



# HEIDELBERG UNIVERSITY

CHAIR OF INTERNATIONAL AND DEVELOPMENT POLITICS

PROF. DR. AXEL DREHER

Prof. Dr. Axel Dreher, AWI, Heidelberg University, Bergheimer Straße 58, D-69115 Heidelberg

---

Heidelberg, January 12, 2012

## Sommersemester 2012

### “Development Aid”

1. Introduction
2. The unconditional effect of aid on growth
3. Aid allocation
  - 3.1. DAC Donors
  - 3.2. ‘New Donors’
4. The conditional effect of aid on growth
  - 4.1. Aid and institutional quality
  - 4.2. Donor motives
5. The effect of aid on other outcomes
  - 5.1. Terror
  - 5.2. UNGA voting
  - 5.3. Education and Health
6. Aid and the Dutch Disease
7. Aid Fragmentation
8. Can conditionality buy reforms?
9. Debt relief as a form of development aid?
10. NGO aid as alternative for development?
11. Multilateral Aid as alternative for development?
  - 11.1. Multilateral Aid Allocation
  - 11.2. Multilateral Aid Effectiveness
12. Easterly vs. Sachs: Alternative Routes for Development?

## 1. Introduction

- The Millennium Development Goals
- Theories of development aid
- The quantitative importance of development aid
- Bilateral and multilateral aid, projects vs. programs, tied vs. untied
- Non-Governmental Organizations (NGOs)

Literature:

Radelet, Steven, 2006, A Primer on Foreign Aid, Center for Global Development Working Paper 92.

United Nations: The Millennium Development Goals, <http://www.developmentgoals.org/>  
The Changing Landscape for Official Flows, World Bank: Global Development Finance 2004, chapter 4, [http://siteresources.worldbank.org/GDFINT2004/Home/20177151/gdf\\_Chapter%204.pdf](http://siteresources.worldbank.org/GDFINT2004/Home/20177151/gdf_Chapter%204.pdf)

## 2. The unconditional effect of aid on growth

- \*Boone, Peter, 1994, The impact of foreign aid on savings and growth, Centre for Economic Performance Working Paper No. 677, London School of Economics.
  - \*Clemens, Michael, Steven Radelet and Rikhil Bhavnani, 2012, Counting chickens when they hatch: The short term effect of aid on growth, *Economic Journal*, forthcoming.
  - \*Doucouliagos, Chris and Martin Paldam, 2009, The Aid Effectiveness Literature – The Sad Result of 40 Years of Research, *Journal of Economic Surveys* 23, 3: 433-461.
  - \*Dalgaard, Carl-Johann, Henrik Hansen and Finn Tarp, 2004, On the Empirics of Foreign Aid and Growth, *Economic Journal* 114: F191-216.
- Nowak-Lehmann D., Felicitas, Axel Dreher, Inmaculada Martínez-Zarzoso, Dierk Herzer, Stephan Klasen, 2012, Does foreign aid really raise per-capita income? A time series perspective, *Canadian Journal of Economics*, forthcoming.
- \*Rajan, Raghuram G. and Arvind Subramanian, 2008, Aid and Growth: What Does the Cross-Country Evidence Really Show? *Review of Economics and Statistics* 90, 4: 643–665.

## 3. Aid Allocation

### 3.1. DAC Donors

- \*Alesina, Alberto and David Dollar, 2000, Who Gives Foreign Aid to Whom and Why? *Journal of Economic Growth* 5, 1: 33-63.
  - \*Alesina, Alberto and Beatrice Weder, 2002, Do Corrupt Governments Receive Less Foreign Aid? *American Economic Review* 92, 4: 1126–1137.
- Berthélemy, J.-C., 2006, Bilateral Donors' Interest vs. Recipients' Development Motives in Aid Allocation: Do All Donors Behave the Same? *Review of Development Economics* 10, 2: 179-194.
- Berthélemy, J.-C. and A. Tichit, 2004, Bilateral Donors' Aid Allocation Decisions: A Three-dimensional Panel Analysis, *International Review of Economics and Finance* 13, 3: 253-274.
- Canavire, G., P. Nunnenkamp, R. Thiele, and L. Triveño, 2006, Assessing the Allocation of Aid: Developmental Concerns and the Self-Interest of Donors, *Indian Economic Journal* 54, 1: 26-43.

- Collier, Paul and David Dollar, 2002, Aid Allocation and Poverty Reduction, *European Economic Review* 46, 8: 1475-1500.
- \*Dollar, David and V. Levin, 2006, The Increasing Selectivity of Foreign Aid, 1984–2003, *World Development* 34, 12: 2034-2046.
- Easterly, William and Tobias Pfutze, 2008, Where Does the Money Go? Best and Worst Practices in Foreign Aid, *Journal of Economic Perspectives* 22, 2.
- \*Kuziemko, Ilyana and Eric Werker, 2006, How much is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations, *Journal of Political Economy* 114, 5: 905-930.
- Neumayer, Eric, 2005, Is the Allocation of Food Aid Free from Donor Interest Bias? *Journal of Development Studies* 41, 3: 394-411.
- \*Thiele, Rainer, Peter Nunnenkamp and Axel Dreher, 2007, Do Donors Target Aid in Line with the Millennium Development Goals? A Sector Perspective of Aid Allocation, *Review of World Economics* 143, 4: 596-630.

### 3.2. 'New Donors'

- \*Dreher, Axel and Andreas Fuchs, 2011, Rogue Aid? The Determinants of China's Aid Allocation, Courant Research Centre: Poverty, Equity and Growth Discussion Paper 93.
- \*Dreher, Axel, Peter Nunnenkamp and Rainer Thiele, 2011, Are 'New' Donors Different? Comparing the Allocation of Bilateral Aid Between NonDAC and DAC Donor Countries? *World Development* 39, 11: 1950-1968.
- Fuchs, Andreas and Krishna Chaitanya Vadlamannati, 2012, The Needy Donor: An Empirical Analysis of India's Aid Motives, draft.

## **4. The conditional effect of aid on growth**

### 4.1. Aid and institutional quality

- \*Alesina, Alberto and Beatrice Weder, 2002, Do Corrupt Governments Receive Less Foreign Aid? *American Economic Review* 92, 4: 1126–1137.
- Bearce, David, 2008, Why Foreign Aid May be More Effective at Promoting Economic Growth in Less Democratic Countries.
- \*Burnside, Craig and David Dollar, 2000, Aid, Policies and Growth, *American Economic Review* 90, 4: 847-868.
- Djankov, Simeon, Jose G. Montalvo and Marta Reynal-Querol, 2005, The curse of aid, World Bank and CEPR, mimeo.
- \*Easterly, William, Ross Levine and David Roodman, 2004, Aid, Policies and Growth: Comment, *American Economic Review* 94, 3: 774-80.

### 4.2. Donor motives

- Bobba, M. and A. Powell, 2007, Aid effectiveness: politics matters, Inter-American Development Bank Research Department Working Paper 601.
- Headey, D., 2008. Geopolitics and the effect of foreign aid on economic growth: 1970–2001. *Journal of International Development* 20: 161–180.
- \*Kilby, Christopher and Axel Dreher, 2011, The Impact of Aid on Growth Revisited: Do Donor and Recipient Characteristics make a Difference? *Economics Letters* 107: 338-340.
- Minoiu, C., Reddy, S.G., 2010. Development aid and economic growth. *Quarterly Review of Economics and Finance* 50, 1: 27-39.

## **5. The effect of aid on other outcomes**

### 5.1. Terror

- Azam, J.-P., & Thelen, V., 2008, The roles of foreign aid and education in the War on Terror, *Public Choice* 135, 3-4: 375-397.
- Azam, J.-P., & Thelen, V., 2010, Foreign aid vs. military intervention in the War on Terror, *Journal of Conflict Resolution* 54, 2: 237-261.
- Azam, J.-P., & Thelen, V., 2011, Where to spend foreign aid to counter terrorism, Paper presented at the EPCS, Rennes.
- Bandyopadhyay, S., Sandler, T., & Younas, J., 2011, Foreign aid as counterterrorism policy, *Oxford Economic Papers* 63, 3: 423-447.
- \*Dreher, Axel and Andreas Fuchs, 2011, Does Terror Increase Aid?, *Public Choice* 149: 337-363.
- \*Fleck, R. K., & Kilby, C., 2010, Changing aid regimes? U.S. foreign aid from the Cold War to the War on Terror, *Journal of Development Economics* 91, 2: 185-197.

### 5.2. UNGA voting

- Dreher, Axel and Jan-Egbert Sturm, 2012, Do the IMF and the World Bank Influence Voting in the UN General Assembly? *Public Choice* 151, 1: 363-397.
- \*Dreher, Axel, Peter Nunnenkamp and Rainer Thiele, 2008, Does US Aid Buy UN General Assembly Votes? A Disaggregated Analysis, *Public Choice* 136, 1: 139-164.
- Pinotti, Paolo and Riccardo Settimo, 2011, Does Aid Buy Votes? Banca D'Italia Occasional Paper 101.
- Carter, David and Randall Stone, 2010, Sincere or Strategic? US Aid Disbursements and Voting in the United Nations General Assembly. Draft.

### 5.3. Education and Health

- \*Dreher, Axel, Rainer Thiele and Peter Nunnenkamp, 2008, Does Aid for Education Educate Children? Evidence from Panel Data, *World Bank Economic Review* 22, 2: 291-314.
- Williamson, Claudia R., 2008, Foreign aid and human development: the impact of foreign aid to the health sector, *Southern Economic Journal* 75, 1: 188-207.

## **6. Aid and the Dutch disease**

- Prati, Alessandro and Thierry Tresselt, 2006, Aid Volatility and Dutch Disease: Is There a Role for Macroeconomic Policies? IMF Working Paper No. 06/145.
- \*Raghuram G. Rajan and Arvind Subramanian, 2011, Aid, Dutch Disease, and Manufacturing Growth, *Journal of Development Economics* 94, 1: 106-118.
- Nkusu, Mwanza, 2004, Aid and the Dutch Disease in Low-Income Countries: Informed Diagnoses for Prudent Prognoses, IMF Working Paper 04/49.

## **7. Aid Fragmentation**

- Acharya, Arnab, Ana de Lima, and Mick Moore, 2008, Proliferation and fragmentation: Transactions costs and the value of aid, *Journal of Development Studies* 42, 1: 1-21.
- \*Djankova, Simeon, Jose G. Montalvo, and Marta Reynal-Querol, 2009, Aid with multiple personalities, *Journal of Comparative Economics* 37, 2: 217-229.
- \*Knack, Stephen and Aminur Rahman, 2007, Donor Fragmentation and Bureaucratic Quality in Aid Recipients, *Journal of Development Economics* 83: 176-197.

## **8. Can conditionality buy reforms?**

- Bruce, N. and M. Waldman, 1991, Transfers in Kind: Why They Can Be Efficient and Nonpaternalistic, *American Economic Review* 81, 5: 1345-1351.
- Coate, Stephen and Stephen Morris, 1995, Altruism, the Samaritan's Dilemma, and Government transfer policy, *American Economic Review* 85, 1: 46-57.
- Collier, Paul; Patrick Guillaumont, Sylviane Guillaumont and Jan W. Gunning, 1997, Redesigning Conditionality? *World Development* 25, 9: 1399-1407.
- \*Dreher, Axel, 2009, IMF Conditionality: Theory and Evidence, *Public Choice* 141, 1-2: 233-267.
- \*Dreher, Axel and Nathan M. Jensen, 2007, Independent Actor or Agent? An Empirical Analysis of the Impact of US Interests on IMF Conditions, *Journal of Law & Economics* 50, 1: 105-124.
- Dreher, Axel and Roland Vaubel, 2004, The Causes and Consequences of IMF Conditionality, *Emerging Markets Finance and Trade* 40, 3: 26-54.
- \*Marchesi, Silvia, Laura Sabani and Axel Dreher, 2011, Read my lips: the role of information transmission in multilateral reform design, *Journal of International Economics* 84: 86-98.
- Marchesi, Silvia and Jonathan P. Thomas, 1999, IMF Conditionality as a Screening Device, *Economic Journal* 109: C111-C125.
- Mayer Wolfgang and Alex Mourmouras, 2007, IMF conditionality: An approach based on the theory of special interest politics, *Review of International Organizations* 3, 2: 105-121.
- \*Öhler, Hannes, Peter Nunnenkamp and Axel Dreher, 2012, Does Conditionality Work? A Test for an Innovative US Aid Scheme, *European Economic Review* 56: 138-153.

## **9. Debt relief as a form of development aid?**

- \*Depetris Chauvin, Nicolas M. and Aart Kraay, 2005, What Has 100 Billion Dollars Worth of Debt Relief Done for Low-Income Countries? Mimeo.
- \*Easterly, William, 2002, How did Highly Indebted Poor Countries Become Highly Indebted? Reviewing Two Decades of Debt Relief, *World Development* 30, 10: 1677-1696.
- Michaelowa, Katharina, 2003, The political economy of the enhanced HIPC-Initiative, *Public Choice* 114: 461-476.
- Morrissey, Oliver, 2001, Pro-Poor Conditionality for Aid and Debt Relief in East Africa, CREDIT Research Paper 01, 15.
- Sturzenegger, Federico and Jeromin Zettelmeyer, 2006, Creditors Losses Versus Debt Relief: Results from a Decade of Sovereign Debt Crises, mimeo.

## **10. NGO aid as alternative for development?**

- Barr, A. and Fafchamps, M., 2005, A Client-Community Assessment of the NGO Sector in Uganda. *Journal of Development Studies* 42, 4: 611-639.

- \*Dreher, Axel, Peter Nunnenkamp, Hannes Öhler, Johannes Weisser, 2011, Financial Dependence and Aid Allocation by Swiss NGOs: A Panel Tobit Analysis, *Economic Development and Cultural Change*, forthcoming.
- \*Dreher, Axel, Peter Nunnenkamp, Susann Thiel and Rainer Thiele. 2012, Aid Allocation by German NGOs: Does the Degree of Public Refinancing Matter? *World Economy*, forthcoming.
- Dreher, Axel, Florian Mölders and Peter Nunnenkamp, 2010, Aid Delivery through Non-governmental Organisations: Does the Aid Channel Matter for the Targeting of Swedish Aid? *World Economy* 33, 2: 147-176.
- Öhler, Hannes and Peter Nunnenkamp, 2011, Aid Allocation through Various Official and Private Channels: Need, Merit and Self-Interest as Motives of German Donors, *World Development* 39, 3: 308-323.
- Öhler, Hannes, Peter Nunnenkamp and Tillmann Schwörer, 2011, US based NGOs in International Development Cooperation: Survival of the Fittest? Courant Research Centre: Poverty, Equity and Growth Discussion Paper 83.
- Öhler, Hannes and Peter Nunnenkamp, 2011, Donations to US based NGOs in International Development Cooperation: How (Un-)Informed Are Private Donors? Kiel Institute for the World Economy: Kiel Working Paper 1680.
- Öhler, Hannes and Peter Nunnenkamp, 2010, Funding, Competition and the Efficiency of NGOs: An Empirical Analysis of Non-charitable Expenditure of US NGOs Engaged in Foreign Aid, Courant Research Centre: Poverty, Equity and Growth Discussion Paper 38.
- Fruttero, A., and Varun Gauri, 2005, The Strategic Choices of NGOs: Location Decisions in Rural Bangladesh, *Journal of Development Studies* 41, 5, 759-787.
- \*Koch, Dirk-Jan, Axel Dreher, Rainer Thiele and Peter Nunnenkamp, 2009, Keeping a Low Profile: What Determines the Allocation of Aid by Non-Governmental Organizations? *World Development* 37, 5: 902-918.
- Koch, Dirk-Jan, J. Westeneng and R. Ruben, 2007, Does Marketisation of Aid Reduce Country Poverty Targeting of Private Aid Agencies? *European Journal of Development Research* 19, 4: 635-656.
- \*Nancy, G. and B. Yontcheva, 2006, Does NGO Aid Go to the Poor? Empirical Evidence from Europe, IMF Working Paper 06/39. Washington, D.C.
- Werker, Eric D. and Faisal Z. Ahmand, 2008, What Do Nongovernmental Organizations Do? *Journal of Economic Perspectives* 22, 2.

## **11. Multilateral Aid as alternative for development?**

### 11.1. Multilateral Aid Allocation

- Andersen, Thomas B.; Henrik Hansen and Markussen, Thomas, 2006, US politics and World Bank IDA-lending, *Journal of Development Studies*, 42(5):772-794.
- Copelovitch, Mark, 2008, Master or Servant? Agency Slack and the politics of IMF Lending, *International Studies Quarterly*, forthcoming.
- \*Dreher, Axel, Jan-Egbert Sturm and James Vreeland, 2009, Global Horse Trading: IMF loans for votes in the United Nations Security Council, *European Economic Review* 53: 742-757.
- \*Dreher, Axel, Jan-Egbert Sturm and James Vreeland, 2009, Development Aid and International Politics: Does membership on the UN Security Council influence World Bank decisions? *Journal of Development Economics* 88: 1-18.
- Fleck, R.K., and Christopher Kilby, 2006, World Bank Independence: A Model and Statistical Analysis of U.S. Influence, *Review of Development Economics* 10, 2: 210-223.

- \*Frey, Bruno S. and Friedrich Schneider, 1986, Competing Models of International Lending Activity, *Journal of Development Economics* 20, 3: 225-245.
- \*Kaja, Ashwin and Eric Werker, 2008, Institutionalized Insiders: Board membership and loan commitments at the World Bank, mimeo.
- Kilby, Christopher, 2006, Donor Influence in MDBs: The Case of the Asian Development Bank, *Review of International Organizations* 1, 2: 173-195.
- Oatley, Thomas and Jason Yackee, 2004, American Interests and IMF Lending, *International Politics* 41, 3: 415-429.
- Thacker, Strom, 1999, The High Politics of IMF Lending, *World Politics* 52: 38-75.

### 11.2. Multilateral Aid Effectiveness

- Bernhard Boockmann and Axel Dreher, 2003, The Contribution of the IMF and the World Bank to Economic Freedom, *European Journal of Political Economy* 19, 3: 633-649.
- \*Dollar, David and Jakob Svensson, 2000, What Explains the Success or Failure of Structural Adjustment Programs? *Economic Journal* 110, 466: 894-917.
- Dreher, Axel, 2006, IMF and Economic Growth: The Effects of Programs, Loans, and Compliance with Conditionality, *World Development* 34, 5: 769-788.
- \*Dreher, Axel and Martin Gassebner, 2012, Do IMF and World Bank programs induce government crises? An empirical analysis, *International Organization*, forthcoming.
- \*Dreher, Axel; Stephan Klasen; James Vreeland and Eric Werker, 2010, The costs of favoritism: Is politically-driven aid less effective? Courant Research Centre: Poverty, Equity and Growth Discussion Paper 26.
- \*Dreher, Axel and Stefanie Walter, 2010, Does the IMF Help or Hurt? The Effect of IMF programs on the likelihood and outcome of currency crises, *World Development* 38, 1: 1-18.
- Przeworski, Adam and James Vreeland, 2000, The Effect of IMF Programs on Economic Growth, *Journal of Development Economics* 62: 385-421.
- \*Easterly, William, 2005, What did structural adjustment adjust? The association of policies and growth with repeated IMF and World Bank adjustment loans, *Journal of Development Economics* 76, 1-22.

## **12. Easterly vs. Sachs: Alternative Routes for Development?**

- Bajpai, Nirupam, Jeffrey D. Sachs and Nicole H. Volavka, 2004, Reaching the Millennium Development Goals in South Asia, CGSD Working Paper No. 17.
- \*Easterly vs. Sachs reading list: various documents (available in Stud.IP).
- Easterly, William, 2008, Can the West save Africa? *Journal of Economic Literature*, forthcoming.
- Easterly, William, 2006, Reliving the 50s: the Big Push, Poverty Traps, and Takeoffs in Economic Development, *Journal of Economic Growth* 11, 2: 289-318.
- Easterly, William, 2006, The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good, New York: Penguin Books, Chapters 1-7.
- Sachs, Jeffrey D., 2006, The End of Poverty: Economic Possibilities for Our Time, New York: Penguin Books, Chapters 12-14.
- Sachs, Jeffrey D., John W. McArthur, Guido Schmidt-Traub, Margaret Kruk, Chandrika Bahadur, Michael Faye and Gordon McCord, 2004, Ending Africa's Poverty Trap, *Brookings Papers on Economic Activity*, Issue 1, 2004: 117-240.