How Much and How Well:
Revisiting the Aid Component of the Commitment to Development Index

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Abstract

The Center for Global Development has published the Commitment to Development Index (CDI) annually since 2003. The CDI assesses 27 rich countries on the effort they invest in policies that affect developing countries along seven dimensions: aid, trade, finance, migration, environment, security and technology. Recent discussion about the definition of official development assistance (ODA), donors' allocation patterns, and new debates in light of measuring total official support to sustainable development generated questions about the continued relevance of the methodology of the aid dimension. Until 2014, the Index evaluated aid 'effort' by summing aid volumes from each donor and discounting those volumes according to the extent to which the aid was tied, the relative national wealth and good governance of its recipients, and the quality of how the aid was programmed. This led to perverse conclusions, including highly penalizing aid to fragile states (because they are poorly governed).

This paper explains a new approach, introduced in 2014, to calculating the CDI's aid component. The updated methodology combines and equally weights information about donors' aid quantity and aid quality. Aid quantity is measured by a country's total ODA as a share of its gross national income. Aid quality is assessed using the Quality of Official Development Assistance database, jointly produced by the Center for Global Development and the Brookings Institution, and stems from information on bilateral and as well as multilateral aid allocation. The paper compares the former and the new approach and decomposes the direction and composition of changes in countries' scores across the two methodologies. It concludes with a discussion of the difficulty of assessing the quality of aid to fragile states and future challenges in transparent, cross-country aid evaluation.

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Introduction

The Center for Global Development has published the Commitment to Development Index (CDI) annually since 2003. The CDI assesses 27 rich countries on their policies that affect poor countries in seven areas: aid, trade, finance, migration, environment, security and technology.

This paper explains a new approach, introduced in 2014, to calculating the aid component of the CDI. The methodology was originally developed by David Roodman (2003), influenced by a paper by William Easterly (2002). From 2003 until 2014, the methodology used to calculate the aid component of the CDI remained mostly unchanged. The recent discussion about the definition of official development assistance (ODA), donors' allocation patterns, and a paper by Patrick Guillaumont and Andrew Rogerson (2014) generated new questions about the continued relevance of that approach.

The updated methodology combines information about *aid quantity* and information on *aid quality*. The quality of a country's bilateral and multilateral aid is assessed using the Quality of Official Development Assistance (QuODA) database.

The paper first discusses the difficulties associated with measuring aid quality. It then turns to the calculation of the new aid scores in the Commitment to Development Index (CDI), and discusses some implications of the new approach. The last section compares the results of the new methodology with the rankings implied by the previous approach.

How Should We Assess Aid?

The quality of foreign aid is hard to define and therefore hard to measure. Donors and recipients have distinct understandings of what comprises "good" aid, and researchers have struggled to find common ground amidst these competing definitions.

There are at least three reasons why reaching a consensus on this issue is difficult. First, quality assessments are, in many cases, inherently qualitative. The Peer Review of Development Assistance Committee (DAC) members' development assistance programmes, for example, relies on subjective feedback. While useful, qualitative indicators cannot automatically be incorporated into an index. Second, aid quality is not a fixed concept, so the criteria we use to evaluate it change over time, both because of changing expectations about the purpose of aid, and because of the evolving context in which aid is given. As a result, any aid quality measure needs to be updated over time. Third, any country's official development assistance consists of a diverse set of aid modalities and interventions in different settings. An indicator that is an appropriate measure of the quality of a budget support programme, for example, may have little relevance to the quality of a capacity building project.

Despite these challenges, assessing aid quality remains the subject of an enormous number of reports, papers, studies, and policy briefs produced by academics, think tanks,

intergovernmental institutions, and NGOs (see, for example, OECD 1991, McGillivray et al. 2005, OECD 2005, Easterly and Pfutze 2008, Birdsall et al. 2010, Knack et al. 2011, ActionAid 2011, Easterly and Williamson 2011, CONCORD 2013). These approaches rarely measure aid quality directly: instead they typically measure whether donors are living up to the commitments they have made to deliver aid in ways that are intended (and widely believed) to increase its quality, such as untying aid and making greater use of recipient governments' public financial management systems.

The Aid Component of the Commitment to Development Index

Since its inception, the CDI has included both the quantity and the quality of aid, and we believe it should continue to do so. There is, however, an underlying uncertainty about how much we should value these different facets of a country's aid programme. By how much would the quantity of aid a country gives have to increase, to compensate for a fall in the quality of that country's aid (such as the reintroduction of tied aid)?

Starting with the 2014 edition of the CDI, the aid component has been constructed as follows. Aid *quantity* is measured by a country's total Official Development Assistance (ODA) as a share of the donor country's Gross National Income (GNI). Aid *quality* is measured by an Aid Quality Score (AQS), constructed from information about the quality of a country's bilateral aid programmes and the quality of the multilateral aid agencies through which the country give aid. This Aid Quality Score is derived from information in the Quality of Aid Index (QuODA) compiled by the Center for Global Development and the Brookings Institution (CGD, 2013). In the following sections we explain in detail the calculation for each of these parts. The two components (quantity and quality) are combined with equal weighting to give the overall score.

Aid Quantity

The new CDI aid component uses Official Development Assistance (ODA) as a share of Gross National Income as the measure of aid quantity, using ODA as defined by the OECD's Development Assistance Committee (DAC)[1].

The Commitment to Development Index is intended to measure the effort of each country– that is, the contribution countries make relative to their size. In 1969, the Pearson Commission proposed that donors should spend 0.7% of Gross National Product on overseas aid, for which the definition of ODA was provided by the DAC in the same year (Pearson Commission, 1969). This 0.7% target was enshrined in a UN resolution on October 24, 1970. In 1993, following the revision to the UN System of National Accounts,

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[1] At the last DAC high level meeting in December 2014, the members agreed to revise the ODA definition and reporting directives to reflect that only the grant equivalent of a loan is counted as ODA. This change in reporting however will not be put in place until 2018.

GNI replaced GNP as denominator for the target (they are similar concepts). As set out by Clemens and Moss (2005) the origins of this target raise serious questions about its relevance today. Nonetheless, given that this remains the most widely-accepted target for the amount of aid donors should provide, we use ODA as a share of GNI in the Commitment to Development Index as our measure of **aid quantity.**[2]

Before 2014, the CDI adjusted the international definition of ODA to exclude debt relief and interest repayments. The main effect of those adjustments was decrease scores of those donors which provide much of their aid as loans such as Japan and France. Both countries perform much better on the aid quality measure that is now used in the CDI, although at 0.23% of GNI Japan's aid budget is still well below that of many other industrialised countries.

Figure 1 summarises the cross-country relationship on aid volumes and national income (measured by GNI per capita in current USD) for the 27 countries included in the 2014 CDI. As we might expect, richer countries spend more on foreign aid as a share of national income but there is significant variation around this trend. For example, Australia reported GNI per capita of $59,770 and spent 0.36% of total GNI on aid, while the equivalent figures for Denmark were $60,720 and 0.83%. At the same time, some comparatively wealthy countries give less aid than their less well-off peers: Switzerland reported GNI per capita of $84,410 and spent 0.47% of its national income on aid, while Luxembourgers had an average national income of $69,300 each but spent a full 1% of national income on ODA.

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[2] Donors are not rewarded for reaching the suggested target. Their score is based on their comparative performance within the group of CDI countries.

Figure 1 Aid Volumes and Income (2012 Data)
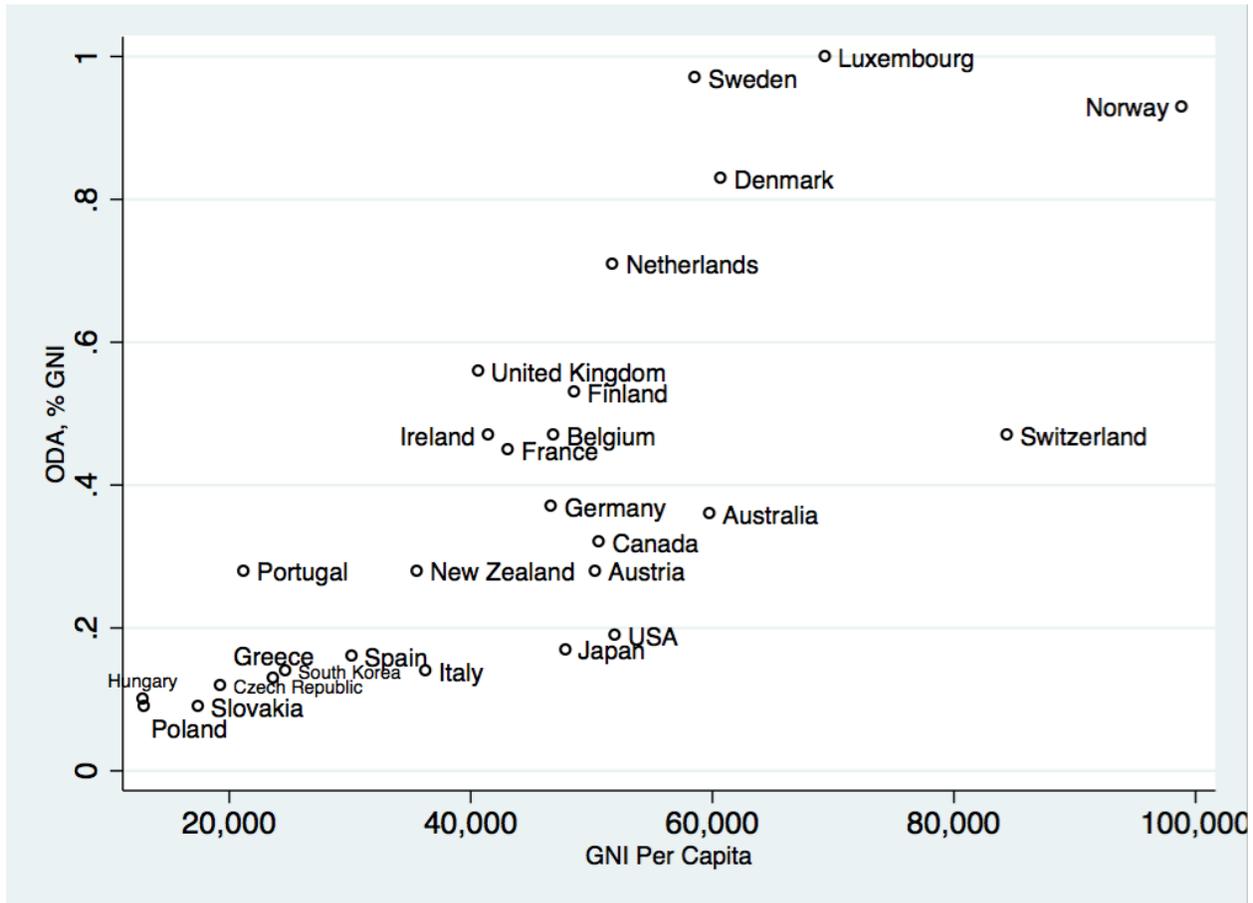
Source: Authors' calculations based on DAC (2013) and World Bank (2015). Smaller font size used for legibility purposes only. Figures are for aid spending in 2012, the latest available data at the time the 2014 CDI was calculated.

Aid Quality

The CDI aid component uses data from the Quality of Aid Index (QuODA)[3] to score the quality of aid. QuODA evaluates donors according to 31 indicators, organized into four "dimensions" that "…reflect the four major objectives of good aid" (Birdsall et al., 2010). These are:

- Maximizing efficiency

- Fostering institutions

- Reducing the burden on recipients

- Transparency and learning

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[3] In 2009, Center for Global Development in cooperation with the Brookings Institution developed an evidence-based assessment of aid quality, the Quality of Official Development Assistance (QuODA).

The scores in QuODA's four indicator groupings provide a multifaceted and quantitative approach to evaluating the performance of three distinct groups of donors:

- Countries
- Bilateral agencies
- Multilateral agencies

These types of donor agencies are then scored using slightly different methodologies:

- Country-level analysis – based on DAC Table 1 data[4], and also includes Paris Declaration on Aid Effectiveness surveys. This analysis is based on 31 indicators in total, but not all indicators are available for all countries[5]

- Agency-level analysis – based on Creditor Reporting System (CRS), and includes 15 of the 31 indicators. Again, not all indicators are available for all agencies[6].

A small number of major multilateral donors, such as the International Development Association (IDA) are scored by both methodologies. Because the underlying data sources and methodology differ between the country and agency approach, we refer to their "country-level" or "agency-level" scores.

Though QuODA assesses donors and agencies, it does not provide an *overall* score or ranking. To translate the QuODA indicators into an overall indicator of aid quality, we give each of the 31 indicators included in QuODA an equal weight to calculate a simple average country-level bilateral aid quality score.[7] We acknowledge that placing an equal weight on each of the 31 indicators is minimally arbitrary: it reflects a lack of good evidence about the relative importance of these characteristics. The alternative is to average the four QuODA dimensions. We elect not to do this because it makes the final scores a function of the number of indicators in each grouping.

This composite score is an indicator of bilateral aid only, not of the quality of the country's entire aid spending. We call this the Bilateral Aid Quality (BAQ) score. Table 1 presents the scores for the four indicator groupings for the CDI's 27 countries.

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[4] DAC Table 1 includes data on ODA, Other Official Flows and Private sector flows of DAC donor countries.

[5] 5 countries have missing indicators: Czech Republic – 9, Greece – 6, Hungary, Poland and Slovakia – 18.

[6] 9 multilateral agencies have missing indicators: IDB Special Fund and WFP – 3, UNFPA – 2, AfDB, AsDB Special Funds, IDA, IFAD, UNDP, and UNICEF - 1

[7] Not all 31 indicators are available for the 27 countries. We omit the missing values, and only calculate the average based on indicators that are available.

Table 1 Countries' Bilateral Aid Quality Scores

Donor	Maximising Impact	Fostering Institutions	Reducing Burden	Transparency and Learning	BAQ Score	BAQ Ranking
Ireland	0.65	1.05	0.82	0.67	0.79	1
Denmark	0.04	0.90	0.69	0.18	0.44	2
United Kingdom	0.27	0.45	0.36	0.10	0.29	3
Sweden	-0.10	0.53	0.41	0.32	0.29	4
New Zealand	0.27	-0.03	0.66	0.12	0.24	5
Canada	0.16	0.02	-0.04	0.72	0.22	6
Finland	-0.04	0.38	0.04	0.24	0.16	7
Portugal	0.79	-0.23	0.37	-0.32	0.15	8
Japan	0.07	0.56	-0.25	0.10	0.13	9
Netherlands	-0.43	0.02	0.87	0.09	0.12	10
France	0.07	0.30	-0.35	-0.03	0.01	11
Norway	-0.09	-0.05	-0.37	0.39	-0.02	12
Germany	-0.34	0.12	-0.16	0.29	-0.02	13
Australia	-0.26	-0.33	-0.06	0.50	-0.04	14
Spain	-0.12	-0.29	-0.10	0.20	-0.08	15
USA	-0.09	-0.20	-0.68	0.27	-0.16	16
Czech Republic	-0.19	0.96	-0.31	-0.36	-0.17	17
Luxembourg	0.50	-0.42	0.09	-0.90	-0.19	18
Greece	0.01	0.12	-0.06	-0.75	-0.22	19
Poland	-0.05	-1.71	0.71	-0.63	-0.24	20
Switzerland	-0.18	-0.49	-0.61	0.28	-0.24	21
Slovakia	-0.35	-0.45	0.59	-0.54	-0.27	22
South Korea	-0.13	-0.20	-0.89	0.01	-0.28	23
Austria	-0.23	-0.80	-0.05	-0.14	-0.31	24
Hungary	-0.26	-2.17	0.70	-0.48	-0.33	25
Belgium	0.10	-0.69	-0.56	-0.54	-0.42	26
Italy	-0.24	-0.39	-0.53	-0.61	-0.44	27
Mean	-0.01	-0.11	0.05	-0.03	-0.02	
St. Dev.	0.30	0.72	0.51	0.44	0.29	

Source: authors' calculations based on Birdsall and Kharas (2014)

To capture overall aid quality, we combine these bilateral aid quality scores with analogous scores for multilateral aid agencies. A country's aid quality score is the weighted average of its bilateral aid quality score and the aid quality scores of multilateral agencies, weighted according the proportion of aid spent through that channel.

However, QuODA scores are not available for all agencies through which countries spend their aid. According to the DAC recipient list (OECD DAC, 2014b) there are almost 180 multilateral agencies; the 18 of these assessed by QuODA account for the majority (75%) of multilateral aid provided by the 27 CDI countries. Overall, there are QuODA scores for approximately 93% of ODA given by the CDI's 27 countries (both bilateral, and multilateral).

In symbols, country i's Aid Quality Score is

$$AQS_i = \left[\frac{B_i}{ODA_i}\right] b_i + \sum_j \left[\frac{M_{ij}}{ODA_i}\right] m_j + \left[\frac{M_{iu}}{ODA_i}\right] m_a$$

where B_i is country i's allocation to bilateral aid, ODA_i is country i's total official development assistance, b_i is that country's bilateral aid quality score (based on country level analysis, as in Table 3). M_{ij} is country i's spending on multilateral agency j with aid quality score m_j (see Table 3), M_{iu} is country i's spending on unscored multilateral agencies, and m_a is the country's average multilateral aid quality score.

We calculate the multilateral agency quality scores using agency-level scores[8] for agencies listed in Table 2. "Other UN" refers to other UN agencies for which are not included in QuODA, but for which we have country disbursement data; these are UNHCR, UNRWA and "other UN" (a category defined by the DAC). Their aid quality score is assumed to be the average aid quality score of UN agencies that *are* scored in QuODA (namely WFP, UNICEF, UNFPA, and UNDP)[9].

The third term of the equation for the overall aid quality score refers to the proportion of donor's development assistance channeled through agencies that are not scored in QuODA, and for which there is therefore no aid quality score. The share of this unscored aid varies by donor. Since we cannot observe the quality of this unscored spending, we attribute an average multilateral aid quality score (m_a), which is an unweighted average of aid quality scores for the multilateral agencies to which the country does contribute. For the CDI countries as a whole, 94% of all aid is captured by QuODA, and the country with the lowest QuODA coverage still has 86% of its aid included. The alternative would be to omit these contributions altogether, which would result in varying levels of accounted ODA for each donor. Our approach assumes that donor behavior with respect to multilateral agencies is consistent across recipients, and this enables us to ascribe an average value.

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[8] Specifically, each indicator is standardised using the scores of other multilaterals that are scored by QuODA, and the resulting scores are averaged to produce agency-level scores.

[9] We acknowledge this is again an arbitrary approach.

Table 2 Multilateral Agencies' Aid Quality Scores

Agency	Average of QuODA Indicators
AfDF	0.41
AsDF	0.24
CEC	-0.05
EDF	-0.04
IDA	0.47
IDB Special Fund	0.06
IFAD	-0.17
UNDP	-0.29
UNFPA	-0.29
UNICEF	-0.25
WFP	-0.11
Other UN	-0.23
UNHCR	-0.23
UNRWA	-0.23
Mean	-0.05
St. Dev.	0.26

Source: authors' calculations based on Birdsall and Kharas (2014) Note: QuODA includes 18 multilateral agencies, but only flows to those agencies listed in Table 2 are reported in DAC Table 1, which is the basis for the country-level analysis.

These components combine into a simple framework to account for countries' support for both their bilateral programmes and the multilateral system. This approach views aid disbursements across bilateral and multilateral agencies as substitutes, and rewards countries that spend more of their aid through better-performing agencies. Table 3 below summarises the computation and shows the overall aid quality scores; the rankings follow in the next table. (The third column of table 4 does not have a direct counterpart in the equation above: it is the share of multilateral spending in total aid spending[10]).

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[10] That is, $\sum_j \left[\frac{M_{ij}}{ODA}\right]$ rather than $\sum_j \left[\frac{M_{ij}}{ODA}\right] m_j$

Table 3 Bilateral and Multilateral Aid Quality Score

Donor	Bilateral spending weight	Ave. of QuODA Country Indicators (BAQ in Table 1)	Multilateral spending weight	Unscored spending weight	Average multilateral score	Aid Quality Score (AQS)
	$\left[\frac{B_i}{ODA_i}\right]$	b_i	$\sum_j \left[\frac{M_{ij}}{ODA}\right]$	$\left[\frac{M_{iu}}{ODA_i}\right]$	m_a	AQS_i
Australia	0.84	-0.04	0.10	0.06	-0.10	-0.03
Austria	0.48	-0.31	0.48	0.04	-0.01	-0.07
Belgium	0.62	-0.42	0.31	0.07	-0.08	-0.25
Canada	0.72	0.22	0.14	0.14	-0.01	0.20
Czech Republic	0.30	-0.17	0.60	0.10	-0.07	-0.08
Denmark	0.71	0.44	0.24	0.05	-0.06	0.30
Finland	0.61	0.16	0.35	0.05	-0.06	0.10
France	0.66	0.01	0.25	0.09	-0.05	0.02
Germany	0.66	-0.02	0.30	0.04	-0.05	0.01
Greece	0.33	-0.22	0.65	0.02	-0.11	-0.11
Hungary	0.18	-0.33	0.76	0.06	-0.11	-0.09
Ireland	0.66	0.79	0.30	0.03	-0.10	0.51
Italy	0.23	-0.44	0.71	0.06	-0.03	-0.11
Japan	0.60	0.13	0.26	0.13	-0.05	0.14
Luxembourg	0.69	-0.19	0.26	0.05	-0.12	-0.15
Netherlands	0.70	0.12	0.25	0.05	-0.13	0.06
New Zealand	0.81	0.24	0.10	0.09	-0.23	0.15
Norway	0.74	-0.02	0.18	0.08	-0.06	-0.03
Poland	0.26	-0.24	0.72	0.01	-0.09	-0.10
Portugal	0.68	0.15	0.29	0.03	-0.07	0.08
Slovakia	0.24	-0.27	0.73	0.04	-0.09	-0.10
South Korea	0.74	-0.28	0.18	0.08	-0.06	-0.19
Spain	0.48	-0.08	0.50	0.01	-0.14	-0.07
Sweden	0.69	0.29	0.24	0.07	-0.05	0.19
Switzerland	0.80	-0.24	0.16	0.04	-0.06	-0.17
USA	0.83	-0.16	0.09	0.08	-0.01	-0.11
United Kingdom	0.63	0.29	0.29	0.08	-0.06	0.21
Mean	0.59	-0.02	0.35	0.06	-0.08	0.01
St. Dev.	0.20	0.29	0.21	0.03	0.05	0.17

Source: authors' calculations based on Birdsall and Kharas (2014) and OECD DAC (2014a)

Combining Quantity and Quality

The overall score for the aid component in the Commitment to Development Index is an average of the normalized aid quantity (ODA as a share of GNI) and normalized aid quality, summarised by the AQS we construct.

In symbols, a country's overall aid component (AC) score is

$$AC_i = 0.5 \times \left[\frac{ODA_i}{GNI_i}\right] + 0.5 \times AQS_i$$

where both aid as a share of income and quality measure (the AQS) are normalized so that they have an average value of zero and a standard deviation of one. The full details of how the AQS is calculated and data on each component of the overall score are described below.

Both variables are measured in z-scores (normalised) when we compute the final score so that the quantity and quality subcomponents have the same variance, and therefore have the same sized effect on the overall aid component. After combining the aid quality and aid quantity z-scores, the overall aid component is scaled to an average of 5.0 and a variance of 1 to produce an Aid Component Score comparable with the other components of the Commitment to Development Index. Table 4 on the next page summarises the scores.

Table 4 Calculation of the CDI Aid Component Scores

Donor	ODI, % GNI	Aid Quantity (recentred Z-Score)	Aid Quality Score	Aid Quality (recentred Z-Score)	Overall CDI Aid Component Score	Overall CDI Aid Component Rank
Denmark	0.83	6.54	0.30	6.70	6.62	1
Ireland	0.47	5.27	0.51	7.91	6.59	2
Sweden	0.97	7.04	0.19	6.03	6.53	3
United Kingdom	0.56	5.59	0.21	6.16	5.88	4
Norway	0.93	6.90	-0.03	4.78	5.84	5
Netherlands	0.71	6.12	0.06	5.30	5.71	6
Luxembourg	1.00	7.15	-0.15	4.07	5.61	7
Finland	0.53	5.48	0.10	5.51	5.50	8
Canada	0.32	4.74	0.20	6.09	5.41	9
New Zealand	0.28	4.60	0.15	5.81	5.20	10
France	0.45	5.20	0.02	5.03	5.12	11
Portugal	0.28	4.60	0.08	5.43	5.02	12
Japan	0.17	4.21	0.14	5.74	4.98	13
Germany	0.37	4.92	0.01	4.97	4.95	14
Australia	0.36	4.88	-0.03	4.75	4.82	15
Switzerland	0.47	5.27	-0.17	3.94	4.60	16
Austria	0.28	4.60	-0.07	4.52	4.56	17
Belgium	0.47	5.27	-0.25	3.46	4.36	18
Spain	0.16	4.18	-0.07	4.54	4.36	19
USA	0.19	4.28	-0.11	4.27	4.28	20
Czech Republic	0.12	4.04	-0.08	4.48	4.26	21
Italy	0.14	4.11	-0.11	4.31	4.21	22
Hungary	0.10	3.96	-0.09	4.40	4.18	23
Greece	0.13	4.07	-0.11	4.29	4.18	24
Slovakia	0.09	3.93	-0.10	4.33	4.13	25
Poland	0.09	3.93	-0.10	4.33	4.13	26
South Korea	0.14	4.11	-0.19	3.86	3.98	27
Mean	0.39	5.00	0.01	5.00	5.00	
St. Dev.	0.28	1.00	0.17	1.00	0.81	

Source: authors' calculations based on Birdsall and Kharas (2014), and OECD DAC (2014a)

Decomposing Scores by Quantity and Quality

These aid quality measures shed a different light on the contribution made by donors through foreign assistance than a ranking based on aid volumes alone. Even though Luxembourg is the most generous donor when looking at the *quantity* of aid as a share of GNI, its aid *quality* ranks in the bottom third. Conversely, Ireland comes out at the top of the aid *quality* rankings, but places in the middle of the pack in terms of aid *quantity* as a share of national income. The scatterplot below (Figure 2) summarises the relationship between aid quality and aid quantity for the CDI's 27 countries and confirms that there is substantial variation in the relationship between aid volumes and aid quality. Even without changing their levels of aid spending (as a share of national income), most countries could improve the performance of their aid programmes by spending more on better-performing agencies or by improving their bilateral aid.

Figure 2 New Aid Component Scores and Aid Volumes (2012 Data)
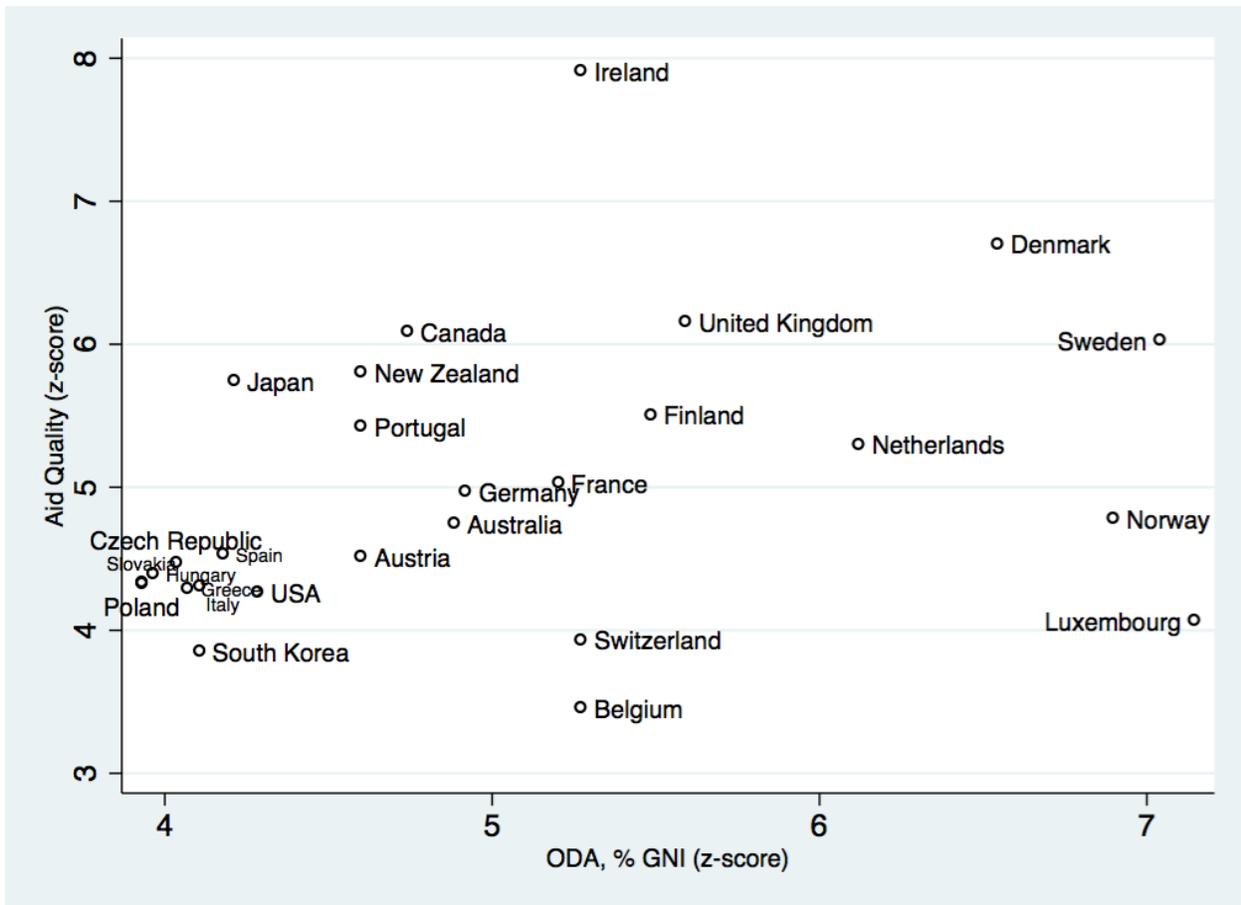
Source: authors' calculations based on Birdsall and Kharas (2014) and OECD DAC (2014a). Smaller font size used for legibility purposes only.

Figure 3 below shows the effect of incorporating quantity and quality, and their effect on countries' final assessment.

Figure 3 CDI aid component break-down
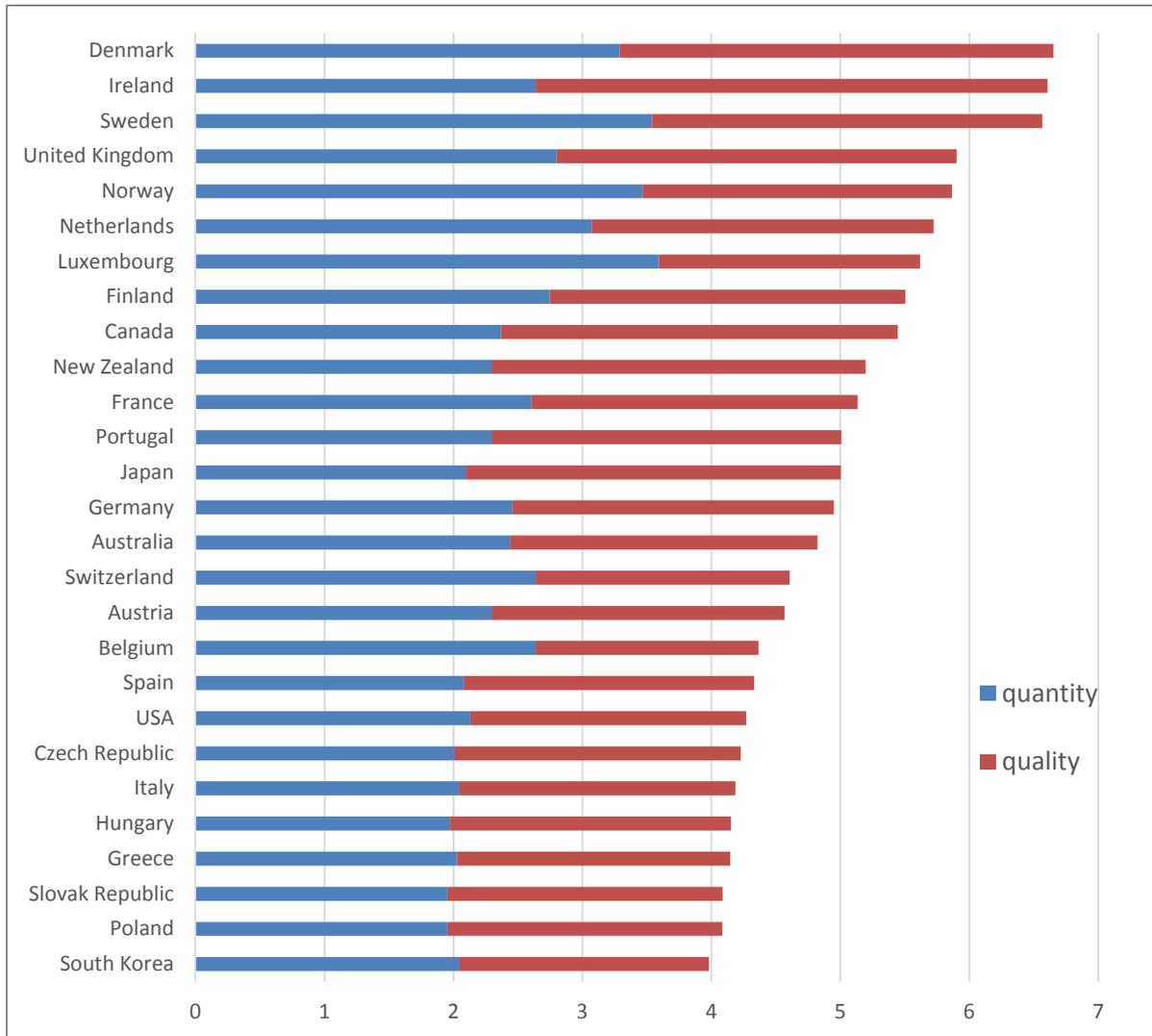
Comparison to Previous Aid Component

The Center for Global Development has published the Commitment to Development Index (CDI) since 2003. The original design of all seven individual components was based on expert assessment and advice and since 2003 the methodology of individual components has evolved based on new research and the availability of updated or improved data. (See Roodman, 2003, for a detailed description of the seven components).

The structure of the aid component has been largely unchanged from 2003 until the 2014 CDI. Like the new methodology, the previous way of calculating the aid component was based on data on Official Development Assistance (ODA) reported by donor countries to the OECD's Development Assistance Committee (DAC). Both debt relief and principal and interest payments were subtracted from total ODA, leaving "net aid". This was further discounted according to three aid quality criteria:[11]

> a) **Aid was discounted according to the extent to which it was tied**. Jepma (1991) concluded that tied aid is typically overpriced by 15–30% compared to untied aid. The 15–30% excess cost estimate translated into a reduction of aid value of 13–23%. Based on this, the previous CDI methodology discounted tied aid by 20% and partially tied aid by 10%. Discounting tied aid applied only to bilateral aid.

> b) **A selectivity discount was applied for each recipient country**. The richer the recipient country (higher log GDP per capita) and the more poorly it was governed (lower CPIA governance score), the higher the selectivity discount. Crucially, the selectivity discounts were scaled from 0-1. This important (and arguably arbitrary) assumption meant that aid to the country with the lowest selectivity score (which happened to be Afghanistan) was counted at only 1¢ on the dollar (a discount of 99%), while aid to the countries with the best selectivity scores, such as Ghana, was counted at 99¢ on the dollar (a discount of 1%).

> c) **A discount was applied for aid that was delivered in projects of sub-optimal size, mainly to penalize project proliferation and fragmentation**. The effectiveness of aid was said to depend in part on the size of projects. Neither very small nor very large projects are considered to be the most effective and it is assumed that there is an optimal project size. Both small and large projects were discounted. However, the optimal project size was considered to be significantly higher than the typical project size, so there were few large projects that were penalized by this mechanism. In practice, this discount mainly penalized small projects for being inefficiently small.

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[11] This description is adapted from Syrovátka, Krylová, 2012

Penalizing Aid to Fragile States?

Since Burnside and Dollar (1997) and Collier and Dollar (2002), it has been widely accepted that aid will lead to faster economic growth when it is spent in countries that are well-governed, often measured by the World Bank's Country Policy and Institutional Assessment (CPIA) scores, and when it is spent in countries which are relatively poor, often measured by GDP per capita at purchasing power parity. Burnside and Dollar (2000, 2004), for example, argue that "…the impact of aid depends on the quality of state institutions and policies". This formulation has become accepted as the *de facto* standard for good aid allocation by donors.

This has given rise to common measures of aid *selectivity*, according to which aid is regarded as relatively ineffective when it is spent in fragile states and countries emerging from conflict, which typically have low CPIA scores. A donor can improve its selectivity score by giving more aid to countries with good institutions and policies.

Using selectivity as a measure of aid quality means that donors who choose to give a large fraction of their aid to fragile and post-conflict countries will be judged to have less effective aid programmes. This approach was also followed by the aid component with the effect that aid to badly-governed countries (many of which are post-conflict and fragile) was heavily penalized. As we explain later in the paper, this resulted in discounting aid to some countries by 99%.

Defined in this way, continuing to use selectivity as an important determinant of aid quality is in tension with the growing view (see for example OECD, 2015, Guillaumont and Rogerson, 2014) that aid donors should concentrate more than they do now on fragile and post-conflict states.

There is an unavoidable trade-off between the desire to give aid to countries that can use it best and the desire to give it to countries that need it most. To the extent that selectivity measures penalize giving aid to poorly governed countries, it penalizes giving aid to fragile states. This might be reasonable if "effective" aid is defined to mean "more likely to catalyze economic growth". But aid to fragile states is regarded as having a larger impact precisely because its beneficiaries are arguably some of the most in need of donor spending. The benefits to the populations of those countries might take the form of improvements in the well-being and access to key public services, rather than economic growth in the short- or medium-term. These benefits are not counted as "effective" in the Burnside-Collier-Dollar literature on aid allocation which only considers the effects on growth.

The OECD report on Fragile States (2014) concludes that aid has been the largest and most reliable financial source for the least developed fragile states over the past decade. While remittances and FDI are also important financial resources in many fragile states, especially in the middle income group, many low-income countries struggle to attract investment while being unable to access international capital markets. The report concludes that aid to fragile states is decreasing and not expected to rise.

All this suggests that caution is required before using conventional (Burnside-Collier-Dollar) measures of selectivity as a key indicator of aid quality. Even though QuODA still includes an indicator on aid allocation to well governed countries, it represents only 1/31 of our aid quality assessment and we feel it better reflects the current approach to concentrating more aid to fragile states.

These three adjustments for aid quality were made to both bilateral and multilateral aid. The last step in calculating quality-adjusted aid was allocating multilateral quality-adjusted aid back to bilateral donors. Multilateral quality-adjusted aid was allocated to countries in proportion to their contributions to the multilateral agencies in a given year. In this way, the quality-adjusted level of ODA was calculated for each country, consisting of the sum of the country's gross bilateral and multilateral aid, discounted as described above, divided by GNI.

It should be noted that the QuODA assessment addresses all three qualitative aspects mentioned above, however, these are equally-weighted, taking into account other aid quality concepts, which were previously left out. QuODA includes numerous indicators on maximizing efficiency and fostering institutions that reflect donors' efforts to minimize project proliferation and fragmentation: these include low administrative costs, avoidance of project implementation units, use of recipient country systems, and coordination of technical cooperation. Indicators addressing tying of aid and selectivity include the share of untied aid, share of aid allocation to poor countries, and share of aid allocation to well-governed countries.

According to the previous methodology for the CDI aid component, the greater the overall discount of a donor's aid, the lower is the implied quality of aid. Hence even though this methodology did not separately calculate aid quality, it is possible to derive an implied aid quality measure for each donor using the ratio between discounted aid (as calculated in previous CDI methodology) and total aid (as originally reported to the DAC).

Tables 5 and 6 compare the previous *implied* aid quality rankings with those explicitly calculated by the new methodology for bilateral, multilateral, and overall aid using the data on QuODA scores and aid volumes for aid spending in 2012 (there is a substantial lag before detailed aid data is available from the DAC's Creditor Reporting System).

The differences in final rankings between the two methodologies are driven by three factors.

First, the aid *quantity* measure now used is the top line ODA figure reported to the OECD, which does not strip out debt relief and interest payments. This increases the scores of those countries for which lending constitutes a large share of reported aid. This change is the reason for the large improvement in Japan's scores.

Second, aid *quality* is now measured using the 31 indicators of quality included in QuODA, rather than the more limited range of quality measures that were used in the previous approach (tying, selectivity, and fragmentation). The main effect of this is that aid provided to fragile and post-conflict states, which was heavily discounted by the old approach, is no longer penalized as heavily.

Third, the methodology of calculation gives each of these two aspects (quality and quantity) an equal weight, contrary to the previous approach which discounted aid quantity according to measures of aid quality.

Table 5 Bilateral and multilateral quality comparison, data for aid disbursed in 2012

Donor	Bilateral Aid Quality Rank		Multilateral Aid Quality Rank		Overall Aid Quality Rank	
	New method	Old method*	New method	Old method*	New method	Old method*
Australia	14	9	12	25	13.5	18
Austria	24	22	1	16	15.5	24
Belgium	27	17	10	12	27	22
Canada	6	8	3	23	4	21
Czech Republic	16	20	21	4	17	3
Denmark	2	2	16	18	2	7
Finland	8	7	11	17	8	12
France	11	25	9	9	11	25
Germany	12	16	7	11	12	23
Greece	20	23	25	2	22	8
Hungary	17	24	23	6	18	1
Ireland	1	5	19	10	1	9
Italy	21	21	13	8	22	6
Japan	10	27	2	27	7	27
Luxembourg	23	11	18	19	24	16
Netherlands	9	3	20	15	10	10
New Zealand	4	4	27	21	6	13
Norway	13	10	15	22	13.5	20
Poland	18	26	26	3	19.5	5
Portugal	7	14	17	7	9	19
Slovakia	19	19	24	5	19.5	2
South Korea	26	18	5	26	26	26
Spain	15	15	22	1	15.5	11
Sweden	3	1	14	20	5	4
Switzerland	25	6	6	24	25	17
United Kingdom	5	13	4	14	3	14
USA	22	12	8	13	22	15

* Derived aid quality rankings implied by aid discounts (not previously published in this form)
Source: authors' calculations based on Birdsall and Kharas (2010, 2014) and CGD (2013).

Table 6 Comparing Final Rankings, 2012 Data

Donor	Aid quantity rank (New method)	Aid quality rank (New method)	Overall aid component rank (New method)	Memo: Overall aid component rank (Old method)
Denmark	4	2	1	3
Ireland	9	1	2	8
Sweden	2	5	3	1
United Kingdom	6	3	4	6
Norway	3	13.5	5	4
Netherlands	5	10	6	5
Luxembourg	1	24	7	2
Finland	7	8	8	7
Canada	14	4	9	14
New Zealand	16	6	10	15
France	11	11	11	11
Portugal	16	9	12	16
Japan	19	7	13	27
Germany	12	12	14	13
Australia	13	13.5	15	12
Switzerland	9	25	16	9
Austria	16	15.5	17	17
Belgium	9	27	18	10
Spain	20	15.5	19	19
USA	18	22	20	18
Czech Republic	24	17	21	22
Italy	21.5	22	22	20
Hungary	25	18	23	23
Greece	23	22	24	21
Slovakia	26.5	19.5	25	24
Poland	26.5	19.5	26	26
South Korea	21.5	26	27	25

Source: authors' calculations based on Birdsall and Kharas (2014). Note: half scores indicate a tie.

Conclusions

The CDI is intended to provide a fair, transparent framework to evaluate rich countries' policies. Such an objective requires regular review taking into consideration new knowledge, data and approaches.

Both the quantity and quality of ODA are important determinants of aid's effect on the developing world. The new methodology of the CDI's aid component combines the internationally-recognized measure of aid quantity (ODA as a share of GNI) with a measure of aid quality based on QuODA to evaluate the both dimensions of countries' foreign aid policies.

Though the new methodology has nearly eliminated several contentious issues such as aid selectivity based on good governance performance, many remain. With a new set of sustainable development goals, new measures and indicators will be needed to appropriately assess rich countries' aid policy efforts. The new definition of official development assistance that was agreed by the DAC members in December 2014, and the new official measure of Total Official Support for Sustainable Development (TOSSD), will provide an opportunity to revise the methodology in 2018 when new ODA statistics will become available. In the interim, the Paris Declaration Surveys have been succeeded by the Busan Monitoring Framework, which tracks progress on commitments made at the Fourth High Level Forum on Aid Effectiveness in Busan in 2011. That tracking framework is a promising future source of quantitative, multidimensional data on aid quality that may supplement or replace the CDI's current use of QuODA indicators as an input to measuring aid quality.

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