

Funding Aid Agencies: The Political Determinants of Core v. Non-Core Funding*

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August 18, 2015

Abstract

Multilateral aid agencies are an increasingly popular subject for studies of delegation to international institutions. However, one aspect of this puzzle that has not previously been considered is the type of donations they receive. In recent years, an increasing amount of multilateral aid has come in the form of non-core funding, aid that is channeled through multilateral agencies but is earmarked for a specific purpose or region by the donor country. Understanding why and when donor countries decide to utilize this type of funding is an important question for policymakers and scholars of international institutions. I argue that the characteristics of the agency are essential to consider when answering this question. Specifically, I argue that the autonomy and preferences of the agency are key factors in determining the proportion of core v. non-core aid that multilateral agencies receive. To test my argument, I examine newly available data on core and non-core funding allocations to 20 agencies from 2007-2012. My results indicate that both the ability of the donor government to control the multilateral agency and the preference alignment between the agency and the donor government are critical aspects of their decision to provide non-core aid.

*Paper to be presented September 5th at the 2015 Annual Meeting of the American Political Science Association in San Francisco, CA. Previously presented February 19th at the 2015 Annual Convention of the International Studies Association in New Orleans, LA.

Introduction

Multilateral agencies are an increasingly popular subject for studies of foreign aid. Although the majority of aid continues to be given bilaterally, scholars are also recognizing the importance of other aid delivery mechanisms in promoting aid effectiveness and achieving the Millennium Development Goals (MDGs) (Dietrich, 2013, 2014). Motivating this interest in multilateral aid is the observation that bilateral aid is primarily driven by the domestic geopolitical and commercial interests of donor governments (Alesina and Dollar, 2000; Bueno de Mesquita and Smith, 2007, 2009; Tierney et al., 2011; Radelet, 2006; Younas, 2008; Lundsgaarde, Breunig and Prakash, 2010). As multilateral aid agencies are established with the expressed purpose of promoting development, they provide the aid community with an opportunity for aid to be distributed more effectively. Consequently, scholars have recently examined decisions to delegate to these agencies (Tingley, 2010; Milner and Tingley, 2011; McLean, 2012), as well as their allocation patterns (Hicks et al., 2010; Schneider and Tobin, 2013*a*), in the hopes of achieving more positive results.

One aspect of multilateral aid funding that has yet to be explored is the type of funding that donor governments provide to aid agencies, specifically the distinction between core and non-core funding. Core funding is aid that is given to multilateral agencies with no strings attached. The agency then pools these funds together, and distributes them according to their own preferences and organizational procedures. Non-core funding, on the other hand, is channelled through a multilateral aid organization, but its purpose is earmarked for a particular sector, theme, country, or region by the donor government. This type of aid is often called bi-multi aid, as it is essentially bilateral aid that is being given through multilateral aid agencies.¹ As a result, non-core funding allows donor governments

¹Throughout the rest of the paper, I use the terms non-core aid, earmarked aid, and bi-multi aid interchangeably.

to use the implementing resources of the multilateral aid agency, while simultaneously retaining control of how the aid is spent. In 2012, donor governments contributed \$17 billion to multilateral aid agencies through non-core funding, accounting for 13% of all Official Development Assistance (ODA) (Tortora and Steensen, 2014, p. 7). When added to the amount of core funding multilateral aid agencies receive, multilateral aid agencies are becoming an increasingly salient set of actors in the aid community, with multilateral aid comprising a record 41% of all ODA in 2012. Non-core funding is becoming more prevalent as well, growing by 8% from 2009 to 2010 (*Multilateral Aid Report*, 2012). This is an important component of foreign aid spending that warrants a more detailed analysis.

The rise in non-core funding has both positive and negative implications for overall multilateral agency effectiveness. On the positive side, increases in non-core funding provide these agencies with more resources, and thus the capacity to implement a greater number of initiatives. For short term crises, non-core aid can also be highly beneficial in that it diminishes the amount of bureaucracy that funds must travel through before being distributed. Reflecting this logic, humanitarian aid represents a large portion of non-core aid, accounting for 30% of all non-core aid in 2012 (Tortora and Steensen, 2014). Non-core funding also provides donor governments the opportunity to distribute aid to a desired sector or recipient that they may be unable to reach if acting independently. If the specified sector or recipient is largely ignored by the aid community, then the provision of non-core aid from the donor government will be highly beneficial for development. However, there are negative aspects associated with earmarked funding as well. In order to manage and distribute non-core funding, multilateral agencies must increase their administrative capacity, thereby increasing their transaction costs. Non-core aid is also potentially detrimental in that it diminishes the agency's control over its own funds. Since non-core funding does not require the approval of the agency's Board of Directors or equivalent body, its policies

do not necessarily reflect the preferences of the agency. In this case, donor governments can utilize multilateral non-core aid as a tool of foreign policy—much the same as they use bilateral aid—and undermine the very *raison d'être* of the agency.

The objective of this paper is to provide a preliminary understanding of the political determinants of non-core funding. Using the framework of a principal-agent model, I argue that the decision of donor governments to provide non-core funding is a function the donor's expectation of losses due to delegation. When providing aid to multilateral agencies (in this case, the agents), donor governments (in this case, the principals) are wary of issues of agency slack. As described by Carpenter (2001) in the context of congressional delegation, agency slack exists when: "bureaucrats take actions consistent with their own wishes, actions to which politicians and organized interests defer even though they would prefer that other actions (or no action at all) be taken" (Carpenter, 2001, p. 4). Donor governments risk incurring similar losses when delegating to multilateral agencies. The magnitude of these costs will depend on the agency's level of autonomy, which stems from both the degree of divergence between the donor's and agency's preferences, as well as the ability of the donor to control agency behavior (Jensen and Meckling, 1976; Hawkins et al., 2006). In order to avoid these potential losses that may result from delegation, I argue that donor governments are more likely to provide a higher proportion of non-core funding to agencies that they believe will deviate from their preferred patterns of aid spending, or to agencies which are difficult to control. Stated differently, when multilateral agencies have sufficient levels of autonomy from the influence of donor governments, I expect that the amount of non-core aid they are provided will increase due to donor concerns of agency slack. The implications of this study will therefore provide key insights not only as to the type of funding that multilateral aid agencies receive, but also as to the willingness of states to utilize multilateralism more generally.

The remainder of this paper proceeds as follows. First, I review the previous literature on the motivations for states to act multilaterally both generally, and within the context of foreign aid. Next, I describe my theoretical argument in more detail. I emphasize how donor concerns of delegation losses due to a lack of agency control are expected to be key factors motivating the amount of non-core funding that donors provide multilateral aid agencies. Third, I test my argument using measures of preference alignment and original measures of agency autonomy. My results indicate that agency characteristics are important determinants of non-core aid allocation, reflecting donor concerns of agency slack and losses due to delegation. I conclude by considering the implications of my results for the overall effectiveness of foreign aid, as well as the role of multilateralism in the international system.

Past Studies of Aid Allocation

The majority of past research on foreign aid allocation has focused on the determinants of bilateral aid. Studies have shown that donor governments generally use bilateral aid in order to further their domestic geopolitical and commercial interests. Rather than focusing exclusively on development issues, bilateral aid can be used as a strategic tool (Schraeder, Hook and Taylor, 1998; Alesina and Dollar, 2000), to extract policy concessions from leaders in recipient governments (Bueno de Mesquita and Smith, 2007, 2009), and to benefit private firms and commercial interests in the donor government (Radelet, 2006; Younas, 2008; Tierney et al., 2011). Thus, for bilateral aid agencies, foreign aid is often used as a foreign policy tool that allows them to secure their interests abroad. Other studies have emphasized the importance of domestic political and economic factors on patterns of aid allocation. Noel and Therien (1995) and Therien and Noel (2000) found mixed evidence regarding the influence of political ideology on foreign aid allocation, while Tingley (2010)

finds that conservative governments provide less foreign aid to multilateral aid agencies as well less foreign aid on an aggregate level. He argues that conservatives view foreign aid as placing an undue tax burden on the public while simultaneously fulfilling investment opportunities that may have been more efficiently filled by private firms (Tingley, 2010). Survey evidence from Milner and Tingley (2011) supports this conclusion, and finds that conservative publics and elites are less supportive of multilateralism. An additional focal point has been the appropriate role for governments in the marketplace and its impact on various methods of aid delivery. Dietrich (2014) argues that when governments are active in the economy at home, they are also more likely to provide government-to-government aid, rather than bypassing through other aid delivery channels. However, when donor governments take a neoliberal approach, they are more likely to outsource their aid funds to multilateral agencies, NGOs, or private firms.

A smaller subset of studies have examined the decision of donor governments to provide aid multilaterally. Multilateralism is becoming an increasingly salient form of action for sovereign states in issues ranging from warfare to environmental policy. In their seminal study, Hawkins et al. (2006) use a principal-agent framework to describe the benefits of acting multilaterally. Specifically, they argue that by delegating to international organizations, states are able to reap the rewards that they provide, namely: facilitating collective decision making, enhancing credibility, resolving disputes, creating policy bias, and managing policy externalities (Hawkins et al., 2006, p. 13). Foreign aid scholars have similarly emphasized the potential benefits that delegating to multilateral aid agencies can provide. An early study by Asher (1962) states that the advantages of multilateral aid are that it is nonpolitical, enables coordination among donors, promotes efficiency, and reduces the relative costs of aid giving by reducing administrative costs. Empirical studies have largely supported this positive outlook. Multilateral aid agencies have, for example,

been shown to be more selective in terms of distribution aid to recipients in more need, with better political institutions (Dollar and Levin, 2006; Burnside and Dollar, 2000), and to recipients with better human rights records (Neumayer, 2003). Furthermore, Milner (2006) emphasizes multilateral aid's ability to serve as a credible commitment mechanism for donor governments. By allocating aid multilaterally, donor governments are able to signal to their publics that they are pursuing development goals rather than geopolitical interests, and are consequently able to maintain higher aid budgets.

Despite the potential benefits that multilateral agencies may provide, donor governments are often wary of delegating to them because of concerns of agency slack and losing control of aid funds. Because multilateral aid agencies are accountable to a collective principal in the form of multiple donor governments, there is a danger that the agency will be able to balance competing donor interests against each other, and consequently will pursue their own preferences rather than those of their principals (Dahl and Lindblom, 1953; Bryner, 1987; Wilson, 1989; Nielson and Tierney, 2003; Hawkins et al., 2006). Thus, more recent studies of allocation to multilateral aid agencies have focused on interactions between donor governments and aid agencies. These studies have mostly focused on issues of preference alignment and agency control. Schneider and Tobin (2013*b*), for example, demonstrate how greater portfolio similarity prompts donor governments to provide more aid to multilateral aid agencies. Other studies have demonstrated the importance of examining the aggregate preferences of principals. McLean (2012), for instance, argues that donors will contribute more to agencies whose members have views similar to their own. In a related study, Schneider and Urpelainen (2014) argue that partisan heterogeneity in international organizations will influence the willingness of countries to cooperate. Issues of principal control have also received a substantial amount of attention, especially with regard to the influence of major powers. In a study of environmental aid, Nielson and

Tierney (2003) demonstrate how pressure from the U.S. was able to alter World Bank environmental policies. Stone (2004, 2008) provides similar findings regarding the influence of the U.S. in IMF conditionality constraints, as do Schneider and Tobin (2013*a*) regarding the influence of powerful interests coalitions in the European Commission, as well as Copelovitch (2010) on the role of the G5 on IMF loan activity. Lyne, Nielson and Tierney (2009) also provide evidence that even small states are able to exert influence over agency behavior.

Collective Principals and Non-Core Aid

Stepping back from the literature on aid allocation, two general observations emerge. First, donor governments generally prefer to use aid funds to promote their domestic interests. This type of behavior, however, has come under increasing amounts of scrutiny in recent years. The Paris Declaration and Accra Agenda for Action, as well as the Busan Partnership for Effective Development Cooperation, have signaled an increasing emphasis within the aid community on promoting effective development policy. Donors are thus under increased pressure to revise their aid policies and focus on providing aid in a manner that promotes development policy rather than their own interests. Second, multilateral aid agencies offer a potentially more effective route of aid delivery. Multilateral aid agencies have been praised as being politically neutral, possessing high levels of expertise, and having the ability to credibly enforce conditionality constraints. Donor governments therefore face a dilemma: they can continue to receive criticism for using their aid to promote domestic interests, or they can use potentially more effective multilateral aid institutions, but sacrifice control of their aid. Non-core aid offers donor governments a solution to this problem. On the one hand, aid that is channelled through multilateral aid agencies allows donor governments to signal to their publics and the international aid community that

they are pursuing development goals. On the other hand, donor governments are still able to retain control of their aid funds. Thus, non-core funding offers donor governments the best of both worlds.

Recognizing these benefits, I argue that donor governments are more likely to utilize non-core multilateral aid funding when they perceive that the costs of delegating to a certain multilateral aid agency may be relatively high. As described by Jensen and Meckling (1976) and Hawkins et al. (2006), the costs of delegating to an agent are a function of both the ability of the principal to control agent behavior, as well as the alignment of preferences between the two actors. Donor governments will therefore delegate more non-core aid to agencies that they perceive as bearing potentially high delegation costs. These costs stem from two sources: the autonomy of the agency and the alignment of preferences between the donor and the agency. The logic for each of these arguments is founded in the fact that multilateral aid agencies are responsible to a collective principal, which influences their ability to rein in deviant agent behavior. When agencies are accountable to multiple donor governments, it is more difficult for them to coordinate their action and attempt to control agent behavior. McCubbins, Noll and Weingast (1989) succinctly describe this problem in that as long as one of the principals benefits from agency shirking, they will block attempts to sanction the agency. Additionally, the agent can observe situations in which the principals have conflicting preferences and exploit them in order to avoid sanctions (Pollack, 1997). As described in studies of congressional delegation, when bureaucracies are responsible to multiple principals, they are able to pursue independent action by balancing the diverse preferences of their principals against each other and maneuvering among them (Bryner, 1987; Dahl and Lindblom, 1953; Wilson, 1989). Therefore, when the principals do not share the same preferences, it will be easier for agent to engage in autonomous behavior. A similar logic can be applied to multilateral aid agencies. When multiple donor

governments vote on agency policies and provide funding for the agency, it is more difficult for a single donor government to influence agency behavior. Furthermore, when the donor governments have diverse preferences, it is likewise more difficult for them to influence agency behavior. As a result, the presence of more principals provides greater levels of autonomy to multilateral aid agencies, which will encourage donor governments to provide higher levels of non-core funding. Additionally, when the preferences of the donor and the agency diverge, donor governments are more likely to provide non-core funding because the expected costs of delegation are higher. Below, I describe this argument on the importance of autonomy and preferences in more detail.

Agency Autonomy

I define autonomy as, *the ability of the agency to pursue independent aid policies and achieve its mission and purpose.*² When autonomy is high, multilateral agencies have greater independence from their donor governments, and consequently a greater ability to pursue their own interests. Donor governments, on the other hand, will be reluctant to delegate to multilateral aid agencies with high levels of autonomy, as they expect to incur higher costs from delegation due to agency slack. The autonomy of the agency therefore becomes of critical concern for donor governments in their decision of allocating either core or non-core funds. Donor governments are likely to delegate more core funds to agencies with lower levels of autonomy, but will provide more non-core funding to agencies with higher levels of autonomy.

²In addition to Hawkins et al. (2003), I draw on two other sources for my definition of multilateral agency autonomy. The first is from Lancaster (1999), who defines autonomy in the context of foreign aid agencies as, “the ability of an organization to make policy decisions to achieve its mission and purposes” (p. 78). The second is from Haftel and Thompson (2006), who propose a similar concept of independence in their study of international organizations, stating that, “...independence for an IO is the ability to operate in a manner that is insulated from the influence of other political actors—especially states” (p. 256). In my definition, I capture both the emphasis on independence from Haftel and Thompson (2006) as well as the pursuit of agency mission as emphasized by Lancaster (1999).

Agency autonomy can be manifested in both formal and informal sources. The formal sources are agency voting procedures, as described in the agency's charter or founding document. Voting procedures are a key characteristic for multilateral aid agencies because they must have their aid projects approved by a supervisory entity. Generally, this approval comes from a Board of Directors or Executive Board, who are themselves acting on behalf of a higher entity.³ For example, in the Asian Development Bank, the Board of Governors is the highest organizational body, but only meets once a year. In order to supervise the daily functioning of the Bank, authority is delegated to a Board of Directors, which has the authority to, "...supervise ADB's financial statements, approve its administrative budget, and review and approve all policy documents and all loan, equity, and technical assistance operations."⁴ These boards have a strong role within the agency, and can use their power to guide and even alter agency policies (Bøås and McNeill, 2003). When discussing agency voting procedures, I am therefore referring to the rules that govern the agency's Board of Directors, or equivalent body.

Voting system characteristics are critical for aid policies, as they collectively serve as a system of checks and balances which donor governments can use to influence agency behavior. When donors disagree with proposed policies, voting procedures determine their ability to accept or reject them. This argument becomes clearer when viewed in the context of the veto player literature. As articulated by Tsebelis (2002), a veto player is an individual or collective actor whose agreement is necessary in order to change the status quo. The addition of each veto player shrinks the range of available win sets that are able to overcome the status quo. Therefore, as the number of veto players increases, the more difficult it is to alter the status quo. As a consequence, Tsebelis (2002) argues that more veto players

³Throughout the remainder of this study I refer to such entities generally as Boards of Directors or Boards, but acknowledge that within each official aid agency their actual title may differ slightly.

⁴<http://www.adb.org/about/board-directors>.

will result in greater bureaucratic independence, and thus greater policy stability. This has been empirically demonstrated by Moser (1999) and Keefer and Stasavage (2003), who show that when there are more veto players present, political interference in central banks is less likely. Drawing on these insights, I expect that the presence of more donor governments on agency Boards will increase the agency's autonomy. When the number of Board Members increase, the potential for agency slack increases because it is difficult for donors to coordinate their action and restrict the actions of the multilateral agency. As a result, I expect that agencies with larger Boards will receive more non-core aid, as stated in Hypothesis 1.

Hypothesis 1 *Multilateral aid agencies with a larger Board of Directors will receive proportionally more non-core funding compared to agencies with a smaller Board of Directors.*

In addition to the number of Board members that govern an aid agency, there are two other components of agency voting procedures that need to be considered. The first is whether the Board of Directors must approve an aid policy by a majority or supermajority vote. This varies quite substantially within aid agencies. For example, the World Health Organization (WHO) is governed by majority rule, while the Global Alliance for Vaccines and Immunizations (GAVI) requires a two-thirds majority vote in order to approve their aid policies. For convenience, I categorize all aid agencies which require more than a simple majority as being "supermajorities." I expect that agencies will have more autonomy when fewer votes are needed to pass an aid policy. When agencies require a supermajority, it is easier for the policy to be blocked, as it takes fewer Board members voting against the policy for it to fail. For example in a majority vote system, more than half of all Board members would have to vote against the proposed policy. On the other hand, in an agency requiring a three-fourths majority, only little more than a quarter of the Board members would have to coordinate in order to successfully block the aid policy. Consequently, donors

are expected to provide more non-core funding to agencies with a majority voting system, as they will find those agencies more difficult to control than agencies with supermajority voting systems. This expectation is formalized in Hypothesis 2.

Hypothesis 2 *Multilateral aid agencies with a majority voting system will receive proportionally more non-core funding compared to agencies with supermajority voting systems.*

The second component is how voting power is distributed. There are typically two forms of voting power distributions within multilateral aid agencies: one-member-one-vote systems and proportional systems. In the one-member-one-vote systems, each member of the Board of Directors is allotted a single vote. UNICEF, for example, has an Executive Board of 36 members that are elected from the UN's Economic and Social Council. Within the Executive Board, each member is able to cast a single vote. Alternatively, in a proportional system, voting power is distributed in a manner roughly equivalent to the amount of funding that the donor government provides or the number of capital subscriptions that they hold. In the Inter-American Development Bank, for instance, "Each member country shall have 135 votes plus one vote for each share of ordinary capital stock of the Bank held by that country..."⁵ Other agencies have similar, though not identical proportional voting systems. The African Development Bank, for instance, allots its members 625 votes in addition to one vote for each share of capital the member holds. For agencies with one-member-one-vote systems, the presence of more Board members should enhance the agency's autonomy, as there are more preferences that must be balanced within the agency. For proportional voting systems however, the implications of more Board members are not quite as straightforward. When voting power is based on funding patterns, then the ability of a single donor government to influence agency policies may either be enhanced or diminished. If the donor government provides a substantial portion of the agency's

⁵<http://www.iadb.org/leg/Documents/Pdf/Convenio-Eng.pdf>, p. 25.

funding, then the agency will have a greater influence on voting procedures, whereas the agency may have a small or negligible influence on the agency if they only provide a small portion of the agency's funding (I discuss this more below). Generally, I expect that agencies with proportional voting systems will have less autonomy compared to agencies with one-member-one-vote systems. Proportional systems allow Board members the possibility of increasing their voting power, and therefore their influence over multilateral agencies. One-member-one-vote systems, on the other hand, maintain a limited range of influence for each Board member. Thus, there is a greater likelihood that Board members can use their vote share to influence agency policies in a proportional voting system. As a result, I expect that donor governments are more likely to provide non-core funding to agencies with one-member-one-vote systems, as they will again find it harder to control agency behavior. This expectation is reflected in Hypothesis 3.

Hypothesis 3 *Multilateral aid agencies with one-member-one-vote systems will receive proportionally more non-core funding compared to agencies with a proportional voting system.*

The above argument has focused on formal sources of autonomy. However, while voting structures capture the official role that donors have in approving agency policies, agency funding also plays an important role. The influence of budgets has been highlighted previously by scholars of public administration as well international relations. Christiansen (1999) and Verhoest et al. (2004), for example, describe how financial autonomy influences the ability of the principals to constrain the behavior of bureaucratic agencies. Financial autonomy is defined as the extent to which the agency is dependent on the government for funding, or if it is able to generate its own revenue. Within the European Commission, Pollock (2003) discusses how one of the key ways governments can sanction the organization is through budget cuts. As the agency needs funds in order to operate, monetary sanctions

are one of the most severe and effective ways to entice the agency to adopt policies preferred by the donor. A similar relationship can be expected within multilateral aid agencies. Since the agency must continue to receive funds from donor governments in order to maintain their aid operations, the threat of a donor government reducing or eliminating funding to the agency can have an important impact on the agency's policies, regardless of the voting procedures of the agency. Thus, donor governments can attempt to extract policy concessions from multilateral agencies in exchange for funding. This may come in the form of using domestic firms from donor governments to implement aid projects, distributing more aid to recipients who are strategically or economically important to the donor government, or removing conditionality constraints of aid projects in order to placate friendly recipient governments. Essentially, donor governments can use financial contributions to secure their domestic interests, rather than promoting those of the multilateral agency itself.

However, the ability of a donor government to use their funds as a way to influence agency policies also depends on the number of other donor governments the agency receives funding from, as well as the size of these contributions. Unlike a domestic bureaucracy, multilateral aid agencies do not depend on a single source for their funding. Rather, they receive contributions from potentially dozens of donor governments. If a multilateral agency receives a majority of its funding from a single, or small group of donor governments, there is a greater possibility that the agency will have lower autonomy. When agency funding is concentrated, the agency is more likely to alter their policies to fall in line with those donor governments providing the majority of their funding. When agency funding is more equally dispersed among donors, the agency is less beholden to each government, and can pursue autonomous aid policies. Therefore, donor governments are more likely to provide proportionally more non-core aid to agencies whose funding is more equally dispersed, as they expect greater delegation losses from such agencies. This is stated formally in

Hypothesis 4.

Hypothesis 4 *Multilateral agencies whose funding is distributed among a larger group of donor governments will receive proportionally more non-core funding compared to agencies whose funding is concentrated among a single donor government or small group of donor governments.*

Preference Alignment

The hypotheses presented above are founded on the assumption that the preferences of the donor government and the multilateral aid agency are not aligned. As a result, higher levels of autonomy allow the agency to pursue policies that are not preferred by donor governments, which subsequently raises their expected losses due to delegation. However, this assumption of preference divergence between the donor and agency is not necessarily true. It is entirely possible for donor governments to share the preferences of a multilateral aid agency. McLean (2012) and Schneider and Tobin (2013*b*), for example, demonstrate how donors will even seek out agencies with preferences similar to their own. It is therefore important to account more specifically for the preferences of the donor and the agency, as they have implications for the provision of non-core funding. If the preferences of the donor and the agency are aligned, they can expect the agency to pursue policies that they support. Providing core aid to these agencies therefore presents a lower likelihood of the donor incurring losses due to delegation. If, however, the donor and the agency have divergent preferences, donors will prefer to provide agencies with more non-core aid, as they cannot be sure that the agency will pursue its preferred policies.

Hypothesis 5 *Donor governments will provide proportionally more non-core funding to multilateral aid agencies whose preferences diverge from their own.*

Empirical Analysis

In this section, I test my hypotheses regarding the influence of agency autonomy and preferences on core versus non-core funding to multilateral aid agencies. The unit of analysis is donor-agency-year. To construct the donor-agency dyads, I use data from the OECD's website on aid architecture, which provides information on core and non-core funding for all DAC donor governments from 2007-2012. All aid data is measured in constant 2012 USD millions. It is also worth noting that I exclude four DAC donors from my analysis. The first three are Poland, Slovakia and Slovenia because of missing data. The fourth is the EU. Although officially considered a DAC donor, the EU does not represent a single state, which is the focus on my analysis here. My dataset therefore comprises 25 donor governments and 20 multilateral aid agencies. The agencies are listed in Table 1.

Table 1: Multilateral Aid Agencies

African Development Bank (AfDB)
Asian Development Bank (AsDB)
Food and Agriculture Organization of the UN (FAO)
Global Alliance for Vaccines and Immunizations (GAVI)
Global Fund
Inter-American Development Bank (IADB)
International Fund for Agricultural Development (IFAD)
International Labor Organization (ILO)
Office of the High Commissioner for Human Rights (OHCHR)
UN Department of Peacekeeping Operations (UNDPKO)
UN Development Programme (UNDP)
UN Economic Commission for Europe (UNECE)
UN High Commissioner for Refugees (UNHCR)
UN International Children’s Emergency Fund (UNICEF)
UN Office for the Coordination of Humanitarian Affairs (UNOCHA)
UN Population Fund (UNFPA)
UN Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)
World Bank Group (WB)*
World Food Programme (WFP)
World Health Organization (WHO)

**The World Bank Group includes the IDA, IBRD, IFC, and MIGA.*

Dependent Variable

The dependent variable is the proportion of non-core funding relative to all funding that the multilateral agency receives from each donor government. Thus, the variable is calculated as:

$$\text{Prop. Non-Core} = \text{Non-Core} / (\text{Core} + \text{Non-Core}).$$

As can be seen in Figure 1, non-core funding represents a sizable portion of aid funds. Moreover, since 2007, the amount of non-core funding has been increasing, although this trend stalled somewhat in 2011 and 2012, reflecting global decreases in total aid funding. Figure 2 graphs each DAC donor's use of non-core aid relative to their total use of the multilateral system from 2007-2012. The graph shows a positive relationship between the two variables: as donors provide more aid to multilateral organizations, they are more likely to provide it in the form of non-core aid. Interestingly, the most prolific users of non-core aid are Australia, the U.S., Norway, and Canada. Those countries providing the least amount of non-core aid include Germany, France, and Italy.

Independent Variables

The key independent variables for my analysis focus on the autonomy and preference alignment of the multilateral aid agency. I measure agency autonomy in four ways. The first three are institutional characteristics of the agency as captured in their voting procedures. The variable *Board Members* is a simple count of the number of Board members an agency has. The second, *Supermajority*, is a dummy variable indicating that the agency must approve aid policies by more than a simple majority vote. Agencies which only require a simple majority are coded as zero. The third variable, *Prop. Vote*, is a dummy variable indicating that voting power is distributed proportionally according to capital subscriptions.

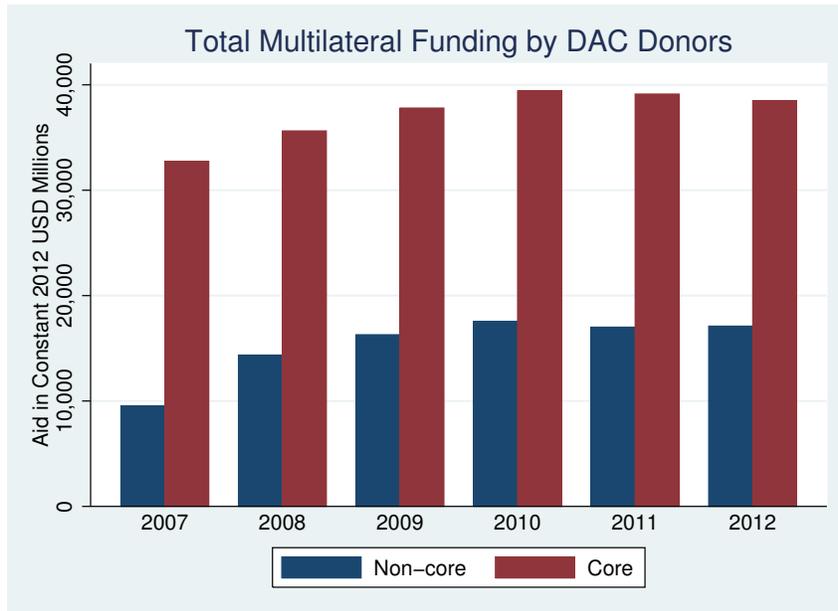


Figure 1: Multilateral Aid Funding

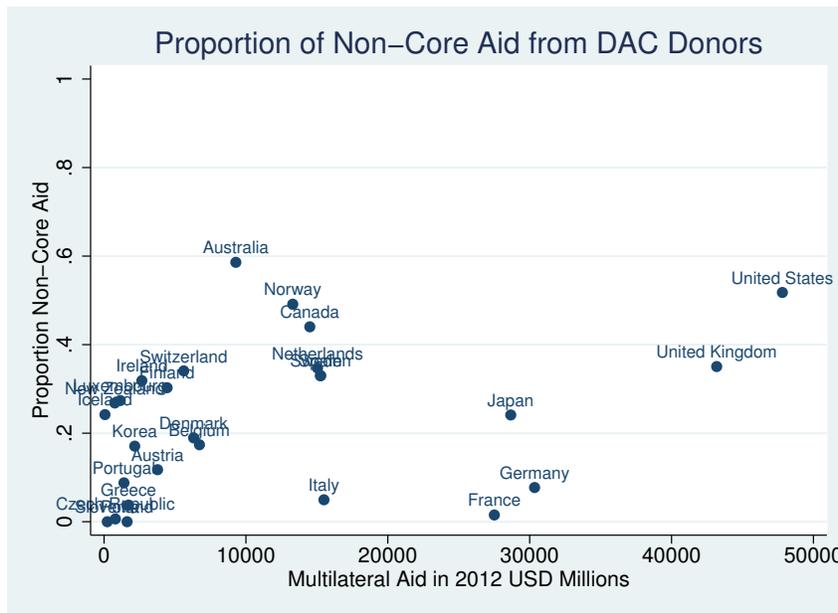


Figure 2: Percent Non-Core Funding

Agencies with a one-member-one-vote system are coded as zero.⁶

The fourth measure of agency autonomy captures the influence of collective principals through agency funding patterns.⁷ In order to create this variable, I use the Herfindahl Index, which is commonly used in economics to calculate market share. The variable is calculated as follows:

$$Funding\ Concentration_{it} = \sum_{d=1}^n a_{dt}^2$$

where i represents each multilateral aid agency and t represents each year. The proportion of core aid that each donor government, d , provides to the agency in year t is denoted as a_{dt} . The variable *Funding Concentration* can be interpreted as the probability that two randomly selected aid dollars being given to an agency are from the same donor government. Higher values indicate that the agency's funding is concentrated among fewer donor governments, while lower values indicate that the agency's funding is more equally distributed.

For the variable *Preferences*, I calculate the similarity between the donor government and the multilateral aid agency's aid portfolio spending using the method set forth in Schneider and Tobin (2013b). To calculate this, I first obtain data on the allocation of each donor government and each agency to recipient countries. I then take the absolute value of the difference between these two values, multiply it by negative one, and average it across all recipients for a given year. The resulting variable therefore indicates the similarity in spending patterns between the donor government and the multilateral aid agency.

⁶Although the World Bank Group comprises four separate agencies, it is included here because the IDA, IBRD, IFC, and MIGA all have the same voting structure and procedures. Interestingly enough they also generally have the same board members, although each Board operates independently.

⁷I do not include the World Bank in this funding measurements of agency autonomy as funding to each agency varies, unlike their institutional characteristics.

Control Variables

I also include several control variables to account for other characteristics of both the donor government and the multilateral aid agency. For donor governments, I include a dummy variable *Major Power* for members of the G8, indicating their position of power in global politics. I also include *Donor Aid* to indicate the total amount of aid that the donor provides. Dietrich (2014) has argued that donor state market orientation is a key factor determining their aid allocation channels. I therefore include her classifications here. The variable *LME* is a liberal market economy while *CME* are coordinated market economies. The *LME* countries include: United States, United Kingdom, Ireland, Australia, New Zealand, Canada, Norway, Sweden, Denmark, Iceland, and Finland. The *CME* countries include: France, Japan, South Korea, Germany, Austria, Netherlands, Switzerland, and Belgium. The base category for each variable are hybrid economies, including Spain, Portugal, and Greece. *LMEs* are expected to prefer to bypass more often than *CMEs*.

For multilateral aid agencies, donors may prefer giving non-core aid to certain types of agencies. Several studies have noted a distinction between UN agencies, the World Bank, and regional development banks. Regional development banks have been shown to be easier to control, and so donors may not need to provide as much non-core funding to them. I therefore include *UN* as a dummy variable for UN agencies, and *RDB* to indicate regional development banks. The base category to which I compare each of these groups are other agencies, including the World Bank Group. Agency specialization may also be driving non-core aid allocations. I therefore include *Sector* and *Region* to code whether an agency specializes by allocating a majority of their aid to a specific sector or region. The base category here are agencies that do not specialize, which include the GAVI, the Global Fund, and the World Bank Group. Finally, I include *Multilateral Total* to control for the total amount of aid that an agency is receiving.

Estimation and Discussion

To estimate my models, I use compositional data analysis because my dependent variable is a proportional measure. I therefore log transform my dependent variable using the method described by Pincus (1988). This method has also recently used by Dietrich (2013, 2014) to examine the proportion of aid given through bypass channels. Using these studies as a guideline, my dependent variable is therefore calculated as:

$$LN \text{ Prop. Non-Core} = \ln(\text{Prop. Non-Core}/(1 - \text{Prop. Non-Core}))$$

The advantage of this method is that the dependent variable is now unconstrained, allowing me to use OLS regression. Results are interpreted as changes in the log-ratio with respect to core aid.

Estimation results are presented in Table 2. I use panel data analysis with robust standard errors, year fixed effects, and a lagged dependent variable. I do not include agency fixed effects due to the time-invariant nature many of my key independent variables. Columns one, two, three, four, and six test each of my independent variables of agency characteristics independently. The fifth column groups all voting procedure variables together, while column seven adds *Preferences* and *Funding Concentration*. Columns eight and nine, and ten add control variables to the estimation.

Overall, the results provide support for my argument on the importance of agency characteristics for the proportion of non-core funding that an agency receives. In Table 2, columns one, two and four indicate that when an agency has similar preferences, fewer board members, and a proportional vote system, their proportion of non-core funding increases, reflecting the donor's apprehension of agency slack. While this finding for preferences and proportional vote systems is not consistent when control variables are added,

Table 2: Predicting the Proportion of Non-Core Aid, 2007-2012

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
L.LN Prop. Non-Core	0.751*** (0.042)	0.702*** (0.032)	0.704*** (0.031)	0.684*** (0.033)	0.696*** (0.033)	0.718*** (0.032)	0.710*** (0.044)	0.687*** (0.034)	0.600*** (0.052)	0.628*** (0.052)
Preferences	-0.006* (0.003)						0.001 (0.005)		0.022 (0.036)	0.055*** (0.015)
Board Members		0.010*** (0.003)			0.009** (0.004)		0.015** (0.007)	0.008* (0.004)	0.011 (0.009)	0.025*** (0.008)
Supermajority			-0.049 (0.084)		0.069 (0.083)		0.098 (0.090)	0.127 (0.099)	0.271** (0.128)	0.367*** (0.126)
Prop. Vote				-0.250*** (0.086)	-0.079 (0.107)		-0.117 (0.175)	0.067 (0.193)	-0.146 (0.291)	0.269 (0.216)
Funding Concentration						-0.058 (1.226)	-1.875 (2.559)		11.923** (5.232)	1.340 (3.352)
UN								0.528** (0.213)	2.289*** (0.595)	
RDB								0.032 (0.248)	2.000 (1.337)	
Multilateral Total								0.000 (0.000)	0.002*** (0.001)	0.001 (0.001)
Major Power								0.129 (0.108)	0.162 (0.148)	0.180 (0.149)
Sector								-0.259*** (0.085)	-0.515*** (0.162)	-0.455*** (0.147)
Region								-0.066 (0.137)	-0.847 (1.158)	-1.386*** (0.376)
Donor Aid								-0.000 (0.000)	-0.000* (0.000)	-0.000* (0.000)
LME								0.237** (0.096)	-0.098 (0.102)	-0.056 (0.101)
CME								0.046 (0.097)	-0.097 (0.102)	-0.084 (0.099)
Constant	-0.061 (0.103)	-0.354** (0.142)	0.006 (0.075)	0.034 (0.075)	-0.324* (0.188)	0.012 (0.165)	-0.459 (0.368)	-0.700** (0.304)	-3.684*** (0.902)	-1.020** (0.455)
Observations	418	815	843	843	815	756	418	815	418	418
R ²	0.618	0.640	0.631	0.631	0.640	0.629	0.627	0.650	0.657	0.645

Yearly fixed effects are omitted. Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

the finding on the number of board members is significant for all equations except the last, most likely due to the strong correlation between it and the *UN* dummy variable (0.75). Indeed, if we exclude the variables *UN* and *RDB*, the variable *Board Members* regains its significance. The other finding is that agencies requiring a supermajority vote to pass aid policies are more likely to receive a greater share of non-core funding. Once again, this indicates the donor's preference to delegate more core aid to agencies which they find it easier to control.

Turning now to the control variables, they largely perform as expected. UN agencies are particularly more prone to receiving proportionally more non-core aid. This is most likely related to the voting procedures of UN agencies, which typically have higher numbers of Board Members, and operate by a one-member-one-vote system. Agencies that focus on a specific sector of development are less likely to receive proportionally more non-core funding. This could reflect the fact that donor governments feel more confident delegating to specialized agencies, because having a more specific purpose limits the potential for agency slack. I also find weak evidence that regionally specialized agencies receive less non-core funding, reflecting the same argument.

To summarize, the preceding empirical evaluation has presented some support for my hypotheses. Specifically, Hypothesis 1 regarding Board Members receives strong support, as does Hypothesis 2 regarding supermajority voting systems. I find weak support for Hypothesis 3, which argued that one-member-one-vote systems would receive proportionally more non-core funding compared to proportional voting systems. I find mixed evidence regarding the influence of donor funding concentration on non-core aid flows, and thus cannot confirm Hypothesis 4. The results for Hypothesis 5 on the alignment of preferences between the donor and the agency also receives contradicting support, and is also not confirmed. Despite not finding overwhelming evidence confirming each of my hypotheses, the

overall trend seems to imply that agency characteristics have considerable influence on the decision by donor governments to provide non-core funding. As such, it appears that donor governments clearly continue to view multilateral aid agencies as tools through which they can exercise their power and influence agency policy to suit their own domestic interests.

Conclusion

In this paper, I have argued that an underlying tension that underscores the principal-agent relationship between donor governments and multilateral aid agencies manifests itself quite clearly in the provision of non-core aid. Due to concerns of agency slack, donor governments delegate non-core funding to agencies which do not share their preferences, or which they are less able to control. In this way, donor governments are able to minimize their expected losses from delegation, while simultaneously pursuing their own domestic interests through a multilateral venue. Thus, while non-core aid offers the appearance of multilateralism, it is in fact a bypass mechanism. This is concerning for several reasons. The first is that it reflects a distrust of multilateral institutions in general. The second is that it can substantially undermine the ability of the agency to provide effective development aid, noted in a concept note at the 2014 High-Level Meeting of the Global Partnership for Effective Development Co-operation in Mexico City:

...funding of multilateral organisations through large shares of earmarked funding has created additional transaction costs and reduced multilateral organisations' ability to strategize and focus, impacting their overall performance and contribution to development results. In addition, while earmarked funding can be a powerful opportunity to engage in effective partnerships and fill co-operation gaps, its piecemeal contributions can also come at the cost of increased transaction costs for partners countries (Concept Note: Multi-stakeholder Approaches for Enhancing Multilateral Organisations' Contribution to Development Results, 2014).

In order to fulfill the Paris Declaration and achieve the MDGs, ineffective aid policies must be rigorously analyzed and subsequently revised. Non-core aid is an increasingly prominent type of aid allocation that is potentially undermining development goals. As such, it deserves more detailed study in the future.

One particular avenue that may be of interest for future research is to examine how donors and agencies allocate aid among specific regions and sectors. Dietrich (2014), for instance, argues that the quality of governance in aid recipients is highly influential in donor decisions to bypass government-to-government aid. Therefore, it may not only be agency characteristics driving the allocation of non-core aid, but recipient characteristics or the regional/sector preferences of the donor government. Such further disaggregation would provide a more comprehensive standing of this highly understudied phenomena of non-core agency funding.

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