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## Donor Performance

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This Note is part of a  
series exploring trends  
in the aid industry,  
including patterns of aid  
flows, competition, and  
the effectiveness of  
different types of aid.



### What Do We Know, and What Should We Know?

**It would be hard to disagree with the objectives of the international aid industry. But how much are donors contributing to their achievement? Despite recent progress, we still know surprisingly little. We know that some donors give much more than others relative to income. We also know that donors are focusing aid less on poor countries and more on countries with strong institutions or good policies. And we know that there appears to be no tradeoff here: the countries that give the most aid also target poor countries and those with good policies. Yet we are still in the dark about which donors, or which projects, are achieving the best results.**

Much commentary on the aid industry focuses purely on the volume of aid. While the size of aid flows matters, there is surely more to be said. Not all dollars of aid are equivalent; some help the poor, and some do not. Researchers are therefore paying growing attention to the quality of the aid given by donors (sometimes in an attempt to provoke better practices). But there is a problem: before measuring the average quality or effectiveness of aid, we need to know what makes aid high quality or effective. We have only a vague idea of this, and tentative early research has revealed little except the paucity of the data. As a result, researchers have tended to base their work on plausible assumptions rather than solid research.

#### What determines the effectiveness of aid?

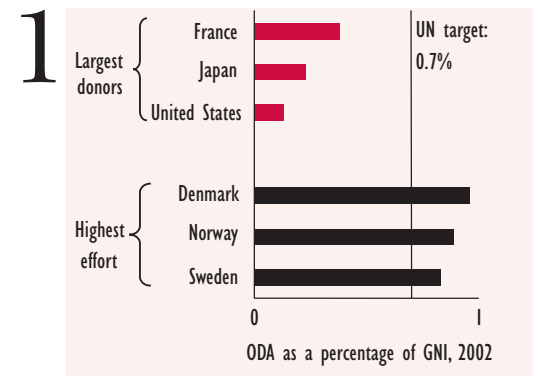
Analysts of donor performance have variously made three types of assumption. The first is that aid does more good if it goes to poor countries. This is clearly plausible, holding other things equal. Yet there may be reasons that aid flowing to poor countries does not help the poor. Many poor people live in countries that are not themselves very poor. And poorer countries tend to have less ability to use aid effectively.

The second assumption, then, is that aid does more good if given to countries with good policies or good institutions. This claim is based on a widespread view that aid works well if the recipient country does the right things with it—thus the famous claim that “aid works in a good

policy environment.” The paper that kicked off the debate, Burnside and Dollar (2000), is too specific to support such a blanket claim. Burnside and Dollar use a narrow definition of “a good policy environment” (a particular combination of low inflation, fiscal rectitude, and an open economy) and “aid works” (GDP growth in the recipient country must be higher in the four-year period following the four-year period in which the aid was received). Subsequent analysis has shown that the conclusions change dramatically if the specification of the model is changed or the data set expanded. Nevertheless, since the basic idea that “good governments” use aid better than “bad governments” remains plausible, it seems right that it should play a role in evaluating aid quality.

The third assumption is that how aid is given matters. For example, David Roodman (2004) and other members of the Center for Global Development have separately claimed that donors should give support for central government budgets (program aid) if governments are strong and benign, but should switch to support for particular projects (project aid) if governments are weak or corrupt. While this claim is plausible, Roodman does not support it with evidence. The World Bank’s *Global Monitoring Report 2004* (2004) argues that aid is more effective in flexible forms like cash rather than as debt relief, emergency aid, or technical cooperation. This claim too is plausible but unsupported. Other prominent figures—such as Ken Rogoff, former chief economist of the International

Figure The big donors, and the generous ones



Source: World Bank 2004.

Monetary Fund—have claimed that aid is more effective in the form of grants rather than loans. Once more, no evidence is given.

Since the claims about what makes aid effective are plausible but rest on modest evidence or none at all, we need a realistic view of what the quantitative indicators of aid quality actually show. These indicators are suggestive but hardly conclusive.

**What indicators are out there?**

The three main assumptions about what makes aid effective underlie several indicators of aid quality:

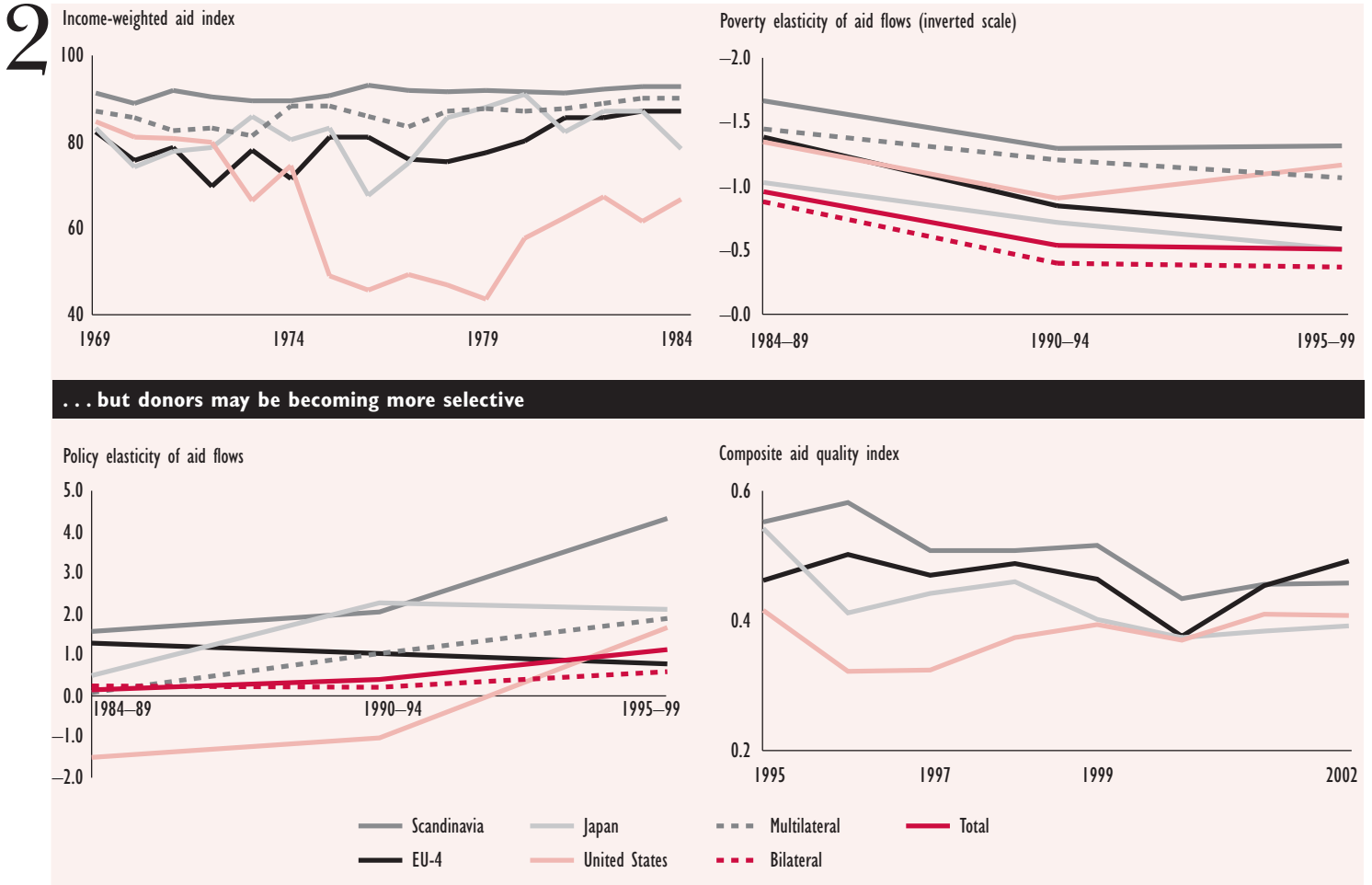
- *Poverty focus.* McGillivray (1989) constructed an income-weighted index running back to 1969. Aid to poorer countries receives a higher weight, with aid to a recipient with per capita income halfway between richest and poorest given a weight of 0.5. Roodman (2004), in a composite index, also gives a higher weight to aid going to poorer countries. Dollar and Levin (2004) measure the poverty “elasticity” of aid—how much aid flows vary depending on the poverty of the recipient country.
- *Policy or institutional selectivity.* Dollar and Levin (2004) also construct a policy elasticity measure, based on the Burnside-Dollar (2000) composite of good policy. Roodman (2004) weights aid depending on whether it goes to countries with good governance as measured by the popular Kaufmann, Kraay, and Zoido-Lobaton index (World Bank 2003). He adjusts the weights depending on whether the aid is project aid, said to be more appropriate for poorly governed countries,

Table Ranking donors on aid effort and quality

Donor country	Aid effort <sup>a</sup>	Aid quality indexes		
		Poverty elasticity (Dollar and Levin 2004)	Policy elasticity (Dollar and Levin 2004)	Composite (Roodman 2004)
Denmark	1	1	1	3
United Kingdom	3	3	2	1
Norway	2	2	3	5
France	4	5	6	2
United States	6	4	5	4
Japan	5	6	4	6

Note: Rankings are based on 2002 data.  
 a. Aid effort is measured by official development assistance as a percentage of the donor country’s gross national income (GNI). The data are from World Bank (2004).

Figure Little sign of greater poverty focus . . .



. . . but donors may be becoming more selective

or program aid, thought to be suited to better-governed countries.

■ *Restrictions and other measures of effectiveness.* Roodman (2004) penalizes technical assistance and aid that is tied. (Technical assistance must usually be purchased from the donor country, and tied aid must be spent on the donor country's products and services. Both typically reduce the purchasing power of the aid.) Roodman's attempts to make such adjustments are reasonable but ad hoc. For example, in a previous version of his annual paper he subtracted administrative costs, but he abandoned the idea in the 2004 edition after recognizing that high administrative costs might lead to better projects. Clearly, it is difficult to settle on a convincing

measure of aid quality without better theories and evidence about what makes aid effective.

### Which donors give high-quality aid?

Using several of these measures to rank the four largest donors and the two with the highest aid effort leads to one immediate conclusion: measures of aid quantity and aid quality seem to be correlated (table 1). The United States and Japan not only have the lowest effort among major donors (figure 1); they also do relatively little targeting of aid to poor countries and to those with good policy (as defined by Burnside and Dollar). This result is surprising, because there is no a priori reason to suspect that quantity, a focus on poverty, and a focus on good policy should be correlated. Indeed, Steven Radelet (2003) makes the

Note: The income-weighted aid index includes several measures of aid quality, including poverty focus. The composite aid quality index also includes several measures of aid quality, including targeting of well-governed countries. Source: For income-weighted aid index, McGillivray (1989); for poverty and policy elasticity indexes, Dollar and Levin (2004); and for composite aid quality index, Roodman (2004).

logical point that efforts to increase the volume of aid will make it harder to be selective. There are several explanations for the apparent correlation. One is that it is easy to argue for more aid when the aid itself seems to be well aimed. Another is that when countries are committed to development, they perform well in several ways.

Still, the indexes sometimes agree less than might be expected—a warning to avoid reading a glib, intuitive message into an indicator that depends greatly on the technical details.

### Are donors more focused on poor countries?

There is no sign that aid is becoming more focused on poor countries. McGillivray's income-weighted index shows very slight improvements in 1969–84 for the largest EU economies (the EU-4: Germany, France, the United Kingdom, and Italy) and for the multilateral agencies, but an overall fall in the poverty focus of the United States and no clear trend for Japan (figure 2). Dollar and Levin find that aid from all major donor groups became less responsive to poverty between the late 1980s and the late 1990s.

### Are donors more selective?

For those who believe that aid works well in a good policy environment—now the consensus in the development community—there is more hope that donors are improving their aid targeting. Dollar and Levin find that the responsiveness of aid flows to good policy increased for most donor groups between the late 1980s and the late 1990s (see figure 2). The United States (from a low base) and Scandinavia (from a high base) showed particular improvements on this measure.

Roodman's composite aid quality index, which rewards donors for several important considerations—directing aid to poor countries and to well-governed ones, giving aid in an untied form, choosing appropriately between project and program finance—shows no clear trend in 1995–2002, however, except perhaps a convergence between the better donors and the worse ones.

### Conclusion

Researchers are at last beginning to recognize that the quality of aid is as important as its quantity and to compute indexes accordingly. Those indexes suggest three observations:

- Relative to the 1980s, for any given income level of recipient, aid is increasingly aimed at countries with better policies.
- But aid is not aimed more at poor countries. Indeed, it seems to be targeted less to poor countries than in the 1980s.
- While a tradeoff might be expected between giving large quantities of aid and maintaining the quality of aid, the reverse seems to be true: the countries that give the most aid relative to their income also score well on different measures of aid quality.

Yet the caveats are as important as the conclusions, because the indexes are based either on narrow empirical research or on no research at all. One consequence is that indexes that would intuitively be expected to show similar things produce very different messages.

The real value of this embryonic work on aid quality is to highlight the importance of the issue and the scale of our ignorance. Hopefully, future measures of aid quality and donor performance will be able to draw on rigorous measures of aid effectiveness.

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