

Effects of donor ideology on the components of foreign aid

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This paper examines the effect of government ideology in donor countries on the composition of foreign aid flows. It establishes that leftist governments have significantly increased the growth of bilateral grant payments in a panel of 23 OECD countries in the period 1960-2008, but not that of multilateral aid, overall bilateral aid (incl. loans), or total aid. These results indicate different ideological preferences over the channels of foreign aid, adding a new dimension to the analysis of ideology effects on aid. The ideology effect is concentrated on grants, which have increasingly become the dominant instrument of bilateral aid. Hence donor policies do not in general appear to minimize (potentially harmful) overall aid volatility. This finding lends credibility to “interest”-based accounts of donor motivations, while suggesting that multilateral aid provision might be a means to raise recipient utility by dampening the scope of ideology effects.

Keywords: foreign aid effort, government ideology, international organizations, panel data

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1. Introduction

Donor ideology has not generally been the focus of the main literature on foreign aid, but a number of recent studies have shed light on its effect (e.g. Chong and Gradstein 2008; Round and Odedokun 2004, Thérien and Noel 2000). In particular, our analysis partly accords with the recent work of Tingley (2010), which argues that economically conservative donor governments significantly reduce bilateral aid to poor countries and multilateral aid, but not bilateral aid to middle-income countries. The overall ideology effect, moreover, is corroborated by the relevant case study literature and studies of public opinion (Chong and Gradstein 2008) which establish the connection between leftist leanings and willingness to support foreign aid. To account for the missing ideology effect in the case of middle-income recipients, Tingley points to Fleck and Kilby (2006), who suggest that the effect of commercial interest on economic foreign policy towards middle-income countries is particularly strong.

This paper's innovation is to disaggregate aid flows into its main sub-categories, thus examining another dimension of donor behavior. We abstract from recipient-level variables in order to focus on donors' preferences over the instruments of aid, thus further elucidating the locus and causes of the donor ideology effect. Specifically, we employ OECD data on aid categories to distinguish between bilateral grant and loan elements, and between bilateral and multilateral aid flows. Our results indicate that there is a significant bilateral ideology effect that is mainly driven by an expansion of grant payments under leftist governments, whereas other channels of foreign aid do not exhibit significant ideology effects. These findings suggest that the ideology effect may not only reflect different trade-offs between humanitarian ambition and commercial interest, but also different preferences regarding the tools of foreign aid provision. As a possible rationale, we conjecture that leftist governments may be more averse to burdening developing countries with future debt service obligations. On the other hand, conservative ones may be more skeptical of grants as "international social welfare", and more sensitive to possible risks of corruption and inefficiency posed by a reliance on grants in foreign aid provision. Our results indicate that donors

have not aligned their foreign aid policies so as to reduce the ideology effect, despite arguably harmful effects associated with aid volatility, donor commitment problems and recipient uncertainty. On the contrary, we locate the ideology effect in precisely the tool that has become the dominant mode of bilateral aid, bilateral grants (Nunnenkamp et al. 2005).

In deriving our results, it is worth noting that we abstract from the results of a different strand of aid literature, which is concerned with the question “who gets what”, i.e. with the effects of aid in recipient countries (e.g. Boone 1996, Bjørnskov 2009). For example, our data does not allow us to gauge the effect of donor ideology on income inequality in recipient countries, or any of the more subtle effects that changing donor motives may exert in recipients of aid (e.g. Kilby and Dreher 2009). More generally, we do not control for recipient-level variables in our data, thus assuming that interaction effects do not dominate donor behavior. Our assumption is arguably justified on the grounds that decisions on overall levels of aid (i.e. budgetary decisions in parliament) are often institutionally distinct from the decision about actual recipients (where aid agencies have significant discretionary power). We will turn to this question again in our concluding discussion below.

The remainder of this paper is organized as follows. Section 2 discusses the related theoretical and empirical literature on ideology and foreign aid, and derives our main hypotheses. Section 3 presents the data and lays out the empirical model employed in our analysis. Section 4 reports and interprets the empirical results of our analysis. Section 5 provides further discussion of our findings and concludes.

2. Donor ideology, international organizations, and the determinants of foreign aid allocation

2.1 Approaches to the determinants of foreign aid

Much of the debate on development aid has centered on its ambiguous record of inducing economic growth. In a recent meta-analysis, Doucouliagos and Paldam (2008) conclude that “40 years of research [...] failed to prove that the effect of development aid on growth is statistically

significantly larger than zero” (p. 18), despite existing micro-level documentations of “successful” development projects (World Bank Independent Evaluation Group 2008). Other surveys of the existing evidence are somewhat more optimistic about the effect of aid, arguing that more recent empirical findings points to growth effects conditional on a range of recipient-specific factors such as climatic conditions, political stability and sound economic policy regimes (McGillivray et al. 2005). Nevertheless, the controversy over the effects of aid on development begs the question as to why donor nations in fact decide to allocate development aid in the first place.

The range of possible explanations includes the suggestion that aid may serve to create political stability (Collier and Hoeffler 2004), that it is a means to greater economic freedom or democracy (Boockmann and Dreher 2003), or it may simply be a (presumably unintended) favor to elites in developing countries (Boone 1996, Bjørnskov 2009). Alternatively, recipient nations may welcome conditional aid flows as a commitment device to overcome domestic opposition to reforms (Vreeland 2003). Potentially only some subsection of aid flows are beneficial, whereas others are harmful (Ouattara and Strobl 2008).

The dominant literature commonly (often implicitly) equates poverty and lack of development with a “need” for aid, thus maintaining that donors consider aid a suitable means to facilitate growth (or an alternative measure of development). Typically, these “need-based” explanations are contrasted with “interest-based” models of foreign aid disbursement (Maizels and Nissanke 1984, McKinlay and Little 1977, McKinlay and Little 1978, Younas 2008). The former emphasizes recipient-specific variables as the driving force of aid: the failure of countries to generate growth, and the misery of their people, are supposed to explain the existence and scope of aid programs to facilitate economic development and alleviate human suffering. Less prosperous countries are expected to receive more generous amounts of aid. This “demand-side” account abstracts from the entanglement of development assistance with the strategic and economic goals that donors are pursuing for reasons of their own. The “interest-based” hypotheses of development aid, on the other hand, focus on exactly these donor-specific variables. Development aid is

conceptualized as one tool of wealthy nations to align poor nations' policies with their own agenda. Military-strategic alliances, market access, and voting support in international organizations are among the ends donors may pursue in allocating aid (McGillivray and White 1993, Maizels and Nissanke 1984). Testing for the simple need/interest alternative does little, however, to identify the donor-level characteristics that may shift motivations and willingness of particular donors to engage in foreign aid activity over time.

2.2 International Organizations and foreign aid

While we are mainly concerned with the behavior of sovereign donor countries, it is worth reflecting on the impact that multilateral intermediaries exert on foreign aid flows. In terms of the need/interest dichotomy, some studies have suggested that recipient needs may drive aid flows through multilateral organizations, while donor interests dominate bilateral aid (Maizels and Nissanke 1984, Tsoutsoplides 1991). Other studies indicate that international organizations may provide a channel for donors to project their interests. For example, development aid has been linked to voting behavior in international organizations, suggesting it may serve to “buy” votes in the United Nations Security Council (Kuziemko and Werker 2006, Dreher et al. 2009) or the General Assembly (Dreher et al. 2008a).³ Moreover, bureaucratic dynamics may influence aid allocation at the international level, potentially insulating multilateral aid flows from fluctuations in donor-level characteristics (Dreher et al. 2008b, Tingley 2010). More cautiously, the OECD emphasizes the prominence of multi-year planning in the allocation of multilateral aid (OECD 2009), although the resulting aid flow projections may not be binding on donor governments.

The overall effect of international organizations on foreign aid flows and effectiveness is arguably ambiguous. On the one hand, the proliferation of agencies and organizations dedicated to development assistance has led to a large increase in channels available to donors for distributing aid to recipients. Indeed, it is now common to discuss the “fragmentation” of the aid industry, which

³ Dreher et al (2008) find significant effects only for the U.S., not for a larger set of donor countries

may imply duplications of aid efforts, a failure to realize economies of scale, or other inefficiencies (Knack and Rahman 2007). On the other hand, multilateral aid allocation may serve to adjudicate divergent interests, playing an intermediating role between donors and recipients, who both have to cooperate in the dispensation of aid (Martens 2005).⁴ In addition, multilateral aid agencies strike a particular balance between competing donor interests or preferences, potentially making aid more predictable and avoiding the harmful effects of aid volatility and uncertainty (Arellano et al. 2009).

A priori, international organizations may also serve to better coordinate aid efforts by donor countries. Empirically, however, there seems to be little evidence for effective coordination (Mascarenhas and Sandler 2006, Thiele et al. 2007). Moreover, the overall effect of donor coordination need not be beneficial (Torsvik 2005), yet it may improve outcomes in the context of conditionality (Svensson 2000).

2.3 Ideology and the allocation of aid

The ideological composition of particular governing coalitions in donor countries is absent from otherwise extensive studies of donor behavior (Berthélemy and Tichit 2004, Berthélemy 2006). Nevertheless, the role of ideology in the allocation of aid has been approached from several angles. For example, ideology has been identified as an explanatory factor in the determination of aid during the Cold War (Boschini and Olofsgard 2002). Qualitative analyses of U.S. foreign aid generally stress the support to “anti-communist” regimes as a driving force of U.S. aid allocation (Schraeder et al. 1998). To measure ideology in terms of Cold War allegiances does not, however, allow for great variation: countries may have been aligned with either of two “blocs”, or they may have been on the fence (i.e. “unaligned”) – furthermore, alliance membership was heavily influenced by military-strategic considerations, and by the competition for client states between the two superpowers. Finally, the “ideology” of donor governments almost never changed in terms of the

⁴ At a minimum, sovereign recipients retain a veto right over projects carried out on their territory.

“communist”/“anti-communist” divide. Therefore one cannot infer the effect of a change in government in a donor country on aid flows based on this binary variable.

Aid conditionality requirements may be considered another expression of donor ideology: standards of accountability, representation and “good governance” are expressions of liberal democracy as it has been promoted by the “West” at least since the Cold War, often expressly in opposition to alternative paradigms (especially fascism and communism; Hook 1998). This “ideology” measure, however, can only be applied to aid recipients. It does not provide a criterion by which to evaluate the ideological motivation of donor countries, precisely because it represents the consensus among donor countries about minimum standards of acceptable government. While aid conditionality may be applied more strictly by some donors than by others (Meernik et al. 1998), this variation will not easily track the effect of ideological shifts (i.e. changing governing coalitions) within a donor country on aid expenditure flows over time.

In addition, ideology has been an explanatory factor in case studies of individual donor countries, albeit sometimes in idiosyncratic fashion. For the case of the U.S., party affiliation has been shown to influence the willingness at the level of individual parliamentarians to authorize foreign aid allocation (Fleck and Kliby 2001, p. 607; Milner and Tingley 2010). Similarly, the composition of the U.S. executive and legislature influences the aggregate level of U.S. foreign aid (Democrats give more aid; Fleck and Kilby 2006). The Swedish approach to foreign aid has been explained largely by humanitarian concern, yet this same factor has also been framed as an ideological (social democratic) “solidarity tradition” (Schraeder et al. 1998). Another country-specific explanation with an ideological connotation is France’s support for La Francophonie, which may be related to the French aversion to Anglo-Saxon-style capitalism (Rioux and Van Belle 2005, Grunberg 2005). The problem with case-study explanations is their lack of generality: solidarity with the Third World, or with the French-speaking subsection of it, may have been attributable to specific ideological currents in individual donor countries – but across the universe of donors, these explanations tell us little about the general effect of donor ideology on aid.

These limited measures of ideology suggest the value of accounting for changes in the ideology of governing parties in donor nations over time. In an early study, Imbeau performs a simple regression analysis for 17 OECD countries at four points in time (Imbeau 1988), concluding that the share of votes for leftist parties in a donor country, interacted with its total government expenditure, captures a larger share of the variation in the share of GNP committed to Official Development Assistance than alternative explanatory variables that capture strategic interests or humanitarian needs. Chong and Gradstein (2008), include a donor “left wing” dummy and find that it is associated with higher aid allocation, a point which is corroborated by the fact that self-identified “liberal” (i.e. left-leaning) individuals are significantly more likely to approve of government aid efforts than conservative individuals. Other recent studies have included some set of ideology variables (Thérien and Noel 2000, Round and Odedokun 2004). The first study to fully account for dynamic donor-side ideological shifts, however, is Tingley (2010), who concludes that left-wing governments raise bilateral aid to low-income countries, as well as multilateral aid.

2.4 Hypotheses about donor ideology effects

In light of the previous discussion, how would we expect the ideological position of governing coalitions in donor countries to influence the disaggregated components of foreign aid? If we conceive of government ideology as a simple left-right spectrum, does this measure influence the growth of certain types of aid?

One possible source of difference between donor governments of various ideological stripes is the degree to which they view state-administered development assistance as desirable per se (i.e. independent of its cost to the donor). To the extent that development assistance is the international analogue of welfare payments, we would expect leftist governments to be more enthusiastic about the humanitarian value of foreign aid than conservative ones (Imbeau 1988). Harnessing the powers of the state to reduce inequality and alleviate human suffering are fundamental elements of “left” ideology and should increase donor propensity to give foreign aid, while the conservative emphasis on individual responsibility and subsidiarity should have the opposite effect (Hicks and Swank 1992).

Moreover, the relative proximity of right-wing economic ideology to libertarian philosophy suggests that the impulse of conservative governments to limit the scope of state activity, or to “shrink” the state outright, may negatively affect foreign aid budgets as well (Adams 1998). Conservatives may prefer to advocate private donations to non-governmental organizations, for example, rather than committing tax revenue (Schweinberger and Lahiri 2006, Chong and Gradstein 2008).

If we accept the view that development aid is partly used to further donor countries’ interests, then aid becomes but one instrument in the toolbox of diplomacy. As such, there should be some degree of substitutability between aid and other foreign policy instruments. In particular, development aid is emphatically “civilian”, but it will sometimes be given in pursuit of goals that might equally be served by military instruments. Stabilizing a weak government in a fragile (and poor) country, for example, could be achieved by transferring large amounts of development aid to this government, or it may equally be achieved by selling arms to the government, or by deploying military trainers, advisors, or even combat troops to that country. When facing the choice between (civilian) development assistance and military means in addressing a particular foreign policy objective, we expect a left-leaning government to be more inclined to choose the former, whereas a conservative government may be relatively more willing to contemplate the latter. This tendency should further raise aid expenditure under left-of-centre donor governments, as compared to right-of-centre governments.

As regards the individual components of aid, which ideology effects are likely? First, we expect leftist governments to have a stronger preference for multilateral cooperation in assisting international development. Consequently they should display greater enthusiasm for supporting international organizations tasked with distributing development, thus allocating more money to multilateral aid. There may be considerable substitution effects between bilateral and multilateral aid: leftist governments may simply channel aid payments through multilateral bodies, rather than allocating them bilaterally. Still, the overall effect on aid flows should clearly be non-negative.

Second, we expect leftist governments to prioritize grants over loans, relative to conservative governments. The literature suggests that grants differ from loans mainly in two ways. First, grants may have inferior incentive properties: while loans raise domestic resource mobilization, raising grant aid is often compensated by a reduction in domestic resources. In countries with high corruption, the net effect may even be negative (Gupta et al. 2003). Odedokun (2003, 2004) confirms this effect, but only for low-income recipient countries. The second difference between grants and loans concerns their growth effects: even though loans may increase the overall resources available to recipients (Rajan 2005), the problem of “debt overhang” suggests that donors’ reliance on loans may have negative growth effects for low-income countries (Rogoff 2003). The latter effect, however, may not be sizeable (Nunnenkamp et al. 2005). With regard to these competing effects, we expect leftist governments to be more likely to rely on grants, since they may be more reluctant to impose debt-service obligations on recipients. Moreover, they may be more at ease with grants as the equivalent of domestic welfare payments. Conservative governments, on the other hand, may be relatively more pessimistic about incentive problems in recipient countries, and thus more sensitive to the corruption risk inherent in grants.

In sum, we expect that governments on the left are more willing to engage in aid allocation to the extent that it represents “international social policy”, that they will tend to substitute “civilian” aid for military instruments in their foreign policies, and that they are relatively more enthusiastic about the international organizations set up to administer multilateral development aid flows, and more willing to rely on grants in designing bilateral aid. Overall, we expect governments on the left side of the political spectrum to allocate more development aid than governments on the right side of the political spectrum.

3. Data and Empirical Approach

3.1 Components of Foreign Aid Flows

We utilize aid category variables for 23 OECD countries in the period 1960-2008. These data are compiled by the OECD Development Assistance Committee (DAC), based on information reported by OECD member states through the Creditor Reporting System (CRS). The definitions of the main aid component categories are given as follows.

Official Development Assistance (ODA)

This variable captures the overall level of foreign aid by OECD member states. All items in this category must have been provided by official agencies, at any level of government. Each must have the promotion of economic development and recipients' welfare as its main objective. Furthermore, only transactions with concessional character are reported as ODA. The threshold for inclusion is a grant element of at least 25 per cent (calculated with a discount factor of 0.9).

It is worth noting that these criteria exclude a number of forms of assistance to developing nations from the purview of Development Assistance. For example, support aimed at improving the recipient's armed forces is generally not considered by the OECD. Moreover, loans at market rates do not count as Development Assistance. ODA as a share of GDP over time is reported for each of the 23 countries in our sample in Figure 1.

Bilateral ODA

This category comprises assistance rendered directly by donors to recipients. It includes grant payments, as well as non-grant elements, i.e. loans by governments and official agencies at concessionary rates. Figure 2 reports this variable as a share of GDP for all countries in our sample.

Bilateral Grants

This aid category includes all bilateral ODA payments in the form of pure grants. It is the sum of various project and program aid payments, technical co-operation, subsidies associated with other financing packages, food aid payments, humanitarian aid, and debt forgiveness. Moreover,

support payments to NGOs and private bodies in the recipient country, and to public-private partnerships, are counted towards bilateral grants. This category also includes payments for promotion of development awareness, to refugees in donor countries, and some administrative expenses. This variable (as a share of GDP) is reported for all countries in the sample in Figure 3.

Multilateral ODA

This category is the sum of grants and capital subscriptions, as well as concessionary lending, to multilateral aid agencies recognized by the DAC. These include UN agencies, the EC development budget, World Bank and regional development banks, and other agencies. Multilateral ODA as a share of GDP for all countries in the sample is reported in Figure 4.

3.2 Measures of Donor Ideology

In order to identify the effects of government ideology on foreign aid, we match our data on aid categories to a suitable index of government ideology in donor countries. This index locates governments along a simple left-right spectrum, making government ideology comparable across countries and across time despite significant heterogeneity of parties and parliamentary systems in the various nation states. In ranking any particular government, we face a number of complexities, especially when there are more than two parties in government, each with different ideological orientation. We employ the government ideology index proposed by Potrafke (2009a), which is based on the index of governments' ideological positions by Budge et al. (1993) and updated by Woldendorp et al. (1998, 2000). This index places the cabinet on a left-right scale with values between 1 and 5. It takes the value 1 if the share of governing rightwing parties in terms of seats in the cabinet and in parliament is larger than $2/3$, and 2 if it is between $1/3$ and $2/3$. The index variable value is 3 if the share of centre parties is 50%, or if the leftwing and rightwing parties form a coalition government that is not dominated by one side or the other. The index is symmetric and takes the values 4 and 5 if the leftwing parties dominate in analogous fashion. Potrafke's (2009a) coding is consistent across time but does not attempt to capture differences between the party-families across countries. Years in which the government of a country changes are labeled according

to the administration which held office for the largest part of that year. For example, the year of a general election which replaces an incumbent government in August will be labeled according to the ideology of the incumbent.

3.3 Empirical Model

The estimated (basic) panel data model has the following form:

$$\Delta \ln \text{Foreign Aid Category}_{ijt} = \alpha \text{Ideology}_{it} + \sum_k \beta_k \Delta \ln X_{ikt} + \text{Cold War Dummy}_t + \eta_i + \varepsilon_t + u_{ijt}$$

(1)

with $i = 1, \dots, 23$; $j = 1, \dots, 4$; $k = 1, 2$; $t = 1, \dots, 47$

The dependent variable $\Delta \ln \text{Foreign Aid Category}_{ijt}$ denotes growth rate of foreign aid spending in category j (as a share of GDP) in country i and year t . We distinguish between ODA, bilateral ODA and multilateral ODA, and also examine bilateral grants as the most important component of bilateral ODA. The key explanatory variable Ideology_{it} denotes the ideological orientation of the corresponding donor government. $\sum_k \beta_k \Delta \ln X_{ikt}$ contains two exogenous economic control variables: following Tingley (2010) we include the growth rate of real GDP per capita, as well as trade-openness (sum of imports and exports as a share of GDP). Cold War Dummy_t describes a dummy variable that takes the value 1 in the period before 1991 and 0 in the period after 1991. Finally, η_i represents a fixed country effect, ε_t is a fixed period effect and u_{ijt} is an error term. The appendix provides descriptive statistics and sources of all variables included.

In contrast to Tingley (2010), we regress the growth rate of the foreign aid spending categories on the government ideology variable in levels. This approach suggests that leftist and rightwing governments implement their preferred policies incrementally, that is, step by step over the course of the legislative period. Due to our empirical setup with a static government ideology

index, it would be inappropriate to regress the growth rates of foreign aid spending categories on the growth rates of the government ideology indices.

As regards our choice of panel data estimation method, we estimate the model with feasible generalized least squares and implement heteroscedastic and autocorrelation consistent (HAC) Newey-West type (Newey and West 1987) standard errors and variance-covariance estimates. This procedure is indeed appropriate, as the Wooldridge test (Wooldridge 2002, pp. 176-177) for serial correlation in the idiosyncratic errors of a linear static panel-data model indicates the existence of arbitrary serial correlation.

4. Results

4.1 Basic results

The results in Table 1 show that government ideology did not influence the growth of spending on ODA, bilateral ODA and multilateral ODA. The coefficient of the ideology variable does not turn out to be statistically significant in columns (1) to (3). The control variables mirror Tingley's (2010) results: GPD per capita and trade-openness do not turn out to be statistically significant. The Cold War dummy has a positive coefficient and is statistically significant at the 1% level in columns (2) and (3), which indicates that the growth of foreign aid spending on bilateral and multilateral ODA was higher in the 1960-1990 period than in the 1991-2008 period.

Our estimates of ideology effects diverge from Tingley (2010), whose results indicate significant ideology effects. Possible explanations for this discrepancy are that Tingley (2010) regresses the first differences of foreign aid spending on the first differences of the ideology variables, while we regress the growth rates of foreign aid spending on the level of the government ideology index. Furthermore, we consider a longer observation period and a larger sample of donor countries. Finally, we employ a different government ideology index.

The results in Table 2 demonstrate, however, that government ideology strongly influenced the growth of foreign aid spending on bilateral grants: leftwing governments significantly increased

spending on bilateral grants. The coefficient of the government ideology index is statistically significant at the 1% level in columns (1) to (4) and indicates that the ideology-induced effect is not sensitive to the econometric specification. Numerically, an increase of the ideology variable by two points – say from 2 (rightwing government) to 4 (leftwing government) – would increase the predicted growth rate of foreign aid spending on bilateral grants by about 5%.

4.2 Robustness checks

We ensure the robustness of our estimates in several ways. For example, the model can be estimated using a dynamic panel data model, but in the context of dynamic estimation, the common fixed-effect estimator is biased. Estimators that take into account the resulting bias can be broadly grouped into a class of instrumental estimators and a class of direct bias corrected estimators (as discussed in Behr 2003, for example). Due to the large sample properties of the GMM, estimators such as that proposed by Arellano and Bond (1991) would be biased in our econometric model with $N=23$. For this reason, bias corrected estimators are more appropriate. Thus we apply Bruno's (2005a, 2005b) bias corrected least squares dummy variable estimator for dynamic panel data models with small N .⁵ Table 3 shows the regression results using this alternative dynamic bias corrected estimator. Implementing this procedure does not change the inferences drawn from Table 1 and 2.

Our results could be sensitive to our choice of government ideology index. Therefore, we have replaced Potrafke's (2009a) government ideology indicator by an alternative one: Bjørnskov's (2008a) index is based on the Henisz (2000) database on political outcomes since the 19th century,

⁵ We choose the Blundell-Bond (1998) estimator as the initial estimator in which the instruments are collapsed as suggested by Roodman (2006). This procedure makes sure to avoid using invalid and too many instruments (see Roodman 2006 and 2009 for further details). Following Bloom et al. (2007) we undertake 50 repetitions of the procedure to bootstrap the estimated standard errors. Bootstrapping the standard errors is common practice applying this estimator. The reason is that Monte Carlo simulations demonstrated that the analytical variance estimator performs poorly for large coefficients of the lagged dependent variable (see Bruno 2005b for further details). The results do not qualitatively change with more repetitions such as 100, 200 or 500 or when the Arellano-Bond (1991) estimator is chosen as initial estimator.

and the general approach to measuring political ideology follows Bjørnskov (2005, 2008b). Contrary to the index employed in Bjørnskov (2005, 2008b), however, the Bjørnskov (2008a) index explicitly “takes the social democrat party in a given country as an internationally comparable anchor around which other parties are placed on a five-point scale (-1; -.5; 0; .5; 1) from left to right” (Bjørnskov 2008a: 5). Moreover, the Bjørnskov (2008a) index stresses the potential importance of the domestic political environment, in particular whether governments have a majority in parliament or not. The Bjørnskov (2008a) index is available for the 1970-2004 period. Applying this index does not change our inferences.

We also replaced the growth rate of trade-openness with the growth rate of the KOF index of globalization (Dreher 2006, Dreher et al. 2008a). The reason is that globalization is a multi-faceted concept that may be but imperfectly captured by any single economic indicator such as international trade openness. The KOF index of globalization is available for the 1970-2006 period. It does not, however, turn out to be statistically significant, and including the index does not change our inferences regarding ideology effects.

As a final check of robustness, we consider that reported effects may depend on idiosyncratic circumstances in individual countries. We therefore test whether our results are sensitive to the exclusion of particular countries. For bilateral grants, the influence of both ideology indices does decline somewhat when France and Sweden are excluded, while increasing when the United States are excluded. The latter fact points to small policy differences between Democrats and Republicans in the U.S Congress. The influence of the Bjørnskov government ideology index also declines when Finland, New Zealand and the United Kingdom are excluded, and it increases when Portugal is excluded. Overall, however, the inclusion/exclusion of any single country does not change our general inferences about the effects of government ideology on the components of foreign aid.

Lastly, we have alternatively estimated the model with panel corrected standard errors according to Beck and Katz (1996) in order to control for potential contemporaneous correlation

across the countries. Again, this modification does not turn out to suggest any change to our inferences.

5. Conclusion

Our results indicate that the impact of government ideology in donor countries is most significant in the area of bilateral grant payments to developing countries. We find significant ideology effects for this dependent variable, but unlike Tingley (2010) we find no significant effects on overall bilateral ODA, multilateral ODA, or total ODA. We employ several procedures to ensure the robustness of our results.

Based on our empirical analysis, we conclude that the main ideology effect in the determination of aid flows over the sample period has been in the area of bilateral grant payments. This result concerning the tools of bilateral aid complements the results of Tingley (2010) regarding recipient-dependent ideology effects. While Tingley (2010) adopts the interpretation of Fleck and Kilby (2006) that ideology effects are less pronounced for middle-income recipients because commercial interests dominate relations between donors and middle-income recipients, whereas aid to low-income countries is mostly driven by humanitarian concern, our results suggest that the apparent recipient-dependence of ideology effects may be partly due to different preferences over the tools of aid policy. Leftists governments may be more willing to engage in grant payments for humanitarian reasons, whereas conservatives may be more skeptical of such “international social policy”, or potentially more pessimistic regarding the risks of corruption associated with grants to poor recipients.

As to the possible policy implications of our findings, it is worth noting that the channel which we identified as the main locus of the ideology effect – bilateral grants – has increasingly become the dominant form of bilateral aid (Nunnenkamp et al. 2005). Tingley (2010) raised the issue of additional aid volatility induced by ideology effects, which may reduce the utility value of aid to recipients. A priori, one may suppose that those channels of foreign aid which are less susceptible to

ideology effects should be preferable. Based on our empirical results, however, we find that the evidence points in the opposite direction: donors' instrument of choice is precisely that for which ideology effects have been the strongest in our sample. It seems plausible to interpret this fact as supporting "interest"-based accounts of bilateral aid. Conversely, multilateral aid expenditures have been less beset by ideological effects, which may tentatively be construed as a benign consequence of channeling aid through international organizations.

While we have deliberately focused on donors' choices between alternative channels of foreign aid dispensation, we implicitly assumed that they are independent of donors' pick of preferred recipients. We can justify this simplification by arguing that aid budget decisions and geographical priorities may be institutionally distinct in many countries. In particular, parliaments may typically determine the aid budget, or set a ceiling on various types of aid. By contrast, channeling aid to particular countries may more often be at the discretion of aid agencies, either explicitly (e.g. by focusing on certain regions), or implicitly (by setting the standards by which to evaluate project or loan applications). While institutional facts may thus warrant a close look at donors' chosen channels of aid, there is still vast potential for exploring interaction effects. For example, a new government's ideologically motivated decision to raise foreign aid for the purpose of poverty relief may lead to either grant payments or loan provision, depending on recipient attributes (e.g. level of corruption or fiscal position). Future research may yield greater insight into donors' choice of instruments by using richer data that allow for controlling for recipient-level variables and interaction effects. It may then be possible to establish firmer connections between ideological motivation and preferences over instruments of foreign aid.

Finally, aid expenditure levels may be a flawed basis for drawing normative conclusions about foreign aid altogether. Kilby and Dreher (2009), for example, demonstrate that donor motives matter for the effects of aid payments, irrespective of levels of expenditure. Similarly, selecting a mechanisms of aid allocation may be as important as setting the amount of aid (e.g. Epstein and Gang 2009). It follows that conceptually, we should not conflate the "ideology effect" with simple

expenditure shifts. Future research may pay equal attention to the extent shifting donor ideology is associated with shifting motives for giving aid, or with different preferences over allocation mechanisms. While it has been shown that volatility in aid flows can be harmful to recipients (see, for example, Buffie et al 2010, Arellano et al. 2009), ideological shifts may yet have additionally effects. To capture the full range of “ideology effects”, future research should further explore these aspects of foreign aid transfers.

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Figures and Tables

Figure 1: ODA (as a share of GDP)

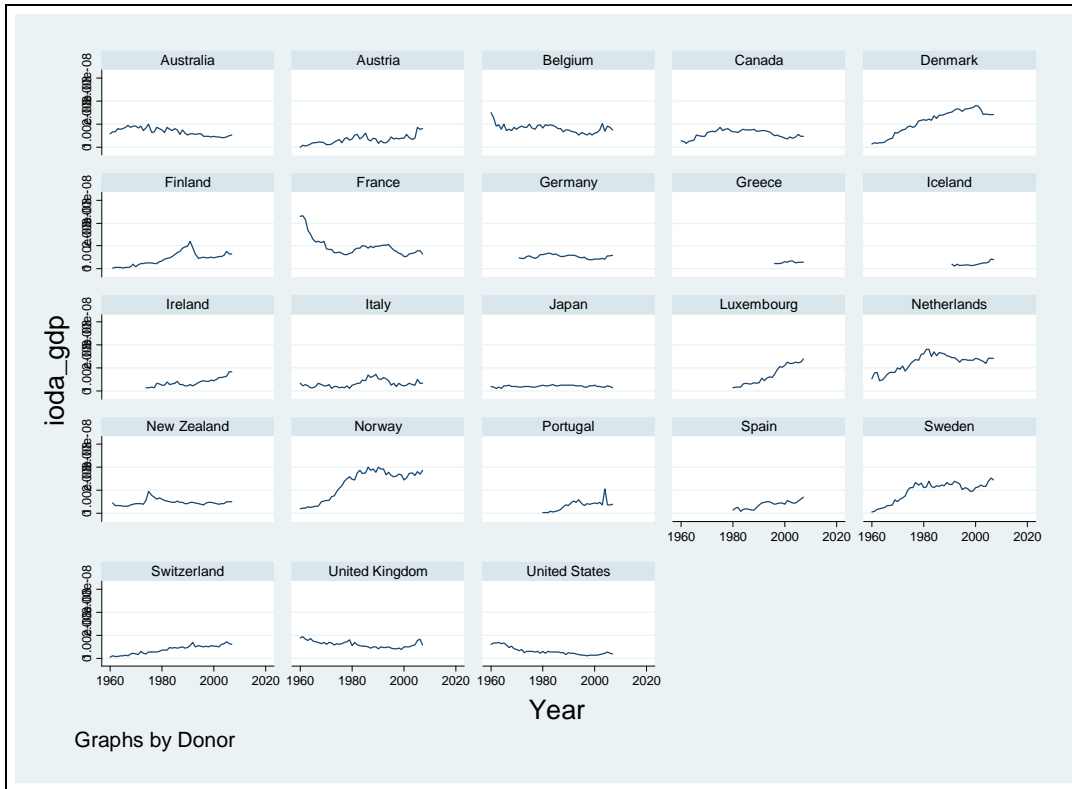


Figure 2: Bilateral Aid (as a share of GDP)

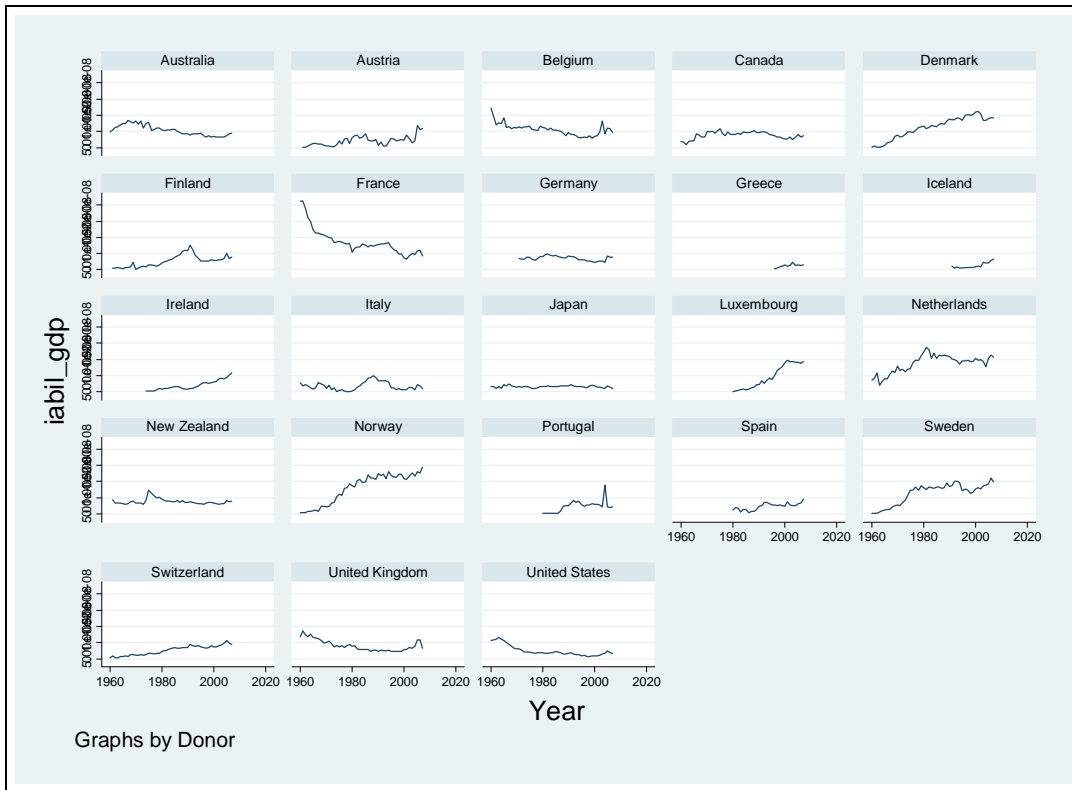


Figure 3: Bilateral Grant Aid (as a share of GDP)

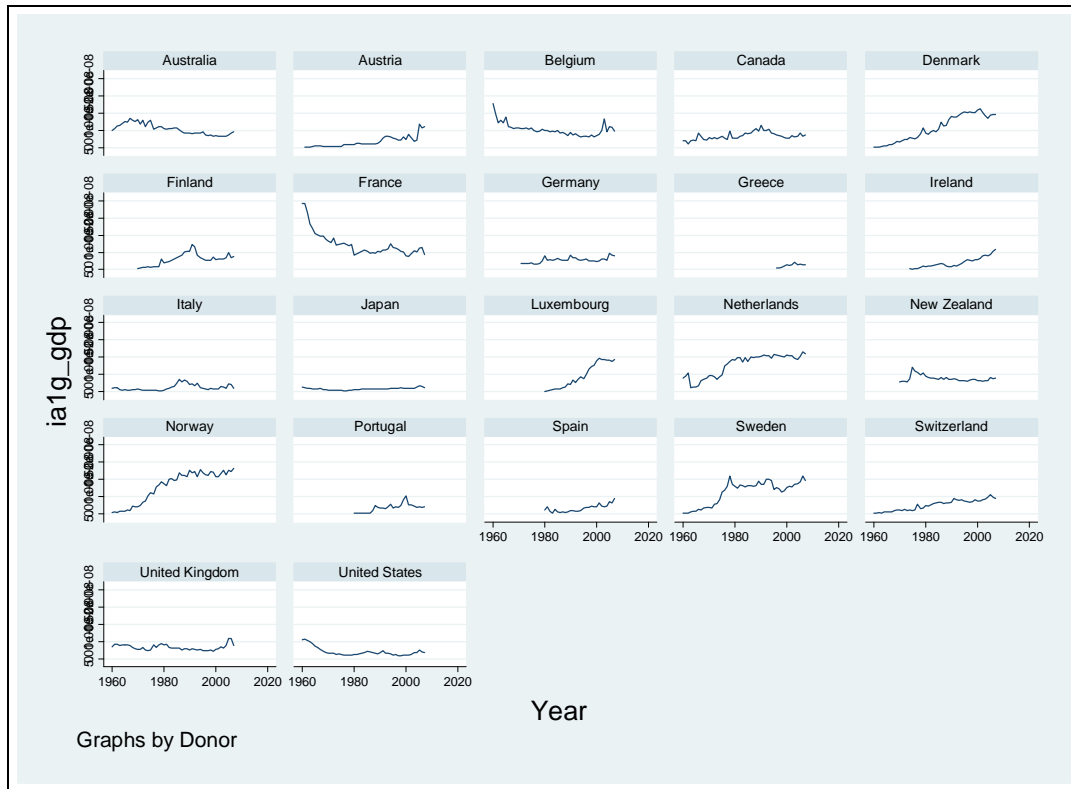


Figure 4: Multilateral Aid (as a share of GDP)

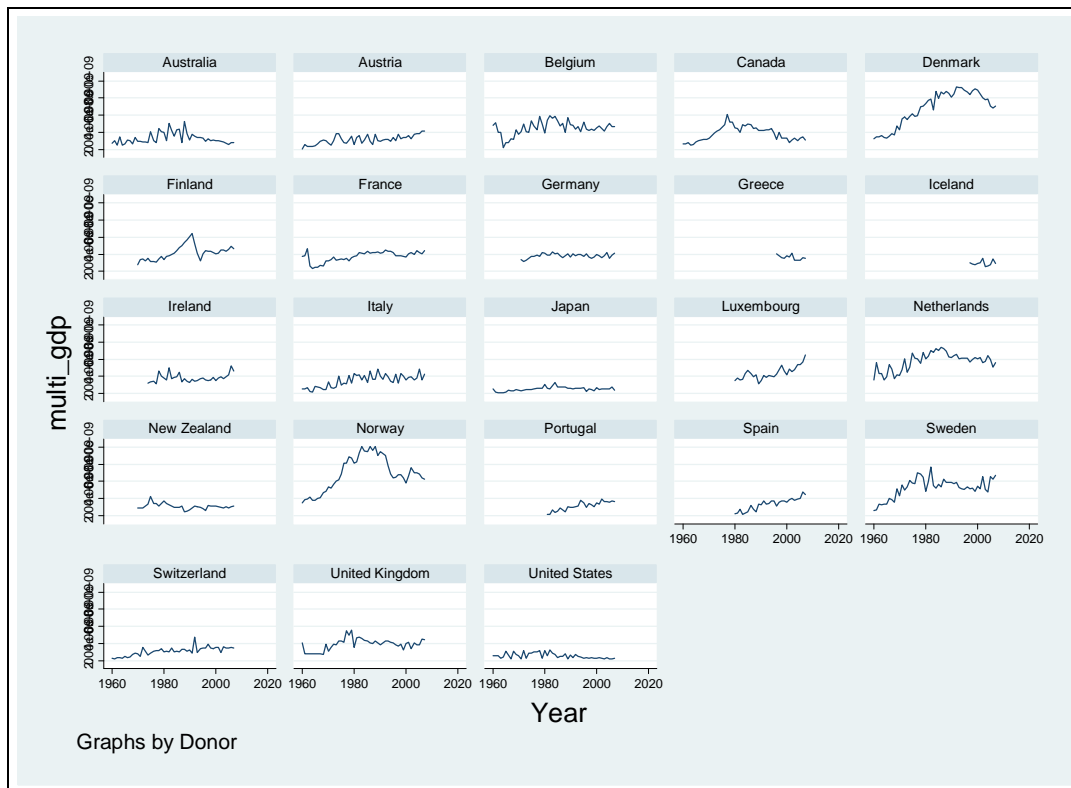


Table 1: Regression ResultsDependent variable: $\Delta \ln$ Foreign Aid payment of category j (as a share of GDP).

FGLS with robust standard errors.

	(1)	(2)	(3)
	Overall	Bilateral	Multilateral
	ODA	ODA	ODA
Ideology (leftwing)	0.0074 [0.92]	0.0127 [1.22]	-0.0023 [0.36]
$\Delta \ln$ GDP per capita (real)	-0.2505 [0.55]	-0.8433 [0.82]	-1.2629* [1.86]
$\Delta \ln$ Trade (as a share of GDP)	-0.1166 [0.50]	-0.3165 [0.76]	0.313 [0.76]
Cold War	0.3688 [1.58]	0.2988*** [3.03]	0.4850*** [3.33]
Constant	-0.0448 [1.16]	-0.0846 [1.47]	0.0469 [1.01]
Fixed country effects	Yes	Yes	Yes
Fixed period effects	Yes	Yes	Yes
Observations	907	902	895
Number of n	23	23	23
R-squared (overall)	0.09	0.07	0.10

Notes: Absolute value of t statistics in brackets;

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 2: Regression ResultsDependent variable: $\Delta \ln$ Grants (as a share of GDP).

OLS and FGLS with robust standard errors.

	(1)	(2)	(3)	(4)
Ideology (leftwing)	0.0255*** [2.75]	0.0266*** [2.87]	0.0227*** [3.00]	0.0235*** [2.93]
$\Delta \ln$ GDP per capita (real)				-0.0039 [0.01]
$\Delta \ln$ Trade (as a share of GDP)				0.0959 [0.35]
Cold War				0.1181 [1.36]
Constant	-0.0387 [1.37]	-0.0576 [1.02]	0.0085 [0.21]	-0.1490** [2.53]
Fixed country effects	No	No	Yes	Yes
Fixed period effects	No	Yes	Yes	Yes
Observations	888	888	888	881
Number of n	22	22	22	22
R-squared (overall)	0.01	0.01	0.08	0.08

Notes: Absolute value of t statistics in brackets;

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 3: Regression Results. Robustness checks.Dependent variable: $\Delta \ln$ Foreign Aid payment of category j (as a share of GDP).

Dynamic bias corrected estimator

	(1)	(2)	(3)	(4)
	Overall	Bilateral	Multilateral	Bilateral
	ODA	ODA	ODA	Grants
Ideology (leftwing)	0.0095 [0.99]	0.0136 [0.91]	-0.0041 [0.33]	0.0253*** [2.66]
$\Delta \ln$ GDP per capita (real)	-0.2841 [0.67]	-0.4119 [0.46]	-0.8396 [1.33]	0.304 [0.61]
$\Delta \ln$ Trade (as a share of GDP)	-0.028 [0.19]	-0.2211 [0.60]	0.4268 [1.46]	0.0967 [0.54]
Cold War	0.0295 [0.42]	0.3310** [2.13]	0.0151 [0.10]	0.1000 [1.04]
Lagged dependent variable	-0.2395*** [7.09]	-0.3050*** [8.42]	-0.4226*** [15.05]	-0.0761** [2.12]
Fixed country effects	Yes	Yes	Yes	Yes
Fixed period effects	Yes	Yes	Yes	Yes
Observations	884	879	873	860
Number of n	23	23	23	23

Notes: Absolute value of t statistics in brackets;

* significant at 10%; ** significant at 5%; *** significant at 1%

Table A1: Descriptive statistics and sources

Variable	Obs.	Mean	Std. Dev.	Min	Max	Source
Overall ODA (as a share of GDP)	948	6.22E-09	4.34E-09	2.56E-11	2.32E-08	OECD (2009)
Bilateral ODA (as a share of GDP)	944	4.27E-09	3.21E-09	0	2.13E-08	OECD (2009)
Multilateral ODA(as a share of GDP)	925	2.05E-09	1.53E-09	2.56E-11	8.05E-09	OECD (2009)
Bilateral Grants (as a share of GDP)	911	3.90E-09	3.17E-09	0	1.92E-08	OECD (2009)
Ideology (leftwing)	1078	2.85	0.88	1	4	Potrafke (2009a)
GDP per capita (real)	1093	18051.86	8613.31	2343.19	56189.01	World Bank (2009)
Trade (as a share of GDP)	1076	65.91	41.47	9.31	314.44	World Bank (2009)
Coldwar Dummy	1127	0.63	0.48	0	1	Own Calculation
Ideology (rightwing)	786	0.29	0.36	-0.57	1	Bjørnskov (2008a)
KOF index of globalization (overall)	851	71.64	12.36	37.46	93.46	Dreher (2006) and Dreher et al. (2008a)