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Forgotten or Unpromising?
The Elusive Phenomenon of Under-Aided Countries, Sectors and Sub-National Regions

Elena Pietschmann

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80

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Contents

Tables

Figures

Abbreviations

AAA	Accra Agenda for Action
AFD	Agence Française de Développement
AfDB	African Development Bank
BPd	Busan Partnership Document
CAR	Central African Republic
CCS	Centre for Chinese Studies
CEPA	Cambridge Economic Policy Associates
CIESIN	Center for International Earth Science Information Network
CoC	Code of Conduct on Complementarity and Division of Labour
CPA	Country Programmable Aid
CPIA	Country Policy and Institutional Assessment
CRS	Creditor Reporting System
DAC	Development Assistance Committee (OECD)
DAH	Development Assistance for Health
DALY	Disability Adjusted Life Year
DfID	Department for International Development (UK)
DIE	Deutsches Institut für Entwicklungspolitik / German Development Institute
DoL	Division of Labour
DPC	Difficult Partner Country
DRC	Democratic Republic of Congo
EC	European Commission
EU	European Union
GAVI	Global Alliance for Vaccines and Immunisation
GDP	Gross Domestic Product
GDPRD	Global Donor Platform for Rural Development

GNI	Gross National Income
GPEDC	Global Partnership for Effective Development Cooperation
HDI	Human Development Index
HQ	Headquarters
IDA	International Development Association
IMF	International Monetary Fund
LDC	Least-developed Country
LIC	Low-income Country
LICUS	Low-income Country Under Stress
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goal
MIC	Middle-income Country
NGO	Non-governmental Organisation
NTD	Neglected Tropical Disease
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
PD	Paris Declaration on Aid Effectiveness
SSA	Sub-Saharan Africa
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WDI	World Development Indicators

Executive summary

This study is centred on the concept of allocative efficiency and provides an analysis of the phenomenon of under-aided countries, sectors and sub-national regions. Against the current backdrop of declining aid budgets, the efficient allocation of aid is of crucial importance for aid effectiveness. Aid effectiveness depends not only on how well resources are used, but also on how efficiently they are allocated across recipients and uses. Efficient allocation of aid can be seen as a problem of opportunity costs that becomes more urgent when resources become scarcer.

The phenomenon of "under-aided" recipients is thus attracting increasing attention in both development theory and practice, as the existence of "aid orphans" points to inefficiencies in the overall allocation of aid resources. The Organisation for Economic Co-operation and Development (OECD) calls attention to the fact that the phenomenon not only concerns countries receiving insufficient aid, but also neglected sectors and geographical regions within recipient countries.

The discussion on under-aided recipients takes place in the broader context of donors' commitments in various international forums in Paris (2005), Accra (2008) and Busan (2011) to improve aid effectiveness through a better division of labour (DoL) at the international, in-country and sector levels. Among other things, DoL aims at reducing the number of donors in overcrowded "aid darling" countries and sectors, while increasing engagement in "aid orphans". As stated in the Accra Agenda for Action (AAA §17), DoL is aimed at achieving "[i]*mproved allocation of resources within sectors, within countries, and across countries"*. At the same time, the Accra Agenda for Action (AAA § 17a) also states that "[n]*ew arrangements on the division of labour will not result in individual developing countries receiving less aid"* (AAA § 17a). At the 2011 Busan High Level Forum on Aid Effectiveness, donors committed themselves in the Busan Partnership document (BPd) to *"accelerate efforts to address the issue of countries that receive insufficient assistance, agreeing – by end of 2012 – on principles that will guide our actions to address this challenge"* (BPd §25c).

However, no such principles have been agreed on so far. The lack of clear guidelines for aid allocation makes it difficult to define what

"under-aided" means, and thus to identify countries that might be receiving insufficient aid. In the case of under-aided sectors or sub-national regions, such judgments become even more difficult. Achieving allocative efficiency requires comparing the impact of aid across recipients and uses and allocating resources where they promise the highest returns. However, such comparisons are, theoretically and empirically, extremely difficult, and made even more complex by the existence of spillovers across countries and sectors. Thus, for the moment, no "optimal aid allocation" has been determined.

Therefore, the phenomenon of "under-aided" countries, sectors and sub-national regions is still a very elusive one. It is thus important to understand how under-aided recipients might be identified, and to get a better grasp of the nature and the extent of the problem, as well as of its causes.

Under-aided countries

The possible existence of under-aided countries causes concern about the efficiency of current overall aid allocation for several reasons: first, many authors argue that potential efficiency gains could be reaped by reallocating aid from relatively over-aided to relatively under-aided countries. Second, there is the perception that the poorest and most vulnerable countries are being abandoned by donors. Third, neglecting some recipients can generate negative cross-border spillovers that threaten the effectiveness of aid programmes in other countries and undermine the achievement of global public goods.

Aid is not the only resource that can be harnessed to achieve development goals. Domestic resources, migrants' remittances or private investment flows might sometimes be better suited for meeting the financing needs of developing countries. In some cases, excessive quantities of aid – or aid badly delivered – might even negatively affect development outcomes. While it is important to keep in mind that more aid is not always better, this consideration underlines the importance of an efficient allocation of aid both across and within countries.

In academic and policy papers, the problem of "aid orphans" is generally mentioned only in passing and without specifying what is meant by the term. Indeed, there is still no agreed definition of what constitutes an "aid orphan", or agreement on which criteria should be used to assess whether a country is receiving "insufficient" amounts of aid. Proponents of needs-based approaches to aid allocation will argue that the poorest countries that receive small shares of aid are under-aided with respect to their needs. On the other hand, supporters of a performance-based approach to aid allocation will argue that more resources should be directed to strong performers that are considered able to use aid effectively. Because there is no universally accepted optimal allocation against which to assess the actual distribution of aid, there is also no consensus on what constitutes an aid orphan.

In 2010 the OECD proposed a methodology that compares actual aid allocations to low-income countries against four different aid allocation formulas drawn from both needs-based and performance-based approaches to aid allocation. By combining needs-based and performance-based approaches, the OECD started regularly compiling a "watch list" with countries that might be considered under-aided according to at least two different allocation models. By showing that it is possible to identify recipients that can be considered under-aided according to different allocation approaches, the OECD watch list provides a helpful basis for discussing the phenomenon of under-aided countries.

If one accepts the OECD list of potentially under-aided countries, it appears that the group of "aid orphans" is composed in large part of fragile states in sub-Saharan Africa (SSA). However, given that the share of aid going to fragile countries has actually been growing in recent years, the problem of being under-aided seems to concern a sub-set of fragile states, rather than the group as a whole.

The existence of under-aided countries is not attributable to one major trend influencing overall aid allocations, but rather to a combination of different factors. There are a plethora of different approaches, goals and interests that produce current allocation patterns. On the one hand, a general move towards greater performance-based selectivity induces donors to direct lower volumes of aid to countries with relatively bad institutions. On the other hand, needs still play an important role in determining aid allocations, and there is also an increasing attention to fragile states. Finally, donors' political and commercial interests – and their historical ties with specific developing countries – influence resource distribution as well. This produces a complex pattern of aid allocation, which benefits well-run countries but also low-performing ones that have a particular importance for donors from a security, political, commercial or historical point of view. Countries that could use aid effectively but that do not fall into one of these categories might thus not receive sufficient aid.

The lower attractiveness of some recipients for donors combines with a general lack of coordination among donors, which produces inefficient concentrations of resources in some "darling" countries while other recipients that also have relatively high needs and performance remain neglected. This is mainly due to the fact that donors do not take into account other donors' allocations into their own allocation criteria and procedures. Lack of donor coordination might become an even more serious problem for allocative efficiency in the context of initiatives to reduce aid fragmentation. Donors' efforts to concentrate their aid in a limited group of partner countries might cause a worsening of the aid orphans phenomenon if concentration is uncoordinated and all donors choose the same partner countries.

The phenomenon of under-aided countries is attributable predominantly to neglect by bilateral donors. Multilateral donors appear to be less biased against countries with relatively bad institutions, as well as less influenced by commercial, political and historical factors in their aid allocations. Allocations by multilateral donors seem to be, to some extent, compensating for neglect by bilateral donors, but only in some countries, and often not enough. Their compensatory role does not appear to be driven by a conscious effort to allocate larger shares of their aid to countries that receive disproportionally low amounts of aid from bilateral donors, but is rather a result of the use of allocation formulas.

Non-DAC (Development Assistance Committee) donors may also be compensating for the relative neglect by DAC donors by allocating larger shares of aid to under-aided countries. However, the role of Arab and Latin American donors in countries identified as "under-aided" appears to be rather limited, as both groups focus predominantly on their neighbours, whereas the countries in the OECD watch list are located in SSA and in South East Asia. New Asian donors, on the other hand, sometimes focus on fragile states that appear to receive relatively low shares of

DAC aid. As for private aid, the little evidence available on its allocation does not suggest that non-governmental organisations (NGOs) or private foundations might be targeting countries neglected by official donors.

In conclusion, the existence of countries that can be considered under-aided with respect to both needs and performance points to underlying weaknesses in the aid architecture. In particular, the phenomenon exposes a general lack of coordination among donors concerning allocation decisions, and a reluctance by bilateral donors to engage in low-performing countries that have limited strategic importance for donors.

Under-aided sectors

The existence of under-aided sectors can undermine aid effectiveness for two main reasons: first, aid might be very effective in currently neglected sectors. Because of decreasing returns to scale and high transaction costs in sectors where large numbers of donors are engaged, "orphan" sectors might present better opportunities for effective aid interventions. Second, the existence of spillovers across sectors suggests that neglecting certain areas might have negative consequences on the development of a country as a whole, and even undermine progress in the targeted sectors.

Defining an under-aided sector is a difficult task. Adopting needs- or performance-based approaches would require comparing the need for – or the impact of – aid across different sectors. However, this is almost impossible. Considering the challenges of comparing performance and needs across sectors, the efficiency of sector aid allocation can be assessed at the country level, with reference to its alignment to recipient countries' national development strategies. A sector would thus be considered under-aided if the gap between the external funding envisaged for that sector in national strategy papers and the aid volume actually received is substantially larger than for other sectors. Such an approach implies that the identification of "under-aided" sectors will be country-specific. However, donor preferences tend to be similar across countries and some sectors (such as agriculture, productive infrastructure, and water and sanitation) tend to attract fewer donors and to receive disproportionally low amounts of aid in many countries.

As was the case for under-aided countries, the relative neglect of some sectors is the result of a number of different factors. The need to produce visible results induces donors to choose interventions with the highest visibility in order to demonstrate the successes of their engagement and guarantee continued funding. Concerns about visibility play a role in the relative neglect of some sectors, not only because they make the less-visible sectors unattractive, but also because – by making donors reluctant to exit visible sectors – they pose serious obstacles for the achievement of in-country DoL. Donors' cross-sector aid allocation is also influenced by factors such as commercial interests, the quest for energy security, the fight against illegal immigration, the attempt to avoid the spread of infectious diseases, etc. The lack of clear links with these objectives might make some sectors less attractive than others for donors. Moreover, the absence of strong national and international institutions responsible for a certain area can result in some sectors being left out of the development agenda. Another reason for donors to direct low shares of aid to a sector might be the perception that aid programmes in that sector are not particularly effective. Finally, risk-pooling and herding behaviour can also induce donors to focus on the same sectors while neglecting others. These different factors often influence one another. For example, the lack of clear links with well-being in donor countries might hinder the emergence of strong advocacy campaigns and the creation of international institutions that could increase taxpayers' support for interventions in a specific sector. In turn, this makes the sector less relevant in terms of visibility.

Sectors neglected by DAC donors sometimes receive funding from emerging and private donors whose priorities and allocation patterns differ to some extent from those of traditional donors. Notably, emerging donors tend to focus on the sectors of productive infrastructure and agriculture. But this compensatory role does not appear to be sufficient or to cover all under-aided sectors, and non-DAC donors are not active in all countries.

Steps have been taken towards the establishment of an in-country DoL that aims at addressing the problem of darling and orphan sectors. However, the lack of incentives both on the donors' and on the recipients' side has largely hampered implementation of DoL arrangements.

Under-aided sub-national regions

From an aid-effectiveness perspective it is not sufficient to look at countries only, because countries often include a wide variety of different regions with different characteristics and degrees of need. Not differentiating between areas within a country bears the risk of overlooking areas where aid could be particularly effective and missing opportunities for a more efficient allocation of aid. Moreover, uncoordinated donors might be focusing on the same regions while neglecting others, leading to an inefficient allocation of the total country envelope. There might thus be under-aided regions even in countries receiving relatively large amounts of aid. If donors fail to coordinate the distribution of their aid across sub-national regions as well as across countries and sectors, this would imply that the costs from the lack of coordination are even higher than currently estimated.

Besides its relevance for the efficiency of country-level aid allocation, sub-national allocation patterns are also relevant from a risk-perspective. Inequalities in the distribution of domestic and foreign resources across a country's territory can easily create tensions between regions and even lead to conflict. Regional inequalities are especially dangerous when they coincide with divisions along ethnic or religious lines. Given that foreign aid accounts for a sometimes very large percentage of government expenditures, aid might have an important role in this respect. However, donors' influence on the direction of aid flows at the sub-national level might be limited due to both their desire to promote ownership, and to aid fungibility.

Some key issues that donors might consider when allocating aid at the sub-national level include the degree of need in various regions, the degree and nature of spillovers between urban and rural areas, the partner government's resource allocation patterns, allocation patterns by other donors active in the same country and the existence of inter-regional tensions.

Despite its importance for aid effectiveness, the distribution of aid across sub-national regions receives very little attention in both development theory and practice. It is absent from papers and discussions on aid allocation. It is not mentioned in most donors' policy documents and does not appear to be an integral part of DoL efforts. Moreover, development targets and country aid allocation formulas are based on national averages, which might set perverse incentives for donors and recipient governments to neglect certain regions.

Evidence on country-level geographical aid allocation is very scarce. There is evidence of insufficient attention being given to the cross-regional distribution of aid in several post-conflict countries. But, in general, the review of available evidence on sub-national aid allocation paints a mixed – and certainly incomplete – picture. Further research is needed before the efficiency of current sub-national aid allocation patterns can be assessed.

Conclusions and policy recommendations

Similarities and interrelations can be identified between the phenomena of under-aided countries, sectors and sub-national regions. Some recipients are less attractive than others for donors. This can be due to the relatively greater challenges associated with delivering aid to some countries, sectors or regions, but it can also be linked to the low priority some recipients or sectors represent in donors' eyes. Combined with a lack of coordination among development actors, this can lead to the relative under-funding of some recipients, thereby undermining the efficiency of overall aid allocation.

Donors should make increased efforts for addressing the challenges associated with delivering aid to certain countries / sectors / regions. In this sense, the focus should be on finding the right type of aid and delivery channel, rather than on increasing aid volumes. Concerning aid volumes, donor coordination in aid allocations is key. Ongoing efforts to achieve a better DoL at all levels represent an important step in this direction. However, DoL processes also require donors to reduce the number of countries and sectors they are engaged in. This risks exacerbating the problem of under-aided recipients if specialisation occurs without coordination among donors. If DoL processes are to tackle the problem of aid orphans, it is crucial that the two processes of donor specialisation and coordination go hand in hand.

To improve coordination in aid allocation, all donors should report their forward spending plans to the OECD and allow the latter to make them public. To the extent possible, donors should also take each others' allocations into account when deciding on the distribution of their aid. Inefficiencies in aid allocation at all levels are often linked to the influence of donors' strategic interests in the distribution of aid. Therefore, donors should adopt clear allocation formulas based on needs, on performance or on other efficiency considerations. The use of allocation formulas does not guarantee that allocation decisions will be insulated from strategic interests, since the weights and indicators used in the formula can be modified in order to suit those interests. However, the adoption of clear allocation criteria could make politically-driven allocations more difficult to justify.

Acquiring better information on aid volumes received by countries, sectors and regions will help in drawing attention to recipients that are getting disproportionally low volumes of aid. However, because of the difficulty to define what "insufficient aid" means, donors should avoid "automatically" allocating more aid to the country / sector / region identified as potentially under-aided. Rather, identification of potentially under-aided recipients or sectors should be followed by detailed case studies that highlight the risks and opportunities of directing larger volumes of aid to those recipients / sectors.

Greater transparency in aid allocations could help in making progress on all of the dimensions discussed above. First, it would facilitate donor coordination by allowing donors to take each others' allocations into account in their own funding decisions. Second, it would facilitate the identification of under-aided countries, sectors or sub-national regions. Third, it would provide partner governments and the civil society in both recipient and donor countries with the necessary information to raise questions and demand accountability when the distribution of aid seems to be driven by strategic interests rather than by efficiency considerations.

Given their increasing relevance, non-DAC official and private donors should disclose more information on aid allocations as well. Here, the Global Partnership for Effective Development Cooperation (GPEDC) could play an important role. Capitalising on its inclusive character, the

GPEDC could foster greater engagement by non-traditional donors in information-sharing and coordination efforts.

Some interrelations exist between DoL processes taking place at different levels. For example, international DoL might result in the emergence of orphan sectors or regions within countries where donor exits occur. Thus, a well-developed in-country coordination mechanism must be in place in order to make sure that remaining donors fill in the funding gaps that might result in some sectors or regions. The more advanced donors' sectoral or regional specialisation, the more likely it will be that a donor's exit from the country will have a serious impact on funding received by the sectors or regions that used to be covered by the exiting donor. Combining cross-country, in-country and cross-sector DoL can be challenging. For example, a donor's sectoral specialisation might not always be in line with the different national priorities of the recipient countries the donor chooses to focus on. The existence of linkages and possible trade-offs between different levels of aid allocation underlines the importance of implementing the three aspects of DoL in an integrated way, rather than independently from each other.

Overall, the phenomenon of under-aided countries, sectors and sub-national regions is a result of the slow pace at which donor coordination, harmonisation and alignment are progressing. It will thus not be sufficient to develop *ad hoc* solutions for directing larger amounts of aid to the specific countries / sectors / regions that will, from time to time, be identified as under-aided. Rather, the international community should address the underlying weaknesses in the aid architecture, of which aid orphans are just a symptom. This will be more challenging, but it is also likely to bring benefits that go beyond the phenomenon of aid orphans to other dimensions of aid effectiveness.

1 Introduction

This study is centred on the concept of allocative efficiency and provides an analysis of the phenomenon of under-aided countries, sectors and sub-national regions. Against the current backdrop of declining aid budgets (OECD 2012b, 15–16), the efficient allocation of aid is of crucial importance for aid effectiveness. Aid effectiveness depends not only on how well resources are used, but also on how efficiently they are allocated across recipients and uses (Bourguignon / Platteau 2012, 4). The issue of "under-aided" recipients is thus attracting increasing attention in both development theory and practice, as the possible existence of "aid orphans" would imply inefficiencies in the overall allocation of aid resources: first, many authors argue that potential efficiency gains could be reaped by reallocating aid from relatively over-aided to relatively under-aided countries (e.g. Bigsten / Platteau / Tengstam 2011; Bigsten / Tengstam 2012; Utz 2010). Second, there is the perception that the poorest and most vulnerable countries are being abandoned by donors (Mold / Olcer / Prizzon 2008, 2; World Bank 2011a, 201). Third, neglecting some recipients can generate negative cross-border spillovers that threaten the effectiveness of aid programmes in other countries (World Bank 2002; Marysse / Ansoms / Cassimon 2006, 12; World Bank 2011a, 277; Jones / Riddell / Kotonglou 2004, 14) and undermine the achievement of global public goods (Gunning 2004, 52).

Despite these concerns, the problem of "aid orphans" is generally mentioned in academic and policy papers only in passing and without specifying what is meant by the term (Brown / Swiss, forthcoming, 2). At high-level international forums on aid effectiveness held in Accra (2008) and Busan (2011), the donor community committed to *"address the issue of countries that receive insufficient aid"* (AAA § 17d; BPd § 25c), but without clarifying how these countries should be identified. While important steps have recently been undertaken by the OECD to identify countries that can be considered "under-aided" (Utz 2010; OECD 2011c; OECD 2013a), the allocation patterns and underlying reasons leading to their neglect have not been sufficiently explored, and it remains unclear what should be done to address the problem of under-aided recipients.

Existing work has predominantly focused on the issue of under-aided countries. However, the OECD calls attention to the fact that the phenomenon not only concerns countries receiving insufficient aid, but also neglected geographical regions within a country, as well as sectors and sub-sectors

(2010b, 43). Under-aided sectors or regions might exist even within countries that receive large amounts of aid. Therefore, it seems necessary to broaden the perspective on aid orphans by investigating other relevant – but under-researched – dimensions of "orphanhood".

Extending the analysis to under-aided sectors and sub-national regions is important also because the phenomenon of under-aided recipients and uses is closely linked to the process of division of labour, which donors have committed to implement at multiple levels simultaneously (Schulz 2007, 2). As stated in the Accra Agenda for Action, DoL is aimed at achieving *"improved allocation of resources within sectors, within countries, and across countries"* (AAA §17). It is important to understand how the three interconnected processes of cross-country, in-country and cross-sector DoL impact on the phenomenon of under-aided recipients at all levels.

The difficulty of defining what "under-aided" means is a recurrent challenge throughout the chapters of this study. However, some preliminary clarifications can already be made: first, the concept is here understood as a relative one, meaning that recipients are considered to be under-aided not in absolute terms, but only relative to other recipients. Second, the phenomenon of under-aided recipients is discussed from an efficiency rather than from an equity perspective. This means that a country / sector / region receiving little aid is defined as under-aided only if it is considered able to use additional aid effectively. Third, the analysis is limited to development aid[1] and does not cover other resource flows to developing countries.[2] At the same time, the availability of other resources beyond aid for financing development is one of the criteria that can be used to assess a country's need for aid. Fourth, more aid is not always better. In some cases, too much aid – or aid

1 Although there is evidence for the existence of aid orphans and darlings regarding the distribution of humanitarian aid as well (Vollmer 2012, 51–52; Darcy / Hofmann 2003, 10), the analysis will be limited to development aid. Humanitarian aid follows other, more unpredictable allocation patterns, and its objectives differ from those of development aid (Darcy / Hofmann 2003, 9). Moreover, the discussion presented in this study is embedded in the context of efforts to rationalise aid allocation, and these initiatives focus predominantly on development aid.

2 Although the importance of ODA for developing countries is shrinking due to increased financial flows generated by foreign direct investments and remittances, for most low-income countries, aid continues to be the main source of external financing (OECD 2012a). This is especially the case for fragile states (OECD 2012a, 45) and low-income countries (UN 2011).

badly delivered – might even negatively affect development outcomes.[3] This consideration makes it even more important to analyse how aid might be allocated efficiently, both across and within countries. Finally, an important remark is that the "optimal" amount of aid will also be dependent on the type of aid and the delivery channel used. Also, different country characteristics might call for different types of aid, rather than different aid volumes. However, while references to the important link between amount and type of aid are made throughout the study, an analysis of "under-aided" recipients implies a focus on aid volumes, rather than on aid modalities.

The remainder of this study is organised as follows: in the second chapter, a section on ongoing efforts by the international community to rationalise aid allocation provides the necessary background for analysing the phenomenon of under-aided recipients. The chapter also discusses the concept of allocative efficiency and reviews different existing approaches to aid allocation. The third chapter analyses the phenomenon of under-aided countries. It reviews efforts to identify countries receiving insufficient aid and then focuses on a list of potentially under-aided recipients proposed by the OECD (2013a). The analysis then concentrates on allocation patterns that direct aid away from the countries identified as under-aided, and discusses the current and potential impact of international DoL efforts on the phenomenon of under-aided countries. A fourth chapter focuses on aid orphans at the sector level. The chapter deals with the sharp drops in aid volumes experienced in certain sectors and with donors' tendency to concentrate in "darling sectors" while neglecting other areas. Reasons behind this phenomenon are discussed, as well as possible implications, not only for the efficiency of allocation but also in terms of alignment, harmonisation and country ownership. The fifth chapter discusses the importance of aid allocation across sub-national regions and identifies approaches that might be applied to this level of aid allocation. Following, it reviews available evidence on the distribution of aid across geographical regions at the sub-national level. Finally, some concluding remarks are presented. These draw on the similarities between under-aided recipient and their determinants at different levels, and highlight the interrelations between the different dimensions of aid allocation.

3 Excessive aid flows might create problems of aid dependency, leading to difficulties in macroeconomic management and undermining recipient governments' incentives to strengthen their tax bases and develop accountability to their citizens (Clemens / Radelet 2003; Moss / Pettersson / van de Walle 2006; Moyo 2009).

Specific policy recommendations for under-aided countries, sectors and regions are included at the end of every chapter. The analysis focuses on aid allocations by donors reporting to the Development Assistance Committee of the OECD. However, despite limited availability of information on allocation patterns by non-DAC donors, and due to their growing relevance, each chapter also presents a section assessing the role played by emerging and private donors in the phenomenon of under-aided recipients.

2 Background and conceptual discussion

2.1 Chapter overview

This chapter aims at setting the stage for an analysis of the phenomenon of under-aided recipients. After outlining current efforts undertaken by the international community to rationalise aid allocation, it discusses the concept of allocative efficiency. Following, different conceptual approaches to aid allocation and their practical implementation are reviewed, as well as the trade-offs that might arise between them.

2.2 Background to the study: aid fragmentation and DoL initiatives

Recent attention to the phenomenon of under-aided recipients is linked to commitments undertaken by the international community to rationalise aid allocation. These initiatives are predominantly focused on improving allocative efficiency through a better DoL at the international, in-country and sector levels. While international or cross-country DoL might have important consequences for countries receiving insufficient aid (Utz 2010, 25; OECD 2013a, 16), the phenomenon of under-aided sectors and sub-national regions is largely affected by in-country and sectoral DoL (EC 2007; Frot / Santiso 2010). Links between DoL and under-aided recipients are analysed in more detail in later chapters. However, a brief overview of current international commitments and initiatives to rationalise aid allocation is necessary to understand the context in which the discussion on the phenomenon of aid orphans takes place.

Many official donors today give aid to more than a hundred countries (Frot 2009, 3) and emerging countries and private donors are increasingly engaging in development cooperation as well (Fengler / Kharas 2011, 6), resulting in a very fragmented aid landscape. Fragmentation refers to the problem that individual donors tend to be engaged in too many countries, and spread their aid across too many sectors, which produces high transaction costs on both sides of the aid relationship (OECD 2011d, 3). For donors, spreading their aid across too many recipients is inefficient due to the fixed costs associated with the planning and the implementation of an aid intervention. For partner countries, receiving assistance from large numbers of donors with different management practices leads to high administrative burdens. Furthermore, the presence of many actors undermines aid effectiveness by blurring lines of accountability (Davies / Klasen 2013, 2–3). While an excessively low number of donors in each country can also harm aid effectiveness by giving the donor monopoly power (Rogerson 2005; Frot / Santiso 2010; OECD 2011d), the evidence suggests that substantial savings could come from reducing fragmentation and from a better coordinated aid allocation among donors, both across and within countries (Bigsten / Platteau / Tengstam 2011; Bigsten / Tengstam 2012; Knack / Smets 2012; Anderson 2012, 2).

Increasing concerns over the negative impact of fragmentation on aid effectiveness have led donors to commit to – in a series of high-level international forums on aid effectiveness in Paris (2005),[4] Accra (2008) and Busan (2011) – the establishment of a DoL framework across countries, within countries and across sectors. These three levels of aid allocation are interconnected and mutually influential (Hartmann 2011, 5). DoL refers to the process of streamlining and coordinating donor assistance, with the aim of reducing transaction costs, avoiding duplication of efforts and ensuring good coverage for all recipients and sectors (OECD 2009a). Among other things, this requires reducing the number of donors in overcrowded "aid darling" countries and sectors, while increasing engagement in "aid orphans" (EC 2011, 3). Both the Accra Agenda for Action and the Busan Partnership Document assert donors' commitment to *"address the issue of countries that receive insufficient aid"* (AAA § 17d; BPd § 25c). At the same time, however, the Accra Agenda for Action (AAA § 17a) also states that *"new arrangements on the division of labour will not result in individual developing countries receiving less aid"* (AAA § 17a).

4 The Paris Declaration commits to "[e]*liminate duplication of efforts and rationalize donor activities to make them as cost-effective as possible"* (PD, § 3). These commitments were reiterated in Accra and Busan.

Related to these commitments, in 2007 the European Union (EU) adopted the Code of Conduct on Complementarity and Division of Labour (CoC), which encourages EU donors to concentrate their aid on fewer recipients by establishing priority countries for their bilateral aid programmes. The CoC also asks donors to specialise in a number of sectors (both within countries and globally) where they have stronger expertise and a comparative advantage, while becoming a "silent partner" (i.e. delegating their assistance to other donors) in other sectors. Specialisation is supposed to be pursued in close coordination with other donors (EC 2007). Similar recommendations are expressed in the OECD's International Good Practice Principles for Country-Led Division of Labour and Complementarity (OECD 2009a).

Since 2008, 14 EU member states and the EU have taken steps to implement the CoC in 30 recipient countries in the frame of the European Union's Fast Track Initiative on Division of Labour (OECD 2011a, 68). Among the different dimensions of DoL, donors have focused predominantly on in-country DoL, perceived as politically less sensitive than cross-country DoL (Corre / Mackie / Trenner 2008, 22; Grimm / Schulz 2009; Mackie 2013, 4–5). However, progress on DoL has been slow and is currently stalling, both across and within countries (EC 2011, 7; Mackie 2013, 15).

2.3 The concept of allocative efficiency and why it matters for aid effectiveness

Discussions on how to rationalise aid allocation held at high-level forums on aid effectiveness underline the close link between aid allocation and the aid-effectiveness agenda. Indeed, aid effectiveness depends not only on adopting the right aid modalities, but also on how well aid resources are allocated across recipients and uses. Tierney et al. (2011, 11) even argue that the efficient allocation of aid is *"the most important link in the chain of aid effectiveness."* Allocative efficiency (aid is allocated where it has the largest impact) is distinct from operational efficiency, which refers mainly to aid modalities (resources are used in a way that maximises results per unit of spending) (IDD and associates 2007, 37). Both are important for aid effectiveness.

An efficient allocation is not necessarily an equitable or a balanced one (Guillaumont 2008, 26). The phenomenon of under-aided recipients and uses can be discussed from an equity or from an efficiency perspective.

Based on normative considerations, it can be argued (Llavador / Roemer 2001; Cogneau / Naudet 2004) that cross-country aid allocations should strive to establish equal opportunities for countries to achieve poverty reduction. From this perspective, aid allocation should be guided by the aim of achieving redistributive justice across countries, rather than by the objective of having the largest possible global impact on poverty reduction and other developmental goals. In the framework of the aid-effectiveness agenda, however, it is more relevant to analyse the problem of aid orphans from an efficiency perspective. An “under-aided” recipient should thus not be equalled to a country receiving little aid in absolute terms. It might be efficient to allocate only low shares of aid to countries or sectors where it is unlikely to have a large impact (Mürle 2007, 28). Countries, sectors or sub-national regions receiving little aid are defined as under-aided only if these are considered able to use additional aid effectively.

However, achieving allocative efficiency is difficult because it requires comparing the impact of aid across recipients and uses and allocating resources where they promise the highest returns (Fan / Saurkar / Shields 2009, 526). Such comparisons are, theoretically and empirically, extremely problematic, and made even more complex by the existence of spillovers across countries and sectors. Thus, for the moment, no “optimal aid allocation” can be determined.

2.4 Different approaches to aid allocation

In the absence of a known “optimal allocation”, different approaches to cross-country aid allocation coexist, based either on recipients’ needs or on performance. There are valid theoretical arguments for both perspectives, and the empirical evidence is insufficient to assess their relative merit (Guillaumont 2008; Anderson 2008).

The following sections review both needs- and performance-based approaches to aid allocation, identifying first the underlying principles, and then giving some examples of their practical implementation. These approaches have been developed with reference to cross-country aid allocation. However, later chapters discuss their applicability to the allocation of aid resources across sectors and sub-sectors as well as between different sub-national entities such as regions, provinces or districts.

2.4.1 Needs-based allocation principles

The approach to allocate aid according to needs reflects the idea that the expected impact of aid is largest where recipients exhibit the greatest need for it. However, it is not clear what type of need or deprivation this allocation should be based on. Needs-based approaches can be based on a large variety of different criteria, and these will result in widely varying distributions of aid across countries.

Country-based needs: Donors could allocate aid according to different degrees of need across countries. The term "need" might refer to income poverty, but also to other dimensions of human development such as health or education (Guillaumont 2008, 16). There are several reasons why directing larger shares of aid to countries with the highest needs could produce an efficient allocation.[5]

First, because the poorest countries do not have sufficient domestic resources to achieve poverty reduction and other development goals on their own, aid is considered to make a larger difference there (Wood 2006). Ceriani and Verme (2013, 3) argue that donors should consider the distribution of incomes not only below but also above the poverty line, since this determines the recipients' monetary capacity to achieve poverty reduction via internal redistribution of incomes. Second, aid might have a greater developmental impact by raising consumption in stagnant recipients than by accelerating growth in countries that would be growing anyway (Carter 2012, 2). Third, reaching the Millennium Development Goals (MDGs) might require focusing on countries that are farther off from MDG targets (UN Millennium Project 2005; Bourguignon / Sundberg 2006, 5). Fourth, the most deprived recipients can offer the greatest scope for large improvements through cost-effective interventions. Activities in better-off recipients are likely to be more costly on average because often the most cost-effective interventions have already been implemented (UNICEF 2010, 3).

5 Allocating larger shares of aid to the neediest countries is also argued for by authors taking an equity approach to aid allocation (e.g. Llavador / Roemer 2001; Cogneau / Naudet 2004). However, these authors base their argument not on the idea that the impact of aid will be larger in the neediest countries, but on the belief that the principle of redistributive justice requires allocating larger shares of aid to countries that face greater developmental challenges.

Number of people in need: Rather than considering the needs of countries at an aggregate level, donors could allocate their aid according to the number of people in need who live in them (Development Initiatives 2013, 95). A very different distribution of aid across countries will emerge if donors consider the number of poor people living in a country rather than the poverty of the country itself, expressed in terms of gross domestic product (GDP) per capita (Coudouel / Hentschel / Wodon 2002, 30–35). This approach might result in large aid shares for middle-income countries (MICs), which have more domestic resources to tackle poverty than low-income countries (LICs), but also high absolute numbers of people in need. Although the poor used to be concentrated predominantly in LICs, the share of the world's poor living in MICs has been rising over the last two decades. In 2010, 65.5 per cent of the global population of people living on less than US$ 1.25 a day was found in MICs, as compared to only 26.5 per cent in 2005 (Chandy / Gertz 2011).

However, the distribution of aid across countries based on the number of people in need largely varies, depending on which needs are taken into account. For example, in 2005 sub-Saharan Africa received 23 per cent of total official development assistance (ODA) and East Asia 15 per cent. Were aid allocations derived from the number of people living on less than US$ 2 a day in each region, SSA should have received 17 per cent and East Asia 31 per cent. Shifting the poverty line to US$ 1 daily would have resulted in 26 per cent for SSA against 23 per cent for East Asia (Kenny 2006, 13–15). Allocating according to the number of people without access to health or education would have resulted in yet another, different distribution of ODA shares. Although patterns of income poverty tend to resemble patterns of deprivation in other dimensions of human development,[6] there are important discrepancies as well, especially with regards to education (Sumner / Kanbur 2012, 5).

Density of people in need: There is an argument for directing resources predominantly to places where people in need are concentrated, in order to exploit economies of scale (Van de Sijpe 2010, 17). It is much more

6 An analysis carried out by the World Bank showed that substituting "GNI [gross national income] per capita" with "under-5 mortality" as a measure for needs in the allocation formula used by its International Development Association (IDA) would result in only minimal changes to the cross-country allocation of these resources (IDA 2009, 14–15). However, this might also be due to the fact that in IDA's formula, the "needs" component plays a small role compared to the "performance" component in determining cross-country allocations.

cost-efficient to provide services in densely populated urban areas than in rural ones (Kitchen / Slack 2006, 1).[7] Similarly, donors could target densely populated countries.

Exceptional needs: Donors might also consider that aid can have a large impact in countries that have exceptionally high needs due to special circumstances. There is evidence that, due to the large financial resources needed for reconstruction, aid is particularly effective in promoting growth in countries recovering from war, especially between the fourth and the seventh year of peace (Collier / Hoeffler 2002, 8–9; Elbadawi / Kaltani / Schmidt-Hebbel 2007; Demukaj 2011). Aid is also expected to have a large impact in countries whose economies face exogenous shocks in exports or in agricultural production. Here, aid can lower the risk of a shortfall of resources (Guillaumont 2008, 16; Collier / Dehn 2001, 10; Gunning 2008). However, the evidence points merely to a positive impact of aid on economic growth in these contexts, whereas the effect on poverty reduction and other dimensions of human development is less clear. Moreover, these might not be the only circumstances that increase the potential impact of aid. Allocating larger shares of aid to countries recovering from war and/or affected by structural economic vulnerability would likely result in more aid going to fragile states (Guillaumont 2008, 18; McGillivray 2005, 1).

2.4.2 Performance-based allocation principles

The alternative approach is to allocate aid according to recipients' performance, assuming that the impact of aid will be larger if it is allocated to countries that are more likely to use it efficiently. Made popular by the World Bank's *Assessing Aid* report in 1998,[8] performance-based approaches to aid

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7 For example, the cost of supplying piped water is, on average, US$ 0.70–0.80 per cubic metre in urban areas, as compared with US$ 2 in sparsely populated rural areas (World Bank 2013, 9).

8 Based on findings that aid works best in countries with good policies (Burnside / Dollar 1997), the *Assessing Aid* report (World Bank 1998, 3) argues that aid should be directed in prevalence to poor countries characterised by relatively good governance. Good economic and financial policies in the partner country were identified as being particularly important for aid to be effective in promoting growth. The report calculated that by changing the principle guiding aid allocations from equity to performance-based selectivity, a US$ 10 billion increase in aid would lift 25 million people a year out of poverty, as compared to only 7 million people with equity-based allocations.

allocation maintain that aid should be allocated predominantly to better-governed countries where aid is considered to be more effective (Burnside / Dollar 1997; Collier / Dollar 2001). Different performance-based approaches consider the following.

Institutional quality: Directing aid predominantly to recipients with relatively good institutions is justifiable because these countries are better able to absorb aid and use it efficiently (Carter 2012, 30). The literature emphasises different aspects of institutional quality and governance, notably rule of law and levels of corruption (Bräutigam 2000); the quality of recipient countries' economic policies (Burnside / Dollar 1997) and budgetary systems (Bourguignon / Leipziger 2006); the degree of personalism in the institutions (Wright 2010); but also the government's aversion to inequality (Kanbur / Tuomala 2003). Depending on the aspect emphasised, this might result in different cross-country allocations (Kenny 2006, 7). Following these criteria, donors can allocate larger shares of aid to countries that fare better in one or all of these dimensions, or even focus exclusively on a small selection of countries with strong institutions (McGillivray 2005, 1; Beynon 2001).

Critics of this type of approach argue that the quality of governance in recipient countries should influence the choice of aid instruments and the channel of delivery, rather than the volume of aid provided (Guillaumont 2008, 11; Dietrich 2011). However, the choice of aid modalities and that of aid volumes can be seen as interconnected decisions that should both be made dependent on governance assessments. So, for example, some argue that well-governed countries should receive more aid, over longer periods, through direct budget support, whereas poorly governed countries should get limited amounts of aid, for short periods, and oriented towards improving governance (ODI 2006, 4).

Development results achieved: Instead of selecting recipients based on institutional quality, some authors have suggested directing aid to countries where good development results have been achieved in the past (Kanbur 2005, 132). Van de Walle (2005, 159–160) argues that making allocations dependent on outcomes will result in aid being directed predominantly towards countries where strong and willing governments foster fast progress on human development. The cross-country distribution of aid would thus resemble closely the one derived from an assessment of recipients' institutional quality. However, this might not always be the case, since some countries with weak institutions might still be very effective in promoting human development (ODI 2004, xiii). For example, recent evidence shows that countries with weak institutions such as Nepal or the Central African Republic (CAR) have made particularly fast progress on MDG targets (Hailu / Tsukada 2011, 8–11). Allocating aid according to past outcomes is still likely to result in larger aid shares to countries with good institutions, but it would avoid underestimating the potential impact of aid in countries that might use aid efficiently, despite their weak institutions.[9]

The downside of this approach is that outcomes do not necessarily indicate good use of aid resources, but can simply be the result of unrelated external factors. Therefore, results might not always tell us where aid is having the largest positive impact (Leeuw / Vaessen 2009, 21–22). Moreover, a good past performance record is no guarantee that recipients will use future aid receipts efficiently (Kanbur 2005). Finally, making aid allocations dependent on outcomes is likely to increase aid volatility (World Bank 2009, iii).

2.4.3 Trade-offs between different approaches to aid allocation

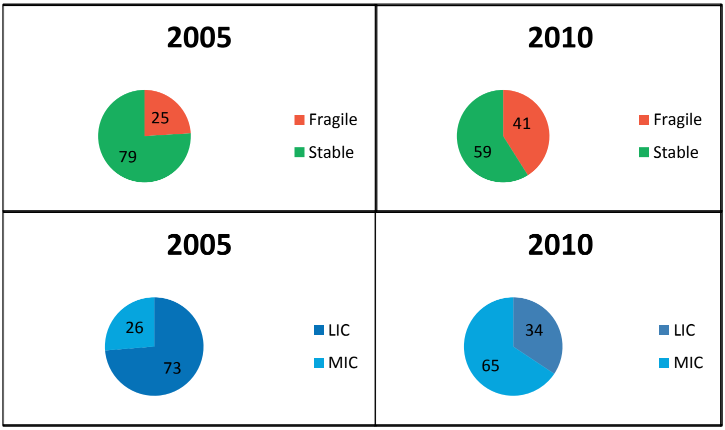
Donors face difficult choices when deciding how to distribute their aid across recipients and uses because needs- and performance-based approaches are fundamentally incompatible. Whereas needs-based approaches would allocate larger shares of aid to the neediest countries, performance-based approaches would direct aid predominantly to countries with good institutions where aid can be expected to be used more efficiently, and thus benefit a larger number of people in need (Guillaumont 2008, 6–8). Because the quality of institutions tends to be lower in the poorest countries (Kaufmann / Kraay / Mastruzzi 2006), performance-based approaches imply a considerable shift in allocation patterns away from the neediest recipients (Bourguignon / Platteau 2012, 3). This often produces a difficult trade-off

9 The World Bank conducted an analysis on how the cross-country distribution of its concessional resources would look if development outcomes (results) were used instead of measures of institutional performance to determine allocations. The results indicate that if allocation was based on changes in the Human Development Index (HDI), the share of resources from IDA flowing to least-developed countries (LDCs) would grow from 49 per cent to 63 per cent, and Africa's share would rise from 48 per cent to 52 per cent.

between assisting many people in need and assisting the neediest (Benson / Epprecht / Minot 2009).

There can be trade-offs also between different needs-based approaches, since middle-income countries with many people in need are often not those where the most in need live (Sumner / Kanbur 2012). Both these trade-offs boil down to the question: Should aid assist many people in need, or mainly the neediest? These conflicting objectives become particularly problematic because poor people are increasingly concentrated in fragile states with bad institutions and in middle-income countries (see figure below).

Figure 1: Where do the world's poor live? (% of global population of people living on less than US$ 1.25 a day)



Source: Author's own graph based on Chandy and Gertz (2011)

There can also be a trade-off between achieving allocative efficiency in the short- and in the long term. In the short term, it may be efficient to direct most resources to recipients where aid has the largest immediate impact. However, negative cross-border spillovers from neglected recipients in a range of areas, including security, health, the environment, and trade (Jones / Riddell / Kotonglou 2004, 14; Marysse / Ansoms / Cassimon 2006, 12; World Bank 2011a, 277), might lead to such an allocation being inefficient in the long term.

2.4.4 Practical implementation of different aid-allocation approaches

In practice, distinguishing between needs- and performance-based approaches to aid allocation is less straightforward than in theory. Most donors apply a combination of different approaches, resulting in real-world allocation patterns that diverge from pure needs- or performance-based approaches. Performance-based allocation formulas generally assign a considerable weight to needs as well (Beynon 2001, 4). Moreover, even donors that allocate according to institutional quality make a distinction between LICs and MICs. "Low-income" or "least developed"[10] status of countries is thus also central in targeting development assistance, based on the argument of greater need in these countries (Sumner / Kanbur 2012, 6).

However, different donors attach varying degrees of importance to needs and performance, respectively. For example, the United Nations Development Programme (UNDP) uses a needs-based formula that weighs population size and income per capita.[11] Some donors have started taking other types of need into account as well. The United Kingdom, for example, included the Human Development Index (HDI), which reflects needs in health and education as well as income poverty, as an important criterion in its allocation decisions. UNDP is considering introducing this indicator in its country allocation formula as well (OECD 2011c, 8). In contrast, the World Bank's International Development Association (IDA) allocates according to a performance-based formula[12] that attaches great importance to institutional quality, measured by the recipient's Country Policy and Institutional Assess-

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10 The United Nations' Committee for Development Policy defines LDCs using the three following indicators: (a) GNI per capita; (b) Human Assets Index; and (3) Economic Vulnerability Index (IDA 2009, 15).

11 The UNDP-TRAC1 formula used by UNDP weighs population size and income per capita, resulting in larger shares of aid for poorer and more populous countries. However, a ceiling for population size introduces a bias towards smaller countries (OECD 2013a, 21).

12 IDA's allocation formula is based on the "poverty-efficient" aid allocation model developed by Collier and Dollar (2001), which weighs institutional performance, GDP per capita and population size.

ment (CPIA) score[13] (OECD 2013a, 10). The European Development Fund and most multilateral development banks have adopted formulas similar to IDA's (Guillaumont 2008, 2–4).

Among bilateral donors, some (e.g. the United Kingdom) make use of an allocation formula that includes needs and performance (Anderson 2008, 22) or plan to introduce one (e.g. France). However, even when donors have a formula, they frequently deviate from it when additional information on the likely effectiveness of aid to specific countries is available (Wood 2006, 5). Most bilateral donors do not make use of allocation formulas (Utz 2010, 4). For bilateral donors, it is more common to define a list of "priority countries" that are expected to receive the majority of ODA. The selection of these countries is generally made on the basis of a set of criteria, including needs and performance. However, political and commercial interests, as well as historical ties, are sometimes also explicitly listed among the criteria that can influence the choice of partner countries, as is the case, for example, for Austria, Denmark and the Netherlands. The distribution of aid among the priority countries is generally made using similar criteria as for country selection, and/or is based on proposals from country offices (Anderson 2008, 24).

Allocation patterns suggest that some donors, such as the Netherlands and the United Kingdom, assign more weight to recipients' institutional quality than others, such as France and Japan (Thiele / Nunnenkamp / Dreher 2007, 1; Clist 2011, 42; Rogerson 2005, 540). Although the United States generally counts among donors whose allocation patterns are not particularly influenced by institutional assessments of recipient governments, its Millennium Challenge Corporation (MCC) is one of the clearest examples of bilateral aid allocation based on performance. The MCC was specifically designed to target a small set of countries that meet demanding criteria in terms of institutional performance (Hicks / Parks / Tierney 2005, 3; Tierney et al. 2011, 4).

13 The CPIA rates countries on an annual basis using 16 criteria grouped in four clusters, namely: economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions. Each of the 16 criteria is graded by World Bank staff on a scale from 1 (low) to 6 (high) (World Bank 2011b, 69–70). IDA's allocation formula also includes a series of exceptions to the performance-based rule (such as a special clause for allocating larger shares of aid to post-conflict countries) that allow redistributing resources to the neediest and most vulnerable countries. However, even with these exceptions, well-performing countries still receive the lion's share of IDA's resources (Leo 2010, 14).

3 Under-aided countries

3.1 Chapter overview

This chapter discusses the phenomenon of under-aided countries. After having reviewed the literature on aid orphans, a group of countries are examined that can be considered under-aided according to multiple approaches. Allocation patterns by DAC and non-DAC donors that lead to the relative neglect of those countries are analysed, followed by a discussion on the risks and opportunities associated with allocating larger shares of aid to the countries identified as under-aided. The last section presents some conclusions and policy recommendations for addressing the problem of under-aided countries.

3.2 Why could the existence of under-aided countries undermine aid effectiveness?

The possible existence of "under-aided" recipients has been attracting increasing attention because it raises a number of concerns: first, the phenomenon would imply inefficiencies in the overall allocation of aid resources. Many authors argue that potential efficiency gains could be reaped by reallocating aid to relatively under-aided countries (e.g. Bigsten / Platteau / Tengstam 2011; Bigsten / Tengstam 2012; Utz 2010). This is particularly relevant against the current background of falling ODA budgets (OECD 2013b), which increases the importance of allocating scarce aid resources more efficiently across recipient countries.

Second, there is a perception that the poorest and most vulnerable countries are being abandoned by donors. Declining aid budgets create a double challenge for recipients considered "difficult partner countries"[14] (DPCs): not only is there less aid in absolute terms, but there is also pressure on donors to reduce their relative share of aid to DPCs in total aid allocations in order to make the best use of scarce aid resources. Risk-averse donors already tend to shun fragile and low-performing recipients (World Bank 2011a, 201), and there is concern that aid will be reduced most sharply in the poorest and

14 Levin and Dollar (2005, 7) refers to difficult partnership countries as low-income countries with weak institutions, defined as those with CPIA scores in the bottom two quintiles.

most vulnerable countries (OECD 2013b; Mold / Olcer / Prizzon 2008, 2). Because they might lead donors to neglect the neediest countries, current calls for greater performance-based selectivity in aid allocation are increasingly seen as a threat to aid effectiveness, even if they derive – at least in part – from the intention to make a better use of aid resources (ODI 2004, xiii; Anderson / Christiansen / Putnam 2007; McGillivray / Feeny 2008).

Third, abandoning certain recipients might bring about serious risks in terms of conflict and negative spillovers in a broad range of areas, including security, health, trade opportunities and the environment. Such negative spillovers can undermine development in neighbouring countries (World Bank 2002; Marysse / Ansoms / Cassimon 2006, 12; World Bank 2011a 277; Jones / Riddell / Kotonglou 2004, 14). Neglecting some countries might also hinder the achievement of global public goods such as the eradication of certain diseases or the protection of the environment (Gunning 2004, 52).

Concerns have been expressed not only about "insufficient" amounts of aid received by some countries, but also about the excessively low number of donors engaged in certain recipient countries. Indeed, limited competition among donors might give monopoly power to donors providing large shares of a recipient's aid. This might put donors in a position to influence domestic policy-making and deliver prevalently tied aid. Moreover, countries relying on only a few donors are likely to experience higher aid volatility than other recipients (UN 2011, 28; Rogerson 2005; Frot / Santiso 2010; OECD 2011d).

3.3 Identifying under-aided countries

At the 2011 Busan High Level Forum on Aid Effectiveness, donors committed to

> *accelerate efforts to address the issue of countries that receive insufficient assistance, agreeing – by end of 2012 – on principles that will guide our actions to address this challenge.* (BPd §25c)

However, no such principles have been developed yet. The lack of clear guidelines for aid allocation makes it difficult to define what "under-aided" means, and thus to identify aid orphans (Utz 2010, 1–3; OECD 2013a, 8–9).

The term “aid orphans” often appears in academic and policy papers, but it is generally used without specifying what is meant by it.[15] Indeed, there is still no agreed definition of what constitutes an “aid orphan”, or agreement on what criteria should be used to assess whether a country is receiving “insufficient” amounts of aid. Because there is no universally accepted optimal allocation against which to assess the actual distribution of aid, there is also no consensus on what constitutes an aid orphan (OECD 2011a, 70).

Proponents of needs-based approaches to aid allocation will argue that the poorest countries that receive small shares of aid are under-aided with respect to their needs. But these recipients often cannot be considered under-aided from a performance-based perspective due to the weakness of their institutions. On the other hand, supporters of a performance-based approach to aid allocation will argue that more resources should be directed to strong performers that are considered more likely to use aid effectively. But often these are not the countries most in need. The following sections review existing attempts to identify under-aided countries.

3.3.1 Brief literature review on under-aided countries

A number of studies (McGillivray / Feeny 2008; Bigsten / Platteau / Tengstam 2011; Levin / Dollar 2005; Marysse / Ansoms / Cassimon 2006) have identified imbalances in aid allocations. However, the actual distribution of aid is assessed against one chosen allocation approach or formula. Therefore, the various countries defined as under-aided by these authors might not be considered under-aided if one takes a different approach to aid allocation.

The term “aid orphans” was first introduced by Levin and Dollar (2005, 17), who assess aid allocations to DPCs between 1992 and 2002 against an allocation formula that takes into account recipients’ population size, GDP per capita and institutional quality. The study finds that DPCs as a group receive lower volumes of aid per capita than recipients with better institutions. However, the authors argue that directing smaller shares of aid to DPCs is in line with performance-based approaches to aid allocation. The problem of imbalanced aid allocations seems to concern not the DPC group as such, but rather a sub-group of countries within the DPC category. While some “aid

15 Brown and Swiss (forthcoming (b)) offer an exhaustive review of the term’s use in academic and policy papers.

darlings" among the DPCs receive considerably higher aid flows than their needs and institutional quality would predict, the analysis identifies a group of countries – mostly francophone and located in West and Central Africa – that receive little aid compared to their income, population and the quality of their institutions (Levin / Dollar 2005, 18). Aid flows to these countries were also found to be twice as volatile as those going to other DPCs (Levin / Dollar 2005, 24). These findings point to imbalances in aid allocation that do not seem to be attributable to needs- or performance-based considerations. However, the paper is fundamentally an assessment of actual allocation patterns against a specific allocation formula. Changing the weight given to needs as compared to institutional quality in the allocation formula used to assess actual allocation patterns might lead to different conclusions about which countries might be considered under-aided.

McGillivray and Feeny (2008) analyse aid flows to fragile states for 2004 and argue that disproportionally large amounts of aid have gone to highly fragile countries – those in the bottom CPIA quintile, where aid is supposedly much less effective than in slightly more stable countries. Highly fragile countries such as Burundi and the Solomon islands received almost twice as much as what the authors consider to be the "optimal" amount of aid, whereas those countries that were not highly fragile, such as Guinea, received less than what they could efficiently absorb. Here again, although the findings suggest that there might be inefficiencies in global aid allocations, the assessment is based on the authors' own judgment of the "optimal" volume of aid for each country.

Corre, Mackie and Trenner (2008) define under-aided countries as countries that meet all of the following criteria: HDI below 0.5 (the average for developing countries being 0.69); fewer than 20 active donors; and less than US$ 50 of aid per capita (the average aid per capita being US$ 53 for least-developed countries (LDCs) and US$ 80 for SSA countries). The study finds a number of what they call "marginalised countries", mostly in West and Central Africa.[16] Although the authors argue that the recipient's absorptive capacities and institutional quality should be taken into account for allocating aid efficiently (Corre / Mackie / Trenner 2008, 21), the approach they

16 The report analyses aid allocation for 2005/2006 and identifies the following countries as being under-aided: Benin, Ivory Coast, Guinea, Guinea Bissau, the CAR, Chad, Korea (People's Republic) and Somalia.

take for identifying under-aided countries is an exclusively needs-based approach.

Bigsten, Platteau and Tengstam (2011, 147–152), identify aid orphans and darlings emerging from EU allocation patterns (ODA from EU member countries and the Commission for 2009). The paper first assesses EU allocation patterns against needs and finds such a large number of over- and under-aided recipients that, according to the authors, almost half of the total volume of aid should be reallocated. However, the authors argue that the countries identified as potentially under-aided according to needs cannot be considered aid orphans without taking the quality of their institutions into account. Thus, in a second step, the paper compares CPIA scores across countries identified as over- or under-aided with respect to their needs, and argues that aid should be reallocated from the worst-performing aid darlings to the best-performing orphans. The "good" aid orphans still have lower institutional quality than the "bad" aid darlings, but only slightly. In contrast, their needs are much higher. Therefore, reallocating from "bad aid darlings" to "good aid orphans" would result in increased value (which the authors estimate at almost EUR 7.8 billion) for the same volume of aid (Bigsten / Platteau / Tengstam 2011, 135). Despite the two-step analysis, however, the assessment on whether or not countries are receiving insufficient aid is still based on one specific allocation formula. The study identifies aid orphans based on an extension of the Collier-Dollar (2002) formula that weighs a country's CPIA score, GDP per capita and population size.[17] Moreover, limiting the analysis to allocation patterns by EU donors raises doubts over whether countries identified as under-aided might be considered aid orphans, since non-EU donors might be compensating for low levels of EU aid flow to those countries.

Bigsten and Tengstam (2012, 11–17) partly address this last concern by applying the outlined methodology to assess aid allocation in 2009 for all DAC donors. The authors find that aid orphans and darlings exist also with respect to allocations by all DAC donors, and estimate the potential savings from reallocation at US$ 19,491 million.

17 Based on findings by Clemens and Radelet (2003), the authors include a measure of declining returns to aid in the Collier-Dollar formula by assuming that the positive impact of aid falls to zero when aid reaches 10 per cent of a recipient country's GDP.

All these studies highlight inefficiencies in aid allocations, but they are always assessing actual allocations against one chosen allocation model. Therefore, countries identified as receiving insufficient aid might not be considered under-aided according to different approaches to aid allocation. Brown and Swiss (forthcoming, 10) note that because of the arbitrariness with which authors assess actual allocation patterns, studies dealing with the phenomenon of under-aided countries come up with very different and often contradictory lists of "aid orphans". The authors thus argue that the term has lost meaning and should be dropped.

3.3.2 The OECD watch list: combining needs- and performance-based approaches

The OECD recently made important steps forward in bringing some clarity to the debate on under-aided countries. The methodology it proposes works towards establishing a common understanding of countries that might be considered under-aided (OECD 2011c; 2013). First presented in a paper by Utz (2010), this methodology compares actual aid allocations to low-income countries against four different aid-allocation approaches. Two of the approaches are needs-based (the equal aid per capita and the UNDP TRAC1 allocation formulas); two are performance-based (the Collier-Dollar (2001) poverty-efficient allocation and IDA's performance-based allocation)[18]; two are purely theoretical (the equal aid per capita and the Collier-Dollar poverty-efficient allocation formulas); two are currently used in practice (the UNDP TRAC1 formula and IDA's performance-based allocation). Actual allocations to low-income countries are assessed against all four of these allocation models. For each allocation model, a country is identified as under-aided if actual aid receipts are below the benchmark allocation by at least one percentage point of GDP.

The models used for compiling the list do not represent all the possible approaches to aid allocation. For example, approaches that suggest allocating larger shares of aid to countries affected by structural vulnerability or that find themselves in a post-conflict phase are not included, whereas

18 These performance-based allocation approaches are not "pure", since besides the recipients' institutional quality, they also take needs into account, measured as GDP per capita and population size.

the evidence suggests that aid is particularly effective in countries with these characteristics (Collier / Hoeffler 2002, 8–9; Elbadawi / Kaltani / Schmidt-Hebbel 2007; Demukaj 2011; Guillaumont 2008, 16; Collier / Dehn 2001, 10; Gunning 2008).

By combining needs-based and performance-based approaches, the OECD started regularly compiling a "watch list" of potentially under-aided countries. Countries that can be considered under-aided according to both needs-based and performance-based approaches to aid allocation are highlighted as requiring special attention by the international community, but some attention is also recommended for countries identified as under-aided according to two allocation models derived from the same approach.

The latest list of potentially under-aided countries (OECD 2013a) was compiled on the basis of Country Programmable Aid (CPA)[19] flows, plus humanitarian assistance and food aid for 2011. The following countries were identified as under-aided:

19 The OECD defines CPA as a subset of ODA reflecting the volume of aid that constitutes a cross-border flow and is subject to multi-year planning at the country or regional level. CPA is calculated by excluding from ODA the following categories of resource flows: unpredictable aid flows (such as humanitarian aid and debt relief); aid that entails no cross-border flows (such as administrative costs; scholarships for foreign students in donor countries; initiatives to promote development awareness; research; and costs related to refugees in donor countries); aid that is not included in inter-governmental co-operation agreements (such as food aid; aid from local governments; core funding to NGOs; equity investments; aid that flows through secondary agencies; and aid that is not allocated to a specific country or region) (OECD 2011c, 18). Using CPA instead of ODA volumes to identify "under-aided" countries means that the phenomenon is discussed more from the recipient than from the donor perspective.

Table 1: List of potentially under-aided countries

Country*	Equal aid per capita	UNDP's TRAC1 aid allocation	Poverty-efficient aid allocation	IDA's performance-based aid allocation	Number of benchmarks	Estimated average funding gap (US$ billion)**	Actual aid volume (US$ million)	Fragile state
Madagascar	X	X	X	X	4	885	395	X
Malawi	X	X	X	X	4	434	772	X
Bangladesh	X		X	X	3	3,190	2,222	X
Gambia	X	X	X		3	40	138	
Guinea	X	X	X		3	449	314	X
Niger	X	X		X	3	452	643	X
Togo	X	X	X		3	201	278	X
Nepal	X		X		2	427	1,001	X
CAR	X	X			2	38	263	X
Chad	X	X			2	75	507	X
Comoros	X	X			2	40	45	X
DRC	X	X			2	266	2,221	X
Eritrea	X	X			2	256	133	X
Guinea-Bissau	X	X			2	25	104	X
Zimbabwe	X	X			2	291	680	X
Burkina Faso			X	X	2	309	982	
Ethiopia			X	X	2	988	3,483	X
Senegal			X	X	2	1	1,007	
Tanzania			X	X	2	315	2,406	
Uganda			X	X	2	733	1,533	X
11 countries ***	3	4	4	0	1	-		6
Total: 31 countries	18	17	16	9	-	-		22

* Countries in bold are considered under-aided according to both performance- and needs-based approaches.

** The funding gap is an average of the four different funding gaps (actual aid received minus the aid volume a country should receive according to each different allocation formula).

*** These countries are: Benin, Burundi, Djibouti, Kenya, Laos, Myanmar, Sierra Leone, Somalia, Tajikistan, Yemen, and Zambia (underlined countries are also fragile states).

Source: Author's own table based on augmented OECD (2013a, 10)

Countries are ranked according to the number of criteria under which they can be considered under-aided, not according to the size of their estimated funding gaps.[20] Under-aided countries figuring in the list can be divided into three main groups: those identified as under-aided by both performance- and needs-based approaches to aid allocation, those that can be considered to be receiving insufficient aid according to only needs-based approaches and those defined as under-aided only according to performance-based models. Important differences between these groups of countries are discussed in the last part of this chapter. For the moment, however, it is more relevant to concentrate on the common characteristics among countries in the watch list. Indeed, one of the advantages of the OECD methodology is that, by grouping together countries considered to be receiving disproportionately small shares of aid, some common traits emerge: first, 22 out of the 31 countries in the watch list are fragile states. Of the eight countries flagged as requiring special attention from the international community, seven are fragile states and all are LDCs. Secondly, almost all potentially under-aided countries are located in SSA, which might be surprising given that SSA is the region receiving the largest share of ODA (35 per cent) (Development Initiatives 2013, 57).

Awareness of the watch list still seems to be limited. In general, the issue of under-aided countries does not appear to be a particularly pressing concern for donors, and those who do show interest in the topic generally understand under-aided countries to be mostly fragile states that receive low absolute volumes of aid, such as the CAR or Chad, rather than as countries that are thought to be able to use larger volumes of aid efficiently. The presence in the OECD watch list of recipients such as Bangladesh, which count many active donors and receive large absolute volumes of aid, is perceived by many as going too far from the original concept of an "aid orphan".

However, by showing that it is possible to identify recipients that can be considered under-aided from different perspectives, the OECD watch list provides a helpful basis for discussing the phenomenon of under-aided countries. The four models used by the OECD to compile the list do not reflect all the possible approaches to aid allocation, but they represent the main ideas underlying needs- and performance-based perspectives. There-

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20 Even among the countries identified as "requiring special attention", the order of countries changes significantly if they are ranked according to the average funding gap per capita. For the first nine countries, the order would be: 1. Guinea; 2. Madagascar; 3. Togo; 4. Bangladesh; 5. Niger; 6. Gambia; 7. Malawi; 8. Nepal; 9. Burkina Faso.

fore, this chapter bases the analysis of under-aided countries on the list of countries that can be considered under-aided according to these four models. The following sections analyse allocation patterns and underlying reasons that might lead to the relative neglect of the countries presented in the OECD list of potentially under-aided countries.

3.4 Underlying causes for the emergence of under-aided countries

3.4.1 Performance-based selectivity

The observation that most countries in the OECD watch list are fragile states[21] seems to be in line with claims that donors increasingly target aid to well-run countries. The end of the Cold War allowed donors to allocate aid based on more developmental criteria, rather than directing it to corrupt but geopolitically important dictatorships (Bräutigam / Knack 2004, 275). Moreover, since the late 1990s, donors have been attaching growing importance to the institutional environment in partner countries when distributing aid across recipients (McGillivray 2005, 1; Levin / Dollar 2005; Bermeo 2008; Claessens / Cassimon / Van Campenhout 2009).

Performance-based selectivity in aid allocation has been explicitly adopted by the World Bank's IDA and by most other multilateral development banks (Guillaumont 2008, 10–11). It is more difficult to assess the degree of performance-orientation in allocation patterns by bilateral donors, both because bilateral donors rarely have clear allocation formulas, and because these donors seem to differ considerably regarding the importance they attach to institutional performance (Thiele / Nunnenkamp / Dreher 2007, 1; Clist 2011, 42). In general however, it seems that also bilateral donors are shifting towards more performance-based allocation patterns (Tierney et al. 2011, 4; Jones / Riddell / Kotonglou 2004, 13). Bourguignon and Leipziger (2006) find that donors tend to give even more importance to the quality of governance when allocating aid across countries at lower income levels.

At the same time, other studies (Nunnenkamp / Thiele 2006; Easterly / Pfutze 2008; Easterly / Williamson 2011, 40) do not support the argument

21 The World Bank identifies as fragile states the countries with a CPIA score below 3.2.

that institutional quality is increasingly influencing aid allocation patterns. A number of empirical studies find that the levels of corruption in recipient countries, for example, do not play a role in aid allocation (Alesina / Weder 1999; Neumayer 2003; Isopi / Mattesini 2010). Although donors sometimes react to undemocratic changes in recipient countries by withdrawing or reducing aid, overall democracy and the respect of human rights seem to influence aid allocation less than what donors' emphasis on democracy and human rights would suggest (Carey 2007).

Thus, although donors seem to be increasingly influenced by the quality of institutions in partner countries, there is no single consistent allocation pattern across donors or time periods (Winters 2010, 430). Besides recipient countries' institutional performance, other factors influence the distribution of aid resources, including attention to needs (Nunnenkamp / Thiele 2006); an increasing concern for fragile states (OECD 2012a, 49); and a host of political and commercial interests (Bigsten / Platteau / Tengstam 2011, 152–153). Combined with a general lack of coordination, these multiple factors contribute to the emergence of a global aid allocation pattern that diverges from what would be in line with performance-based approaches (Rogerson 2005, 540). Thus, the existence of under-aided countries might not be attributable to one major trend influencing overall aid allocations, but rather to a combination of different factors.

A brief review of the factors that influence aid allocations besides institutional performance – completed with an analysis of the degree of donor coordination in aid allocations – provides a better understanding of the role these elements play in the phenomenon of under-aided countries.

3.4.2 Needs-based allocations

The observation that a relatively small group of very poor countries appears to be under-aided does not necessarily imply that overall aid allocations are not needs-oriented. Even authors presenting evidence for a general move towards performance-based allocation models (Levin / Dollar 2005; Bermeo 2008; Claessens / Cassimon / Van Campenhout 2009) assert that needs still play an important role in aid allocations.

Gunning (2008, 3–4) highlights three main factors that work against performance-based selectivity in aid allocations: first, most donors seem to think that rigid performance-based selectivity would mean that aid goes to the countries that need it least. Second, it seems unjust to abandon poor people just because they had the bad luck of being born in a place with inefficient institutions. Third, the incentive structure in the aid system pushes donor agencies towards disbursing rather than withholding aid in order to guarantee future funding for their organisations.

Wood (2006) gives a different reason for donors' reluctance to fully embrace performance-based approaches to aid allocation. She observes that South Asia receives a smaller share of total aid than what would be in line with the Collier-Dollar formula, whereas Africa receives a disproportionally large share. The author argues that perceptions on future poverty levels are important as well for taxpayers in donor countries. The belief that, in the absence of aid, poverty will decline more rapidly in better-governed Asian countries than in Africa induces donors to allocate more aid to Africa than to Asia.

Allocation patterns suggest that needs play a particularly important role for multilateral donors (Easterly / Williamson 2011, 32). Although it is true that the World Bank and most other multilateral banks allocate aid using a performance-based formula, the evidence indicates that multilateral donors as a group are less biased than bilaterals against difficult partnership countries (OECD 2011b, 7; Bermeo 2008, 41).

Global funds such as the Global Fund to Fight Aids, Tuberculosis and Malaria; the GAVI Alliance for vaccines and immunisations; and the Global Environmental Fund also allocate relatively large shares of aid to difficult partner countries with high needs (OECD 2012a, 61–62). Allocation patterns by these highly specialised funds tend to be driven by specific needs rather than by measures of institutional quality in recipient countries (Harmer 2004, 8).[22] Moreover, the global nature of their goals gives them an incentive not to neglect any needy country.

22 These highly specialised funds allocate mostly based on project-specific demand, without country limits. Performance also plays a large role, but is understood as programme performance rather than related to the quality of recipients' institutions. This allocation model often results in large aid flows to fragile states (OECD 2011b, 7). For example, the GAVI Alliance adopts a results-based approach, in that the volume of resources disbursed to a recipient depends on the number of children that have been immunised. Using this system, GAVI directed its resources for child immunisation predominantly to low-income countries under stress and fragile states (CEPA 2010, 36).

3.4.3 Increasing attention to fragile states

Fragile states have been receiving increasing attention over the last years (World Bank 2011a). Between 2000 and 2010, aid per capita to fragile states grew by 46 per cent, whereas it only increased by 27 per cent in non-fragile states. Even after excluding debt relief, which accounts for a large part of the increase in aid receipts by fragile states, the share of aid allocated to these countries has been growing over the last decade (OECD 2012a, 49). Efforts for finding ways to engage with fragile states are sometimes directly linked to the aid orphans phenomenon. For example, a report by the French aid agency Agence Française de Développement (AFD) argues that these efforts are

> *aimed at counteracting the negative consequences of 'performance-based aid', a doctrine that in less than a decade has made 'aid orphans' of the worst-performing countries.* (Châtaigner / Gaulme 2005, 3)

Increases in aid to fragile states were especially high for low-income states in SSA (OECD 2012a, 49). Why then are almost all the countries in the aid orphans watch list fragile states in SSA? This also seems to contrast with Utz's (2010, 19) finding that being fragile does not make a country more likely to receive insufficient aid.

A closer look at the distribution of aid among fragile countries brings more clarity to the issue: in 2010, 49 per cent of ODA to 47 fragile states was directed to only seven "donor darlings": Afghanistan, the Democratic Republic of Congo (DRC), Ethiopia, Haiti, Pakistan, Gaza and Iraq (OECD 2012a, 49). Because the United States is by far the largest aid provider to fragile states (OECD 2012a, 50), much of this is attributable to the large volume of US aid to Afghanistan, Pakistan and Iraq.[23] However, the seven donor darlings were also top receivers of aid by EU institutions (Gavas 2011). The problem of being under-aided thus seems to concern a sub-set of fragile states, rather than the group as a whole.

Several studies (Anderson / Christiansen / Putnam 2007; Macrae / Harmer 2004; World Bank 2011a, 23; Jones / Riddell / Kotonglou 2004, 24–26; Guillaumont 2008, 12) point to imbalances in the distribution of aid across fragile states, and claim that a strong focus on post-conflict countries has

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23 Detailed information on US aid to these countries can be found at: http://gbk.eads.usaidallnet.gov/data/fast-facts.html.

led donors to neglect low-performing countries that are not critically fragile. Levin and Dollar (2005, 19) find that between 1992 and 2002, among DPCs (all other things being equal) post-conflict countries received around 30 per cent more funding per capita than non-post-conflict ones. The report *Monitoring the Principles for Good International Engagement in Fragile States and Situations* (OECD 2010a, 43) observes large imbalances in aid allocations across fragile states and expresses serious concern about the extremely weak implementation of the principle of "avoiding pockets of exclusion". For example, in 2008 the CAR, where 67 per cent of the population lives under the US$ 1 poverty line, received US$ 53 per capita of ODA. In contrast, Timor-Leste, where the percentage of the population living on less than US$ 1 per day is 53 per cent, received US$ 251 per capita (OECD 2010a, 38–39).

An overwhelming focus on post-conflict countries within the larger group of fragile states might not necessarily be inefficient. Harmer (2004, 39) points out that while donors face difficulties in understanding what needs to be done in environments of "protracted crisis", post-conflict contexts present reconstruction priorities that are relatively easy to identify. It might also be that donors are focusing on post-conflict countries in order to take advantage of the windows of opportunity that post-conflict environments sometimes offer (World Bank 2011a, 249; World Bank / AfDB 2011, 8). Donors might also be allocating their aid in line with the finding (Collier / Hoeffler 2002) that aid tends to be more effective in post-conflict settings.

However, if larger aid flows to post-conflict countries, as compared to other fragile states, were guided by the findings of the aid-effectiveness literature, these higher aid flows should be sustained for a longer period than is currently the case. Instead, although the literature suggests that aid to post-conflict countries is particularly effective between the fourth and the seventh year of peace (Collier / Hoeffler 2002, 8–9), donors tend to start reducing the level of funding in post-conflict countries already before that time (OECD 2010a, 35). Moreover, even among post-conflict countries there are differences in treatment (Boyce / Forman 2010, 12). For instance, Afghanistan, Timor-Leste and Bosnia received disproportionally high amounts of aid as compared to other post-conflict countries in similar conditions. Such imbalances are due to the geopolitical importance that donors attribute to stability in the above countries (Collier / Hoeffler 2002, 2).

Donors' security interests often shape the allocation of aid across fragile countries (Macrae / Harmer 2004, 13). It is indicative that after 9/11, bilateral aid from DAC countries to the Middle East grew dramatically, from US$ 5 billion in 2001 to US$ 27 billion in 2005 (Nielson / Powers / Tierney 2009, 19–20). The already quoted report by the French aid agency AFD explicitly states that one of the drivers behind increased levels of funding to fragile states is the recognition that some of these countries pose high global security risks (Châtaigner / Gaulme 2005, 3). Jones, Riddell and Kotonglou (2004, 23) argue that concerns about terrorism play a particularly important role, with aid being directed more in accordance with the perceived security threats than with the different levels of need across countries. Thus, neglected recipients are likely to be countries whose fragility is not perceived as being particularly relevant for donor countries' security (Jones / Riddell / Kotonglou 2004, 6).

3.4.4 Donors' strategic interests

Besides security concerns, other strategic interests shape aid allocations. A large number of empirical studies find that aid allocations by bilateral donors are influenced by the desire to gain political influence in certain countries (Alesina / Dollar 2000, 40), commercial interests (Neumayer 2003; Knack / Rahman 2008, 2–3; Hout 2007), colonial ties (McGillivray / Oczkowski 1992; Vázquez 2008) and geographical proximity (Clist 2011, 42). Moreover, cross-country aid allocations tend to be affected by a small-country bias, with larger countries receiving lower levels of aid per capita than smaller countries with similar needs (Utz 2010, 5). Concerns about visibility also influence aid allocations (Vollmer 2012). Hoeffler and Outram (2011) estimate that roughly half of the predicted value of aid is determined by factors such as colonial history and geopolitical ties.[24]

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24 It is often argued (e.g. Headey 2008; Powell / Bobba 2006, 21) that politically or commercially motivated aid is not effective in promoting development in recipient countries. However, depending on the type of political and commercial interest at stake and on the aid modality used, the influence of strategic interests in aid allocation does not necessarily mean that aid is not aimed at achieving development results in the targeted countries. Bermeo (2010) argues that donors pursue "strategic development", meaning that development in recipient countries has a strategic importance for donors. In an increasingly globalised world, donor countries will be affected by a growing range of positive and negative spillovers from developing countries, ranging from security to issues concerning migration, diseases, trafficking, pollution, trade opportunities, etc. Therefore, Bermeo argues that donors will pursue development in partner countries, but that they will target their aid predominantly towards recipients whose spillovers are more likely to affect donor countries.

Although colonial ties and commercial interests affect allocation patterns of bilateral rather than of multilateral donors, the latter are not as free from the influence of strategic interests as they claim (Winters 2010, 423; Mascarenhas / Sandler 2006, 356; Nielson / Powers / Tierney 2009, 25–26). Multilateral allocation patterns are often influenced by political economy variables such as a country's political and economic connection to the United States and other major shareholders (Barro / Lee 2005; Schneider / Tobin 2010, 4). Still, strategic interests and concerns about visibility seem to affect allocation patterns by multilateral donors to a much lesser extent than what is the case for bilaterals (Öhler 2013, 6).

Bigsten, Platteau and Tengstam (2011, 152–153) directly link the emergence of aid orphans to the weight that political and commercial interests have in aid allocation patterns. The desire to gain political influence and commercial opportunities in certain countries keeps donors from reallocating aid to less important countries, even when those are identified as under-aided with respect to both their needs and their performance.

Strategic interests can be linked to the emergence of aid orphans also for a different reason: they might lead bilateral donors to establish a "lead donorship" in countries with which they have longstanding ties (Steinwand 2013, 3–5). This makes recipients vulnerable to drops in aid from the lead donor. Aid tends to be more volatile in countries with dominant donors. In particular, countries with high two-donor concentration ratios (i.e. a large share of aid is provided by the two biggest donors) are more likely to be affected by high aid volatility (Hudson / Mosley 2007). Jones, Riddell and Kotonglou (2004, 8) argue that the disproportionally low share of funding received by West African countries where France was the lead donor is mainly due to reductions in French aid. However, the authors also remark (Jones / Riddell / Kotonglou 2004, 8) that declining resource flows from the former colonial power were accompanied by drops in aid receipts from other bilateral donors and from IDA. The observation that those countries saw their aid being cut also by donors besides France suggests that other reasons – linked to the countries' characteristics rather than to France's aid allocation patterns – contributed to these recipients being under-aided. However, specific reasons might also have led to drops in aid by those countries, and case studies would be necessary to understand these.

3.4.5 Lack of donor coordination

Besides the country's characteristics, aid volumes received by a given country can be determined by the degree of donor coordination in cross-country aid allocations. Many authors identify the lack of coordination among donors as one of the main factors leading to some countries receiving insufficient aid (Utz 2010, 19; OECD 2011c, 12; Rogerson 2005; Bigsten / Platteau / Tengstam 2011, 152–153; Anderson 2012, 2; Jones / Riddell / Kotonglou 2004). This is mainly due to the fact that donors do not take into account other donors' allocations into their own allocation decisions (OECD 2011c, 12). Donors generally fail to take into account allocation patterns by other donors when deciding on the distribution of their own aid resources. This leads them to concentrate on the same countries while neglecting others (OECD 2011a, 70; Brown / Swiss 2013). Some donors included the number of donors active in a certain recipient country among the criteria used to guide the selection of partner countries. However, this is only one of many criteria considered and plays a minor role. More common is the practice of discussing country exits with other donors, although this is done in a rather *ad hoc* manner and does not always result in well-coordinated actions.

Donor coordination could mitigate the phenomenon of under-aided countries by enabling individual donors to allocate larger shares of aid to countries that receive disproportionally low amounts of aid from other donors. Instead, donors tend to do the opposite. The evidence suggests that donors are affected by herding behaviour in their aid allocations (Desai / Kharas 2010; Barthel 2012; Steinwand 2013, 8; Frot / Santiso 2009; Powell / Bobba 2006). Desai and Kharas (2010, 10) describe herding as:

> *an under-investigated but common phenomenon in official foreign assistance that can contribute to cascades in withdrawals of aid, or alternatively, countries being given aid in excess of their absorptive capacity.*

Herding implies that donors actually do take other donors' allocations into account when distributing their own aid, but in a way that worsens – instead of mitigating – the aid orphans / aid darlings divide. Davies and Klasen (2013) find that for an average donor, a 1 per cent increase in aid by another donor to a given country produces about 0.3 per cent increase in own aid allocations to that country. The herding effect is particularly strong for allocations to orphan countries,[25] inducing donors to collectively shun them. Donors are particularly reluctant to direct aid to recipients that other donors have abandoned (Davies / Klasen 2013, 25).

Herding behaviour can be attributed to the influence of strategic interests in donors' allocation patterns (Mascarenhas / Sandler 2006, 356; Powell / Bobba 2006). Frot and Santiso (2009, 25) link the phenomenon to donors' fear of missing out on commercial and political opportunities in countries assisted by other donors. Cutrone (2012) argues that this is especially the case if donors are competing for influence in the recipient country.[26] Barthel (2012) also argues that the fact that a recipient is allocated large volumes of aid by other donors is interpreted as a signal that aid programmes are particularly effective in that country. Herding is found to affect mostly bilateral donors. This is not only because multilaterals are less influenced by strategic interests, but also because the use of allocation formulas reduces their discretion in aid allocations[27] (Davies / Klasen 2013, 8, Barthel 2012; Frot / Santiso 2009).

Lack of communication and coordination among donors could become an even more serious problem in the context of a move towards greater selectivity in aid allocations (Mürle 2007, 30; Davies / Klasen 2013, 2; Anderson 2012, 2). Jones, Riddell and Kotonglou (2004, 28) point out that uncoordinated efforts by individual donors to allocate their own aid efficiently might have a perverse impact on global allocation patterns. If donors use similar criteria for selecting partner countries and do not coordinate, aid selectivity could result in a general neglect of the majority of needy countries while over-aided strong performers experience diminishing – or even negative – returns on aid (OECD 2003a, 2). This could lead to particularly sharp drops in aid receipts for low-performing and fragile states (Anderson 2012, 2;

25 Aid orphans are defined by the authors as countries receiving less ODA than a formula based on GDP, population size and institutional quality would predict.

26 When donors are not competing with each other for strategic influence, in some cases diverging strategic interests can even partly substitute for a lack of formal coordination mechanisms. This was the case during the cold war, when the definition of clear spheres of influence allowed donors to avoid excessive fragmentation and duplication of efforts (Steinwand 2013, 35).

27 However, the use of allocation formulas does not guarantee that allocation decisions will be insulated from political interests, since the weights and indicators used in the formula can be modified in order to suit those interests (Banful 2011).

Brown / Swiss 2013), or for countries that are not relevant for donors' foreign policy interests (UN 2011, 28).

Low numbers of donors in certain countries might become a problem in the context of initiatives to reduce aid fragmentation. Donors' efforts to reduce fragmentation by concentrating their aid in a limited group of partner countries might cause a worsening of the aid orphans phenomenon if concentration is uncoordinated (Anderson 2012, 2). This appears to be a real risk, since the selection of partner countries as a result of DoL efforts is not taking place in consultation with other donors (Grimm / Schulz 2009, 9). For the moment, however, efforts to increase concentration have been very limited, and cross-country DoL appears to be stalling (Brown / Swiss 2013); Aldasoro / Nunnenkamp / Thiele 2009, 13). Imbalances in aid receipts seem thus to be linked to low amounts of aid allocated from donors to certain countries, rather than to insufficient numbers of donors engaged in those countries (Corre / Mackie / Trenner 2008).[28]

Achieving coordination in aid allocation is difficult because aid allocation is considered to be a sovereign policy, thus justifying unilateral decisions (Grimm / Schulz 2009, 9). Donors prepare the selection of partner countries on the basis of criteria, but the eventual decision is of a political nature (Mürle 2007, 27). Strategic interests hinder the establishment of a coordination framework (Bigsten / Platteau / Tengstam 2011, 152–153). Moreover, a lack of transparency in aid allocation patters makes it difficult for donors to coordinate their allocations. Only 23 out of 40 donors surveyed for the OECD survey of donors' forward spending plans declared themselves willing to make their forward spending plans publicly available. Reasons given for this reluctance included uncertainties about future aid budgets and the belief that their own channels of communication already provide sufficient transparency (UN 2012, 19).

At the same time, coordination alone would not necessarily solve the problem of under-aided countries. Coordinated donors might still allocate according to shared strategic interests, whereas increasing the development

28 The number of donors engaged in a country does not necessarily reflect aid volumes. The distribution of aid across countries occurs in a two-step process: first, donors select partner countries; then they allocate aid across the selected countries (Mürle 2007, 27). This means that donors can be engaged in a large number of countries while still directing most of their aid to a certain subset of recipients (Frot 2009, 3).

impact of aid requires coordinated allocations to be based on criteria such as needs and performance.

3.4.6 Interrelations between the factors underlying the phenomenon of under-aided countries

The sections above have sketched the different approaches, goals and interests that produce current allocation patterns. On the one hand, a general move towards greater performance-based selectivity results in lower levels of funding for difficult partner countries. On the other hand, a host of other factors such as attention to fragile states, responsiveness to needs and political economy reasons influence resource distribution as well, so that actual aid allocation patterns are not in line with either performance-based or needs-based approaches. This produces a complex pattern of aid allocation, which benefits well-run countries but also low-performing countries that have a strategic importance for donors. Countries that could use aid effectively but that do not fall into either of these categories do not receive sufficient aid (Rogerson 2005, 540; Corre / Mackie / Trenner 2008, 24). The lower degree of attractiveness of some recipients for donors combines with a general lack of coordination among donors, causing inefficient concentrations of resources in some “darling” countries and the neglect of other recipients that also have relatively high needs and performance.

Strategic interests contribute to inefficiencies in aid allocations in two ways: first, by inducing donors to allocate aid according to criteria different from poverty or performance, the influence of self-interested motives creates inefficiencies in aid allocations by individual donors – at least with respect to their stated developmental goals. Second, they make donors reluctant to release control over the distribution of aid resources, thereby hindering efforts to increase coordination and transparency in aid allocations.

3.5 Multilateral donors’ compensatory role for under-aided countries

The phenomenon of under-aided countries seems to be attributable mostly to neglect by bilateral donors (Levin / Dollar 2005; OECD 2013a, 14; Utz

2010, 20–21; Davies / Klasen 2013, 25; Christensen / Homer / Nielson 2011, 2046–2051). Multilateral donors appear to be less biased against low-performing countries (OECD 2011b, 7; Bermeo 2008, 41), less influenced by strategic interests (Öhler 2013, 6) and less affected by herding behaviour (Davies / Klasen 2013, 8, Barthel 2012; Frot / Santiso 2009).

The eight countries that, according to the aid orphans watch list, can be considered under-aided with respect to both needs and performance received on average 53 per cent of their aid from multilateral donors – a much higher share than the global average of 36 per cent (OECD 2013a, 11). This was the case also for countries identified as under-aided in previous OECD watch lists.[29] An extreme case is Togo, where 78 per cent of aid received between 2005 and 2010 came from multilateral agencies (OECD 2013a, 14). As for countries considered under-aided, according to only one approach, a comparison of the watch list with the 2012 DAC report on multilateral aid shows that the share of the country envelope provided by multilateral donors is even greater for the group of countries considered to be under-aided only from a needs-based approach, whereas this tendency seems to be less pronounced for countries considered under-aided only according to performance-based approaches, as the table below shows.

29 For the OECD watch list compiled using CPIA for 2010, the average share of aid received from multilateral donors for the nine potentially under-aided countries was even higher, at 55 per cent.

Table 2: Bilateral vs. multilateral donors' engagement in under-aided countries (Country Programmable Aid, 2010 disbursements)

Country*	Equal aid per capita	UNDP's TRAC1 aid allocation	Poverty-efficient aid allocation	IDA's performance-based aid allocation	Number of benchmarks	Share of aid received by multilateral institutions*	Number of donors engaged (bilateral/ multilateral)**
Madagascar	X	X	X	X	4	60.0	12/13
Malawi	X	X	X	X	4	53.3	14/15
Bangladesh	X		X	X	3	61.5	18/16
Gambia	X	X	X		3	76.2	6/15
Guinea	X	X	X		3	74.7	10/14
Niger	X	X		X	3	67.1	17/15
Togo	X	X	X		3	83.4	10/14
Nepal	X		X		2	55.2	18/17
CAR	X	X			2	82.9	14/15
Chad	X	X			2	75	507
Comoros	X	X			2	70.7	3/12
DRC	X	X			2	70.9	20/15
Eritrea	X	X			2	89.1	10/12
Guinea-Bissau	X	X			2	73.2	9/12
Zimbabwe	X	X			2	54.8	21/14
Burkina Faso			X	X	2	62.3	16/16
Ethiopia			X	X	2	64.0	21/17
Senegal			X	X	2	50.0	17/17
Tanzania			X	X	2	47.7	16/17
Uganda			X	X	2	47.1	20/17
11 countries ***	3	4	4	0	1	-	
Total: 31 countries	18	17	16	9	-	-	

* 26 multilateral agencies are covered
** Only DAC donors are covered
*** These countries are: Benin, Burundi, Djibouti, Kenya, Laos, Myanmar, Sierra Leone, Somalia, Tajikistan, Yemen, and Zambia (underlined countries are also fragile states)

Source: Author's own table based on OECD (2013a, 10) and OECD (2012b)

These patterns might only signal that under-aided countries are receiving lower levels of funding than other countries from bilateral sources. However, there is evidence suggesting that multilaterals are also compensating by allocating greater shares of aid to recipients neglected by bilateral donors. In their analysis of aid flows to difficult partner countries, Levin and Dollar (2005) find that bilateral donors assigned DPCs 58 per cent less aid than their population, poverty and institutional performance would suggest. On the other hand, multilateral donors allocated 34 per cent more than the expected volume to these recipients. However, the compensatory role played by multilateral donors seems not to have been sufficient, since, overall, these countries received 43 per cent less aid than suggested by the size of their populations, the levels of their poverty and the quality of their institutions. Utz (2010, 22) argues that multilateral aid seems to partly compensate for neglect by bilateral donors in 25 per cent of the cases, and this result holds both for the entire group of countries identified as under-aided and for the subset of fragile states.

Multilateral donors seem thus to be compensating for neglect by bilateral donors, but not for all countries and not enough. Moreover, multilateral donors' compensatory role does not appear to be driven by a conscious effort to allocate larger shares of their aid to countries that receive disproportionally low amounts of aid from bilateral donors. Indeed, allocations by multilateral donors are in large part determined by allocation formulas that allow only limited flexibility in allocation decisions (Davies / Klasen 2013, 8).

Multilateral donors play an important role in low-performing countries also because much of the bilateral aid that goes to these countries flows through multilateral agencies (OECD 2013a, 14). These often represent a channel for bilateral donors to assist low-performing countries through earmarked funding (i.e. aid that bilateral donors allocate to specific projects implemented by multilateral institutions). In 2010, 12 per cent of total ODA (US$ 16.7 billion), though counted as bilateral, was channelled through and implemented by multilateral agencies. Over half of this earmarked funding went to fragile and conflict-affected low-income countries (OECD 2011b, 4). Moreover, bilateral donors increasingly provide aid to fragile states through multi-donor trust funds that collect contributions from many donors and administer them under a single governance structure, generally managed by multilateral donors such as the World Bank (Barakat / Rzeszut / Martin 2012, 10).

3.6 The potential compensatory role of donors not reporting to the DAC

Analyses of aid allocations and its efficiency are generally based on data from the OECD DAC Creditor Reporting System (CRS) database[30] (Nielson / Powers / Tierney 2009, 4). This is the case also for the OECD watch list. However, neglect by donors reporting to the DAC could be, at least in part, compensated by aid flows from other donors, such as emerging countries and private actors.

It is estimated that new donors such as China, India and Brazil provide around US$ 15 billion yearly, and that this flow could grow to more than US$ 50 billion by 2025 (Kharas / Rogerson 2012, 14). Flows from private sources also account for considerable aid volumes. The Index of Global Philanthropy and Remittances estimates that in 2010, total private aid from all private donors amounted to US$ 56 billion, an increase of US$ 3 billion from the previous year. This includes funding from NGOs, foundations, corporations, universities and religious organisations (Hudson Institute 2012). The total funding gap for all aid orphans in the OECD list is estimated to be US$ 11.8 billion, or 12 per cent of total country programmable aid (OECD 2013a, 19).[31] Given the large size of the gap, it is unlikely that other donors could be filling it unless they concentrated the majority of their resources in the countries figuring in the watch list. However, the increasing weight of non-traditional donors requires taking their allocation patterns into account when assessing whether or not a country can be considered over- or underfunded.

Unfortunately, information on aid allocation by non-DAC official and private donors is very scarce (Sinha / Hubbard 2012; Lundsgaarde et al. 2012, 69). Emerging donors often do not have data of the quality expected by the DAC reporting system, or may be reluctant to share politically or commercially sensitive information about their allocation patterns (Lawson 2013, 21). Some new donors, such as China and Saudi Arabia, are eager to keep

30 Beyond the members of the DAC and most major multilateral organisations, the following countries also report their aid to the DAC: Bulgaria, Chinese Taipei, Cyprus, Estonia, Hungary, Israel, Kuwait, Latvia, Liechtenstein, Lithuania, Malta, Poland, Romania, Russia, Saudi Arabia, Slovak Republic, Slovenia, Thailand, Turkey, United Arab Emirates.

31 This figure represents an average of the total funding gaps for all under-aided countries according to the four different allocation models used in the OECD methodology.

allocation patterns secret in order to avoid pressure from the governments of those countries that are receiving less than others (Nielson / Powers / Tierney 2009, 31). Private donors often do not have reliable data on their allocations. Moreover, they may be reluctant to report the data they have for fear that they will not compare favourably to other reporting NGOs, and because of the possible consequences of such reporting on their fundraising activities (Lawson 2013, 22). Lack of reliable information on the distribution of non-DAC aid makes it difficult to properly assess their role in the phenomenon of aid orphans.

3.6.1 Cross-country aid allocation by official donors not reporting to the DAC

Official donors that do not report to the DAC are mainly Arab oil-producing countries and emerging economies in Latin America and Asia. The role of Arab and Latin American donors in countries identified as under-aided appears to be rather limited, as both groups focus predominantly on their neighbours in the Middle East and in Latin America, respectively (Kragelund 2008, 259–262), whereas under-aided countries are located in SSA and in South East Asia.

New Asian donors, on the other hand, might be providing a compensatory role for the countries on the watch list. For these donors as well, aid flows appear to be directed mostly towards neighbouring countries (Dreher / Nunnenkamp / Thiele 2011), with the objective of exploiting positive spillovers and mitigating conflict and instability in fragile states (Kharas / Rogerson 2012, 14). Although this suggests that security concerns influence aid allocations from traditional and non-traditional donors alike, geographical proximity might induce new donors to concentrate on fragile states that are not considered security priorities by DAC donors.

As for allocation patterns by Asian donors in Africa, the extent to which emerging donors might be compensating for neglect by DAC donors is unclear. Kragelund (2008, 577) finds that, in Africa, emerging donors tend to concentrate on the same donor darlings as DAC donors, directing most of their aid to countries such as Ethiopia, Kenya and Mozambique. At the same time, the author also notes that some new donors also give aid to countries that tend to be neglected by DAC donors.[32] For African countries, a particularly important donor is China, which in 2009 allocated 45.7 per cent of its aid to the continent (Grimm et al. 2011, 8). Opinions diverge with regards to China's allocation patterns in Africa. Some (Lum et al. 2009; CCS 2008; Berthélemy 2009; Taylor 2007) argue that Chinese aid is predominantly allocated to resource-rich and strategically important countries, regardless of the quality of their governance. Dreher and Fuchs (2011) find no evidence that Chinese allocation patterns are primarily driven by the search for natural resources. However, their results indicate that democracy and good governance did not play a role in China's cross-country allocations. Berthélemy (2009, 15) remarks that Chinese disinterest in recipient countries' institutional quality results in large shares of Chinese aid being directed towards low-performing recipients that receive little aid from traditional donors. Asche and Schüller (2008, 84) describe the Chinese approach in Africa as driven by the search for strategic gaps, niches and fissures. This could lead China to allocate larger shares of aid to countries neglected by DAC donors. On the other hand, Bräutigam (2011) does not see China as being radically different from traditional donors in its allocation patterns.

In conclusion, among donors that do not report to the DAC, only emerging Asian donors might be compensating sometimes for neglect by traditional donors, and mainly in fragile countries. Kharas and Rogerson (2012, 14) claim that, considering the difficulties faced by traditional donors in providing assistance to fragile states, new donors could have a particularly important role in those countries. However, Berthélemy (2009, 15) points out that new donors' engagement in countries characterised by weak institutions might undermine attempts by DAC donors to provide strong incentives for reform.

The rise of emerging countries could also produce increased aid flows towards fragile and low-performing recipients in three indirect ways: first, although they still prefer channelling aid through their bilateral programmes (Xu 2012, 2), new donors are increasingly contributing to multilateral agencies (OECD 2011b, 6; OECD 2012b, 17), and these tend to allocate relatively large shares of aid to low-performing countries (OECD 2011b, 7). Second, by graduating to MIC status, emerging economies are freeing up

32 Among the countries in the OECD watch list, Burkina Faso is a priority country for India and Taiwan; Malawi for Taiwan; Togo for Saudi Arabia; and Madagascar for Thailand (Kragelund 2008, 578).

much of IDA's resources, which will likely be reallocated to fragile states (Severino / Moss 2012). The same can be said about aid coming from other sources as well. Finally, traditional donors might be induced to engage more in difficult partner countries if they fear that emerging donors might gain large political and commercial influence in those countries (Tierney et al. 2011, 10).

3.6.2 Cross-country aid allocation by private donors

Despite the growing role played by aid from private sources, the literature on cross-country allocations is mostly limited to ODA. The little evidence available deals with allocation patterns by NGOs and does not suggest that private aid might be targeting countries neglected by official donors. With the exception of Nancy and Yontcheva (2006), who find that European NGOs allocate predominantly based on needs and that they even direct aid to recipients neglected by official donors, most of the evidence suggests that NGOs are following rather than substituting ODA (Dreher / Mölders / Nunnenkamp 2007; Koch et al. 2011; Koch 2007). Koch (2007) argues that NGOs' tendency to concentrate on the same countries as official donors contributes to the aid darling / aid orphan divide. The author finds that while recipients such as Nigeria, Guinea-Bissau, Togo, India, Moldova and the CAR are widely neglected by bilateral donors and NGOs alike, countries such as Uganda, Mozambique, Nicaragua, Tanzania and Peru see concentrations of both bilateral and NGO aid (Koch 2007, 17).

The pressure for achieving quick results in order to obtain access to funding induces NGOs to prefer engaging in relatively well-performing countries (Monteiro 2007), and NGO engagement in difficult environments tends to be concentrated in high-profile countries such as Afghanistan or Haiti (World Bank 2011a, 183). Moreover, risk-pooling and economies of scale make it attractive to implement activities in countries where other NGOs are operating, which leads to the formation of clusters of NGOs (Koch 2007, 3).[33]

33 NGOs' tendency to concentrate in the same countries might be increasing efficiency if, as pointed out by Koch (2007, 3), clustering creates economies of scale that reduce the cost of delivering aid. Therefore, imbalances in the distribution of NGO aid are not necessarily inefficient *per se*. What seems to be problematic is the tendency of NGOs and official donors to neglect the same set of countries.

With regards to private foundations, most of these appear to be concentrated predominantly on middle-income countries and tend to avoid engaging in LICs (Marten / Witte 2008) or in politically unstable environments (Esser / Bench 2011, 16). In general, private donors' compensatory role for countries neglected by DAC donors seems to be rather limited.

3.7 Should more aid be allocated to aid orphans?

Up to this point, the analysis has treated the countries in the watch list as a homogeneous group. The fact that most countries in the list are fragile and located in SSA made it relevant to discuss how these common characteristics might be influencing the volume of aid they receive. However, assessing whether more aid should be directed to countries identified as potentially under-aided is not possible without highlighting the differences between them. As Jones, Riddell and Kotonglou (2004, 23) point out, the group of under-aided countries also presents broad differences that call for different forms of engagement by donors. From the perspective of the efficient allocation of aid, these differences have to be taken into account not only to understand which instruments might work best in the different environments, but also to assess whether or not it would make sense to allocate larger shares of aid to these countries (ODI 2006, 4).

3.7.1 Countries considered under-aided by both needs- and performance-based approaches

Obviously, the first group is the least controversial. The fact that these recipients are considered under-aided both from a needs-based and from a performance-based perspective suggests that they could use increased levels of aid efficiently. Increasing the level of funding for the countries in this first group seems to be associated with low levels of risk and with opportunities for efficiency gains. Bigsten, Platteau and Tengstam (2011, 147–152) estimate at EUR 7.8 billion the increased value for EU aid that would come from reallocating EU aid from low-performance aid darlings to neglected countries with high needs and relatively good institutions (Bigsten / Platteau / Tengstam 2011, 147–152). Prizzon and Greenhill (s.a., 4) point out that carrying out the reallocation from orphans to darlings proposed by Bigsten, Platteau and Tengstam (2011, 147–152) represents by far the largest source of efficiency gains that would come from a full implementation of the aid-effectiveness agenda.

3.7.2 Countries considered under-aided only according to performance-based approaches

Some of the countries in this group, such as Ethiopia and Uganda, were among the top 20 aid receivers in 2010 (UN 2012, 15) and are actually considered aid darlings by some (Jones / Riddell / Kotonglou 2004, 27). Directing larger amounts of aid to countries that already receive more than other countries with equal or higher needs can be criticised on equity grounds. But the potential risks and opportunities associated with increased volumes of aid to these countries can also be discussed from an efficiency point of view.

Every country, even the best-performing one, has limited absorptive capacities, which implies that aid will have decreasing returns to scale (McGillivray 2003, 20; Bourguignon / Sundberg 2006, 4). Jones, Riddell and Kotonglou (2004, 27) point out that, because of this reason, increased aid, for example to Uganda, might not be very effective. Decreasing returns to scale are already integrated in the Collier-Dollar (2001) formula[34] included in the OECD methodology as one of the models used to identify under-aided countries. However, the Collier-Dollar model does not take aid dependency into account. Excessive aid flows might create difficulties in macroeconomic management and undermine the recipient government's incentives to strengthen its own tax base and develop strong accountability chains to its citizens (Clemens / Radelet 2003; Moss / Pettersson / van de Walle 2006; Moyo 2009). This, however, will depend on the type of aid: for example, a country can readily absorb larger amounts of debt relief, which does not imply additional expenditures for the government. Proposed ceilings on

34 The "growth-efficient allocation" proposed by Collier and Dollar (2000) works with the assumption that aid has decreasing returns to scale. The allocation model aims at equalising the marginal effectiveness of aid across countries, meaning that every extra aid-unit in any country will reduce poverty by the same amount as in any other recipient. The weight given to institutional performance in the proposed allocation formula implies that aid should be allocated predominantly to countries with good institutions. However, decreasing returns to scale also imply that it would be inefficient to concentrate aid only on a small number of strong performers.

aid levels should thus consider different types of aid separately (Lensink / White 1999, 22–23). Also, aid can be delivered in ways that increase recipient countries' absorption capacities and limit aid-dependency problems (Lensink / White 1999, 22–23; Bourguignon / Sundberg 2006).

3.7.3 Countries considered under-aided only according to needs-based approaches

A clear risk associated with engaging in countries from this last group is that aid might not be very effective in weak institutional environments (Winters 2010, 427). Increased volumes of aid can even have negative consequences in fragile states due to low absorptive capacities in these countries (McGillivray 2005, 4). A recent experience by the World Bank in Chad is a good example of how engagement in those environments can result in massive failures: revenues from a World Bank-financed pipeline project that were supposed to finance health and education were instead used by the recipient government to buy arms (European University Institute 2009, 25). However, focusing on recipients that minimise the risk of failure and reputational risks for donors might also lead to inefficient allocations in terms of poverty reduction (Svensson 2005). Inefficiencies from neglecting recipients considered to be poor performers might arise from underestimations of the performance of the recipient, of the potential for implementing successful aid programmes and of the risks associated with non-engagement.

a. Underestimating the recipient's performance

It might be that some countries are not considered under-aided according to performance-based approaches only because donors underestimate these countries' performance. Assessing the quality of governance is a very complex task (Fukuyama 2013), and donors might easily underestimate the ability of a recipient to use aid effectively. A recent report on budget support to fragile states by the World Bank, the African Development Bank and the European Commission acknowledges that systematic assessments of the volume of aid in the form of budget support a country can effectively absorb are rare (World Bank / AfDB 2011, 20). Even when proper assessments are carried out, donors tend to overlook countries where weak macroeconomic management coexists with relatively well-functioning institutions, and where aid could be effective in promoting human development

(ODI 2004, xiii). Moreover, perceptions of a recipient's performance might in part reflect the country's political, security and/or aid relations with the donor community. Donors might label a recipient as a poor performer as an excuse for not engaging in the country (ODI 2004, xiii). Recent evidence (Hailu / Tsukada 2011, 11–12) shows that countries with very low CPIA scores, such as the CAR, were among the top performers in making progress towards the MDGs.[35] Given the difficulty of assessing performance, there is an argument for increasing aid volumes for countries whose per capita aid receipts are far below the average aid receipts for countries with similar degrees of need, even if they present relatively low CPIA scores (Utz 2010).

b. Underestimating the potential for effective aid in difficult environments

The evidence suggests that aid can be very effective in post-conflict contexts (Collier / Hoeffler 2002, 8–9; Elbadawi / Kaltani / Schmidt-Hebbel 2007; Demukaj 2011) and in countries affected by structural vulnerability (Collier / Dehn 2001, 10; Guillaumont 2008, 16; Gunning 2008). Post-conflict countries and countries affected by structural vulnerability are likely to be countries with bad institutions (Guillaumont 2008, 18; McGillivray 2005, 1). Collier and Chauvet (2004) find that aid other than technical assistance can have a very large impact in LICUS countries. McGillivray and Feeny (2008) find that, once highly fragile countries (those in the bottom CPIA quintile) are excluded, the average impact of aid programmes does not differ between fragile and non-fragile countries. The OECD claims that the success rate of aid programmes in fragile states has been improving over the last two decades and is increasingly comparable to that in more stable environments (OECD 2012a, 63). Still, aid programmes will arguably fail more often in fragile than in non-fragile states. But when they succeed, the returns are likely to be far greater because the needs also are (World Bank 2011a, 218).

35 Hailu and Tsukada (2011, 8–11) assess progress towards the MDGs across countries and rank Burkina Faso as top performer, followed by Angola and the CAR. Most of the top 20 performers are LDCs in SSA, but among LDCs in Asia, Nepal and Myanmar (both countries on the OECD watch list) stand out. Comparing this ranking with the aid orphan watch list, it can be observed that whereas Burkina Faso and Nepal are considered under-aided also from a performance-based approach, the CAR and Myanmar, with a CPIA score of 2.8 and n.a., respectively, are not.

c. Underestimating the risks of non-engagement

Accountability to domestic constituencies leads donors to concentrate on the risk of engagement in badly run countries rather than on the risks of inaction (World Bank 2011a, 201). The risks associated with non-engagement, however, suggest that neglecting countries where aid is less effective might not be efficient in the long term. Boyce and Forman (2010, 14–15) argue that even if one accepts that aid in difficult environments is much less effective, an argument can still be made for increased engagement in fragile states if carefully delivered aid can help prevent conflict. Although the assumption that aid can prevent conflict is questionable, allocating aid to low-performing countries might still be an efficient choice if one considers the phenomenon of downward spirals, which often lead to the worsening of conditions in fragile states (World Bank 2011a). It is possible that aid will be less effective once a country has started on a downward spiral. In this case, waiting until the recipient's needs become so large that they cannot be overlooked would not be an efficient use of aid resources. Collier and Chauvet (2004, 5) estimate the costs of falling into LICUS status to be on average US$ 82 billion, a figure greater than the annual global aid budget. These costs are born in large part by the country's neighbours. Indeed, neglecting a country might generate negative spillovers that undermine the effectiveness of aid programmes in other countries (Marysse / Ansoms / Cassimon 2006, 12; World Bank 2011a, 277; Jones / Riddell / Kotonglou 2004, 14; Gunning 2004, 52).

However, as McGillivray (2005, 4) points out, risks alone do not provide an argument for allocating more aid to countries with bad institutions if donors are not able to deliver aid effectively in those contexts. Rather, acknowledging the risks associated with non-engagement should encourage greater efforts in developing effective aid instruments for working in difficult environments.

3.8 Conclusions and policy recommendations for under-aided countries

Diverging opinions on how aid should be allocated make it difficult to assess which countries receive insufficient aid with regards to an efficient allocation of aid resources. However, it is also possible (OECD 2013a) to identify a group of countries that can be considered under-aided according to formulas derived from both needs-based and performance-based approaches to aid allocation. If one accepts the OECD watch list, it appears that the group of potentially under-aided countries is composed in large part of fragile states in SSA. The existence of countries that can be considered under-aided with respect to both their needs and their performance points to underlying weaknesses in the aid architecture. In particular, the phenomenon exposes a general lack of coordination among donors concerning allocation decisions, and a reluctance to engage in low-performing countries that have limited strategic importance for donors. This causes inefficiencies in the cross-country allocation of total aid resources.

Four important steps to address the problem of under-aided recipients are: agreeing on clear principles for identifying under-aided countries; improving donor coordination; leveraging additional funding; and engaging more in difficult environments.

3.8.1 Agreeing on a common definition of "under-aided" countries

Addressing the problem of under-aided countries first requires developing a common understanding of who they are, and how to identify them. Donors have committed in Busan to agree by end of 2012 *"on principles that will guide our actions to address this challenge"* (BPd §25c). Defining such principles is the first – overdue – step.

The OECD watch list that monitors potentially under-aided countries represents a useful instrument for the international community to work towards a common understanding of what "insufficient aid" means. However, the OECD itself stressed that the watch list needs to be complemented with a case-by-case analysis of flagged countries, and cannot serve as the only tool used for identifying recipients receiving insufficient aid. A country's presence on the list does not necessarily mean that the country receives low volumes of aid or that it could efficiently use more aid. Moreover, the reasons for disproportionally low amounts of aid receipts can differ widely from country to country, ranging from limited absorptive capacity for aid, to lack of strong political and commercial ties to donor countries, to uncoordinated aid allocations, to donors' reactions to undemocratic changes in receiving countries. These different causes call for very different responses. Donors should thus avoid "automatically" allocating more aid to the countries on the list. Rather, detailed case studies should be conducted in order to identify the specific causes of relatively low aid volumes and highlight risks and opportunities of directing larger aid flows to those recipients. Closer examination of potentially under-aided countries will also allow for taking into account other criteria that are not considered in the watch list, such as a country's economic vulnerability, as well as the availability of other resources beyond aid for financing development. Case studies will also enable a better assessment of the countries' performance beyond the CPIA index, which might not be a sufficient predictor for absorption capacities.

Besides complementing it with case studies, as proposed by the OECD, the watch list could be enhanced in two ways: first, it could give equal weight to needs and to performance. At the moment, one of the two allocation formulas used to represent the needs-based allocation approach, is the "equal aid per capita" allocation formula, which is, strictly speaking, not needs-based. To make it more needs-based, the "equal aid per capita" allocation formula could be substituted with "equal aid per poor person".

Second, the watch list could be completed by a second list that highlights the most serious cases of "insufficient aid". Countries in the watch list are ranked not according to the size of their estimated funding gaps, but on the number of criteria under which they can be considered under-aided. This means that the list is not suited for setting priorities by highlighting the most urgent cases of "insufficient aid". This second list would be compiled using the same criteria and methodology, but rank countries on the basis of their per capita average funding gap.[36]

Many donors understand "under-aided countries" in a much more literal sense than the OECD: as countries receiving low absolute volumes of aid or

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36 Since the funding gap depends on the size of the country and of its population, it should be calculated per capita and not in absolute terms. This ranking should also be limited to countries considered under-aided according to both needs- and performance-based approaches. The funding gap is calculated as an average of the funding gaps derived from each of the four allocation formulas considered in the OECD methodology. Allocations in one formula could thus heavily bias the overall results. For example, if the funding gap is 5 billion for one formula and 0 for the other three models, the average gap would still be 1.25 billion, even though the remaining three formulas would suggest that the country is not under-aided. Restricting the ranking to countries identified as under-aided by both needs- and performance-based approaches would avoid that countries are identified as under-aided according to only one model figure in the ranking before countries considered under-aided from multiple perspectives.

where few donors are active. Since these are mostly fragile states, there is a tendency to equate the problem of "under-aided" countries with that of fragile states. However, the problem of under-aided countries seems to concern a sub-group of fragile states that lack strategic importance for donors, so the phenomenon is unlikely to be addressed by allocating larger shares of aid to the group of fragile states as a whole. Strengthening the needs component of the watch list and creating a ranking that highlights urgent cases might help in creating momentum and making the list more compelling and intuitive for policy-makers.

3.8.2 Improving coordination in cross-country aid allocations

The identification of under-aided countries should be coupled with increased efforts by donors to coordinate their aid allocations. Identifying under-aided countries is a retrospective exercise, and inefficiencies in aid allocation have already occurred once those countries are recognised as aid orphans. Therefore, information on aid allocations should be shared at an earlier stage, and donors should consider global aid allocations when deciding on the distribution of their own aid resources.

Establishing an effective cross-country DoL would help in tackling the problem of under-aided countries by preventing donors from uncoordinatedly clustering in some countries while abandoning other recipients. However, efforts to reduce fragmentation in the frame of DoL might have a perverse effect on the phenomenon of under-aided countries if specialisation by individual donors on a limited number of countries occurs in an uncoordinated manner. In order to avoid the emergence of new aid orphans and further reductions in aid volumes for already under-aided countries, it is crucial to implement the process of specialisation in a well-coordinated manner.

Donors should adopt allocation formulas that allow them to factor in information on other donors' allocations. This does not necessarily mean that donors will see their allocations determined by other donors' allocation patterns, since bilateral donors generally use allocation formulas merely as a guideline that allows for large amounts of discretion and flexibility in allocation decisions. Rather, information on the global distribution of aid could be used by individual donors as a guide for an effective allocation of their own aid. Each donor could still unilaterally decide whether or not to take this information into account when making decisions on how to distribute aid resources.

For "traditional donors", the OECD could play an important role in fostering this ex-ante coordination. First, it should continue pushing for a full disclosure of donor-specific indicative forward spending plans. Second, the DAC peer review could focus more on allocation decisions in its assessment of bilateral donors' development cooperation systems, increasing the peer pressure on donors to adopt transparent allocation formulas. For European donors, the European Commission could also help in fostering coordination in aid allocation. Increased coordination and information-sharing should be pursued also with non-DAC official and private donors. The Global Partnership for Effective Development Cooperation, which brings together all main development actors, should capitalise on its inclusive character to encourage participation in coordination efforts by non-DAC donors.

Coordination will be insufficient and difficult to achieve if strategic interests continue to influence aid allocations, but increasing transparency in aid allocations is a good step forward. Both the sharing of forward spending plans and the adoption of clear allocation criteria could foster transparency and make politically-driven allocations more difficult to justify.

3.8.3 Finding additional sources of funding for under-aided countries

At the moment, even after under-aided recipients are identified, it is unclear who should be responsible for allocating increased aid to those countries, and where the funding should come from. Against the current backdrop of falling aid budgets, allocating more ODA to countries identified as receiving insufficient aid will be difficult without reducing the amounts of aid directed to other countries. Although studies that deal with the issue of under-aided countries generally recommend reallocation of aid, they also note that this might not be politically feasible (Levin / Dollar 2005; Bigsten / Platteau / Tengstam 2011, 147–152; Bigsten / Tengstam 2012, 11–17). Guillaumont (2008, 23) argues that changing allocation patterns will be possible only in the context of a scaling-up of aid, which would allow donors to modify the distribution of aid without reducing absolute amounts for any country or group of countries. Moreover, the Accra Agenda for Action clearly states (§17) that division of labour should not result in a reduction of aid received by individual countries. Therefore, even if overfunded countries can be identified (e.g. Bigsten / Platteau / Tengstam 2011, 147–152), from which it might be efficient to reallocate aid to under-aided ones, it is necessary to explore other possible sources of funding that could be directed to countries receiving insufficient aid. Two of the recommendations expressed above can be helpful also from this perspective.

Reducing fragmentation: Reduced fragmentation could benefit under-aided countries in two ways. On the donor side, it would result in savings from reduced transaction costs, savings that could be allocated to under-aided countries. On the recipient side, reduced transaction costs would imply increased value, even if absolute volumes of aid remain unchanged. In line with efforts to reduce fragmentation, increased engagement in under-aided countries could also happen through delegation to other donors (although care must be taken to avoid that countries end up relying on an excessively low number of donors).

Increasing information-sharing: Besides providing the basis for effective coordination, increased information-sharing could improve the predictability of aid flows (OECD 2012b, 19–20). This would benefit, in particular, under-aided countries, which experience volatility rates twice as high as other LICs. Adopting conservative estimates, the World Bank (2011a, 196) calculates that reducing volatility by 30 per cent would provide an additional value of US$ 27–39 million yearly to each fragile and/or conflict-affected recipient country. As noted above concerning reduced fragmentation, increased predictability would increase value even if absolute amounts of aid were maintained.

A large share of funding received by aid orphans already comes from multilateral sources. However, multilateral donors already resent the pressure of being forced to increasingly engage in difficult partnership countries where bilateral donors are terminating aid programmes (OECD 2011b, 7). They might thus be reluctant to assume the role of funders of last resort. Since multilateral agencies are likely to keep playing a crucial role in delivering aid to low-performing and fragile states, bilateral donors could direct funding to under-aided recipients by making earmarked contributions to multilateral donors. Resources for additional funding to multilateral organisations could come from the savings from reduced fragmentation mentioned above. Earmarked funding should have a very large thematic focus in order not to impose unnecessary restrictions that might undermine the work of multilateral institutions. Bilateral donors could also allocate larger aid shares to already defined multilateral programmes that target countries identified as under-aided, or to trust funds managed by multilateral organisations. Using the multilateral channel would be a relatively easy way for bilateral donors to increase assistance to low-performing recipients. Moreover, it would avoid increases in fragmentation that would result if bilateral donors were to open new programmes in under-aided countries.

Finally, both donors and partner countries should explore ways to leverage other sources of finance beyond aid. The scope for increasing the amount and/or the developmental impact of other types of public and private resources will vary from country to country, and should be an integral part of the case studies mentioned earlier. Great developmental needs do not necessarily have to be met by large flows of ODA, but aid could be used to leverage foreign direct investment, remittances and domestic resources. An example of the potential catalytic role of aid would be capacity development for improving the government's resource mobilisation capacity. Moreover, aid could be used in a catalytic way for tapping resources from the private sector and fostering its contribution to future development achievements. ODA could also play a role in lowering the price that migrants incur when sending remittances back home.

3.8.4 Engaging in difficult environments

Most under-aided countries are fragile states, and their neglect can be, at least in part, attributed to donors' reluctance to engage in difficult partner countries. Allocating small shares of aid to weak performers can sometimes be justifiable in terms of efficiency. However, the risks and opportunities associated with different levels of engagement in fragile states should be taken into account as well. Donors should assess more systematically the risks of not intervening, as well as the regional and global externalities that might result from neglecting low-performing recipients. In general, the problem of "under-aided" countries does not seem to be a high priority for donors. Creating momentum to address the problem is likely to be easier by highlighting the risk of non-engagement in neglected countries.

However, delivering aid effectively in difficult environments remains a challenge. Donors could allocate aid to regional development programmes such as regional infrastructure and regional administrative and economic cooperation (World Bank 2011a, 283). As pointed out by Kenny (2006, 5), increased funding for regional and global public goods such as medical and agricultural research could support development in fragile states without involving their institutions. But this will not be a real solution for the problem of under-aided countries. Besides channelling additional aid to fragile states through multilateral donors and multi-donor trust funds, donors who are reluctant to engage directly could also create incentives for NGOs to focus more on difficult environments, for example by increasing the share of funding allocated to NGOs that work in fragile contexts. Most importantly, donors should make increased efforts towards developing appropriate models for working in difficult environments. Finding the right type of aid for delivering aid effectively to low-performing countries is not only important *per se*, but might also induce donors to allocate larger volumes of aid to difficult partner countries. This is particularly important in view of the increasing concentration of the poor of the world in fragile states.

4 Under-aided sectors

4.1 Chapter overview

After underlining the importance of an efficient sectoral aid allocation for aid effectiveness, this chapter discusses possible approaches to cross-sector aid allocation, and proposes referring to national strategy documents as a benchmark for assessing the efficiency of sectoral aid allocation. Using the sector definition from the OECD-DAC CRS,[37] the chapter offers an overview of sectors that attract relatively few donors and low volumes of ODA,

37 The OECD-DAC CRS subdivides aid activities into the following sectors: education (including basic education; secondary education; post-secondary education); health (general health; basic health); population and reproductive health; water and sanitation; government and civil society; conflict prevention and resolution, peace and security; other social infrastructure and services; transport and storage; energy generation and supply; banking and financial services; business and other services; agriculture; forestry; fishing; industry; mineral resources and mining; construction; trade policy and regulations and trade-related adjustment; tourism; multisector/cross-cutting (including general environmental protection; and other multisector such as urban development and management; rural development; and non-agricultural alternative development). More detailed information can be found at: http://www.oecd.org/investment/stats/purposecodessectorclassification.htm#bottom.

completed by an assessment of the possible compensatory role played by official and private donors that do not report to the DAC. Possible reasons for donors' tendency to crowd in some sectors while neglecting others are then examined. Finally, some conclusions and policy recommendations for under-aided sectors close the chapter.

4.2 Why could under-aided sectors undermine aid effectiveness?

The existence of under-aided sectors can undermine aid effectiveness for two main reasons: first, aid might be very effective in currently neglected sectors. The difficulty of comparing needs and performance across sectors makes it difficult to assess whether aid allocated to sectors that are currently receiving lower volumes of aid would be more effective than aid to other sectors. However, if the reasons for neglecting certain sectors are not linked to efficiency considerations, it is possible that additional aid would be more effective in "orphan sectors" than in overcrowded "darling sectors". Decreasing returns to scale and high transaction costs in sectors where large numbers of donors are engaged (Álvarez /Acharya 2012, 22) lead some authors (Schulz 2007, 7; Frot / Santiso 2010) to argue that orphan sectors present better opportunities for effective aid interventions.

Second, the existence of spillovers across sectors suggests that neglecting certain sectors might have negative consequences on the development of a country as a whole (Mürle 2007, 36), and even undermine progress in the targeted sectors. For example, improvements in health require taking action on gender equality, education and job creation as well (Esser 2009). Neglecting investments in sectors such as infrastructure, which can generate positive externalities and help in raising productivity, might increase the cost of achieving results in health and education (Bourguignon / Sundberg 2006). This applies at the sub-sector level as well. For example, Mold, Olcer and Prizzon (2008) note that rural development programmes often fail because complementarities between promoting increased agricultural production and supporting the creation of a better market infrastructure for agricultural products are not sufficiently taken into account. Similarly, Samuels and Rodríguez-Pose (2013, 2) argue that it will be impossible to achieve MDGs such as improved maternal and child health without allocating more resources to the fight against neglected tropical diseases (NTDs).[38]

4.3 Sector allocation should be assessed at the country level

The efficiency of sector allocation can be discussed at the global level (whether total aid for a specific sector is allocated efficiently across countries) or at the country level (whether the total country envelope is allocated efficiently across sectors).

Various empirical analyses (e.g. Thiele / Nunnenkamp / Dreher 2007; Kasuga 2008, 6–7; Nielsen 2010; Esser / Bench 2011, 18; Ravishankar et al. 2009, 2113; Powell-Jackson et al. 2006, 1274; OECD 2012c, 5; Colclough 2011, 5) focus on the first question and find that the cross-country allocation of total aid for a specific sector often does not reflect the distribution of needs in that sector across developing countries. For example, the allocation of aid for water and sanitation is only weakly related to the relative degree of need for water and sanitation across recipient countries (measured as access to improved sanitation or drinking water) (Zipper / Hofbauer / Verhoeven 2010, 18; UN Water 2010, 24; OECD 2012c, 5). Countries with lower water service coverage do not receive more aid for water and sanitation relative to other countries. There is often not a good correspondence between the geographical distribution of a specific need across all countries, on the one hand, and the allocation of total aid for that sector across countries on the other hand.

However, this arguably is a problem regarding under-aided countries rather than under-aided sectors. Indeed, the largest discrepancies between the need for water and sanitation and aid volumes received for that sector (as a share of global aid allocated to the water and sanitation sector) were found in Chad, Togo, Somalia and Laos (OECD 2012c, 5), all of which appear in the OECD watch list of potentially under-aided countries (OECD 2013a, 10).

Here, an under-aided sector is not to be understood as a sector in country A that receives less aid than the same sector with equal or lower needs in country B. Rather, a sector within a recipient country might be considered

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38 The five main NTDs, accounting for about 90 per cent of the NTD burden, are: soil-transmitted helminth infections (ascariasis, trichuriasis, hookworm); lymphatic filariasis; onchocerciasis; schistosomiasis; and trachoma (Samuels / Rodríguez-Pose 2013, 2).

under-aided relative to other sectors in the same country. There might thus be “orphan” sectors within “darling” countries.

4.4 Can sectoral aid allocation be assessed by applying performance- or needs-based allocation approaches?

Needs- and performance-based approaches to aid allocation have been developed with reference to cross-country aid allocation. The following sections discuss their applicability to the allocation of aid resources across sectors and sub-sectors.

4.4.1 Applying performance-based allocation approaches to sectoral aid allocation

Adopting a performance-based approach to cross-sector aid allocation would require comparing the impact of aid across different sectors. However, this is almost impossible. Most studies that assess aid effectiveness do it either by analysing the impact of aggregate aid on economic growth in recipient countries (e.g. Collier / Dollar 2001; Dalgaard / Hansen / Tarp 2004), or by looking at particular sectors (e.g. Christensen / Homer / Nielson 2010 for education; Gebhard et al. 2008 and Álvarez / Acharya 2012 for health).

Akramov (2012) makes an attempt at comparing the relative effectiveness of aid to different sectors in achieving poverty reduction through economic growth. The author finds that aid to the productive sectors is more effective in promoting growth than aid targeted at social sectors, and consequently argues for a reallocation of aid from education to agriculture and productive infrastructure. At the sub-sector level, Asiedu and Nandwa (2007) find that, in low-income countries, aid to primary education promotes growth, whereas this is not the case for aid to post-primary education. In middle-income countries, on the other hand, aid to higher education enhances growth, whereas aid to primary and secondary education even has an adverse effect on growth.

Recently, however, an increasing number of authors (McGillivray 2003; Clemens / Radelet / Bhavnani 2004; Guillaumont 2008; Christensen / Homer / Nielson 2010, 7) have argued that the discourse on effective aid allocation should shift away from the impact of aid on poverty reduction through growth promotion. In particular, since the adoption of the MDGs, the effectiveness of aid can be judged against MDG goals such as improved health and education, independently from its ability to foster economic growth. Clemens, Radelet and Bhavnani (2004) show that only aid to some sectors can possibly have an effect on the recipient's GDP in the short- to medium term, whereas it might take much longer for interventions in other sectors to have an impact on growth. Therefore, the authors stress the need to evaluate aid effectiveness based not on the ability of aid to promote growth, but on sector-specific outcomes such as improvements in school enrolment rates, reductions in child mortality, etc. But the problem remains that it is impossible to compare and weigh outcomes across sectors: How much literacy equals a certain reduction in child mortality?

One could think that – for sectors, as for countries – aid will be more effective if there are well-functioning institutions to manage it. Thus, if the agricultural ministry is better run than the health one, aid to agriculture could be considered potentially more effective than aid directed to the health sector. Anecdotal evidence on "islands of excellence" (Bersch / Praça / Taylor 2012) suggests that there might be large differences in performance across institutions in the same country. But scarce availability of data makes it hard to assess the institutional quality of different public entities within developing countries (Fukuyama 2013, 8).

Another difficulty is posed by the fact that different time frames might lead to different conclusions about the relative performance of aid to different sectors. For example, if the objective is to reduce the number of under-nourished children, distributing food is probably the most effective intervention within a short time frame. In the mid-term, however, it could be more effective to foster agricultural productivity. A long time-horizon, on the other hand, might suggest that educating women is the intervention with the largest impact on children's nutrition. Similarly, MacKellar (2005, 18) notes that, over the long term, the most effective way to reduce deaths from injuries is not providing assistance to the health sector but improving workplace and road safety.[39]

39 One way to account for varying time frames among different uses of resources can be to compare the value of benefits delivered in the short term with benefits delivered after several years. This can be expressed by the "discount rate": the higher the discount rate donors choose to adopt, the faster they will consider the value of every dollar to be diminishing, leading them to value short-term impact more highly (Development Initiatives 2013, 99–100).

Besides being difficult to answer, the question of which sectors should be prioritised in order to improve aid effectiveness might be misplaced. The existence of spillovers across areas implies that even if one was able to compare performance across sectors, allocating most aid to the best-performing sectors and neglecting others might not be the most efficient allocation.

4.4.2 Applying needs-based approaches to sectoral aid allocation

Several studies compare needs in specific sectors across countries (Thiele / Nunnenkamp / Dreher 2007; Nielsen 2010; Esser / Bench 2011, 18; Ravishankar et al. 2009, 2113; Powell-Jackson et al. 2006, 1274; OECD 2012c, 5), but almost none compares needs across sectors within countries. Indeed, it is difficult to see how the need for clean water can be compared to the need for better health care. One study that compares needs across sectors is that of Kasuga (2008), who ranks needs in each sector for each recipient country by using the World Bank's World Development Indicators (WDI). The author argues that a larger share of country envelopes should be directed to sectors in which each specific recipient country presents particularly low WDI scores (relative to other sectors in the same country). The paper assesses aid allocation by DAC bilateral donors across eight major sectors in individual recipient countries against indicators that measure the recipients' need for aid in each of the analysed sectors. Kasuga's results suggest that sectoral allocation often does not reflect what the author calls the "national development priorities" of recipient countries. The author argues that, due to an over-investment in the social sectors, most of the times sectoral allocation is not aligned to recipients' needs. Kasuga importantly remarks that it is impossible to compare the effectiveness of aid across sectors, and that the most efficient allocation will therefore be the one that is most in line with national priorities (Kasuga 2008, 3). However, it is unclear why he derives the recipients' national development priorities from a ranking of needs constructed from WDI, instead of referring to national strategy documents such as the Poverty Reduction Strategy Papers. National development strategies lay out country-owned development plans aimed at identifying receiving countries' developmental needs and the strategies to address these (Harrison / Klugman / Swanson 2005, 2).

An alternative approach for comparing needs across sectors could be to measure the distance from different MDGs for every recipient country. This would, as in Kasuga's paper, make it possible to compare needs across different sectors. Areas that are furthest away from reaching the respective MDG target would then be eligible for a larger share of the total country envelope (Anderson 2008, 27). However, since the MDGs are objectives adopted at the global level, they might not entirely reflect the specific needs and development priorities of individual recipients (Bigsten 2006, 10). Fukuda-Parr (2008, 3–4) points out that using the MDGs as planning targets for resource allocation might lead donors to neglect individual recipients' particular needs, and be in contrast with the promotion of country ownership (which is also an MDG goal). Given the potential discrepancies between national development strategies and the MDGs (Bigsten 2006, 10), and the influence of donors' own priorities in shaping the latter (Halonen-Akatwijuka 2004, 5), documents laying out national development strategies appear as the most reliable basis for an assessment of recipients' specific sectoral needs.

4.4.3 Assessing sectoral allocation against national development strategies

Considering the challenges of comparing performance and needs across sectors, the efficiency of sector aid allocation can be assessed with reference to its alignment[40] to the priorities laid out in the national development strategy papers periodically[41] developed by recipient countries.

Besides offering a good basis for identifying a country's needs, referring to national development strategies for assessing sectoral aid allocation can also be justified from a performance-based perspective. Because national development strategies are designed by recipient countries themselves, one can expect relatively high ownership for the goals expressed in those doc-

40 The first two principles of the aid effectiveness agenda are ownership (developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption) and alignment (donor countries align behind these objectives and use local systems) (OECD 2008). Alignment is one of the most fundamental ideas underlying the Paris Declaration and implies that donors should focus more on what recipient countries need and less on what donors themselves would like to provide (Woods 2011, 15).

41 National development strategy documents generally have a time span of four to five years, similar to the country strategy papers developed by most donors.

uments (Harrison / Klugman / Swanson 2005, 2).[42] Since ownership has been recognised as increasing aid effectiveness (Wood et al. 2011), funding directed to the sectors identified as national priorities by the recipient government can be considered more effective than aid targeted at areas where the recipient government will be less willing to cooperate. Misaligned aid can be very ineffective due to recipient governments' unwillingness or inability to ensure the sustainability of aid interventions[43] (Bigsten 2006, 16–17; Easterly 2002, 10; OED 1999, 2–3). From this perspective, an efficient allocation of aid would maximise alignment to the priorities laid out in national development strategies.

Moreover, referring to country-specific development strategy documents will also allow taking into account the role of private and public resources beyond aid. As in the case for cross-country allocations, the efficiency of aid allocation across sectors will also depend on the availability of other resources beyond aid for financing development in specific sectors. Some sectors might be already sufficiently targeted by private investments, for example, or the government might have the possibility to finance those through non-concessional loans instead of ODA. Assessments of this kind are difficult to carry out by making reference only to need indicators.

The Paris Declaration envisages that recipient countries' strategic priorities identified in national strategy papers should be linked to a medium-term

42 Opinions diverge about the degree to which national strategy documents are "owned" by recipient countries. Indeed, the often weak participatory nature of theses documents' formulation and the influence of donors' preferences on the process weaken the ownership of national strategy documents, as will be discussed in more detail below. However, goals laid out in national strategy documents are still likely to present a higher degree of ownership than objectives set unilaterally by donors.

43 Alignment is particularly important for aid-funded infrastructural investments that require the government to finance subsequent operational costs. Bigsten (2006, 16–17) notes that because of their preference for financing infrastructure investments, donors tend to leave the responsibility for recurrent expenditures to the partner government. For example, donors generally prefer building schools to financing textbooks or teachers' salaries (Easterly 2002, 10). Since recipient governments often fail to finance maintenance and operational costs, this practice often results in rapidly deteriorating roads, understaffed hospitals, etc. (Bigsten 2006, 16–17; OED 1999, 2–3). The discussion on donors' preference for infrastructure investments refers to the choice of the type of good financed within a specific sector, rather than to cross-sectoral aid allocation. However, the choice of sector is important as well, because the government can be expected to be more willing and able to finance recurrent expenditures of infrastructure investments in sectors that it considers national priorities.

expenditure framework and reflected in annual budgets (PD §14). Although only a minority of first-generation national strategy papers contained appropriate costing of activities and annual spending requirements for the different sectors (Hester et al. s.a., 7; Bonnel / Temin / Tempest 2004, 15; IMF 2004, 33–34; World Bank / IMF 2004, 29–30; Mullen 2005, 4–5), many second- and third-generation development strategies now present priority targets with clear financial requirements specifying the amount of external assistance needed (OECD 2011a, 30–31; IMF / World Bank 2007, 4). Even among LDCs, many countries have recently made considerable progress in preparing strong national development strategy documents (UN 2011, 30). An under-aided sector can thus be understood as a sector for which the gap between the external funding envisaged in national strategy papers and the aid volume actually received is substantially larger than for other sectors.

The volume of aid might not perfectly reflect donors' relative efforts in different sectors. Indeed, some activities might be less expensive than others, and some of the most important activities can be very cheap (Boyce / Forman 2010, 22). For example, food aid is cheaper than support for infrastructure, so the volume of aid might not always reflect the donor's relative effort in the two sectors (Hidefumi 2008, 8). However, different average costs for activities in different sectors will be reflected in the financing requirements of national development strategies, and donors' relative effort in a sector could be judged appropriate if it matches the requirements for external funding set out in these documents.

However, using national development strategies as a benchmark for assessing aid allocation also has important drawbacks: first, because the participatory nature of the national development strategy formulation process cannot be taken for granted (Rocha Menocal / Rogerson 2006, 12; McGee / Levene / Hughes 2002, 12; IMF 2004, 24; Driscoll / Evans 2005, 7; OECD 2011a, 32–35), these documents might omit some very urgent needs. A number of areas that touch on the needs of the most vulnerable groups, such as gender equality, human rights and hunger, are frequently given low priority in national development strategies (Oxfam 2004, 6; Fukuda-Parr 2008). On the other hand, there can be a trade-off between broad participation in the process of identifying national priorities and the government's ownership of the resulting strategy document. National development strategies that reflect the needs and views of the most vulnerable and discriminated groups in society might focus on areas where the government is not particularly willing to cooperate.

A second weakness of adopting national strategy documents as benchmarks for assessing sector aid allocations is that power asymmetries between donors and recipient governments can distort the definition of national priorities (Walt et al. 1999, 215; Esser 2009; Sridhar 2010, 6; Fraser 2005; IMF 2004, 23). It has been noted (Driscoll / Evans 2005, 11–12; OECD 2011a, 31) that donors' preference for the social rather than the productive sectors has encouraged prioritisation of the health and education sectors in national strategy papers.

Third, well-articulated national strategies against which sectoral aid allocation can be assessed are lacking in some countries, especially in fragile states (European University Institute 2009; OECD 2011a, 43–44; UNDP 2011, 9–11).

Finally, a focus on national strategy papers might lead donors to overlook the potential of investing in global and regional public goods. Recipient governments tend to prioritise country-specific public goods (Birdsall 2004, 20–21), although there is widespread agreement that areas such as regional infrastructure – but also agricultural and medical research – tend to be under-aided compared to the benefits they are likely to carry (OECD 2003a; Birdsall 2004, 20–21; Kenny 2006, 5; Zavale et al. 2011, 44).[44]

Despite these drawbacks, national development strategies are arguably the best benchmark against which sector allocation within recipient countries can be assessed. Indeed, national development strategy documents offer a relatively good indication of sectoral needs within a specific country. Moreover, the impact of aid is likely to be higher if donors respect the principles of ownership and alignment. Finally, it is to these documents that donors have committed to align their aid.

4.5 Fungibility and the degree of donors' influence on sectoral aid allocation

When analysing aid allocation across sectors, it is important to acknowledge that, due to aid fungibility, donors might actually not be able to fully determine the use of aid resources. Fungibility means that donors cannot

44 However, donors do consider global public goods in their allocation decisions (see section 4.8.3).

ensure that the allocation of aid for a certain purpose actually results in increased funding for that purpose (McGillivray / Morrissey 2004). The government might use aid money for other items, or reduce allocation of its own resources for the area that is already covered by aid (Boone 1995; Feyzioglu / Swaroop / Zhu 1998; Morrissey 2006).

Having argued that aid will be more effective the more it is aligned to national priorities could lead us to the conclusion that fungibility is not a concern. Indeed, fungibility might be seen as allowing the recipient government to distribute aid resources in line with its own priorities. Some authors (McGillivray / Morrissey 2004; Mavrotas / Ouattara 2006, 21; Devarajan / Rajkumar / Swaroop 2007; Morrissey 2012, 15) argue that donors' concern over the fungibility of aid is not fully justified and that the threat fungibility poses to aid effectiveness is overstated. Waddington (2004, 704) argues that by moving their own resources away from areas prioritised by donors, recipient governments might sometimes actually be increasing the efficiency of overall resource allocation by avoiding duplication. For example, the author notes that, during the 1980s, aid for the health sector disproportionally targeted primary health care, which led recipient governments to direct their own resources predominantly towards the neglected area of curative care.

However, governments in developing countries might pursue other objectives besides development, and there is no guarantee that recipient governments will adhere to national development strategy documents in their use of resources (Kolstad 2005; Winters 2010, 427–428). Thus, some authors argue that the developmental impact of aid is reduced by recipient governments' tendency to shift resources away from areas targeted by donors (Hoven 2009; Kolstad 2005).

Not everyone agrees that aid money tends to crowd out government expenditure for the targeted sectors: a predominantly empirical strand of the fiscal federalism literature suggests the existence of the so-called flypaper effect, describing the tendency of federal grants to crowd in – rather than crowd out – expenditure by lower-tier governments on targeted areas (Aragon 2008, 1). Tamura et al. (2005, 4) argue that the phenomenon applies also to international aid, and that aid dollars *"stick where they hit"*. The flypaper effect might weaken the effect of fungibility. Indeed, empirical studies suggest that aid is fungible, but not completely. Foreign aid directed to a specific sector thus increases funding for that sector, although often not to the full amount envisaged by donors (Easterly 2008, 43; Feyzioglu / Swaroop / Zhu 1998).

Assuming that aid is in part, but not entirely, fungible suggests two considerations with regards to alignment: on the one hand, because it is difficult for donors to eliminate fungibility by using different aid instruments (Hefeker 2006; Gunning 2008; Leiderer 2012), the best option for dealing with fungibility is to align their assistance to national priorities in order to reduce recipient governments' incentives to exploit the partial fungibility of aid (Caputo / de Kemp / Lawson 2011, 6). On the other hand, because of the flypaper effect, misaligned aid can result in unsustainable and inefficient initiatives, as was noted in previous sections (Bräutigam 2000, 44; Mavrotas / Ouattara 2006, 24; Bigsten 2006, 16–17).

In conclusion, the issue of fungibility underlines the importance of aligning sectoral aid allocation to the recipient's own development strategies. Aid that is well-aligned to national priorities seems less likely to be diverted to other uses and/or to finance interventions whose effectiveness will be undermined by lack of sustainability.

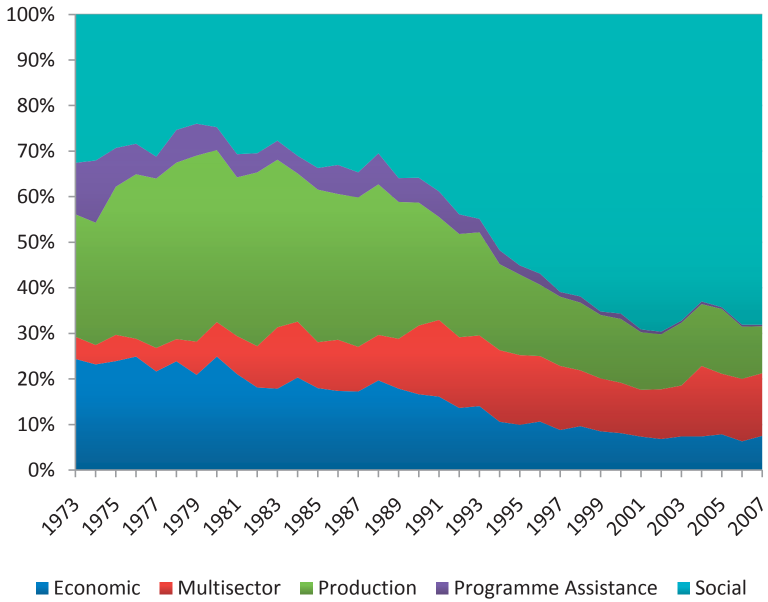
4.6 Identifying under-aided sectors

Previous sections have argued for assessing the efficiency of sectoral aid allocation against its alignment to national development strategies. Because these are country-specific, identifying under-aided sectors is a country-specific exercise that goes beyond the scope of this study. At the same time, donors tend to consistently neglect some sectors, such as agriculture or productive infrastructure, that are often given high priority in recipient countries' national development strategies (UN 2011, 25–29; Fukuda-Parr 2008, 7). Donors' preference for the social sectors at the expense of productive ones hinders the alignment of external assistance (UN 2011, 26; Bigsten 2006, 11; Wood et al. 2008, 17). The group of orphan sectors is thus likely to be quite similar across countries.

Therefore, sectors that donors tend to neglect at the global level are also those that are more likely to be orphan sectors within developing countries. It is thus relevant to analyse donor sectoral preferences at the global level. Despite variations in sector allocation across donors (Thiele / Nunnenkamp /

Dreher 2007, 3),[45] current overall allocation of aid tends to favour social sectors over productive ones, as the graph below illustrates.

Figure 2: Project sector repartition, 1973–2007, commitments

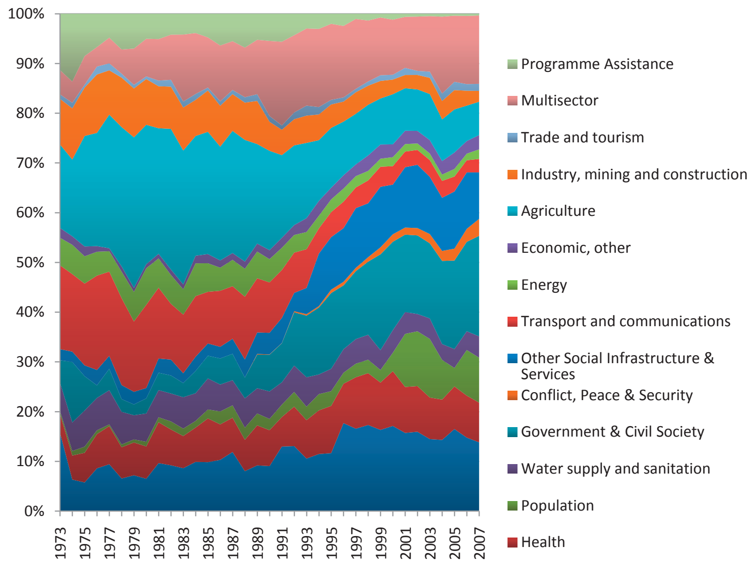


Source: Frot and Santiso (2010, 17)

A finer breakdown shows how the sectors "government and civil society" and "population", have seen their share of projects grow, whereas "agriculture" and "transport and communication" experienced a dramatic decrease, as illustrated in the graph below.

45 The aggregated sectoral distribution of aid masks considerable variations across donors. For example, the share of aid allocated to the social sector from 2002 to 2004 ranged from 23 per cent in the case of Japan to 50 per cent for Norway (Thiele / Nunnenkamp / Dreher 2007, 3).

Figure 3: Project sub-sector repartition, 1973–2007, commitments



Source: Frot and Santiso (2010, 17)

Donors generally do not have an explicit formula for distributing aid across sectors (Kasuga 2008, 4). However, donors' sectoral preferences can be inferred both from the distribution of donors across sectors within recipient countries, and from the allocation of total aid across sectors.

4.6.1 Comparing the number of donors across sectors

Frot and Santiso (2010) analyse the distribution of DAC donors across sectors in all recipients for the year 2007 and note that most donors tend to crowd in the sectors of health, education and governance, while neglecting sectors such as agriculture, infrastructure and energy. The average number of donors engaged in the "education" and in the "government and civil society" sectors was 12, compared to only 6 for "agriculture" and "water and sanitation", 5 for "transport and communications", and 4 for "trade and tourism" (Frot / Santiso 2010, 29). This can lead to misalignment of external assistance. For example, in Zambia, one of the countries where progress on in-country DoL is considered to have gone furthest (EC 2011, 7), donors disregarded the government's expressed desire to have a balanced distribution of donors across sectors with a maximum of five donors for each sector. Instead, donors kept crowding in some sectors (e.g. "macro-economics" has 13 active donors) and neglecting others (e.g. "housing" has no active donor) Leiderer (2013, 14).

The neglect of some sectors can be particularly serious in countries where few donors are engaged. Frot and Santiso (2010, 33–34) compare the number of donors present in each sector in Tanzania and Belize, respectively identified by the authors as an aid darling and an aid orphan country. The authors emphasise the differences between the countries, showing that for every sector, many more donors were engaged in Tanzania than in Belize. However, it is interesting to also highlight the similarities in the sectoral aid allocation of these two countries: in both countries, many more donors were engaged in the social than in the production sectors or in the sector of water and sanitation. Since Belize has fewer overall donors than Tanzania, this means that the neglected sectors have few donors in the case of Tanzania, none in the case of Belize.

4.6.2 Comparing aid volumes across sectors

The presence of many donors in a given sector is generally associated with larger volumes of funding for that sector (Christiansen et al. 2007, 40–41). However, looking only at the number of donors engaged in a sector might in some cases be misleading. Large numbers of donors do not always correspond to large volumes of aid, and vice versa. In fact, while having certain sectoral preferences, aid agencies also tend to cover a wide range of sectors (Easterly 2002, 24–26). Therefore, there might be cases of under-aided sectors where many donors are providing relatively little amounts of aid.[46]

At the global level, however, aid volumes across sectors are distributed in a similar way to the distribution of donors across sectors, with the productive

46 For instance, in Malawi the "water and sanitation" and the "agriculture" sectors have large numbers of active donors (16 and 15 donors, respectively, against an average of 10 donors per sector) (Government of Malawi 2010, 18), but these sectors still receive only 4 per cent and 7 per cent, respectively, of total ODA, as compared to 32 per cent for health (Government of Malawi 2010, 40–42).

sectors having experienced sharp reductions in aid volumes in favour of the social sectors over the last decades, and particularly since the adoption of the MDGs in 2000 (Anderson 2008, 7). The share of aid directed to social sectors quickly rose from about 20 per cent in the period 1990–1992 to about 35 per cent in the 2002–2004 period. This dramatic increase was the result of higher spending on education, health and population programmes, though not on water and sanitation. By contrast, funding for infrastructure and agriculture fell sharply (Thiele / Nunnenkamp / Dreher 2007, 3). Aid to the productive sectors also tends to be affected by higher volatility than aid to the social sectors (Hudson 2012, 20). Below is a brief description of funding trends for the sectors that appear to be neglected relative to other sectors by donors.

<u>Agriculture:</u> The real value of aid to agriculture has declined substantially over the past decades. This occurred mostly during the 1980s and the 1990s: the proportion of sector-allocable aid directed to the "agriculture, forestry and fisheries" sector first fell from the high levels of the late 1970s to only 20.2 per cent during the 1987–1989 period, and then plummeted further to 12.5 per cent from 1996 to 1998 (Lipton 2000). The share of ODA going to agriculture tends to be particularly low in fragile states. Striking examples are Burundi and Guinea-Bissau, where agriculture's share of ODA is around 1 per cent, although more than 90 per cent of these countries' workforce is employed in the sector (Boyce / Forman 2010, 16–18). This trend has recently been reversed, with funding doubling from US$ 4 billion in the mid-2000s to just over US$ 8 billion in 2010. However, aid to agriculture is still just 5 per cent of total ODA commitments, and well below the levels it enjoyed in the 1970s (Elliot / Collins 2012, 2).

Productive infrastructure: Although accounting for an average of 29.5 per cent of ODA from DAC bilateral donors from 1973 to 1990, aid to productive infrastructure has declined subsequently to its current level of 10 per cent of bilateral aid (Tierney et al. 2011, 9). This has occurred despite repeated calls by African leaders for foreign support to meet Africa's infrastructure needs, which are estimated to be costing one percentage point per year of per capita GDP growth (Foster et al. 2008). However, aid to productive infrastructure has enjoyed a renaissance since 2004 (Nielson / Powers / Tierney 2009), increasing to an average of 13.6 per cent for the 2007–2009 period, compared with an average of 10.2 per cent for the period 2002–2006 (UN 2011, 26). In 2009, multilaterals allocated 18 per cent of their aid to "economic infrastructure and services" as compared to 14 per cent by bilateral donors (OECD 2012b, 68). Nielson, Powers and Tierney (2009, 29) argue that differences between multilateral and bilateral donors with regards to sectoral allocation patterns have partially prevented an even more serious neglect of productive infrastructure.

Water and sanitation: Despite the focus on social sectors, the provision of water and sanitation has been largely neglected. Of the US$ 42,447 million bilateral DAC commitments to "social infrastructure and services" in 2011, water and sanitation received only US$ 4,877 million (OECD 2013a). A recent study on foreign assistance for water and sanitation reported that many partner countries lamented a general under-funding of the sector by donors, despite the high priority assigned to the area in these countries' national strategy papers (OECD 2012c, 116). Aid allocated to water and sanitation has been growing since 2001 at an average annual rate of 5 per cent in real terms, with an annual growth of 7 per cent from bilateral donors and of 3 per cent from multilateral donors (OECD 2010b, 2). ODA allocated to water and sanitation increased slightly more quickly than total ODA in the 2007–2010 period, but it fell again in 2011. In relative terms, the share of aid allocated to water and sanitation is still minimal compared with volumes directed to health and education (Development Initiatives 2013, 302).

Sub-sectors: Discrepancies between national priorities and the distribution of aid can be observed at the sub-sectoral level as well. For example, within the already under-aided water and sanitation sector, sanitation accounts for only a small percentage of aid committed to the sector (Thiele / Nunnenkamp / Dreher 2006; UN Water 2010, 29).

Donors' preference for some areas at the expense of others can be found also in "darling" sectors. In the education sector, for example, basic education only accounts for 29 per cent of total aid. Very little goes to secondary education, whereas post-secondary education receives the largest share of ODA. Moreover, ODA disbursements to post-secondary education mostly finance scholarships in donor countries for students from developing countries (Development Initiatives 2013, 292).

In the health sector, Álvarez and Acharya (2012, 8) note that the increase in aid for the health sector from US$ 5.82 billion in 1990 to US$ 27.73 billion in 2011 was due in part to the sharp rise in funding for HIV/AIDS, whose share of development assistance for health went from 10 per cent in 2000 to almost 40 per cent in 2007. The fight against HIV/AIDS also emerges as a clear priority from most national development strategies (Fukuda-Parr

2008, 7). However, donors' preference for funding HIV/AIDS rather than other diseases seems to be unrelated to the importance that recipient countries assign to HIV/AIDS relative to other diseases. MacKellar (2005) finds that countries whose national development strategies did not prioritise infectious diseases are not less likely than other countries to see the development assistance for health they receive predominantly directed to the fight against HIV/AIDS and other infectious diseases. Several studies (OECD 2009b, 15; Fukuda-Parr 2008, 7; Sridhar 2010, 6) argue that donors' focus on HIV/AIDS and other infectious diseases often creates discrepancies with national priorities in the health sector because it leads donors to neglect areas such as child and maternal health. For example, in Rwanda in 2005, aid targeted at HIV/AIDS was 22 times the volume spent on mother-child health (IMF / World Bank 2007, 18).

Unlike other sectors, in the case of health it is possible to compare needs across sub-sectors by comparing the burden represented by different diseases in terms of Disability Adjusted Life Years (DALYs). Therefore, it might be that donors are not allocating in accordance with national development strategies, but rather with the DALY measure, which offers a clear indicator of needs. However, this does not seem to be the case. Shiffman (2006) examines funding for 20 communicable diseases from 42 donor organisations from 1996 to 2003, and finds that financing is weakly related to the burden level of different diseases expressed in terms of DALY. Even after taking into account important elements such as projected change in disease incidence, health system capacities and the cost of intervention, striking imbalances can still be observed in allocation patterns. Acute respiratory diseases, for example, represent more than 25 per cent of developing countries' burden – nearly as high as AIDS – and yet less than 2.5 per cent of funding is invested in fighting those diseases. Measles represents more than 9 per cent of the burden but receives only 1.7 per cent of the aid for health (Shiffman 2006, 88). One health sub-sector that is considered to be severely under-aided compared to the burden it represents is nutrition (MacKellar 2005, 18; Levine / Kuczynski 2009; DfID 2009; 2012).

4.7 The role of donors not reporting to the DAC

As with the previous chapter on under-aided countries, the analysis up to this point has been based on DAC data. However, whereas some non-DAC donors such as eastern European countries report their aid flows to the DAC, this is generally not the case for emerging powers and private donors. The growing relevance of new and private donors makes it important to discuss their sectoral allocations as well. The following sections analyse the role of emerging countries and private donors in the phenomenon of under-aided sectors.

4.7.1 Cross-sector aid allocation by official donors not reporting to the DAC

Middle Eastern donors and emerging economies in Latin America and Asia focus mainly on productive rather than on social sectors, and in particular on infrastructure and energy (Kragelund 2008). Many authors (Foster et al. 2008; Berthélemy 2009, 27–28; Commission for Africa 2010; Kharas / Rogerson 2012, 14; Tierney et al. 2011, 8–9; Asche / Schüller 2008, 43) argue that investments in infrastructure and agriculture by new donors are, in part, offsetting traditional donors' neglect of these sectors. Tierney et al. (2011, 8–9) calculate that since 2000, aid to productive infrastructure has accounted for only 10 per cent of total development assistance (excluding debt relief) from DAC bilateral donors. However, once multilaterals and donors not reporting to the DAC are included in the calculation, the share of ODA going to the sector rises to 15 per cent. Although the precision of estimates of this kind is undermined by the lack of information on non-DAC donors' allocations, they still suggest that these donors' investments in infrastructure partially offset the decline in infrastructure projects from DAC donors.

Recipient countries' governments emphasise their appreciation for Chinese aid in particular by pointing out that it brings much-needed investments to the infrastructure and the agricultural sectors (Foster et al. 2008, vii; The Economist 2009; Greenhill / Prizzon / Rogerson 2013, 27). Moreover, by creating competition among donors and strengthening the recipient government's bargaining position, new donors' engagement can sometimes also lead DAC donors to further align their assistance to national strategies and priorities (Gore 2013, 777; Walshe Roussel 2013).

However, new donors' compensatory role is limited. First, aid by new donors tends to be concentrated in a relatively small number of countries (Dreher / Nunnenkamp / Thiele 2011; Kharas / Rogerson 2012, 14). Thus, sectors neglected by DAC donors remain under-aided in countries that are not targeted by emerging donors. Second, new donors do not cover all sectors neglected by DAC donors. Focused on supporting productive rather than social infrastructure, emerging donors are not particularly engaged in water and sanitation (Foster et al. 2008, 53).

4.7.2 Cross-sector aid allocation by private donors

Similarly to official DAC donors, aid from private sources is in large part directed to the social sectors (Ravishankar et al. 2009, 2121; Esser 2009; UN 2012, 24). Most NGOs are active in the sectors of health and education (Werker / Ahmed 2008). However, NGO aid appears in some cases to be directed to neglected sub-sectors within the social sectors, such as non-communicable diseases (Nugent 2010, 14).

As for private foundations, these focus predominantly on health (Marten / Witte 2008, 85). In 2010, US foundations allocated 53 per cent of their resources to health, followed by the sectors “economic growth and trade” (21 per cent), “democracy and governance” (15 per cent), and “education” (8 per cent) (Hudson Institute 2012, 11–12). Despite their focus on health, the compensatory role of private foundations seems to be greater than that of NGOs. Foundations are considered to be sometimes filling a niche by directing their resources to areas neglected by official donors (Marten / Witte 2008, 85; Lundsgaarde et al. 2012, 55–56). For example, private foundations played a considerable role in agricultural and medical research, especially concerning crop development and infectious diseases. To a lesser extent, foundations have also been active in the supply of water and sanitation (OECD 2003b, 1). However, even if they aim at filling niches, private foundations’ resources are dwarfed by ODA and are certainly insufficient for filling global funding gaps (Lundsgaarde et al. 2012, 11; Greenhill / Prizzon / Rogerson 2013, 30).

4.8 Underlying causes for the emergence of under-aided sectors

DAC donors’ tendency to neglect some sectors suggests that these areas present a number of characteristics that make them unattractive for donors. Combined with insufficient information-sharing on each others’ allocations, similarities in DAC donors' sectoral preferences make misallocation of aid resources more likely (Halonen-Akatwijuka 2004, 2–3). More generally, the overcrowding of some sectors and the neglect of others points to a lack of coordination among donors engaged in the same countries (Frot / Santiso 2010). The sections below first discuss which factors shape donor sectoral preferences, and then how the unattractiveness of certain sectors combines with the lack of donor coordination.

4.8.1 Visibility concerns

Cross-sector aid allocation is influenced by donors' need to provide visible results to their domestic taxpayers (Easterly / Williamson 2011, 27–28). Aid agencies are accountable to taxpayers in their home countries, but these rarely are in a position to properly assess the effectiveness of aid programmes. This induces aid agencies to choose interventions with the highest visibility in order to demonstrate the successes of their engagement and guarantee continued funding (Nunnenkamp / Öhler / Thiele 2011, 12; Vollmer 2012). Some sectors are more suited for this purpose than others. Social sectors in particular are ideal for small projects with relatively low fixed costs that offer the possibility to achieve easily attributable and quick results, whereas this is not the case for sectors such as productive infrastructure or agriculture (Frot / Santiso 2010, 30).

Schulz (2007, 6) notes that donor preferences are influenced by the appeal that different topics have for public opinion in the North. For example, microfinance and women's empowerment were popular in the 1990s, whereas climate change adaptation and renewable energy are the new "sexy" areas every donor wants to be engaged in. The author notes that sanitation is not an attractive topic for northern taxpayers and has therefore been chronically under-aided. Indeed, visibility plays a role also at the sub-sectoral level. Donors appear to focus on selected targets that receive more attention in the public debate, such as HIV/AIDS, whereas less publicised goals such as the immunisation against measles remain rather neglected (Thiele / Nunnenkamp / Dreher 2007). Little spending on medical and agricultural research is also partly attributable to these areas' lack of visibility (OECD 2003a; Birdsall 2004, 20–21; Kenny 2006, 5; Zavale et al. 2011, 44).

Emphasis on observable outputs not only makes some sectors more attractive than others, but also influences the types of goods financed within a sector, as indicated by donors' preference for infrastructure investments over financing operational costs (Waddington 2004, 703; Bigsten 2006, 16–17). Donors tend to overspend on building schools and hospitals and under-spend on maintenance and staffing: building schools is a more visible action than financing textbooks (Easterly 2002, 10).

Emerging donors' and private foundations' readiness to target some neglected areas can be seen in light of their relative independence from the pressure of providing visible results. Grimm et al. (2011, 26) note that for Chinese taxpayers, the pressing question is why China gives aid to other countries while still suffering from so much poverty at home. Aid must therefore be justified in terms of "mutual benefits" for both the recipient country and for China, rather than through the achievement of development results in poor countries (Grimm et al. 2011, 26). This might lead Chinese aid to prioritise trade and resource extraction rather than the social sectors. As for private foundations, their independent funding sources allow them to invest in risky and not very visible long-term activities such as medical and agricultural research (OECD 2003a, 19–22). Greater independence from public opinion, as compared to official aid agencies, also gives them the possibility to engage in sensitive areas that might contrast with certain currents of public opinion. This is the case for biotechnology, for example, which is an area where official donors are reluctant to enter due to its controversial character (OECD 2003a, 19–22).[47]

Visibility plays a role in the relative neglect of some sectors, not only because it makes the less-visible sectors unattractive, but also because – by making donors reluctant to exit visible sectors (Knack / Rahman 2008, 14) – it poses serious obstacles for the achievement of in-country DoL. Donor coordination is also made difficult by the fact that the pursuit of visibility encourages uncoordinated "cherry-picking" of attractive projects by donors (Vollmer 2012, 38).

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47 However, Lundsgaarde et al. (2012, 56) suggest that there might also be an alternative explanation for private foundations' niche-filling role: small organisations such as foundations have an incentive to focus on very specific neglected issues where they can "make a difference" and show their impact. In this case, the possibility to achieve visible and attributable results would play an important role in the choice of sector foundations engage in. Esser and Bench (2011, 17) argue that concerns about visibility and measurability influence sub-sectoral allocations in the health sector by official donors and private foundations equally.

4.8.2 Strategic interests

Efficient allocation across sectors is undermined by the fact that aid is a foreign policy tool that is shaped by commercial interests, the quest for energy security the fight against illegal immigration, the need for security, etc. (Schulz 2007, 6). Nielsen (2008) finds that whereas domestic industries in donor countries have only limited influence on cross-country aid allocation, they significantly affect the composition of aid in favour of the sectors and sub-sectors from which they stand to benefit most. In the health sector, for example, sub-sectoral allocation is influenced by the potential for pharmaceutical companies to profit from drug sales for certain diseases (Álvarez / Acharya 2012, 22).

But there is also a more subtle type of interest that influences cross-sector allocation: Bermeo (2010) argues that the promotion of development in poor countries has a strategic importance for donors due to the growing phenomenon of spillovers from recipient to donor countries in an increasingly interconnected world. Her “strategic development” argument, which refers to donors’ tendency to predominantly target those recipients whose spillovers are more likely to affect donor countries, can also help in explaining donors’ preference for certain sectors over others. In this sense, larger shares of aid would be directed to those sectors that affect well-being in donor countries more directly, such as environmental conservation or the control of infectious diseases. The health sector offers a good example of the influence of strategic interests in cross-sector aid allocation: Esser (2009) argues that large increases in aid to the health sector can be attributed at least to some extent to donors’ growing fears of negative health spillovers from developing countries. This becomes particularly visible at the sub-sectoral level: funding for health rose largely because of increased resources directed to the fight against HIV/AIDS (Álvarez / Acharya 2012, 8). Aid targeted at controlling the disease saw a sharp increase after 2000, when the Clinton administration defined HIV/AIDS as a national security threat because of the risk that the illness could produce political instability in developing countries (Shiffman 2006, 82). MacKellar (2005, 25) and Feldbaum and Michaud (2010) argue that funding within the health sector is related to the perceived threat that diseases pose for donor countries, rather than to the burden that different diseases represent within individual recipient countries. Thus, infectious diseases received higher political attention and larger funding than other health priorities such as chronic diseases, road traffic injuries and the social determinants of health. Neglected tropical diseases are mostly non-communicable, and thus do not pose a threat to health in donor countries (Samuels / Rodríguez-Pose 2013, 1).

The recent revival of aid to agriculture – from US$ 4 billion in the mid-2000s to just over US$ 8 billion in 2010 – has also been linked to the sector's growing importance for donor countries (Elliot / Collins 2012, 1). After decades of neglect, agricultural development resumed some importance in donor agendas in the wake of the food price spikes in the 2007–2008 period (Umbadda / Elgizouli 2013, 6). Political interest in agriculture was reawakened also by the riots that sharp increases in food prices sparked in many developing countries (Barrett / Bellemare 2011, 2–3). Considerations of this kind might be behind the focus on agriculture by new donors as well: growing domestic demand and rising global food prices are among the reasons why new donors are investing in the African agricultural sector (The Economist 2009; Asche / Schüller 2008, 43). Since food security is becoming a pressing global issue, China has made grain production in particular a top priority of its aid programmes (Berthélemy 2009).

Although promoting agricultural production or fighting HIV/AIDS is also in the interest of recipient countries, a focus on areas that affect well-being in donor countries might induce donors to neglect other sectors that are also crucial for recipient countries' development.

4.8.3 Organisational incentives and the institutional context

The lack of strong national and international institutions responsible for a certain area can also contribute to its neglect. Although the failure of assigning clear responsibility is itself the result of a lack of political attention towards a certain area, it is also true that without responsible bodies that push for a certain issue, political prioritisation is unlikely to occur (Shiffman / Beer / Wu 2002). Whenever responsibility for a sector does not clearly lie with a lead government ministry, department or agency, it becomes unlikely that public resources will be specifically allocated to that sector (UNDP 2011, 6). This is the case especially for areas that are split between various institutional entities, which produces unclear responsibilities among ministries in partner countries, within donor agencies and also at the global level.

An example is water and sanitation, whose neglect stands in contrast with the current focus on social sectors. Because it includes water supply, sanitation, hygiene and resource management, in most countries responsibility for the water sector is split between different ministries (Zipper / Hofbauer / Verhoeven 2010, 21). Especially in SSA, it is often not clear as to which institution should lead on a particular issue, for example sanitation, and assume responsibility for the outcome (UN Water 2010, 38–39). At the donor level, the interrelatedness of the water sector with many other areas (UN Water 2010, 14) can lead donor agencies to allocate relatively little funding to the sector. Indeed, the various departments that are touched by an issue will not have an incentive to invest in it because such spending will not be very effective unless investments are made also from all other departments involved (GDPRD 2011, 14). At the global level, only a few players concentrate on water and sanitation. A vertical fund exclusively dedicated to water and sanitation, the Global Sanitation Fund, started working in 2008, but with only very limited funding. The inter-agency UN Water is responsible for coordinating water issues, but there is no lead UN body for the sector at the national level (DfID 2009). A similar pattern can be found in the agricultural sector, in which responsibilities for the provision of agricultural extension services, market infrastructure, rural roads, clean water, etc., are usually spread across various ministries, international organisations and departments within donor agencies (GDPRD 2011, 7–14).

Another example is nutrition. The neglect of nutrition is interesting because the area actually presents many characteristics that should make it attractive for donors: undernutrition is an easily understandable problem that moves public opinion in northern countries, not least because it affects children and women disproportionally (MacKellar 2005, 18). Moreover, all the available evidence suggests that interventions to improve nutrition are particularly cost-effective and are among those with the highest rates of success (DfID 2009). But efforts to improve nutrition necessarily span different sectors, such as agriculture, health, gender equality, water and sanitation, etc. Evidence also suggests that efforts to improve nutrition have been forthcoming and highly successful in the few countries where clear institutional responsibilities for fighting hunger were identified (Acosta / Fanzo 2012, 18). However, both at the national and international levels, hunger generally seems to be *“everybody’s business and nobody’s responsibility: a political, administrative and institutional orphan”* (DfID 2009, 35). At the national level, the fact that the problem affects in particular the poorest social groups, whose political voices and lobbying capacities tend to be weak, induces political leaders to assign low priority to the area (DfID 2009, 35). This is the case not only for undernutrition, but also for most NTDs (Samuels / Rodríguez-Pose 2013, 1). At the international level, the different funding, technical, executing and opinion-shaping institutions involved have failed to unite and produce a cohesive message and strong advocacy campaigns (Levine / Kuczynski 2009, 12–14).

On the other hand, international prioritisation for certain areas can pose obstacles to the alignment of external assistance to recipient countries' specific priorities. International commitments oblige donors to allocate at least a certain amount of aid to specific areas such as climate change, mother-child health, etc. Donors will thus want to allocate funds to these purposes, independently from the priority status these areas have in recipients' national development strategies.

4.8.4 Concerns about the effectiveness of aid programmes in certain sectors

Neglect of certain sectors can also be linked to the perception that aid programmes in those sectors are not particularly effective. Frot and Santiso (2010, 17–18) argue that large shifts in cross-sector aid allocation patterns illustrate the history of development thinking since its beginning: donors initially concentrated on agriculture and productive infrastructure, but the programmes' high rates of failure induced donors to turn to an agenda of structural adjustments and macroeconomic reforms in the 1980s. The degraded status of agriculture and infrastructure is directly traceable from falling aid receipts to these sectors. Subsequently, disappointed by the results of this last agenda, donors started concentrating on institutional reform, corruption and democracy, as indicated by the rapid growth of the "government and civil society" sector.

Although the authors criticise donors' tendency to let their allocation patterns shift along with what they call "development fashions", it actually seems encouraging that donors take past experiences into account and follow the findings of the literature. Easterly (2008, 68–69) argues that – to the extent to which donors' reluctance to invest in the agricultural sector is driven by past experiences of failed agricultural programmes in SSA – the sharp decline in aid to agriculture can be seen as a positive sign of learning from mistakes. However, changes in the distribution of aid across sectors are often due to the appeal of a new development theory rather than to serious programme evaluations. A symptom of this is that development fashions tend to cyclically repeat themselves (Easterly 2008, 105).

While the decision to turn away from failed interventions could lead to a more efficient sectoral aid allocation, a number of factors might produce the opposite result: first, it is possible that donors neglect a whole sector, whereas failure is linked only to the predominant type of intervention tried in the sector. A different type of activity in the same sector might be more effective. For example, Bird et al. (2002, 22) point out that integrated rural development programmes have largely been a failure, but that this does not justify the neglect of the whole agricultural sector. Second, the short time frame used for assessing results is problematic for sectors where results might take longer to materialise (Álvarez /Acharya 2012, 31). The three-year posting, common for most donor agency staff, contributes to this short-term focus by creating incentives to fund quick-results projects (Development Initiatives 2013, 102). Third, considerations of effectiveness might be equalled with the need to show quick results for reasons of visibility, or used as excuses for not engaging in sectors that are unimportant from a strategic perspective. At the country level, donors sometimes label recipients as poor performers as a pretext for not engaging in the country (ODI 2004, xiii). This might apply to sectors as well.

4.8.5 Risk-pooling and herding behaviour

Risk-pooling and herding behaviour might also induce donors to neglect certain sectors. Risk-averse donors might be reluctant to invest in a sector where few other donors are involved. Knack and Rahman (2008) argue that donors have an incentive to concentrate in areas where many other donors are active in order to spread responsibility for potential failure. The need for visibility should induce donors to focus on a sector where few other donors are engaged and where each donor's activities will be more visible and easier to attribute. But while pressuring donors to seek projects that are highly visible, accountability to domestic taxpayers also makes them very risk-averse (World Bank 2011a, 201). With many donors engaged in a sector, responsibility will be diffused (Bigsten 2006, 4). Social sectors might thus be particularly attractive not only because they offer the possibility to carry out visible projects with low fixed costs (Frot / Santiso 2010, 24), but also because large numbers of donors are present.

Moreover, it is likely that the herding behaviour observed at the country level (Frot / Santiso 2009; Desai / Kharas 2010; Barthel 2012) influences the distribution of resources across sectors as well. Esser (2009) claims that, in the health sector, donor priorities influence one another, producing a concentration of total aid flows in a relatively narrow range of areas. Shiffman (2006, 83) notes that fear of being left aside induces donors to focus on the same areas as other actors in the international community.

4.8.6 Interaction between different factors

Neglected sectors might present one or several of the characteristics outlined above: lack of visibility; weak strategic importance for donors; absence of a responsible institutional body; scarcity of examples of successful interventions; and few donors engaged. These factors can also influence each other. Shiffman, Beer and Wu (2002) find that, in the health sector, advocacy campaigns and international coalitions to fight a certain disease are easier to form when the disease is perceived as a threat by politicians in donor countries. These coalitions then put the disease high on the political agenda, thereby contributing towards strengthening public opinion that a certain disease represents a danger that can be brought under control with effective aid interventions. While the authors focus on explaining the emergence of darling sectors, the interrelatedness they point out can be helpful for understanding why some sectors are neglected. Thus, a certain area’s lack of strategic importance might hinder the emergence of strong advocacy campaigns that could increase taxpayers’ support for interventions in the sector. In turn, this makes the sector less relevant in terms of visibility. Risk-pooling and herding behaviour might also produce a vicious circle in which sectors that are already neglected become even less attractive precisely because they are neglected by other donors.

4.9 Lack of donor coordination

In a context of similar donor preferences and herding behaviour, insufficient coordination among donors often results in overcrowded and fragmented sectors, on the one hand, and neglected sectors on the other (Frot /

Santiso 2010; Halonen-Akatwijuka 2004, 2–3). The lack of strong and well-functioning coordination frameworks makes taking informed decisions about inter-sectoral aid allocation more difficult (Bigsten 2006; Nunnenkamp / Öhler / Thiele 2011). This tends to produce allocation patterns that do not match national priorities (Kasuga 2008, 3).

Commitments have been made to establish coordination frameworks for country-level aid allocations, in order to improve alignment and avoid the emergence of orphan and darling sectors (OECD 2008, 1–3). The EU Code of Conduct envisages a three-step DoL procedure: first, a mapping exercise should give a clear picture of different donors' engagement in the various sectors. Second, recipient governments will have to express their preferences about the distribution of donors across sectors, and donors on their side should identify their sectoral comparative advantages. Finally, the two sides are expected to jointly reach an agreement on a DoL framework and implement it. From the perspective of each donor, in most cases this will require a reallocation of aid across sectors and/or the use of delegated cooperation (EC 2011, 6).

However, progress on in-country DoL is slow in almost all countries. Nunnenkamp, Öhler and Thiele (2011) find that coordination among donors has even weakened after the adoption of the Paris Declaration. In 2011, the Third Monitoring Report and Progress Review of the EU Fast Track Initiative on Division of Labour (EC 2011) assessed the status quo in 30 partner countries in different regions and at varying income levels. It concluded that although mapping exercises have been implemented in many countries, subsequent efforts in reprogramming appear to be dwindling after having peaked in 2009 (EC 2011, 7). Moreover, even in cases where they exited from overcrowded sectors, donors have rarely expressed the intention to increase engagement in neglected sectors (Zipper / Hofbauer / Verhoeven 2010, 36; Christiansen et al. 2007, 54).

As was noted for the country level, half-hearted and uncoordinated efforts to rationalise sectoral aid allocation could be even more damaging than no effort at all if pursued by individual donors in an uncoordinated way. This is a real concern because reprogramming – when it occurs – tends to be unilaterally decided at donors' headquarters (EC 2011, 7). Orphan sectors can emerge also from uncoordinated actions aimed at achieving a better DoL at the international level. The sectors where donors exiting a country used to be active might end up being under-aided if remaining donors do not coordinate their allocations with the exiting donor. This was the case with the Swedish exit from Honduras, for example. Sectors such as human rights, politico-electoral capacity-building and transparency were abandoned after the Swedish exit. Despite the importance given to the area by the recipient government, other donors have not shown a willingness to engage in the sectors in which Sweden terminated its programmes (Puerto Gómez / Schulz 2009, 19).

Obstacles to the establishment of a well-functioning DoL can be found both on the side of the donors and of the partner governments. The following two sections briefly review both.

4.9.1 Obstacles to the implementation of DoL commitments on the donor side

Most of the factors and incentives responsible for producing a situation that calls for better donor coordination are, at the same time, undermining coordination efforts. In-country DoL requires donors to exit overcrowded sectors and enter under-aided ones. But the higher visibility, priority and perceived effectiveness that characterise darling sectors make individual donors reluctant to abandon them (Knack / Rahman 2008, 14; Hartmann 2011, 8). Improved information coming from mapping exercises seems insufficient if the same structure of incentives is maintained in the aid architecture (Schulz 2007, 7; Vollmer 2013). In general, because of vested interests, visibility and accountability to domestic taxpayers, donors are reluctant to share power and to release control over their funding (Woods 2011, 7). But there are also obstacles that are more specific to in-country DoL.

To start with, reaching an agreement over sector definitions has proven difficult (Mürle 2007, 23). Identifying each donor's comparative advantage in different sectors is also problematic, given the absence of an independent evaluator and of clear assessment criteria (Schumacher / Sawadogo 2010, 67). Consequently, establishing the respective roles for donors in the different sectors is a sensitive and thorny issue (Schulz 2007, 6). Similarities in donors' sectoral preferences and concerns about visibility make it difficult to reach an agreement on sector leadership, because donors often want to lead in the same sectors (Weingärtner 2008).[48] Technical issues such as differences in programming cycles, but also lack of trust, make donors reluctant to delegate aid programmes to other donors (Zipper / Hofbauer / Verhoeven 2010, 37). Moreover, aid agencies' staff is often not engaged in the process, and perceives tasks related to DoL as being additional workloads of low priority (Christiansen et al. 2007, 67).

Another problem is that too much decision-power lies at the headquarters (HQ) level: sector allocation happens in consultation with the partner country, but HQs play a decisive role. HQs tend to pursue a certain coherency in their programmes across recipient countries, and this might lead them to support always the same sectors, even if national priorities and DoL arrangements differ among countries (Vollmer 2013, 29; Zipper / Hofbauer / Verhoeven 2010, 33). An evaluation of the Paris Declaration identified HQs' insistence on their distinctive activities for reasons of visibility among the main reasons behind extremely limited progress on DoL arrangements (Wood et al. 2011, 26–27). A strong role for HQs might be necessary in order to allow individual donors to specialise in a smaller range of sectors, which the European CoC defines as an integral part of DoL (EC 2007). Mürle (2007, 36–37) argues that it would be inefficient for all donors to build up sectoral capacities in all sectors. Sectoral specialisation at a regional or even global scale would allow donors to develop a strong expertise and benefit from economies of scale. Moreover, in-country DoL would be facilitated because it would be easier to identify comparative advantages. However, some sectors might be left behind if HQs decide unilaterally on specialisation without taking other donors' sectoral allocation and the national priorities of recipient countries into account.

Challenges to coordination seem to affect bilateral donors more than multilateral ones: analysing coordination across sectors and sub-national regions, Öhler (2013 14) finds that, due to reasons of political and commercial competition, bilateral donors coordinate among themselves less than multilateral donors. He also finds that bilateral donors coordinate more with multilateral donors than among themselves.

48 In Malawi, for example, six donors were claiming leadership roles in sectors such as "economic governance" and "education", whereas no donor wanted to lead in sectors such as "tourism" or "wildlife and culture". A minimum of two leaders is considered to be necessary for guaranteeing the continuity of aid programmes (Government of Malawi 2010, 38).

The growing number of donors involved, including private and emerging donors, makes agreeing on a DoL framework more challenging. Fengler and Kharas (2011, 6) argue that, while coordinating an expanding number of actors is increasingly difficult, the nature of the challenge has not changed. However, it seems reasonable to think, as Nunnenkamp, Öhler and Thiele (2011, 12) remark, that the presence of many donors will also weaken incentives to engage in costly coordination efforts, since improved coordination is a public good and the individual benefits for each actor will be reduced.

Aid from vertical funds such as the Global Fund to Fight AIDS, TB and Malaria flows largely outside the recipient country's budget processes and poses a particularly serious obstacle to alignment and harmonisation (Driscoll / Evans 2005, 15; IMF / World Bank 2007, 18). China and other important new donors have not even been fully integrated into DoL negotiation processes (Nunnenkamp / Öhler / Thiele 2011, 13) and do not seem eager to participate in what they perceive as a DAC-led process (Kragelund 2008, 580; Xu 2012, 2; Greenhill / Prizzon / Rogerson 2013, 30). Some (Chigunta / Matshalaga 2010, 13; EC 2011, 2) point out that donors that are not even formally integrated in DoL processes represent a serious obstacle to the achievement of an efficient sectoral allocation within countries. However, progress in terms of donor specialisation and coordination is currently held back, mainly by weak engagement from both traditional donors and partner governments (Bigsten 2006). Moreover, other authors (Berthélemy 2009, 15; Burnet 2011, 181) maintain that, because of their focus on areas that tend to be neglected by traditional donors, emerging donors' activities pose relatively few challenges to within-country DoL.

4.9.2 Obstacles to the implementation of DoL commitments on the recipient's side

Partner country leadership is the first of the International Good Practice Principles for Country-Led Division of Labour and Complementarity (OECD 2009a). The difficulties encountered by donors when trying to define their respective roles and comparative advantages suggest that recipient countries could facilitate DoL processes by giving clear indications on the distribution of donors across sectors. Although still weak, incentives for promoting better coordination are stronger for the recipient government than for donors (Woods 2011, 13).

However, aid dependency makes recipient countries reluctant to take on a leadership role in DoL processes. Partner governments are cautious about asking donors to exit overcrowded sectors because of the fear that this will result in reduced overall funding (Schulz 2007, 5).[49] For the partner country, it is not obvious that increased coordination among donors will lead to better alignment to the country's needs (Bigsten 2006, 15; UNDP 2011, 7). On the contrary, it could lead to a "donor cartel" that imposes its own preferences and conditions (Rocha Menocal / Rogerson 2006, 9). Politicians in recipient countries also often have weak incentives to rationalise aid allocation because uncoordinated and intransparent allocations make it easier to use aid resources for corruption and patronage networks (Moss / Pettersson / van de Walle 2006, 10; Knack / Rahman 2008, 13–14). Lack of transparency in aid allocation also undermines recipient governments' ability to steer the process. Governments often struggle to acquire precise information on how much aid is invested in their country, by whom and for what purposes (Publish What You Fund 2010, 1).

Widespread lack of country ownership in the process was identified as a major obstacle for DoL efforts (EC 2011, 10). Progress on donor coordination varies across countries, and tends to be greater where strong governments show a willingness to push for better coordination, as was the case, for example, in Rwanda and in Cambodia (OECD 2011a, 68). Kasuga (2008, 14–16) finds that high- and middle-income East Asian countries where governments have taken on leadership in the distribution of aid programmes across different sectors are the only cases where sectoral aid allocation is in line with national priorities.

4.10 Conclusions and policy recommendations for under-aided sectors

Given the difficulties of comparing needs and performance across sectors, this chapter proposed assessing the sectoral distribution of aid resources

49 For example, the Government of Malawi states in bold letters that it is *"against asking development partners to withdraw from a sector and against the introduction of a maximum number of sectors per development partner"* (Government of Malawi 2010, 38). The government recognises that neglected sectors are also those where donors have the least experience and explicitly expresses the concern that exiting from darling sectors might not be followed by engagement in under-aided ones (Government of Malawi 2010, 17).

against its alignment to recipient countries' priorities, as expressed in national development strategy documents. A sector would thus be considered under-aided if the gap between the external funding envisaged in national strategy papers and the aid volume actually received were substantially larger than for other sectors. Such an approach implies that the identification of "under-aided" sectors is country-specific, and identifying under-aided sectors would be difficult in countries lacking financially detailed strategy documents. However, in general, sectors such as agriculture, productive infrastructure, and water and sanitation tend to attract fewer donors and receive disproportionally low amounts of aid. Because donors tend to neglect those sectors at a global level, it is also likely that these will be the sectors that are identified as under-aided in country-specific analyses.

Sectors neglected by DAC aid sometimes receive funding from emerging and private donors whose priorities and allocation patterns differ to some extent from those of traditional donors. But this compensatory role does not appear to be sufficient or to cover all under-aided sectors. Steps have been taken towards the establishment of an in-country DoL that aims at increasing aid effectiveness and addressing the problem of darling and orphan sectors. However, a lack of incentives, both on the donors' and on the recipients' side, has hampered implementation. The two most important steps for addressing the problem of under-aided sectors are improving coordination and leveraging additional funding.

4.10.1 Improving donor coordination in cross-sector allocation

Addressing the problem of orphan sectors will require action that goes beyond increasing aid volumes for the specific sectors that are currently under-aided. Shifting development fashions and donor priorities might change the spectrum of neglected sectors in the future. For one reason or another, some sectors will always be less attractive than others. A strong DoL framework would help to avert gaps in aid allocation, independent of whichever sector is identified as under-aided.

Mapping of donor activities across sectors is the first step of the DoL process and has taken place already in a good number of countries (EC 2011, 7). This good practice should continue, and donor mappings should be regularly updated. As recommended by the International Good Practice Principles for Country-Led Division of Labour and Complementarity (OECD

2009a), data systems should display donors' activities in the frame of the recipient government's development programmes and multi-year expenditure frameworks. Information on donor interventions should show how the different activities fit with the country's strategies and how they contribute to the national budget.

Such a system would allow for linking reallocation decisions to under-aided sectors with ongoing programming processes by the national government in the affected sectors. This would improve the timing of reallocations – a necessity that has been sometimes emphasised (e.g. Zipper / Hofbauer / Verhoeven 2010, 37). The importance of integrating information about aid programmes into national planning frameworks highlights the close link between DoL and alignment.

Although being aware of other donors' planned sectoral allocations is crucial to avoid funding gaps, sharing information also on the results of past aid programmes would help in identifying comparative advantages. Independent evaluations and the development of good indicators for all sectors would allow for assessing each donor's performance and facilitate the distribution of roles among donors. However, this might also show that only a few donors have expertise in orphan sectors. Thus, assessments of comparative advantages should give importance also to commitments of future engagement, as pointed out by Mürle (2007, 15).

The main challenge remains that donors show little engagement in achieving a better DoL and tackling the problem of under-aided areas. Donors have shown a willingness to improve information-sharing and undergo mapping exercises, but reallocation to the identified under-aided sectors is hindered by donors' preference for some sectors, and by a lack of institutional incentives to push for reallocation, especially at the HQ level. Greater independence from HQs' sectoral priorities would enable country offices to take action once under-aided areas are identified. The necessity of delegating more responsibility for sectoral reallocation to embassies and country offices is stressed both by the OECD (2009a) and by the Monitoring Report of the EU Fast Track Initiative on Division of Labour and Complementarity (EC 2009, 7).

More importantly, partner countries should take the lead in the DoL process. Recipient countries should, first of all, make sure their national strategy documents are well-costed and prioritised, in order to facilitate donors' alignment to national priorities. Detailed documents with clear requirements concerning the sectoral allocation of aid will also offer recipient governments a tool for demanding accountability from donors when the cross-sector distribution of aid is not aligned to national strategies. Fragile states and other countries with weak institutions might need assistance from donors in developing such documents. Partner countries could then set up aid-coordination agencies that would provide data on “who does what where” and flag under-aided sectors, as proposed by Fengler and Kharas (2011, 6). They should also play a greater role in identifying different donors’ comparative advantages. Partner countries could push for the bottom-up approach proposed by De Renzio and Rogerson (2005), in which recipients define who should give aid where, taking into account differences among donors related to volume, type, timeframe and reliability of aid flows, but also to professional experience, the willingness of different aid agencies to respect ownership, the level of mutual trust and the performance record of past interventions.

Donors can encourage recipient governments to take on the leadership of DoL efforts in a number of ways: first, donors should address concerns about decreases in overall funding volumes by stressing that DoL processes will not result in reduced country envelopes. They should underline their commitment to the principle set in the Accra Agenda for Action (§17a) that division of labour processes should have no impact on overall aid volumes for individual countries. This will not help in addressing concerns within ministries of currently privileged sectors, which might still worry about reductions in aid volumes to their own sector. However, assurances that the total country envelope will not be reduced might foster engagement by ministries of neglected sectors, which are likely to see an increase in their aid receipts as a consequence of DoL, and by the ministry of finance, which could gain a better overview and a larger say over the use of aid money. Second, partner governments’ engagement can be strengthened by reinforcing the link between DoL and alignment. Integrating information on donor activities in national planning and budget processes can help in highlighting the potential for DoL to improve the alignment of foreign assistance with national priorities. Third, the international community should show greater openness towards recipient governments’ assessments of different donors’ comparative advantages. When needed, they should also encourage and assist partner countries in undertaking those assessments.

Strengthening the recipient government's leadership role in the DoL process might also help in encouraging non-DAC donors to take part in the process. New and private donors should increase their involvement in DoL efforts, and might be more inclined to do so if the agenda is not perceived as being steered and dominated by DAC donors. Recognising emerging donors' compensatory role in neglected sectors should give traditional donors an incentive to foster their inclusion in DoL negotiation frameworks. DAC members and partner countries should continue to encourage emerging donors' participation in peer reviews of DAC donors' aid performance as well as in coordination activities, as suggested by Kragelund (2008, 580). Private donors and vertical funds should be integrated into DoL processes as well. The relatively narrow spectrum of sectoral engagement that characterises both these types of actors will often pose a limit to their possibilities for reallocation. But their inclusion into DoL frameworks is important in order to obtain a clear picture of over- and under-aided sectors.

4.10.2 Leveraging additional funding for under-aided sectors

A better DoL across sectors can improve aid effectiveness in darling sectors as well by reducing the number of donors and the related transaction costs (Álvarez /Acharya 2012, 22). However, transaction costs in darling sectors could be brought down also through increased levels of coordination among donors active in those sectors. Instead, DoL implies a certain degree of reallocation from over-aided sectors to under-aided ones. To the extent to which the cost of reallocation for darling sectors is set off by decreased transaction costs and reduced duplications, this will not result in reduced aid (in terms of value) for these sectors. But there will likely also be many cases where darling sectors lose out due to reallocation.

Even when donors exit overcrowded sectors as a result of DoL, they rarely show willingness to enter unattractive sectors. But addressing the problem of under-aided sectors might not necessarily require changing the distribution of donors across sectors. Funding for neglected areas can be raised without increasing the number of donors active in those sectors, for example through delegation. In this case, delegation could be used as an instrument for phasing-into a sector, rather than phasing-out. In sectors where they do not have a particular strategic interest, donors might be less reluctant to delegate their aid programmes to others. Moreover, bilateral donors could direct more resources to neglected areas through multilateral donors. Channelling larger shares of aid through budget support can also increase the level of funding for under-aided sectors without changing the distribution of donors across sectors. However, the number of donors engaged in an area should not be too low, as insufficient competition among actors can decrease the quality of aid provided (Frot / Santiso 2009, 22). For sectors where weak capacities for managing aid discourage donor engagement, capacity development programmes could be directed at improving the conditions for aid implementation within those sectors.

Particular attention should be paid to cross-cutting issues such as nutrition and rural development, for which there is no clear responsibility at the national and/or international levels. The OECD (2009a) encourages lead donors in the different sectors involved to make sure that areas that span various sectors are not neglected. But donors could also consider identifying specific lead donors for cross-cutting issues in order to define clear responsibilities for these areas.

Addressing the phenomenon of under-aided sectors and ensuring good coverage of all areas identified as priorities by partner countries is important not only from the point of view of an efficient cross-sector allocation: it would also prove donors' commitment to the principles of ownership, alignment, harmonisation and mutual accountability.

5 Under-aided sub-national regions

5.1 Chapter overview

This chapter treats the topic of aid allocation across sub-national regions. After highlighting the importance of this level of aid allocation for aid effectiveness, the chapter discusses the lack of attention given to the topic in both development theory and practice. A section underlining the limitations that donors are likely to face when trying to determine the cross-regional distribution of aid resources is followed by an effort to identify criteria that could guide donors' allocations across sub-national regions. Then, the scarce evidence available on aid allocation patterns at the sub-national level by DAC and non-DAC donors is reviewed. Finally, some conclusions and policy recommendations for cross-regional aid allocation close the chapter.

An analysis of the sub-national distribution of aid resources can be carried out at various geographical levels. The smaller the examined sub-national entities, the better-targeted aid allocation can be. The evidence shows that substantial differences in needs exist even between geographical units of very small scale such as the county or the village (Simler / Nhate 2005; Gräb / Grimm 2009). However, the aim of this discussion is to highlight the relevance of the sub-national distribution of aid for improving the efficiency of allocation, rather than to define the spatial level at which the needs analysis should be carried out. The term "region" is used here for referring to large- and medium-scale sub-national units, which, depending on the country, are also called "districts", "provinces", etc.

5.2 Why could under-aided regions undermine aid effectiveness?

From an aid-effectiveness perspective, it is not sufficient to look at countries only, because countries often include a wide variety of regions with different characteristics and degrees of need (World Bank 2009, 84–92). Not differentiating between areas within a country bears the risk of overlooking areas where aid could be particularly effective and missing opportunities for a more efficient allocation of aid. Accurately targeting extreme poverty within countries will be key for the goal of ending poverty by 2030 (Development Initiatives 2013, 30).

Moreover, uncoordinated donors might be focusing on the same regions while neglecting others, leading to an inefficient allocation of the total country envelope. There might thus be under-aided regions even in countries receiving relatively large amounts of aid (Öhler 2013, 2). If donors fail to coordinate the distribution of their aid across sub-national regions as well as across countries and sectors, this would imply that the costs of failed coordination are even higher than currently estimated (Powell / Findley 2011, 3).

Besides the possibility of identifying opportunities for a more efficient allocation of aid, analysing sub-national allocation patterns is also relevant from a risk-perspective. Inequalities in the distribution of domestic and foreign resources across a country's territory can easily create tensions between regions and even lead to conflict (Stewart 2001). Regional inequalities are especially dangerous when they coincide with divisions along ethnic or religious lines (Stewart 2005; Langer / Stewart / Venugopal 2010). Given that foreign aid accounts for a sometimes very large percentage of government expenditures (Moss / Pettersson / van de Walle 2006, 3), it is important to look at the role of aid in this respect.

5.3 Sub-national aid allocation: a neglected topic in development theory and practice

Aid allocation at the sub-national level appears to be a widely neglected issue in both development theory and practice. Throughout the literature on aid allocation, it is extremely rare to find mention of the sub-national distribution of aid resources. When the issue is raised, it is generally to point out the lack of attention given to the topic. Powell and Findley (2011, 8) argue that the findings of the literature on aid allocation could be undermined by the choice of the country as the only unit of analysis. For example, the literature might find that aid allocations are needs-based because aid is directed in prevalence to the poorest countries, but donors might not be targeting the neediest regions within those countries. On the other hand, allocation patterns that direct large shares of aid to middle-income countries might be more needs-oriented than they appear if, at the sub-national level, donors are targeting those regions that are most in need. Moreover, it has been suggested (Dionney / Kramonz / Roberts 2013, 5) that inefficient allocation of aid resources across sub-national regions may be one of the reasons why previous studies have found that apparently successful aid interventions had little development impact on the country as a whole.

As for development practice, several observations suggest that donors assign low priority to the cross-regional distribution of aid resources, and this could undermine allocative efficiency: first, cross-country aid allocation formulas are based on national averages and generally do not take the sub-national dimension into account. This could inadvertently set perverse incentives for recipient governments to neglect certain regions. Current allocation formulas that assess needs exclusively at the national level might induce governments to neglect some regions in order to drive up the country's needs and make the country eligible for larger volumes of aid.[50]

Second, the MDGs set targets and indicators of progress at the country level, which might contribute to withdrawing attention from the sub-national dimension. Often, progress at the national level fails to be reflected equally throughout sub-national regions (Development Initiatives 2013, 96). A UNICEF (2010) analysis of progress towards the MDGs in 68 developing countries shows that measures of progress based on national averages often conceal large – and sometimes widening – disparities in various dimensions of poverty within countries.[51] The report criticises donors' focus on the "low hanging fruit" of easy-to-reach communities in order to make quick gains towards the MDGs, and argues that it will be more costly – and in some cases impossible – to reach the MDGs without specifically targeting those neglected sub-national regions that are lagging behind (UNICEF 2010, 1).

Third, the issue of regional inequalities is absent from donors' main policy documents. Higgins, Bird and Harris (2010, 7) review the policy papers from most major donors and find that only the Australian Agency for International Development refers to the issue of sub-national spatial disparities. This suggests that regional inequalities are not a policy priority for donors. Failure to take regional inequalities into account might undermine aid

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50 This applies not only to needs-based but also to performance-based allocation formulas: performance-based formulas used by IDA and by most other multilateral banks typically consider national per capita income, population size and a country's CPIA score. Recipient governments' sub-national resource allocation patterns and their stance towards regional inequalities are not taken into account when evaluating governance. The CPIA does consider "equity of public resource use under policies for social inclusion", but this refers more to equity between social groups than between geographical or administrative regions (World Bank 2011b, 69–70). Hence, widening regional inequalities would not directly affect the assessment of a country's institutional performance. On the other hand, high poverty in certain regions would drive down the national average income. From the recipient government's perspective, neglecting some regions would thus be rational, in that it would keep the country's need indicators high without lowering the government's performance score.

51 Nepal offers a good example for this type of uneven progress: between 1996 and 2000, the country figured as a good performer thanks to an increase in its national HDI from 0.325 to 0.466. In the meantime, however, HDI for the far-western and mid-western regions, where the Maoist insurgence took shape, was worsening, and was between 45 per cent and 35 per cent of the HDI rate in the capital city, Kathmandu (Murshed / Gates 2005, 124–125).

effectiveness, particularly in fragile contexts (OECD 2011b; Stewart 2005; Langer / Stewart / Venugopal 2010).

Fourth, in-country DoL efforts focus almost exclusively on the distribution of donors across sectors (Grimm / Schulz 2009). Documents that set out a strategy for establishing in-country DoL are silent on the cross-regional distribution of donors and aid programmes.[52] Although mapping exercises showing the distribution of donors across sectors have been carried out in many countries (EC 2011), these have not touched on the distribution of donors across regions. However, the fact that two donors are engaged in the same sector within a country does not imply duplication of efforts if the two donors are active in different regions (Öhler 2013, 3).

5.4 Recipient governments' allocation patterns and donors' influence on sub-national aid allocation

One of the most important comparative advantages of aid in reaching the poor is that it can be targeted specifically to people and places not sufficiently covered by governments and markets. At the same time, aid is often a small resource, even in countries with large aid receipts. Therefore, aid should be allocated where it can bring about the most value added in the context of other resources (Development Initiatives 2013, 94).

The efficiency of sub-national aid allocation should be assessed in the wider context of the distribution of resources within a country by the central government. Varying degrees of need among regions are largely determined by the distribution of other domestic and foreign resources beyond aid by the national government (Kanbur / Venables 2005). This is even more so in developing countries and transition economies, where sub-national governments depend heavily on federal transfers to cover spending. In these countries, intergovernmental transfers finance about 60 per cent of sub-national expenses, compared with about a third in member countries of the OECD

52 The EU CoC (EC 2007) does not mention the question of donor coordination in aid allocation across sub-national entities. The International Good Practice Principles for Country-Led Division of Labour and Complementarity (OECD 2009) only mentions it briefly in principle 3: *"Partner countries and donors should commit to avoiding duplication and fragmentation and ensuring the optimal use of development resources in the* locations*, sectors and thematic areas where they work and in the aid modalities through which they channel their assistance"* (OECD 2009) [author's emphasis].

(World Bank 2009, 248). Dependency on central government transfers is particularly pronounced for rural and economically disadvantaged regions that have thinner tax bases than better-off regions (Yatta / Vaillancourt 2010, 34).

Large imbalances in the sub-national distribution of resources exist in many countries (World Bank 2009, 248; Bird et al. 2002; Kanbur / Venables 2005). This is often due to entrenched patronage structures that shape the government's allocation patterns (Bräutigam 2000, 35; Svensson 2005, 27; Keefer / Khemani 2003; Magaloni 2006; Easterly / Levine 1997, 21–22). But neglect of certain regions might also be a reflection of governments attending to the preferences of a majority that lives in other parts of the country (Bird et al. 2002, 3; World Bank 2009, 249; Bird / McKay / Shinyekwa 2010, 27).

Donors might have a compensatory effect on inefficient or unequal domestic resource distributions by allocating their aid in a way that helps to improve overall allocative efficiency and/or balances spatial inequalities. But aid might also do the opposite, thereby producing inefficiencies and aggravating regional disparities. Stewart (2005) claims that where imbalances in the allocation of domestic resources exist, donors should try to mitigate them through their own aid budgets. However, donors might not be able to prevent political leaders in recipient countries from directing aid resources prevalently to their regions of support, which are often also their home regions (Hodler / Raschky 2011). Although the recipient government's power to decide on the distribution of resources across its territory is an important element of national sovereignty, it also restricts donors' ability to determine within-country aid allocation patterns.

Limitations on the influence of donors when it comes to the cross-regional distribution of aid resources can be both voluntary and involuntary: first, they can stem from the intention to strengthen the recipient government's role in aid management. Country ownership and donors' alignment with national priorities are central principles of the aid-effectiveness agenda. Increased outside influence in the name of a more efficient allocation of aid might thus not be desirable. Second, aid fungibility makes it difficult for donors to control the use of resources by the recipient government (Boone 1995; Feyzioglu / Swaroop / Zhu 1998; Morrissey 2006). The problem of fungibility is generally discussed with reference to sectoral allocation and to the question of consumption versus investment spending, but it might apply to the distribution of aid across regions as well. For example, analysing fiscal transfers from the Indian federal government to the different states from 1980 to 1992, Swaroop, Jha and Rajkumar (2000, 308) find that states did not benefit from externally aided projects because increases in central transfers on account of foreign aid to a state were associated with reductions – of similar or higher volumes – in other central transfers to that state.

Assuming that fungibility applies to the geographical as well as to the sectoral distribution of aid, donors' room for manoeuvre can thus be very limited. However, the evidence suggests that aid is fungible only in part (see section 4.5). Hence, donors do have some room for manoeuvre, and it is important to assess how they make use of it.

5.5 Possible approaches to sub-national aid allocation

Allocating aid efficiently across sub-national regions requires, first of all, identifying principles that can guide resource allocation at this level. Needs- and performance-based approaches are generally considered with regards to cross-country aid allocation. However, the main ideas underlying these approaches can be applied to the distribution of aid across regions as well.

Very different degrees of need often characterise regions within a country. Advantaged and disadvantaged regions as well as emerging and lagging ones often can be found within the same national territory (Fujita / Krugman / Venables 1999; World Bank 2009; Alkire / Roche / Seth 2011, 20). Most of the considerations related to the different possible assessments of need – and to their effect on the distribution of aid – apply to allocations across countries and across regions equally. However, donors might face even tougher choices when it comes to allocation across sub-national regions. There are fewer barriers to migration at the sub-national than at the international level, which leads people within countries to concentrate in wealthier regions more than they do across countries (World Bank 2009, 22). Therefore, the trade-off between targeting the places most in need or those hosting many people in need might be even more pronounced at the cross-regional than at the cross-country level.

As for performance-based approaches, their relevance will depend on the degree of authority that sub-national entities exercise in different countries. Because local governments' control over the use of resources can be very limited (Leiderer et al. 2012, 235), cross-regional variations in institutional performance might be less relevant for the efficiency of aid allocation than variations at the country level. Many of the aspects of "good governance" that are stressed by performance-based approaches are generally in the hands of the central government (Kanbur 2005). However, institutional quality at the sub-national level might be very relevant for aid allocation in federal countries, where sub-national entities have a larger say over the use of resources.

Besides needs and performance, there are also other criteria that donors might want to take into account when allocating aid across sub-national regions, such as alignment to recipient governments' preferences; trade-offs and spillovers between rural and urban areas; and the risk of exacerbating inter-regional tensions. The following sections briefly discuss these.

5.5.1 Alignment to recipient governments' preferences

Taking into account the recipient government's preferences might be very important for an efficient allocation of aid across sub-national regions. There is an argument for allocating larger shares of aid to those regions where the recipient government is more likely to finance the operational costs often associated with aid projects. Lack of sustainability due to low engagement by the recipient government (Svensson 2005, 22; Bigsten 2006, 16–17) might make aid in regions neglected by the government much less effective than aid directed to other parts of the country. However, recipient governments often tend to allocate resources based on ethnic divisions and patronage networks (Stewart 2005, 13; Bird et al. 2002). This might sometimes produce a trade-off between directing resources to where the government will cooperate most, and allocating aid to the regions with the largest needs and where less government spending is available.

On the other hand, when large shares of government expenditure are directed at covering operational costs for aid-financed projects, it is also possible that government expenditures follow donors' allocation patterns (Bräutigam 2000, 44; Mavrotas / Ouattara 2006, 24). In this case, the distribution of aid initiatives across regions can influence the efficiency of domestic resource allocation as well. For example, a donor's decision to invest in remote regions with higher operational costs could make it more costly for the government to run the facilities provided by aid. This might reduce the efficiency of overall resource allocation.

5.5.2 Trade-offs and spillovers between rural and urban areas

At the sub-national level it is important to consider the differences between urban and rural areas, which tend to have different types of and degrees of need (Prennushi / Rubio / Subbarao 2002, 111–112). On the one hand, rural areas tend to have greater needs (Bird et al. 2002).[53] On the other hand, providing services to those regions tends to be more costly. This is not only because of economies of scale in densely populated urban areas (Van de Sijpe 2010, 17), but also because of higher transport costs (Bird et al. 2002; Kitchen / Slack 2006, 1) and the lack of availability of trained workforces in rural areas (World Bank 2009, 247; Higgins 2009, 4). There will thus often be a trade-off between targeting the regions that are most in need and those where the cost of providing services is lowest (Klugman 2002, 64). Acknowledging this trade-off, the World Bank's latest Global Monitoring Report (2013) argues that it is most cost-efficient to target provincial cities and slums in large urban areas, since those locations tend to have large numbers of people in need that are relatively easy to reach (World Bank 2013, 109).

An important question concerns the impact that development in urban areas might have in rural parts of the country. Positive spillovers from urban areas can benefit the rest of the country as well, thanks to a number of factors, including the promotion of economic growth; knowledge and technology transfers; rural-urban migration; and consequent increases in rural wages and in remittances to rural areas (Cord 2002, 70; Cuong 2012, 2–3). This might offer an argument for donors to focus on cities as engines of development – a strategy increasingly supported by the World Bank (World Bank 2009; 2013).

However, there are also arguments against directing aid predominantly towards urban areas. First, the literature is inconclusive on the extent to which development in urban centres trickles down to the rural hinterland (Calì / Menon 2013, 2). Second, focusing on urbanisation as an engine of development does not necessarily imply that more resources should be allo-

53 This, however, might not be the case for all types of need. For example, richer commerce hubs are more likely to have higher HIV/AIDS prevalence than remote regions away from main transport corridors (Bird et al. 2002, 32). Access to health care might be particularly low in remote rural areas, but cities might have a more urgent need for health care because of the higher risk of contagion in urban environments (Van de Sijpe 2010, 17).

cated to urban areas. On the contrary, it might require investing in education in rural areas in order to provide future migrants with the tools to easily integrate in cities (World Bank 2013, 11). Third, negative spillovers in health and security that have been observed across countries are likely to occur also between sub-national entities, and this consideration speaks against neglecting rural regions.

Finally, the question of whether it is more efficient to allocate aid to rural or to urban areas will also depend on the objective that donors want to achieve through aid in a specific country. If, for example, the primary goal is to strengthen governance, it might be efficient to direct most resources to the capital (OECD 2010a, 38).

5.5.3 Risks of exacerbating interregional tensions

Disparities in the allocation of domestic and foreign resources between regions can produce or exacerbate inter-regional tensions and even lead to the eruption of conflict (Stewart 2005; Stewart 2010 3; Kanbur / Venables 2005; Bird / McKay / Shinyekwa 2010, 8). The literature is inconclusive over the potential positive or negative effect of aid regarding the chances for an eruption of civil war (Ruggeri / Schudel 2010, 9; Dimico 2013, 2–3). However, several studies suggest that an unbalanced distribution of aid risks aggravating pre-existing inter-regional tensions (Grossman 1991; Findley et al. 2011, 24; Burke 2012; Burgess et al. 2010, 17), whereas improving service delivery in a region neglected by the central government might decrease its inhabitants' vulnerability to grievance-based mobilisation efforts (Stewart 2010). Mitigating horizontal inequalities is considered to be one of the most effective ways to reduce state fragility (European University Institute 2009, 93).

Thus, when allocating aid, donors should consider the potential of aid to mitigate regional disparities and contribute towards conflict prevention – or to do the opposite by abandoning some already neglected regions. The role that aid plays in aggravating or mitigating the risk of conflict would obviously impact on its effectiveness. Donors' first priority should be to "do no harm" and to avoid undermining state-building (OECD 2010b). A careful analysis of spatial inequalities and of contested patterns of national resource distribution seems to be particularly important in post-conflict contexts: although in the immediate post-conflict period it might make sense to first concentrate on the capital city in order to foster state-building, in the longer term under-investment in secondary cities and certain lagging regions can jeopardise efforts to negotiate a renewed social contract (OECD 2010a, 38).

5.6 Some evidence on aid allocation across sub-national regions

Being a widely overlooked topic, the allocation of aid across sub-national regions is treated only in a few papers. This is also due to the extremely scarce availability of information on this level of allocation. Most donors do not provide data on the sub-national location of their aid activities (Development Initiatives 2013, 88). Efforts to track total aid flows received by sub-national entities have recently been forthcoming, for example in Mozambique (Ziegler-Bohr 2008, 12–14). Maps that geo-reference current development projects and indicate their sub-national distribution are now being developed, notably by the AidData mapping initiative (Strandow et al. 2013; Stern / Powell 2011). But for the moment, poverty maps that also indicate the precise location of aid-financed projects are available just for a few countries. Moreover, they typically display only geo-referenced projects by the World Bank and the African Development Bank (AfDB) (Powell / Findley 2011, 10).

Among the few authors treating the topic of aid allocation across sub-national regions, some analyse the needs-orientation of individual donors in specific countries (ODI 2004; Powell / Findley 2011; Stern / Powell 2011; Nunnenkamp / Öhler / Sosa Andrés 2012), or the degree of coordination among donors in regional allocation at the sub-national level (Öhler 2013). Others (Stewart 2005; Langer / Stewart / Venugopal 2010; OECD 2010a) assess whether aid flows by all donors have been aggravating or mitigating regional imbalances. The following sections review both types of evidence.

5.6.1 Donors' needs-orientation and coordination in aid allocation across sub-national regions

Because the World Bank and the AfDB are the only two donors for which information on the precise location of projects is available, most of the few existing studies on cross-regional allocation (Powell / Findley 2011; Stern /

Powell 2011; Nunnenkamp / Öhler / Sosa Andrés 2012) focus on allocation patterns by these two donors.

Powell and Findley (2011) compare the sub-national distribution of World Bank and AfDB projects with the proportion of individuals living on less than US$ 1.25 a day in different regions. More specifically, the study looks at whether donors are clustering their activities in areas where need is concentrated and spreading them out when needs are more dispersed. Measured against the distribution of need in those countries, the authors judge allocation patterns to be efficient in the DRC, but less so in Kenya, Ethiopia, Rwanda and Mozambique. In Tanzania, the authors argue that aid from both donors consistently goes to less needy regions (Powell / Findley 2011). Weak needs-orientation of sub-national allocation by the World Bank was found also in China (Zhang 2004), where the choice of location was mainly influenced by the Chinese government's preferences, and in India (Nunnenkamp / Öhler / Sosa Andrés 2012), where the geographical distribution of projects was determined mostly by the degree of openness to trade in different regions.

The most extensive empirical analysis on sub-national allocation patterns is offered by Öhler and Nunnenkamp (2013). The study examines the location of World Bank and AfDB projects in 27 countries and finds that regional needs (measured by child mortality, maternal health and malnutrition) had no influence on sub-national allocation patterns. The authors also argue that the quality of governance (measured by the number of conflict-related deaths) did not play a relevant role either. Instead, the birthplace of national political leaders emerged as an important factor in determining project location.

Although these studies offer important insights on the factors that can influence aid allocation at the sub-national level, they do not allow for drawing conclusions about the efficiency of overall aid allocation at the sub-national level. Since the analysis covers only two of the many donors engaged in the examined countries, it is possible that other donors are implementing activities in the areas that the authors identify as under-aided.

One study that examines sub-national allocation patterns by all donors is from Öhler (2013), who assesses the degree of coordination in cross-regional aid allocation among donors engaged in the same country. The study analyses sub-national allocation patterns by all the major donors active in Cambodia, including China and several international and Cambodian NGOs. The author finds a modest degree of donor coordination within Cambodia between 2004 and 2007, with no major difference before and after the 2005 Paris Declaration. For bilateral donors in particular, the likelihood that these donors implement a project in a certain region was not found to decrease if other bilateral donors were engaged in the same region with a similar sectoral focus (Öhler 2013, 14). The study offers an example of donors' failure to take each others' allocations into account when distributing their aid across regions. However, it does not provide information about what other criteria donors consider when allocating aid, or whether the lack of coordination leads donors to neglect certain regions.

Dionney, Kramonz and Roberts (2013) analyse aid allocation for health and education in Malawi. Their findings suggest that health aid seems to be allocated based almost exclusively on health needs. In the case of aid for education, however, both needs (specific to the education sector) and politics (mainly patronage along ethnical lines) influence the sub-national distribution of aid. For both sectors, less-specific measures of need, such as regional poverty rates, did not seem to influence allocation, whereas transport costs emerged as an important determinant, with rural areas receiving disproportionally less.

A study by ODI (2004, 60–65) shows that donors allocated aid across Indian states according to the states' relative performance in economic management and their willingness to undergo the economic policy reforms suggested by donors. Such an approach to aid allocation resulted in the richest states in southern and western India receiving more aid per capita than other parts of the country. These were also the states with the highest levels of private investment and government expenditure per capita (ODI 2004, 60–65). The example of India suggests that donors adopted a performance-based approach to aid allocation across the country's states. However, India might not be a representative example for donors' sub-national aid allocation patterns. The large size and the federal nature of the country make India's case more similar to a cross-country allocation of aid than to a sub-national one.

In conclusion, the evidence is not sufficient to determine which criteria donors follow when allocating aid across sub-national regions, and whether there is a tendency to neglect a certain type of region.

5.6.2 The degree of donors' attention to regional imbalances

There are few studies that assess whether donors are taking possible interregional tensions into account when deciding on cross-regional aid allocation (Stewart 2005; Langer / Stewart / Venugopal 2010; OECD 2010a). However, their findings are consistent: donors are paying insufficient attention to the risk that an uneven distribution of aid across regions might undermine national cohesion.

Stewart (2005, 22–25) finds that, in post-conflict Mozambique, the political domination of predominantly southern parties meant that most aid went to the south. For 1995–1997, the South received US$ 103.98 per capita in aid, compared to US$ 71.87 in the Centre; and a mere US$ 18.5 in the North, which was also much poorer.

Langer, Stewart and Venugopal (2010) examine eight post-conflict countries that span Africa (Burundi, Rwanda and Uganda), Latin America (Guatemala and Peru), Asia (Afghanistan and Nepal) and Eastern Europe (Bosnia-Herzegovina). The authors find that whereas group disparities are often explicitly recognised and addressed in the international policy discourse, in practice donors rarely give special attention to neglected and discriminated areas. Only in the case of Nepal did donors – in collaboration with the government – explicitly target aid to the poorest regions, where the conflict had originated (Langer / Stewart / Venugopal 2010).

From consultations carried out in 2008 in six fragile states, the Monitoring Survey that tracks implementation of the Principles for Good International Engagement in Fragile States and Situations (OECD 2010a) concluded that uneven distribution of aid across different regions within a country was a recurrent issue. For example, in 2008 only 23 per cent of development aid to the CAR was spent outside the capital city, and this already represented an increase from the 15 per cent of the previous year. In addition to a pronounced bias towards capital cities, imbalances were also found in donor spending across regions. The report underlines the serious neglect of some regions in the DRC, in Afghanistan and in certain rural areas of Haiti and Timor-Leste (OECD 2010a, 38). In all examined countries except Sierra Leone, unbalanced aid allocations contributed to perceptions of unfairness and, in some cases, were considered to be aggravating pre-existing regional divides (OECD 2010a, 20).

Although these examples point to a lack of attention to the risks posed by spatial inequalities, in some cases important factors help in explaining sub-national disparities in the provision of aid. For example, the OECD report mentions that regional imbalances in Afghanistan are, at least in part, explained by the fact that development agencies often are in a position to carry out their activities only in areas where international forces provide security. In the DRC, special attention to the eastern part of the country is in line with the government's own stabilisation and peacebuilding priorities (OECD 2010a, 65). Donors' concentration in the southern parts of Haiti seems to be partly driven by better infrastructure in those regions as compared to the rest of the country (OECD 2010a, 38).

The reviewed evidence suggests that the international community is paying insufficient attention to the sub-national distribution of aid in post-conflict countries. No evidence is available for non-post-conflict countries, but the observation that donors do not seem to be particularly concerned with regional imbalances in post-conflict countries does not suggest that they might be more attentive in more stable contexts.

5.7 Sub-national aid allocations by donors not reporting to the DAC

Studies focusing on the sub-national distribution of aid by non-DAC donors all deal with allocation patterns by NGOs. The available evidence points to a weak needs-orientation in NGO allocation patterns and suggests that a variety of different factors might lead to this outcome.

Barr and Fafchamps (2005) find that higher transport costs associated with delivering services in remote areas lead NGOs in Uganda to neglect the most isolated communities. The authors claim that this undermines NGOs' ability to reach the neediest population groups, and that it is likely that those communities that are most in need are entirely beyond the reach of NGOs.

Other authors (Bebbington 2004; Jayne et al. 2000) also observe a weak responsiveness to needs in NGO sub-national allocation patterns and explain it by pointing to the path-dependency of their location decisions. In Peru, NGO resources were found to be flowing mainly towards districts where long-standing partnerships – often a result of personal networks – were in place (Bebbington 2004). In Ethiopia, Jayne et al. (2000, 2–3) find that the allocation of food aid in 1995/1996 was correlated not so much with the geographical distribution of need for food aid in that year, but rather with the spatial pattern of vulnerability during the 1984/1985 famine. The authors suggest that rigidity in allocation patterns stems from NGOs' reluctance to move their operations due to the fixed costs involved in the establishment of supply channels in terms of organisational structures and field-level infrastructure.

The most consistent finding in studies dealing with sub-national allocation patterns by NGOs refers to these actors' tendency to follow allocation patters by official donors and to cluster. This pattern was observed in Bangladesh (Fruttero / Gauri 2005), Tanzania (Koch 2007, 24–30) and Cambodia (Öhler 2013, 17). Fruttero and Gauri (2005) explain this behaviour by pointing out that NGOs prefer engaging in regions where many other actors are present in order to diffuse responsibility. NGOs estimate the risk of failure in the poorest and abandoned regions to be so high that it could jeopardise an already established flow of funding. The authors also find that start-up NGOs that need to make themselves a reputation were more likely to expand to risky areas where fewer actors were involved. However, some of the factors inducing NGOs to form clusters might also be linked to efficiency considerations. For example, Koch (2007, 24–30) points to the existence of economies of scale and positive knowledge spillovers coming from a concentration of international development actors in the same location.

In conclusion, these studies suggest that NGO allocation patterns at the sub-national level are mostly driven by factors other than the degree of needs in different regions. Given the lack of a clear picture of the distribution of needs and aid at the sub-national level, this is not surprising. Some of the factors identified as influencing NGO allocation patterns, such as lower transport costs or economies of scale, might lead to an efficient allocation of aid. Others, such as risk-pooling considerations, do not seem to be compatible with efforts to allocate aid efficiently across regions. However, the evidence is insufficient to draw conclusions on NGO allocation patterns.

5.8 Conclusions and policy recommendations for aid allocation across sub-national regions

Despite its importance for aid effectiveness, the allocation of aid across sub-national regions receives very little attention in both development theory and practice. It is absent from discussions on aid allocation and from most donors' policy documents and does not appear to be an integral part of DoL efforts. Moreover, development targets and country aid allocation formulas are based on national averages, which might set perverse incentives for donors and recipient governments to neglect certain regions. The review of available evidence on aid allocation across sub-national regions painted a mixed – and certainly incomplete – picture. Further research is needed before the efficiency of current allocation patterns can be assessed.

However, some key issues have been identified that should be considered by donors when allocating aid across sub-national regions. These include the degree of need in various regions, the degree and nature of spillovers between urban and rural areas, the partner government's resource allocation patterns, allocation patterns by other donors active in the same country and the existence of inter-regional tensions.

Although donors' influence on the direction of aid flows at the sub-national level might be limited due to both their desire to promote ownership and alignment, and due to aid fungibility, it seems useful to highlight possible ways in which donors can use their room for manoeuvre to avoid possible risks and take advantage of opportunities for effective aid.

5.8.1 Collecting data on sub-national poverty and donor activities and improving donor coordination

Given the large number of criteria that should be taken into account for an efficient sub-national aid allocation, identifying under-aided regions will be a country-specific exercise that requires much more information than is currently available. The collection of disaggregated data on various types of need and on other donors' activities represents the first important step for identifying under-aided regions and, more generally, for an efficient allocation of aid across regions.

Obtaining accurate regional population and poverty figures can be difficult (Darcy / Hofmann 2003, 30; Alfani et al. 2012), but it has become easier thanks to the increasing availability of poverty maps. Many countries now have at their disposal precise geographic information about the distribution of poverty across their administrative regions. Further increasing the availability of detailed information about sub-national poverty landscapes would allow for a more precise geographical targeting of needs. Poverty maps should also be complemented by a more detailed contextual analysis, which would allow donors to take into account other key issues besides needs, as outlined above. Poverty maps alone do not provide answers about where aid should be allocated. However, they are a helpful tool for identifying the regions where needs are greatest and can be used to demand transparency about allocation patterns from donors, recipient governments and the civil society in both donor and partner countries.

The mapping of needs across sub-national regions becomes particularly useful when combined with maps that geo-reference current development projects. Unfortunately, for the moment, poverty maps that also indicate the precise location of aid-financed projects are available only in a limited number of countries and cover only activities by a few donors. Geo-referencing development activities might not always be possible, especially for funding channelled through budget support or otherwise using country systems. Technical cooperation and cross-regional interventions that are difficult to locate also present challenges for geo-coding. Moreover, it remains unclear which coding standards should be used, and what degree of geographic precision is advisable. However, to the extent possible, carrying out more comprehensive mapping exercises of donor interventions would help donor coordination efforts and give the partner government a better overview of activities taking place in the country. Ideally, these would include also new and private donors, but geo-referencing activities by DAC donors would already represent an important step forward. Initiatives such as AidData or the Mozambique Donor Atlas that track location and sector of development projects are good examples. Knowing where aid is allocated can allow the intended beneficiaries to identify projects directed to them, thereby enabling them to provide feedback and demand accountability (Development Initiatives 2013, 98).

Detailed information on the regional distribution of donors within a country could be integrated in donor-mapping exercises that are being carried out as part of efforts to achieve a better in-country DoL at the sectoral level. More generally, the distribution of donor activities across sub-national entities could be given more relevance in the frame of in-county DoL processes. Information on the geographical distribution of aid included in the aid databases of some countries, such as Madagascar, is sometimes used by donors as a basis to coordinate aid allocations across sub-national regions as well as across sectors. Integrating the regional dimension more systematically into in-country DoL frameworks would help in averting duplication of efforts and inefficient concentrations of donors in some regions. As for sectoral DoL, here too partner countries should take on a leadership role in the process.

5.8.2 Paying attention to regional imbalances in sub-national aid allocation

The analysis pointed to insufficient attention being given to the cross-regional distribution of aid in several post-conflict countries, and to the risk that this might undermine social cohesion and state-building efforts. There is a need to develop strategies for addressing the risk that unbalanced distributions of aid could aggravate existing pockets of exclusion.

Because donors are likely to face limitations in their influence on the distribution of aid at the sub-national level, it is important to work together with the partner government in cases where neglected regions are identified. This is facilitated by the fact that most governments in recipient countries recognise – at least in theory – the need to address regional disparities. National strategy papers in many countries pay attention to regional inequalities. In fact, it is rather the donors' policy documents that suggest a lack of attention to the issue (Higgins / Bird / Harris 2010). Statements in national strategy papers could be considered to be of rhetoric nature and do not automatically result in actual efforts to redress regional disparities (Langer / Stewart / Venugopal 2010). However, they offer an opportunity for donors to raise questions about regional inequalities when it comes to the sub-national allocation of development aid. Given the politically sensitive nature of the topic, private donors might be in a better position than official donors to address the issue.

When the government is willing, there might also be space for donors to support government-driven programmes to redress spatial disparities. Examples of efforts of this kind from national governments can be found in many aid-receiving countries such as Cambodia, Nicaragua and Kenya (CIESIN 2006; Higgins / Bird / Harris 2010, 20). Donors could take active part in supporting those efforts where they are found, and in promoting them where they are not. When efforts to redress regional imbalances are not already in place, collecting data on various types of need at the sub-national level can be a good first step towards attracting the government's attention to the problem of lagging regions.

Donors' policy options are likely to be very limited when the government is neglecting some regions intentionally and is not willing to address the problem. There might be some more room for manoeuvre in post-conflict settings where governments attempt to establish political stability and donors often play a role in funding reconstruction efforts. Slightly modified allocation formulas might also help to increase partner governments' incentives to promote development in neglected regions. This could be done in performance-based allocation formulas by including some measure of regional equality in assessments of a recipient country's performance.

6 Conclusions and policy recommendations

This study analysed the problem of under-aided countries, sectors and sub-national regions. It is worth highlighting some similarities and interrelations between the different levels at which the problem has been examined.

A recurrent theme throughout the pages of the study is that some recipients are less attractive than others for donors. Relative unattractiveness can be due to the relatively greater challenges associated with delivering aid to some countries, sectors or regions, but it can also be linked to the low priority status some recipients or sectors represent in donors' eyes. Combined with a lack of coordination among development actors, this can result in some countries or sectors receiving insufficient aid.

Tackling the challenges related to delivering aid to some fragile states and neglected sectors is of crucial importance, because these are often also recipients and areas that present great needs. Aid given in the form of capacity development to improve a country's or a sector ministry's capacity to manage aid might play a catalytic role not only for attracting larger quantities of ODA, but also for leveraging other types of private and public resources beyond aid. In this sense, the focus should be on finding the right type of aid and delivery channel, rather than on increasing aid volumes.

Concerning aid volumes, donor coordination in aid allocations is key. Ongoing efforts to achieve a better DoL at all levels represent an important step in this direction. However, DoL processes also require donors to reduce the number of countries and sectors they are engaged in. This risks exacerbating the problem of under-aided recipients if specialisation occurs without coordination among donors. Thus, the two aspects of DoL – specialisation and coordination – should go hand in hand. To improve coordination in aid allocations, donors should share information on aid volumes allocated to different recipients and take each others' allocations into account when deciding on the distribution of their aid. For "traditional donors", the OECD could play an important role in fostering this ex-ante coordination.

Some interrelations exist between aid allocations at different levels. For example, international DoL might result in the emergence of orphan sectors or regions within countries where donor exits occur. Thus, a well-developed country-level coordination framework must be in place in order to make sure that remaining donors fill in the funding gaps that might result in some sectors or regions. The more advanced donors' sectoral or regional specialisation level, the more likely it will be that a donor's exit from the country will have a serious impact on the funding received by the sectors or regions that used to be covered by the exiting donor. On the other hand, donor entries in under-aided countries could be used as opportunities for establishing an efficient distribution of donors across sectors and/or regions from the start. The regional and the sectoral levels of aid allocation are also interconnected. Duplication of efforts would only occur if two donors are engaged in both the same sector and the same region, whereas being active in the same sector does not necessarily imply duplication if donors implement their activities in different parts of the country. Efforts to achieve an efficient distribution of aid across sub-national regions could be addressed in the frame of initiatives aimed at establishing a better DoL across sectors within a country.

Combining cross-country, in-country and cross-sector DoL can be challenging. For example, the European Code of Conduct on division of labour encourages donors to concentrate on a limited number of countries (cross-country DoL), to focus on two sectors within each recipient country (in-country DoL) and to specialise in a limited number of sectors at the global level (cross-sector DoL) (EC 2007, 6). However, a donor's sectoral specialisation might not always be in line with the different national priorities of the recipient countries the donor chooses to focus on. A donor might select a number of partner countries on the basis of their poverty or institutional quality, and at the same time specialise in certain sectors on the basis of comparative advantages or for other reasons. These sectors, however, might not necessarily be national priorities in all the partner countries selected by the donor. Thus, simultaneous sector and country specialisation processes could produce misalignment with national priorities. Avoiding this would require each donor to choose the countries to support on the basis of different countries' degrees of need in the sectors the donor has specialised in. However, because of the many different factors influencing the selection of partner countries, this seems unrealistic. Sector specialisation would thus rather be compatible with the simultaneous presence of large numbers of donors within a country; each of them specialised in a few sectors. But international DoL aims precisely at limiting the number of donors engaged in each recipient country. Thus, there might be contradictions and trade-offs between cross-country, in-country and cross-sector DoL. The existence of linkages and possible trade-offs between different levels of aid allocation underlines the importance of implementing the three aspects of DoL in an integrated way, rather than independently from each other.

More generally, making sure that, at the country level, aid is well-aligned to national priorities is an important way to raise the value of aid without increasing its quantity. Efforts to improve donor coordination and alignment in the distribution of aid across sectors and geographical regions *within* partner countries could thus be even more important than achieving an efficient allocation of aid *across* countries.

Two more recommendations apply to aid orphans at all three levels: first, acquiring better information on aid volumes received by countries, sectors and regions will help draw attention to recipients that are getting disproportionally low levels of aid. However, because of the difficulty highlighted throughout the pages of this study to define what "insufficient aid" means, donors should avoid "automatically" allocating more aid to the countries / sectors / regions identified as potentially under-aided. Rather, identification of potentially under-aided recipients or sectors should be followed by detailed case studies that highlight risks and opportunities of directing larger volumes of aid to those recipients / sectors. Second, inefficiencies in aid allocation at all levels are often linked to the influence of donors' political and commercial interests in the distribution of aid. Therefore, donors should adopt clear allocation formulas based on needs, on performance or on other efficiency considerations. The use of allocation formulas does not guarantee that allocation decisions will be insulated from strategic interests, since the weights and indicators used in the formula can be modified in order to suit those interests. However, the adoption of clear allocation criteria could make politically-driven allocations easier to identify and more difficult to justify.

Greater transparency in aid allocations could help in making progress on all of the dimensions discussed above: first, it would facilitate donor coordination by allowing donors to take each others' allocations into account in their own funding decisions. Second, it would facilitate the identification of under-aided countries, sectors or sub-national regions. Third, it would provide partner governments and the civil society in both recipient and donor countries with the necessary information to raise questions and demand accountability when the distribution of aid seems to be driven by strategic interests rather than by efficiency considerations. Efforts to achieve greater transparency in aid allocations across recipients and uses could be pursued in the frame of ongoing initiatives such as the International Aid Transparency Initiative. Partner countries could also play an important role in increasing transparency by making their aid receipts more transparent, too.

Given their increasing relevance, non-DAC official and private donors should disclose information on aid allocations as well. Although the OECD could be a crucial actor in fostering information exchange and coordination among DAC donors, new and private donors appear reluctant to engage in agendas perceived as DAC-driven. Here, the Global Partnership for Effective Development Cooperation could play an important role. Capitalising on its inclusive character, the GPEDC could foster greater engagement by non-traditional donors in information-sharing and coordination efforts.

Addressing the problem of aid orphans is crucial because efficiency in aid allocation is an important element of aid effectiveness. Overall, inefficiencies in aid allocation can be seen as a result of the slow pace at which donor coordination, harmonisation and alignment are progressing. It will thus not be sufficient to develop *ad hoc* solutions for directing larger amounts of aid to the specific countries / sectors / regions that will, from time to time, be identified as under-aided. Rather, the international community should address the underlying weaknesses in the aid architecture, of which under-aided countries and sectors are just a symptom. This will be more challenging, but it is also likely to bring benefits that go beyond the problem of aid orphans to other dimensions of aid effectiveness.

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