The Effects of Aid Agency Independence on Aid Allocation Decisions

Ryan Cardwell and Pascal Ghazalian

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The Effects of Aid Agency Independence on Aid Allocation Decisions

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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

Official Development Assistance, disbursements (billions US$)
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

“...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

Model 1: Integrated within Ministry of Foreign Affairs
- Africa Department
  - Foreign Policy
  - Other
  - Development Co-operation
- Asia Department
  - Foreign Policy
  - Other
  - Development Co-operation
- Latin America Department
  - Foreign Policy
  - Other
  - Development Co-operation

Model 2: Development Co-operation Department/Agency within Ministry of Foreign Affairs
- Ministry of Foreign Affairs
  - Trade
  - Foreign Affairs
  - Development

Model 3: Policy Ministry with separate Implementing Agency
- Ministry of Foreign Affairs
  - Implementing Agency(ies)

Model 4: Ministry/Agency responsible for policy and implementation
- Ministry/Agency for Development Co-operation

Denmark, Norway, France, Germany, Japan, United States

Italy, Netherlands, New Zealand, Switzerland, 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)

\[ Aid_{ijt} = \exp(\alpha_0 + \alpha_1 x_{it} + \alpha_2 y_{jt} + \alpha_3 z_{ijt}) + \epsilon_{ijt} \]

\( Aid_{ijt} \) - 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.
4. Model and data

Summary Statistics

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

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

**Notes:** dependent variable is aid disbursements. Standard 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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