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LOSING CONCENTRATION?
LESSONS FROM A SWEDISH AID
POLICY REFORM



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Losing Concentration? Lessons from a Swedish Aid Policy Reform

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Abstract

Sweden is one of the donor countries that signed on to the Paris Agenda, which amongst other things advocated reducing aid dispersion. It also adopted its own geographical concentration policy in 2007. My empirical analysis shows that Sweden only managed to achieve this goal for two years following the reform and that the episode was followed by backsliding. Moreover, its current aid policy framework barely mentions the topic. I argue that a major reason was the failure to institutionalise the policy. This left it vulnerable to the regular politics of aid, which tend to generate both geographic and thematic spread. Reduced peer pressure as the international community has moved away from the Paris Agenda might also have contributed.

Keywords: Foreign aid; Paris Agenda; aid dispersion; Theil Index, Sweden

1 Introduction

One of the major points on the so-called Paris Agenda on aid effectiveness was the negative effects of aid dispersion – the fact there are too many donors funding too many activities in too many recipient countries. Sweden is one of the donor countries that undertook to comply with this agenda. In addition, in 2007 it launched an ambitious policy of concentrating its bilateral aid in three groups of partner countries (Table 1). Sweden has a tradition for being a country that values international cooperation in general and development cooperation in particular. In 2015 it gave an astonishing 1.4 percent of Gross National Income in Official Development Assistance (ODA). This made it the sixth largest donor country in absolute terms, despite its small size.² Along with the other Nordic countries, it is usually held to be more altruistic than the average member of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), to value multilateral

¹ Professor, Department of Economics, University of Bergen, Norway (rune.hagen@uib.no). This paper draws heavily on my report to the Swedish Expert Group on Aid Analysis (EBA), Hagen (2015a). I would like to thank the members of my advisory group, Ulla Andréén, Anna Holmryd, and Jakob Svensson, for their efforts at helping me improve the report through constructive criticism. Jesper Sundewall in the EBA secretariat provided valuable administrative support as well as helpful comments on earlier drafts. I also wish to express my gratitude to Cathrin Fløgstad for her substantial contribution to the data analysis. Finally, an anonymous referee encouraged me to sharpen my arguments, for which I am grateful. Naturally, the results and views presented there as well as here are my own.

² See <http://www2.compareyourcountry.org/oda?cr=oeecd&lg=en>

aid more relative to bilateral assistance, and to be a frontrunner with respect to reforms aimed at increasing aid effectiveness (Selbervik 2006). Hence, the Swedish case could illuminate the reasons why most studies find that the declarations and policy changes that the Paris Agenda fostered have had little impact on actual aid dispersion.³

Table 1: The Swedish Concentration Policy of 2007

Category	Land
Countries with which Sweden will have long-term development cooperation (12)	Bangladesh, Bolivia, Burkina Faso, Ethiopia, Cambodia, Kenya, Mali, Mozambique, Rwanda, Tanzania, Uganda, and Zambia
Countries in conflict or post-conflict situations with which Sweden will have development cooperation (12)	Afghanistan, Burundi, Colombia, DR Congo, East Timor, Guatemala Iraq, Liberia, Sierra Leone, Somalia, Sudan, West Bank-Gaza
Countries in Eastern Europe in which Sweden will aid reforms (9)	Albania, Bosnia-Herzegovina, Georgia, Kosovo, Macedonia, Moldova, Serbia, Turkey, Ukraine

Source: Ministry of Foreign Affairs (2007).

In the Accra Agenda for Action, it is stated that

“The effectiveness of aid is reduced when there are too many duplicating initiatives, especially at country and sector levels. We will reduce the fragmentation of aid by improving the complementarity of donors’ efforts and the division of labour among donors, including through improved allocation of resources within sectors, within countries, and across countries.” (paragraph 17)

It is hard to disagree with the statement in the first sentence. It alludes to the so-called transaction costs of aid, i.e., resources spent on planning, monitoring, evaluating, and reporting on aid activities as opposed to delivering goods and services. The second sentence is not without pitfalls and ambiguities, but the final part contains an important point: one should aim to make the most out of existing aid budgets. A natural understanding of what an “improved allocation of resources within sectors, within countries, and across countries” implies would be that the actual distribution gets closer to the one that minimises poverty,

³ See e.g. Aldosoro et al. (2010), Fløgstad and Hagen (2017), and Nunnenkamp et al. (2013).

attains the highest possible level of welfare in recipients, or some other normative objective.⁴ While transaction costs should of course be taken into account, it could be that some form of aid that is costly in these terms generates such high benefits that it should be utilised. Furthermore, recipients might see some benefits from having more than one donor. For example, this might reduce overall aid volatility as a reduction in transfers from one donor could be counteracted by others.⁵

The premise of my analysis is that we are currently in a situation where aid dispersion is a problem in several senses. Concentrating aid would cut transaction costs for donors and the savings could be used to increase the flow of funds to recipients.⁶ Moreover, donors have committed to reducing fragmentation in partner countries. While this could in theory be achieved by reorganising aid delivery within each recipient, in practice it is likely to involve reallocation across countries and concentration in combination with greater selectivity would then most likely improve aid effectiveness.⁷ Finally, on top of their commitments under the Paris Agenda donors like Sweden have pursued geographic concentration policies. Studying the effects is therefore of interest independently of the consequences for recipients.

There are basically two ways in which a single donor can approach the problem: unilaterally or multilaterally. Sweden's aid policy in recent years illustrates both. First of all, Sweden has been a party to the international aid effectiveness agenda. Donor coordination at the sector and country level has been at the heart of this process. Both the disappointing lack of implementation of the Paris Agenda and the vagueness of its successor suggest that one should not expect much from continuing along this track.⁸ However, there is an alternative channel for joint action: the multilateral institutions. As Woods (2011: 118) argues: "Coordination is important because so little cooperation takes place. Large numbers of

⁴ See Collier and Dollar (2001, 2002) for one approach to estimating the distribution of global aid that maximises poverty reduction. They have nothing to say on the costs of aid dispersion, however.

⁵ The empirical evidence is inconclusive on this point, c.f. Canavire-Bacarez et al. (2015) and Gutting and Steinwand (2017).

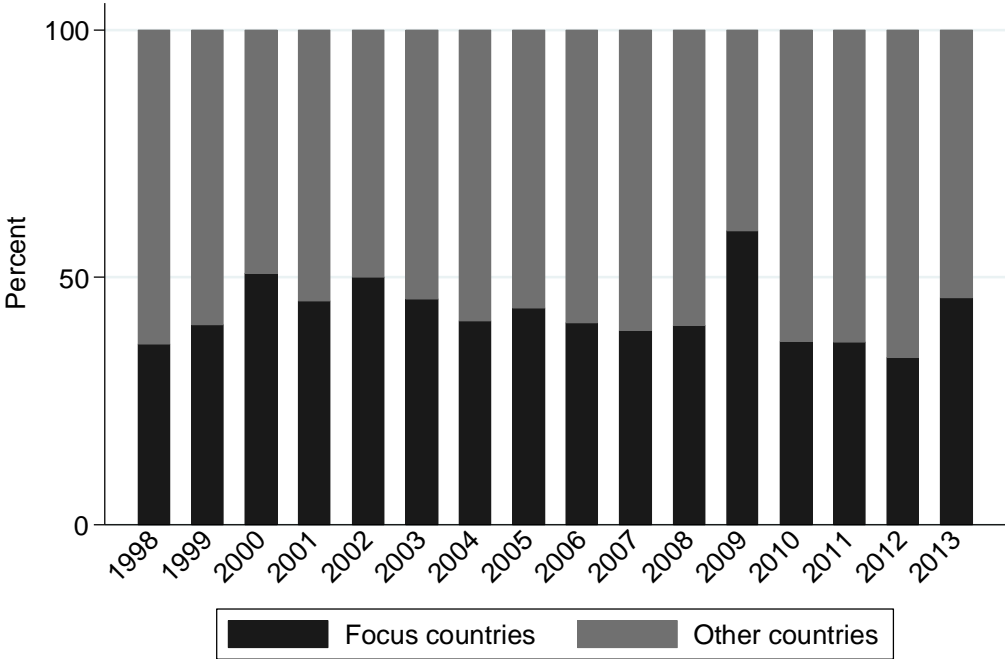
⁶ Anderson (2012) and Bigsten and Tengstam (2015) estimate transaction costs for donors using the statistical category 'administrative costs'. They find that the potential cost savings are substantial.

⁷ C.f. Acharya et al. (2006: 17): "[D]onors [should] reduce the numbers of countries in which each operates, concentrate more on a smaller number of countries, and thus, without changing overall aid levels, change the aid environment in ways likely to reduce [...] transactions costs."

⁸ "A lack of political weight combined with a lack of technical clarity has left us with an aid/development effectiveness narrative that is at once confused (what is it and to whom does it apply) and deprioritised (few donors now feel pressure to meet specific targets). The great merit of the Paris/Accra agenda, for all its faults, was that recipient countries could use it to pressure donors to align better with the principles – it is questionable whether the Busan/Mexico City agenda is now playing that function." (Glennie and Sumner 2014: 7)

donors, each doing their own thing in developing countries, give rise to a need for coordination to ensure that all of these activities take place in harmony.” With aid effectiveness being replaced by ‘development effectiveness’ on the international agenda, these existing mechanisms for cooperation have arguably become more relevant for actors wishing to combat aid dispersion.

Figure 1: Share of Swedish aid to focus countries, 1998-2013



Source: Author's calculations

The second option, which is the focus of this paper, is of course to undertake unilateral actions like the Swedish reform of 2007. In principle, such a policy change should be easy to implement, much easier than achieving coordinated efforts at reducing aid dispersion. In practice, this has not been the case. Figure 1 provides what is in effect a preview of my results. It shows that the share of Swedish aid going to the countries chosen as partners for long-term development cooperation increased noticeably in the first couple of years following the reform.⁹ After 2009, however, it declined again and the period ends with just a minor increase since the policy change. One reason for this pattern of improvement followed by deterioration could be that the rules for allocating Swedish development assistance in general

⁹ See Table 1 for the original focus countries in this category.

and concentrating it in particular have not been transparently outlined. The political economy of aid is the most likely explanation for this, but reduced peer pressure as the parties to the international agenda has both become more numerous and more heterogeneous might also have been a contributing factor.

The rest of this paper is organised as follows. In the next section I discuss how we can measure the dispersion of donors' development assistance. I then give an account of the data set I use to analyse the Swedish case. The main analysis is presented in section 4, while some robustness checks follow in section 5. In the penultimate section I briefly discuss whether the concentration policy has made Swedish aid more selective in terms of governance and income. I conclude the paper by reflecting on the political economy of aid in light of my findings.

2 Measuring aid proliferation

I find it useful to make a distinction between dispersion on the donor side (*proliferation*) and in recipients (*fragmentation*). It is important to note that the link between proliferation and fragmentation is not straightforward. If a fresh aid dollar is given to a new partner country, then obviously both proliferation by the donor and fragmentation in the recipient will increase. However, concentration through reallocation need not lead to less fragmentation in all recipients. Intuitively, it might go down in a partner that loses aid and up in one that gains. The converse must then be true too; that it is possible that increased proliferation through reallocation is not unambiguously bad in that some recipient(s) might end up with a lower level of fragmentation. In such cases, the gains and losses for different partners should in principle be weighed against each other to arrive at a conclusion as to whether these changes are beneficial or not. This goes beyond the scope of this study.

There are many different statistical measures of dispersion. One of the most commonly used indicators of proliferation is the Theil Index.¹⁰ It is originally a measure of inequality. Thus, it is zero when there is perfect equality across the 'population.' In the current setting, this means that if Sweden gave the same share of its aid to all sectors in all potential partner countries its index value would be zero. Any deviations from this allocation would make the index positive

¹⁰ See Acharya et al. (2006), Aldosoro et al. (2010), and Nunnenkamp et al. (2013). In the latter two studies, only a part of the Theil index is applied. While confusing, the reason is probably that the authors want to create a measure of proliferation.

and it would attain its highest value if Sweden gave all of its aid to one sector in a single country. Thus, it is an index of *concentration* and higher values post-2007 will signify that the new policy moved Swedish aid allocation in the right direction.

I normalise the Theil index to lie in the range zero to one. I do this by dividing by the product of the number of recipients on the DAC-list each year and the number of sectors in the DAC-database I use. Using the potential number of recipients and sectors is necessary to make the Theil a complete description of the distribution of aid across the ‘population’ (recipient-sectors), in line with the standard application to income or wealth distribution. It has the beneficial side-effect of avoiding a ‘double-zero’ problem that would arise if the actual number of recipients and sectors was used, as in that case the Theil would also be zero when aid is maximally concentrated (only allocated to a single sector in a single recipient).¹¹

A major benefit of using this specific index is that it is decomposable.¹² Intuitively, aid can be dispersed in several ways. In principle, we could measure proliferation at the level of projects, sectors, or countries. If we only look at the spread across recipient countries, we ignore the possibility that one donor might be funding a large number of small projects while another could be supporting a few major programmes. Even if these two donors have the same pattern of dispersion at the country level they could impose vastly different levels of transaction costs on recipients. Going down to the sub-national level allows us to better capture this. Indeed, over time most recipients have not only attracted more donors; the number of aid activities has gone up and their average size down, as Figure 1 below shows.

Unfortunately, the lowest level is not well-defined in aid statistics. In the next section, proliferation by Sweden and selected other donors is therefore captured by aggregating up to the sector level in recipient countries. This means that we can distinguish between the contributions to a donor’s overall level of proliferation from its distribution of funds across recipients (usually denoted the between component) and its allocation of aid to different sectors within recipients:¹³

$$\textit{Total Theil} = \textit{Between Theil} + \textit{Within Theil}.$$

¹¹ The analogy is that leaving out individuals with zero income or wealth would obviously bias the Theil in those contexts. See Fløgstad and Hagen (2017) for further discussion of the technicalities involved.

¹² In fact, it belongs to the only class of inequality measures that is perfectly decomposable (Sen 1997: 152-154).

¹³ See Fløgstad and Hagen (2017) for the mathematical formula.

For a donor, this should be highly useful information as it would indicate whether a perceived excessive degree of proliferation is due to giving aid to too many recipients or to aid being delivered in excessively small batches. To my knowledge, this is the first time this property of the Theil Index has been applied to aid data.¹⁴ Moreover, this measure is evidently particularly suitable for analysing the effects of the Swedish concentration policy of 2007, as this concerns the between-component only.

3 The data

In the aid allocation literature it is common to use commitments as they are assumed reflect donors' intentions better. Disbursements can vary for a number of reasons, including factors beyond their control, e.g. implementation problems on the part of recipients. As argued above, to study proliferation it is interesting to go beyond cross-country allocations and look at the spread within recipients. The Creditor Reporting System (CRS) database, available from the DAC-website, provides information on aid commitments at the level of 'transactions'. As these entries differ widely in their characteristics, making an analysis at the lowest level less meaningful, I aggregate to the sector level.

I also make some minor adjustments to the database. I exclude humanitarian assistance, as it must almost by definition go where emergencies appear, as well as donor administrative costs, expenditures on refugees in donor countries, and unallocated/unspecified aid, for obvious reasons. Table 2 shows the sectors included in my sample along with the number of observations. Education and Government and civil society are the two largest by far.

Years prior to 1998 are dropped because Aldosoro et al. (2010) and Nunnenkamp et al. (2013) suggest underreporting is a significant problem then.¹⁵ I focus on entries where a country is specified as the recipient and leave out minor DAC-donors, defined as those with less than 1 percent of the observations after making the other adjustments. This means that the DAC-

¹⁴ However, in joint work with Cathrin Fløgstad I have now extended the analysis to all DAC-donors, multilaterals, and recipients for which data exists, c.f. Fløgstad and Hagen (2017).

¹⁵ According to Birchler and Michaelowa (2016), reporting on disbursements of education aid in the CRS database was below 60% before 2002. This is a second argument for using commitments instead of disbursements. There is no reason to believe that the problem is specific to education, which is also the second largest sector in my sample. 2013 was the most recent year for which data was available when the project started.

averages presented below are based on data from 19 donor countries.¹⁶ In addition, I make various changes to perform robustness tests of the results derived with the main sample.

Table 2: Sectors in the sample

DAC5 code	Sector	Number of observations
110	Education	128,293
120	Health	59,920
130	Population policies/programmes and reproductive health	28,622
140	Water and sanitation	29,905
150	Government and civil society	145,768
160	Other social infrastructure and services	64,085
210	Transport and storage	11,929
220	Communications	14,949
230	Energy generation and supply	13,218
240	Banking and financial services	9,472
250	Business and other services	12,009
310	Agriculture, forestry, fishing	64,632
320	Industry, mineral resources and mining, construction	23,302
330	Trade policy and regulations and trade-related adjustment, Tourism	11,727
410	General environmental protection	31,025
430	Other multisector	77,124
510	General budget support	1,739
520	Developmental food aid/Food security assistance	20,235
530	Other commodity assistance	436
600	Action relating to debt	4,566
Total		752,956

4 Swedish aid: concentration or continued proliferation?

As already noted, I use the Theil Index to investigate whether Swedish aid has become more or less concentrated during 1998-2013. I also decompose the index to analyse the extent to which changes in the overall level of concentration have been driven by changes at the country level, which is what the 2007 policy aimed at, and/or changes at the sector level. The same data are shown for Denmark, Norway, the UK, and the DAC-average, allowing for a comparative perspective.¹⁷ As DAC-members are the major bilateral donors, we then gain

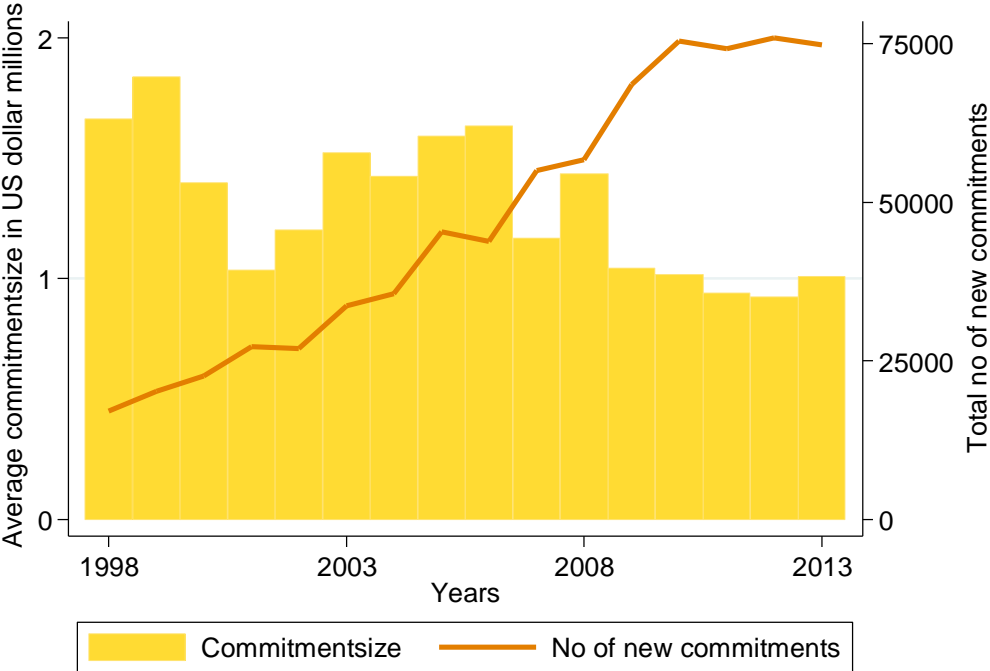
¹⁶ These are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

¹⁷ The comparator countries were chosen in consultation with the EBA secretariat.

some insight into the ‘global’ trend as well.¹⁸ Moreover, these countries have been the major drivers of the Paris Agenda on the donor side.

Let us start by taking a quick look at the average DAC-donor. Figure 2 shows trends that have been noted elsewhere: over time, the number of projects is going up and average project size is declining rapidly.¹⁹ The latter would of course have been even more noticeable in fixed prices. These developments seem like a recipe for fragmentation and probably reflect increased proliferation. Moreover, they have continued into the era of the Paris Agenda.

Figure 2: New commitments for DAC-donors, 1998-2013



Source: Author's calculations

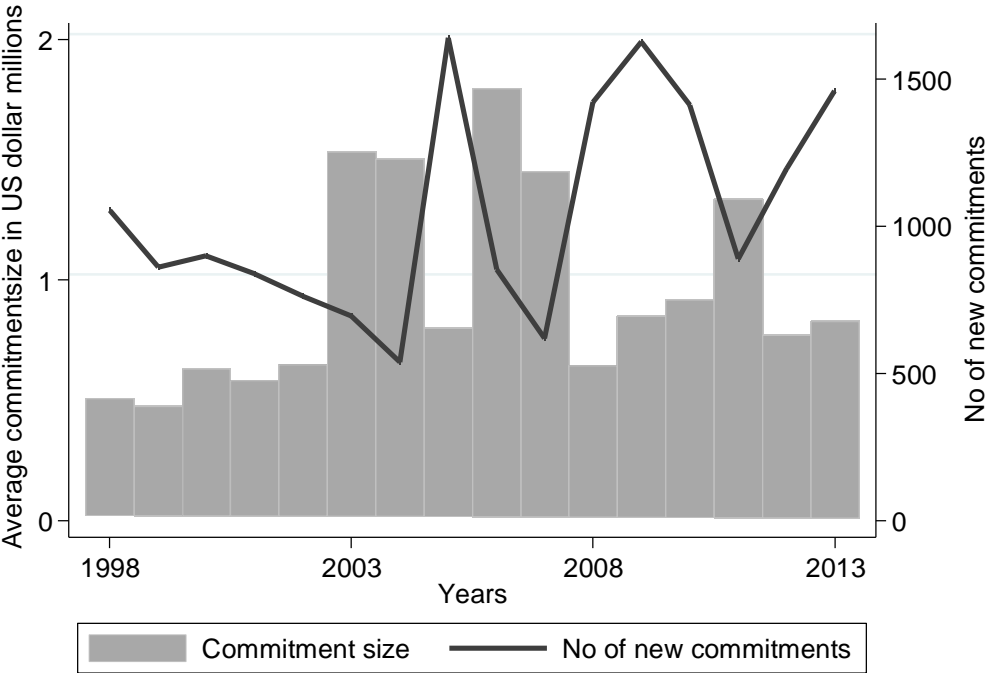
Figure 3 displays the same indicators for Sweden. Making an eyeball adjustment for inflation, Sweden’s average project looks more or less equally-sized at the end of the sample period as it was at the start. However, in between there are some puzzling peaks. These are negatively correlated with the variation in the number of projects. As you would expect in an era of

¹⁸ As is well-known, data for new donors like China is not widely available. Moreover, gauging dispersion for individual multilateral institutions is not as informative as many of them have mandates limiting their geographic or thematic spread. Still, their aggregate contribution is of interest and Fløgstad and Hagen (2017) compute it.

¹⁹ See e.g. Chart 11 in World Bank (2008).

rising aid budgets there is a quite strong positive trend here; the increase from 1998 to 2013 is approximately 50%. Most notably, the number of projects in 2013 was way above the level in 2007. However, one should not necessarily see this as sign that the concentration policy has failed. It targeted the number and identity of partners, not project or sector spread. Moreover, one might be concerned that these sharp shifts are due to some statistical aberration. This is one reason why robustness checks are in order.

Figure 3: New commitments for Sweden, 1998-2013



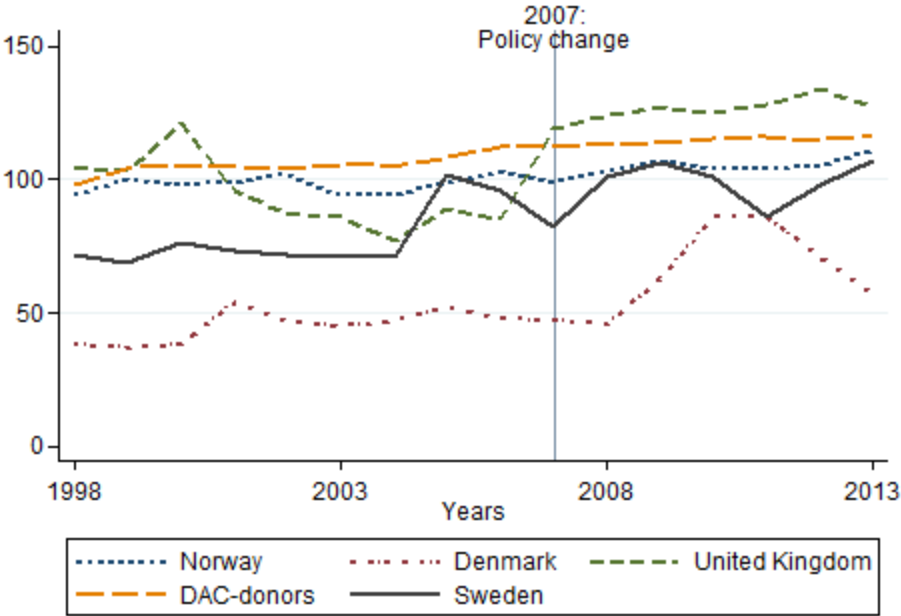
Source: Author's calculations

I have also calculated the number of recipients each donor has in every year.²⁰ Figure 4 shows the results for Sweden and the three comparator countries plus the DAC-average.²¹ The first interesting observation is there is an upward trend for all donors over the whole period covered here. Furthermore, it is not possible to detect a shift over the last decade when aid effectiveness has been on the global agenda. On average, DAC-donors gave aid to more than 100 recipients in 2003, when the Rome Declaration was issued, and the number was even higher in 2013. When it comes to Sweden, it has had a lower-than-average number of partners

²⁰ This is then the number receiving new commitments from a donor in a given year.
²¹ The latter is a weighted average, i.e., the sum of the number of recipients each donor in the sample has each year, weighted by their share of overall aid. The DAC-averages shown below are constructed in a similar way.

throughout the sample period. In this way, it does not appear to be among the worst proliferators. The same can be said of the comparator countries, with the exception of the United Kingdom (UK). However, the line for Sweden breaks up in 2004, bringing the country much closer to the average for the remainder of the sample period, albeit with some quite large swings. It is notable that in 2013, six years after the concentration policy was adopted, the number of recipients was higher than in 2007. Since aid is here measured as new commitments, one cannot attribute the increase to lags in disbursements due to prior commitments. This raises a question mark with respect to the implementation of the concentration policy.

Figure 4: Number of recipients, 1998-2013



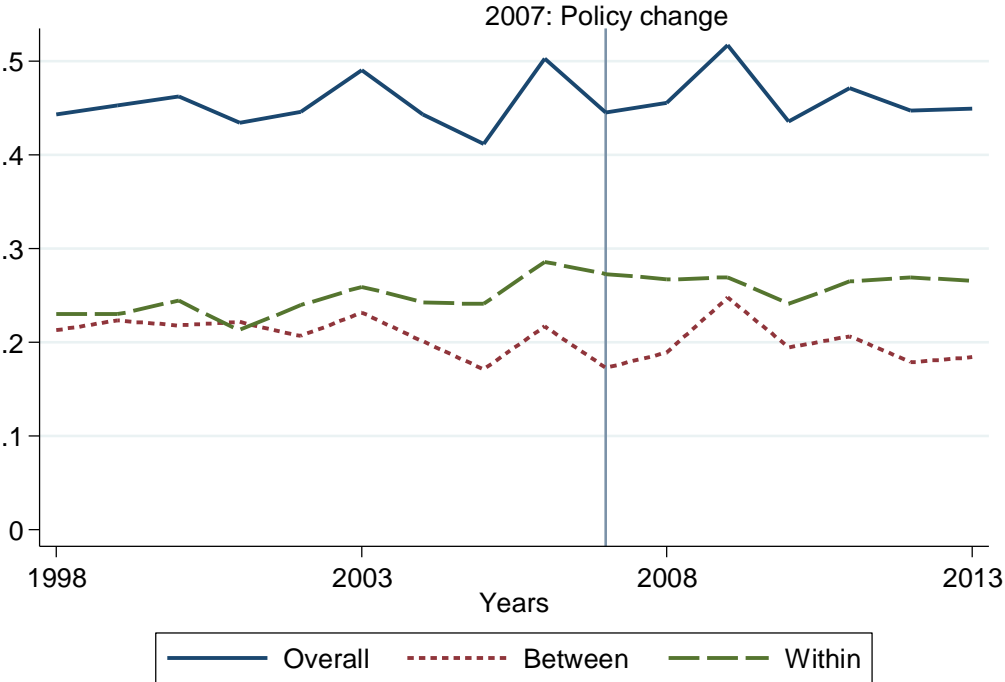
Source: Author's calculations

Recall that the Theil measure of aid proliferation by a donor can be divided into a component that reflects the spread across recipient countries and one that is a function of the spread across sectors within them. The number of recipients plays a role in the first component in the sense that a given aid budget is dispersed more thinly, *ceteris paribus*, the higher it is. As I aggregate up to the sector level, the number of projects does not affect the Theil calculated here. However, looking at the spread across sectors within recipients is an indication of whether different donors contribute to fragmentation by engaging ‘across-the-board’ or reduce it by concentrating in a few sectors. This is only an indication of the size of the transaction costs imposed on recipients as it should be noted that the data does not really allow me to investigate the extent to which donors limit the consequences by contributing to

multi-donor trust funds, eschewing their own projects for SWAps, etc. Still, it should be a very useful indication, all the more so as this is the first exercise of this kind.

Figure 5 displays the normalised Theil index for Sweden over the period covered. Remember that this is a number between zero and one, with the minimum reflecting that aid is evenly spread across recipient country sectors and the maximum indicating complete concentration. There appears to be no trend whether we consider the whole period or just the years following 2007. In other words, the big picture is that there is no change in the degree to which Sweden proliferates. Indeed, Fløgstad and Hagen (2017) find that the increase in the Swedish Theil from the first (1998-2005) to the second (2006-2013) half of the sample period is not statistically significant. It follows that the same is true for the smaller increase after the policy reform.

Figure 5: Theil index for Sweden, 1998-2013

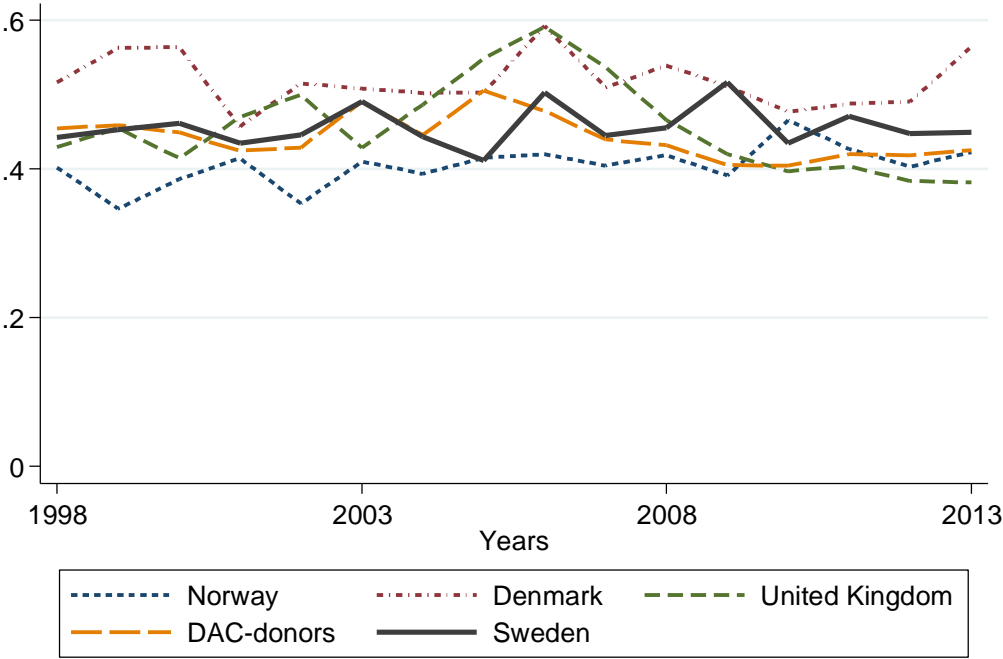


Source: Author's calculations

The decomposition reveals some interesting patterns, however. Before 2007, there was a concentration at the sector level (*within*) that was more or less nullified by deconcentration at the country level (*between*). After the concentration policy was adopted this pattern is

reversed. This suggests it has had some bite. Still, the effect seems minor and the country spread is still greater than it was at the start of the period. Moreover, it should be a source of concern that the significant improvement in the between-component in 2007-2009 has been followed by an almost equally large deterioration.²²

Figure 6: Overall Theil index, 1998-2013



Source: Author's calculations

How do these developments compare with what has been happening among Sweden’s peers? Figure 6 shows that Sweden was quite average in terms of aid proliferation until 2006. Since then, its aid has been more concentrated than the DAC-average. Somewhat disappointingly, this is mostly due to a clear deterioration of the latter since the Paris Declaration was adopted.²³ This confirms the impression from other studies, viz. that this process has left few traces on the ground. Whether this is due to donors not being sincere in their commitments, a

²² Somewhat surprisingly, the jump in the number of recipients after 2007 does not show up in the Theil. On the contrary, the between component indicates that there was some concentration across recipients after 2007. As this was not achieved through a reduction in the number of partners, it must be that there was some form of concentration across countries that already were recipients in 2007.

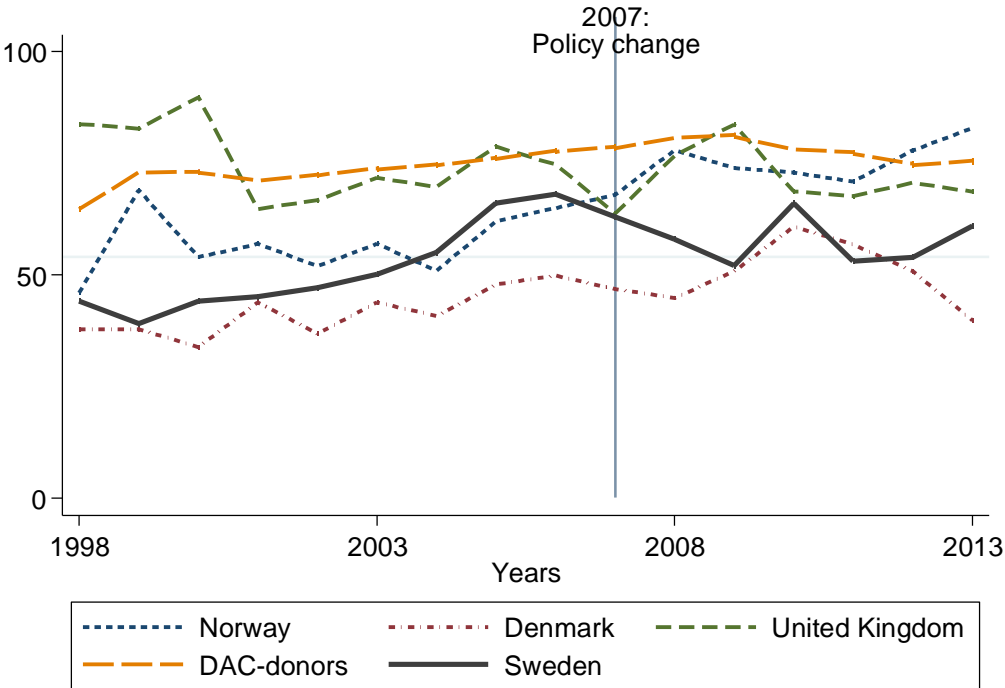
²³ As may be seen, Denmark stands out as the star performer here, being above the average in all years but one. Still, it has made little or no progress since the Paris Agenda was launched. Norway has generally been the worst proliferator, but a modest improvement in recent years has brought it up to average. The UK has seen a quite significant decrease in its Theil index since 2006, meaning that it proliferates more strongly.

broken link between policy choice and implementation, or some other factors would be an interesting research topic. Most of the decrease in the average level of concentration for DAC-donors is due to the between component.²⁴ In other words, it is mainly the allocation across recipient countries that is a cause for concern. As already noted, Sweden has actually managed to slightly improve the within component of its Theil Index after aid effectiveness was put on the international agenda and the between component after the concentration policy. Given that the changes are relatively minor in the full data set, it is advisable to try to check how robust they are. This is the task I turn to now.

5 Robustness checks

In this section, I make three changes to the sample. Firstly, I drop transactions smaller than USD 500 000. Secondly, I delete observations where NGOs were the aid channel. Thirdly, I calculate three-year moving averages for new commitments. These changes and the results they produce will be introduced in turn.

Figure 7: Number of recipients, large commitments

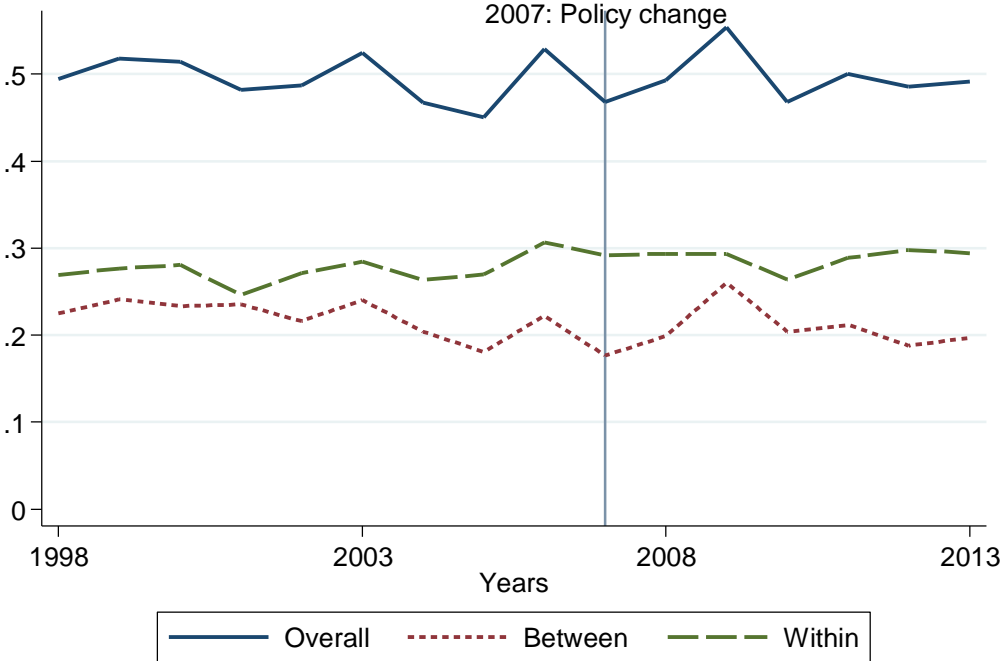


Source: Author's calculations

²⁴ C.f. Figures A1 and A2 in Appendix A of Hagen (2015a).

I follow the seminal work of Acharya et al. (2006) in checking robustness by excluding “small” transactions, defined as those where aid does not exceed USD 500 000.²⁵ This generates a large downward shift in the number of recipients for all entities analysed here (Figure 7). This indicates that the left tail of the distribution of commitments in terms of size is spread thinly across many countries. Besides the level effect, the most notable change for Sweden is that now the number declines after 2007, albeit not monotonically.

Figure 8: Theil for Sweden, large commitments



Source: Author's calculations

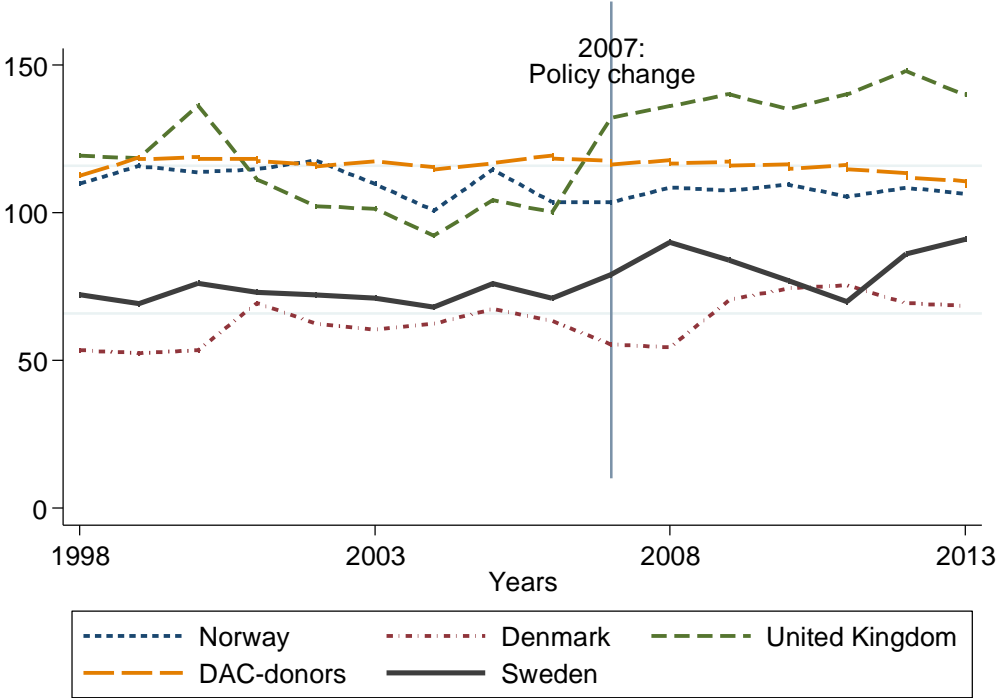
The more systematic evidence that the Theil gives confirms the impression that the results of the policy change are more easily detectable in this sample. Figure 8 illustrates that not only has the overall index improved; this is wholly due to the between component. This suggests that the concentration policy has succeeded in terms of large commitments even as the spatial spread of small transactions has worsened.²⁶

²⁵ They argue that “a substantial proportion of all aid events take the form of small grants, notably for travel and education scholarships, or for in-country events financed directly from the donor’s embassy. It seems likely that these kinds of activities typically do not generate the kinds of transactions costs with which we are concerned.” (pp. 8-9)

²⁶ It is notable that both at the start and the end of the period considered here large transactions only make up 20% of the total number. If fixed transaction costs constitute a significant share of the total, this indicates that Sweden might also generate considerable cost savings (for recipients and/or itself) by increasing project size. It

The second change I make concerns the role of NGOs. There is reason to believe that there are some peculiarities in the way Sweden reports official aid that passes through its own NGOs and that these make it look like it proliferates across partners to a greater extent than other DAC-donors.²⁷ More specifically, most Swedish aid through the NGO-channel is allocated to umbrella organisations, which are responsible for distributing the funds to their members. To make the DAC-statistics more informative, Sweden still reports where these individual NGOs spend their allotment. This is apparently not standard procedure. While existing studies – including one of Sweden - indicate a great deal of congruence in cross-country allocations of bilateral aid through NGOs and official agencies, it seems reasonable to argue that one should investigate the consequences of this statistical practice.²⁸

Figure 9: Number of recipient countries per donor, excluding NGOs



Source: Author's calculations

Figure 9 suggests that there might be something to the argument. Leaving out ‘NGO-projects’ makes no difference to the number of recipients for the UK and the DAC-average, but

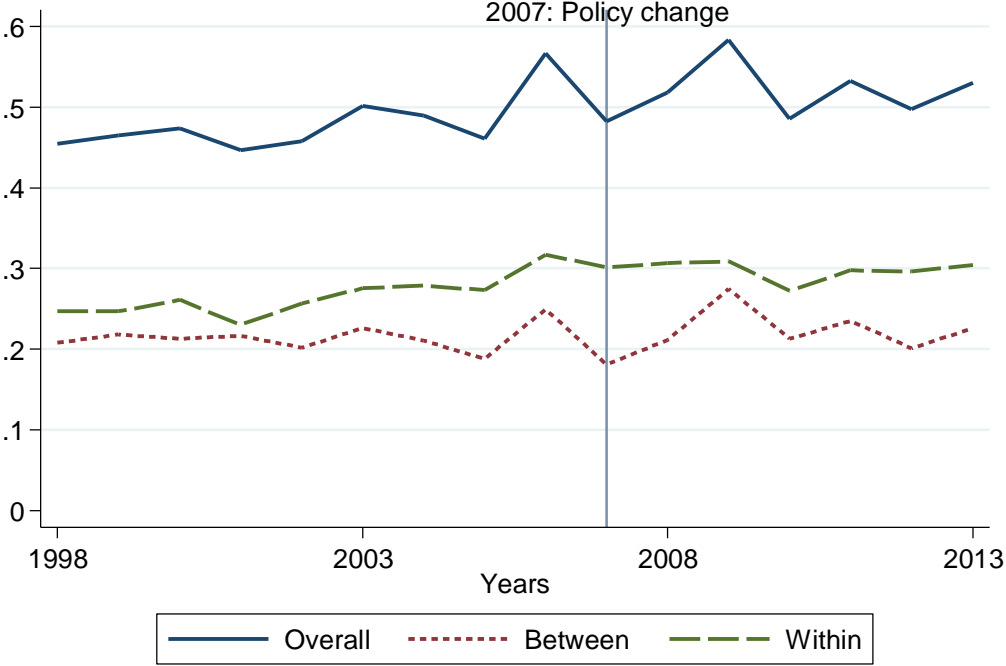
also suggests that the policy change has not altered the composition of Swedish aid in terms of large and small activities, though the heterogeneity at this level cautions against reading too much into the data.

²⁷ See *Analys av det svenske biståndets fragmentering* (n.d.).

²⁸ I discuss these studies in Hagen (2015b). The one on Sweden is Dreher et al. (2010).

indicates that the anomalous increase for Sweden in 2005-2006 might be due to more detailed reporting on NGOs.²⁹ However, both Norway (since the early 2000s) and Denmark (since the mid-2000s) look better too and there is still an increase in the number of partners receiving new commitments post-2007. What does the Theil say? Figure 10 reveals that the Theil now has a higher value after 2003, implying that Swedish aid through NGOs is less concentrated than bilateral aid passing through official channels (compare Figure 5). Furthermore, a marked improvement that is wholly due to a reduction in the country-spread (the between component) is now visible after 2007. Hence, it does seem that including NGO-aid masks the effects of the Swedish policy change.

Figure 10: Theil index for Sweden, excluding NGOs



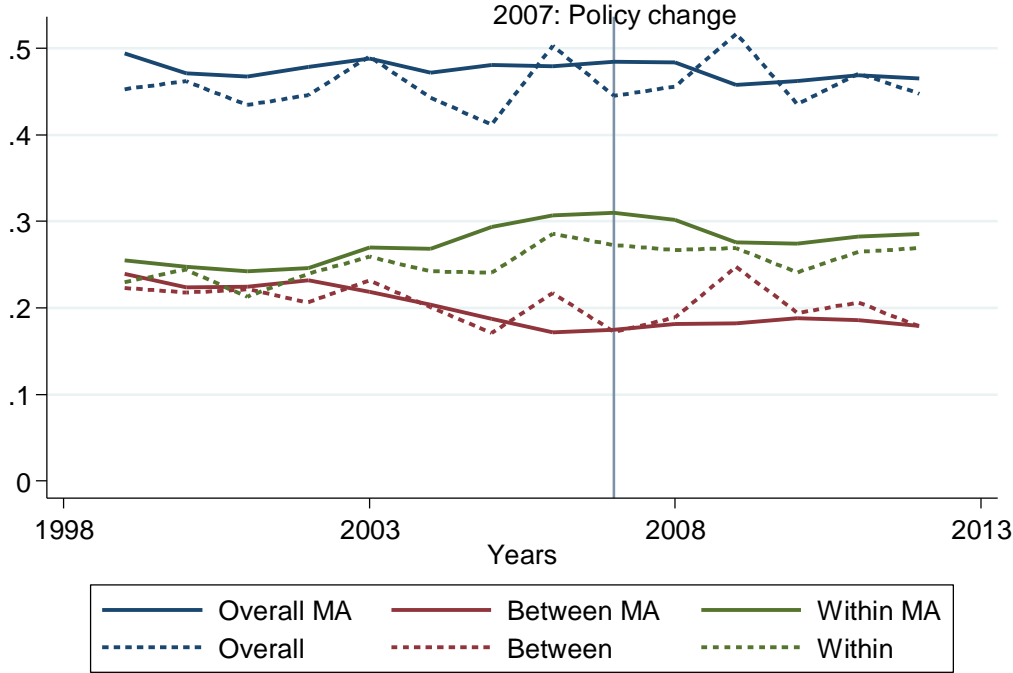
Source: Author's calculations

The final robustness check I make is using moving averages instead of current commitments. The large swings in the number of new commitments for Sweden shown in Figure 3 do look somewhat suspicious. Some, but not all, of these peaks and troughs seem to be due to NGO-

²⁹ Note that implementing this correction is only feasible after 2001. Moreover, there is only a single relevant observation each for 2002 and 2003 and the number increases every year until it peaks at 42,336 in 2009. Thus, it could also be that part of the increase is due to Sweden being ahead in adding the variable ‘aid channel’ to the database.

aid.³⁰ It could also be that commitments come in batches to a greater extent than disbursements, for example when a new government with new priorities enters. I use a three-year moving average centred on the median observation, i.e., the first data point is now in 1999 (showing the 1998-2000 average) and the final in 2012 (showing the 2011-2013 average). Figure 11 demonstrates that this makes the long-term trends more visible. It also results in post-2007 developments looking less favourable.

Figure 11: Theil index for Sweden with and without 3 years moving average



Source: Author's calculations

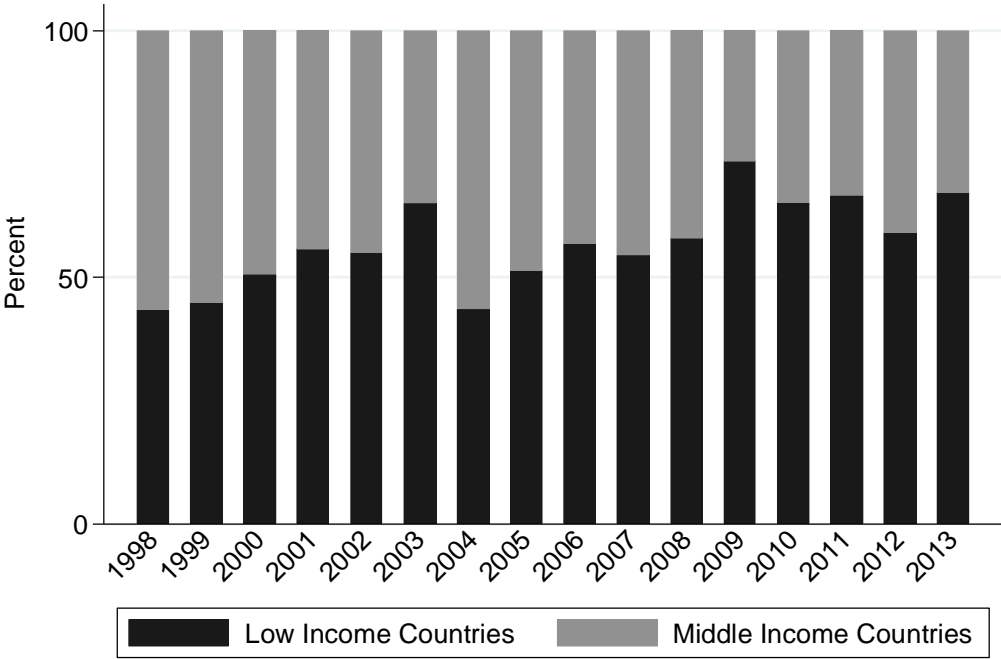
6 Selectivity

Though a thorough analysis is beyond the scope of this study, I now take a brief look at whether Sweden has become more selective after adopting the 2007 policy? A first angle on the data is obviously to investigate whether the share of Swedish aid going to the countries chosen as partners for long-term development cooperation has increased. Recall that Figure 1 displayed a pattern that is by now familiar. There is a sizeable improvement in the first couple of years following 2007. After 2009, however, the share allotted to these countries declines again and the period ends with just a minor improvement to show for since the policy change.

³⁰ I show this in Figure A6 in Appendix A of Hagen (2015a).

As somewhat more general question is whether the modest reduction in proliferation that we saw in section 4 means that Sweden now targets relatively well-governed and poorer countries to a greater extent. Figure 12 shows that since 2007 the share going to low-income countries, which are emphasised in the current aid policy framework, has increased. Thus, Sweden has become more selective in terms of income levels. However, this indicator also peaked in 2009.³¹

Figure 12: Share of Swedish aid to low income countries, 1998-2013



Source: Author's calculations

What of selectivity on governance? I use the Worldwide Governance Indicators (WGI) to provide a first check. This is probably the most robust set of such indicators available as the data is based on a host of other well-known measures.³² They are constructed such that higher values mean better governance. I group the recipients in the CRS-database by their percentile

³¹ This is consistent with the findings of Baulch (2016), who concludes that though it is somewhat more focused on poverty and deprivation than the DAC average and the US over 2010-2012, Swedish bilateral aid is less progressive in this sense than aid from Denmark and the UK. He attributes this result in part to around half of the focus countries being small middle income countries with few poor or deprived individuals.

³² The data are available at www.govindicators.org. Kaufmann et al. (2010) describe the sources and methods used. Note that the database starts in 1996, but is biannual until 2002.

ranking in WGI, then calculate the share of Swedish aid going to the countries in the top 25 percent on each measure.³³ There seems to be no common trend across the individual indicators. The indicators themselves are strongly positively correlated. I therefore compute the simple average of them and deduce the share of Swedish aid allocated to the highest ranking 25 percent. The data provides an indication that Sweden has become more selective on governance in recent years, as there is an upward trend in this indicator since 2003, c.f. Figure 4.4 in Hagen (2015a). However, the large year-on-year variation could be a sign that this is mainly coincidental.

7 Conclusion: the political economy of aid

The analysis here supports other studies that have found that the Paris agenda has not had much impact on aid dispersion. Sweden seems to be doing somewhat better than the average, at least in the period following the adoption of the concentration policy. It has also seen some absolute improvement if one focusses on large transactions or leaves out aid through NGOs. However, the message of the data is clear: after a two-year spurt from 2007 to 2009, the proponents of the concentration policy apparently were out of breath.

In the original proposal (Ministry of Foreign Affairs 2007), Sweden was to have 33 partners (c.f. Table 1). According to the latest peer review (OECD 2013) it will have 32 partner countries from 2013 on, when a large number of bilateral agreements expired. Thus, it appears to have taken about six years to fully implement the concentration policy in this sense. With 11 agreements not being renewed, one would expect the number of recipients to go down in coming years. However, while it might not be advisable to tear up existing contracts in the search for concentration, one would expect such a policy to lead to more or less linear progress. This has not happened. Moreover, it seems fair to say that there is room for further improvement. For example, small transactions still make up 80 percent of the total and apparently have become even more dispersed in recent years. And lower values for the Theil since 2009, however measured, indicates that one probably should not take future progress for granted.

³³ There are six in total: Control of corruption, Government effectiveness, Political stability, Regulatory burden, Rule of Law, and Voice and accountability.

Indeed, the current aid policy framework (Government Offices 2014) barely mentions concentration, which probably should be seen as a warning sign. Similarly, a recent academic paper on the changing structure of Swedish aid (Bigsten et al. 2016) only refers to the policy in passing. I therefore interpret the fact that the initial concentration spike of 2007-09 was followed by backsliding as an indication that reform fatigue set in after the government's first few years in office and that politics-as-usual took over.

A notable feature of the Swedish concentration policy is that it is not based on explicit rules. At the time it was introduced, a paper entitled "Guidelines: decisive factors for country focus" was published (Ministry of Foreign Affairs 2007). However, this is a veritable smorgasbord of indicators and while they come in four thematic groups, there is no guidance as to their relative importance in different cases, much less an explicit weighting of them.³⁴ The current aid policy framework is even less helpful in this regard. This would seem to leave too much discretion to policymakers and, by extension, to special interests, a point that brings us to the political economy of aid. The principal benefit from applying explicit rules is transparency, which facilitates accountability to all parties involved, including the public and partner governments.³⁵ Decisions regarding both the selection of prospective recipients and actual aid allocations can be compared to the formal criteria and any deviations scrutinised. It also becomes much easier to debate policy changes when the status quo is known and clear.

In the first EBA-report, Olofsgård (2014, p. 17) observes that "[f]oreign aid interventions span all areas of public policy; health and education, infrastructure, financial policy, legal reforms, etc. This means that decision makers need to have a very broad capacity to commission, read and judge evaluations across quite different fields, potentially using different methodologies suited for the specific question. A general challenge is also to attribute the effect of Swedish aid in a context where many other donors are involved and resources are fungible." But this is not a state of nature; it is the result of decisions. Concentration would increase Sweden's size in partner countries, making it a lot simpler to judge its contribution. Indeed, if it confined itself to using only budget support the relevant statistic would be the marginal effect of public funds there, which is much easier to calculate than Sweden's marginal impact using project or sector aid. Such simplicity is especially

³⁴ The four headings are poverty, effectiveness, human rights and democratic governance, and Swedish added value/comparative advantages.

³⁵ According to the current aid policy framework, openness and transparency are major principles for Swedish aid (Government Offices 2014: 43-44)

important in aid because of the broken feedback-loop that prevents the ultimate beneficiaries (poor people in poor countries) from reporting to the ultimate donors (taxpayers in rich countries).³⁶

Conversely, the ambiguities that more or less complete discretion invariably creates make it easier for special interests to wield influence. Kron (2012) argues that the main factor explaining the choice of partners in 2007 was whether NGOs linked to the four governing parties were engaged in a country or not. Shortly after the Norwegian government announced a concentration policy with obvious similarities to the Swedish one in 2014, it caved in to NGOs criticising it for putting Sierra Leone on the list of partners where long-term development cooperation was set to end when it was in the middle of the Ebola-crisis. Such backtracking is easy since Norway has unfortunately also followed Sweden in not making the criteria for partner choice clear. Indeed, in its new white paper on development (Meld. St. 24 2016-2017) the Norwegian government simply discards the original structure of its concentration policy in favour of a new, 'flexible' one where countries can move between three categories. In addition to the focus countries for long-term development cooperation and those in conflict, a third group of countries 'important for global challenges' has been added. Moreover, instead of 6+6 focus countries, Norway is to have 20-25 'partner countries', but the white paper did not include a list of these. Only a few examples were given. Thus, while the number of countries receiving Norwegian aid has declined somewhat since 2014, it would be no surprise if this also turns out to be a 'for-a-limited-time-only-policy'.

A rule-based allocation guards against mission creep of both the geographic and thematic kind, for which there will almost always be good reasons at any point in time. New governments and ministers are fond of fresh initiatives to make their mark. The complexity of development, the minute changes a single actor or activity engenders, and the weak accountability caused by the broken feedback loop makes aid especially vulnerable to fads and fashions in policymaking.³⁷ There is no reason to believe that the Swedish government was just paying lip service to its international commitments when the concentration policy was introduced. However, a couple of years is a long time in politics. The seemingly 'episodic' results of the initiative are consistent with this interpretation. Reduced peer

³⁶ The broken feedback-loop was originally noted in Martens et al. (2002).

³⁷ See Easterly (2001) for an instructive account of all the 'panaceas' for development that have been offered through the years.

pressure as the international community has moved away from the Paris Agenda might also have contributed.

The fact that discretion in aid allocation is valuable to both aid agencies and donor country politicians is probably the single most important reason why explicit selectivity is a quite rare phenomenon. The same plausibly applies to using budget support as it limits visibility in the form of projects and programmes with donor labels as well as the possibilities for jumping on topical bandwagons. These considerations also points to the major risk involved in choosing selectivity: that it does not by itself guarantee that the strategy is implemented.³⁸ If donors are unable to commit to following the rules when disbursement day comes, one would rapidly be back in a situation with excessive proliferation and aid being given despite the selected criteria not being fulfilled.

The US, which is well-known for using its aid for purposes of self-interest to a large extent, has managed to establish a rule-based agency like the Millennium Challenge Corporation. This example suggests that being concentrated and selective is not completely unrealistic when it comes to bilateral aid. The fact that most DAC-donors have untied their aid could also be cited as evidence that loosening the bonds between development assistance and donor self-interest is achievable in practice. However, the Swedish case indicates that it probably takes something special to cut even deeper into that Gordian knot.

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³⁸ This is the problem of dynamic consistency, which gives rise to the so-called Samaritan's Dilemma in aid, c.f. Hagen (2006), Pedersen (1996, 2001), and Svensson (2000).

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