

# AID ORPHANS: WHOSE RESPONSIBILITY?

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## What's the issue?

*The pattern of aid distribution across countries is insufficiently co-ordinated.*

Individual donors (public and private) decide separately which country programmes to assist and to what extent, based on their unique set of values, goals and criteria, shaped by specific contexts and historical relationships. The absence of timely information on other donors' forward intentions impedes everyone's ability to adjust their own plans accordingly. Furthermore, accountability to taxpayers or boards is seldom focused on correcting the actions of others, predictable or not: each donor has its own priorities and incentive framework.

*This pattern generates inefficiencies and inequities.*

The resulting geographical gaps and overlaps, commonly called "aid darlings" and "aid orphans", can entail considerable global costs, to the extent that the aid community as a whole fails to invest systematically where aid is expected to have the most impact. "Darlings" are not fully symmetric with "orphans", however; they may remain under-aided in absolute terms, or in important areas, yet involve large numbers of small donors, entailing high fragmentation costs. This asymmetry is recognised in the Accra Agenda for Action,<sup>1</sup> where donors have committed to "start a dialogue on international

**division of labour across countries and work to address the issue of countries that receive insufficient aid".**

## How significant is the problem?

*Actual aid allocations are still driven mostly by factors other than need and merit.*

There is a large body of literature on the empirical determinants of foreign aid, which tries to disentangle the influence of geo-political ties and donor self-interest from that of recipient needs and their ability to make use of aid. It overwhelmingly concludes that the former two factors outweigh the latter, though responsiveness to need has also been seen as growing since the end of the Cold War. A recent study<sup>2</sup> using DAC bilateral data finds that almost half of the predicted value of aid is determined by donor-specific factors, one-third by needs, a sixth by self-interest and only 2% by performance.

*There is no single agreed definition of aid orphans...*

To pinpoint where aid is insufficient and by how much requires selecting one of several normative benchmarks for apportioning aid across countries, against which actual aid can be tallied. Options range from simply assuming equal per capita aid to all low-income countries, to increasingly sophisticated formulae using alternative indicators of need

and of ability to use aid, weighted appropriately. IDA, most regional banks, the EC, and a few bilaterals use variants of the latter approach.

*...because underlying approaches differ.*

Behind these benchmarks lies an ongoing debate about the significance of past country performance ratings as a valid predictor of future poverty outcomes and it is now widely accepted that this relationship is not straightforward. For example, in the case of fragile states, low institutional capacity in the recovery phase can be seen more as a leveraging opportunity than as a deterrent. Such calculations also invoke implicit or explicit value judgments on the relative importance of need as against ability to use aid judgments which in various forms underlie every philanthropic enterprise. Variations in aid are not just supply-driven of course. They also reflect multiple unquantified assessments of the effective demand – the relative merits or difficulties of investing in given country contexts.

*The shortfalls are probably large in terms of aid redeployable from elsewhere.*

Subject to such caveats, the World Bank<sup>3</sup> has recently re-estimated the hypothetical amounts needed to bring all under-aided countries up to various benchmarks. This includes the so-called "poverty-efficient" or Collier-dollar allocation method, factoring in rapid recent

poverty reduction in India and elsewhere. Almost all the 25 remaining orphans according to this benchmark are in Africa, and they are collectively under-aided to the order of about USD 12 billion per year. Using IDA's performance-based aid allocation formula would identify under-funding of about USD 3.3 billion. These are big gaps. To help set these numbers in context, they represent roughly between 7% and 25% of all country programmable aid (CPA) outside of Africa, totalling USD 47 billion at the latest count.

## What can be done about it? (Issues for discussion)

**Acknowledge the collective action problem.** The issue as described is not tractable just through greater awareness. The obstacles go beyond the inertia of donor-specific priorities. Under the Accra Agenda for Action, and given domestic fiscal pressures, bilateral donors are actively urged to concentrate on fewer countries and sectors. It is a real challenge to reconcile this message with any global balancing role, unless co-ordinated allocation principles are adopted and monitored across the whole donor community.

**Seek complementarity in approaches among and within categories of donors.** At the moment, some multilateral agencies have more binding country allocation formulas than others. For instance, most major multilateral development banks follow similar performance-based allocation principles. Others (including some major global funds) have no country allocation rule at all, by design. It would be worth investigating if this diversity contributes to crowding in, or crowding out, of donor orphans on balance. Similar considerations may apply to NGOs and foundations, as they may reinforce the "donor darling" effect by responding to "herding" signals from official donors. Each category of donor needs also to seek greater complementarity with the others.

**Consider funding rebalancing from future aid increases.** A best-efforts commitment by all donors to raise ODA growth rates in some subset of orphan countries faster than the average would be helpful, not least in clarifying definitional and benchmarking issues. It would recognise the underlying asymmetry or "Robin Hood" problem: direct large-scale reallocation from

darlings to orphans is neither feasible nor, arguably, desirable. Bilateral donors with fast-growing programmes - and possibly emerging donors - could play a significant balancing role, especially if their aid management rules are relatively flexible, hence potentially more responsive to gaps.

**Improve transparency of donors' forward intentions.** The only comprehensive database on 3-year forward bilateral and multilateral intentions at country level, including for some significant non-DAC donors, is surveyed and published annually by the OECD.<sup>4</sup> However, it withholds country breakdowns by donor because of confidentiality requirements on which a few donors still insist. There should be an urgent search for acceptable forms in which these planning assumptions can be made accessible to policy makers in real time. This would reduce the information gaps upstream of individual donor decisions. In time, major non-governmental actors and emerging donors may also be motivated to share their plans. It may be worthwhile considering establishing a forum where overall trends in future allocations are discussed.

## Further reading

1. *Accra Agenda for Action*, <http://www.oecd.org/dac/effectiveness/parisdeclaration>.
2. *Need, Merit or Self-Interest-what determines the Allocation of Aid?* Anke Hoeffler and Verity Outram, CSAE, Oxford, July 2008.
3. *Will countries that receive insufficient aid please stand up?* Robert Utz, CFP research program on the International Aid Architecture, World Bank, (forthcoming autumn 2009)
4. *2009 DAC Report on Aid Predictability, Survey on Donors' Forward Spending Plans 2009-2011*, OECD, June 2009.