

# Aid Donors\*

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**<http://www.andreas-fuchs.net/aid-donors.html>**

**Abstract:** Today almost half of the world's states provide bilateral development assistance to developing countries. This group of donors includes countries on all continents, of all income groups, and of various political regime types. While previous research takes the set of donor countries as given, this article is the first to address the question why countries start to provide aid. In order to test whether a country's domestic political economy and international linkages shape its decision to begin aid delivery, we build a new dataset on aid donorship that covers 111 countries since the end of the Second World War. Our regression results show that countries' decision to setup aid institutions is a combination of domestic factors and international linkages. Most notably, richer countries at times of high economic growth and those that are politically closer to the United States or Russia are more likely to become aid donors. In striking contrast to insights from the selectorate theory, our results provide no robust evidence that countries with a larger winning coalition are more likely to enter the aid business.

**JEL classification:** F35, H11, H87, O19

**Keywords:** foreign aid, Official Development Assistance, aid donorship, aid institutions, new donors, selectorate theory, democracy

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## 1. INTRODUCTION

The Kingdom of Morocco is a lower-middle-income country. It ranks only 126 of 188 in the 2014 Human Development Index and is one of the poorest countries of the Arab world. Still, the kingdom provides development cooperation to other countries since 1986 through the *Agence Marocaine de Coopération Internationale*. Almost all African countries, whether poorer or richer than the donor itself, are recipients of Morocco's aid. And Morocco is no exception. In today's world, 69 countries are active as aid donors, of which 14 countries would be classified as low-income economies or lower-middle-income economies according to World Bank classifications. Countries such as Honduras, Nigeria, and Sri Lanka run their own development aid programs despite their own struggle to climb up the development ladder.

This puzzle also extends to many industrialized countries. While it appears natural in the 21<sup>st</sup> century that the world's rich countries provide development assistance, this was not as evident at the time when France (1959), Germany (1952), Japan (1954) and others sent their first aid to developing countries. At that time, these countries were struggling with the reconstruction of their own economies after the Second World War. Similarly, while it is not surprising that the People's Republic of China and Israel are active aid donors today, it is puzzling why these countries started their aid deliveries in the early 1950s when they had to fight to build up their own countries.

Why does a country become an aid donor? A vast literature analyzes the determinants of aid budgets (e.g., Tingley 2010; Brech and Potrafke 2014) and aid allocations (e.g., Alesina and Dollar 2000; Kuziemko and Werker 2006). There is also a considerable amount of scholarly work on the effectiveness and side-effects of aid (e.g., Burnside and Dollar 2000; Bjørnskov 2010; Clemens et al. 2011; Nunn and Qian 2014).<sup>1</sup> However, the existing literature takes the set of donor countries as given when analyzing these phenomena. This risks causing sample selection biases and fails to get at the core of donor motives for foreign aid.

This article is the first to study the factors that incentivize governments to set up a foreign aid program in the first place. We explore the patterns in countries' domestic political economy and international linkages that explain the initiation of aid programs.

The selectorate theory of aid suggest that foreign aid should be primarily understood as public good for the donor population without necessary benefits to the recipient population (Bueno de Mesquita et al. 2009). Bueno de Mesquita and colleagues use this notion to predict with a game theoretical model that democratic countries – or countries with a larger winning coalition – have a higher probability to engage in foreign aid. This result emerges as leaders of democratic countries

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<sup>1</sup> Survey studies that provide an overview on the empirical aid literature include Doucouliagos and Paldam (2008, 2011) and Fuchs et al. (2014). Our article is particularly related to the strand of the aid literature that explains the determinants and effects of aid by so-called new donors (e.g., Doucouliagos and Manning 2009; Dreher et al. 2011; Strange et al. forthcoming).

have to satisfy the preferences of a larger share of the population, which in turn results in a larger provision of public goods, including policy concessions bought with foreign aid. The theory is in line with the traditional notion of foreign aid as phenomenon mainly driven by western-style liberal democracies.

A first glance at the group of donor countries—be it at that of the 1950s or today—already suggests that the common understanding of development assistance as being the business of the Western-style liberal democracies might not provide the full picture. We offer an alternative set of hypotheses that rests on the assumption that international linkages are conducive for the establishment of a foreign aid program. Specifically, we expect the likelihood that a country engages in development cooperation to increase with a country's political proximity to either the United States or Russia.

To test these hypotheses, we construct a new global database on aid donorship that covers the world's countries since the end of the Second World War or their respective year of independence. The data set covers information on the year of the first aid delivery, the setup of institutions to manage outgoing aid flows, and the introduction of aid legislation. To construct this novel database, we have designed a questionnaire that has been sent to the various government institutions and embassies of each country in the world. We then used scholarly articles and internet research to verify and complement the collected information. The resulting dataset covers 111 countries, of which 75 have already provided development assistance and 65 have institutionalized their aid giving. The proliferation of aid donors over time is astonishing: on average 11.5 new donor countries enter the donor landscape per decade. In contrast to common perceptions, this highlights that being a donor is not simply synonymous with being one of the industrialized countries with Western-style political institutions—and has never been.

Our regression results show that richer countries are more likely to begin with the provision of development cooperation. If aid is understood as an international public good, this is in line with the idea that citizens in richer countries have stronger preferences for the contribution to this good. Both the first aid delivery and the setup of aid institutions are more likely to occur during times of high economic growth, when opposition to aid giving is arguably lower. We find no evidence that more democratic countries with a larger winning coalition have a higher probability to become donors. Higher government resources in turn have a significantly negative effect on the likelihood to establish an aid institution. Both findings clearly contradict the selectorate theory of aid. However, our results show that political proximity the US and under some specification also the Russia/the Soviet Union increases the probability of setting up an aid institution. These findings hint at the impact of international interactions on national aid policies.

Our article fills an important gap in the literature because it is the first quantitative analysis of the origins of development aid. By understanding why countries initiate an aid program in the first

place, we can shed more light on the intentions driving development aid and thus potentially better understand problems of aid effectiveness. A good understanding of the key factors driving countries to enter the aid business is important because donor fragmentation in recipient countries is perceived as a bureaucratic burden and an obstacle to economic growth (e.g., Knack and Rhaman 2007; Djankov et al. 2009; but see also Gehring et al. 2015). Despite efforts to improve the coordination among donors, donor fragmentation is likely to persist or even worsen as new actors engage in development cooperation (Dreher et al. 2013; Nunnenkamp et al. 2013). A better understanding of the factors driving the emergence of new donors might thus help to address this problem. It should also enable us to grasp the consequences of a changing donor landscape on development outcomes. Previous research has shown that the source of funding matters for the effects of aid (e.g., Bermeo 2011).

This article proceeds as follows. Section 2 introduces hypotheses on the factors that incentivize a country's government to start the provision of development cooperation. In Section 3, we present the new database on aid donors and provide a first overview on the propagation of aid donorship across the globe. Section 4 explains the empirical approach and presents our results. We close this paper with our conclusions in Section 5.

## **2. HYPOTHESES**

The previous literature offers several theories why donors initiate aid giving. The main hypothesis that we seek to test is drawn from the selectorate theory (Buono de Mesquita et al. 2003). This theory assumes that political leaders' ultimate goal is to remain in power. The key concept is the "winning coalition," which is the group of citizens whose support the leader needs to retain office. One can think of a large winning-coalition system as a democracy. On the contrary, an autocratic leader is typically reliant on a small winning coalition. They possess a certain amount of resources  $R$  that they provide to their citizens—either in the form of private or public goods. The theory predicts that the leader of a large winning coalition focuses on public goods as the benefits accrue to all citizens. The rational leader of a small winning coalition will in turn focus on private goods as she can target her cronies. In short, the share of public goods provided increases with the size of the winning coalition.

Buono de Mesquita and Smith (2009) apply the selectorate theory to foreign aid. The objective of aid is not poverty reduction but rather an instrument to achieve policy concessions. According to their theory, the leader of a potential donor country offers aid to recipient countries in exchange for policy concessions if the former raises the winning coalition's welfare to a larger extent than the direct transfer of funds. Assuming that negotiated policy concessions are typically public goods, Buono de Mesquita and Smith conclude that countries with a larger winning coalition are more likely to give aid.

*Hypothesis 1: All else being equal, countries with a large winning coalition  $W$  are more likely to become an aid donor.*

We also test several ancillary hypotheses. Our second hypothesis account for linkages in the international system. Specifically, we expect countries that are politically more proximate to the dominant aid powers to be more likely to initiate aid giving, We follow Bueno de Mesquita and Smith (2016) and analyze two poles: the United States, leading the Western bloc, and Russia (or until 1991 under the name “Soviet Union”), leading the Eastern bloc until the early 1990s and being an important power in the “counterhegemonic bloc” (Voeten 2000) since then. Countries that have overlapping interests with these superpowers should emerge as aid donors either because it is in their own interest to support the respective bloc or because they are coerced by their peers. Our hypothesis reads as follows:

*Hypothesis 2: All else being equal, countries that are politically close to either the United States or the Soviet Union/Russia are more likely to become an aid donor.*

Third, assume that a country’s population has a preference for the development of other countries.<sup>2</sup> These preferences can result from the pure existence value of the well-being of others similar to preferences for biodiversity (e.g., Pearce and Moran 1994) or from directly experienced positive externalities of foreign development, e.g., in form of reduced migration or terrorism (e.g., Gassebner and Luechinger 2011; Bermeo and Leblang 2015). Under the assumption that development aid is successful in promoting economic development, global development can be understood as an international public good where aid efforts of one country generate positive externalities on other countries as well. Citizens of smaller countries have higher incentives to free-ride on the aid efforts of other countries.<sup>3</sup> This implies that larger countries should be more likely to enter the aid business.

Furthermore, global development exhibits characteristics of a luxury good (Dudley 1979), which is only supplied when more basic needs are fulfilled. The income elasticity of demand for international development is expected to vary with the income level. Preferences for its provision should thus rise disproportionately with increased income. Consequently, citizens of wealthier countries should be more likely to push for the provision of development assistance to the developing world. Conversely, there should be less support for development aid if there is still a considerable degree of poverty in the potential donor country. Summarizing these expectations, we obtain our third hypothesis:

*Hypothesis 3: All else being equal, richer and larger countries are more likely to become an aid donor.*

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<sup>2</sup> This assumption is not straightforward as a country’s relative position in the world weakens as other countries develop.

<sup>3</sup> As Dudley (1979: 569-570) notes in the context of aid, “the reciprocal of population may be interpreted as representing the ‘price’ of the public good to the median taxpayer.”

Fourth, there are trade-offs between public spending for foreign aid and other public goods. Governments have to satisfy different voter preferences with a restricted budget. Citizens are more likely to push for the introduction of a foreign aid program when additional resources become available rather than cutting on spending in other areas. Therefore, countries should be more likely to introduce foreign aid program in years of high GDP growth. This idea is in line with Beenstock (1980: 139) who argues that “if times are tough at home, the electorate might resent splashing out on expenditures abroad.” While his argument refers to the quantity of aid given, similar mechanics should be at play when it comes to the setup of an aid program. The government will face difficulties to communicate the setup of an aid program to its citizens when the macroeconomic situation is weak. This leads to the following hypothesis:

*Hypothesis 4: All else being equal, countries in good macroeconomic shape are more likely to become an aid donor.*

Fifth, donor countries typically provide more aid to their trading partners, supposedly to foster commercial ties (e.g., Hoeffler and Outram 2011). For example, Berthélemy (2006) classifies major donors such as France, Japan and the United States to be egoistic donors since their aid allocation is dominated by commercial interests. Commercial motives are also found to be present in Chinese, German and Indian development aid, among others (Dreher et al. 2013; Fuchs and Vadlamannati 2013; Dreher and Fuchs 2015). Previous research confirms that foreign aid is indeed instrumental in expanding donor exports to the specific recipient countries (Martínez-Zarzoso et al. 2009; Nowak-Lehmann et al. 2009; Hühne et al. 2014). Unsurprisingly, the effect depends on the extent to which aid is tied to the purchase of goods and services from the donor itself (Martínez-Zarzoso et al. 2014). Some donors openly state commerce as one of their official aid goals. The Chinese government, for example, highlights in its White Paper on Foreign Aid that “[t]hrough foreign aid, China has consolidated friendly relations and economic and trade cooperation with other developing countries [...]” (State Council 2011). Highlighting the mutual benefit that accrues to donors and recipients, the German Ministry of Economic Cooperation and Development states among its principles that “[d]evelopment cooperation [...] also gives a boost to donor countries’ economies.”<sup>4</sup> In anticipation of an expansion of export markets, we thus expect commercial actors within countries to lobby for the establishment of a bilateral aid program. This idea can also be found in Tingley (2010: 43) who argues that more trade-dependent countries “may see foreign aid as a useful tool to promote trade and hence increase their aid effort” (p. 4). Specifically, we expect that the more open an economy towards trade, both generally and with respect to the developing world specifically, the stronger the demands from the trade sector to engage in development cooperation.

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<sup>4</sup> See [http://www.bmz.de/en/what\\_we\\_do/principles/principles-of-development-policy/index.html](http://www.bmz.de/en/what_we_do/principles/principles-of-development-policy/index.html) (accessed 27 November 2016).

*Hypothesis 5: All else being equal, economies that are more open to trade are more likely to become an aid donor.*

### **3. THE NEW AID DONORS DATABASE**

Until now, no comprehensive database existed indicating which countries engage as donors of development assistance, let alone information on the year in which a country started its aid engagement. Existing aid databases, including those of the OECD's Development Assistance Committee (DAC) and AidData, report commitments and disbursements of Official Development Assistance (ODA) and other official flows, but their coverage is low compared to the total number of aid donors active in global development. The coverage of both platforms is largely determined by availability of data on these financial amounts, the absence of data for a particular country must not be misinterpreted as an absence of aid activities. What is more, the availability of aid data is biased towards rich and democratic countries.<sup>5</sup>

To fill this information gap, we build a comprehensive database on aid donorship since the end of the Second World War. Our data collection effort results in the *New Aid Donors Database*, which will be made publicly available. The database contains information on 111 countries from 1945-2015 on key milestones in their transition to becoming a donor of development aid. In particular, it covers the year of a country's first outgoing aid project, the name and year of its current institution responsible for aid provision, the name and year of establishment of its first institution responsible for aid provision, and the name and year of its first aid legislation.

The data collection was underway between March and November 2016. We constructed a questionnaire to collect data from official administrative bodies of all 175 sovereign states with a population larger than 300,000 inhabitants. Appendix A1 presents the original questionnaire in English language. We translated it also into four additional world languages to increase the response probability (Arabic, French, Portuguese, and Spanish). In the first stage, we sent the questionnaire to the Ministry of Foreign Affairs (or the Ministry of Development Cooperation if existent) of each country. If this inquiry remained unsuccessful despite follow-up e-mails, we e-mailed the questionnaire in the second stage to another ministry of relevance (such as the Ministry of Finance), the respective embassy in Germany (the country where this study was carried out), or both.<sup>6</sup> In the third stage, we contacted the relevant institutions by phone. Using this procedure, we were able to gather information for 92 countries. In the final stage, we verified and completed our data with information provided on government websites, the academic literature, the grey literature, and media

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<sup>5</sup> According to the 2016 Aid Transparency Index (PublishWhatYouFund 2016), China and the United Arab Emirates, the only two autocracies included in the study, rank at the bottom of the index.

<sup>6</sup> This depended largely on the accessibility of contact details.

reports. The reliance on secondary sources is low with data for only 19 countries fully relying on such information.

Our definition of “aid donor” deserves some attention, as there is no consensus on the term in academic and policy circles. In the context of our study, we define aid donors as countries that provide development cooperation to other country. We define development cooperation in turn as the provision of grants, concessional loans, technical assistance and in-kind assistance with the main objective being the promotion of the economic development and welfare of another country. By applying this definition, we broadly follow the OECD definition of Official Development Assistance (ODA). In contrast to the latter, however, we are agnostic about the size of the grant element inherent in a country’s development activities for several reasons. First, it is for most countries not possible to obtain the relevant information. Second, the computation of the grant element in ODA according to OECD definitions is subject to controversies in the development community (e.g., Barder and Klasen 2014). Finally, it is important to note that our definition of ‘development cooperation’ excludes military equipment or services, anti-terrorism activities, and humanitarian aid.<sup>7</sup> This definition is laid out in our questionnaire (see again Appendix A1).

We employ two definitions to identify the year in which a country becomes an aid donor. As a starting point, considering the broadest possible definition, we define every country as an aid donor which has already provided development assistance to another country. We thus obtain a binary variable that takes a value of one in the year of undertaking the very first activity of development aid. Figure 1 plots world maps that graphically display countries that have already provided development cooperation by 1955, 1985, and 2015. The first countries to provide development assistance were Mexico in 1943, the Netherlands in 1949, and Canada in 1950. By the end of 2015, 79 countries have assumed the role of a donor of development assistance according to this broad definition. The last country entering the club of aid donors was Paraguay in 2014.

The downside is that even countries that have only provided a single small development project or tiny amount of aid money would fall under this broad definition. One may argue instead that only countries that have already institutionalized their aid giving should be called ‘aid donors.’ This is why our preferred definition is narrower than the first one. More precisely, we code countries as aid donors if they have set up an administrative body whose main responsibility is the management of outgoing development assistance. This includes departments within a country’s ministry of foreign

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<sup>7</sup> The exclusion of military aid and anti-terrorism activities follows OECD definitions. We also decided to exclude humanitarian aid as the motives to provide general development assistance and humanitarian assistance respectively should differ. Humanitarian assistance is the response to an immediate, short-term need, while general development assistance aims more at long-term development targets. What is more, humanitarian assistance is often not dealt with within the same administrative bodies as general development assistance. On the new donor phenomenon in humanitarian assistance, see Fuchs and Klann (2013).

affairs, a separate ministry for development cooperation, and aid agencies operating independently.<sup>8</sup> The resulting dependent variable thus takes a value of one in the year a country establishes its first aid institution, i.e., the first administrative body for the provision of aid (or redefined the main purpose of an existing administrative body such that it falls under our definition). Figure 2 plots world maps that graphically display countries that have already institutionalized their aid giving by 1955, 1985, and 2015. The first countries to set up aid institutions were Norway in 1952, Japan in 1954, and the United States in 1955. By the end of 2015, 69 countries have assumed the role of a donor of development assistance according to this narrow definition. The last country entering this club was Venezuela in 2015.

Both dependent variables—binary variables indicating the year of the first aid activity and the year of establishment of an aid institution—should be regarded as measures of the same phenomenon: the assumption of aid donorship. Since having set up an aid institution signals a commitment for repeated aid deliveries, we use the narrow definition of our dependent variable in our baseline estimations and employ the broad definition to test the robustness of our results. Figure 3 compares the timing of the decision to deliver the first aid portion and the decision to institutionalize the aid giving. We now turn to our empirical analysis where we regress our dependent variable on potential explanatory factors. What determines the decision to become an aid donor?

#### 4. ECONOMETRIC ANALYSIS

##### (a) Empirical Approach

Our dependent variable is the probability of becoming an aid donor in a given year. In order to control for duration dependence, we employ a discrete-time proportional hazard model. Following Beck et al. (1998), we choose a logit link function. Our model takes the following form:

$$Pr(donor_{it} = 1 | x_{i,t-1}, d_i) = \frac{1}{1 + e^{-(x_{i,t-1}\beta + \alpha_1 d_i + \alpha_2 d_i^2 + \alpha_3 d_i^3)}}$$

where  $y_{it}$  is a binary variable taking the value one in the year a country becomes a donor of development aid and zero in the years before,  $x_{it}$  is a vector of explanatory and control variables for country  $i$  in year  $t$ . Duration dependence is modelled by a third-order Taylor-series approximation

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<sup>8</sup> For instance, Bulgaria (UN and Cooperation for Development Directorate), Finland (Department for Development Policy), and Honduras (Dirección General de Cooperación Internacional) organize their development aid via a department within the Ministry of Foreign Affairs. Countries such as Brazil (Agência Brasileira de Cooperação), Chile (Agencia de Cooperacion Internacional de Chile), and Kuwait (Kuwait Fund for Arab Economic Development) maintain independent aid agencies. Administrative bodies that adopted the responsibility for outgoing aid just on an ad-hoc basis but are primarily responsible for incoming aid (or other duties) do not fall under our definition of an aid institution. See, for example, the Directorate of International Cooperation in the Ministry of Foreign Affairs and Worship of Costa Rica, which handles outgoing aid in addition to the management of aid inflows (Rodríguez Steichen 2010).

where  $d_i$  counts the years since entering the sample.<sup>9</sup> Countries generally enter in 1945, at the end of the Second World War, and drop out of the sample after  $donor_{it}$  has become an aid donor. Countries that gained independence after 1945 enter the sample at their respective year of independence (Correlates of War Project 2011).

To test our first hypothesis, we include the size of countries' winning coalition  $W$  and its government resources  $R$  in the regression analysis. We calculate both variables following Bueno de Mesquita and Smith (2009, 2003). The winning coalition size is a five-point measure based on data about the regime type from the CNTS Data Archive (Banks et al. 2016) and components of the Polity data on the competitiveness and openness of executive recruitment, and the competitiveness of participation (Marshall et al. 2016). Government resources  $R$  are calculated by multiplying the government's share of GDP with total GDP of that year using Penn World Tables data (Feenstra et al. 2015).

We test our second hypothesis by adding a variable capturing the political proximity with the US and Russia (or the Soviet Union). Specifically, we use the absolute distance between donor and recipient posterior mean ideal point estimates (Bailey et al. 2017). The voting alignment in the United Nations general Assembly (UNGA) is frequently used to measure political alliances (e.g., Alesina and Dollar 2000). We prefer ideal point distances over simple affinity scores as the former uses UNGA resolutions that were identical over time to "bridge observations," thus separating shifts in political alignment from mere changes in the UN agenda. This enables us to eliminate noise and facilitate better comparisons of states' relative foreign policy orientations across countries and time. To test whether political globalization affects aid initiation, we include a variable that counts the country memberships in international governmental organizations. This variable is commonly employed to capture a country's political globalization. To construct this measure, we combine data from the COW-2 International Organizations Dataset Version for the years 1945-2005 (Wallace and Singer 1970; Pevehouse and Wamke 2004) and data from a subindicator of the KOF Index of Globalization for the year 2005-2015 (Dreher 2006; Dreher et al. 2008).<sup>10</sup>

To test the third hypothesis, we measure the citizens' wealth by the country's logged real GDP per capita and country size by the logged total population. Data stems from the Penn World Tables (Feenstra et al. 2015). For the fourth hypothesis, we use the same data to derive annual GDP growth rates to test the role of the current macroeconomic situation. For our fifth hypothesis, we use a measure of trade dependence of an economy. More precisely, we include the sum of exports and imports as percentage of GDP. Again, the data stems from Penn World tables.

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<sup>9</sup> As Carter and Signorino (2010) show, the cubic polynomial approximation for duration dependence generally performs equally well as cubic splines, while being easier to interpret.

<sup>10</sup> Unfortunately, the KOF Index of Globalization, including the subindex on political globalization, is unavailable for years prior to 1970 and thus not suited for this study.

Finally, we control for the colonial history of a country. From the aid allocation and aid budget literature it is well known that donors give more aid to former colonies (Alesina and Dollar 2001, Fuchs et al. 2014). Bertoli et al.(2008) suggest that aid is used to substitute ties established during colonial times. This suggests that former colonial powers might have a larger probability to engage in foreign aid. We thus include a variable for the total population living in former colonies of a country. This controls for the fact that countries with more and larger former colonies have a stronger incentive to establish a foreign aid initiative as substitute for their colonial history. We also control for the cold war period by including a dummy variable. If foreign aid is motivated by geopolitical motives it is likely that this period of particular geopolitical tensions had an impact on countries' decisions to engage in foreign aid. Table 1 provides descriptive statistics on all variables used in this paper. Appendix A1 provides details on the definitions and sources of all variables employed in the analysis.

### *(b) Results*

Table 2 presents our baseline results. Since coefficients from logit regressions are not directly interpretable, we present marginal effects when we hold all explanatory variables at their respective sample mean. As we expect some correlation between the variables of hypothesis 1 and 2, we test first both hypotheses separately. Testing both hypotheses in isolation, the regression results seem to support both hypotheses. As can be seen from column 1, in line with expectations, the size of a country's winning coalition  $W$  is positive and statistically significant at conventional levels. The same holds for political proximity to the United States and Russia/the Soviet Union, respectively. International linkages to the two superpowers appear to affect governments' propensity to assume the role of an aid donor.

However, since countries close to the United States are also more likely to be a democracy, this seemingly confirmation of hypotheses 1 and 2 may be driven by the omission of the respective other factor. To overcome this weakness, column 3 presents the results when controlling for all our hypotheses in a single regression. Our results show that there is no robust influence of the size of a country's winning coalition on the likelihood to become aid donor. While the coefficient on  $W$  was highly significant and positive in column 1 as the selectorate theory suggests, it loses statistical significance at conventional levels once we control for international interdependencies. The coefficient on government resources  $R$  is negatively significant. A 1% increase in government resources is associated with a 1.4 point decrease in the likelihood to become aid donor. This again contrasts the selectorate theory of aid which predicts a positive effect of an increase in government resources on aid initiation.

On the contrary, political proximity to the United States and to Russia/the Soviet Union both remain robust in our final specification. To be more precise, both coefficients keep their sign and

remain statistically significant at least at the five-percent level in column 3. Being one ideal point closer to the United States such as Israel in 1960 compared to Cuba increases the likelihood to become an aid donor by 0.5 . The corresponding effect for Russia/the Soviet Union is with 0.4 slightly smaller. Our other variable capturing international linkages, the number of country memberships in international governmental organizations, does however not have a statistically significant effect on the likelihood to become an aid donor.

In addition, we find support for hypothesis 3. As can be seen, the respective coefficients on per-capita income and population are both positive and statistically significant at the one-percent level. As expected, richer and larger countries are more likely to become donors of development assistance. This could reflect citizens' increased support of the international public good aid when income and population size increase. Quantitatively, a country that is twice as rich, such as Germany compared to Guatemala in 1950, has a probability to enter the aid business that is 4.5 points higher (column 3).<sup>11</sup> Given that the average likelihood to start with the provision of development cooperation is two percent, this effect is sizable. Similarly, a country that is twice as large, such as the Australia compared to Denmark in 1950, has a probability to enter the aid business that is 3.4 points higher.

Turning to hypothesis 4, the results confirm that the idea that countries are more likely to start aid giving during good economic times. The coefficient on GDP growth is positive as expected and significant. A one- point increase in growth leads to an increase in the likelihood to initiate aid delivery by 0.4 points. However, We cannot confirm Hypothesis 5, according to which countries that are more open to trade are more likely to initiate aid giving. The corresponding coefficient on openness does not reach statistical significance at conventional levels. Commercial lobbies thus do not appear to play a role. Finally, we find no evidence that the likelihood to enter the aid business is higher during the Cold War than afterwards.

Taken together, our results do not support the conclusions derived from the selectorate theory (hypothesis 1). The likelihood that a country engages in development cooperation increases instead with a country's income level, economic growth and population size (hypotheses 3-5). Political proximity to the United States or Russia/the Soviet Union also makes aid initiation more likely (hypothesis 2).

To test the robustness of these findings, Table 3 present results when we alter our empirical estimation strategy. For the reader's convenience, column 1 replicates our baseline results. In column, we propose an alternative treatment of missing information on our dependent variable. Specifically, we now assume that all countries missing in our dataset on aid donorship have not yet established an aid institution. This is a plausible assumption as countries are only missing from the original dataset if neither literature searches, internet research, nor direct contact with the ministries could confirm or

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<sup>11</sup>  $0.065 * \ln(2)$ .

reject the existence of an aid institution. It is very unlikely that we would not have gathered information on a donor despite an active engagement in the aid business. By thus replacing missing values with zeros, the number of observations increases from 1,958 to 5,042 observations. In column 3 we report results for a rare-events logit model, which corrects for the skewness in the relative frequency of the binary dependent variable.<sup>12</sup> Finally, we run linear probability models both with and without country-fixed effects (column 5 and 4). These robustness tests generally confirm our findings. We still cannot detect any statistically significant effect of the size of the winning coalition. The coefficient of government resources remains negatively significant. Political proximity to the United States remains positive and statistically significant in all models. Only proximity to Russia/the Soviet Union, while retaining its negative coefficient, loses its significance when fixed effects are included (column 5). Also GDP per capita are robustly positive in all specifications, while population size and growth lose statistical significance in the two linear probability models (columns 4 and 5). IGO memberships, openness (with one exception), and the Cold War dummy are robust in the sense that they do not reach statistical significance in any specification.

The lack of evidence for the selectorate theory of aid is striking. Bueno de Mesquita and colleagues' measure for the winning coalition has been criticized in different places (e.g., Bormann et al. 2017). We therefore test if results depend on the measure of the winning coalition by replacing *W* with a set of alternative measures of political institutions as reported in Table 4. The first column again displays our baseline results. Columns 2 and 3 report results for two commonly used measures of democracy. Column 2 replaces *W* by the polity 2 score of the Polity IV project (Marshall et al. 2016). Democracy is measured on a 21-point scale ranging from -10 (hereditary monarchy) to +10 (consolidated democracy). Column 3 uses a binary variable for democracy introduced by Cheibub et al. (2010) and updated by Rode and Bjørnskov (2016). They split countries into democracies and dictatorships. A country is coded as democracy if the executive is directly elected or indirectly elected via the legislature, the legislature is directly elected, a multi-party system exists, and the executive power alternates between different parties under the same electoral rule. Finally, column 4 uses a measure for *W* put forward by Bormann et al. (2017), which computes the winning coalition size based on information on the power status and population share of ethnic groups. The measure uses data from the Ethnic Power Relations Dataset to compute the population share of ethnic groups that is included in the executive. The results in Table 4 confirm our baseline results. None of the measures for political institutions shows a statistically significant effect. Government resources always keeps the negative coefficient and remains statistically significant in all specifications except model 3. On the contrary, political proximity to the United States and Russia/the Soviet Union remain significant throughout Table 4. The same holds for GDP per capita, population, and economic growth.

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<sup>12</sup> King and Zeng (2001) recommend rare-events logit for events that are less frequent than 5% percent. This is the case in our dataset.

Next, we replicate Table 4 but now use our broad definition of aid donorship. Our dependent variable is now a binary variable that takes a value of one in the first year in which an aid donor provides development assistance to another country. As can be seen from Table 5, we again find no evidence in support of the conclusions derived from the selectorate theory (hypothesis 1). *W* (or alternative measures of political institutions) and *R* do not reach statistical significance at conventional levels. Again, we find instead that the likelihood that a country engages in development cooperation increases with a country's income level and economic growth, while population is now only statistically significant in one of four specifications (hypotheses 3-5). In line with our baseline findings, we again find negative coefficients on political proximity to the United States, but this finding is not robust to all measures of political institutions (hypothesis 2).

Finally, we also test whether our results are robust to the inclusion of two additional control variables. One may argue that countries are more likely to be in need of allies when under external pressure. Hence, we include a binary variable that marks every year during which a country was involved in a territorial dispute—either as target or as challenger of this dispute (data from Hensel 2001; Bryan et al. 2017). Furthermore, we control for years during which a country is involved in a militarized conflict (data from Gleditsch et al. 2002; Melander et al. 2016). As both variables turned out to be insignificant, we decided to omit them from the baseline regressions presented above.

## 5. CONCLUSIONS

In this article, we have shed a new perspective on aid giving. Rather than considering the set of donors as a fixed group of countries, we have analyzed the determinants of countries' decision to establish an aid program in the first place. In order to do so, we constructed a novel dataset on aid donorship. Regression results illustrate that aid donorship has never been a phenomenon purely driven by Western-style liberal democracies. Selectorate theory thus cannot explain why countries start to provide aid. Possible explanation: aid-for-policy deals not always public goods, but can be private goods or club goods

If international dynamics omitted researchers may produce wrongly significant results for *W* due to OVB. Instead, a combination of domestic political economy factors and countries' international linkages explains aid donorship. Our findings indicated that richer, larger countries at times of high economic growth are more likely to become aid donors. In addition, we found that political proximity with either the United States or Russia makes it more likely that a country enters the aid business. Taken together, our findings support the idea that domestic political economy factors and international linkages are the main driver behind the establishment of an aid program—while democracy does not play a robust role.

Our study is the first effort to understand the phenomenon of aid initiation. We have created a novel database and the first quantitative analysis on the determinants of aid donorship. That said, our results are far from exhaustive and should act as a starting point for further research. Future research should examine the precise mechanisms how international linkages affect the assumption of aid donorship. Such policy diffusion could be driven by coercion, learning or emulation, but our findings do not allow distinguishing these three channels. Future work should also exploit the aid legislation variable that is part of our new database to understand why some countries are more concerned about the legal foundations of their development work than others. The present study is just a first step towards a more holistic understanding of aid donorship.

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**Table 1:** Descriptive statistics

<b>Variable name</b>	<b>Observations</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
First aid delivery	1958	0.02	0.14	0	1
First aid institution	1958	0.02	0.14	0.00	1.00
(log) Government resources R	1958	13.80	3.82	5.15	26.07
Size of winning coalition W	1958	0.63	0.25	0.25	1.00
Ideal point distance to USA	1958	2.67	0.93	0.01	4.79
Ideal point distance to Russia	1958	1.47	1.04	0.00	5.10
(log) IGO memberships	1958	3.87	0.38	0.00	4.51
(log) Population	1958	2.15	1.48	-1.10	7.15
(log) GDP per capita	1958	8.58	1.05	6.28	12.26
Growth	1958	4.27	5.74	-41.80	88.96
Openness	1958	70.69	45.75	6.39	411.04
Cold war dummy	1958	0.45	0.50	0.00	1.00
(log) Colony population	1958	0.13	0.75	-0.70	5.63
Duration	1958	35.54	16.93	2.00	70.00

Note: Descriptive statistics based on estimation sample of Table 2, column 3.

**Table 2:** The determinants of aid donorship (1966-2014, baseline)

	(1) Logit	(2) Logit	(3) Logit
(log) Government resources R	-0.0018*** (0.0088)		-0.0014** (0.0291)
Size of winning coalition W	0.0215*** (0.0000)		0.0074 (0.1626)
Ideal point distance to USA		-0.0074*** (0.0001)	-0.0054*** (0.0069)
Ideal point distance to Russia		-0.0036** (0.0324)	-0.0040** (0.0356)
(log) IGO memberships		0.0032 (0.5604)	0.0003 (0.9574)
(log) Population	0.0052*** (0.0040)	0.0024** (0.0358)	0.0050** (0.0125)
(log) GDP per capita	0.0071*** (0.0000)	0.0062*** (0.0000)	0.0065*** (0.0000)
Growth	0.0005*** (0.0087)	0.0004*** (0.0040)	0.0004** (0.0331)
Openness	0.0000 (0.5165)	0.0000*** (0.0065)	0.0000 (0.1328)
Cold war dummy	-0.0080*** (0.0042)	-0.0031 (0.3279)	-0.0046 (0.2369)
(log) Colony population	0.0008 (0.2988)	0.0008 (0.1947)	0.0009 (0.1430)
Duration dependency	Yes	Yes	Yes
Constant	Yes	Yes	Yes
Number of observations	2,184	2,437	1,958
Pseudo R squared	0.163	0.173	0.186

Notes: The table displays marginal effects at mean values of our explanatory variables. Standard errors are clustered at the country level. P-values in parentheses. \* (\*\*, \*\*\*) indicates statistical significance at the ten-percent (five-percent, one-percent) level.

**Table 3:** The determinants of aid donorship (1966-2016, alternative model specifications 1)

	(1) Logit	(2) Logit	(3) Rare- events logit	(4) Linear Probability Model	(5) Linear Probability Model with FE
(log) Government resources R	-0.0014** (0.0291)	-0.0011*** (0.0007)	-0.2011** (0.0367)	-0.0330*** (0.0096)	-0.0323** (0.0130)
Size of winning coalition W	0.0074 (0.1626)	0.0011 (0.7702)	1.0208 (0.2700)	-0.0124 (0.5398)	-0.0050 (0.8106)
Ideal point distance to USA	-0.0054*** (0.0069)	-0.0020* (0.0607)	-0.8472*** (0.0003)	-0.0176* (0.0755)	-0.0202** (0.0447)
Ideal point distance to Russia	-0.0040** (0.0356)	-0.0017** (0.0480)	-0.6050*** (0.0062)	-0.0024 (0.7441)	-0.0040 (0.5742)
(log) IGO memberships	0.0003 (0.9574)	-0.0023 (0.3902)	-0.0537 (0.9568)	-0.0122 (0.5245)	-0.0265 (0.2537)
(log) Population	0.0050** (0.0125)	0.0037*** (0.0000)	0.7528*** (0.0054)	0.0374 (0.5781)	0.0363 (0.5825)
(log) GDP per capita	0.0065*** (0.0000)	0.0032*** (0.0000)	0.9977*** (0.0000)	0.0801*** (0.0016)	0.0775*** (0.0022)
Growth	0.0004** (0.0331)	0.0002*** (0.0009)	0.0621*** (0.0040)	0.0003 (0.5539)	0.0003 (0.5510)
Openness	0.0000 (0.1328)	-0.0000 (0.5981)	0.0049* (0.0800)	0.0000 (0.8361)	0.0000 (0.9713)
Cold war dummy	-0.0046 (0.2369)	-0.0011 (0.5003)	-0.6453 (0.3538)	-0.0940 (0.2442)	-0.5353 (0.7714)
(log) Colony population	0.0008 (0.2988)	-0.0011** (0.0301)	0.1434 (0.1543)	0.0496* (0.0732)	0.0518* (0.0688)
Duration dependency	Yes	Yes	Yes	Yes	Yes
Constant	Yes	Yes	Yes	Yes	Yes
Number of observations	1,958	5,042	1,958	1,958	1,958
(Pseudo) R squared		0.0816		0.0693	0.0702

**Notes:** The table displays marginal effects at mean values of our explanatory variables. Standard errors are clustered at the country level. P-values in parentheses. \* (\*\*, \*\*\*) indicates statistical significance at the ten-percent (five-percent, one-percent) level.

**Table 4:** The determinants of aid donorship (1966-2014, alternative model specifications 2)

	(1) Logit	(2) Logit	(3) Logit	(4) Logit
Size of winning coalition W	0.0074 (0.1626)			
Polity 2		0.0000 (0.9834)		
Democracy dummy			0.0014 (0.5505)	
Ethnic winning coalition				0.0020 (0.7007)
(log) Government resources R	-0.0014** (0.0291)	-0.0011** (0.0318)	-0.0008 (0.1324)	-0.0011** (0.0256)
Ideal point distance to USA	-0.0054*** (0.0069)	-0.0065*** (0.0010)	-0.0062*** (0.0008)	-0.0063*** (0.0002)
Ideal point distance to Russia	-0.0040** (0.0356)	-0.0039** (0.0219)	-0.0033** (0.0473)	-0.0043*** (0.0100)
(log) IGO memberships	0.0003 (0.9574)	0.0007 (0.8870)	0.0003 (0.9550)	0.0001 (0.9884)
(log) Population	0.0050** (0.0125)	0.0045*** (0.0073)	0.0041** (0.0196)	0.0047*** (0.0034)
(log) GDP per capita	0.0065*** (0.0000)	0.0057*** (0.0000)	0.0062*** (0.0000)	0.0056*** (0.0000)
Growth	0.0004** (0.0331)	0.0004* (0.0797)	0.0004** (0.0115)	0.0003* (0.0556)
Openness	0.0000 (0.1328)	0.0000** (0.0490)	0.0000** (0.0212)	0.0000* (0.0659)
Cold war dummy	-0.0046 (0.2369)	-0.0039 (0.1879)	-0.0032 (0.2906)	-0.0030 (0.3381)
(log) Colony population	0.0009 (0.1430)	0.0004 (0.4339)	0.0005 (0.4076)	0.0004 (0.3892)
Duration dependency	Yes	Yes	Yes	Yes
Constant	Yes	Yes	Yes	Yes
Number of observations	1,958	2,304	2,437	2,276
Pseudo R squared				

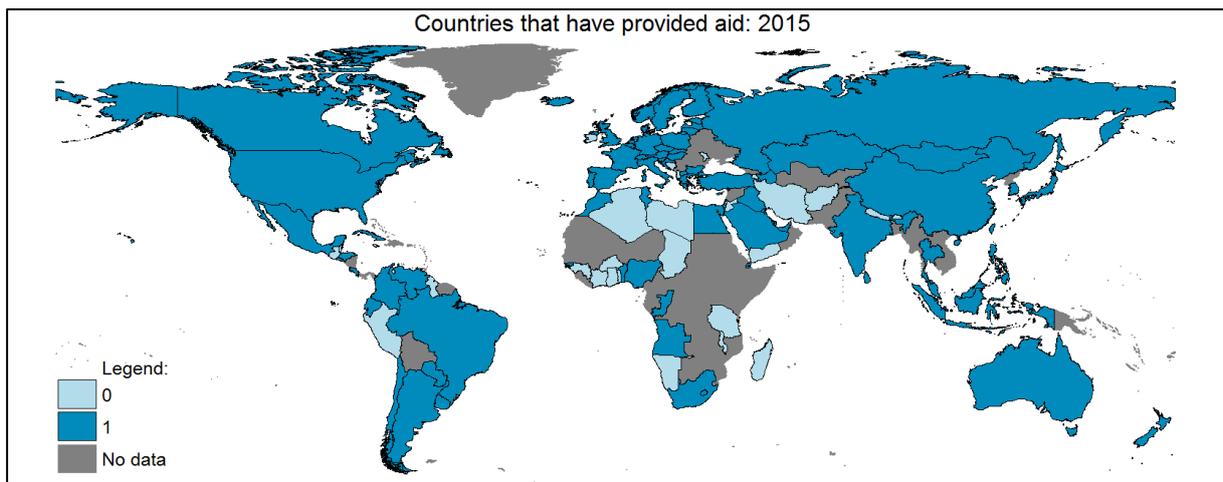
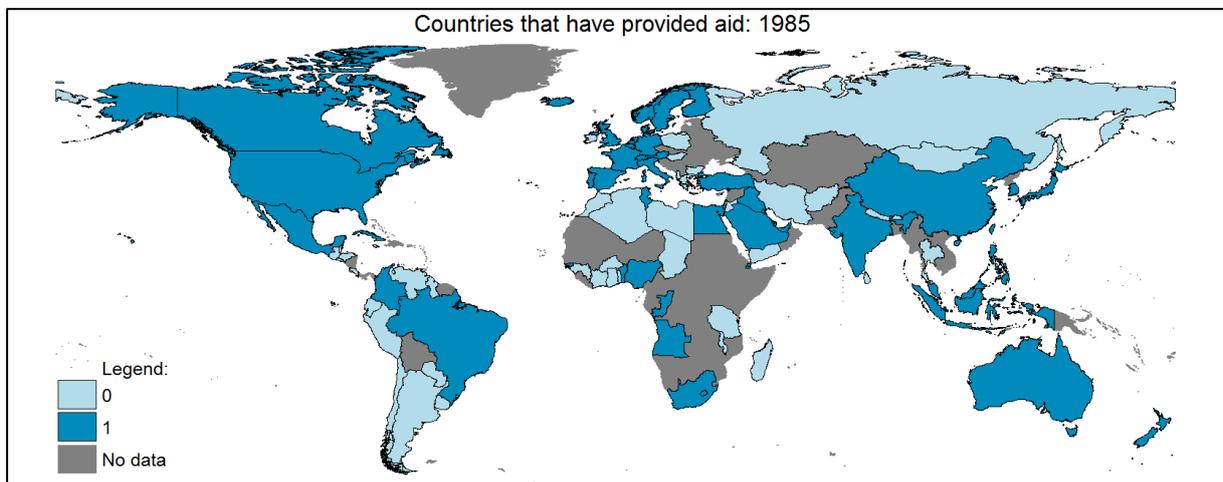
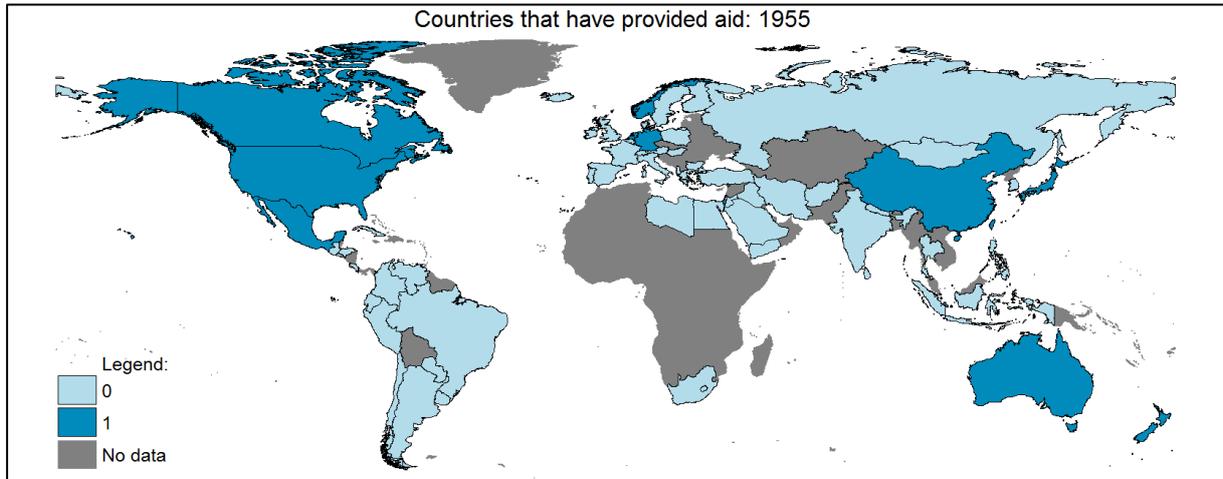
**Notes:** The table displays marginal effects at mean values of our explanatory variables. Standard errors are clustered at the country level. P-values in parentheses. \* (\*\*, \*\*\*) indicates statistical significance at the ten-percent (five-percent, one-percent) level.

**Table 5:** The determinants of aid donorship (1966-2014, broad definition of aid donorship)

	(1) Logit	(2) Logit	(3) Logit	(4) Logit
Size of winning coalition W	0.0115 (0.1649)			
Polity 2		0.0002 (0.5438)		
Democracy dummy			0.0036 (0.3820)	
Ethnic winning coalition				-0.0026 (0.8574)
(log) Government resources R	-0.0000 (0.9875)	-0.0000 (0.9773)	0.0001 (0.8990)	0.0000 (0.9608)
Ideal point distance to USA	-0.0031 (0.3592)	-0.0061** (0.0358)	-0.0050 (0.1412)	-0.0066** (0.0328)
Ideal point distance to Russia	-0.0017 (0.5704)	-0.0017 (0.5656)	-0.0008 (0.7745)	-0.0036 (0.1670)
(log) IGO memberships	0.0115 (0.4825)	0.0087 (0.5279)	0.0007 (0.9374)	0.0070 (0.5673)
(log) Population	0.0026 (0.5044)	0.0049 (0.1493)	0.0033 (0.3281)	0.0059* (0.0960)
(log) GDP per capita	0.0068* (0.0515)	0.0063** (0.0429)	0.0102*** (0.0025)	0.0068** (0.0315)
Growth	0.0006*** (0.0073)	0.0009** (0.0142)	0.0005** (0.0137)	0.0005** (0.0187)
Openness	-0.0001 (0.4597)	-0.0000 (0.7901)	-0.0000 (0.6576)	-0.0000 (0.7765)
Cold war dummy	-0.0020 (0.7888)	-0.0063 (0.3131)	-0.0040 (0.5628)	-0.0063 (0.2950)
(log) Colony population	0.0009 (0.6778)	0.0011 (0.4145)	0.0018 (0.2284)	0.0010 (0.4782)
Duration dependency	Yes	Yes	Yes	Yes
Constant	Yes	Yes	Yes	Yes
Number of observations	1,546	1,807	1,910	1,783
Pseudo R squared				

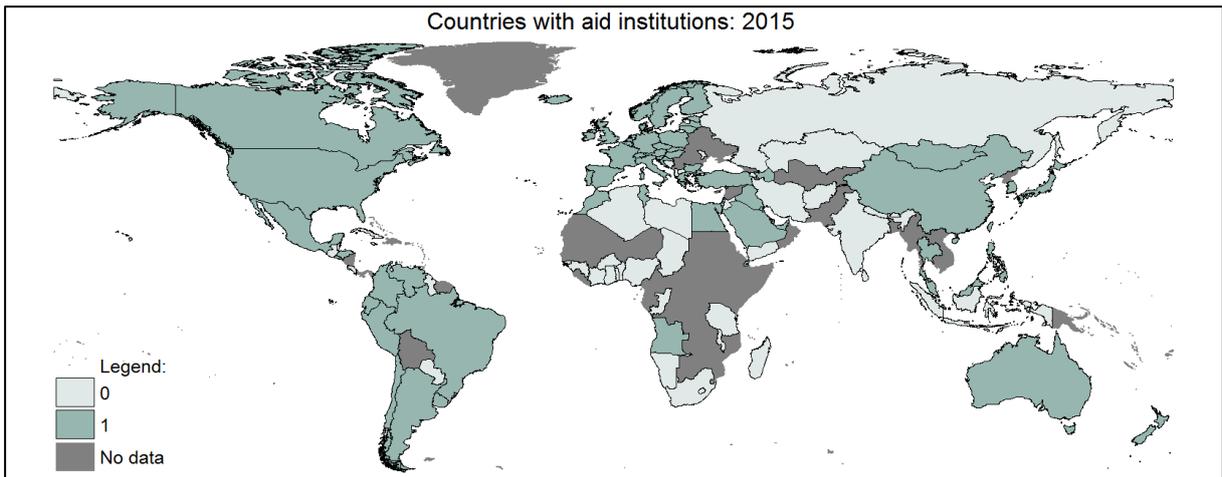
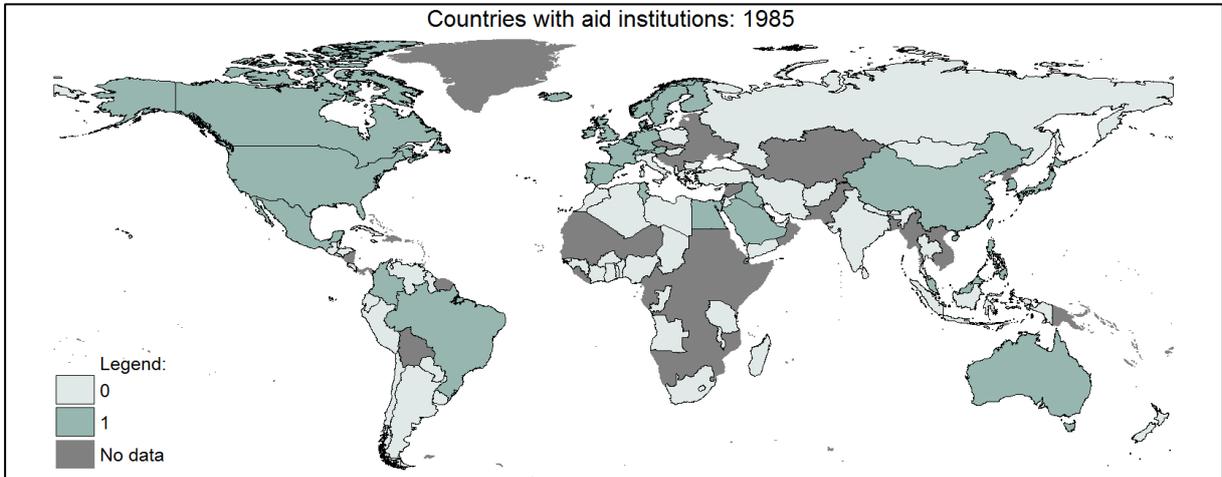
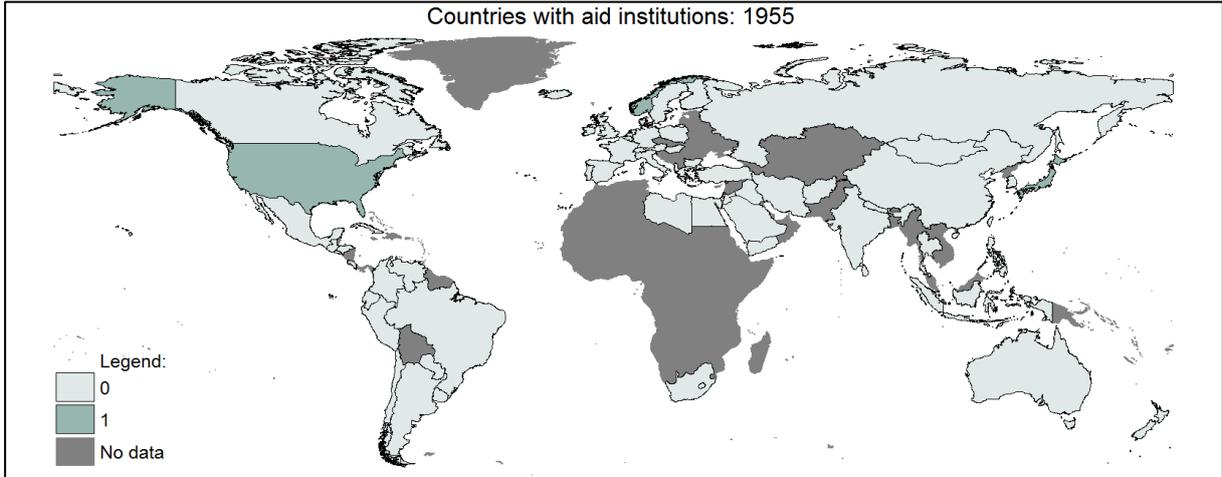
**Notes:** The table displays marginal effects at mean values of our explanatory variables. Standard errors are clustered at the country level. P-values in parentheses. \* (\*\*, \*\*\*) indicates statistical significance at the ten-percent (five-percent, one-percent) level.

**Figure 1: World maps of aid donors (broad definition, 1955, 1985, and 2015)**



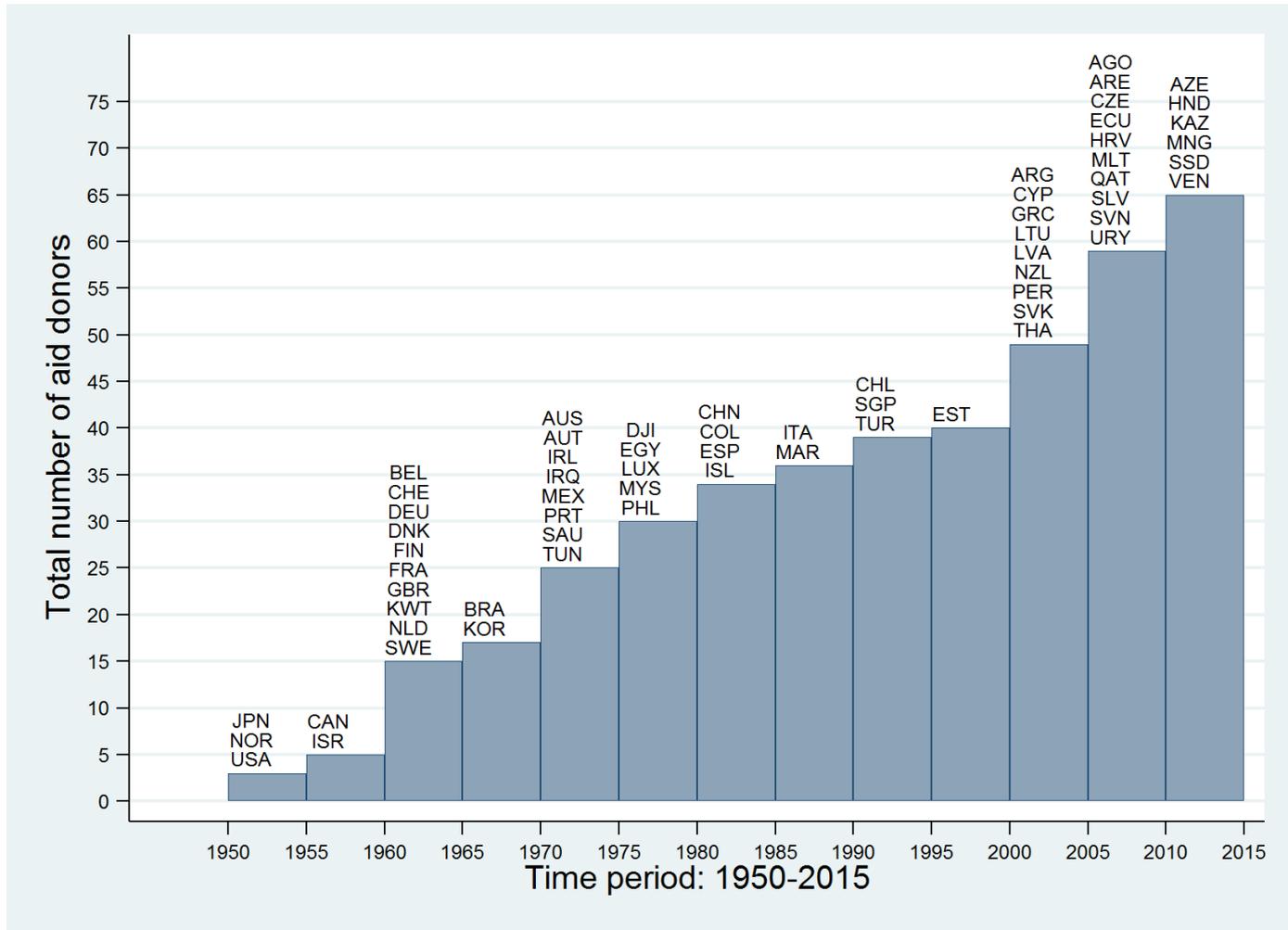
Source: Own data collection.

**Figure 2:** World maps of aid donors (narrow definition, 1955, 1985, and 2015)



Source: Own data collection.

**Figure 3: First aid institution in comparison (1950-2015)**



Notes: Total number of aid donors by narrow definition (establishment of aid institution). ISO country codes indicate which countries became aid donors during the indicated periods of five years.

Source: Own data collection.

**ONLINE APPENDIX (for online publication only)**

**Appendix A1: Survey questions**

**Question 1**

1a. Does your country (currently or in the past) provide development cooperation<sup>13</sup> to any other countries?  yes  no

1b. If yes, when did your country first provide development cooperation to another country?

Year:

Comments (if any):

*---The following questions only apply if you replied yes to question 1a---*

**Question 2**

2a. Does your country currently have (at least) one administrative body that is responsible for providing development cooperation to other countries? This could be a unit or division in the Ministry of Foreign Affairs, another ministry or government unit, or an independent agency.

yes  no

2b. If yes, please name the leading institution(s) and year(s) this responsibility was adopted:

Name(s):

Year(s):

Comments (if any):

**Question 3**

3a. In the history of your country, did the responsibility of providing development cooperation lay with another administrative body?  yes  no

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<sup>13</sup> “Development cooperation“ should be broadly understood as including grants, concessional loans, technical assistance and in-kind assistance the main objective of which is the promotion of the economic development and welfare of another country.

This does NOT include: military equipment or services, anti-terrorism activities or humanitarian aid.

3b. If yes, please name the leading institution(s) and year(s) this responsibility was adopted:

Name(s):

Year(s):

Comments (if any):

#### **Question 4**

4a. Does your country (currently or in the past) have legislation to govern its development co-operation?  yes  no

4b. If yes, what is/are the name(s) of the corresponding law(s) or regulation(s)?

Name(s):

4c. When did your country first introduce legislation to govern its development co-operation? Year(s):

Comments (if any):

**Appendix A2: List of variables**

<b>Variable</b>	<b>Definition</b>	<b>Source</b>
<i>Dependent variables</i>		
Donor (first aid delivery)	1 in the first year in which a country has provided development assistance to another country	Own construction
Donor (first aid institution)	1 in the year during which the first aid institution has been established	Own construction
<i>Explanatory variables</i>		
Size of winning coalition W	Five point measure based on scores for regime type, the competitiveness of executive recruitment, openness of executive recruitment, and the competitiveness of participation	Polity IV Project (Marshall et al. 2016) CNTS Data Archive (Banks et al. 2016)
Polity 2	Discrete ordinal score of democracy/autocracy	Polity IV Project (Marshall et al. 2016)
Democracy dummy	Democracy dictatorship measure, binary	Vreeland Democracy data (Cheibub et al. 2010, updated by Bjornskov 2016)
Ethnic winning coalition	Size of winning coalition based on ethnic groups with access to power (Bormann et al. 2017)	Ethnic Power Relations dataset (Cederman, Wimmer and Min, 2010; Vogt, Bormann, Rügger, Cederman, Hunziker and Girardin, 2015)
(log) Government resources R	Log of government resources, calculated by the product of GDP per capita, total population and government's share of GDP	Penn World Tables 9.0 (Feenstra et al. 2015)
Ideal point distance to USA	Log of ideal point distance to the United States based on voting alignment in the United Nations General Assembly	Bailey et al. (2017)
Ideal point distance to Russia	Log of ideal point distance to the Soviet Union/Russia based on voting alignment in the United Nations General Assembly	Bailey et al. (2017)
(log) IGO memberships	Log of country memberships in international governmental organizations (full membership)	COW-2 International Organizations Dataset Version 2.3 (Wallace and Singer 1970; Pevehouse and Wamke 2004); KOF Globalization Index (Dreher 2006; Dreher et al. 2008)
(Log) GDP per capita	Log of real GDP per capita at constant 2005 national prices (in mil. 2005 US\$)	Penn World Tables 9.0 (Feenstra et al. 2015)
(Log) Population	Log of total population (in millions)	Penn World Tables 9.0 (Feenstra et al. 2015)
Growth	Growth of real GDP at constant 2005 national prices (in mil. 2005 US\$)	Penn World Tables 9.0 (Feenstra et al. 2015)

Openness	Trade dependence of an economy measured in sum of total exports and imports as percentage of GDP at current national prices	Penn World Tables 9.0 (Feenstra et al. 2015)
Cold war dummy	Binary variable marking the years 1947-1990	Own construction
(Log) colony population	Log of total population living in former colonies based on data on colonial linkages and population data	CEPII (Mayer and Zignago 2006) Penn World Tables 9.0 (Feenstra et al. 2015)
$d_i$	Duration count measuring the years since entering the sample (i.e., since the end of the Second World War or since independence)	Correlates of War Database (Correlates of War Project 2011)