On aid orphans and darlings (Aid Effectiveness in aid allocation by respective donor type)

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Extended Abstract

Introduction

The Paris agenda assumes that the effectiveness of aid use can be enhanced by improved allocation of resources across countries. To what extent has this issue been addressed, and how much more needs to be done? What does it look like when including donors such as international NGOs, and "new donors" such as China, India, Brazil and South Africa?

We analyze this by investigating what an 'optimal' aid allocation would look like if the aim is to achieve as large a reduction of poverty as possible. We also investigate how much more poverty reduction could be achieved if aid was actually allocated according to our allocation rule.

Finally, we study each donor group at a time, and put a value of Aid Effectiveness (average poverty reduction per aid dollar) for each donor group. This analysis is done by creating a new theoretical framework.

Donor countries studied

We include several "new donors" in the analysis. We are able to include a large group of donors.

1 China, India, Brazil, South Africa, Nigerian Trust Fund, Saudi Arabia, Qatar, Kuwait, United Arab Emirates, Chile, Colombia, Taiwan and Thailand (From AidData)

2 International NGOs (from Dreher et al 2005)

3 The traditional DAC country donors and multilateral donors (We use AidData as source, but this data is also available from the OECD/DAC database)

4 Small European non-DAC donors: Cyprus, Estonia, Latvia, Liechtenstein, Lithuania, Monaco and Romania (From AidData)

Part I

First, we find the optimal allocation for all donors in total, and put a dollar value in how much could be gained in terms of poverty reduction by reallocating aid as recommended by our analysis. We define an 'aid orphan' as a country that receives less aid than our allocation rule recommends. To reduce poverty more effectively, the donor community should scale up aid to these countries. We further define 'aid darling' as a country that gets more aid than our allocation rule recommends. The donor community should scale down aid to these countries.

As much as US$95,000 million of aid (out of US$161,000 million) should be reallocated. The fact that more than half of the money would have to be reallocated is alarming. However, for this gain to be realized there should not be any difference in the quality of governance between the darlings and the orphans. But there is such a difference. Therefore we do a more detailed exercise as follow.

We separate out a re-allocation from the worst governed darlings to the best governed orphans. We want these two groups to contain as much aid money (that our allocation rule recommends to be reallocated) as possible, and at the same time we want the weighted average quality of governance index among the good orphans to be at least as high as the weighted average governance index among the bad darlings. We find that US$59,000 million of the missing aid in orphan countries is in countries with a reasonable level of governance. These are the 'good

orphans'. We can also create a group of the worst darlings, the 'bad darlings'. We expand this group successively until it includes at least US$59,000 million of aid that should be reallocated. This group now has on average worse governance than the good orphans. This means that if aid is reallocated from bad darlings to good orphans, then this aid money end up in countries with better governance.

When comparing the bad darlings to the good orphans we see that: the poverty reduction effect (based on GDP/cap, and taking into account that aid has diminishing returns to scale) of a dollar in the bad darling countries is 20 per cent of the effect the same dollar would have in the good orphan countries.

Part II

Second, we study each donor group at a time, and put a value of Aid Effectiveness (average poverty reduction per aid dollar) for each donor group. This analysis is done by creating a new theoretical framework. We look at the poverty reduction of aid. We calculate the total poverty reduction in aid from each donor, in relation to the volume of total aid given by that donor. In other words, for each donor we calculate a measure of average poverty reduction per aid dollar.

The main finding is that Aid Effectiveness varies quite a lot between donors. In line with similar earlier studies we find that multilateral donors and the Nordic countries have relatively high aid effectiveness. Japan and EC have relatively low aid effectiveness.

We further see that NGOs, China, Brazil and South Africa have relatively high aid effectiveness, and India, Saudi Arabia, Qatar, Kuwait and Thailand have relatively low aid effectiveness.

These numbers should be taken with some caution, particular for China. Since we only have data for Chinese aid to Africa, and not Chinese aid outside Africa, the Chinese aid effectiveness might be overestimated in our analysis.

Aid Effectiveness (average poverty reduction per aid dollar), ρ_j, by donor. (The effectiveness of All Donors is set to 100.)

All Donors Total	**100,0**
NGOs	127,8
Australia	61,0
Austria	77,2
Belgium	445,8
Canada	152,0
Czech Republic	64,5
Denmark	122,0
Finland	141,1
France	82,8
Germany	83,1
Greece	82,9
Hungary	62,9
Iceland	267,2
Ireland	241,4
Italy	133,0
Japan	71,4
Korea	101,6
Luxembourg	148,4
Netherlands	162,7
New Zealand	30,7
Norway	174,6
Poland	20,5
Portugal	108,3
Slovak Republic	37,6
Slovenia	24,6
Spain	83,7
Sweden	145,2
Switzerland	109,4
United Kingdom	152,4
United States	113,2

China	130,9
India	73,3
Brazil	203,8
South Africa	242,5
Saudi Arabia	10,7
Qatar	23,0
Chile	45,6
Colombia	183,2
Estonia	72,2
Kuwait	77,0
Liechtenstein	108,6
Lithuania	79,9
Monaco	209,7
Taiwan	51,5
Thailand	59,6
United Arab Emirates	7,2
Nigerian Trust Fund NTF	154,6
EC	89,0
IMF	118,2
UN	158,7
WB	154,8
Other multilaterals	110,7
Bill Gates Fund	110,2