Policy Brief

FOREIGN AID AND THE PERFORMANCE OF BUREAUCRATS

Realigning Incentives and Making Foreign Aid Work for State Capacity

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EXECUTIVE SUMMARY

Official development assistance (ODA), or foreign aid, has undergone an epochal shift in the past year. The United States effectively shuttered USAID and is bypassing NGOs to provide direct government-to-government transfers at a scale only seen in security agreements. Several European countries are also shrinking their aid budgets as they focus their attention on regional security. Countries that have for decades relied on foreign assistance are going to have to tighten their belts, shore up domestic revenues, or look to other sources for development finance. Nevertheless, as the new US agreements show, foreign aid will remain key to development strategies in low- and middle-income countries for the foreseeable future.

The primary modality of foreign aid delivery, project-based aid, has often produced unintended distortions inside recipient government bureaucracies that risk undermining state capacity and development goals. New evidence from Uganda demonstrates that donor-funded aid projects, while effective at mobilizing short-term effort, divert bureaucrats' attention away from core government functions, exacerbate inequality within departments, and weaken coordination, all of which can undermine long-term state capacity. In this era of unprecedented aid restructuring, development stakeholders should reassess aid delivery and implementation strategies so that efforts to ensure aid has a positive impact on recipient governments' capacities are successful.

Key Research Findings

- Higher project allowances increase effort on aid projects but reduce hours allocated to regular government duties.
- Departments with higher donor exposure experience greater inequity in pay and reduced coordination, both of which bureaucrats identify as barriers to performance.
- Ownership and discretion matter for project selection, but do not increase the effort bureaucrats allocate, indicating that financial incentives dominate social motivation in effort allocation.
- Bureaucrats prefer government-funded programs but pursue donor projects and want to work in donor-exposed departments due to the significantly higher monetary benefits.

Recommendations

Centralize aid management and align it with government systems. Align project aid with national budget cycles and priorities, improve donor coordination, and channel more funding through recipient government budgetary systems. Budget support reduces fragmentation, strengthens ownership, and performs comparably to project-based delivery.

Develop national and regional aid strategies. Establish clear national principles on sovereignty and acceptable conditionality. Regional bodies can develop common frameworks for donor engagement, offering collective leverage as competition for influence in Africa intensifies.

INTRODUCTION

A core objective of foreign aid has long been to strengthen institutions and accelerate development in recipient countries. Yet, decades of research show mixed results, with some evidence pointing to democratization and poverty reduction while other evidence highlights weakened accountability and fragmented governance. A major reason this puzzle persists is that we know little about how foreign aid impacts the everyday work of bureaucrats, the actors who are responsible for translating policy into outcomes and form the backbone of long-term state capacity. Aid programs do not operate in an institutional vacuum; they create new opportunities and pressures, alter incentives inside government, and influence how public officials allocate their time and effort. These shifts generate trade-offs: bureaucrats increase performance on well-funded, time-bound donor projects, but in doing so divert effort away from core governmental duties. As a result, aid intended to build state capacity may inadvertently undermine it.

Uganda, one of Sub-Saharan Africa's largest aid recipients, offers a window into these dynamics. Ugandan central government bureaucrats routinely juggle both their regular responsibilities and the demands of donor-funded projects. As project support has overtaken budget support as the dominant modality of aid, officials describe navigating competing expectations, unequal compensation, and shifting priorities.

Appreciating how these dynamics operate is more critical than ever. The entire aid infrastructure is being overhauled, with massive cuts in commitments and a reassessment of goals for both donors and recipients. Donors are under increasing pressure to demonstrate value for money, improve project effectiveness, and show that aid investments contribute to durable institutional strengthening. Recipient governments, meanwhile, face mounting pressures to deliver services at a time when global development challenges are intensifying. Yet both donors and governments depend on the same bureaucratic workforce to achieve development goals, despite potentially competing incentive structures. When incentives become misaligned, the effects ripple through the entire system, shaping performance and long-term state capacity. Effective reform must ensure strategies of aid delivery and engagement with recipient country institutions achieve the mutual goal of state capacity building as a fundamental component of development.

CONTEXT & PROBLEM OVERVIEW

The shift in development assistance toward public sector support delivered through project rather than budget modalities underscores the importance of understanding how project aid operates inside government. Between 2003 and 2023, the share of ODA directed to the public sector rose from 6 percent to 59 percent, with more than USD 163 billion disbursed in 2023 alone (OECD 2024).

Across recipient countries, project-based aid has become the dominant modality for delivering this assistance, transforming bureaucratic environments by:

- introducing significant monetary benefits (e.g., allowances and per diems) for select staff;
- embedding external priorities within government workflows;
- operating outside national budget cycles, complicating planning and coordination;
- running on rigid, time-bound schedules that demand rapid bureaucratic attention; and
- constraining autonomy and ownership for implementing officials.

While these features can boost performance on discrete donor programs, they also create trade-offs in how bureaucrats allocate their time and effort—shaping what tasks they prioritize, which responsibilities they delay, and which incentives they respond to.

Uganda offers a particularly important case for examining these patterns. Historically regarded as a "donor darling", Uganda became the first country to receive debt relief under the World Bank's Heavily Indebted Poor Countries (HIPC) initiative in 2000. Between 2004 and 2023, ODA to Uganda increased by nearly 60 percent, reaching over USD 2 billion in 2023 and placing the country among the top aid recipients by net disbursements in Sub-Saharan Africa. Uganda also receives much of its aid as project-based assistance; today, 78 percent of public-sector aid to the country is delivered through project aid. This aid is unevenly distributed across sectors and sub-sectors with infectious diseases in the health sector attracting the most aid. These trends reflect disagreements between donors and the government over funding priorities, concerns about democratic governance, and fears regarding the misuse of funds. These shifts, however, have restructured the organizational landscape in which government officials operate.

RESEARCH FINDINGS

Evidence shows that project aid reshapes bureaucratic behavior along two mutually reinforcing dimensions: individual-level incentives and organizational-level conditions. These mechanisms generate a systemic pattern in which donor projects draw individual effort away from core government functions and weaken organizational cohesion.

Individual-Level Incentives: Financial Rewards Drive Effort Allocation

Finding 1: Donor projects attract effort primarily because of money, not mission. Financial benefits overwhelmingly shape bureaucrats' project preferences. An additional USD 10,000 in annual allowances increases the probability of a bureaucrat selecting a project by 28 percentage points. This financial pull has measurable consequences for effort allocation. When bureaucrats receive their preferred project, they increase effort on that project and reduce time spent on core government work.

Finding 2: Discretion and ownership matter for project attractiveness, but not for actual effort.
Bureaucrats value having a say in project priorities: ownership and discretion raise project selection likelihood by 28 and 31 percentage points respectively. Yet, greater autonomy does not translate into greater effort, revealing that monetary incentives override social motivations when bureaucrats decide how to allocate their time.

Finding 3: Preferences reveal a contradiction whereby bureaucrats value government funding but select departments with higher exposure to donor funding. This suggests that bureaucrats recognize the value of government-led work but face incentive structures that place a premium on donor-funded priorities.

Department-Level Conditions: Organizational Environments Amplify Incentive Distortions
Finding 4: Departmental cohesion erodes under unequal incentives. Departments with multiple donor projects experience widening disparities in compensation. Nearly half of bureaucrats report that aid projects increase inequality among colleagues, yet bureaucrats prefer equitable departments and are willing to allocate more effort in those departments. In other words, aid projects dampen morale and effort by increasing disparities among bureaucrats.

Finding 5: Coordination suffers as donor demands increase. Results show bureaucrats exert more effort in well-coordinated departments, but donor projects undermine this coordination by placing a premium on their own priorities and imposing strict timelines and external reporting requirements that engender parallel workstreams. Reduced coordination weakens teamwork and incentivizes disengagement from core government responsibilities.

POLICY IMPLICATIONS
Donor-funded projects allow for clearer impact, risk management, and alignment with pre-determined objectives, increasing success in measurable outputs. However, long-term sustainability is questionable, in part because donor-funded projects undermine the bureaucratic organizations responsible for long-run development programming. As a result, short-term project incentives conflict with broader capacity-building goals. This occurs because parallel project structures compete with government systems for talent and time, diverting skilled staff away from routine responsibilities while limiting their ownership and discretion to adapt projects to local needs. Additionally, the allowances associated with donor projects introduce inequities within departments, weakening morale and reducing cohesion among colleagues.

POLICY RECOMMENDATIONS

1. Centralize aid management and align it with government systems. This could entail requiring donors and recipient governments to align the delivery of project aid with national budget cycles, ensure programming aligns with national and sector development priorities, improve coordination among donors within and across sectors through aid coordination units, and channel more funding through government budget systems. These ideals featured prominently in the 2005 Paris Declaration on Aid Effectiveness and subsequent agreements, yet follow-through fizzled out as donors continued to bypass country systems and aid fragmentation worsened. The subsequent fall of budget support and concurrent rise of project-based delivery with earmarked funds suggests that reform requires not just technical adjustments but shifts in political orientation on both sides.

Budget support, which scholars and practitioners have long advocated for, reduces fragmentation and transaction costs, strengthens country ownership, better aligns with local priorities, and performs comparably to project-based approaches in achieving development objectives.

2. Develop national and regional aid strategies. At the national level, governments can establish clear principles on sovereignty, acceptable conditionality, and priority sectors for external support. At the regional level, regional bodies like the African Union can develop common frameworks establishing acceptable minimum standards for donor engagement. The 2011 African Consensus and Position on Development Effectiveness articulated these goals, calling on donors to use country systems, eliminate unrelated conditionality, and improve transparency. Yet collective bargaining through regional bodies remains limited, and regional bodies themselves continue to rely on external partners to finance program budgets. Still, coordinated positions offer recipient governments leverage that individual countries lack, particularly as competition among donors for influence in Africa intensifies.

CONCLUSION

Project-based aid is important to increasing the effectiveness of discrete development projects, but its unintended effects on bureaucratic organizations weaken state institutions essential for sustained development. This brief demonstrates that financial incentives from aid projects shape bureaucratic behavior, drawing effort away from core government duties while eroding coordination and equity within departments. Ensuring aid builds state capacity requires redesigning how aid operates within the state. This entails aligning aid with recipient government systems and developing coherent national and regional strategies for navigating an increasingly narrow and competitive aid landscape.

Read full study

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Themes
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Effort allocation
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PDRI-DevLab is an interdisciplinary hub at the University of Pennsylvania that brings together faculty, researchers, and students to address global development challenges, with a focus on forced displacement, governance, climate, and machine learning for peace.

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