid effectively but may fail to deliver on their promises because they lack the power and necessary means to follow through on them. Likewise donors have also now attributed the success of aid programmes to ownership in the sense that these programmes have a higher chance of succeeding if the recipient country takes ownership and is actively involved in the implementation. However, this may not be as easy as it sounds due to the fact that developing and achieving ownership of a development programme takes time and for most of these states, it

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<sup>31</sup> R. Tangri, *The Politics of Patronage in Africa: Parastatals, Privatization, and Private Enterprise*, Africa World Press, 1999, p.96

<sup>32</sup> D. Brautigam & S. Knack (forthcoming). "Foreign Aid, Institutions and Governance in Sub-Saharan Africa." *Economic Development and Cultural Change*, 2004, pp.255-286:278

can be argued that if they could do that in the first place then there would be no actual need for aid from donors.<sup>33</sup>

### 3.5.7 Conflict

A lot has been said about the relationship between aid and conflict. Some have attributed some aspects of conflict to the presence of aid in those countries and that the actual clamor and scramble to acquire donor funds has led to escalation of conflict. However the major debate on aid and conflict has been the role that aid plays or ought to play in conflict-affected societies. Aid plays a hugely controversial role in countries affected by conflict both those at war and those attempting 'post-conflict' reconstruction. There is no clear evidence on how aid may prevent conflicts from breaking out or escalating and neither is there evidence on how aid may influence the outcome of conflicts. Studies done on aid and conflict scenarios suggest that aid is more effective in promoting growth in post-conflict societies. They note that the economic circumstances of post-conflict countries are distinctive in many respects; the need to restore infrastructure combined with a collapse of domestic revenue can make aid unusually productive and growth can be supra-normal.<sup>34</sup>

Donors provide substantial aid to conflict-affected countries but there is little evidence that they systematically consider conflict when allocating aid. Most countries in conflict receive less aid than other countries owing to the donor belief that aid only works in good policy environments. Since most of these countries would not be termed as good policy environments, it follows that donors are largely unwilling to fund them. This can be detrimental

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<sup>33</sup> F. Meyer, *Donor Harmonisation, Ownership and Aid Effectiveness: A Critical Analysis of the Multi Donor Budget Support in Ghana*, GRIN Verlag, 2010, p.34

<sup>34</sup> P. Collier & A. Hoeffler, *Aid, Policy and Growth in post-conflict societies*, *policy research working paper No. 2902*, World Bank, Washington DC, 2002

in the long run because these are the countries that require more help in order to remove them from the conflict itself or prevent its further escalation. These countries are likely to do poorly on policy assessments and institutional quality indicators and therefore may be penalized by donors.<sup>35</sup> This is highly risky as it would cause the very poor people living in those countries to be denied aid and would therefore do nothing to reduce the risk of a return to violent conflict.

Donors must determine how best to give aid to these countries either by way of well-designed projects that are delivered independently of the recipient country government. This is due to the fact that in most cases the government ruling in a conflict-affected country might be compromised and may tend to exploit the confusion of war to get away with looting public funds. It is imperative that aid be given during a conflict instead of waiting for the conflict to be over and coming in with humanitarian assistance. Getting the community involved is a sure way of increasing the effectiveness of aid in these countries. For instance, in Mozambique donors supported rural-livelihood projects under the Safe Areas Scheme (those areas not affected by the war) during the latter part of that country's 16-year civil war.<sup>36</sup>

### 3.5.8 National Security

Foreign aid has long been used as a tool in the promotion or protection of national security. Aid has been used mostly to gain allies but in the context of national security it has been used to fund countries that are of the same mind ideologically and would prove important when it comes to protecting borders or waging war. The "war on terror" is a clear depiction of the use of aid as a means to achieve national security. The US has used this situation to advance its agenda in the Middle East. And while economic assistance for Israel and Egypt is estimated to

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<sup>35</sup> A. Alberto & D. Dollar, 'Who Gives Foreign Aid to Whom and Why?' *Journal of Economic Growth* 5(1), 200, pp. 33-63:37.

<sup>36</sup> F. Tarp, *Foreign Aid and Development: Lessons Learned and Directions for the Future*, Routledge, 2000, p. 397

have decreased to under \$800 million in 2005, according to an agreed schedule that would phase out economic assistance to Israel and cut aid to Egypt by half, aid to Pakistan (\$380 million), Uzbekistan, Kyrgyzstan, Tajikistan, and Kazakhstan (around \$30 million each)—all diplomatic allies in efforts to expel the Taliban government from Afghanistan and destroy al Qaeda—has risen significantly since 2001.<sup>37</sup> If progress were to be made in a settlement between Israel and the Palestinians the United States would undoubtedly increase financial assistance as would a breakthrough in eliminating weapons of mass destruction in North Korea.

### 35.9 Human Rights

Human rights play a significant role in determining the distribution and allocation of foreign aid to the recipient countries. Most donors tend to lean towards giving aid to countries that further human rights and shun those accused of disregarding them. Aid is also in this sense used as an incentive to ensure the enhancement and upholding of human rights. The US is a good example of a major donor whose aid is closely linked to the furthering of human rights, though many have argued that it has not been successful. US Congress has become increasingly concerned with restraining the allocation of foreign aid funds to governments involved in human rights abuses. To this end, it has enacted numerous laws; the 1961 Foreign Assistance Act, the 1973 Foreign Assistance Act, the 1974 Foreign Assistance Act, the International Security Assistance and Arms Export Control Act of 1976, and the International Financial Institutions Act of 1977 all contain provisions designed to link aid to human rights.<sup>38</sup> However, "extraordinary circumstances" "escape clauses and creative interpretations of what constitutes a "consistent

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<sup>37</sup> Lancaster, C. & Dusen, A. *Organizing US Foreign Aid: Confronting the Challenges of the Twenty-first Century*, Brookings Institution Press, Washington, D.C, 2005, p.13

<sup>38</sup> Carleton, D. & Stohl, M. 'The Foreign Policy of Human Rights: Rhetoric and Reality from Jimmy Carter to Ronald Reagan,' *Human Rights Quarterly* 7 (2), May, 1985, pp.205-229.

pattern of gross violations" of human rights seemingly have rendered these laws non-binding and U.S. foreign aid continues to be accused of flowing freely to human-rights abusers.<sup>39</sup>

### **3.6 Arguments for Aid**

The literature on foreign aid is wide and varied and controversies about its effectiveness or lack thereof, go way back. There have been stinging criticisms leveled against aid by writers such as William Easterly, Dambisa Moyo and Peter Bauer, who claim that aid has been a means of perpetuating corrupt governments, lining pockets of a few elite or altogether being wasted. Citing widespread poverty in Africa and South Asia despite three decades of aid, and pointing to countries that have received substantial aid yet have had disastrous records such as the Democratic Republic of the Congo, Haiti, Papua New Guinea, and Somalia, they call for aid programmes to be dramatically reformed, substantially curtailed, or eliminated altogether.

The other side of the debate has been captured by writers such as Jeffrey Sachs and Burnside & Dollar, who claim that though aid on a large-scale has not been as successful as envisioned, it has still managed to reduce poverty, boost economic growth in some countries and prevented worsening performance in others. Citing examples such as Botswana, Korea and more recently, Tanzania and Mozambique, they argue that aid has significantly assisted such countries and that much of their development can be directly attributed to foreign aid.

#### **3.6.1 Aid Has No Effect on Growth**

Those who subscribe to this theory claim that aid has made little or no impact on growth in developing countries. They argue that much of the aid given to the developing nations

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<sup>39</sup> Abrams, B. & Lewis, K. 'Human Rights and the Distribution of U.S. Foreign Aid,' *Public Choice*, Vol. 77, No. 4 (1993), pp. 815-821:815.

is yet to trickle down to those who really need it and that much of it has ended up in the wrong hands. They assert that aid has mostly been used to line the pockets of greedy and corrupt officials, further entrenching economic inequality, the one thing that aid is supposed to change. They claim that aid can be a means of enabling bad governments and helping to keep them in power. It is no secret that many dictatorships in West Africa are said to have been kept in place by French funding and especially during the cold war when aid was given primarily as an incentive to obtain allies. Many argue that aid given to countries in the midst of war and conflict inadvertently helps finance and perpetuates the conflict, hence increasing the instability. Peter Bauer, a professor at the London School of Economics has been the most outspoken proponent of this view although his studies have never been proven empirically. He gives a scathing critique of the premise that "aid helps the poor" by reiterating that aid does not help the poor in any way. Who can be against "aid?" The public sees the money as going to the pitiable figures in the aid publicity, when in fact it goes to their rulers; and the term aid has enabled its advocates to claim a monopoly of compassion and dismiss critics as heartless.<sup>40</sup>

### 3.6.2 Aid Has A Positive Relationship With Growth

Proponents of this view argue that aid in a classical sense spurs growth given that it augments saving, finances investment and adds to the capital stock of a country. All these are factors which are necessary in jumpstarting economic growth. Aid may also increase worker productivity through investments in health or education. Aid has been said to have a positive impact on development outcomes other than growth, such as health, education, or the environment.<sup>41</sup> Perhaps the best documented area is health, where aid-supported programmes have contributed to the eradication of small pox, the near-eradication of polio, control of river

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<sup>40</sup> P. Bauer, *Dissent on Development*, 1972 (Cambridge: Harvard University Press).

<sup>41</sup> S. Radelet, *A Primer on Foreign Aid*, Center for Global development, working paper no. 92, July 2006, p.9

blindness and other diseases, the spread of oral rehydration tablets to combat diarrhea, and the dramatic increase in immunization rates in developing countries since 1970.<sup>42</sup>

### 3.6.3 Aid Has A Conditional Relationship With Growth

This is probably the most widely-held view, that aid accelerates growth in certain circumstances but not others. Radelet on his working paper, a primer on foreign aid, identifies three sub-categories of this conditionality - that the effectiveness of aid depends on the characteristics of the recipient country, the practices and procedures of the donors, or the type of activity that aid supports. Craig Burnside and David Dollar have conducted an influential study where they conclude that aid has a positive impact on growth in developing countries with good fiscal, monetary and trade policies but has little effect in the presence of poor policies. Good policies are ones that are themselves important for growth. The quality of policy has only a small impact on the allocation of aid and aid would therefore be more effective if it were more systematically conditioned on good policy.<sup>43</sup>

### 3.7 Conclusion

It is evident that the debate on foreign aid is not nearly over. The circumstances under which aid operates are varied and different, and cannot be analyzed from the same viewpoint. The aid given as humanitarian assistance and the aid given to post-conflict countries cannot be measured for effectiveness in the same way as there are many variables to be factored in. The major consensus on the foreign aid debate is that aid has not been as effective as initially

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<sup>42</sup> Levine, et. al., 2004, Millions saved: Proven Success in Global Health (Washington: Center for Global development).

<sup>43</sup> C. Burnside & D. Dollar, 'Aid Policies and Growth,' *The American Economic Review*, vol. 90, no.4 (sep., 2000) pp.847-868:p.847

presumed and the exact reason why cannot quite be articulated. In the case of Africa we must analyze aid in terms of the environment it is operating in and analyze this from all angles. The debate on aid fragmentation must also be considered as the argument that too many donors operating on the scene can seriously impede aid effectiveness. It is highly likely that the reason for the slow or ineffective performance of aid is a combination of various factors and not just one isolated fact.



## **Chapter Four**

### **Aid Effectiveness in Kenya**

#### **4.1 Introduction**

Chapter Three dealt with foreign aid and the pertinent issues that arise from there. Kenya is included in this debate being a country that receives a lot of foreign assistance and partners with various development agencies. This chapter will give an in-depth analysis of foreign aid trends in Kenya, the amounts and donors involved, the problems Kenya has faced in regards to donors and aid, fragmentation, aid coordination and any other pertinent issues that have arisen. Kenya is not a high aid-dependent economy and donor assistance is less important than in many other African countries, although it remains significant in some sectors. Government mobilizes 21 percent of GDP in revenue, a much higher proportion of GDP than in most developing countries. Donor funds have amounted to only about 5.0 percent of the government budget in recent years. Still, development partners fund a significant proportion of resources for some activities, such as HIV/AIDS, education, and water supply.<sup>1</sup>

#### **4.2 Kenya's Major Aid Donors**

Table 4.1 below shows the major aid donors on the Kenyans scene as at 2010. The first table shows the amount of ODA that Kenya received between 2008-10, which showed a slight decrease from the previous years. The second table shows the top ten donors in Kenya for the same period showing the US to still be the largest donor with most of its assistance disbursed through USAid. Denmark, though a small aid-giving country, made its way into the list giving quite a sizeable amount.

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<sup>1</sup> Government of Kenya, 2007a, "Basic Report on Well-being in Kenya" Kenya National Bureau of Statistics, Ministry of Planning and National Development.

Table 4.1 shows the various sectors in which Kenya's bilateral donors are involved in without giving a breakdown of each donor's involvement. Health turns out to be the most heavily invested sector contributing to at least 25% and economic infrastructure is also heavily invested in judging by the increase in the number of infrastructure projects in the country even to date. Surprisingly, education receives very little contributions despite the fact that it is a major development sector which would help enhance donors' objectives as well. The least invested sector as seen from the table would be action related to debt which is the action taken by multilateral institutions with regard to Kenya's debt.

Kenya has received a steady flow of aid since the 1970s. It has received almost 70% of its total loans from bilateral donors mainly in the form of grants from donor governments while multilateral aid has been mainly in the form of loans from the World Bank Group. There have been a variety of reasons why Kenya has received aid over the last number of years. Kenya has always aligned itself with the west both politically and economically even during the cold war. This has always been an important incentive for donors in providing aid thus making Kenya an attractive recipient for assistance.<sup>2</sup>

Donors have a commercial interest in the recipient countries and most of their aid is given to cement commercial and financial relations with the aid recipient, open markets, and ensure opportunities for investors, contractors, and suppliers from the aid-giving countries. Kenya has always been considered among the stable countries of Africa. Its strategic location and relative stability has made it a viable commercial hub and sparked interest from donors who are interested in seeing their aid programs perform in a sound policy environment. Kenya was for many years a relatively attractive locale for foreign direct investment; it especially attracted

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<sup>2</sup> External Resources Division Information Guide, Ministry of Finance Kenya

consumer goods industries targeted at the East African market before the collapse of the East African Community in 1977.<sup>3</sup> The primary reason for aid has always been to promote economic growth and poverty alleviation in recipient countries. Kenya has been a candidate in this aspect owing to the economic slump it had in the 80s. The desire to improve the livelihoods and raise the standards of living are what has made Kenya an attractive recipient for development assistance.

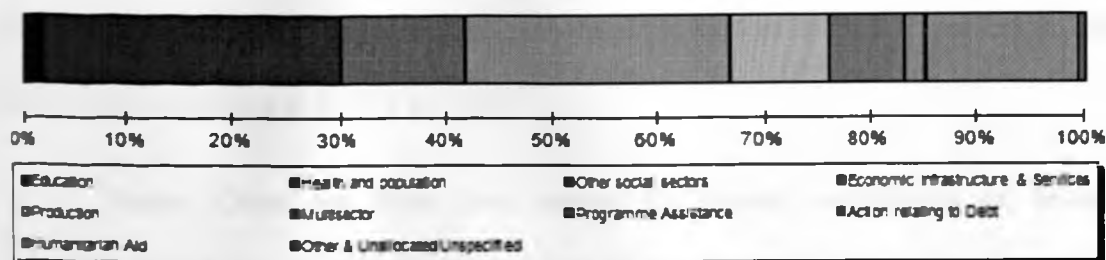
### Kenya

Receipts	2008	2009	2010
Net ODA (USD million)	1 366	1 776	1 631
Bilateral share (gross ODA)	69%	67%	69%
Net ODA / GNI	4.5%	6.1%	5.2%
Net Private flows (USD million)	- 26	595	- 12

For reference	2008	2009	2010
Population (million)	38.5	39.5	40.5
GNI per capita (Atlas USD)	740	770	790

Top Ten Donors of gross ODA (2009-10 average)		(USD m)
1	United States	579
2	IDA	193
3	United Kingdom	125
4	Japan	112
5	IMF (Concessional Trust Funds)	105
6	France	104
7	EU Institutions	93
8	Germany	92
9	AfDF	81
10	Denmark	64

**Bilateral ODA by Sector (2009-10)**



Sources: OECD, World Bank.

Figure 4.1 ODA in Kenya

<sup>3</sup> Mwega, F. *A Case Study of Aid Effectiveness in Kenya; Volatility & Fragmentation of Foreign Aid, With a Focus on Health*, Wolfensohn Centre for Development, Working Paper No. 9, January 2009, p.11

### 4.3 Emerging Aid Players

From table 4.1 above it is evident that the major donors in Kenya have been involved for quite some time now. However, the aid industry is constantly evolving and new players are emerging on the scene. Here are some examples of the new entrants on the Kenyan scene:

#### 4.3.1 Chinese Aid

China has significantly increased its aid to African countries over the years. China's foreign aid is highly strategic and is used to strengthen its links with African countries which are rich in resources in order to supply its rapidly booming economy. Thus the biggest beneficiaries of Chinese aid include resource-rich countries like Angola, Sudan, Nigeria and Zimbabwe. China's non-interference policy allows it to work in countries like Zimbabwe without getting involved in their political issues. In Kenya, loans and grants from China became significant in size after 2002 when a new government was elected, when China's share in total aid exceeded 1 percent. Since then, China appears in Kenyan national statistics among bilateral donors whereas before then, it was classified in the category of 'other donors.'<sup>4</sup> As a ratio of total loans and grants in Kenya, China accounted for 1.23 percent of the total in 2003, 1.15 percent in 2004, and with the share increasing to 8.25% by 2005.<sup>5</sup>

Hence, China has risen from among the lowest contributors of development assistance in Kenya to become one of the largest by 2005, second only to the European Union. This should however not be taken as a trend. Aid disbursed to Kenya by different donors varies greatly from year to year, depending on the country's institutional capacity to absorb funds and

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<sup>4</sup> Onjala, J. "A Scoping Study on China-Africa Economic Relations: The Case of Kenya," paper prepared for the African Economic Research Consortium (AERC), Nairobi, 2008.

<sup>5</sup> UNDP (2006). *Kenya Development Cooperation*, 2005.

delays in project preparation and tendering.<sup>6</sup> With the exception of 2004, the grant component of China's loans and grants is relatively high.

#### **4.3.2 Private Sector Aid**

Private sector aid includes aid given to Kenya from NGOs. UNDP statistics show that Kenya has received a lot of funds from various NGOs such as AMREF, CARE international, save the child fund among others. The five most stable foreign aid flows over 1990-2006 were from Save the Children Fund, AMREF, Aga Khan Foundation, World Vision and Children's Christian Fund.<sup>7</sup>

#### **4.4 Primary Data on Aid Fragmentation in Kenya**

Primary data collected from interviews with key personnel in the aid industry revealed some interesting information. This research allowed me to interview a few staff from the Ministry of Finance's External Resources Department and the Global Fund. I was also able to conduct interviews at the UNDP office in Nairobi as well as at USAid Kenya. The response received from all these institutions revealed a similar problem that they all agreed on, that Kenya lacks a clear national Policy on Foreign assistance and donor harmonization.

##### **4.4.1 The National Global Fund – Ministry of Finance**

The ministry of Finance through the National Global Fund has been mandated to coordinate donor activities with regards to disease control. The national global fund is a branch of the Global Fund which is headquartered in Geneva and with country offices in approximately 116 countries. The Global Fund is a basket fund contributed towards by the government of Kenya and various donors to fight against three diseases namely, HIV, TB & Malaria. The donors are made up of bi-lateral donors, civil society organizations, UN agencies, the World

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<sup>6</sup> Chege, M. "Economic Relations between Kenya and China, 1963-2007," available at <http://www.csis.org>, 2008.

<sup>7</sup> UNDP (2003). Kenya Development Cooperation 2002

Bank and EU as well as other individual government donors. It also receives funds from charitable organizations such as the Bill & Melinda Gates Foundation and the Ford Foundation as well as others. Its major aim is to alleviate disease and to help both the affected and infected. The national global fund in Kenya is therefore a country office founded in 2002 and tasked with the responsibility of administering the Global Fund on behalf of the country. It is run by a Country Coordinating Mechanism (CCM) which is made up of 16 donors contributing to the basket fund as well as the Government itself. The donors agree on thematic issues, work with project managers and establish a gap where there is a need for donor financing. They also determine the amount each donor will contribute as well as the Government's own contributions.<sup>8</sup>

Once a gap is established a proposal is prepared for onward transmission to Geneva once the call for applications, called a Round, is made. Once it is sent to Geneva, it is analysed by a Technical Review Panel, who can accept or reject the proposal depending on whether they deem the information contained therein as wanting. If they accept the proposal it is then sent to the Board and once approved the funds are thereafter disbursed. Once the funds are disbursed, the programme office has the mandate to determine which donor, civil society or the government to handle a particular area of the proposed project. The grant is normally for a period of five years and is done in phases. The first phase is normally between 2-3 years. The grant is performance based and there is a performance framework in place to ensure that the money is properly managed and that there is no delay in the implementation of the project. The Global Fund has the right to not disburse the rest of the funds for Phase Two if there is even a chance that there may be misuse or misappropriation of the funds.<sup>9</sup>

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<sup>8</sup> <http://globalfundkcm.or.ke/> last accessed on 15 September, 2012

<sup>9</sup> Interview with National Global Fund Director, Ministry of Finance on 29 September, 2012.

Interviews with the coordinator of the national global fund and from the External Resources Department raised some concerns regarding the administration of aid in the country and its effectiveness. The first issue that was raised was the issue of a national policy on donor involvement in the country. She argued that there arose a problem whereby donors were allowed to run amok, setting guidelines and rules for themselves, determining which areas to invest in and determining which methods to carry out their projects. The danger from this was a clash of ideas between the donors and the government efforts themselves. She contends that some donors may run programmes parallel to the national guidelines policies for foreign assistance. She also claimed that this was also bringing a duplication of efforts on both sides because for example the health sector was one of the most proliferated sectors in Kenya and had so many donors working on disease control.<sup>10</sup> The fact that the National Global Fund UN agencies like UNAIDS, WHO and other aid agencies like USAid are all involved in the area of HIV, TB & Malaria Eradication compounds the issue of fragmentation further.<sup>11</sup>

She named fragmentation as one of the issues marring the success of some of these programs but was also quick to point out that it is not the only issue affecting these programmes. Other issues like graft and corruption play an even bigger role on determining the effectiveness of aid in the country. Poor governance she reiterates is one of the major factors affecting aid performance from their perspective and lack of donor harmonization and coordination is another factor impeding their progress.

#### **4.4.2 The External Resources Department – Ministry of Finance**

The external resources department at the ministry of finance is the overall ministry charged with obtaining funds from donors and applying them to various department sectors in

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<sup>10</sup> Interview with National Global Fund Director, Ministry of Finance on 28 September, 2012.

<sup>11</sup> <http://theglobalfund.org/en/> last accessed on 25 September, 2012.

the country. It is required to solicit funds from development partners while focussing on development priorities in current policy documents. The department's mandate is to identify, negotiate and secure sources of external funding on behalf of the government. It is also tasked with expediting authorization of disbursement of Donor funds to implementing agencies and to ensure participatory periodic monitoring and evaluation of all budgeted projects and programmes. It also facilitates provision of technical assistance from Donors to Government Ministries and Departments and ensures effective management of Government/Donor Financial Agreements including protocols and follow up of loans utilization.<sup>12</sup>

Interview with the deputy director in the department brought up the issue of misappropriation of funds which she termed as one of the biggest problems that they dealt with. The allocation of funds to different ministries tends to diffuse responsibility for the funds and reduces accountability. She also argues that coordination with various ministries charged with implementing the projects devised is a difficult task as every ministry has its own method of operation and different protocols. She opines that some projects take too long to be implemented further eroding donor confidence and reducing chances of their continued involvement. She also contends that fragmentation of aid is a major issue and that as a department tasked with managing external resources, they are committed to the efforts Kenya has put in place to enhance donor harmonization and coordination.<sup>13</sup>

#### **4.4.3 Ministry of Public Health & Sanitation**

The provision of public health and sanitation services is informed by the Primary Health Care strategy, MDGs, Health sector reforms notably the Health Sector Wide Approaches

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<sup>12</sup> <http://www.treasury.go.ke/externalresources/> last accessed on 23 September, 2012.

<sup>13</sup> Interview with the Deputy Director, External Resources Department, Ministry of Finance on 02 October, 2012.



(HSWAp). This is also guided by the provisions of the Abuja Declaration, roll back Malaria and financing and coordination mechanisms including the Paris Declaration on Aid effectiveness and Sector Wide Approach (SWAP). Kenya has adopted the Health Sector-Wide Approach as a desirable instrument and an important element of health sector reforms.<sup>14</sup> A common planning and monitoring process and framework is now in place. A partnership instrument, the Code of Conduct, has also been developed and agreed by partners in the sector. An instrument to guide harmonization of financing, a Joint Financing Agreement, is in the process of development. Kenya has adopted the Public Private Partnership strategy as one of its flagship projects for national transformation. This is an important element that is intended to improve efficiency in the health sector and that could lead to the gradual withdrawal of the government in direct service provision.<sup>15</sup>

An interview with Ann, a member of staff at the ministry, agrees that the issue of donor fragmentation is very real. Currently there are approximately a minimum of ten organizations working in the HIV, TB & Malaria diseases area exclusive of the government's involvement. This kind of fragmentation is undesirable in her opinion where she says that credit ends up going to the wrong people who sometimes claim credit for work the government has done in order to get increased funding from their home countries. She says that despite the country's commitment to the global agenda, the country has lagged behind in meeting the commitments in some of the Declarations and achievement of the Millennium Development Goals is painstakingly slow.<sup>16</sup>

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<sup>14</sup> <http://www.publichealth.go.ke/about-the-ministry/overview-of-the-ministry> accessed on 23 September, 2012.

<sup>15</sup> Ministry of Public Health and Sanitation – Strategic Plan 2008 – 2012

<sup>16</sup> Interview with Anne Kimotho, Staff at Ministry of Public Health & Sanitation on 5 October, 2012.

#### 4.4.4 UNAIDS

The UNAIDS is involved in the disease control and healthcare programs in the country. Its major Development Partners include the Global Fund, PEPFAR and World Bank and they are all putting emphasis on the strengthening of the health system. The Paris and Rome Declarations have also established the basis for and led to alignment and co financing for the three diseases. This also strengthens country ownership as it links external support with national resources through, budget support aligning the joint financing for HIV/TB and Malaria, creates synergy as the three diseases affect same population groups especially in resource poor countries. Co-financing of HIV/TB and Malaria can also lead to better accountability and meeting the goal of community well-being. Progress towards harmonization and alignment and sector-wide approach has happened especially with UN support through UN Development Assistance Framework (UNDAF) Framework, donors, National policymakers to implement the following: The Abuja Call which gives equal weight to Universal Access to AIDS, TB and Malaria is suitable to benefit from such alignment ; and WHO-AFRO's Strategy on health financing to foster development of equitable, efficient and sustainable national financing to achieve health-related MDGs.<sup>17</sup>

Interviews with Judy, a member of staff at the UNAIDS office revealed the main issue they feel is a hamper to their efforts: that of donor harmonization and coordination. She cites fragmentation as a major issue affecting the effective delivery of aid programs in the country and the proliferation of donors in the sector would be better harnessed and dealt with through harmonization with other donors like the Elizabeth Glaser Pediatric Aids Foundation or the Bill & Melinda Gates Foundation.<sup>18</sup>

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<sup>17</sup>UNAIDS Strategy 2011-2015

<sup>18</sup>Interview with Judy, a member of Staff at UNAIDS office, Nairobi on 21 September, 2012.

#### 4.5 Donor Coordination and Harmonization Efforts

Kenya is committed to harmonizing and coordinating donor efforts in the country. It has enhanced both the Paris Declaration on Aid Effectiveness of 2005 and the Rome Declaration of 2003. Both of these declarations have placed a keen emphasis on aid effectiveness and donor harmonization. According to UNDP it is important that Kenya increases its' capacity for ownership of aid coordination; to harmonize and align Kenya and donors procedures on aid delivery; to eliminate duplication; and to enhance the cost effectiveness of aid in the country.<sup>19</sup> The Paris and Rome declarations also include commitments towards monitoring of results and accountability for resources; enhancement of public financial management, procurement and fiduciary safeguards; as well as planning, budgeting and performance assessment frameworks. These commitments serve as important avenues for increasing the impact of aid in reducing poverty, enhancing growth and catalyzing the achievement of MDGs.

This section will analyze the various mechanisms for coordination that Kenya has put in place and the headways it has made in achieving the goals of aid effectiveness. Given the fact that there are more than 30 multilateral and bilateral donors in the country, donor coordination and harmonization has become a challenging affair. Each of the donors involved have their own rules and budgets, have differing objectives for their programs and in the end use different methods to achieve their goals. After all this, donors still need to be in touch with the government and have regular policy discussions on their aid activities in the country. This is by no means easy and it goes to show just how much is needed to be done by Kenya in order to achieve aid effectiveness.

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<sup>19</sup> UNDP (2006), *Kenya Development Cooperation 2005*

Kenya has two types of coordination efforts: the national level and sectoral level. At the national level we have: The Consultative Group, which is the World Bank's term for its national consultative platforms. These are two-day conferences held roughly every 15 months, attended by a recipient country's political authorities and representatives of the multilateral and bilateral donors financing development activities in that country. Earlier Consultative Group meetings were chaired by the organizing body and held in Paris or Geneva but now the DAC recommends that the meetings take place in the recipient country with that country assuming responsibility for chairing and organizing the agenda.<sup>20</sup>

The World Bank organized the first Consultative Group for Kenya (CGK) in the early 1970s. This group met regularly throughout the 1970s and 1980s, normally once every two years. In the early 1990s, as donor concerns over economic management grew, meetings were held more often, in both 1990 and 1991, as well as meetings without the government's presence. Programme aid to Kenya was suspended between 1991 and 1993. Following its resumption, four CGK meetings were held between 1993 and 1995.<sup>21</sup> The 1996 CGK meeting took place in Paris and proved to be the last such meeting of the regime of President Moi. When, in January 2003, a new regime took power, there was immediate interest on the part of both donors and the government to establish better relations. When the CGK met in November 2003, the changed circumstances were evident. The meeting was held in Nairobi and was jointly chaired by the World Bank and the Government of Kenya.

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<sup>20</sup> OECD (2003a) *Harmonizing Donor Practices for Effective Aid Delivery: Good Practice Papers, Volume 1*. Paris: Organization for Economic Cooperation and Development

<sup>21</sup> O'Brien FS and Ryan TCI (2001) 'Kenya,' In: Devarajan S, Dollar D and Holmgren T (eds) *Aid and Reform in Africa: Lessons from Ten Case Studies*. Washington, DC: The World Bank, pp.430-487

There are also Donor Coordination Groups which have a membership the same as that of the Consultative Group but meet under the chairmanship of a government ministry. In the case of Kenya, the chair is the Ministry of Finance and deal mainly with high-level political matters.<sup>22</sup> There are two other groups charged with coordination efforts. The Harmonization, Alignment and Coordination Group (HAC) is made up of donor representatives, with government participation. Its tasks are to coordinate with government, facilitate donor harmonization and alignment, and streamline procedures. Sector Working Groups (SWGs), as their name suggests, focus on particular sectors, such as agriculture, health or industry. Donors working in a particular sector, together with relevant government representatives, meet to coordinate activities within that sector.<sup>23</sup>

The Kenya Coordination Group meetings, chaired by the Minister of Finance, have since 2004 provided regular opportunities for the government and development partners to discuss matters of mutual concern. Development partners meet among themselves each month in the Development Coordination Group, chaired by the World Bank.<sup>24</sup> The Harmonization, Alignment, and Coordination Group, which includes the Ministry of Finance and the Ministry of Planning and National Development, actively promotes the aid effectiveness agenda. It is committed to ensuring the alignment of donor activities in the country. All 17 of its members, providing some 90 percent of total official development assistance to Kenya, have joined together to formulate the Kenya Joint Assistance Strategy.<sup>25</sup>

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<sup>22</sup> <http://www.treasury.go.ke>, last accessed 05 October 2012

<sup>23</sup> D. McCormick & H. Schmitz, 'Donor Proliferation and Co-ordination: Experiences of Kenya and Indonesia,' *Journal of African and Asian Studies*, 46(2):149-168:159.

<sup>24</sup> DAC (2007) *Aid harmonization and alignment: Initiatives for Kenya 2007*. Mimeo, Harmonization, Alignment, and Coordination Donor Group, Nairobi.

<sup>25</sup> HAC (2006) *Harmonization, Alignment and Coordination*. UNDP and the World Bank. Available at: <http://www.hackenya.org> accessed 05 October 2012.

Below is a table showing the various groups involved in coordination efforts and the tasks assigned to them.

**Table 4.2 Groups Involved in Coordination and Harmonization**

<b>COORDINATING BODY</b>	<b>MEMBERSHIP</b>	<b>TASK</b>
Consultative group (cg)	Donors, jointly chaired by government and the World Bank	Overall country aid coordination
Donor Coordination Group (DCG)	Ambassadors and heads of donor agencies, under chairmanship of the government	High-level coordination, especially on political issues
Harmonization, Alignment and Coordination Group (HAC)	Donor representatives with government participation, under chairmanship of one of the donors	Coordinate with government, facilitate donor harmonization and alignment, streamline procedures
Sector Working Groups (SWG)	Donors working in particular sector together with government representatives of that sector	Facilitate coordination within the sector

\*Source: DAC (2007) and interviews in donor and government agencies<sup>26</sup>

At the sectoral level there have been efforts made to coordinate assistance across various sectors. There has been a lack of coordination between donors themselves, between donors and the government and between governments. Coordination between donors and government was enhanced by The Private Sector Development Strategy (PSDS) launched in 2007 to improve communication among donors and between donors and government. An example of sector coordination is Kenya's Governance, Justice, Law and Order Sector (GJLOS) programme.

<sup>26</sup> opcit, DAC 2007.

#### 4.5.1 THE GOVERNANCE, JUSTICE, LAW AND ORDER SECTOR (GJLOS)

The GJLOS Programme is jointly funded by 16 donors and includes a wide range of activities under four sector-wide reform priorities: governance reforms; human rights reforms; justice reforms; and law and order reforms.<sup>27</sup> The programme is organized as a Sector-wide Approach (SWAp) and the government sees this approach as recognizing systemic interdependencies that cut across the sector and thus going beyond 'traditional, narrow, institutional approaches to reform.'<sup>28</sup> Funding is provided by the Government of Kenya and the group of 16 donors. The donors have varying financial arrangements: some contribute to a basket fund, others give directly to government, and a third group contributes to the programme through multilateral donors. A total of 32 government ministries, departments and agencies participate in GJLOS.

#### 4.5.2 THE KENYA JOINT ASSISTANCE PROJECT (KJAS)

The Kenya Joint Assistance Strategy (KJAS) is a core strategy of 17 development partners for 2007–12. It provides the basis for the partners' support for the implementation of the government's development strategy, including the evolving 2030 Vision. It has been prepared collaboratively by the KJAS partners: Canada, Denmark, the European Commission (EC), Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, the United Kingdom, the United States, the African Development Bank, the United Nations, and the World Bank Group. The KJAS presents a shared development vision and intention between the Government of Kenya and KJAS partners, but it is not a legally binding document. Individual

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<sup>27</sup> GJLOS Programme Coordination Office (2005) *Governance, Justice, Law & Order Sector (GJLOS) Reform Programme: Selected perspectives*. PowerPoint presentation, Nairobi, Republic of Kenya

<sup>28</sup> Kenya, Republic of (2005) *Governance, Justice, Law and Order Sector (GJLOS) Reform Programme Medium Term Strategy 2005/06 to 2008/09*. Nairobi: Government Printer. Available at: <http://www.gjlos.go.ke/>

development partners will discuss and, if necessary, formalize their bilateral programs and agreements with the government. KJAS partners have committed to formally adopting the KJAS as part of their agency business plans by the end of 2008. Some KJAS partners require the approval of the cabinet and of parliament to formally join the KJAS, and will inform the government and the other partners once this has been granted.<sup>29</sup>

The KJAS is organized around three pillars in support of the government's strategy. These are (1) encouraging economic growth, (2) investing in people and reducing poverty and vulnerability, and (3) strengthening institutions and improving governance—the pillars of the Vision 2030 document. The KJAS is centered on three principles, which are consistent with those articulated in the Paris Declaration on Aid Effectiveness. These are supporting the country-led strategy to improve social well-being and achieve the MDGs, Collaborating more effectively, both among development partners and with the government and Focusing on outcomes (including managing resources and improving decision-making for results, and strengthening monitoring and evaluation systems).

#### **4.5.2.1 KJAS' PROGRESS IN HARMONIZATION**

Development partners have made real progress in harmonizing their activities during the past few years. Key achievements include:

Increasingly coordinating and sharing analytical and advisory work, appraisals and reviews, fiduciary assessments, and accountability rules (for example, the GJLOS review and the reviews of the government's proposed public financial management program).

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<sup>29</sup> Kenya Joint Assistance Strategy, 2007-2012



Increasingly coordinating sector support through SWAps, and aligning development partner-funded projects with sector strategies. Partners are providing assistance through SWAps or coordinated programs for public financial management reform, GJLOS reform, and education.

Some development partners adopting delegated cooperation, in which one development partner formally represents another in policy and sector dialogue, a practice that has significantly reduced transactions costs for both development partners and the government.<sup>30</sup>

#### 4.6 CONCLUSION

It is evident from the literature that Kenya aid has been fragmented along various sectors, leading to duplication of efforts by the major aid agencies, increased transaction costs and inefficient service delivery. The measures that have been put in place to meet the requirements of the Paris and Rome declarations show just how serious Kenya has taken up the issue of aid effectiveness. Through the Joint Assistance Program, the country has made significant steps towards achieving harmonization and coordination. It must however be noted that fragmentation is not the only issue affecting aid in Kenya and issues such as good governance, corruption, government assistance and domestic policies have a huge role to play in the impact that aid will eventually have in the country.

The main objectives of this study were to establish the impact of donor fragmentation, analyze the dynamics of foreign aid and to determine the impact donor fragmentation has had on the effectiveness of aid in Kenya. I believe that this thesis has fully addressed each of these objectives in the chapters prior to this. It has also tested the hypotheses envisioned in the first chapter. The first hypothesis was that the effectiveness of aid was greatly influenced by the

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<sup>30</sup> Kenya Joint Assistance Strategy, 2007-2012

policy environment it is employed in. This is a valid argument which has been demonstrated fully by the problems donors and recipients have had with regards to aid. Problems of governance, conflict and domestic politics have proven to be factors affecting aid effectiveness and are important components of the aid debate. The second hypothesis was that donor fragmentation does impede aid effectiveness. This has been proven by the extensive research on donor fragmentation and the various costs involved which lower the productivity of aid. The multiplicity of donors has led to the formulation of mechanisms to improve donor coordination and harmonization. The third hypothesis is that donor fragmentation has had an impact on the effectiveness of aid in Kenya. It is evident that it has been a problem for Kenya due to the large number of donors operating on the scene and that there have been important changes in the way aid is now being delivered.

## Chapter Five

### Conclusions

#### 5.1 Introduction

The debate on foreign aid continues to rage on, albeit with different viewpoints on its delivery and effectiveness. The previous four chapters of this thesis have painted an interesting picture on foreign aid, the issues surrounding and affecting its delivery together with a clear picture of Kenya's aid sector. It is evident from the existing literature that there is a growing consensus among donors that aid is not achieving the outcomes it has set out to achieve and hence the call for greater coordination and harmonization of aid delivery mechanisms. The illusion that aid might be a panacea for all of the developing world's problems is turning out to be nothing but a myth. Granted, aid has made some headway in areas like health, education and technical assistance, but has this been enough to bring about the much needed change in many of these countries? Many critics have labelled Africa as Aid-dependent in the sense that very few states can carry out routine functions or deliver basic public services without external funding and expertise.<sup>1</sup> Over-reliance on aid has come out as one of the worst aftermaths in foreign aid, creating a vicious cycle of give and take with little to show for it in the end. Many donors feel that this trend is unsustainable and chances of withdrawing aid or reducing it drastically are quite high. However there is little evidence to show that being reliant on aid means that states would have evolved necessarily in a more favourable direction had they received less aid.

Is aid, as Karl Kraus said of Freudianism, "the disease of which it pretends to be the cure?" This is a tough question, one that brings out more problems than it solves. It is evident that aid should not be the sole reason to blame for the problems most developing countries face today. The fact that it is constantly brought up as a reason why most

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<sup>1</sup> D. Brautigam, 2000, *Aid Dependence and Governance*, Stockholm, Almqvist and Wiksell international

developing countries are lagging behind in their development efforts is simply biased and unfounded. The literature on foreign aid, though wide and varied, seems to agree on one thing: that aid is most successful in good policy environments, countries that have good governance, are committed to development efforts and have put in place measures that can support and enhance aid productivity. Foreign aid flows from developed to developing countries have been said to be the solution to world poverty and ending hunger. However, the belief that aid benefits developing countries no matter which circumstances it operates in is circumspect and begs further inspection. The massive increase in the flow of foreign assistance can have damaging effects on the governments and institutional capacities of the recipient countries and in the long run can end up doing more harm than good in most circumstances.

However, discrimination by donor countries on the basis of standards of governance creates new complications. Countries with poor governance tend to need foreign assistance more than the stable ones hence refusal to give aid to countries with histories of poor governance defeats the whole purpose of aid: to give help to those countries that need it the most. The existence of sound policies and good economic management are in a sense more important than the giving of foreign aid to developing countries. The record has shown that without good institutions, aid is likely to have a damaging impact on the quality of governance in a recipient developing country. Some argue that in the absence of these strong institutions, assistance efforts should be dedicated to improving the quality of governance before they can be effectively devoted to any economic development effort. Foreign aid has come a long way from the first time it was first employed. There have been calls for reform and many donor governments are taking aid seriously and looking at ways to improve their overall effectiveness.

The concept of donor fragmentation and proliferation is not a new concept, though it has not been discussed as much as issues of policy and governance. Though it is a relatively new concept, it is one of crucial importance judging by the disadvantages that it seems to bring about. The increased costs, duplication of efforts, wastage of resources and increased bureaucracy have been a major impediment to aid effectiveness in most developing countries. The issue of fragmentation has been raised in many high-level forums on aid effectiveness that ultimately led to the formulation of the Paris Declaration on Aid Effectiveness. The impact of fragmentation and proliferation has been studied extensively by various authors and the general consensus is that it is a big enough problem that warrants attention and significant measures have already been put in place to arrest the situation.

The existence of the Paris Declaration on Aid Effectiveness has been a wake-up call for both donors and recipients in the aid industry. For donors, it has had the greatest impact because it has forced them to re-examine their modes of operation and come up with a solution to the fragmentation their aid is experiencing. The UN is already leading in this regard since they have now come up with the “ONE UN” system whose major advantage is that all their efforts will now be channelled through one single agency. The effect of this change will have a huge impact on their aid delivery mechanisms and the outcomes. For the recipients, harmonization will mean less bureaucracy, excessive writing of reports and incessant meetings with donors. It will also mean less turnaround time in delivery of aid projects and better aid practices that might help improve effectiveness.

Kenya has been affected by donor fragmentation which is quite evident from its portfolio of donors and aid activities conducted in the country. Owing to the number of donors in operation at any one given time, it has been evident from the information gathered that Kenya is suffering from this problem. However, it is safe to say that it has made significant progress in trying to remedy this situation. The Kenya Joint Assistance Strategy

has been mandated to improve donor coordination and harmonization by partnering up with various donors to provide development assistance. The Global Fund at the Ministry of Finance is charged with collecting funds from various donors and allocating them to various development sectors in the country.

It is my opinion that donor fragmentation and proliferation is a serious problem and one that has had brought about major problems. However, it is not the “be all, end all” of aid problems especially in Kenya. The issue of corruption and graft is in a sense much larger than fragmentation itself and one that if resolved can go a long way in increasing aid effectiveness, even more than donor harmonization and coordination would. If proper rules were enacted and serious guidelines put in place, it would be easier to increase accountability and every major actor involved would be forced to acknowledge their successes or failures with regards to their projects. For example, Botswana is unique among African countries in the extent to which aid resources have been centrally managed and fully integrated into a national development planning and budget process. The structures put in place soon after independence for planning and managing all public investment, including aid, were similar in many respects to those initially established in other African countries. Yet while these structures collapsed elsewhere, they were sustained in Botswana. Botswana’s success has been in part due to good fortune owing to a small population, rich mineral endowment and a record of economic growth and stable democracy but mostly to good management.<sup>2</sup>

Botswana is an interesting country to observe with regards to aid effectiveness. Their government is the only one tasked with the mandate of coming up with development projects and determining which projects receive funding and from whom. All donors in the country must channel their funds through the government and are not allowed to establish independent projects in the country. This greatly reduces the issue of fragmentation and

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<sup>2</sup> M. Stevens, *Aid management in Botswana: From one to Many Donors*, London, Heinemann, 1981, p.16

enhances coordination. It also increase the accountability as the government will therefore take full responsibility should the projects fail. However this is also an issue that would be greatly affected by corruption as funds are more likely to get lost in the “system” as they trickle down to various delivery points.

Kenya would do well to continue with donor harmonization and coordination efforts. It is imperative that aid effectiveness increases significantly and that donor efforts in collaboration with the government yield better results. However as a country, the issue of good governance which is a major impediment to aid effectiveness in Kenya cannot be overemphasised.

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