Something, something, something about Foreign Aid

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Abstract

Many studies have come out in recent years trying to predict foreign aid flows (Alesina and Dollar 2000; Dreher and Fuchs Forthcoming; Werker 2012). To that end, scholars have advanced and tested number of hypotheses with regards to two related questions: i) why some countries recieve foriegn aid and others do not ii) why some countries recieve certain levels of foreign aid given that they recieve foreign aid at all. These range from the economic need of the recipient country, the strategic interest of the donor country or the cultural affinity between the recipient and donor country, among others.

Despite the scholarly attention devoted to this subject, there is not only little consensus from paper to paper as to which motivations are more important in determining foreign aid allocation but little consensus within papers as well. Many scholars find for example that the factors which strongly determine foreign aid flows when they analyze all donor countries together are often inconsistent with the motivations they find to be important when they investigate the determinants of foreign aid allocations each donor country individually (Schraeder, Hook and Taylor 1998; Berthélemy 2006).

Each of these approaches analyzes foreign aid flows in a dyadic context where they assume that the flow of aid between any particular dyad is independent of any other. Yet, scholars are well aware that there may be dependence in foreign aid allocations. Some scholars hypothesize that donors exhibit 'herding' (Frot and Santiso 2011) or 'lead donorship' (Steinwand 2014)[1] behavior.
As many studies (Ward, Siverson, XAo xxxx; Cranmer, Desmareis, Menninga xxxx; others) have shown this assumption is often untenable within IR structures.
We propose an analysis of foreign aid in a network context where
Controlling for network effects will allow for a more precise test of even teh monadic and dyadic level coefficient estimates that have been proposed

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[1] Wherin a recipient country is likely to recive the majority of its aid from one country, the assumption being that other donor countries are dissuaded from giving aid to that recipient country precisely because it already has a major donor

Introduction

Lit Review

Why and When do Countries Give Foreign Aid?

In this literature review, I give a brief overview of the different potential reasons that donor countries distribute foreign aid as explored by existing literature. Note that for the most part, these reasons tend to be tied to characteristics of the recipient country rather than characteristics of the donor countries. I then attempt to document how different scholars have operationalized these different potential motivations and their modelling strategy (to the extent that the modeling strategy may be methodologically interesting to consider for our purposes).

In general, it seems that there is no clear delineation between the different possible motivations for foreign aid. For example, in their review of the foreign aid literature, Schraeder, Hook and Taylor (1998) identify 6 possible motivations for foreign aid giving: humanitarian reasons (as measured by average life expectancy and daily caloric intake) , strategic importance, economic potential (that is, if the recipient country is deemed to be most economically strong in the region, the implication being that the better their economy does, the better the donor economy's does), cultural similarity (as measured by colonial history), ideological stance, regional similarity (if countries are similar to each other, donors may use a similar foreign aid strategy for all of them). However it may be impossible to uniquely identify any one of these different measures from the other. Cultural similarity can bleed into regional similarity for example, or strategic importance and economic potential may be endogenous to each other.

What this means in practice is that it is often not clearly defined what the authors are seeking to explain when they throw in different variables into their regressions. They way in which the work below is categorized below then is not strictly how the authors themselves would categorize them, but how they might reasonably fit together given the vagueness and variation across the field.

Objective Need:Humanitarian/Moral Motivations/Economic Motivations

Lumsdaine (1993) makes a strong case for the 'moral vision' being a driving factor in aid distribution. He also makes a case for foreign aid being a function of the colonial history, democratic status, and the income levels of a country.[2]

Meanwhile, using a cross national panel analysis, Trumbull and Wall (1994) explore the extent to which foreign aid is given as a function of material physical security. They find that infant mortality (their measure of physical security) is associated with increased foreign aid. They further find that GNP per capita (their measure of material security) is *not* associated with increased foreign aid.

Strategic Motivations

Maizels and Nissanke (1984) find evidence to suggest that countries give aid for strategic interests. Restricting their analysis to African countries, Schraeder, Hook and Taylor (1998) also reject an altruistic motivation for donors. To that end, Alesina and Dollar (2000) also find that countries with a colonial past and political alliances[3] to the sender are much more likely to receive foreign aid

Kuziemko and Werker (2006) find that nonpermanent members of the UN Security Council[4] experience temporary increases in foreign aid when they serve on the Council.

Potential other variables: terrorism/terrorist threats?

Ideological Reasons

Ideological motivations for sending foreign aid can in some ways be seen as a combination of humanitarian and strategic reasons. For example, if one frames the conflict between the US and USSR during the Cold War as an ideological struggle, the respective desires of each side to ensure the ideological allegiance of third party countries was as much a

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[2] However, as Alesina and Dollar (2000) note, he presents only simple correlations in his analysis and as such does not provide robust evidence for his theory

[3] As measured by UN voting alliances

[4] 10 of the 15 seats on the UNSC are held for non renewable 2 year terms

function of strategic reasons (i.e as illustrated in the policy of containment) as well as a function of humanitarian ones (i.e. the idea that capitalism/democracy was an inherently morally and politically superior system to communism or vice versa).

To this end, Alesina and Dollar (2000) find that countries that democratize (as measured by Freedom House) receive more aid with relatively more democratic countries receive 39 percent more aid. They find evidence to suggest that countries pay more attention to democracy strictly defined then broader definition of civil rights or law enforcement.[5] This provides an interesting contrast to their finding for FDI which concentrates on rule of law but insensitive to democratic institutions They argue that in general FDI is more sensitive to economic incentives than foreign aid which responds more the political variablesUsing a cross national panel analysis, Trumbull and Wall (1994) also explore the extent to which foreign aid is given as a function of political rights. They find that an increase the political and civil rights (as measured by a precursor to the Freedom House index) is associated with an increase in foreign aid.

Alesina and Weder (1999) do not find that less corrupt governments receive more foreign aid. However they do find that individual donor countries do vary in terms of how much they give to corrupt governments. They find that Scandinavian countries and Australia give more to less corrupt governments while the US gives more to more corrupt governments. Berthélemy (2006) finds that on average, donors act for political or commercial reasons. However, contrary to ?, they also tend to give aid to countries with better governance indicators, less conflict and higher growth.

Boutton and Carter (2013)

Barthel, Neumayer, Nunnenkamp and Selaya (2013) Heinrich (2013)

Variation across countries

To the extent that the current literature explores variation across donor countries, the literature suggests that different donors may be more motivated by some goals relative

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[5]They find that US, Dutch, UK, the Nordic countries and Canada conform to this description while Germany and Japan only weakly conform to this description; France does not

to others. Schraeder, Hook and Taylor (1998) find for example that Japanese aid is more likely to be motivated by economic and trade interests, Swedish aid supports progressive, socialist-minded regimes and France's aid is almost exclusively targeted toward francophone countries (Werker 2012). Berthélemy (2006) finds that the Noridc countries, along with Switzerland and Ireland are more prone to be altruistic than other donors.

Focusing solely on aid allocation in the Arab world, Neumayer (2003) finds that OPEC donors favor other Arab and non-Arab Muslim recipients. Countries that do not maintain diplomatic relations with Israel or with voting patterns similar to Saudi Arabia are also more likely to get more aid. He finds that donor interest, in particular Arab solidarity, is a strong determinant in whether a country gets aid and how much while recipient need (as measured by a country's level of income) only affects if the country gets aid, not how much aid they get.

Focusing solely on China, Dreher and Fuchs (Forthcoming) find that political and commercial considerations shape China's aid allocation. However they find that compared to other countries, China does not pay substantially more attention to politics nor do thy find evidence that China's aid allocation is motivated by natural resource concerns.[6] In general they argue that China's aid allocation seems to be independent of democracy and governance considerations in recipient countries.

Fleck and Kilby (2010) investigate how the motivations for US aid have evolved over time. They find evidence to suggest that i) the probability of receiving US foreign aid before and following the War on terror increased with the level of development. Higher-developed countries were more likely to receive aid at all, but this did not necessarily come at the expense of lower developed countries as the overall aid budget also increased following the War on Terror ii) the level of US aid for the US' core foreign aid countries has been less a function of need following the War on Terror than before.

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[6]Note however that many projects that could be categorized as foreign aid is often doled out in the form of FDI.

Dependence across countries

Of course the presumption in these models is that donor giving is completely independent; whether a country receives aid from one donor does not affect whether it receives aid from another donor. To that end, the presumption seems to be little coordination among aid donors with better coordination being perceived as enhancing aid effectiveness. In their investigation of aid allocation from 1956-2006, Aldasoro, Nunnenkamp and Thiele (2010) find little evidence of increased coordination among aid donors despite rhetoric to improve coordination. Frot and Santiso (2011) also find that aid donors are likely to 'herd' aid, but find that this effect is substantively small. Exploring a single country, Cambodia, Öhler (2013) also find a lack of evidence for aid coordination among donors.

Mascarenhas and Sandler (2006) find similar evidence of non-cooperation among donors but view this as a positive development. Under their framework, foreign aid is a public good and the extent to which donors derive donor-specific benefit from giving foreign aid (and thus give more than what one might expect given the possibility to free-ride), non cooperation among aid donors boosts much need foreign aid for recipients (instead of increasing redundancy and reducing efficiency as implied by Aldasoro, Nunnenkamp and Thiele (2010) and Frot and Santiso (2011))

Meanwhile Steinwand (2014) argue that donors do in fact coordinate under some conditions. Namely they present the idea of 'lead donorship', wherein a recipient has one major donor country and argue that this is more likely to occur when there are large oil exports to donor countries, large imports from donor countries and a colonial history.[7]

Fuchs, Nunnenkamp and Öhler (2013) explore why donors do not better coordinate the allocation of foreign aid. They find evidence to suggest that competition for export markets and political supports prevents coordination and thus implicitly make an argument for why foreign aid allocation is indeed independent across donor countries. ? also argues competing objectives as well as division of labor problems among donors

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[7]Steinwand (2014) also develop a framework wherein the cross tabs between lead donorship and the existence of coordination indicates whether aid is seen primarily as a private good or public good in a particular situation.

prevents coordination. Moreover Frot and Santiso (2010) find high fragmentation of aid across sectors. They find that in general, countries that are poor, democratic and have a large population are likely to have more fragmented aid though this is only because they are likely to attract more donors. Once these effects are controlled for, democratic and poor countries are no more likely to recieve aid then their authoritarian and rich counterparts.

Bypassing bilateral aid

Methods and Models

Operationalizing the DV

Trumbull and Wall (1994) operationalize the dependent variable as $log(\frac{i\text{'s per capita ODA in year } t}{\text{sample average ODA for year } t})$ where i denotes the recipient country.

Dreher and Fuchs (Forthcoming) operationalize the dependent variable as $\frac{i\text{'s ODA recieved from China in year}}{\text{China's total aid in year } t}$ where i denotes the recipient country.

Committment or Disbursement? A number of authors (Aldasoro, Nunnenkamp and Thiele 2010; **?**; Berthélemy 2006) use aid committments over actual disbursements of aid reasoning that donors have full control of committments only. Disbursements are seen as partly depending on whether the prospective recipient country actually requests the commitment, which for a number of reasons (that they don't give examples of) sometimes is not the case. Disbursements may also in part rely on the recipient country's capacity to recieve aid.

Meanwhile other authors (**?**Alesina and Dollar 2000; Kuziemko and Werker 2006; Fleck and Kilby 2010) use various measures of disbursed ODA though none seem to give a particular justification why.

? use net ODA per capitaAlesina and Dollar (2000) uses log of net ODA, though

neither give a particular justification as to why. **?** also uses aid disbursements but they argue from the point of view of the recipients.

Gross or net?

? and **?** argue that one should use gross ODA to a recipient country as a percentage of total gross ODA dispersed by the donor country as this more accurately reflects donor the weight that the donor gives to the recipient country. They argue that while the donor may take into account the population of the recipient country in its disbursements, this is merely one outcome of the process of dividing the aid pie, not its main consideration.

Common Covariates

Table 1: Covariates

	Scope	L(Pop)	Political Interests	Objective Need	Strategic Interests	Commerc. Interests	Other
Dreher and Fuchs (Forthcoming)	? China (donor) 1956-2006	X	Chiebub et al. (2010)'s dummy	L(GDP pc)	UN Voting; diplomatic relations with Taiwan	log total exports to China; log oil production	distance
Fleck and Kilby (2010)	119 (recip) US (donor) 1955-2006 1955-2006	X	lag polity ; polity transition ; political location Pres, Congress	L(GDP pc)	US mil budget ; recieved US mil aid dummy	l(exports)	interwar dum war terror dum
Dollar and Levin (2006)	≈ 100 (recip) 22 donors 1984-2003 (5yr avg)	X	L(ICRG) L(FH)	L(GDP pc)		% donor exports to recipients	colonial dummy L(distance)
Kuziemko and Werker (2006)	137 (recip) US (donor) 1946-2001		Polity 2	L(GDP pc)	UN Security Council Member		war (>1000 deaths NYT articles distance
Berthélemy (2006)	137 (recip) 22 donor 1980-99		FH ; conflicts(PRIO) ; MAA ; aid by other donors	L(GDP pc) GDP growth openness, gov deficit inflation; life expectancy child mortality lit rate, school enroll	colony dummy US-Egypt dummy US-Latin dummy Japan-Asia dummy EU- ACP dummy	lag imports + exports/GDP; net debt/exports mil/GDP	total donor aid ;
Neumayer (2003)	? Arab aid, agg 1974-1997 (3y avg)	X	Socialist dummy; UN Voting; Israel diplomatic relations	L(GDP pc)		l(imports from Kuwait, Saudi Arabia, UAE)	Arab dummy African dummy Islamic dummy
Alesina and Dollar (2000)	181(recip)/ 21(donor) 1970-94 (5yr agg)	X	Rule of Law (PRS) /Pol &Civil Rights (FH)	L(GDP pc)	UN Voting; colony dummy; years as colony	proportion of years country is open ; Net FDI inflows/GDP	Egypt/Israel dumm % Catholic, Musli
?	13 (donors) 1970-95 (5 yr avg) 1970-95 (5 yr avg)		FH	GDP pc	CORBI; CORRICRG; CORRIMD; CORRS&P ; CORRTI ; CORRWDR1 CORRWDR2; UN voting	Debt relief/ capita Net FDI and portfolio investment; net private capital flows	yrs as colony Egypt/Israel dum
Schraeder, Hook and Taylor (1998)	36(recip)/ 4(donor)* 1980-89		Marxist dum Socialist dum Capitalist dum	caloric intake; avg life expectancy	mil spending (% GDP); mil force (% pop); ally dumy	L(GDP pc); L(imports from donor total imports)	lagged DV ; colonial dummy region dummy
Trumbull and Wall (1994)	86 countries 1984-89	X	FH	L(Infant Mortality); L(GNP pc)			
Maizels and Nissanke (1984)	79(recip) /DAC(donor) 1969-70 1978-80	X		L(GNP pc); BOP (current accts) GNP growth rate PQLI	arms transfers regional dummy	stock of private direct investm.; # TNC subsidiaries/affiliates; Availability of strategic materials	

* The 36 recipient countries were solely African countries and the 4 donor countries were the US, Japan, Sweden, France

** Note that somewhat bizarrely, Maizels and Nissanke (1984) runs separate regressions for recipient needs (objective need) and donor interests (security and commercial interests)

Abbreviations: ICRG - International Country Risk Guide; FH - Freedom House ; PQLI: Physical Quality of Life Index; ACP - Associated states from Africa, the Caribbean and the Pacific Ocean; MAA- Multilateral Assistance Acts

Models

Neumayer (2003) uses a two-step Heckman selection model. The first stage is the gate-keeping stage where it is determined which countries recieve aid; the second stage is a level stage where it is determined how much aid a country receives given that they receive any aid. In the Heckman two step estimator, the error terms of both stages are allowed to be correlated however it requries an exclusionary variable that is associated with the gatekeeping stage but not the level stage. Neumayer (2003) uses the total amount of aid allocated in any given year as his exclusionary variable, arguing that the higher amount of total aid allocation increases the chances of receiving any aid at all. He notes that this variable is an imperfect one at best.

Theory

Data and Analysis

siena - 'actor-based utility' network model, developed by snijders

Results

Conclusion

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