Global spending on development aid amounted to approximately 147 billion USD in 2017. We know that while donors are effective at directing aid to the poorest countries, it is often ineffective at reaching the poorest within these countries. However, we do not know how systematic inequalities between identity groups and group exclusion interact with aid distribution. Yet, this relationship has potentially important implications for policy. Development aid has the potential to ameliorate income, as well as to reduce inter-group inequalities when it is distributed to address such systematic differences. On the other hand, aid can also exacerbate already existing group inequalities if these differences are not taken into account. Thus, understanding the determinants of how development aid is distributed within countries is vital. Using data on the location of World Bank aid projects, as well as data on the political status (i.e. excluded or included) of ethnic groups, we address the question: Is development aid more or less likely to be directed towards areas with politically excluded groups?

Areas with politically excluded ethnic groups are 35% less likely to receive an aid project from the World Bank, compared to areas without such groups.

The above-mentioned effect has become stronger in recent years, despite the increasing attention on inequalities among donors.

Donor agencies must critically review how and where development aid is distributed in order to be able to reduce, and not exacerbate, already existing group inequalities.

More research is needed to understand why areas with excluded groups receive less aid, and also how this affects the already existing inequalities in the society.

Andreas Kotsadam
The Ragnar Frisch Centre & PRIO

Siri Aas Rustad
Peace Research Institute Oslo (PRIO)

Kristian Hoelscher
Peace Research Institute Oslo (PRIO)

Gudrun Østby
Peace Research Institute Oslo (PRIO)

Henrik Urdal
Peace Research Institute Oslo (PRIO)
Setting the Agenda

The aim to reduce inequality has been on the donor agenda for some time. For example, Sustainable Development Goal #10 is to Reduce inequality within and among countries. According to the UNDP, income inequality is on the rise: the 10% poorest in the world only earn between 2% and 7% of the total global income, while the 10% richest can claim 40% of the total. Further, the World Bank stated in a 2016 report: The goal of eliminating extreme poverty by 2030 [...] might not be achieved without accelerated economic growth or reductions in within-country inequalities, especially among those countries with large concentrations of the poor.

However, while reducing income inequality between individuals has been a long-stated goal, research has shown how inequalities between groups is also a considerable risk factor. Group inequalities can affect how the distribution of economic gains, political voice and participation, or social welfare are distributed between groups. Further, group inequalities have been robustly linked with political violence. Understanding whether and under what conditions aid distribution may ameliorate or exacerbate group inequalities and various forms of exclusion should thus be of fundamental interest to donors, in particular to those donors who are becoming increasingly concerned with addressing issues of individual and group equality with donor assistance.

Determinants of Subnational Aid Distribution

There is a growing literature exploring what determines the subnational distribution of development aid. Much of the literature clearly shows that rather than favoring areas with greater shares of poor populations, aid distribution instead flows disproportionately to regions of greater wealth. Similarly, a study of Malawi found that aid projects were not targeting the poorest areas, but rather areas with better health infrastructure. Another study found that Chinese development aid is more likely to end up in regions with higher levels of nighttime emissions – a commonly used proxy for local levels of development. A study of Nigeria found that while aid seems to have had a positive effect on reducing infant mortality in areas receiving aid, aid is distributed to areas that have on average lower rates of infant mortality in the first place.

The above-mentioned factors underlying aid distribution reiterate that addressing poverty and inequalities remains a fundamental challenge, but also that group inequalities may intersect with the distribution of aid. We know how both political and economic exclusion of ethnic groups are related to civil conflict and that aid flows may be politicized. However, we know less about whether aid is being targeted at or successfully reaches marginalized or politically excluded groups.

Aid Distribution and Group Inequality

An emerging literature provides evidence that aid is often distributed in ways that favor particular groups and that it may be politically manipulated. Research from Ghana shows that aid specifically aimed at reducing regional income inequalities was reallocated following elite manipulation, failing to reach the poorest. Similarly, studies in Malawi and Kenya show that districts where populations shared an ethnic kinship with the president saw a higher likelihood of receiving aid; it has also been shown that political leaders in charge of distributing aid money may divert aid to disproportionately favor their
own particular ethnic or religious group. More broadly, political elites themselves tend to benefit most from aid flows. Uneven benefits across groups might also arise as a result of organizational practice, such as donors having to rely on local partners who may belong to already privileged groups.

What all this implies is that development aid should begin to more assertively address group inequality and group exclusion, if not there is a risk that aid further enhance group inequalities. In fact, aid can worsen group inequalities in two key ways:

- through aid allocation procedures leading to a resource distribution which exacerbates between-group inequalities;
- and where projects and programmes are captured by elites or interest groups such that group inequalities are intensified.

Nonetheless, there is little systematic research on how political group exclusion affects the distribution of aid. In the following, we present an analysis to address the question of whether development aid is more or less likely to be directed towards politically excluded groups.

The question of whether or not aid projects reach politically excluded groups has important implications for development aid agencies. If aid projects are more frequently being established in areas of political marginalization, it might suggest that donor organizations are beginning to respond to the politicization of aid distributed by national governments, and/or that they are actively addressing group inequalities by favoring development in politically excluded areas.

**Empirical Approach**

We link data on the political status of ethnic groups from the GeoEPR dataset with data on World Bank aid project location from the AidData project. To combine these two datasets, we use the PRIO-grid structure, a fishnet consisting of approximately 50x50km squares (grid cells) overlaying all of Sub-Saharan Africa (see map in Figure 1). We investigate the years between 1996 and 2013. For each year we code whether a World Bank aid project had started in each specific grid-cell. The map in Figure 1 indicates areas (grid-cells) where at least one World Bank aid project was initiated at some point between 1996 and 2013.

Similarly, we also coded the political status (i.e. excluded or included) for each grid-cell each year. Being excluded is defined as either being powerless, meaning that the group is not politically represented or does not have any influence, or as being discriminated, which indicates an active, intentional and targeted discrimination of the group by the state.

Since ethnic groups do not live in squares in real life, each grid-cell can contain more than one ethnic group, thus also both included and excluded groups can live in the same grid cell. Therefore, we consider three types of political status: Excluded (all groups in one grid-cell are politically excluded), Mixed (the cell contains both excluded and included groups) and Included (only included groups in the grid-cell). The maps in Figure 2 indicate which cells have at some point between 1996 and 2013 been included in the three different categories.

**Is development aid directed more or less towards excluded groups?** We use a simple statistical analysis to test this. We test three different samples: (i) 1996–2013: Here we include all World Bank aid projects between 1996 and 2013. (ii) 2006–2013: Here we only include projects between 2006 and
2013. We tested these years because the debate among donor organizations on inequality has intensified in the last decade. And finally, we look at (iii) only grid cells with a population of more than 1,000 people to avoid the effect of grid cells counting as excluded merely due to few people living in an area.

Our empirical findings suggest that areas with excluded groups are 35% less likely to receive aid from the World Bank than areas with included groups, based on the sample from 1996–2013. We find the same relationship for all the three samples that we test. In fact, in the period between 2006 and 2013, areas with excluded groups had a 48% lower chance of receiving World Bank aid than areas with included groups. This is somewhat surprising, as there was an increasing attention towards inequality during this period. When only including more populated areas (only grid-cells with more than 1,000 people) in the sample, we find that the risk for not getting a World Bank development project is 38% less for areas with excluded groups compared to included groups. For the mixed category, we do not find any significant result.

Policy Implications

Over the past decade, the World Bank has increasingly discussed how inequalities can undermine developmental goals and acknowledged that reducing inequalities is vital for poverty reduction. However, there still seems to be little consideration of identity group dynamics in how donors actually distribute development aid. Indeed, such inequalities are not an explicit consideration in any of the major aid modalities.

If the political exclusion of groups has been a relevant factor in determining aid allocation, the results presented in this policy brief suggest that, if anything, areas with excluded groups have received less aid than areas without such groups. Even when we look at the more recent years, from 2006 onwards, we witness the same trend. There could be several explanations for this.

First of all, we might not yet see the effect of the increasing focus on inequality among donor agencies. Second, while the World Bank aims to address inequality, this is a challenging task at the national level, as project implementation is sensitive to national politics in order to be able to be carried out.

Based on the result of our study, it is evident that donor agencies should start focusing more critically on where and how the aid is distributed, in order to be able to reduce, and not exacerbate, already existing group inequalities.

The analysis in this study focuses exclusively on whether excluded groups are particularly targeted among donors, which appears not to be the case. Our study does not explain why this is happening or how this affects already existing group inequalities. These are important topics for future research.

Sources

Figure 1: AidData World Bank Geocoded Research Release, Version 1.4.2. Available at: www.aiddata.org/data/world-bank-geocoded-research-release-level-1-v1.4-2

Figure 2: GeoEPR – Geo-referencing Ethnic Power Relations. Available at: icr.ethz.ch/data/epr/geoepr/

Notes

This Policy Brief is based on research funded by the RCN project Development Aid, Effectiveness, and Inequalities in Conflict-Affected Societies (DEAFIN).

Further Reading
