

Trends in In-country Aid Fragmentation and Donor Proliferation

An Analysis of Changes in Aid Allocation Patterns between 2005 and 2009

Report on behalf of the OECD Task Team on Division of Labour and Complementarity

Urs Bürcky – 10 June 2011

Acknowledgements

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1. Executive summary

The objective of this report is to assess the development of aid allocation patterns within partner countries since adoption of the Paris Declaration on Aid Effectiveness in 2005. It therefore proposes a methodology to measure aid fragmentation and donor proliferation as proxies for division of labour (DoL) outcomes (chapter 4) and applies this methodology to the country programmable aid (CPA) from 29 donors to 86 partner countries for the years 2005 to 2009. The dataset used in the report is based on an excerpt of OECD CPA data and therefore does not consider so-called new actors in development cooperation, such as south-south cooperation or big private foundations.

The report not only analyses how aid allocation developed in its several dimensions (sections 5.1 and 5.2) but also looks for situations which have been especially beneficial or problematic for partner countries (section 5.3). Furthermore, it asks the question whether international initiatives to enhance complementarity have made a difference in regard to the aid allocation patterns of their members (section 5.4).

The methodology to measure aid allocation patterns developed for this report focuses on two dimensions: (1) aid fragmentation and (2) donor proliferation. The development of CPA volumes is also taken into account.

The following findings can be derived from the report:

Aid fragmentation is increasing, although generally also accompanied by an increase in CPA: Aid fragmentation measured by the number of donors per sector increased by about 8.8% from 2005 to 2009 across all OECD-defined sectors, but aid in some sectors is far more fragmented than in others. The sector “Government and Civil Society” received aid on average from more than 13 donors per country in 2009 while “Environment” was supported by 7 donors. Social sectors are more fragmented than productive sectors. “Population Policies/Reproductive Health” and “Water Supply/Sanitation” saw the biggest increase in fragmentation from 2005 to 2009. The second indicator for fragmentation, the ratio of sector initiatives that jointly accounted for the last 10% of aid to the sector (the tail end of smaller initiatives), also showed a clear increase.

At the same time, CPA volume increased across all sectors except for 'other productive sectors' and the category 'multisector'. Fragmentation is distributed unevenly across continents and income groups. Low income and least developed countries had the highest number of donors per sector in 2009 and also saw the greatest increase from 2005 to 2009. Fortunately, the average CPA volume per sector engagement in this group of countries also increased significantly, by more than 40%. Still, fragmentation seems to be worst where capacities to deal with it are already stretched.

Growing donor proliferation is the dominant trend both with regard to the number of partner countries in which each donor is active as well as the average number of sectors in which donors are engaged within their partner countries. **Nevertheless, tackling the problem seems to be possible**, as some donors managed to reduce the number of partner countries as well as the average number of sector engagements, without reducing their overall level of CPA.

In a significant number of cases, **fragmentation and CPA show simultaneous negative trends**. This is particularly problematic if new donors enter into sectors and CPA to the sector is falling at the same time. Those sectors which also had to deal with the biggest

losses of CPA globally were most affected. The analysis of simultaneous negative trends of proliferation and CPA shows us that all donors entered into new sectors but reduced their overall CPA in at least some of their partner countries. Some donors show this behaviour in more than one fourth of their partner countries.

Countries where DoL is supported by the **EU Fast Track Initiative (FTI) on DoL** are much more affected by fragmentation than other countries. This confirms that the choice of countries in which to fast track implementation of division of labour was correct. **Overall, EU donors contribute to the increase of fragmentation in the same way as other donors**, but EU donors' contribution to fragmentation in FTI countries, in particular, is higher than at the global level. From the proliferation perspective it becomes apparent that **only a handful of EU donors significantly increased the number of sectors in which they were involved** and caused the negative trend in proliferation and fragmentation of EU donors as a group.

These findings lead to the following conclusions:

The findings **did not show a positive trend towards more rational and less costly aid allocation patterns** among donors statistically registered by the OECD until 2009. Due to the emergence of 'new' donors and institutions and new global challenges like climate change, the challenges of fragmentation and proliferation are becoming even more pressing than they were six years ago when the Paris Declaration was adopted. The instruments and measures applied seem to have not yet reduced the complexity of aid allocation patterns; consequently, we assume that **transaction costs of aid have not decreased** either. However, one has to bear in mind that there is always a time lag between a decision to change aid allocations and observable changes in CPA disbursement. Effects of recent decisions in line with the EU Code of Conduct (EU COM 2007) and the Accra Agenda for Action (OECD 2008) might only become visible in the upcoming years.

In view of these findings, it would be advisable for the donor community and partner countries to **keep an eye on the allocation of additional funds in particular**. If a donor scales up its CPA, this should not result in engagement in new sectors or even in a higher number of partner countries; additional CPA should instead be spent in sectors where the donor is already active. In case there is a demand from partner governments to enter a new sector, donors should think about exiting another sector to avoid further proliferation. In situations of decreasing CPA, donors and partner countries have to be especially careful not to increase the number of sector engagements and to manage exits responsibly and in coordination with other donors. A further recommendation would be to **analyse and document those cases in which donors managed to reduce the number of sector engagements or partner countries in which they were involved** while increasing their overall CPA volume.

2. Context and objectives of the study

Today's development assistance landscape is characterised by a multiplicity of actors who provide external contributions to the development of so-called partner countries. In doing so they pursue their own policies and strategies, use many different instruments and approaches and broadly follow their own rules and regulations regarding the deployment of development assistance. In addition to the 'traditional' providers of official development assistance – the so-called DAC donors – a growing number of new actors have entered the stage over the last decade, including so-called new donors, new global thematic funds, international foundations, civil society organisations and private financial players. Many partner governments, especially those in highly aid dependent countries, are overburdened with the task of stringently managing the inflow of development assistance. The result is duplication and fragmentation of efforts, contradictory initiatives and an undue increase in transaction costs for both partner countries and donors related to the provision of external assistance. A large proportion of partner countries receive aid from 25 donors or more. Similarly, half of those donors reporting to the DAC¹ spread their aid over more than 50 partner countries, often addressing a great number of policy areas in a given country. Partner countries, particularly those very dependent on aid, see themselves in a weak position to negotiate or even refuse particular aid offers, as they fear losing some of their foreign assistance. This situation has been repeatedly analysed and criticised in the academic literature and among those working in development assistance (Acharya et al. 2006, Knack and Rahman 2003, Morss 1984).

The fragmentation of aid at the partner country level and the proliferation of foreign assistance by donors are considered major factors compromising aid effectiveness. The Paris Declaration on Aid Effectiveness calls for better harmonisation and coordination of aid, as well as greater country ownership and deeper alignment of external assistance. More specifically, the declaration states in paragraph 33: 'Excessive fragmentation of aid at global, country or sector level impairs aid effectiveness. A pragmatic approach to the division of labour and burden sharing increases complementarity and can reduce transaction costs.' Donors therefore committed themselves to 'make full use of their respective comparative advantage at sector or country level by delegating, where appropriate, authority to lead donors for the execution of programmes, activities and tasks' and to 'work together to harmonise separate procedures.'

The Accra Agenda for Action specifies these commitments in paragraph 17 by stating that: '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.'

These international commitments were operationalised in 2007 by the EU in a Code of Conduct on Complementarity and Division of Labour (EU COM 2007) which *inter alia* contains commitments to increase in-country and cross-country division of labour amongst EU donors. At the international level, the DAC Working Party on Aid Effectiveness issued Good Practice Principles for Country-Led Division of Labour and Complementarity (OECD 2009a) which underline the necessity to monitor and evaluate the added value of DoL and call for the use of existing structures and systems to do so.

¹ The 2009 DAC dataset on country programmable aid contains data from 64 donors.

Division of labour has several dimensions, two of which are at the centre of international discussions: cross-country division of labour, focusing on the question of how the distribution of aid across partner countries is organised; and in-country division of labour, concentrating on division of labour amongst donors with regard to the allocation of their aid portfolios within partner countries.

While there are a number of publications reflecting on cross-country aid allocation patterns² and qualitative aspects of in-country DoL,³ a **global quantitative analysis of in-country DoL** has not been undertaken so far. This report sets out to close this gap and aims to provide evidence with regard to the changes in in-country aid allocation, also as part of preparations for the fourth High Level Forum on Aid Effectiveness in Busan 2011.

The main objective of this report is **to assess the development of aid allocation patterns within partner countries since adoption of the Paris Declaration in 2005** and analyse to which extent this development is related to efforts to promote DoL.

The report attempts to answer the following broad research questions:

1. How did aid allocation patterns develop within partner countries between 2005 and 2009?
2. Which particularly beneficial or problematic situations in aid allocation patterns can be identified for partner countries?
3. Did international initiatives to enhance complementarity and division of labour have a recognisable effect on the aid allocation patterns of their members until 2009?

Prior to this, the conceptual framework and methodology of the analysis are discussed in chapters 3 and 4.

² See Acharya et al. (2006), Frot and Santiso (2010), OECD (2007) and OECD (2009b), among others.

³ EU Fast Track Initiative on DoL (2009 and 2011).

3. Conceptual framework

The objective of DoL efforts is a more rational allocation of aid, resulting in higher complementarity, better alignment and a significant reduction of transaction costs.

As laid out above, the main focus of the report is on the change of aid allocation patterns since adoption of the Paris Declaration. Our analysis is therefore limited to changes in the allocation of financial aid resources across sectors in partner countries over a five year period. As a consequence, we disregard the qualitative dimensions of increased complementarity and alignment and focus on the dimension of transaction costs, which we assume to be related to the specification of aid allocation.

In regard to the transaction costs related to each aid activity, the following central hypotheses guide our analysis: (i) each aid activity necessarily entails transaction costs for donors and the partner government; (ii) the transaction costs do not grow proportionally to the volume of the aid activity; in other words, smaller aid allocations tend to have relatively higher transaction costs than larger ones; (iii) the higher the absolute number of aid activities a donor supports from a given aid volume, the higher the overall transaction costs. Within a given aid envelope, this means that (i) a smaller number of aid activities by a donor is preferable to a higher number of aid activities and (ii) a larger financial commitment per aid activity is preferable to a smaller amount.

To capture the changes in aid allocation patterns, we therefore analyse (i) aid fragmentation, in other words, the distribution of aid within a sector from a partner country perspective and (ii) donor proliferation, that is, the spread of aid by a donor across sectors in a given partner country. In doing so we also take into account changes in the overall aid volume per sector and partner country. Details of our methodology are described in chapter 4 below.

We assume that the effects of successful DoL efforts can be observed as beneficial reduction of aid fragmentation and aid proliferation (or at least a reduction in the rate of increase of aid fragmentation and aid proliferation). However, other factors and considerations beyond purposeful DoL (aid re-allocation) efforts also influence aid fragmentation and donor proliferation. Donors in negotiation with partner countries might change their aid allocations for several reasons, many of which have nothing to do with the aim of achieving more complementarity or more effective development results.

Our view on the overall changes in aid dispersion is further narrowed by concentrating on the financial flows of development assistance and using quantitative data collected by OECD DAC at the international level and not within partner countries (for reasons of comparability). It is therefore important to highlight that this report captures only part of the changes in aid allocation that occur in partner countries around the world.

4. Methodology

4.1. How to measure aid fragmentation and donor proliferation

Within the literature on aid allocation patterns, the term 'fragmentation of aid' is increasingly used to describe the unwanted situation of having many small aid activities initiated by many different donors. There are several ways to measure aid fragmentation. Each of these methods highlights different aspects of the phenomenon and thereby includes normative assumptions that have a significant effect on what is perceived as fragmentation. There are aspects which differ from method to method, such as the dataset which is used, the basic level or unit of measurement and last but not least the formula which is used to compute an indicator of fragmentation (Dreher & Michaelowa 2010). Previous studies used fragmentation indices based on standard measures of concentration like the Theil or the Herfindahl index. After a thorough review of existing approaches (see Dreher & Michaelowa 2010) and discussions among EU and OECD experts, we chose an approach that captures the patterns of aid allocation from the perspective of both the partner country (aid fragmentation) and the donors (donor proliferation).⁴ We further elaborate on our methodology to measure aid fragmentation and donor proliferation in sections 4.1.2 and 4.1.3.

The methodology used in this report builds on the most comprehensive and reliable global dataset on aid allocations currently available, the Creditor Reporting System (CRS) of the OECD. We use a subset of this data, the so-called country programmable aid (CPA), which is calculated from the CRS by subtracting certain types of aid that are usually not programmed within partner countries.⁵ Disbursement data was used for the analysis to assure that the aid was really spent within the year for which it was recorded.⁶ Our analysis covers all partner countries subject to the third round of Paris Declaration Monitoring⁷ and covers the years from 2005 to 2009. We chose 2005 as our initial reference point because it is the year the Paris Declaration was adopted. We use 2009 data for our final reference point as it is the most recent data that has been provided by donors to the OECD DAC. The

⁴ For a definition of the terms *fragmentation* and *proliferation* see Acharya et al. (2006).

⁵ 'CPA is the portion of aid that each donor (bilateral or multilateral) can programme for each recipient country. CPA is a subset of ODA outflows. It takes as a starting point data on gross ODA disbursements by recipient but excludes spending which is: (1) inherently unpredictable (such as humanitarian aid and debt relief); or (2) entails no flows to the recipient country (administration, student costs, development awareness and research and refugee spending in donor countries); or (3) is usually not discussed between the main donor agency and recipient governments (food aid, aid from local governments, core funding to international NGOs, aid through secondary agencies, ODA equity investments and aid that is not allocable by country). Finally, (4), CPA does not net out loan repayments, as these are not usually factored into aid allocation decisions' (OECD 2010).

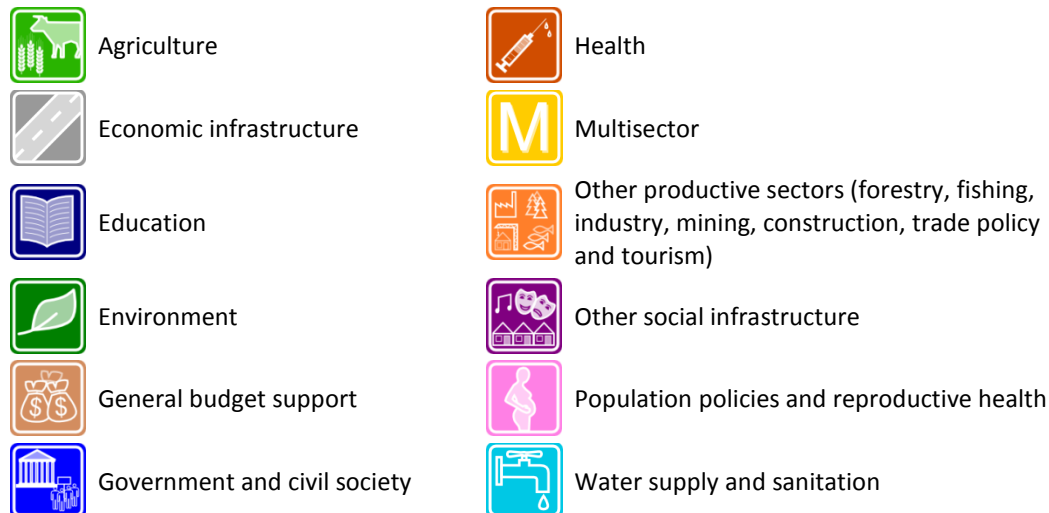
⁶ The OECD collects commitment and disbursement data. Commitments reported in one year are often disbursed over a time span of several years. Therefore, broken down to the individual partner countries and their sectors, this data fluctuates significantly and is not appropriate for comparing actual aid volumes in a partner country over time.

⁷ We cover the 86 countries included in the monitoring before 31 January 2011. For the countries covered in this report see annex 1. Southern Sudan was excluded from the analysis, as no separate OECD data was available for this state in the making. Kosovo was not considered, as no data for 2005 was available. For a full list of countries covered by Paris Declaration Monitoring see: http://www.oecd.org/document/45/0,3746,en_21571361_39494699_39737645_1_1_1_1,00.html

dataset we use includes 29 donors⁸ (21 bilaterals and 8 multilaterals) for whom data for 2005 and 2009 were available.

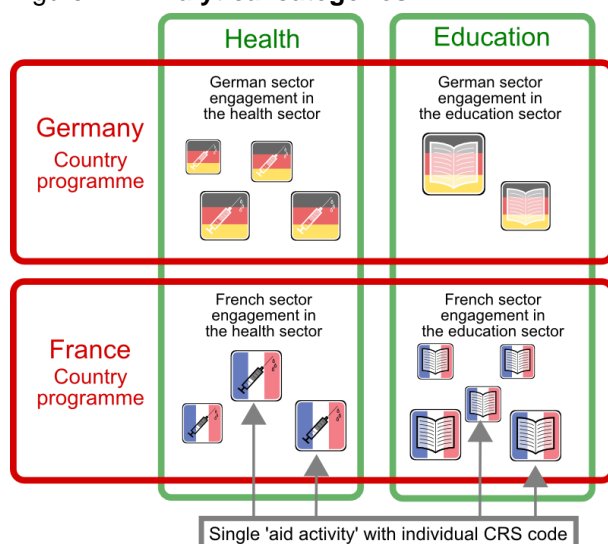
Analytical categories

Figure 1: **Sectors covered in this report**



To analyse trends in aid dispersion from the perspective of partner countries⁹ we focus on the level of sectors within partner countries. The sector definition used in this report follows the CRS coding and a grouping proposed by the DAC Secretariat. It may differ from national sector definitions within partner countries, but has the advantage of being comparable between countries. General budget support (GBS) is treated like a sector to assess whether fragmentation might be an issue for GBS as well. A list of sectors and the respective CRS codes can be found in annex 3. One can also conceive of other dimensions of aid fragmentation that would be worth analysing, for example, regions or modalities. We do not

Figure 2: **Analytical categories**



consider these dimensions as there is (i) no international dataset covering these dimensions and (ii) from our point of view, sector level aid allocations are the most significant dimension of in-country fragmentation.

The DAC CRS dataset contains an entry for each 'aid activity' registered by donors in a yearly routine. These aid activities are of very different size and character, not only because donors implement their aid in different ways but also because the granularity of their reporting differs significantly. To avoid measuring these differences in reporting instead of real differences in aid allocation patterns in

⁸ See annex 2 for a full list of donors considered in this report.

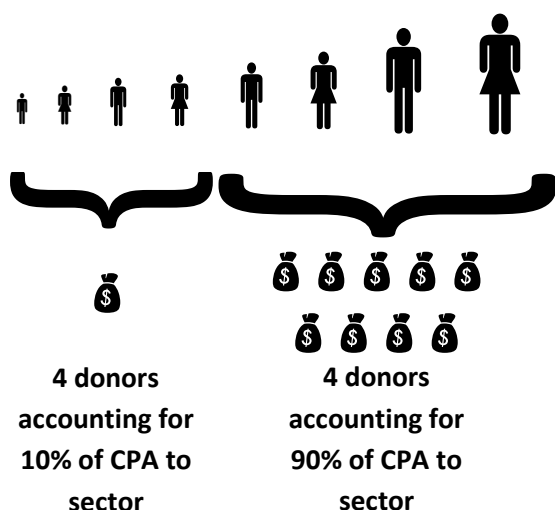
⁹ By 'perspective of partner countries' we mean the level of our analysis, not the partner countries' perception of fragmentation.

partner countries, we decided not to base our analysis on aid activities, but to look at the aggregated aid activities by a donor in a sector during one year and use this 'sector engagements' as the basic unit of our analysis. The sum of all sectors in which a donor is involved in a given country constitutes its 'country programme'. Figure 2 illustrates how the terms we use are related to each other.

In a second step, following the example of the DAC Secretariat (OECD 2009, p. 20), we exclude all country programmes totalling less than USD 250,000. We do so because the dataset would otherwise include very small activities which might not be relevant for CPA.¹⁰ By doing so we also address some of the methodological limitations mentioned in section 4.2 below.

Measuring aid fragmentation

Figure 3: **How to measure fragmentation**



We use three steps to measure fragmentation: First we consider the absolute number of donors allocating CPA to a certain sector and, second, look at the overall volume of CPA spent in the sector. This provides us with a first impression of how 'crowded' or 'deserted' the sector is. In a third step we identify those donors who spent the smallest amounts in the sector and count those donors who collectively account for 10% of the CPA spent in the sector (see figure 3). The rationale behind this step is to identify those donors in the sector who have the worst ratio of aid volume to assumed transaction costs.

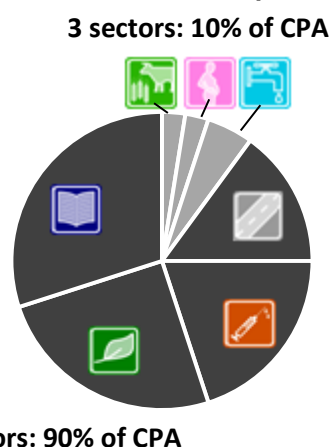
To assess changes in aid fragmentation we then compare all information produced in the aforementioned steps over time. By doing so, we are able to identify those sectors which saw a concentration of aid and those that had to face further fragmentation. Changes in the overall CPA volume per sector are also taken into account to identify particularly bad or good scenarios, for example, occasions when sectors saw an increase in fragmentation while losing CPA or a decrease in fragmentation while receiving more CPA (see section 5.3).

¹⁰ In future studies on the issue of aid fragmentation, it might be useful to set a certain threshold per sector involvement. Further analysis would be needed to set this threshold at a reasonable level. Therefore and to assure comparability with the data used by the OECD DAC for cross-country analysis, we use the threshold of USD 250,000 per country program established by the DAC Secretariat in this report.

Measuring proliferation

Changes in in-country aid dispersion can also be measured from the **perspective of the donors** active in a given partner country. Taking the point of view of individual donors helps donors to monitor whether they have concentrated their portfolio over the last years or spread their activities to additional sectors. To analyse aid allocation patterns from this perspective, we follow the same three-step logic as for fragmentation: as a first step we count the absolute number of sectors in which a donor is active. Then we take a look at the CPA volume disbursed per country. In a third step we search for the sectors that receive the smallest volume of CPA from the donor and count the number of sectors that collectively receive only 10% of the donor's CPA (see figure 4). Once again the objective is to identify those activities that entail relatively low levels of aid and disproportionately high transaction costs. Finally we compare this data over time, helping to determine whether proliferation increased or decreased.

Figure 4: **How to measure proliferation**



4.2. Limitations of the methodology

We consider the described methodology to be the best to assess changes in aid allocation patterns of donors, as it is relatively easy to compute and understand and nevertheless captures the most relevant dimensions of in-country aid allocation patterns. Nevertheless we are aware that our approach has certain limitations, which we would like to discuss in the following:

1) First, we have to acknowledge that the volume of an aid activity or a sector engagement does not equal its impact on development outcomes. Therefore 'big is not automatically beautiful'. Quite the contrary might be true with regard to certain aid activities, for example: high profile policy advice to partner governments does not have to be very expensive, but can play a key role in triggering development within a country. Therefore an indicator which focuses on CPA volumes will always cover only part of a complex picture, and implementing large sector engagements is not necessarily the most effective way to provide assistance to a partner government. As laid out in the conceptual framework (chapter 3), the qualitative dimensions of the division of labour – increased complementarity and alignment – are disregarded in this study and we focus on the number of sectors in which a donor is involved, as this is assumed to be related to transaction costs. In short: the more engagements, the more transaction costs.

2) Other forms of harmonisation and coordination are reducing some of the negative effects of fragmentation in many of the partner countries covered in this report. Both DoL and aid coordination (e.g. programme-based approaches or lead donor arrangements) are closely interlinked to each other so that drawing the line between the two approaches is not always easy. As a rule of thumb it helps to use the following distinction: coordination is more concerned with addressing the status quo of fragmentation, while DoL strives to reduce this fragmentation. In order to assess the impact of fragmentation on the transaction costs

shouldered by partners, it would be helpful to include harmonisation in the picture. By installing better coordination mechanisms, donors might take over some of the transaction costs which partner governments would otherwise have to bear. The different modalities used by donors add another layer of complexity to the picture. However there is only limited data available on harmonisation efforts (earlier rounds of Paris Declaration Monitoring) and the situation varies considerably among the countries covered in this report. Nevertheless the interaction of aid coordination, fragmentation and DoL should be more carefully examined.

3) The sample we use for our report covers 86 partner countries from all continents and income levels ranging from low income countries to upper middle income countries. It also contains a broad spectrum with regard to size of the countries, volume of aid they receive (also in relation to the volume of their overall budget) and the overall number of donors present in the country. Some countries might be able to cope with a large number of donors without experiencing an overburdening increase in transaction costs; the capacities of others might be overstretched with even a relatively moderate number of donors. To assess the effects of some of these variables, we analyse the dataset separately for each of the continents and income groups.

4) The dataset we use in our report is an extract from the CRS data collected by the OECD DAC. CRS data is recorded by statisticians within donor countries and the quality and completeness of the data therefore depend heavily on their accuracy. We assume that the data we use correctly reports CPA spending by the 29 donors in our report. However we cannot rule out the possibility that some donors changed their reporting within the time span covered by our report, with the result that the number of sectors where donors are reported to be involved increased. To reduce the risk of measuring changes in donor reporting (instead of an actual increase in the number of sectors), we checked year to year fluctuations in the number of sectors in which each donor was engaged. Except for a few cases, we did not observe any significant variation from one year to another.¹¹

5) Last but not least, donor portfolios differ significantly with regard to the number of sectors in which they are active and the volume of their assistance to those sectors. The same applies to sectors and countries: some sectors attract rather large amounts of donor assistance (e.g. economic infrastructure) and others benefit from a diversity of donor support (e.g. governance and civil society). We therefore refrain from establishing an absolute benchmark for the optimal number of donors per sector or the number of sectors per donor which could be seen as ideal across all sectors and countries. Rather, the decision about the right level of fragmentation and proliferation must be made jointly by partner country authorities and donors at the country level, taking into account the particularities of the sector and the country.

This is another reason we base our analysis on trends in in-country sector-level aid fragmentation and country-level donor proliferation over time, rather than comparing sectors or donors: we assess trends but not against a particular benchmark. Nevertheless, the principles of the EU Code of Conduct for the group of European donors do entail a number of targets. As these targets refer to national sector definitions, which might differ significantly

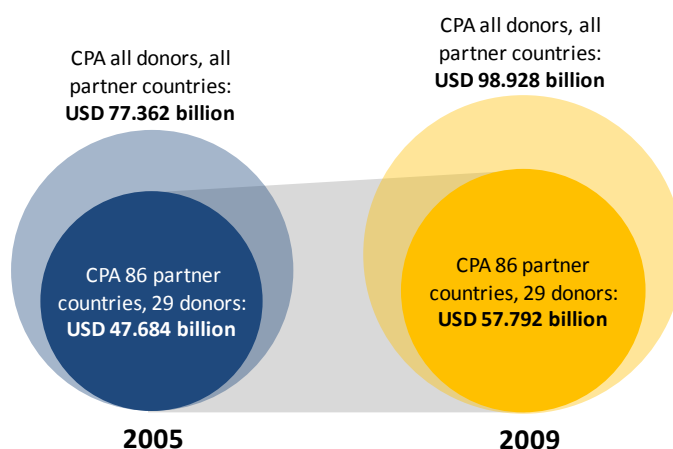
¹¹ In the case of Canada and Australia, we observed a very strong increase from 2008 to 2009, which resulted from a change in the way Canada reported to the CRS in 2009 and not necessarily from changes in the number of sectors in which they were engaged. We have therefore used 2008 data instead of 2009 data.

from the definitions used in our report, we refrain from assessing EU donors with regard to the absolute number of sector engagements per country but, again, use trends instead to determine whether or not EU donors are reducing the number of sectors in which they are working.

5. Analyzing the data

As mentioned in section 4.1, the data used in this report covers the development assistance which 29 donors provided to 86 partner countries in the years 2005 to 2009. Donors were active in 1504 country programmes and 8833 sector engagements in 2005, which rose to 1518 country programmes and 9567 sector engagements in 2009.¹² In 2005 the donors considered in this study contributed a total of USD 47.684 billion of CPA.¹³ By 2009 the volume of aid had risen by 21.1% to USD 57.792 billion. As a consequence, the average CPA volume per donor per sector engagement increased from USD 5.40 million in 2005 to USD

Figure 5: **Comparison of CPA in DAC database and in this report**



CPA by 29 donors to 86 partner countries results in:

8833	Sector engagements	9567
1504	Country programmes	1518
5.40	Average CPA per sector engagement in USD million	6.04

6.04 in 2009. For better contextualisation, figure 5 shows the development of the CPA volume included in this report and compares it to the total CPA volume recorded by the DAC.¹⁴ Our dataset covers 61% of global CPA flows in 2005 and 58% in 2009. We therefore must be aware that the reality of aid allocation patterns at the country level is even more complex than the sample used in this report suggests.

With this general information and our research questions in mind, we analyse the data in five steps:

In sections 5.1 and 5.2:

1. We search for global trends in aid fragmentation and donor proliferation based on sector engagements and the share of sector engagements that falls into the category 'smallest sector engagements summing up to 10% of CPA'.
2. We assess trends in CPA volume of sector engagements from donor and recipient perspectives.
3. We analyse the data separately for different continents and countries belonging to different income groups.

¹² If all 29 donors covered in this report were active in all 12 sectors within all 86 partner countries, this would result in 2494 country programmes and 29,928 sector engagements.

¹³ All CPA volumes used in this report are disbursements displayed in constant 2008 USD.

¹⁴ Global CPA data covers 59 donors. This includes both bilateral donors and multilateral institutions. CPA goes to 165 partner countries and regions. For the dataset used in this report, we excluded donors that only started reporting after 2005 and CPA data which might be overestimated due to less detailed reporting by the respective donor. All characteristics and limitations of individual donor CPA data are marked in the CPA database, which can be accessed online: <http://stats.oecd.org/Index.aspx?DataSetCode=CPA>

In section 5.3:

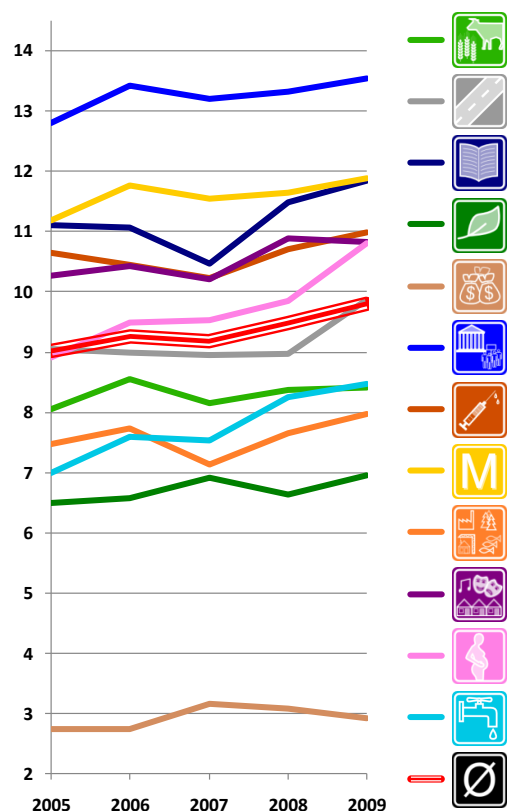
4. We compare sectors and donors globally, searching for those sectors that show the worst and best fragmentation trends and those donors that proliferate more or less. Hereby we concentrate on those cases where an increase of aid relations goes hand in hand with a decrease in CPA volume.

In section 5.4:

5. We test the hypothesis that those donors and partner countries that are part of the EU Fast Track Initiative on DoL¹⁵ show evidence of reduced fragmentation and proliferation and therefore perform better than countries not part of the initiative.

5.1. Aid fragmentation: significant increase over the last five years

Figure 6: **Average number of donors per sector**



Using the latest available data from the OECD, we observe a clear increase in the number of donors involved in each of the eleven sectors (+ GBS) we analysed. In 2005 there were on average about 9 donors (9.01) active in each sector.¹⁶ A detailed examination reveals that aid to some sectors is far more fragmented than to others. The sector of 'government and civil society' received aid from more than 12 donors per country on average in 2005, while 'environment' was only supported by 6.5 donors on average. The increase per sector ranges from 3% to 21%, resulting in about one additional donor per sector on average in 2009 (9.80 on average). The average number of donors per sector therefore increased by 8.8% from 2005 to 2009. 'Population policies and reproductive health' along with 'water supply and sanitation' saw the biggest increase both in relative (both 21%) and in absolute terms (1.9 and 1.48 additional donors, respectively).

The clear upward trend in the number of donors per sector we observe between 2005 and 2009 is only interrupted by a small decrease in some sectors in 2007 (see figure 6).

The upward trend in the average number of donors per sector indicates that the perception of partner country officials and donor officials at partner country level of ever increasing coordination efforts is driven not only by the awareness of aid effectiveness issues but also

¹⁵ The EU Fast Track Initiative on Complementarity and Division of Labour was founded in 2008 and aims to support the implementation of the 2007 EU Code of Conduct on Complementarity and Division of Labour (EU CoC DoL). For more details, see concept note of the FTI DoL (2010).

¹⁶ The global average was calculated by counting the number of all sectors in which donors were involved and dividing the sum by the number of all sectors which received CPA.

by a real increase in one of the key factors influencing the complexity of aid coordination, the number of donors active in a sector.

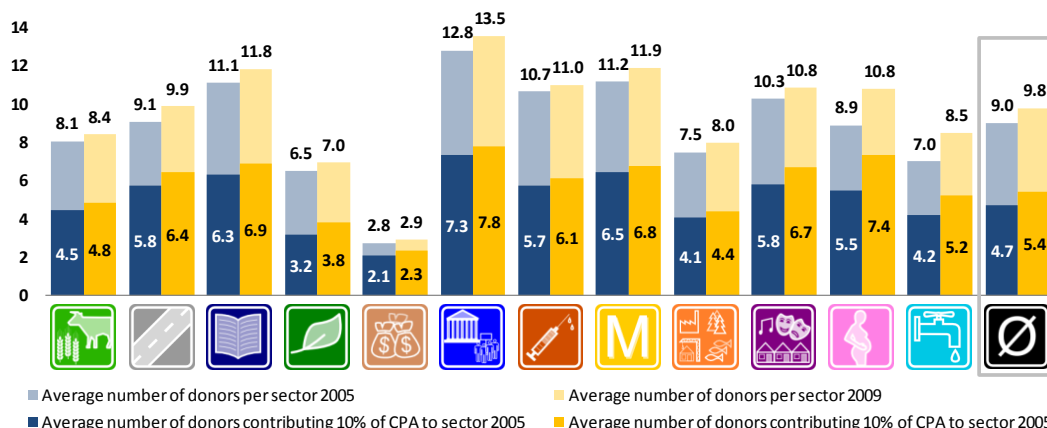
In addition, we have to keep in mind that our dataset only covers 29 donors for whom data for 2005 and 2009 was available. In reality, fragmentation is even higher, as there are several donors covered only lately in the OECD statistics for the 86 partner countries of interest but not yet in 2005. In addition there are other donors for whom no globally comparable data is available, the so-called 'new' or 'emerging' donors.¹⁷

As a next step, we apply the methodology developed in section 3.1 to analyse the effects that the increase of the average number of donors per sector had on fragmentation within sectors. Therefore, we calculate how many of the donors per sector in 2005 and 2009 belonged to the group of donors that jointly contributed only 10% of the CPA to the sector. In 2005 an average of 4.69 donors (of a total of 9.01) collectively provided 10% of CPA to a sector, resulting in an in-sector fragmentation ratio (number of donors collectively contributing 10% of CPA to the sector/all donors in the sector) of 52%. In 2009 the number of donors providing the last 10% of CPA increased to 5.5 (of 9.80) on average, resulting in an in-sector fragmentation ratio of 55.6%. In-sector fragmentation ratios differ across sectors, from as low as 48% in the environmental sector to 77% for GBS (both 2005). All sectors except one (multisector: -1 percentage point) saw an increase of fragmentation ratios between 1 and 7 percentage points.

The results of these two methods of analysing in-country aid fragmentation lead us to conclude that the average additional donor who entered each sector between 2005 to 2009 caused an increase in the number of donors providing the last 10% of CPA to the sector in 97% of cases (see figure 7 below). This is not to say that nearly all new sector involvements by donors between 2005 and 2009 were relatively small in volume, but rather that new, large sector involvements might also have 'pushed' other donors into the group of 'last 10% of donors'. The high consistency between the two ways of measuring in-country aid fragmentation allows us to use only the simpler way of counting the number of donors per sector for our further analysis and still be confident that changes in these numbers very likely also result in a nearly equal change in the number of donors providing the last 10% of CPA. Therefore, an increase in the overall number of donors per sector is also a very good indicator for the increase in sector engagements adding up to the last 10% of CPA, which we expect to be especially burdensome with regard to its transaction costs.

¹⁷ Donors such as China, Brazil or Russia and private foundations such as the Bill and Melinda Gates Foundation.

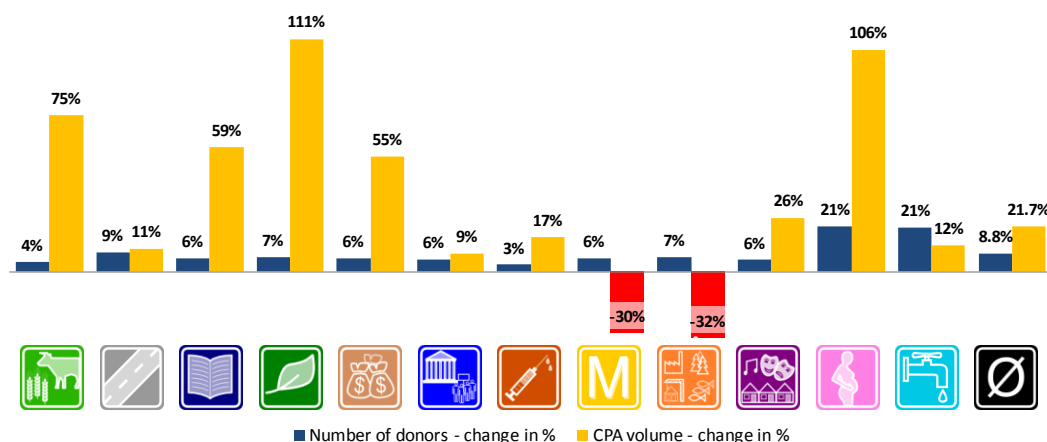
Figure 7: **Average number of donors per sector compared to the average number of donors who collectively contribute 10% of CPA to the sector**



To better understand this upward trend of in-country aid fragmentation, we consider the development of CPA over the past five years. From 2005 to 2009, average CPA per sector increased considerably from USD 48.7 million in 2005 to USD 59.2 million in 2009 (21%).

Because donors spread their aid across more sectors during this period, the volume of the average sector involvement per donor grew at a rate of only 12%, from USD 5.4 million in 2005 to USD 6.04 million in 2009.

Figure 8: **Development of aid fragmentation and CPA between 2005 and 2009**

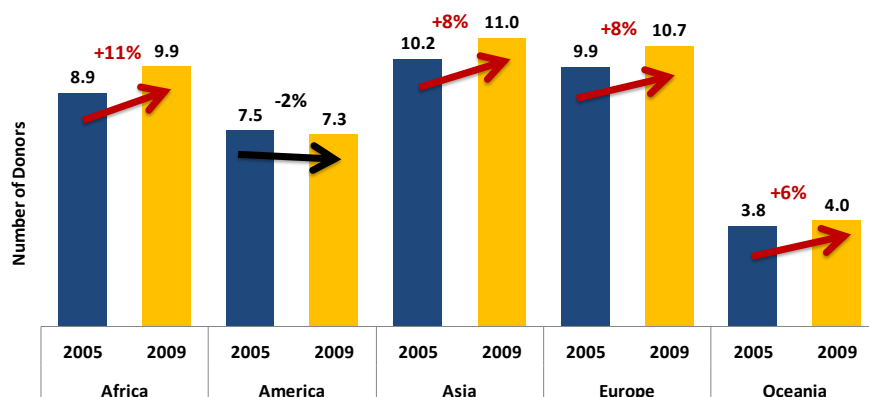


While the increase in the number of donors per sector was distributed rather equally across sectors (3-21% increase), the increase in CPA varied strongly from sector to sector. On the one hand, CPA to the sectors 'environment' and 'population policies and reproductive health' increased by about 100% compared to 2005. On the other hand, 'other productive sectors' (forestry, fishing, industry, mining, construction, trade policy and tourism) and the category 'multisector' (summarising amongst others: urban and rural development, multisector education/training, research/scientific institutions and import support) lost about 30% of their CPA over the same time span.

What should cause some concern is the fact that even as CPA fell in the two sectors mentioned above, the number of donors in these sectors increased from 2005 to 2009 with no sign of a changing trend.

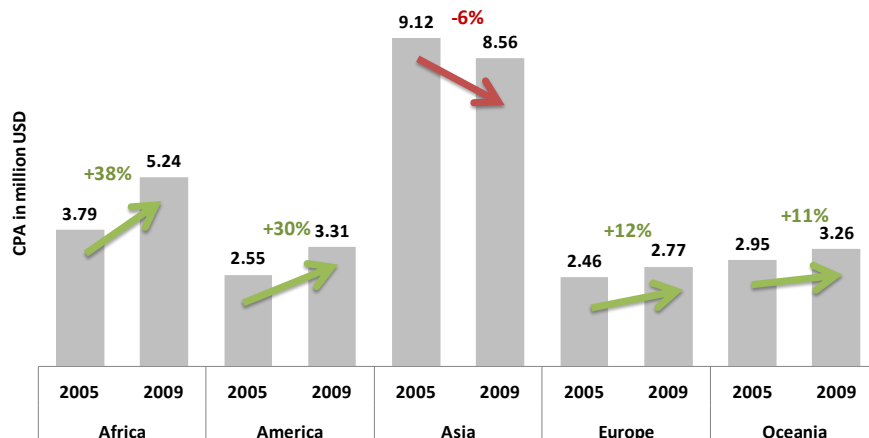
5.1.1. Aid fragmentation on different continents

Figure 9: **Average number of donors per sector by continent**



We were also interested in the question of whether the aid allocation patterns we observe differ between continents. Our first observation is that the average number of donors per sector is increasing across all continents except America. In any case, donors managed to compensate for this increase in the number of sectors in which they were involved by increasing their level of CPA in all continents besides Asia. The volume of the individual sector engagement therefore increased for Africa, America, Europe and Oceania and decreased from a relatively high level in Asia (see figure 10). This development might indicate a shift of CPA from Asia to other continents.

Figure 10: **Average CPA volume per sector engagement by continent**

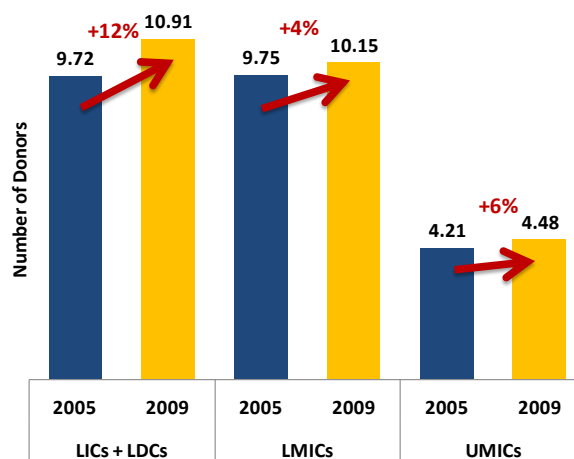


The relatively high level of CPA per sector engagement in Asia in both 2005 and 2009 deserves a second look. Why is the volume of sector involvement per donor so much higher in Asia than on other continents while the number of donors per sector is about the same? Our dataset covers 17 countries in Asia, of which three, Iraq, Afghanistan and Indonesia, jointly received 64% of CPA to the continent in 2005 and 50% in 2009. The huge sums flowing to these countries (mainly into 'government and civil society' and 'economic infrastructure') led to an average CPA per country in Asia of over USD one billion both in 2005 and in 2009. In Africa, countries received only around USD 400 million (2005) and USD 600 million (2009) on average. Therefore, the relatively high average per sector and per sector engagement in Asia results from the extraordinary funds flowing to the three countries mentioned above.

5.1.2. Aid fragmentation in different income groups

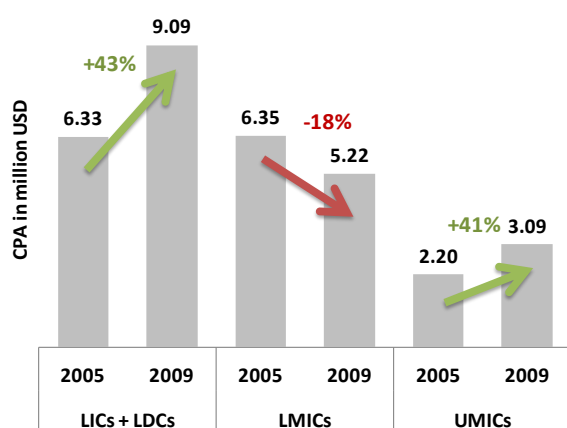
As stated above, we assume that partner governments have different capacities to manage the aid they receive and that fragmentation causes the most problems to countries with many donors and low aid management capacities. To take this aspect into account, we group partner countries according to their aid management capacities and analyse whether the global trends we observed also apply to these subgroups. As there is no international dataset on aid management capacities, we use the income level of the partner country and the classification as least developed country as a rough proxy and group the partner countries according to their status as low income or least developed countries (LICs + LDCs), lower middle income countries (LMICs) and upper middle income countries (UMICs).

Figure 11: **Average number of donors per sector by income group**



Not surprisingly, the average number of donors differs significantly between the group of UMICs and the other two income groups, both in 2005 and in 2009. While LICs and LMICs had to cope with around 9.75 donors per sector on average in 2005, the UMICs had only 4.21 donors active in each sector. The highest Increase (12%) from 2005 to 2009 was in the group of LICs and LDCs (see figure 11).

Figure 12: **Average CPA volume per sector engagement by income group**



The development of the average volume of donor engagement in a sector varied strongly between the different income groups: Within the LDCs and LICs, sector disbursements grew by 43% from USD 6.33 million on average to USD 9.09 million (see figure 12). The group of LMICs was the only one that faced a decrease in the average volume of sector engagements. This correlates with the fact that more donors became active in this income group, although overall CPA to the LMICs decreased from 2005 to 2009.

Nevertheless it becomes very clear from the data that LDCs and LICs not only had to face high numbers of donors already in 2005, but also saw the strongest increase in the average number of donors per sector from 2005 to 2009. Fragmentation is therefore most challenging for those who are more likely to have weak aid management capacities.

5.1.3. Aid fragmentation, country by country

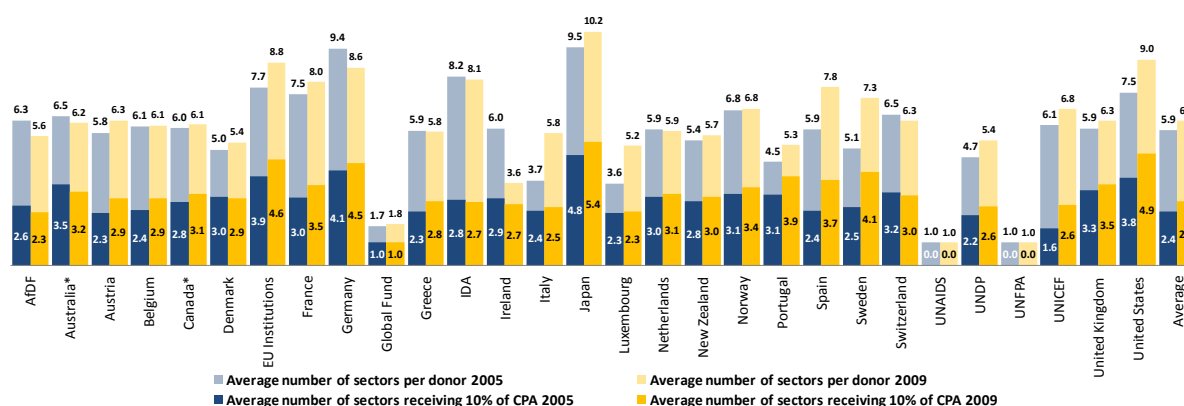
As stated above, the countries covered in our dataset vary greatly in regard to their absolute levels of fragmentation and the increase in fragmentation they saw from 2005 to 2009.¹⁸ In 2009 the ten countries with the highest average number of donors per sector were Mozambique, Viet Nam, Ethiopia, Tanzania, South Africa, Kenya, Bolivia, Burkina Faso, Mali and Uganda, with 14.8 to 18.5 donors per sector on average. On the other end of the scale, we find small island states in Oceania and America, belonging mainly to the group of middle income countries, with 1 to 3.5 donors per sector on average. Nearly all 'top ten' countries mentioned above, except Ethiopia (no change), saw an increase in the average number of donors per sector from 2005 to 2009, which was accompanied by an increase in overall CPA volume (except Bolivia: -7%).

Overall, only 19 out of the 86 countries experienced a decrease or no change in the average number of donors per sector. Nine of these countries are in Latin America (a total of 18 Latin American countries are covered by our report) and only five are African countries.¹⁹

5.2. Donor proliferation: weak performance by most donors

The overall increase of fragmentation we observed in section 5.1 resulted from an overall increase in the number of sector engagements (see figure 5). This leads to the question of who is contributing to this increase in sector engagements and to which extent.

Figure 13: **Donor proliferation: average number of sectors per donor and number of sectors receiving last 10% of CPA**



* Australia and Canada: 2008 data, see footnote 11

We measure donor proliferation in two ways, following the same approach used with regard to aid fragmentation: (1) the easier approach of counting the number of sectors within a partner country in which each donor was active and (2) the more demanding approach of counting the number of sectors that comprise the last 10% of the donor's CPA and calculating the share of these 'last 10% sectors' in relation to the number of sectors in which the donor is active (proliferation ratio).

¹⁸ For the complete list of partner countries covered, see annex 1.

¹⁹ Cape Verde (-2%), Ghana (0%), Namibia (-1%), Nigeria (-5%), Tanzania (0%)

Like aid fragmentation, donor proliferation increased perceptibly from 2005 to 2009. In 2005 donors on average engaged in 5.87 sectors per partner country; this figure grew by 7.3% to an average of 6.30 sectors per partner country in 2009. At the same time, the average number of partner countries in which each donor had a country programme increased only marginally from about 51.9 to 52.3. Not surprisingly, the global picture of proliferation trends is therefore a mirror of trends in aid fragmentation. The behaviour of multilateral donors and bilateral donors does not differ considerably. While multilateral donors²⁰ increased the average number of sectors in which they were involved per partner country from 6.59 to 7.13 (8.2%), bilateral donors increased their average number of sector engagements from 6.5 to 6.99 (7.5%). However, the multilaterals managed to increase the average volume of their country programmes by 24.7%, while the bilateral donors increased their CPA per country programme by only 15.8%. The already existing gap between the average CPA volume of the country programmes of bilateral and multilateral donors thereby widened further. A look at the in-country proliferation ratio (see section 4.1) confirms the upward trend we observed when counting the number of sectors in which each donor was active. In 2005 donors spent 10% of their CPA to a country in about 2.36 sectors while the other 90% went to 3.51 sectors (proliferation ratio of 40.2%). By 2009 the number of sectors receiving only 10% of the donors' aid had increased strongly (2.80) while the number of those receiving the other 90% fell slightly (3.50). Therefore the proliferation ratio increased by 4.2 percentage points to 44.4%.

We observe that the correlation between the number of sectors receiving the last 10% of aid from a donor and the overall number of sectors is very strong. Every time a donor enters an additional sector, there is a corresponding increase in the number of sectors receiving the last 10% of the donor's aid. This is very similar to our observations with regard to fragmentation and allows us to focus on the overall number of sectors per donor without underestimating the aspect that the sectors included in each of the donors' country programmes differ strongly in regard to their CPA volume.

We therefore continue our analysis with a view to the average number of sectors in which each donor was active within its partner countries. Two findings become immediately evident:

- 1) Some donors proliferate their aid much more than others, with involvement in 7 or more sectors on average in all partner countries in which they are active (see figure 13 above).
- 2) Trends in the years 2005 to 2009 differ significantly, as some donors reduced the number of countries or sectors in which they were active, while others continued to proliferate from 2005 to 2009 (see figure 15 below).

The second finding leads us to the question of exactly how donors behaved in regard to cross-country and in-country proliferation. The fact that the average number of country programmes per donor increased only slightly could lead us to assume that proliferation has been less of a problem across countries than within partner countries. The following section elaborates on this issue in more detail.

²⁰ We excluded single issue funds and organisations like the Global Fund, UNAIDS and UNFPA, as they cannot be directly compared to multilateral donors like the World Bank or UNDP.

5.2.1. Interaction between cross-country and in-country proliferation

Figure 14: **In-country and cross-country proliferation**

Number of partner countries	Decreased	Austria, Belgium, Canada, EU, France, New Zealand, Portugal	Ireland, Netherlands, Switzerland
	No change	Norway, UNICEF	UNFPA
	Increased	Denmark, Global Fund, Italy, Japan, Luxembourg, Spain, Sweden, UNDP, UK, USA	AfDF, Australia, Germany, Greece, IDA
		Increased	No Change
		Average number of sectors	

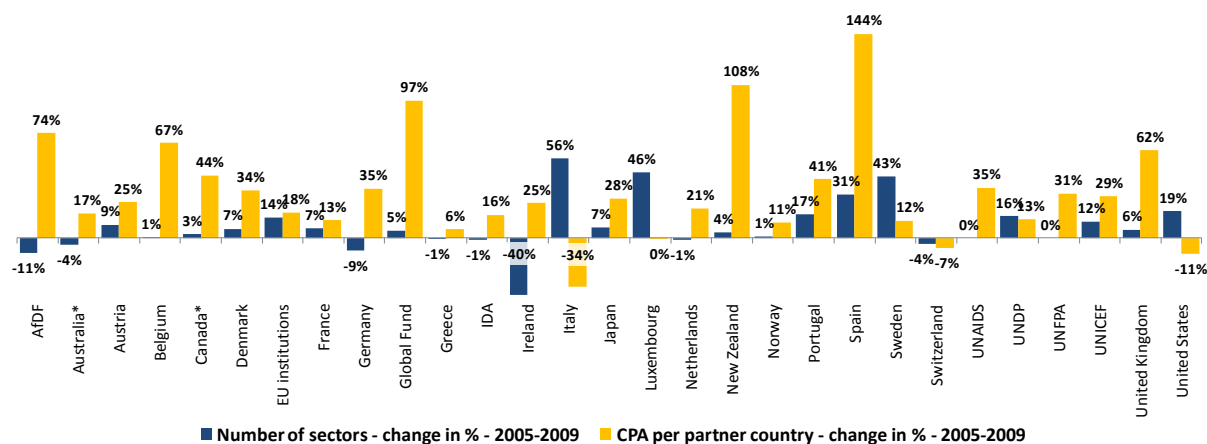
In-country and cross-country proliferation are closely related. Only a simultaneous view of these two dimensions captures the full picture of donor proliferation. We therefore analyse the data with regard to the number of sectors in which donors are engaged within partner countries as well as the number of partner countries in which the donor has a country programme. The trends are captured in the matrix displayed in figure 14, which classifies each of the 29 donors under consideration in this report according to the two

dimensions.

Sixteen of 29 donors have increased the number of their country programmes since 2005 and 10 of them even became active in additional sectors within their partner countries. Only three donors managed to reduce proliferation in both dimensions: Ireland, the Netherlands and Switzerland. Ireland nearly halved the overall number of sectors in which it was involved from 244 in 2005 to 129 in 2009 and reduced the number of its country programmes from 41 to 36, resulting in a decrease of 40% in the average number of sectors per partner country (see figure 15 below). The Netherlands managed to reduce the overall number of sectors in which it was involved from 338 to 299 and the number of country programmes from 57 to 51. Switzerland reduced its involvement from 334 to 302 sectors and the number of country programmes from 51 to 48.

5.2.2. Donor proliferation and CPA volumes

Figure 15: **Change in average number of sectors per donor and change in CPA per country**



* Australia and Canada: 2008 data, see footnote 11

Monitoring the trends in the number of partner countries and sectors where donors are active is not sufficient to assess whether aid allocation patterns changed in the interest of partner countries. We assume that reduction of proliferation and fragmentation is only perceived as a positive development by partner countries if CPA volume increases or at least remains constant. Therefore the Netherlands and Ireland serve as models, because they managed to increase their CPA globally as well as per partner country and sector engagement while reducing their proliferation.

Less positive in the eyes of partner countries might be the behaviour of some other donors who reduced their CPA globally (Switzerland: -12%, USA: -6%) or did not compensate for the higher number of their country programmes and sector engagements with an increase in CPA, which led to a reduction in CPA per partner country (Italy: -34%) or per sector engagement (Luxembourg: -32%; Sweden: -22%).

5.3. Simultaneous trends in fragmentation, proliferation and CPA

The trends in proliferation and fragmentation we observed in the sections above must always be seen in combination with the development of CPA volume. Many partner countries will welcome new donors and the increase in sector engagements by donors who are already active in their country as long as this trend goes hand in hand with additional financial flows to the country. As mentioned in section 5.1, this is clearly the case, as the average CPA volume per sector engagements grew by 11.9% from 2005 to 2009. Nevertheless, the development of averages always conceals part of reality, especially the trends found at the respective opposite ends of the spectrum under investigation. We identified four cases that can be seen as particularly positive or negative for partner countries:

Aid fragmentation:

- 1) Positive: sectors saw an increase in CPA accompanied by a decrease in the number of donors;
- 2) Negative: sectors had to cope with a decrease in CPA while new donors entered the sector;

Donor proliferation:

- 3) Positive: donors who increased their CPA to a partner country while reducing the number of sectors in which they were active;
- 4) Negative: donors who reduced their CPA to a country while entering additional sectors in that country.

Figure 16: **Number of cases with extremely positive and negative aid fragmentation trends**

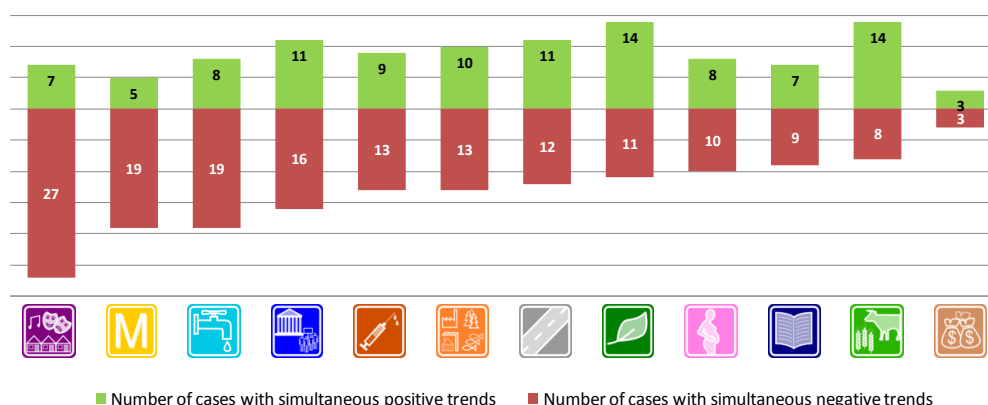


Figure 16 illustrates how often we observed these positive and negative cases with regard to fragmentation and CPA trends. Our foremost observation is that there are far more cases in which sectors had to cope with a reduction of CPA and a growing number of donors (160) than positive cases in which an increase of CPA went along with a reduction in the number of donors (107). The sector that had to cope with the most cases of opposed CPA and fragmentation trends is that of 'other social infrastructure'. More than one fourth (27) of the 86 countries covered by this report faced a decrease of aid in this sector while new donors were entering. Eight of these countries lost more than 50% of the CPA to this sector while more and more donors entered the sector at the same time. Sectors affected by these simultaneous negative trends should be subject to further analysis regarding the causes and consequences at country level.²¹

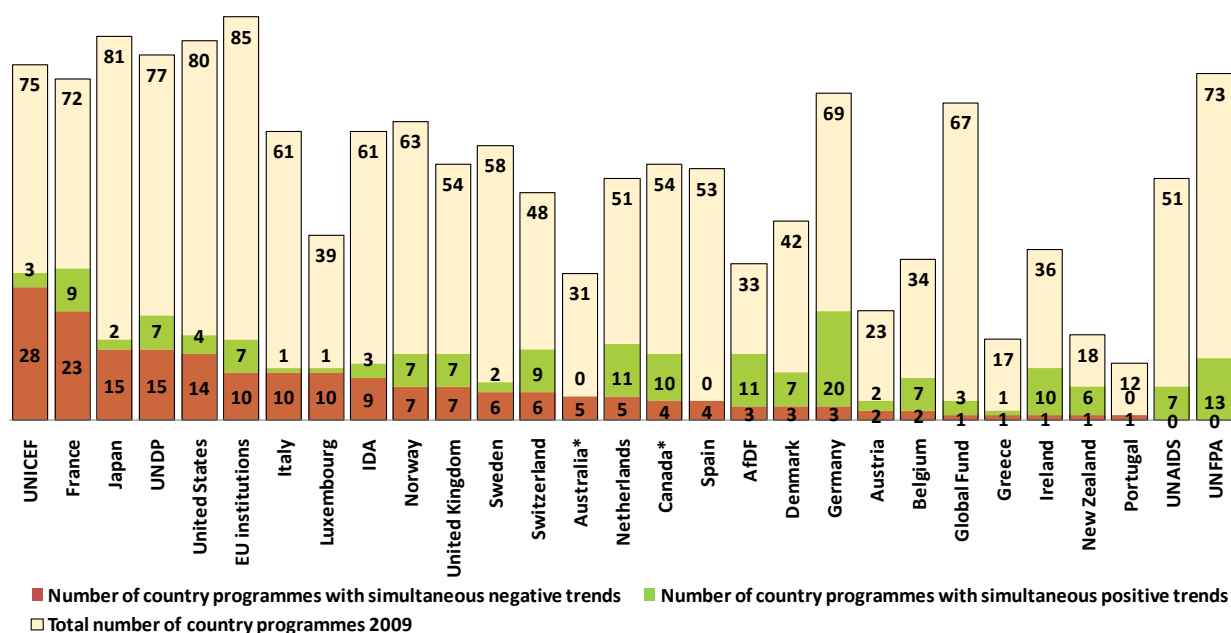
Nevertheless we should not forget that there are also a number of positive examples in which donors left a sector but CPA increased. 'Agriculture' and 'environment' are two sectors in which positive cases outnumber the negative cases.

With regard to donor proliferation and CPA, the analysis of simultaneous negative trends is also interesting. The average size of sector engagement by UNICEF and France showed only a slight upward trend; however, they entered additional sectors while reducing their CPA in more than 20 partner countries. There are also a number of positive cases in which donors spent more money in a country while reducing the number of sectors in which they were active. Germany's 2009 performance in 20 of its 69 partner countries is positive in this respect. Detailed information for each of the donors included in our report can be found in

²¹ We therefore highlighted these cases in the tables that were sent out to the national coordinators of Paris Declaration Monitoring. Fragmentation and proliferation tables for the 86 countries covered in this report are available online [\[link to be updated\]](http://www.oecd.org/document/52/0,3746,en_2649_3236398_45459252_1_1_1_1,00.html): http://www.oecd.org/document/52/0,3746,en_2649_3236398_45459252_1_1_1_1,00.html

figure 17 below. As a reference point, the graph includes the number of country programmes each donor had in 2009 in the 86 countries covered by this report.

Figure 17: **Number of cases with simultaneous positive and negative trends of donor proliferation and CPA**



* Australia and Canada: 2008 data, see footnote 11

Extremely negative cases of fragmentation and proliferation are not marginal phenomena: on average they concern 13% of the partner countries of each donor. It therefore seems to be reasonable to call for a reduction of these extreme cases of fragmentation and proliferation as one immediate measure towards a better division of labour.

5.4. Challenges of in-country DoL and ongoing initiatives

In this section we explore whether ongoing initiatives dealing with the issue of in-country DoL had an effect on the overall development of fragmentation and proliferation until 2009. An outstanding example of such efforts is the EU Fast Track Initiative on DoL, which aims to support implementation of the 2007 EU Code of Conduct on DoL and Complementarity (EU COM 2007). One of the principles formulated in the EU CoC DoL is the reduction in the number of sectors in which EU donors are involved: Guiding Principle 1 states that 'EU donors will aim at focussing their active involvement in a partner country on a maximum of three sectors...'; Guiding Principle 5 that 'EU donors, with full participation and ownership of the partner country, will seek to limit the number of active donors to a maximum of 3-5 per sector, based on their comparative advantage.' There is therefore a normative commitment by EU member states and the EU Commission to reduce in-country fragmentation and proliferation. As the sector definitions used in this report most likely do not match the sector definitions within the partner countries to which EU donors are asked to orient themselves, we focus our analysis on trends instead of simply counting the number of sectors in which each EU donor has been active.

From 2008 onwards, EU member states and the EU Commission organised the Fast Track Initiative on DoL to foster implementation of the Code of Conduct in a number of partner

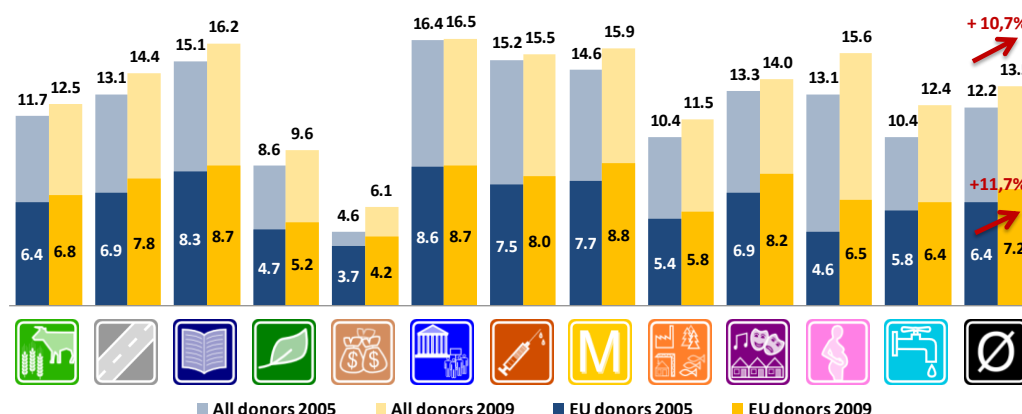
countries. The list of partner countries identified for 'fast tracking' European DoL has changed several times since the Initiative was established.²² We therefore decided to include only those 'fast track countries' in our sample that took part in the yearly monitoring exercises of the Fast Track Initiative for three years in a row. The respective countries are: Bangladesh, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Ethiopia, Ghana, the Kyrgyz Republic, Madagascar, Mali, Mongolia, Mozambique, Rwanda, Tanzania, Uganda, Ukraine, Viet Nam and Zambia.

Based on this set of 19 partner countries and the sector engagements of 14 EU Member States plus the EU institutions, we reran our analysis of aid fragmentation and donor proliferation to assess whether the results differ significantly from the results of the comparator cohort including all Paris Declaration monitoring countries and 29 donors.

5.4.1. Analysing aid fragmentation in FTI countries, including all donors

When counting all donors active in each of the sectors of FTI countries and comparing them with the global average it becomes clear why the members of the FTI DoL decided to include these partner countries in the initiative: The average number of donors active in each of the sectors is significantly higher than the average in our broader dataset. While globally there were an average of 9 donors active in each of the sectors in 2005, the average in the FTI countries was much higher at 12.2 donors per sector. This is higher than in any of the subgroups we analysed earlier in our report, for example, with regard to income group or continent.

Figure 18: **Comparing European and other donors in FTI countries: average number of donors per sector**

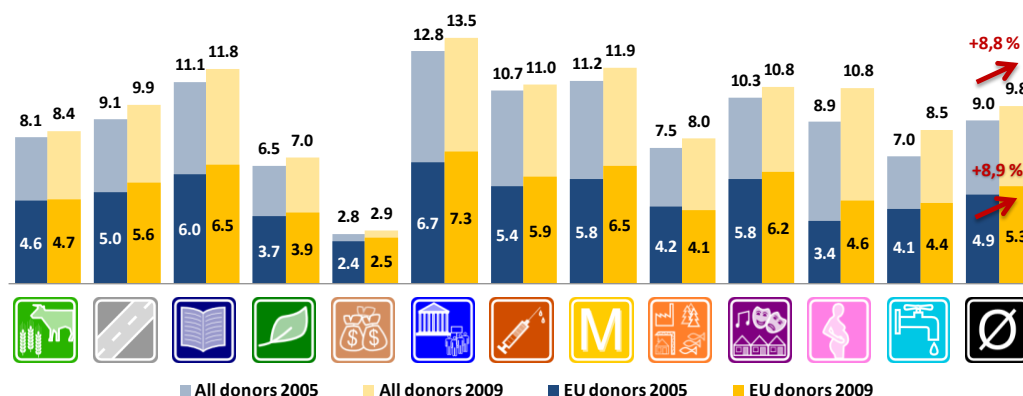


Unfortunately, as figure 18 shows, the number of donors per sector in FTI countries grew faster (10.7%) than the increase in donors per sector we observed globally until 2009 (8.8%). Therefore, in 2009 there were an average of 13.5 donors active in each of the sectors within the FTI countries compared to a global average of 9.8 donors per partner country.

²² It is noteworthy that the fast track countries were selected by European donors active in these countries, while partner governments were only unofficially informed about their status as Fast Track countries.

5.4.2. Analysing the performance of EU donors

Figure 19: **Comparing European and other donors in all countries: average number of donors per sector**



How did EU donors perform globally and within the FTI countries? At the global level the average number of EU donors active per sector in 2005 was 4.9. This means that EU donors were responsible for every second sector engagement worldwide.

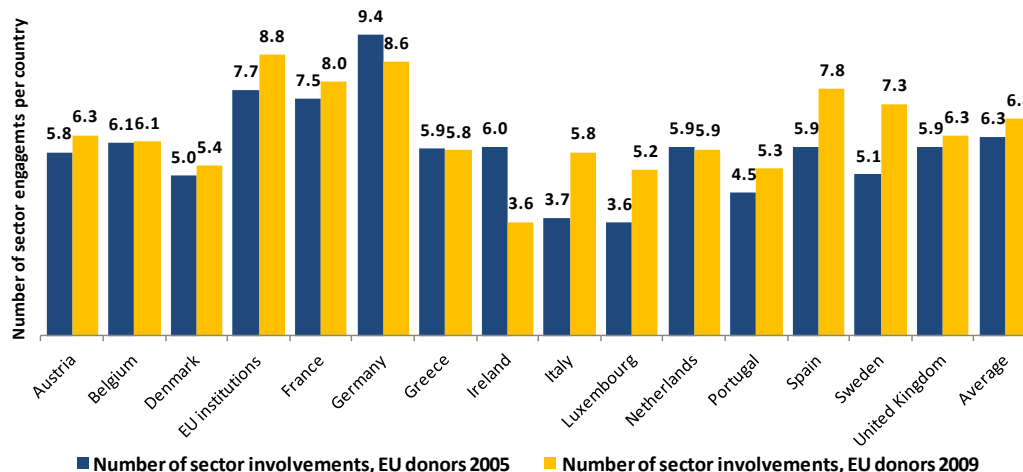
If we look at what changed from 2005 to 2009, we see that globally EU donors contributed to the increase of aid fragmentation in the same way as other donors. While the average number of donors per sector grew by 8.8%, the average number of EU donors per sector grew by 8.9%. By further contributing to the already high average number of donors per sector from 2005 to 2009, EU donors did not implement the guiding principles they set for themselves in the EU CoC DoL in 2007.

One could assume that performance was better in FTI countries and that EU donors managed to tackle the problem of aid fragmentation in those countries they perceived to be most affected when they established the EU FTI on DoL in 2008. Of course, it is too early to assess the changes, since the EU FTI started in 2008 and our last reference year is 2009. Nevertheless we should at least compare the global behaviour of European donors with their behaviour in the FTI countries. As mentioned before, at the global level the average number of European donors per sector increased by 8.9 percentage points from 2005 to 2009. Within the FTI countries, the increase was even higher, from 6.4 EU donors per sector in 2005 to 7.2 EU donors per sector in 2009, thus an increase of 11.7 percentage points (see figure 18 above).

5.4.3. Who is responsible for high levels of fragmentation?

The sobering results of our fragmentation analysis lead us to the question of how this overall EU trend can be disaggregated to better understand the underlying dynamics.

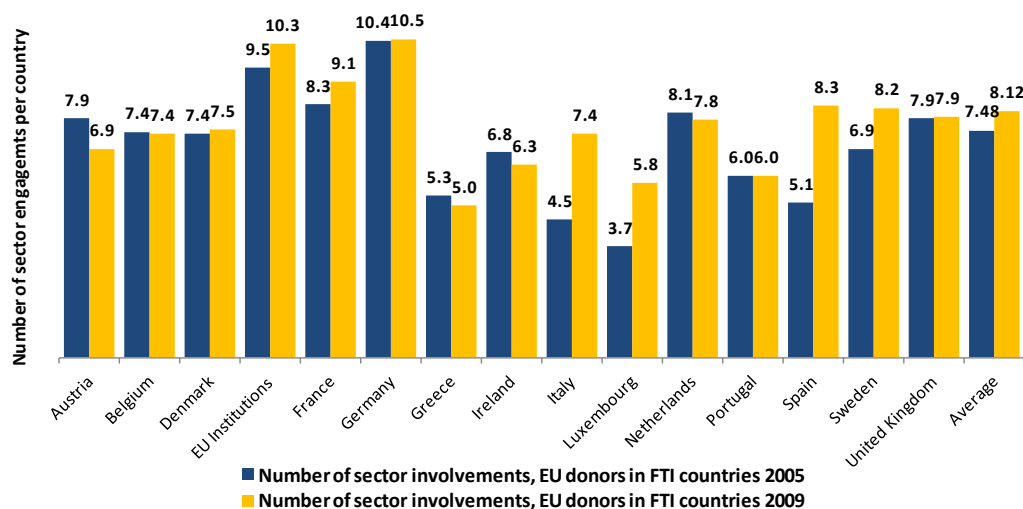
Figure 20: Proliferation trends for European donors – global



Our analysis of global proliferation trends already revealed that some donors proliferated their aid much more than others during the five years between 2005 and 2009 (see figure 13). Beginning with very different absolute values in 2005, Italy (increase of 56%), Luxembourg (46%), Sweden (43%), Spain (31%), Portugal (17%) and the EU institutions (14%) were the European donors with the strongest increase in the average number of sector engagements during that period. On the other hand, Ireland managed to reduce its average number of sector engagements per partner country by 40% and Germany reduced its relatively high number of sector engagements by 9%. All other European donors remained more or less stable in regard to the number of sector engagements per partner country. Average increase for all EU donors was 8.9%.

For the FTI countries, we see a slightly different picture. The overall average number of sectors in which they were active was higher than at the global level in both 2005 (7.48) and 2009 (8.12). The increase of 8.6% nearly equals the increase in sectors in which EU donors were working at the global level. At the same time, some of the donors proliferating at the global level tend to do this even more strongly within the FTI countries. Italy (62%), Spain (62%) and Luxembourg (57%) are among those who significantly increased their average number of sector engagements in FTI countries. In absolute terms, Germany and the EU Com are most proliferated in FTI countries.

Figure 21: Proliferation trends for European donors – FTI countries



6. Conclusion and recommendations

The objective of this report was to assess the development of aid allocation patterns within partner countries since adoption of the Paris Declaration in 2005 and to analyse the extent to which this development is related to efforts to promote DoL.

To this end, we posed the following research questions: (I) How did aid allocation patterns develop within partner countries between 2005 and 2009? (II) Which particularly beneficial or problematic situations in aid allocation patterns can be identified for partner countries? (III) Did international initiatives to enhance complementarity and division of labour have a recognisable effect on the aid allocation patterns of their members by 2009?

We made use of a dataset which contains flows of country programmable aid from 29 DAC registered donors to 86 countries for the years 2005 to 2009.

The following **conclusions** should be read keeping in mind the limitations of our methodology (e.g. our focus on financial flows, time lag between the decision to change aid allocations and observable changes in CPA disbursement and the existence of several intervening variables, see section 4.2 for details):

1. According to our analysis, both in-country aid fragmentation and donor proliferation increased considerably from 2005 to 2009. We counted 8.8% more donors per sector on average and 7.3% more sector engagements per donor on average. The increase in sector engagements coincides with a 21% increase in overall CPA. These sobering findings indicate that the aid allocation behaviour of DAC reporting donors, on average, did not demonstrate any significant trend towards reduced fragmentation or involvement in fewer sectors until 2009.
2. While aid fragmentation increased across all OECD-defined sectors, aid in some sectors is far more fragmented than in others. The sector "Government and Civil Society" received aid on average from more than 13 donors per country in 2009 while "Environment" was supported by 7 donors. Social sectors are more fragmented than productive sectors. "Population Policies/Reproductive Health" and "Water Supply/Sanitation" saw the biggest increase in fragmentation from 2005 to 2009.
3. Taking into account aid interventions by new and emerging donors, vertical funds, private foundations etc., which were not the subject of this study, one can safely assume that aid fragmentation has seen a strong increase over the last few years. Furthermore, it is most likely that various new activities in response to new challenges such as climate change will have a negative effect on fragmentation and proliferation. Therefore the whole situation is becoming even more pressing than it was six years ago when the Paris Declaration was adopted.
4. Proliferation data reveals that a small number of donors performed much better than the others and managed to reduce their sector engagements while holding their overall CPA volume or even increasing it. These donors prove that change towards more effective aid allocation patterns is possible. However, this statistical information cannot provide insight into how they managed their exits and to what extent they coordinated their changes in aid allocation with the partner governments and other donors.
5. Looking at aid fragmentation in different income groups, we find that levels and trends of fragmentation are worse for LDCs and LICs than LMICs and UMICs; however, this is accompanied by the good news that average CPA volume per sector engagement

is increasing by 41% in these countries. Still, fragmentation seems to be worst where capacities to deal with it are already stretched.

6. The link between in-country and cross-country proliferation should be more closely examined. Only 3 of the 29 donors considered in our report reduced the number of partner countries in which they work and, at the same time, the number of sectors within their already existing partner countries. Ten donors continued to proliferate both within and across countries. Recent announcements by donors about reductions in the number of their country programmes in the context of European aid effectiveness meetings suggest that there might be some movement towards reducing proliferation at the cross-country level. However, the latest OECD DAC report on cross-country fragmentation cannot confirm this trend, since it takes time to phase out aid cooperation programmes (OECD 2011). Whether this trend will help to reduce transaction costs depends on whether these donors keep their overall CPA volumes stable and how they behave in regard to proliferation within the remaining partner countries.
7. The fact that negative trends in proliferation and CPA volumes can be observed in a number of countries simultaneously should alert donors and partner countries that special attention must be paid to the allocation of remaining funds when reducing CPA volumes to a country. If these donors engage in new sectors instead of reducing the complexity of their country programmes, they add to the administrative burdens of partner governments while reducing their overall aid. On the other hand, some donors can be complimented for reducing the number of sectors in which they were engaged while increasing their CPA.
8. The data does not show the effects of division of labour efforts on reducing parallel sector engagements or on very small sector engagements. The EU Code of Conduct on Complementarity and Division of Labour is the most demanding normative framework on DoL so far. On average the performance of European donors is about the same as our group of 29 donors. However, some European donors are still amongst the poor performers worldwide – an issue that should be discussed amongst European donors.
9. It was not possible to identify any trends towards reduced fragmentation and proliferation in the countries covered by the EU Fast Track Initiative on DoL until 2009. However this might be due to the time lag between donor aid allocation decisions and the change in disbursement data, as the EU Code of Conduct on Division of Labour 2007 and the resulting EU Fast Track Initiative 2008 only became active two years and one year, respectively, before our latest data reference point in 2009. Considering the initial levels of fragmentation in the partner countries that are the focus of the FTI, it certainly makes sense to direct EU attention to these countries.

However, the question should be posed whether the measures initiated by the EU FTI are sufficient to trigger sustainable changes in donor behaviour with regard to aid allocation patterns. Reducing fragmentation and proliferation is not the only objective of the EU Code of Conduct and the EU FTI. However, whether other aspects of the DoL and coordination agendas (like Lead Donor Arrangements and Delegated Cooperation) have succeeded in helping reduce transaction costs cannot be assessed by analysing CPA data. More qualitative approaches like Monitoring and Evaluation of the Paris Declaration or EU FTI Monitoring must be consulted to answer these questions.

Recommendations:

1. We recommend that donors and partner countries respond to this situation of continuing fragmentation and proliferation by keeping an eye on the allocation of additional funds, in particular. If a donor scales up its official development assistance (ODA)/CPA, this should not result in involvement in new sectors or even in a higher number of partner countries; additional CPA should instead be spent in sectors where the donor is already present. In case there is a demand from partner governments to enter a new sector, donors should think about exiting another sector to avoid further proliferation.
2. In situations of decreasing CPA volume, donors and partner countries must be especially careful not to increase the number of sectors in which they are active and must manage exits responsibly and in coordination with other donors.
3. We recommend in-depth analysis and documentation of those cases in which donors managed to reduce the number of sector engagements or partner countries while increasing their overall CPA volume. Best practices and lessons learnt on how to properly manage the exit should also be collected.
4. At the European level, special attention should be given to the behaviour of those donors who have continued to proliferate their aid since 2005. Already existing instruments like delegated cooperation could be promoted and further emphasis should be given to the political dimension of donors' aid allocation behaviour.
5. The results of this report demonstrate the importance of evidence-based analysis for monitoring progress on aid allocation patterns. Deepened analysis, at the country level, of certain aspects of aid allocation, for example, situations in which fragmentation is increasing while CPA volume is decreasing, could help to identify ways to reduce the transaction costs of aid.

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Annex 1: 86 countries covered by the report and Paris Declaration Monitoring 2011

Continent Income Level Country	Fragmentation		Proliferation		CPA Volume	
	Donors per sector 2009	Change 2005 - 2009	Sectors per donor 2009	Change 2005 - 2009	CPA 2009	Change 2005 - 2009
Africa						
LICs + LDCs						
Benin	12.3	24%	7.7	10%	4.06	28%
Burkina Faso	15.1	16%	8.2	15%	4.95	10%
Burundi	11.3	26%	6.1	37%	2.80	35%
Central African Rep.	6.1	62%	4.8	28%	1.86	-9%
Chad	7.6	16%	4.9	-7%	2.68	-30%
Comoros	3.5	24%	4.7	5%	0.84	-3%
Congo, Dem. Rep.	13.2	22%	6.3	16%	8.83	0%
Cote d'Ivoire	9.0	16%	5.4	15%	4.70	207%
Ethiopia	17.8	14%	7.8	0%	13.92	134%
Gambia	6.0	3%	5.1	13%	1.14	20%
Ghana	13.6	0%	7.7	9%	8.48	14%
Guinea-Bissau	7.3	44%	6.3	44%	1.49	30%
Kenya	15.6	13%	7.2	0%	6.62	59%
Liberia	7.4	43%	4.9	52%	3.45	47%
Madagascar	9.9	16%	6.6	2%	2.83	-55%
Malawi	11.2	3%	7.0	18%	5.01	19%
Mali	15.0	24%	8.5	12%	4.99	-4%
Mauritania	8.5	13%	5.9	10%	2.03	8%
Mozambique	18.5	4%	8.8	8%	7.51	21%
Niger	11.4	15%	6.8	-3%	2.52	-29%
Nigeria	9.8	-5%	6.5	5%	13.86	87%
Rwanda	13.1	7%	6.5	6%	5.50	43%
Sao Tome and Principe	4.0	12%	4.4	2%	0.46	-38%
Senegal	13.7	9%	7.5	9%	4.65	7%
Sierra Leone	8.9	29%	5.3	15%	3.34	-3%
Sudan	10.5	18%	5.2	7%	6.47	17%
Tanzania	16.6	0%	7.9	7%	12.07	48%
Togo	6.6	32%	6.0	42%	1.89	71%
Uganda	14.8	2%	7.7	11%	8.58	35%
Zambia	12.8	5%	7.0	5%	6.12	13%
Zimbabwe	11.0	15%	5.5	4%	2.66	64%
LMICs						
Cameroon	11.6	14%	6.4	20%	2.43	-3%
Cape Verde	7.8	-2%	5.5	-2%	1.78	-1%
Congo, Rep.	6.5	44%	5.1	33%	0.88	-56%
Egypt	12.6	4%	7.1	13%	7.39	-19%
Morocco	11.1	1%	6.4	16%	9.08	42%
Namibia	9.0	-1%	6.1	16%	2.78	137%
Swaziland	4.3	7%	5.1	66%	1.19	-27%
UMICs						
Botswana	6.4	8%	6.3	25%	3.71	302%
Gabon	4.3	17%	5.1	5%	1.11	-44%
South Africa	16.1	18%	7.3	21%	5.59	30%
America						
LICs + LDCs						
Haiti	9.0	6%	6.7	38%	6.05	75%

LMICs						
Bolivia	15.3	18%	7.6	3%	2.94	-14%
Colombia	10.4	-3%	5.4	0%	7.79	45%
Dominican Republic	6.8	-6%	6.2	25%	2.05	24%
Ecuador	10.7	9%	6.2	4%	1.83	-15%
El Salvador	9.1	-7%	5.6	-2%	2.46	57%
Guatemala	10.5	-6%	5.8	-7%	2.56	48%
Honduras	10.0	1%	5.7	11%	3.11	-10%
Nicaragua	14.8	3%	7.7	3%	2.88	14%
Peru	11.2	-3%	7.0	17%	3.73	-8%
UMICs						
Antigua and Barbuda	1.2	-22%	3.5	-22%	0.20	-73%
Barbados	1.9	31%	4.7	40%	0.62	163%
Belize	3.2	14%	4.4	25%	0.48	45%
Grenada	1.5	-3%	5.7	42%	1.10	-23%
Jamaica	4.8	-12%	5.8	14%	2.84	99%
St. Kitts and Nevis	1.0	0%	5.0	150%	0.52	76%
St. Lucia	2.4	26%	6.0	14%	0.99	55%
St. Vincent & Grenadines	2.0	16%	6.7	40%	0.90	84%
Asia						
LICs + LDCs						
Afghanistan	14.3	16%	6.3	16%	28.17	64%
Bangladesh	13.5	2%	7.4	11%	8.65	1%
Cambodia	13.6	9%	6.5	13%	3.71	15%
Kyrgyz Republic	8.5	6%	7.3	21%	1.88	-1%
Laos	10.8	-3%	6.5	16%	2.21	9%
Nepal	14.3	21%	6.2	2%	4.00	48%
Pakistan	12.1	7%	6.9	2%	15.41	50%
Timor-Leste	8.5	0%	5.8	4%	2.22	2%
Tajikistan	10.5	38%	6.4	19%	1.74	3%
Viet Nam	17.8	5%	8.5	5%	15.87	76%
LMICs						
Armenia	9.1	5%	6.1	11%	3.76	115%
Indonesia	13.5	12%	7.3	11%	17.40	47%
Iraq	7.8	-5%	4.7	19%	23.62	-73%
Jordan	8.6	2%	5.7	8%	6.46	9%
Mongolia	9.5	40%	5.8	21%	2.22	21%
Palestinian Adm. Areas	14.7	17%	7.3	17%	8.68	84%
Philippines	11.1	-16%	6.6	-1%	7.08	-8%
Europe						
LMICs						
Albania	11.8	3%	6.4	-2%	2.22	-6%
Bosnia and Herzegovina	13.1	16%	6.5	7%	2.36	-31%
Moldova	10.1	1%	5.8	-11%	2.09	84%
Ukraine	10.1	10%	6.5	15%	4.93	44%
Oceania						
LICs + LDCs						
Samoa	3.5	-12%	5.4	-12%	1.24	14%
Solomon Islands	3.2	9%	5.8	-17%	6.21	-6%
Vanuatu	4.1	11%	8.2	11%	1.73	74%
Papua New Guinea	7.3	29%	5.6	18%	5.46	-4%
LMICs						
Tonga	3.1	-13%	6.8	5%	0.96	3%
UMICs						
Fiji	4.5	2%	6.0	0%	1.25	-19%

Annex 2: Donors covered by the report

Bilaterals (21)

Australia

Austria

Belgium

Canada

Denmark

France

Germany

Greece

Ireland

Italy

Japan

Luxembourg

Netherlands

New Zealand

Norway

Portugal

Spain

Sweden

Switzerland

United Kingdom

United States

Multilaterals (8)

AfDF

EU institutions

Global Fund*

IDA (World Bank)

UNAIDS*

UNDP

UNFPA*

UNICEF

* Considered to be single issue funds/organisations and therefore treaded separately in some of the analysis (see footnote 19).

Annex 3: List of sectors and the respective CRS codes



Education

- 11110 Education policy & administrative management
- 11120 Education facilities and training
- 11130 Teacher training
- 11182 Educational research
- 11220 Primary education
- 11230 Basic life skills for youth & adults
- 11240 Early childhood education
- 11320 Secondary education
- 11330 Vocational training
- 11420 Higher education
- 11430 Advanced technical & managerial training



Health

- 12110 Health policy & administrative management
- 12181 Medical education/training
- 12182 Medical research
- 12191 Medical services
- 12220 Basic health care
- 12230 Basic health infrastructure
- 12240 Basic nutrition
- 12250 Infectious disease control
- 12261 Health education
- 12262 Malaria control
- 12263 Tuberculosis control
- 12281 Health personnel development



Population policies and reproductive health

- 13010 Population policy and administrative management
- 13020 Reproductive health care
- 13030 Family planning
- 13040 STD control including HIV/AIDS
- 13081 Personnel development for population and reproductive health



Water supply and sanitation

- 14010 Water resources policy/administrative management
- 14015 Water resources protection
- 14020 Water supply & sanitation – large systems
- 14030 Basic drinking water supply and basic sanitation
- 14040 River development
- 14050 Waste management/disposal
- 14081 Education/training in water supply & sanitation



Government and civil society

- 15110 Public sector policy and administrative management
- 15111 Public finance management
- 15112 Decentralisation and support to subnational government
- 15113 Anti-corruption organisations and institutions
- 15130 Legal and judicial development
- 15150 Democratic participation and civil society
- 15151 Elections
- 15152 Legislatures and political parties
- 15153 Media and free flow of information
- 15160 Human rights
- 15170 Women's equality organisations and institutions
- 15210 Security system management and reform
- 15220 Civilian peace-building, conflict prevention and resolution
- 15230 Post-conflict peace-building (UN)
- 15240 Reintegration and SALW control
- 15250 Land mine clearance
- 15261 Child soldiers (prevention and demobilisation)



Economic infrastructure

- 21010 Transport policy & administrative management
- 21020 Road transport
- 21030 Rail transport

21040 Water transport

21050 Air transport

21061 Storage

21081 Education and training in transport & storage

22010 Communications policy & administrative management

22020 Telecommunications

22030 Radio/television/print media

22040 Information and communication technology

23010 Energy policy and administrative management

23020 Power generation/non-renewable sources

23030 Power generation/renewable sources

23040 Electrical transmission/distribution

23050 Gas distribution

23061 Oil-fired power plants

23062 Gas-fired power plants

23063 Coal-fired power plants

23064 Nuclear power plants

23065 Hydro-electric power plants

23066 Geothermal energy

23067 Solar energy

23068 Wind power

23069 Ocean power

23070 Biomass

23081 Energy education/training

23082 Energy research

24010 Financial policy & administrative management

24020 Monetary institutions


24030 Formal sector financial intermediaries

24040 Informal/semi-formal financial intermediaries

24081 Education/training in banking & financial services

25010 Business support services & institutions

25020 Privatisation

 **Agriculture**

31110 Agricultural policy & administrative management

31120 Agricultural development

31130 Agricultural land resources

31140 Agricultural water resources

31150 Agricultural inputs

31161 Food crop production

31162 Industrial crops/export crops

31163 Livestock

31164 Agrarian reform

31165 Agricultural alternative development

31166 Agricultural extension

31181 Agricultural education/training

31182 Agricultural research

31191 Agricultural services

31192 Plant/post-harvest protection & pest control

31193 Agricultural financial services

31194 Agricultural co-operatives

31195 Livestock/veterinary services



General budget support

51010 General budget support



Other social infrastructure

16010 Social/welfare services

16020 Employment policy and administrative management

16030 Housing policy and administrative management

16040 Low-cost housing

16050 Multisector aid for basic social services

16061 Culture and recreation

16062 Statistical capacity building

16063 Narcotics control

16064 Social mitigation of HIV/AIDS



Other productive sectors (forestry, fishing, industry, mining, construction, trade policy and tourism)

31210 Forestry policy & administrative management

31220 Forestry development

31261 Fuelwood/charcoal

31281 Forestry education/training

31282 Forestry research

31291 Forestry services

31310 Fishing policy and administrative management

31320 Fishery development

31381 Fishery education/training

31382 Fishery research

31391 Fishery services

32110 Industrial policy & administrative management

32120 Industrial development

32130 SME development

32140 Cottage industries & handicraft

32161 Agro-industries

32162 Forest industries

32163 Textiles – leather & substitutes

32164 Chemicals

32165 Fertilizer plants

32166 Cement/lime/plaster

32167 Energy manufacturing

32168 Pharmaceutical production

32169 Basic metal industries

32170 Non-ferrous metal industries

32171 Engineering

32172 Transport equipment industry

32182 Technological research & development

32210 Mineral/mining policy & administrative management

32220 Mineral prospection and exploration

32261 Coal

32262 Oil and gas

32263 Ferrous metals

32264 Non-ferrous metals

32265 Precious metals/materials

32266 Industrial minerals

32267 Fertilizer minerals

32268 Off-shore minerals

32310 Construction policy and administrative

management

33110 Trade policy and administrative management

33120 Trade facilitation

33130 Regional trade agreements (RTAs)

33140 Multilateral trade negotiations

33150 Trade-related adjustment

33181 Trade education/training

33210 Tourism policy and administrative management



Environment

41010 Environmental policy and administrative management

41020 Biosphere protection

41030 Bio-diversity

41040 Site preservation

41050 Flood prevention/control

41081 Environmental education/training

41082 Environmental research



Multisector

43010 Multisector aid

43030 Urban development and management

43040 Rural development

43050 Non-agricultural alternative development

43081 Multisector education/training

43082 Research/scientific institutions

53030 Import support (capital goods)

53040 Import support (commodities)

99810 Sectors not specified