

Does Aid Matter? New research directions on aid effectiveness (2005-2008)

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DECRG published its report [Assessing Aid](#) eight years ago. Since then, donors have committed to a substantial increase in aid under the Monterrey Consensus, with many promising to increase aid to 0.7 percent of their GNP. As they begin to deliver on these commitments, questions about aid effectiveness continue to mount. Research can help inform donor agencies and their constituencies on the effectiveness of alternative approaches to aid. Because no single approach to assessing aid effectiveness is sufficient or even best, this research program tackles the aid effectiveness agenda using several different approaches.

- *Does aid effectiveness depend on recipient countries' policies and institutions?*
That aid is likely to work better in a good policy environment continues to be common sense, and indeed is supported by case studies of aid delivery. However, some of the more high-profile evidence, based on cross-country data, is in dispute. The important issue of the role of policies and institutions in aid effectiveness will be revisited by examining outcomes other than economic growth, testing the quality of aid rather than just quantity, and shifting from country-level to state- or even project-level data.

- *Does aid facilitate policy reform?*
If aid can be used to induce policy and institutional reform, it can have sizable effects on growth, poverty reduction, and human development. Empirical evidence suggests that aid can support governments committed to reforms, but cannot induce uncommitted governments to adopt reforms. In addition, development assistance consists of resources *and* ideas, but while studies of development effectiveness usually focus on the first channel, there are reasons to believe that the diffusion of development ideas has had a larger impact. To the extent that external pressures affect policymaking in developing countries, it is important to determine what factors drive policy choice. Why is it that some countries adopt new development ideas while others do not? Under what conditions does learning from the international development community produce better policies? Research concerning these questions can utilize a variety of methods, ranging from case studies of policy choice to correlations between policymaker characteristics and indices of policy adoption.

- *How does aid affect the allocation of government spending?*
A much larger share of aid is devoted to social sectors and less to “productive” sectors compared to 15 years ago. The perceived need in Africa for improved infrastructure to attract private investment is stimulating renewed debate on the appropriate allocation of aid across sectors. Moreover, with respect to spending across subsectors within sectors such as health and education, donors, at least nominally, have stressed primary education and primary health care. There has also been much discussion, but apparently no systematic evidence, on the extent to which donors’ emphasis on HIV/AIDS has come at the expense of other health subsectors. These concerns argue for a re-examination of aid’s effects on the composition of public spending. For example, previous work can be extended to test whether cross-sectoral fungibility of aid is affected by the ratio of project aid to program aid, or by citizen voice in budget priorities, as proxied by democracy indicators.

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