Aid Allocation and Aid Effectiveness: An Empirical Analysis

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Introduction

Why do some poor countries receive so much aid, and others so little? Humanitarian, commercial, political and strategic motives are usually identified as the main factors driving the aid allocation process. This is consistent with policy statements, especially from the major donors, which assert that aid is motivated by a humanitarian concern to promote development and alleviate need, especially in the most deprived countries, but at the same time also by commercial, political and strategic self-interest. The vast empirical literature dealing with the determinants of aid allocation clearly concludes that donors pursue political, economic and strategic interests in inter-country aid allocation, especially with regard to bilateral aid allocation of the larger donors, and that developmental or humanitarian concerns, such as the reduction of poverty, receive a relatively low or even zero weight in this process (see McGillivray, 2004, for a comprehensive discussion).

Indeed, recent empirical work confirms that foreign policy goals of donors continue to be the most important motive for giving aid (Alesina and Dollar, 2000; Burnside and Dollar, 2000; Neumayer, 2003a, 2003b; Gates and Hoeffler, 2004).1 Earlier influential studies include McKinley and Little, 1978, 1979; Mosley, 1981; Maizels and Nissanke, 1984; and Trumbull and Wall, 1994, among others. Cassen (1994) also finds that the US target more than a third of their total assistance to Egypt and Israel for political reasons. More recent studies include inter alia Lundborg, 1998; Schraeder et al., 1998; Gounder, 1999; Gounder and Sen, 1999; Alesina and Dollar, 2000; Svensson, 2000; Neumayer, 2003a, 2003b; Berthélemy and Tichit, 2004; Dollar and Levin, 2004 and more recently Canavire et al., 2005.
Svensson (2000) examines aid allocation policies of various donor countries over the period 1970 to 1994. He finds that a high consideration for political and civil rights increases the probability of receiving aid when the donor is Canada, Japan or the US, but not Germany, Italy, Denmark, France or Sweden. Alesina and Dollar (2000) also come to the conclusion that aid allocation strategies vary from donor to donor. They find that political rights have a positive impact on the amount of aid allocated by Australia, Canada, Germany, Japan, the Netherlands, the Scandinavian countries, the UK and the US, but not for Austria, Belgium, France and Italy. Hence, while they confirm Svensson’s finding with respect to the UK, France and Italy – the like-minded countries – they come to more positive conclusions about Germany, Japan and the US. Neumayer (2003a) analyses bilateral aid allocation over the period 1985–97 by all twenty-one countries that form the OECD–DAC. In addition to the respect for civil and political rights, in the empirical analysis Neumayer also employs personal integrity rights. He finds that respect for civil and political rights plays a statistically significant role for the majority of donors on the probability of receiving aid rather than on aid levels. Alesina and Weder (2002) focus their analysis on the relationship between aid transfers and corruption. They find no statistical evidence to confirm that more aid goes to less corrupt countries in the case of US, British, Canadian, Italian, German, Spanish and Swiss aid. Only in the case of Australia and the Scandinavian countries is there some evidence that low corruption is rewarded with higher levels of aid. Dollar and Levin (2004) conclude that the efficiency of aid allocation has recently progressed in light of the growing importance (according to the authors) of selectivity issues in the donor community. Covering twenty-two donors and 137 recipients over the period 1980–99, Berthélemy and Tichit (2004) find that most donors rewarded good economic policies and good governance in the 1990s, and that aid commitments per capita were higher for recipient countries with lower income levels. Gates and Hoeffler (2004) focus on the Nordic countries to examine donor behaviour over the period 1980–99, and to determine whether strategic motives affect the aid allocation process. They find that, contrary to the case of the average bilateral donor, none of the Nordic countries allocated more aid to political allies, but rather that their aid flows were driven by the level of democracy and the human rights records in aid recipients. More recently, Canavire et al. (2005) find that export-related self-interest of donor countries provide a fairly strong incentive for granting bilateral aid, as do colonial ties. Finally, in contrast to the findings by Dollar and Levin (2004), the authors cannot find evidence to indicate