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More Dollars than Sense: Refining Our Knowledge of Development Finance Using AidData

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Summary. — In this introductory essay to the special issue, we introduce a new dataset of foreign assistance, AidData, that covers more bilateral and multilateral donors and more types of aid than existing datasets while also improving project-level information about the purposes and activities funded by aid. We utilize that data to provide a brief overview of important trends in foreign aid. Contributors to this special issue draw on AidData as well as other sources to analyze aid transparency, “new” donors (not previously described or analyzed), aid allocation, and aid effectiveness. Our recurring theme in this introductory essay is that AidData and these initial academic projects refine rather than revolutionize our understanding of aid. The database has added significant numbers of new projects, dollar amounts, donors, and details about those projects, though there is much more yet to add. We worry that aid debates have been driven by too little information, and that many claims are based on limited or very poor evidence. Rectifying these problems will not be instantaneous: refining knowledge takes a lot of time and hard work. The common feature of the papers in this special issue is their careful attention to nuance and detail. In spite of what some recent authors have claimed, aid is neither a simple solution nor a sufficient cause of most problems in developing countries; its motivations, distribution, and effects are complex, and shifting. Capturing this complexity requires detailed data, careful thought, and sophisticated methods that allow scholars to make conditional causal and descriptive inferences.

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1. INTRODUCTION

Nearly five trillion dollars seems a high price to pay for uncertainty and misunderstanding. Since 1945, wealthier countries have allocated more than \$4.9 trillion to developing nations for the nominal purpose of lifting the world’s poor out of poverty.¹ Yet the roughly one million official development projects and activities over 66 years have bought little cer-

tainty about the scope, purposes, or effects of development finance. Not for the public whose tax dollars fund aid; not for foreign aid scholars; not for development practitioners; and certainly not for the recipients of foreign aid.

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Citizens in donor countries often reflect a poor understanding of even how much foreign assistance they have supported. Survey respondents routinely overestimate the foreign aid allocations of their governments. For example, in a November 2010 poll taken in the United States, subjects guessed that foreign aid comprised 25% of the federal budget; an overestimation of 2,500%. The actual total is less than 1% (World Public Opinion, 2010). While development scholars and practitioners would likely produce estimates for aid budgets that are closer to the mark, they do differ on the scale of aid flows. For example, William Easterly, a contributor to this special issue, in his best-selling book *The White Man's Burden* (2006), pegged the sum of total aid since 1945 at \$2.3 trillion, which is less than half of the total reported here.

Part of the disparity reflects differences in choosing what to count as aid. For many years, official project databases omitted most of the development finance from the World Bank and the other multilateral development banks (MDBs). We built AidData, the new information source that underpins this special issue of *World Development*, to capture as much of the universe of foreign assistance as possible. In particular, AidData defines development finance as loans or grants from governments, official government aid agencies, and inter-governmental organizations (IGOs) intended mainly to promote the economic development and welfare (broadly defined) of developing countries (see the User's Guide at <http://www.aiddata.org>). This expands upon the traditional definition of "aid" as only including flows that fit the traditional definition of Official Development Assistance (ODA). In addition to ODA, AidData includes international loans at market rates if these loans are extended by governments or IGOs in an effort to foster economic or social development. AidData includes neither project funding that originates from nongovernmental organizations (NGOs) nor contributions from private investors, banks, or foundations.² The database also does not include military assistance from either bilateral or multilateral donors.

We gathered data on these aid projects and activities from a variety of sources. In addition to scraping more complete information off of donor agency websites, we contacted a series of governments around the world who had never before reported their foreign assistance activities to an international agency. While we still do not have a complete picture of official development finance, we are getting closer.

Tracking and counting aid is problematic enough, but assessing the factors driving its allocation and effectiveness proves more challenging still. Indeed, fierce debates rage in the research community over why donors provide aid and over its effects once the funds are disbursed. Much of the intensity of these debates reflects the normal differences of opinion and approaches characteristic of a relatively new inter-disciplinary field. However, the debates are also intense because the stakes are so high: hundreds of millions of lives and billions of dollars hang in the balance. We know too little about the extent and purpose of development finance to build scholarly consensus, and we suspect that the gaps separating different camps are partly the result of incomplete information.

This special issue, and the new AidData database motivating and informing its contributions, grew out of concerns that we lack a clear description of the full range of official development finance. In order to adequately address the range of questions we and many others wished to pose about the impact and allocation of aid, we needed to significantly expand and improve the primary database used for these questions. The primary database upon which most previous research relied was the Creditor Reporting System (CRS), a creation of

the Organization of Economic Cooperation and Development (OECD). The CRS is maintained by the OECD's Development Assistance Committee (DAC), which compiles annual statistics on aid commitments from its 22 member governments and, more recently, some multilateral aid mostly from Multilateral Development Banks (MDB's) and their special funds. The DAC/CRS statistical system was designed to help these traditional donor governments observe each other's behavior and assess how well each was meeting various commitments made over the years—from the 1970 UN General Assembly promise that foreign aid levels should reach at least 0.7% of GDP, to the more recent 2005 Gleneagles pledges to Africa (Clemens & Moss, 2005).

As we augmented the CRS database with more donors, more projects, and more dollars, and as we added longer project descriptions and more detailed purpose and activity codes for many of these projects, we became aware that we had gone beyond creating a strictly academic resource.³ AidData could help open up foreign assistance to new tests of its efficacy, assist coordination among an increasingly fragmented universe of aid donors and practitioners, and suggest ways that aid could be spent more usefully and productively. Also, AidData could be used as a tool in broader contemporary efforts to improve aid transparency and the quality of aid information, as seen in the International Aid Transparency Initiative (IATI) that was launched in 2008 at the Third High-Level Forum on Aid Effectiveness in Accra, Ghana.⁴

This introductory essay has four goals. First, we want to show what is at stake here by reviewing some of the major recent studies on aid allocation and effectiveness. Second, we describe briefly what users should know about the AidData information base, which is the source of data for the papers in this volume.⁵ Third, we utilize the database to provide an updated view of some of the most important trends in development finance over the last 35 years. In the final section of this introduction, we provide a short review of the substantive contributions in this special issue.

While existing work has many virtues, often scholars have tried to do too much with too little. They have asked very large and important questions about the relationship between aid and economic growth, but they have done so without capturing perhaps more than half of the development finance that could be helping (or hindering) economic growth, and without fully understanding the ways in which donors allocate aid. The nature of those donors, their intentions, and their allocation decisions can critically influence the subsequent effectiveness of those flows.

Thus, contributors to this special issue attempt to complement existing work by delving into greater detail on specific donor allocation issues involving Arab donors (Shushan and Marcoux), new donors (Dreher, Nunnenkamp and Thiele), project size (Kilby), geographic distribution of aid within countries (Findley *et al.*), and climate-related projects (Michaelowa and Michaelowa). Other contributors take on difficult issues of aid effectiveness, but again in a more fine-grained, circumscribed way that complements existing work. Bermeo investigates the relationship between aid and regime change, Wilson examines health aid and mortality, and Christensen, Homer and Nielson inquire about education aid and its impact on school enrollment.

Our recurring theme in this introductory essay is that AidData and these initial academic projects refine rather than revolutionize our understanding of aid. The database has added significant numbers of new projects, dollar amounts, donors and details about those projects, though there is much more yet to add. The papers in this special issue increase our

knowledge of donor transparency, “new” donors, aid allocation, and aid effectiveness. We do not offer any new theories or a fundamental rethinking of aid. Rather, we test existing theories with more information and with careful attention to specific implications of these theories. We worry that aid debates have been driven by too little information, and that many claims are based on limited or very poor evidence. Rectifying those problems will be an ongoing process: refining knowledge takes a lot of time and hard work. The common feature of the papers in this special issue is their careful attention to nuance and detail. In spite of what some recent authors have claimed, aid is neither pure problem nor pure solution; its motivations, distribution, and effects are complex, and shifting. Capturing this complexity requires detailed data, careful thought, and sophisticated methods that allow scholars to make conditional, causal, and descriptive inferences. The broader AidData initiative, and this special issue in particular, provide one step in the long and necessary process of refining our knowledge about the causes and effects of development finance.

2. RECENT DEBATES ABOUT AID: 1990-PRESENT

What do we know about aid, and what is that knowledge based upon? For our own research we needed a more complete and accurate picture of the universe of foreign aid and specifically we needed to know what purpose individual aid flows were designed to address; without that, much of what we think we know about aid and development is open to question. Because all our research would benefit from getting more, and more accurate, information from official donor organizations about aid flows and aid projects, “aid transparency” is a key issue. The first three papers in this special issue analyze the level of donor transparency, finding that it varies greatly by donor and that all donors could improve on this score—a point that many donors themselves have recognized recently. Hence, we clearly still have a long way to go in learning about foreign assistance, and donor willingness to reveal information is essential to further improvements in our knowledge about it.

At the same time, we cannot simply wait for that information to fully and completely accumulate before trying to understand aid. In addition to donor transparency, contributors to this special issue ask three main questions: How do “new” donors (those not currently included in the OECD’s CRS database) behave?⁶ What influences the allocation of aid? Is aid effective in promoting particular outcomes in developing countries?

We are obviously not the first to ask these questions. Scholars have published substantial and sometimes excellent work on these topics. Nevertheless, answers remain remarkably contested, especially on the issue of aid effectiveness. We review some of those answers here. This literature review provides some background to the uninitiated and it helps to highlight the ways in which papers in this special issue add value to our existing knowledge.

(a) *Does aid work?*

The most fundamental question is whether aid improves conditions of life in developing countries, by means of economic growth or greater provision of health or education services, for example. Debates about aid effectiveness over the past two decades have been characterized by three schools of thought, which we characterize as “more aid,” “problem aid,” and “conditional aid.” Below we provide a short introduction to each, but do not endorse any one of them in particular.

Each school contains scholars who engage in a mixture of careful empirical work and policy prescriptions, though the nature of that mixture varies substantially by author. Useful reviews of the aid debate include Hansen and Tarp (2000), Clemens, Radelet, and Bhavnani (2004), Addison, Mavrotas, and McGillivray (2005), Radelet (2006), Doucouliagos and Paldam (2008), Doucouliagos and Paldam (2009), and Winters and Wright (2010). In comparison with many of these reviews, we strive to be more comprehensive and balanced; we do not have a stake in the debate over the effectiveness of aid.

Like so much else in the aid debate, these scholars disagree strongly on which school of thought has gathered the most relevant evidence or produced the best studies. Radelet (2006, p. 15) concludes, “Most empirical research on aid and growth conducted during the last decade has found a positive relationship, in contrast to popular perceptions...” Addison *et al.* (2005, p. 831) echo this finding. “[P]overty would be higher in the absence of foreign aid,” they write. But these conclusions are strongly contested. Doucouliagos and Paldam (2009, p.433) survey 97 econometric studies to conclude that, “After 40 years of development aid, the preponderance of the evidence indicates that aid has not been effective.”⁷ They argue that once-promising efforts to determine the conditions under which aid may be effective have failed to produce persuasive results, and they suspect that researchers are engaged in a lot of “data mining” because the numbers of observations utilized in their analyses are quite a bit smaller than the numbers of observations available.

Scholars and policy makers in the “more aid” school argue, at times ardently, that for the many poor countries without meaningful access to global capital, aid can provide roads, energy, medicine, and textbooks, among many other necessities, to citizens who would otherwise go without. Surveying the “more aid” school, Radelet (2006) identifies three reasons why aid might increase growth: increased investment capital, increases in worker productivity thanks to advances in health and education, and technology or knowledge transfer. Hansen and Tarp (2000, 2001) have conducted some of the most influential empirical tests of these arguments, finding from their own analyses as well as their surveys of others that “aid increases aggregate savings; aid increases investment; and there is a positive relationship between aid and growth in reduced form models” (Hansen & Tarp, 2000, p. 393).

In contrast to a significant body of work showing that aid effectiveness depends on good governance, Hansen and Tarp (2000), Hansen and Tarp (2001) find that aid enhances growth in states with both good and bad policy environments. But they find that aid has diminishing returns.⁸ Sachs (2006) picks up on many of these themes in his influential policy-oriented work, but glosses over the finding that aid has diminishing returns. For Sachs, poor countries must devote too many resources to immediate survival and lack the investment capital necessary to escape from “poverty traps” such as cultural barriers to women and minorities or high debt levels. Aid can help them overcome these problems.

Yet the critics of aid have made equally passionate claims asserting exactly the opposite. Economists William Easterly (2006) and Dambisa Moyo (2009) have argued that not only has foreign assistance failed to live up to its billing as the liberator of the world’s poor, aid has done great harm. Infusions of cheap or free hard currency prop up corrupt dictators, enabling bad governments to remain unaccountable to their citizens. What is more, aid, like oil or diamonds, becomes a prize to be won, thereby emboldening rebels and igniting civil wars. Indeed for Moyo, aid has proved the single greatest reason for

the dire straits faced by the vast majority of sub-Saharan Africans, many of whom subsist on less than one dollar per day. “No longer part of the potential solution, [aid is] part of the problem—in fact aid *is* the problem” (Moyo 2009, p. 47; emphasis in original). Svensson (2000), Bräutigam and Knack (2004), Moss, Pettersson, and van de Walle (2006), Djankov, Montalvo, and Reynal-Querol (2008), and Knack (2009) also marshal evidence in support of the hypothesis that aid can reinforce—or even induce—poor governance. Radelet (2006) suggests four other reasons why aid may be ineffective: (1) it can keep governments in power that perpetuate poor policies preventing growth; (2) countries “have limited absorptive capacity to use aid flows effectively”; (3) aid can reduce both private and government saving; and (4) it can cause the currency to appreciate.

Rajan and Subramanian (2008) provide some careful empirical evidence for this point of view, showing little positive or negative relationship between aid and economic growth despite controlling for factors as diverse as time horizons, types of donors and types of aid, different recipient characteristics in terms of geographic location, governance and other factors, or different methodological techniques. The difficulty, they argue, is that aid is fungible and can simply be consumed. For aid to be more effective, in their view, it would need to increase productivity, and there is little evidence of that.

Still other analysts stake out a middle ground, suggesting that aid works, or works better, under certain identifiable conditions. From a policy perspective, Paul Collier (2008) has argued that aid, put to proper use in carefully selected instances, can become part of the solution even if it often persists—like a natural resource “curse”—as part of the problem.

Burnside and Dollar (2000) famously found that aid, when employed by recipient governments pursuing policies of free trade and fiscal responsibility, can significantly boost economic growth. Much of the subsequent literature on aid effectiveness has therefore focused on the *quality* of governance in recipient countries. Those who pursue this avenue might admit that aid on average has only a weak relationship to growth, but argue that this aggregate finding masks the nuances of aid. For these scholars, aid simply works better under some conditions than others. The key question then becomes: what conditions enhance aid effectiveness? The follow-on question is: how donors can best target recipient countries that possess the right mix of these conditions?

Burnside and Dollar’s influential study (2000) focused on the macro-economic policy environment. They argued that aid can only promote long-term growth when it is invested productively instead of being consumed or spent by the government. Thus, countries with economies that are open to trade and investment, and that have good government management of the money supply and the budget (low inflation, budget surpluses), can invest aid dollars productively, leading to economic growth. Some scholars, such as Collier and Dollar (2002), have confirmed these findings, but others have disputed them (Dalgaard & Hansen, 2001; Dalgaard, Hansen, & Tarp, 2004; Easterly, Levine, & Roodman, 2004; Roodman, 2007).

Other analysts have suggested that Burnside and Dollar’s focus on macro-economic policy is too narrow because it misses additional important aspects of governance. Isham, Kaufmann, and Pritchett (1997), Svensson (1999), and Kosack (2003) provide evidence that democracies put aid to more productive use than autocracies. The Independent Evaluation Group (IEG) (2010), Gelb (2010), Kenny (2008) and Dollar and Levin (2005) call attention to a broader set of institutional factors—the role of bureaucratic quality, rule of law, and

control of corruption—that appear to condition the effectiveness of aid.⁹

This conditional aid position has probably had the greatest, or at least most visible, impact on policy making. In the wake of a prominent World Bank publication (Dollar & Pritchett, 1998) from which the Burnside and Dollar (2000) findings emerged, the George W. Bush Administration launched the Millennium Challenge Corporation (MCC) as a radically new aid agency directed to provide aid on the basis of both need *and* merit: countries ranking among the poorest would qualify for aid only if they demonstrated a commitment to democratic, rule-based governance, social investment, and liberal economic policies. While the academic and policy analysis may not alone be responsible for the creation of the MCC, the scholarship certainly influenced the institution’s emergence and its operational rules, and officials certainly drew on these research findings to justify the new agency (Easterly, 2003; Girod, Krasner, & Stoner-Weiss, 2009; Hook, 2008; Krasner, 2009). The US is not alone in its preference for increased selectivity in aid allocation. The Dutch and Danish governments, the UK’s Department for International Development (DFID), and the European Union have followed suit, introducing their own performance-based aid allocation procedures (Hout, 2007). And the World Bank, the Asian Development Bank, the African Development Bank have also institutionalized performance-based allocation formulae, which systematically direct more resources to countries with “good” policies, successful records of project implementation, and strong public sector management institutions (Asian Development Bank (ADB), 2005; Bourguignon & Sundberg, 2007; Dollar & Levin, 2006).

While these ‘conditional aid’ studies are sophisticated and have made some important progress, they are focused fairly exclusively on one outcome, economic growth, which is exceedingly difficult to explain or to model well. Aid is intended for a huge variety of purposes, not all of which will influence economic growth directly or in the same way. A better understanding of aid’s effect on other kinds of outcomes could help inform scholars seeking to explain the connection between aid and growth. If aid works in a round-about way by first resulting in more democratic institutions or higher literacy, then aid’s impact on growth will look very different than if aid simply makes available more investment capital. Contributors to this special issue believe it is helpful to complement these big-picture economic growth studies by first focusing on other aid outcomes, including regime change (Bermeo), health outcomes (Wilson), and education outcomes (Christensen, Homer, and Nielson).

(b) *Who is aid for?*

Donor allocation choices and characteristics, such as underlying motivations for aid, the specific purposes for which aid is given, the size of projects, the geographic distribution of aid within a country, and the nature of the organization distributing the aid can also influence aid effectiveness. Many government, or bilateral, donors apparently seek to relieve poverty only after, or as a secondary consequence of, first using aid to cement alliances, bolster trade partnerships, or buy diplomatic cooperation in arenas like the United Nations (see Alesina & Dollar, 2000; Dreher, Sturm, & Vreeland, 2009; Kilby, 2009; Kuziemko & Werker, 2006; Stone, 2004; Stone, 2010; Vreeland, 2011). Moreover, donors’ domestic politics often dictate that recipients use contractors or consultants from the donor country to build the road or dam or provide ideas on how to make the bureaucracy more efficient (Radelet, 2006). In such cases of “tied aid,” the welfare of

the poor in the recipient country may matter less to officials than the wealth of the contractors and consultants who provide political support for those donor governments. Why should it, then, surprise observers that such aid—much of it not primarily intended to promote growth or relieve poverty—has minimal, or even negative, effects on economic growth?¹⁰

Of course, donors do not only pursue narrow self-interests in allocating aid. Despite the unsurprising revelation of underlying political motives, no persuasive studies have provided comprehensive explanations of aid allocation without reference to the poverty level of recipients. Donors who pay more attention to poverty alleviation may in fact provide more effective aid. Minoiu and Reddy (2009) have shown that aid provided by bilateral donors who focus relatively more attention on the needs of recipient countries is associated with increased economic growth over 5, 10 and 25 years.

Yet identifying donors that provide need-based aid is a tricky task. Headey (2007) finds that multilateral donors tend to give aid to countries with greater need and are less influenced by strategic considerations than bilateral donors. Alesina and Dollar (2000) find that large donors are the most susceptible to strategic influences, and are thus more likely to give to states that share their foreign policy preferences, former colonies, and countries of strategic importance (such as Egypt and Israel for the US). They also found that “[c]ertain donors (notably, the Nordic countries) respond more to the *correct* incentives, namely income levels, good institutions of the receiving countries, and openness.” (2000, p. 33). Gates and Hoeffler (2004, p. 16) likewise suggest that aid from Nordic nations “seems remarkably free from self-interest and, indeed more oriented toward their stated objective of poverty alleviation, the promotion of democracy, and human rights.”

Donor political motives have occupied most of the attention on aid allocation, which has detracted from other potentially important sources of variation. Contributors to this special issue (Easterly and Williamson, Knack, Rogers and Eubank, and Kharas) address this problem by ranking donors on a wide variety of criteria including transparency, overhead costs, and selectivity in recipients, among others. Each of these dimensions include multiple specific measures that are aggregated to produce indices of donor quality. While it is not certain that improvement on these indices would in fact enhance aid effectiveness, these articles draw our attention to factors that might in fact influence effectiveness and should thus be considered carefully. In the same vein, Dreher, Nunnenkamp and Thiele examine the practices of new donors and find that they may actually care less about recipient needs than established donors, though both sets of donors appear to disregard merit.

(c) *Is the whole problem over-aggregation?*

Some of the problems with evaluating aid effectiveness may be due to over-aggregation. As Clemens *et al.* (2004) have pointed out, not all aid works in the same time frame or in the same kinds of ways. Aid effectiveness may in fact be related to more specific dimensions of aid that cannot be captured by an aggregate dollar amount, even if those aggregate amounts are interacted with important conditions, such as governance. Aid effectiveness might be tied, for example to *project-level* factors. Deininger, Squire, and Basu (1998), Vawda, Moock, Gittinger, and Patrinos (2003), and Wane (2004) report that the quality of project preparation has a substantial impact on the subsequent performance of development projects and programs. Similarly, a 1997 study of World Bank-financed projects suggests that projects with poor quality pre-invest-

ment assessments are 16 times more likely to fail than projects with higher quality pre-investment assessments (Jenkins, 1997). Kilby (2000) and Chauvet, Collier, and Duponchel (2010) examine a subsequent link in the implementation chain, identifying a strong relationship between the quality of project supervision and final project outcomes.¹¹ Other potentially important project-level explanations include *ex ante* consultations with local stakeholders (Kingdom & Reddel, 2006), targeting of well-defined constituencies (Winters & Wright, 2010), public participation and oversight during implementation (Isham, Narayan, & Pritchett, 1995), and the presence of a strong monitoring and evaluation system (Gelb, 2010).

One particular project-level decision speaks to a relatively untested but influential hypothesis: that aid directed to businesses or NGOs rather than to governments is more likely to be effective. Easterly (2006) is the most well-known proponent of this view, suggesting that “planners” have made aid unproductive and that “searchers”—those motivated to make a difference by markets or by principled commitments and who have the necessary on-the-ground knowledge—are the best hope for improved aid effectiveness. NGOs in particular have received a lot of attention as alternatives to governments (Tendler, 1982; Edwards & Hulme, 1996; Werker & Ahmed, 2008) because they are “unburdened with large bureaucracies, relatively flexible and open to innovation, more effective and faster at implementing development efforts, and able to identify and respond to grass-roots needs” (Fisher, 1997, p. 444).¹² However, Nunnenkamp and Öhler (2011, p. 309) advance an alternative hypothesis: that the need for NGOs to demonstrate concrete, measurable, near-term results to their funders may render such organizations more “reluctant to address the most entrenched forms of poverty and to work in particularly difficult local environments.” Dietrich (2011) provides some preliminary evidence on this issue, demonstrating that donors appear to strategically target different “channels of delivery.”¹³ However, much work remains to be done; neither scholars nor policymakers have a firm grasp on when and why different aid modalities are most effective.

Contributors to this special issue point out other important donor decisions that are likely to influence effectiveness. Kilby suggests that the size of an aid project might influence its effectiveness. Where aid projects are fragmented and their sizes small, they may tax the ability of recipients to use that aid effectively.¹⁴ Findley *et al.* focus on the possibility that more fungible aid can increase civil conflict as warring parties battle for that aid, and they suggest that the local distribution of that aid inside a country is an important factor in these conflict outcomes. Michaelowa and Michaelowa find that states sometimes claim their aid helps improve the global climate when in fact it does nothing of the sort. If states systematically miscode their aid, aid effectiveness tests will either produce few results of interest or interesting results that are wrong.

Myriad questions about aid have been and continue to be asked, beginning with donor financial flows and ending with the effects of implementation in recipient countries. And yet substantial uncertainty and much misunderstanding of aid remain. That we know so little about what makes aid work is hardly a problem of intellectual neglect. Indeed, as we have shown, hundreds of published works address the question of aid effectiveness and allocation decisions on which effectiveness may depend. But data-driven studies are only as good as the information on which they rest, and the currently inconclusive results reflect in part the incompleteness of information on financial flows around the world. More complete and accurately categorized data on all assistance from all donors is necessary to understand where aid flows, what type of aid flows

where, and how effective aid dollars are. The data we have collected and the subsequent papers in this special issue contribute to our knowledge in these areas.

3. SEEKING THE UNIVERSE OF FOREIGN ASSISTANCE

In 2002–03 AidData researchers launched two projects that required the collection of more data on development finance and more fine-grained coding of these data than previously existed.¹⁵ While gathering data for this research, we discovered several shortcomings with the information in the OECD's Creditor Reporting System (CRS) database. The first problem was one that researchers who use project-level data have known about for decades: some donors do not report their aid commitments in particular years. The second problem was that the OECD's CRS database drops observations from its data releases when the recipients of previous aid graduate to developed country status. A third problem was more debilitating: many development assistance projects, particularly those from the multilateral development banks, were not reported in the CRS. Additionally, many bilateral donors, such as Saudi Arabia and Kuwait, were not members of the OECD and thus did not report to the CRS at the project level. The absence of these donors meant the exclusion of vast but unknown amounts of development assistance.¹⁶ As detailed below, we have added a large number of donors to the database (See Table 1). The primary variables in the AidData database are compiled from a range of official sources, including the OECD Creditor Reporting System (CRS) database, donor annual reports, donor websites, project documents from both bilateral and multilateral aid agencies, and data gathered directly from donor agencies.¹⁷

A fourth, and more serious problem for our research questions, concerned the ways in which projects were categorized by functional sectors (e.g., health, education, and environment). As we began to categorize new projects we added to the database, it became clear that the existing CRS codes were ambiguous in places and lacked specificity in other places that were important for our research questions. To make matters worse, each foreign aid project, no matter how complex and multi-faceted, could receive only one code in the CRS database based on the "specific area of the recipient's economic or social structure ... the transfer [is] intended to foster" (OECD DAC., 2009). By forcing donors to assign projects to a single category, this arrangement leads to a loss of information regarding individual development projects—particularly when those projects undertake multiple diverse activities (Hicks *et al.*, 2008). Many projects, especially from the MDBs, address multiple sectors, so the encompassing "multisector" category was so overused as to lose value. These shortcomings complicate scholars' attempts to draw accurate inferences about the allocation or the impact of development assistance in specific sectors.

And while some sector codes are too narrow to capture all activities in a given development project, other sector codes may be too broad. In this case, several projects doing very different things may receive the same sector code. For example, imagine if you were interested in the environmental impact of a development project. You would want to know whether that project was paying to rope off a rainforest or clear cut a rainforest as these purposes would have dramatically different environmental impacts. If these very different projects were receiving identical numerical purpose codes, you would need

a more logically consistent coding scheme. We needed such a scheme to answer our research questions.

Under our new scheme, AidData-coded projects receive a single overall *purpose code* that can be mapped into one of the approximately 200 OECD sector codes, and as many *activity codes* as required to capture the information provided in project descriptions. AidData's efforts expanded the original list of 232 OECD sector codes to 717 AidData purpose and activity codes. Some of these new categories break apart existing categories that include disparate activities, such as those that include multiple subsector projects, unknown subsector projects, and administration of projects all in the same code. This allows for much greater granularity in identifying and assessing the intent and (potentially multiple) objectives behind the projects. And the new coding system is comparable to previous research as the codes map to the OECD schema. Generally, projects added by the AidData team have longer descriptions than those provided by donor agencies to the OECD, but all projects are being double-coded and arbitrated by AidData staff. This helps ensure uniform application of the coding schema. In the version of the database used for these papers, not all donors had yet received purpose and activity codes for all their projects. Future versions of the database will have all projects coded.

AidData's contribution in enhancing data coverage and specificity is especially important because efforts to advance the aid research agenda in recent years have focused primarily on expanding access to, and the quality of, data on independent variables related to the "why" and "how" of development assistance (Addison *et al.*, 2005; Alesina & Dollar, 2000; Amegashie, Quattara, & Strobl, 2007; Boone, 1996). Attention to these two questions is of course needed, but without first accurately answering the more basic questions of "who," "what," "when," and "where" of development finance, it may not be possible to gain leverage on questions surrounding aid's specific determinants and effects. Provocative research questions and sophisticated models may draw scholarly attention and may even re-orient policymaking (Easterly, 2003), but if the actual data on foreign aid flows are inaccurate or incomplete, then the inferences that researchers and policy makers draw from their analysis may be misguided and error-prone.

In increasing the number of donors available from a single source, AidData enhances the quality of both current and historical data. In general, the OECD's member countries that contribute data to the CRS are interested in improving the accuracy of *recent* information on development activities. Although this is an important objective, aggregating and standardizing historical project-level data is imperative for those wishing to do the research necessary to understand how aid allocation, delivery, and effectiveness may be improved.

To summarize, AidData 1.92 (the version of the dataset used for this special issue) tracks aid flows and identifies specific projects and financial flows from 42 bilateral donors and 44 multilateral donors, counting different funds from the World Bank and others as separate donors (Table 1).¹⁸ The dates for these projects range from 1947 to 2009; however, over 99% of all the projects were initiated between 1973 and 2009. When conceived as a flat table, Version 1.92 contains a total of 959,170 project rows and tracks up to 134 variables for each project row. Coverage rates for these fields vary, but common measures such as commitment amounts are nearly complete. Interested users can get detailed coverage rates for each variable in the codebook. The database contains information on both commitments and disbursements, but the disbursement data is much less complete—the commitment field is populated 99.83% of the time, while the disbursement field is

Table 1. Donor nations and organizations tracked by AidData 1.9.2. In AidData 1.9.2, the version of the data used by the contributors to this volume, we have data on 42 of donor countries and 44 multilateral donors. Since the release of AidData 1.9.2, we have added data from several new bilateral and multilateral donors. This new data is available online at <http://aiddata.org>

Multilateral donors	Source	Coverage in AidData 1.9.2	Bilateral donors	Source	Coverage in AidData 1.9.2
Africa development bank	Annual Report	1970–2008	Australia	OECD-CRS	1973–2008
Africa development fund	Annual Report	1974, 1976–1993, 1996–2007	Austria	OECD-CRS	1974, 1976–2008
African capacity building foundation	Donor Website	1999–2007	Belgium	OECD-CRS	1973–2008
Andean development corporation	Annual Report	1988–90, 2001–03, 2005–08	Brazil	Donor Documents	1998, 2001, 2004–09
Arab bank for economic development in Africa	Annual Report	1975–87, 1989–2007	Canada	OECD-CRS	1973–2003
Arab fund for economic and social development	Annual Report	1973–94, 1996–2007	Chile	Donor Documents	2002–08
Asia development bank	Annual Report	1968–2007	Colombia	Donor Documents	2006–08
Asia development fund	Annual Report	1969–96, 1998–2007	Denmark	OECD-CRS	1973–2008
Caribbean development bank	Annual Report	1970–2009	Estonia	Donor Website	2000–09
European bank for reconstruction and development	Annual Report	1991–2007	Finland	OECD-CRS	1974–2008
European communities	OECD-CRS	1973–2008	France	OECD-CRS	1973–2008
Fast track initiative	OECD-CRS	2004	Germany	OECD-CRS	1973–2008
Food and agriculture organization	OECD-CRS	2007	Greece	OECD-CRS	2002–08
Global alliance for vaccines and immunisation	OECD-CRS	2007–08	Hungary	Donor Documents	2003–08
Global environment facility	Donor Website	1991–2009	Iceland	Donor Documents	1980, 1982, 1984, 1987–90, 1992–96, 1998–2009
Global fund to fight AIDS, tuberculosis and malaria	Donor Website	2002–09	Ireland	OECD-CRS	2000–08
Inter-American development bank	Annual Report	1970–2007	Israel	Donor Documents	2002–03, 2005–09
International fund for agricultural development	Annual Report	1978–86, 1988–2007	Italy	OECD-CRS	1973–77, 1980–2008
International monetary fund	Donor Website	1981–2009	Japan	OECD-CRS	1973–2003
Montreal protocol fund	Donor Website	1992–97, 1999–2001, 2004–06	Korea	Donor Website	1991–2007
Nigeria trust fund	Annual Report	1976–94, 1996, 2000–05	Kuwait	Annual Report	1962–69, 1971–2007
Nordic development fund	Annual Report	1990–2006	Latvia	Donor Website	2005–08
North American development bank	Annual Report	1996–2008	Liechtenstein	Annual Report	1981–2008
Organization of the petroleum exporting countries	Annual Report	1976–2000, 2002–07	Lithuania	Annual Report	2003–05, 2007–08
UN children's fund	OECD-CRS	2000–08	Luxembourg	OECD-CRS	1989, 2001–08
UN democracy fund	Annual Report	2007–09	Monaco	Annual Report	2006–08
UN development program	OECD-CRS	1999, 2004–08	Netherlands	OECD-CRS	1973–2008
UN economic and social commission for Asia and the Pacific	OECD-CRS	2007	New Zealand	OECD-CRS	1974, 1976, 1981–85, 1995, 2002–08
UN economic and social commission for Western Asia	OECD-CRS	2007	Norway	OECD-CRS	1973–2008
UN economic commission for Europe	OECD-CRS	2008	Poland	Annual Report	2004–07
UN populations fund	OECD-CRS	2001–08	Portugal	OECD-CRS	1983–85, 1987–2008
UNAIDS	OECD-CRS	2001–08	Qatar	Donor Website	2007
United Arab Emirates	Annual Report	1970, 1972–87, 1998–2004, 2008	Saudi Arabia	Annual Report	1975–80, 1982–99, 2002–05
World Bank carbon offset	Donor Website	2000, 2002–09	Slovakia	Donor Documents	2003–07
World Bank debt relief facility	Donor Website	1990–99, 2005, 2007, 2009	South Africa	Annual Report	2005–07
World Bank guarantee	Donor Website	1994, 1996–2007	Spain	OECD-CRS	1988–2008
World Bank IBRD	Donor Website	1947–2009	Sweden	OECD-CRS	1973–2008
World Bank IDA	Donor Website	1961–2009	Switzerland	OECD-CRS	1973–2008
World Bank IFC	Donor Website	1980–2002	Taiwan	Donor Website	1986, 1990–2009
World Bank managed trust funds	Donor Website	1995–96, 1998–2009	Thailand	Annual Report	2007
World Bank rain forest trust fund	Donor Website	1994–96, 1998–99, 2001–02, 2004–08	United Kingdom	OECD-CRS	1973–2008
World bank special financing	Donor Website	1994–2009	United States	OECD-CRS	1973–2008
World Bank unspecified	Donor Website	1970, 1976, 1978, 1981, 1989, 1991, 1994, 1996–98			
World Trade Organization	OECD-CRS	2007			

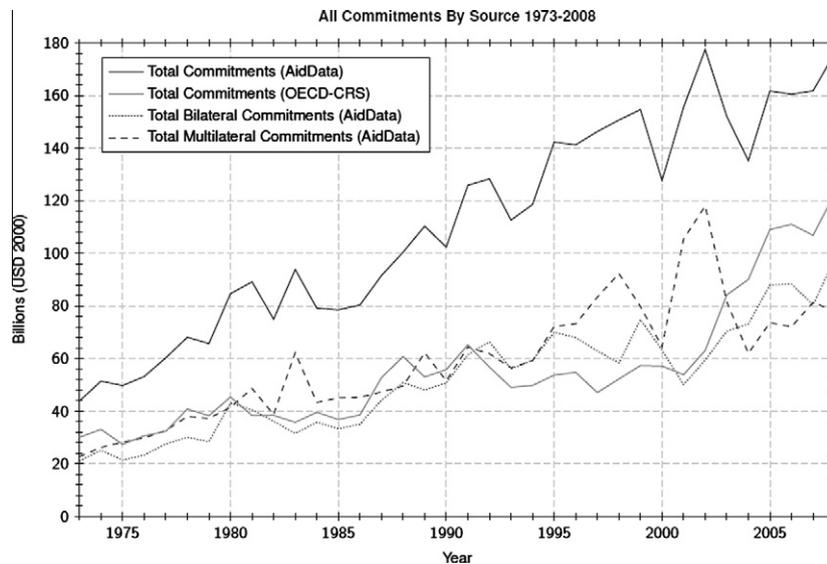


Figure 1. All commitments by source 1973–2008.

populated only 48.36% of the time.¹⁹ The total value of development finance commitments in AidData 1.92 in constant 2000 US dollars is \$4,197,172,465,710. By comparison the total value of commitments in the OECD CRS database, which purposely restricts itself to ODA, is \$2,571,624,810,068. For a visual illustration of the differences over time, see Figure 1 below.

4. WHAT HAS HAPPENED TO FOREIGN AID?

Surprisingly little work has been done in recent years to describe trends in foreign aid. We use AidData to briefly describe three important trends in aid and to illustrate the way in which the data may be used to probe conventional wisdom.²⁰

First, since 1973, total development assistance in constant dollars per year has nearly quadrupled, jumping from \$46 billion worldwide in 1973 to \$176 billion in 2008 (in 2000 dollars; See Figure 1 and technical notes at AidData.org). This growth is the result of both traditional donors allocating more aid and, perhaps more importantly, an increase in the number of actors providing foreign assistance. This finding stands in contrast to that of Hjertholm and White (2000) and White (2003), who provide a broad overview of patterns in foreign aid at the close of the millennium. They show that net ODA from bilateral and multilateral donors had peaked in 1992 and had since exhibited “decided downfall.” A number of other scholars observe a similar decline, hypothesizing that, among other things, the end of the Cold War removed a significant motivation for bilateral donors (O’Connell, 2001).

While there is a definite drop at the end of the 1990s, our data suggest these trends have been reversed: aid flows made a significant comeback since the 1997 low-water mark identified by White. Just 10 years later, in 2007, total development finance from bilateral donors stood at \$90 billion—a 42% increase over bilateral ODA at White’s 1992 peak.²¹ This upward trend is not merely a result of the fact that we have added new data sources when compared to those prior studies. Even if we look only at totals provided by the OECD CRS for the same time period (Figure 1 above), we still observe a significant uptick in aid after 1997 and again after 2001. That said, the “Great Recession” that began in 2008 may threaten this surge in aid flows despite donor promises to maintain or

increase aid funding (Ahmed, Marcoux, Russell, & Tierney, 2010).

Second, and relatedly, an entirely new set of countries and multilateral agencies now provides aid. Scholars (Bräutigam, 2009; Woods, 2008) and policy analysts (Manning, 2007; Naim, 2007) have recently discussed the importance of bilateral donors who are not part of the OECD, focusing overwhelmingly on a small number of “new” donors like China, a handful of Arab donors, and India. And yet more non-OECD donors—both bilateral and multilateral—are emerging every year. According to Kharas (2007), the number of multilateral aid organizations has increased dramatically in recent years as extant IGOs generate new funding sources, and as sovereign states delegate aid allocation to specialized agencies such as the Global Environment Facility and the Global Fund for AIDS, Tuberculosis, and Malaria. We have identified 65 governments and at least 71 international governmental organizations (IGOs) that provide assistance to developing countries around the world. Together, this is an increase of at least 95 donors beyond the 41 that are currently tracked by existing databases. No single source, including AidData, currently has systematic project-level data on all 136 of these official donors. As these new sources of aid have come online, especially since the 1990s, they have complicated the process of aid coordination for practitioners doing development work on the ground and thus increased the necessity of identifying and tracking the organizations and the resulting aid flows. After all, in order to coordinate aid activities, you need to know who the actors are and where they are spending money.

Third, the types and categories of projects have also changed. Through the 1980s, major donors provided significant proportions of their aid for infrastructure (Figure 2; see (Lyne, Nielson, & Tierney, 2006; Lyne, Nielson, & Tierney, 2009). Excluding debt relief, infrastructure aid comprised an average of 29.5% of total development assistance from DAC bilateral donors over the period 1973–1990 (Figure 2). Starting in 1991, however, infrastructure aid dropped off considerably relative to other sectors, but never disappeared. Since 2000, infrastructure aid per year has constituted an average of just 10% of total DAC bilateral aid. An examination of all donors in AidData (including multilaterals and non-DAC states) suggests that 26.5% of development assistance went to infrastructure from 1973 to 1990 and 15% went to infrastructure since

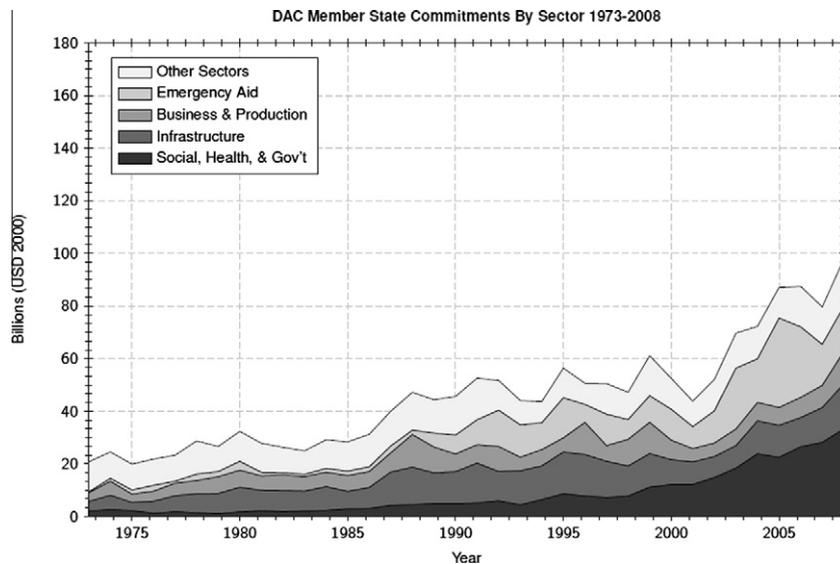


Figure 2. DAC member state commitments by sector 1973–2008.

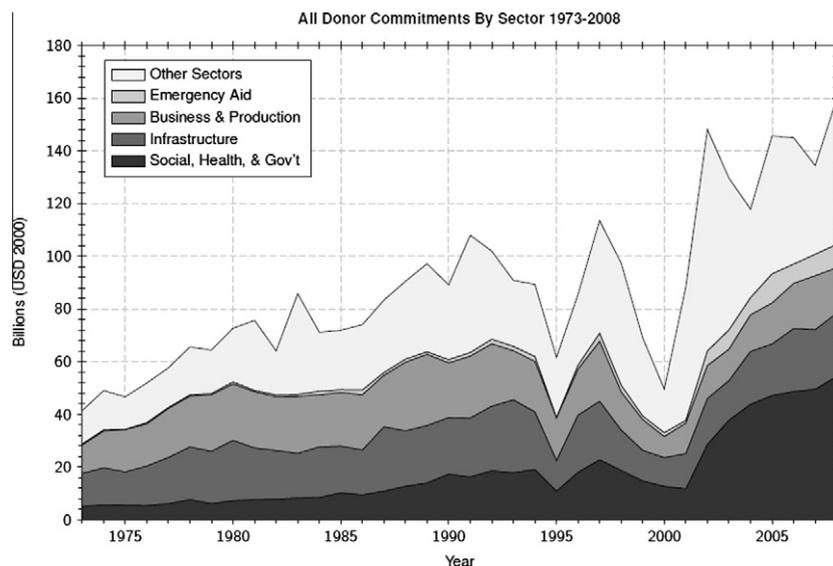


Figure 3. All donor commitments by sector 1973–2008.

2000 (Figure 3). Thus, the non-DAC donors' continuing interest in infrastructure after 2000 partially offset the sharp decline from DAC donors in infrastructure projects. This example suggests one reason it is important to look beyond DAC donors in analyzing aid flows.

While infrastructure spending declined, we see a huge surge in social projects and governance and capacity-building efforts. Specifically, donors have increased aid for health, education, and other social programs, underscoring the importance of the sector-specific studies in this volume, and have likewise boosted assistance for government, civil society, and budget support (Figure 2). Health, education and social programs were a quarter of bilateral aid in 2007; together these social sectors constituted the single largest fraction of official development finance. If non-DAC donors are included, the interest in these sectors is even larger, totaling 36.8% of total aid commitments in 2007. Moreover, aid activities are increasingly designed to fund multi-sector projects that address a variety of development themes ranging from road building, irrigation,

and primary education, to judicial reform, gender equality, and environmental protection.

AidData's more comprehensive database can be used to shed light on prominent arguments about aid. Alesina and Dollar (2000) argued that one reason development finance has only been "partially successful at promoting growth and reducing poverty" is that factors other than need tend to dominate aid allocation decisions. Broadly, Alesina and Dollar found that strategic and political considerations apparently drove donor decisions on recipients and amounts (see also Ball & Johnson, 1996; Dreher, Nunnenkamp, & Thiele, 2008). They note, for example, how the US provides a disproportionately large amount of its development finance to the Middle East; Israel and Egypt in particular. Similarly, Kuziemko and Werker (2006) find that US aid to a given UN member state increases significantly when that nation rotates onto the Security Council. Such an effect lends support to expectations that states will generally and quickly reallocate aid to their perceived strategic benefit.

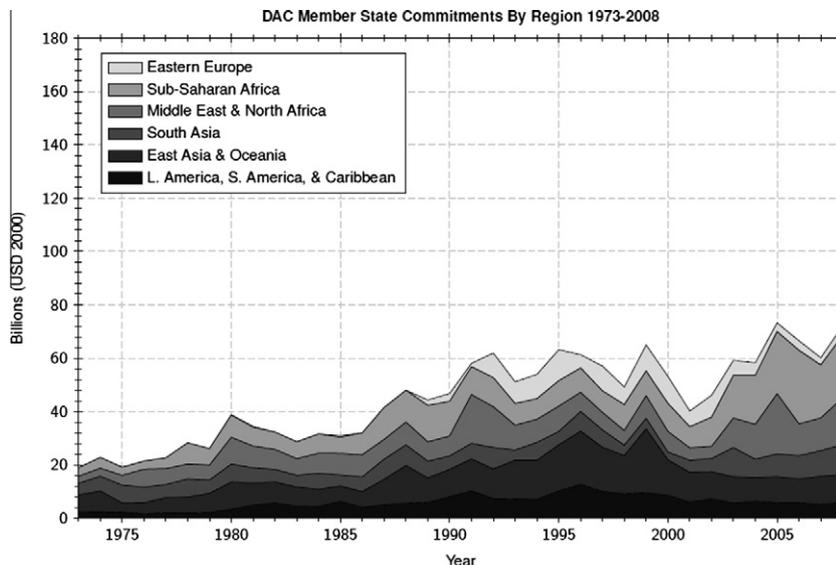


Figure 4. DAC member state commitments by Region 1973–2008.

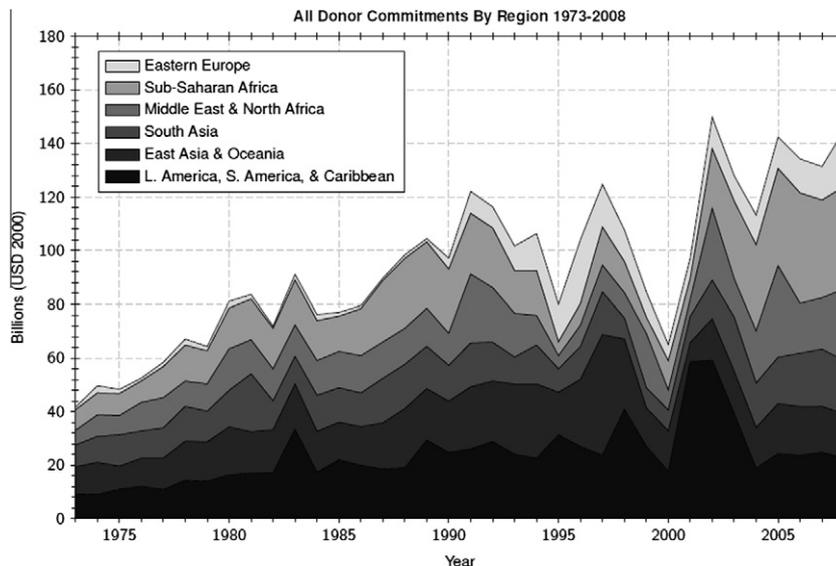


Figure 5. All donor commitments by Region 1973–2008.

Generally speaking, the strategic interests of large Western donors—especially the US and UK—in the Middle East have spiked on two occasions in the last 20 years: first, in 1991, after Iraq invaded Kuwait and second, in the wake of the attacks of September 11, 2001. On both occasions, aid to the Middle East increased significantly (see Figures 4 and 5). The spike occurs for both DAC donors and all donors. But recent trends in other areas of the globe suggest that such strategic motivations do not tell the whole story. AidData aggregates show that DAC bilateral donors in 2006 provided \$23.45 billion in development assistance to Sub-Saharan Africa (a total of \$41.2 billion if all donors are included). On a per capita basis this made Sub-Saharan Africa the number two recipient of development assistance from DAC bilateral donors behind the Middle East. Indeed, given the continuing rise of China and the increasingly frosty relations between the West and Putin's Russia, we might expect aid to regions like Eastern Europe, South Asia, and East Asia to be higher priorities for DAC donors if they were driven solely by strategic considerations.

One interpretation suggests that Western states view increasing assistance from Russia and China to African countries as a strategic threat and Western governments are balancing against this threat with increased development finance. In testimony before the US Senate in 2006, Professor Ernest Wilson suggested as much, arguing, "On the bi-lateral diplomatic front American embassies in Africa now try to counter Chinese efforts to create an explicit alternative to the 'Washington consensus' on foreign assistance and the rules of diplomacy" (Wilson, 2006). Because of the secrecy surrounding both Russian and Chinese development finance, scholars are unable to test these hypotheses, but we look forward to exploring this as data become available. A different interpretation suggests that during the 2000s Western governments and international organizations attempted to use development assistance to actually improve development outcomes within the poorest countries of the world; and those were concentrated in sub-Saharan Africa (Busby, 2009; Easterly, 2008). As discussed above, opinions vary on whether these allocations did any good, but the motivations for the increase in aid flows to Africa

appear to be driven by efforts to address the HIV/AIDS epidemic, to reduce poverty, and to counter the rise of terrorist movements.

There is still important work to be done to fill holes in our understanding of foreign assistance, but AidData provides development finance data from more donors than any other publicly available data source; it provides more detailed project descriptions; and it provides more detailed project and activity codes. We have used these enhancements to describe just a few broad trends in aid allocation over the past 30 years. More importantly, these enhancements have been used by our contributors to this special issue in the papers that we briefly review below, and we expect the data to be useful to many other scholars, policy-makers, and analysts in refining our understanding of causes and effects of development finance.

5. THE CONTRIBUTION OF THIS VOLUME'S ARTICLES

The first section of this special issue includes three papers ranking donors, either on their practices, the quality of their aid, or on their levels of transparency. A second section looks at the “new” donors (some of which, belying the term, have been giving aid for decades), such as the Arab governments and related multilateral organizations. The third section examines how aid is allocated, which is arguably the most important link in the chain of aid effectiveness. These papers focus on the size of aid projects, a surprisingly complex topic, the spatial distribution of aid, and whether projects are correctly coded by donors in their reports—exploring why some aid may be mis-categorized (at least in the booming area of climate aid). The final section looks at the apparent consequences of all this aid on three sector-level outcomes: democratic transitions, health, and education.

Section 1 includes *three papers ranking donors* on aid agency practices, aid quality, and donor transparency. Easterly and Williamson build on some of their previous efforts and contribute to a growing interest in the process, rather than outcome, of foreign aid provision. They consider whether donors follow a set of best practices, as defined by donors themselves in contexts such as the Paris Declaration on Aid Effectiveness, as well as by academics and other stakeholders. Specifically, they consider whether donors are transparent, minimize overhead costs, avoid fragmented aid, deliver aid through more effective channels, and allocate to less corrupt, more democratic countries. Generally, they find very little donor transparency, highly fragmented aid, and little selectivity in terms of recipient corruption and governance. Specifically, they note that the top multilateral donor of consequence is the *Global Fund to Fight Aids, Tuberculosis, and Malaria* and the top bilateral donor is the UK. The Scandinavian countries, typically heralded as model donors, do not fare as well as their reputation suggests. And the various UN agencies almost uniformly bring up the rear with a series of deficiencies in the categories identified by Easterly and Williamson. Their analysis adds to the growing pressure on donors to open up and improve the process of aid provision, especially as others produce rankings on different donor characteristics and outputs.

With the increased prominence of the Paris Declaration, Knack, Rogers, and Eubank develop new measures of aid quality with a ranking of 38 donors designed to reflect the Declaration's goals better than previous rankings. They include separate measures for selectivity, alignment with country

systems, harmonization in country, and specialization, along with an overall combined ranking. These new rankings place the Asian Development Bank, World Bank, IMF, Denmark, and Ireland as the top five donors, bearing some similarity to the Easterly and Williamson ranking that ranks the Asian Development Bank third, the World Bank fifth (among multilaterals), and Ireland fifth (among bilaterals). The lowest five donors in the index are Portugal, Czech Republic, Korea, Greece, and Turkey. The authors offer due caution about the use of rankings, noting sensitivities inherent in the weighting system, but they show that much can be learned from donor rankings, especially on the sub-indices related to the Paris Declaration. Further, their lessons about carefully checking the sensitivity of the rankings should be of value to other scholars already discussed, as well as Ghosh and Kharas, as different individuals and groups continue to develop ranking systems.

Because aid information has been so spotty in the past, and because non-disclosure has allowed space for corruption and inefficiency, many observers and practitioners believe that better transparency can transform the international aid regime. Ghosh and Kharas from the Brookings Institution make an argument for why transparency matters so significantly. They provide the QuODA Transparency Index, a ranking of 31 bilateral and multilateral donors on seven composite measures of transparency, all based on information in AidData. The rankings single out Australia, the European Commission, Ireland, Denmark, and New Zealand as the most transparent, offering some overlap (Denmark, Ireland, New Zealand) with the other two rankings papers in this volume. And similar to the Knack, Rogers, and Eubank paper, Korea appears near the bottom along with others such as the IDB Special Fund. The “critical mass” of donor size was not predictive of transparency, showing that it is possible for both large and small agencies to do a better job. Based on their evidence, Ghosh and Kharas argue strongly that the International Aid Transparency Initiative is an excellent pathway for progress on aid transparency, which should, in turn, drive aid effectiveness.

Section 2 includes *two papers on new donors*, a topic now possible to study using the expanded information in AidData: Arab donor trends as well as a comparison of new and old donors. Shushan and Marcoux tread into territory very little explored in the literature on aid: the flows of funds coming from the Arab donors. Several observations stand out. The field is strongly dominated by a few specific donors, especially UAE and Saudi Arabia, and a few multilateral Arab agencies. Arab aid has focused more on infrastructure, especially transport, energy, and water when compared to OECD donors, and this has remained steady over time, while OECD donors have moved away from those sectors. The authors find Arab donors have become less generous over the past two decades, relative to their economic growth, but some of this appears due to their increasing use of multilateral channels for disbursing this assistance. In attempting to explain Arab aid allocation, a substantial amount appears to be due to wealthy Arab countries being engaged in a project to influence smaller and poorer Arab states.

Where many are interested in understanding specific regions or donors such as the Middle East or China, Dreher, Nunnenkamp, and Thiele take up a global analysis of whether “new” foreign aid donors differ from established donors. Due to the lack of data on emerging donors, the topic has not been systematically analyzed, though plenty of conjectures have been made. Recently, scholars have hoped that new donors will be more

poverty-oriented, given their experience once being at least nominally poor. Worries have also centered on whether new donors may disregard levels of corruption when allocating aid and thereby prop up bad governance. Using established donors as a baseline, Dreher, Nunnenkamp, and Thiele use a standard set of explanatory variables such as poverty and corruption to explain foreign aid allocation for new and old donors separately. Strikingly, they show that new donors may actually care less about recipient needs than established donors. But both new and old donors appear to disregard merit in that they do not give aid as a reward to countries for controlling corruption. Thus, crucial similarities and differences emerge between these two types of donors, but the evidence supports a view different from the stereotypes emerging about new donors.

Section 3 includes *three papers on aid allocation*. Kilby examines whether donor fragmentation affects the size of foreign aid projects, offering unique theoretical insights and closely matching empirical data. Departing from conventional approaches, Kilby specifically considers whether the level of bureaucratic competition within a donor country creates incentives for the allocation of smaller aid projects. His statistical analysis of 22 bilateral donors from 1973 to 2008 supports the idea that the costs of fragmentation include the decreasing size of foreign aid projects, which in turn quickly swamps the institutional capacity of implementing governments. From his analysis, bureaucratic competition appears to be the key aspect of fragmentation resulting from small project size. Kilby's paper offers refreshing insights about why simply allocating more foreign aid may not always be a good strategy. Allocation processes likely need to be optimized to avoid sticky fragmentation costs.

Findley *et al.* are among the first to use disaggregated geographical information on aid. Their work is motivated by the observation that although project data is often available at the local level, almost all researchers aggregate it up to the country level. This occurs despite the fact that many theories suggest important relationships at the subnational level. They take advantage of the existing local-level information by mapping the precise locations of 65,000 individual aid projects in a variety of African countries from 1989 to 2008. They use this information to then explore the relationship between aid and conflict. Just as all aid is local, in a sense, so all conflicts are local. Focusing on the three cases of Sierra Leone, Angola, and Mozambique, the article suggests that geographical information can be used to find a correlation between more highly fungible aid and conflict at a local level. Where fungible aid to a particular geographic location inside a country was high, conflict in that same region was also more likely. At the same time, high levels of fungible aid given to the capital city also correlate with the onset of conflict in outlying areas, perhaps because rebels were initiating efforts to capture the foreign aid being received by the state. These findings speak to important theoretical arguments in the conflict literature in an entirely new way.

Axel and Katja Michaelowa have taken the bold approach of actually sorting one-by-one through the projects reported by donors to the OECD as being "climate related." To track promises made at the 1992 Earth Summit, the OECD CRS "Rio Markers" were created to note whether projects have climate change mitigation (reducing emissions) as a *primary* or *significant* objective (We want to be clear that the OECD is not responsible for the codings, rather its member states submit codes along with project information for the CRS compilations.) The point is extremely important because nations are negotiating right now over how much of their existing and future aid can be counted as meeting huge promises for "new and additional" climate aid they made at Copenhagen in 2009

and Cancun in 2010 during successive UNFCCC negotiations. Michaelowa and Michaelowa's article begins with some rather shocking examples of mis-categorization of aid projects as being "climate related," including ape vocalization research or love-movie festivals. They then attempt to explain mis-codings by examining whether internal politics may influence some nations to over-report because they are seeking credit for supplying climate aid. They surmise from the findings that indeed, politics are significantly related to the mis-categorization of aid.

And finally, Section 4 has *three papers on aid consequences*. Bermeo tackles a prominent question within both the academic community and foreign policy circles regarding the effects of foreign aid on transitions to democracy. She contends that accounting for differences in donor regime type, which has been an elusive task due to poor data in the past, can account for the many mixed findings in the current literature. Namely, democratic donors should be able to encourage (or reward moves toward) democratic transitions, whereas authoritarian donors likely discourage democratization. She considers aid and democratic transitions from 1992 to 2007 and finds some confirmation for this divergent relationship. Remarkably, she finds that even when democratic donors give aid to authoritarian recipients that are supported by authoritarian donors, that democratic aid does not do harm and may, in fact, have a positive effect. The policy implications of Bermeo's analysis are important, and the paper may provide some coherence to the mixed academic findings regarding aid and democratization.

Wilson examines the connection between aid for health and some prominent health outcomes, a topic of great interest as health interventions become increasingly common in developing countries. He employs a battery of statistical tests designed to model developing countries specific trajectories independently and addresses whether health aid reduces infant and child mortality or increases life expectancy. His analysis considers many possibilities, but all end with the same conclusion: health aid has no substantial effect on mortality. In the search to understand the causes and consequences of health aid, Wilson finds two especially intriguing results. First, health aid appears to chase success rather than lead it, meaning that aid dollars flow to countries where mortality reductions have already occurred. And second, aid to combat infectious diseases appears to be successful, although the substantive effect is quite small. The paper offers useful findings to the development community, which currently sends large amounts of money abroad directed at improving health.

Capitalizing on new and extensive data on multilateral donors in AidData, Christensen, Homer, and Nielson in the volume's final article ask whether aid from bilateral or multilateral agencies is more effective at increasing primary school enrollments. They posit that multilateral donors, because they are accountable to many member states, do not have enough autonomy to discriminate among potential recipients, thus creating an adverse selection problem where they cannot calibrate the distribution of aid to the quality of governance institutions in recipients. Many recipients of multilateral aid, consequently, are the least prepared or willing to use the aid effectively. Bilateral donors more easily overcome such problems, leading to the expectation that education aid should be more effective when given by bilateral donors. Using hierarchical linear models, the authors find support for their argument about aid allocation by donor type. Further, and more important, they find that aid from bilateral donors appears to be somewhat more effective than aid from multilaterals.

Taken together then, this special issue provides a new window into the reality of foreign assistance, broadening our view substantially from the set of information upon which dozens

of influential studies were based. The insights from these papers are highly valuable, given their attention to the core issues in development today: education, health, corruption, democratization, transparency, effectiveness, aid shocks, and climate change. These articles provide an important advance in our understanding of foreign assistance substantively, but they also serve as models in utilizing AidData for a much-needed new generation of research on foreign assistance.

6. A NOTE ON AIDDATA VERSION 1.92

Most contributors to this special issue have based their findings on the first public release of AidData, version

1.92. This version of the dataset, released in April 2010, is available at <http://aiddata.org/research/releases/>. But since the release of 1.92, we have added new donors, extended project descriptions, and improved the coverage of our AidData purpose and activity codes. As such, figures cited in the papers below may differ slightly from those reported by the interactive version of our dataset found on our website at <http://aiddata.org/>. As we go forward, we will continue to issue updated research releases for those interested in a static version of the dataset to use for research purposes.

NOTES

1. See AidData.org Research Release page and AidData 1.92 Codebook and Users' Guide: February 2010 Development Release.
2. An important exception is that AidData 1.92 tracks flows from the Global Alliance for Vaccines and Immunisation (GAVI). GAVI is a public private partnership between WHO, UNICEF, World Bank, a number of donor countries, the Bill and Melinda Gates Foundation, and a number of health organizations and corporations.
3. Our academic teams at the College of William and Mary and Brigham Young University received funding from the US National Science Foundation (#SES-0454384), the Bill and Melinda Gates Foundation, and the William and Flora Hewlett Foundation. Without their support, this effort would not have been possible. After we gathered the data, our information-technology and development-advocacy partner, Development Gateway (DG), helped us build a user-friendly web portal and connected the AidData effort to DG's broad network of foreign-aid practitioners. In March 2010, during a conference on aid transparency at Oxford University, we made our data publicly available on AidData.org. The conference was jointly sponsored by AidData with generous support from Richard and Judy Finch, and co-sponsorship by Oxford's University College's Global Economic Governance program.
4. AidData team members participate in the Technical Advisory Group of the IATI.
5. In this paper we concentrate on describing AidData 1.92, which was released to the authors of this special issue in the spring of 2010. However, updated and improved versions of these and related data are available at AidData.org.
6. Many of these governments have been giving aid for years, but they are "new" to aid researchers because project-level data on their foreign assistance programs has been sparse. See Woods (2008) and Manning (2007).
7. The authors (2009, p. 456) admit that 74% of "the published aid-growth effects are positive," but also find that authors and journals have a substantial bias toward publishing positive results and against results showing that aid causes harm.
8. On this point, also see Clemens and Radelet (2003) and Collier (2006).
9. Perhaps the most well-known and comprehensive measures of governance have been compiled by Kaufmann, Kraay, and Mastruzzi (2009); but see Kurtz and Schrank (2007), p. 543, Keefer and Knack (2003), Acemoglu, Johnson, and Robinson (2001), Rodrik, Subramanian, and Trebbi (2004).
10. Jepma (1991) estimates that tied aid reduces the value of development assistance by 15–30%. Radelet (2010) argues that tied aid also undermines long-term institutional development and sustainability.
11. A recent report from the World Bank's Independent Evaluation Group notes that "[o]ne factor associated with ... positive [project] outcomes is the presence of Bank ... specialists in the field..." (IEG, 2010, p. xxi).
12. For Gauri and Galef (2005, p. 2045), NGOs "combine the best characteristics of businesses, governments and charities."
13. See also Koch, Dreher, Nunnenkamp, and Thiele (2009) and Dreher *et al.* (2009).
14. When analyzing project size using AidData 1.92, it is important to note that every entry in the database should not be considered a "project" because projects are sometimes broken up into multiple line items, and some line items contain loosely grouped activities under the concept of a single "project."
15. Nielson and Tierney were trying to discover the origins and extent of the World Bank's greening of its project portfolio (2003, 2005). Simultaneously, Hicks, Parks, Roberts, and Tierney (2008) were trying to test a range of hypotheses about the allocation of environmental aid and the choices that governments make about whether to allocate environmental aid directly or delegate that allocation to multilateral organizations.
16. AidData does not currently track *all* finance related to development. Rather, the database tracks only development projects financed by governments or multilateral development organizations. Such projects include commitments offered in the form of grants, mixed loans and grants, loans at discretionary rates from multilateral agencies, loans and loan guarantees at market rates, technical assistance, and sector program aid transfers in cash or in kind. The database does not currently track private aid from individuals, foundations or non-governmental organizations, military aid, trade credits, or foreign direct investment.
17. The papers in this special issue generally use the research release (AidData 1.92) that was available online in March 2010, with exceptions noted in each paper. Researchers seeking to replicate results found herein can download the AidData 1.92 research release from www.AidData.org. While AidData has subsequently been updated to include more projects, more donors, better descriptions, sub-national geo-coding, and a more comprehensive coding of projects in terms of purpose and activity, all statistics on aid trends and all descriptions of the database in this article refer to AidData 1.92.

18. For a much more detailed version of this summary and for the official names of all bilateral and multilateral donors, see the codebook for AidData 1.92.

19. Where donors report an aid project with a disbursement but no commitment, Aiddata puts that information in a separate database accessible on the AidData website. Hence, these figures refer only to the main database.

20. We remind readers that despite our best efforts we still do not have all aid data from all donors or all years. There are some donors that did not report (or under-reported) on their aid projects for some years (see Italy in

the 1970s and New Zealand in the late 1980s and early 1990s) and for some donors (Brazil, Saudi Arabia, UAE, etc. . .) we have collected data from particular agencies within the government that made it available, but are missing data from other agencies within the government that also give aid. The largest chunk of uncounted official development finance likely comes from donors like the Soviet Union, Russia, China, Libya, Iran, Turkey, and Venezuela.

21. Importantly, a significant amount of the observed increase in bilateral ODA—an average of 15% of total bilateral aid each year since 2000—has come in the form of debt relief. See Johansson 2010 for a detailed overview of debt relief.

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