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The Effects of Aid Agency Independence on Aid Allocation Decisions

Ryan Cardwell and Pascal Ghazalian

Selected Paper prepared for presentation at the International Agricultural Trade Research Consortium's (IATRC's) 2014 Annual Meeting: Food, Resources and Conflict, December 7-9, 2014, San Diego, CA.

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The Effects of Aid Agency Independence on Aid Allocation Decisions

IATRC Annual Meeting
San Diego, CA
December 8, 2014

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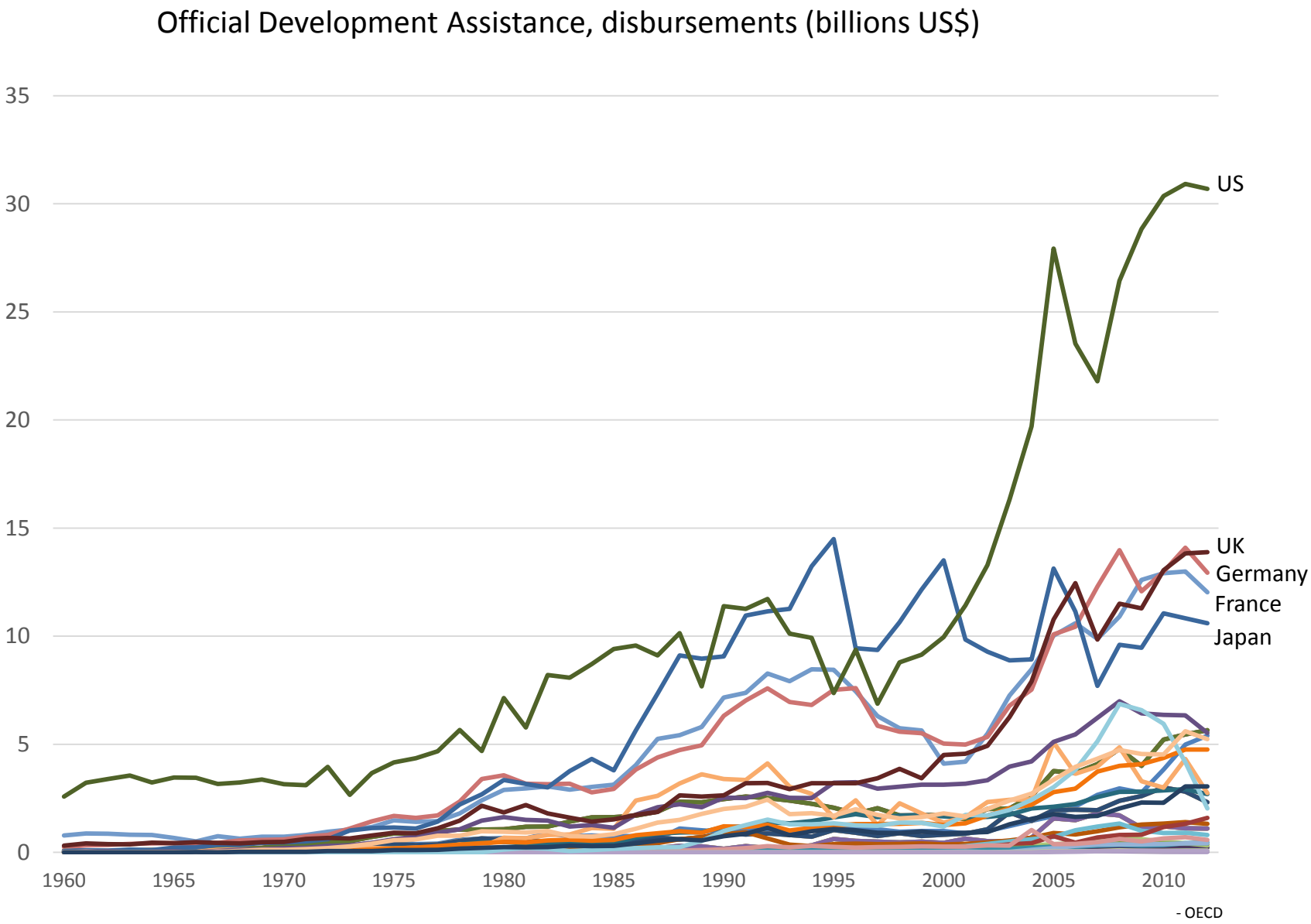
Outline

1. Motivation
2. Aid agency independence
3. Allocating aid
4. Model and data
5. Results
6. Future work

1. Motivation



1. Motivation

CIDA folded into DFATD in 2013, AUSAID in 2013, NZAID in 2009

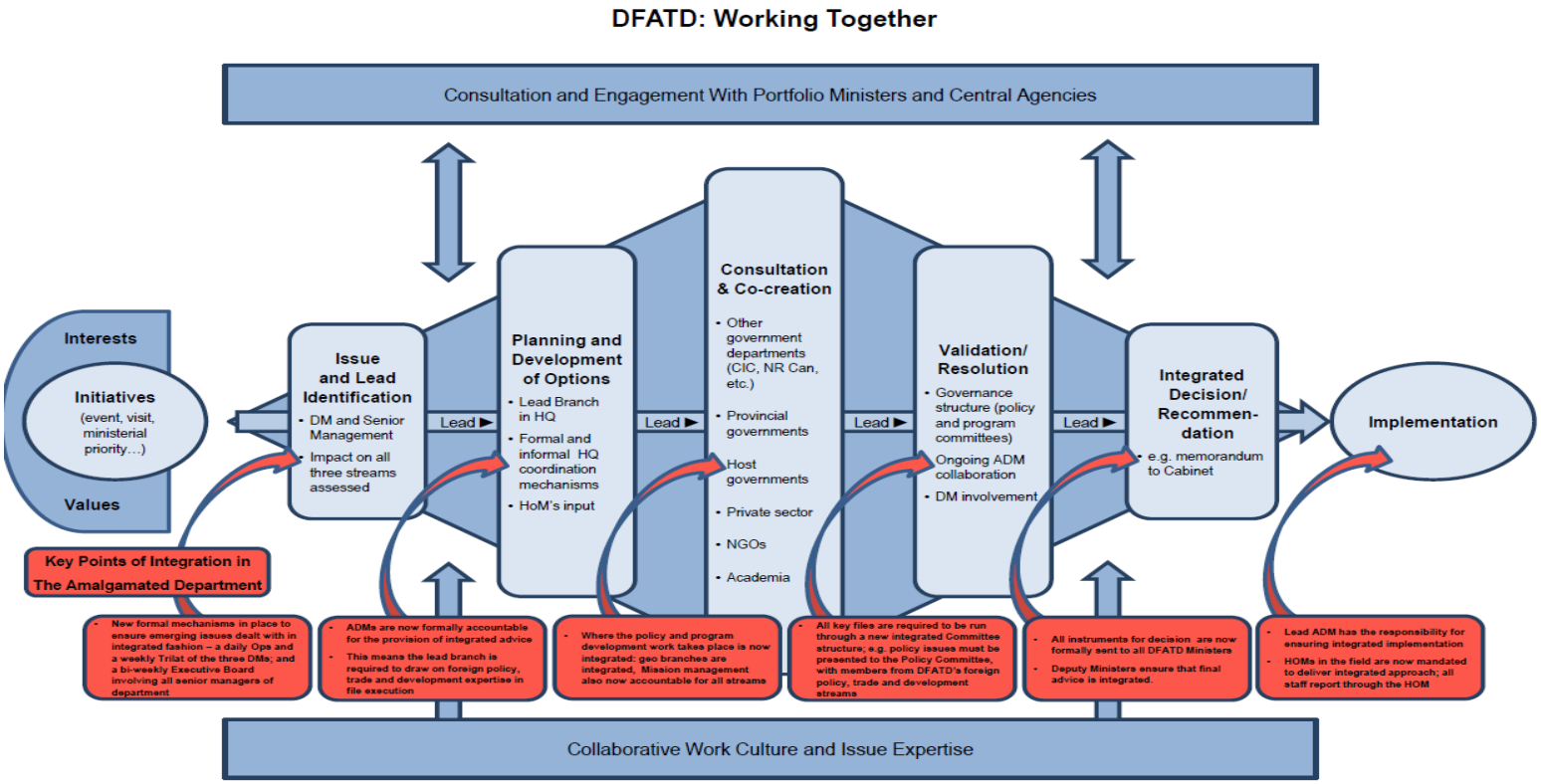
"…alignment of our **foreign, development, trade and commercial policies and programs** will allow the Government to have greater policy coherence on priority issues and will result in greater overall impact of our efforts…"

"The mechanisms through which we are advancing our development objectives are increasingly more multi-faceted and more often now include our bilateral and multilateral relationships, **trade and commercial interests, and engagement with Canadian stakeholders, including civil society organizations and the private sector**."

- Canada's Economic Action Plan (2013)

History of aid policies being subservient to foreign policy and domestic commercial objectives

1. Motivation



- Development Policy Centre

"…hijacking the foreign aid programme…" (The McLeod Group, 2013)

"If the development objective of reducing poverty get subsumed under trade objectives, then vital programmes aimed at reducing poverty for the poorest and most vulnerable people in the world will be lost – something that would be a great tragedy and moral failure." (Canadian Foodgrains Bank, 2013)

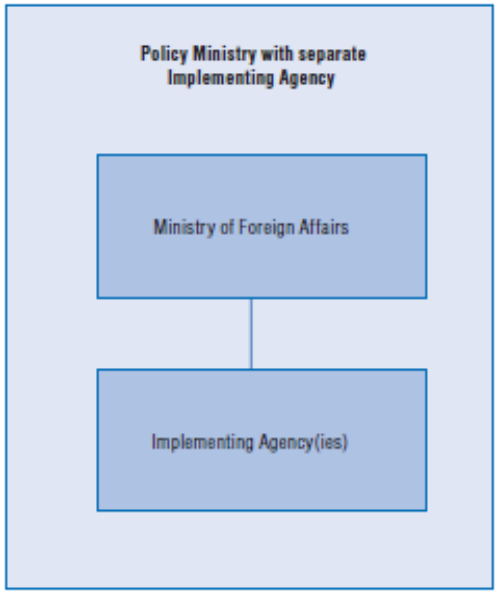
"Sadly, Canada is currently moving farther away from being a Samaritan state." (Brown, 2013)

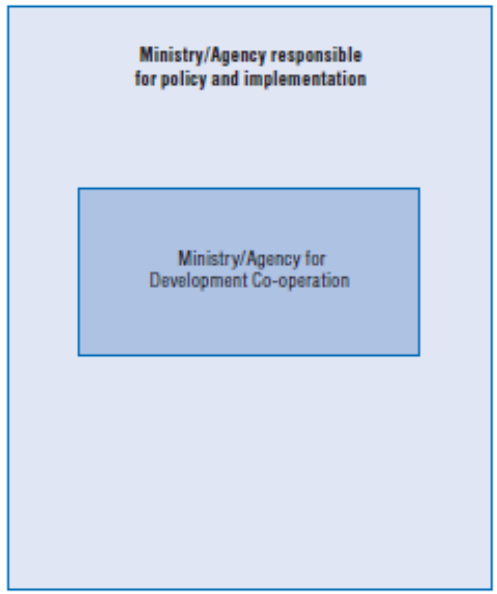
2. Aid Agency Independence

Denmark
Norway

Italy
Netherlands
New Zealand
Switzerland

France
Germany
Japan
United States





Australia
Canada
United Kingdom

- OECD (2009)

3. Allocating aid

1. Altruistic (recipient oriented)
   - development
   - humanitarian

2. Strategic (donor oriented)
   - foreign policy
   - domestic policy

3. Allocating aid

Related literature

1. Aid effort (S of foreign aid)
    - Dudley & Montmarquette (1976)
    - Trumbell & Wall (1994)
    - Bertoli *et al.* (2008)
    - Fuchs *et al.* (2014)

2. Choice of recipient
    - Alesina & Dollar (2000)
    - Nunn and Qian (2014)

3. Specific questions
    - Neumayer (2003) – human rights
    - Kuziemko & Werker (2006) – UNSC
    - Boschini & Olofsgård (2008) – cold war

Our research question

- does the weight on motivations (donor vs. recipient) for allocating aid vary with aid agency independence?

4. Model and data

Broad literature on aid allocation (Neumayer, 2003)

Zeros (negative ODA)

Poisson pseudo-maximum likelihood estimation (Santos Silva and Tenreyro, 2006)

$$Aid_{ijt} = \exp\left(\alpha_{0+}\alpha_1 x_{it} + \alpha_2 y_{jt} + \alpha_3 z_{ijt}\right) + \varepsilon_{ijt}$$

Aid_{ijt} - aid from donor country i to recipient country j at time t.

x_{it} - vector of donor-specific variables composed of continuous variables (in logarithmic values) and binary variables.

y_{jt} - vector of recipient-specific variables composed of continuous variables (in logarithmic values) and binary variables.

z_{ijt} - vector of bilateral variables composed of continuous variables (in logarithmic values) and binary variables.

Augmented with aid-agency independence (AAI) interaction variables.

Summary Statistics

Variable	Mean	Std. Dev.	Min	Max
Aid, disbursements (millions US$)	7.11	59.01	0	11,227.79
Aid, commitments (millions US$)	9.66	86.85	0	12,346.67
Aid agency independence	0.33	0.47	0	1
GDP (millions US$)	27,500	103,000	9	2,710,000
GDP per capita (US$)	2,682	5,758	35	83,913
Population (million)	28	119	0	1,310
Exports, donor to recipient (millions US$)	144	1,420	0	130,000
Imports, donor from recipient (millions US$)	200	2,560	0	310,000
Common language	0.16	0.37	0	1
Colony	0.05	0.21	0	1
Geographic distance, weighted (km)	8,103	3,783	241	19,334
Civil liberties index	4.22	1.67	1	7
Political rights index	4.25	2.03	1	7
US military aid (millions US$)	28	201	0	5,440

5. Results

Poisson pseudo-maximum-likelihood estimation of disbursements

	(i)	(ii)	(iii)	(iv)
	Benchmark	Aid Agency Independence	Donor and Year FE	Civil Liberties
lnGDP	-0.1096***	-0.0969***	0.0424***	0.0616***
	(0.013)	(0.0137)	(0.0164)	(0.0170)
lnGDPC	-0.6019***	-0.6744***	-0.7162***	-0.8282***
	(0.0181)	(0.0193)	(0.019)	(0.0182)
Exports	0.7533***	0.8261***	0.5399***	0.4982***
	(0.0149)	(0.0169)	(0.0203)	(0.0211)
Distance	0.2201***	0.1609***	-0.0188	-0.1771***
	(0.0388)	(0.0342)	(0.0356)	(0.0347)
Colony	0.1529***	0.1085**	0.5025***	0.4456***
	(0.0583)	(0.053)	(0.0697)	(0.0810)
Common Language	0.2821***	0.0604	0.7785***	0.5717***
	(0.0604)	(0.0437)	(0.0738)	(0.0763)
Civil Liberties				-0.1035***
				(0.0121)
Aid Agency Indep (AAI)		-0.0197	0.1163	-0.4724**
		(0.1079)	(0.1472)	(0.2241)
lnGDPC × AAI		0.1141***	0.0893**	0.2113***
		(0.0312)	(0.0358)	(0.0405)
Exports × AAI		-0.1738***	-0.1100***	-0.0940***
		(0.0191)	(0.0150)	(0.0153)
Distance × AAI		0.0691	-0.0002	0.0842
		(0.0676)	(0.0562)	(0.0566)
Colony × AAI		0.3994***	0.2936***	0.3572***
		(0.0921)	(0.1140)	(0.1275)
Common Language × AAI		0.1768*	-0.4951***	-0.3083***
		(0.0912)	(0.1119)	(0.1193)
Civil Liberties × AAI				0.0896***
				(0.0249)

Notes: dependent variable is aid disbursements. Standared errors in parentheses.
The symbols ***, ** and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

6. Future work

Results are preliminary

- Baseline results consistent with literature (poverty, trade)
- AAI reduces emphasis on poverty and trade ties in allocation decisions

Disaggregating recipient countries

- level of development (eg. Argentina vs. Sierra Leone)
- Israel, Egypt

Alternative estimation strategies

- eg. Heckman two step, allocation shares, lagged explanatory variables (esp. for disbursements)
- allocation shares

Foreign direct investment

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