DEMOCRATIZING FOREIGN AID: ONLINE PHILANTHROPY AND INTERNATIONAL DEVELOPMENT ASSISTANCE

RAJ M. DESAI & HOMI KHARAS*

I. INTRODUCTION

The nature of development assistance is changing rapidly, with new delivery mechanisms and new players becoming important parts of the aid system. Official funding is increasingly being channeled through specialized agencies dedicated to particular targets, like HIV/AIDS or malaria, instead of through traditional agencies like the World Bank’s International Development Association, which provides support for broad country development programs. A raft of new players has emerged from the private sector, bypassing the traditional channels. These new players include foundations, religious organizations, other NGOs and nonprofits, as well as individual philanthropists.

Between 1998 and 2008, international private giving by U.S.-based corporate and independent foundations and individuals doubled. Private aid, comprised of foundations, nongovernmental organizations, religious groups, and charities in the United States contributed almost $37 billion to development causes in 2007.¹ The World Bank, in comparison, committed about $25 billion.² This growth in private aid is seen at all levels, from “mega-charities” such as the Gates, Ford, Mac-

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Arthur, Rockefeller, and Hewlett foundations, to hundreds of smaller foundations. 3 Meanwhile, transnational nongovernmental organizations (NGOs) such as CARE, Oxfam, Médecins Sans Frontières, and Save the Children, each with annual budgets exceeding $500 million, now distribute more development aid than the entire United Nations system. 4

More recently, online philanthropy has proliferated with the spread of global internet usage. Gifting aid over the internet is anonymous. There is no face-to-face contact with the recipient and no expectation of material reward to the giver. It is one of the purest of altruistic acts. It is also one of the most rapidly expanding forms of private giving to international causes. Although online giving still represents a small fraction of private aid, several internet-based platforms have been able to expand in scale, steadily increasing the number of contributors, as well as the amounts disbursed to developing countries. 5

InterAction, an umbrella group of U.S. NGOs responsible for giving $6 billion per year in foreign aid, estimates that its members get contributions from 13 million groups, or about 50 million individuals. In addition, new online-giving tools have vastly expanded the pool of potential donors. This “democratization” of foreign assistance raises several implications for the relationships between aid givers and recipients. How do private aid flows—especially when the ability to participate in aid giving is open to all citizens—differ from official aid flows? What are the factors that influence the character of these private aid flows? For private aid that is facilitated by internet social networking, what can be said about the ways in which different online platforms influence private giving?

5. See, e.g., Kiva, Facts and Statistics, http://www.kiva.org/about/help/stats (citing over 400,000 lenders distributing over $130 million to over 300,000 entrepreneurs) (last visited Apr. 12, 2010).
We argue that private aid provided by newly enfranchised individual citizen-donors and citizen-lenders via the internet represents a unique and potentially consequential form of foreign assistance, in three respects. First, online-based private aid mechanisms resolve some of the traditional constraints that, historically, have limited the scale and scope of individual charitable giving and given a rationale for aid to be channeled through public agencies. Second, online-based private aid is by definition a reflection of the preferences of philanthropic-minded individuals who determine their own allocations across countries and, within countries, across sectors, projects, and individuals. Official aid, although funded by taxpayers, gives their citizens little say over aid allocations. Third, this new kind of private aid is strongly influenced by the specific characteristics of the person or project receiving aid but not sensitive to the characteristics of the country in which the recipient lives.

Private internet-based aid represents a new modality for providing development assistance. It is different from official assistance by virtue of the fact that it reflects the views of multiple small donors rather than a few experts. The new private aid platforms do not seek to coordinate or plan aid in any way. It remains to be seen whether this affects the development outcomes it achieves to a significant degree.

Part II of this article examines the changing landscape of development aid, focusing on the rise of online philanthropy through the example of two well-known internet-based platforms, GlobalGiving and Kiva. GlobalGiving facilitates matches between community projects in developing countries seeking funds and individuals who can contribute grants. Kiva allows individual lenders the opportunity to lend to hand-picked microfinance institutions at zero percent interest. These microfinance institutions, in turn, screen local applicants and lend money to entrepreneurs in developing countries. Both are 501(c)(3) nonprofit organizations, and both operate primarily through their internet portals, through which anyone with a credit card or PayPal account can donate to development projects or lend to micro-entrepreneurs who post requests online. Part III considers constraints on the provision of large-scale international aid, and explores how online philanthropy markets address these constraints. Part IV investigates how democratization of private aid through the
GlobalGiving and Kiva online platforms result in different aid flow distribution. This consists of three parts: first, a comparison of official aid flows to private aid flows from GlobalGiving and Kiva; second, an analysis of the factors influencing funding decisions of individual GlobalGiving donors and Kiva lenders; and third, a discussion of the effects of donor fragmentation. In the conclusion we offer some tentative policy implications of the rise of private online aid for the current global foreign-aid architecture.

II. THE CHANGING LANDSCAPE OF DEVELOPMENT AID

Warren Buffett made headlines in 2006 by announcing that he was earmarking 85 percent of his wealth to six foundations, an amount then valued at about $31 billion, the largest philanthropic gift in history:6 “I know what I want to do, and it makes sense to get going,” he said at the time.7 The record-setting size of the declaration and the purposiveness in targeting it to international development highlights, in a somewhat celebrity fashion, the increasing significance of private-sector giving in the landscape of global aid. Private aid includes not only generous gifts from philanthropists like Buffett, but also funds from foundations, corporations, private voluntary organizations (PVOs), universities, and religious organizations. Taken together, the private sector in OECD countries may contribute around $60 billion per year in aid to developing countries.8

That may seem small compared to official development assistance (ODA) of $120 billion in 2008. But ODA includes some artificial forms of “aid”: for example, administrative ex-


8. See Homi Kharas, The New Reality of Aid, in GLOBAL DEVELOPMENT 2.0: CAN PHILANTHROPISTS, THE PUBLIC, AND THE POOR MAKE POVERTY HISTORY? 53, 67 (Lael Brainard & Derek Chollet eds., 2007) (showing that the amount of private aid from rich countries has sharply increased); Homi Kharas, Trends and Issues in Development Aid 14 (Wolfensohn Cent. for Dev., Working Paper No. 1, 2007) (citing statistics from the OECD estimating the amount of total development aid from rich countries).
penses of bilateral aid agencies; relief on debts that were unlikely to ever be repaid (along with the punitive accrued interest on past late payments); inflated valuations of technical cooperation provided by for-profit international consultants. Considering only development projects and programs in developing countries, the global size of private aid is today roughly equivalent to ODA.9 In the United States, private aid is 50 percent larger than official aid.

This new source of funding, from large and small donors alike, is changing the nature of private aid organizations. They are no longer simply contractors for government-sponsored programs as in the past but rather have an independent voice and strategy. InterAction estimates that two-thirds of its members’ funds now come from private donations; ten years ago, two-thirds came from the implementation of government aid contracts. While NGOs depended on government contracts, they simply followed official aid policies. Now that they are financially independent, they have developed their own voice.10

The sheer number of official aid players has exploded.11 There are significant benefits to this dynamism, including more resources, more innovative solutions, and more direct action. However, there have also been costs. The number of development projects has grown while the average size of a project has declined, burdening weak administrative structures in recipient countries. There is overlap and waste because each official donor needs to report independently on the broad development landscape in which each project operates. Accountability and sustainability are threatened. Mechanisms for information sharing, coordination, planning, and scaling

9. See Kharas, Trends and Issues in Development Aid, supra note 8, at 1 (citing statistics from the OECD).


11. Estimates suggest that there are 233 multilateral development agencies; fifty-one bilateral donor countries (most with multiple official agencies); several hundred international NGOs; and tens of thousands of national NGOs, not including community-based organizations, which could number in the millions. Kharas, The New Reality of Aid, supra note 8, at 71.
up are breaking down. The key issues facing development aid are those that arise from this fragmentation and the accompanying volatility of aid disbursements. Seeing these problems with official aid, many private aid agencies are stepping in to try to do things better.

A. Internet Philanthropy—Global Giving and Kiva

Despite the growth of private aid in general, and internet-based aid in particular, relatively little is known about the allocation and effectiveness of private aid. Defenders of private aid argue that private development assistance is more effective than official development assistance (ODA) due to lower overhead costs, less susceptibility to corrupt practices, and the fact that aid is allocated according to need on the ground with very little of the money funneled back to consultants and contractors in donor countries (as “technical assistance”), leaving more for the beneficiaries in developing nations.12

GlobalGiving was launched in 2002 by two former World Bank economists and is one of the oldest online philanthropy markets. On the GlobalGiving website, prospective donors can search projects by country/region, by “theme,” or according to certain keywords. Donors can also search projects according to the date they were posted on the website, by project sponsor, and according to the percentage of the project request that has already been funded. Potential grant seekers must either submit projects through one of GlobalGiving’s project “partners” (mainly U.S. and international NGOs) or submit projects directly after meeting certain due-diligence requirements. The primary goal of GlobalGiving’s website is to match the interests of potential donors with the needs of individuals seeking funds for projects; for this reason, it is sometimes referred to an “Ebay” for development assistance.

Kiva operates mainly by bundling together microloans to entrepreneurs in developing countries. Prospective borrowers post their projects through one of several affiliated

microfinance institutions (MFIs). The Kiva website, similarly, allows project searches by geography, sector, and keyword.

Each site takes a different approach to the online “market” for philanthropy or microcredit. GlobalGiving does not restrict the size of donation requests, nor does it limit the amount of time any given project may remain posted on the website. By contrast, Kiva limits both loan size and time on the website. Until the end of 2007, individual loan requests could not exceed $1,200; that limit has since been raised to $2,000. The maximum request for group loans remains $5,000. In addition, borrowers’ projects may list their requests on the website for only thirty days, after which they are removed (the maximum repayment period for all loans is twenty-four months). Because of the smaller average size of individual projects, Kiva has occasionally had to cap individual lenders’ contributions for lack of fundable projects.13

Both GlobalGiving and Kiva also make use of web-based, interactive forms of communication—journals, blogs, or comment forums. Those who have obtained grants through GlobalGiving, for example, can post pictures or other information documenting their progress and activities. Kiva’s field partners may post “business journals” identifying how the loan is being used, or what effect it has had on the business owner. This reporting is not required by either organization, and thus the flow of information from recipients can be erratic, and the information provided is very rarely financially detailed. Nevertheless, Kiva and GlobalGiving platforms provide enough information to make a personal connection between the donor and the recipient. A key problem for both organizations is to decide on exactly what information (and how much information) to provide to permit informed choices without overwhelming an individual donor.

To assist prospective individual donors and lenders in making decisions, both GlobalGiving and Kiva provide some information about the projects listed. Once the projects are posted on the websites, potential donors and lenders can search projects by size (grant or loan amount), by recipient’s region, and by sector. GlobalGiving donors may search, additionally, by project sponsor or the frontline organization that will run the project, while Kiva lenders can search by gender of

13. Personal conversation with Matt Flannery, KIVA Founder and CEO.
the borrower (both GlobalGiving’s and Kiva’s websites also have normal search capabilities, where they can query projects by any term that appears in the project description). On both websites, short narratives are included by the sponsoring organization (the charity that will use the money, or the MFI through which the loan is being channeled) that describe the purpose for which the funds will be used and give some brief background information on the principal grantee(s) or borrower(s). Once a project is selected, donor-lenders can contribute funds in any amount up to the full amount requested. Using a PayPal account (or in the case of Global Giving, a direct payment from a credit card or a check), donor-lenders then transfer funds in the pledged amount. Projects accumulate funds from donors-lenders in this manner until they are fully funded.

Besides the central difference between GlobalGiving and Kiva, in that the former collects donations for grant requests while the latter collects contributions to microloan requests, each organization uses differently structured platforms to bundle funds from individuals. In particular, Global Giving is less restrictive, in that currently there are no limits in terms of project size (and therefore contribution restrictions), listing time allowed for grant requests on its website, and number of requests allowed at any given time. Kiva, by contrast, limits project size, listing time allowed, and the total number of listed projects permitted on the site. All requests made to Kiva enter a queue, and after a preliminary screening, they are posted on the website for a maximum of thirty days, after which they are pulled from the site.

These platform differences have created contrasting results for Global Giving and Kiva. Because Global Giving does not limit grant requests, and because many of these grant requests are for large amounts of money, the number of projects is large, but the portion of fully funded projects is relatively small. Kiva’s more controlled approach, on the other hand, limits the number and variety of microloan requests that ap-

pear on the site, but those that do appear have so far always been 100 percent funded. As a result, GlobalGiving has an abundance of projects, but most projects are listed for several months before they are funded, while Kiva—facing no shortage of individuals willing to lend relatively small amounts—often is without an adequate number of loan requests.

These differences can be seen in table 1, and in figures 1 and 2. Table 1 lists some basic indicators for both internet platforms. Stark differences appear mainly in terms of project amount, volume of activity, and funding rates. GlobalGiving’s projects are, on average, eight times larger than Kiva’s. Activity on the Kiva website, on the other hand, is intense: 2,000 projects posted in an average month in 2008 (compared to GlobalGiving’s twelve). The total dollar amounts requested through Kiva’s site in an average month in 2008 was approximately $1.6 million, relative to GlobalGiving’s $71,000. As expected due to different average amount requests, Kiva lenders fund a typical loan request in approximately two days while the average GlobalGiving project requires over a year to be fully funded. Finally, less than a tenth of all of GlobalGiving’s projects posted since 2003 have been fully funded. All of Kiva’s projects posted since 2006 have been funded 100 percent.

**Table 1: Basic Indicators**

<table>
<thead>
<tr>
<th>Averages</th>
<th>GlobalGiving</th>
<th>Kiva</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount requested (by project, 2008)</td>
<td>$5,935</td>
<td>$725</td>
</tr>
<tr>
<td>Funding rate ($/hour)</td>
<td>1.19</td>
<td>93.68</td>
</tr>
<tr>
<td>Hours per grant/loan</td>
<td>11,000</td>
<td>52</td>
</tr>
<tr>
<td>U.S.-based donor share</td>
<td>0.78</td>
<td>0.70</td>
</tr>
<tr>
<td>New projects (by month, 2008)</td>
<td>12</td>
<td>2,229</td>
</tr>
<tr>
<td>Total requested (by month, 2008)</td>
<td>$71,220</td>
<td>$1,616,025</td>
</tr>
<tr>
<td>Percent fully funded (by project, 2008)</td>
<td>9.5%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Figure 1 shows monthly gross disbursements for GlobalGiving and Kiva. GlobalGiving’s monthly disbursements reached approximately $750,000 by the end of 2008, while Kiva was disbursing about $3.5 million monthly. Kiva’s dramatic growth of gross disbursement is also helped by the fact that by
the end of 2008 some original loans were being repaid and could be re-lent.

**FIGURE 1: GROSS DISBURSEMENTS VIA GLOBALGIVING AND KIVA INTERNET PORTALS**

Figure 2 shows all grant and loan requests for GlobalGiving and Kiva, respectively, since their establishment. The first graph plots all requested amounts (in U.S. dollars, log scale) to GlobalGiving over a period of seven years, showing both projects that are fully funded (solid circles) and those that are as of yet not fully funded (hollow circles). The funded requests tend to be scattered along the bottom of the graph, suggesting that grant requests for large projects are more likely to remain unfunded for a longer period of time. The second graph shows a similar scatterplot for Kiva (over three years). As all Kiva loan requests are fully funded, there is no distinction between funded and unfunded loan requests. The graph also shows cut-offs at the $1,200 level (which is the maximum loan that individual entrepreneur can request) and $5,000 (the maximum request for groups since late 2007).
FIGURE 2: PROJECTS (GRANTS AND LOANS) FUNDED

Kiva

Global Giving
III. Issues in Private Aid Provision

Foreign aid delivered through official channels does not provide direct connections between citizens and recipients. Citizens pay their taxes to the government, which in turn allocates resources to other governments to fund myriad public programs, among them programs that benefit poor individuals around the world. There is no face-to-face contact between an individual taxpayer and the final recipient, and, insofar as taxpayers have inaccurate perceptions of how their government spends development aid, there are few concrete expectations of impact, return, or reward.

Many international development charities operate in a similar manner. Private donors direct resources to an organization (with which the donor identifies with, agrees with, or otherwise trusts), and the organization in turn allocates resources to various programs and operational expenses. Some organizations do allow varying forms of “sponsorship.” This usually involves donors receiving updates from recipients (e.g., updates from a child recipient), or selecting a level of donation that corresponds to different types of the organizations’ activities (e.g., a donation of $X dollars allows the charity to purchase $Y vaccines). Donors are not typically able to select which child they sponsor, and funds received are not usually earmarked.

These traditional modes of aid delivery are designed to cope with the Samaritan’s Dilemma.15 Effective giving requires an understanding of the structural causes of poverty, and programs must be designed to address these causes, not just to treat the symptoms. Government agencies and organized NGOs provide an institutional basis for making these decisions. Private aid often operates without such institutionalized structures, and individuals giving aid must answer a set of questions. Why should I give (and not someone else)? Will my help be effective? How should I help? These questions can be framed in economic terms. Is there a collective action problem to solve? How high are transaction costs? Are there agency costs?

The new forms of internet-based giving offer different answers to the traditional models of charity. First, taxpayers who support foreign aid in principle may be insufficiently mobilized relative to particular interest groups. The internet offers an opportunity for individual action rather than collective action. Second, the route that official aid takes—from taxpayers to government coffers, to aid agencies to governments in developing nations to public agencies or private organizations in the field—is long and winding and, whether accurate or not, is often perceived by taxpayers in donor countries to be costly and susceptible to corruption and leakage as funds move from donor countries to beneficiaries in recipient countries. Internet-based aid offers a more direct connection between giver and recipient. Third, donor-country individuals may want to help, but recognize that they need to act through one or more intermediaries (usually governments or NGOs)—parts of a global foreign-aid apparatus that may be simply too insulated or centralized to incorporate the individual preferences. Internet-based giving offers many more opportunities for choosing the kind of intermediation platform that donors feel most comfortable with.

A. Collective Action Problems

The public economics literature suggests that collective action problems may block private giving for worthy causes be-


cause each individual, behaving rationally, tries to free-ride on others’ generosity. Governments can overcome the collective action problem by taxing everyone and providing grants to the causes to which individuals would want to give. One common empirical approach is to test whether individual donations are smaller in areas where government grants are larger. Such crowding-out would be evidence of collective action problems at work.

A review of the literature finds evidence that crowding-out in domestic charities is significant. Bekkers and Wiepking’s summary mostly looks at cross-section studies. In the long run, cointegration tests show that increased government spending crowds out charitable giving, especially in the education sector. In the short run, however, the effects are weaker and not significant. The authors suggest that it may take time for individuals to get full information on what the government is doing.

Andreoni and Payne also confirm the crowding-out effect in a large sample of charities. They demonstrate that crowding out occurs through two channels: classic crowding out (where donors feel less willing to give) and fundraising crowding out (where organizations receiving grants reduce activity to collect donations). The evidence suggests that fundraising crowding out accounts for 68 percent of the observed crowding-out effect.

This evidence, however, relates to giving through NGOs compared to government tax-and-spend programs. It does not directly look at new forms of internet-based giving. For these


19. See James Andreoni & A. Abigail Payne, Do Government Grants to Private Charities Crowd Out Giving or Fundraising? 93 Am. Econ. Rev. 792, 793 (2003) (showing research that government grants have a demonstrable and measurable crowding effect).
platforms, the premise is that the act of individual giving is pleasurable to the donor—that is, assuming that giving is altruistic. If so, it would suggest that the collective-action constraint to international aid is minimal.20

What seems unquestionable is that both official aid and private international giving have risen strongly in the United States over the last decade, suggesting limited crowding out. U.S. official development assistance has doubled since 2000, from $12 billion to $25 billion in 2008 (in constant 2007 dollars). Private aid has also grown fast. In the United States, private giving for international development totaled $36.9 billion in 2007. While time series data on private giving volumes is not available, the number of private foundations has grown from 40,100 in 1995 to 71,000 in 2005 (with more than 650 U.S. foundations making grants for international affairs).21 Meanwhile, international NGOs quadrupled from 6,000 to 26,000 in the 1990s; today there are thought to be some 40,000

20. There is considerable evidence of “psychic” rewards to charitable giving. Experiments show that giving charitable donations triggers brain activity in the subgenual cortex/septal region, areas related to social attachment and bonding in other species. They conclude that altruistic behavior may be hard-wired into humans. Trust in other humans is a biologically based part of human nature, and experiments show that the presence of oxytocin, a hormone that reduces social anxiety and helps people meet and bond with each other, is also linked with a greater degree of trust that good behavior will be reciprocated. The conclusion is that people have an in-built desire and tendency to respond when they see someone in need. Internet-based giving provides the connection with the needy. These biological studies suggest there is no collective action problem when individuals have the opportunity to help others directly. See Jorge Moll et al., Human Fronto-Mesolimbic Networks Guide Decisions About Charitable Donation, 103 PROC. OF THE NAT’L ACAD. OF SCI. OF THE U.S., 15623, 15626 (2006) (showing brain scans that demonstrate differences in brain activity when making altruistic decisions); Michael Kosfeld, Brain Trust, 5 GREATER GOOD MAG. 18 (2008) (citing results of a study which show increased trust from people with higher levels of oxytocin in their brains).

such organizations. The growth in private aid is all the more striking because survey data suggests that public opinion overestimates the size of official aid by significant amounts. In the United States, 69 percent of people think the U.S. government gives more than other countries in international aid, as a share of their GDP. That would tend to bias private giving downwards if crowding out is indeed serious.

B. Transaction Costs

Official aid is perceived to have low transaction costs because it operates at large scale. But official aid travels a long route, with costs at each stage. The first stage is the cost of tax collection when money is transferred from individuals to the treasury. In this stage, costs consist of the direct administrative costs of tax collection as well as deadweight losses from taxation. These costs can be substantial.

In the second stage, official donor agencies transfer funds to recipient country governments to support specific development projects and programs. The administrative costs of these agencies have averaged between 4 to 5 percent, according to statistics reported by the OECD Development Assistance Committee.

The third stage involves costs associated with transferring the money from the recipient government to final beneficiaries through project implementation. Administrative costs of the project, corruption, and other leakages mean that only about half the funds actually reach their stated end purpose.


25. See generally OECD, Creditor Reporting System, supra note 4.

26. One World Bank study, based on surveys in Ghana, Tanzania, and Rwanda concludes that, “approximately half of the overall amount allocated to clinics and hospitals did not actually reach them.” Magnus Lindelow et al., Measuring Corruption in the Health Sector, in Transparency International, Global Corruption Report 30 (2007). The GAO, in its April 11, 2008 Let-
In all, transaction costs on official aid could amount to 60 per-
cent or more.

Private aid, particularly internet-based, offers a more di-
rect connection between donors and recipients and potentially
reduces transaction costs. At both GlobalGiving or Kiva, the
flow of funds route is short: money goes from an individual to
the online platform, where it is pooled and transferred to a
financial or project intermediary in a recipient country, which
then disburses to the final beneficiaries. The long route of
passing through government bureaucracies is avoided.

There are, however, some differences in approach. Kiva
focuses on individuals, or entrepreneurs, and provides a per-
to-person link. Its feedback mechanisms and other infor-
mation on the site are all geared towards establishing a con-
nection between people. Global Giving, in contrast, highlights
the worthiness of the projects they are proposing for funding.
Donors contribute directly to those activities, rather than to
individuals.

Both Kiva and Global Giving report their administrative
costs for developing and maintaining the websites and provid-
ing the matching and information services that permits the
short route of funding from person to person to occur. Those
costs have averaged around 15 percent. Both companies, how-
ever, are relatively new and still expanding, and costs may be
expected to fall significantly if their business model is success-
ful and expansion continues at its recent rate.

Higher transaction costs are incurred at the financial in-
termediary that conveys the money from Kiva to the micro-en-
trepreneur and that collects repayments. Studies suggest that
interest rates on microcredits are between 30 to 50 percent in
order to cover default risk and transaction costs.27 At the up-
per end of that rate, the total costs for private giving through

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microcredit, to take just one example, are probably about the same as for official aid.

C. Agency Costs

From the perspective of individual donors, channeling funds through official aid agencies has the drawback that it is the agency that decides what projects to fund rather than the donor. For some, this may not be a cost but a benefit. If an official agency learns about what works in development, has an active evaluation mechanism, strong project review and implementation structures, and appropriate financial controls, it may provide valuable services to the individual donor.

On the other hand, if the official agency chooses projects on a different basis from what an individual would choose, or imposes conditions on its giving, there may be agency costs. In the past, one large source of agency costs came from tied aid, a practice where procurement was linked to the country of origin of the funds. It is unlikely that altruistic individual donors would care about whether a particular good or service was procured from a specific country, whereas it is more obvious why a national government may care about such linkages. Estimates of the cost of tied aid vary, but averaged between 15 to 30 percent.28 For some types of aid, like technical cooperation, the costs of tying may be even higher.

A further source of agency costs comes from differences in approach about what makes for an effective aid intervention. Individual donors may have views about project size, gender of recipient, sector, and other characteristics that differ from official agency views. The greater the difference, the greater the agency costs of transferring aid through official channels rather than through direct person-to-person giving.

IV. The Distribution of Aid Flows: Evidence from Internet Philanthropy

Assuming that the allocation of aid through GlobalGiving and Kiva reflects philanthropic citizens’ preferences regarding development assistance, this Part analyzes data on internet-
based transactions to determine the extent to which private preferences differ from official aid agency preferences, as well as to examine the factors that affect the supply of private development aid. We proceed in two steps. First, using information on disbursements by recipient country, we compare the allocation of official development aid for projects and programs to GlobalGiving’s disbursements for projects, and of official microcredit lending to Kiva’s microloans. Official aid categories are defined to overlap as closely as possible with GlobalGiving and Kiva activities; humanitarian aid, debt relief, technical cooperation, administrative expenses, and other forms of official aid are excluded from this analysis. Second, moving beyond country-specific factors affecting aid and microloan allocations, we examine the funding rates of specific project grant or microloan requests—the “velocity” at which individual grant and loan requests are funded once they are posted on the GlobalGiving or Kiva websites.

A. Sensitivity of Official and Online Aid to Recipient-Country Characteristics

Several observers of foreign aid have argued that assistance would have greater impact on growth and poverty were it better targeted to poorer countries, and to countries with better “institutions.” Empirical work on this subject has found increasing selectivity of aid money along these lines, especially after the end of the Cold War. In the 1990s, for example, bilateral and multilateral aid was allocated more selectively in terms of objective criteria, whereas in the 1980s the same donors tended to be more arbitrary. Whether private aid is equally selective remains a puzzle, mainly due to the poor quality of data on private aid allocation. Some skeptics of private development aid believe that aid allocation is influenced by considerations that are unrelated to the needs of the poor in recipient countries. In particular, increased competition


among NGOs for funding has prompted these groups to capitalize on the misery of the world’s poor in order to perpetuate and fund themselves. As a result, NGOs may hop from crisis to crisis, forever seeking the next development cause or humanitarian disaster that will mobilize money rather than taking the long-term perspective that is needed to achieve lasting development progress.

GlobalGiving and Kiva disbursements can serve as useful proxies for private grants and private microloans. We compare four aid categories: (i) net project and program aid from aid agencies (ODA); (ii) microlending by official aid agencies; (iii) GlobalGiving disbursements; and (iv) Kiva disbursements, to examine differences in aid selectivity across recipient countries for these different types of assistance. All disbursements are per-capita for recipient countries.

**Figure 3: Sensitivity of Private Aid Disbursements to Institutional Quality in Recipient Countries**

![Figure 3](image)

Note: Disbursements are log scale. Estimates are derived from stochastic simulations of a regression equation in which total population (log) and GDP/capita (log) are fixed at their means, and where Democracy is adjusted to different values along the sample percentile. Bands show +/- 95% confidence intervals.

Figures 3 and 4 shows the sensitivity of these four different aid flows to poverty (measured as per-capita GDP) and quality of institutions, proxied by the “Polity” index of democracy, which scores countries from -10 (most non-democratic)
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We see that official aid is quite selective. More money goes to poorer countries and to more democratic countries. Comparing official project aid with GlobalGiving, we see similar tendencies, but GlobalGiving is less selective. Democracy is less of a factor for GlobalGiving donors. Official microcredits, too, are allocated more toward democratic countries, as with ODA. Kiva lenders, however, are more likely to help those living in less democratic countries, perhaps because they are in greater need.

Private online aid thus appears to be less influenced by recipient country-specific factors such as GDP per capita or the quality of country institutions than official aid and microlending. Overall, philanthropic citizens do not behave like official donors. Given that both Kiva and GlobalGiving are internet-based platforms drawing from the same group of potential donors, it may seem surprising that allocations of funds differ between the two of them. One explanation is that the funding mechanism drives the cross-country allocation. GlobalGiving is based on a project-funding concept. If poor countries have developed an expertise in project preparation to attract money from official donors, then those same countries may have better projects to offer. In the case of Kiva, all loans flow through participating financial intermediaries. These may be more developed or more widespread in slightly richer developing countries (or as countries grow richer). Similarly, Kiva donors may feel a special empathy for entrepreneurs struggling in non-democratic systems, and hence have a higher propensity to lend to them.


32. Note that the number of recipient countries varies considerably across development flows. Countries that receive annual ODA do not receive these private forms of aid annually. These comparisons focus on a common set of twenty countries that received all four types of flows between 2006 and 2008.

33. Note that these comparisons—between official aid, official microcredit, GlobalGiving, and Kiva disbursements—are in a common group of twenty-nine countries to avoid various selection biases due to GlobalGiving’s or Kiva’s screening procedures (which may limit their ability
FIGURE 4: SENSITIVITY OF PRIVATE AID DISBURSEMENTS TO POVERTY IN RECIPIENT COUNTRIES

Note: Disbursements are log scale. Estimates are derived from stochastic simulations of a regression equation in which total population (log) and Democracy are fixed at their means, and where GDP/Capita (log) is adjusted to different values along the sample percentile. Bands show +/- 95% confidence intervals.

B. Factors Affecting Variation in Funding Rates for GlobalGiving and Kiva

If traditional country-, sector-, and risk-related factors do not seem to have a strong effect on the willingness of individual philanthropists to give aid, what does? Individual philanthropists may be more likely to focus on project-specific factors, such as the individuals who are receiving the funds, the specific purposes for which the funds will be used, and the amounts requested. This section examines the effects of these factors on the rate at which projects are funded by website visitors. The analysis relies primarily on information regarding funding rates for GlobalGiving and Kiva projects (measured in dollars per hour) to determine the relative significance of these various factors. A project that is funded very quickly can be assumed to appeal more deeply to more people. The funding rate would therefore reveal information about the preference to transact with NGOs or MFIs in some countries) or, in Kiva’s case, due to some countries’ capital controls that may restrict microcredit flows.
ences of donors with respect to the project or recipient individual.

Figure 5 shows monthly average dollars-per-hour funding for GlobalGiving projects (between May 2003 and December 2008) and Kiva loans (between April 2006 and December 2006). Kiva’s rate is, on average, tenfold faster than GlobalGiving’s (recall that average project size is much smaller for Kiva). For Global Giving, with some exceptions in 2003 and in 2008, the funding rates have remained fairly constant. Kiva’s rose between 2006 and early 2008, fell through 2008, and then jumped at the end of the year.

**FIGURE 5: GLOBAL AND KIVA FUNDING RATES**

1. **Allocations by Country**

Turning to country-specific lending rates, Figure 6 compares average hours to fund (for GlobalGiving projects, log scale) and average seconds to fund (Kiva loans, also log scale) on a set of common countries, i.e., countries to which Kiva loans have been disbursed and countries for which GlobalGiving projects have been completely funded. This graphic may be considered a comparison of “relative” funding rates. The graph does show that some East Asian countries (Indonesia,
Nepal, and Philippines) receive funding from Kiva faster than other countries, while Cameroon and Sierra Leone have been favored by GlobalGiving funders.

Overall, however, there does not seem to be a strong country-specific bias in terms of funding rates for either GlobalGiving or Kiva. Similarly, when one compares funding rates across countries to the same country-specific factors examined in the previous section—quality of institutions, level of poverty, etc.—there is no clear relationship between these country-level indicators and funding rates. This pattern can also be seen across regions (in Table 2), with two exceptions. First, North African states tend to receive GlobalGiving money faster than countries in other regions. Second, for the online community of both organizations, there is a clear bias against Eastern Europe and the Commonwealth of Independent States (CIS) of the former Soviet Union. For both GlobalGiving and Kiva, the EE/CIS region receive funds at the slowest rate—approximately two-thirds as fast as for other Kiva regions, barely one-tenth for GlobalGiving.34

34. There is little evidence that GlobalGiving donors or Kiva lenders are more inclined to fund projects in countries that receive lower amounts of
TABLE 2: FUNDING RATES BY REGION

<table>
<thead>
<tr>
<th>Region</th>
<th>Dollars per Hour (GlobalGiving)</th>
<th>Dollars per Hour (Kiva)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia/Pacific</td>
<td>1.5</td>
<td>160.8</td>
</tr>
<tr>
<td>Eastern Europe/CIS</td>
<td>0.2</td>
<td>114.1</td>
</tr>
<tr>
<td>Latin America/Caribbean</td>
<td>0.4</td>
<td>162.8</td>
</tr>
<tr>
<td>Middle East</td>
<td>0.7</td>
<td>171.2</td>
</tr>
<tr>
<td>North Africa</td>
<td>5.3</td>
<td>—</td>
</tr>
<tr>
<td>South Asia</td>
<td>1.2</td>
<td>—</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>1.0</td>
<td>172.9</td>
</tr>
</tbody>
</table>

2. Allocations by Project Purpose

Both organizations also collect information regarding the purposes for which funds are to be used by prospective grantees or borrowers. Table 3 lists funding rates by GlobalGiving’s and Kiva’s different sectoral classifications. For GlobalGiving the fastest recipients tend to be project sponsors involved with disaster relief followed by human rights, reflecting the orientation of GlobalGiving’s donors towards these areas. Meanwhile, the traditional areas of official development—education, health, human development, childhood development, economic development, even climate change—fare poorly by comparison. In the case of Kiva, one does see some traditional areas of development—education and health—being funded quickly. On the other hand the traditional areas of microfinance, namely, entrepreneurship in retail and economic sectors (construction, transport, retail, services) do not obtain funds as quickly (only manufacturing does relatively well). Finally, arts and entertainment—unusual sectors for microcredit—are funded fast.

official aid, suggesting little evidence of a substitution effect between private aid and ODA. Additional analyses of funding rates controlling for country-specific factors do not find any significant effect of levels of ODA per capita. See Raj Desai & Homi Kharas, *Do Philanthropic Citizens Behave Like Governments?* 17 (Wollensohn Cent. for Dev., Working Paper 12, 2009) (reporting statistical data on differences between private aid and ODA).
3. **Kiva’s Allocation by MFI Rating**

Kiva also rates the MFIs through which it does business, based on repayment records and other factors, as “one-star” (riskiest) through “five-star” (least risky). If Kiva’s lending community behaved as traditional microlenders, presumably, these star ratings should have some impact on the rate at which funds are provided. Table 4 lists average funding rates by MFI star rating. It is clear that, at $95/hour, single-star-rated MFIs receive funds at a slower rate than better-rated organizations. But once an MFI moves beyond the one-star threshold, there is not much extra funding speed to be gained from acquiring three-, four-, or five-star status.

**Table 4: Microfinance Institution Rating and Funding Rates (Kiva)**

<table>
<thead>
<tr>
<th>MFI Rating (stars)</th>
<th>Dollars per Hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>92.8</td>
</tr>
<tr>
<td>2</td>
<td>165.3</td>
</tr>
<tr>
<td>3</td>
<td>161.4</td>
</tr>
<tr>
<td>4</td>
<td>148.2</td>
</tr>
<tr>
<td>5</td>
<td>168.0</td>
</tr>
</tbody>
</table>
4. Allocation by Loan-Specific Factors

Using information from Kiva’s microcredit projects, for example, we can examine the relationship between three loan-specific factors and their funding rates: loan amounts, duration, and the gender of the borrower. Figures 7 through 9 show these relationships graphically. In figure 7, for example, we see that the relationship between loan size and funding speed is U-shaped, small loans and large loans are funded faster than mid-sized loans. It is likely that small loans are easily funded by a handful of visitors to the website. But it is also the case that website visitors may gravitate towards the larger-sized, group-based loans. Figure 8 shows that the funding rate declines as loans increase in duration.

![Figure 7: Amount and Funding Rates (Kiva)](image)

Figure 9, finally, shows that Kiva’s lenders also follow one of the tenets of microfinance—that women are preferable as borrowers. Except for a few months in 2006 and one month in 2007, the female lending rate is faster than the male rate (in

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35. The graph shows monthly funding rates for projects with male and female borrowers (if for group loans, than if greater than 50 percent of the group is male or female) between April 2006 and December 2008.
some cases twice as fast). Figure 9 also shows the overall increasing funding-rate trend for Kiva loans until early 2008.

**Figure 8: Loan Duration and Funding Rates (Kiva)**

![Graph showing loan duration and funding rates for Kiva loans until early 2008.](image)

**Figure 9: Gender and Funding Rates (Kiva)**

![Graph showing gender comparison of funding rates for Kiva loans from April 2006 to December 2008.](image)
C. Effects of Donor Fragmentation

Internet platforms offer an innovative mechanism for tying together a fragmented community of individual philanthropists and bundling modest contributions into large amounts. Thus far, we have examined the effects of project-specific characteristics on the rate at which projects are funded by website visitors, on the assumption that these micro-level characteristics trump country-specific factors that determine the flows of official aid.

But there is also the question of how donors interact. In other words, the newest website visitor to GlobalGiving or Kiva will respond not only to the various characteristics of the project or loan request, but to what other donors have done up until that point. In particular, a large number of small donations funding a project may send different signals than a similar project that has been funded by a small group of donors. On the one hand, donors (and lenders) may respond positively to highly dispersed projects (being funded by a large number of small-scale donors) as a result of some sort of philanthropic “herd.” Alternatively, donors may be more inclined to fund more concentrated projects, seeing an opportunity to be part of a small group of patrons.

We examine these relationships in figure 10 using GlobalGiving project data. The graph measures the standard funding rate (dollars per hour) against donor concentration which is measured as the sum of the squared shares of contributions from all donors. A concentration measure of 1, then, implies that the project has been funded by a single donor, a measure of 0.5 implies two donors ($0.5^2 + 0.5^2$), and so on. We remove all single-funded projects from the data (since there is no interaction between donors for these projects).

The graph shows that, on average, the more concentrated the project, the slower that additional donors will fund it, while more dispersed projects with lots of donors are funded quickly—evidence of a philanthropic herding effect. But the variation in funding rates is much higher for concentrated projects, suggesting that as more and more donors contribute to projects, the rates at which these projects increases and converges at approximately $5/hour.
V. CONCLUSIONS

We have shown that the selectivity of development assistance varies between official and private donors and lenders. Official aid tends to be more responsive to country-specific factors in aid recipient countries, especially the income level and institutional environment. Elected officials in the largest bilateral donors must justify the use of taxpayer funds. Hence their concern—both in rhetoric and in practice—with using these funds to reduce poverty and in allocating these funds to countries with lower levels of corruption, more democratic institutions, etc. These same factors seem to influence private individuals—at least those who give through internet contributions—to a far lesser degree. Individual citizen-donors and citizen-lenders, however, do care about project-specific factors, such as project size, the gender of the recipients, and the specific purposes for which the funds will be used.

Our findings suggest that both the aid instrument and platform matter a great deal. In particular, the fact that Kiva’s participants are lending money (in small amounts) rather than making grants to entrepreneurs may be driving the high
level of activity on Kiva’s website as well as its rapid expansion, despite the fact that Kiva’s lenders have no recourse in the event of default. GlobalGiving, being a site that bundles donations into larger amounts, has expanded more slowly.

Moreover, the person-to-person connections that are the heart of Kiva’s platform may account for the significant growth in number of lenders and amounts disbursed at Kiva over three years. Although Kiva’s lenders actually lend to MFIs, not to individuals (or groups of individuals) directly, the perception that specific micro-entrepreneurs are the recipients drives much of activity on Kiva’s website. Indeed, our findings show that individual lenders do not care nearly as much about MFI risk factors as they do about the specific entrepreneurs they believe they are funding.36

Our findings have implications for policy. Individuals allocate aid differently than official donors. This indicates that private aid and official aid are complementary: official aid supports countries, private aid supports people. With different preferences, formal coordination between these different donors may not be needed. Instead, each needs to understand when and how it can partner with the other to meet differing objectives.

We also suggest that there are few inherent advantages to official aid over private aid in terms of collective action. New internet-based technology appears to have reduced the advantage that official agencies once held in terms of transaction costs. By its very nature, official aid has disadvantages in terms of agency costs. Multiple private aid platforms can provide a choice for donors to give money to recipients in developing countries in a much more direct way than ever before. The

36. Recent discussions have pointed out discrepancies between how Kiva has been perceived by its users (as a platform to connect directly with micro-entrepreneurs in developing countries) and how it works in practice (as a mechanism that bundles interest-free loans to MFIs that then on-lend the funds to entrepreneurs at interest), thus severing the connection between specific lenders and borrowers. See David Roodman, Kiva is not what it Seems, CENT. FOR GLOBAL DEV., Oct. 2, 2009, http://blogs.cgdev.org/open_book/2009/10/kiva-is-not-quite-what-it-seems.php (alleging that Kiva modestly misleads users in order to raise additional funds for entrepreneurs); Stephanie Strom, Confusion on Where Money Lent via Kiva Goes, N.Y. TIMES, Nov. 9, 2009, at B6 (questioning the role of Kiva in extending microcredit to entrepreneurs in the poorest countries).
rapid growth of private aid may be attributed to the attractiveness of this “short route” to giving, but not all recipient countries are organized to take advantage of this. Our findings suggest that the design of projects can be fine-tuned to make them more attractive to donors. To give an example: it is probably more effective to invest in providing assistance to entrepreneurs to allow them to develop a sensible project idea than to invest in building the capacity of microfinance intermediaries.

Finally, an implication of the rapid expansion of internet lending is that aid recipients would do well to organize themselves to take advantage of new forms of private aid. In some countries like India, MFIs must first obtain approval from the Reserve Bank before they can borrow abroad. That is an obvious barrier to accessing private loans from Kiva, for example. India could benefit by relaxing its rules for highly concessional credits.

The phenomenal growth of internet-based giving is testimony to the potential for private aid to reach a scale which can be significant in global terms. What has not been shown is that organizing aid in this fashion is more effective for development. A comparison of development effectiveness between public and private aid platforms is an important direction for future research.