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Article — Published Version

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Poverty in Focus

Provided in Cooperation with:

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

Suggested Citation: Thiele, Rainer; Nunnenkamp, Peter; Dreher, Axel (2007) : Sectoral Aid Priorities: Missing MDG Targets?, Poverty in Focus, International Poverty Centre, Brasilia, Iss. October 2007 (12), pp. 16-17

This Version is available at:

<http://hdl.handle.net/10419/4324>

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Sectoral Aid Priorities: Missing MDG Targets?

The overall share of the social sectors has nearly doubled in 15 years, but this varies a lot across donors.

Unless the sector targeting of aid is better focused on MDG needs, even much larger aid may not be enough.

The prospects for achieving the Millennium Development Goals (MDGs) look bad in various developing countries, notably in Sub-Saharan Africa. To turn the tide, recent reports by the UN Millennium Project and the Commission for Africa issued urgent calls to increase official development aid substantially and, thereby, close the gap between donor rhetoric and reality.

Qualitative aspects of aid allocation have received considerably less attention even though they may be as important for effectively meeting recipient needs. In particular, a needs-based targeting of aid in priority sectors such as health and education should have an important say on whether donors help achieving the MDGs. Hence, in addition to the usual

ranking of donors according to their overall 'generosity', the structure of aid portfolios offers interesting insights as to whether aid has been prioritised in line with the MDGs.

The sectoral composition of aid by all donors taken together has changed quite dramatically since the early 1990s. Most notable in the context of the MDGs, the share of aid devoted to the social sector has almost doubled (to about 35 per cent in 2002-04), with higher spending on education, health and population programs, though not on water and sanitation.

However, this overall pattern masks substantial variation across donors. In recent years, social sector aid ranged from 23 per cent of total aid in Japan to 50 per cent in Norway. France and Germany put a strong focus on education but spent very little on primary education, even though the MDGs would require donors to concentrate on this sub-category. The United Kingdom stands out in that education and health-related aid was focused on basic services from which poor population segments might benefit most. Denmark and Germany were the only donors that provided a non-negligible share of total aid for basic water and sanitation. Environmental protection and gender equality, which both explicitly correspond to MDGs, were largely neglected by almost all donors.

Different aid priorities of donors must not necessarily imply inappropriate targeting. While a multi-dimensional objective function follows from the MDG project, coordinated donor efforts may have resulted in a division of labour with specific donors concentrating on specific MDGs. Coordination and harmonisation indeed figure high on the policy agenda of donors. The Paris Declaration on Aid

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Matching MDGs, indicators of need and aid categories

Indicators of need	Aid categories
Target 2: Hunger	
undernourishment malnutrition of children	developmental food aid emergency food aid
Target 3: Primary schooling	
net primary enrolment primary completion rate average years of schooling	education basic education
Target 4: Gender disparity in education	
ratio girls/boys in education literacy ratio, males/females	education basic education
Target 5: Under-5 mortality	
under-5 mortality rate immunization, measles	health basic health
Target 6: Maternal mortality	
maternal mortality ratio births attended	health basic health
Target 7: HIV/AIDS	
prevalence of HIV	health population programs
Target 8: Malaria, other diseases	
incidence tuberculosis malaria ecology	health basic health
Targets 10/11: Water & sanitation/ slum dwellers	
access to improved water access to improved sanitation	water supply & sanitation basic drinking water

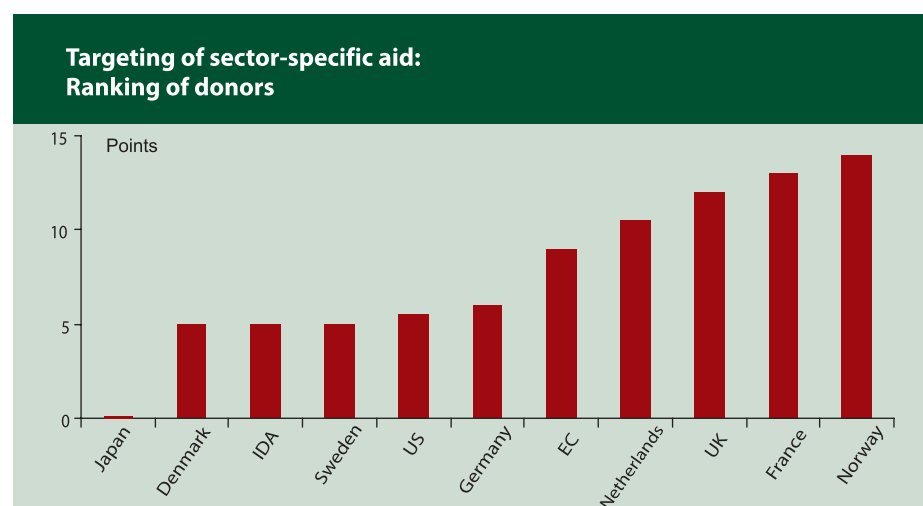
Effectiveness emphasized the need “to eliminate duplication of efforts and to rationalize donor activities to make them as cost-effective as possible.”

Yet donor coordination remains elusive. Donors tend to favor the same ‘aid darlings’. Comparing pairs of major donors with regard to the allocation of aid across 140 recipient countries, most of the correlations turn out to be positive and very few are significantly negative. This applies not only to total aid per capita of the recipients’ population, but also to sector-specific aid for health, education, and water and sanitation.

It is against this backdrop that we assess whether donors allocated aid according to specific needs of recipients. We analyze the impact of ‘indicators of need’ related to the non-income MDGs on the distribution of sector-specific aid across 140 recipient countries. We control for the per-capita income of recipient countries and democracy indicators in order to isolate the impact of the indicators of need listed in the matching table below.

It is important to note that all explanatory variables are weighted by the recipient countries’ population. This implies that the unit of observation is the individual, rather than the country. This approach is taken because of the global character of the MDG concept; success or failure depends on the percentage of the worldwide population, rather than the number of countries reaching a particular target. Obviously, the results may be driven mainly by China and India. Therefore, we perform additional estimations by excluding these two heavyweights to test for the sensitivity of results.

We compare eleven bilateral and multilateral donors on the basis of their aid commitments in 2002-2004. The aid categories under consideration are supposed to be most relevant for aid to be effective in contributing to the MDGs. This is not to deny that other aid categories such as humanitarian and multi-sector aid may also promote the MDGs. In addition, it should be stressed that addressing the question of whether donors paid sufficient attention to the



MDGs by allocating aid according to related indicators of need does not allow strong conclusions on the effectiveness of aid. Well targeted aid is a necessary, though not a sufficient condition for aid to be effective.

We rank the eleven donors under consideration as follows. Each donor may achieve a maximum of 64 ‘credit points’: one point for each significant coefficient of the specific indicator of need in the allocation of sector-specific aid (see table); 0.5 extra points when a significant coefficient is robust to the exclusion of China and India; another 0.5 extra points when the per-capita income of recipients enters significantly negative at the same time, revealing a general poverty orientation of aid. A similar procedure is applied for comparing the targeting of sector-specific aid across the MDGs.

No donor comes close to the maximum. Yet there are striking differences (see graph). It appears to be in line with conventional wisdom on particular donors’ performance that Japan ranks at the bottom and Norway at the top. However, the group of donors with weak targeting includes not only a nother donor widely blamed to be low-performing—the United States—but also countries usually regarded as superior donors like Denmark, IDA and Sweden. The latter donors are more MDG-oriented in terms of granting more aid to poorer recipients, including humanitarian and multi-sector aid. However, more sector-specific targeting has played a minor role for them, too.

On the other hand, France ranges close to the top in allocating aid to MDG-related priority areas. The fine-tuning of French aid according to specific indicators of need qualifies earlier verdicts that the poverty orientation of its aid allocation is particularly weak. Likewise, there are striking differences in targeting sector-specific aid across the MDGs under consideration (not shown in the graph). The fight against HIV/AIDS (Target 7) clearly stands out, with almost half of the maximum of possible ‘credit points’ being reached. This implies that almost all donors focused on this target. Target 2 comes second, though at a considerable margin—22 per cent of possible credit points. By contrast, various targets were largely neglected, namely Targets 3, 4, 5 and 10/11. The targeting is particularly poor with respect to the objective of achieving universal primary education (Target 3). The allocation of aid in education was shaped by the corresponding indicators of need for just three donors—France, Germany and Norway—and only weakly so.

All this invites the conclusion that the current focus on substantially increasing aid in order to turn the tide and try to achieve the MDGs misses an important point: Unless the targeting of aid to MDG-related priority areas is improved, increasing the amount of aid is unlikely to have the desired effects.

■
R. Thiele, P. Nunnenkamp, A. Dreher: *Do Donors Target Aid in Line with the Millennium Development Goals? A Sector Perspective of Aid Allocation. Forthcoming in Review of World Economics.* <http://www.uni-kiel.de/ifw/pub/kap/2006/kap1266.pdf>