

OECD-DAC DEVELOPMENT BRIEF: WHERE DO WE STAND ON THE AID ORPHANS?

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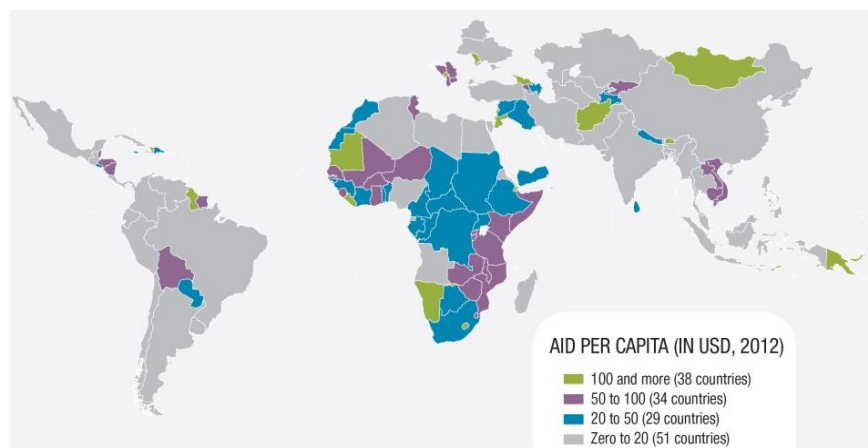
What's the issue?

The geographical gaps in aid distribution, commonly known as aid orphans, are consequences of the complexity of the current global development co-operation system, which is characterised by allocation practices which are, to a large extent, un-coordinated. The gaps and asymmetry in aid allocations have been part of the development agenda since the high-level meeting in Accra, and reinforced in Busan in 2011, but yet progress on this commitment has yet to be fulfilled.¹

Low-income countries rely heavily on concessional resources. Yet providers' individual decisions on aid allocations to these countries vary greatly and cannot be explained by countries' differing needs or institutional performance. Ensuring that aid is allocated efficiently is crucial for generating development results. *Where possible, correcting for some of this under-funding by freeing aid resources for countries with the greatest need and with the institutional capacity to use it, could allow for faster progress towards development results.*

How is aid allocated?

Bilateral aid agencies decide individually which country to assist and to what extent. Such decisions are based on provider's individual values, goals and criteria, shaped by specific contexts and historical relationships: each provider has its own priorities and incentive framework. To a large extent providers are risk averse, which may consequently lead to



an accumulation of providers in one recipient country – so called “donor-darlings”. For example, 16 DAC members’ categorise Mozambique and Ethiopia as priority countries; however, Madagascar and Togo enjoy priority status with only two DAC members. The extent of the assistance in terms of aid volume provided to individual countries does not reflect actual financing needs.

Bilateral providers are the funders of the multilateral system, which accounts for one-third of the resources to partner countries. Through their governing processes they have put in place allocation practices based on a universal or regional mandate.

¹ These concerns were first addressed in the Accra Agenda for Action (AAA) where aid providers committed to “improve allocation of resources across countries” and to “work to address the issue of countries that receive insufficient aid”. In Busan in 2011, providers took a step further to “address the issue of countries that receive insufficient assistance, agreeing – by end of 2012 – on principles that will guide our actions to address this challenge”.

Their practice of determining aid results in more objective allocations as a result of calculations based on countries' needs and performance.

Common to all providers, whether bilateral or multilateral, is that no one adjusts allocations taking into account other providers' decisions. Collectively, the impact of individual providers' decision-making practices leads to imbalances in the global distribution of aid.

Who are the orphans?

To pin-point where aid is insufficient and by how much, *the OECD-DAC has proposed a practical approach drawing on four established normative benchmarks for apportioning aid across countries.*²

By comparing actual aid to countries with these normative benchmarks, a handful of countries are identified as aid orphans according to both needs-based and performance-based criteria. Most of these are Least Developed Countries with significant development challenges. The majority also appear to be the chronically under-aided. Three countries (Guinea, Madagascar and Nepal) have been identified as aid orphans for all seven years studied (2006-12).

Country	2006	2007	2008	2009	2010	2011	2012	Number of years identified as aid orphan (2006-2012)
Guinea	✓	✓	✓	✓	✓	✓	✓	7
Madagascar	✓	✓	✓	✓	✓	✓	✓	7
Nepal	✓	✓	✓	✓	✓	✓	✓	7
Gambia	✓	✓	✓		✓	✓	✓	6
Togo	✓	✓		✓	✓	✓	✓	6
Niger			✓	✓	✓	✓	✓	5
Malawi		✓		✓	✓	✓		4
Bangladesh				✓	✓	✓		3
Lesotho	✓		✓	✓				3
Chad	✓	✓						2
Sierra Leone						✓	✓	2

Analysing the funding source to these countries, it appears that they are much more reliant on multilateral funding. The extreme example is Togo where 78% of all aid over the last seven years was extended by multilateral agencies.

What can the international community do?

- ✓ *Acknowledge the collective action problem:* The issue as described is not tractable just through greater awareness. The obstacles go beyond the inertia of provider-specific priorities. It is a real challenge to reconcile this message without agreeing on a mechanism where insufficient funding can be dealt with either through bilateral or multilateral channels.
- ✓ *Improve transparency and predictability of providers' forward intentions:* The only comprehensive source on future bilateral and multilateral intentions at country level is the Survey on Forward Spending Plans conducted annually by the OECD. With most providers now willing to share their indicative spending plans, the foundation is set for better informed aid allocation decisions.³
- ✓ *Concrete actions for the post-2015 framework:* The Report of the UN High-Level Panel on the Post-2015 Development Agenda states that “*central to the post-2015 framework is eradicating extreme poverty from the face of the earth by 2030*”. To ensure adequate funding is available, it is crucial to elevate the issue of aid orphans into the work on sustainable financing for development for the post-2015 era.

For more information please visit <http://www.oecd.org/dac/aid-architecture/fragmentation-orphans.htm>

² The models used were: based on equal aid per capita, the UNDP TRAC-1 allocation model, the Collier/Dollar poverty-efficient allocation model and IDA 15 performance-based allocation models. The methodology used to draw these conclusions is proposed to serve only as an initial step for analysis and makes no preference between needs-based and performance-based models.

³ Access data on aid providers' forward spending plans at www.oecd.org/dac/aidoutlook.