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- **What determines the level of aid that a country receives?**
- **Are aid flows coordinated between European countries?**
- **Is there a common European policy with respect to development aid?**

Summary: In this Policy Briefing we address the question of whether there is a coherent and consistent policy when it comes to giving development aid. While one would theoretically argue that aid provision should be based on objective criteria set out to optimize governments' behavior or people's welfare, we find that this is not the case. While specific countries may be optimizing their objectives in international aid-giving, the cumulative effect, particularly when it comes to European policy is incoherent and inconsistent. Coordinating development policy at the European level could alleviate this problem.

POLICY BRIEFING

November 2011 EUSECON Policy Briefing 11

Does Security Play a Role in European Development Aid Policy?

Introduction

Development aid is generally distributed by one country to the benefit of another one. However, it is not always clear what the objectives of the donor countries are. Do they simply want to contribute to the overall welfare of the world? Or do countries have their own agendas when deciding to distribute development funds? An aid regime could, for example, reward specific types of behaviour (such as improvements in democratisation or reductions in corruption) or respond to recent events, such as natural disasters or conflicts. Furthermore, aid policy could even be used to achieve domestic objectives from the donor's perspective, such as increasing the level of security by reducing the threat of terrorism growing in underdeveloped countries.

In this Policy Briefing, we look at what determines the size of aid flows to developing countries. We particularly focus on Europe and the question of whether European countries follow similar strategies that would fit to a greater European development aid policy. This research is based in particular on Brück and Xu (2011), which was produced as part of the EUSECON project.

Aid levels versus aid accelerations.

Previous research that looks at the provision of aid has often considered either the absolute [or average] levels of aid. Alesina and Dollar (2000) find that

poorer countries receive more development aid, but also that historical colonial ties and political alliances explain the amount of development aid in part. On the other hand, Burnside and Dollar (2004) do not find that other strategic considerations, such as recipient countries' policies or their quality of governance have an impact on the aid provision.

However, it is doubtful whether the questions these previous studies ask are particularly policy-relevant. Some countries simply receive more aid, possibly as a result of historical dependencies, whereas others do not get much. For this reason, we look instead at changes in aid allocation: so-called aid accelerations. Such accelerations are associated with specific aid-provision changes, and we can thus go beyond country-specific effects. Furthermore, we overcome another pitfall in the existing literature, which is the averaging of multiple years of data for single data points. This causes researchers to miss out the specific points in time when the accelerations took place, thus making it impossible to find out whether there may be a direct cause for the acceleration.

In theory, aid should flow to the poorest countries or those with the best governance

In order to identify aid accelerations, we use data from 33 donors and 145 recipient countries for the period from 1960 to 2007 to determine whether such accelerations took place and if so, what explains their occurrence. The data we use comes from the OECD Development Assistance Committee, which defines Overseas Development Aid as flows to countries which are provided by official agencies and aimed at promoting economic development and welfare in developing countries. Very importantly, this does not include military aid or peacekeeping aid.

Inspired by Hausmann et al. (2005), we filter the data to identify individual moments in time where the aid going to a specific recipient country increased significantly and out of the ordinary. Based on the



Figure 1 Aid accelerations identified in Afghanistan

filter employed, we identify 215 aid accelerations for the total flow of all aid allocated between 1960 and 2007, which translates to 1.5 aid accelerations per country on average. The unconditional probability for any country during any year to undergo an aid acceleration is 4%, a rate that is remarkably stable across decades, but also between regions. The Middle East has the highest probability with 4.7% and Eastern Europe and Central Asia have the lowest probability with 2.8%. Even when splitting across donors, the variation is still small. The United States' and the United Kingdom's likelihood to see an aid acceleration in their donations is 4.5% and 4.4% respectively, while Sweden has the lowest rate with 2.8%. Evidence that the filter works can be seen from the fact that well-known aid accelerations, such as Egypt 1968, Afghanistan 2000 and Iraq 2002 are identified. Afghanistan is shown in Figure 1 as an illustration.

The role of conflict in aid allocation

The main theoretical criteria for how much aid should flow and to whom, can be divided into economic and political factors. According to the economic reasoning, aid should flow to the poorest countries, where it is most needed and whether it yields the highest marginal return. According to political arguments, aid should flow to those needy countries that have "good" institutions, in order to reward good behaviour and to make sure that as little aid as possible is misappropriated through corruption.

However, do these theoretical arguments hold true in reality as well? To answer this question, we use data on the occurrence of conflict (Gleditsch et al. 2002), institutional quality (Marshall and Jaggers 2009) and economic reforms (Wacziarg and Welch 2008) and dummy variables for certain geopolitical events, such as the end of the Cold War and 9/11.

	ESP	NLD	NOR	FRA	GBR	SWE	GER
ESP	1	0.060	0.029	0.045	0.039	0.009	0.011
NLD	0.060	1	0.042	0.047	0.079	0.047	0.009
NOR	0.029	0.042	1	0.045	0.040	0.027	0.044
FRA	0.045	0.047	0.045	1	0.051	0.050	0.070
GBR	0.039	0.079	0.040	0.051	1	0.014	0.061
SWE	0.009	0.047	0.027	0.050	0.014	1	0.050
GER	0.011	0.009	0.044	0.070	0.061	0.050	1

Table 1 Proximity matrix for aid accelerations, calculated using the Jaccard Index

Our analysis shows that the occurrence of international conflict in a country is associated with aid accelerations, while civil conflicts are not. Similarly, countries that neighbour international conflicts (but not those neighbouring civil conflicts) also appear receive increased levels of aid. Improvements in the quality of governance, in contrast with economic reforms, have a positive effect on the probability of aid acceleration, as does declaring independence and the end of the Cold War. The occurrence of 9/11 does not seem to have changed the probability of aid accelerations. This is somewhat surprising, since new arguments for providing aid have emerged after 9/11, particularly when it comes to using aid to increase security.

International coordination between donors

In addition to the overall flows of aid, it is possible to differentiate the aid flows across different donors in order to see if their preferences differ. Looking at the ten largest donors worldwide, it appears that different donors do have different preferences. For example, both in the case of international conflict and positive regime change, only five out of ten donors increase aid. For some of the explanatory variables, different countries even respond in opposite ways. Economic liberalisation, for example, increases the probability of an aid acceleration for Spanish aid, while decreasing the probability for Japanese aid. Similarly, civil conflict has a positive effect on aid flows stemming from the United States, Japan and Norway, but a negative effect on aid from Sweden.

The disaggregation also suggests that the *net* effect for accelerations based on total aid flow masks a diverse range of counteracting allocation rules. If countries were using the theoretically optimal allocation rules

that either reward countries for positive policy changes or try to structurally alleviate suffering in poor countries, different countries would behave similarly. However, despite the repeatedly declared efforts in harmonizing foreign and security policy, aid allocation is not only incoherent but the competing aid flows tend to offset each other. This renders the overall EU aid accelerations highly unpredictable by our model.

Table 1 displays the calculated proximity index for a number of European countries. From this, it can be observed that the countries whose are most similar are the United Kingdom and the Netherlands, followed by the French-German and German-UK aid flows. The most dissimilar aid flows come from Germany and the Netherlands and the Sweden-Spain pair.

Despite efforts in harmonizing foreign policy, aid allocation is incoherent and inconsistent

The incoherence of European aid spending can be tested by looking at what the explanatory factors are of total European aid, as opposed to looking at the separate aid flows of different countries. When doing so, it turns out that very little actually predicts aid flows. Different from the useful predictors that are able to pinpoint countries' aid flows, very few of the predictors are significant when looking at total European spending. The occurrence of conflict, economic liberalization and increased democratization are all found to be irrelevant for aid flows. There is only minor evidence that the end of the Cold War and the occurrence of 9/11 may have positively affected the probability of an aid acceleration.

Policy recommendations

It is rational and justifiable that the level of aid provision is co-determined by the occurrence of specific events, security-related and otherwise. However, policymakers should be cautioned that such event-based aid does not compete with structural aid that is given on basis of the core necessities of specific donor recipients. In order to reduce competition between these different aid flows, it would be advisable to separate the budgets of emergency and structural aid.

That is not to say that all European countries should be giving aid to the exact same countries, of course. There could still be large differences between countries for several reasons. First, different countries may have different policy preferences, with some rewarding countries that develop democratic institutions and others simply looking at where the needs are greatest for example. Second, governments could have preferences that benefit their own domestic objectives, by increasing demand for specific industries, catering to a linguistic overlap or tying aid to the requirement to purchase goods from a specific donor country. Finally, more positively, different countries could have different aid giving strategies on basis of their own strengths and weaknesses. Certain countries may have specific strengths in post-conflict reconstruction, while others may focus mostly on civic participation or issues related to climate change. In this case, the differentiation of policies across countries would be a positive result of specialisation. On the other hand, while such specialisation may lead to more effectiveness in aid provision, there is a level of risk involved when certain countries or topics are only dealt with by specific donor countries.

Credits

This EUSECON Policy Briefing was authored by Tilman Brück and Olaf J. de Groot from the German Institute for Economic Research and Guo Xu from the London School of Economics and Political Science. The views expressed in this briefing are the authors' alone.

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EUSECON, or 'A New Agenda for European Security Economics' is a four-year collaborative research project, coordinated by DIW Berlin and funded by the Seventh Framework Programme of the European Commission. EUSECON analyses the causes, dynamics, and long-term effects of both human-induced insecurity threats and European security policies.

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