Follow the Leader: The Contradictory Influence of Donor Dependency on Country Choice by Dutch NGDOs

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Foreign aid to development countries has increased significantly in recent years. The world’s major donor countries of the OECD Development Assistance Committee (DAC) disbursed globally US$ 104 billion in Official Development Assistance (ODA) in 2008, an increase of more than 60 percent compared a decade earlier. Given this large increase, much attention has been devoted to the underlying determinants for the geographic aid distribution of aid expenditures between countries and regions. While earlier research has been primarily focused on bilateral and multilateral donor behaviour (e.g. Rowlands and Ketcheson, 2002; Mascharenhas and Sandlers, 2006), there has been a recent surge of attention on explaining the expenditure pattern of non-governmental development organisations (NGDOs) (see: Koch, 2009; Dreher et al., 2007; Masud and Yontcheva, 2006).

Funding structures of Dutch NGDOs show substantial diversity in terms of their dependency on public donor support and private fundraising. Most agencies rely on a mixture of public and private resources and thus have to respond in their operations towards different audiences. Consequently, aid allocation patterns are likely to exhibit similar variability with respect to country choice and the degree of alignment with back-donor priorities. Whereas poverty incidence is generally advocated as an important driver for country choice, the prevailing political regime and the bilateral aid flows appear as most important predictors for NGDO country choice. Moreover, path dependency is clearly confirmed in the sense that past NGDO aid allocations lead to higher current commitments. Finally, whereas Dutch NGDOs do engage more often with countries where substantial Dutch bilateral aid is allocated, there is a clear trend of diminishing the volume of allocations in these countries, thus avoiding full harmonization of development aid activities and maintaining an independent profile.

We test two competing hypotheses regarding the potential impact of donor funding on NGDO country choice. The standard idea is that NGDOs that largely depend on public subsidies will feel obliged to spend their resources in the same countries where their back-donors are operating. This is further reinforced by the fact that bilateral donors increasingly demand complementarities between public and private aid allocations, as part of the Paris agenda for aid harmonization (Rogerson, 2005). The alternative hypothesis pays more attention to the importance of identity-seeking and the result-orientation for NGDOs, that requires them to deliver tangible output to guarantee public support and societal legitimacy (Clegg et al., 2007). This implies that even ‘dependent’ NGDOs that are less capable of raising substantial own resources feel obliged to develop a recognizable profile to maintain themselves eligible for public funding.

Public funding to NGDOs is frequently considered to influence their allocation choices regarding preferred recipient countries for development aid. Instead of strict poverty-orientation criteria for NGDO aid allocation, this might imply that backdonor’s interests tend to prevail and NGDO country choice becomes increasingly aligned with bilateral priorities. Based on an original data set on Dutch public and NGDO aid delivery to developing countries, combined with detailed information on NGDOs financial structure and country characteristics, we analyze whether and how donor dependency and public subsidies influence NGDO country choice. We use a 2-stage estimation procedure distinguishing two (related) decisions: (a) the factor influencing country selection (coefficients of probit model) and (b) the factors determining the allocation of the amount of resources devoted to particular countries (using an OLS regression models with Heckman correction for selection bias).

We composed an unique data set that permits to analyze the determinants for the geographical allocation of development aid by Dutch NDGO’s to developing countries. Our dataset includes 73 NGDO’s with a total expenditure of 840 million euro in the year 2007. This is considered representative for about 70 percent of all development NGDO’s operating from the Netherlands. The data set thus contains a total of 7211 combinations of Dutch NGDO
expenditures in 99 so-called OECD-DAC countries. We combined the aid allocation data with information on the financial structure from the Dutch Central Fundraising Bureau (CBF). On average, Dutch NGDOs depend for 36% on public subsidies and are capable of raising private funding up to 53% of their budget.

Results confirm the leading role of donor funding, but independent NGDOs are even more inclined to follow public aid priorities. This might be attributed either to risk-avoidance and complementarity-seeking of independent NGDOs, whereas more dependent NGDOs focus on deliberate non-alignment for identity-seeking purposes. It seems that the more an NGDO depends on external funding, the country characteristics for fund allocation of the back donor become highly relevant. The interaction effect is, however, negative, indicating that when more bilateral aid is allocated in a specific recipient country, less development aid will be allocated by NGDOs from their own resources. In other terms, NGDOs that do not have own funding (thus relying on subsidies and donor funding) will select a country based on how much bilateral aid it receives. However, they will allocate more of their own funds towards countries that receive lower levels of bilateral aid. This can be interpreted as a policy of strategic NGDO aid allocation that tries to avoid too close relationships with bilateral donor activities.