

*The Increasing Selectivity of Foreign Aid, 1984-2002**By David Dollar and Victoria Levin<sup>1</sup>**Abstract*

We examine the allocation of foreign aid by 41 donor agencies, bilateral and multilateral. Our policy selectivity index measures the extent to which a donor's assistance is targeted to countries with sound institutions and policies, controlling for per capita income and population. The poverty selectivity index analogously looks at how well a donor's assistance is targeted to poor countries, controlling for institutional and policy environment as measured by a World Bank index. Our main finding is that the same group of multilateral and bilateral aid agencies that are very policy focused are also very poverty focused. The donors that appear high up in both rankings are the World Bank's International Development Association (IDA) facility, the International Monetary Fund's Enhanced Structural Adjustment Facility (ESAF), Denmark, the United Kingdom, Norway, Ireland, and the Netherlands. As a robustness check we alternatively use institutional quality measures independent of the World Bank and find the same pattern of selectivity. We also find that policy selectivity is a new phenomenon: in the 1984-89 period, aid overall was allocated indiscriminately without any consideration to the quality of governance, whereas 10 years later there was a clear relationship between aid disbursements and institutions. This increasing selectivity of aid is good news for aid effectiveness. The bad news is that the aid agencies that we survey vary greatly in size. Some donors that are largest in absolute size, such as France and the United States, are not particularly selective. Japan comes in high on the policy selectivity index but far down on the poverty selectivity index, reflecting its pattern of giving large amounts of aid in Asia to countries that are well governed but in many cases not poor.

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The World Bank study *Assessing Aid* (1998) argues that the allocation of foreign aid would have greater impact on poverty reduction if it were targeted to the poorest countries and among them favored the ones with stronger economic institutions and policies. This argument was based on several types of evidence. First, there are specific country cases in which foreign assistance combined with sound institutions and policies to produce good results. The Marshall Plan is the most famous example. More recently, South Korea in the 1960s and 1970s, China in the 1980s, and Uganda and Vietnam in the 1990s are good examples. A second type of evidence comes from project-level studies. All kinds of development projects tend to succeed in sound institutional/policy environments, whereas projects in all sectors tend to fail in countries with weak institutions and policies [Isham and Kaufmann (1999)]. If money were not fungible, this project-level evidence would settle the debate. However, money often is fungible; it is possible that all of the successful donor-financed projects in Uganda would have been undertaken by the private sector or by the government itself if aid resources had not been available. Hence, it is useful to look for a third type of evidence at the macroeconomic level, examining whether there is a relationship between the overall volume of aid that a country receives and its achievements in terms of growth and social development.

Burnside and Dollar (2000) find that there is no direct relationship between aid volumes and growth; that is, it is difficult to argue that aid works the same in all institutional/policy environments. However, they also find that growth is correlated with the interaction of aid and an index of institutions and policies. That correlation is consistent with the argument that the effectiveness of aid resources depends critically on the recipient country's own institutions and policies. This result makes a lot of sense provided that donors cannot easily manipulate the institutions and policies of developing countries.

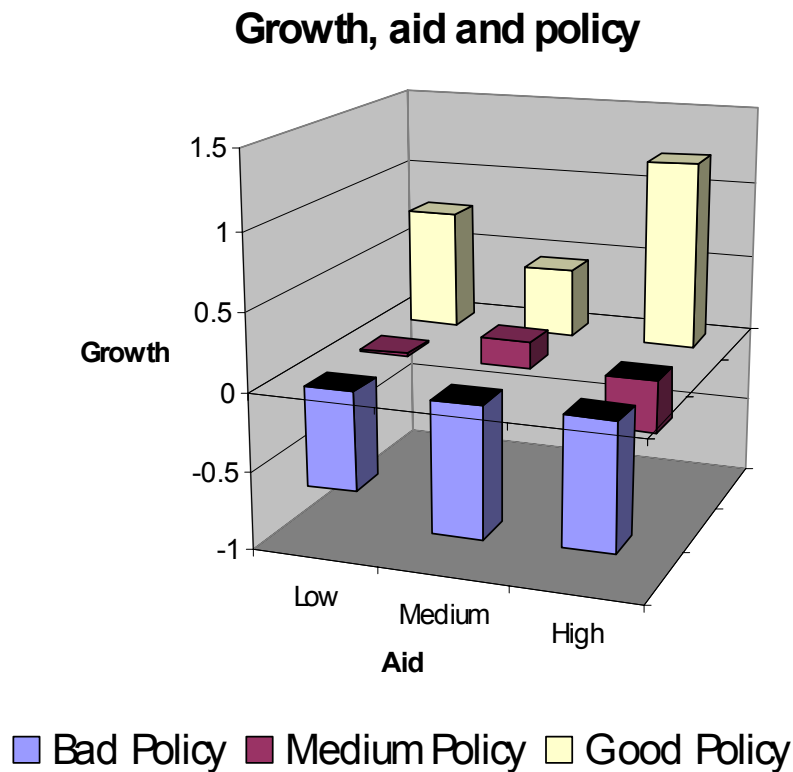
Subsequently, a number of papers have criticized this work.<sup>2</sup> Common to many of these criticisms is a change in specification, either in terms of estimation technique, or in terms of which variables are included in the regression that explains growth. Subject to these changes, the interaction term between aid and a measure of institutions and policies sometimes loses significance. In one case, Easterly, Levine and Roodman (ELR, 2003) expand the original data set and change the specification. However, simply expanding the data set in terms of the number of countries and the time periods covered does not alter the relationship that Burnside and Dollar found. To show this, we take the extended ELR data set and regress growth, policy, and aid on the other variables (reflecting initial conditions) on the right-hand side of the growth regression, and extract the unexplained (residual) component of each variable. We then sort the data into 9 groups using the 33.3 and 66.7 percentiles of aid and policy. The average growth rate for each group appears to depend on the interaction between aid and policy (Figure 1). For

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<sup>2</sup> Among the critics are Hansen and Tarp (2000, 2001), McPherson (2000), Dalgaard and Hansen (2001), Dayton-Johnson and Hoddinott (2001, 2003), Guillaumont and Chauvet (2001), Lensink and White (2001), Lu and Ram (2001), Akhand and Gupta (2002), Hudson and Mosley (2001), Roodman (2003b), and Easterly, Levine and Roodman (2003). Collier and Dollar (2002), on the other hand, find a similar result working with a different measure of institutions and policies.

us, this figure shows that institutions/policies matter (something that is not in dispute). But the figure also shows that the effect of aid on growth also appears to depend on the level of policy. When policy is bad, the level of aid seems to have little impact on growth; if anything, it has a slightly negative relationship. But for countries with good policies, giving sufficiently more aid seems to have a very positive impact on growth. The key statistical question is whether the impact of aid on growth is different for the poor-policy observations than for the good-policy observations.

Figure 1. Growth, Aid, and Policy



To shed additional light on this question, Burnside and Dollar (2004) build a new data set focusing only on the 1990s, covering more than 100 countries, and using an overall measure of institutions/policies that is popular in the empirical growth literature. They show that in the 1990s there is simply no evidence that aid promotes growth in all institutional environments. On the other hand, they again find this correlation between growth and the interaction of aid and institutions. In fact, the interaction is more robust than institutions by themselves. If one is choosing between the hypotheses that aid works the same in all institutional environments or that the effect of aid is conditional on the institutions that directly affect growth, the evidence clearly favors the latter.

These various types of evidence provide the background for our analysis of the changing selectivity of aid. We develop two very intuitive selectivity indexes. The policy selectivity index measures the extent to which a donor's assistance is targeted to countries with sound institutions and policies, controlling for per capita income and population. The poverty selectivity index analogously looks at how well a donor's assistance is targeted to poor countries, controlling for institutional and policy environment as well as population. There is some similarity between our approach and the aid selectivity index developed by the Center for Global Development (CGD) [Roodman (2003a)]. However, the CGD index combines the issues of poverty and policy selectivity into a single index. Donors may legitimately have different preferences about the extent to which they want to target policy versus poverty. So we prefer to compile separate indexes of policy and poverty selectivity, each of which has a very transparent interpretation. The policy selectivity index indicates the extent to which each donor prefers better governed countries among those at a given level of per capita income. The poverty index indicates the extent to which each donor favors poorer countries among those at the same quality of governance. If one wants an overall index, we would recommend simply averaging the two, as there is no compelling evidence to suggest that one should be weighted any more than the other.

In the next section we present our indexes for the past few years. The measure of institutions and policies that we use is the World Bank's Country Policy and Institutional Assessment (CPIA). As noted, in principle one might find donors with different tastes, some more policy focused and some more poverty focused. There are a couple of examples of this, notably Japan, which is fairly high up in the policy selectivity ranking but near the bottom of the poverty selectivity ranking. However, one of the interesting results that we obtain is that in general the same group of multilateral and bilateral aid agencies that are very policy focused are also very poverty focused. The donors that appear high up in both rankings are the World Bank's International Development Assistance (IDA) facility, the International Monetary Fund's Enhanced Structural Adjustment Facility (ESAF), Denmark, the United Kingdom, Norway, Ireland, and the Netherlands. In section 2 we repeat the analysis but focus only on IDA-eligible countries. We get very similar rankings when the analysis is constrained to low-income countries.

In the years we consider, IDA always comes out near the very top of the policy selectivity ranking. Since the measure of institutions/policies that we use is a subjective one that comes from the World Bank, a natural question to ask in Section 3 is how robust this result is to the use of alternative indicators. There has recently been a proliferation of measures of institutions and policies, but because in Section 4 we want to look at the changing selectivity of aid in the past two decades, we choose for the sensitivity analysis two institutional measures that are available over time, independent of the World Bank, and widely used in empirical studies: the International Country Risk Guide (ICRG) rule of law index and the Freedom House democracy index. We argue that the two together are a good proxy for the institutions/policies that lead to growth and poverty reduction. We redo the analysis with these independent institutional measures, and obtain a ranking

of donor selectivity that is highly correlated with what we got with the CPIA. Using any of these measures, it is fair to say that the World Bank's IDA and the bilateral donors noted above are selective both in the sense of targeting assistance to the poorest countries, and in the sense of favoring the better governed ones among the poor countries.

In Section 4 we use the ICRG and Freedom House measures to look back in time. It is possible that selectivity is a natural and obvious approach to aid allocation that has always been followed. But in fact we do not find this to be the case. In the 1984-89 period there was virtually no policy selectivity. Aid overall was allocated indiscriminately with regard to the institutional measures; the World Bank's IDA facility had virtually no relationship with the measures. Ten years later the situation had changed dramatically; IDA disbursements had a sharp positive relationship with sound institutions. Bilateral donors such as Denmark and the United Kingdom strengthened their link to sound institutions as well.

We conclude from this work that a simple intuitive approach to measuring aid selectivity provides a robust methodology for making comparisons of aid allocations across donors and over time. Revealed preference suggests that most donors have bought into the aid selectivity model: today about three-fourths of the 40 or so aid agencies that we survey have a positive relationship between their allocations and a measure of sound institutions and policies, after controlling for per capita GDP and population. In general, the most policy focused agencies are also the most poverty focused ones, indicating that it is possible to target aid both to the countries where poverty is great and at the same time to countries with reasonably good governance. The historical analysis reveals that in the 1984-89 period aid in general was not allocated in favor of good governance, so that we can have some confidence that the allocation of aid has improved over time.

That is the good news. The bad news is that the different aid agencies that we survey vary greatly in size. A number of the donors that are largest in absolute size are not particularly selective. Both France and the United States show up far down in both the policy and poverty selectivity indexes, indicating that much of the assistance of these big countries goes to recipients that are not particularly poor and not particularly well governed. Japan comes in high on the policy selectivity index but far down on the poverty selectivity index, reflecting its pattern of giving large amounts of aid in Asia to countries that are well governed but in many cases not poor. The European Commission was far down in the policy selectivity index in 2000 and 2001, but then made a big jump to 12<sup>th</sup> place in 2002. On poverty selectivity, the European Commission is in the bottom half of donors. Since France, the European Commission, the United States, and Japan account for the majority of foreign aid, how these large donors manage their funds has a large impact on the overall efficacy of aid.

In summary, the typical aid agency has improved its aid quality in the sense of targeting more funds to poor countries with sound governance. However, there is still room for further improvement because most aid money comes from four large donors that are not particularly selective in either the policy or poverty dimension.

## 1. *Overall Selectivity of Aid*

There is broad agreement among economists and development specialists that countries' institutions and policies are important determinants of long-term growth and poverty reduction.<sup>3</sup> By institutions, we mean rules, norms, and behaviors, or what Hall and Jones (1999) identify as "social infrastructure." Property rights and the legal rules and behaviors that enforce them are examples of growth-enhancing institutions. A well-functioning civil service based on merit and transparency is another example. On the policy side, policies such as macroeconomic stability and a relatively open trade regime help create an environment conducive to investment and growth. At the same time there is also considerable evidence, discussed in the introduction, that these same institutions and policies are key determinants of the effectiveness of financial assistance. A government that provides a sound framework for growth and poverty reduction is also one that is more likely to use financial resources well to complement policies with necessary public investments in roads, schools, and the like. These ideas have given rise to the approach of policy selectivity, that is, channeling more aid resources to countries that have the institutional and policy framework to use the resources effectively.

At the same time there is also broad agreement that concessional assistance should be targeted to the poorest countries [Russett (1978), Roodman (2003a)]. Middle-income countries with sound institutions and policies generally have good access to international capital markets. There is also less concentration of poverty in these countries. In practice quite a bit of aid is allocated to middle-income countries, so in addition to looking at policy selectivity, we think that it is also useful to look at poverty selectivity.

We propose to measure the policy and poverty selectivity of donor allocations in a simple and transparent way. The Development Cooperation Directorate (DAC) of the Organization for Economic Cooperation and Development (OECD) compiles data on the allocation across developing countries of aid from more than 40 sources, bilateral and multilateral. For the purpose of our paper, we use gross ODA disbursements net of emergency aid, since this latter type of aid should not necessarily adhere to selectivity concerns of donors (Roodman [2003a]). For each source we estimate an equation across developing country recipients of the form:

$$\text{Log (aid}_{ij}) = b_0 + b_1 \text{Log (population}_j) + b_2 \text{Log (per capita GDP}_j) + b_3 \text{Log (index of institutions/policies}_j)$$

where  $i$  indexes donors and  $j$  indexes developing country aid recipients. The data on population and per capita GDP at PPP are taken from the Penn World Tables. To observe the extent of donor selectivity, we substitute very small values (.01 million or \$10,000) for recipients not receiving any aid from a donor, so that these recipients do not drop out of our regressions.

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<sup>3</sup> Some of the influential recent papers on this topic are Dollar and Kraay (2002), Rodrik, Subramanian, and Trebbi (2002), Acemoglu, Johnson, and Robinson (2001), Engerman, and Sokoloff (1997), Hall and Jones (1999), and Knack and Keefer (1995).

Some donor agencies explicitly follow allocation rules along the lines of our estimated specification; in other cases there are complex factors behind aid allocation. We do not intend this equation as a complete model of donor behavior; we realize that political and strategic considerations do play a role in aid allocation [Alesina and Dollar (2000), Boschini and Olofsgård (2002)]. But in practice almost all aid agencies' allocations fit this kind of equation rather nicely with the following common characteristics:  $b_1$  is usually positive but less than 1 (that is, more populous countries get more aid, but less than proportionally to their population);  $b_2$  is negative (poor countries get more aid); and  $b_3$  is positive (holding constant population and per capita income, donors generally give more aid to countries with better institutions/policies).

We argue that looking at the  $b_2$ 's across donors tells us about the degree of poverty selectivity, whereas looking at the  $b_3$ 's across donors tells us about their policy selectivity. We initially implement this approach by looking across all developing countries for each of the four years 1999, 2000, 2001, and 2002<sup>4</sup>, using as the measure of institutions and policies the World Bank's CPIA. This measure has the advantage that it is a comprehensive assessment of institutions and policies available for all countries on a timely basis. It has the disadvantage that it is to some extent a subjective World Bank rating and that it is not as yet publicly available to other researchers. In section 3 below we check for the robustness of our rankings by repeating this approach with different institutional measures independent of the World Bank.

Table 1 presents the indexes of policy selectivity for the four years. It starts with an estimation for total aid. In 2002, after controlling for population and per capita GDP, total aid has a strong positive relationship to the CPIA: a 100% increase in CPIA corresponds to 176% more aid. The relationship is much stronger for multilateral assistance (elasticity of 2.57) than for bilateral assistance (0.63). Bilateral assistance represents about two-thirds of all foreign aid. In 2002, Denmark was the most selective donor, followed closely by the World Bank's IDA facility and the United Kingdom. For these donors the index number is around 4, indicating that there is sharp differentiation among recipients based on the CPIA, after holding constant population and per capita GDP. In other words, for countries with the same population and per capita GDP, but differing in CPIA, these agencies provide about 400% more financing to countries with 100% better CPIA. The reader should recognize that this is a very large difference in policy; many of the poor-performing developing countries have CPIAs around 2.5, and medium ones around 3.0. That difference is about 20% and would correspond to about 80% more financial assistance from the highly selective donors. (Twenty percent difference is about the standard deviation of the CPIA across developing countries.)

Note that 29 out of 42 donor agencies have a positive coefficient on CPIA; whatever basis they have for making allocations, in practice they give more money to countries with better institutions/policies. The coefficients that are significantly different from zero at least at the 10% level are highlighted in bold. Keep in mind that small

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<sup>4</sup> Since PWT data is only available up to 2000, we proxy for the 2001 and 2002 population and per capita GDP with 2000 data.

differences in the rankings are usually not statistically significant. What is robust, however, is that there is a group of donors that are at the top of this ranking, and the relationship of their assistance to good institutions/policies is significantly different from that of donors in the middle or at the bottom. The more selective bilateral donors include the Nordic countries, the Netherlands, the United Kingdom, and Austria. The European Commission is at #12. Some of the largest donors in absolute terms appear quite low on this scale, such as the United States (#27) and France (#30). Note also that the year-to-year change tends to be small. In ranking terms, over the four years IDA is #1, #3, #2, #2. Denmark, #4, #4, #1, #1; ESAF, #5, #1, #3, #10; France, #31, #29, #34, #30; the United States, #28, #28, #32, #27. In practice, donor allocations do not change much from year to year and recipient countries' institutions and policies do not change radically from year to year, so that the indexes are moderately stable over time.

Table 2 presents the indexes of poverty elasticity. A donor could do well on the policy selectivity index simply by giving most of its assistance to the best-managed among the middle-income countries. Hence the poverty selectivity index brings in another important element of aid quality: the extent to which assistance is targeted to the poor countries. As with policy, multilateral assistance is more poverty selective than bilateral assistance. The highest rated agencies here are all multilateral ones: in 2002 IDA was most poverty focused, followed by the African Development Fund and the IMF's ESAF. The top eight in terms of poverty selectivity are all multilateral agencies. By construction, these multilateral funds are channeled to the poorest countries, so it should not really be a surprise to see them appear at the top of the ranking. Some of the bilateral donors that appeared high up in the index of policy selectivity also appear high up in the ranking based on poverty selectivity: the Netherlands (#10), Denmark (#12), Norway (#13), the United Kingdom (#16), and Sweden (#18). The large volume donors are all low down on this poverty selectivity ranking: the United States at #20, European Commission at #25, France at #29, and Japan at #35.

It is important to emphasize in this work is that it is possible to do well in both poverty and policy selectivity by focusing assistance on low-income countries with relatively good institutions and policies. This appears to be the allocation strategy of the Nordic countries, the Netherlands, the United Kingdom, IDA, and ESAF. We think that the separate indexes of policy and poverty selectivity are useful, highlighting the different dimensions of aid selectivity. Nevertheless, there is always demand for a single index of aid quality. In principle there are ideal weights for poverty and policy elasticities that would lead aid to be allocated so as to have the maximum effect on poverty reduction. However, in practice we doubt that they can be estimated with great precision, and therefore we opt for the transparent approach of weighting poverty and policy equally in creating an overall index. Table 3 simply averages the policy elasticity and the (negative of) the poverty elasticity to create an overall aid selectivity index and ranking. In 2002 IDA is at the top of this ranking, followed by Denmark, ESAF, the United Kingdom, Sweden, Nordic Development Fund, the Netherlands, Norway, and the African Development Fund. At the bottom of the list one finds Portugal, France, Greece, and Spain, as well as a number of United Nations agencies and regional banks. A number of



the large volume donors appear in the middle to bottom of the ranking: European Commission (#16), Japan (#22), and the United States (#24).

## **2. *Selectivity among IDA-Eligible Recipients***

The next step in our study is to subject these findings to different types of sensitivity analysis. Do the results depend on using the World Bank's CPIA rating rather than some other assessment of institutions and policies? This is a natural question, and in the next section we repeat this analysis using different measures of institutions and policies. Another issue is the simple linear form of the regression equation. The linear form is easy to interpret, but in practice the relationship between aid and per capita GDP is highly nonlinear, and one naturally wonders if adjusting for that nonlinearity substantially changes the assessment of aid quality.

The nonlinearity, which exists for many individual donors, can be easily seen in Figure 2. This is the partial scatter of log IDA disbursements plotted against log per capita GDP (measured at PPP). The "partial" scatter means that both log IDA and log per capita GDP have been adjusted for population and CPIA. IDA disbursements basically follow a step function. Countries above a certain per capita GDP are not eligible at all (get zero), whereas for countries that are eligible there is a modest negative relationship between disbursements and per capita GDP. The linear elasticity accurately captures the fact that IDA is targeted to the poorest developing countries, but clearly one would get a better fit by recognizing that the relationship is nonlinear. Adjusting for this may or may not affect the analysis of policy selectivity.

So we repeat the analysis above, but now limit the coverage to IDA-eligible countries, thereby capturing virtually all low-income countries and a number of lower middle-income recipients that still qualify for IDA. Table 4 presents the policy elasticities estimated only across this IDA-eligible world. The rankings turn out to be broadly similar to those in Table 1, estimated across all developing countries.<sup>5</sup> In 2002, IDA was the most policy selective donor, followed by Nordic Development Fund, Global Environment Facility (GEF), and Denmark. While the rankings are broadly similar, there are a number of interesting differences.

Table 5 shows the poverty elasticities estimated across the IDA-eligible aid recipients. Again, the ranking is not that different from what we found across all

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<sup>5</sup> We also considered the possibility that there were differences in the allocation of grants versus concessional loans or that the results may be influenced in any one year by debt relief, which is counted as part of aid but would follow different allocation rules. In appendix table 1 we show policy selectivity indexes calculated from grants only and from aid minus debt relief, and it can be seen that these alternative approaches make almost no difference in the estimated elasticities for different donors. In appendix table 2 we calculate policy elasticities with two additional control variables: a dummy for post-conflict situation and a measure of susceptibility to economic shocks (the residual from a growth regression for the 1990s). Adding these variables addresses the issue of whether or not estimated donor policy selectivity is influenced by donor pursuit of other objectives, such as supporting post-conflict countries or targeting shock-prone environments. It can be seen in appendix table 2 that the estimated policy elasticities are unaffected by including these other considerations.

developing countries. The most poverty focused agencies in this ranking are the African Development Fund, Belgium, Ireland, World Food Programme, Nordic Development Fund, ESAF, and Sweden; IDA is at #12. The least poverty focused are Asian Development Bank's special funds, Japan, and the European Bank for Reconstruction and Development (EBRD). Note also that the absolute values of the elasticities are generally much lower than in table 2. Much of the poverty focus of aid overall comes from its targeting to low-income countries. Among low-income countries, all donors display much less differentiation based on per capita income. In fact, 13 of the agencies have a positive relationship between their disbursements and per capita GDP, among this IDA-eligible group. And the relationship is just about zero for aid overall and is positive for aggregate bilateral aid. This may seem odd at first glance, but keep several things in mind. Imagine two countries with the same population and per capita GDPs of \$300 and \$600, respectively. If a donor gives the poorer country a volume of aid that amounts to 2 percent of the recipient's GDP, the same absolute volume of aid will be 1 percent of GDP for the richer country. It is difficult for even very poverty-focused donors to channel too much of their assistance to the poorest countries because the aid relative to GDP then becomes very large and creates problems of absorptive capacity, aid dominance of the economy, and aid dependency of the government [Clemens and Radelet (2003)]. As these low-income countries develop, in general their needs for infrastructure and other public investment tend to increase, so that there is often a greater role for aid.

As before, we can combine the ranking of policy selectivity and the ranking of poverty selectivity to derive an overall index of aid selectivity for IDA-eligible recipients (Table 6). The African Development Fund is at the top of this ranking in 2002 with an average elasticity of 5.39, followed by IDA at 5.32, and the Nordic Development Fund at 5.27.

Up until now we have not said anything about aid quantity, but this can be introduced into the analysis as well. It is possible for a donor to be quite selective, but with a modest amount of assistance. In table 7 we adjust for that by calculating how much each donor country citizen is providing in official assistance to the IDA-eligible countries. We then divide these countries into a "strong institutions" group and a "weak institutions" group (where the latter is the bottom half of IDA-eligible countries on the CPIA ranking), and calculate how much aid each donor country citizen provided to either group. In 2002 Denmark proved the most generous to IDA-eligible countries with sound institutions, providing \$79.42 per Danish citizen. Denmark is followed in the ranking by Luxembourg (\$77.68), Netherlands (\$53.48), Norway (45.65), Sweden (\$25.92), and Ireland (\$24.44). At the low end of the ranking is Portugal (\$1.16 per citizen), Greece (\$1.64), New Zealand (\$2.08), Spain (\$3.57), Italy (\$3.84), Australia (\$5.26), and the United States (\$5.66). Among the large G-7 countries there is significant variation from Japan's \$22.54 and the United Kingdom's \$17.52 per citizen to the United States' \$5.66 and Canada's \$6.34.

Aid quantities are also often measured relative to the donor country's gross national income (GNI), and these figures are shown in Table 8, again focusing on aid to IDA-eligible countries and distinguishing between the strong institutions group and the

weak institutions group. The rankings are similar to those based on per capita aid giving: the top providers of assistance to IDA-eligible countries with sound institutions are Denmark, Netherlands, Luxembourg, Norway, Sweden, and Ireland.

### **3. *Selectivity Measured with Independent Indicators***

It should not be surprising that the World Bank allocates a lot of assistance to the countries that it ranks highly in its annual CPIA rating exercise. A natural question to turn to next is how robust this analysis is to the choice of institutional/policy measure. Recently there has been a proliferation of indexes that attempt to measure the quality of state institutions and policies. However, most of these are not available in a comparable format back in time. So, for our sensitivity analysis here we want to choose indicators that we can also use in the next section, where we turn to the issue of the changing selectivity of aid over the past two decades. For this purpose we are going to use two measures of institutional quality that are available for a large number of countries since the early 1980s: the ICRG rule of law index and the Freedom House democracy index. The rule of law index is close to the economic institutions captured in the CPIA, but narrower. The democracy measure, on the other hand, captures the extent of political rights and civil liberties, but in practice the two institutional measures together are good predictors of certain economic policies, such as macroeconomic stability and trade openness. We calculate policy elasticity indexes using first rule of law, then democracy, and finally a combination of the two. Together with the CPIA-based measure, this gives four alternatives to compare.

Table 9 presents the four alternative policy selectivity indexes for the period 1995-99, during which we have both CPIA and the independent measures for large numbers of countries. If the ICRG rule of law measure is used as the indicator of institutions/policies, the four most selective donors are Denmark, Finland, International Fund for Agricultural Development (IFAD), and IDA. At the bottom of the ranking are many of the same agencies at the bottom of the ranking based on CPIA (e.g., France at #38, Spain at #40, and Portugal at #41). The correlation between the CPIA ranking and the rule of law ranking is quite high at .57. However, the magnitudes of the elasticities are not directly comparable. Log rule of law has a standard deviation of 0.34, whereas log CPIA has a standard deviation of 0.23. So, in the case of Denmark, for example, a standard deviation better on the CPIA corresponds to 112% more aid and a standard deviation better on rule of law also corresponds to 76% more aid, estimates that are not too far apart. Thus, using the independent rule of law measure yields results quite similar to using the World Bank's CPIA.

Using democracy as the institutional measure produces a very similar correlation (.58). One interesting feature of this ranking is that the multilateral institutions generally drop down (IDA to #31, ESAF to #21, UNDP to #34, etc.). In general, the multilateral agencies are not supposed to take political institutions or political factors into account in allocating resources, so it turns out that the Freedom House democracy measure by itself is a poor proxy for what they are targeting. On the other hand, many of the bilateral

agencies have strong democracy selectivity: the Nordic countries, Netherlands, United Kingdom, Japan, Canada, are high up on the index based on the democracy measure.

Finally, we create a selectivity index based on both rule of law and democracy. If we want to use both of these institutional measures in the analysis of selectivity, we have to decide how to aggregate them into a single index – that is, what weights to use for each measure. We use the following approach. For the period of 1995-1999, regress log CPIA on log of democracy, log of rule of law and four year dummies to get the following relationship:

$$\begin{aligned} \text{Log CPIA} &= \text{constant} - .165 \log (\text{Freedom House}) + .364 \log (\text{ICRG rule of law}) + \text{year dummies} \\ \text{Adj. } R^2 &= .36 && (5.62) && (10.64) \\ \text{F-test} &= 37.05 \end{aligned}$$

Keep in mind that on the Freedom House index a higher number is more authoritarian. The CPIA is significantly correlated with both institutional measures (t-statistics in parentheses). If one thinks that the CPIA is the right concept (the institutional and policy package that leads to growth and poverty reduction) but that in practice it may be measured with error or politically influenced, then this equation provides a predicted CPIA that is free from such problems. We then use this predicted value to calculate a policy sensitivity index, in essence replacing the actual CPIA with a predicted CPIA based on institutional measures independent of any donor agency. Column 4 in Table 9 presents this ranking. It is correlated .65 with the ranking based on CPIA. In general the same agencies appear high up (low down) on this ranking, as in column 1.

A final important point is that, with each of these institutional measures, a different poverty elasticity is calculated for each donor. It turns out that these poverty selectivity rankings are extremely highly correlated (above .90). Thus, whatever measure of institutions is used, exactly the same agencies appear as more or less poverty focused. As we did in the first section, we can combine the policy and poverty rankings into a single aid selectivity index. Table 10 repeats the original ranking of aid quality from table 3 and adds in an analogous ranking based on column 4 of Table 9 (using both rule of law and democracy together to measure institutional/policy selectivity). The rankings of aid quality are remarkably similar (and correlated .77). Both rankings share the following characteristics: at the top we find multilateral agencies such as IDA, ESAF, IFAD and African Development Fund and certain bilateral donors (the Nordic countries, the United Kingdom, Netherlands, Ireland); a number of large capital donors are in the middle of the pack (Japan, the United States, European Commission); at the bottom are donors that focus on their former colonies (France, Portugal, Spain).

#### **4. *Changing Policy Selectivity over Time***

In this section we go back in time and examine whether the patterns of selectivity that we observe in the 1999-2002 period represent a long-term trend or new thinking in development assistance. For this analysis we divide the data into three time periods: 1984-89, 1990-94, and 1995-99. As in the previous section we regress the aid for each recipient on its per capita GDP in PPP, its population, and our aggregate of the two

measures of institutional quality. We also now introduce year dummies to control for year-to-year fluctuations in aid disbursements. The CPIA is not available in a consistent format back in time, so we conduct this historical analysis using the combined rule of law and democracy measure, presented in the last section.

Table 11 shows that policy selectivity has increased to a very great extent between the second half of the 1980s and the second half of the 1990s.<sup>6</sup> For aid overall, bilateral aid, and multilateral aid, there was no significant relationship with institutional quality in the 1984-89 period. By 1995-99, each type had a significant positive relationship with institutional quality. The relationship was far stronger for multilateral aid than for bilateral assistance – an elasticity of 1.82 compared to 0.50. In the case of IDA, there was similarly no significant relationship with institutional quality in the early period, and then a strong one by 1995-99 (an elasticity of 3.58, putting IDA in sixth place among all the agencies). The median elasticity was 0.24 (not significantly different from zero) in 1984-89, and 1.5 in 1995-99. The historical analysis thus reveals that policy selectivity is a new phenomenon, one that is now practiced by most donor agencies.

Table 12 shows the poverty elasticities calculated back in time. In general, the same agencies that we find poverty focused today, have been more poverty focused all along. Throughout this period multilateral assistance has been more poverty focused than bilateral assistance.

## 5. *Conclusions*

In the past two decades foreign aid overall has become more selective in the following sense: in the second half of the 1980s, aid was allocated indiscriminately to well governed and poorly governed countries alike, at the same level of per capita income. Today there is a clear tendency to allocate more assistance to poor countries that have reasonably good economic governance. We find this relationship between aid and governance when we use the World Bank's CPIA measure; the same relationship is found if alternatively an independent assessment of institutions is used.

In general, multilateral assistance is more sharply targeted both to good policies and to poverty. In 2002 the World Bank's IDA facility was #2 in policy selectivity and #1 in poverty selectivity, putting it at the top of the overall aid selectivity index that is a simple average of the two selectivity measures. The overall trend toward greater selectivity of aid can be observed for IDA as well. In the 1984-89 period there was little relationship between IDA disbursements and measures of governance; by 2002 the relationship had strengthened to the point that a standard deviation better on the CPIA measure translates into nearly 100% more assistance.

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<sup>6</sup> An observant reader would notice a slight difference in the elasticities presented in column 4 of Table 9 and those for 1995-1999 period in Table 11. This difference arises because the sample in Table 9 was constrained to be the same across columns, providing a fairer comparison between different institutional measures. In Table 11 we allow all the available observations for 1995-1999 to be included in our regressions.

There are a number of bilateral donors that appear high up in the rankings for policy and poverty selectivity, such as Denmark, Norway, Sweden, the United Kingdom, Ireland, and the Netherlands. However, some of the large donors in absolute size, such as France and the United States, are not particularly selective in either the policy or poverty dimension. Japan is selective on policy but not on poverty. As a result, overall bilateral aid is not very selective.

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Table 1. Policy Elasticity Index, 1999-2002

<i>Donor</i>	<i>1999</i>		<i>2000</i>		<i>2001</i>		<i>2002</i>	
	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>
Total Aid	<b>1.240</b>		<b>1.308</b>		<b>1.356</b>		<b>1.759</b>	
Bilateral Aid	0.750		0.814		0.413		0.628	
Multilateral Aid	<b>1.989</b>		<b>1.732</b>		<b>2.132</b>		<b>2.568</b>	
AfDF	<b>2.876</b>	11	2.401	15	1.887	16	1.022	22
Arab Agencies	<b>4.192</b>	6	2.231	17	0.760	27	0.971	25
AsDB Spec. Funds	-1.172	40	-1.325	39	-0.583	35	-0.364	33
Australia	0.378	32	1.210	24	1.364	21	1.008	23
Austria	<b>2.014</b>	20	<b>2.803</b>	11	<b>2.311</b>	12	<b>3.259</b>	5
Belgium	<b>2.295</b>	18	<b>3.149</b>	9	1.652	18	1.920	15
Canada	<b>1.988</b>	21	<b>2.435</b>	14	1.442	19	0.990	24
CarDB	<b>1.297</b>	25	1.076	26	1.149	24	1.404	18
Council of Europe	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a
Denmark	<b>4.484</b>	4	<b>4.690</b>	4	<b>4.789</b>	1	<b>4.767</b>	1
EBRD	<b>-2.254</b>	42	-0.815	36	0.655	28	1.394	20
EC	<b>2.515</b>	17	<b>1.702</b>	21	<b>2.204</b>	14	<b>2.440</b>	12
Finland	<b>2.528</b>	16	<b>2.220</b>	18	<b>2.267</b>	13	<b>2.536</b>	11
France	0.476	31	0.206	29	-0.494	34	-0.072	30
GEF	-1.417	41	-0.399	33	<b>2.016</b>	15	<b>3.027</b>	7
Germany	<b>1.679</b>	22	<b>2.964</b>	10	<b>2.525</b>	11	<b>2.064</b>	14
Greece	-1.058	39	-1.264	38	0.188	31	-0.559	36
IDA	<b>5.846</b>	1	<b>4.918</b>	3	<b>4.138</b>	2	<b>4.233</b>	2
IDB Spec. Oper. Fund	0.756	29	-0.237	31	0.201	30	-0.240	32
IFAD	<b>3.915</b>	7	2.214	19	1.400	20	1.403	19
IMF Trust Fund	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a
Ireland	<b>3.262</b>	8	<b>2.455</b>	13	<b>2.575</b>	10	1.383	21
Italy	1.400	24	2.333	16	1.198	23	-0.120	31
Japan	<b>4.565</b>	2	<b>4.208</b>	5	<b>2.833</b>	8	1.901	16
Luxembourg	<b>2.235</b>	19	1.872	20	1.234	22	<b>2.146</b>	13
Netherlands	<b>4.529</b>	3	<b>5.109</b>	2	<b>3.472</b>	4	<b>2.647</b>	9
New Zealand	1.489	23	<b>1.632</b>	22	0.812	26	0.409	29
Nordic Development Fund	<b>2.631</b>	14	<b>3.337</b>	7	<b>2.582</b>	9	<b>3.085</b>	6
Norway	<b>2.809</b>	12	0.799	27	<b>2.905</b>	7	<b>2.701</b>	8
Other UN	<b>3.157</b>	9	0.006	30	-0.762	38	-0.504	34
Portugal	0.301	33	1.129	25	0.462	29	0.540	28
SAF & ESAF	<b>4.449</b>	5	<b>5.467</b>	1	<b>3.924</b>	3	2.569	10
Spain	-0.290	36	-1.871	42	<b>-3.040</b>	42	-1.253	39
Sweden	<b>2.651</b>	13	<b>3.177</b>	8	<b>3.321</b>	6	<b>3.315</b>	4
Switzerland	1.063	27	1.596	23	<b>1.696</b>	17	1.673	17
UNDP	1.204	26	-0.369	32	-0.606	36	-0.531	35
UNFPA	-0.663	37	<b>-1.599</b>	41	<b>-2.153</b>	41	<b>-2.082</b>	41
UNHCR	-0.910	38	-1.560	40	-0.726	37	-1.480	40
UNICEF	0.485	30	-0.980	37	<b>-1.726</b>	40	<b>-2.308</b>	42
United Kingdom	<b>2.924</b>	10	<b>4.028</b>	6	<b>3.407</b>	5	<b>3.657</b>	3
United States	0.892	28	0.562	28	0.024	32	0.664	27
UNRWA	0.130	34	-0.811	35	-0.954	39	-0.970	38
UNTA	-0.163	35	-0.603	34	-0.394	33	<b>-0.966</b>	37
WFP	<b>2.587</b>	15	<b>2.499</b>	12	0.834	25	0.720	26

Note: Bolded elasticities are different from zero at 10% significance level (with heteroskedasticity-consistent s.e.).

Table 2. Poverty Elasticity Index, 1999-2002

<i>Donor</i>	<i>1999</i>		<i>2000</i>		<i>2001</i>		<i>2002</i>	
	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>
Total Aid	<b>-0.377</b>		<b>-0.417</b>		<b>-0.468</b>		<b>-0.490</b>	
Bilateral Aid	<b>-0.319</b>		<b>-0.375</b>		<b>-0.334</b>		<b>-0.381</b>	
Multilateral Aid	<b>-0.738</b>		<b>-0.744</b>		<b>-0.854</b>		<b>-0.833</b>	
AfDF	<b>-2.737</b>	3	<b>-2.461</b>	3	<b>-2.598</b>	3	<b>-2.689</b>	2
Arab Agencies	<b>-1.942</b>	6	<b>-2.019</b>	6	<b>-1.967</b>	6	<b>-1.875</b>	6
AsDB Spec. Funds	-0.163	34	-0.042	35	-0.093	34	-0.133	33
Australia	-0.359	26	<b>-0.445</b>	26	-0.343	27	-0.270	30
Austria	-0.303	28	-0.337	28	-0.240	29	-0.305	28
Belgium	<b>-1.095</b>	14	<b>-1.165</b>	11	<b>-1.267</b>	10	<b>-1.293</b>	9
Canada	<b>-0.604</b>	21	<b>-0.489</b>	23	<b>-0.558</b>	21	<b>-0.650</b>	23
CarDB	0.076	38	0.065	36	0.042	36	0.136	37
Council of Europe	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a
Denmark	<b>-1.286</b>	11	<b>-1.164</b>	12	<b>-1.303</b>	8	<b>-1.110</b>	12
EBRD	<b>0.865</b>	42	<b>0.389</b>	40	<b>0.613</b>	41	<b>0.543</b>	41
EC	-0.254	30	-0.219	32	<b>-0.526</b>	23	<b>-0.511</b>	25
Finland	<b>-0.549</b>	22	-0.405	27	<b>-0.610</b>	20	<b>-0.756</b>	21
France	<b>-0.389</b>	25	<b>-0.332</b>	29	-0.256	28	-0.279	29
GEF	<b>0.730</b>	41	<b>0.640</b>	42	0.018	35	-0.071	34
Germany	<b>-0.352</b>	27	<b>-0.447</b>	25	<b>-0.489</b>	24	<b>-0.474</b>	26
Greece	<b>0.552</b>	40	<b>0.388</b>	39	0.175	40	0.206	40
IDA	<b>-4.255</b>	1	<b>-4.164</b>	1	<b>-4.208</b>	1	<b>-4.200</b>	1
IDB Spec. Oper. Fund	<b>0.469</b>	39	<b>0.530</b>	41	<b>0.614</b>	42	<b>0.625</b>	42
IFAD	<b>-2.165</b>	5	<b>-2.202</b>	5	<b>-2.340</b>	4	<b>-1.968</b>	5
IMF Trust Fund	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a
Ireland	<b>-1.341</b>	9	<b>-1.367</b>	9	<b>-1.514</b>	7	<b>-1.213</b>	11
Italy	<b>-0.608</b>	20	<b>-0.659</b>	21	<b>-0.436</b>	25	<b>-1.067</b>	15
Japan	<b>-0.506</b>	23	-0.203	34	-0.212	30	0.012	35
Luxembourg	<b>-0.432</b>	24	-0.477	24	-0.206	33	<b>-0.664</b>	22
Netherlands	<b>-1.655</b>	7	<b>-1.654</b>	7	<b>-1.208</b>	11	<b>-1.271</b>	10
New Zealand	-0.253	31	<b>-0.328</b>	30	-0.207	32	-0.163	31
Nordic Development Fund	<b>-0.794</b>	17	<b>-1.087</b>	13	<b>-0.983</b>	15	<b>-1.093</b>	14
Norway	<b>-1.304</b>	10	<b>-0.979</b>	15	<b>-1.174</b>	13	<b>-1.106</b>	13
Other UN	-0.015	35	<b>-0.699</b>	20	<b>-0.698</b>	19	<b>-0.624</b>	24
Portugal	-0.248	32	-0.213	33	0.100	38	0.147	38
SAF & ESAF	<b>-2.750</b>	2	<b>-2.794</b>	2	<b>-2.787</b>	2	<b>-2.495</b>	3
Spain	0.072	37	0.370	38	0.096	37	0.072	36
Sweden	<b>-0.810</b>	16	<b>-0.875</b>	17	<b>-0.914</b>	17	<b>-1.023</b>	18
Switzerland	<b>-0.673</b>	18	<b>-0.712</b>	19	<b>-0.764</b>	18	<b>-0.833</b>	19
UNDP	<b>-1.280</b>	12	<b>-1.288</b>	10	<b>-1.173</b>	14	<b>-1.311</b>	8
UNFPA	<b>-1.107</b>	13	<b>-1.028</b>	14	<b>-0.980</b>	16	<b>-1.041</b>	17
UNHCR	-0.206	33	<b>-0.493</b>	22	-0.390	26	-0.158	32
UNICEF	<b>-1.458</b>	8	<b>-1.403</b>	8	<b>-1.301</b>	9	<b>-1.315</b>	7
United Kingdom	<b>-0.618</b>	19	<b>-0.838</b>	18	<b>-1.184</b>	12	<b>-1.064</b>	16
United States	<b>-0.864</b>	15	<b>-0.960</b>	16	<b>-0.558</b>	22	<b>-0.761</b>	20
UNRWA	0.048	36	0.130	37	0.162	39	0.153	39
UNTA	<b>-0.303</b>	29	<b>-0.324</b>	31	<b>-0.211</b>	31	<b>-0.312</b>	27
WFP	<b>-2.382</b>	4	<b>-2.260</b>	4	<b>-2.169</b>	5	<b>-2.232</b>	4

Note: Bolded elasticities are different from zero at 10% significance level (with heteroskedasticity-consistent s.e.).

Table 3. Overall Aid Selectivity Index, 1999-2002

<i>Donor</i>	<i>1999</i>		<i>2000</i>		<i>2001</i>		<i>2002</i>	
	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>
Total Aid	0.809		0.862		0.912		1.124	
Bilateral Aid	0.534		0.594		0.374		0.504	
Multilateral Aid	1.363		1.238		1.493		1.701	
AfDF	2.807	7	2.431	6	2.242	6	1.855	9
Arab Agencies	3.067	4	2.125	12	1.364	18	1.423	17
AsDB Spec. Funds	-0.504	39	-0.642	40	-0.245	39	-0.115	34
Australia	0.369	31	0.828	25	0.854	23	0.639	25
Austria	1.159	22	1.570	16	1.275	19	1.782	10
Belgium	1.695	15	2.157	11	1.460	15	1.607	13
Canada	1.296	20	1.462	18	1.000	21	0.820	23
CarDB	0.611	29	0.506	28	0.553	26	0.634	26
Council of Europe	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a
Denmark	2.885	6	2.927	4	3.046	3	2.938	2
EBRD	-1.559	42	-0.602	39	0.021	31	0.426	28
EC	1.384	18	0.961	23	1.365	17	1.476	16
Finland	1.539	17	1.312	19	1.439	16	1.646	12
France	0.433	30	0.269	31	-0.119	35	0.103	32
GEF	-1.073	41	-0.519	37	0.999	22	1.549	14
Germany	1.016	23	1.706	15	1.507	13	1.269	20
Greece	-0.805	40	-0.826	41	0.006	32	-0.382	36
IDA	5.050	1	4.541	1	4.173	1	4.217	1
IDB Spec. Oper. Fund	0.144	34	-0.383	35	-0.207	37	-0.432	37
IFAD	3.040	5	2.208	9	1.870	10	1.685	11
IMF Trust Fund	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a
Ireland	2.302	10	1.911	14	2.045	8	1.298	19
Italy	1.004	24	1.496	17	0.817	24	0.474	27
Japan	2.535	8	2.206	10	1.523	12	0.944	22
Luxembourg	1.333	19	1.174	20	0.720	25	1.405	18
Netherlands	3.092	3	3.382	3	2.340	4	1.959	7
New Zealand	0.871	27	0.980	22	0.509	27	0.286	30
Nordic Development Fund	1.713	14	2.212	8	1.783	11	2.089	6
Norway	2.057	11	0.889	24	2.039	9	1.903	8
Other UN	1.586	16	0.352	30	-0.032	33	0.060	33
Portugal	0.274	32	0.671	27	0.181	30	0.197	31
SAF & ESAF	3.599	2	4.131	2	3.356	2	2.532	3
Spain	-0.181	37	-1.121	42	-1.568	42	-0.662	42
Sweden	1.730	13	2.026	13	2.117	7	2.169	5
Switzerland	0.868	28	1.154	21	1.230	20	1.253	21
UNDP	1.242	21	0.459	29	0.284	29	0.390	29
UNFPA	0.222	33	-0.285	34	-0.587	41	-0.520	39
UNHCR	-0.352	38	-0.533	38	-0.168	36	-0.661	41
UNICEF	0.971	25	0.211	32	-0.213	38	-0.496	38
United Kingdom	1.771	12	2.433	5	2.296	5	2.360	4
United States	0.878	26	0.761	26	0.291	28	0.712	24
UNRWA	0.041	36	-0.470	36	-0.558	40	-0.561	40
UNTA	0.070	35	-0.139	33	-0.092	34	-0.327	35
WFP	2.485	9	2.380	7	1.501	14	1.476	15

Figure 2. Partial Correlation Plot for Log IDA aid and log per capita GDP, 1999

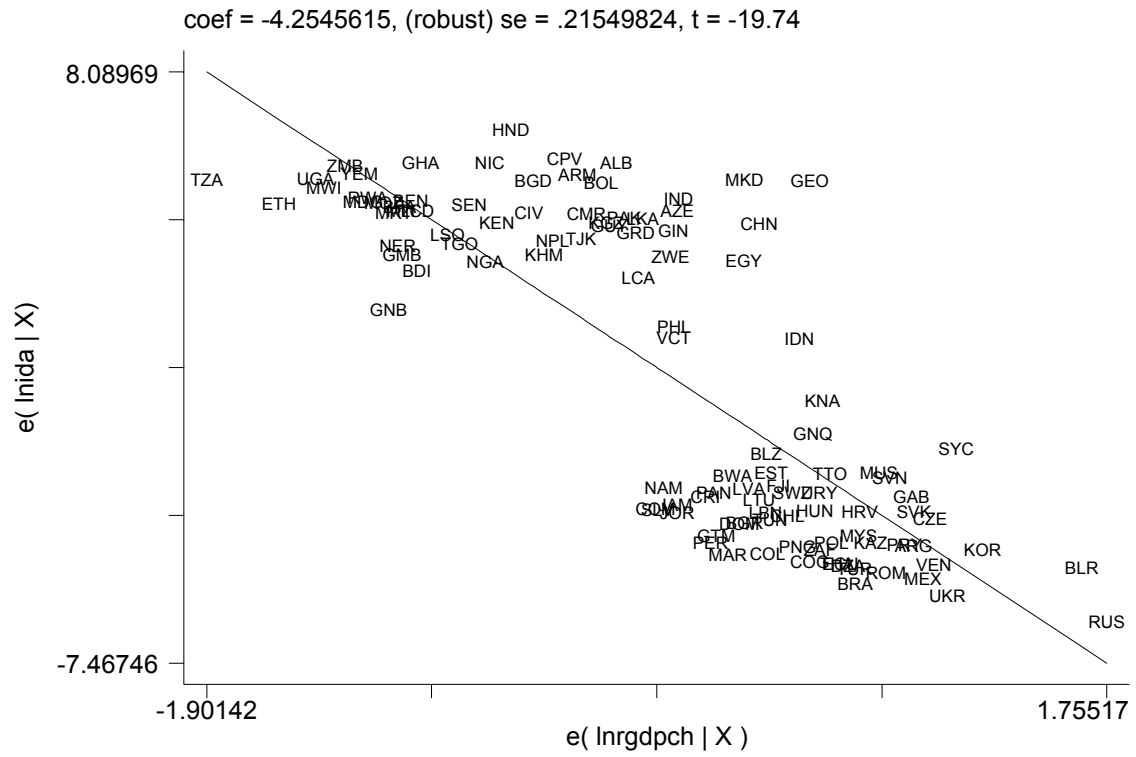


Table 4. Policy Elasticity Index for Aid to IDA-eligible Countries, 1999-2002

<i>Donor</i>	<i>1999</i>		<i>2000</i>		<i>2001</i>		<i>2002</i>	
	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>
Total Aid	<b>1.625</b>		<b>3.071</b>		<b>2.506</b>		<b>2.389</b>	
Bilateral Aid	1.225		<b>3.226</b>		<b>2.297</b>		<b>2.230</b>	
Multilateral Aid	<b>3.057</b>		<b>3.376</b>		<b>2.939</b>		<b>3.070</b>	
AfDF	<b>7.266</b>	6	<b>10.446</b>	2	<b>8.878</b>	3	<b>6.610</b>	6
Arab Agencies	<b>7.394</b>	5	<b>7.214</b>	9	5.892	12	6.336	7
AsDB Spec. Funds	-4.046	40	-4.168	41	-1.247	38	0.675	32
Australia	-1.182	39	2.597	26	3.905	18	2.960	22
Austria	1.578	27	2.836	25	1.091	28	3.483	20
Belgium	1.325	29	4.490	18	0.545	31	-0.086	37
Canada	<b>3.470</b>	18	<b>3.908</b>	20	<b>3.586</b>	19	2.200	25
CarDB	<b>2.330</b>	24	<b>2.139</b>	27	<b>2.812</b>	20	<b>2.817</b>	23
Council of Europe	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a
Denmark	<b>8.055</b>	2	<b>9.562</b>	5	<b>9.733</b>	1	<b>7.808</b>	4
EBRD	-1.040	37	-1.591	39	-2.146	40	-2.706	41
EC	<b>5.032</b>	10	<b>3.481</b>	21	<b>2.069</b>	26	2.050	29
Finland	<b>3.465</b>	19	<b>4.484</b>	19	<b>5.391</b>	13	4.150	19
France	1.068	30	1.840	29	0.287	34	0.477	33
GEF	no aid to IDA countr.	n/a	1.829	31	<b>6.453</b>	8	<b>8.603</b>	3
Germany	1.328	28	3.009	24	2.532	23	1.575	30
Greece	-0.359	35	-0.125	37	1.829	27	-0.748	38
IDA	<b>8.979</b>	1	<b>6.795</b>	13	<b>6.211</b>	10	<b>9.758</b>	1
IDB Spec. Oper. Fund	<b>1.892</b>	25	2.108	28	0.592	30	2.067	28
IFAD	<b>5.330</b>	9	<b>6.398</b>	14	<b>4.653</b>	15	<b>7.533</b>	5
IMF Trust Fund	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a
Ireland	<b>4.893</b>	11	<b>7.063</b>	11	<b>7.444</b>	7	5.146	16
Italy	1.637	26	<b>6.824</b>	12	2.375	25	4.718	18
Japan	<b>5.925</b>	7	<b>8.797</b>	6	<b>6.288</b>	9	<b>5.655</b>	12
Luxembourg	<b>3.167</b>	21	3.415	22	2.628	22	<b>5.968</b>	10
Netherlands	<b>7.593</b>	3	<b>9.931</b>	3	<b>4.445</b>	17	<b>5.447</b>	13
New Zealand	-0.276	33	1.829	30	2.658	21	2.218	24
Nordic Development Fund	<b>4.253</b>	15	<b>8.764</b>	7	<b>7.767</b>	5	<b>9.287</b>	2
Norway	<b>4.297</b>	14	<b>4.713</b>	17	<b>7.477</b>	6	<b>5.246</b>	15
Other UN	<b>3.807</b>	16	0.561	33	<b>-2.468</b>	41	2.154	27
Portugal	0.256	31	0.560	34	-0.311	36	0.418	35
SAF & ESAF	<b>7.540</b>	4	<b>11.729</b>	1	<b>9.155</b>	2	4.832	17
Spain	<b>3.588</b>	17	<b>5.251</b>	15	1.028	29	<b>6.178</b>	8
Sweden	<b>4.708</b>	12	<b>7.094</b>	10	<b>5.909</b>	11	5.796	11
Switzerland	<b>3.191</b>	20	3.320	23	2.474	24	3.373	21
UNDP	<b>2.591</b>	23	0.067	35	<b>-2.069</b>	39	<b>-1.095</b>	40
UNFPA	0.001	32	<b>1.363</b>	32	0.278	35	0.924	31
UNHCR	-1.060	38	-2.060	40	0.356	33	0.462	34
UNICEF	-0.715	36	-0.623	38	-1.033	37	-0.823	39
United Kingdom	<b>5.363</b>	8	<b>9.701</b>	4	<b>8.739</b>	4	<b>6.169</b>	9
United States	<b>4.585</b>	13	<b>4.756</b>	16	<b>4.775</b>	14	2.193	26
UNRWA	no aid to IDA countr.	n/a	no aid to IDA countr.	n/a	no aid to IDA countr.	n/a	no aid to IDA countr.	n/a
UNTA	-0.285	34	-0.054	36	0.477	32	0.061	36
WFP	2.724	22	<b>7.571</b>	8	<b>4.446</b>	16	5.444	14

Note: Bolded elasticities are different from zero at 10% significance level (with heteroskedasticity-consistent s.e.).

Table 5. Poverty Elasticity Index for Aid to IDA-eligible Countries, 1999-2002

<i>Donor</i>	<i>1999</i>		<i>2000</i>		<i>2001</i>		<i>2002</i>	
	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>
Total Aid	0.046		-0.172		-0.120		-0.042	
Bilateral	0.107		-0.048		-0.010		0.083	
Multilateral	<b>-0.342</b>		<b>-0.420</b>		<b>-0.374</b>		<b>-0.267</b>	
AfDF	<b>-4.156</b>	1	<b>-3.653</b>	1	<b>-4.050</b>	1	<b>-4.177</b>	1
Arab Agencies	<b>-1.655</b>	3	<b>-1.600</b>	6	-1.003	9	-0.968	8
AsDB Spec. Funds	<b>2.068</b>	40	<b>2.043</b>	41	<b>1.879</b>	41	<b>2.188</b>	41
Australia	1.042	39	0.563	37	0.597	37	0.705	37
Austria	0.092	31	0.222	33	0.308	34	-0.461	22
Belgium	<b>-1.583</b>	5	<b>-1.643</b>	3	<b>-1.562</b>	4	<b>-1.439</b>	2
Canada	-0.413	23	-0.015	30	0.012	29	0.098	29
CarDB	<b>0.656</b>	37	<b>0.705</b>	38	<b>0.677</b>	38	<b>0.772</b>	38
Council of Europe	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a
Denmark	<b>-1.712</b>	2	<b>-1.608</b>	5	<b>-1.151</b>	6	-0.533	20
EBRD	<b>0.653</b>	36	<b>0.389</b>	35	<b>0.890</b>	40	<b>0.914</b>	39
EC	<b>-0.714</b>	15	-0.332	23	<b>-0.670</b>	14	<b>-0.785</b>	14
Finland	-0.240	27	-0.222	27	-0.603	19	-0.481	21
France	<b>-0.828</b>	14	<b>-0.585</b>	17	-0.550	21	<b>-0.583</b>	19
GEF	no aid to IDA countr.	n/a	<b>0.794</b>	39	0.349	36	0.217	32
Germany	<b>-0.486</b>	19	-0.373	21	-0.324	23	-0.156	26
Greece	0.584	35	0.536	36	0.195	31	0.546	35
IDA	<b>-1.174</b>	8	<b>-1.188</b>	8	<b>-1.060</b>	8	<b>-0.885</b>	12
IDB Spec. Oper. Fund	0.371	33	0.179	32	0.283	33	0.178	30
IFAD	0.088	30	-0.385	20	<b>-0.571</b>	20	-0.334	24
IMF Trust Fund	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a
Ireland	<b>-1.555</b>	6	<b>-1.517</b>	7	<b>-1.956</b>	3	<b>-1.341</b>	3
Italy	-0.887	11	-0.888	12	-0.667	15	-0.779	15
Japan	<b>0.680</b>	38	<b>1.154</b>	40	<b>0.868</b>	39	<b>1.307</b>	40
Luxembourg	<b>-0.850</b>	12	-0.735	16	-0.719	12	<b>-0.897</b>	10
Netherlands	-0.655	16	-0.925	10	<b>-0.613</b>	18	-0.621	18
New Zealand	0.478	34	0.324	34	0.203	32	0.325	34
Nordic Development Fund	0.019	29	<b>-0.946</b>	9	<b>-1.129</b>	7	<b>-1.257</b>	5
Norway	-0.644	17	-0.555	18	-0.633	17	-0.632	17
Other UN	-0.080	28	-0.219	28	-0.321	24	<b>-0.415</b>	23
Portugal	-0.448	22	-0.292	24	-0.106	27	-0.115	27
SAF & ESAF	<b>-1.641</b>	4	<b>-3.438</b>	2	<b>-2.014</b>	2	-1.212	6
Spain	-0.353	24	-0.394	19	-0.440	22	<b>-0.935</b>	9
Sweden	<b>-1.148</b>	9	<b>-0.913</b>	11	-0.760	11	<b>-1.087</b>	7
Switzerland	-0.454	20	-0.236	25	0.050	30	0.205	31
UNDP	<b>-1.026</b>	10	<b>-0.871</b>	14	<b>-0.686</b>	13	<b>-0.743</b>	16
UNFPA	<b>-0.593</b>	18	<b>-0.795</b>	15	<b>-0.641</b>	16	<b>-0.849</b>	13
UNHCR	-0.451	21	-0.226	26	-0.139	26	0.272	33
UNICEF	<b>-0.835</b>	13	<b>-0.881</b>	13	<b>-0.832</b>	10	<b>-0.897</b>	11
United Kingdom	0.114	32	-0.025	29	-0.170	25	0.632	36
United States	-0.280	26	0.109	31	0.324	35	-0.110	28
UNRWA	no aid to IDA countr.	n/a	no aid to IDA countr.	n/a	no aid to IDA countr.	n/a	no aid to IDA countr.	n/a
UNTA	<b>-0.315</b>	25	<b>-0.364</b>	22	-0.064	28	<b>-0.328</b>	25
WFP	<b>-1.294</b>	7	<b>-1.636</b>	4	<b>-1.298</b>	5	<b>-1.258</b>	4

Note: Bolded elasticities are different from zero at 10% significance level (with heteroskedasticity-consistent s.e.).

Table 6. Overall Aid Selectivity Index for Aid to IDA-eligible Countries, 1999-2002

Donor	1999		2000		2001		2002	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Total Aid	0.790		1.622		1.313		1.215	
Bilateral Aid	0.559		1.637		1.153		1.073	
Multilateral Aid	1.700		1.898		1.657		1.669	
AfDF	5.711	1	7.049	2	6.464	1	5.393	1
Arab Agencies	4.524	5	4.407	8	3.448	9	3.652	7
AsDB Spec. Funds	-3.057	40	-3.106	41	-1.563	41	-0.757	40
Australia	-1.112	39	1.017	28	1.654	20	1.128	25
Austria	0.743	30	1.307	25	0.391	32	1.972	20
Belgium	1.454	24	3.067	15	1.054	27	0.677	32
Canada	1.942	20	1.962	21	1.787	18	1.051	26
CarDB	0.837	28	0.717	31	1.068	26	1.022	27
Council of Europe	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a
Denmark	4.883	3	5.585	3	5.442	3	4.171	5
EBRD	-0.847	38	-0.990	40	-1.518	40	-1.810	41
EC	2.873	9	1.907	22	1.369	23	1.417	22
Finland	1.853	21	2.353	18	2.997	12	2.315	18
France	0.948	26	1.212	26	0.419	31	0.530	33
GEF	no aid to IDA countr.	n/a	0.518	32	3.052	11	4.193	4
Germany	0.907	27	1.691	24	1.428	22	0.866	31
Greece	-0.472	37	-0.331	38	0.817	28	-0.647	39
IDA	5.076	2	3.991	11	3.636	8	5.322	2
IDB Spec. Oper. Fund	0.761	29	0.965	29	0.154	35	0.945	29
IFAD	2.621	12	3.392	14	2.612	15	3.934	6
IMF Trust Fund	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a	no aid reported	n/a
Ireland	3.224	7	4.290	9	4.700	4	3.244	12
Italy	1.262	25	3.856	12	1.521	21	2.748	17
Japan	2.623	11	3.821	13	2.710	14	2.174	19
Luxembourg	2.008	17	2.075	20	1.674	19	3.432	10
Netherlands	4.124	6	5.428	4	2.529	16	3.034	13
New Zealand	-0.377	36	0.753	30	1.227	24	0.946	28
Nordic Development Fund	2.117	15	4.855	6	4.448	6	5.272	3
Norway	2.471	13	2.634	17	4.055	7	2.939	15
Other UN	1.944	19	0.390	35	-1.073	39	1.284	23
Portugal	0.352	31	0.426	34	-0.103	37	0.266	34
SAF & ESAF	4.591	4	7.583	1	5.585	2	3.022	14
Spain	1.971	18	2.822	16	0.734	29	3.556	8
Sweden	2.928	8	4.004	10	3.335	10	3.442	9
Switzerland	1.822	22	1.778	23	1.212	25	1.584	21
UNDP	1.808	23	0.469	33	-0.692	38	-0.176	38
UNFPA	0.297	32	1.079	27	0.459	30	0.886	30
UNHCR	-0.304	35	-0.917	39	0.248	34	0.095	36
UNICEF	0.060	33	0.129	37	-0.101	36	0.037	37
United Kingdom	2.625	10	4.863	5	4.455	5	2.769	16
United States	2.432	14	2.324	19	2.225	17	1.151	24
UNRWA	no aid to IDA countr.	n/a	no aid to IDA countr.	n/a	no aid to IDA countr.	n/a	no aid to IDA countr.	n/a
UNTA	0.015	34	0.155	36	0.270	33	0.194	35
WFP	2.009	16	4.603	7	2.872	13	3.351	11



Table 7. Aid per Bilateral Donor Country's Capita to IDA-eligible Countries, 1999-2002

<i>Donor</i>	<i>1999</i>				<i>2000</i>				<i>2001</i>				<i>2002</i>			
	<i>Strong Institutions</i>		<i>Weak Institutions</i>		<i>Strong Institutions</i>		<i>Weak Institutions</i>		<i>Strong Institutions</i>		<i>Weak Institutions</i>		<i>Strong Institutions</i>		<i>Weak Institutions</i>	
	<i>\$/capita</i>	<i>Rank</i>	<i>\$/capita</i>	<i>Rank</i>	<i>\$/capita</i>	<i>Rank</i>	<i>\$/capita</i>	<i>Rank</i>	<i>\$/capita</i>	<i>Rank</i>	<i>\$/capita</i>	<i>Rank</i>	<i>\$/capita</i>	<i>Rank</i>	<i>\$/capita</i>	<i>Rank</i>
Australia	1.84	21	12.76	8	2.40	20	4.07	13	2.07	19	3.41	14	5.26	17	0.62	20
Austria	8.25	14	23.36	3	6.31	15	12.96	5	12.78	11	12.30	4	7.51	14	5.26	13
Belgium	6.46	15	8.20	11	7.40	14	7.67	9	7.75	15	9.11	9	16.62	10	11.41	7
Canada	6.40	16	4.08	16	5.05	16	3.28	14	5.15	17	2.77	16	6.34	15	7.49	12
Denmark	78.27	1	26.93	2	74.93	1	17.74	3	78.97	1	23.00	3	79.42	1	20.04	3
Finland	12.01	12	7.84	12	8.33	13	2.73	16	8.94	12	2.93	15	7.65	13	4.68	15
France	14.02	10	14.02	6	11.21	11	12.77	6	7.94	14	11.19	7	9.97	12	28.04	1
Germany	10.47	13	7.66	13	8.81	12	5.55	11	8.36	13	5.71	11	13.59	11	7.79	11
Greece	2.22	20	0.15	22	1.47	21	0.16	22	1.44	20	0.08	22	1.64	21	0.33	22
Ireland	18.16	7	2.07	18	23.18	6	3.01	15	27.57	6	2.03	17	24.44	6	19.34	4
Italy	3.23	19	1.86	19	3.94	18	0.98	21	1.37	21	0.54	21	3.84	18	9.76	10
Japan	18.18	6	23.18	4	17.41	9	15.05	4	17.58	8	12.25	5	22.54	7	4.29	16
Luxembourg	36.95	3	38.15	1	62.32	2	40.53	1	33.87	4	35.91	1	77.68	2	16.27	5
Netherlands	24.41	5	14.01	7	31.15	5	17.91	2	47.59	3	24.32	2	53.48	3	15.03	6
New Zealand	1.03	22	4.16	15	1.09	22	1.16	20	1.02	22	1.27	20	2.08	20	0.39	21
Norway	53.54	2	16.62	5	43.67	3	10.94	7	48.27	2	11.93	6	45.65	4	23.42	2
Portugal	15.03	9	1.21	21	19.81	7	1.55	19	5.76	16	1.37	19	1.16	22	3.30	18
Spain	4.00	17	1.47	20	3.85	19	1.93	18	12.92	10	1.80	18	3.57	19	2.45	19
Sweden	24.73	4	9.36	10	33.63	4	6.29	10	29.50	5	6.89	10	25.92	5	10.68	9
Switzerland	17.43	8	11.96	9	15.77	10	10.51	8	15.20	9	10.22	8	21.82	8	10.80	8
United Kingdom	13.28	11	4.41	14	18.02	8	4.56	12	19.91	7	4.27	13	17.52	9	4.94	14
United States	3.57	18	2.25	17	4.53	17	2.40	17	4.34	18	4.71	12	5.66	16	3.67	17

Table 8. Aid to IDA-eligible Countries per Donor Country's GNI, percent (1999-2002)

<i>Donor</i>	<i>1999</i>				<i>2000</i>				<i>2001</i>				<i>2002</i>			
	<i>Strong Institutions</i>		<i>Weak Institutions</i>		<i>Strong Institutions</i>		<i>Weak Institutions</i>		<i>Strong Institutions</i>		<i>Weak Institutions</i>		<i>Strong Institutions</i>		<i>Weak Institutions</i>	
	<i>%GNI</i>	<i>Rank</i>	<i>%GNI</i>	<i>Rank</i>	<i>%GNI</i>	<i>Rank</i>	<i>%GNI</i>	<i>Rank</i>	<i>%GNI</i>	<i>Rank</i>	<i>%GNI</i>	<i>Rank</i>	<i>%GNI</i>	<i>Rank</i>	<i>%GNI</i>	<i>Rank</i>
Australia	0.009	21	0.061	5	0.012	21	0.021	12	0.011	20	0.018	12	0.025	16	0.003	20
Austria	0.032	14	0.092	1	0.028	16	0.056	5	0.056	9	0.054	4	0.030	14	0.021	14
Belgium	0.026	17	0.033	10	0.032	14	0.034	7	0.034	16	0.040	6	0.067	8	0.046	7
Canada	0.031	15	0.020	15	0.022	17	0.015	15	0.023	17	0.013	18	0.028	15	0.033	10
Denmark	0.241	1	0.083	3	0.254	1	0.060	3	0.266	1	0.077	3	0.247	1	0.062	3
Finland	0.049	11	0.032	11	0.036	13	0.012	18	0.039	13	0.013	16	0.031	13	0.019	16
France	0.058	8	0.058	6	0.052	9	0.059	4	0.036	15	0.051	5	0.043	12	0.120	1
Germany	0.041	13	0.030	14	0.039	12	0.025	11	0.037	14	0.026	11	0.057	10	0.033	11
Greece	0.019	18	0.001	22	0.014	19	0.001	22	0.013	18	0.001	22	0.013	21	0.003	22
Ireland	0.083	7	0.009	19	0.108	7	0.014	16	0.121	5	0.009	20	0.091	6	0.072	2
Italy	0.016	19	0.009	20	0.021	18	0.005	21	0.007	22	0.003	21	0.019	18	0.048	6
Japan	0.051	10	0.065	4	0.046	10	0.040	6	0.053	11	0.037	7	0.071	7	0.013	18
Luxembourg	0.085	6	0.087	2	0.162	3	0.105	1	0.089	7	0.095	2	0.189	3	0.040	9
Netherlands	0.097	4	0.055	7	0.133	4	0.076	2	0.198	2	0.101	1	0.204	2	0.057	4
New Zealand	0.008	22	0.030	13	0.008	22	0.009	19	0.008	21	0.010	19	0.014	20	0.003	21
Norway	0.157	2	0.049	8	0.122	6	0.031	8	0.132	3	0.033	8	0.109	4	0.056	5
Portugal	0.133	3	0.011	17	0.191	2	0.015	14	0.054	10	0.013	15	0.010	22	0.028	12
Spain	0.027	16	0.010	18	0.028	15	0.014	17	0.090	6	0.013	17	0.022	17	0.015	17
Sweden	0.091	5	0.035	9	0.131	5	0.025	10	0.127	4	0.030	9	0.101	5	0.042	8
Switzerland	0.045	12	0.031	12	0.043	11	0.029	9	0.040	12	0.027	10	0.053	11	0.026	13
United Kingdom	0.054	9	0.018	16	0.075	8	0.019	13	0.083	8	0.018	13	0.067	9	0.019	15
United States	0.011	20	0.007	21	0.013	20	0.007	20	0.012	19	0.013	14	0.015	19	0.010	19

Table 9. Comparison of Policy Elasticities -- CPIA and Other Indicators, 1995-1999

<i>Donor</i>	<i>CPIA</i>		<i>Rule of Law</i>		<i>Democracy</i>		<i>Democracy &amp; Rule of Law</i>	
	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>
Total Aid	<b>1.444</b>		<b>0.398</b>		<b>-0.273</b>		<b>0.832</b>	
Bilateral Aid	<b>1.262</b>		0.146		<b>-0.223</b>		0.240	
Multilateral Aid	<b>1.740</b>		<b>0.852</b>		<b>-0.359</b>		<b>1.861</b>	
AfDF	<b>2.133</b>	15	<b>1.955</b>	5	0.081	32	<b>3.256</b>	9
Arab Agencies	<b>3.575</b>	6	<b>1.130</b>	11	<b>-0.683</b>	14	<b>1.954</b>	18
AsDB Spec. Funds	<b>0.888</b>	28	0.008	31	0.204	33	0.321	27
Australia	<b>1.637</b>	21	<b>1.790</b>	6	-0.344	23	<b>4.382</b>	4
Austria	<b>1.586</b>	22	<b>1.283</b>	10	-0.140	28	<b>2.371</b>	11
Belgium	<b>1.304</b>	25	-0.306	36	<b>-0.747</b>	11	-0.274	32
Canada	<b>2.570</b>	11	0.183	27	<b>-0.947</b>	8	0.656	24
CarDB	0.111	36	0.002	32	<b>-0.479</b>	20	0.313	28
Council of Europe	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	<b>4.889</b>	2	<b>2.237</b>	1	<b>-2.175</b>	1	<b>6.493</b>	1
EBRD	<b>-1.064</b>	41	<b>0.916</b>	15	0.278	35	<b>1.911</b>	19
EC	<b>1.524</b>	23	<b>0.916</b>	14	<b>-0.488</b>	19	<b>2.082</b>	16
Finland	<b>2.451</b>	13	<b>2.033</b>	2	<b>-0.842</b>	9	<b>4.595</b>	3
France	0.383	30	<b>-0.487</b>	38	<b>0.548</b>	42	<b>-2.466</b>	41
GEF	<b>-1.220</b>	42	<b>0.826</b>	16	<b>-0.437</b>	22	<b>2.227</b>	14
Germany	<b>1.930</b>	18	<b>0.793</b>	17	<b>-0.268</b>	25	<b>1.612</b>	21
Greece	-0.445	40	<b>0.536</b>	21	<b>0.476</b>	40	0.246	30
IDA	<b>5.384</b>	1	<b>1.971</b>	4	-0.007	31	<b>3.601</b>	8
IDB Spec. Oper. Fund	0.185	34	<b>-2.099</b>	42	<b>-1.457</b>	2	<b>-2.199</b>	39
IFAD	<b>3.154</b>	8	<b>2.010</b>	3	-0.321	24	<b>3.689</b>	7
IMF Trust Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	<b>1.932</b>	17	<b>1.481</b>	9	<b>-0.722</b>	12	<b>3.718</b>	6
Italy	<b>1.070</b>	27	-0.433	37	0.415	37	<b>-1.876</b>	38
Japan	<b>3.674</b>	4	<b>0.575</b>	20	<b>-1.123</b>	6	<b>2.203</b>	15
Luxembourg	<b>1.222</b>	26	<b>0.632</b>	19	<b>-0.835</b>	10	<b>1.995</b>	17
Netherlands	<b>3.659</b>	5	0.081	29	<b>-1.200</b>	3	1.179	23
New Zealand	<b>1.332</b>	24	<b>0.414</b>	22	<b>-0.565</b>	17	<b>1.772</b>	20
Nordic Development Fund	<b>2.210</b>	14	<b>0.939</b>	13	<b>-0.678</b>	15	<b>2.271</b>	13
Norway	<b>3.219</b>	7	<b>1.483</b>	8	<b>-1.062</b>	7	<b>4.036</b>	5
Other UN	<b>1.729</b>	20	0.129	28	<b>-0.508</b>	18	0.521	25
Portugal	-0.118	38	<b>-1.635</b>	41	-0.115	29	<b>-3.444</b>	42
SAF & ESAF	<b>4.347</b>	3	<b>0.985</b>	12	-0.455	21	<b>2.378</b>	10
Spain	-0.143	39	<b>-1.119</b>	40	-0.217	27	<b>-2.305</b>	40
Sweden	<b>2.543</b>	12	<b>0.670</b>	18	<b>-1.141</b>	5	<b>2.306</b>	12
Switzerland	<b>1.988</b>	16	0.063	30	<b>-0.684</b>	13	0.515	26
UNDP	0.359	32	0.287	24	<b>0.271</b>	34	0.307	29
UNFPA	0.462	29	-0.252	35	<b>0.300</b>	36	<b>-0.946</b>	36
UNHCR	-0.108	37	0.228	26	<b>0.420</b>	38	-0.649	35
UNICEF	0.381	31	<b>-0.703</b>	39	<b>0.527</b>	41	<b>-1.837</b>	37
United Kingdom	<b>2.950</b>	9	<b>1.774</b>	7	<b>-1.168</b>	4	<b>4.950</b>	2
United States	<b>1.892</b>	19	0.289	23	<b>-0.647</b>	16	1.571	22
UNRWA	<b>0.176</b>	35	<b>0.242</b>	25	<b>0.442</b>	39	-0.342	34
UNTA	<b>0.289</b>	33	-0.021	34	-0.045	30	-0.078	31
WFP	<b>2.785</b>	10	-0.007	33	-0.245	26	-0.281	33

Note: Bolded elasticities are different from zero at 10% significance level (with heteroskedasticity-consistent s.e.).

Table 10. Comparison of Overall Aid Selectivity Indexes, 1995-1999

<i>Donor</i>	<i>CPIA</i>		<i>Democracy &amp; Rule of Law</i>	
	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>
Total Aid	0.931		0.600	
Bilateral Aid	0.807		0.255	
Multilateral Aid	1.233		1.307	
AfDF	2.442	7	3.072	3
Arab Agencies	2.612	4	1.807	11
AsDB Spec. Funds	0.544	31	0.199	29
Australia	1.008	21	2.579	8
Austria	0.855	25	1.305	14
Belgium	1.109	20	0.193	30
Canada	1.554	13	0.485	26
CarDB	-0.026	37	0.152	31
Council of Europe	n/a	n/a	n/a	n/a
Denmark	3.050	3	3.929	1
EBRD	-0.950	42	0.706	25
EC	0.893	24	1.202	18
Finland	1.390	17	2.631	7
France	0.400	32	-1.187	39
GEF	-0.926	41	0.907	22
Germany	1.163	19	0.925	21
Greece	-0.375	40	0.051	33
IDA	4.719	1	3.788	2
IDB Spec. Oper. Fund	-0.238	39	-1.622	41
IFAD	2.573	5	2.918	5
IMF Trust Fund	n/a	n/a	n/a	n/a
Ireland	1.484	14	2.524	9
Italy	0.913	23	-0.704	38
Japan	2.031	10	1.258	16
Luxembourg	0.757	29	1.150	19
Netherlands	2.558	6	1.275	15
New Zealand	0.746	30	0.989	20
Nordic Development Fund	1.397	16	1.476	13
Norway	2.198	9	2.682	6
Other UN	0.935	22	0.229	28
Portugal	0.055	36	-1.737	42
SAF & ESAF	3.159	2	2.125	10
Spain	-0.123	38	-1.320	40
Sweden	1.690	11	1.552	12
Switzerland	1.334	18	0.443	27
UNDP	0.816	27	0.775	23
UNFPA	0.791	28	-0.005	34
UNHCR	0.105	34	-0.136	35
UNICEF	0.852	26	-0.368	37
United Kingdom	1.656	12	2.967	4
United States	1.438	15	1.257	17
UNRWA	0.068	35	-0.228	36
UNTA	0.298	33	0.075	32
WFP	2.410	8	0.725	24

Table 11. Policy Elasticity Index, 1984-1999

<i>Donor</i>	<i>1984-1989</i>		<i>1990-1994</i>		<i>1995-1999</i>	
	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>
Total Aid	0.057		0.297		<b>1.046</b>	
Bilateral Aid	0.152		0.128		<b>0.500</b>	
Multilateral Aid	-0.020		<b>0.947</b>		<b>1.816</b>	
AfDF	<b>3.631</b>	1	<b>2.821</b>	2	<b>3.384</b>	8
Arab Agencies	-0.585	29	0.614	19	<b>1.968</b>	19
AsDB Spec. Funds	-1.027	34	-0.901	35	0.357	27
Australia	<b>1.935</b>	5	<b>1.756</b>	8	<b>4.565</b>	3
Austria	<b>-1.187</b>	35	<b>1.762</b>	7	<b>2.597</b>	10
Belgium	-0.599	30	0.311	21	-0.268	32
Canada	0.060	24	-0.470	34	0.606	25
CarDB	<b>0.128</b>	22	-0.204	32	0.235	29
Council of Europe	-0.009	26	-0.009	30	n/a	n/a
Denmark	<b>2.389</b>	2	<b>4.450</b>	1	<b>6.302</b>	1
EBRD	n/a	n/a	<b>2.650</b>	3	<b>1.970</b>	17
EC	0.462	17	<b>1.134</b>	11	<b>2.325</b>	12
Finland	0.578	14	1.048	12	<b>4.444</b>	4
France	0.545	16	0.078	26	<b>-2.360</b>	39
GEF	n/a	n/a	n/a	n/a	<b>2.060</b>	15
Germany	<b>0.868</b>	9	<b>1.236</b>	10	<b>1.789</b>	20
Greece	n/a	n/a	n/a	n/a	0.318	28
IDA	0.694	13	0.941	14	<b>3.582</b>	6
IDB Spec. Oper. Fund	<b>-2.100</b>	38	-1.346	37	<b>-2.908</b>	41
IFAD	-0.173	27	0.685	17	<b>3.051</b>	9
IMF Trust Fund	0.028	25	n/a	n/a	n/a	n/a
Ireland	<b>0.707</b>	12	<b>1.004</b>	13	<b>3.521</b>	7
Italy	<b>1.187</b>	7	-0.061	31	<b>-1.664</b>	37
Japan	0.407	18	<b>2.182</b>	5	<b>2.029</b>	16
Luxembourg	n/a	n/a	-0.314	33	<b>1.969</b>	18
Netherlands	0.561	15	0.844	15	<b>1.369</b>	23
New Zealand	<b>0.806</b>	10	<b>0.812</b>	16	<b>1.421</b>	22
Nordic Development Fund	n/a	n/a	2.139	6	<b>2.352</b>	11
Norway	<b>2.194</b>	3	<b>1.687</b>	9	<b>4.016</b>	5
Other UN	<b>1.477</b>	6	0.522	20	0.179	30
Portugal	-0.678	32	<b>-2.137</b>	39	<b>-3.217</b>	42
SAF & ESAF	0.187	21	0.170	24	<b>2.153</b>	14
Spain	-0.202	28	<b>-2.720</b>	41	<b>-2.417</b>	40
Sweden	0.775	11	0.653	18	<b>2.258</b>	13
Switzerland	-0.678	31	0.251	23	0.855	24
UNDP	0.290	19	0.271	22	0.576	26
UNFPA	0.086	23	0.025	28	<b>-1.240</b>	36
UNHCR	0.986	8	0.042	27	-0.489	34
UNICEF	<b>-0.772</b>	33	<b>-1.515</b>	38	<b>-2.283</b>	38
United Kingdom	<b>2.175</b>	4	<b>2.489</b>	4	<b>4.964</b>	2
United States	<b>-1.596</b>	36	-1.100	36	1.580	21
UNRWA	n/a	n/a	-0.003	29	-0.367	33
UNTA	0.196	20	0.152	25	-0.225	31
WFP	<b>-1.767</b>	37	<b>-2.438</b>	40	-0.836	35

Note: Bolded elasticities are different from zero at 10% significance level (with heteroskedasticity-consistent s.e.).

Table 12. Poverty Elasticity Index, 1984-1999

<i>Donor</i>	<i>1984-1989</i>		<i>1990-1994</i>		<i>1995-1999</i>	
	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>
Total Aid	<b>-0.948</b>		<b>-0.535</b>		<b>-0.507</b>	
Bilateral Aid	<b>-0.869</b>		<b>-0.396</b>		<b>-0.372</b>	
Multilateral Aid	<b>-1.432</b>		<b>-1.208</b>		<b>-1.063</b>	
AfDF	<b>-2.836</b>	2	<b>-2.805</b>	2	<b>-2.678</b>	2
Arab Agencies	<b>-1.048</b>	20	<b>-1.378</b>	10	<b>-1.547</b>	9
AsDB Spec. Funds	0.041	34	0.068	38	-0.155	34
Australia	<b>-0.878</b>	24	<b>-0.654</b>	26	<b>-0.857</b>	18
Austria	0.047	35	<b>-0.224</b>	32	<b>-0.335</b>	30
Belgium	<b>-0.867</b>	26	<b>-0.818</b>	21	<b>-0.828</b>	20
Canada	<b>-1.451</b>	14	<b>-0.783</b>	22	<b>-0.725</b>	21
CarDB	0.019	33	<b>0.065</b>	36	-0.014	35
Council of Europe	<b>0.140</b>	37	<b>0.045</b>	35	n/a	n/a
Denmark	<b>-2.351</b>	3	<b>-2.220</b>	3	<b>-1.678</b>	6
EBRD	n/a	n/a	0.129	39	<b>0.309</b>	40
EC	<b>-2.182</b>	4	<b>-1.176</b>	13	<b>-0.868</b>	17
Finland	<b>-1.064</b>	19	<b>-0.630</b>	27	<b>-0.857</b>	19
France	<b>-1.016</b>	21	<b>-0.727</b>	23	<b>-0.230</b>	32
GEF	n/a	n/a	n/a	n/a	<b>0.330</b>	41
Germany	<b>-0.877</b>	25	<b>-0.450</b>	30	<b>-0.389</b>	28
Greece	n/a	n/a	n/a	n/a	0.132	39
IDA	<b>-3.752</b>	1	<b>-3.797</b>	1	<b>-3.928</b>	1
IDB Spec. Oper. Fund	<b>1.028</b>	38	<b>0.589</b>	41	<b>0.670</b>	42
IFAD	<b>-1.542</b>	12	<b>-1.320</b>	11	<b>-2.053</b>	3
IMF Trust Fund	-0.040	31	n/a	n/a	n/a	n/a
Ireland	<b>-0.613</b>	29	<b>-0.883</b>	19	<b>-1.268</b>	13
Italy	<b>-1.701</b>	8	<b>-0.974</b>	17	<b>-0.718</b>	23
Japan	<b>-1.014</b>	22	<b>-0.715</b>	25	<b>-0.509</b>	26
Luxembourg	n/a	n/a	<b>-0.375</b>	31	<b>-0.473</b>	27
Netherlands	<b>-1.674</b>	9	<b>-1.420</b>	9	<b>-1.551</b>	8
New Zealand	0.007	32	-0.083	34	<b>-0.255</b>	31
Nordic Development Fund	n/a	n/a	<b>-0.553</b>	29	<b>-0.713</b>	24
Norway	<b>-2.019</b>	5	<b>-1.494</b>	6	<b>-1.578</b>	7
Other UN	<b>-1.481</b>	13	<b>-1.009</b>	16	<b>-0.203</b>	33
Portugal	-0.358	30	-0.090	33	-0.006	36
SAF & ESAF	<b>-1.596</b>	11	<b>-1.439</b>	7	<b>-1.853</b>	4
Spain	0.118	36	<b>0.492</b>	40	0.041	37
Sweden	<b>-1.177</b>	18	<b>-0.836</b>	20	<b>-1.141</b>	15
Switzerland	<b>-1.335</b>	15	<b>-1.162</b>	14	<b>-0.720</b>	22
UNDP	<b>-1.243</b>	17	<b>-1.525</b>	5	<b>-1.433</b>	10
UNFPA	<b>-0.972</b>	23	<b>-1.123</b>	15	<b>-1.118</b>	16
UNHCR	<b>-0.804</b>	27	<b>-0.726</b>	24	<b>-0.515</b>	25
UNICEF	<b>-1.747</b>	7	<b>-1.438</b>	8	<b>-1.301</b>	12
United Kingdom	<b>-1.864</b>	6	<b>-1.230</b>	12	<b>-1.326</b>	11
United States	<b>-1.329</b>	16	<b>-0.906</b>	18	<b>-1.162</b>	14
UNRWA	n/a	n/a	0.066	37	<b>0.090</b>	38
UNTA	<b>-0.760</b>	28	<b>-0.575</b>	28	<b>-0.372</b>	29
WFP	<b>-1.635</b>	10	<b>-1.713</b>	4	<b>-1.691</b>	5

Note: Bolded elasticities are different from zero at 10% significance level (with heteroskedasticity-consistent s.e.).

Table 13. Overall Aid Selectivity Index, 1984-1999

<i>Donor</i>	<i>1984-1989</i>		<i>1990-1994</i>		<i>1995-1999</i>	
	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>
Total Aid	0.503		0.416		0.776	
Bilateral Aid	0.511		0.262		0.436	
Multilateral Aid	0.706		1.078		1.439	
AfDF	3.233	1	2.813	2	3.031	4
Arab Agencies	0.231	27	0.996	13	1.758	11
AsDB Spec. Funds	-0.534	36	-0.484	38	0.256	29
Australia	1.407	8	1.205	9	2.711	6
Austria	-0.617	37	0.993	14	1.466	15
Belgium	0.134	28	0.565	24	0.280	28
Canada	0.756	18	0.157	30	0.665	26
CarDB	0.055	29	-0.134	36	0.125	31
Council of Europe	-0.075	32	-0.027	32	n/a	n/a
Denmark	2.370	2	3.335	1	3.990	1
EBRD	n/a	n/a	1.260	8	0.831	24
EC	1.322	9	1.155	10	1.596	13
Finland	0.821	15	0.839	18	2.650	7
France	0.780	16	0.403	27	-1.065	39
GEF	n/a	n/a	n/a	n/a	0.865	22
Germany	0.873	14	0.843	17	1.089	20
Greece	n/a	n/a	n/a	n/a	0.093	32
IDA	2.223	3	2.369	3	3.755	2
IDB Spec. Oper. Fund	-1.564	38	-0.967	39	-1.789	42
IFAD	0.685	20	1.002	12	2.552	8
IMF Trust Fund	0.034	30	n/a	n/a	n/a	n/a
Ireland	0.660	21	0.943	15	2.394	9
Italy	1.444	7	0.457	25	-0.473	37
Japan	0.710	19	1.449	6	1.269	18
Luxembourg	n/a	n/a	0.031	31	1.221	19
Netherlands	1.117	10	1.132	11	1.460	16
New Zealand	0.399	25	0.448	26	0.838	23
Nordic Development Fund	n/a	n/a	1.346	7	1.533	14
Norway	2.106	4	1.590	5	2.797	5
Other UN	1.479	6	0.765	20	0.191	30
Portugal	-0.160	35	-1.023	40	-1.606	41
SAF & ESAF	0.892	13	0.805	19	2.003	10
Spain	-0.160	34	-1.606	41	-1.229	40
Sweden	0.976	11	0.744	21	1.699	12
Switzerland	0.328	26	0.706	22	0.787	25
UNDP	0.767	17	0.898	16	1.004	21
UNFPA	0.529	22	0.574	23	-0.061	35
UNHCR	0.895	12	0.384	28	0.013	34
UNICEF	0.487	23	-0.039	34	-0.491	38
United Kingdom	2.020	5	1.859	4	3.145	3
United States	-0.133	33	-0.097	35	1.371	17
UNRWA	n/a	n/a	-0.034	33	-0.228	36
UNTA	0.478	24	0.364	29	0.074	33
WFP	-0.066	31	-0.362	37	0.428	27

Appendix Table 1. Sensitivity Tests for Policy Elasticity Index with Different Aid Flows (2002)

<i>Donor</i>	<i>Gross ODA (see Table 1)</i>		<i>Grants Only</i>		<i>Gross ODA Net of Debt Relief<sup>7</sup></i>	
	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>
Total Aid	1.759		1.199		1.888	
Bilateral Aid	0.628		0.662		0.630	
Multilateral Aid	2.568		1.768		2.663	
AfDF	1.022	22	1.296	18	1.022	23
Arab Agencies	0.971	25	-0.270	30	0.971	24
AsDB Spec. Funds	-0.364	33	0.118	26	-0.364	32
Australia	1.008	23	1.008	19	1.198	22
Austria	3.259	5	3.259	5	3.144	5
Belgium	1.92	15	1.849	14	2.081	15
Canada	0.99	24	0.990	20	0.960	25
CarDB	1.404	18	0.547	23	1.404	18
Council of Europe	no aid reported	n/a	no grants reported	n/a	no aid reported	n/a
Denmark	4.767	1	4.911	1	5.000	1
EBRD	1.394	20	1.394	16	1.394	20
EC	2.44	12	2.013	13	2.440	12
Finland	2.536	11	2.556	8	2.536	10
France	-0.072	30	-0.264	29	0.005	30
GEF	3.027	7	3.027	6	3.027	7
Germany	2.064	14	2.151	11	2.193	13
Greece	-0.559	36	-0.559	33	-0.559	35
IDA	4.233	2	4.108	2	4.163	2
IDB Spec. Oper. Fund	-0.24	32	-0.255	28	-0.240	31
IFAD	1.403	19	no grants reported	n/a	1.403	19
IMF Trust Fund	no aid reported	n/a	no grants reported	n/a	no aid reported	n/a
Ireland	1.383	21	1.383	17	1.383	21
Italy	-0.12	31	0.079	27	-0.625	36
Japan	1.901	16	2.162	10	1.817	16
Luxembourg	2.146	13	2.146	12	2.146	14
Netherlands	2.647	9	2.649	7	2.512	11
New Zealand	0.409	29	0.409	25	0.409	29
Nordic Development Fund	3.085	6	no grants reported	n/a	3.085	6
Norway	2.701	8	2.514	9	2.701	8
Other UN	-0.504	34	-0.504	31	-0.504	33
Portugal	0.54	28	0.540	24	0.531	28
SAF & ESAF	2.569	10	no grants reported	n/a	2.569	9
Spain	-1.253	39	-1.187	36	-1.233	39
Sweden	3.315	4	3.298	4	3.315	4
Switzerland	1.673	17	1.672	15	1.673	17
UNDP	-0.531	35	-0.531	32	-0.531	34
UNFPA	-2.082	41	-2.082	38	-2.082	41
UNHCR	-1.48	40	-1.480	37	-1.480	40
UNICEF	-2.308	42	-2.308	39	-2.308	42
United Kingdom	3.657	3	3.443	3	3.444	3
United States	0.664	27	0.633	22	0.612	27
UNRWA	-0.97	38	-0.970	35	-0.970	38
UNTA	-0.966	37	-0.966	34	-0.966	37
WFP	0.72	26	0.720	21	0.720	26

<sup>7</sup> Debt relief defined as DAC's reported debt forgiveness grants and reorganized debt.



Appendix Table 2. Policy Elasticity Index with Shocks and Post-Conflict Dummy in the Regression (2002)

<i>Donor</i>	<i>Original (Table 1)</i>		<i>With Shocks and Post-Conflict</i>	
	<i>Mean</i>	<i>Rank</i>	<i>Mean</i>	<i>Rank</i>
Total Aid	1.759		1.638	
Bilateral Aid	0.628		0.637	
Multilateral Aid	2.568		2.238	
AfDF	1.022	22	2.074	14
Arab Agencies	0.971	25	1.047	26
AsDB Spec. Funds	-0.364	33	0.021	31
Australia	1.008	23	1.334	22
Austria	3.259	5	2.691	9
Belgium	1.92	15	1.653	20
Canada	0.99	24	0.462	29
CarDB	1.404	18	1.079	24
Council of Europe	no aid reported	n/a	no aid reported	n/a
Denmark	4.767	1	4.260	2
EBRD	1.394	20	1.147	23
EC	2.44	12	1.845	17
Finland	2.536	11	2.563	11
France	-0.072	30	-0.602	35
GEF	3.027	7	3.320	4
Germany	2.064	14	1.933	15
Greece	-0.559	36	-0.818	36
IDA	4.233	2	4.274	1
IDB Spec. Oper. Fund	-0.24	32	-0.263	32
IFAD	1.403	19	1.789	19
IMF Trust Fund	no aid reported	n/a	no aid reported	n/a
Ireland	1.383	21	1.592	21
Italy	-0.12	31	1.064	25
Japan	1.901	16	2.276	13
Luxembourg	2.146	13	2.308	12
Netherlands	2.647	9	2.575	10
New Zealand	0.409	29	0.650	28
Nordic Development Fund	3.085	6	3.498	3
Norway	2.701	8	2.782	8
Other UN	-0.504	34	-0.282	33
Portugal	0.54	28	0.874	27
SAF & ESAF	2.569	10	3.183	6
Spain	-1.253	39	-0.904	38
Sweden	3.315	4	3.169	7
Switzerland	1.673	17	1.808	18
UNDP	-0.531	35	-0.352	34
UNFPA	-2.082	41	-1.788	42
UNHCR	-1.48	40	-1.263	40
UNICEF	-2.308	42	-1.450	41
United Kingdom	3.657	3	3.302	5
United States	0.664	27	0.344	30
UNRWA	-0.97	38	-0.907	39
UNTA	-0.966	37	-0.877	37
WFP	0.72	26	1.909	16