

# Europe Beyond Aid: Assessing Europe's Commitment to Development Assistance

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## Abstract

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Aid is one of the 7 policy dimensions assessed by the Commitment to Development Index (CDI) published annually by the Center for Global Development. Provision of foreign aid is also often the main policy area people think of when assessing the contribution of rich countries to development abroad, and notwithstanding the increasing significance of beyond aid policies, aid will remain high on the political agenda, in Europe and elsewhere in the coming years.

This paper assesses the aid component of the Commitment to Development Index and evaluates the European contribution to aid over the past decade. After a brief overview of the most recent methodology, the authors discuss major trends and patterns of European performance and identify possible areas of improvement. The paper also reviews the current methodology of the component and suggests potential changes. It concludes by discussing aid provision in the broader context of global public goods. Finally, the paper proposes some provocative questions for discussion.

\* Of FERDI and ODI respectively. The views and analysis presented here are those of the individual authors, and do not necessarily commit either FERDI or ODI. Likewise, CGD kindly provided funding and CGD staff detailed comments, but are in no way responsible for these opinions.

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## Europe Beyond Aid Consultation Report Series

Europe Beyond Aid uses the Commitment to Development Index (CDI) to examine European countries' collective commitment to development on seven cross-border issues: aid, trade, finance, migration, environment, security, and technology.

We calculate a consolidated score for the 21 European countries included in the CDI to track their pursuit of development-friendly policies. In 2014 the Center for Global Development is launching a series of discussion papers for public consultation. Our goal is to press for a broader and more informed

discussion about how European policies can improve. By the end of the year, we will synthesize the expert consensus on the seven themes of the CDI into a comprehensive and specific policy agenda for European countries setting out practical, evidence-based conclusions on how they can improve their policies which affect development and global poverty.

Please, share your comments, suggestions and ideas by email to [pkrylova@cgdev.org](mailto:pkrylova@cgdev.org). We will be looking forward to hearing from you.



## Introduction

Aid is one of the 7 policy dimensions assessed by the Commitment to Development Index (CDI) published annually by the Center for Global Development. Provision of foreign aid is also often the main policy area people think of when assessing the contribution of rich countries to development abroad, and notwithstanding the increasing significance of beyond aid policies, aid will remain high on the political agenda, in Europe and elsewhere, in the coming years.

This paper assesses the aid component of the Commitment to Development Index. It is structured in the following five clusters of questions which serve as the basis for the analysis. The paper also provides a brief overview of the most recent methodology of the aid component (2013 CDI edition).

1. What are the *major trends and patterns of performance* the CDI Aid component reveals within the EU and across the DAC over the past decade?
2. *Where is there most scope for improvement* within existing definitions? Which major stakeholders need to be persuaded of that?
3. Is ODA, as adjusted by CDI, *still the relevant volume benchmark* for “public development finance effort”? What changes to this definition should be considered as a priority?
4. How might one improve CDI *aid quality measurement*, especially in regard to selectivity discounts for aid allocation efficiency/equity across countries?
5. How might a more explicit *focus on global public goods*, as opposed to country-based poverty reduction, change this picture?

The authors recognize several limitations to the analysis.

(a) These are preliminary reflections, intended as a springboard for further discussion, not as a definitive statement on aid performance, especially in Europe, and its measurement.

(b) “Aid” is but one of 7 CDI components, the others covering major policy areas (collectively termed “Global Good Citizenship” (Barder 2013)) which are not viewed primarily through the lens of financial flows. This context correctly relativizes the importance of aid, or international public finance writ large, as a policy lever for development. We, along with many others, do not see aid as a magic bullet-- but if it is to be done, it had better be done well.

(c) Similarly, the CDI focuses on the sphere of influence of an increasingly narrow cluster of countries (OECD, and particularly, DAC members), though many of its findings could be relevant also to emerging economies’ roles in international development cooperation. Their footprint in all CDI components including “aid” (or its equivalent in a different lexicon) is both substantial and growing, though not ranked yet in a consistent way. We do not extend our findings in this direction.

## I. CDI aid component methodology

The methodology of the aid component is different from the other 6 components in the Index. Unlike the other components, the aid score is not a weighted average of the subcomponents; instead, the calculation applies several discounts derived from qualitative measures to a single measure of aid quantity. The methodology starts with **gross disbursements of grants and concessional loans**, as a share of rich-country GDP, nets out principal and interest payments, and discounts the following qualitative measures: tying, selectivity, and fragmentation. The CDI discounts “tied” aid that must be spent on products from the donor nation, which is estimated to raise project costs by 15–30 percent. Recognizing that aid is more effective in poor and relatively well-governed nations, the index discounts aid to relatively richer and less well-governed countries (selectivity). For example, aid to Afghanistan is counted at 1¢ on the dollar, while aid to Ghana is counted at 99¢ on the dollar. The CDI also discounts aid that overloads recipient governments with too many small projects, burdening officials with hosting and reporting

obligations (size weight). Multilateral aid is discounted the same way, for each multilateral donor, and the quality-adjusted figure is then allocated back to bilateral donors.

After such adjustments, the CDI arrives to a quality-adjusted aid/GDP. Additionally the aid component aims to estimate the quantity of private charitable giving induced by government policies. This figure is also expressed as a share of GDP of the respective country, and this is added to the previous figure of quality-adjusted aid.

Several issues are problematic within the existing aid component. First of all, its structure is very different from the rest of the index. Second, some of the quality adjustments result in extreme discounts. For example, for every 1 dollar provided in the form of aid to Sudan, only \$0.08 is counted toward the aid score. Third, private charity estimations are based on donors' self-reported figures. Although the ODA directives provide some guidance on reporting private contributions, there is no standardized methodology, and data for many CDI countries are missing.

## II. Major Overall patterns of performance within the DAC and specifically within Europe

To analyse patterns of aid performance of Europe and other developed countries, the following section uses OECD DAC data on aid quantity and CDI aid results mainly to assess quality. For the purpose of the analysis countries are clustered in the following groups:

- Europe 16 – European countries initially included in the CDI
- Europe – European countries currently included in the CDI (5 new European countries were added in 2012 – Czech Republic, Hungary, Luxembourg, Poland, and Slovakia)
- The Rest – other developed regions assessed by the CDI (Australia, Canada, Japan, New Zealand, South Korea, United States).

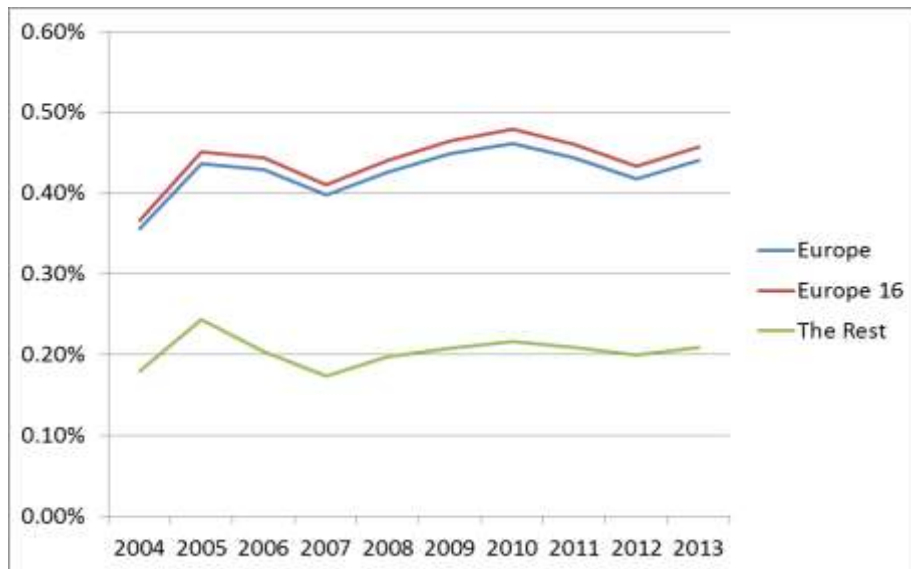
Results for the specific groups of countries are consolidated – i.e. total ODA/total GNI.

Graph 1 presents the aid volumes as a share of GNI for all three regions for 2004-2013. The overall pattern is very similar for all regions: after an increase (induced mainly by debt relief) in 2005, aid rose sharply for two years, flattened, rose again until 2010, followed by another two-year decrease, and finally an increase in 2013. Europe achieved a higher increase than The Rest which is still below 2005 levels. For the observed time period, European countries combined (as well as Europe 16) have provided twice the share of ODA/GNI as The Rest combined. There is very little difference between the original CDI countries and all European countries currently included in the index. The somewhat lower overall performance of Europe is explained by the Visegrád group<sup>1</sup>; in part reflecting the fact that they have made a less ambitious commitment than other EU countries.

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<sup>1</sup> Visegrád group: Czech Republic, Hungary, Poland, and Slovakia

**Graph 1: Official Development Assistance/GNI 2004-2013**



Source: Authors' calculations based on OECD DAC (2014)

***CDI Aid Component score***

Table 1 presents the Aid component scores of 2013 (2011 ODA data). Several patterns in the performance of European countries are identifiable.

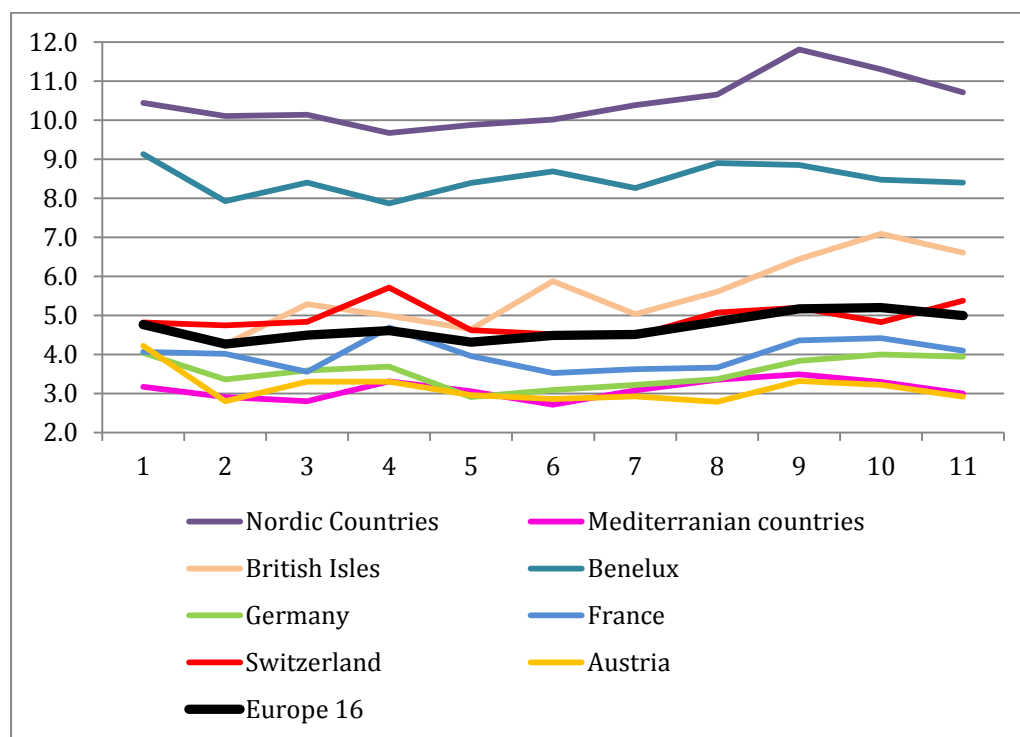
**Table 1: CDI Aid scores**

Country	2013 CDI Aid Score
Sweden	12.78
Luxembourg	11.89
Denmark	11.04
Norway	10.62
Netherlands	9.74
Ireland	8.48
United Kingdom	6.47
Belgium	6.25
Finland	6.13
Switzerland	5.38
<b>Europe 16</b>	<b>5.00</b>
<b>Europe 21</b>	<b>4.81</b>
France	4.09
Germany	3.95
Australia	3.84
Canada	3.75
New Zealand	3.35
Portugal	3.29
United States	2.98
Austria	2.91
Spain	2.90
<b>The Rest</b>	<b>2.53</b>
Italy	1.84
Greece	1.57
Czech Republic	1.43
South Korea	1.11
Hungary	1.10
Japan	1.01
Slovak Republic	0.94
Poland	0.88

Source: CGD, 2013

**First**, Nordic countries, Benelux, and to a lesser extent the UK and Ireland (plus Switzerland), take the top 10 aid ranking places in 2013 (see Table 1) and have done so fairly consistently for the last decade (Graph 2). Much of this is driven by aid quantity (see Table 2); equally, the same countries take the top 10 places on aid quality (with the exception of France, which ranks among top 10 on aid/GNI, but the applied quality discounts result in a slightly worse ranking in the aid component overall).

**Graph 2 CDI Aid component score 2003-2013**



Source: CGD, 2013

**Second**, this "locomotive" group is consistently near or above the Europe-16 (EU 15 plus Norway and Switzerland, but minus Luxembourg until recently) average, whereas the below-average group, essentially the Mediterranean members of the EU plus Germany and Austria, have remained consistently below average also, with one major exception. France initially moved just above the Europe-16 average and then, for the last five years, fell back significantly below it (see Graph 2). This special case is the joint result of two factors: first the fall of public resources available for grants due to fiscal pressure, and second the low interest rates of the French public indebtedness that allowed France (through AFD) to lend at concessional rates meeting the ODA conditions without budgetary cost or at very low cost. Since France, according to a previous rule, used not to lend to the least-developed countries (a rule no longer strictly applied, but still influential), and the main low income countries which were not LDCs have become middle income countries, the share of the French ODA allocated to middle income countries has automatically increased, which under the CDI methodology incurs a selectivity discount. This was however more the result of prevailing financial conditions than of a voluntary strategy. France thus can continue to stress that it reserves the bulk of its budgetary means for poor and fragile states.

The Visegrád countries occupy the bottom places in the aid component. Their results, however, should be interpreted with care. Only in 2013 did the Czech Republic, Slovakia, and Poland join the Development Assistance Committee, and Hungary has yet to do so. All of these countries have also only recently rebuilt their development assistance programmes and, according to the Barcelona commitments, they should strive to contribute 0.33% GNI to official development

assistance by 2015, a significantly more modest objective than what the rest of the EU has committed itself to achieve.

**Table 2: Official Development Assistance/GNI in 2011**

<b>Country</b>	<b>2011 ODA/GNI</b>
Sweden	1.02%
Luxembourg	0.97%
Norway	0.96%
Denmark	0.85%
Netherlands	0.75%
United Kingdom	0.56%
Belgium	0.54%
Finland	0.53%
Ireland	0.51%
France	0.46%
Switzerland	0.46%
Germany	0.39%
Australia	0.34%
Canada	0.32%
Portugal	0.31%
Spain	0.29%
New Zealand	0.28%
Austria	0.27%
United States	0.20%
Italy	0.20%
Japan	0.18%
Greece	0.15%
Czech Republic	0.12%
South Korea	0.12%
Hungary	0.11%
Slovak Republic	0.09%
Poland	0.08%

Source: authors' calculations based on OECD DAC (2014)

We can now see that across Europe there is therefore very little "mobility" on aid performance, and even less so in the last five years; although 2007-2011 was a window of general, if modest, improvement.

Indeed, there is a smaller distinct "G4 group" of Denmark, Netherlands, Norway, and Sweden, which continues to outperform the European average by a large margin, with no runner-up likely to catch them other than Luxembourg, the new (and very small) arrival to the aid index, and plausibly, the UK, having met its 0.7% volume commitment and assuming its quality discounts are contained.

**Third**, as David Roodman (2012) also points out, there is considerably more dispersion in the aid volume (effort relative to GNI) dimension than in the aid quality dimensions used to discount this raw volume. So unless the most generous donors perform spectacularly badly on quality ratings, there is virtually no chance that, with 6-7 times the raw aid effort, they will end up with comparable quality-adjusted ratios to the least generous (see Table 3 for coefficients of variation).

**Table 3 Europe 16 coefficients of variation**

measure/year	2013	2011	2009	2007	2005	2004
Aid quality	0.1140 <sup>2</sup>	0.0898	0.1141	0.1011	0.1014	0.0965
ODA/GNI	0.5761 <sup>3</sup>	0.4958	0.5234	0.4494	0.5167	0.5187

Source: Authors' calculations based on OECD DAC (2014), CGD (2013)

The introduction into the CDI aid component of specific credit for tax-assisted private giving, as against direct ODA, does not fundamentally alter this picture for Europe, although it becomes a significant positive factor for a few European countries, e.g. Ireland, Belgium, Switzerland, and more unexpectedly, Germany. The pattern of tax-assisted private generosity becoming at least as important as a (much weaker) quality-adjusted ODA effort is otherwise much more obvious outside of Europe and egregiously in the US. The latter has consistently resisted calls for a 0.7% target, in part arguing for more recognition of its private giving. Note also that the historical origin of the UN target was a somewhat more robust (and more easily communicable) 1% total flow requirement, somewhat arbitrarily decomposed into 0.7 public and 0.3 private subcomponents--the latter, along with the 1% total, having been largely forgotten ever since.

**Fourth**, in fact, the most generous "quants" or best-effort ODA/GNI providers are also by and large better than others in quality terms, so they retain and even reinforce their unadjusted quantity advantage. The Selectivity and Average Project Size discounts (proliferation) show a very similar pattern, with a few surprises (Austria for example does better at avoiding fragmentation than one might expect, but then this might be a statistical quirk, considering how small a share of national ODA the reporting agency represents). Table 4 displays selectivity and size weight coefficients; the higher the coefficient, the better the quality in terms of selectivity or size weight. Shaded are the highest values (i.e. lowest discounts, or best performances) in the respective area.

In particular, Italy, Spain, and Germany, and more recently France, do relatively badly on all the quality tests, and the Nordic/Benelux peloton does much better. There are some grey areas for the UK, notably recently on selectivity. As could be expected, the Visegrád countries do relatively poorly on selectivity, because their main aid recipients are mainly Eastern-partnership countries, or Western Balkan countries; and their fairly low size discounts are the result of small bilateral assistance budgets and low management capacity, rather than an intentional policy measures.

Multilateral assistance is also discounted by selectivity and size weight (tying costs are excluded). For many donors (see highlighted figures in Table 5), multilateral aid is discounted less than bilateral, i.e. the quality of multilateral aid is higher than quality of bilateral aid (as measured by the aid component). Comparison of multilateral and bilateral aid after applying aid quality discounts, i.e. share of aid which remains after discounts, is shown in Table 5 (applied to ODA disbursements as reported to DAC).

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<sup>2</sup> Including countries added in 2012, the coefficient is 0.1063

<sup>3</sup> Including countries added in 2012, the coefficient is 0.7174



**Table 4 2013 CDI Aid component quality discounts**

	<b>selectivity coefficient</b>	<b>size weight coefficient</b>
<b>Austria</b>	0.47	0.77
<b>Belgium</b>	0.49	0.76
<b>Czech Republic</b>	0.36	0.81
<b>Denmark</b>	0.58	0.78
<b>Finland</b>	0.52	0.75
<b>France</b>	0.43	0.75
<b>Germany</b>	0.42	0.74
<b>Greece</b>	0.46	0.81
<b>Hungary</b>	0.30	0.81
<b>Ireland</b>	0.61	0.79
<b>Italy</b>	0.45	0.69
<b>Luxembourg</b>	0.59	0.74
<b>Netherlands</b>	0.53	0.79
<b>Norway</b>	0.47	0.74
<b>Poland</b>	0.32	0.83
<b>Portugal</b>	0.71	0.70
<b>Slovak Republic</b>	0.35	0.82
<b>Spain</b>	0.43	0.73
<b>Sweden</b>	0.47	0.85
<b>Switzerland</b>	0.50	0.78
<b>United Kingdom</b>	0.44	0.74

Source: CGD (2013)

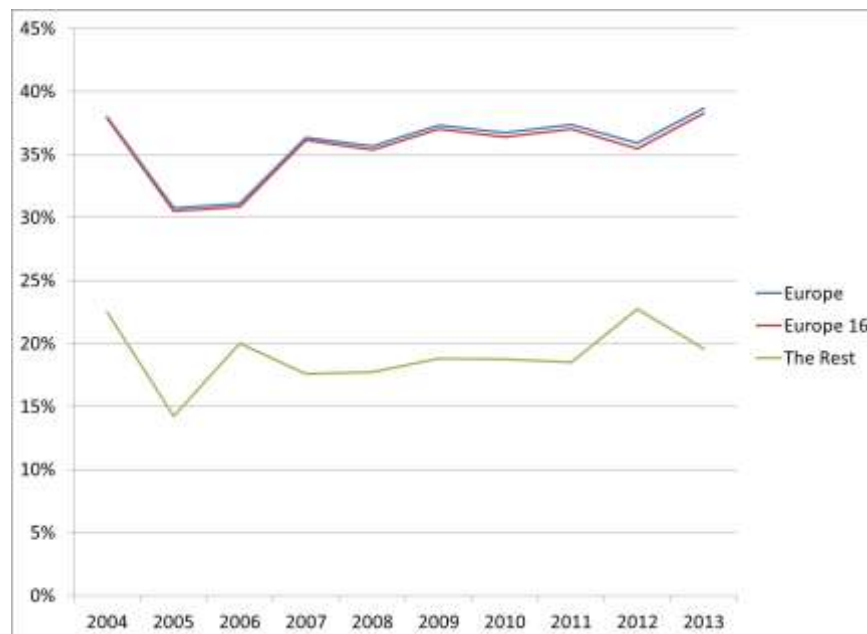
**Table 5 Remaining share of Aid after applying quality discounts**

Country	Bilateral	Multilateral
Austria	34%	48%
Belgium	43%	48%
Czech Republic	45%	50%
Denmark	56%	42%
Finland	49%	43%
France	30%	49%
Germany	34%	49%
Greece	36%	50%
Hungary	21%	50%
Ireland	59%	48%
Italy	22%	48%
Luxembourg	52%	42%
Netherlands	56%	45%
Norway	49%	27%
Poland	22%	49%
Portugal	42%	49%
Slovak Republic	23%	49%
Spain	38%	48%
Sweden	59%	33%
Switzerland	49%	36%
United Kingdom	42%	45%

Source: authors' calculations based on OECD DAC (2014), CGD (2013)

European countries provide a larger share of their aid budgets to multilateral rather than to bilateral recipients. This share has been fairly consistent in recent years, with a slight increase in 2013 (as shown in Graph 3). Given the generally higher quality scores of multilaterals, this higher share helps further improve the European overall score relative to non-European donors.

**Graph 3 Share of multilateral aid**



Source: authors' calculations based on OECD DAC (2014)

### *Interpretation*

There could be several reasons why raw ODA generosity and effectiveness scores would tend to be positively correlated. One line of causality could be that the more generous countries have also acquired, over time, more demanding public accountability requirements. Conversely, there has been some research on the correlation of weaker democratic institutions (e.g. government turnover rates) and lower aid in, for example, Italy and Spain. (Faust, 2006)

A second pathway could be that the larger European economies with a large footprint of inherited geopolitical obligations (such as France, Germany, Italy, and Spain) but comparatively low aid budgets are increasingly forced to spread themselves quite thinly, affecting quality negatively. This plays out in for example, Italy's inability to close a "long tail" of programs that have to be cut to the minimum to finance headline commitments in, for example, Afghanistan. This is bad for selectivity scoring, as Afghanistan rates poorly on governance, and also bad for fragmentation, as average programme size falls continuously everywhere else.

### **III. Possible areas of future improvement**

#### **a) ODA volume and the EU**

The political economy of the EU endeavour (as of 2005, Barcelona Summit, carried through to Gleneagles and the UN) to get the EU-15 members up to the (then) minimum threshold of 0.51%, producing a weighted average of 0.56%, then rising in further stages to 0.7% by 2014-15, needs a post-mortem before simply exhorting for more of the same with new time horizons. This warrants a specific discussion within specialised EU circles, which we have not yet attempted.

In particular, even before the financial crisis and ensuing fiscal austerity, it was clear from media reports and opinion polls that this implied spending trajectory (several hundred more euros per

year tax per German family, for example) did not receive sustained public support in any European G8 country except perhaps the UK. There is no significant remaining public opinion pressure toward it now, although Italy's transitional (Monti) government briefly gave a little greater, at least rhetorical, emphasis to ODA than its predecessor, restoring some of its aid cuts. The current grand coalition is again more circumspect on quantity, as the political economy of protracted austerity would predict, although it is working hard on quality, with a newly promulgated aid law.

Some countries, notably France, have meanwhile unilaterally stepped back from the 2015 horizon for 0.7%, for the time being eschewing any firm new commitment dates. The lack of a clear time-bound commitment to reach the 0.7% goal has been stressed by the recent DAC peer review of French development cooperation (OECD, 2013). However the government has presented a «Loi d'orientation et de programmation sur la politique de développement et de solidarité internationale de la Vème République», adopted by the Parliament on June 2014 without a quantitative commitment on the level of ODA.

It is not clear whether regular EU-wide consultations on aid spending, which have become somewhat ritualistic, as aid ratios have visibly stagnated and in several cases fallen, or naming and shaming of member countries falling behind on their obligations, and continuous European Commission monitoring of performance, have made or will make any real difference to this picture. The Commission (European Commission 2013) has repeatedly called for revised, specific, and realistic time-bound individual country trajectories to be announced, offering at least some hope and operational planning perspectives, but this call has met with little concrete response so far.

Moreover, as the 2015 threshold coincides with the need to redefine (and extend) the MDGs, there is every probability that further “big pushes” on aid will be put on hold until that landscape, and the burden-sharing expected from traditional and “new” aid actors alike to reach it, is clarified. There will also be pressures to redefine the measurement base (see section 3).

**(b) ODA definitions and additionality**

A second and related line of thought is that, even in the relatively optimistic cases like the UK where there is still cross-party support for the 0.7% target, there may have to be some significant adjustments on the range of activities included under the aid budget and ODA definition. The most obvious one, permitted under DAC rules, is to expand quite considerably the scope of public climate change funding legitimately scored under the aid budget (and most of it does so count, see e.g Kharas and Rogerson, 2012). This seems particularly persuasive for Germany, whilst other arguments (eg expansion of eligibility for security and human rights expenditures in fragile states) may play more strongly in other countries, as in the Nordics. So we should be careful what we wish for: the 0.7% target can ultimately be reached in formal terms, but at the expense of some considerable loss of focus (see Section 5, global public goods).

**(c) The fragility lens**

Notice also, that as stable upper middle-income countries tend to converge on the decelerating OECD, and poverty in the former is gradually reabsorbed, there will inexorably be a smaller number of absolute poor globally, increasingly concentrated in fragile states or in the least developed countries (LDCs). (Kharas/Rogerson, op. cit., challenged by Sumner 2013, who argues that current categorisations of fragile states have weak analytical power, which is not the case for the LDC category ).

Any such concentration deeply affects the political economy of aid, because it eventually implies much larger per capita aid spends, and moreover that they are ultimately concentrated on the countries with the worst performance track records. Public support for aid may not tolerate such a trend for very long. Interestingly, under the CDI's current methodology, if ODA became more and more focused on fragile states (regardless of income level), and these countries continued to

have poor absolute performance ratings, aid quality discounts would also rise, and hence the CDI's quality-adjusted ODA rankings would fall.

Indeed the increasing reference to the fragile state category contradicts the desire to allocate aid preferentially to good performing countries (a performance assessed through a high CPIA). This contradiction can be overcome only by new principles of allocation, for example by taking into account the structural vulnerability and the level of human capital of recipient countries (Guillaumont et al.2010). Such an approach would simultaneously lead to revised measurement of aid selectivity (see below). Such a shift would also lead to restore the weight given to the Least Developed Countries (LDCs), for which a specific aid target (0.15% to 0.2% of GNI) has been agreed<sup>4</sup> as a complement to the 0.7% target for all developing countries. The LDCs are designated (by the UN) not only by their low income, but also by their structural economic vulnerability and their low level of human capital. The LDC category thus corresponds to those poor countries likely to stay poor (Guillaumont 2009). It includes not only a majority of the fragile states, but also many countries at risk of becoming so.

#### **IV. Should DAC ODA remain the main underlying metric for “public development finance” in the CDI?**

Hard-wired to the whole CDI approach is the idea that “rich” countries’ policies, on aid and non-aid matters like trade or migration (or closer to home, tax-assisted private giving), have a duty to make as large a contribution to the well-being of developing countries as possible.

The analytical point of departure for aid volume and quality measurement is the DAC ODA definition – which has the merit of being accepted by all the countries the CDI directly ranks, since they are all members of the Development Assistance Committee of the OECD.

The CDI adjusts net ODA statistics (Roodman 2013) primarily for the excessive value of non-concessional debt forgiven scored as ODA. But it sidesteps a number of other well-known problems with the ODA definition (see also Roodman 2014), such as (a) education scholarships and refugee costs paid within DAC countries to developing country nationals (b) overvalued or not-requested technical assistance and (c) an arbitrary definition of concessionality thresholds.

The last of these anomalies is particularly problematic under current financial market conditions, where the nominal differences between, say, IDA terms (scoring as ODA at face value) and IBRD terms (completely excluded) are minimal. Indeed the harder two of the three IDA credit regimes, with significantly lower maturity and grace periods and both interest and service charges, are arguably now less concessional than the longest-maturity IBRD terms.

Technically, alternative benchmarks could at some point be considered to determine concessionality: for example until recently the IMF used a different set of market-related reference rates, rather than a standard 10% discount and has now fixed a set 5% rate to assess debt sustainability and concessionality. More politically, in a world where poor countries eagerly grasp offers of Chinese export credits for infrastructure investments at 3-4% over Libor, the boundaries seem more fluid than ever (see, eg Greenhill et al 2013). Some (e.g. Kharas, 2011) have suggested that a fairer comparison would be to add up the “pure” grant element, only, of all loans, but of course this would be laborious to implement and remains subject to choices of discount rate benchmarks.

More elusively, just as there are parts of net ODA, which are known to have little relevance to development impact, there are growing areas of spending not now scored as ODA which may well be of such value. Apart from a wider definition of so-called Other Official Flows, as just discussed, the main likely growth area is climate change financing from public sources, when this is not already scored as ODA.

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<sup>4</sup> Agreed at the Third UN Conference on the LDCs in 2001 as part of the Brussels programme of action.

The guardians of the CDI might want to consider how to move forward in a broader, more legitimate concept of international public finance (including also “aid-like” flows from non-DAC partners). A simple shift would be to extend the ODA concept to include other public flows, as registered at OECD. A more significant one (debated recently within the DAC) would be to disconnect the measurement of “aid effort” from donors from the measurement of total public inflows into developing countries.

Thus, for example, it is possible to simulate the savings to a less creditworthy country of borrowing from an aid agency at (for the latter) market or at least not directly subsidised terms, compared to the interest premium the country’s lower credit rating would otherwise require.

**V. Suggestions for possible future modifications on aid quality: Selectivity, effectiveness and equity**

The CDI selectivity approach is inspired by the Collier-Dollar model of poverty-efficient targeting, with discounts for poorly governed and richer states. The pros and cons of this notion of selectivity and the corresponding type of allocation formula have been intensively discussed. Selectivity means the quality of aid allocation, which should be assessed according to agreed principles of effectiveness for poverty reduction and equity. This endeavour raises two problems (examined in various Ferdi documents, such as Amprou et al 2007, Guillaumont et al 2010). Following a *World Economy* paper by Amprou et al, Ferdi has twice produced an index of aid selectivity, available on its website.

The first one is about *effectiveness*: Governance is indeed an important factor of development, but it is not clearly a factor of aid effectiveness, the Burnside-Dollar relationship having been strongly challenged in the academic literature. If governance has still now such an importance in the selectivity measurement and aid allocation, it is more as a supposed incentive (or reward) than as an effectiveness coefficient. But other country features may impact aid effectiveness, in particular economic vulnerability: because of the role of aid as a shock absorber, aid effectiveness is higher in vulnerable countries.

A second issue is that of *equity*, poorly addressed when only taking into account the level of GNI per capita, with various weights. If we consider that equity means equal opportunities, equalizing country opportunities (to grow) involves also taking into account the structural handicaps (to growth): In previous papers we suggested taking into account the structural economic vulnerability (through the UN EVI index) and the weakness of human capital (through an appropriate index). A recent UN resolution includes a paragraph inviting development partners to use such criteria in the allocation of their assistance. It gives some additional support for adapting the way that selectivity is judged.

**VI. Potential further issues for consideration**

**(a) Tax incentives to private giving**

Is the estimation of the generosity of tax relief for private giving the most relevant way of bringing in the private and charitable sectors? Granted that tax relief is public expenditure of a kind, should we not also try to see how "catalytic" the behaviour of official agencies was to such private efforts, through, for example, PPPs etc? This may not be easy to measure of course, but worth further reflection. It may need, as suggested above, to use two different concepts. The cost for the public budget of the tax incentives should be recorded in the “public aid effort” concept, while the induced increase in the development flows to developing countries should be included (if measurable) in the resources made available to these countries. (Of course, identifying robustly when aid does or does not catalyse other resources is not easy, requiring as it does a counterfactual of how the latter would have behaved absent the aid incentive or comfort, Rogerson 2011)

**(b) The “catalytic” role of aid, and how to measure it**

A related broader consideration is how one would begin to show whether the aid component of the CDI was well integrated into the other 7 components. That would concern itself with the question of how well a country’s international public finance (however measured, bearing in mind the definitional issues presented here) reinforces the other Northern policies of benefit to the global South tracked elsewhere in CDI, as in trade, intellectual property, investment, taxation, migration, security, and environment, etc.

We do not have an agreed set of definitions, to begin with, of “leverage”- for example if a public guarantee is attached to a package of private loans and equity finance for a major project, is it right to claim credit for the whole package, or the loan component being guaranteed, or something in between? Similar analytical problems will appear with other forms of public support to trade flows, remittances etc.

More generally, what would a world look like in which aid (or international public finance) was mostly broken up into countless ‘slices’ associated with private and nongovernmental action, as against used as a freestanding instrument?

This freestanding approach, in the logic of the current CDI aid component, should arguably be targeted primarily at areas where non-public flows are not going, even when public incentives or risk mitigation is offered, i.e. behaving as a balancing-wheel.

*Which of these two aid allocation patterns, the “crowding in”, or the “filling gaps” is more desirable, and why? Is it realistic for providers of concessional finance try to do both simultaneously? (see Rogerson 2014)*

**VII. Ranking aid performance in a world of multiple concurrent objectives: how to accommodate Global Public Goods, especially climate change?**

What if poverty reduction itself were no longer the main driver of ODA, meaning for example that funding enlightened self-interest (global public goods) and straight bilateral trade/investment "mutual" interest are to be considered at least as important objectives? In what direction do the aid quality components then go?

Take for example the issue of climate change mitigation. The most effective spending is presumably that which reduces the tonnage of CO<sub>2</sub> emissions the most for any given outlay, and this is bound to focus allocations toward the highest polluters, which are typically upper middle-income countries. This runs directly against the grain of the CDI’s current negative elasticity of aid (on poverty grounds alone) to per capita income.

However it can be argued that besides ODA there may be other, probably less concessional financial instruments forthcoming to address the mitigation issue. If ODA nonetheless remains the main plank for mitigation funding, this tension becomes severe.

More closely related to the usual selectivity conundrum is the issue of adaptation or resilience to climate change: there is a rationale for taking into account the vulnerability to climate change in the selectivity of ODA if ODA includes adaptation funding, or separately if adaptation funding is allocated from specific resources (e.g. Guillaumont, 2013). In any case, this requires due consideration of the level of income, since among the most vulnerable, there are also relatively better-off, island and coastal states.

*Such problems raise the bigger issue of whether the CDI aid component is readily adaptable for a multiple-objective global policy environment where aid is explicitly driven by mutual and collective interest considerations as much as by poverty reduction goals. We leave this question open.*

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