Where Does the Money Go? Best and Worst Practices in Foreign Aid

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Foreign aid from official sources to developing countries (excluding private aid) amounted to $103.6 billion in 2006 and has amounted to over $2.3 trillion (measured in 2006 dollars) over the past 50 years. There have been fierce debates over how effective this aid has been or could be in the future (for example, Sachs, 2005; Easterly, 2006). However, this paper does not address the already ubiquitous issue of aid effectiveness—that is, the extent to which foreign aid dollars actually achieve their goals of reducing poverty, malnutrition, disease, and death. Instead, this paper focuses on "best practices" in the way in which official aid is given, which is an important component of the wider debate.

This paper begins with a discussion of best practice for an ideal aid agency, and with the difficulties that aid agencies face because they are typically not accountable to their intended beneficiaries. Perhaps the foremost best practice is transparency, since without transparency, all other evaluations of best practice are impossible. We then consider four dimensions of best practice: *Specialization* measures the degree to which aid is not fragmented among too many donors, too many countries, and too many sectors for each donor. *Selectivity* measures the extent to which aid avoids corrupt autocrats and goes to the poorest countries. *Ineffective aid channels* measures the extent to which aid is tied to political objectives or consists of food aid or technical assistance. *Overhead costs* measures an agency's administrative costs relative to the amount of aid it gives.

The aid agencies included in our study, distinguishing between bilateral and multilateral ones, are listed in Table 1. Our comparisons of these aid agencies have

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Table 1
List of Aid Agencies

Bilateral agencies

ADA	Austrian Development Agency
AECI	Spanish Agency for International Cooperation
AFD	French Development Agency
AUSAID	The Australian government's overseas aid program
BTC	Belgian Technical Cooperation
BMZ	German Federal Ministry for Economic Cooperation and Development
CIDA	Canadian International Development Agency
DANIDA	Development Cooperation Agency of the Danish Ministry of Foreign Affairs
DFID	UK Department for International Development
DgCiD	French Directorate General for International Development Cooperation
DGDC	Belgian Directorate General for Development Cooperation
EC	Co-operation Office for International Aid of the European Commission
Global.Finland	Development Cooperation Agency of the Finish Ministry of Foreign Affairs
GTZ	German Agency for Technical Cooperation
Hellenic Aid	Development Cooperation Agency of the Greece Ministry of Foreign Affairs
IPAD	Portuguese Institute for Development Aid
Irish Aid	Irish Development Agency
JBIC	Japanese Bank for International Cooperation
JICA	Japan International Cooperation Agency
KfW	German Development Bank
LUX-Development	Luxemburg Development Agency
MCC	Millennium Challenge Cooperation
MOFA Italy	Italian Ministry of Foreign Affairs
MOFA Japan	Japanese Ministry of Foreign Affairs
MOFA Netherlands	Dutch Ministry of Foreign Affairs
NORAD	Norwegian Agency for Development Cooperation
NZAid	New Zealand's development agency
SDC	Swiss Agency for Development and Cooperation
SECO	Swiss State Secretariat for Economic Affairs
SIDA	Swedish International Development Cooperation Agency
USAID	U.S. Agency for International Development

Multilateral agencies

African Dev. Bank	African Development Bank
Asian Dev. Bank	Asian Development Bank
CariBank	Caribbean Development Bank
EBRD	European Bank for Reconstruction and Development
GEF	Global Environment Facility
IMF	International Monetary Fund
IBRD (World Bank)	International Bank for Reconstruction and Development (World Bank)
IDA (World Bank)	International Development Association (World Bank)
IDB	Inter-American Development Bank
IFAD (UN)	International Fund for Agricultural Development (UN)
Nordic DF	Nordic Development Fund
UNDP	United Nations Development Program
UNFPA	United National Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNRWA	United Nations Relief and Work Agency for Palestine Refugees in the Near East
WFP (UN)	World Food Program (UN)

Note: Under "Bilateral agencies," you will notice that many countries have two or more development agencies.

led to four main findings. First, the data on aid agency spending are inexcusably poor. Aid agencies are typically not transparent about their operating costs and about how they spend the aid money. It took great effort on our part to get fragmentary and probably not very comparable data on operating costs, and we still failed with many important agencies. On how aid money is spent, the situation is better thanks to the data collection efforts of the OECD Development Assistance Committee (DAC). However, cooperation with the DAC is voluntary and a number of international agencies apparently do not participate in this sole international effort to publish comparable aid data.

Second, the international aid effort is remarkably fragmented along many dimensions. The worldwide aid budget is split among a multitude of small bureaucracies. Even the small agencies fragment their effort among many different countries and many different sectors. Fragmentation creates coordination problems and high overhead costs for both donors and recipients. These issues have been chronic complaints of agencies, recipients, and academic researchers ever since the aid business began.

Third, aid practices like money going to corrupt autocrats and aid spent through ineffective channels like tied aid, food aid, and technical assistance also continue to be a problem despite decades of criticism.

Fourth, using the admittedly limited information that we have, we provide rankings of aid agencies on both transparency and different characteristics of aid practice—and one final comprehensive ranking. We find considerable variation among aid agencies in their compliance with best practices. In general, multilateral development banks (except the European Bank for Reconstruction and Development, or EBRD) rated the best, and UN agencies the worst, with bilateral agencies strung out in between. Of course, a comprehensive ranking involves selecting weights on different components of aid practice, so there is certainly room for others to suggest other weights or criteria. We chose an aggregation methodology that struck us as commonsensical, and we present these results as an illustrative exercise to move the aid discussion forward.

What Would An Ideal Aid Agency Look Like?

What should an ideal aid agency look like? The academic aid policy literature and the aid agencies themselves agree on many elements of "best practice," as summarized by Easterly (2007).

The consensus holds that transparency is good; for example, aid agencies constantly recommend greater transparency to recipient governments. The consensus holds that too many donors in a single country and sector and/or too many different projects for a single donor should be avoided. Complaints about donor fragmentation can be found in Commission for Africa (2005, pp. 62, 320), IMF and World Bank (2006, p. 62), IMF and World Bank (2005, p. 171), and Knack and Rahman (2004). Diversion of aid to nonpoor beneficiaries though channels like giving money to corrupt autocrats or to less-poor countries should also be avoided

(IMF and World Bank, 2005, p.168). Excessively high overhead costs relative to the amount of aid dispersed should obviously be avoided (IMF and World Bank, 2005, p. 171). Three kinds of aid in particular are broadly thought of as being less effective (for reasons we will discuss later in the paper): "tied" aid that requires the recipient country to purchase goods from the aid-granting country (IMF and World Bank, 2005, p. 172; United Nations Development Program, 2005, p. 102; Commission for Africa, 2005, p. 92); food aid (IMF and World Bank, 2006, pp. 7, 83; United Nations Millennium Project, 2005, p. 197); and aid in the form of technical assistance (United Nations Millennium Project, 2005, pp. 196–7; IMF and World Bank, 2006, p. 7).

By taking this consensus as our standard, we are asking in effect if aid agencies operate the way they themselves say they should operate. Why are these particular criteria so widely regarded as important? The underlying issues can be illuminated with principal–agent theory.

Domestic government bureaucracies in democratic countries have some incentive to deliver their services to the intended beneficiaries, because the ultimate beneficiaries are also voters who can influence the budget and survival of the bureaucracy through their elected politicians. One insight of principal–agent theory is that incentives are weakened if the bureaucracy answers to too many different principals or faces too many different objectives. To improve incentives and accountability, democratic politicians usually form specialized bureaucracies like the Social Security Administration for pension checks, the local government public works department for repairing local streets, and so on.

However, the peculiar situation of the aid bureaucracies is that the intended beneficiaries of their actions—the poor people of the world—have no political voice to influence the behavior of the bureaucracy. The absence of feedback from aid beneficiaries to aid agencies has been widely noted (for example, World Bank, 2005; Martens, Mummert, Murrell, and Seabright, 2005; Easterly, 2006). Moreover, poverty and underdevelopment typically comprise a cluster of problems, and it is often not clear which particular problems of the intended beneficiaries an aid agency should address.

Thus, an ideal aid agency must find answers to the problems of zero feedback and unclear objectives. The answers hark back to the agreed-upon best practices for aid agencies. To remedy the feedback problem, a plausible partial solution is to make the operations of the aid agency as transparent as possible, so that any voters of high-income countries who care about the poor intended beneficiaries could pass judgment on what it does.[1] In turn, with greater transparency, it becomes possible to look at other elements of best practice, like what share of aid ends up

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[1] Another complementary solution would be to have independent evaluations performed regularly, an idea that is intrinsically desirable for effective aid. However, little consensus exists on how to judge what kind of evaluation is reliable and who would perform such evaluations. Even if such a consensus existed on how and who, it would be tricky to measure which agencies are embracing this evaluation methodology. Thus, we do not address this policy in this paper. Duflo and Kremer (2006) and Easterly (forthcoming) offer suggestions on best practices in evaluation.

going to countries with corrupt and autocratic leaders, or what share of aid is given through channels widely believed to be ineffective, like tied aid, food aid that goes back to foreign suppliers, and technical assistance funds that end up in the bank accounts of consultants from high-income countries.

As far as which of the problems of beneficiaries should be targeted, perhaps having a wide open field for producing benefits can be viewed as an advantage, on the grounds that an open-ended search for at least one good outcome in a number of different areas has a higher probability of success than a closed-end search for success in a predetermined area. From this perspective, perhaps each aid agency should choose its own narrow objectives, with general guidance such as "produce as much benefit for as many poor people as possible given your budget, and your particular sectoral and country comparative advantage." However, even this scenario implies that an ideal aid agency would eventually wind up with a high degree of specialization by sector, by country, or both so that it could develop and use expertise in that area.[2] In addition, if aid transactions for a given sector, donor, and recipient involve fixed overhead costs for both donors and recipients, which is quite plausible, it also argues for specialization by donors.

A few earlier studies have tried to rank different aid agencies or to develop an index that would compare the performance of different aid donors according to some elements of the best practice we have enunciated here. Dollar and Levin (2004) rank 41 bilateral and multilateral donors with respect to a "policy selectivity index," which measures the extent to which a recipient's institutional and policy environment is taken into account when aid is given. The authors also compare different time periods and have mixed findings on whether selectivity has increased over the almost 20-year period considered. Acharya, de Lima, and Moore (2004) produce an index for the fragmentation of bilateral aid for a number of donor countries.

One high-profile effort underway is called "Ranking the Rich," or more formally, the Commitment to Development Index (CDI), which is produced by the Center for Global Development and *Foreign Policy* magazine. However, the purposes of our exercises are very different. The CDI, as its name indicates, measures rich nations' "commitment to development" on all conceivable dimensions, while we are simply interested in describing the behavior of aid agencies. As a result, the overlap between the CDI and our exercise is very slight—aid is only one out of seven areas included in the CDI, and the aid component is based mainly on the quantity of aid rather than the behavior of aid agencies. The CDI does include three subcomponents of aid "quality" that overlap with the measures we use, but these subcomponents have a small weight both in their exercise and in ours.

Aid Agencies and Transparency

In evaluating the transparency of aid agencies, we mainly draw on two data sources. First, the International Development Statistics provided by the OECD are

[2] There could be a portfolio diversification argument for managing the risk of aid failures. However, it would seem that the ideal agency should be risk neutral.

found in two different databases: the Development Assistance Committee's (DAC) database, and the Credit Reporting System's (CRS) database on aid activities.

Secondly, we carried out our own inquiries regarding operating costs, including employment and administrative expenses. For administrative expenses, we started out by consulting each agency's website to find nine numbers, beginning with the number of their 1) permanent international staff, 2) consultants, 3) and local staff. For their permanent international staff we looked for a breakdown into 4) professional and support staff, 5) nationals of industrialized and developing countries, and 6) staff employed at headquarters and field offices. We also looked for data on 7) total administrative expenses, 8) expenses on salaries and benefits, and 9) the total amount of development assistance disbursed. After investigating through websites, we emailed agencies to inquire about those numbers we couldn't find online. We informed the agencies that we were facing a deadline so that we needed the data within three weeks. Those agencies that replied did so almost exclusively before the end of that deadline. We received a personal response from 20 out of 31 bilateral agencies and eight out of 17 multilateral ones. This count includes all nonautomated responses we received, without taking into account the quality of the response provided. In some cases we were only told that the desired data did not exist, or we were assured that our mail had been forwarded to the appropriate person, who never followed up on it.

To create some easily comparable statistics, we constructed a series of indices. Of course, a certain degree of subjectivity is unavoidable in such an exercise, particularly in the assumptions on how different aspects of an agency's transparency should be weighted. Despite these problems, we believe that the resulting numbers allow some useful insights with respect to an agency's opacity.

We first present an index based on our own data collection exercise, which focused on operating costs. We assigned points for each of the nine numbers we inquired about, described above. Since we believe that all the information we asked for ought to be readily available online (which includes any published annual report), we gave one point if the number was found on the agency's website. If the number was provided after we inquired by e-mail, half a point was given and the overall score consists of the average points scored.

Because not all aid agencies implement projects, the statistics might not be 100 percent comparable. If we accept that at a minimum all the numbers ought to be available after inquiry, we can conclude that a score below 0.5 is indicative of serious deficiencies in transparency. By that benchmark, only 10 out of the 31 agencies listed earlier in Table 1 pass our transparency test, with a large number doing abysmally badly. The worst reporting was discovered in our attempt to get data on the breakdown of employment (like consultants and locals), and we had to abandon our original hope of analyzing this issue.

It seems useful to consider the transparency of bilateral aid by country, rather than by agency, because bilateral aid agencies are run by countries. Thus, in the top part of Table 2, the transparency results for bilateral agencies are reported by country. For countries with more than one agency (see Table 1), we used a

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Table 2

Transparency Indices for Bilateral and Multilateral Agencies

(ranked by average score for each type, where the average is calculated over the first two columns)

Donor	Transparency index based on		Average (of columns 3 and 4)	Rank
	Operating costs	OECD reporting		
Bilateral agencies (reported by country)				
Australia	0.56	1.00	0.78	7
Austria	0.50	0.80	0.65	14
Belgium	0.49	1.00	0.75	11
Canada	0.50	1.00	0.75	10
Denmark	0.22	1.00	0.61	18
Finland	0.50	0.60	0.55	25
France	0.51	1.00	0.75	9
Germany	0.27	1.00	0.63	17
Greece	0.11	1.00	0.56	22
Ireland	0.11	1.00	0.56	22
Italy	0.39	0.80	0.59	21
Japan	0.27	1.00	0.64	16
Luxemburg	0.22	0.60	0.41	36
Netherlands	0.28	1.00	0.64	15
New Zealand	0.00	1.00	0.50	27
Norway	0.39	1.00	0.69	13
Portugal	0.11	0.80	0.46	31
Spain	0.11	1.00	0.56	22
Sweden	0.67	1.00	0.83	4
Switzerland	0.41	0.80	0.60	20
United Kingdom	0.72	1.00	0.86	2
United States	0.78	0.80	0.79	6
European Commission	0.22	0.80	0.51	26
Multilateral agencies				
African Dev. Bank	0.67	1.00	0.83	4
Asian Dev. Bank	0.72	1.00	0.86	2
CariBank	0.56	0.33	0.44	32
EBRD	0.56	0.33	0.44	32
GEF	0.11	0.33	0.22	40
IBRD	0.89	0.33	0.61	18
IDA	0.89	1.00	0.94	1
IDB	0.56	1.00	0.78	7
IFAD (UN)	0.44	0.33	0.39	37
IMF	0.67	0.33	0.50	27
Nordic DF	0.44	0.33	0.39	37
UNDP	0.44	1.00	0.72	12
UNFPA	0.28	0.33	0.31	39
UNHCR	0.56	0.33	0.44	32
UNICEF	0.33	0.67	0.50	27
UNRWA	0.56	0.33	0.44	32
WFP (UN)	0.67	0.33	0.50	27

Note: Duplicate numbers in the rankings occur when two or more countries have the same score and "tie" for some rank; this also explains missing ranks, for instance the absence of a 3rd place.

weighted average of the individual indices weighted by the amount of development assistance dispersed.

Except for data on "official development assistance" (which is available from the OECD database), five bilateral aid agencies report no data whatsoever on their employment and budget (nor did they respond to our persistent queries): Hellenic Aid, IrishAid, Japan's Ministry of Foreign Affairs, New Zealand Aid, and AECI (Spain). KfW (Germany) would also fall into this group, given that their response was that such data is not available. Four additional agencies failed to disclose any data on their administrative or salary budgets: DANIDA (Denmark), GTZ (Germany), Lux-Development, and IPAD (Portugal). It is an interesting political economy question why these eight democratically accountable governments do not release information on public employment and administrative costs of foreign aid. The agencies that stand out positively are DFID (UK), and USAID.

The bottom panel of Table 2 shows transparency scores for the multilateral aid agencies. Multilateral agencies appear to be more transparent than bilateral ones. Eleven out of 17 multilateral agencies exceed our benchmark level of 0.5 for their transparency on operating costs. Nor do we observe the large number of extremely low scores, as in the case of bilateral agencies. The only aid agencies that perform really poorly on this measure are the UN agencies: we could not find data on administrative or salary budget for WFP, UNFPA, and UNHCR, while UNICEF failed to provide any information on total employment or most of its components, or on the salary budget. UNDP had no information on its website, although it did provide partial information after a direct request.

We created a second transparency index using data available from the OECD. We worked with data from five different OECD statistics tables. From the Creditor Reporting System (CRS), we looked at table 1 (All Commitments—All details: 1973–2004) and table 5 (Disbursements—All details: 2002–2004). From the OECD DAC database, we looked at the table "Total Official Flows" and for bilateral agencies only we looked at table 1 (Official and Private Flows, main aggregates) and table 7b (Tying Status of Bilateral Official Development Assistance). We give one point if a donor reports to a given table in the OECD database and calculate the average of points attained.

Overall, little variance is found in the transparency indices based on OECD reporting, with only a handful of countries not fully reporting. Again, the bottom portion of Table 2 does the same for multilateral agencies. We are aware that not all multilateral agencies are DAC members and therefore not obliged to report, but we believe that voluntary reporting should be expected from each agency. There appears to be more variance among multilaterals than bilaterals in the OECD-reporting transparency index, shedding additional light on the transparency of the aid agencies.

A big part of the lower transparency scores for multilateral aid agencies based on the OECD data is that most multilateral agencies surprisingly fail to report what they are spending the money on: which sector, how much support to nongovernment organizations, and so on. The UN agencies again tend to do especially poorly.

Among multilateral agencies, the big positive exceptions are the development

banks, specifically, the African Development Bank, Asian Development Bank, IDA of the World Bank, and the Inter-American Development Bank (but not the EBRD). However, the seemingly good performance of the development banks comes with a caveat that highlights another data problem. Our index only evaluated agencies as to whether they reported at all to a given table in the OECD database, without taking into account the quality of that reporting. Although we have not done an exhaustive check on the quality of the data provided to the OECD, there seem to be some cases, like whether aid is categorized as "technical assistance," where the data is questionable. For example, according to the OECD data of the agencies we included in our analysis in the year 2004, only the IDB and UNFPA were providing any technical assistance at all—with the latter apparently providing *all* its official development assistance in that form. Up to 2003, the UNDP provided its entire development assistance as "technical cooperation," after which its share precipitously dropped to zero. The Asian Development Bank, the African Development Bank, and the Caribbean Development Bank all report to the OECD that none of their development assistance is in the form of technical assistance. However, according to the website of the Asian Development Bank (2008) it provides technical assistance to the tune of $180 million a year. The African Development Bank (2007) states in its annual report that it spent $99.96 million on technical cooperation grants in 2004. The Caribbean Development Bank (2007), in its annual report, provides detailed expenditures for its technical assistance fund. Again, none of this technical assistance appears in the OECD data. So even when aid agencies do report to the OECD, the reporting can be inconsistent with other statements made by the same agency. Of course, problems with quality of information also tend to make aid agencies less transparent.

In column 3 of Table 2, we present the average of the OECD score and the score based on our own inquiries discussed above. In column 4, we rank the agencies by this average score.[3] Note that column 4 provides an overall rank of multilaterals and bilaterals considered together as one group. Regarding the overall ranking, IDA, the Asian Development Bank, the African Development Bank, the UK, and Sweden are the top performers, while the worst include the GEF, the Nordic Development Fund, Portugal, Luxembourg, UNFPA, and GEF. UN agencies tend to rank near the bottom.

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Aid Practices

In this section, we review best aid practices on the four dimensions mentioned at the start of the paper: specialization/fragmentation, selectivity, ineffective aid channels, and overhead costs. In this section, we discuss each category in turn. In the following section, we will offer a comprehensive index by agency of "aid best practice."

[3] For this and all the succeeding tables, we provide more details on how our measures were constructed in an Appendix attached to the on-line version of this article at ⟨http://www.e-jep.org.⟩.

Specialization/fragmentation

Both government bureaucracies and private corporations in high-income countries tend to specialize. In contrast, aid agencies split their assistance between too many donors, too many countries, and too many sectors for each donor, where "too many" reflects the view that having multiple donors and multiple projects forfeits the gains of specialization and leads to higher-than-necessary overhead costs for both donors and recipients.

As a measure of specialization, we use the Herfindahl coefficient that is familiar from studies of industrial organization. In its original application it provides a measure for market concentration, where a value of one indicates a monopoly and a value close to zero, a highly competitive market. One intuitive interpretation of the index is that it gives the probability that two randomly chosen sales dollars end up with the same firm. Using an analogous formula to the one in industrial organization, we divide the aid into shares according to how it is spent, and then sum the squares of the value of these shares. We calculated Herfindahl coefficients for three possible types of specialization: aid agencies' share of all net official development assistance; share of aid spent by country; and share of aid spent by sector (according to the OECD classification).[4] These three Herfindahls can be interpreted, respectively, as measuring the probability that two randomly selected aid dollars will be 1) from the same donor for all net official development assistance, 2) to the same country for any given donor, or 3) to the same sector for any given donor. All these probabilities are less than 10 percent: 9.6 percent in the first case, 4.6 percent in the second case, and 8.6 percent in the third case. In other words, the aid effort is splintered among many different donors, each agency's aid effort is splintered among many different countries, and each agency's aid effort is also splintered among many different sectors. Of course, the optimal degree of specialization is not 100 percent, but this high degree of fragmentation is inconsistent with what the agencies themselves say is best practice. This finding is all the more striking when we remember that most aid agencies are small; the median net official development assistance across all aid agencies in our sample is $618 million, so that the median aid agency is accounting for 0.7 percent of total net official development assistance.

Figure 1 provides a visual impression of donor fragmentation based on gross official development assistance in the year 2004. The ten biggest donors—the United States, Japan, IDA, EC, France, United Kingdom, Germany, Netherlands, Sweden, and Canada, in that order—account for almost 79 percent of the total,

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[4] We used the old (year 2002) three-digit DAC purpose codes, specifying the following sectors: Education, Level Unspecified; Basic Education; Secondary Education; Post-Secondary Education; Health, General; Basic Health; Population Programs; Water Supply & Sanitation; Government and Civil Society—General; Conflict, Peace, and Security; Employment; Housing; Other Social Services; Transport & Storage; Energy; Banking & Financial Services; Business & Other Services; Agriculture; Forestry; Fishing; Industry; Mining; Construction; Trade Policy and Regulations; Tourism; General Environment Protection; Women in Development; Other Multisector; General Budget Support; Developmental Food Aid/Food Security Assistance; Other Commodity Assistance; Action Relating to Debt; Emergency Food Aid; Other Emergency and Distress Relief; Reconstruction Relief; Support to Nongovernment Organizations.

So Few Dollars, So Many Agencies
(Shares of gross official development assistance in 2004 by donor)
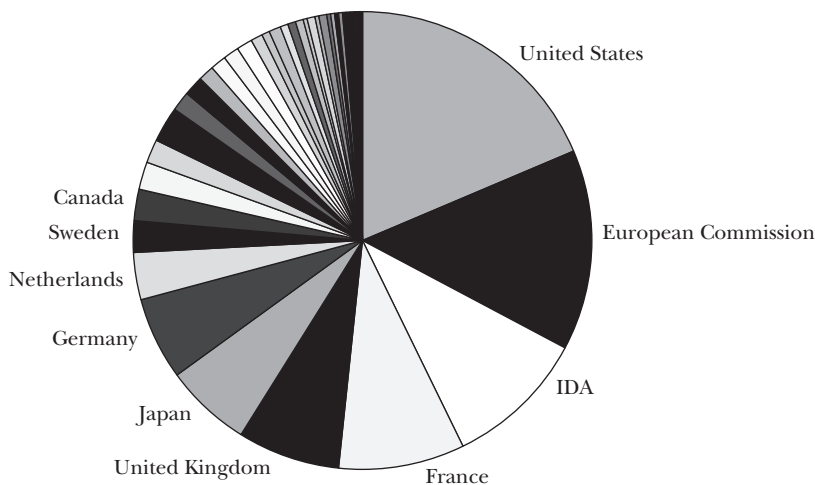
while the 20 smallest agencies account for a total of 6.5 percent of the total. The problem of many small donors might not be so bad if each one were specialized in some small set of tasks or countries, but we have already seen that they are not.

The multiplication of many small players in the international aid effort is actually understated, because many bilateral donors have more than one agency giving aid. For example, both the United States and Japan have two different agencies officially dedicated to giving aid. The United States and many other nations also have parts of the foreign assistance budget executed by a number of other bureaucracies whose main purpose is not aid-giving. Brainard (2007) estimates that the United States actually has more than 50 different bureaucratic units involved in giving foreign assistance, with overlapping responsibilities for an equally high number of objectives.

Of course, these probabilities interact to make it very unlikely that we will find cases where aid from the same agency to the same country for the same sector becomes concentrated and focused. To illustrate the lack of specialization, we can calculate the probability that two randomly selected dollars in the international aid effort will be from the same donor to the same country for the same sector. We get this probability by multiplying the individual probabilities times each other (assuming independence of each measure, which is probably incorrect, but suffices for this illustration). By this method, we calculate that the probability that two randomly selected dollars in the international aid effort will be from the same donor to the same country for the same sector is 1 in 2658.[5] The real-world effect of this

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[5] We can't calculate this directly from the data because there is no sector breakdown by recipient and by donor, only the sector breakdown by donor.

fragmentation is that each recipient must contend with many small projects from many different donors, which breeds duplication, takes up much of the time of government ministers in aid-intensive countries, forfeits the opportunity to scale up successes or gains from specialization, and creates high overhead costs for both donors and recipients.

Looking across aid agencies, we do not see much variation in the extent of country- and sector-level fragmentation. There are only a small number of outliers with higher concentrations by country or by sector: for example, Portugal concentrates its aid both by countries and sectors. UNRWA, which is the UN agency responsible for supporting Palestinian refugees, obviously concentrates on a small number of countries bordering Israel and the occupied territories. The vast majority of Herfindahl scores are below 10 percent; the only bilateral donors above that threshold for country fragmentation are Portugal, Greece, and Belgium. The multilaterals with greater concentration tend to be those who are almost exclusively focused on a specific region. For sectoral specialization, the number of agencies, almost all of them bilaterals, scoring above the somewhat arbitrary 10 percent threshold is higher relative to the case for country specialization due to the fact that there are far fewer sectors than recipient countries.

For donors that have data on both country recipients and sectors (we already complained in the first section about those who lack the latter), we averaged the two Herfindahls and rank them. Portugal, Greece, and the IDB do the best, apparently because Portugal gives mainly to its few ex-colonies (that share had declined somewhat between 1998 and 2003, but was back at over 90 percent in 2004), and the IDB is limited by design to the poorest countries in the Western Hemisphere. Both Portugal and Greece also may have chosen to specialize more because they are among the smallest programs. The most fragmented donors are Canada, the EC, and the Netherlands. Some very small programs that show up as highly fragmented are Finland, New Zealand, and Luxembourg. Luxembourg divided its 2004 aid budget of $141 million among no less than 30 of the 37 sectors considered here, of which 15 in turn had shares of less than 1 percent of the total. The tiny Luxembourg budget also went to 87 different countries, of whom 67 received less than 1 percent of the total. The UN agencies do not report data on sectoral spending (itself a black mark with regard to transparency), but they are among the worst on country fragmentation.[6]

More systematically, we can test whether there is any relationship between the budget of the aid donor and the fragmentation of its aid by country or by sector. One might expect that larger aid budgets can and should be divided up more ways. There is a significant inverse relationship between (log) aid agency budget and

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[6] The 2006 Commitment to Development Index (Center for Global Development/Foreign Policy) had a subcomponent of their aid component called "size adjustment," which attempts to measure average aid project size (also motivated by concern about aid fragmentation). This seems most analogous to our sector Herfindahl, but the two measures were uncorrelated across agencies. We prefer the Herfindahl as a standard and transparent methodology compared with the rather opaque size adjustment procedure described in Roodman (2006a).

country Herfindahl, but the magnitude of the effect is small: that is, moving from a larger aid agency to a smaller agency by a factor of 10 only increases the Herfindahl by .0337. For the sector Herfindahls, the budget size effect is neither statistically nor economically significant. Thus, fragmentation is extreme for even the smallest aid agencies.

In the extreme, this leads to such tiny worldwide flows in 2004 as the $5,000 Ireland spent worldwide to support nongovernmental organizations, the $20,000 Greece (despite its high overall ranking in avoiding fragmentation) spent on worldwide post-secondary education, the $30,000 the Netherlands spent on promoting worldwide tourism to developing countries, the $5,000 Denmark spent on worldwide emergency food aid, or the $30,000 Luxembourg spent on conflict, peace, and security. (Remember, these small sums may have been split even further among country recipients.) The same observation holds regarding flows from donor to recipient countries. For example, in 2004, Austria spent $10,000 in each of the following: Cambodia, the Dominican Republic, Equatorial Guinea, and Gabon. In the same year, Ireland spent $30,000 in Botswana; Luxembourg spent $30,000 in Indonesia; and New Zealand spent $20,000 in Swaziland. When aid is this small, it's hard to believe it even covers the fixed costs of granting and receiving it, much less any operating costs of actually helping people.

The fragmentation of aid spending has increased over time as new trendy targets for aid are enunciated (Easterly, 2007). In 1973, four sectors had shares of more than 10 percent each: economic infrastructure, social infrastructure, production sectors, and commodity assistance. Together, these four sectors accounted for 80 percent of total aid. In 2004, only three sectors had a share of 10 percent or more: economic infrastructure; social infrastructure; and government/civil society/peace and security. Together, these three sectors accounted for 57 percent of total aid. The increasing fragmentation of aid over time shows up in several upward trends over time: rising measures of fragmentation by donor for countries, by donor for sectors, and by donors for each aid recipient. The appearance of new areas of aid focus such as the environment, women in development, support to nongovernment organizations, and debt relief help explain the splintering of aid into many causes. These particular categories were essentially zero percent of aid in 1973, but together account for 12 percent of aid in 2004.

Selectivity: Aid Going to Corrupt or Autocratic Countries versus Aid Going to Poor Countries

Aid is less effective at reducing poverty when it goes either to corrupt dictators or to relatively well-off countries. However, poorer countries are also more likely to be corrupt or autocratic. The paper first documents how much aid goes to corrupt or autocratic countries and how much goes to "nonpoor" countries, and then proposes an index to summarize the selectivity of aid agencies as they seek to focus on low-income countries while trying to steer clear of corrupt autocrats.

We calculated the share of total aid going to countries classified by Freedom House as "unfree" as well as "unfree + part free." Unfree countries have retained about a third of aid, while around 80 percent of aid goes to countries either partly

free or unfree. These proportions have not changed much over time, despite democratization throughout the world and much donor rhetoric about promoting democracy. The only substantial movement can be found in the early 1990s, when the share going to unfree countries first dropped to about 20 percent, then increased to almost 50 percent, and then slowly fell back to its historic level of about 30 percent. This pattern occurs because countries essentially hand out aid to the same countries year after year, but the countries themselves have shifted their status from unfree to free and back to unfree. To put it another way, donor agencies appear to be unresponsive to political changes in recipient countries. Only in the last couple of years before 2004 is there a change in the share going to unfree countries that is explained by a change in donor behavior—and this change is in the wrong direction.

We conducted a similar analysis recording how much aid goes to corrupt countries. For this exercise we used data from the International Country Risk Guide which has a corruption component in its political risk index (going back to 1984). We defined as corrupt those countries with a score of two points or less on a zero-to-six scale, an extreme degree of corruption. The share of aid going to corrupt countries has fluctuated, but there was an upsurge in the late 1990s and early 2000s, just when it became acceptable for donors to explicitly condemn corruption. When we examined this pattern more closely, we again found that donors do not seem to react to changes in the level of corruption, but simply continue giving to the same countries. Thus, in our data going back to 1984, the greater share of aid going to corrupt countries is explained by changes in the corruption levels of the recipients.[7]

Fn7

How has the share of aid going to different income groups changed? The OECD has a list of least developed countries receiving official development assistance[8]: this category includes most of sub-Saharan Africa and many South and Southeast Asian countries. In the 1970s and early 1980s, there is a substantial shift in the share of aid going to these countries, which Easterly (2007) calls the "McNamara revolution," in honor of a speech given by World Bank President Robert McNamara in 1973 emphasizing poverty alleviation in aid efforts. Since then, the share of aid going to the least developed countries has remained fairly stable. However, the expansion of the share of aid going to the *least* developed countries came at the expense of the share going to other low-income countries, such as Ghana, Kenya, and India, rather than countries with higher levels of income. Thus, the share of all low-income countries—that is, the least developed plus other low-income countries—has remained relatively constant since the late 1960s at about 60 percent.

Fn8

The same shift, albeit to a smaller degree, can also be observed within the group of middle-income countries. Upper-middle-income countries like Mexico

[7] Alesina and Weder (2002) present results for a large number of donor countries on the relationship between foreign aid and corruption levels in the receiving country.

[8] As of 2006, the DAC list of ODA recipients categorizes 50 countries as least developed, 18 as other low income, 49 countries and territories as lower middle income, and 36 countries and territories as upper middle income.

and Turkey have seen their share of total aid decrease from close to 20 percent to about 5 percent since the 1960s and 1970s, largely benefiting lower-middle-income countries like most of Latin America, Morocco, and Indonesia, to name a few examples. Since that change, the respective shares of these groups have remained stable.

Low-income countries often have more corruption and less democracy. Does the high share of aid going to the least developed countries explain the high share of aid going to countries run by corrupt autocrats? We evaluate this question by looking at the cross-donor correlations of corruption, democracy, and income levels of recipients. To make a long story short, the answer is "no." It is true, and not surprising, that aid agencies that give more to upper-middle-income countries are also more likely to give more to less-corrupt countries and less-autocratic countries. The quantitative effect of this pattern is limited, however, since shares of upper-middle-income countries in aid are small (mean of 6.6 percent in 2004). Moreover, the share of aid going to lower-middle-income versus low-income versus least developed countries has no association with the extent to which the agencies have funded corrupt dictators. Hence, it does not appear that the relatively high share of corrupt or autocratic rulers in aid receipts is explained much by the routing of aid to the poorest countries.

T3   Table 3 sets out the evidence on individual aid agencies or countries and the share of their funds going to governments that are corrupt, in the second column, or unfree and part-free, in the third column. However, we also need to take into account that an agency which focuses on low-income countries might also end with more money going to corrupt autocracies. In the last two columns of Table 3, we show the share of funds for each agency going to the least developed countries and the other low-income countries. We then calculate an overall score, giving negative weight to funds going to corrupt or unfree countries, but positive weight to funds going to low-income countries as a group. The score is calculated as:

Composite Selectivity Score = .25 x Percentile Rank(Share NOT Going to Corrupt Countries) + .25 x Percentile Rank(Share Going to Free Countries) + .5 x Percentile Rank(Share Going to Low-Income Countries)

Hence, a country that ranked relatively high on giving to low-income countries and on *not* giving to corrupt dictators would have a high score. Even if a donor was the worst at giving its entire aid budget to corrupt dictators, it would still get a score of .5 if it was the best at giving aid to low-income countries. Portugal approximates this situation, because it emphasizes aid to its former colonies that happen to be low-income, corrupt autocracies.

The aid agencies that score the best on our overall rankings for giving money to low-income countries are the Nordic Development Fund and the African Development Bank (the latter partly reflects that it is constrained to the continent of Africa, with virtually all low-income countries). Other high scores go to the IMF, and the IDA of the World Bank.[9] The two bilateral donors doing best are Luxembourg and the United

Fn9

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[9] The Commitment to Development Index also had a "selectivity" component using similar ideas to ours. The rank correlation of our two measures across agencies is very strong but not perfect, at .59.

Table 3
Aid Shares of Different Categories of Recipients in 2004

Donor	Rank composite score	Share of aid going to:			
		Corrupt countries	*Part-free or unfree countries*	*Least developed countries*	*Other low income*
Nordic Development Fund	1	52%	72%	60%	28%
African Dev. Bank	2	63%	77%	83%	14%
IDA	3	66%	79%	50%	40%
United Kingdom	4	65%	77%	51%	30%
Luxembourg	5	60%	55%	51%	19%
IMF SAF & ESAF*	6	56%	94%	58%	38%
IFAD (UN)	7	66%	76%	53%	24%
Canada	8	66%	76%	47%	22%
UNDP	9	70%	83%	60%	24%
UNICEF	10	72%	83%	54%	29%
Netherlands	11	66%	75%	42%	23%
WFP (UN)	12	70%	89%	70%	16%
UNFPA	13	68%	79%	48%	24%
Ireland	14	80%	87%	80%	7%
Switzerland	14	67%	74%	40%	25%
France	16	51%	78%	47%	16%
UNHCR	17	66%	86%	49%	23%
Denmark	18	73%	81%	52%	25%
Portugal	19	100%	94%	97%	0%
GEF	19	51%	21%	15%	13%
Spain	21	41%	76%	14%	20%
CariBank	22	35%	0%	0%	0%
Japan	23	66%	65%	15%	31%
European Commission	24	65%	77%	41%	13%
Asian Dev. Bank	25	83%	95%	30%	56%
Germany	25	62%	79%	23%	33%
Belgium	27	78%	85%	64%	12%
Australia	28	93%	86%	32%	46%
IDB	29	27%	81%	6%	27%
EBRD	30	95%	74%	0%	64%
New Zealand	31	88%	77%	46%	19%
Sweden	32	73%	86%	52%	16%
Austria	33	72%	78%	18%	40%
Norway	34	76%	88%	59%	11%
Italy	35	62%	88%	36%	11%
Finland	36	78%	80%	47%	16%
UNRWA	37	49%	100%	0%	0%
United States	38	76%	87%	29%	12%
Greece	39	92%	91%	8%	8%
Average		68%	78%	42%	22%
Standard deviation		16%	18%	23%	14%
Median		66%	79%	47%	22%
Max		100%	100%	97%	64%
Min		27%	0%	0%	0%

* Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF).

Kingdom. The aid agencies that receive the worst overall scores include those of the notoriously ally-rewarding United States; Greece; and the particular case of UNRWA, which gives aid only to Palestinian refugees and thus is limited to a few countries that happen to be mostly autocratic and middle income.

Ineffective Aid Channels

Three types of aid are widely considered to be intrinsically not very effective: tied aid, food aid, and technical assistance (for references from academic sources and aid agencies, see Easterly, 2007). Tied aid comes with the requirement that a certain percentage of it has to be spent on goods from the donor country, which makes the recipient likely to be overcharged since it increases the market power of donor country's firms and often amounts to little more than ill-disguised export promotion. The case against food aid is similar. It consists mostly of in-kind provision of foods by the donor country, which could almost always be purchased much cheaper locally. Food aid is essentially a way to for high-income countries to dump their excess agricultural production on markets in low-income countries. Technical assistance, according to the OECD, "is defined as activities whose primary purpose is to augment the level of knowledge, skills, technical know-how or productive aptitudes of the population of developing countries." It is also very often tied, and often condemned as reflecting donor rather than recipient priorities.

We have calculated the share of each bilateral donor's aid going to these three areas. In this exercise, we only focus on bilateral agencies. One reason for this choice is that, as already discussed in the section on transparency, the reporting on technical assistance by the multilaterals appears to be extremely unreliable. In addition, only bilateral donors grant tied aid, and the amounts of food aid and technical assistance from multilateral agencies depend largely on that agency's mission. We then compute an aggregate score among the bilateral aid agencies by averaging the rankings in each category (with zero being best) and report the rank of the composite score.

Among bilateral aid agencies, the average percentage shares for tied aid, food aid, and technical assistance are 21 percent, 4 percent, and 24 percent, respectively. There is considerable diversity across agencies; the standard deviations are roughly as large as the average values at 27 percent for tied aid, 9 percent for food aid, and 18 percent for technical assistance, and the distribution is skewed with only a few high values.

Four donors don't tie any aid at all: Ireland, Norway, the United Kingdom, and the European Commission (we refer only to the aid distributed directly by the Commission of the European Union, which is considered a bilateral donor). Other countries do little tying of aid, like Portugal (1 percent) and Switzerland and Luxembourg (3 percent each). On the other side of the distribution, we have the United States (72 percent), Greece (77 percent), and Italy (92 percent) as those **Fn10** most likely to tie their aid dollars.[10]

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[10] The tied aid figure for the United States is out of date (1996), because the United States stopped reporting then. Anecdotal evidence suggests the share of aid tying in U.S. aid remains very high, which might explain the refusal to report the number for the last decade. We think using the old number is preferable to leaving the cell blank. Aid tying was the third area in which we overlapped with the Commitment to Development Index—and our measures on aid tying were almost perfectly correlated.

Nine countries don't give any food aid: Switzerland, Norway, Sweden, Denmark, Netherlands, Finland, Belgium, Germany, and Greece. The big outlier is Portugal where 44 percent of all aid is food aid; other countries with nontrivial shares of food aid relative to total aid are the European Commission (6 percent), the United States (7 percent), and Australia (9 percent).

All countries provide some technical assistance, the share of which is in single digits in only five countries: Ireland (3 percent), Luxembourg (3 percent), Sweden (5 percent), the European Commission (6 percent), and Denmark (9 percent). Those with the greatest share of aid given in the form of technical assistance are Belgium (42%), the United States (43 percent), Germany (47 percent), Australia (58 percent), and Greece (64 percent). Unsurprisingly, there appears to be a strong correlation (0.42) between a country's share of technical assistance and its share of tied aid.

The most highly ranked bilateral aid agencies on skipping the ineffective channels are Switzerland, Ireland, and Norway and Sweden (sharing third place), while the lowest ranked are Greece, Australia, and the United States.

Overhead Costs

T4   Table 4 presents the most novel data in this paper, and also the least trustworthy. Data on operating costs of aid agencies have not been widely available. Even our partial success in collecting the data has probably resulted in numbers that are not strictly comparable across agencies, because there does not seem to be completely standard definitions of concepts like "number of aid agency employees" and "administrative costs." Also, some of these agencies have other purposes than granting aid, and the employees and costs of granting aid are not clearly separated out. Examples of agencies which combine an aid mission with other purposes are the development banks—like the World Bank (including the IDA), EBRD, African Development Bank, Asian Development Bank, and Inter-American Development Bank—who both give aid and also make nonconcessional official loans to middle-income countries. For these cases, and only for this table, for "aid," we have substituted the concept of "official development financing," which is defined as the sum of official development assistance and nonconcessional official loans. For other multipurpose bureaucracies, no similar fix seemed readily available.

We calculate two indicators: (1) ratio of costs to official development financing and (2) official development financing per employee. We calculate the first indicator in two ways: one using the entire administrative budget and the other using just wages and salaries. We also calculate the second indicator two ways: one based on total agency employment and the other based only on permanent internationally-recruited staff. Some agencies consider the latter to be the definition of "total employment," so for these agencies the two indicators for official development financing per employee will be the same. We originally hoped to do some exercises on such employment issues as use of consultants, local developing country nationals, etc., but the data provided was so poor as to make this impossible.

Even though this data is undeniably shaky, the numbers in Table 4 do shed

Table 4

Overhead Cost Indicators Bilateral Donors

Agencies	Rank of overall score	Ratio administrative budget to ODF	Ratio salaries and benefits to ODF	Total ODF million $ per permanent international employee	Total ODF million $ per employee
Bilaterals agencies (reported by country)					
Italy	1	1%	0%	$11.02	$8.11
Norway	2	1%		$10.81	$10.81
Portugal	4			$5.35	$5.35
Japan	5	2%	1%	$4.38	$4.38
Australia	6	2%	2%	$3.34	$3.34
UK	8	5%	2%	$3.84	$3.84
Finland	10	4%		$2.55	$2.35
Sweden	11		4%	$2.41	$2.41
France	12		6%	$3.02	$3.02
USA	13	11%	3%	$4.39	$1.30
Switzerland	16		6%	$1.65	$1.65
Canada	19	9%	6%	$1.06	$1.06
Luxembourg	20			$1.14	$1.14
Netherlands	21	19%		$1.36	$1.36
Austria	22	12%	7%	$0.63	$0.63
Belgium	25		8%	$0.62	$0.62
Germany	28			$0.48	$0.48
Denmark	29			$0.60	$0.29
All bilateral		7%	2%	$2.73	$1.37
Multilaterals					
Nordic DF	7	6%	4%	$6.75	$6.75
IBRD&IDA (World Bank)	9	7%	3%	$5.50	$1.93
UNRWA	14		52%	$4.58	$4.58
IDB	15	11%		$2.33	$2.33
Asian Dev. Bank	17	8%	8%	$1.45	$1.45
African Dev. Bank	18	12%	9%	$1.93	$1.93
UNICEF	23	14%			
EBRD	24	15%		$1.37	$0.53
CariBank	26	26%	10%	$1.24	$0.61
IFAD (UN)	27	22%	16%	$0.56	$0.56
UNFPA	30			$0.32	$0.32
IMF	31	75%	53%	$0.46	$0.40
GEF	32	75%			
UNHCR	33			$0.08	$0.07
UNDP	34	129%	100%	$0.19	$0.05
WFP (UN)	35			$0.03	$0.03
all multilateral		12%	8%	$1.12	$0.68
all aid		9%	5%	$1.72	$0.97

Note: ODF is "official development financing," which is defined as the sum of official development assistance and nonconcessional official loans.

some light on overhead costs, which has previously been mostly unavailable. For the total international aid effort, the ratio of administrative costs to official development financing is about 9 percent. Multilateral aid agencies have significantly higher administrative budgets than bilateral aid agencies; this is explained entirely

by higher salary budgets (which in turn are explained mostly by higher salaries and benefits per employee in multilateral agencies).

There is tremendous variation across agencies, with the UN agencies typically having the highest ratios of operating costs to aid by a large margin. UNDP is the worst, spending much more on its administrative budget than it gives in aid. Australia, Italy, Japan, and Norway show the lowest overhead costs by this measure. Of course, the optimal overhead is not zero and higher overhead could be justified by higher effectiveness of aid disbursed, but we would find it a stretch to believe that this degree of variation is due to differences in effectiveness between UNDP and Norway.

The second set of measures is official development finance per employee. According to the data we collected, about 90,000 people altogether work for the official aid agencies. This total mostly refers to permanent international employees (meaning it excludes local nationals from overseas offices or consultants), although some agencies were unclear about this in their reporting to us.

There is about $1.0 million to $1.7 million of aid disbursed for every aid employee, depending on whether one uses a more- or less-restrictive definition of employment. The level of variation is tremendous. Bilaterals have aid disbursements per employee about twice that of multilaterals. Again, UN agencies are the lowest on the list, with as little as $30,000 in aid per employee from the World Food Program (WFP), and $70,000 per employee from UNHCR. In contrast, Norway and Italy disburse above $10 million in aid per agency employee. Although the data are noisy, a difference by a factor of more than 400 certainly calls for some explanation! We hope this paper and follow-up research can motivate the aid agencies to be more transparent and consistent about these numbers. For example, these numbers could become standard indicators in the OECD DAC database.

Table 4 gives our indicators of overhead costs for bilaterals and multilaterals separately. We computed an overall score on overhead by taking the average of the percentile ranking on the four measures. Within each category—bilateral or multilateral—the order of agencies corresponds to their ranking on this score, with the first column giving their overall rank when the two groups are put together.

Differences among Aid Agencies in Performance

We can now combine the percentile rankings in all five categories we have considered—transparency, fragmentation, selectivity, ineffective channels, and overhead costs—and compare the aid agencies to each other. In the case of missing values, we have averaged over those rankings that are available. For the "Overhead" category, the percentages presented are already an average of the percentile rankings of its four components. In the discussion above, we only discussed ineffective aid channels for bilateral donors. In Table 5 we also include multilateral agencies in that category, giving them credit for not tying any aid, and we include food aid for those multilaterals which report it. Given their lack of reliable data on technical assistance for multilateral aid agencies, we had to omit that category from

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Table 5

Ranking of Donor Agencies on Best Practices in Aid

Donor	Rank of average rank	Average percentile ranking on each type of aid best practice (higher rank means better aid practice)					Average percent rank
		Fragmentation	Selectivity	Ineffective channels	Overhead	Transparency	
IDA	1	51%	76%	87%	71%	100%	77%
United Kingdom	2	54%	72%	61%	76%	95%	72%
African Dev. Bank	3	49%	84%	87%	45%	90%	71%
Asian Dev. Bank	4	76%	46%	87%	48%	95%	70%
IDB	4	88%	41%	84%	56%	82%	70%
Norway	6	34%	38%	71%	97%	69%	62%
Sweden	7	39%	39%	74%	63%	90%	61%
Japan	8	61%	48%	42%	86%	62%	60%
Switzerland	9	63%	53%	81%	49%	51%	59%
Portugal	9	100%	50%	35%	86%	23%	59%
France	9	73%	53%	26%	62%	79%	59%
Australia	12	80%	45%	3%	79%	82%	58%
UNICEF	13	71%	57%	87%	32%	26%	55%
Belgium	14	83%	46%	32%	29%	74%	53%
Italy	15	46%	34%	16%	98%	49%	49%
United States	16	66%	20%	0%	59%	87%	46%
Austria	16	78%	39%	13%	35%	67%	46%
Ireland	16	59%	53%	77%		41%	46%
Nordic DF	16	56%	88%		79%	5%	46%
Netherlands	20	15%	56%	55%	37%	64%	45%
Canada	21	20%	61%	19%	45%	77%	44%
Denmark	21	44%	52%	52%	16%	56%	44%
Finland	23	24%	33%	39%	70%	38%	41%
Luxembourg	24	37%	70%	48%	37%	10%	40%
UNRWA	25	98%	23%		59%	13%	39%
IMF SAF & ESAF*	26	85%	70%		9%	26%	38%
Germany	27	27%	46%	29%	17%	59%	36%
CariBank	28	90%	49%		25%	13%	35%
EC	29	22%	47%	58%		36%	33%
EBRD	30	68%	41%		31%	13%	31%
GREECE	31	93%	7%	6%		41%	29%
UNDP	32	5%	60%		2%	72%	28%
SPAIN	33	32%	50%	10%		41%	27%
NEW ZEALAND	34	41%	40%	23%		26%	26%
UNFPA	35	2%	54%	45%	11%	3%	23%
IFAD (UN)	36	7%	69%		19%	5%	20%
WFP (UN)	37	10%	55%	0%	0%	26%	18%
GEF	37	29%	51%		9%	0%	18%
UNHCR	37	17%	53%		5%	13%	18%

Note: Duplicate numbers occur in the rankings when two or more countries have the same score and "tie" for some rank; this also explains missing ranks, for instance, no 5th place.
* Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF).

the ineffective channels ranking. Obviously, missing or unreliable data is a serious flaw in our comparative exercise—as well as being itself a serious complaint about the aid agencies.

Nevertheless, in the spirit that a summary of partial data is better than no data, Table 5 shows our rankings. The top-rated agency in terms of best practices is the World Bank's IDA, followed by the United Kingdom as the best-ranked bilateral donor, and the African and Asian Development Banks. We again note that we are measuring only aid practices, not addressing the huge debate on whether the money effectively achieves desired aid outcomes like lower poverty and better health.

One notable finding is the prevalence of the multilateral development banks among the top-ranked agencies: specifically, IDA (the World Bank's International Development Association), the African Development Bank, the Asian Development Bank, and IDB (the Inter-American Development Bank) take four of the top six places. However, the other main development bank, the EBRD (European Bank for Reconstruction and Development), is way down in the rankings. The UN agencies are typically at or near the bottom of the rankings, except for UNICEF and UNRWA (UN Relief and Work Agency for Palestine Refugees in the Near East). On our rankings, the worst practices amongst bilaterals are for Germany, the European Commission, Greece, Spain, and New Zealand. The "best practice" bilaterals are the United Kingdom, Norway, France, Sweden, and Ireland.

Do the highly ranked agencies achieve this because they are good at everything? How highly correlated are our separate indicators of aid "best practice" and transparency? We computed the pairwise correlations of our five indicators, based on the rankings that they generated across the aid agencies, and their significance level. The results are presented in Table 6: only four out of the ten such rank correlations are significant at the 5 percent level, which suggests that these five factors are not just picking up an underlying single trait of "following best practices."

Perhaps the most interesting result in these pairwise correlations is the positive significant correlation between the ranking on specialization (the Herfindahls) and the ranking on "lower overhead," with a correlation coefficient of 0.37. This correlation confirms the intuition that more specialization should lead to lower overhead costs, and it also provides some reassurance that our data on these two indicators (especially the lower overhead) are not pure noise. The other indicators that are correlated in a significant manner are selectivity and "avoiding ineffective channels," with a 0.47 coefficient, and "lower overhead" and transparency with 0.38. The latter result may come about because a bloated bureaucracy has an interest in keeping its doings opaque. Finally, there is one significant negative pairwise correlation, between specialization (concentration) and selectivity (−0.29). This result may hold because donors that specialize in particular recipients for historical reasons (like colonial ties) pay little attention to their favored recipient's corruption or autocracy.[11] The relationship between Portugal and Angola is a well-known example.

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[11] In an often cited paper, Alesina and Dollar (2000) examine the determinants of bilateral aid flows for a series of industrialized countries, shedding light on the importance of factors such as being a former colony or a political ally relative to factors such as being a democracy, or openness to trade. A related study with a political science focus had previously been conducted by Schraeder, Hook, and Taylor (1998), comparing the foreign aid flows of the United States, France, Japan, and Sweden.

Table 6

Correlation of Aid Practices Across Agencies

(Significant relationships at the 5 percent level shown in bold)

	Specialization	Selectivity	Avoiding ineffective channels	Lower overhead
Selectivity	**−0.2914**			
Avoiding ineffective aid channels	0.0376	**0.4703**		
Lower overhead	**0.3702**	−0.18	0.0713	
Transparency	0.1399	−0.0329	0.2259	**0.3813**

Conclusion

The main conclusions of our paper appear somewhat contradictory: 1) the data are terrible, and 2) the patterns the data show are terrible. If the data are terrible, how do we know the patterns they seem to show hold true? Still, we remain convinced that some data is better than no data. Also, we hope that as researchers publish findings based on the currently available flawed data, additional data collection and quality improvement will take place. The data situation among aid agencies, such as the murky data available on operating costs of aid agencies and the nonreporting of essential items like aid tying and sectoral shares of aid spending, would be unacceptable in most areas of economics in rich country democracies. It is particularly sad in an area where the objective is helping the poorest people in the world and where one of the few mechanisms for accountability is for outsiders to check what the agencies are doing.

Our findings on aid best practice tend to confirm a number of long-standing complaints about foreign aid, notwithstanding the aid agencies' perpetual claims that they are fixing past problems. The aid effort is remarkably splintered into many small efforts across all dimensions—number of donors giving aid, number of countries receiving aid from each donor, and number of sectors in which each donor operates. A lot of aid still goes to corrupt and autocratic countries and to countries other than those with the lowest incomes. Aid tying, the use of food aid-in-kind, and the heavy use of technical assistance persist in many aid agencies, despite decades of complaints about these channels being ineffective. In addition, some agencies have remarkably high overhead costs. The broad pattern that emerges from our evidence is that development banks tend to be closest to best practices for aid, the UN agencies perform worst along each dimension, and the bilaterals are spread out all along in between. Explaining why each of these patterns persists over time raises an interesting agenda for research in political economy.

The aid business now spends $100 billion dollars a year of money each year, seeking to help the world's poorest people. It is a sad reflection on the aid establishment that knowing where the money goes is still so difficult and that the picture available from partial knowledge remains so disturbing.

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Appendix

Background Tables and Figures

In this Appendix, we will present a series of figures and tables that provide additional detail and background.

Ta1-2 Tables A1 and A2 present detailed results on the computation of the transparency index with regard to our own inquiries on operating costs. As explained in the paper, we looked for nine different items of information and gave one point if that information was readily found online and half a point if it was provided after we had asked for it. The last column presents the mean score over all nine items. Table A1 differs from the first column in Table 2 in the paper in presenting results by individual bilateral agencies instead of by donor country.

Ta3-4 Tables A3 and A4 provide summary statistics and detailed numbers on aid fragmentation by country and sector for all donors.

Ta5 In Table A5 we provide a detailed documentation of the sectoral fragmentation of Luxemburg's tiny aid program in 2004—where the total aid budget is $171

Fa1 million in U.S. dollars—and Figure A1 gives a visual impression of how splintered

Fa2-4 this spending is. In Figures A2–A4 we show how total foreign aid evolved over the last few decades with respect to sectoral shares, shares of different regimes types, and shares of different income groups respectively.

Ta6 Table A6 is a more detailed version of Table 3 in the paper, providing, among other things, percentage ranks with regard to foreign aid going to different categories of countries.

Ta7 Finally, Table A7 provides detailed numbers on the proportions of foreign aid which are disbursed through channels regarded as inefficient, by donor.

Table A1

Transparency with Regard to Operating Costs, Individual Bilateral Agencies

Donor	Permanent international staff	Consultants employed	Locally hired staff	Support vs. professional staff	Developing-country nationals	Staff at HQ vs. field	Administrative expenses	Salaries and benefits	Total ODA disbursed	Transparency
AUSAID(Australia)	0.5	0.5	0	0.5	0	1	0.5	1	1	0.556
ADA(Austria)	0.5	0	0	0.5	0	0.5	1	1	1	0.5
DGDC(Belgium)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
BTC(Belgium)	1	0	0	0	0	1	0	1	1	0.444
CIDA(Canada)	0.5	0	0	0.5	0	0.5	1	1	1	0.5
DANIDA(Denmark)	0.5	0	0.5	0	0	0.5	0	0	0.5	0.222
Finland	0.5	0	0.5	0.5	0.5	0.5	1	0	1	0.5
DgCiD(France)	1	0	0	0	0	0.5	0.5	0	1	0.333
AFD(France)	1	0	1	1	0	1	0	1	1	0.667
BMZ(Germany)	0.5	0	0	0	0	0.5	1	0	1	0.333
GTZ(Germany)	1	0	1	0	0	1	0	0	1	0.444
KfW(Germany)	0	0	0	0	0	0	0	0	1	0.111
Greece	0	0	0	0	0	0	0	0	1	0.111
IrishAid	0	0	0	0	0	0	0	0	1	0.111
Italy	0.5	0	0.5	0.5	0	0.5	0.5	0.5	0.5	0.389
MOFA(Japan)	0	0	0	0	0	0	0	0	1	0.111
JBIC(Japan)	1	0	0	0	0	0	1	0	1	0.333
JICA(Japan)	1	0	0	0	0	0	1	1	1	0.444
Luxemburg	1	0	0	0	0	1	0	0	0	0.222
Netherlands	0.5	0	0	0.5	0	0.5	0.5	0	0.5	0.278
New Zealand	0	0	0	0	0	0	0	0	0	0
NORAD(Norway)	0.5	0	0.5	0	0.5	0.5	0.5	0	1	0.389
IPAD(Portugal)	1	0	0	0	0	0	0	0	0	0.111
AECI(Spain)	0	0	0	0	0	0	0	0	1	0.111
SECO(Switzerland)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0	1	0.5
SDC(Switzerland)	0.5	0.5	0.5	0	0.5	0.5	0	0.5	1	0.389
SIDA(Sweden)	1	0	0	1	0	1	1	1	1	0.667
DFID(UK)	1	0.5	1	0.5	0	1	1	1	1	0.722
USAID(USA)	1	1	1	0	1	1	0.5	1	1	0.833
MCC(USA)	1	0	0	0	0	0	1	1	1	0.444
EuropeAid	0	0	0	0	0	0	1	0	1	0.222

Table A2

Transparency with Regard to Operating Costs, Multilateral Donors

Donor	Permanent international staff	Consultants employed	Locally hired staff	Support vs. professional staff	Developing-country nationals	Staff at HQ vs. field	Administrative expenses	Salaries and benefits	Total ODA disbursed	Transparency
Asian Dev. Bank	1	0	0	1	0.5	1	1	1	1	0.722
African Dev. Bank	1	0	0	1	1	0	1	1	1	0.667
CariBank	1	0	0	1	0	0	1	1	1	0.556
EBRD	0.5	0.5	0.5	0.5	0.5	0.5	1	0	1	0.556
GEF	0	0	0	0	0	0	1	0	0	0.111
GFATM*	1	1	1	1	1	1	1	1	1	0.889
IMF	1	1	0	1	1	0	1	1	0	0.667
IBRD & IDA	1	1	1	1	1	1	1	1	0	0.889
IDB	1	0	0	1	1	1	1	0	0	0.556
IFAD	1	0	0	1	1	0	1	1	0	0.444
Nordic DF	1	0	0	0	0	0	1	0	1	0.444
WFP	1	1	1	1	0	1	0	0	1	0.667
UNDP	0.5	0	0.5	0.5	0	0.5	0.5	0.5	1	0.444
UNFPA	0.5	0	0.5	0.5	0.5	0.5	0	0	0	0.278
UNHCR	1	1	0	1	0	1	0	0	1	0.556
UNICEF	0	0	0	0	1	0	1	0	1	0.333
UNRWA	1	0	1	0	0	1	0	1	1	0.556

* Global Fund to Fight AIDS, Tuberculosis, and Malaria.

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Table A3

Herfindahl Summary Statistics

(Herfindahl coefficient for 2004)

	Herfindahl coefficient
For shares in net ODA of all donor agencies	0.096
Median across donor agencies for recipient country shares for each donor	0.046
Median across donor agencies for sectoral shares for each donor	0.086

Note: "ODA" is "official development assistance."

Table A4

Herfindahl Indices for Country and Sector Fragmentation

Donor	2004 Herfindahl for: Countries	Sectors	Rank fragmentation
Portugal	0.7	0.48	1
Greece	0.28	0.15	2
IDB	0.19	0.14	3
Belgium	0.15	0.07	4
Australia	0.03	0.19	5
Austria	0.07	0.14	6
Asian Dev. Bank	0.12	0.09	7
France	0.04	0.16	8
UNICEF	0.03	0.16	9
United States	0.08	0.08	10
Switzerland	0.03	0.13	11
Japan	0.05	0.11	12
Ireland	0.08	0.08	13
United Kingdom	0.05	0.1	14
IDA	0.04	0.09	15
African Dev. Bank	0.05	0.08	16
Italy	0.03	0.1	17
Denmark	0.05	0.08	18
New Zealand	0.05	0.08	19
Sweden	0.03	0.09	20
Luxembourg	0.04	0.08	21
Norway	0.03	0.09	22
Spain	0.05	0.07	23
Germany	0.04	0.08	24
Finland	0.04	0.07	25
European Commission	0.02	0.09	26
Canada	0.02	0.07	27
Netherlands	0.03	0.06	28
UNRWA	0.43		
CariBank	0.18		
SAF & ESAF*	0.12		
EBRD	0.09		
Nordic Dev. Fund	0.08		
GEF	0.06		
UNHCR	0.05		
WFP	0.02		
IFAD	0.02		
UNDP	0.02		
UNFPA	0.02		
Average	0.09	0.11	
Standard deviation	0.13	0.08	
Maximum	0.7	0.48	
Minimum	0.02	0.06	

* Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF).

Table A5

Illustration of Sectoral Fragmentation for Luxembourg

Sector	Share
I.1.a) Education, Level Unspecified	0.0071
I.1.b) Basic Education	0.0663
I.1.c) Secondary Education	0.0684
I.2.a) Health, General	0.0628
I.2.b) Basic Health	0.0980
I.3 Population Programmes	0.0280
I.4 Water Supply & Sanitation	0.0865
I.5.a) Government and civil society—general	0.0048
I.5.b) Conflict, Peace, and Security	0.0002
I.6 Other Social Infrastructure & Services	0.0249
II.1 Transport & Storage	0.0103
II.2. Communications	0.0001
II.4 Banking & Financial Services	0.0054
II.5 Business & Other Services	0.0088
III.1.a) Agriculture	0.0595
III.1.b) Forestry	0.0184
III.1.c) Fishing	0.0002
III.2.a) Industry	0.0015
III.3 Trade Policy and Regulations	0.0001
III.4 Tourism	0.0054
IV.1 General Environment Protection	0.0015
IV.2 Women In Development	0.0001
IV.3 Other Multisector	0.0519
IX. ADMINISTRATIVE COSTS OF DONORS	0.0849
I.2 Developmental Food Aid/Food Security Assistance	0.0267
VIII.1 Emergency Food Aid	0.0122
VIII.2 Other Emergency and Distress Relief	0.0971
VIII.3 Reconstruction relief	0.0111
X. SUPPORT TO NGO'S	0.1395
XI. UNALLOCATED/UNSPECIFIED	0.0185
SUM	**1.0000**

Figure A1
Illustration of Sectoral Fragmentation for Luxembourg
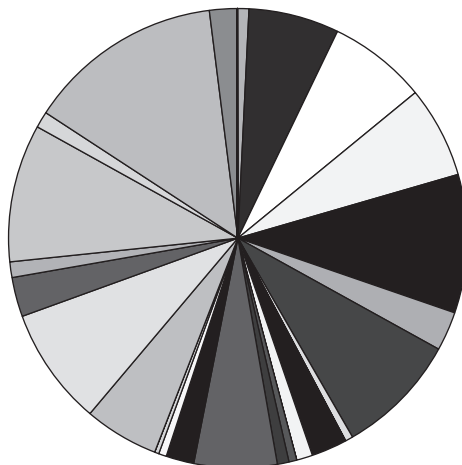(Luxembourg's sectoral shares in 2004)

Figure A2
Changes in Sectoral Shares of Total Aid
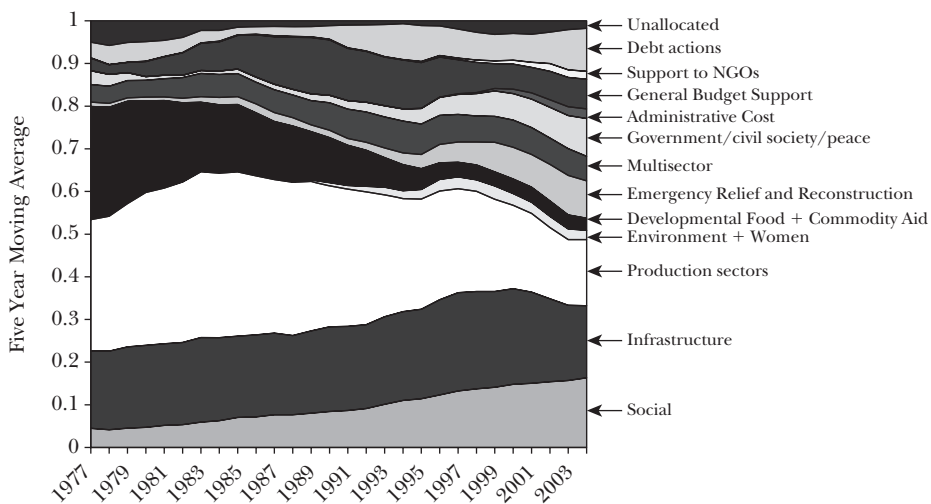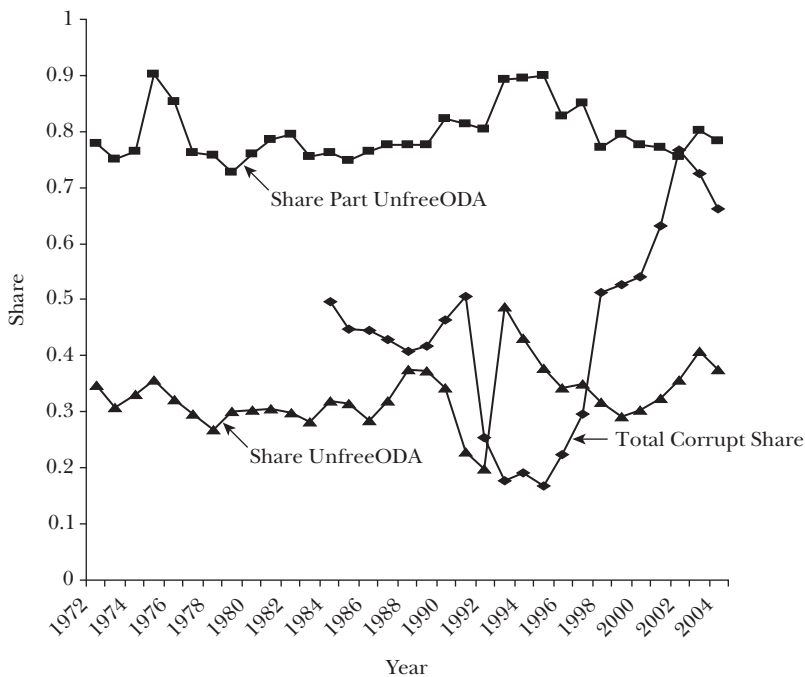(shares of aid from 1973 to 2004)

Figure A3

Variation over Time in Aid Shares by Corruption and Freedom of Recipients

Note: "ODA" is official development assistance.
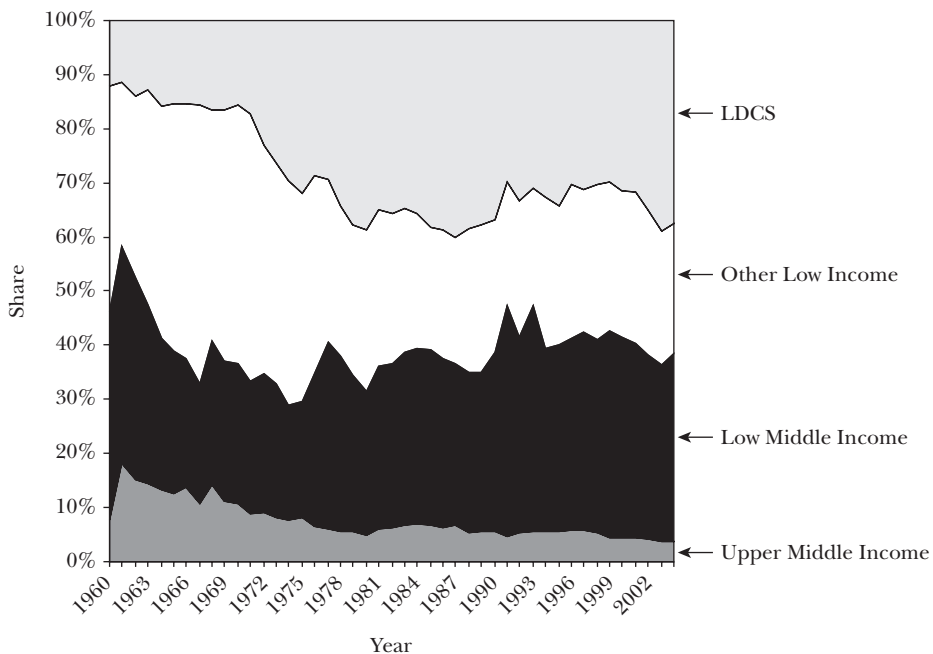
Figure A4
Income Shares of Aid Over Time

Table A6

Detailed Break-up of Foreign Aid Going to Different Regimes

Donor	Rank composite score	Share of aid going to:					Percent rank no corruption	Percent rank free	Percent rank low income	Composite percent rank
		Corrupt countries	Part-free or unfree countries	Least developed countries	Other low income	Low income				
Nordic Dev. Fund	1	52.00%	72.00%	60.00%	28.00%	88.00%	84.300%	89.500%	89.400%	0.8815
African Dev. Fund	2	63.00%	77.00%	83.00%	14.00%	97.00%	71.100%	71.100%	97.300%	0.842
IDA	3	66.00%	79.00%	50.00%	40.00%	90.00%	63.200%	55.300%	92.100%	0.75675
Luxembourg	5	60.00%	55.00%	51.00%	19.00%	70.00%	79.00%	94.80%	52.60%	0.6975
IMF SAF & ESAF	6	56.00%	94.00%	58.00%	38.00%	96.00%	81.600%	7.900%	94.700%	0.69725
United Kingdom	6	65.00%	77.00%	51.00%	30.00%	81.00%	68.500%	71.100%	73.600%	0.717
IFAD	8	66.00%	76.00%	53.00%	24.00%	77.00%	63.200%	79.000%	65.700%	0.684
UNDP	9	70.00%	83.00%	60.00%	24.00%	84.00%	42.200%	39.500%	78.900%	0.59875
Canada	10	66.00%	76.00%	47.00%	22.00%	69.00%	63.200%	79.000%	50.000%	0.6055
UNICEF	12	72.00%	83.00%	54.00%	29.00%	83.00%	36.900%	39.500%	76.300%	0.5725
Netherlands	13	66.00%	75.00%	42.00%	23.00%	65.00%	63.200%	81.600%	39.400%	0.559
WFP	13	70.00%	89.00%	70.00%	16.00%	86.00%	42.200%	13.200%	81.500%	0.546
France	15	51.00%	78.00%	47.00%	16.00%	63.00%	89.500%	60.600%	31.500%	0.53275
UNFPA	15	68.00%	79.00%	48.00%	24.00%	72.00%	44.800%	55.300%	57.800%	0.53925
Ireland	17	80.00%	87.00%	80.00%	7.00%	87.00%	15.800%	23.700%	86.800%	0.53275
UNHCR	18	66.00%	86.00%	49.00%	23.00%	72.00%	63.200%	31.600%	57.800%	0.526
Denmark	19	73.00%	81.00%	52.00%	25.00%	77.00%	31.600%	44.800%	65.700%	0.5195
Switzerland	19	67.00%	74.00%	40.00%	25.00%	65.00%	47.400%	86.900%	39.400%	0.53275
GEF	21	51.00%	21.00%	15.00%	13.00%	28.00%	89.500%	97.400%	7.800%	0.50625
Portugal	21	100.00%	94.00%	97.00%	0.00%	97.00%	0.00%	7.90%	97.30%	0.50625
Spain	24	41.00%	76.00%	14.00%	20.00%	34.00%	94.800%	79.000%	13.100%	0.5
CariBank	25	35.00%	0.00%	0.00%	0.00%	0.00%	97.400%	100.000%	0.000%	0.4935
Asian Dev. Bank	26	83.00%	95.00%	30.00%	56.00%	86.00%	13.200%	2.700%	84.200%	0.46075
Belgium	27	78.00%	85.00%	64.00%	12.00%	76.00%	21.100%	34.300%	63.100%	0.454
EC	27	65.00%	77.00%	41.00%	13.00%	54.00%	68.500%	71.100%	23.600%	0.467

Table A6—continued

Donor	Rank composite score	Corrupt countries	Part-free or unfree countries	Least developed countries	Other low income	Low income	Percent rank no corruption	Percent rank free	Percent rank low income	Composite percent rank
				Share of aid going to:						
Germany	27	62.00%	79.00%	23.00%	33.00%	56.00%	76.400%	55.300%	26.300%	0.46075
Japan	27	66.00%	65.00%	15.00%	31.00%	46.00%	63.200%	92.200%	18.400%	0.4805
Australia	31	93.00%	86.00%	32.00%	46.00%	78.00%	5.300%	31.600%	71.000%	0.44725
IDB	32	27.00%	81.00%	6.00%	27.00%	33.00%	100.00%	44.80%	10.50%	0.4145
EBRD	33	95.00%	74.00%	0.00%	64.00%	64.00%	2.700%	86.900%	36.800%	0.408
New Zealand	34	88.00%	77.00%	46.00%	19.00%	65.00%	10.600%	71.100%	39.400%	0.40125
Austria	35	72.00%	78.00%	18.00%	40.00%	58.00%	36.900%	60.600%	28.900%	0.38825
Sweden	35	73.00%	86.00%	52.00%	16.00%	68.00%	31.600%	31.600%	47.300%	0.3945
Norway	37	76.00%	88.00%	59.00%	11.00%	70.00%	26.400%	18.500%	52.600%	0.37525
Italy	38	62.00%	88.00%	36.00%	11.00%	47.00%	76.400%	18.500%	21.000%	0.34225
Finland	39	78.00%	80.00%	47.00%	16.00%	63.00%	21.100%	47.400%	31.500%	0.32875
UNRWA	40	49.00%	100.00%	0.00%	0.00%	0.00%	92.200%	0.000%	0.000%	0.2305
United States	41	76.00%	87.00%	29.00%	12.00%	41.00%	26.400%	23.700%	15.700%	0.20375
Greece	42	92.00%	91.00%	8.00%	8.00%	16.00%	7.900%	10.600%	5.200%	0.07225
Average		68%	78%	42%	22%					
Standard deviation		16%	18%	23%	14%					
Median		66%	79%	47%	22%					
Max		100%	100%	97%	64%					
Min		27%	0%	0%	0%					

Table A7

Shares of Foreign Aid Going through Inefficient Channels

Donor	Composite score ranking	Share of aid that is tied	Share of food aid in total	Share of technical assistance in total
IDB	1	0%	0%	17%
Switzerland	2	3%	0%	10%
Ireland	3	0%	1%	3%
Norway	4	0%	0%	19%
Sweden	4	13%	0%	5%
United Kingdom	6	0%	1%	13%
Other UN	6	0%	0%	100%
UNTA	6	0%	0%	100%
EC	9	0%	6%	6%
Denmark	10	11%	0%	9%
Netherlands	11	13%	0%	21%
Luxembourg	12	3%	4%	3%
Japan	13	6%	1%	15%
Finland	14	14%	0%	35%
Portugal	15	1%	44%	13%
Belgium	16	7%	0%	42%
Germany	17	8%	0%	47%
France	18	6%	1%	35%
New Zealand	19	19%	1%	29%
Canada	20	43%	1%	20%
Italy	21	92%	2%	14%
Austria	22	48%	1%	35%
Spain	23	32%	3%	21%
Greece	24	77%	0%	64%
Australia	25	23%	9%	58%
United States	26	72%	7%	43%
Average		19%	3%	30%
Standard deviation		26%	9%	27%
Median		8%	1%	21%