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More Money, Less Problems? New Answers to Aid Allocation Questions

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More Money, Less Problems?

New Answers to Aid Allocation Questions

Jackson Beazer

Mentor: Darren Hawkins, Department of Political Science

Question:

Does the economic growth of a developing country affect the amount of foreign aid it receives?

Results:

- 1) In models with total aid commitment as the dependent variable, developing countries receive more aid when they are growing faster.
- 2) However, in models with aid per capita as the dependent variable economic growth is not a significant factor.

Implications:

- The two different models seem to represent different mindsets: “Donor Interest” and “Recipient Need.”
- If true, it should be shown in previous aid allocation research. This is shown to be the case in Table 2.
- This suggests that researchers potentially cherry-pick results that support their theories.

Table 1: Results

This table lists the outputs of both models: Total commitment is listed as “Donor Interest” and aid per capita is listed as “Recipient Need.” Values are listed as the coefficients scaled by the standard errors for ease of comparison.

Variable	Donor Interest	Recipient Need
GDP Growth	3.79437286	0.94329274
Civil Liberties	2.119735065	-1.952313061
Recipient Population	12.54681648	-8.119180633
Trade Totals	51.27478754	4.704225352
GDP per Capita	-13.5516774	-2.311688312
Former Colony Status	12.46674331	24.96418012
Distance	-2.115659973	-6.247595054

*Variables in black are significant at the 95% confidence level.

In the “Donor Interest” model, quickly developing countries receive more aid.

In the “Recipient Need” model, the rate of development is not a significant factor.

Table 2: Proof

This table lists how the most cited literature is categorized. The table is divided up by whether researchers argued allocation based on recipient need or donor interest. It then shows which dependent variable was used in the study.

Author/Title	Recipient Need		Donor Interest	
	Aid per Capita	Total Commitment	Aid per Capita	Total Commitment
Alesina, Weder (1999)	✓			
Berthelemy, Titchet (2004)	✓			
Berthelemy (2006)	✓			
Maizels, Nissanke (1984)	✓			
McGillivray (1989)	✓			
Younas (2008)	✓			
Kilby (2009)				✓
Kuziemko, Werker (2006)				✓
Vreeland (2011)				✓
Gates (2004)				✓
Poe (1992)				✓
Neumayer (2010)				✓
Alesina, Dollar (2000)				✓

All of the papers that argued for allocation based on recipient need used aid per capita as the dependent variable.

All of the papers that argued for allocation based on donor interest used total commitment as the dependent variable.

Methods:

- Data collected from OECD, World Bank, and Freedom House databases
- Data sorted by donor-recipient dyad through years 1973 to 2012
- Used a model with year fixed-effects to account for worldwide changes in aid allocation behavior in any given year
- “Donor Interest” and “Recipient Need” models were exactly the same except for different dependent variables

Country Snapshot: Cambodia

- From 2002 to 2012, Cambodia had a GDP growth rate of 8.03% per year (double the world average of 4%).
- Donors focused on self-interest theoretically would look at Cambodia as a good aid recipient regardless of its social and national needs .
- Consequently, over that same time period Cambodia has received on average almost twice what other countries have received per donor per year: \$56 million versus \$30 million.

