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The Politics of Bilateral Donor Assistance

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The politics of bilateral donor assistance

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Summary

Motivated by the Millennium Development Goals and international campaigns aiming to ‘end poverty’, bilateral donors have in recent years made numerous commitments to substantially increase their foreign aid budgets. This paper looks at the role that bilateral aid plays in influencing the policy making processes of developing countries in the context of this surge. The paper uses quantitative and qualitative analysis to explore patterns of aid allocation, both across countries and sectors, and examines the dynamics of aid relationships in three case study countries in order to shed light on the mechanisms used by donors to promote their development agendas.

The paper concludes that bilateral donors do have significant influence in the policy making processes of the recipients of their aid. While recent years have seen an increased focus on national ownership of policies by recipient governments, several studies have shown that in certain circumstances the aid modalities intended to promote this increase in ownership—such as the Poverty Reduction Strategy Papers and General Budget Support—have actually had the opposite effect and increased donor oversight of developing country processes. As such, developing countries are often constrained in their policy options.

Quantitative analysis of the sectoral allocations of bilateral donors and case studies that look at donor-recipient relations in more detail, show that this influence has been used to shift emphasis away from investment in infrastructure and the productive sectors. This reflects the growing focus on social services and governance reform as means of achieving progress towards the MDGs. While these may in themselves be valuable investments, the paper highlights the danger of low investment in infrastructure, industry and agriculture—namely the inability to exploit synergies between social and economic policy, limiting social policy to a residual, protective role.

In this context, allowing recipients greater ownership over their policies can become little more than a façade. Indeed, there is a clear contradiction between the donors’ focus on democratic good governance and their influence over sectoral priorities, which takes policy making power away from the government and accountability away from citizens. This highlights the disjuncture between the focus of donors on recipient ownership, and their continued mistrust of developing country administrative and policy making systems.

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1. Introduction

The Millennium Development Goals (MDGs) have come to embody the overriding objectives of development with particular focus on the goal of eradicating poverty. However, there is widespread acceptance that domestic resources alone will not be sufficient to meet the MDGs in many low income countries. This has led to calls from academia, media and international campaigns for western donors to massively increase their aid disbursements to the poorest countries. As a result there have been numerous commitments by donors in recent years to raise aid contributions to unprecedented levels. In the light of this focus on poverty reduction and promises of increases in funding by major donors, this paper looks at the politics of bilateral aid.

In particular, this paper seeks to answer a number of questions: first of all, how important is foreign aid to developing countries and how this been affected by the surge in aid, promised on numerous occasions by donors? Having established the trends in aid levels, the paper asks how have the donors used the considerable influence that their development assistance buys in developing countries? What are the developmental goals of the donors and how are these reflected in their aid priorities? What mechanisms do donors use to influence the policies of their recipients? What are the implications of this outside influence for national sovereignty and the formulation of nationally owned development strategies?

For the sake of brevity, this paper considers the development assistance of the five largest donors, France, Germany, Japan, the UK and the US,² as well as three Scandinavian donors, Denmark, Norway and Sweden, often cited as being relatively forward thinking and progressive (e.g. Schraeder, Hook and Taylor 1998). Altogether, these donors constituted 74 percent of the OECD countries' Overseas Development Assistance (ODA) in 2006. The paper utilizes a mixture of quantitative analysis to look at patterns of aid allocation and case study analysis to examine the politics of donor-recipient interactions.

Following this introduction, the next section sets out the framework of the paper, considering the importance of foreign aid to developing countries and the influence that this buys donors in their policy making processes. This analysis reveals an emphasis on poverty reduction and good governance in most donors' policy statements, both in terms of aid selectivity, whereby 'good' performers in the developing world are targeted for an increase in aid receipts, and the sectoral allocation of aid. The paper therefore proceeds by examining how these priorities are reflected in donor practice. Section 3 assesses the implementation of aid selectivity, while section 4 looks at the sectoral allocations of the donors. Finally, section 5 uses three illustrative case studies, Bangladesh, Ethiopia and Mozambique, to examine the donor-recipient relationship in more detail, looking at the mechanisms which donors have used to influence recipients in practice and the goals which they have promoted.

2. A framework for understanding the influence of bilateral donors

The policy process

The policy process can be envisaged as comprising three main activities: setting the boundaries of the debates and the policy agenda; identifying solutions to existing problems and selecting a policy option; and implementation of the policy selected. While the linear model of policy making, whereby these activities are viewed as discrete stages which take place consecutively, has been disputed (Court and Young 2006), it is still useful to envisage policy making as encompassing these activities albeit that they may overlap with one another.

² In terms of amount of aid, the largest donors by percentage of GNI have consistently been Denmark, Luxembourg, the Netherlands, Norway and Sweden. While not covered here, the increasing importance of China and India as donors to Africa is also recognised. McCormick (2008) provides an insightful and balanced analysis of their likely impact on African development.

Each of these policy making activities can usefully be viewed as interactions between actors with differing viewpoints regarding the goals of development and the best strategies for achieving them, which take place in the context of political, economic, social and cultural institutions, which define the 'rules of the game'. The actors include international actors, such as the bilateral and multilateral donors, the governments and civil society organizations (CSOs) which are the potential and actual recipients of their aid, the populations of these countries and interest groups within them. As such, a recipient government, in making and implementing policies must balance the interests and pressures of a range of national and international actors with its own particular developmental vision. The interests of donors and the extent to which they are able to affect the priorities of recipient governments is the principal focus of this paper. As such, this leads us to consider in the remainder of this section: what the developmental priorities of donors are; what the extent of influence over recipients is; and how this influence is used.

Donor priorities

Economic growth was long considered the basic goal of development. While the emphasis initially was on the state to provide the engine of economic growth, this shifted to a market-led strategy in the 1980s and 1990s following the debt crises and the perceived need to roll back 'bloated' and 'inefficient' states in developing countries. However, the last ten years has seen a significant shift with poverty reduction replacing economic growth as the principal objective of development (Mosley, Hudson and Verschoor 2004). This followed recognition that several decades of development had made a disappointing impact on levels of poverty, partly as a result of the negative social effects of structural adjustment and the failure for the benefits of economic growth to 'trickle down' to the poor. This recognition led to the identification of a set of developmental goals by the OECD's Development Assistance Committee (DAC) in 1996 (OECD 1996), which in turn contributed to the MDGs which were established by the Millennium Declaration, with the headline grabbing goal of halving extreme poverty. Symbolic of the widespread acceptance of poverty as the main objective is the World Bank's focus on poverty in the World Development Report in 2000 (World Bank 2000).

In terms of donor priorities, a focus on ending poverty has led bilateral donors to take considerable interest in the sectoral priorities of the recipients of their aid, with basic social services receiving particular attention. Alongside this focus on poverty, governance has become increasingly prominent in donor discourse. A focus on governance has two main motivations, the first derives from efforts to improve the effectiveness of aid and the need for donors to demonstrate to their own taxpayers that their development funds are being used effectively rather than being corrupted for private gain, and leads to an emphasis on administrative efficiency and financial accountability. The second, more normative conception, which focuses on democratization and respect for human rights makes the assumption that a government accountable to its citizens, as well as being an important goal in itself, will contribute to the design of policies focused on poverty reduction, resulting in better developmental outcomes.

The governments of all but the most inhumane of regimes will share the donor focus on poverty. However, this does not prevent other objectives of developing country governments coming into conflict with that of poverty reduction at times, or indeed disagreements regarding how to achieve these objectives and therefore the policies required. Still more contested is likely to be the donor focus on good governance, which through increased accountability, implies considerable threats to the dominance of powerful elites in developing countries. One of the purposes of this paper is therefore to examine how influential donors are when their recipients disagree with their priorities.

The importance of aid to developing countries

The increased focus on development generated by the MDGs has contributed to a series of commitments by the North to provide aid for the South. In particular, EU countries pledged to increase ODA to 0.51 percent of GNI by 2010 and 0.7 percent by 2015 (EU 2005), while members of the G8 ‘agreed to double aid for Africa by 2010’ at Gleneagles in 2005 (G8 Research Group 2006).

These commitments have undoubtedly resulted in increasing trends in ODA (see figure 1).³ However, progress towards the targets is disputed based on the inclusion of debt relief in official ODA figures (Mehrotra 2002; Watt and Sharman 2006; Oxfam International 2007). As many of the debts cancelled were not being serviced, and the benefit to recipient countries will be spread over many years, whereas the complete cost of debt cancellation is declared in one year, the actual resources transferred to developing countries does not equal official ODA figures (Oxfam International 2006). This distinction is particularly important as commitments to increase aid have been accompanied by an unprecedented wave of debt cancellations as part of the Highly Indebted Poor Countries (HIPC-2) process and additional commitments made at the G8.

Figure 1: Total bilateral ODA

By including debt relief in their figures for ODA, the OECD (2007a) show that the majority of the targets set by DAC members at Monterrey in 2002 were met in 2006 (see figure 2 below). In particular, Denmark, France, Germany, Norway, Sweden and the UK all exceeded their target of 0.33 percent of GNI and the US exceeded its lower target of 0.12 percent of GNI.⁴ However, given that the current round of massive debt cancellations will come to an end in the next few years, if future targets are to be met, a great increase in real transfers of resources will be necessary, first of all to fill the gap left by debt relief and secondly to provide significant further increases on current levels.

Figure 2: ODA as a proportion of GNI and major aid targets

These large flows of aid represent a considerable and growing proportion of resources in developing countries. One way of quantifying the importance of aid is to calculate the aid intensity in a country (ODA as a proportion of GDP). High levels of aid intensity may indicate a situation of aid dependency whereby ‘a country cannot perform many of the core functions of government, such as operations and maintenance, or the delivery of basic public services, without foreign aid funding and expertise’ (Bräutigam 2000: 9). Bräutigam proposes that levels of ODA greater than 10 percent of GDP indicate possible aid dependence (Bräutigam 2000).

Table 1: Aid intensity of low income and lower middle income countries

The data in table 1 clearly show that aid is of great importance to the poorest countries. The majority, 45 out of 62, of Least Developed and Low Income Countries (from now on the ‘poorest countries’)⁵ and 10 out of 44 Lower Middle Income Countries for which data are available are potentially aid dependent according to the above criteria. In addition, bilateral donors make up the majority of development aid. This reliance of many developing countries on foreign aid means that donors are likely to be extremely influential when faced with recipient governments desperate to ensure continued access to foreign aid. While this is divided between the different bilateral donors, who do not necessarily have identical development priorities, table 2 shows that individual donors also provide

³ For the purposes of this paper, data from the OECD-DAC is used. Overseas Development Assistance (ODA) is defined as flows ‘provided by official agencies ... or by their executive agencies’ which are ‘administered with the promotion of the economic development and welfare of developing countries as [their] main objective’ and which are ‘concessional in character and convey a grant element of at least 25 percent’ (OECD 2007b: 1). Clearly using this definition neglects the considerable variation in the composition of the grant and loan components of aid, as well as the different donors’ policies with respect to tied aid. While these issues are of major importance to developing countries, space constraints do not allow them to be thoroughly discussed here.

⁴ Japan did not set any targets at the Monterrey Conference (OECD 2007a).

⁵ Following the classification used by the OECD (see <http://www.oecd.org/dataoecd/23/34/37954893.pdf>).

highly significant proportions of individual countries' GDPs. In particular, the US provides an average of 2.7 percent of the GDP of the poorest countries and 3.7 percent of the GDP of Lower Middle Income countries, while France, Japan and the UK each provides an average of more than one percent of the GDP of the poorest countries. In addition, Eritrea, Iraq and Liberia all receive more than 10 percent of their GDP from the US, while the Republic of Congo receives more than 10 percent from France, indicating possible aid dependence on just one donor.

Table 2: Importance and distribution of donor aid

Table 2 also demonstrates that most bilateral donors tend to give at least some aid to virtually every developing country. Only Denmark, and to a lesser extent, Sweden and the UK, seem to be relatively selective in their allocations. It may be that even in countries which are not major priorities for donor assistance, bilateral donors like to be involved to some extent (Alesina and Dollar 2000). One likely explanation is that even a relatively small amount of aid buys a donor a voice in the policy making process.

The mechanisms of exerting influence

With current donor discourse dominated by poverty reduction and good governance, donors use a range of mechanisms of incentives and penalties to promote these goals with recipients of their aid. These different mechanisms are presented below as ideal types, however, it should be noted that in practice these mechanisms are often employed jointly and can be hard to differentiate from one another. In addition, to these mechanisms of direct influence, clearly the very fact that all donors promote the MDGs, poverty reduction and good governance in almost every policy statement and communication that they make will in itself influence the agenda setting of their recipient countries: the governments of developing countries are well aware of the policies favoured by donors.

Policy conditionality

Policy conditionality is the use by external donors of conditions to force recipients to implement certain policies, based on the threat that development assistance could be discontinued if the conditions are not fulfilled. The failings of policy conditionality have been thoroughly documented elsewhere and as such a lengthy discussion is not warranted here. Nonetheless, one important point is to note that although policy conditionality related to structural adjustment reforms may have been very successful in influencing the boundaries of the policy agenda and the policy selection of developing countries, a lack of national ownership of these imposed policies has meant that one of its weaknesses has been in ensuring the implementation of these policies. As a result donors now employ a range of other mechanisms to exert influence over recipient policies, in addition to clearly defined policy conditionality. At least part of the motivation for employing these other mechanisms is to correct for policy conditionality's weakness in ensuring implementation of desired policies.

Process conditionality

One response by donors to the perceived lack of national ownership generated by policy conditionality has been to focus on *process conditionality*, whereby the policy making process rather than a particular policy is the subject of donor specification. The aim of process conditionality is to change the balance of interests in policy making, so that the general population, and especially underrepresented groups such as the poor, have a greater say. In this way, process conditionality focusing on democratization and participation is expected to make governments more accountable to their populations.⁶ The

⁶ Clearly this assumption is problematic in two main ways. First of all, there remain considerable doubts as to whether democratic institutions can be constructed by external actors or whether democratisation is a process that needs to derive from the bottom-up. Secondly, the contradiction between government accountability upwards to donors and downwards to their electorate is itself incompatible with democracy (Browne 2006).

assumption is that greater government accountability to its citizens will lead to the design of policies focused on poverty reduction and that public participation will improve the likelihood of successful implementation of these policies.

Ex-post conditionality

Another response to the problems associated with conditionality has been to propose a switch from *ex-ante* to *ex-post* evaluation (Dollar and Pritchett 1998). In contrast to policy conditionality where aid distribution is based on ex-ante promises to implement policies in the future, ex-post conditionality is based on prior demonstrations of policy implementation or achievement of development goals.

In this respect the World Bank's *Assessing Aid* report has been extremely influential. It concludes that aid can be effective in reducing poverty but only in strong institutional settings and when governments implement 'good' policies (Dollar and Pritchett 1998). The implications of these findings are that rather than forcing recipient governments to change their policies using policy conditionality, donors should target poor countries that already have relatively good governance records and that are following 'good' policies.⁷ It is proposed that this *aid selectivity* could act as a means of influencing the policies and behaviour of recipient countries by introducing competition for aid among developing countries. In this way, developing countries which do not satisfy selectivity criteria would have an incentive to 'improve' their policies and institutions in order to qualify for development assistance. However, for this to be effective donors would need to coordinate their activities to ensure that the poor performance of a recipient punished by one donor does not continue to be rewarded by another.

Rather than an on-off allocation decision implied by strict aid selectivity, a less drastic interpretation of the principle of ex-post evaluation is that aid disbursement is linked to results and outcomes such as the achievement of poverty reduction targets specified by the MDGs. This kind of 'outcome-based conditionality' allows aid recipients greater policy freedom regarding what policies to pursue, as long as they keep meeting development targets (Ortiz forthcoming).

Linking bilateral assistance to multilateral processes

Although the main focus of this paper is on bilateral donors,⁸ the International Finance Institutions (IFIs) are massively influential on the bilateral donors and bilateral donors often link the provision of their assistance to the multilateral processes and the conditionality that is inherent in them.

The provision of multilateral aid is conditional on the preparation of a nationally owned PRSP approved by the IFIs. While there is no formal prescription for the required content of PRSPs, several observers point out that recipient countries, based on many years of experience dealing with the IFIs, know exactly what they need to include in their strategies in order that their PRSP is approved (Sanchez and Cash 2003). In addition, studies have found that while social policies are subjected to some form of participative process, the macroeconomic framework of the PRSPs is based on that of the Poverty Reduction and Growth Facility (PRGF), which is separately agreed with the IMF, and not usually subject to consultation with civil society (Dijkstra 2005; Gottschalk 2008; IEO 2004; Sanchez and Cash 2003). As a result, the focus of the macroeconomic frameworks of the PRGFs and PRSPs is on macroeconomic stabilization rather than growth, despite the fact that most of the countries involved

⁷ The concept of aid selectivity has received considerable criticism from some observers, primarily regarding what constitutes 'good' policies (see Anderson 2007; Hermes and Lensink 2001; Lensink and White 2000; Mehrotra, 2002; Morrissey 2005; Pronk, 2001) and what to do about those countries which do not meet selectivity criteria (see Anderson 2007; McGillivray 2006).

⁸ The main tool of the IFIs, the PRSPs are the subject of two separate papers commissioned as part of UNRISD's *Poverty Reduction and Policy Regimes* project. These consider the content of the macroeconomic frameworks of the PRSPs (Gottschalk 2008) and the representation of the groups included in the participative drafting process (Molenaers 2008).

already have relatively low inflation (Gottschalk 2005, 2008; McKinley 2005; Sanchez and Cash 2003).

The PRSP process also involves significant process conditionality for recipients. PRSPs must be drafted through a participative consultation process with civil society. The intention of this is that government accountability to its citizens is increased, in this way strengthening the influence of the population over the government in the framework outlined above. However, the participative consultations have been much criticized for failing to exert real influence on the final PRSPs (e.g. Booth 2005; Canagarajah and van Diesen 2006; Piron and Evans 2004), for by-passing existing political processes with the legislature often not included (Bwalya *et al* 2004; Gould and Ojanen 2003) and for focusing on NGOs as representatives of the poor despite the doubts of many observers regarding their accountability to their constituents (Bebbington 1997; Fowler 1988; Molenaers 2008).

This conditionality and influence inherent in IFI processes are linked to the activities of the bilateral donors in three main ways. First of all, the PRSPs and the Country Policy and Institutional Assessments (CPIA) of the World Bank act as a rating system of recipients for most bilateral donors (Bird and Rowlands 2007; Fraser and Whitfield forthcoming; Ortiz forthcoming). Secondly, the majority of the debt relief provided by bilateral donors takes place through the HIPC-2 initiative. The 41 HIPC countries hoping to qualify for debt relief must have an approved PRSP in place and have demonstrated 'sound' economic management by implementing IMF and World Bank favoured policy reforms for three years (Morrissey forthcoming; Oxfam International 2005). Finally, a review of policy documents shows that Denmark, Germany, Norway, Sweden and the UK all state their intention to use recipients' PRSPs as the starting point for their development assistance (see BMZ 2001; Danida 2005; DFID 2005; NORAD 2005; SIDA 2002). The result is that virtually all development assistance, multilateral and bilateral, and debt relief, is dependent on completion of an adequate PRSP and meeting IFI-defined macroeconomic criteria, and the aid of most donors is focused on priorities set out in the PRSPs.

3. Donor adoption of aid selectivity in allocation

Methodology

This section examines the use of aid selectivity by bilateral donors with a focus on whether current aid distributions are likely to provide any incentive to reform for poorly performing developing countries. It is proposed that in order for aid selectivity to act as an incentive for countries to change policies or reform their institutions all, or at least a considerable majority, of donors would need to be selective in their aid allocation and according to the same criteria. Any other scenario would most likely mean that selectivity by one donor would be compensated by a lack of selectivity by another, with little resulting incentive for the recipient to reform.

The regression model

A number of past studies have already carried out similar analysis, using regressions, however, even the most recent of these only uses data on aid up to 2003 (Dollar and Levin 2006). As such there is a need to update these analyses, particularly in the context of increases in bilateral aid discussed in section 2. This section therefore uses regression analysis to determine the relative importance of a range of factors in determining the aid allocations of the bilateral donors covered by this paper.

Most previous analysis examining the use of aid selectivity by donors has attempted to create a complete model explaining donors' aid allocations. In addition to recipient need variables, these studies therefore include control variables for donor interest variables such as whether a developing country was once a colony of the donor. Creating a complete model of allocation decisions is not the aim of this paper, rather the main intention is to examine the extent to which donors have implemented

selectivity according to criteria of governance, ‘good’ policies and poverty, thereby creating an incentive for recipients to follow policy prescriptions. Controlling for donor interest variables only tests whether aid selectivity is applied at the margins. Even if proven, such selectivity would give recipients little incentive for reform. For example, if by virtue of having been a colony of a donor, a recipient country consistently receives aid, there will be relatively little incentive to reform even if a neighbouring former colony of the same donor is better governed and as a result gets slightly more aid, as the recipient government would be well aware that it would receive a certain amount of aid whether well governed or not. Equally a country which is not a former colony of the particular donor would have little incentive to reform as it would know that the donor only gives aid to its former colonies. This is not to say that donor interest variables are inconsequential, however. They can be extremely illuminating and go a considerable way to highlighting why a donor does or does not implement aid selectivity, and under what circumstances. As such, more than one set of regressions is required for this analysis, with and without controls for donor interest variables. The methodology used is based on that used by Dollar and Levin (2004, 2006) which estimates an equation of the following form:

$$\ln(\text{ODA}_{ij}) = \beta_0 + \beta_1 \ln(\text{population}_j) + \beta_2 \ln(\text{GDP per capita}_j) + \beta_3 (\text{measures of institutions / policies}_j) + \beta_4 (\text{vector of other determinants of aid allocation}_{ij}) + u_{ij}$$

Where i indexes donors and j indexes recipients. In this model, the measures of institutions and policies test whether donors implement aid selectivity. In addition, the population and GDP per capita variables are used to control for the size and wealth of recipient countries, legitimate concerns of donors trying to maximize the impact of their aid, and the vector of other determinants contains the other donor interest variables. Where relevant, all explanatory variables are in one year lag as we are testing whether aid allocations have been made according to demonstrated performance by the recipient country.

Data and sources

The dependent variable used is the natural log of aid commitments in constant 2005 dollars taken from the OECD DAC database. The focus of this section’s interest is the aid allocation decision of the donor, therefore it makes little difference whether the figures are commitment or disbursement as the decision to allocate aid or not will have already been made. As such data on aid commitments are used, although aid figures exclude debt relief and emergency assistance as both categories of assistance are at least partially dependent on factors outside the donors’ control. For example, donors can only cancel debt to countries which have it in the first place and many, though not all, of these decisions are carried out as part of the HIPC-2 initiative which is managed primarily by the World Bank and IMF. In the case of emergency assistance, aid should be sent to countries which are suffering from emergencies and this should not therefore be a policy choice by the donors (Dollar and Levin 2006). The dataset includes all potential recipients of aid, including those which do not receive any aid from a particular donor, as these cases are particularly important when examining aid selectivity. Aid values are transformed in a monotonic fashion to become $\log(1+\text{aid})$ in order to reduce dispersion and to ensure that aid values of 0 remain in the analysis (Dollar and Levin 2006). The inclusion of aid values of 0 means that aid is a limited dependent variable and the analysis therefore requires use of tobit estimations as has been argued by McGillivray (2003). Finally, as aid varies considerably year by year, data are pooled from the five most recent years for which data are available (2002-06) with year dummies included in the regressions (Dollar and Levin 2006).

The extent to which aid is allocated according to poverty criteria is tested using the independent variables of GDP per capita and population. If poverty selectivity is applied, a donor would distribute more aid to poorer countries with large populations, which are likely to have large numbers of poor people. Data for both of these variables were obtained from the World Bank’s World Development Indicators and they are employed as natural logs, as they vary across a large range between recipients. In terms of selectivity according to good policies and institutions, Dollar and Levin (2004) argue that a

combination of Freedom House's 'Freedom in the World' index and the 'Law and Order' index in the International Country Risk Guide (ICRG) are a good proxy for economic policies such as macroeconomic stability and trade openness, which they claim are important for the effective use of aid in poverty reduction and growth. These two variables are therefore included in the regressions as a combined measure of good policies and institutions.⁹ It should be noted that the Freedom in the World index is the sum of scores for political and civil liberties. This resulting index is scored between 2 (high freedom) and 14 (low freedom). In contrast, countries in the Law and Order index are scored between 1 and 6 with high values meaning 'better' scores in terms of the rule of law.

In addition to these indices which are used by Dollar and Levin (2006) to measure the quality of institutions, the regressions in this paper also examine an alternative indicator of the ability of developing country governments to use effectively the resources at their disposal. This indicator is RICE (Relative Income Conversion Efficiency) which was developed by Moore, Leavy, Houtzager and White (1999). This index measures the efficiency of governments in turning GDP per capita into improved life expectancy, education enrolment and literacy. In essence this variable corresponds to many of the basic arguments of aid selectivity, namely that more aid should be given to those countries which are best able to use it. The advantage of using RICE is in avoiding the ideological and methodological debates and arguments inherent in the substantial literature on institutions and growth or poverty reduction, of which the aid selectivity approach is a part. Instead, RICE directly examines the relationship between income and indicators of human development irrespective of whether a country is democratic or authoritarian, or whether it follows the policies approved of by the IFIs. For the analysis in this paper, the RICE index is recalculated using data from the Human Development Report 2001 following the same methodology as that in Moore *et al* (1999).¹⁰ Tests of Variance Inflation Factors (VIFs) show no signs of multicollinearity between these three measures of ability to use aid effectively—freedom, law and order, and RICE—and GDP per capita.

Past research has also shown donor interest variables such as strategic interest, colonial status, volume of exports from donor to recipient and regional priorities have played important roles in the aid allocation decisions of different donors (e.g. Alesina and Dollar 2000; Cooray, Gottschalk and Shahiduzzaman 2005; Dollar and Levin 2006; Schraeder, Hook and Taylor 1998; Tuman and Ayoub 2004). Therefore, a dummy variable indicating whether or not a recipient country is a current or former colony of each donor is included using data from Strang (1991) and Dollar and Levin (2006), and the volume of exports from donors to recipient countries taken from the IMF's Direction of Trade statistics and the distance from the capital of the donor to that of the recipients taken from Byers (2005) were employed as natural logs.

Therefore, to assess the importance of these different variables in aid allocation decisions, three sets of regressions are calculated for each donor. The base specification (1) is comprised of the poverty and institutional selectivity criteria used by Dollar and Levin, namely, population, GDP per capita, freedom, and law and order. These regressions test whether selectivity is implemented by the donors and therefore whether there is an incentive for recipients to alter their policies in order to qualify for aid. In a further set of regressions (2) the RICE index enters in order to test whether or not countries which have already demonstrated their capacity to achieve a high level of human development relative to their income are favoured by donor organizations. A final set of regressions (3) includes controls for donor interest variables—colonial status of recipients, the level exports from donor to recipient and the

⁹ Data for the Law and Order index were only available to the author for May 2001. These values were therefore used as predictors for each of the years. While this implies some margin of error, the indices usually change only slightly between years and as such this should be minimal.

¹⁰ To do this, the HDI, which is normally based on an unweighted average of GDP per capita, life expectancy and educational attainment, is recalculated omitting GDP per capita. This gives an HDI* comprising life expectancy and educational attainment. The RICE index is the residual of the regression of HDI* on GDP per capita. RICE is therefore 'the difference between (a) the actual level of the human development indicator and (b) the level that one would predict for a country on the basis of its income per head' and can be either positive for high achievers or negative for low achievers (see Moore *et al* 1999: 4 for more details).

distance of the donor country to the recipient (see table 3). These regressions give an indication of the relative priorities of donor assistance, as well as showing whether selectivity is employed at the margins, once donor interest variables have been controlled for. They are also the closest to the equations estimated by Dollar and Levin (2006), with the addition of RICE. Summary statistics for the dataset are displayed in Annex A.

Regression results

The implementation of poverty selectivity

Table 3a and 3b: Full regression results

The wealth of recipient countries does play a role in the distribution of donors' aid (see table 3). On the whole, GDP per capita and population are highly significant, and relatively large negative coefficients for GDP per capita indicate that donors give more aid to poorer countries and large positive coefficients for population show that donors give more money to larger countries.¹¹ However, despite the significance of the wealth of recipient countries for many donors, analysis of the division of aid between different income categories (see table 4) shows that much more can be done to ensure that aid reaches the poor. Denmark and the UK devote a clear majority of their aid to the poorest countries. Meanwhile Japan and the US have both allocated approximately half of their aid budgets to lower middle income countries with considerably less funds reserved for low income countries. In addition, France, Germany and Japan direct between 5 and 15 percent of their aid to upper middle income countries, with Germany and Japan also giving more money to lower middle income countries than low income countries.

Table 4: Distribution of aid by country income classification¹²

The implementation of governance selectivity

The results in table 3 show that there is very little evidence that most donors allocate their aid according to governance criteria. For donors such as Germany, Japan, Norway and the US, coefficients close to zero and a lack of significance demonstrate that civil and political liberties play little role in aid allocation decisions. Perhaps surprisingly, positive coefficients and high significance for freedom indicate that France gives more aid to countries with worse scores on civil and political liberties (this is explained by the donor interest variables, discussed below). For just three countries, Denmark, Sweden and the UK, is the freedom predictor highly significant with relatively large negative coefficients showing that they favour democracies in their allocations.

Similarly there is little evidence that most bilateral donors allocate their aid according to the rule of law measure. Only in the case of Sweden is the predictor highly significant with a relatively large positive coefficient indicating that more aid is given to countries with better institutions. Denmark, Germany, Japan and Norway all have positive coefficients but relationships are non-significant, while for three of the largest donors, France, the UK and the US, negative coefficients point to larger amounts of aid allocated to countries with worse scores on the law and order index. For France and the US this relationship is highly significant.

These findings are surprising given that Germany, Norway and the UK all claim to use some aspect of governance in their aid allocation decisions (see BMZ 2002, 2007; DFID 2005; Hoebink 2006). While the US' Millennium Challenge Account (MCA) is one of the foremost examples of aid selectivity using a range of governance indicators (MCC 2007; Morrissey 2005), the MCA's budget is relatively

¹¹ This does not necessarily discount the finding that small countries tend to receive a relatively large amount of aid per capita (e.g. Alesina and Dollar 2000).

¹² The OECD listing of recipient countries is available at: <http://www.oecd.org/dataoecd/23/34/37954893.pdf>.

small compared with the total US aid budget, and a review of the United States' Agency for International Development (USAID) policy documents found no mention of aid selectivity (USAID 2004a, 2005, 2006).

RICE

The results show that RICE is a far better predictor of the allocations of bilateral donors than the freedom, and law and order variables. For all donors, apart from France, coefficients are positive, indicating more aid for better performing countries, and in many cases relatively large (although the importance of RICE falls substantially for the US when donor interest variables enter). Of these, the relationship is highly significant for all but Denmark and Norway. As mentioned, France is again something of an exception, with more aid given to countries with low or negative scores on the RICE index. Clearly the HDI is itself a fairly narrow measure that does not fully encapsulate the breadth of freedoms required for a human being to do and be the things that they have reason to value, as envisaged by Sen's capability approach, which inspired the HDI. However, what these results indicate is that although selectivity is not being employed sufficiently to influence the policies of recipient countries, *if* human development, measured by longevity of life and educational attainment, is considered a priority of aid, most donors are currently allocating aid reasonably efficiently by giving more aid to those countries which are better at using available resources to ensure better human development outcomes for their populations. Given that most donors do not appear to be allocating aid according to measures of good institutions, this finding questions the relevance of aid selectivity according to policy and institutional criteria.

Donor interest variables

Colonial history - The regression results show that France and the UK tend to focus their assistance on their former colonies. In both cases, the colonial status of a country is a highly significant predictor which has a major impact on allocations. The overriding importance of France's colonies explains why more French aid is directed to poorly performing countries in terms of the institutional variables. Once French colonies have been controlled for in the regressions (the third specification) the importance of these other variables reduces significantly. In contrast, although colonial status is a strong predictor of British aid allocations, the results also show that poverty, freedom and RICE also have considerable explanatory power. According to these regressions, colonial status does not play a major role in the aid allocations of any of the other former colonial powers: Germany, Japan and the US.

Trade - The results also show that the destination of French, Japanese and US exports were a significant determinant of their aid allocations. This is supported by the OECD which found that more than 70 percent of US aid was tied to US procurement (Browne, 2006) and the Japanese government's stated policy that one of the purposes of aid is to build commercial ties with trading partners (MOFA 2003). Equally, French aid has traditionally been associated with defending the country's commercial interests abroad (Hoebink 2006). In the case of the US, when trade is controlled for, the significance of RICE as a predictor of aid allocations disappears.

Regional priorities – Analysis of the regional allocation of aid is also illustrative (see table 5). This shows that Japan focuses its aid on countries in Asia and especially East Asia, a finding which is in line with the stated policy of the Japanese government. During 2002-06, 28 percent of US aid was directed to the Middle East of which, perhaps unsurprisingly, the vast majority (24 percent of total aid) was given to Iraq. In addition, 6 percent of total US aid, and the majority of aid given to South Asia, was allocated to Afghanistan. This clearly shows that strategic interest, alongside the wealth of recipient countries and US commercial interests, does play a major role in US aid allocations.

Table 5: Regional distribution of aid

The table also shows that a large proportion of Danish, Norwegian and Swedish aid is directed to Africa. However, within the continent, aid is not distributed evenly. Norway and Sweden concentrate their efforts on countries in East and Southern Africa, while Denmark focuses on countries in East, West and Southern Africa. This and the relatively smaller number of countries to which Danish aid is supplied (see table 2) suggest that the conclusion of Schrader, Hook and Taylor (2004) that Sweden selects a relatively small number of recipients in which it is felt that their aid would be particularly beneficial may apply to some extent to the other Scandinavian donors.

The regional breakdown of aid clearly shows the focus of French aid on Africa and especially the *Francophonie*. This is also supported by the strong significance of Africa as a predictor of French aid allocations in 1998-2000, and is in line with French policy statements that aid would target French speaking countries in Africa. Equally, the focus of the UK is clearly on Africa and South Asia, which fits with the finding that colonial status is a major determinant of its aid.

Summary

Overall, these results show little evidence that most donors use good institutions and policies as criteria in their aid allocations, as some donors explicitly claim. While, there is some indication that more money is directed by a few donors to countries with good scores on the Freedom House index or the ICRG, it is highly doubtful that bilateral aid selectivity is an effective mechanism for promoting improved policy choice, as a result of the lack of uniformity across all donors.

4. The sectoral priorities of donor assistance

While we have seen that donor commitments to implement aid selectivity are not reflected in practice, donor priorities may be more evident in the sectors that they target with their aid. Therefore this section examines how donor emphasis in policy statements on poverty reduction and good governance is reflected in the sectoral allocation of their aid. Despite the focus on poverty reduction common to almost all donor policy statements, the following analysis shows considerable variations between different donors, reflecting variations in their developmental objectives and the strategies they pursue to achieve them.

Non-allocable aid: General budget support (GBS)

GBS has been promoted as another response to the perceived weakness of policy conditionality in ensuring implementation due to a lack of national ownership of policies. GBS is usually linked to some form of ex-post conditionality whereby recipients are selected based on their 'good' performance over a number of years. In addition, continued GBS is normally dependent on some form of 'outcome-based conditionality' whereby disbursement is contingent on meeting certain developmental targets. As a result, although GBS implies giving recipients control over the aid they receive, in practice recipients have already demonstrated their adherence to the 'right' policies before donors relinquish control.

GBS has gained increasing prominence in much development literature and features as one of the elements of the aid effectiveness agenda (see the *Paris Declaration*—OECD 2005). Despite the prominence of GBS in policy documents on aid effectiveness (e.g. Danida 2005; DFID 2005; NORAD 2006; SIDA 2006), OECD data show only minimal use of GBS by most donors (see table 6). Most donors currently allocate less than 10 percent of their aid to GBS with some donors such as Germany virtually ignoring it altogether. The UK is the most vocal proponent of GBS and commits the greatest proportion of its resources to that category. However, this has only reached a high of 15 percent during the periods covered.

It may be that one of the reasons that GBS does not constitute a more substantial proportion of development assistance is that this form of aid delivery has experienced strong criticism in recent years. Donors have experienced problems when regimes that were once considered reliable partners do not act in accordance with donors' views on democracy and human rights, or when their interest in developmental goals wanes (for example, Ethiopia and Uganda in Fritz and Rocha Menocal 2006, 2007; de Renzio 2006; Tangri and Mwenda 2006). This has led to dilemmas as to whether or not, in the face of rigged elections or human rights abuses, aid should be switched off, to place pressure on recipient governments, and reinstated once progress has been made. Clearly such action undermines the reliability and national ownership that are supposed to be the main advantages of GBS.

Table 6: The purpose of donor assistance

Sector allocable aid

Social expenditure

France devotes more of its aid to education than any of the other donors with more than 25 percent since 1997, followed by Germany on 19 percent in 2002-06. In comparison, by far the lowest percentage of education spending is by the US which allocates less than 5 percent to education in all periods. However, it is important to point out that France, Germany and Japan all concentrate the vast majority of their education spending on tertiary education, whereas the UK, the US and Scandinavian donors all focus their education spending on primary education.

Education spending represents a considerably greater proportion of donor assistance than that on health. The UK allocates the greatest percentage of its aid budget to health expenditure with 10 percent in 2002-06, whereas the lowest proportion is that of Germany and Japan with just 3 percent in the same period. As with education, there is a considerable difference between those that concentrate on basic health provision, namely the US and, in 2002-06, Denmark and Sweden, and the other donors which devote less of their funding to primary healthcare. The UK and the US also differ from the others by giving a relatively large proportion of aid for tackling HIV/AIDS, which comes under Population Programmes.

Japan and Denmark are the only two donors to allocate more than 10 percent of aid to water and sanitation in the most recent period of data. In particular, both France and Germany have considerably reduced their commitment to this sector with France cutting aid from 10 percent in 1992-96 to 5 percent in 2002-06 and Germany from 13 percent to 8 percent.

While there is considerable emphasis on the social sectors, to which all donors except Sweden allocated more than a quarter of their aid, the results demonstrate a relatively low importance attached to basic social services.¹³ Even having removed debt relief from the total, none of the donors meet the UNICEF 20/20 target whereby industrialized countries are requested to commit 20 percent of their ODA to basic services. The UK, at 17 percent in 2002-06, is the donor which allocates most aid to basic social services. Germany, which states that the 20/20 goal is one of the aims of its development assistance (BMZ 2001: 18), managed just 8 percent in 2002-06, and France and Japan have the lowest proportion of aid devoted to basic services at just 3 and 4 percent respectively in 2002-06.

However, when we only consider aid to the poorest countries (see table 7), the proportion of aid allocated to basic social services does increase for all of the donors. In particular, Germany and Sweden both allocate approximately 15 percent of their aid to the poorest countries to basic social services. Therefore, a partial explanation for the low priority given by Germany to basic social services, is found in the distribution of its aid. We have already seen that a relatively high proportion

¹³ This includes the following categories: primary education, basic health care, basic health infrastructure, basic nutrition, infectious disease control, reproductive health care, family planning and basic drinking water supply and basic sanitation.

of Germany's aid goes to middle income countries, which on the whole already have good coverage of basic services. As a result this donor focuses on tertiary education instead.

Table 7: The purpose of donor assistance to the poorest countries

Governance, human rights and democracy

The donors which allocate most funds to this sector are Norway (20 percent in 2002-06), Sweden (19 percent), the US (16 percent) and the UK (16 percent). However, within this category the different emphases reflect the donors' differing views of what constitutes good governance. The majority of British aid is under the categories 'economic and development policy/planning', 'strengthening civil society' and 'government administration', reflecting DFID's emphasis on the more administrative aspects of governance and participation (DFID 2005). The US also has a large proportion of aid in these categories but, given its involvement in Afghanistan and Iraq, has a relatively large amount of aid devoted to peace building and security. More surprising, given the US' commitment to promoting democracy (USAID 2005) is the low priority given to this and human rights in its development budget. In comparison with the US, Norway and Sweden place a greater emphasis on 'strengthening civil society' and 'human rights' reflecting their greater emphasis on democracy and human rights as a means to good governance (Hoebink 2006). Working towards improved governance is clearly a very low priority for France and Japan who allocate just 2 percent each to such projects in 2002-06.

While governance and democracy are of intrinsic value in themselves, the implication of the substantial and growing focus of several donors is that they see weaknesses in governance as one of the main causes of underdevelopment in developing countries. This is contested by some observers who understand governance to be an outcome of development (Khan 2004) or that improvements in governance and development are interdependent processes. Equally, seeing governance and democracy as preconditions for development differs significantly from the experience of the East Asian developmental states, which were predominantly authoritarian (Leftwich 2000) and subject to acts of large-scale corruption (Mkandawire 2001). While democracy and transparency do have intrinsic value, pursuing them as a means to growth and development is to some extent without precedent.

Infrastructure, industry and agriculture

Japan has by far the greatest emphasis on economic infrastructure projects, which includes the sub-categories of transport, communications, banking, energy and business (see also Thiele *et al* 2006, 2007). Though the proportion of its aid to this sector has fallen during the period covered, it still represents about 40 percent of Japanese aid to all aid recipients (see table 6) and even higher when considering only the poorest countries (see table 7). The main foci of this assistance are transport—road, rail and air—and energy, which supports the finding by Kawai and Takagi (2004) that Japan has tended in the past to place a greater emphasis on infrastructure projects than the social needs of recipient countries. It would also tie in with the use of Japanese aid, expressed in policy documents, to strengthen and stabilize links with trading partners. In addition, the fact that the use of aid for infrastructure has fallen may also be a sign that Japanese aid is undergoing something of a transition with an increasing focus on social spending, in particular education, and water and sanitation. Although Denmark, France, Germany, Japan and the US all allocated more than 10 percent of their aid to economic infrastructure in the most recent period, there has been a major reduction in the focus on these sectors by all donors. In the first period shown, 1992-96, France, Germany and the UK all devoted relatively large proportions of their assistance to infrastructure projects (22, 47 and 22 percent respectively), in particular transportation and energy.

For almost all of the donors, the productive sectors—industry, agriculture and fishing—receive very low and falling levels of aid. Denmark is one exception in that it still allocates a relatively large proportion of funds to 'agriculture, forestry and fishing'. As with a decline in investment in

infrastructure, falling levels of aid for industry and agriculture represent a move away from investment in productive sectors, and mirrors the lack of pro-growth objectives in most PRSPs (Gottschalk, 2008).

Overall it is clear that a shift is occurring away from investment in infrastructure and productive sectors to a focus on governance and social services—basic services for some donors especially in very poor countries, tertiary education for others. Clearly, in very poor countries with limited resources there is a severe need for investment across a range of sectors. Weighing up the competing demands of social services, governance, infrastructure and industry is a complex matter, which requires a careful balancing act to ensure that potential synergies between spending in different areas are exploited. For example, in addition to its protective role, social policy has the potential to perform an important productive function (Mkandawire 2004, 2005). However, these instrumental benefits of improved social policy, such as producing a healthy and educated workforce, cannot be exploited unless corresponding investment is made in infrastructure and productive sectors to ensure that there are jobs available for qualified people. Conversely, this employment generation is a vital means of linking poor people to economic development and is essential to large scale poverty reduction. Only in this way can social policy make an important contribution to economic growth which benefits poor people.

Therefore, although basic social services are vitally important in very poor countries, the very limited role for foreign aid in productive sectors and its declining role in infrastructure put in doubt the ability to exploit these kind of complementarities. Equally, it neglects the experiences of late industrializers such as Taiwan Province of China and the Republic of Korea for whom inflows of foreign aid free of conditions allowed the state to lay the foundations of human capital and infrastructure (Bräutigam 2000; Ku, 2007), while providing great leverage over the capital-starved private sector (Huang, 2007). This allowed the state to direct entrepreneurial activity to targeted sectors.

Viewed in relation to the results in the previous section on regional aid allocations, we see that the one donor that does concentrate a considerable proportion of its aid on infrastructure, Japan, also focuses predominately on Asia and East Asia in particular. As a result, African countries, which arguably need investment in infrastructure as much as any, have little access to donors willing to invest in that sector.

However, there are signs that following the influential recommendations of the UN Millennium Project (2005) that massive public investment was required in the infrastructure of developing countries, the declining trend may be starting to change. In particular, the World Bank (2008) at the time of writing had recently announced its new Sustainable Infrastructure Action Plan (SIAP), which promised to considerably increase World Bank spending on infrastructure in developing countries. It remains to be seen whether this change will also be reflected in the priorities of bilateral donors.

Debt relief

The high levels of debt relief resulting from the HIPC-2 initiative and other commitments made at Gleneagles mean that debt relief is one of the largest forms of development assistance. For reasons discussed previously, debt relief was not considered in much of the preceding analysis on the destination of donor aid. However, figure 1 has already shown large proportion of debt relief included in aid totals.

Although the amounts of debt relief declared by donors do not correspond to equivalent transfers of resources in the year that the debt is cancelled, debt relief does free up resources in recipient countries over the period in which the debt was due to be repaid. Indeed, the objective of the HIPC-2 initiative is that these additional resources should be used to fight poverty. As such, it is necessary to examine whether debt relief corresponds with an increase in spending on basic services in recipient countries.

Almost all of the recipients of debt relief have at least an interim and most a full PRSP approved by the IFIs. One notable exception is Iraq, which has been the biggest recipient of debt forgiveness in recent

years, although it is not a HIPC and it does not have a PRSP. Nigeria, though not a HIPC country, does have a PRSP and has received \$17 billion in debt relief as part of an agreement at the G8 in 2005, in addition to the debt cancellation agreement with the poorest countries (Oxfam International 2005).

Anecdotal evidence suggests that in several cases, debt relief has indeed allowed governments to devote greater resources to basic social services. For example, a report by Oxfam claims that as a result of debt relief, Ghana has made education free, Mozambique has doubled education expenditure and there have been increases in training and recruitment of teachers in Benin, Burkina Faso, Madagascar, Malawi, Mozambique, Tanzania and Zambia (Oxfam International 2006, 2007). In addition, Watt and Sharman claim that debt cancellation has enabled Zambia to promise free basic healthcare (Watt and Sharman 2006; see also Oxfam International 2006) and the World Bank claims that ‘expenditures on poverty reducing-expenditures have been increasing much faster than total government revenues’ (Hinchcliffe 2004 cited in Oxfam International 2007: 10).

In order to rigorously analyse the effects of debt relief on social spending, it would be necessary to conduct a time series analysis of spending levels over several years following approval of a PRSP and reaching the HIPC completion point. While a recent report by the IMF/IDA (2006) shows significant projected increases in poverty-reducing expenditures for the 29 countries that have reached HIPC decision point, there is not sufficient data available on actual expenditures. Even the trailblazing countries in the PRSP process, Burkina Faso, Mauritania, Tanzania and Uganda, only reached HIPC completion in 2000, and the latest health expenditure data, for which there is relatively good coverage of countries, is available up to 2004.¹⁴ This allows analysis of four years’ health spending following HIPC completion. While latest education spending data goes to 2005,¹⁵ the coverage of countries is very poor. As such there are 18 countries which reached HIPC completion in 2002 or before, therefore allowing us to examine at least two years’ health spending while in receipt of debt relief. The data is presented in table 8.

Table 8: Health expenditure for HIPC completion point countries with a PRSP since 2002

The expenditure on health has increased in all of the countries with data. In some cases, such as Ethiopia and the United Republic of Tanzania, this increase is minor, whereas in others, notably São Tomé and Príncipe, there has been a quite dramatic increase in health spending in the years following HIPC completion. Naturally there are likely to be many other factors which would have influenced the budget process and as such there are very limited conclusions that can be drawn from this analysis. While this small number of cases supports anecdotal evidence that debt relief has had a positive impact on social spending, it will be important to repeat this analysis as data for subsequent years are made available, in order to monitor the effect of the HIPC-2 process on health spending. In comparison, the complete lack of data on education spending represents a significant obstacle to verifying the efficacy of the process.

5. The politics of aid: Donor-recipient interactions

As highlighted in section 2 of this paper, the policy making process involves negotiations between governments, and donors and influential groups in society. In the previous section we have seen that most donors are increasingly focusing their efforts on social services and governance with declining emphasis on productive sectors and infrastructure. This section uses three case studies to examine how these donor priorities are reflected in negotiations with their recipients and to examine how the range of mechanisms of donor influence have been brought to bear on recipient countries.

Two of the cases examined are from Africa—Mozambique and Ethiopia—and one from South Asia—Bangladesh. All of these are very poor countries which receive large amounts of foreign aid yet the

¹⁴ World Health Organization

¹⁵ UNESCO

case studies show that they have very different relationships with their donors. Mozambique is one of the donor show cases due to its strong adherence to donor-favoured policies, yet analysis has shown donors to be dominant in setting the policy agenda, with the Government of Mozambique lacking ownership. In contrast, it has been suggested that Ethiopia and Bangladesh have both been able to establish a certain amount of independence from donor influence. In the case of Ethiopia this is because aid dependence is a relatively new phenomena and the country occupies an important geo-strategic position that affords it bargaining power with donors. The strong recent performance of the Bangladeshi economy and a transition away from aid dependence on the other hand partly accounts for its increasing national ownership. These cases are purposively selected in order to illustrate some key experiences of low income countries with the donor organizations covered by this paper and are not intended to be representative of the developing world in general. Indeed, scanning the literature on aid in developing countries reveals far more countries whose aid relationship bears resemblance to Mozambique than to Ethiopia or Bangladesh (for countries in Africa see Whitfield, forthcoming).

Mozambique

Many observers have described the relationship between donors and the Government of Mozambique as highly unequal leading to perceptions that the country's development strategy is strongly donor-driven. There are many reasons for this apparent weakness with respect to its donors. First of all, Mozambique has a long history of aid dependence (see table 9), indeed ever since it achieved independence in 1975. During the country's civil war which followed independence, it has been argued that aid kept the country afloat and since the end of fighting in 1992 this dependence continued with the result that in 2003 donor aid accounted for more than half of government expenditure (Batley 2005). The extent of the government's reliance of foreign aid means that the leadership do not feel as though they are in a position to disagree with donors (Killick, Castel Branco and Gerster 2005).

In addition, the long-term dependence on aid provides clear examples of the problems highlighted by Bräutigam (2000) for governance and the possibility of nationally defined policies. For example, large amounts of aid are usually provided outside the government budget through projects. This fragmentation of donor aid puts pressures on state capacity and the ability to produce coherent central government policy (de Renzio and Hanlon forthcoming). In addition, this system often involves the establishment of parallel implementation units for donor projects which, along with international NGOs, pay higher salaries than public services and damage already weak government capacity by poaching staff (Bräutigam 2000; Mkandawire 2002). This contributes to the current situation where less than three percent of all Mozambican government officials have a university degree (USAID 2004b). Such problems of state capacity place limits on the ability of recipient governments to formulate their own development strategies and to negotiate with donors.

In addition to these detrimental impacts of long-term aid dependence common to many developing countries, there are also several factors specific to Mozambique that contribute to the government's unwillingness to contradict its donors. In particular, de Renzio and Hanlon (forthcoming) propose that the main emphasis in the potentially fractious governing Frelimo coalition is on presenting a united front to donors in order to maintain an image of stability, seen as essential to ensuring the continued flow of foreign aid. They claim that this has sometimes contributed to an acceptance of donor-imposed policies rather than risking 'a divided response' (de Renzio and Hanlon forthcoming: 284). As a result, they suggest that the Mozambican Government has taken the pragmatic approach of following donor trends to ensure the continued supply of foreign aid and has no strong national development project (de Renzio and Hanlon forthcoming).

All the eight donors supply aid to Mozambique, the most important of which in recent years have been the US and the Nordic countries which have a long established and important relationship with Mozambique (Batley 2005). Mozambique has also received very large volumes of debt relief through

the HIPC-2 initiative. The country's first PRSP is widely considered to have been drafted with the target of accessing debt relief in mind and as such it provides a fairly standard formula focusing largely on basic services and the achievement of the MDGs, whereas the second PRSP has a greater emphasis on productive sectors. Adherence to structural adjustment reforms in the 1990s, and involvement in the PRSP process and HIPC-2 have resulted in a fairly standard macroeconomic framework focused on stability with little emphasis on policies to promote economic growth (Gottschalk 2008).

One aid modality that has been found to be extremely influential in Mozambique is GBS. Mozambique has more donors, nineteen, supplying GBS than any other (de Renzio and Hanlon forthcoming) and GBS accounted for 24 percent of aid in 2002-06 (see table 9 below). These donors coordinated their activities with the government through the G19 which holds regular meetings to discuss progress and uses a Performance Assessment Framework, which identifies targets from the Mozambican PRSP, to measure the government's performance. Drawing from the PRSP, 'outcome-based' conditionality is very closely aligned with the MDGs and include targets on universal primary education, provision of basic health services and fighting HIV/AIDS, as well as a range of governance reforms and some investments in infrastructure. As with the PRSP, there is very little emphasis on investment in productive sectors.

It has been argued that although GBS was intended to increase national ownership and limit the role of donors, it has actually meant an increase in donor involvement, with the entire policy process thrown open to donor attention and influence, and communication between donors and recipients at all levels of government conducted on a daily basis. This has given donors the ability to influence policy 'from within' (de Renzio and Hanlon 2007: 17). In addition, donor coordination has increased the power imbalance between donors and the government as all foreign aid rests on their collective conditions (Batley 2005; Hodges and Tibana 2004). Therefore the aid system in Mozambique highlights the contradiction between the donor priority of good governance and the reality of their assistance, which damages government capacity and ownership. This contradiction is also clearly evident in a failure by donors to take a strong stance regarding blatant public sector corruption and a lack of any political conditionality (Dijkstra 2002; Hanlon 2004).

The result is that donor priorities such as the social sectors account for more than 30 percent of total aid in recent years (although just 9 percent for basic services—see table 9), in addition to government health and education spending, funded in part by GBS, constituting approximately 30 percent of public expenditure in recent years.¹⁶ In comparison, infrastructure and productive sectors combined receive about a quarter of aid. Although there are few examples of disagreement between the Government of Mozambique and its donors, the limited ability for the government to diverge from donor-favoured policies is demonstrated by de Renzio and Hanlon (forthcoming) who show how government attempts to create a development bank using funds freed up by debt relief to provide rural credit and finance development projects were opposed and blocked by donors. However, there are certain circumstances where the government has been able to win concessions from donors when they do not present a united front. For example, the Mozambican Government was able to break the IMF-imposed government spending cap, which allowed it to hire an additional 10,000 teachers (Oxfam International 2006, 2007). While the IMF opposed the increase, the government was able to proceed as the majority of the donor community supported it as it is seen as crucial in attempts to meet the MDGs (de Renzio and Hanlon forthcoming; Dijkstra 2002).

Table 9: Aid summary for the case studies

Ethiopia

¹⁶ Health spending is approximately 10 percent between 2000-04 from WHO database, education was 20 percent according to UNESCO data for 2004

Furtado and Smith (forthcoming) find that Ethiopia has a slightly different relationship with donors compared with many other aid dependent countries. First of all, aid to Ethiopia has traditionally been relatively low and unreliable, due to the Cold War politics associated with the Marxist *Derg* Government in the 1970s and 1980s, the war with Eritrea in 1998-2000 and following allegations of rigged elections and human rights abuses in 2005. As a result, despite recent high levels of aid (see table 9), the Ethiopian Government has viewed donors as unreliable partners and has tried to act independently of aid flows. Secondly, as a country that was never colonized and has maintained a strong sense of national identity and pride, donor pressure is seen as an infringement of national sovereignty (Furtado and Smith forthcoming).

These factors have contributed to an approach whereby the government has resisted donor influence over its policies (Vaughan and Tronvoll 2003). This has been done in a number of ways, in particular by centralizing communication with donors through the Ministry of Finance and Economic Development (MoFED) while the programme of decentralization of policy implementation means that donors have limited contact with the people carrying out actual programmes (Furtado and Smith forthcoming). In addition, the Ethiopian government has been wary of accepting donor technical assistance in ministries due to the potential influence of donors and the distortion of incentives in the public service and finally, the government excludes donors not providing GBS (including important donors such as the US and Netherlands) from discussions on budget and expenditure trends (Furtado and Smith forthcoming). This has limited donor oversight and apparently led donors to consider starting to supply budget support.

All of the donors considered by this paper have given aid to Ethiopia in recent years, however, by far the most important are the US, the UK and Germany. This is despite the fact that Ethiopia does not qualify for support from the MCA and its scores on most governance indicators are relatively poor. That combined with the democratic failings and human rights abuses that followed the 2005 elections could make it a prime candidate for exclusion from foreign aid. One explanation for the continued support is that the Ethiopian government has exploited its important geopolitical position. Viewed as a relatively stable and pro-Western country in a region where its neighbours face considerable problems related to civil conflict (Somalia, Sudan and recently Kenya) and fears of Islamic fundamentalism (Eritrea, Somalia and Sudan), Ethiopia is considered by many of the key donors to be an important ally in the region, in particular in relation to the war on terror. As such it seems more than plausible that such foreign policy motivations have played a role in ensuring the continued supply of aid.

Ethiopia is very much involved in the major IFI initiatives having qualified for debt relief under the HIPC-2 initiative and has completed two PRSPs. However, the first PRSP is essentially a continuation of the government's pre-existing Agricultural Development-Led Industrialization strategy (ADLI) and as a result there is more emphasis on the productive sectors than is the case with many first generation PRSPs. Debt relief and GBS received by the Ethiopian government is channelled through the central government budget and while it is impossible to trace to these resources to spending, looking at the government budget overall shows that 62 percent goes to 'poverty reducing expenditure'. This is defined by the Ethiopian Government as all capital and recurrent expenditure on health, education, agriculture and roads,¹⁷ and is in itself has a more productive emphasis than the narrow focus on basic social services in some donor policies.

The aftermath of the 2005 elections and analysis of the participatory process in the PRSP indicate that process conditionality pursued by bilateral and multilateral donors has had a limited impact on the policy making process in Ethiopia. Vaughan and Tronvoll argue that donor engagement with the process of democratization has been superficial (Vaughan and Tronvoll 2003), and has been undermined by geopolitical considerations already discussed.

¹⁷ See the website of the Ministry of Finance and Economic Development: <http://www.mofaed.org/>.

The result of the interactions between donors and the Ethiopian government, has been that on the whole aid is spent on areas where donors and government are in agreement, leaving the Ethiopian government relatively free to concentrate its own resources on its own programmes, some of which are not supported by donors (Furtado and Smith forthcoming). For example, there is agreement on government priorities regarding food security and basic services. This means that there has been strong donor support for basic education and the Productive Safety Net Programme (PSNP), a targeted, work-based cash transfer and food programme which reaches more than 7 million people (see Sharp, Brown and Teshome 2006). In contrast, there is little donor support for the remainder of the government's Food Security Programme based on resettlement or the government's emphasis on tertiary and vocational education in order to ensure qualified graduates very much needed by the government bureaucracy. This is perceived as taking scarce resources away from the MDG 2: universal primary education.

In this respect the events following the 2005 elections (see for example Abbink, 2006; de Renzio 2006; Lyons, 2006) have been important. The donor response was to withdraw GBS and replace this assistance with a new project focusing on the Protection of Basic Services, alongside reforms aimed at improving the budget and accounting processes (see DFID 2008). This project transfers resources straight to the regions (*woreda*) rather than central government. Therefore the evident failure of process conditionality to generate the desired outcomes and unwillingness to withdraw aid altogether meant that donors resorted to more conventional policy conditionality in order to focus aid on donor priorities and limit government influence. As a result, spending on basic social services in 2006 accounted for 20 percent of aid compared with 5 percent the year before, while budget support had fallen from 25 percent in 2004 to less than 1 percent in 2006.

The Ethiopian case also shows that disagreement with donors is frequently not about sectoral allocations but the approach within a sector. For example, the Ethiopian government is attempting to expand massively health infrastructure by building new health posts in rural areas. This approach is viewed with considerable caution by donors who are concerned whether there will be sufficient trained staff to man the posts built (Furtado and Smith forthcoming).

While the extent of the Ethiopian Government's independence from donors influence should not be overstated, it is clear that the country has a slightly different aid relationship to many other aid dependent African countries such as Mozambique. Building on a strong sense of national history and pride, the government is keen to promote its independence and clearly it has had some success in managing donors to ensure that certain government priorities remain in the face of donor opposition. Nonetheless, although total aid levels did not change, the change in the mechanism of assistance following the 2005 election is an example of the influence that donors do have and how this has been used to increase the focus on basic social services.

Bangladesh

Bangladesh has been a major recipient of foreign aid for many years, although the strong performance of the Bangladeshi economy, principally due to the expansion of the garment industry and prawn exports, has resulted in a diminishing dependence on foreign aid (see table 9) and given the government more room for manoeuvre in its negotiations with donors (Green and Curtis 2005). Bangladesh is not eligible for debt relief through the HIPC-2 initiative but it has produced a PRSP albeit as a primarily donor-driven process to ensure continued access to foreign aid (Green and Curtis 2005).

Historically, donors have lacked trust in the governments of Bangladesh due to perceived administrative inefficiencies, democratic failings, corruption and political violence (Buse 1999). Such failings are evident in Bangladesh's low scores on most governance indicators, as well as the fact that the country does not qualify for aid from the MCA. Nonetheless, Bangladesh has remained a major

recipient of foreign aid from its independence in 1971. Rather than cutting off aid, donors have instead tended to implement a large number of programmes which circumvent government administration and to tighten donor control of projects (Buse 1999). As a result of this lack of political conditionality or selectivity of recipients, all of the donors covered in this paper currently give aid to Bangladesh, although Japan and the UK are by far the most important.

The fragmentation of donor aid through projects bypassing the government is likely to exacerbate the problem of weak government administrative and technical capacity that Bangladesh shares with most developing countries and that has already been discussed with respect to the case of Mozambique. As a result this weak capacity limits the government's ability to negotiate and implement projects, something which is sometimes misconstrued by donors as a lack of commitment on behalf of the government and in turn contributes to poor donor relations (Green and Curtis 2005).

Recent years have seen attempts at increased donor coordination especially in the form of Sector Wide Approaches (SWAPs) in education and health. Research shows that coordinating donors and the different government ministries involved in various ways with each of these sectors has not been easy with failings on both sides (for the health sector see Buse 1999; Sundewall and Sahlin-Andersson 2006). However, the education SWAP does seem to have contributed to an increase in ownership by the Ministry of Education. According to Green and Curtis (2005) the ministry was very concerned that greater coordination by donors would lead to donors ganging up to enforce their agenda. It was this fear that is claimed to have prompted the ministry to present its own plan and on which they requested that donors base their aid.

This highlights the potential of increased donor coordination to limit the ability of recipient governments to draw on a range of different donors with different developmental priorities (Green and Curtis 2005). In the case of Bangladesh, we saw in the previous section the difference in emphasis of Japan and the UK, Bangladesh's biggest two donors. These sectoral priorities are replicated in Bangladesh, with a relatively large, though falling, proportion of Japanese aid devoted to developing economic infrastructure, in particular bridges, roads and power supplies to rural areas (External Advisory Meeting 2004). On the other hand, British aid fits more closely with the MDG agenda, focusing to a large extent on social services. Although as previously mentioned, aid fragmentation places considerable demands on state capacity, dealing with donors separately may offer recipients the possibility of obtaining resources from different donors to satisfy different developmental goals.

However, the focus on Japanese aid has been the subject of considerable criticism as it is perceived to focus overly on mega infrastructure projects rather than pro-poor projects (Moni 2006). As previously argued, a balance between spending on social sectors, and infrastructure and productive sectors is essential in order to exploit the synergies between them. Indeed, it has been argued that one of the reasons that Bangladesh has been able to reduce its aid dependence is because in the past it invested aid in basic infrastructure (see the relatively large proportion of aid allocated to economic infrastructure and the productive sectors in the 1980s and 1990s, table 9), which contributed to economic growth that has enabled it to increasingly rely on internal resources (Bräutigam 2000). As a result, the fact that Japan and other donors are reducing aid to productive sectors and infrastructure, and the prospect of further reductions, should be of some concern.

Common themes

These three case studies highlight how donors use a variety of methods to influence the policies of the recipients of their aid. Although the experiences of the three countries differ considerably, it is possible to identify some important common themes.

Donor influence has been used to promote social services

The evidence from the case studies broadly supports the findings of the previous section that most of the donors are increasingly focusing their efforts on social services. Clearly the MDGs loom large as an objective driving most donors' work. Social service provision and poverty reduction are also major priorities for each of the recipient governments, although the analysis has highlighted certain cases where other recipient priorities have differed from donor interests. There are certain disagreements over sectoral allocations, for example the Ethiopian government's emphasis, along with donors such as France and Germany, on tertiary education. However, more common are differences regarding the best approach within a sector. Examples of the latter include the desire of the Mozambican Government to establish a rural development bank and the Ethiopian Government's strong focus on building health posts in rural areas both of which are not favoured by donors. The case studies have shown that donor influence has had a considerable effect, with Mozambique given little room to deviate from poverty reduction goals and political upheaval in Ethiopia exploited to increase the emphasis on basic service provision.

Donors and recipients remain unequal partners

Considerable recent emphasis has been placed on the need for greater ownership of development strategies by recipients of aid and more effective partnerships between donors and recipients. However, the preceding case studies have shown that the donor-recipient relationship remains a highly unequal one and that new arrangements introduced to give recipients greater ownership, such as the PRSPs, GBS and donor harmonization, have not necessarily helped and in some cases may have hindered recipient control. While the case of Mozambique is particularly illuminating in this regard, similar experiences are evident in the other case studies and in many low income countries, in particular in sub-Saharan Africa.

The imbalance of power is partly attributable to state capacity in developing countries, with government administrations weakened by years of aid dependence, poaching of staff by NGOs and aid agencies, and the continuing effects of structural adjustment reforms which drastically reduced the number of employees and salaries of the civil services, as well as reducing funding for tertiary education and, as a result, the supply of qualified graduates to work in government (Mkandawire 2002). This low government capacity limits the potential of aid recipients to claim increased opportunities for ownership generated by new aid modalities.

However, part of the blame undoubtedly rests with the current activities of donors whose work is driven by internationally negotiated goals and the latest donor fashions, and who retain a strong sense of which policies are required to achieve these goals. In this context, allowing recipients greater ownership over their policies can become little more than a façade.

There remain some opportunities for recipient-driven strategies

Despite the great influence that donors do have over their recipients, the cases have demonstrated certain successful strategies and windows of opportunity for recipients to pursue their own agendas. The case of Bangladesh showed the potential to draw on donors with differing sectoral priorities to satisfy a range of developmental needs. Even in Mozambique where donor influence appears to be strongest, the government was able to win concessions by exploiting divisions between donors. In addition, Killick, Castel Branco and Gerster (2005) suggest that Mozambique's position as an aid success story could allow the leadership greater leverage over donors than at present, as donors are unlikely to be overly critical of one of the few cases of a 'successful' aid relationship. A similar opportunity may exist for other 'donor darlings' such as Uganda and Tanzania.

Other opportunities to insulate governments from donor demands arise primarily due to structural factors. The lack of long-term aid dependence in Ethiopia and the country's current strategic importance has allowed the government to deviate from donor-specified policies more than in

Mozambique. Ultimately of course the transition away from dependence on foreign aid through economic growth and expansion of domestic resources offers the most reliable means of ensuring national sovereignty over policy making. The strong performance of the Bangladeshi economy offers the potential to realize this.

6. Conclusions

Bilateral aid represents a very important part of the resources of most developing countries and the poorest countries in particular. Although not all donors have stuck to their aid commitments, there is a trend of increasing aid in recent years. As a result the significance of bilateral aid is likely to increase in the future. The more important that aid is, the greater the influence that it buys donor agencies in the policy making processes of developing countries.

This paper has reviewed the mechanisms through which donors attempt to exert this influence, as well as the goals which they pursue. It is clear that following the failures of structural adjustment in the past, donors have come to recognize the limitations of traditional policy conditionality. However, this does not mean that they have stopped attempting to influence their recipients. In fact, the analysis has shown that a range of other means of donor engagement have been employed alongside policy conditions in an attempt to make up for the weakness of policy conditionality in ensuring that policy statements are translated into implementation. The result is that in some cases bilateral donors are playing an increasing role in the policy making process, symptomatic of what have been described as 'post-conditionality politics', where donor involvement is such that the division of donors and recipients is increasingly blurred (Harrison 2004). Ironically, it is the aid instruments that have supposedly been introduced to increase the policy ownership of developing countries that have in some cases resulted in an increased role for donors. In some cases, GBS and the PRSPs have meant that the entire policy making process has become the 'legitimate' interest of donors. As a result, in some countries donor staff is often involved on a daily basis in discussions on a range of policies and at all levels of government.

Despite the prominence of aid selectivity in the policy statements of many bilateral donors, analysis in this paper shows that selectivity is not employed by most bilateral donors to promote IFI-favoured policies or good governance. While donor claims that they will use selectivity to allocate their aid may indicate their policy preferences to recipients, the lack of implementation by many highlights that selectivity is not likely to be an effective mechanism for influencing aid recipients. Intriguingly, the contrasting finding that donors do tend to favour countries with good performance in terms of achieving high human development relative to their income, questions the relevance of using institutional indicators to allocate aid.

Donor influence has been used to pursue two main objectives, good governance and poverty reduction. In terms of governance, one area of focus is that of administration, involving attempts by donors to improve the financial accounting and oversight processes of their recipients to ensure that aid is being used effectively rather than being corrupted. In addition and often related are a range of political goals, whereby democratization, civil society and respect for human rights are supported by donors as these are seen to be constituent parts of an effective modern state which is accountable to its citizens. Donors have attempted to achieve these goals through process conditionality, and in the cases of Norway, Sweden, the UK and the US, increased funding for capacity building initiatives and civil society programmes. The aim of donor focus on these areas is to improve the efficiency of recipient states, while increasing accountability to their citizens in order to improve national ownership of policies.

In addition to these attempts to alter the structure of developing country states, donors also try to directly influence the policies of these countries to further the goal of poverty reduction. Influence on recipients' macroeconomic policies appears to be mostly limited to making bilateral assistance conditional on involvement in the processes of the IFIs and the macroeconomic conditionality that this

involves. In contrast, bilateral donors take a more active role in the sectoral allocations of state resources, of which aid is often a considerable portion. The analysis in sections 4 and 5 showed that there is a trend away from investment in the productive sectors and infrastructure with an increased emphasis on social spending. In the case of Denmark and the UK the focus of social spending is on basic services, while for France and Germany it is on tertiary education.

Clearly there is a contradiction between the good governance goal of some donors, which aims to build effective and democratically accountable modern states, and the macroeconomic and sectoral emphases focusing on poverty reduction, which take policy making power away from the government and accountability away from citizens. Indeed this highlights the disjuncture between the focus of donors on recipient ownership, and their continued mistrust of developing country administrative and policy making systems. As a result donors require recipients to own the 'right' policies. In many cases, recipient countries are lacking in capacity and economically dependent, and aid provides the incentives for governing elites to accept a subordinated role in policy development. The result is a situation in which national sovereignty is infringed and the policy options of many developing countries are severely constrained.

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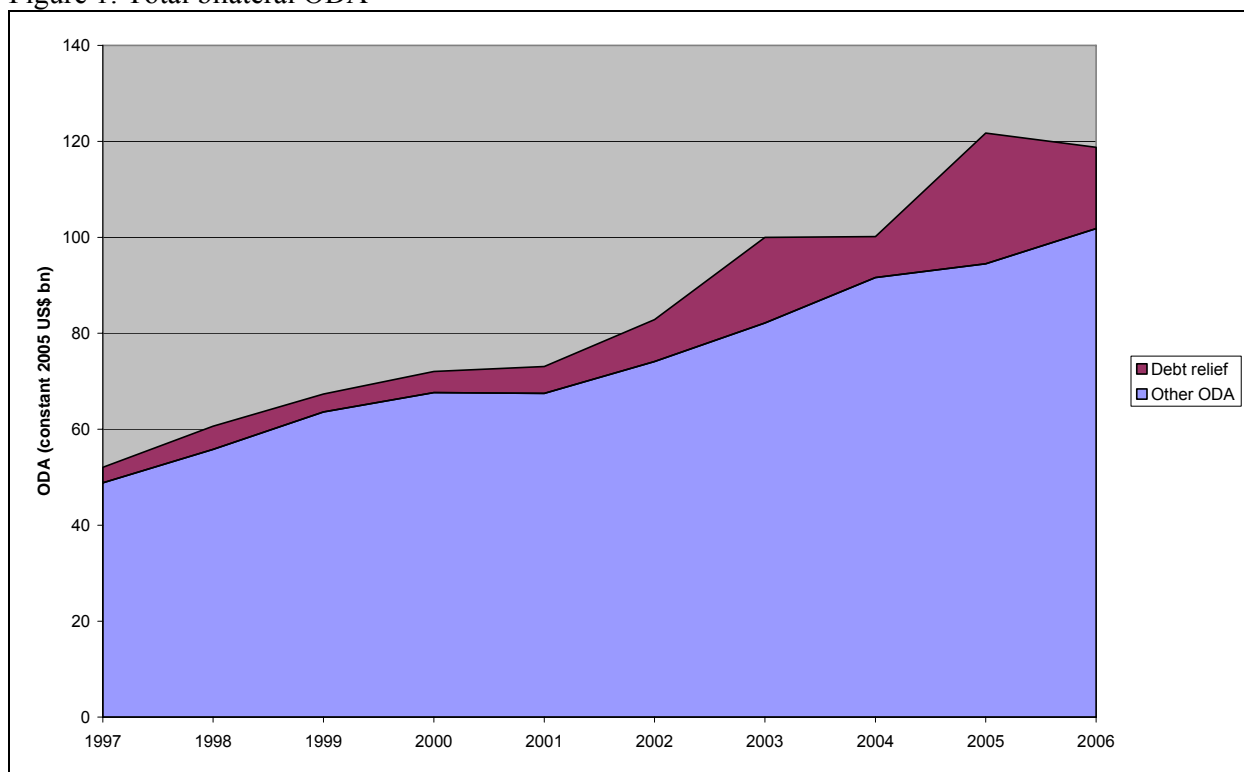
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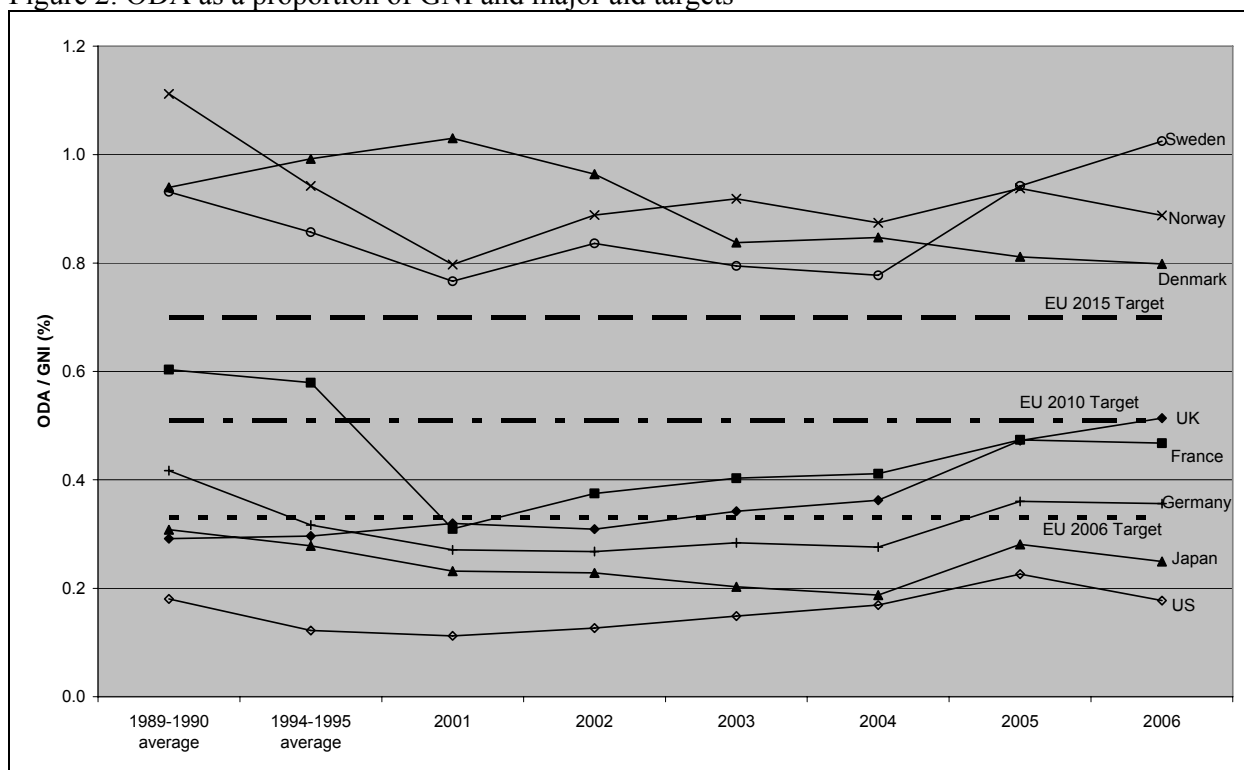
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Figure 1: Total bilateral ODA



Source: OECD DAC

Figure 2: ODA as a proportion of GNI and major aid targets



Source: OECD DAC. Note: these figures include debt relief.

Table 1: Aid intensity in developing countries¹⁸

Least Developed / LICs	Bilateral	Multilateral	Total	
Angola	3.5	0.8	4.3	-
Bangladesh	2.3	1.8	4.1	-
Benin	15.9	9.1	25.1	A
Bhutan	6.1	5.2	11.3	A
Burkina Faso	13.3	9.9	23.2	A
Burundi	31.0	31.5	62.5	A
Cambodia	7.6	3.0	10.6	A
Cameroon	7.8	1.8	9.6	-
Cape Verde	24.4	7.0	31.4	A
Central African Rep.	7.2	8.9	16.2	A
Chad	6.9	6.1	13.0	A
Comoros	9.9	10.9	20.8	A
Congo, Dem. Rep.	27.6	14.5	42.1	A
Congo, Rep.	16.5	2.7	19.1	A
Cote d'Ivoire	2.4	1.0	3.4	-
Djibouti	6.4	6.5	12.9	A
Equatorial Guinea	0.8	0.3	1.0	-
Eritrea	19.5	13.6	33.1	A
Ethiopia	13.0	9.6	22.6	A
Gambia	4.1	11.2	15.3	A
Ghana	20.1	9.4	29.5	A
Guinea	4.6	2.4	6.9	-
Guinea-Bissau	17.7	19.3	37.0	A
Haiti	11.6	6.8	18.3	A
India	0.5	0.2	0.7	-
Kenya	6.1	3.5	9.7	-
Kiribati	39.8	9.0	48.8	A
Kyrgyz Rep.	8.6	5.1	13.7	A
Laos	8.8	3.4	12.2	A
Lesotho	4.0	6.5	10.5	A
Liberia	48.8	18.3	67.2	A
Madagascar	14.6	11.2	25.9	A
Malawi	19.8	17.4	37.1	A
Maldives	3.6	3.1	6.7	-
Mali	15.5	10.4	25.9	A
Mauritania	12.6	10.5	23.1	A
Moldova	6.3	4.7	11.0	A
Mongolia	12.9	2.8	15.7	A
Mozambique	16.6	7.9	24.5	A
Nepal	6.2	3.5	9.7	-
Nicaragua	19.6	6.5	26.1	A
Niger	14.3	12.3	26.6	A
Nigeria	8.5	1.3	9.8	-
Pakistan	1.4	1.1	2.5	-
Papua New Guinea	9.2	1.5	10.7	A
Rwanda	14.5	11.2	25.7	A
Samoa	13.7	7.3	21.0	A
Senegal	13.7	6.1	19.8	A
Sierra Leone	18.0	13.1	31.1	A
Solomon Islands	50.5	1.9	52.4	A
Sudan	9.2	3.2	12.4	A
Tajikistan	8.2	8.5	16.7	A
Tanzania, United Rep. Of	11.2	7.6	18.8	A
Timor-Leste	51.5	8.6	60.1	A
Togo	3.3	1.0	4.3	-
Uganda	11.6	7.3	18.9	A
Uzbekistan	0.9	0.3	1.1	-
Vanuatu	29.0	1.0	30.0	A
Viet Nam	4.3	2.5	6.8	-
Yemen	2.0	1.5	3.5	-
Zambia	31.7	7.9	39.5	A
Zimbabwe	3.1	1.4	4.6	-

Lower Middle Income Countries	Bilateral	Multilateral	Total	
Albania	4.4	2.8	7.2	-
Algeria	0.6	0.1	0.7	-
Armenia	8.9	3.3	12.2	A
Azerbaijan	2.1	1.0	3.1	-
Belarus	0.2	0.1	0.2	-
Bolivia	7.9	1.6	9.5	-
Bosnia-Herzegovina	5.9	2.7	8.5	-
Brazil	0.0	0.0	0.1	-
China	0.1	0.0	0.1	-
Colombia	1.1	0.1	1.2	-
Dominican Republic	0.5	0.4	0.9	-
Ecuador	1.2	0.1	1.3	-
Egypt	1.0	0.2	1.2	-
El Salvador	1.1	0.2	1.3	-
Fiji	2.1	0.9	3.0	-
Georgia	7.7	2.8	10.5	A
Guatemala	1.7	0.2	1.9	-
Guyana	6.0	10.9	16.9	A
Honduras	8.9	3.9	12.8	A
Indonesia	1.4	0.2	1.6	-
Iran	0.1	0.0	0.1	-
Iraq	69.4	0.9	70.3	A
Jamaica	0.8	0.5	1.2	-
Jordan	4.7	0.7	5.4	-
Kazakhstan	0.4	0.1	0.5	-
Macedonia, FYROM	3.9	2.0	5.9	-
Marshall Islands	43.3	1.0	44.2	A
Micronesia, Federal States	49.7	0.8	50.5	A
Montenegro	1.2	1.2	2.4	-
Morocco	2.2	0.5	2.7	-
Namibia	3.4	1.1	4.6	-
Palestinian Adm. Areas	18.7	6.5	25.2	A
Paraguay	1.8	0.3	2.1	-
Peru	0.9	0.1	0.9	-
Philippines	0.5	0.1	0.6	-
Serbia	10.5	7.3	17.8	A
Sri Lanka	4.3	2.1	6.3	-
Suriname	4.7	0.8	5.5	-
Swaziland	0.7	2.0	2.8	-
Syria	0.4	0.2	0.6	-
Thailand	0.3	0.0	0.4	-
Tonga	15.0	0.4	15.4	A
Tunisia	1.7	0.4	2.1	-
Ukraine	0.6	0.3	0.8	-

A: Countries with an aid intensity of greater than 10 percent of GDP, potentially indicating aid dependence.

¹⁸ In order to use Bräutigam's criteria that aid dependence is likely at levels more than 10 percent of GDP, all ODA, as defined by the OECD is included in these calculations. Therefore, unlike the rest of the paper, debt relief and humanitarian assistance are included.

Source: OECD DAC and World Development Indicators (World Bank). ODA as a percentage of GDP (three year average 2004-06 using constant 2005 US\$).

Table 2: Summary of individual donors

	% ODA/GDP for LDC & LICs	% ODA/GDP for LMICs	No. of LDC & LICs receiving aid (Out of 68)	No. of LMICs receiving aid (Out of 49)
Denmark	0.28	0.02	44	23
France	1.78	0.24	66	48
Germany	0.81	0.45	68	43
Japan	1.81	0.92	67	47
Norway	0.37	0.10	63	43
Sweden	0.31	0.12	59	37
UK	1.12	0.17	59	34
US	2.67	3.74	67	46

Source: OECD DAC and World Bank.

Data for ODA and GDP are three year averages between 2004-06 using constant 2005 US\$.

Table 3a: Regression results

	Denmark			France			Germany			Japan		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Population	0.722 (7.49)**	0.720 (7.25)**	0.406 (2.21)*	0.378 (7.61)**	0.363 (7.28)**	0.194 (2.75)**	0.605 (13.80)**	0.582 (13.10)**	0.667 (6.35)**	0.736 (13.63)**	0.699 (12.91)**	0.231 (2.99)**
GDPpercap	-1.137 (8.52)**	-1.150 (8.36)**	-1.246 (6.36)**	-0.417 (6.40)**	-0.435 (6.68)**	-0.509 (6.39)**	-0.601 (10.44)**	-0.625 (10.75)**	-0.466 (3.97)**	-0.592 (8.34)**	-0.630 (8.85)**	-1.154 (11.67)**
Freedom	-0.153 (3.30)**	-0.151 (3.21)**	-0.069 (1.48)	0.108 (4.79)**	0.105 (4.61)**	0.018 (0.98)	0.001 (0.06)	0.012 (0.57)	0.023 (1.22)	-0.023 (0.93)	-0.007 (0.30)	-0.017 (0.76)
LawAndOrder	0.100 (0.84)	0.099 (0.81)	0.313 (2.65)**	-0.141 (2.07)*	-0.161 (2.38)*	-0.059 (1.15)	0.018 (0.30)	0.012 (0.20)	0.181 (3.09)**	0.073 (1.00)	0.065 (0.89)	0.075 (1.09)
RICE		0.040 (0.29)	0.137 (1.06)		-0.170 (2.27)*	0.047 (0.82)		0.133 (2.01)*	0.242 (3.81)**		0.214 (2.67)**	0.185 (2.43)*
Colony						2.248 (12.83)**			0.112 (0.40)			-12.117 (.)
Exports			0.243 (1.33)			0.300 (4.46)**			-0.112 (1.15)			0.472 (7.87)**
Distance			1.822 (6.23)**			0.662 (6.39)**			0.656 (5.26)**			0.133 (0.62)
Constant	-4.109 (2.23)*	-3.763 (1.96)	-15.810 (4.43)**	-1.439 (1.41)	-1.304 (1.27)	-5.341 (4.36)**	-3.346 (3.72)**	-2.979 (3.26)**	-10.953 (7.34)**	-5.513 (5.00)**	-5.002 (4.51)**	3.207 (1.30)
Pseudo R-squared	0.13	0.13	0.17	0.11	0.12	0.25	0.17	0.18	0.22	0.14	0.15	0.19
Observations	529	524	524	529	524	524	529	524	524	529	524	521

Estimates from pooled tobit regressions with year dummies (not reported). Absolute value of t statistics in parentheses (* significant at 5%; ** significant at 1%)

Table 3b: Regression results (continued)

	Norway			Sweden			UK			US		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Population	0.322 (7.98)**	0.310 (7.54)**	0.284 (4.73)**	0.338 (5.95)**	0.311 (5.43)**	0.140 (1.26)	0.778 (9.59)**	0.769 (9.27)**	0.772 (5.69)**	0.413 (7.29)**	0.391 (6.80)**	-0.040 (0.43)
GDPpercap	-0.704 (13.19)**	-0.722 (13.21)**	-0.681 (9.45)**	-0.886 (11.32)**	-0.921 (11.52)**	-1.012 (7.86)**	-1.378 (11.87)**	-1.445 (11.87)**	-1.026 (6.50)**	-0.841 (11.22)**	-0.864 (11.36)**	-1.489 (13.07)**
Freedom	0.018 (0.99)	0.023 (1.24)	0.047 (2.47)*	-0.091 (3.42)**	-0.081 (3.03)**	-0.052 (1.96)*	-0.126 (3.14)**	-0.121 (2.94)**	-0.088 (2.59)**	-0.031 (1.21)	-0.019 (0.71)	0.027 (1.08)
LawAndOrder	0.052 (0.97)	0.048 (0.90)	0.160 (3.00)**	0.166 (2.24)*	0.157 (2.14)*	0.285 (3.82)**	-0.159 (1.50)	-0.174 (1.61)	0.006 (0.06)	-0.341 (4.40)**	-0.341 (4.40)**	-0.170 (2.28)*
RICE		0.085 (1.45)	0.166 (2.86)**		0.184 (2.25)*	0.267 (3.29)**		0.330 (2.75)**	0.384 (4.01)**		0.216 (2.52)*	0.131 (1.64)
Colony									2.406 (9.66)**			0.408 (1.08)
Exports			-0.009 (0.20)			0.132 (1.41)			-0.145 (1.07)			0.519 (6.73)**
Distance			0.715 (6.68)**			0.840 (5.93)**			0.613 (3.00)**			-0.294 (1.45)
Constant	0.377 (0.47)	0.516 (0.63)	-6.033 (4.16)**	1.580 (1.39)	1.690 (1.46)	-3.148 (1.43)	-1.363 (0.85)	-0.942 (0.57)	-9.761 (3.90)**	3.518 (3.03)**	3.625 (3.07)**	13.891 (7.11)**
Pseudo R-squared	0.19	0.19	0.22	0.13	0.14	0.16	0.18	0.18	0.27	0.14	0.14	0.18
Observations	529	524	520	529	524	524	529	524	524	529	524	524

Estimates from pooled tobit regressions with year dummies (not reported). Absolute value of t statistics in parentheses (* significant at 5%; ** significant at 1%)

Table 4: Distribution of aid by country income classification

	Denmark	France	Germany	Japan	Norway	Sweden	UK	US
Least Developed Countries	44	24	17	11	42	26	37	17
Other Low Income Countries	19	16	14	29	8	9	32	7
Lower Middle Income Countries	11	32	37	49	16	13	8	48
Upper Middle Income Countries	3	12	7	7	3	2	5	4
Unallocated by income	23	16	25	5	32	51	17	24
Total	100	100	100	100	100	100	100	100

Source: OECD DAC. Averages of 2002-06 used to smooth fluctuations.

Table 5: Regional distribution of aid¹⁹

	Denmark	France	Germany	Japan	Norway	Sweden	UK	US
Africa	47	60	27	11	41	31	42	17
- North Africa	1	20	7	5	0	0	0	3
- West Africa	14	21	7	2	2	3	10	3
- Central Africa	0	4	2	0	1	1	3	1
- Southern Africa	14	9	5	2	16	7	12	4
- East Africa	17	3	4	2	16	13	15	4
- Other Africa	2	2	2	0	6	7	2	1
America	7	7	11	6	4	8	3	13
Asia	27	19	38	74	26	16	40	46
- Middle East	1	3	5	1	6	2	3	28
- South Asia	12	2	10	21	13	6	30	10
- Central Asia	0	1	4	3	1	1	1	3
- East Asia	12	12	17	48	4	5	6	3
- Other Asia	1	1	1	0	1	2	1	1
Europe	0	4	9	4	9	7	1	5
Oceania	0	2	0	1	0	0	0	1
Unallocated/Unspecified	18	9	14	4	20	38	14	19
Total	100	100	100	100	100	100	100	100

Source: OECD DAC. Averages of 2002-06 used to smooth fluctuations.

¹⁹ Regional groupings based on those of the OECD. Sub-Saharan Africa is further divided into: East Africa (Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, Tanzania and Uganda); West Africa (Benin, Burkina Faso, Cameroon, Cape Verde, Côte d'Ivoire, Equatorial Guinea, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, São Tomé and Príncipe, Senegal, Sierra Leone, Togo); Central Africa (Burundi, Central African Republic, Chad, Congo, DR Congo, Rwanda); Southern Africa (Angola, Botswana, Comoros, Lesotho, Madagascar, Malawi, Mauritius, Mayotte, Mozambique, Namibia, Seychelles, South Africa, St Helena, Swaziland, Zambia, Zimbabwe).

Table 6: The purpose of donor assistance

	Denmark			France			Germany			Japan		
	1992-96	1997-2001	2002-06	1992-96	1997-2001	2002-06	1992-96	1997-2001	2002-06	1992-96	1997-2001	2002-06
Education	5	6	6	5	25	30	3	15	19	3	3	10
Health	13	5	8	2	5	6	2	3	3	2	2	3
Population Programmes	2	0	1	0	0	0	2	2	2	0	0	0
Water & Sanitation	10	10	10	10	8	5	13	13	8	11	12	13
Other Social Services	1	2	2	5	7	6	2	4	5	0	1	1
Basic social services	8	4	12	2	2	3	7	10	8	3	5	4
Government & Civil Society	5	11	12	3	3	2	0	4	9	1	0	2
Economic Infrastructure	17	17	16	22	16	11	47	23	19	51	51	42
Productive Sectors	16	13	12	12	11	6	15	8	6	17	13	12
General Budget Support	4	1	5	20	7	4	3	0	1	5	9	2
Other ²⁰	27	35	27	22	17	31	13	26	28	9	9	14
Total	100	100	100	100	100	100	100	100	100	100	100	100

	Norway			Sweden			UK			US		
	1992-96	1997-2001	2002-06	1992-96	1997-2001	2002-06	1992-96	1997-2001	2002-06	1992-96	1997-2001	2002-06
Education	4	8	11	7	5	6	11	8	10	4	3	2
Health	3	6	8	6	4	6	8	9	10	5	5	5
Population Programmes	4	2	3	2	3	3	3	7	9	9	9	9
Water & Sanitation	2	3	2	4	4	3	4	4	2	2	3	3
Other Social Services	4	6	5	8	4	4	2	2	3	2	10	8
Basic social services	5	6	10	8	6	9	11	14	17	11	9	7
Government & Civil Society	7	14	20	12	16	19	8	13	16	13	10	16
Economic Infrastructure	17	11	7	14	12	6	22	14	9	11	10	11
Productive Sectors	8	6	6	9	5	4	19	11	6	8	5	7
General Budget Support	3	1	6	3	7	5	6	12	15	28	3	3
Other	48	42	33	35	40	43	17	20	21	18	42	35
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: OECD DAC. Aid committed, five year rolling averages used to smooth fluctuations.

²⁰ 'Other' includes: multi-sector aid, administrative costs, support to NGOs and unallocated aid.

Table 7: The purpose of donor assistance to the poorest countries

	Denmark			France			Germany			Japan		
	1992-96	1997-2001	2002-06	1992-96	1997-2001	2002-06	1992-96	1997-2001	2002-06	1992-96	1997-2001	2002-06
Education	6	8	8	3	20	25	3	13	16	2	4	7
Health	19	7	11	2	5	6	3	6	6	2	3	4
Population Programmes	2	0	2	0	0	0	4	5	5	0	0	0
Water & Sanitation	15	13	11	7	7	5	14	10	9	9	7	11
Other Social Services	1	3	2	3	5	5	3	4	4	0	1	1
Basic social services	12	6	17	2	3	5	11	17	14	4	8	6
Government & Civil Society	6	12	11	4	4	3	1	4	11	1	1	3
Economic Infrastructure	24	25	21	18	15	11	30	24	17	50	56	50
Productive Sectors	14	18	14	13	13	8	21	12	7	18	15	11
General Budget Support	5	1	7	35	14	10	6	1	2	9	9	3
Other	9	12	11	15	17	25	17	21	24	8	5	9
Total	100	100	100	100	100	100	100	100	100	100	100	100

	Norway			Sweden			UK			US		
	1992-96	1997-2001	2002-06	1992-96	1997-2001	2002-06	1992-96	1997-2001	2002-06	1992-96	1997-2001	2002-06
Education	4	9	12	7	9	11	12	10	10	8	5	3
Health	4	12	10	11	5	10	9	11	11	9	6	6
Population Programmes	5	2	3	3	3	3	3	7	9	14	13	14
Water & Sanitation	2	4	1	5	4	2	3	4	1	1	1	0
Other Social Services	4	5	4	6	2	2	2	1	2	3	3	4
Basic social services	8	11	13	13	8	16	14	17	18	21	15	9
Government & Civil Society	5	11	17	8	14	17	7	10	14	17	11	14
Economic Infrastructure	24	15	8	21	16	8	22	13	6	10	5	10
Productive Sectors	9	8	6	12	5	4	18	9	4	15	6	4
General Budget Support	5	2	11	6	13	13	10	15	21	0	5	1
Other	37	31	29	21	29	30	15	20	20	21	45	45
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: OECD DAC. Aid committed, five year rolling averages used to smooth fluctuations.

Table 8: Health expenditure for HIPC completion point countries with a PRSP since 2002

	2000	2001	2002	2003	2004
Benin	7.2	8.7	8.0	10.0	12.4
Bolivia	36.9	35.9	37.4	39.1	40.0
Burkina Faso	4.8	4.6	6.2	9.1	13.3
Ethiopia	2.7	2.7	2.7	2.8	2.9
Guyana	44.1	42.8	45.5	43.7	46.7
Honduras	33.6	34.6	37.0	40.5	42.3
Malawi	4.0	7.0	11.7	13.6	14.4
Mali	4.7	7.2	6.6	9.1	11.7
Mauritania	8.0	5.8	9.7	9.9	10.1
Mozambique	7.9	6.4	7.5	7.3	8.4
Nicaragua	29.7	30.0	30.3	28.8	31.6
Niger	2.7	3.1	3.5	3.8	4.5
Rwanda	3.5	3.5	4.2	7.1	8.8
São Tomé and Príncipe	16.8	25.5	26.8	39.7	41.2
Senegal	7.1	7.7	9.5	12.1	15.9
United Republic of Tanzania	4.7	4.7	4.6	4.5	5.2
Uganda	4.2	4.6	5.5	5.3	6.2
Zambia	8.8	10.2	13.2	14.1	16.2

Source: WHO. Per capita government expenditure on health at average exchange rate (US\$)

Values in **bold** indicate the year in which HIPC completion point was reached.

Table 9: Aid summary for the case studies		1970s ²¹	1980s	1992-96	1997-2001	2002-06
Bangladesh	Aid intensity (% ODA / GDP)	14	12	5	5	4
	Percentage of aid going to:					
	- Basic services	1	5	9	14	20
	- Social sector total	3	8	23	30	40
	- Government & civil society	3	1	2	5	6
	- Economic infrastructure	10	26	30	33	26
	- Productive sectors	23	34	20	9	4
	- GBS	0	0	1	0	9
Ethiopia	Aid intensity (% ODA / GDP)	-	18	14	16	22
	Percentage of aid going to:					
	- Basic services	4	3	5	6	9
	- Social sector total	13	18	19	21	26
	- Government & civil society	1	0	2	10	6
	- Economic infrastructure	25	17	13	26	21
	- Productive sectors	38	29	17	10	6
	- GBS	0	3	22	5	9
Mozambique	Aid intensity (% ODA / GDP)	-	35	49	36	30
	Percentage of aid going to:					
	- Basic social services	0	2	5	9	9
	- Social sector total	5	8	19	25	32
	- Government & civil society	4	1	7	10	10
	- Economic infrastructure	18	22	20	21	15
	- Productive sectors	14	23	10	9	8
	- GBS	0	9	13	13	24

Source: OECD DAC and World Bank World Development Indicators

²¹ Data available 1974-1979

Annex A

Table A.1 Summary statistics for the dataset

Variable	Observations	Mean	Std. Dev.	Minimum	Maximum
aidden	955	.4868034	1.10418	0	5.471863
aidfra	955	1.425853	1.569313	0	6.024795
aidger	955	1.616607	1.694706	0	6.382174
aidjap	955	1.69635	1.750953	0	7.290394
aidnor	955	.8162729	1.196923	0	5.187849
aidswe	955	.7000911	1.180301	0	5.230523
aiduk	955	.9362238	1.592138	0	6.713397
aidus	955	2.092325	2.041903	0	9.016522
population	845	15.27862	2.124847	9.888374	20.98909
gdppercap	763	7.240547	1.335272	4.408648	10.30927
democracy	800	7.39125	3.758435	2	14
icrglando	580	3.568966	1.206088	1	6
rice	695	-.0010738	1.000086	-2.949856	2.704404
colfra	955	.1727749	.3782506	0	1
colger	955	.0418848	.2004309	0	1
coljap	955	.0209424	.1432666	0	1
coluk	955	.3612565	.4806164	0	1
colus	955	.0471204	.2120074	0	1
expden	857	1.989258	2.645907	-26.25296	7.437348
expfra	859	4.322212	2.550226	-6.50229	8.962635
expger	869	4.444626	2.659531	-3.015935	10.2099
expjap	844	3.784414	3.30231	-20.89028	11.28984
expnor	799	1.060098	2.7608	-26.46228	6.835865
expswe	849	2.253779	2.883079	-9.75355	7.858652
expuk	864	3.791558	3.052567	-27.05614	9.105936
expus	859	4.87424	2.459491	-2.302585	11.69565
distden	890	8.652446	.7178461	6.449908	9.687774
distfra	890	8.656265	.6730676	6.783382	9.735785
distger	890	8.607651	.7861364	5.639233	9.70936
distjap	890	9.118741	.5002498	7.051689	9.828502
distnor	890	8.711548	.6342853	6.667146	9.659277
distswe	890	8.67738	.7045175	5.938106	9.665273
distuk	890	8.690582	.6274506	6.942906	9.717152
distus	890	8.988415	.5547398	7.185279	9.702013

Table A.2 Cross-correlations for main independent variables

	population	gdppercap	democracy	icrglando	Rice
population	1.0000				
gdppercap	-0.3349	1.0000			
democracy	0.2520	-0.2833	1.0000		
icrglando	-0.2407	0.4614	-0.0929	1.0000	
rice	0.0567	0.0432	-0.1758	-0.0262	1.0000