Following the Flows: The Determinants of U.S. Foreign Aid Allocation in the Post-Cold War Era

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CHAPTER 1: Introduction

United States foreign aid disbursement has been a controversial topic since World War II, when the practice of giving development aid became common. While there have been some notable exceptions, the record of foreign aid in promoting growth and economic development has been largely disappointing.[1]

Critics of foreign aid argue that aid does more harm than good. Prominent scholars assert that aid prevents people from finding their own solutions while interfering with and weakening local institutions.[2] As Easterly (2002) argues, a very large foreign aid bureaucracy has failed to ensure that aid dollars are transformed into productive services for recipient nations. These agencies define output as money disbursed as opposed to actual services delivered, and since they do not face the same kind of market feedback and scrutiny as private firms, aid agencies have little incentive to improve on past failures. Similarly, critics have asserted that the current process of providing aid leads to obstructive incentives that undermine and weaken any benefits of aid (Riddell 2007, 1-2).

Though foreign aid has seen limited tangible success in alleviating poverty and spurring growth over the past half century, there are still many scholars who continue to believe that aid can play a powerful role in economic development. As Jeffrey Sachs (2005) argues, certain countries suffer from poor endowments and are not financially able to make the necessary investments in institutions and infrastructure needed to promote

[1] There is a long literature assessing the ineffectiveness of foreign aid. See Easterly (2003) and Dichter (2003).
[2] See Banerjee and Duflo (2011) for a review of some of the criticism.

economic growth. These nations are stuck in self-perpetuating poverty traps, and Sachs believes that foreign aid can provide the capital needed to spur economic development and help alleviate poverty.

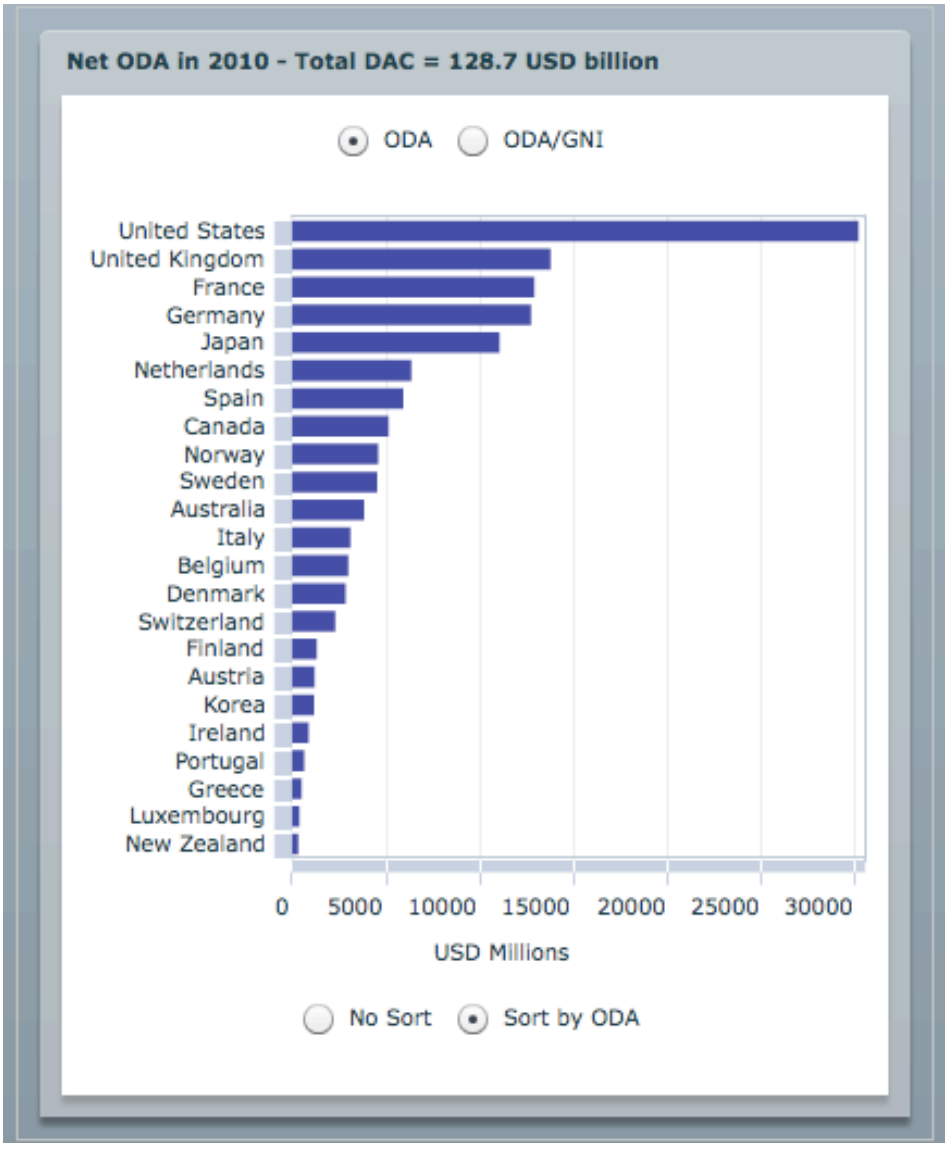
A growing focus literature on aid allocation, with the idea that greater recipient selectivity can lead to better economic outcomes,[3] has buttressed the support for foreign aid Scholars argue that foreign aid can be a very powerful tool in spurring growth and reducing poverty when allocated properly. A seminal paper by Burnside and Dollar (1997) argues that sound economic policies in recipient countries are crucial for aid effectiveness. The authors find that aid has a positive impact on growth in countries with solid fiscal, monetary, and trade policies. Collier and Dollar (2001) argue that the effectiveness of aid in accelerating growth increases with the quality of the policy environment. The World Bank (1998) issued a report on the effectiveness of aid in developing countries, and concludes that aid works in a sound policy environment: "with sound country management, 1 percent of GDP in assistance translates into a 1 percent decline in poverty" (World Bank 1998, 2-3). However, this effect is only seen in countries with sound economic policies.

The argument over aid effectiveness and allocation is especially relevant in the United States, as the U.S. continues to be by far the largest provider of bilateral foreign aid in the world. An analysis of Official Development Assistance in 2010 shows that the United States was the largest donor country, with net ODA disbursements of 30.2 billion dollars

[3] See Alesina and Dollar (2000).

(Development Co-operation Directorate n.d.). Chart 1-1 below shows U.S. ODA disbursements in 2010 compared to other donor countries (Development Co-operation Directorate n.d.). The United State's 2010 ODA disbursement represents a 3.5% increase in real terms over ODA in 2009, and is the largest figure ever recorded by a country, save for 2005, when the United States gave a significant amount of aid to Iraq (Development Co-operation Directorate n.d.).

Chart 1-1: 2010 Net ODA



In order to assess the impact of foreign aid it is important to consider the motivations of donor countries when they decide where to allocate their aid dollars. The United States has issued statements claiming that the aid program is designed to provide humanitarian relief and development as well as promote national security (Gounder 1994). These two objectives are not necessarily aligned. Scholars have argued that aid allocation decisions that are made with national interests in mind as opposed to the need of the recipient and the existence of a sound policy environment may be why foreign aid has been unsuccessful in fostering development in the past. [4]

Previous studies have focused on the determinants of aid allocation, and most researchers find that donor interest factors have dwarfed the needs of recipient countries when aid decisions are made.[5] While some countries, notably Nordic region nations, focus almost exclusively on the needs of recipient countries when allocating aid (Berthelemy 2006), most nations put their own strategic and political interests first when making aid decisions. A study by Easterly and Pfutze (2008) ranking donor agencies on the best practices in foreign aid allocation ranked the U.S. 16th out of the 48 agencies considered, behind nations including Japan, France, and the United Kingdom.

This paper aims to add to the literature by exploring how political and economic factors influence the U.S. disbursement of foreign aid dollars. By using UN voting records as a proxy for political and strategic interests, I intend to assess how these interests affect aid

[4] See Alesina and Dollar (2000) and Berthelemy and Tichit (2003).
[5] See Alesina and Dollar (2000), Lebovic (1988), and McKinlay and Little (1977) for such analysis.

allocation decisions. This paper explores whether the U.S. rewards absolute position in UN voting accordance through increases in aid, or instead rewards relative movement towards U.S. position, regardless of starting point.[6] This could help explain whether aid is a means to induce political support in the UN from countries that are not aligned with the U.S., or if UN votes are an indication of political alliances that in part determine aid flows.[7]

I will focus on the post- Cold War period to see if strategic interests have been less of a factor following the easing of international tensions. Many papers on this subject, including Alesina and Dollar (2000), Meernik, Krueger, and Poe (1998), and Alesina and Weder (1999), have focused on the 1970s through the mid-1990s. This paper updates the literature by examining modern tendencies in the U.S. foreign aid program. The World Bank (1998) notes that the end of the Cold War decreased the importance of strategic objectives in aid allocation, signaling that it should be possible to make aid more efficient (9). Though the end of the Cold War led to a sharp decline in official development assistance in the early 1990s, the United States' aid program has been steadily growing in the new millennium. This paper covers the period from 1990 to 2008 to examine more recent practices in U.S. foreign aid allocation.

I use a panel data approach and examine both fixed effects and random effects specifications to examine the determinants of Official Development Assistance (ODA). I also include a tobit estimate to account for left-hand censoring of the dependent aid

[6] This distinction was put forth by Thacker (1999).
[7] This point is set forth by Alesina and Dollar (2000) and analyzed in Chapter 3.

variable (ODA). I include UN voting records for the rates of coincidence with the U.S. for each nation in each year. My model includes a host of economic, political, and social control variables to get a clear picture of the determinants of U.S. foreign aid allocation in recent times.

The results of this analysis suggest that UN voting records have not played a significant role in determining aid allocation decisions. This can be taken as an encouraging sign that certain political factors are not influencing U.S. aid allocation. Conversely, there appears to be a correlation between U.S. aid and positive civil and political freedoms, which is a departure from the national security-led practices of the Cold War. These results help shed light on what has been important and unimportant in aid allocations over the past two decades.

CHAPTER 2: Literature Review

There is a wealth of research that has been conducted on the effectiveness of foreign aid in the battle against poverty and the quest for economic growth, and the most comprehensive papers also consider the determinants of aid. It is necessary to analyze both of these components, for if aid is not given primarily to reduce poverty and encourage economic development in the least developed countries, then merely evaluating the effectiveness of aid with respect to these altruistic goals may understate its true value.

A seminal paper that highlights the importance of this topic is Burnside and Dollar's (1997) study on aid and growth in the presence of different government policies in recipient countries. The authors aim to help explain why the economic and growth indicators of many countries that have received large amounts of foreign aid have failed to improve. Using a series of panel growth regressions for 56 developing countries, the authors find that aid does indeed have a positive impact on growth in developing countries with good fiscal, monetary, and trade policies. In the presence of poor policies, aid does not seem to have an effect on growth. The authors then examine whether good policies have influenced aid allocation decisions. They find that donor interest variables seem to overwhelm the efforts to reward sound policy. Because aid has not been sent to the countries that would benefit most, the declaration that aid as a tool for growth cannot succeed is unfounded. These findings were regarded as a victory for supporters of foreign aid, and the Bush administration and the World Bank cited this paper in arguments in support of foreign aid, as discussed in Easterly (2003). The paper has since undergone

attacks for its robustness and final conclusions (Easterly 2003), but it illustrates the need to further study aid allocation decisions, as proper targeting does seem to be able to increase the effectiveness of aid.

2.1: Cold War Era- Donor Interest Versus Recipient Need

Many papers studying the determinants of aid allocation during the Cold War or immediately following it focus on two popular and competing aid models: the donor interest model and the recipient need model.[8] The donor interest model is based on the idea that donors use aid primarily as a means of promoting their own geo-political and strategic interests, and that the majority of aid allocation decisions are done in the best interest of the donor country. This model downplays the importance of economic indicators of the recipient countries, and thus could help explain the disappointing record of foreign aid in prompting tangible economic change. Conversely, the recipient need model postulates that aid decisions are based on the economic needs of recipient countries, and that the amount of aid given to a certain country should be proportional to its economic needs and capabilities. Research focusing on aid allocation during this period finds that donor interest factors, especially national security concerns, are the main drivers of allocation decisions.

McKinlay and Little's (1977) influential paper provided some of the first empirical analyses of these competing models. They put forth hypotheses for each model and use a

[8] McKinlay and Little (1977) and Maizels and Nissanke (1984) provide excellent explanations of these two models.

variety of economic and political indicators to test these hypotheses. According to the recipient need model, increases in capital investment can be catalysts for growth, and that foreign aid can provide the source for the capital investment. Under this model, the authors believe it is the obligation of high-income countries to provide this boost to developing nations. This argument predicts, "that the amount of aid received by each low-income country is proportional to its economic and welfare needs" (McKinlay and Little 1977, 59). According to the donor interest model, aid is a means to satisfy donors' interests, and aid can be used to establish commitment and dependency from developing countries, and thus aid: "provides the donor with a potential for control over the recipient" (63). Using a cross-national longitudinal study of U.S. aid from 1960-1970, the authors come up with several different models to test the recipient need versus donor interest frameworks. They find that the donor interest framework explains the majority of aid allocation decisions during this period. They note that the specific drivers of aid allocation decisions in this framework are power-political concerns, which the authors describe as the power capabilities of the recipient, as well as security interests, namely the threat of Communist expansion. They conclude that the U.S. foreign aid program during this time period can be viewed as a modern form of imperialism, as it fosters commitment and dependency from recipient nations (80).

Maizels and Nissanke (1984) advance the research on the donor interest versus recipient needs models in a study of aid allocation that compares aid flows in 1969-70 to flows in 1978-80. The authors cite Wittkopf (1972), who examined the U.S., France, West Germany and the United Kingdom in the 1960's. Wittkopf (1972) finds that in the U.S.

in the 1960s, Cold War considerations were the most important factors in explaining aid allocation, but also found some evidence that humanitarian considerations played a role in aid decisions, as seen by a negative correlation between recipient income and U.S. aid in 1961 and 1964. Maizels and Nissanke's (1984) study furthers research on U.S. aid allocation during the Cold War. The authors use arms transfers as a measure of donor countries' security and political interests and include variables for investment and trade to operationalize the donor interest model. The authors find that the U.S. bilateral aid decisions in 1978-1980 fit the donor interest model well, demonstrating the greater influence of Cold War considerations at the end of the decade. There was a sharp rise in the fit of the model from 1969-1970, which the authors say, "reflects the much closer correspondence between economic and military aid provided by the United States in the later period" (Maizels and Nissanke 1984, 886). The authors believe the Camp David accords pledging assistance to Israel and Egypt for strategic purposes explain the increase in fit of the model (886).

Gounder's (1994) analysis of Australia's aid program from 1986-1992 builds on the work of McKinlay and Little (1977) by continuing the discussion of donor interest versus recipient need. He cites the remarks of several nations, which state that foreign aid should aim to achieve both goals. He notes that the U.S. has released statements saying that aid should aim to promote humanitarian relief, and later also stating that aid should be used as a national security tool (Gounder 1994, 100). Gounder uses various donor interest and humanitarian need variables to operationalize the two models, and finds that in contrast to studies done on other large nations, the Australian bilateral aid program does indeed

consider both recipient needs and donor interests in aid allocation decisions. He notes that is quite atypical, as most powerful developed nations' aid programs are primarily shaped by donor interest concerns. This finding shows that it is possible for a large nation to make allocation decisions with both recipient need and national interests in mind, but Australia's security concerns were not as pronounced as those of the United States during this period.

Lebovic (1988) continues research on the donor interest and recipient need models by comparing U.S. aid allocations during the presidencies of Carter and Reagan. The two administrations are thought to be very different, though they exhibited fairly similar practices concerning foreign aid. Reagan argued for linkage in foreign aid, meaning the "use of economic assistance to reward or punish states for their UN voting" (Lebovic 1988, 116). Similarly, Lebovic argues that the Carter administration's aid policy aimed to achieve international agreement on issues important to the U.S., though he adds that Carter stressed the importance of compassion for the needy and less fortunate. Lebovic concludes that donor interest variables determine the largest portion of aid allocations under both presidents, even if the stated objectives of the foreign aid policy of the two administrations were not identical. As a result, human need variables played a secondary role in the aid allocations of both the Carter and Reagan administrations despite commonly held conceptions about the differing stances of the two presidents.

Kegley and Hook (1991) also examine President Reagan's foreign aid policy from 1985-1989, as they are interested in examining the effectiveness of Reagan's "Linkage"

strategy. Kegley and Hook note that during the 1980's, congressional and administration figures were frustrated by the lack of UN support from Third World states that were receiving large amounts of U.S. development assistance (1991, 296-297.) Congress subsequently "authorized the president to restrict aid to states found to be routinely in opposition to U.S. positions in the United Nations" (297). The authors look for a change in aid allocation and voting patterns after the Linkage initiative was enacted. The authors find that the correlation between aid and compliance in this time period did not significantly change, lending support to the conclusion that Linkage did not have a meaningful effect on voting patterns. The authors believe this is because interests other than the economic threat of the U.S. drove the decisions of aid recipients. More tellingly, the authors find, "no statistical relationship between prior [UN] voting coincidence levels and subsequent aid allocations" (304), which is important as I examine the effect of UN voting coincidence on aid allocation following the Cold War.

Schraeder, Hook, and Taylor (1998) empirically analyze the allocation motivations of the U.S., France, Japan and Sweden from 1980-1989, at the height of the Cold War era. The authors provide three different paradigms that they believe donors followed during the Cold War: the realist, the idealist, and the Neo-Marxist paradigm. The realist paradigm is viewed as the dominant lens of Cold War allocation decisions, and closely mirrors the broad idea of donor interest. Under this framework, strategic interests and a focus on national security and self-preservation drives aid decisions. Recipient economic and humanitarian needs do not significantly factor into allocation decisions. In contrast, the idealist paradigm views the importance of humanitarian need as the foundation for all aid

decisions. Holders of this viewpoint are optimistic about the ability of foreign aid to reduce poverty and lead to economic development. The final paradigm, Neo-Marxism, views economic interests and capitalist exploitation as important drivers in foreign aid decision-making. The authors postulate that, "foreign aid constitutes an extension of highly exploitative North-South relationships" (Schraeder, Hook, and Taylor 1998, 299), and that foreign aid contributes to the economic gaps between developing and developed countries.

Despite these different and conflicting paradigms, Schraeder, Hook, and Taylor (1998) maintain that the dominant view of the literature is that Cold War interests were the foundation of U.S. foreign aid policy in developing countries. The authors use a pooled cross-sectional time-series design to determine what factors drove allocation decisions during in Africa during the 1980's. They find evidence to support the idea that during the 1980s, strategic and ideological interests related to the Cold War largely drove U.S. foreign aid. The realist paradigm seems to be the most consistent framework, and the U.S. put national interests first and foremost, often allocating aid to nations with consistently low growth rates relative to other candidates, choosing to overlook poor economic performance and focusing on anticommunist efforts instead. Ideology also played a role in the decisions of Japan, France and Sweden. Schraeder, Hook, and Taylor conclude that the decline of Cold War tensions and the decline of communism should lead to a lesser role of ideology in foreign aid allocation decisions going forward.

2.2: The End of the War- Examining Aid Allocation Without the Threat of Communism

The end of the Cold War presented an interesting opportunity for researchers to study the determinants of aid allocation in the absence of the communist threat. It provided researchers with a natural experiment with which to examine aid allocation decisions before and after this easing of tensions. Some scholars thought the lessened importance of geopolitical concerns may lead to a more humanitarian allocation of aid,[9] an idea supported by official statements from Northern donors.[10] However, there is no consensus on whether the U.S. and other donor countries really stopped prioritizing national interests and shifted to a more humanitarian approach to aid.

Meernik, Krueger, and Poe (1998) test several models of aid allocation motivations with the goal of comparing U.S. foreign aid practices during and after the Cold War. The authors believe that the end of the Cold War should lead to a more idealistic foreign aid policy built on promoting growth and respect for human rights, as opposed to tying every decision to national security. The authors present three frameworks for analyzing U.S. foreign policy and examine the effects of the end of the Cold War under each school of thought. The first framework is the "Systemic" approach in which states are most concerned with their own survival. International security concerns dominate all other foreign policy goals. However, in times of relative peace, security concerns are not as important in policy decisions. The authors argue that the Systemic approach explains policy decisions during the Cold War, but is not as applicable following the easing of

[9] See Meernik, Krueger, and Poe (1998) and Dunning (2004)
[10] See Crawford (1997)

tensions. The second framework is the "Societal" approach, in which "state behavior should reflect the foreign policy goals of the most politically powerful interests" (Meernik, Krueger, and Poe 1998, 65). Foreign policy is dictated by the most politically powerful groups in society, which are often business and industry players who fight for free movement of goods and capital. During the Cold War, these business interests were threatened, so the goals of capitalism and national security were aligned. The authors believe that following the Cold War and the lessening of security interests, policy goals will reflect private economic concerns including greater investment and trading opportunities abroad. The final framework is the "Statist" approach, wherein the state is seen as a "set of roles and institutions…separate and distinct from the interests of any particular societal group" (Meernik, Krueger, and Poe 1998, 66). Foreign policy will reflect the moral and ideological goals of the state. The authors note that in the U.S. following the Cold War, the stated goals of government officials with regards to foreign policy and aid include the promotion of democracy, human rights, and economic development (67).

With these three frameworks in mind, the authors use a pooled, cross-sectional time series from 1977 through 1994 to test these different approaches to foreign aid. They introduce several different variables to test each framework and find that an increasing portion of aid is going to the most needy countries. Additionally, the authors find that "making progress toward democracy is much more important than improvements in human rights conditions in determining a nation's funding levels" (80-81). The authors believe that security concerns should be less important in aid allocation following the

Cold War and that democracy and human rights promotion should take on a greater role in aid allocation, but they conclude that more data for future years will be necessary before it is possible to conclude that strategic interests are less important in aid allocation decisions following the Cold War. This paper intends to build on the work of Meernik, Krueger and Poe (1998) by using the data from more recent years to examine what factors determine aid allocation in the absence of a Cold War-size threat.

Berthelemy (2006) and Berthelemy and Tichit (2004) examine donor interest versus recipient need from 1980-1999, with the goal of examining how the fall of the communist threat affected donor decisions. Berthelemy and Tichit (2004) use a three-dimensional panel analysis to distinguish donor self-interest variables from recipient policy measures and economic indicators. They find that the end of the Cold War has reduced the bias of donors favoring former colonies, and the focus has shifted to rewarding trade partners. Additionally, nations that became democratic received more aid, especially from the U.S. Finally, particularly with the end of the Cold War, the authors find that on average, donors have rewarded recipient countries that demonstrate strong economic performances and favorable social conditions.

Berthelemy (2006) uses a more comprehensive data set covering 137 countries to test the same time period. Again using a three-dimensional panel data analysis, the author finds that most donors behave in an egotistical manner, targeting assistance to their most important trading partners. He also finds that, “on average, donors target recipients with better governance indicators, such as democracy or absence of violent conflicts

(Berthelemy 2006, 192). The largest takeaway is that despite the importance of donor interest variables, there is a selectivity based on recipient need. This represents a shift away from the more security-minded decisions of the Cold War, as discussed by Maizels and Nissanke (1984), among others.

Dunning (2004) continues the discussion of aid allocation by examining how aid decisions might by viewed differently following the Cold War. He maintains that donors prioritized strategic interests and political influence in aid decisions during the Cold War, which may have diminished the credibility of any threats donors made to condition aid on reform in the recipient countries. Recipients likely realized that donors feared losing potential allies more than they cared about domestic reforms in the recipient nations. With the easing of tensions, geopolitical concerns may have become less important to donor countries, thus making their threats of conditionality more believable. As a result, aid conditionality should be more possible and effective in the post-Cold War era. Dunning reanalyzes a study by Goldsmith (2001) that examines the relationship between ODA from Western donors, levels of democracy, and country performance in sub-Saharan Africa from 1975-1997. He finds that "the relationship between foreign aid and democracy in sub-Saharan Africa appears to be highly conditioned by the distinction between the Cold War and post-Cold War periods" (Dunning 2004, 421). This supports the notion that without the looming threat of the Cold War, aid conditionality has the potential to be more effective. Therefore, Dunning believes that it is more likely that aid can promote humanitarian improvements when strategic factors in allocating aid diminish (422). This is important, for while the Cold War is over the recent U.S. forays into the

Middle East, in which certain strategically important recipient countries in the War on Terror are still a vital national security concern, may diminish American credibility to condition aid and promote humanitarian goals.

While the previous papers found an increased selectivity based on recipient need factors, others found that donor interest factors are still the main drivers of allocation decisions. Crawford (1997) examines foreign aid and political conditionality from 1990-1995. He notes that the early 1990's and the end of the Cold War saw many statements and pronouncements claiming that ODA was to be used to promote civil and political liberties and democratization. However, in his analysis of 29 country cases, he finds inconsistent application of these stated policies. He observes a lack of correlation between human rights violations and imposed sanctions by donor countries, signaling that donor countries may not actually be interested in promoting respect for human rights through ODA. Also, he finds several cases where aid sanctions were conspicuously not imposed, which Crawford takes as a sign that human rights and democratic policies are less important to donors than other donor interest concerns. He notes that the geo-strategic considerations of the Cold War remain important in aid allocation, especially with regards to the Middle East. These findings suggest that the stated aid policy goals of the post-Cold War era were not matched by discernable changes in aid practices by donor countries.

Wang (1999) contributes to the literature by focusing on the effect of UN voting coincidence and aid allocation. He looks to examine the effectiveness of foreign aid in enhancing U.S. influence on UN voting from 1984-1993. Wang hypothesizes that

increased foreign aid will lead to higher voting coincidence. By the nature of his hypothesis, he believes that foreign aid is not an altruistic means of development, but rather an instrument to further national interests. While many previous studies that looked to find correlations between aid and voting coincidence used all general assembly votes, Wang limits his analysis to votes deemed "important issues" by the United States. He believes that the U.S. would only exercise aid as an instrument of influence for votes it believes are important enough to warrant action. He finds that a recipient's voting coincidence is not correlated with how much aid it has previously received from the U.S., but that voting compliance is exhibited when the U.S. significantly alters its level of aid as either a reward or punishment. As a result, Wang concludes that the U.S. has successfully utilized aid to induce compliance in the UN on key issues. This suggests that foreign aid following the Cold War continued to serve donor interests.

Zanger (2000) examines the behavior of other large donor countries over a similar time span. The author examines ODA flows of Germany, France, the UK, and the EU as a whole from 1980 to 1995 to see if these countries rewarded good governance in recipient countries. Despite rhetoric from all three countries stating that good governance was a key factor in their aid decisions, Zanger finds that "good governance…did not play a consistent or prominent role in European aid" (Zanger 2000, 293). Zanger believes that good governance has three elements: respect for human rights, low military spending, and democratic structures. In addition to not rewarding good governance, Zanger finds that "recipient needs only have a moderate impact on aid allocation (309). Going forward, Zanger notes that donors have only recently begun to demand political conditionality in

aid allocation, so future research may show whether allocation decisions reflect this development.

2.3: Moving Away from the Cold War- Studies with Longer Time Horizons

Many studies conducted in the 21st century have had longer time horizons and study the allocation behavior of nations over many years, without specifically focusing on the differences between Cold War and post-Cold War allocation decisions. These studies have found several trends of aid allocation decisions over these long horizons. These findings include a tendency for the U.S. to favor democratic nations,[11] a lack of emphasis on good governance by donors, [12] and shifting allocation motivations based on the domestic politics of the donor country.[13] Additionally, findings on the relationship between aid and UN voting patterns contrast with the findings of Kegley and Hook (1991), who found no statistically significant relationship.

Alesina and Weder (1999) find that there is little evidence that less corrupt governments receive more aid. The authors question the rhetoric that aid programs serve to reduce poverty and reward sound policy and honest governments. Using a dataset spanning from 1975-1995, the authors find no evidence that more aid goes to less corrupt governments, and by most measures, corrupt governments actually receive more aid. The authors also find that the U.S. tends to favor democracies, but does not exhibit selectivity in the

[11] See Alesina and Dollar (2000), Alesina and Weder (1999), Dollar and Levin (2006), and Fleck and Kilby (2006)
[12] See Alesina and Weder (1999)
[13] See Fleck and Kilby (2006).

quality of those governments. This paper explains some of the determinants of U.S. aid allocation and adds to the argument that aid programs are not well targeted to needy recipient countries with sound economic policies.

Alesina and Dollar (2000) examine whether biased aid allocation decisions can explain some of the disappointing record of foreign aid in fostering economic growth. The authors use UN voting records as a proxy for donor political and strategic interests. They believe that these voting records can be used "to get a more objective measure of 'donor strategic interests' than has been previously used in the literature" (Alesina and Dollar 2000, 37). The authors use five-year averages of aid flows during 1970-1994 from a wide range of donors. In the aggregate the authors find that "factors such as colonial past and voting patterns in the United Nations explain more of the distribution of aid than the political institutions or economic policy of recipients" (55). This shows that donor interests are driving allocation. This lends support to proponents of foreign aid because the lack of selectivity with regards to recipient policy and need could help explain the lack of economic growth in recipient countries.

The authors also examine large donors separately and find that the U.S. does tend to target countries with extreme poverty, democratic institutions, and policies of trade openness, but gives huge amounts of aid to Egypt and Israel for strategic interests. The authors note that while the large donors may be successful in promoting national interests, "the result is that bilateral aid has only a weak association with poverty, democracy, and good policy" (Alesina and Dollar 2000, 55).

Dreher, Nunnenkamp, and Thiele (2008) continue the debate of aid allocation by analyzing disaggregated aid flows to examine whether the U.S. buys votes in the United Nations. The authors believe that the ineffectiveness of foreign aid is due to its misallocation and find that U.S. aid does buy voting compliance, demonstrating again that aid is used as a policy instrument as opposed to a development tool. The authors argue that it is not important to restrict the data to only important votes, as Wang (1999) argues. Using a panel data set with disaggregated (by type) aid flows for 1973-2002, the authors find that "a ten-percentage point increase in US program aid[14] increases voting coincidence by 0.2" (Dreher, Nunnenkamp, and Thiele 2008, 150). The disaggregated analysis of foreign aid by type suggests that "general budget support and grants are the two major categories with which recipients are induced to vote in line with the United States" (157). These results suggest that aid can be used to induce voting coincidence in the UN.

Fleck and Kilby (2006) add an interesting finding to the literature by examining how domestic political changes in the U.S. affect aid allocation. The paper focuses on how shifts in political party in both the Executive and Congressional branches of government affect aid decisions. The authors proxy for four broad allocation criteria: development effectiveness, strategic importance, commercial importance, and democratization. Using a panel data analysis from 1960-1997, the authors find that U.S. aid allocation decisions differ under conservative and liberal regimes. Liberal regimes tend to distribute aid

[14] The designation of program aid is based on the coding of the Development Assistance Committee, and "consists of general budget support, developmental food aid, other commodity assistance, and action related to debt" (Dreher, Nunnenkamp, and Thiele 2008, 145).

similarly to small donor countries, which are "known for their development-oriented and humanitarian approach to aid" (Fleck and Kilby 2006, 220). The aid allocation decisions under conservative regimes tend to be driven more by commercial interests. These findings are interesting because they suggest that the underpinnings of aid allocation differ due to the domestic political setting in the U.S. These results are relevant for my research, as my time frame will span the liberal administration of Clinton and the conservative administrations of both Bush presidents.

Dollar and Levin (2006) examine whether foreign aid allocation has become more selective in recent years. Operating under the theory that good governance is necessary for development assistance to be effective, the authors examine how different donors' aid programs have targeted countries with sound institutions. In their regression analysis of aid disbursements from 1984-2003, Dollar and Levin find that in the 1980s, aid allocation favored democracies but tended to flow to countries with poor economic institutions, thus limiting the effectiveness of the aid money. In more recent years, multilateral aid institutions have become more selective and tend to favor countries with stronger economic institutions. Multilateral aid tends to be more selective than bilateral aid, perhaps because there exists less donor interest bias for multilateral organizations. Modern bilateral aid allocation has a positive but not significant relationship with good governance. They also find that many countries tend to favor recipients that are geographically close.

Kuziemko and Werker (2006) turn their focus to foreign aid and Security Council seats. The authors examine whether the pattern of aid giving to the rotating members of the UN Security Council suggests vote buying. The Security Council members have far more power than typical voters in the General Assembly, which would suggest that Security Council votes are more valuable than regular votes. The authors suggest that rotating members could use their temporary positions of power to garner rewards from other countries. The authors present three possible reasons for a connection between foreign aid and Security Council membership. First, members may simply be trading votes for cash. Second, it is possible that members of the council can make their needs more well known to the world community, leading to increased aid. Finally, an omitted variable such as greater integration in the world community might increase a country's aid receipts and make it more likely to be on the Security Council. The authors use panel data from 1960 to 2001 and find a large positive effect between council membership and foreign aid receipts. On average, a rotating member sees a 59% increase in total aid from the U.S. when on the council (Kuziemko and Werker 2006, 907). The authors believe that it is security council membership itself, as opposed to an omitted variable, which drives the increase in aid (924). This effect is even larger in key diplomatic years.[15] If the driving force of this aid increase is indeed security council membership itself and not an omitted variable or the ability of recipient countries to demonstrate their economic needs in a larger setting, it would suggest that donor countries are using foreign aid to try to

[15] The authors proxy for key diplomatic years by examining the number of times the Security Council is mentioned in the *New York Times* in a given year (Kuziemko and Werker 2006, 915).

further their own interest by influencing the new members of the security council.[16] The authors also note in the U.S., aid flows can be altered on short notice, as the government has particular funds that can be allocated at the administration's discretion, even if they are not specifically marked for foreign aid purposes (911). This may lend support to the hypothesis that the U.S. can influence UN voting patterns through changes in its aid allocation, as the process can be quick and dynamic.

Following up on Burnside and Dollar's (1997) study that focuses on the effect of good policy on aid effectiveness, Collier and Dollar (2001) aim to formulate a better model for aid allocation decisions. Citing that most aid decisions during the Cold War were based on political and strategic factors, the authors note that the easing of tensions opens the door for a more effective policy for administering aid. Operating under the hypothesis that aid can be effective when good policies are in place, they conclude that currently donor nations are not operating on the efficiency frontier of recipient need and donor concern (Collier and Dollar 2001, 1800). The authors argue that a much greater poverty reduction could be achieved by allocating the same amount of aid with a greater selectivity, based on how poor countries are and the quality of their policies (Collier and Dollar 2001, 1800-1801).

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[16] Kuziemko and Werker (2006) note that it is not possible to test whether increased Security Council aid influences actual voting for two reasons: it is not possible to observe how a country would vote in the absence of the vote-buying activity, and the strategic nature of the voting, where nations know the preferences of other Security Council members before a vote is brought to the table, makes it difficult to observe the influence one country may have on another (924).

2.4: Looking Forward- Modern Issues Facing Foreign Aid

A final group of recent papers serves to present some of the problems facing modern aid programs and examines how these issues have affected aid allocation decisions with the ongoing conflict in the Middle East at the forefront of this discussion. Woods (2005) provides a modern outlook on current developments in foreign aid and notes that development assistance ostensibly aimed at poverty reduction and economic growth is threatened to once again be used primarily to further security interests. The threat of terror attacks and the wars in the Middle East have heightened security concerns in the western world, and he believes that donors may again use foreign aid largely to pursue security objectives. In the case of the U.S., Woods also notes that the increasing costs of the Wars in Afghanistan and Iraq may cannibalize aid budgets. He echoes the previous literature on aid during the Cold War, during which foreign aid was mostly an instrument to further donor strategic interests, and states that nations made major efforts during the 1990s to rethink the way aid was administered. A focus was made on targeting countries with sound government policies, though it is not always easy to evaluate these policies. In his section on the United States, he notes that the U.S. was the largest provider of development assistance in 2005, and that most increases in U.S. aid were for projects designed to serve security issues following September 11th 2001. This suggests that an analysis of post-9/11 U.S. foreign aid may reveal similar patterns as during the Cold War, where security concerns were the predominant drivers of allocation. Woods notes an increased flow of development assistance to countries of geostrategic importance.

Moss, Roodman, and Standley (2005) empirically test many of Woods' (2005) concerns in their examination of the Global War on Terror (GWOT) and U.S. development assistance. The authors use several proxies for the GWOT to compare aid over 1998-2001 versus 2002-2005. It is reasonable to expect a difference in aid allocation, as many believe that aid can be a powerful tool in the fight against global terrorism. The U.S. Office of Management and Budget released a statement saying that the U.S. "will provide extensive assistance to states on the front lines of the anti-terror struggle" (Moss, Roodman, and Standley 2005, 3). International critics worried that such a strategy will inevitably hurt the world's poorest nations as aid is diverted away from needy recipients to strategic allies in the GWOT. The authors examine aid flows from the U.S. Agency for International Development, and find that the major changes between the two periods only affect critical countries like Iraq, Afghanistan, Jordan and Palestine, with Iraq and Afghanistan as the main drivers of change. Additionally, increased aid to these strategic countries seems to stem from an overall increase in U.S. aid flows, as well as declining flows to Egypt, Israel and Bosnia and Herzegovina. Aside from these special countries, the authors find that overall, U.S. aid practices did not change all that much from 1998-2001 and 2002-2005, though real aid disbursements increased.

Broadly speaking, the United States' foreign aid allocation program is not especially well regarded internationally for having sound practices. Easterly and Pfutze (2008) compare 48 aid agencies among dimensions they deem essential to best practices in foreign aid. They target five dimensions with which to rank best practices in foreign aid: transparency

of agencies, specialization,[17] proper selectivity, use of ineffective aid channels, and overhead cost of agencies. The authors gave the U.S. a ranking of 16, which is fairly average, and sits behind large developed countries like the UK, France, Japan, Australia and others. My paper will focus on the "selectivity" dimension mentioned in this study by examining the determinants of U.S. foreign aid allocation in the post-Cold War era.

[17] The authors define specialization as the, "degree to which aid is not fragmented among too many donors too many countries, and too many sectors" (Easterly and Pfutze 2008, 1).

CHAPTER 3: Data and Methodology

In this paper, I explore the determinants of U.S. foreign aid allocation in the post-Cold War era. I use a panel data approach similar to that of Alesina and Dollar (2000), Kuziemko and Werker (2006), and other papers cited in the previous chapter. Like much of the existing literature, I will use UN voting records as a proxy for political and strategic interests. After removing countries due to data limitations, I am left with 100 recipient countries in my data sample, and I examine U.S. aid to these countries countries in the post-Cold War period of 1990-2008. These 100 countries are shown in Table 3-1 on the following page.

I use a panel data analysis with fixed effects regressions, random effects regressions, and tobit estimates. These different types of analyses are explained later in this chapter. The model I will implement is[18]:

$$Ln(Aid_{it}) =$$

$$\alpha + \beta_1 \times UNProximity_{it} + \beta_2 \times UNMovement_{it} + \beta_3 \times Ln(Income_{it}) +$$

$$\beta_4 \times [Ln(Income_{it})]^2 + \beta_5 \times CivilLiberties_{it} + \beta_6 \times PoliticalRights_{it} +$$

$$\beta_7 \times Ln(Population_{it}) + \lambda_1 \times Egpyt + \lambda_2 \times Israel + \lambda_3 \times UScolony_{it} +$$

$$\lambda_4 \times OtherColony_{it} + \lambda_5 \times Openness_{it} + \eta_t + \mu_i + \varepsilon_{it}$$

where *i* indexes countries and *t* indexes years, η_i is a vector of year fixed effects, and μ_i is a vector of country fixed effects.

[18] This model is similar to that of Alesina and Dollar (2000) and Kuziemko and Werker (2006).

Table 3-1: Recipient Countries

Albania	Georgia	Nicaragua
Algeria	Ghana	Nigeria
Angola	Guatemala	Pakistan
Argentina	Guinea	Panama
Armenia	Guinea-Bissau	Papua New Guinea
Azerbaijan	Guyana	Paraguay
Bangladesh	Haiti	Peru
Barbados	Honduras	Philippines
Belarus	India	Rwanda
Bolivia	Indonesia	Senegal
Botswana	Iraq	Sierra Leone
Brazil	Israel	Singapore
Burkina Faso	Jamaica	Slovenia
Burundi	Jordan	South Africa
Cameroon	Kazakhstan	Sri Lanka
Cape Verde	Kenya	Swaziland
Central African Rep.	Korea	Syria
Chad	Kyrgyz Republic	Tajikistan
Chile	Lesotho	Tanzania
China	Liberia	Thailand
Colombia	Macedonia, FYR	Togo
Congo, Dem. Rep.	Madagascar	Trinidad and Tobago
Congo, Rep.	Malawi	Tunisia
Costa Rica	Malaysia	Turkey
Cote d'Ivoire	Mali	Turkmenistan
Croatia	Malta	Uganda
Cyprus	Mauritania	Ukraine
Dominican Republic	Mauritius	Uruguay
Ecuador	Mexico	Uzbekistan
Egypt	Moldova	Venezuela
El Salvador	Morocco	Yemen
Ethiopia	Mozambique	Zambia
Gabon	Nepal	Zimbabwe
Gambia		

For each type of analysis, I will include five specifications of the model. the first specification does not include population, civil liberties, or dummy variables for Egypt and Israel. The second specification includes the natural log of population. Civil liberties enter the model in specification three. The fourth specification is identical to the second but includes dummy variables for Egypt and Israel. The fifth specification contains all explanatory variables.

To measure aid I will use net Official Development Assistance (ODA) per capita from the United States each year.[19] This data is published annually by the Organization for Economic Cooperation and Development (OECD). According to the official OECD factsheet, ODA must be provided by official agencies, and ODA must be disbursed "with the promotion of the economic development and welfare of developing countries as its main objective" (Organization for Economic Co-operation and Development 2008). Additionally, ODA must be concessional and must have at least a 25% grant component (Organization for Economic Co-operation and Development 2008).

The aid figures in my dataset have been converted into constant year 2000 dollars for each country and adjusted by population to arrive at aid per capita. These flows will enter my model logarithmically. I will transform the aid variable in a monotonic manner to

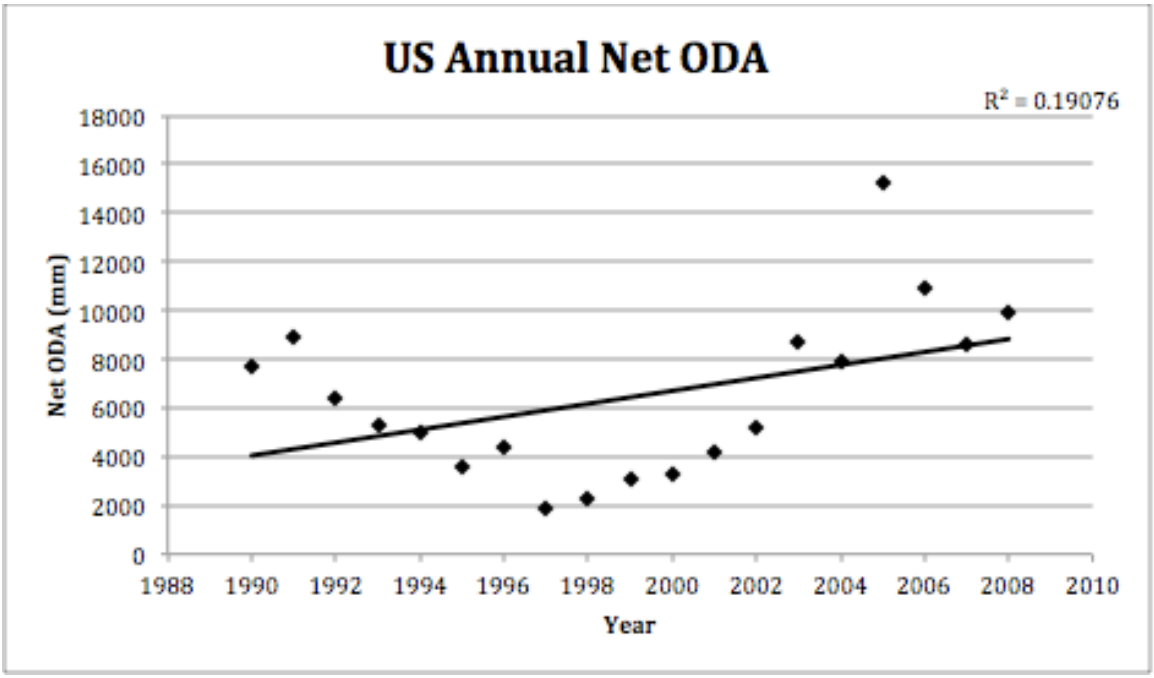
[19] Some papers, notably Dreher, Nunnenkamp, and Thiele (2008), stress the importance of examining disaggregated aid data, as some types of aid may be more likely to induce political support from recipients than others. However, I am interested in development aid allocation so I examine annual ODA flows. Net ODA is used by Alesina and Dollar (2000) and Kuziemko and Werker (2006) among others.

log(1+Net ODA).[20] This transformation allows for countries with zero aid receipts in a given year to remain in the analysis when the natural log of aid is taken. Some recipient countries have negative net ODA flows for certain years, which occurs when the repayment of the principal of ODA loans is greater than positive aid flows for a certain year (Organization for Economic Co-operation and Development 2008). However, these negative observations are dropped from the regression when I transform the aid variable into log(1+aid).

Chart 3-1 below shows the total net ODA (in year 2000 mm $) of the 100 countries included in my analysis. As seen in the chart, net ODA to these countries was at a low point in 1997 but has been steadily increasing since, peaking in 2005. The steady increase in aid since 2000 is mainly due to increased assistance to Iraq and Afghanistan and increased funding to HIV/AIDS programs (Radelet, Schutte, and Abarcar 2008, 1). The highpoint in 2005 was driven by a nearly $4 billion one-time debt relief package for Iraq (2). I have included a trend line of best fit to show that U.S. ODA has been increasing since the early 90's.

[20] This transformation is used by Dollar and Levin (2006) and Kuziemko and Werker (2006) among others.

Chart 3-1: U.S. Annual ODA to Selected Recipient Countries



I include UN voting coincidence rates as a proxy for a recipient country's political and strategic closeness with the U.S. Alesina and Dollar (2000) find that a recipient country's voting coincidence rate in the UN with a donor country is correlated with greater aid allocation, but that this correlation can be interpreted in two ways. On the one hand, aid may be used to attract political support in the UN; essentially countries try to buy votes with aid dollars. On the other hand, UN votes may be a reflection of political closeness, and these inherent political alliances determine aid allocations, as opposed to the UN votes themselves. Alesina and Weder (1999) also note the difficulty in interpreting this correlation: "it is not a priori clear whether a receiving country 'buys' foreign aid by its voting pattern in the UN or whether foreign aid "rewards" past votes" (Alesina and Weder 1999, 11).

I aim to contribute to the literature by examining the effect of political movement in the UN on foreign aid allocation. I include a measure of the change in the coincidence rate of voting in the UN from the previous year.[21] If the movement in voting from year to year explains aid allocation decisions, it would support the idea that countries use foreign aid to elicit voting coincidence in the UN.

I include two variables from the voting record to examine the effect of political and strategic closeness on aid allocation.. "UNProximity" will measure a recipient's coincidence voting rate with the United States in the general assembly, while "UNMovement" will measure the change in a recipient country's coincidence voting rate from $year_{t-1}$ to $year_t$. The relative significance of these two variables may shed light on the importance of absolute alignment versus voting movement from year to year in aid allocation decisions. UN voting records are published annually by the State Department, and the data is available electronically (Voeten and Merdzanovic 2009).

There are some issues with using UN voting records as a proxy for political friendliness that must be considered. The first is whether or not UN voting can be considered exogenous to foreign aid flows. As much of the previous literature treats UN voting as exogenous to aid, I will proceed as such. Alesina and Dollar (2000) find a similar level of significance of UN voting when using religion variables and UN friend variables for other countries as separate instruments for the U.S. UN friend variable. Both types of

[21] This is similar to the methodology of Thacker (1999). Thacker tests the effects of political proximity and movement in the UN on the likelihood that countries receive a loan from the IMF. He hypothesizes that political movement towards or away from the U.S. on political issues in the UN may be as important as absolute alignment.

instruments were tested to be valid, and the results of the analysis were the same, so it appears it is viable to consider voting exogenous. Additionally, Palmer, Wohlander, and Morgan (2002) conclude that there is no clear evidence to support the hypothesis that foreign aid influences UN voting.[22]

A second issue that needs to be dealt with is how exactly to construct my two indices of voting coincidence. First, a decision needs to be made on whether to include all votes in the general assembly or only those deemed "key votes" by the State Department. I use all general assembly votes in my analysis, but there is a lack of consensus in the literature on the correct methodology. Thacker (1999) and Wang (1999) among others only use key votes in constructing their variables. Wang (1999) argues that non-key votes in the UN may not be important enough to merit any kind of political pressure from the United States, and therefore may not have a relationship to foreign aid allocation (Wang 1999, 201). However, most researchers include all general assembly notes. Dreher, Nunnenkamp, and Thiele (2008) argue that the focusing on "important" votes is not necessarily preferable to the standard approach. The authors cite a study by Wittkopf (1973) to support this. Wittkopf notes that while much research has gone into determining whether it is more suitable to narrow analyses to critical votes only, results suggest that this method is not preferable to examining all general assembly votes. To back up this claim, Wittkopf also replicates a study that examines U.S. Aid Allocation and U.N. voting coincidence. He finds that the conclusions regarding foreign aid and voting coincidence that can be drawn from the analysis do not differ much whether the

[22] This point is cited by Fleck and Kilby (2006, 213).

author chooses to use key votes or all general assembly votes (Wittkopf 1973, 871). Similarly, Barro and Lee (2005) argue that the designation of some votes as key votes is subjective, and opt to use all general assembly votes.

An additional issue to note is the simple limitations of the dataset. The dataset was compiled from the annual Department of State reports on UN voting practices, but the creators of the dataset had to make some choices during this process. For the years 1985-1996, all unanimous votes were deleted, which creates some slight differences when compared to earlier UN voting datasets used by other authors. Additionally, for the years 1997-2008, only votes on adopted resolutions were included. This explains why the coincidence rates reported differ from the Department of State reports. These issues should not have a large impact on my analysis, but are noted to explain differences in this study compared to other authors who may have used voting data from a different source.

A final issue with measuring proximity and movement in the UN voting records is how to deal with abstentions or absences from countries when measuring voting coincidence. Thacker (1999) treats votes in accordance with the U.S. as 1, votes against the U.S. as 0, and absences or abstentions as .5. Barro and Lee (2005) and Dreher, Nunnenkamp, and Thiele (2008) calculate political proximity as the fraction of times that the U.S. and the recipient country voted identically, either both voting yes, both voting no, or both abstaining. However, I will opt for the method of Kegley and Hook (1991), who follow previous papers, and discard abstentions and absences, instead calculating voting coincidence using only votes on which both countries voted. Barro and Lee (2005)

replicated their analysis excluding non-participation and abstention, and found no qualitative difference. Additionally, in the annual reports published by the State Department, the authors of the reports discard abstentions and absences when calculating voting coincidence.[23]

The rest of the variables in the model are additional political and economic controls. An important variable to include is the initial income of the recipient countries, as it is reasonable to expect that the relative wealth or poverty of a country will impact the amount of ODA it will receive. For my analysis, the variable "Income" refers to GDP PPP per capita of the recipient country. This data is available via the Penn World Tables. I will enter income both linearly and quadratically, to examine the rate of change in aid associated with changing income.[24] GDP per capita has been converted into constant year 2000 dollars.

I also include a population variable, "Population," in my model to control for recipient country size. Many studies have included population as a control variable, including Berthelemy (2006), who notes that population size is not neutral, due to fixed costs in aid administration. Because these fixed costs do not depend on the amount of aid a country receives, per capita aid may depend on population size. He notes that typically countries with small populations receive more assistance per capita than larger countries, so I

[23] State Department reports provide detailed information on the UN voting behavior of nations in a given year. See: Bureau of International Organization Affairs. 2010. "Voting Practices in the United Nations, 2009." U.S. Department of State. Accessed February 10. http://www.state.gov/p/io/rls/rpt/c36010.htm

[24] This follows Alesina and Dollar (2000).

would expect this variable to have a negative sign. Additionally, Zanger (2000) notes the amount of aid granted to a country is likely influenced by its population size. Population figures are also obtained via the Penn World Tables.

Another economic indicator that needs to be included in the model is a measure of trade openness. Many of the papers discussed in Chapter 2 argue that commercial interests will affect the amount of aid a country receives. By this reasoning, a more open economy will receive more foreign aid; especially if it is a nation the United States has strong business ties with. I will use an updated version of the zero-one index of trade openness developed by Sachs and Warner (1995).[25] This index is based on tariff levels, government control of exports, and whether or not a country exhibits a black market premium on foreign exchange. Wacziarg and Horn Welch (2003) updated the Sachs-Warner index through the 1990's, so I will use this updated index in my analysis.[26] While this index is zero-one and thus does not provide specific information on a country's trade policy, it has often been used as a general barometer of policy openness. As Alesina and Weder say, it is especially valuable for it is an, "indicator of 'policy stance'" (1999, 12). Similarly, Alesina and Dollar state that this index may measure more than just trade openness, and can be considered, "an index of 'open policies' or 'growth-enhancing policies'" (2000, 37). This variable is labeled "Openness."

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[25] For detailed information on the construction of this index see: Sachs, Jeffrey D. and Andrew Warner. 1995. "Economic Reform and the Process of Global Integration." *Brookings Paper on Economic Activity*, 1: 1-118.

[26] Though the original index created by Sachs and Warner (1995) was created for the 1960s-1980s, Alesina and Dollar(2000) use it for their analysis that runs up through 1994. Similarly, Alesina and Weder (1999) use this index for their analysis that runs through 1995. Thus even though the index was updated only for the 1990s, there is precedent in the literature for applying it to a later decade.

I also will include two variables to measure political and civil rights. The data for these variables come from Freedom House's *Freedom in the World* rankings. Freedom House has published this annual report since 1972, covering every country in the world in both political and civil freedom, from 1 (most free) to 7 (least free). The rankings provide, "a comparative assessment of global political rights and civil liberties."[27] The report enables one to see how a country compares to its peers at a point in time, as well as observe national trends over time. The rhetoric in the post-Cold War era suggests that the focus of foreign aid should be on development and growth, while promoting ideals such as democracy and civil rights. As a result, I hope to see a new focus on targeting countries with strong political and civil rights rankings. The variables "PoliticalRights" and "CivilLiberties" will be used to test this idea.

Another important factor that has been shown to influence foreign aid is colonial history, and my model will include two variables to reflect this. Many countries have a significant history of granting disproportionate amounts of aid to former colonies, often regardless of the recipient's other economic and political characteristics (Alesina and Dollar 2000). This can be viewed in an idealistic sense, as in the donor feels responsible for their former colony and wishes to see that country thrive (Zanger 2000). However, McKinley and Little (1977) liken the U.S. foreign aid program as an extension of imperialism, and the favoring of former colonies can also be seen as a way for the donor country to continue to impose its will on the recipient nation. This also fits under Schraeder, Hook, and Taylor's (1998) neo-Marxist paradigm, in which foreign aid is an extension of the

[27] For more information on the Freedom House ratings see:
http://www.freedomhouse.org/report-types/freedom-world

exploitative north-south relationship. I include two colonial history variables, "USColony" and "OtherColony," in my model. These are dummy variables indicating whether a country was a colony of the U.S. or of another donor.[28] Dollar and Levin (2006) include a table detailing the colonial history of the countries in their sample, and for countries not included in that study, colonial history was determined using Central Intelligence Agency's country reports. "USColony" is a dummy variable coded 1 if the recipient country was at one time a colony of the United States. "OtherColony" is a dummy variable coded 1 if the recipient country was a colony of another donor country.[29] The "OtherColony" variable is used to see whether a donor discriminates against another donor country's former colony.

Two final variables that are included in the model are dummy variables for Egypt and Israel. Both of these countries are special cases and have received disproportionately large amounts of aid for political reasons regarding ongoing conflicts in the Middle East. In order to control for these outliers I will include a dummy variable for each nation.

Table 3-2 shows the summary statistics for the variables in my regression. Table 3-3 shows the correlation of U.S. aid per capita with some of the important variables in Table 3-2. Most of the variables are very modestly correlated with aid, but it is interesting to see

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[28] This is similar to Dollar and Levin (2006) and Berthelemy (2006), while Alesina and Dollar (2000) opted to use the log of the number of years in the 20th century that a recipient country was a colony of a donor country.

[29] I have used the same list of "other donors" as Alesina and Dollar (2000) to code former colonies of other nations.. This includes Australia, Belgium, France, Germany, Italy, Japan, Portugal, the Netherlands and the United Kingdom, and I have added Spain to this list, following Berthelemy (2006).

that aid is negatively correlated with GDP per capita and population, while it is positively correlated with trade openness and positive civil liberties and political rights scores. However, these correlations are very mild.

Table 3-2: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Aid	1900	6.44e+07	3.21e+08	-4.32e+08	9.88e+09
Income	1900	921.7289	548.2384	1	1871
Population	1900	4.53e+07	1.59e+08	262264	1.32e+09
Proximity	1833	.2481165	.1580165	0	1
Movement	1803	-.0024611	.0829686	-.6818182	.5394737
PR	1885	3.963395	1.924045	1	7
CL	1885	3.962865	1.479406	1	7

Table 3-3: Correlation Matrix

	Aid Per Cap	Income	PR	CL	Population	Openness
Aid Per Cap	1.0000					
Income	-0.1104	1.0000				
PR	-0.0484	-0.0414	1.0000			
CL	-0.0439	-0.0927	0.8894	1.0000		
Population	-0.0536	-0.0544	0.0775	0.1182	1.0000	
Openness	0.0428	0.0257	-0.4061	-0.4306	-0.2061	1.0000

I will run several different specifications of my model, as well as three different types of regression analysis. The first regression analysis I conduct is a panel data fixed effects OLS regression. Panel data is used to observe the same set of entities, in this case countries, over time. In such an analysis, there are two types of unobserved factors that can affect the dependent variable over time: constant factors and factors that vary over time. The simple model below from Wooldridge (2009) illustrates this concept:

$$y_{it} = \beta_0 + \delta_0 d2_t + \beta_1 x_{it} + a_i + \mu_{it}, \qquad t = (1, 2)$$

In the model, $d2_t$ is a dummy variable that equals 0 when time period t = 1 equals 1 when time period t = 2. This controls for changes in y_{it} over time. x_{it} is the explanatory variable included in the model, μ_{it} is the time-varying idiosyncratic error, and a_i is used to capture all of the unobserved, time-constant factors that affect y_{it}. In order to get proper estimations of how the explanatory variables in the model are affecting the dependent variable, the fixed effect a_i must be eliminated.

I control for these unobserved factors in my model by using country fixed effects, which amounts to including a dummy variable for each country. Fixed effects allows for arbitrary correlation between the error term and the explanatory variables in the model. This stands in contrast to the random effects method, which is used if there is reason to assume that the unobserved variation across entities is random and uncorrelated with any explanatory variables. In the case of random effects, it is not necessary to get rid of the error term.

Using fixed effects allows me to control for omitted variables that differ between countries but stay constant over time. This would control for certain country-specific differences that affect aid allocation but do not change during the period I am examining. An example of these country-specific differences is the fact that Egypt has received a very large of U.S. assistance over the years. In my model, I need to control for the inherent qualities of Egypt (in this case it is Egypt's adherence to the Camp David Peace Accords with Israel) that result in the nation getting a large amount of foreign aid. Once I control for this country-specific difference, any variation in Egypt's aid flows is due to the explanatory variables in my model.

By holding these unobserved differences between countries constant, I can observe how aid to a certain country changes when there is variation in the explanatory variables (such as income or voting coincidence) in the model. This will allow me to calculate the average effect of each explanatory variable on each country's aid flows over the time period from 1990-2008. The average effects of the explanatory variables within each of the 100 countries is then regressed on the cross-section of all countries to see how these explanatory variables affect aid flows to all nations. Fixed effects regressions are always useful to include because they give consistent regression results, even though they may not be as efficient as random effects (Torres-Reyna, n.d.).

In addition to country fixed effects, my model includes fixed year effects to control for the changes in the average level of U.S. ODA from 1990-2007. As illustrated in Chart 3-1, there is significant variation in the level of net ODA from 1990-2007 with a low point

in 1997 and a peak in 2005. If year fixed effects were not included, increases in aid to a country that were merely an effect of an increased U.S. foreign aid program across the board would be inaccurately attributed to other explanatory variables in the model. By adding a dummy variable for each year in the sample, these time-fixed effects absorb the changes in average aid level across years, and allow for proper estimation of regression coefficients.[30] A joint significance test to evaluate if the time dummies all equaled zero yields a p-value of 0.000, meaning that the null hypothesis that all year effects are jointly equal to zero can be rejected. This provides econometric support for the inclusion of year fixed effects.

One drawback of the fixed effects estimation is that it does not allow for the estimation of time-invariant variables within a country. Because these variables do not change over time, they are perfectly collinear with the country-fixed effects and it is not possible to estimate how a variable, like trade-openness or colonial history, affects a country over the time period in question. The fixed effects model is designed to examine what causes variation of the dependent variable within an entity but cannot measure the effects of variables that are invariant. The country-fixed effects are capturing the effects of a country's trade openness and colonial history, because a country like Brazil is considered open for the entire period in question and that trade openness is factored into the country specific factors that affect aid to Brazil. However, because the trade openness rating does not change, it is not possible to see how the specific condition of being open affects aid to

[30] Much of the literature, such as Alesina and Dollar (2000), Kuziemko and Werker (2006), and Dreher, Nunnenkamp, and Thiele (2008), employs time effects.

Brazil. Because of this the model is unable to provide reliable estimations of the coefficients for these time-invariant variables.

To obtain reliable coefficients for these variables I will also run a random effects OLS regression. As stated above, the random effects analysis can be used when the variation across countries is not correlated with any of the explanatory variables. This model allows for time-invariant explanatory variables, because the random effects model assumes that the unobserved effect is uncorrelated with the explanatory variables, regardless of whether the explanatory variables are constant over time or not. Because the unobserved effect is considered uncorrelated with the explanatory variables, the impact of a variable like trade openness will not be absorbed by the country fixed effects. Random effects uses a combination of cross-sectional and time-series analysis and relaxes the control on countries, which allows me to estimate the coefficients on these constant explanatory variables.

In addition to the OLS regressions, I include a tobit estimate to provide additional data analysis. A tobit estimate is used in cases where there may be right- or left-hand censoring of the dependent variable (UCLA Academic Technology Services, n.d.) Wooldridge (2009) describes this as a type of limited dependent variable, which is a variable whose range of values is restricted. Aid in this model can be considered a limited dependent variable because it takes the value of zero for a number of observations, but is otherwise approximately continuously distributed over positive values.

In this case, the aid variable is zero for certain years for certain countries, as the recipient simply did not receive ODA from the U.S. that year. Because a number of cases have zero net ODA, the linear estimations described above may be skewed. While a linear model may be a good approximation, it could lead to negative predicted values. Wooldridge (2009) outlines a simple tobit model as:

$$y* = \beta_0 + x\beta + \mu$$

$$y = max\ (0, y*)$$

The variable $y*$ satisfies the simple linear model, while the observed variable *y* takes on strictly positive values. The tobit estimations are often similar to simple OLS estimators, but the expected value of y given x depends on x and β in a non-linear manner I include a tobit estimate to bolster the results of my OLS regression.[31] Like the fixed effects regression, the country-fixed effects included in the tobit estimate preclude estimations of the time-invariant explanatory variables.

[31] Many previous studies on foreign aid include tobit estimates, like Alesina and Dollar (2000) and Dollar and Levin (2006).

CHAPTER 4: Results

The results from my regression analysis are included in the following tables:

Table 4-1: Fixed Effects OLS Regressions[32]

	(1)	(2)	(3)	(4)	(5)
LN(Income)	0.132	0.084	0.108	0.084	0.108
	(1.47)	(0.93)	(1.19)	(0.93)	(1.19)
[LN(Income)]2	-0.014	-0.010	-0.012	-0.010	-0.012
	(1.57)	(1.14)	(1.42)	(1.14)	(1.42)
Openness					
PR	-0.060	-0.062	-0.024	-0.062	-0.024
	(2.98)***	(3.06)***	(0.94)	(3.06)***	(0.94)
Proximity	-0.343	-0.308	-0.355	-0.308	-0.355
	(1.00)	(0.90)	(1.04)	(0.90)	(1.04)
Movement	0.244	0.252	0.273	0.252	0.273
	(0.83)	(0.86)	(0.93)	(0.86)	(0.93)
UScolony					
Othercolony					
LN(Pop)		-1.038	-1.059	-1.038	-1.059
		(3.36)***	(3.44)***	(3.36)***	(3.44)***
CL			-0.089		-0.089
			(2.40)**		(2.40)**
Egypt				3.216	3.232
				(6.78)***	(6.82)***
Israel				0.700	0.706
				(2.12)**	(2.15)**
Observations	1724	1724	1724	1724	1724
R-squared	0.66	0.66	0.67	0.66	0.67

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

[32] The dependent variable is Ln(1 + net ODA per capita). Time and country effects are not reported

Table 4-2: Random Effects OLS Regressions[33]

	(1)	(2)	(3)	(4)	(5)
LN(Income)	0.145	0.131	0.145	0.125	0.139
	(1.62)	(1.47)	(1.62)	(1.40)	(1.55)
[LN(Income)]2	-0.015	-0.014	-0.015	-0.013	-0.015
	(1.75)*	(1.63)	(1.78)*	(1.55)	(1.71)*
Openness	0.048	-0.128	-0.148	-0.188	-0.210
	(0.25)	(0.70)	(0.82)	(1.03)	(1.17)
PR	-0.049	-0.044	-0.021	-0.045	-0.021
	(2.54)**	(2.28)**	(0.82)	(2.36)**	(0.84)
Proximity	-0.261	-0.348	-0.378	-0.416	-0.451
	(0.80)	(1.07)	(1.16)	(1.25)	(1.35)
Movement	0.194	0.235	0.247	0.259	0.274
	(0.66)	(0.81)	(0.85)	(0.89)	(0.93)
UScolony	0.599	0.607	0.601	0.645	0.640
	(1.48)	(1.59)	(1.60)	(1.70)*	(1.72)*
Othercolony	-0.245	-0.231	-0.245	-0.225	-0.239
	(1.11)	(1.11)	(1.19)	(1.08)	(1.17)
LN(Pop)		-0.252	-0.245	-0.270	-0.263
		(4.63)***	(4.58)***	(4.98)***	(4.93)***
CL			-0.049		-0.051
			(1.34)		(1.40)
Egypt				2.102	2.129
				(2.52)**	(2.60)***
Israel				0.858	0.875
				(0.99)	(1.03)
Observations	1724	1724	1724	1724	1724
Countries	100	100	100	100	100

Absolute value of z statistics in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%

[33] The dependent variable is Ln(1 + net ODA per capita). Time and country effects are not reported

Table 4-3: Tobit Estimate Results[34]

	(1)	(2)	(3)	(4)	(5)
LN(Income)	0.148	0.095	0.118	0.095	0.118
	(1.47)	(0.92)	(1.15)	(0.92)	(1.15)
[LN(Income)]2	-0.016	-0.012	-0.015	-0.012	-0.015
	(1.66)*	(1.25)	(1.52)	(1.25)	(1.52)
Openness					
PR	-0.052	-0.053	-0.002	-0.053	-0.002
	(2.62)***	(2.65)***	(0.10)	(2.65)***	(0.10)
Proximity	-0.347	-0.275	-0.336	-0.275	-0.336
	(1.01)	(0.80)	(0.98)	(0.80)	(0.98)
Movement	0.284	0.279	0.314	0.279	0.314
	(0.97)	(0.95)	(1.07)	(0.95)	(1.07)
UScolony					
Othercolony					
LN(Pop)		-1.379	-1.412	-1.379	-1.412
		(4.41)***	(4.53)***	(4.41)***	(4.53)***
CL			-0.119		-0.119
			(3.23)***		(3.23)***
Egypt				3.673	3.700
				(7.74)***	(7.81)***
Israel				0.804	0.814
				(2.47)**	(2.50)**
Observations	1724	1724	1724	1724	1724

Absolute value of t statistics in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%

[34] The dependent variable is Ln(1 + net ODA per capita). Time and country effects are not reported

In the fixed effects OLS regression, the most interesting result is the sign of the two UN voting variables. For all specifications, the political proximity variable has a negative coefficient but is insignificant. Conversely, the political movement variable has a positive coefficient and is also statistically insignificant. While this might suggest that positive aid allocation is more correlated with movement toward the United States on issues in the UN, rather than due to absolute coincidence levels, the insignificance of the variables suggests that voting coincidence rates used as a proxy for political and strategic friendliness do not drive aid allocation decisions.

The income variable has a positive coefficient in all specifications but is also statistically insignificant, while the income squared variable is negative and insignificant in most regressions. These results are consistent with the regression results of Alesina and Dollar. This suggests that the U.S. has generally given aid to wealthier countries, but at a decreasing rate. The population variable has a negative sign and is statistically significant when it enters the model.

The political rights variable is negative and significant for most specifications. Similarly, the civil liberties variable is negative and significant to the 5% level when it enters the model. As the Freedom House rankings score countries from 1 (more civil liberties) to 7 (less liberties), this suggests that post-Cold War era aid allocation puts more of an emphasis on a country's civil liberties record. The political rights rankings are scored in the same manner, suggesting that countries with better political rights scores receive

more aid. The coefficient for the dummy variables for Egypt and Israel are positive and are significant in most specifications, as expected.

The random effects OLS regressions provide a more reliable estimation of the time-invariant variables. The coefficient on trade openness is insignificant for all specifications and changes signs in different specifications. The UScolony variable is positive while the Othercolony variable is negative, but only the UScolony variable is significant in any of the specifications. Like the fixed effects regressions, the political rights variable is significant and negative. The civil rights variable is negative but not significant. The coefficient for population and the dummy variable for Egypt are significant, while the coefficient for Israel is insignificant.

The tobit estimates are very similar to the fixed effects OLS regressions, which is to be expected as only 290 of the 1724 observations were zero for ln(1+aid). Income is positive, like the fixed effects regression, while income squared is negative. Population also has a negative and significant coefficient, supporting the results of previous studies. Like the fixed effects regressions, UN proximity and movement are both insignificant. The coefficient for civil liberties is significant and negative, while the political rights coefficient is also negative and significant in specifications 1, 2 and 4. Finally, the coefficients on the dummy variables for Egypt and Israel behave in the same manner as the fixed effects regressions.

CHAPTER 5: Discussion

The regression results above contribute to the literature by shedding light on the determinants of U.S. foreign aid allocation in the years following the Cold War. As many papers from Chapter 2 discuss, U.S. aid allocation during the Cold War was largely driven by political considerations and donor interest variables, which is one explanation that scholars have used to explain the disappointing record of ODA in promoting economic development. The post-Cold War era was supposed to see an easing of tensions and a more developmentally focused aid program, yet these results show that donor interest variables still play a large role in aid allocation.

The most interesting finding from my analysis was the behavior of the two UN voting variables. These variables were included in the model as a proxy for political friendliness, as it is assumed that the U.S. would be likely to either reward countries that consistently vote in its favor in the UN, or try to illicit or buy votes by enticing countries with aid dollars. However, the political proximity variable in my model was negative and insignificant in all analyses. This is interesting as it goes against the findings of Alesina and Dollar (2000), who found a positive and significant relationship between UN voting and U.S. aid allocation. However, as Palmer (2002) points out, there is not a clear consensus in the literature on the relationship between foreign aid and voting coincidence in the UN. Similarly, Kegley and Hook (1991) found no statistically relationship between prior coincidence rates and future aid flows. These results support that study, as voting coincidence is found to be largely insignificant. This may be viewed as a positive finding,

as it suggests that political interest factors like UN voting coincidence are not driving U.S. aid allocation decisions.

The negative sign of the coefficient on voting coincidence in the model may be driven by the sample of recipient countries, which have fairly low average coincidence rates. The mean of the political proximity variable in my sample was close to 25%, suggesting that in general, these countries do not often vote in accordance with the United States. The bottom two quintiles in terms of voting coincidence rate were ranked first and second in annual ODA received. It is important to note that unlike some other papers, I included all general assembly votes available for the years 1990-2008 instead of limiting my analysis to only key votes, like some researchers. Perhaps the majority of general assembly votes are not crucial enough to affect foreign aid allocation, which could explain why countries with low coincidence rates still received large amounts of ODA.

Another possible explanation of this result is that there are other geo-political factors at play that superseded UN voting proximity. As a result of the conflict in the Middle East, the United States required cooperation and support from nations that are not typically American allies. Perhaps these nations were given larger amounts of ODA by the United States to elicit military cooperation, such as the use of military bases or access to airspace, that were not reflected in the UN voting record.

Another important consideration to keep in mind is the limitation of the voting dataset used in my analysis. As noted in Chapter 3, unanimous votes were not included for the

years 1990-1995. Additionally, for the years 1997-2008, only votes on adopted resolutions were included. While this is unlikely to have made a significant change to the results, it did affect the reported coincidence rates used in the analysis and should be noted.

In contrast to the political proximity variable, the political movement variable was positive for all regressions but was not statistically significant. The positive sign of the coefficient suggests that independent of starting point, movement towards the United States in the United Nations has a positive impact on the amount of net ODA received, but it is difficult to make conclusive statements since the relationship is not statistically significantly different from 0.

These results were fairly robust to modifications of the model. Using lagged voting rates does not alter the results, save for decreasing the statistical significance of the coefficients. An analysis of average annual coincidence rates versus average annual aid receipts shows that a small number of countries, like Zimbabwe, Pakistan and Jordan receive a large amount of aid from the United States while having very low average UN voting coincidence rates. The clearest case is Iraq, which received the largest amount of average annual ODA from 1990-2008, but had the single lowest voting coincidence rate during that same period. When these four countries were removed from the sample, the size and sign of the coefficient on political proximity does not change, but it becomes more precisely estimated and is statistically significant in the fixed effects and random effects specifications.

Consistent with some of the previous research, notably Alesina and Dollar (2000), I find that aid rises with income. While this may seem surprising, Moss, Roodman, and Standley (2005) note that "strategic factors tend to explain more of bilateral aid allocation than does poverty, especially in the case of the U.S" (Moss, Roodman, and Standley 2005, 7). Similarly, Berthelemy and Tichit (2004) find that "aid policies are not necessarily geared toward assistance to the poorest countries" (Berthelemy and Tichit 2004, 255). The coefficients on recipient income in my results suggest that poverty is still not the driving force behind aid allocation, as they are large and positive. These findings suggest that all things equal, a country with real per capita income that is 10% higher than another country will receive roughly 1% more ODA from the United States. It is important to note that the coefficient on income squared, though only significant in some specifications, has a negative sign. This suggests that aid increases with income at a decreasing rate.

The coefficient on the population variable is both large and negative and is statistically significant for all regressions. This variable merits special discussion due to the fact that the dependent variable is aid per capita. Since population enters the model on both sides of the equation, the variation that remains in this variable reflects population growth within a country. A country's "base" population is controlled for with the inclusion of country fixed effects, so changes in population reflect growth or decline in the population as opposed to absolute size. The negative coefficient suggests that there is a lag in the response of aid to population growth. This shows that there is a lag in the response of ODA per capita to changes in population size.

The trade openness variable is insignificant in the random effects analysis and switches signs when population is introduced in the model. As the trade openness index reflects general policy stance and economic capability, these results suggest that countries with more promising trade and economic growth policies are not receiving more aid than their closed counterparts. This goes against the findings of Alesina and Dollar (2000), who found that most donors give about twice as much aid to open economies than closed ones. This also relates to the findings of Fleck and Kilby (2006), who found that aid policies under conservative administrations tended to be more commercially driven. These results suggest that aid policies under the Bush administration from 2000-2008 did not fit this mold. Further research could examine how a recipient country's levels of FDI and exports to the U.S. affected ODA to further explore commercial interest factors.

The political rights variable is negative and significant for most specifications of the model. As the political rights index is decreasing in freedom from 1-7, this suggests that foreign aid in the U.S. during this period has been correlated with better political rights in recipient countries. This finding is in contrast to the findings of Crawford (1997), who found that the post-Cold War rhetoric of greater emphasis on democracy was not supported by subsequent donor country actions in the early 1990s. This is an encouraging finding, as scholars postulated that the easing of the tensions at the end of the Cold War could have opened the door for a more humanitarian focus of U.S. foreign policy, including the foreign aid program (Meernik, Krueger, and Poe 1998). The results of this analysis suggest that U.S. foreign aid policy has been more focused on political rights since the end of the Cold War.

The coefficient on civil liberties is also significant and negative for most specifications. As a lower Freedom House civil liberties ranking means more freedom for citizens, the sign of the variable suggests that countries with better civil liberties records receive more aid from the U.S.. This finding may be evidence that the U.S. has placed a greater emphasis on human rights and liberties in the post-Cold War era, which contrasts with the security and ideological concerns that drove aid allocation decisions in previous decades. This is an important variable to monitor in future years, for as the largest single donor of ODA, the United States could send a message by continuing to give more aid to countries with better civil liberties ratings.

The random effects regression showed that countries that were former U.S. colonies get more aid from the U.S., while those who were former colonies of other countries get less. While others, notably Alesina and Dollar (2000) and Dollar and Levin (2006) have found that donors tend to favor former colonies in aid allocation decisions, the driving forces behind this relationship are unclear. Previous literature points to the donor's sense of responsibility for their former colony, or views this bias as an extension of a new world imperialism, through which increased aid flows foster dependence on the donor country, allowing it to continue to exert its influence on its former colony (Zanger 2000). While the estimates suggest that less aid may be given to former colonies of other donors, the estimates were not statistically significantly different from zero.

The estimates show that the U.S. gives more aid to Egypt and Israel, controlling for other explanatory factors. The dummy variables for both countries are positive and statistically

significant for most regressions. This is an expected finding since these countries have received large amounts of aid over the years. Both countries are viewed as important allies in the fight against terrorism and the attempts to maintain a semblance of peace and security in the Middle East, and both nations have enjoyed large flows of U.S. aid as a result. It is interesting to note that the coefficient for Egypt is larger than that of Israel, since Israel has long been the largest recipient of U.S. foreign aid flows (Sharp 2012).

While Israel continues to receive financial support from the U.S., the U.S. has ceased giving aid in the form of ODA to Israel in recent years. Israel received extremely large amounts of ODA- upwards of a billion dollars annually through the year 1996- but did not receive any net ODA from 1997-2008. From 1997 on, most bilateral aid Israel receives is in the form of military assistance (Sharp 2012). Future research could examine the effects of the explanatory variables in this model on other types of U.S. foreign aid.

CHAPTER 6: Conclusion

This paper aims to contribute to the literature on U.S. foreign aid by examining the determinants of U.S. aid allocation in the post-Cold War era. Following the fall of the Soviet Union, many saw an opportunity for the U.S. foreign aid program to become more developmentally focused. Most of the aid decisions during the Cold War were based on national security concerns in the fight against communism and donor interest variables played a much larger role in aid allocation than did the needs of recipient countries. Many scholars point to this misallocation of Official Development Assistance as a potential explanation for the poor record of aid in fostering economic growth in recipient countries.

The main focus of this analysis was the relationship between UN voting coincidence rates and U.S. foreign aid. There is not a universal consensus on how these factors interact, as some researchers have found a significant relationship between voting agreement and foreign aid while some have found no relationship at all. This paper hoped to bring more clarity to this discussion by testing the relationship between UN voting agreement and ODA while also measuring how movement towards or away from the U.S. in voting coincidence affects aid allocation. While neither of these variables turned out to be significant, this may be a finding in itself. The UN voting variables serve as a proxy for political and strategic donor interest factors, and these results suggest that these interests have not played a significant role in aid allocation decisions. This by no means proves that the political interest factors of donors do not continue to play a major role in aid allocation decisions, but suggests that UN voting records seem to be correlated with U.S. aid allocation.

The other results from this study suggest an inconsistent aid allocation behavior. Like previous studies have shown, the initial income of a recipient country is positively correlated with increases in foreign aid. This suggests that the general wealth of a nation is not the driving force behind aid allocation. Additionally, it does not appear that the U.S. favors nations with open trade and economic policies, which may result in money going to countries where policies inhibit economic growth and development.

On the other hand, this study shows a humanitarian focus in U.S. foreign aid policy. The U.S. continues to reward democratic nations, and while this can be viewed as a donor interest carried over from the Cold War, it is hard to argue that rewarding nations with greater political liberties for their citizens is an undesirable practice. Another encouraging finding is the correlation between civil liberties scores and aid flows. This is a departure from the national security-minded aid allocation model of the Cold War and shows that foreign aid can be used to promote better humanitarian values. Further research could examine if the United States has been able to positively influence these political and civil freedoms by restricting or rewarding aid.

While the threat of the Cold War subsided in the early 1990s, the 2000s saw increased violence and unrest in the Middle East. This has been accompanied by large aid flows to Iraq and other key nations in that area. Future research should use this political environment to examine how the U.S. has used ODA in the Global War on Terror and the campaigns in Iraq and Afghanistan. Of particular interest would be whether the U.S. has used increased ODA flows to engender cooperation and military and strategic benefits

from key recipients nations. The importance of some of the nations in the Middle East is comparable to the role some countries played in the Cold War, and it would be interesting to analyze how U.S. foreign aid practices are similar and different for the nations that played key roles during these two threats.

One of the reasons to undertake this research is to see if the misallocation of U.S. aid is a factor in the disappointing record of ODA to lead to real economic growth and development in recipient countries. This paper did not focus on the effects of aid on recipient economies, but it shows that aid allocation is still not completely driven by recipient need factors as seen by the continued bias towards wealthier nations, former colonies, and special strategic cases like Israel and Egypt. This means that the countries that can do the most with aid dollars are not necessarily the ones receiving that money. This does not mean that ODA will lead to real economic growth if it were allocated correctly, but further research should continue to focus on this issue.

After a half-century of disappointing results, it is time for a reappraisal of the ODA program. The U.S. and other donor nations need to reassess what the purpose of foreign aid, and specifically Official Development Assistance, is. If it is to be used to further national goals then there should be evidence presented to demonstrate it has fulfilled that role. There is no clear consensus on how ODA affects UN voting records, but perhaps there are other less tangible ways that its disbursement is advancing national interest. Conversely, if ODA is truly intended for the economic development of needy nations,

then researchers are still unable to assess its impact due to bias in allocation decisions that seem to serve donor interests.

Broadly speaking, it is unreasonable to expect that a large power like the United States would not use its sizable financial resources to advance its political and strategic interests. Yet ODA does not seem to be the right avenue through which to advance these interests. As Dreher, Nunnenkamp, and Thiele (2008) note, "the use of one single (financial) instrument for multiple purposes is unlikely to be efficient." If ODA is the development-focused apparatus it is defined as then the U.S. and other donors should treat it as such and allocate it to the most needy recipient countries that can do the most with the funds. If it is merely another foreign policy tool, than perhaps countries should be more up front about its purpose in order to quiet the critics of ODA's suspect record in spurring development and growth.

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This paper represents my own work in accordance with University regulations.