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Do donors and aid intermediaries gamble with poor
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Katharina M. K. Stepping*[†]

June 30, 2010

Abstract

The distribution of development assistance for health in sub-Saharan Africa is the visible result of decisions made by donors and aid intermediaries. Aid intermediaries have become increasingly important as connecting link between donors and recipients. Their heterogeneous group comprises bilateral aid agencies, multilateral organizations, private foundations, public-private partnerships and international non-governmental organizations. Institutions, as rules of the aid game, constrain the actions of aid intermediaries and influence transaction costs and incentives for the organizations. The process of aid allocation is portrayed in two repeated sequential games with two players, the donor and the aid intermediary. Donors pursue an array of goals by donating financial resources, while aid intermediaries aim at securing funding in order to guarantee their organizational survival. Donors use indicators to assess the performance of an aid intermediary. Trustworthiness is a crucial factor prior to any experience. The strategic choice of the intermediary depends on the financial importance of the donor. A small-scale donor expects qualitative information about achievements, whereas a large-scale donor asks for quantitative results. The intermediary tries to ensure funding in the long-run without

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compromising its often charitable motives too much in the short-run. Although the aid intermediary decides the aid-financed health intervention, the donor has an indirect but powerful voice in the aid allocation process thanks to the importance of funding.

1 Introduction

Each year billions of dollars are transferred from developed countries to developing countries designated as foreign aid. The resource transfer of financial or in-kind resources is often perceived as a linear aid chain that links a donor government to a recipient country. However, this predominant picture seems overly simplified and inappropriate. Several types of major actors have been identified to play a strategic role in a series of linked action situations and to be connected to each other (Gibson et al. 2005: 63). The focus of this paper is on the interactions between donors and aid intermediaries with respect to health interventions financed by aid. Donors are donor governments and private donors. Aid intermediaries comprise bilateral aid agencies, multilateral aid agencies, private foundations, public-private partnerships and international non-governmental organizations (NGOs). The broader definition of development assistance employed here comprises resources from public donor, individuals, private foundations and corporate entities.

Development assistance for health has emerged as an important branch of foreign aid and has reshaped the institutional landscape over the past two decades. First, unprecedented amounts have been made available for both foreign aid and health-related assistance,¹ partly motivated by the rise of the HIV/Aids epidemic in sub-Saharan Africa. Total development assistance for health quadrupled from 1990 to 2007, from a volume of \$5.6 billion to \$21.8 billion (IHME data). Second, private philanthropy and public-private partnerships for global health have emerged as new players during the first decade of the new millennium. Large-scale contributions by many multimillionaires or even billionaires helped to establish new private foundations, for instance. Such a financial contribution is small compared to government funds for foreign aid but large compared to the average small-scale donor (Bishop, Green 2009: 12). This has led to significant changes in the composition of development assistance for health. In the 2000s, bilateral and multilateral aid agencies are still the most prominent aid intermediaries but the importance of NGOs, global health partnerships and private foundations increased considerably. Particularly the

¹It is difficult to quantify the importance of aid intermediaries for health-related development assistance to sub-Saharan Africa. Roughly speaking, between 1990 and 2008, sub-Saharan Africa received two thirds of total official development assistance from bilateral donors and one third from multilateral agencies. In 1990, bilateral donors provided approximately \$12 billion and multilaterals \$7 billion. In 2008, bilateral donors provided approximately \$30 billion and multilaterals \$15 billion, after a peak of \$50 billion and \$13 billion, respectively, in 2007. Health-related development assistance varied considerably between 1995 and 2008 (for which years data is available). The channels were reported for the last four years which allows a slightly better idea of the importance of NGOs, public-private partnerships and multilateral organizations. (OECD data).

absolute changes are significant because of the bigger volume of development assistance for health (IHME data; also Lucas 2004: 290-291). Third, the global health movement has become an important driving force for aid with a powerful voice for prioritizing health. The predominance of health concerns within the eight Millennium Development Goals is only example. Forth, celebrities increasingly use their popularity to advocate international assistance. A well-known example is the musician Bono who used beneficial concerts and other charitable activities to promote the idea of fighting poverty by a substantial debt relief for poor countries (West 2008: 77; also Bishop, Green 2009: 205).

Donors and aid intermediaries are often involved in an ongoing relationship. The remainder of the article models the process of allocation of development assistance for health as a multi round game with two players, the donor and the aid intermediary. To focus on the interaction between donor and aid intermediary helps understand their decision-making. This approach allows isolating the strategic decisions made by the players and identifying the underlying reasons for their behavior. In the following, they will be treated as if they were individuals. The two parties 'negotiate' the volume, frequency and length of their 'contractual' relationship. The aid intermediary is expected to maximize funding in order to guarantee its organizational survival by securing existing resource transfers and raising new funds. The donor is expected to maximize their satisfaction by donating money and pursuing their objectives. Donors can be distinguished into small-scale donor and large-scale donors by the volume of their donation. Two repeated sequential games are used to illustrate the ongoing bargaining between the two parties. The first one focuses on the interactions between a small-scale donor and an intermediary. In the second game, a large-scale donor and an intermediary take strategic decisions.

The analysis of the aid allocation process as a game with two players may appear simplistic given the complexities of the resources transfer in reality. However, it allows focusing on one important aspect, the funding, and thus is adequate to understand the rationale behind the decisions of donor and intermediary. An aid intermediary faces different incentive structures depending on the financial strength of the donor. A small-scale donor has little leverage on the intermediary. The organization is relatively unlimited in its choices about priorities, focus and type of interventions. A large-scale donor puts much more pressure on the intermediary. The organization needs to provide positive results. These differences in the incentives provoke more efficient or less efficient programs or projects of health interventions. In addition, this paper complements the discussion on aid effectiveness by demonstrating how much more powerful the voices of donors and intermediaries are compared to recipients.

To summarize, the structure of the paper is as follows. Section 2 links the relevant new institutional economics literature on foreign aid to development assistance for health. In section 3, a new perspective on health-related international assistance focusing on donors and aid intermediaries is embedded in the discussion on aid effectiveness. Section 4 models the strategic interactions between donor and aid intermediary as a multi round game. The final section of the paper is devoted to concluding remarks.

2 Institutional aspects of foreign aid

Most research about international assistance focuses on the motives of donors, the behavior of recipients and their relationship. However, some more recent contributions do provide some insights about aid intermediaries, mainly bilateral aid agencies. Like other organizations, also aid intermediaries are composed of many individuals. If individual interests diverge from the collective interest, the individual group member may not act in the best interest of the group. Indeed, collective-action problems present a major obstacle to sustainable development outcomes (Ostrom et al. 2001: 9-11). Moreover, agents involved in foreign aid delivery have a variety of motives and objectives which are not necessarily congruent with the official, publicly announced, organizational objective (Martens 2002b: 178). It has been studied how the development assistance system generates incentive patterns that affect sustainable outcomes by exploring the relationships among the major actors involved in international assistance (Gibson et al. 2005: 64). To improve aid intermediaries' effectiveness, a more explicit and systematic understanding of institutions and the incentives emerging within particular organizational structures is fundamental (Gibson et al. 2005: 224). Aid intermediaries are constrained by the rules of the aid game: institutions. Institutions and incentives are important parameters to understand the internal processes of aid organizations. Institutions and their corresponding organizational incentive structures affect the aid delivery process and thus the effectiveness of foreign aid (Martens 2002a: 18).

Institutions, either inherent in development assistance or specific to the structure of an aid intermediary such as a bilateral aid agency, may foster incentives undermining the goal of sustainable development. Institutions impact the outcomes of foreign aid and much of its failure is related to institutions structuring the delivery of foreign aid. For instance, the policy process may face incentive-related problems, perverse incentives may affect the international development assistance process or donor agencies as well as their contractors may suffer from perverse incentives leading to undesired outcomes (Ostrom et al. 2001: 3, also Gibson et al. 2005: 6-7). Internal organizational institutions and incentives are crucial: Not to consider the human beings involved in the realization of aid projects and to ignore conflicting agendas between different links of the aid chain, will lead one to overlook two important explanations for failure (Carr et al. 1998: 2, 44-46).

Institutions influence transaction costs and incentives, both for the organization as a whole and for its members. Following the economic doctrine, all transactions entail transaction costs. Consequently, an additional link increases the contractual costs and risks for the parties and causes new principal-agent problems. One may assume that aid intermediaries must offer something to the donor and recipient to offset the additional costs. It has been argued that bilateral aid agencies mediate between the diverging preferences of donors and recipients and can help to reduce transaction costs, depending on the domestic political coalition supporting the aid program (Martens 2005: 654-655).

Private giving and investment to the developing world can be distinguished into philanthropy, remittances and private investment. In 2007, philanthropy amounted to \$49.1 billion, remittances to \$144.6 billion, and private investment to \$325.4 billion. These three components sum up to \$519 billion. Total private financial flows represent 83 percent of all financial flows from developed to developing countries, compared to 17 percent of public flows (Adelman 2009: 27). Here, these flows are taken into account as far as they involve an aid intermediary. Remittances represent a direct transfer between a member of the Diaspora such as a foreign worker and the family as recipient, so no aid intermediary is involved. In 2006, sub-Saharan Africa received remittances of \$21.8 billion (IFAD 2007: 8). Another popular form of resource transfer between developed and developing countries is child sponsorship (Wydick et al. 2009: 1). In any case, it is difficult to draw a clear-cut line. Despite the growing importance of health assistance and the increasing attention paid to global health concerns, development assistance and health are still discussed rather separately. The role that aid intermediaries play for development assistance for health in sub-Saharan Africa needs to be better understood. What institutions and incentives affect aid intermediaries? How and to what extent are aid intermediaries influenced in their decision-making process?

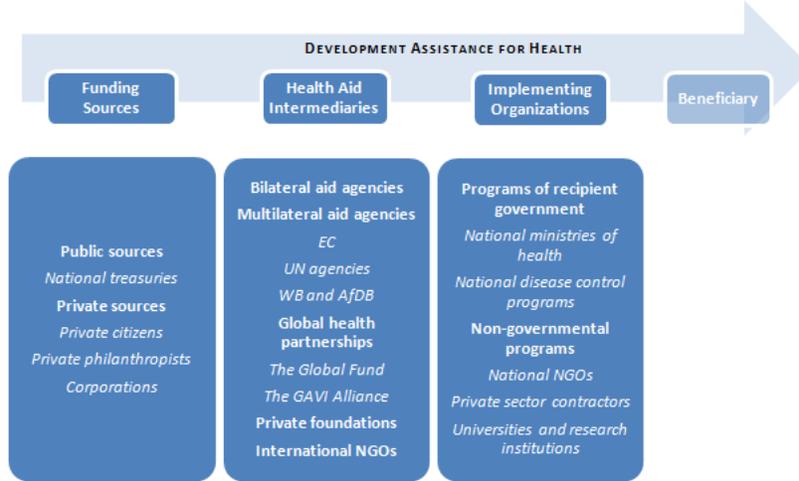
Figure 1^{2, 3} illustrates the resource flow of development assistance for health using the relevant organizations for sub-Saharan Africa as an example. The principal actors of the aid chain are funding sources, aid intermediaries and implementing organizations. The resources that aid intermediaries transfer can come from public or private sources. National treasuries are the main source for bilateral and multilateral aid agencies as well as global health partnerships. Private citizens provide funds for public sources through taxes as well as through private donations. Private philanthropists, typically large-scale donors, are identified by the volume of their donations. Corporations also make donations, often as part of a social marketing campaign in the spirit of corporate social responsibility.

The rhetoric about aid effectiveness tends to draw the worldwide attention to the intended beneficiaries, using the picture of needy people living in precarious conditions. Beneficiaries do matter because it is ultimately their lives which can improve thanks to intelligent aid-financed health interventions. Beneficiaries can be congruent with recipients but not necessarily. In any case, beneficiaries are understood as the last link of the aid chain respectively as major actor. This paper focuses on the interactions between donors and intermediaries. It is argued here that the other interactions between intermediary and recipient respectively beneficiary are adequately reflected in the level of the indicators

²The primary interest of this figure is to illustrate the resource flow and the participating actors differentiating between three groups: donors, aid intermediaries and recipients. Technically, aid can be given in form of grants or concessional loans, in kind and as debt relief. For the sake of simplification, debt repayment of concessional loans or debt cancellation is not considered further because these flows do not involve any intermediary.

³EC = European Commission, UN = United Nations, WB = World Bank, AfDB = African Development Bank, GAVI = Global Alliance for Vaccines and Immunisation.

Figure 1: Resource flow of development assistance for health



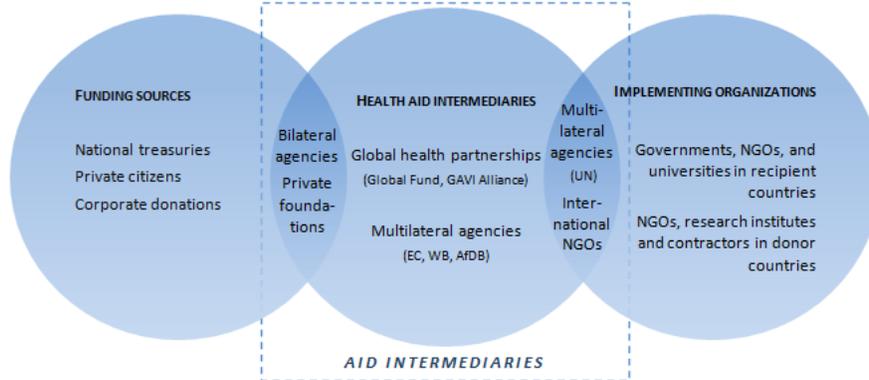
Elaborated from IHME 2009: 14.

used by the donor to assess the intermediary's activities.

Figure 2 depicts the most important links of the aid chain and the overlapping roles of aid intermediaries for health-related assistance. This representation simplifies the diffuse network of organizations involved in the resource transfer because their position with regard to the monetary flow is only one distinctive feature. In accordance with the origin and the use of their resources, the following three categories can be distinguished: funding, transferring and implementing aid intermediaries. These different types of aid intermediaries constitute a very heterogeneous group. Bilateral aid agencies and private foundations can be considered as funding aid intermediaries due to the large fraction of resources disbursed to other aid intermediaries or implementing organizations. Global health partnerships and most multilateral aid agencies are transferring aid intermediaries because they primarily transfer funds between donors and recipients. UN agencies and international NGOs can be considered as implementing aid intermediaries because of the large share of development assistance for health used to implement their own health programs and research. (IHME 2009: 15)

Implementing organizations as recipients of development assistance are another important link of the aid chain. They also have to make strategic decisions with regard to funding and projects, for instance. The recipients are the last agent of the principal-agent-chain foreign aid. The principal aid intermediary as financier expects a certain performance by the implementing organization, needed to justify the success of an intervention financed by the intermediary against the donor as the original source of funding. The first step for the aid intermediary is to raise funds. In a second step, an intermediary can decide about its allocation. This paper focuses on the relation between donor and aid inter-

Figure 2: Overlapping roles of aid intermediaries



Elaborated from IHME 2009: 15.

mediary. Two situations can be imagined that would cause the emergence of an aid intermediary. In one case, resources are available and the donor searches for a channel to transfer them and to pursue their objective – a bilateral aid agency or a private foundation are a classic example. In the other case, an individual or a group has identified a cause first and then starts searching for funding to support their objective – often the reason for a NGO to be founded.

3 A new perspective on development assistance for health

The effectiveness of foreign aid to promote growth and development in the recipient countries has been fiercely discussed for several decades. Today’s probably most powerful voices are Jeffrey SACHS as advocate and William EASTERLY as critic. Sachs argues that a historically unprecedented increase of foreign aid, a ‘big push’, is needed to get especially sub-Saharan African countries out of the ‘poverty trap’ and to ‘make poverty history’. EASTERLY argues that aid programs on a large scale, designed by ‘planners’ are condemned to fail. He criticizes the lack of accountability, transparency and monitoring of the big players in foreign aid. EASTERLY advocates ‘searching’ for small-scale solutions that work in a specific contest. The ongoing discussion about aid effectiveness between aid’s critics and advocates appears to be missing two important points.

First, not all foreign aid is given for the same purpose (Lancaster 2007: 2). Political and strategic considerations are important determinants for the allocation of bilateral aid across recipient countries (Alesina, Dollar 2000: 33). Donor countries provide foreign aid to promote growth and development (and thus poverty reduction); to pursue a variety of interests with their aid such as diplomatic, developmental, humanitarian, commercial, and cultural purposes; to build productive capacities, to support immediate consumption and human-

itarian needs; to support democracies and build political systems; as well as to foster strategic economic or political purposes. Other important factors influencing aid are widely shared ideas and norms shaping the aid-giving, the process of political decision-making, what interests compete for influence over the aid's purposes, and the internal governmental organization of aid management. (Lancaster 2007: 5-6; also Clemens et al. 2004: 1)

The broader objectives of donor governments are evident in statements and decisions on amount, country allocation and use (Lancaster 2007: 13). On the one hand, 'de jure' goals are expressed in official statements or documents issued by the government. On the other hand, 'de facto' goals are visible in actual decisions that ultimately lead to actions. Almost all donor governments have used increases in aid as a diplomatic means, a symbol of successful state visits or international meetings (Lancaster 2007: 13). Donor governments usually have to decide on several major issues each year: the amount of total aid, the recipient countries and organizations and their respective share, the purposes of aid, the terms and the percentage of aid tied to purchases in the donor country.⁴ These decisions such as the allocation of aid by country provide clues about the donor's intention in aid-giving and the relative diplomatic importance of the recipient country. (Lancaster 2007: 17)

Second, not all developmental purposes have the same time horizon. Some aid interventions have a rather long time horizon and consequently development effects may be expected in the long-run: aid for health such as reducing infant mortality might support growth in the long run (Clemens et al. 2004: 2). Relaxing the linearity assumption between aid and growth as well as the aid homogeneity assumption, a strong positive relationship is found between aid directly aimed at growth such as infrastructure investments and growth (leaving aside other types of aid not directly aimed at growth such as humanitarian assistance). Not all health-related aid interventions have a long-term horizon; curative care has a small or no time-lag between the intervention and the health outcome.

It has also been argued that foreign aid given for the provision of global public goods such as global health has a different end purpose than aid to promote development. Research, prevention, surveillance, treatment, and blocking of the international transmission of diseases have a global strategic orientation (Lancaster 2007: 16). In other words, some health interventions related to global health have a global focus whereas the reduction of infant mortality might be directly related to the sanitary situation in one specific place and thus has a local focus. The time lag between an aid intervention and the health outcome as well as the strategic focus of the health intervention is assumed to affect the incentives for the agent aid intermediary.

Under the assumption of a direct relationship between donor and recipient, donor motives for foreign aid seem to influence the effectiveness of aid-financed

⁴Some countries, such as Germany, might not decide about each of these points on an annual basis. The budgetary decision for partner countries as well as the identification of priorities is usually done every three years. Despite the longer time horizon for some aspects, the general idea remains the same: the government has to decide on it.

interventions (Kilby, Dreher 2009: 7). It has been emphasized that the idea of a direct donor-recipient framework for development assistance seems simplified given the complexity of heterogeneous organizations involved in reality. Then, it might be asked how these motives are transmitted in the longer aid chain of donor-aid intermediary-recipient. A plausible explanation could be that donors select the aid intermediary in accordance with their own motives in order to ensure that their interests are pursued despite the additional link in form of the aid intermediary.

Donors and aid intermediaries decide about the volume of aid, pursue objectives with their aid interventions and have their preferences. Their interactions are often of repetitive nature where both parties know the written and unwritten rules as well as the consequences of non-compliance. The bargaining between donors and aid intermediaries about the allocation of aid involves transaction costs. Institutions provide incentives or disincentives for a certain behavior and thereby have an impact on the costs of a transaction. The relation is characterized by imperfect and asymmetric information between the two parties causing uncertainty ex-ante and ex-post of the resource transfer.

Figure 3 is a flow diagram showing how aid flows between donors and aid intermediaries. The transfer of resources is depicted between a public donor and a private donor, on the one hand, and health aid intermediaries in the form of bilateral and multilateral aid agencies, public-private-partnerships (PPPs), private foundations and NGOs, on the other hand. The flow diagram is simplified because the interactions with the recipient respectively beneficiary are not illustrated.

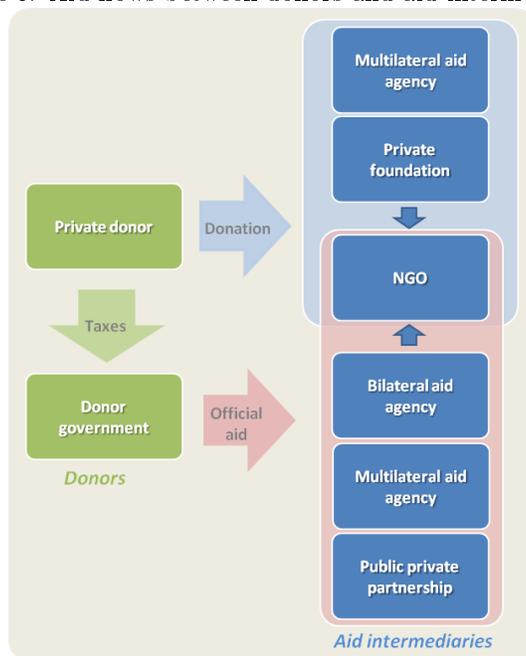
A private donor such as a citizen or a company can decide to provide resources in the form of a voluntary donation. The aid intermediary to which the donation is most commonly addresses is either a private foundation, a multilateral aid agency (e.g. UNICEF) or a NGO. Apart from transferring resources to an aid intermediary, a private donor can also make a direct donation to an implementing organization; here understood as an organization that is active locally in a developing country, for instance, a local NGO or the local government. However, these direct donations are not further considered in this study because they do not involve any aid intermediary.

Members of the Diaspora can also be private donors. Some successful members of diasporas might consider it “a noble deed to donate some of their resources to the needy and those in a less fortunate situation than themselves.” (Bardouille 2008: 22). Donations usually support education and health care services. These transfers tend to be of direct nature and are therefore not considered further.

Official development assistance of a donor country is financed through taxes. Given the indirect funding, the taxpayer has only indirect political leverage on development assistance for health through their vote during the next national elections. A taxpayer supposedly cares less about the marginal share of taxes spent on foreign aid than about investments for domestic matters.

Most typically, the donor government transfers official aid to bilateral and

Figure 3: Aid flows between donors and aid intermediaries



multilateral aid agencies. However, NGOs have received increasing co-financing from public donors in the recent past, usually channeled through a bilateral aid agency (Koch et al. 2009: 903). Resources are also directed at public private partnerships such as the Global Fund or the Global Alliance for Vaccines.

The public donor can also cooperate directly with an implementing organization. However, this option is not further taken into consideration because it does not involve any aid intermediary.

Donors

Private and public donors take strategic decisions about development assistance for health: the initial decision to donate at all, what organization to make the donation to (direct or indirect), the volume and the frequency of the donation as well as the duration of the financial commitment. Their decision-making is subjected to mainstream opinion.⁵ It also depends on the behavior of other donors. For instance, the decisions of the Millennium Challenge Corporation to grant aid to developing countries appear to signal merit of recipients to other donors (Dreher et al. 2010: 12). Both private and public donors have imperfect information on the efforts of the aid intermediary. Therefore, indicators are used

⁵A critical overview about thematic changes in foreign aid over the decades can be found in Thorbecke: (2000): “The Evolution of the Development Doctrine and the Role of Foreign Aid, 1950-2000”.

to assess the performance of the agent and to decide about making a donation.

Private contributions may range from big donations by some individuals to very small amounts by millions of private persons (Werker, Ahmed 2008: 78). By definition, a donation is a transfer of resources without expecting anything in return. A small-scale donor can usually define what projects the donation may be used for. However, it is difficult to control the aid intermediary. The reputation of an organization serves as an indicator of trustworthiness for the small-scale donor prior to any personal experiences. Only in such extreme cases like fraud, the private small-scale donor disposes of legal remedies. Due to the lack of leverage, a small-scale donor stays rather passive and reacts to the perceived behavior of the intermediary. If the expectations are not met, a small-scale donor can decide to end the financial commitment.

It has been claimed that NGOs can reduce ex-post uncertainties about the use of private gifts (Martens 2005: 660). However, it seems plausible to argue that all well-regarded aid intermediaries have this potential. Any organization with a reputation of being responsible with the donation and having as little overhead costs as possible creates and fosters a donor's trust. The combination of trust and reputation give the donor peace of mind and thus helps reduce ex post uncertainties about the use of private gifts.

Private large-scale donors have more leverage on the allocation decisions made by the aid intermediary. Thanks to the large financial contribution, they can attach strings to the donation. For instance, the total amount may be split in several smaller donations and any subsequent contribution depends on the results presented by the intermediary. Thus, the large-scale donor has the potential to threaten the intermediary and is not confined to passively observe the intermediary.

The underlying motivation for a private donor can be the reduction of taxable income or true charitable motives. As mentioned, the reasons for public donors to engage in resource transfers for health in sub-Saharan Africa can be manifold. Their primary concern is not necessarily the efficient use of development assistance for health by the aid intermediary, since political reasons often play a crucial role. However, donors are assumed to maximize the possible impact of the financial contribution, whatever the underlying objective might be.

Aid intermediaries

Aid intermediaries are a heterogeneous group of very different organizations. With respect to *bilateral aid agencies*, the organization of aid management and its location in the bureaucratic hierarchy varies across donor countries (Lancaster 2007: 7, 22-23). Some governments have unified their aid in one independent cabinet-level agency (e.g. UK). Others have located their aid-related activities in the ministry of foreign affairs (e.g. Denmark). Some donor countries have a highly fragmented system where policy and implementation are separated and aid programs are located in a variety of agencies (e.g. Germany). It might be difficult to clearly distinguish between the strategies of the donor

government and of the bilateral aid agency. Nonetheless, regardless of the organizational arrangement, both need an environment favorable to aid and thus aim at creating political support for aid transfers.

Multilateral aid agencies such as the World Health Organization (WHO) are well-known actors setting international standards for global health. The two most prominent multilateral agencies in general are the World Bank and the European Commission; two international actors “in their own right” (Lancaster 1999: 184). In all cases, a single international agency is jointly delegated by donor governments with often diverging interests (Martens 2005: 656).

The term *non-governmental organization* serves as umbrella for an enormous range of diverse organizations which can change substantially over its lifetime. Development NGOs vary, for instance, in size and sector of activity, religious orientation, their function and their relationships to donors and governments. Whereas governments need to employ “universalistic criteria” and “elaborate rationales” to select clients and favor one group over another, NGOs seem to be conceded a more selective choice of aid recipients (Lipsky, Smith 1989: 631). To pick intended beneficiaries according to religious, ethnic, geographic or other factors may violate the unambiguous criteria used by official aid agencies but is usually not being criticized in the case of NGOs (Koch et al. 2009: 904). In addition, small NGOs tend to focus on specific activities and may be more selective in limiting the number of recipient countries in which they engage (Koch et al. 2009: 906).

The dependence on external funding provided by a public donor has been identified as a major factor for the aid allocation by NGOs (Fruttero, Gauri 2005: 761). Despite the charitable objectives of the aid intermediary, its decision-making process may focus on the donor’s preferences: What are the programmatic priorities and what benchmarks are used to assess an organization? This provides a strong incentive for the NGO to focus on measurable results – for instance, the short-term reduction of the infant mortality rate instead of the long-term benefits of alternative programs for HIV/Aids prevention.

Philanthropic activities are donations (in kind or monetary terms) made by individuals and organizations without any desire for personal returns. *Private foundations* can act with complete independence, supporting innovative and untested projects, funding research and investing their capital at below-market rates of return. However, their funds and staff are relatively small. (Kramer 2008: 216)

The Global Fund to Fight Aids, Tuberculosis, and Malaria (the Global Fund) and the Global Alliance for Vaccines and Immunizations (GAVI) are entirely new *public-private partnerships* designed to deliver development assistance for health in “fundamentally different ways than have traditional aid agencies.” (Radelet, Levine 2008: 431). These new organizations were created because donors apparently expected the reform and reorganization of existing agencies to be more difficult than to establish new mechanisms with different operating principles, mandates and objectives (Radelet, Levine 2008: 438).

Regardless of the differences between these types of aid intermediaries, they aim at securing funding in order to guarantee their organizational survival. The

acquisition of funds is the decisive element to be part of the international aid business. An aid intermediary is assumed to maximize funding.

Given the structure of the aid system, one can conclude that donors and aid intermediaries are essentially involved in a bargaining situation part of a multi round game: The ability of one player to gain his ends depends to an important degree on the decisions that the other player will make (Schelling 1960: 5). Each of the players tries to reach the respective objective by using different strategies that take into account the reactions of the other player. Incentives and transaction costs influence the bargaining between donors and aid intermediaries whose outcome is visible in resource transfers known as foreign aid. The donor uses the reputation and trustworthiness of the aid intermediary as indicator to make an informed decision. The aid intermediary, in turn, focuses on indicators used by the donor to assess its performance. Game theoretical analysis will help to understand the economic rationale behind the process of aid allocation.

4 The games

The bargaining about aid between donor and intermediary is characterized by imperfect information on one side. In this classic principal-agent problem, the aid intermediary has information that is not available to the donor, but the donor has no information to which the aid intermediary does not have access. Only the intermediary knows whether he considers fulfilling the expectations of the donor.

The two players maximize their utility. The utility numbers assigned to outcomes of the game are ordinal utilities. They capture the player's ordering, but neither provide they a measure of the intensity of a player's preference nor can they be compared across players (Heap, Varoufakis 2004: 9). The players' utilities are assumed to be directly proportional to their pay-offs, in other words they are risk neutral.

4.1 Game 1: The small-scale donor

The structure of the game in extensive form is shown in Figure 5. The game consists of two rounds. The small-scale donor moves first. Small means that her financial contribution is not substantial for the intermediary; the donation is "just one more".

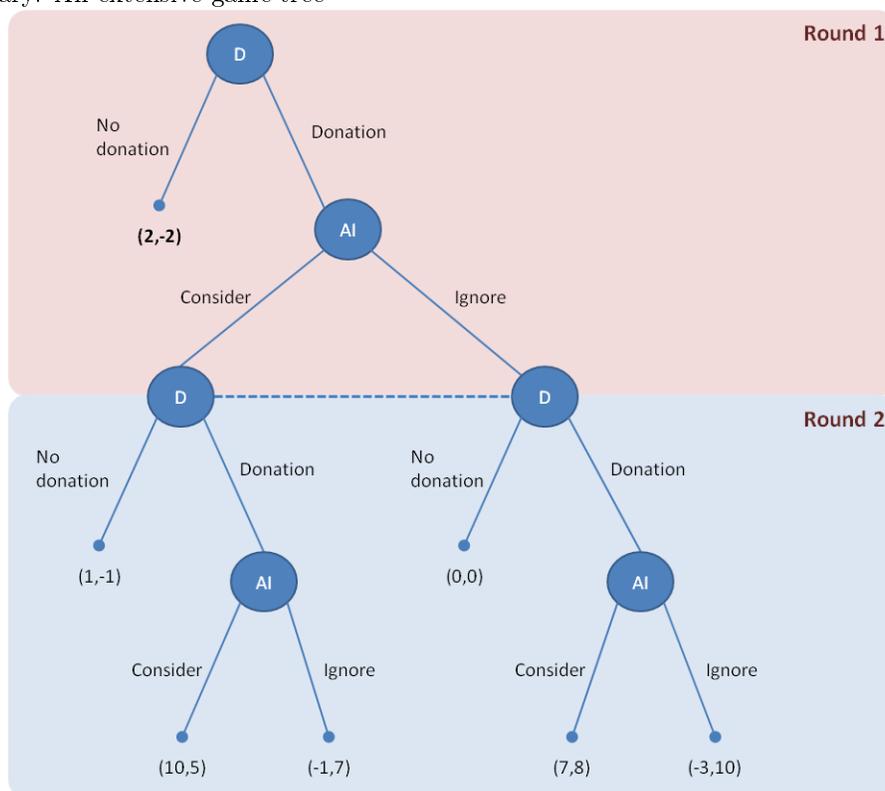
Strategies

The finite strategy set consists of the following pure strategies available to each player.

The donor (D) chooses among three possible strategies:

- (1) {not to donate} = {n}
- (2) {to donate; not to donate} = {d; n}
- (3) {to donate; to donate} = {d; d}

Figure 4: The bargaining process between small-scale donor and aid intermediary: An extensive game tree



The aid intermediary (AI) has four possible strategies to choose from:

- (1) {consider; consider} = {c; c}
- (2) {consider; ignore} = {c; i}
- (3) {ignore; consider} = {i; c}
- (4) {ignore; ignore} = {i; i}.

In both rounds, D chooses between *donating* (d) and *not donating* (n). AI chooses between two basic strategies, to consider or to ignore. The first strategy *considers* (c) the preferences of the donor. AI needs to know the indicators used for performance assessment in order to satisfy the donor's expectations through delivering results. AI bears costs to provide the desired outcomes but it helps to guarantee future funding. The second strategy *ignores* (i) the donor's preferences and their significance as preconditions for future donations. AI does not invest to satisfy these preferences. Thus, AI saves costs because the organization does not need to change its strategy, produce any specific outcome or exert any other additional effort. When D is asked to move again in the second round, he has not observed the intermediary's behavior. In game-theoretical terms, he does not know at which information node he is.

Payoffs

The players are expected to rank their preferences in order to maximize their expected utility as follows. The best possible scenario for D is the donation to be used in her best interest by AI . The assigned payoff is the highest ($P_1^{dd} = 10$). The second best is if AI uses the donation in the expected way at least in the second round. The assigned payoff is relatively high ($P_1^{dd} = 7$). If D decides to not make a donation, D keeps the resources but also loses the opportunity to pursue its objectives. The assigned payoff is low ($P_1^n = 2$). In round two, D can also opt out which would result in two different outcomes. Although AI shows the expected behavior in round one, D does not donate again in round two. D erroneously observes misbehavior by AI . The assigned payoff is low ($P_1^{dn} = 1$). In the alternative scenario, AI indeed ignores the other player's expectations in round one. In round two, D decides to not donate again because he correctly assumes misbehavior. The assigned payoff is lower ($P_1^{dn} = 0$). In both cases it is also possible that D refrains from donating because he runs out of resources. The second worst scenario for D is to assume AI to be using the donation responsibly in the first round. Based on this wrong assumption, D decides to donate again in the second round, but AI ignores these expectations now. This yields a negative payoff ($P_1^{dd} = -1$). The worst scenario for D is to donate money in both rounds and to be ignored in both. D loses resources which are not used as expected. The assigned payoff is negative ($P_1^{dd} = -3$).

The best possible scenario for AI is to receive donations and to ignore the D 's expectations in both rounds. AI takes full advantage of the information asymmetry. Funding is received but no resources are invested to satisfy D 's expectations. The assigned payoff is high ($P_2^{ii} = 10$). The second best outcome is to receive donations in both rounds but to only consider the donor's preferences

in the second round. *AI* is able to raise funds in both rounds but only starts investing in the reputation of a reliable organization in the second round, anticipating an ongoing relationship. This outcome yields a high payoff ($P_2^{ic} = 8$). The third best scenario is to take *D*'s preferences into consideration in the first round but to ignore them in the subsequent round. *AI* helps fostering a trustful relationship by showing a responsible behavior in using the donation. However, the relation ends on a bad note because *AI* lacks attention in the second round. The assigned payoff is moderate ($P_2^{ci} = 7$). Another scenario leads to a lower utility level. *AI* takes the donation seriously from the beginning and the organization invests in a good reputation. On the one hand, it helps establishing trust but, on the other hand, it also means that its own organizational objectives are compromised for the sake of funding. The assigned payoff is moderate ($P_2^{cc} = 5$). Two similar situations lead to slightly different outcomes: In one case, *D* decides to stop donating in the second round and *AI* actually ignores the donor's preferences in the first round. The relation ends after one round and potential future funds are lost. However, *AI* has not diverted any resources to satisfy *D*. The assigned payoff is low ($P_2^i = 0$). In the other case, *D* decides to stop donating in the second round, although *AI* takes the donation seriously and tries to satisfy the donor's expectations in the first round. In other words, *AI*'s investment in building reputation fails. The assigned payoff is negative ($P_2^c = -1$).

Solution

According to the logic of backward induction, it is concluded what the player moving first will do by considering what the player moving second will do. Players work out their strategies backwards; donor and aid intermediary induce their beliefs about what constitutes the wisest choices by starting at the end and then moving to the beginning (Heap, Varoufakis 2004: 91). In the first round, *D* chooses between *d* and *n*. The payoff for not making a donation is relatively low ($P_1^n = 2$). As a rational individual, *D* compares this payoff to all other possible outcomes of the game. If *D* plays *d* in round one, *AI* decides between *c* and *i*. For the small-scale donor, it is basically impossible to control *AI* and therefore to know how the donation is being used. Even if *D* has access to information about *AI* provided by third parties, it means that another instance is involved for which reputation is again an issue. Given that the intermediary is asked to play, in other words to decide about the behavior with respect to the use of the donation, *AI* also compares across all possible alternatives. In both cases, the intermediary hopes for a second donation because the highest payoffs are related to strategy *i* ($P_2^{ci} = 7$ or $P_2^{ii} = 10$). *D* anticipates *AI*'s behavior and therefore compares the payoffs of strategy *n* in the second round with the possible payoffs after playing *d* a second time. Due to *AI*'s preferences, *D* anticipates that the second player will always play *i* in the second round. Given that *D* does not know whether *AI* has taken the donation seriously in the first place, *D* must act based on previously formed beliefs. *D* randomizes between the left-hand side and the right-hand side, each with probability one-half. Therefore, the relevant

comparisons are on the left-hand side ($(0.5x(P_1^{dn}) = 1 > (0.5x(P_1^{dd} = -1) = -0.5)$) and on the right-hand side ($(0.5x(P_2^{dn} = 0) = 0) > (0.5x(P_1^{dd} = -2) = -1)$). Consequently, D will always opt for strategy n in the second round. Given this outlook, D will not donate in the first round because to play the strategic combination $\{d; n\}$ yields a lower payoff than the strategy $\{n\}$. Combining the possible strategic decisions, the game ends with D playing n .

Interpretation

Apparently, the strategy d does not seem to make much sense. Why would the donor even bother to make resources available if he can never be sure about the aid intermediary's behavior? The same is true for the strategy i . If the donor ever decided to make a donation, why would the intermediary ever bother about the preferences of the donor? In reality, however, billions of dollars in form of foreign aid are disbursed each year. Donors continue to make donations and aid intermediaries often take donor's preferences into consideration. Why? The game appropriately portrays the situation between one donor and one intermediary in a single round game. AI may indeed end up taking the donor's preferences into consideration for two possible reasons. First, due to the dynamic structure of the game in which D moves first, AI knows, if asked to play, that D made a donation. At this point, AI knows that D makes a material 'sacrifice' on his behalf and thus, AI experiences an urge to reciprocate. (If that urge remains unfulfilled, the intermediary suffers some 'psychological' loss. (Heap, Varoufakis 2004: 276)). Second, AI is aware that even a small financial contribution from one donor is part of a much larger pool of financial resources. So, even though that simple small-scale donor lacks power to make a conditional donation, the aid intermediary is aware of the importance of a good organizational reputation with regard to all small-scale donors. Thus, AI has much less incentive to use the donation for other purposes. Put in a different way: In order to maintain the financial flow, AI needs to communicate the responsible use of donated money. For D , in turn, such documentation proves to be taken seriously, contributing to his satisfaction with having made a donation.

This means that in real life the aid intermediary has an incentive to establish a good reputation over time, expressed in low overhead costs and responsible use of donations. The optimal strategy for the intermediary is twofold: To show and communicate the responsible use of donations as much as necessary in order to establish the reputation of a trustworthy organization without compromising the own objectives due to donor's preferences. The intermediary will document projects and interventions in brochures, illustrated with pictures and informative texts. Although also the small-scale donor wants to be informed about the organization's activities, less information in terms of figures and graphs is required than for the large-scale donor. The intermediary has more freedom to identify the important issues and develop a plan of action. Under the assumption that the charitable objectives are pursued seriously, this should result in a more effective health-aid intervention in the long-run. For instance, there is less pressure to present a quick drop in mortality rates and more time to invest in

prevention and education.

4.2 Game 2: The large-scale donor

Different from the previous game, we will now consider a large-scale donor and an intermediary in a multi round game. Two differences are noteworthy: First, different from the other game, D has another strategic option in the second round. D can sanction AI with a reduced donation to signal his dissatisfaction about the previous lack of attention. Second, whereas a small-scale donor can only vote with the feet in the subsequent round, the large-scale donor can threaten the intermediary to reduce the donation in the next round. AI would experience such as a reduction in funding. The principal still has imperfect information about the agent's effort. As a donor making a substantial financial contribution, the large-scale donor can expect some justification how the financial resources are used. The large-scale donor has access to additional information because she has means to monitor the intermediary. In other words, D knows in which part of the information set he is in the second round of the game. The structure of the game in extensive form is shown in Figure 5.

Strategies

The finite strategy set consists of the following pure strategies available to each player.

The donor (D) chooses among four possible strategies:

- (1) {not to donate} = {n}
- (2) {to donate; not to donate} = {d; n}
- (3) {to donate; to donate} = {d; d}
- (4) {to donate; sanction} = {d; s}.

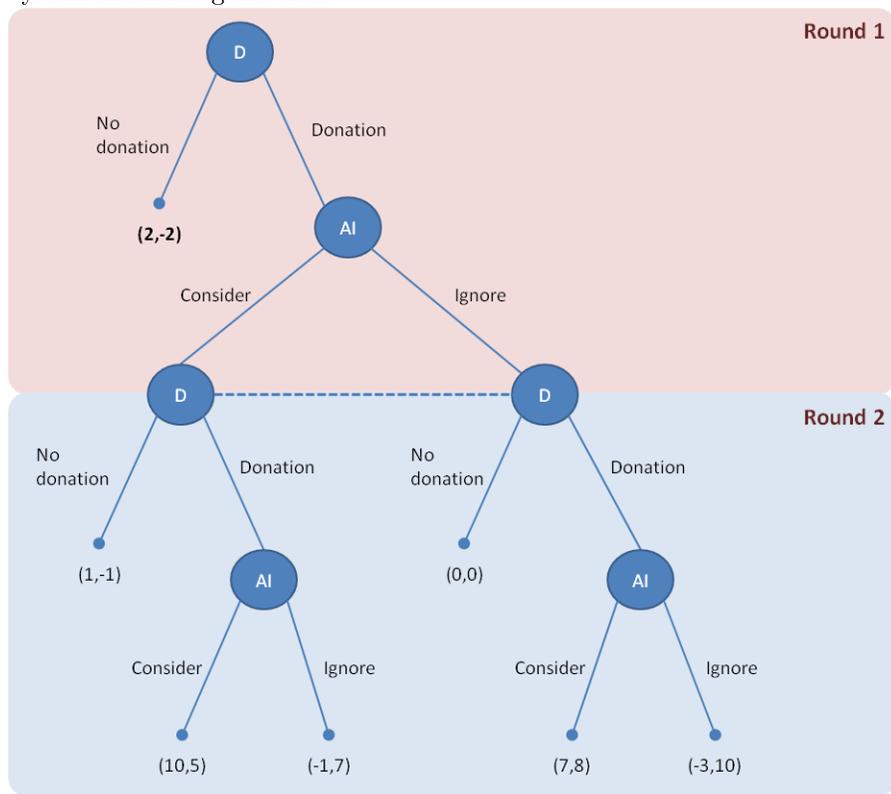
The aid intermediary (AI) has four possible strategies to choose from:

- (1) {consider; consider} = {c; c}
- (2) {consider; ignore} = {c; i}
- (3) {ignore; consider} = {i; c}
- (4) {ignore; ignore} = {i; i}.

As before, D chooses between *donating* (d) and *not donating* (n) in the first round of the game. In the second round, he has the additional option to *sanction* (s) the aid intermediary with a reduced donation for apparent lack of attention to the donor's preferences.

AI chooses between two strategies, to consider or to ignore the expectations of the donor. The first strategy *considers* (c) the preferences of the donor: which type of project is preferred, what are the expectations with regard to health indicators etc. AI anticipates D 's preferences and the indicators that are used as a benchmark and tries to deliver the corresponding results. AI bears the costs of providing the desired outcomes but does help to guarantee future funding. The second strategy *ignores* (i) the donor's preferences that represent preconditions for future donations. In this case, the AI is aware of

Figure 5: The bargaining process between large-scale donor and aid intermediary: An extensive game tree



D 's preferences but does not invest in satisfying them. Thus, AI saves costs because the organization does not need to change its strategy, produce any specific outcome or exert any other additional effort.

Payoffs

The players are expected to rank their preferences in order to maximize their expected utility as follows. The initial decision to play strategy n in round one yields a low payoff ($P_1^n = 2$). Nevertheless, D reaches a higher utility level by playing strategy n in round one ($P_1^n = 2$) than to play n in round two after being considered ($P_1^{dn} = 1$) respectively ignored ($P_1^{dn} = 0$).

Under the assumption that D maximizes her satisfaction with thoughtful donations, the best possible scenario for D is to see AI acting accordingly to the preferences in the two subsequent rounds. The assigned payoff is the highest ($P_1^{dd} = 10$).

The second best outcome for D is, if AI changes his behavior as reaction to the sanction in the second round. Although this means that AI previously ignored D , the latter can successfully influence AI . In addition, D saves some of the resources thanks to the sanction. This strategy yields the second highest payoff ($P_1^{ds} = 9$).

Two other scenarios are similar but lead to different outcomes. In the first one, D plays d and AI plays i in round one, but then takes D 's expectations into consideration in round two. Despite being ignored first, D feels taken seriously in round two. The assigned payoff is high ($P_1^{dd} = 7$). In the second one, AI respects the donor's preferences in the first round but then ignores them in the second. This situation is less satisfying because it indicates a deteriorating relationship. AI realizes that D 's threat is only cheap talk. A threat is called cheap talk if it costs more to carry it out to the agent who issued it than not carrying it out (Heap, Varoufakis 2004: 132). The assigned payoff is negative ($P_1^{dd} = -1$).

If AI provides the expected information, D is satisfied with his apparently effective donation. Nevertheless, D decides not to continue the relation and stops donating in round two. The assigned outcome is low ($P_1^{dn} = 1$). A possible reason could be that D has run out of resources. The decision to play n is less influenced by AI 's previous behavior. If AI , however, does not show the expected behavior, D keeps his resources in round two but feels fouled by AI . The assigned outcome is low ($P_1^{dn} = 0$).

The second worst scenario for D is to threaten AI in the first round and to sanction him in the second round but without success; AI keeps on ignoring D 's expectations. This scenario is a little better because D saves some resources thanks to the sanction, but neither the threat nor the sanction lead to a behavioral change. The assigned payoff is negative ($P_1^{ds} = -2$).

The worst case is to threaten AI in both rounds and to see him ignoring the threat. It means that D threatens twice but without any visible behavioral change by AI . D loses his credibility completely. This strategy yields the lowest payoff ($P_1^{dd} = -3$).

Assuming that *AI* maximizes funding by securing existing resource transfers and raising new funds, the best possible scenario for *AI* is a donor who does not sanction misbehavior directly. The most favorable scenario is to ignore *D*'s preferences in both rounds without consequences. *AI* does not fulfill the donor's expectations in the first round but is not sanctioned. The donor's threat is incredible and *D* has lost his credibility. Consequently, the complete donation can be used for organizational purposes. *AI* does not need to invest in reputation. The assigned payoff is the highest ($P_2^{ii} = 10$).

The second best scenario is to not be sanctioned for previous misbehavior and to signal interest in the donor's preferences in the second round. This allows *AI* to save resources in the first round but to continue receiving funds later. This strategy allows to focus on own objectives in the first round and only in the second round funds are compromised to fulfill donor's expectations. The assigned payoff is high ($P_2^{ic} = 8$).

The third best scenario is to take *D*'s expectations into consideration first but to ignore them later. *AI* helps securing its funding but does not invest anymore in its reputation in the second round. The credibility of the donor is challenged. The assigned payoff is high ($P_2^{ci} = 7$).

If *AI* takes the other player's expectations seriously in both rounds, *AI* loses its independency. The own organizational objectives are compromised for the sake of funding. The assigned payoff is moderate ($P_2^{cc} = 5$).

A less preferable scenario for *AI* is to be sanctioned for misbehavior. *AI* considers *D*'s preferences in the second round. The sanction in form of a reduced donation lowers the possible funding. *AI* saves resources in the first round, continues receiving funds, although a reduced amount, and invests some of these resources to satisfy the donor. In the first round, *AI* focuses on own objectives, while funds are compromised to fulfill *D*'s expectations in the second round. The assigned payoff is low ($P_2^{ic} = 4$). An even worse scenario for *AI* is to be sanctioned for misbehavior and to continue playing *i*. *AI* endangers any future relation because *D* gets the impression to not being taken seriously. *D* sanctions *AI* for his previous lack of attention but the sanction does not induce any behavioral change. *AI* spoils his reputation and loses potential resources because of the funding cut in the second round. The assigned payoff is low ($P_2^{ii} = 1$).

Another scenario is that *AI* ignores *D*'s preferences in the first round and, as a consequence, *D* ends the relation in the second round. *AI* is able to raise funds in one round but loses *D* in the subsequent round. The assigned payoff is very low ($P_2^i = 0$).

The worst scenario for *AI* is to take *D*'s preferences into consideration in the first round and to find out in the subsequent round that *D* ends the relation. *AI* invests as organization in a good reputation but loses *D* nevertheless. The assigned payoff is the lowest ($P_2^{dn} = -1$). (The worst possible scenario for *AI* is to not receive any donation in the first round. This means that the game does not start. The assigned payoff for *AI* is the lowest ($P_2^n = -2$).

Solution

Using backward induction, the following combination of strategies can be concluded. Once *AI* is asked to play, the player knows that *D* has made a donation. In the first round, *AI* decides between strategy *c* and *i*. If *D*'s preferences are considered, two things can happen. Either *D* plays *d* again or *D* decides to end the relation. In the latter, *AI* invests in building trust with *D* in the first round but the effort is not honored in the second round. *AI* receives funding once but his investment in his reputation does not pay off. If *D* decides to donate again in the second round, *AI* decides between fulfilling and ignoring his expectations. *AI* has an incentive to take *D*'s preferences into account in the second round. However, *AI* will not take them into consideration in the first round: *AI* risks less but can potentially gain more by ignoring *D* in the first round. Even if *D* decides to end the relation after the first round, *AI* is better off by ignoring him during the first round ($P_2^i = 0 > P_2^c = -1$).

If *AI* is ever asked to play, the player will rationally decide to ignore *D*'s preferences. Then, *AI* can expect three different scenarios in round two. On the one hand, *D* can choose to end the relation because *D* notices that *AI* does not take him seriously. On the other hand, if *D* plays *d* again, *D* can simply make another donation or sanction *AI* for his previous lack of attention. Contrary to the first round, *AI* will pay attention to *D*'s preferences in the second round, regardless of being sanctioned or not, in order to secure future funding. Anticipating *AI*'s behavior, *D* has an incentive to play strategy *s* in this round. *D*'s credibility is increased and it helps *D* to build a strong reputation.

Despite the possibility to reach a payoff ($P_1^d = 1$) after the first round which is lower than to play strategy *n* in the first place ($P_1^n = 2$), *D* has an incentive to make a donation. The incentive is to establish a relationship over time in which one depends on the other. *D* loses influence by transferring the resources to *AI* but also has potential to influence because *AI* needs the external funding. Once *D* has to move again in the second round, after having observed *AI* played *i*, *D* plays *s* in order to sanction *AI* with reduced funding. Given that *AI* is interested in establishing a reputation as reliable organization, *AI* is incentivized, for instance, to provide *D* with the expected improvements in the health indicators. The strategic combination $\{d; i; s; c\}$ is a Nash equilibrium in pure strategies. These strategies of the players are best replies with respect to each other.

Interpretation

A large-scale donor has more leverage on the donation than a small-scale donor. Surprisingly, this does not lead to an instant behavioral change. *AI* has an incentive to take *D*'s preferences into consideration in the long-run but not directly after the first donation. The more *AI* believes the donation to be a one-shot contribution, the fewer incentives *AI* has to demonstrate a 'respectful' use of the resources. However, this is counterbalanced by a general necessity to

have a good reputation. Although D can exert a lot of pressure to direct AI , the latter can potentially benefit from one specific aspect of health interventions financed with aid. If AI does not perform as expected, the organization was either unable to present the required results or AI simply ignored D threatening with funding cuts. Except for curative health interventions, most health projects have a long time horizon. Prevention and education usually are not able to produce immediate results. At first sight, it could complicate the issue of fund-raising for intermediaries: D expects certain outcomes after one year but the health outcome remains pretty much the same due to the type of intervention. An unintended consequence for AI could be a sanction in form of funding cuts. However, AI can also take advantage of this time lag. Assuming that health outcomes will not change in the short-term, AI could pretend to act in D 's interest while the organization is actually pursuing its own objectives. This means that AI has a strong incentive to not pay too much attention to D 's preferences in the short-run but rather in the long-run. Of course, the official message needs to be another one in order to guarantee next year's financial commitment by the donor. AI needs to balance fund-raising, reputation building and organizational objectives. The potential recipient is not necessarily on the agenda.

4.3 Observations in practice

The analysis of the bargaining between donor and aid intermediary has shown how the incentives lead to a situation in which the aid intermediary focuses on the preferences of the donor. The importance of raising and securing funding represents one crucial factor for the aid intermediary. The survival of the organization can only be guaranteed with a sound financing concept. The dependence on external funding has some consequences for the intermediary: Despite own organizational, often charitable, objectives, the objectives of the donor are very important.

The game illustrates that a small-scale donor has little direct leverage on the aid intermediary. The intermediary takes the donation and uses it to pursue its own objectives. A large-scale donor, private or public, has much more influence on the aid intermediary's behavior. Credible threats and exercised sanctions keep the aid intermediary on track. The bargaining over foreign aid is an ongoing process, a multi round game in which the aid intermediary's reputation is a crucial factor to attract funding. The reputation is defined by the overhead costs, organizational image and previous behavior.

The German structure of development cooperation can serve as an example. The German Federal Ministry for Economic Cooperation and Development (BMZ) is the main financier of the German Society for Technical Cooperation (gtz). When concepts for new projects are developed, the preferences of the officials in the government department are anticipated. This helps to maximize the number of projects commissioned and thus the funding. It also means that a development expert with country-specific knowledge compromises the communicated needs of intended beneficiaries for the known preferences of an official.

Even if the expert is seriously interested in improving the health situation for women and children, the bottom line is that her possibilities depend on the financier being convinced of the importance and success of the project.

Another consequence of the importance of funding is the discrepancy between short-term financing interests and long-term developmental objectives in form of improved health indicators. The aid intermediary needs to secure funding on a yearly basis in order to guarantee financial stability to maintain projects. At the same time, however, the health projects often require a long-term commitment. In particular preventive interventions with the aim to educate people about diseases and healthy behavior are often characterized by a significant time lag between the intervention and a measurable change in the health outcome.

5 Conclusions

Aid effectiveness has been a contentious area of debate because, among other things, aid allocation involves substantial resources. The allocation of aid is the visible result of a bargaining process of several steps and with various actors. Using development assistance for health as an example, it has been analyzed how the different maximization objectives of donors and aid intermediaries influence their interaction. Neither private donor, nor public donor nor intermediary can be assumed to act altruistically. Private and public donors have a variety of possible motivations why they make resources available. In general, a donor wants to maximize the possible impact of her donation in order to pursue her objectives as effectively as possible. Aid intermediaries maintain a higher level of accountability with donors than with recipients respectively beneficiaries. The focus on the donor-intermediary relationship provides some insights why the needs of beneficiaries are not necessarily of great importance, despite the officially communicated mantra.

Aid intermediaries depend on donors that provide financial resources. An intermediary tries to maximize its financial possibilities that simultaneously guarantee its organizational survival. The aid intermediary as agent depends on the donor as financial source. The donor as principal depends on the intermediary as organization that uses these resources. The portrayal of aid allocation as a game with two players has offered the following insights: Aid intermediaries depend on external funding but play an important and powerful role in the international system of aid allocation. The intermediary takes advantage of the information asymmetry between the two players in order to improve its bargaining situation. The donor donates resources and thereby loses control over them but, at the same time, is interested in monitoring their use. It has been pointed out that a distinction between small-scale and large-scale donor makes sense. The former attaches certain expectations to her donation but has very limited means to control and put pressure on the intermediary.

The two games illustrate aid allocation as the result of a continued bargaining process between donor and aid intermediary to raise and allocate funds.

The small-scale donor, individually, lacks the power to put any pressure on the intermediary. However, the much larger pool of many small-scale donors can expect the provision of qualitative information. This means that the intermediary has an incentive to build a good reputation to attract and keep small-scale donors. The image of a trustworthy organization is promoted by brochures and other publicly available information. As a result, one can conclude that the intermediary is forced to communicate its efforts to satisfy those donors but is relatively free in choosing its priorities for health projects, for instance. Under the assumption that the organization cares about the intended beneficiaries, we hypothesize that the relative freedom from small-scale donors leads to more effective and efficient programs respectively projects.

The large-scale donor has much more specific expectations attached to the donation. It hurts the intermediary more, if a financially important donor is lost (although also the sum of small-scale donors matters as has been seen in many scandals about the abuse of donations that hit intermediaries hard). The donor can demand specific results such as measurable improvements in health indicators. If the donor's preferences are completely aligned with the organizational objectives, the external pressure could result in better outcomes. It seems more realistic, however, that the intermediary's attention shifts to the donor's preferences: Own organizational objectives are compromised and resources are diverted for the sake of delivering the expected results. A large-scale donor asks for quantitative results which means that the data are more specific and probably more difficult to obtain. Under the assumption that the organization cares about the intended beneficiaries, we hypothesize that the higher the dependence on a large-scale donor, the less effective are the programs and projects. The extensive focus on the donor's preferences endangers the development and maintenance of helpful health interventions.

Despite the powerful voice of donors, particularly the bigger they are, aid intermediaries have a chance to avoid compromising their own priorities too much. Particularly health interventions often require a rather long-term commitment. Except for curative health care, results are not instantly visible and often difficult to measure. As we have seen in the two games, this temporary independence could counteract the excessive focus on short-term results. The intermediary can take advantage of the time lag between many health interventions and their outcomes. If the intermediary can offer consistent arguments why no immediate results can be expected from the health intervention, then the intermediary gains additional time and increases its range for decision-making.

There is a discrepancy of short-term fund-raising and long-term health projects. Surprisingly, more control through the donor can result in less effective and efficient health interventions. At the same time, particularly health projects and programs provide the intermediary with an opportunity to justify the inability to produce immediate results, with positive or negative effects. Again, under the assumption that the organization cares about the intended beneficiaries, we can hypothesize that this temporary independence from the donor allows for implementing more efficient aid programs. Of course, if the intermediary is not interested in the needs of the intended beneficiaries, then this relative

independence could have the opposite effect: The intermediary maximizes its funding, regardless of the small-scale or the large-scale donor. This finding is interesting in the context of the discussion on aid effectiveness. The lack of transparency and accountability is often criticized and better control mechanisms are demanded. However, these measures are no panacea. This analysis demonstrates that the form of control and its impact on the incentive scheme matters.

The additional restriction of assuming a benevolent intermediary has been crucial for the above hypotheses. The organizational objective of an aid intermediary seems to play a decisive role in combination with the need for funding. Particularly in the realm of NGOs, we find very heterogeneous organizations. In a next step, it would be interesting to analyze whether a systematical difference can be found between faith-based NGOs and secular NGOs. The Christian commandment to love your brother as yourself could be the distinctive feature that results in a strong focus on the own objectives on behalf of the intermediary. We hypothesize that Christian NGOs provide more efficient health interventions than secular ones.

Concluding, two possible drawbacks need to be mentioned. First, in the analysis presented here, no distinction has been made between the individual and organizational level with respect to donors. A citizen is an individual, whereas a company is an organization. Aid intermediaries have been treated as an individual in the game but, in reality, they are organizations. In the future, it might be important to introduce this distinction because of possible collective action problems. Second, in the game, the aid intermediary is assumed to decide between completely ignoring and fully considering the donor's expectations. Such a sharp distinction might be inappropriate in reality because the intermediary is more likely to decide between 'a little more' and 'a little less'.

The aid allocation process comprises two important steps: acquisition of funds and their allocation. The intermediary decides the aid allocation once the funds have been raised. Focusing on the interaction of donor and intermediary, the two games have illustrated how several factors can counteract each other such as the dependence on funding, the need for measurable results, the time lag inherent in many health interventions etc.

This more detailed understanding of the decisions involved in handling development assistance for health in sub-Saharan Africa could be applied in conjunction with empirical data to further delineate the roles of donors and aid intermediaries in the promotion of basic health care on the African continent.

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