

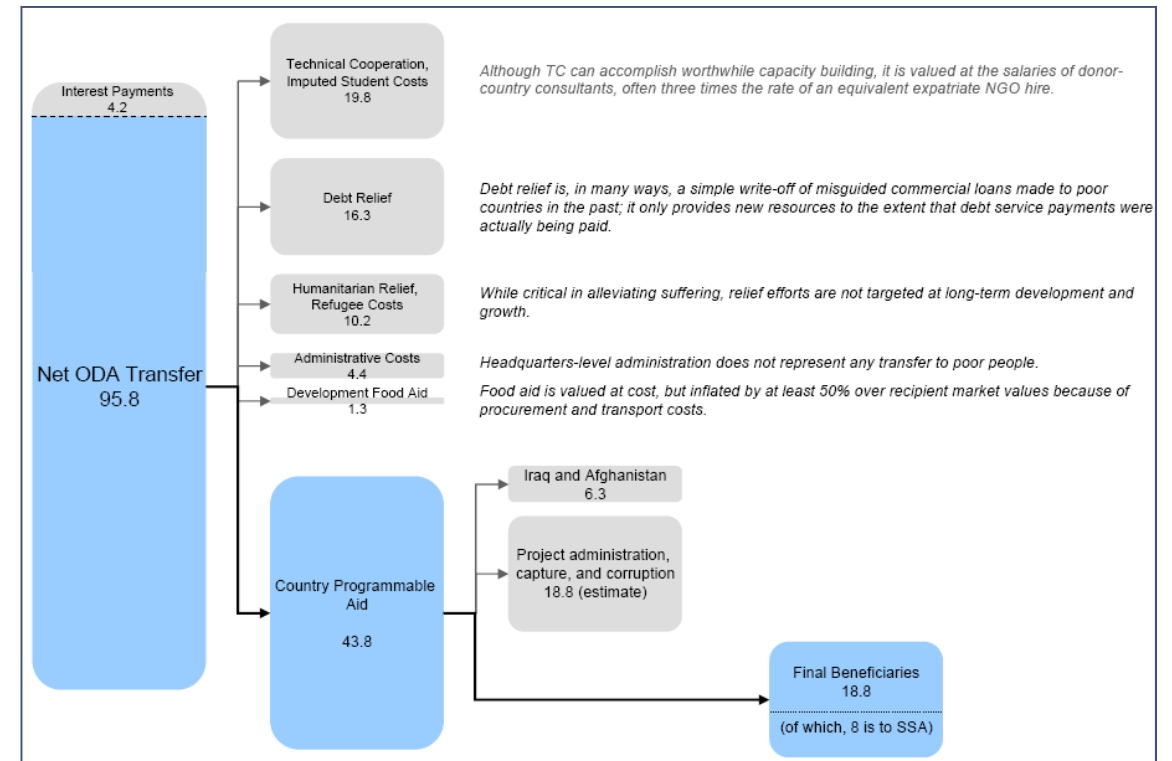
THE NEW REALITIES OF AID

A VISUAL PRIMER OF CHALLENGES THAT MUST BE DEALT WITH TO MAKE AID MORE EFFECTIVE

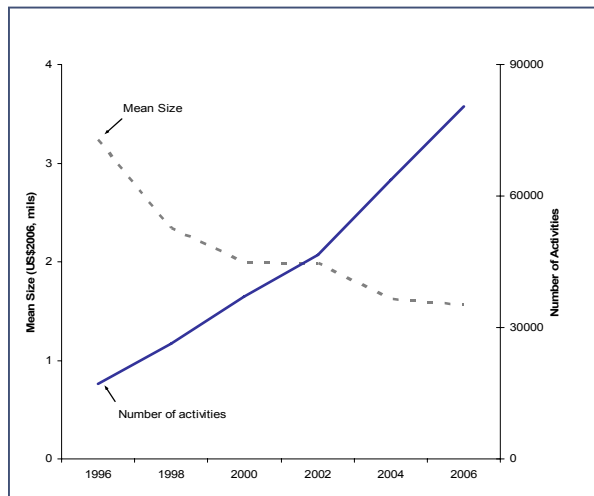
Homi Kharas and Joshua Hermias

WOLFENSOHN CENTER FOR DEVELOPMENT at BROOKINGS

Figures based on data from OECD/DAC and Wolfensohn Center Working Papers 1 and 3

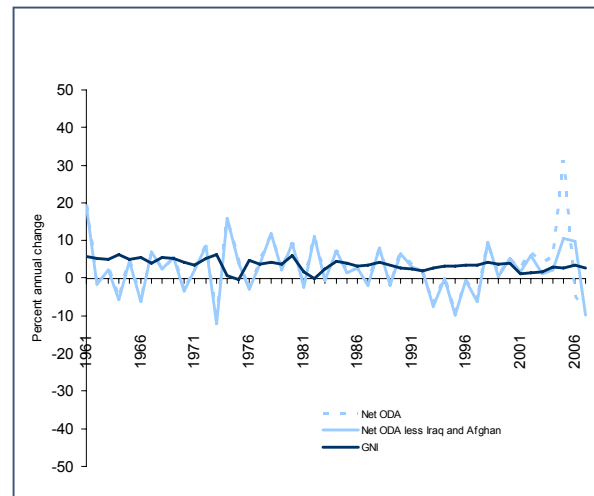


How does \$100 of official aid become \$19 to beneficiaries, and \$8 to African beneficiaries? The flow chart (right) displays the uses of aid, by average share of Net ODA between 2005 and 2007.



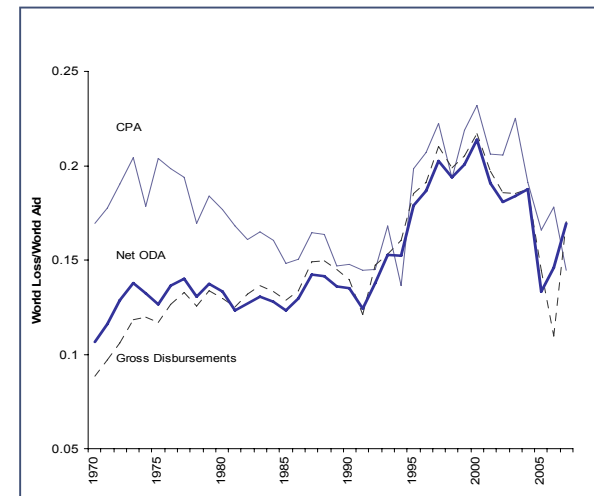
Aid Fragmentation

As donor agencies proliferate, aid budgets are being fragmented. New official aid activity commitments reported to the DAC are rising sharply and the mean size of each activity is steadily falling. In 2006, there were 81,000 new activities: the mean size was \$1.6 million; the median size was only \$67,000.



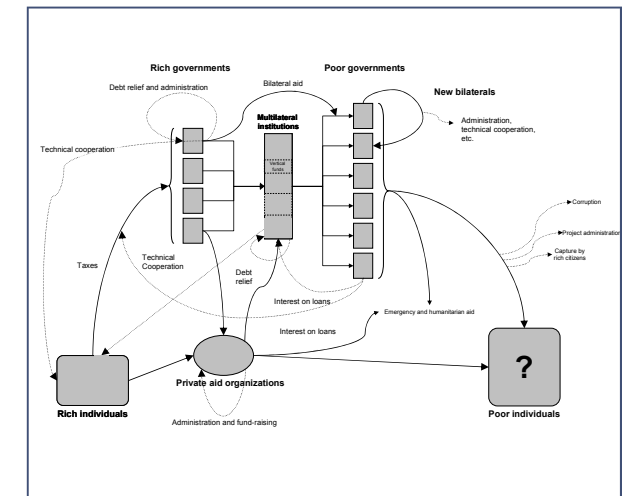
Aid Volatility

Net ODA disbursements, as seen from the perspective of a recipient country, are highly volatile. Aid shocks faced by LICs are comparable in size and frequency to major global economic shocks faced by rich countries, such as the Great Depression, the two World Wars, and the Spanish Civil War.



Deadweight Losses

Aid volatility makes planning for recipients an unpredictable exercise and decreases the true value of aid. The deadweight loss attributable to volatility may be in the order of 15 to 20 percent of net ODA or about \$18 billion in today's prices.



Many Aid Players

The systems for disbursing aid have become extremely complex. There are at least 46 official bilateral aid donors, 260 multilateral aid agencies, and tens of thousands of development-oriented NGOs, foundations, church groups, and for-profit corporations.