Preliminary draft; please do not cite

Evaluating Aid Performance of Donors

William Easterly

Center for Global Development

October 2002

> If you spend your own money on yourself, you are very concerned about how much is spent and how it is spent.
>
> If you spend your own money on someone else, you are still very concerned about how much is spent, but somewhat less concerned with how it is spent.
>
> If you spend someone else's money on yourself, you are not too concerned about how much is spent, but you are very concerned about how it is spent.
>
> However, if you spend someone else's money on someone else, you are not very concerned about how much is spent or about how it is spent.
>
> --*Milton Friedman*

I rate bilateral donors and multilateral agencies performance on foreign aid, based on how selectively the aid is allocated, the degree to which aid is tied, and the total amount of aid. The data are from the year 2000. The following table shows the final ranking, which is an unweighted average of the ranking on five different criteria for good aid allocation. Three of the criteria reflect selectivity; the other two are aid-tying and the amount of aid relative to donor income.

The highest ranked bilateral donors are Denmark, Switzerland, Sweden, and Norway, reflecting aid that is very selective according to income of the recipient, the low degree of tying of the aid, and large amount of aid relative to Gross National Income. The lowest ranked donors are Greece, Spain, Italy, Portugal, and the US, reflecting a combination of lack of selectivity, high aid tying, and low amounts of aid relative to Gross National Income.[1]

[1] I use rankings in both the sub-components and the overall donor performance index. This avoids difficult questions about how much quantitative differences should be weighted across different components, but does potentially discard useful information about the magnitudes of these differences. In any case the raw numbers will be reported below.

Aid Donor Performance Ranking in Year 2000 according to following criteria:

Donor	high negative correlation of log aid per capita with income of recipient	high partial correlation of log aid per capita with good institutions in recipient	partial correlation of log aid per capita with Burnside-Dollar policy index	Amount of ODA/GNI	Degree to which aid is untied	overall rank (average of 5 components)
Australia	18	5	5	13	14	11
Austria	15	19	9	17	9	16
Belgium	2	16	16	5	17	12
Canada	12	4	6	15	15	9
Denmark	3	14	11	1	4	1
Finland	14	9	19	9	8	14
France	9	11	15	7	11	10
Germany	5	3	13	12	12	6
Greece	21	18	10	19	16	21
Ireland	6	6	18	10	18	13
Italy	13	12	12	20	13	18
Japan	19	8	2	11	6	7
New Zealand	1	13	8	2	18	5
Netherlands	17	1	7	16	18	14
Norway	4	7	20	4	1	2
Portugal	10	20	21	14	5	18
Spain	20	21	1	18	10	18
Sweden	8	10	14	3	2	4
Switzerland	7	17	3	6	3	2
United Kingdom	16	2	17	8	7	8
United States	11	15	4	21	18	16

The next table shows the correlations on selectivity. Each number represents the correlation coefficient of the log of aid per capita in the recipient country with the variable shown. For income, this is just the raw correlation coefficient. The log per capita income in the year 2000 is the purchasing power parity adjusted measure. A high negative correlation suggests the donor responds to need. There are a number of examples of strong negative correlation.

For instititutions (KKZ), the number is the partial correlation coefficient of log aid per capita with KKZ.[2] The sample includes only countries eligible to receive aid from that source. KKZ is the Kaufman, Kraay, and Zoido-Lobaton 2001 (the measure refers to 1999) measure of quality of institutions, which is an average of six dimensions (1) democracy, (2) political instability, (3) rule of law, (4) bureaucratic regulation, (5) government effectiveness, and (6) corruption. An increase in the index means better governance. A high positive partial correlation indicates the donor rewards good governance with increased aid, controlling for income. Note that these correlations are quite weak in general and often negative – most donors do not discriminate according to good institutions. The stronger partial correlations are those for Germany, New Zealand, and the UK. None of the multilaterals have particularly noteworthy partial correlations of aid with institutional quality in the recipient.

The last column shows the partial correlation of the log of aid per capita with the good policy index of Burnside and Dollar, updated to the year 2000, controlling for per capita

[2] This is the correlation coefficient of the residuals from a regression of log aid per capita on log per capita income with the residuals from a regression of KKZ on log per capita income.

income. The Burnside and Dollar policy index is a composite taken from a growth regression of inflation (-), government budget surplus/deficit as percent of GDP (+), and the Sachs-Warner openness classification (+). Despite the widespread dissemination of the Burnside-Dollar message that "aid works in a good policy environment," the donors do not seem very responsive to this measure of good policy. Spain comes the closest to having a strong partial association of aid with good policy in the recipient. Among the multilaterals, the IMF has the strongest association of ODA with this good policy measure (although based on a very small sample). This makes sense since many of the policy measures included are covered by IMF conditionality. A number of donors have a negative correlation with this policy measure, probably reflecting a tendency to give aid to poorly performing governments that promise reforms.

The overall ranking on selectivity is shown in the last column, including the multilaterals. Note that the multilaterals are not systematically more selective than the bilaterals, with the Interamerican Development Bank (#1) and the World Bank/IDA (#2) ranking high, but many others ranking somewhere in the middle or below the middle. Canada, Germany, and the Netherlands are the most selective bilateral donors and Greece and Portugal are the least selective. The worst multilaterals on selectivity are the UNHCR (understandable) and the EC (not understandable).

Selectivity ranking for all donors

Bilateral donor	correlation income	partial correlation KKZ	partial correlation Burnside-Dollar policies	selectivity rank	sample size for Income and KKZ	sample size for Burnside-Dollar
AUSTRALIA	0.077	0.168	0.118	10	69	35
AUSTRIA	-0.082	-0.072	0.024	25	94	44
BELGIUM	-0.264	0.022	-0.165	21	92	45
CANADA	-0.126	0.170	0.073	5	103	50
DENMARK	-0.248	0.089	0.013	8	79	42
FINLAND	-0.087	0.137	-0.223	24	75	38
FRANCE	-0.155	0.117	-0.142	19	106	50
GERMANY	-0.214	0.225	-0.008	3	106	50
GREECE	0.192	-0.063	0.016	31	47	23
IRELAND	-0.196	0.167	-0.219	12	74	36
ITALY	-0.113	0.115	0.009	19	93	45
JAPAN	0.098	0.150	0.130	11	104	49
NETHERLANDS	-0.274	0.103	0.027	4	98	48
NEW ZEALAND	0.062	0.296	0.068	6	63	33
NORWAY	-0.232	0.158	-0.246	15	99	50
PORTUGAL	-0.147	-0.080	-0.441	32	19	8
SPAIN	0.123	-0.097	0.295	25	88	42
SWEDEN	-0.163	0.118	-0.093	16	97	48
SWITZERLAND	-0.190	-0.047	0.126	12	92	45
UNITED KINGDOM	-0.063	0.276	-0.189	17	100	50
United States	-0.142	0.054	0.125	14	94	44
Multilaterals						
AFDF	0.055	0.192	0.084	6	40	15
ASDB	-0.131	0.029	0.650	8	18	9
EC	0.179	0.124	-0.227	30	103	49
IDA	-0.293	0.135	0.014	2	72	34
IDB	-0.542	0.070	0.209	1	24	13
IFAD	0.018	-0.007	0.152	21	81	40
IMF	0.277	-0.256	0.336	28	32	12
UNDP	-0.231	-0.072	-0.008	23	107	49
UNHCR	-0.056	-0.027	-0.246	33	81	35
UNICEF	-0.196	0.112	-0.145	17	105	50
UNTA	0.130	0.082	-0.101	29	110	51
WFP	-0.158	-0.146	-0.006	27	68	31

The following table shows data from the year 2000 on the percent of aid that is untied. Technical assistance is assumed to be all tied, based on anecdotal information. A few countries did not report tying of aid, and we penalize the non-reporting by assuming that all aid is tied. This is rather harsh, but think of it like flunking a student who fails to turn in a term paper. As with the student, the idea is to provoke a response from the non-reporting agencies to provide the information. In the case of the most visible case, the US, data were available up until 1996. Using the percent of aid tied in 1996 and year 2000 aid and technical assistance amounts, the US would have about 20 percent of aid untied. This would still place it in the bottom tier of donors.

Donors' Tying of
Aid in Year 2000

Donor	**%Untied**	rank
Australia	30.09	14
Austria	45.20	9
Belgium	13.16	17
Canada	19.90	15
Denmark	76.10	4
Finland	60.87	8
France	40.72	11
Germany	38.93	12
Greece	18.18	16
Ireland	0	18
Italy	36.67	13
Japan	69.60	6
Netherlands	0	18
New Zealand	0.00	18
Norway	87.00	1
Portugal	70.63	5
Spain	41.81	10
Sweden	79.35	2
Switzerland	76.26	3
United Kingdom	64.90	7
United States	0.00	18

The next table shows the well-known numbers on percent of national income given as aid. The Scandinavians and the Netherlands rank the highest, while Italy and the US rank the lowest.

Net ODA as a percent of GNI

	2000	rank
Australia	0.27	13
Austria	0.23	17
Belgium	0.36	5
Canada	0.25	15
Denmark	1.06	1
Finland	0.31	9
France	0.32	7
Germany	0.27	12
Greece	0.20	19
Ireland	0.30	10
Italy	0.13	20
Japan	0.28	11
Netherlands	0.84	2
New Zealand	0.25	16
Norway	0.80	4
Portugal	0.26	14
Spain	0.22	18
Sweden	0.80	3
Switzerland	0.34	6
United Kingdom	0.32	8
United States	0.10	21

How do these different components of aid performance across donor relate to each other? Is a donor that is good in one category usually good in other categories? The following table shows the matrix of correlations of the rankings in Table 1. There are some interesting correlations. Donors that emphasize aid to poor countries are also likely to give more of their own income as aid, but are less likely to select countries with good policies (Burnside-Dollar measure). Countries that give a lot of aid are also more likely to have that aid untied. In sum, high aid, untied aid, and selection of needy countries tend to go together, but selection of countries according to good policies is negatively associated with most other indicators of good donor performance.

Correlation matrix of component rankings of aid index

	Correlation with income	Partial correlation with institutions	Partial correlation with Burnside-Dollar policies	ODA/GNI	UNTIED AID
Correlation with income	1.00	-0.01	-0.41	0.69	0.08
Partial correlation with institutions	-0.01	1.00	-0.14	0.15	-0.13
Partial correlation with Burnside-Dollar policies	-0.41	-0.14	1.00	-0.36	-0.22
ODA/GNI	0.69	0.15	-0.36	1.00	0.44
UNTIED AID	0.08	-0.13	-0.22	0.44	1.00

Conclusion

There is considerable variation across donors on the quality and quantity of aid. The components of donor performance are not that highly correlated and sometimes negatively correlated, so no donor gets good marks across the board. The "best" donors overall are Denmark, Sweden, and Norway, and the "worst" are Greece, Spain, Italy, Portugal, and the US. Of course, ranking the donors in this way implies a lot of value judgments that may or may not be borne out by evidence, such as the assumption that per capita income, KKZ, and Burnside-Dollar are good measures of how "deserving" the recipients are (or how effectively they can use the aid), that aid tying is something that could be avoided and yet still maintain the current level of aid, and that aid money has positive effects on the recipients. Given these caveats, the donor performance index in this note is still a useful measure of whether aid donors achieve what they say they want to achieve, namely to give substantial funds in a manner that their own rhetoric identifies as effective.