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IS 698

**Review of Literature**

**Foreign Aid**

There are currently no papers detailing an analytical approach to corruption in foreign aid. Most papers deal with the subject in anecdotal manner. Most analytical papers dealing with the subject of foreign aid and international development focus on the transparency of foreign aid amounts and the effect of foreign aid on corruption in the recipient country. Ghosh and Kharas detail in their paper, *The Money Trail: Ranking Donor Transparency in Foreign Aid*, one of the main themes of analytics in foreign aid.

In their paper, Ghosh and Kharas detail how transparency of aid activity is recognized as one of the key areas so that aid effectiveness can be improved. In the paper they propose an index to measure and rank donors on transparency of their aid activities. The authors used the Transparency Index and rates 31 bilateral and multilateral donor agencies on six measure of transparency. They found that being a member of the International Aid Transparency Initiative (IATI) is a powerful signal of a donor being more transparency across other dimensions not measured in the Transparency Index. The authors also did not find any relationship between transparency and donor aid volume values. Overall, the World Bank’s International Development Association (IDA) and Australia are identified as the most transparency donors, while Korea and Inter-American Development Bank Special Fund are the least transparent (Ghosh & Kharas, 2011).

One of the major topics that Ghosh and Kharas describe in their paper is the fragmentation of aid activities. Figure 1 below from Ghosh and Kharas shows the increase in the number of commitments and the decrease in the mean of the commitment size (Ghosh & Kharas, 2011). This might be an advantage in trying to discern possible commitments (foreign aid projects) that are meant for corruption. Collins, Zubairi, Nielson, and Barder estimate that at least $18 billion of aid a year is susceptible to corruption (Collins, Zubairi, Nielson, & Barder, 2009). 

Okada and Samreth in their paper investigate the effect of foreign on corruption using a quantile regression method. The authors in their paper describe that foreign aid reduces corruption and its reduction effect is greater in less corrupt countries. Though the authors acknowledge that this effect is different by different donor countries.