Unravelling aid funding

Linking funding allocation patterns and localization in Sierra Leone

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Abstract: Development assistance funding by international donors is rarely channelled to/through local actors. While there are strong normative and practical arguments for localizing funding, progress has been piecemeal as donors are largely left to their own devices to decide how, when, where, and how much to localize. This paper explores the antecedents to donor aid allocation and poses the question: 'How and why do donors vary in their extent of localization (as defined by the use of local channels to disburse aid funding)?'. Using the case of aid-dependent Sierra Leone and applying a mixed-methods design combining primary interviews with analysis of the Development Assistance Database, I find that projects funded by multilateral donors are more likely to be localized than those of bilateral donors, who prioritize funnelling aid through actors from their home countries. I also find that the nature of aid assistance (i.e. whether funding is provided through loans or grants) significantly determines the extent to which local channels are used. Lastly, I show that these trends manifest at the sectoral level, where sectors dominated by bilateral donors often use parallel implementation structures, while sectors dominated by multilateral donors see greater usage of local channels and capacities. Additionally, while projects by multilateral donors may appear more localized, I find no evidence that such projects are more impactful or participatory than projects funded by other donor types.

Key words: development assistance, localization, aid channels, mixed methods, Sierra Leone

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1   Introduction

Contemporary aid projects are rarely conceived, implemented, or managed by those they are intended to help. In 2021, only 1.2 per cent of total international humanitarian funding went directly to local and national actors (Development Initiatives 2022). When it comes to development aid, the biggest bilateral donors give almost no aid directly to recipient governments or local organizations (Ritchie et al. 2022). In 2016, The Grand Bargain attempted to change these long-standing problematic trends by bringing together the largest donors and aid organizations. The core idea was to reduce the financing gap and improve the effectiveness and efficiency of aid. Under this agreement, aid actors committed to providing at least 25 per cent of funding 'as directly as possible' to local actors (Derzsi-Horvath et al. 2017) by 2020. A five-year independent review in 2021 (Metcalfe-Hough et al. 2021) showed, however, that 40 out of the 53 signatories had failed to meet this target. Moreover, not all signatories were even tracking these data in their financial systems. Those who were tracking used varied metrics, making any meaningful comparison difficult.

Foreign aid funding failing to reach local actors directly is problematic for four main reasons. First, people whose lives are most affected by the development challenges best understand how to solve them. Thus, local organizations and government bodies that are typically embedded in the host societies have vital expertise and the contextual know-how to respond to issues (Lentfer 2015). Second, while the development sector typically follows three- or five-year project cycles, social transformation takes longer. To ensure sustainability, the buy-in and long-term commitment of local actors is imperative. Evidence (Honig 2018) demonstrates that top-down approaches to foreign aid projects simply do not work. Third, amidst the growing movement to decolonize aid, it is widely acknowledged that existing funding pathways with several international intermediaries perpetuate power imbalances (Peace Direct 2021). In this direction, funding locally is seen as a means to challenge existing power relations. Finally, on a practical level, funding locally makes aid programming cost-effective for the donor. A study that modelled aid funding found that shifting from an international intermediary model to a local intermediary model can lead to up to a 32 per cent increase in cost efficiency (Cabot Venton 2022). This is attributed to savings on international overheads and salary costs, which typically lead to resource drainage in conventional models.

While there are strong normative and practical arguments for localizing funding, change within the aid sector has been slow and patchy. Some donors, such as USAID, have publicly announced that at least 25 per cent of their programme funds will go directly to local partners by the end of 2025 (USAID 2022). However, there remain persistent concerns about how USAID defines a 'local' actor and how its methodology can over-inflate localization figures (Paxton 2023). Meanwhile, the EU has identified localization as a priority area for its Enhanced Response Capacity (ERC) projects and is now seeking to increase its share of the multi-year portfolio by 2023 to ensure sustained funding for its recipients (EU 2023). While this is laudable, no concrete targets or deadlines have been set. Other notable initiatives include donors contributing to the Start Fund, which is one of the first multi-donor pooled funds managed exclusively by NGOs (Start Fund 2014). Other networks of local and national civil society organizations, such as the Network for Empowered Aid Response (NEAR), have also emerged, with the goal of introducing local actors into international coordination mechanisms. While these initiatives are impressive, there are no centralized reform efforts. Consequently, progress is piecemeal and scattered as aid actors are largely left to their own devices to decide how, when, where, and how much to localize. Such chaotic evolution of localization has also translated into limited empirics on fundamental questions such as when localization becomes possible, under what circumstances, and which actors are the most active.

My research attempts to systematically understand 'who localizes' and to explore the question 'How and why do donors vary in their extent of localization (i.e. use of local channels to disburse aid funding)?'. In attempting to explain variation in localized funding by donors, I advance the argument that some donor types, specifically multilaterals, are more likely to localize funding than bilateral donors. This can be attributed to bilateral donors prioritizing financing aid actors from their home countries. I also find evidence that the aid instrument and sector of donor involvement influence the extent to which local channels are used.

The findings make the following contributions to the aid literature. By distinguishing between classes of donors (such as bilaterals and multilaterals) in an attempt to understand localization, the paper breaks down the variation across donor types in terms of funding quantity, quality, and allocation pathways. In doing so, it enriches past research, which typically looked at donor-level characteristics to solely understand the downstream impacts on development outcomes (Biscaye et al. 2017). The bilateral or multilateral nature of donors is rarely studied in connection with funding allocation to/through local channels, which forms this paper's premise. Another central contribution comes from identifying patterns and mechanisms of aid allocation within a country context. Typically, allocation patterns are studied at a cross-country level and potential explanations for donor behaviour are developed ex-post. In contrast, this paper uses a case-study approach and draws on primary interviews to explain the real-world mechanisms guiding the patterns observed. Finally, allocation and localization are typically studied in separate silos. This research attempts to bring the two concepts together and inform policy-making by introducing evidence that donors' prioritization of domestic actors, choice of funding instruments, and the sector of involvement can collectively influence localization outcomes.

The rest of the paper is structured as follows. Section 2 draws insights from relevant literature. Section 3 introduces the theory and hypotheses. Sections 4 presents the methodology, design, and measurement strategy. Section 5 provides the results and discussion, and Section 6 concludes.

2   Literature

Donor variation in the extent of localization (or use of local channels) can be influenced by a variety of factors, including donor and recipient characteristics, and the nature of aid itself. I draw on sub-fields of literature within political economy and development economics to demonstrate what we already know about these themes, where the gaps persist, and what motivates this paper.

2.1   Donor characteristics

It is widely acknowledged that the political and economic interests of donors outweigh the developmental needs or merits of the recipients (Hoeffler and Outram 2011). Past research demonstrates that aid allocation is dictated by political and strategic considerations of the donor, with colonial legacy and political alliances with the aid recipient serving as major determinants (Alesina and Dollar 2000). Other determinants studied include the donor's strategic interests (Maizels and Nissanke 1984), trade relations with the recipient (Nowak-Lehmann et al. 2013), the donor's own political institutions (Lundsgaarde 2012), and the ruling government ideology in donor countries (Brech and Potrafke 2014). The study by Dietrich (2016) looks at donor political economy to explain channel preference. The author argues that donors that place a premium on market efficiency (e.g., the US, UK, Sweden) outsource aid delivery in poorly governed recipient countries, while donors whose political economies emphasize a strong state in service provision (e.g., France, Germany, Japan) continue to channel aid via recipient governments.

Most other research on donors focuses on the strategic choices they face. Given that one of their fundamental dilemmas is how to disburse aid money (i.e. through which channels/actors), there are several studies exploring the efficacy of different channels. For instance, bilateral channels, or donor funding disbursed via donor/recipient state institutions, are assumed to be more politicized (Verdier 2008) and less efficient (Milner and Tingley 2013) than multilateral channels. However, the reality is more complex. As Gulrajani (2016) notes, claims deriving from comparisons between bilateral and multilateral channels are typically based on patchy data. To fill this gap, this paper triangulates across a range of primary and secondary sources.

2.2 Recipient characteristics

Recipient characteristics such as institutional quality, level of corruption, and local politics are assumed to be direct drivers of donor allocation decisions, even though it is widely acknowledged that donor motivations to provide foreign aid are un-altruistic and politicized (Fialho 2012). While there is rich literature on how the volume of aid received is influenced by recipient characteristics, less attention is paid to its linkage with the choice of channels. Notably, Dietrich (2013) argues that donor decisions on channels are made on the basis of the 'governance quality' of aid-recipient countries. The author notes that in poorly governed recipient countries, donors bypass recipient governments and deliver more aid through non-state actors, and in recipient countries with higher governance quality, donors engage with the government and give more aid through government-to-government channels. This finding is reinforced in a subsequent study by Acht et al. (2015), who find that bypassing governments via NGOs and multilateral organizations is indeed a response by donors to weak recipient state institutions.

The main limitation of the institutional-styled argument is that it cannot explain why donors may behave differently when operating within the same recipient country (i.e. what explains donor variation in channels within the same institutional environment). One study by Dollar and Levin (2006) comes close to resolving this puzzle. In investigating the extent to which each donor's assistance is targeted at countries with sound institutions, they find that that multilateral assistance is more selective than bilateral aid in targeting countries with good rule of law. However, owing to a cross-country design, they are unable to control effectively for institutions. This paper resolves the problem by adopting a single country, case-study approach.

2.3 Incentive problems

Another way to analyse aid allocation patterns vis-à-vis local channels is through a principal agent approach. Typically, an agency problem emerges when the interests of the principals and agents diverge in an environment characterized by asymmetric information flows (Paul 2006). In practice, donors may attempt to resolve agency problems through conditionality on aid and specific reporting requirements (Faure-Grimaud et al. 2003). However, inherent to the aid delivery process are several agency problems, including the existence of multiple principals with ill defined trade-offs between alternatives, a limited information feedback loop, and adverse selection issues, which ensure that the riskiest projects continue (Paul 2006). Gibson et al. (2005) delves into these problems in great detail using game-theoretical models and proposes a unique principal agent framework to analyse the incentives faced by classes of aid actors. These have also been modelled by Fruttero and Gauri (2005), who find that funding concerns, notably dependence on official refinancing, weaken the incentive of NGOs to engage where they might be needed most.

Thus, when a donor is faced with the question of which actor/channel to choose to disburse funding, they may want to work with local actors. However, the donor must also ensure that the recipient organization can fulfil their accountability and reporting requirements, designed to satisfy their headquarters. Local actors may not have the experience of working alongside donor bureaucracies. This lack of experience (or perceived lack of capacity) may translate to donor prioritization of international actors at the cost of local actors. Donor requirements, while intended to limit corruption and ensure efficient spending of funds, may in turn perpetuate inefficiency, as local actors who possess the know-how cannot be directly funded. In acknowledging these inherent contradictions and complex incentives in aid delivery, this paper proceeds to uncover channel patterns as they relate to localization debates.

2.4 Aid instruments and channels

Foreign aid is delivered using a multitude of instruments and channels. The funding instruments can include budget support, debt relief, loans, earmarked funds, and project grants. Foster and Leavy (2001) put forth a typology of aid instruments based on three key metrics: (i) conditionality, (ii) earmarking, and (iii) accountability. Depending on the donor's objectives and preferences with respect to these metrics, a suitable instrument may be chosen. For the purpose of this paper, two instruments are of prime interest: grants and loans. While the effect of grants ('free' money with no obligation to repay) and loans (an obligation to repay, albeit on concessional terms) on recipient country growth and tax revenues has been long debated in the literature (Morrissey et al. 2006), limited attention has been paid to upstream questions of how grants or loans induce different incentives for the donor. Even less is known about how these instruments are correlated with channels of aid and local actors.

Some studies have attempted to analyse channels in specific donor country contexts. For instance, Dreher et al. (2010) compare Sweden's aid delivery through (Swedish) NGOs with official bilateral aid to assess the extent to which recipient needs shape allocation decisions. They find that, while (Swedish) NGOs appear relatively altruistic, NGOs and official donors perform similarly in terms of providing targeted aid. Likewise, Nunnenkamp et al. (2009) compare Swiss NGO aid with Swiss official development assistance (ODA) and find that the allocation patterns of self-financed NGOs are strikingly similar to the allocation of official Swiss development aid. These donor-specific studies focus narrowly on private versus public channels and are unable to explain variation across donors, which we will delve into.

2.5 Debating the local

The aid allocation literature, in all its complexity, rarely touches upon debates around 'localization' or the 'local'. In common development and humanitarian parlance, a wide range of actors is subsumed under the notion of the local. This includes national and local NGOs, national and local government representatives, and local staff of foreign NGOs and agencies (Anderson and Olson 2003). However, some consider local to be a vague and heterogeneous category (Roepstorff 2020). One idea that has emerged is to think of aid actors as insiders vs. outsiders to the given context. But this again becomes a question of both subjective and objective ascriptions and perceptions (Roepstorff and Bernhard 2013). These debates also transfer to the realm of practice, where there continues to be no clear definition of the local. As a consequence, certain actors end up excluded from the localization reform agenda. The difficulty of categorizing these actors also stems from the fact that many organizations are hybrids of local, international, and global networks (Roepstorff 2020). Therefore, the lines between international and national can become blurred. Some scholars argue that this need to dichotomize the local and international is inherently a Euro-

centric idea, which conceptualizes the international as the monolithic West and the rest as local (MacGinty 2015). While the discussion on the local opens up critical and reflexive questions on the nature, agency, and definition of the term, there is a need to connect these theoretical debates to the empirical evidence on aid allocation in order to advance knowledge claims on localization.

As summarized in this section, there exists rich literature on aid allocation and the local, but major gaps persist. On aid allocation, donor or recipient characteristics are typically studied as determinants of the quantity and quality of aid. There is also some research on strategic choices that donors face in terms of selecting bilateral vs. multilateral channels. However, these variables are rarely connected to localization outcomes, especially with respect to the utilization of local channels and capacity. On the other hand, there are extensive debates on the political understanding of the local, its agency, and which actors it represents. However, empirical evidence is missing from these debates. This paper attempts to bridge these bodies of work and address the gaps through the following steps: first, by distinguishing between classes of donors (such as bilaterals and multilaterals), the research makes a unique conceptual linkage between donor types and localization. Second, by examining one country context in depth, the paper controls for recipient-level determinants; hence, variation in donor behaviour with respect to funding locally can be attributed to other characteristics (of the donor, or of the funding itself). Third, by exploring the mechanisms behind these patterns of funding, it reveals more about the decision-making calculus and incentives of donors.

3   Hypotheses

Motivated by the gaps in literature, I pose the question: 'How and why do donors vary in their extent of localization (i.e. use of local channels to disburse aid funding)?'. While the concept of localization is far broader,[1] the scope of this paper is restricted to understanding the dynamics of funding flows. I define localization as the extent of usage of local (either state or non-state) channels to disburse donor funding. A channel refers to the first-level implementing partner that has responsibility for the funds by contract or agreement. I focus on channels as a proxy for localizing funding because looking at who is the first-level implementer gives us an accurate picture of which actors are trusted by donors to implement projects. Additionally, limited data availability makes it the best available option. Drawing on Gulrajani (2016) and the OECD classification, I distinguish between seven types of aid channel (Table 1).

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[1] Localization also encompasses increased investment for/in local actors, strengthening the capacity and resources of local organizations, increased partnership with local actors, and fundamentally questioning the power hierarchies within the aid system. However, there exists no fixed definition/interpretation.

Table 1: Types of aid channel

Channel type	First-level implementing partners	Examples
Ministry/Agency	Central, state, and local institutions of the aid-recipient country	Ministry of Finance, Ministry of Education
UN	Actors within the United Nations system	UNICEF, UNHCR, UNOCHA
International NGOs (INGO)	NGOs that operate internationally on development and/or humanitarian issue areas. They are headquartered in global north countries. Field-based offices of INGOs included.	Oxfam, CARE International, GOAL
National NGO	NGOs that are registered in aid-recipient countries and operate in development and/or humanitarian issue areas. They are usually headquartered in aid-recipient countries, unlike INGOs.	Prison Watch Sierra Leone, Rainbo Initiative
Bilateral	Ministries or development agencies of donor countries	FCDO, USAID, GIZ, SIDA
Multilateral	Organizations constituting member states that finance development and/or humanitarian activities globally using a range of financial tools and modalities. UN actors are excluded as they are coded as a separate channel.	World Bank, IMF
Others	Other types of aid-recipient channels and arrangements such as large partnerships (with multiple channels or implementers), private actors, businesses, and consultancies.	Projects implemented as a consortium, Ernst & Young

Source: author's construction.

I consider aid to be localized if donors use either of the two channels: Ministry/Agency or National NGO. Aid disbursed through any other channel is considered non-localized. Additionally, I classify donors into five classes/types (Table 2).

Table 2: Types of donor

Donor type	Description	Examples
Bilateral	Refers to donors who are countries/governments. The donor government may provide the aid directly or through its ministries or development agencies.	US, Germany, UK aid through FCDO; Swedish aid through SIDA
Multilateral	Refers to donor organizations that constist of member states and fund development and/or humanitarian activities globally using a range of tools and modalities	World Bank, African Development Bank
UN	Donors that are actors within the United Nations system	UNICEF, UNHCR, UNOCHA, FAO
Vertical funds	Refers to global programmes specified and targeted for particular themes/issues. They may serve as donors themselves and fund projects.	Global Environment Facility, Peacebuilding Fund, Montreal Protocol
Others	Includes funding arrangements with multiple donors or donors that are private actors, businesses, consultancies, etc.	A joint project funded by Irish Aid; UNDP; CIDA; Saudi Arabia and GAVI

Source: author's construction.

As one might observe, some types of actors, such as bilateral and multilateral, are categorized under both types of channel and types of donor. This reflects the complex nature of aid funding, where the same actors may serve as donors for one project but as recipients for another. Joint projects that involve multiple actors are categorized as 'others'. While jointly funded projects offer a wealth of information, they cannot be meaningfully disaggregated further at this stage due to data limitations. Hence, they are grouped under a broader category.

These conceptual categories of donors and channels allow us to tease out broader patterns in aid allocation. Instead of descriptively stating that donor X disburses aid via channel Y, thy enable us to discern whether some donor types are more likely to use certain types of channel than others. Based on the categorizations, I test the following hypotheses:

H1 (Who localizes?): Aid projects funded by multilateral donors are more likely to be localized than projects funded by bilateral donors.

I anticipate multilateral aid to be more localized for a few intuitive reasons. First, multilateral aid is considered less politicized than bilateral aid (Gulrajani 2016). This presumably gives multilateral donors more control and agency over who they wish to allocate the funding to. Second, multilaterals may be more likely to centre their activities around the 'recipient state'—either for reasons of mandate or otherwise. As Easterly (2014) points out, multilaterals such as the World Bank reflect a 'perfectly technocratic viewpoint – what matters are the technical solutions to be implemented by the recipient state, not the "political character" of whether a state is authoritarian, abusive or corrupt'. This state-centric, technocratic approach of major multilaterals might drive them to channel more funding through local state actors. Third, the sectors in which multilateral donors actively operate and the aid instruments they use might make them more amenable to funding locally. Some of these explanations are tested in the sub-hypotheses below:

H1a (Nation-first): Bilateral donors are more responsible towards their own national aid actors. This limits their ability to localize funding, unlike multilaterals.

If one looks at the 'chain of aid delivery', bilateral donors can be thought of as principals who must work through a series of hierarchically organized agents to reach the final beneficiary (Gibson et al. 2005). The hierarchy above the donor agency includes the home government and parliament. Multilaterals have a different hierarchy and are accountable to member nations and donor countries/entities. The varying hierarchies may determine which actors are prioritized for receiving funding at a sub-national level. Given that bilateral aid serves political and diplomatic goals of the donor country, there might be practical and trust-based considerations that push bilateral donors to fund actors from their home country at the cost of local actors. Multilaterals may not face the same constraints.

H1b (Loans vs. grants): Multilateral donors provide loans, which are more amenable to localization relative to grants.

I hypothesize that the instruments of aid can influence who is selected as the funding recipient. These instruments largely fall into one of two categories: grants or loans. Existing research has principally looked at the effect of these instruments on overall growth, but they are rarely analysed in relation to the funding of local actors. Work by Brech and Potrafke (2014) touches on this idea by demonstrating that grant aid is more likely to exhibit partisan effects than loan aid, meaning that grants are influenced by government ideologies, unlike loans. This, compounded by the fact that donors hesitate to fund local actors owing to perceived risks of corruption or misuse (Marquette 2011), means that donors may use different aid instruments to insure themselves against risks. Loans, which are predominantly used by multilaterals to fund aid projects, come with an assurance of payback and insure the donors against the perceived risk of funding locally. I would therefore expect loans to be associated with greater use of local channels. Meanwhile, bilateral donors are largely reliant on grants. To ensure that the grant money is spent appropriately, they rely on complex financial management procedures, which local actors may not be able to fulfil. Such perceived lack of capacity could push bilateral donors to fund their grants via non-local (or international) channels such as international NGOs or the UN.

H1c (Sector and capacity): Bilateral and multilateral donors operate within different sectors with varying local capacities, which influences their ability to localize project funding.

One could imagine that the sector within which a given bilateral or multilateral donor operates may influence the extent of its local funding. Sectors such as infrastructure and public works necessitate working alongside the local government and using local capacities. Other sectors, such as health or education, may allow parallel services to exist (one provided by the local state and the other by international aid actors). Yet other sectors may provide opportunities for collaboration. Furthermore, the extent of localization may depend on the level of capacity within the given sector. Lack of skilled professionals in a given sector may incentivize the donor to divert funding away from local actors towards international ones that can fulfil the implementation requirements. Existing research has broadly looked at sector allocation at a cross-country level (Thiele et al. 2007), but little attention has been paid to sectoral specificities within recipient countries or variation in their use of local channels.

4   Methodology

4.1   Design

This paper adopts a mixed methods design, owing to the complementarity of various methods to study this topic. In the past, the study of local channels was a herculean task due to data unavailability. However, this changed with the introduction of aid datasets such as OECD-CRS, DAD, IATI, Aid Data, and FTS, which made highly disaggregated donor-reported data publicly available. However, they are only able to capture channels as 'first-level implementers/recipients', thereby excluding any sub-contracting information. While the severity of this limitation is diminishing with recent efforts to better capture multiple levels of aid transfer, the quantitative analysis of channels by itself can be limiting. While it enables meaningful explorations of donor allocation patterns, it cannot contextualize the mechanisms guiding donor behaviour. To this end, primary qualitative data can crucially help. Semi-structured interviews with donors, government ministries, INGOs, and national NGOs can shed light on donor decision-making processes and the downstream consequences of preferring one channel over others. While qualitative data are extremely rich in information, their obvious limitation is that it is hard to discern whether a finding holds true for the broader population or is an outlier. Recognizing the complementary of the two methods to analyse the research question, this paper adopts a mixed methods design.

4.2   Country context

This paper poses the question of how/why some donors localize funding more than others in a given aid-recipient country. Given the question, the country context must meet two criteria: (i) it should be an aid-recipient country, and (ii) it should have the presence of multiple donors, donor types, and channels so that patterns and mechanisms of change may be discerned. While many aid-recipient countries may meet the criteria, Sierra Leone was selected for a few reasons. First, its complex historical evolution has set the backdrop for a myriad of donors to be present over an extended period. Sierra Leone is a former British crown colony which became an independent, sovereign state in April 1961. Since independence, the country has experienced several catastrophic events, which have contributed to aid dependence. These include a decade-long civil war from 1991 to 2002, and the Ebola epidemic in 2014–15, which severely hampered and arguably exacerbated the country's already complex development challenges. As a consequence, a plethora of international donors are actively present in-country and implementing projects, making it a suitable case. Second, over 200 national NGOs and around 130 international NGOs currently

operate within the country,[2] making it possible to study a range of donor types (including bilateral, multilateral, and UN agencies) and channel types. This rich network of aid actors would make it viable to conduct in-depth interviews. Third, Sierra Leone also maintains its own Development Assistance Database, which is run and managed by the National Ministry of Planning and Economic Development (MOPED). It is quite rare for countries to maintain such an exhaustive database tracking foreign aid activities in-country. The opportunity to analyse this novel data source, which is largely ignored in academic work, was an added motivation. Finally, my familiarity with the Sierra Leonean (SL) context, emerging from previous professional experience, led me to select it.

I choose one case instead of several countries to control for recipient characteristics. Given that this paper analyses donor variation in extent of localization and use of local channels, studying one country allows me to link the observed variation to donor-level characteristics. This would be difficult if researching across multiple cases.

4.3 Measurement

Measuring H1: Who localizes?

To answer the first part of the research question (or H1)—how donors vary in their extent of localization—we must measure two main variables: localization and donor type. I use the quantitative measure 'channels of aid funding' as a proxy for localization. Among the seven channels, if national ministries or national NGOs are used for the first level of funding receipt (thereby making them the first-level implementers) for the donor-funded project, then the aid transfer is said to be localized. If other channels such a multilaterals, the UN, bilaterals, international NGOs, or private actors are used for donor-funded projects, then the funding is said to be non-localized.

Three things must be noted here: first, localization is conceptualized in binary terms. Thus, a project is either localized (if it uses a ministry or national NGO channel) or non-localized. It cannot be both. Second, this binary classification exists at the project level, and *not* at the donor level. This means that a donor may have a combination of localized and non-localized projects in its funding portfolio. Third, whether or not a project is localized is assessed purely by looking at the first-level recipient of the project funding. If projects are awarded to an international party first, but eventually sub-contracted to a local actor, these are still considered as non-localized. In essence, any recipients (either through a sub-contracting arrangement or otherwise) beyond the first level of funding transfer are not considered. In terms of validity, one could argue that assessing funding localization through choice of channels is a loose proxy, as it measures the bare minimum (i.e. how much funding is funnelled through local actors at the first level). While acknowledging this critique, I argue that choice of channels is the best available proxy in current funding datasets. Thus, analysing aid allocation through the lens of localization outcome may still be worthwhile for a fuller understanding of allocation patterns and their implications for power in the aid system.

I consider only OECD Development Assistance Committee (DAC)[3] donors. These donors are then classified into five overarching categories for the quantitative analysis: bilateral, multilateral,

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[2] Insight derived from Interview 2, Sierra Leonean government representative

[3] The OECD Development Assistance Committee or DAC is a unique international forum of many of the largest providers of aid, including 31 members. It includes the largest global donors such as the the US, France, Germany, UK, EU, and Japan. That being said, most non-western and emerging donors are missing from the list of DAC donors.

UN, vertical funds, others (see Table 2). The validity of this measure is evident, as similar classifications are widely used by leading aid agencies.

To answer the second part of the research question (H1a, H1b, H1c), which explores 'why donors vary in their extent of localization', the following measures are used.

Measuring H1a: Nation-first

I consider a donor to be engaging in nation-first behaviour if it prioritizes funding aid actors emerging from their home country over local actors. This could be for reasons of credibility, capacity, or perceived risk. This mechanism is evaluated solely against the interview data, as donor motives are arguably best determined through qualitative tools. Furthermore, the quantitative database does not capture any variables that may directly or indirectly relate to this hypothesis. This makes triangulation impossible and may raise the concern of cherry-picking qualitative evidence to advance the argument. To avoid such a trap, systematic qualitative checks were carried out to ensure internal validity and all interviews were subject to thorough thematic analysis and multiple rounds of coding to ensure rigour.

Measuring H1b: Loan vs. grant

To measure how the nature of the aid instrument influences localization, each aid project is classified exclusively into one of the three instrument types: (i) grant, (ii) loan, (iii) grant and loan. The last category mostly refers to large projects, which often combine grant and loan components. To determine how each instrument type influences the extent of localization, quantitative techniques are used. The findings are triangulated against interview data, which are then used to further understand why some instrument types are more amenable to localization than others, and how localization links to donor types.

Measuring H1c: Sector and capacity

To measure sectoral variation, each aid project is classified into one of 15 categories, comprising 13 sector categories—health; public financial management; infrastructure; agriculture/food security; education; transparency, democracy; water, sanitation, and hygiene (WASH); government capacity building; youth/gender/social welfare; private sector; justice/security sector; sustainable development; humanitarian/disaster response—plus an 'overlapping' category for aid projects whose activities span thematic domains and an 'other' category for projects whose sector is not identifiable (see Table 4).

Using both quantitative and qualitative methods, I analyse how sectors correlate with the extent of localization. With respect to the measurement of sectors, there exist two main concerns: first, it is hard to discern whether some donors intentionally self-select themselves into specific sectors, or whether sectors evolve in a certain way as a result of donor involvement. Since this paper does not make causal claims, this is a minor concern. Second, given that there are 15 categories, the sample size is spread thinly. This is important to keep in mind when interpreting the quantitative analysis.

Unit of analysis

The unit of analysis is the aid project. Analysing at the project level, as opposed to the donor level, offers two main advantages. First, it provides a larger sample size for the quantitative analysis, leading to more meaningful insights. Second, it allows a deeper analysis of variables—one that

goes beyond donor and channel identity. For instance, it allows us to account for the nature of the funding instrument, the project duration, and the volume/size of the project. For these reasons, both the quantitative and qualitative data sources are analysed at the project level.

4.4 Data sources

Quantitative source

The quantitative analysis is based on the Development Assistance Database of Sierra Leone. The database is a panel dataset containing over 2,000 unique projects. For each project, the database provides information on, among other things, the project funding amount, the donor, the implementing partner (or channel), the national partner, where it was implemented, the duration of the project, the year, and whether grant and/or loan. The database is nationally managed by MOPED, which is also in charge of curating national development plans, aligning and coordinating aid activities in-country, and coordinating relationships between foreign donors and governments. MOPED selects individuals from major donor organizations operating within the country and trains them to use the database system to upload project activities periodically.

It is important to understand the boundaries of the database. First, it is completely reliant on donors and international aid actors to self-report projects. While MOPED sends periodic reminders, there might be (consistent) under-reporting by some aid actors, which would be hard to spot and correct for. Second, while several levels of implementation may be involved for a given donor project, only the first level is reported. This issue persists across most aid funding datasets and is not novel. Third, the database covers entries from 1992 to 2022. However, the sample size of aid projects during the civil war period (from 1991 to 2002) is very small. This is understandable, as reporting during times of war is not viable.

The cleaned dataset has 2,063 aid projects in Sierra Leone across 32 variables. There are 125 unique donors and 282 unique channels/implementers. The projects are spread across the 15 identified sectors and collectively account for US$8.1 billion spent in foreign aid from 1992 to 2022 in Sierra Leone. Upon cleaning, a binarized outcome variable indicating whether or not a project is localized (as defined in Section 4.3) was produced. The main predictors of interest are the donor type and assistance type variables. They directly speak to H1 and H1b, respectively. For H1c, the sector variable is used. Logged project amount, modality, and project duration in months are added as controls.

A logistic regression is used to understand what factors may significantly determine an increase or decrease in the odds of using local channels. The use of logistic regression and odds ratios has some caveats. It is one, but not the only, way to present an association when the main outcome is binary. Its interpretation is framed in odds and not probabilities, which may make the interpretation less intuitive. Also, the magnitude of the odds ratio from a logistic regression is scaled by an arbitrary factor (which is equal to the square root of the variance of the unexplained part of the binary outcome). What this means is that there are no 'unique' ratios to be estimated within the same study (Norton et al. 2018). Different odds ratios from the same study cannot be compared when the statistical models that result in odds ratio estimates have different explanatory variables because each model has a different scaling factor. Nor can odds ratios from one study be compared with those from another study. Thus, the odds ratios are best understood in the context of supporting information, which is provided through descriptive statistics and qualitative interviews in this paper.

Qualitative source

The qualitative analysis is based on primary interviews that were carried out in Freetown, Sierra Leone, in October and November 2022. A total of 20 semi-structured interviews were held with representatives of four stakeholder groups: (i) donor missions, (ii) Sierra Leone Government ministries, (iii) international NGOs, and (iv) national NGOs. The breakdown is given in Table 3.

Table 3: Interview respondents

Actor type	No. of interviews
Donor missions	4
Sierra Leone govt.	3
International NGOs	5
National NGOs	8
Total	20

Source: author's construction.

The interview guide was piloted, and the questions were modified on the basis of the feedback. The final interviews were carried out using a snowball sampling technique. Emphasis was placed on interviewing Sierra Leonean (SL) national NGOs and government actors, since much of the literature and data prioritize international aid actors. The network of informants enabled me to eventually reach nearly all key decision-makers in Freetown, including senior government and donor officials. Each interview lasted between 60 and 90 minutes and was recorded if the interviewee consented. Strict procedures relating to consent, data protection, and anonymity were followed. Some interviewees requested to pause the recording during their interviews to make comments 'off the record'. These comments were helpful in understanding the sentiments of different aid actors but were excluded from the formal analysis. Immediately following each interview, extensive notes were recorded. I also collected other primary documents, including strategic documents from the government and donors and documents specific to programmes of interest.

Post interviews, the notes were compiled, cleaned, and organized into nodes/categories to conduct a thematic analysis. The nodes were revised several times to create the final node structure. To ensure intercoder reliability, snippets of the interview data were coded by other researchers and the matching of codes checked. Based on the final nodes, descriptive visuals and cross-tabulations were created (see Appendix).

## 5   Results

5.1   Allocation patterns

Before delving into the specifics, it is important to understand the overall donor landscape in the context of Sierra Leone. Three donors—the UK, EU, and World Bank—account for close to 60 per cent of the total volume of aid funding.[4] The role of the UK as a donor is specifically worth noting. As the former colonial power of Sierra Leone, the UK has long been the country's top donor. To date, it continues to run large-scale development projects, including the country's

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[4] Based on the author's calculations.

biggest health programme (the Saving Lives in Sierra Leone Programme or SLiSL).[5] In terms of channels/implementers, SL Ministries and UN agencies emerge as the most prominent channels for donor projects. They implemented 33 per cent and 32 per cent, respectively, of all aid projects in Sierra Leone.[6] Given our interest in the use of local channels, the prominence of ministries as funding channels is relevant. Figure 1 illustrates the extent to which different donors disburse funding through local channels.

Figure 1: Cross-tabulating donor and channel types
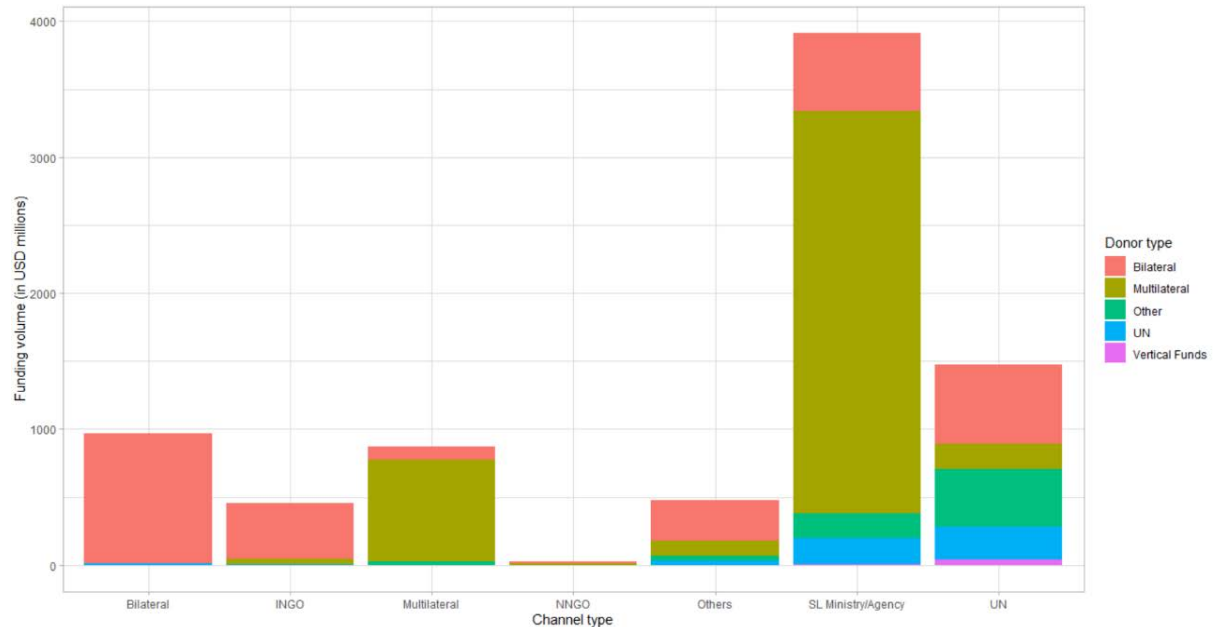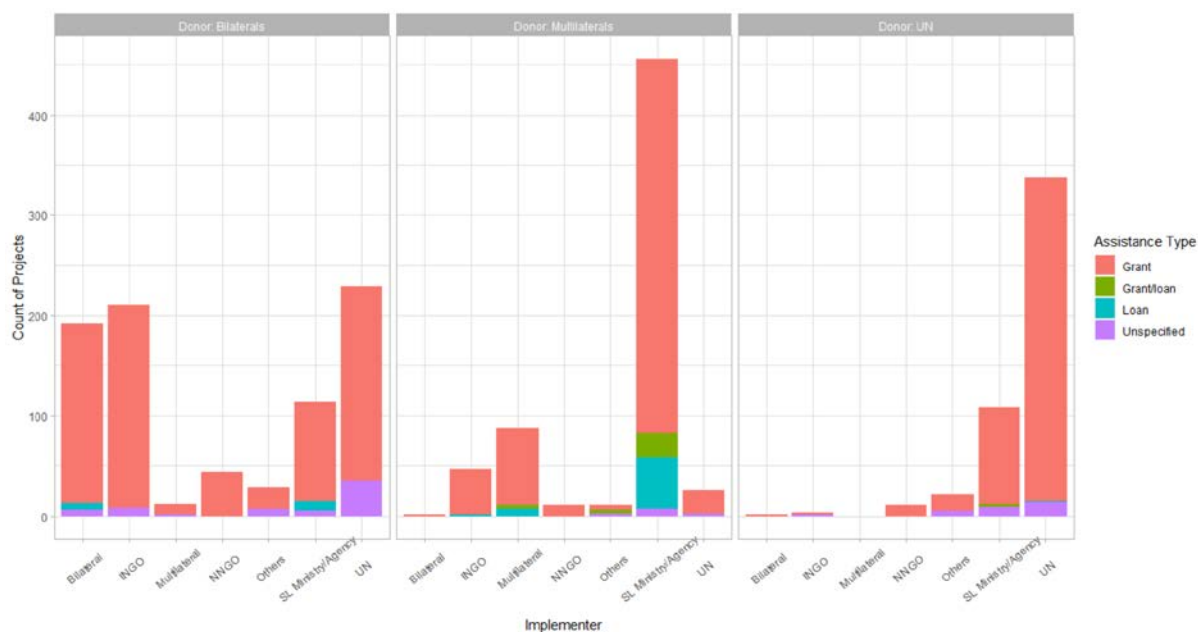

Source: author's construction.

We observe that the bar labelled 'SL Ministry/Agency' receives most funding from multilateral donors, followed by bilateral donors. Meanwhile, national NGOs are rarely prioritized by any type of donor as the first-level channel. Multilaterals and bilateral donors funnel their funding through other multilateral and bilateral channels, respectively, and the UN is used as a channel more by bilateral than by multilateral donors. We already observe two important trends relating to H1: first, 'local' channels largely represent the aid that the recipient government or ministries receive, since national NGOs are rarely funded as the first-level channel. In the case of Sierra Leone, for instance, only 3.3 per cent of all projects are funded at the first level through a national NGO channel. So, local channels are largely synonymous with aid-recipient government counterparts, at least for this paper. Second, there is already evidence that multilateral donors use local channels more than bilaterals.

Taking this inquiry one step further, we ask what type of aid assistance is passing through these local channels. This links to H1b, which posits that aid assistance in the form of loans is more likely to use local channels relative to grants. If this is the case, we should expect to see SL Ministries as the main channel for loans. To this end, I visually investigate if such a trend exists (Figure 2).

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[5] Interview 6, donor representative.

[6] Based on the author's calculations.

Figure 2: Prevalence of loans versus grants by donor and implementer types
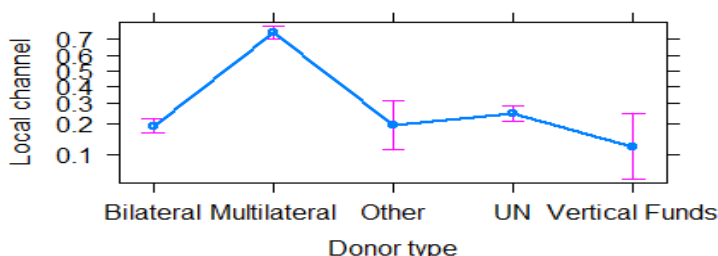

Source: author's construction.

We observe that the bar titled 'SL Ministry/Agency' under the multilateral cell receives the largest share of loans. It clearly overshadows other implementers such as bilaterals, INGOs, or multilaterals that also receive loans. We notice that loans are largely provided by multilateral donors, with a smaller share provided by bilateral donors. The figure also reinforces the dominance of grants as the most prevalent assistance type. These trends raise two questions: first, are loans actually associated with increased use of local channels? Second, does the fact that multilateral donors provide more loans than other donors have any combined/interaction effect on the use of local channels?

Linking to H1c, one might also pose the question: Do these relationships vary by sector? To partly test these empirical questions and hypotheses, I use a logistic regression.

5.2   Who localizes?

To test which actor is more likely to localize funding, I run a simple bivariate regression between donor type and local channel: Model A (Figure 3).

Figure 3: Model A—Donor type effect plot

Source: author's construction.

The donor type 'multilateral' emerges as statistically significant with a large odds ratio. This means that if an aid project is funded by a multilateral instead of a bilateral donor, the odds that the multilateral will directly fund an SL actor (i.e. localize funding) increase by 11.5. The UN also

emerges as a significant donor, but the strength of the association is far weaker, as the odds of localizing increase only by 1.4 for a UN donor relative to a bilateral donor. Similarly, the 'other' donor type presents a weak association. The UN and other donor type have odds ratios close to 1, which indicates that the odds of localizing funding are the same as, or similar to, the odds of localizing among controls. Thus, funding by those donor types cannot be associated with localization in the same way as funding by multilaterals.

As a next step, I add relevant controls such as modality, assistance type, and sector variables (Model D) and test whether multilateral donors still emerge as significant. As expected, the association remains strong, with an odds ratio of 9.6. This implies that if a project is funded by a multilateral instead of bilateral donor, the odds of using a local channel increase by 9.6. The resulting odds ratios and marginal effects are analysed in conjunction with primary interview data to suggest relevant insights (Table 4).

Table 4: Regression results

	Dependent variable: Local channel			
	Model A	Model B	Model C	Model D
Multilateral donor	11.548*** (0.126)			9.624*** (0.145)
Other donor	1.021*** (0.333)			0.895** (0.397)
UN donor	1.394*** (0.138)			1.537*** (0.158)
Vertical funds donor	0.580 (0.444)			0.719 (0.461)
Grant/loan		5.674*** (0.386)		1.485*** (0.443)
Loan		7.409*** (0.283)		3.161*** (0.334)
Grant/loan type unknown		0.418* (0.241)		
Multilateral donor			10.059*** (0.114)	
Loan			6.460*** (0.454)	
Multilateral*Loan (interaction)			0.398 (0.599)	
Project amount (log)				1.030*** (0.031)
Modality: General budget support				0.655 (1.314)
Modality: Project support				0.245 (0.967)
Modality: Sector budget support				0.742 (1.392)
Project duration (months)				1.000*** (0.002)
Education				1.124*** (0.284)
Govt. capacity building				0.912*** (0.244)
Health				0.511** (0.210)
Humanitarian				0.945 (0.970)
Infrastructure				1.502*** (0.268)
Justice/security				0.365 (0.380)
Public financial management				1.186*** (0.328)
Private sector				1.020** (0.478)
Sustainable development				0.597* (0.346)
Transparency/democracy				0.447* (0.257)
WASH				0.310 (0.484)
Youth/gender/welfare				0.989*** (0.263)
Other sectors				0.00000 (420.094)
Overlapping				0.541* (0.329)
Constant	0.235*** (0.088)	0.548*** (0.049)	0.252*** (0.067)	0.878 (1.090)
Observations	2,063	2,063	2,063	1,857
Log Likelihood	-1,094.368	-1,305.032	-1,086.597	-938.844
Akaike Inf. Crit.	2,198.735	2,618.063	2,181.194	1,929.689

Note: p<0.1; **p<0.05;** p<0.01

Source: author's construction.

Suggestive evidence also emerges from interviews where respondents point to multilateral donors, specifically the EU, as providing more direct forms of funding to local actors in Sierra Leone. As one interviewee stated:[7] 'The EU also is bending a lot more towards localization but very much within the confines of their strict regulatory requirements'. Another INGO representative,[8] whose organization supports local NGOs in directly applying and winning EU grants, added:

> The EU's direct funding to local CSOs is quite unique [...] [W]hile the recipient may be a local actor, we provide the financial management systems for national NGOs. So the EU is guaranteed a lower risk. While the EU is a big proponent of localizing funding, they also think about risk absorption.

This view was echoed by a respondent[9] who said that 'it is difficult to see a donor, with the exception of the EU, who have advocacy and governance grants,[10] funding national NGOs.' During interviews, other donors, such as Irish Aid, World Bank, and USAID, were also anecdotally cited[11] as increasingly encouraging funding localization. However, local NGOs confirmed that their largest directly funded donor projects come from a multilateral source. As one respondent[12] commented: 'For us as a national NGO [...] our biggest project funding comes from a multilateral. But it's not easy to manage it.'

Thus, both qualitative and quantitative evidence collectively points towards multilaterals, especially the EU, as the primary donor type that localizes funding in Sierra Leone. However, interviewees also reveal clear power asymmetries in this seemingly localized aid. This crucial point deserves deeper exploration in future research. Now we turn to why and how multilaterals are more likely to localize project funding.

5.3   Nation-first

I evaluate whether bilateral donors prioritize funding aid actors from their home countries at the cost of local actors. Although responses relating to motivation were somewhat amorphous, the interviews suggest that this is likely the case. As one respondent,[13] when asked about a major bilateral donor-funded project, stated: 'When we select organizations to be a part of the consortium that implements a UK project, for example, it needs to have "British flavour". Basically, bilateral money has to go back to where it came from.' This seems to suggest that there exists an implicit expectation that the aid must be 'tied' in some form to the bilateral donor's country. Some bilateral donors are, however, more explicit about recipient preferences. As one bilateral donor[14] stated:

> HQ-level funding for our own INGOs is important. We have a large program, or grant funding mechanism, which gives five-year funding to larger NGOs from our

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[7] Interview 14, national NGO representative.

[8] Interview 13, INGO representative.

[9] Interview 2, SL government representative.

[10] Advocacy and governance grants are a set of recent, small-scale grants made by the EU to exclusively and directly fund national NGOs in Sierra Leone. The NGOs are subject to the same reporting and financial requirements, however.

[11] Interviews 13 and 17, INGO representatives.

[12] Interview 10, national NGO representative.

[13] Interview 16, INGO representative.

[14] Interview 5, donor representative.

country […] [T]hey would receive a programme grant, and they can decide how to allocate that across their programmes and countries. The only thing is to ensure that the money is used along broad lines and policies.

The prioritization of funding aid actors from the donor's home country is thus seen as an expression of the bilateral donor's interests. Those interests, however, may be communicated in different forms and through different vocabularies. As one respondent[15] pointed out:

Donors usually give resources through their own INGOs, but INGOs implement through local partners. Here comes a capacity problem. When the donor signs the agreement, they consider INGOs and not local partners. So they use a sub-recipient. Almost all projects go to INGOs. Even in a consortium, donors will ensure that INGOs are head of the consortium. Donors will tell you INGOs have more credibility, so they will use them. Even if they want to implement a project in a district and know that the INGO has no presence there, they will implement through the INGO.

In this case, donor interests are disguised as concerns relating to capacity or credibility.

Irrespective of how the bilateral donor interests are presented, they influence the prioritization of own aid actors. The nation-first argument could also be analysed through a principal agent lens. If we think of a bilateral donor as a principal who must work through a series of hierarchically organized agents to reach the beneficiary (Gibson et al. 2005) and is in turn accountable to their home government and parliament, their incentives could push them towards funding their own aid actors over local actors. As noted by one interviewee:[16]

Our [bilateral donor] funding is driven by historical ties […] [S]ince we historically invested a lot, we can't afford to have a reversal of gains and lose taxpayer money […] so we need to be careful of who we fund. Also, if we don't show our home government that the allocated money was well spent or if it is underspent, the funding may reduce in the next cycle.

Arguably, these incentives could push bilateral donors to fund recipients who are considered 'less risky'—i.e. likely from their home countries.

Multilaterals do not face the same incentives. They are accountable to their headquarters and ultimately to the member states who form their membership. Hence, there is no explicit prioritization of supporting aid actors originating from one member country over another, and it may be easier to fund via local channels. As one respondent[17] from a multilateral agency remarked:

We don't like sub-contracting. We can dish out calls for local actors as lead NGOs and INGOs as co-applicants for our projects. For the last four to five years, local actors have been lead, and INGOs are co-applicants for capacity reasons. The main reason for that shift is sustainability. INGOs are not going to be here for ever […] but sometimes we face a backlash from INGOs when we ask them to let local actors take the lead.

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[15] Interview 2, SL government representative.

[16] Interview 6, donor representative.

[17] Interview 7, donor representative.

While more systematic data are required to make the assertion that bilateral donors indeed prioritize actors from their home countries, unlike multilaterals, there is suggestive evidence already emerging.

5.4 Loans vs. grants

It is well established that different types of aid can generate different incentives for donors (Gibson et al. 2005). Building on this idea, I evaluate whether there exists a significant difference between loans and grants vis-à-vis disbursement channels. This is tested using Model B (Figure 4 and Table 4), which is a simple bivariate regression between assistance type and local channel. Grants are used as the reference category. From this we see that loans have a statistically significant and high odds ratio of 7.4. This implies that if a project is in the form of loans instead of grants, the odds that it will be localized increase by 7.4. Combined projects with elements of grants and loans are also more likely to be localized than purely grants-based projects.

Figure 4: Model B—Assistance type effect plot
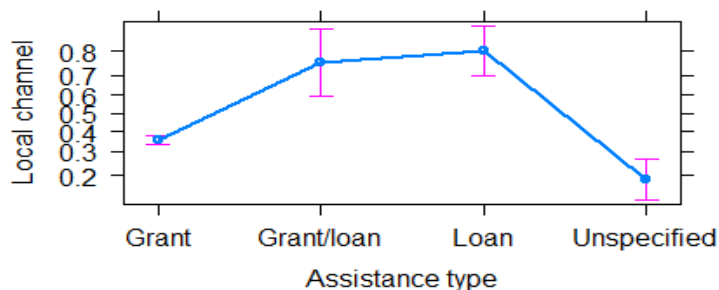
Source: author's construction.

Now, to test whether there is an interaction effect between multilaterals and loans (since multilaterals might be more likely to provide loans), I run Model C. The variables multilaterals and loans individually have strong effects, but their interaction is not significant, so the results are not shown here. The fuller Model D tests assistance type against other controls, as explained above, and loans still emerge statistically significant with an odds ratio of 3.16 (see Table 4; the rather messy results are not illustrated here). The strength of the association falls slightly when compared with the bivariate models, which is expected.

So, why are projects in the form of loans at greater odds of being localized, relative to grants? One explanation could be that when donors use loans, their assurance of repayment pushes them to fund local actors, whom they may traditionally perceive as financially risky. Grants, which lack such a repayment mechanism, instead require complex financial compliance and reporting processes to ensure accountability to the donor. Local actors may be perceived as having limited capacity to fulfil these requirements and could thus be passed over for grant funding. Donor perception of a lack of capacity among local actors to apply and sustain grant funding is also reflected in the interviews. As one interviewee[18] noted: 'National NGOs sometimes don't have capacity (financial, logistics, and developing strategic plans) that international donors want'. As another donor representative added:[19] 'Even if we wanted to do a project with the SL ministry directly, it would be hard without an intermediary. We need the intermediary for financial

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[18] Interview 9, national NGO representative.

[19] Interview 5, donor representative.

management […] [T]here is not enough local capacity to absorb funds'. However, this perceived lack of capacity by donors does not equate to actual lack of capacity. As another interviewee[20] aptly stated:

> Different forms of capacity exist. For example, national NGOs and community-based organizations are the strongest in providing front-line services. But they don't have capacity to apply for donor funding […] [D]onors will ask if you have a strong financial management system or what system you use for finances apart from Excel […and] whether you have a procurement officer, strong procurement policies, strategic plans, etc. Local actors are weak in that direction, but may be strong by other standards.

Now, how does this connect to bilateral and multilateral donors? From Figure 2, it is clear that grants are overwhelmingly used across all donor types. However, if one looks at the breakdown of loans, multilateral donors provide its biggest share. This was reinforced in the interviews, where several respondents[21] stated that only four donors (World Bank, EU, African Development Bank, and UK) have historically provided budget support in the form of loans in Sierra Leone. Three of these donors are multilaterals. Thus, I find evidence that multilateral donors provide more loans, which are relatively amenable to localization, unlike grants.

5.5 Sector and capacity

Going beyond the type of assistance, one could imagine that since bilateral and multilateral donors work in a range of sectors, the sector itself can influence the extent to which they localize funding. Perhaps some sectors offer more of the 'local capacity' that donors expect, which pushes them to localize. Or it could simply be that projects in certain sectors necessitate the involvement of local actors because those sectors are themselves controlled or managed by them. Examples might be infrastructure or other public works, which are often managed by the recipient government. Thus, it may be difficult to bypass local channels in these instances. I test for sectoral effects in Model D (see Table 4). The reference category for sector variables is 'Agri/food security', so the odds ratios are interpreted in relation to it.

I find that three statistically significant sectors (capacity building, health, and youth/women/social welfare) have odds ratios less than 1, implying that projects in these sectors have reduced odds of using local channels. Put differently, projects in these sectors are likely implemented in parallel so that they bypass SL ministries. The odds ratio for education and public financial management is slightly greater than 1, implying a weak association with use of local channels. Infrastructure emerges as statistically significant, with an odds ratio of 1.5. This aligns with the theoretical expectation that such a sector requires donors to work alongside local channels, either because local actors are the recipients of the intervention (as with building roads) or because local actors maintain significant control over the sector (such as permits for a dam construction). Extending this logic, for the sectors that are positively associated with the use of local channels, we should find more multilaterals present. Conversely, sectors with a weaker association with local channels should have more bilaterals. I visualize a sector-wise breakdown to see if this is the case (Figure 5).

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[20] Interview 11, national NGO representative.

[21] Interviews 1 and 4, SL government representatives.

Figure 5: Sector-split of the top two bilateral and multilateral donors
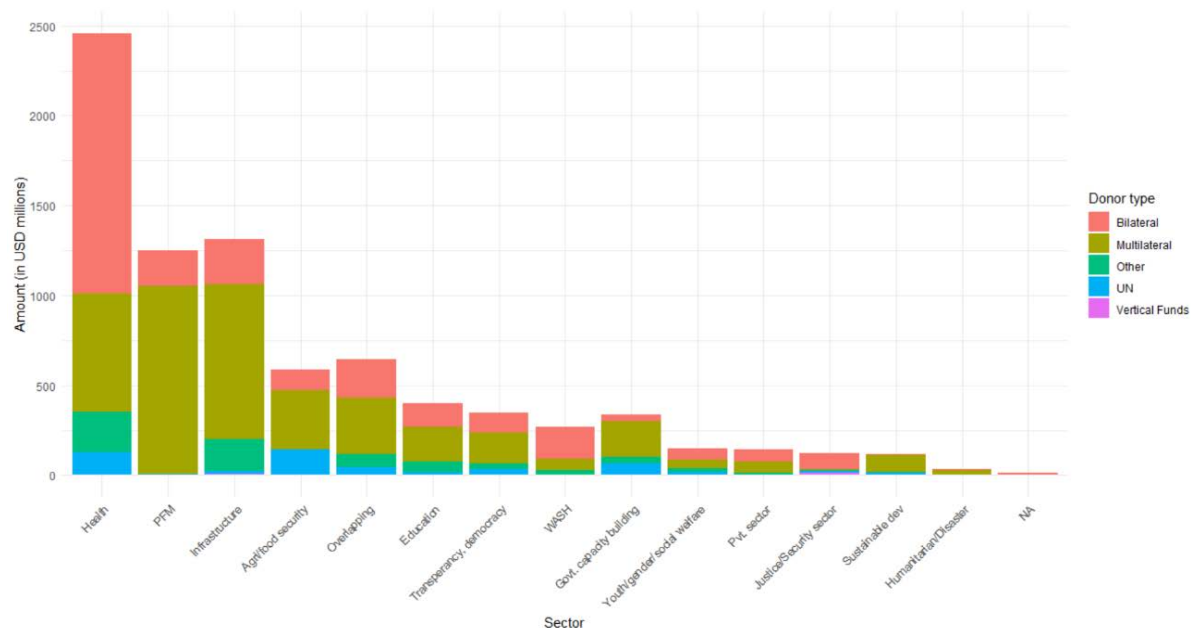
Source: author's construction.

As the figure shows, this is indeed the case. Infrastructure is dominated by multilaterals, specifically the EU and World Bank in the case of Sierra Leone. Meanwhile, the health sector is dominated by bilaterals (mainly FCDO; and supported by USAID). The public financial management sector, which is heavily controlled by local actors, is dominated by multilateral donors, as expected. While the sector does not emerge as statistically significant, the rationale still holds. Interviews also demonstrate that sectors dominated by bilateral donors engage in parallel implementation, which bypasses local actors. As one respondent[22] noted:

> One of the largest health projects in this country was implemented largely outside of the government because the bilateral donor did not trust the government systems and capacity at that time. While the Ministry increasingly has capacity to manage the drug supply chain now, it's too late, as a UN agency is already contracted to manage it.

Thus, lack of capacity and sectoral specificities intersect to influence the extent of localization.

These sectoral trends also raise an important question: Do donors self-select themselves into sectors that will entail working more or less alongside local channels, or do some sectors use local channels more than others because of the donors involved? While the data sources cannot conclusively answer this question, it is clear that donors have their own calculus for which sectors they choose to invest in. As one interviewee[23] noted: 'We are not in health, because FCDO, UNICEF are all there. So we pulled out, knowing there is enough money in that sector. For us, that's how education came about […] we noticed there was a big gap'. Thus, the number of existing players/donors in a given sector emerges as important.

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[22] Interview 6, donor agency representative.

[23] Interview 7, donor agency representative.

Another factor that emerges from the interviews is the uncoordinated project cycles of donors. Since donors have varying cycles, it becomes impossible to coordinate sectoral priorities in an orderly fashion. As one interviewee[24] stated:

> It does not matter if the Ministry in a specific sector asks us for funding or we offer first. In a country like this, every sector is important. Most of the time, we don't get rejected if we want to put money in. Sometimes, sectoral priorities change rapidly too because of programme cycles. Our programme cycle is five to seven years. Other donors have shorter life cycles; some have two to three years, like the Brits and Irish. Americans have longer cycles, like us. This makes it hard to coordinate priorities.

Hence, to understand nuances such as the directionality of donor self-selection into sectors, additional data and research are required. However, the evidence strongly suggests that sector and capacity perceptions directly influence the extent of localization.

In summary, the quantitative and qualitative data demonstrate that projects funded by multilaterals are better localized than projects funded by bilateral donors in Sierra Leone. Three related findings emerge: first, bilateral donors prioritize funding their own aid actors over local actors owing to 'nation-first' considerations. Multilateral donors do not face similar constraints. Second, multilaterals provide assistance in the form of loans, which are more amenable to localization than grants. Third, the sector within which a donor operates influences the extent of localization.

5.6 Caveats

While it may be tempting to conclude from the findings that, since multilaterals use local channels more, their projects must be more impactful or participatory than projects funded by other types of donor, this could not be further from the truth, at least in the SL context. As one interviewee[25] noted when speaking of a project funded by a major multilateral:

> They recently paid for a data platform which would have easily cost a couple of hundred thousand dollars. They did no active consultations with the government. After they'd paid for it, the government said they didn't need it, as it replicated what they already had. They built it anyway and said, 'Hey, government, can you use it? Otherwise it doesn't tick our boxes.' It was a useless tool.

Referring to another project, an interviewee[26] stated: 'We had a programme about parliamentary reform funded by a donor, and the aid recipient (a prominent international aid actor) implemented it on their own without even informing the Ministry. They would only report to the funder and not to us.' Thus, the use of local channels does not automatically make a project more effective or participatory in any way. While there is a theoretical expectation that using local channels will lead to more equitable relationships between local and international aid actors, the reality is far messier. Donors could fund local channels simply as a box-checking exercise to publicly demonstrate their progress towards localization, while the fundamental power asymmetries could go completely

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[24] Interview 7, donor agency representative.

[25] Interview 17, INGO representative.

[26] Interview 4, SL government representative.

unchecked. That said, it is still worthwhile investigating the patterns of aid allocation with respect to local channels, as it provides a starting point for evaluating the localization of funding.

Another obvious, yet important, caveat is that this paper is restricted to the case of Sierra Leone. While it is theoretically possible that other aid-recipient countries experience the same dynamics, one may find that contexts and the donor landscape in other recipient countries are vastly different, leading to other findings. Even within the case of Sierra Leone, there is a distinct possibility that some donors are skewing the results. For instance, the database is reliant on self-reporting by donors of project information; yet, the Ministry[27] in charge of maintaining the database commented that 'uneven project reporting by donors is a common challenge'. So, observations from donors who report a greater number of projects may bias the findings.

6   Conclusion

This paper began with the premise that localization of funding has been a slow, patchy, and uncoordinated process, which requires a deeper understanding of donors' aid allocation practices. In posing the question why and how donors vary in their extent of localizing funding, I find that multilaterals donors are more likely to localize funding than their bilateral counterparts. This is partly explained by the nation-first argument, where bilateral donors prioritize funding actors from their home countries over local actors. This pattern is also manifested in how donors fund across sectors. Multilaterals are more actively involved in sectors that require direct utilization of local channels and capacity, while bilaterals are more prominent in sectors where parallel implementation systems bypass local channels. I also find evidence that loans, as opposed to grants, are more likely to be localized owing to a lesser risk for the donor.

However, these findings do not imply that multilaterals, owing to their use of local channels, are somehow more participatory or effective than other donors. Whether or not increased use of local channels is also associated with greater effectiveness at the project level is an empirical question that needs further research. This paper is also restricted to the case of Sierra Leone for the period 1992–2022. Future research could look at whether these patterns hold true across other aid-recipient countries and other periods. Also, this paper does not pay much attention to the temporal angle of aid allocation, which a follow-up study could look at. Lastly, owing to sample size considerations, this paper could not disaggregate the 'local' and make a distinction between 'local government' and 'local NGO' channels. Making this distinction could help uncover other complex patterns and mechanisms.

I have been very careful to avoid making any value judgments through this paper. Multilaterals face crucial effectiveness challenges of their own. Funding local channels at the first level need not imply an actual shift in power, which is what localization ultimately attempts to achieve. How donors work alongside local actors and who maintains control over the project resources and decisions remains crucial. This paper should been seen as a starting point for a more nuanced and critical inquiry into aid allocation practices.

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[27] Interview 1, SL government representative.

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Appendix

Likelihood ratio test

Model 1: channel_local ~ donor_type_modified Model 2: channel_local ~ donor_type_modified + assistance_type + amount_disbursed_log + modality + months + sector_modified #Df LogLik Df Chisq Pr(>Chisq)1 5 -986.092 26 -938.84 21 94.484 0.00000000002689 *** — Signif. codes: 0 '*' *0.001* '**' *0.01* '*' 0.05 '.' 0.1 ' ' 1 Likelihood ratio test

Model 1: channel_local ~ assistance_type Model 2: channel_local ~ donor_type_modified + assistance_type + amount_disbursed_log + modality + months + sector_modified #Df LogLik Df Chisq Pr(>Chisq)1 3 -1190.942 26 -938.84 23 504.19 < 0.0000000000000022 *** — Signif. codes: 0 '*' *0.001* '**' *0.01* '*' 0.05 '.' 0.1 ' ' 1
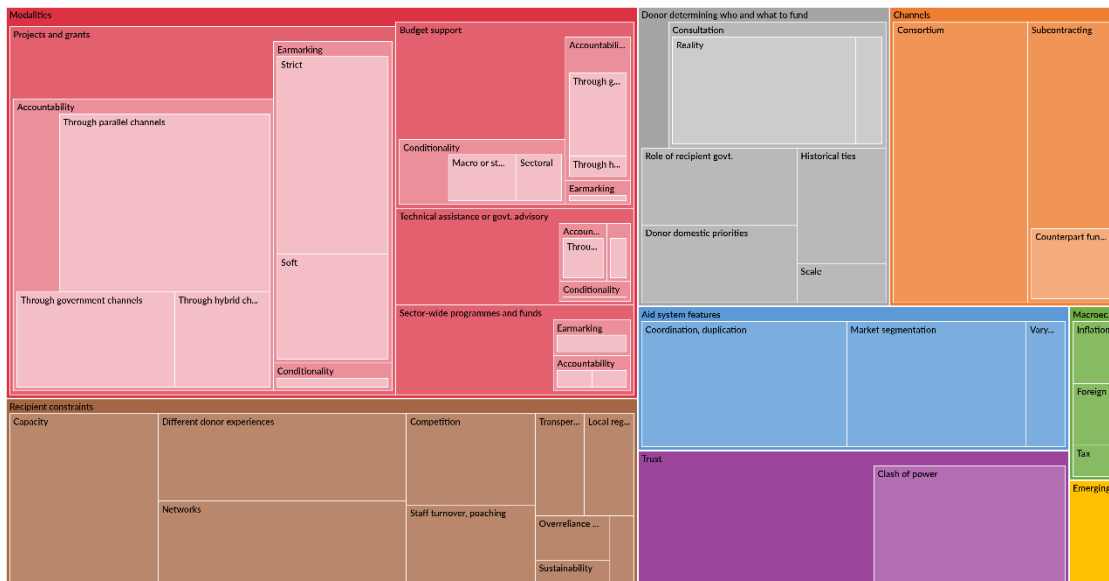
Qualitative coding descriptives

Figure A1: Word cloud—most frequent words in interviews

Source: author's construction.

Figure A2: Finalized nodes

Source: author's construction.