

Something, something, something about Foreign Aid

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February 10, 2015

Abstract

In recent years, numerous studies have sought to explain the strategic and political motivations that direct foreign aid flows (e.g., Alesina & Dollar 2000, Werker 2012, and Dreher & Fuchs 2014). To that end, scholars have tested many monadic and dyadic level hypotheses but still lack consensus on which motivations matter. Moreover all the extant literature analyzes aid flows in a dyadic context where the assumption is that the flow of aid between any particular dyad is independent of any other. However, scholars are well aware of potential dependence in foreign aid allocations. Some scholars hypothesize for example that donors exhibit herding (Frot & Santiso 2011) or "lead donorship behavior (Steinwand 2014) wherein donor countries are dissuaded from giving aid to a country that already has a major donor. This is also empirically problematic as failing to account for interdependencies leads to biased coefficients and standard errors. To explicitly incorporate network level effects, we introduce a mixed effects model for longitudinal network data, developed by Westveld and Hoff (2011), previously unused in political science. In doing so we are able to shed new light onto the political and strategic considerations underlying the distribution of foreign aid in the international system.

Introduction

Foreign aid describes the transfer of resources from one government to another. Although the term itself suggests a humanitarian motive, scholars and experts have long debated whether it would be more accurate to ascribe foreign aid a strategic motive instead. With some exceptions (Bermeo 2008), most scholars have found that donors prioritize strategic considerations when dispensing aid (Alesina and Dollar 2000; Berthélemy 2006).

This seeming consensus belies the inconsistency with which scholars conceptualize and measure strategic considerations, which have variously included bilateral trade intensity, UN voting scores, colonial legacies and regional dummies among others. In this paper we seek to rectify in fragmentation in two ways: First, we create an original measure of bilateral strategic interest that measures the latent distance between countries across the strategic policy space. In doing so, we seek to provide a more coherent measure of strategic interest which incorporates many of the measures that previous papers have used. Such a measure further improves upon existing measures of strategic interest in that it maps strategic interest onto a 'social space' and is thus able to account for third-party relationships (Hoff, Raftery and Handcock 2002).

Second, we use our measure of bilateral strategic interest to create a global level of strategic interest to see how changes in *global* security affect foreign aid allocations. While some scholars have sought to investigate how the end of the Cold War affected foreign aid decisions (Bermeo 2008; Dollar and Levin 2006; Fleck and Kilby 2010), they have largely taken a dichotomous approach to doing so by measuring aid allocation before and after. We build a more nuanced measure which captures yearly changes in global security to evaluate whether it may condition donors to allocate foreign aid in a more self-interested fashion.

The existing lack of coherence in evaluating strategic interest extends to model specification. Papers which have empirically evaluated the dominance of strategic over humanitarian motives with some exceptions (Berthélemy 2006), have done so by specifying models which pool all donors together or by running models for each donor country

separately. We find this empirical choice puzzling - if foreign aid is indeed given for strategic reasons then surely a donor country should account for the foreign aid given by other countries when making their own allocations. The same should be equally true if foreign aid is given for humanitarian reasons - if a very needy country is already receiving an abundant amount of foreign aid from other countries, a particular donor country may decide to dispense aid to a less needy but overlooked recipient country. Pooled models do not address this issue as they do not distinguish between donor countries while donor by donor regressions cannot address this issue because by construction they do not account for the allocations of other donor countries.

In our model specification, we also use a hierarchical random effects model with panel data¹ to account for the possibility that foreign aid given by one donor is not given without consideration of allocations by other donors. In doing so, we are able to model both the variation that is common among donor countries as well as that which is specific to a particular donor country, combining the best of what a pooled regression or donor by donor regressions can offer.

With these model and variable specifications, we find that.... [INCLUDE FINDINGS HERE] Moreover, donor by donor regressions have found that there is wide variations of motivations in allocating foreign aid among donors, we find that when we consider the donor countries together that.... [INCLUDE FINDINGS HERE]. In what follows, we first give a brief overview of the literature before blah blah blah.

Lit Review

Scholars have sought to determine the primary motivation for foreign aid at least as far back as the modern foreign aid regime was erected in the post-WWII era. In doing so, they have erected a number of framing devices- i.e. donor interest vs. recipient interest (Lumsdaine 1993), realist vs idealist motivations (Schraeder, Hook and Taylor 1998), donors who give to recipients who practice bad governance or good governance (Dollar and

¹We can go into greater detail and talk about how it is also a zero-inflated model later in the model specification section, what do you think Shahryar?

Levin 2006; Neumayer 2005), donors who give to recipients who implement ‘bad policies’ or ‘good policies’ (Alesina and Dollar 2000) etc.

One reason for evaluating the motivations for aid and not aid outcomes is that aid given for strategic reasons may still further development objectives, albeit incidentally, while aid given for humanitarian reasons may also bring unexpected strategic benefits (Maizels and Nissanke 1984). However, evaluating the motivations for aid is not a straightforward process either - any given aid project may work toward providing assistance to a recipient country as well as strategic benefits to a donor country. The question to be answered then is what relative consideration is given to donor interest or humanitarian need when making aid allocation decisions. At the root of these dichotomies is the suspicion that despite rhetoric to the contrary, foreign aid has been dispersed to address donor interest to a much greater extent than it has been for recipient needs.

Scholars sought to provide empirical evidence for answer or another since at least as far back as the late 1970’s (McKinlay and Little 1977, 1978, 1979) and onward to the 1980’s (Maizels and Nissanke 1984) and 1990’s (Lumsdaine 1993; Schraeder, Hook and Taylor 1998), with scholars finding evidence to suggest that foreign aid allocation is driven by strategic concerns much more than humanitarian ones. Alesina and Dollar (2000) were among the first to extend this finding across a large panel of countries, that is to 21 donor countries and 181 recipient countries from 1970-1994. They find that countries that votes relatively more similarly to Japan in the UN are 172% more likely to receive more aid while Egypt and Israel receive upwards of 400% more foreign aid than other countries. *Ceteris paribus* they argue that inefficient, economically closed non-democratic former colonies are much more likely to receive aid than countries that had not been formerly colonized with similar poverty levels, a finding that Weder and Alesina (2002) echoes when they find that the US is more likely to give corrupt governments more aid. Berthélemy (2006) reaches a similar conclusion, noting that donor countries are generally much more likely to act based off of egotistic motivations than altruistic ones, while Stone (2006) and De Mesquita and Smith (2007) find evidence to suggest that donor countries are more likely to use foreign aid to ‘buy influence.’

While scholars have certainly found variation in their results, the overwhelming consensus is that strategic interest largely takes precedence over humanitarian ones in foreign aid allocation. Despite this seeming consensus, we find that Alesina and Dollar (2000)'s remark that 'unfortunately the measurement of what a 'strategic interest' is varies from study to study and is occasionally tautological,' still holds true. That is, strategic interest has alternately been measured by: trade intensity (Bermeo 2008; Berthélemy and Tichit 2004), UN voting scores (Alesina and Dollar 2000; Weder and Alesina 2002; Dreher and Fuchs Forthcoming), arms transfers (Maizels and Nissanke 1984), colonial legacy (Alesina and Dollar 2000; Bermeo 2008; Berthélemy and Tichit 2004; Berthélemy 2006), alliances (Bermeo 2008; Schraeder, Hook and Taylor 1998), regional dummies (Bermeo 2008; Berthélemy 2006; Maizels and Nissanke 1984), bilateral dummies (Alesina and Dollar 2000; Berthélemy and Tichit 2004; Berthélemy 2006)² or some combination of the above.

Other papers take a negative approach and argue that any shortfall between what would theoretically be expected from poverty-efficient aid allocation and actual aid allocation (Collier and Dollar 2002; Nunnenkamp and Thiele 2006; Thiele, Nunnenkamp and Dreher 2007), or similarly between a theoretical allocation based on good governance and actual aid allocation (Dollar and Levin 2006; Neumayer 2005), is evidence of strategic interest at play.

What's more, what some scholars measure as strategic interest other scholars interpret as a measure of humanitarian interest. As Bermeo (2008) notes for example, there is some controversy in interpreting GDP per capita as a measure of humanitarian aid, as 'the poorer a country is, the more it needs aid, and the easier it might be for donors to use aid to influence decisions in the recipient.' She further notes that colonial legacy, a factor that some scholars see as evidence of strategic interest, may not necessarily be an appropriate measure of strategic interest but instead of 'strategic development.' In this sense, humanitarian and strategic interests are mutually complementary motivations as donor countries seek to further the development of countries that they have a self-interest in seeing develop. We would further add that increased aid among countries with former

²A US-Egypt or US-Israel dummy seems to be the most common instance of a bilateral dummy

colonial ties could also be interpreted as a measurement of the greater degree of cultural understanding between these countries, which has long been argued to be a cornerstone of effective aid. In order to properly evaluate the motivations for foreign aid, what is needed is a better and clearer measure of strategic interest, something which we take up in the next section.

Meanwhile, we note that despite the general consensus that donors are more driven by strategic interests than humanitarian ones, researchers also recognize that there may be significant variation in aid allocation *across time*. In their analysis of 22 donor countries and 137 recipient countries from 1980-1999, Berthélemy and Tichit (2004) finds that following the Cold War, foreign aid allocation has been more responsive to a good governance and good economic policy in recipient countries, a result that Bermeo (2008) and Dollar and Levin (2006) echoes. This suggests not only that humanitarian need has become more important in recent years but that the relative balance between strategic and humanitarian considerations are not fixed over time. This claim is disputed by Nunenkamp and Thiele (2006)'s findings however, whose analysis suggests that foreign aid dispersed from 1981 to 2002 has been *less* targeted to needy countries over time. What these studies hold in common however, is a lack of a *measure* of what they think may be affecting aid allocation across time, only an *interpretation* of what these time effects might mean given their knowledge of the different time periods. We seek to measure at least one source of time variation, changes in global security, which may explain the relative preference for strategic or humanitarian considerations in aid allocation across time.

Finally, we similarly note that despite the general consensus that donors are more driven by strategic interests than humanitarian ones, researchers also recognize that there may be significant variation in aid allocation *among different donor countries*. To that end, many papers endeavor to provide an analysis of aid allocation on a cross national level and for individual donor countries (Alesina and Dollar 2000; Berthélemy 2006) while other papers choose to focus on the aid allocation strategies of one donor country at a time (Bermeo (2008); Dreher and Fuchs (Forthcoming); McKinlay and Little (1977, 1978); Neumayer (2003); Fleck and Kilby (2010)). In none of the papers we have encountered however, have scholars sought to evaluate differences in aid allocation in a multi-level

hierarchical model, an omission whose implication we explore further in the next section.

Theory

Data and Analysis

Results

Conclusion

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