

Analysis of the Effects of Institutions on the Sub-National Distribution of Aid Using Geo-Referenced AidData

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Abstract : The article assesses the performance of international aid donors to determine the sub-national distribution of their aid projects dependent on recipient countries' governance. The present paper extends the scope from a cross-country perspective to a more detailed analysis by looking at the effects of institutional qualities on the sub-national distribution of foreign aid. The analysis examines geo-referenced aid project in 37 countries and 404 regions at the first administrative division level in Sub-Saharan Africa from the World Bank (WB) and the African Development Bank (ADB) that were approved between the years 2000 and 2011. To measure the influence of institutional qualities on the distribution of aid the following measures are used: control of corruption, government effectiveness, regulatory quality and rule of law from the World Governance Indicators (WGI) and the corruption perception index from Transparency International. Furthermore, to assess the importance of ethnic heterogeneity on the sub-national distribution of aid projects, the study also includes interaction terms measuring ethnic fragmentation. The regression results indicate a general skew of aid projects towards regions which hold capital cities, however, being incumbent presidents' birth region does not increase the allocation of aid projects significantly. Nevertheless, with increasing quality of institutions aid projects are less skewed towards capital regions and the previously estimated coefficients loose significance in most cases. Higher ethnic fragmentation also seems to impede the possibility to allocate aid projects mainly in capital city regions and presidents' birth places. Additionally, to assess the performance of the WB based on its own proclaimed goal to aim the poor in a country, the study also includes sub-national wealth data from the Demographic and Health Surveys (DSH), and finds that, even with better institutional qualities, regions with a larger share from the richest quintile receive significantly more aid than regions with a larger share of poor people. With increasing ethnic diversity, the allocation of aid projects towards regions where the richest citizens reside diminishes, but still remains high and significant. However, regions with a larger share of poor people still do not receive significantly more aid. This might imply that the sub-national distribution of aid projects increases in general with higher ethnic fragmentation, independent of the diverse regional needs. The results provide evidence that institutional qualities matter to undermine the influence of incumbent presidents on the allocation of aid projects towards their birth regions and capital regions. Moreover, even for countries with better institutional qualities the WB and the ADB do not seem to be able to aim the poor in a country with their aid projects. Even, if one considers need-based variables, such as infant mortality and child mortality rates, aid projects do not seem to be allocated in districts with a larger share of people in need. Therefore, the study provides further evidence using more detailed information on the sub-national distribution of aid projects that aid is not being allocated effectively towards regions with a larger share of poor people to alleviate poverty in recipient countries directly. Institutions do not have any significant influence on the sub-national distribution of aid towards the poor.

Keywords : aid allocation, georeferenced data, institutions, spatial analysis

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