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On the Delegation of Aid Implementation to Multilateral Agencies*

Kurt Annen[†] and Stephen Knack[‡]

Abstract

Some large multilateral agencies implement aid projects in a broad range of sectors, with aid disbursements showing a strong overlap with those of bilateral donors. Why do donors delegate sizable shares of their aid to large non-specialized agencies for implementation? This paper develops a game theoretic model to explain this puzzle. Donors delegate aid implementation to strengthen aid selectivity, incentivizing policy improvements in recipient countries, which in turn improves the development effectiveness of aid. Aid delegation is optimal for donors who disagree on the optimal distribution of aid precisely when an agency represents the average donor. In the model, non-selective bilateral aid can coexist with selective aid implemented by a multilateral agency funded by those same bilateral donors.

Keywords: Foreign aid; trust funds; aid selectivity; multilateral agency

JEL Codes: O10, O19

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