

Chapter 3

Identifying aid fragmentation

This chapter defines fragmentation of aid, puts it into context, looks at how it is measured, and introduces the notion of “significant” and “non-significant” aid relations.

Many developing countries differ greatly in their paths to development and in the challenges they face. In at least one respect, however, many share a common problem: too little aid from too many donors. This report addresses that challenge, often referred to as “fragmentation of aid across countries”. (It should be distinguished from fragmentation of aid within countries, usually measured by the donor spread across multiple sectors at country level and characterised by small projects.)

The fragmentation of aid poses critical challenges to the effectiveness and impact of development co-operation. This fact was acknowledged in the Paris Declaration on Aid Effectiveness (2005), which called for a pragmatic approach to the division of labour in order to increase complementarity and lower transaction costs. The 2008 Accra Agenda for Action (AAA) broadened the scope of international division of labour across countries and committed donors to using existing channels for aid delivery before creating any separate new ones.

Aid fragmentation arises partly from the current lack of concerted, co-ordinated aid allocation practices. All donors – both bilateral and multilateral – have their own priorities and incentive frameworks. They also decide unilaterally which countries, multilateral organisations, and global programmes to fund. In general, they do not take into consideration other donors’ allocation decisions when making their own. In addition, a single aid extending agency within donor countries may have different project or programme practices and procedures that partner countries sometimes actually perceive as the work of several separate donors. The complex, uncoordinated nature of aid allocation patterns creates gaps in the aid received by developing countries (with some receiving significantly less than others). What is more, it also causes overlaps in the numbers of donors present at country level, with some contributing relatively small amounts.

Fragmentation of aid entails transaction costs for both donors and partner countries. Donors have some fixed transaction costs, irrespective of programme or project size. Such costs include those associated with maintaining a minimum in-country presence and with certain phases in project or programme cycles, such as identifying and planning, negotiating and consulting with stakeholders, and monitoring, reporting, and evaluating interventions. As for partner countries, their governments have to contend with the strain on their administrative capacities caused by a large number of donors with different, often uncoordinated, management practices and the absence of lead donor arrangements (Knack and Rahman, 2007). The assumption in this report is that this administrative burden can be reduced and donors can achieve efficiency gains by rationalising their overall aid relations with partner countries.

In recent years, several donors have taken the decision to concentrate their aid on fewer partner countries. One reason for the move has been to rationalise aid to achieve better results. However, increased fiscal austerity brought on by the economic and financial crisis has also been a factor for some donors.

This report provides the evidence base for reducing fragmentation of aid through an updated picture of aid relations between donors and partner countries. It analyses the financial dispersion of donor allocations, preferring not to consider such non-financial value as knowledge transfer and diplomatic relations. This 2011 edition of the report on fragmentation is the third of its kind.¹ The first, the *Report on the 2008 Survey of Aid Allocation Policies and Indicative Forward Spending Plans*, informed the decisions taken in Accra on cross-country fragmentation and under-aided countries, where the signatories of the AAA committed to reducing “the fragmentation of aid by improving the complementarity of donors’ efforts and the division of labour among countries and the division of labour among donors, including through improved allocation of resources ... across countries”.

The second report, the *2009 OECD Report on Division of Labour*, provided insights as to where it might be possible to further rationalise the number of donors in each partner country. To that end, it proposed a methodology for scoring the significance of aid relations between donor and partner country aid in financial terms and presented indicators for monitoring fragmentation and concentration (see Box 3.2). The proposed methodology has been widely discussed since the 2009 Report was published, and there is growing consensus in the international community on its use.

Box 3.1. What is an aid relationship?

An aid relationship is defined as the sum of all aid activities by a donor or a multilateral agency in a country. Aid relations are measured by country programmable aid (CPA), *i.e.* aid that is attributed to a specific country and programmed in advance. For more information on CPA, see Annex II.1.

The 2011 Report provides an update on cross-country fragmentation based on the methodology presented in the 2009 publication. The updated analysis draws on data from 2009 relating to country programmable aid (CPA)² and examines the most recent trends in aid fragmentation. It also includes information on potential impacts of recent donor moves to concentrate their aid on fewer partnerships. The last section examines the potential options for rationalisation and proposes targets for reducing fragmentation.

How is aid fragmentation measured?

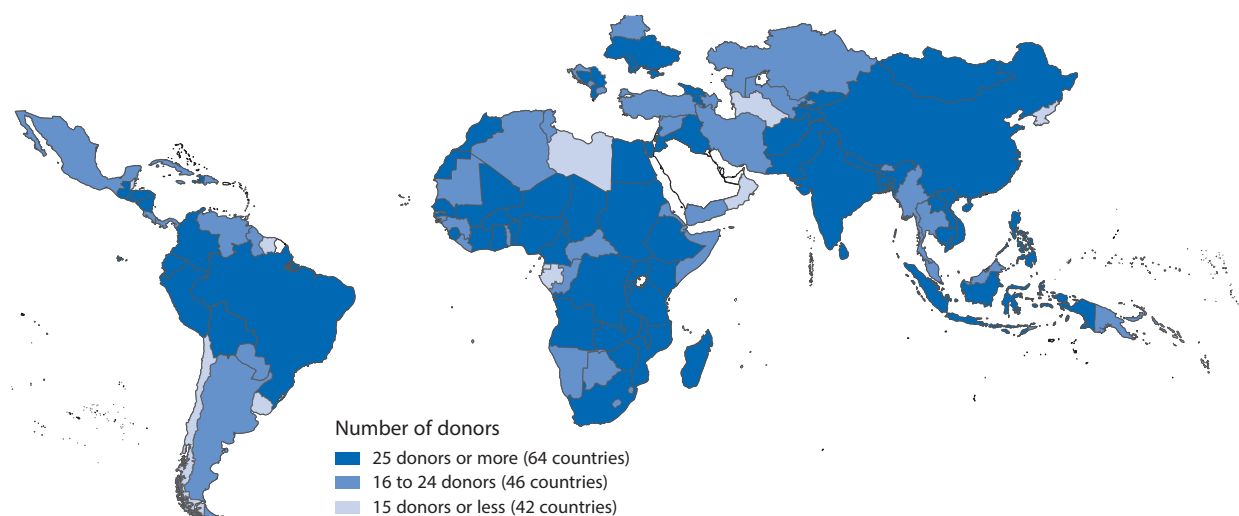
The global matrix of aid relations – defined as the sum of all aid activities by a donor country or a multilateral agency in one country – shows an increasingly complex picture (see Annex II.2). Today, the global landscape numbers just under 4 000 pairs of donor-country aid relationships that include all DAC members and major multilateral agencies. That figure, however, is just the tip of the iceberg, as it does not encompass the aid relations of the remaining 200-plus multilateral organisations, emerging donors, and other non-DAC donors. Furthermore, many donors have more than one aid agency, which this overall analysis does not take into consideration and adds to the complexity of the aid architecture.

The 2011 Report applies the same country-level threshold introduced in the 2009 edition for bilateral donors. The Report looks only at donor-country aid relations amounting to more than USD 250 000 in order to remove any “noise” generated by very small aid relationships, henceforth referred to as “micro-aid relations”.³ Micro-aid relations often take the form of non-project technical co-operation, which includes activities such as scholarships, voluntary work, trainee schemes, and minor grants channelled through NGOs or multilateral organisations that do not generally give rise to any significant transaction costs.⁴ While micro-aid relations represent 16% of all aid relations (four relationships per partner country on average), they account for just USD 50 million or 0.1% of all global CPA.

In 2009, donors were present in an average of 71 out of 152 ODA-eligible countries (73 for DAC countries and 69 for multilateral agencies). From the partner country perspective, each one hosted an average of 21 donors (11 DAC countries and 10 multilateral agencies). However, it is important to note that there are large variations across regions. Asia and Africa have the highest number of donors present (26 per country in Asia, 24 in

Africa), while the small island states lower the regional averages of the Americas (17) and Oceania (8). The map in Figure 3.1 provides the foundation for analysing fragmentation by illustrating the number of donors present across countries.

Figure 3.1. Map of total number of donors per recipient country (2009)



Source: OECD (2011), DAC Statistics, OECD, Paris.

The methodology used to measure fragmentation of aid assesses the financial significance of each aid relation in the context of growing concern over too many donors contributing too little in too many countries. The methodology, comprehensively set out in the *2009 OECD Report on Division of Labour*, is summarised in Box 3.2.

Box 3.2. Defining the significance of aid relations and concentration and fragmentation ratios

When considering the significance of an aid relation, it is important to examine both the donor and partner country perspectives. The policy inference is that where aid relations are significant neither from the donor's point of view nor from the recipient's, there is a rationale for revisiting aid allocations. It is important, therefore, to define just what is meant by the terms "significance of an aid relation", "concentration ratio", and "fragmentation ratio".

Significance of an aid relation

An aid relation is considered significant in financial terms if "yes" is the answer to at least one of the following questions:

1. Does the donor provide a higher share of aid to the partner country than the donor's overall share of global aid?
2. Is the donor among the largest donors that cumulatively account for at least 90% of the partner country's aid?

Box 3.2. Defining the significance of aid relations and concentration and fragmentation ratios *(continued)*

In Question 1, there is a bias towards smaller donors based on the fact that they are usually involved in fewer partner countries, which makes it less difficult for them at country level to exceed their global share of aid. In contrast, Question 2 has a bias towards larger donors, who can more easily be among the top donors providing 90% of total aid volume at the partner country level. Combining the two criteria makes it possible to take both the small and large donor biases into consideration.

Concentration ratio

Defined from a donor's point of view, the overall aim is a concentrated portfolio with significant partner country aid relations. On this basis, the concentration ratio measures the number of donors' significant aid relations compared to all of its aid relations. The higher the concentration ratio, the less a donor's portfolio is fragmented.

Fragmentation ratio

Defined from a partner country point of view, the aim is to maximise the number of significant donor relations and minimise the number of non-significant relations. On this basis, the fragmentation ratio measures the number of non-significant donors compared to the overall number of donors. The lower the fragmentation ratio, the less fragmented are the donors' aid programmes in that country.

The concentration and fragmentation indicators are complementary at the global level, since the sum of the global concentration and fragmentation ratios is one.

Source: OECD (2009), 2009 OECD Report on Division of Labour: Addressing Fragmentation and Concentration of Aid Across Countries, OECD, Paris, www.oecd.org/dataoecd/18/52/44318319.pdf.

It is important to acknowledge that aid relations which score as financially non-significant may be well targeted and have significant impact at the country level. Nevertheless, such aid relations necessarily come with high transaction costs and some rationalisation may be worthwhile in order to ease such costs at both ends of the delivery chain.

Notes

1. The first two reports on the fragmentation of aid – the OECD Report on 2008 Survey of Aid Allocation Policies and Indicative Forward Spending Plans and 2009 OECD Report on Division of Labour: Addressing Fragmentation and Concentration of Aid Across Countries – are available at www.oecd.org/dac/aidarchitecture.
2. The 2009 data are the most recent figures available ahead of HLF4. In this report, unless otherwise stated, the figures are in 2009 US dollars. The data cover 46 donors: 23 DAC countries and 23 major multilateral agencies, covering development banks, global funds and major agencies of the United Nations (UN). Note that the European Commission (referred to as EU Institutions) is considered in this report as a multilateral donor.

3. Without applying a threshold, there were 3 860 aid relationships between 46 donors and 152 partner countries in 2009. Of this total, 603 were micro-aid relationships, resulting in 3257 aid relations being examined in this analysis applying the threshold.
4. The threshold of excluding aid relations below the level USD 250 000 is only applied to bilateral donors, as these types of activities are not applicable to most multilateral donors.

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