Dyadic Leader Change, Foreign Policy Signals, and Aid Allocation

Tobias Rommel
University of Zurich
rommel@ipz.uzh.ch

Paul Schaudt
University of Hannover
schaudt@glad.uni-hannover.de

Version: December 31, 2015

Abstract

We study the effect of foreign policy signals – measured as changes in the voting alignment in the United Nations General Assembly between a donor and a recipient country – following both donor and recipient leadership change on aid commitments between the G7 and 124 recipient countries from 1975 to 2011. We find that the first impression of recipients in the international arena is a major determinant of aid provision. New recipient leaders that send positive (negative) signals towards their donors benfit through increasing aid (suffer from major aid cutbacks). Further, recipients that are welcoming towards a new G7 leader similarly experience sizable aid increases. Our findings thus highlight that the mechanism is diverse for the different types of leader changes. In summary, our results show that leader changes in both recipient and donor countries are predetermined breaking points in the relationship between any two countries and significantly influence development aid allocation. Future research on aid allocation should take the dyadic structure of bilateral relations into account and not exclusively consider changes in recipient country governments.

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1 Introduction

Political leaders in the developing world have long been complaining about their political and economic dependence on economically powerful countries. These complaints have certainly been true during the Cold War. For example, toppling of unfavorable political leaders and regimes due to commercial reasons was common practice by both superpowers. Berger et al. (2013) provide a comprehensive list of United States' CIA interventions during the Cold War. Yet, while such blatant interferences into politics of developing countries have nowadays become rather scarce, subtle means may have prevailed.

In this regard, Dreher and Jensen (2007) show that the United States frequently use their weight in the IMF to give friendly regimes access to IMF loans with loose conditions during election years. Research also shows that the allocation of development aid is, at least to some extent, politically motivated (Dreher et al., 2009a,b; Dreher and Sturm, 2012). Faye and Niehaus (2012) demonstrate that big donors reward countries that are politically aligned with them in the United Nations General Assembly (UNGA) with substantially higher amounts of development aid during elections years, thereby creating political aid cycles that reinforce political business cycles (Rogoff, 1990). Given the fact that aid-induced business cycles might be especially harmful for the least developed countries (Ebeke and Ölçer, 2013), decrease regime survival (Morrison, 2009; Kono and Montinola, 2009), or escalate the risk of armed civil conflict due to revenue fluctuations (Nielsen et al., 2011), aid disbursement on geopolitical grounds is potentially highly consequential for developing countries.

In this paper, we analyze the effect of leadership change in both donor and recipient countries on aid allocation in the developing world. Given that major donors actively boost re-election prospects of politically aligned recipient country incumbents (Faye and Niehaus, 2012), we contend that leader change in itself should not systematically affect aid allocation. Rather, we argue that the effect of leader change is conditional on the foreign policy signal new leaders send after inauguration. Because the pursuit of foreign policy objectives is usually characterized as the executive branch's prerogative and leadership changes are connected with changes in foreign policy objectives, uncertainty about the behavior of developing countries in international relations is especially high after leadership turnover. In such situations, donors react to signaling. New leaders who signal political friendship receive more aid; countries receive less aid if the newly elected leader signals political hardship. Additionally, we argue that this conditional signaling effect should not only be present in case of leadership changes in recipient countries, but also if recipient countries realign their foreign policy after leadership changes in donor countries.

Regarding the latter, compare the foreign policy objectives of US Presidents Jimmy Carter and Ronald Reagan. While the first emphasized developing countries' chances for democracy and hence free choice of their leaders, the latter carried

out massive interventions in Latin America to dispose unwanted political leaders (Smith, 2012). As a reaction to such administration changes in the US, a recipient country can either signal willingness to work together (even despite opposition to the previous donor country government), or the leader can take a stance and openly oppose the new foreign policy agenda of the donor. The crucial question is: Do the signals recipient leaders send after coming into office or towards new leaders in donor countries affect aid allocation?

One implication of this argument is that we should observe systematic changes in a country's voting behavior in international organizations, because this is an effective way to signal political friendship. The United Nations General Assembly (UNGA) has thereby been the international organization most frequently used to proxy for political friendship using voting alignment between any two countries (e.g, Thacker, 1999; Barro and Lee, 2005; Bailey et al., 2015). While recent studies indeed suggest that heads of executives make a difference when it comes to foreign policy proximity (Dreher and Jensen, 2013; Mattes et al., 2015), the literature focused exclusively on either leadership changes outside the US or monadic position changes. However, we argue that leader changes in donor countries could themselves affect political friendship between the respective donor and another country. Not allowing for this possibility closes an important channel of foreign policy alignment. A change in donor leadership can, for example, provide other countries with the opportunity to 'reset' relations or withdraw their loyalty. While the US remains the major player in world politics, other important donors should not be ignored in order to get a more detailed analysis. We explicitly take this line of reasoning into account and scrutinize the effect of a change in voting alignment in a dyadic administration pair between the G7 and developing countries in the UNGA.

Covering 124 recipient countries from 1975 to 2011, our analysis shows that yearly alterations in foreign policy re-alignment – measured as changes in UNGA voting alignment – have no significant effect on aid commitments. However, adjustment of foreign policy objectives after dyadic administration changes in either the recipient or the donor country's leadership has a huge impact on aid commitments. In addition, we show that aid allocation after leadership change in both the donor as well as the recipient country is contingent on the type of foreign policy signal the recipient countries send. This implies that donor countries disburse development aid strategically. On a broader scale, these findings suggest that leadership changes in donor as well as recipient countries are two sides of the same coin, although the foreign policy signals of recipients seem to be more important, because the effect takes much longer to fade out. Hence, focusing only on monadic leadership change in recipient countries is not able to capture the variation in the allocation of aid induced by leadership change in the donor country. Our findings also show that donor as well as recipient changes are an important determinant of aid flows. New leaders thus face a dilemma according to which they have to decide early on, how to deal with their international aid providers.

We proceed as follows: Section 2 lays out our theoretical argument linking dyadic leadership change, political alignment, and aid allocation. Section 3 describes the data. Section 4 discusses the empirical results. Section 5 presents robustness tests. Section 6 concludes.

2   Theoretical Argument

This section develops our theoretical argument in three steps: First, we review studies that link political alignment and aid allocation. Then, we provide the rationale for incorporating dyadic leadership change into these models. Finally, we use this insight and argue that leadership change in either country should be associated with foreign policy uncertainty and recipient country governments try to deal with this uncertainty by means of signaling. Given differentiated foreign policy signals after dyadic administration change, powerful donor countries adapt their aid allocation decision accordingly.

2.1   Literature Review: Political Alignment and Aid Allocation

The notion that official development aid (ODA) is, despite its developmental purpose, granted for political reasons is well established in the aid allocation literature.[1] In addition to needs-based factors, Alesina and Dollar (2000) indicate that colonial links and political alliances are major determinants of aid allocation decisions by donors. Kuziemko and Werker (2006) show that temporary members of the United Nations Security Council (UNSC) receive more aid from the United States the moment they gain the right to vote in the UNSC. The rationale is to try to sway these countries to vote in line with the US. Dreher et al. (2008) further show that this vote buying also occurs in the UNGA.

A broad literature has extended this finding to multiple donors that also use international organizations as agents of their influence (Thacker, 1999; Alesina and Dollar, 2000; Kilby, 2006; Andersen et al., 2006; Dreher and Jensen, 2007; Dreher et al., 2009a,b; Dreher and Sturm, 2012). Faye and Niehaus (2012) demonstrate

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[1] We define ODA as those "flows to countries and territories on the DAC list of ODA recipients and to multilateral institutions which are: i. provided by official agencies, including state and local governments, or by their executive agencies; and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)" (OECD, 2015). Over the years the DAC has continuously refined the detailed ODA reporting rules to ensure definitional accuracy and consistency among donors. The boundary of ODA has been carefully delineated in many fields, including: 1. Military aid: No military equipment or services are reportable as ODA. Anti-terrorism activities are also excluded. However, the cost of using donors' armed forces to deliver humanitarian aid is eligible. 2. Peacekeeping: Most peacekeeping expenditures are excluded in line with the exclusion of military costs. However, some closely defined developmentally relevant activities within peacekeeping operations are included. 3. Nuclear energy: Reportable as ODA, provided it is for civilian purposes. 4. Cultural programs: Eligible as ODA if they build the cultural capacities of recipient countries, but one-off tours by donor country artists or sportsmen, and activities to promote the donors' image, are excluded (OECD, 2015).

that big donors reward countries that are politically aligned with them in the UNGA with substantially higher amounts of development aid during elections years, thereby creating political aid cycles. Carter and Stone (2015) can even show that aid bribery is able to explain why democracies are much more closely aligned with the US in the UNGA. Taken together, this evidence points to the fact, that at least some part of development aid serves purely political ends.

However, this type of political interference by powerful donors might not be problematic for developing countries per se, if these funds nevertheless foster economic development. Yet, Dreher et al. (2013) show that aid granted for political reasons is less effective in promoting growth, leading in turn to a net loss for the developing world. Bueno de Mesquita and Smith (2010, 2013) also highlight that the access to 'easy aid' – or 'easy money' that temporary members of the UNSC receive – hampers economic development of these countries and weakens the democratic quality of their political institutions. Hence, politically motivated aid might actually affect recipient countries adversely.

Summing up, there is ample evidence that donors have vested interests in political alignment with developing countries and frequently reward alignment or punish dis-alignment, respectively. It is thus not unreasonable to assume that donor countries care about which leader or administration is in power.

2.2 Dyadic Leadership Change and Foreign Policy Alignment in the UNGA

Considering that international relations characterize themselves as a set of bilateral relations between countries, political alignment is not a one-way street. Rather, the very nature of political friendship between countries is reciprocal. Because the pursuit of foreign policy objectives is the executive branch's prerogative, leadership turnover in each country of a dyadic country pair should serve as a predetermined breaking point.

Early accounts stated that alignment between countries is primarily determined by the anarchic structure of the international system (Waltz, 1959, 1979). In this sense, the strategic interests of nation-states are presumed to be rather constant over time (Morgenthau, 1948). This manifests itself through the importance of voting blocs in the UNGA (Kim and Russett, 1996). Countries consider allying themselves with other countries in their neighborhood or with countries they share membership in specific transnational organizations – such as the Commonwealth of Independent States (Hansen, 2015), or military alliances (Leeds and Mattes, 2007). Nevertheless, Hug and Lukács (2014) argue that country preferences trump voting blocs in controversial votes in the United Nations Human Rights Council.

Moreover, foreign policy proximity also seems to depend on the overall agenda as well as specific issues. Voeten (2000), for example, finds that voting alliances are much more ad hoc, issue-based and fragile since the end of the Cold War. Fur-

thermore, similarity of the political system seems to have a substantial predictive power (Voeten, 2004). Democracies vote more in line with other democracies on soft-power issues (Voeten, 2000) as well as on hard-power issue like self-defense in the context of terrorism (Hillman and Potrafke, 2015). Carter and Stone (2015) point out that democracies are easier to bribe by powerful countries, because their electorate regards extra money for democracies as more acceptable than easy money for autocratic leaders.

However, besides strategic considerations that might indeed be more or less stable between countries, statesmen make international politics. Politicians might have different visions, rely on different societal groups, or weigh the interests of some groups more than of others (Moravcsik, 1997). Acknowledging this, Dreher and Jensen (2013) find that leader changes increase voting alignment of other countries with the United States on key votes, but have no effect on voting alignment for non-key votes. This implies that a country is more likely to agree with the US on important issues if a new leadership reshapes foreign policy. Mattes et al. (2015) add that leader changes lead to a shift of ideal points in UNGA voting – estimated as ideal positions from a spatial voting model (Bailey et al., 2015) – only if accompanied by simultaneous changes in the domestic support group. They also show that democracies have more stable ideal points than autocracies. Leader effects in autocratic regimes are stronger, because the support base is narrower than in democracies and changes in the domestic support groups can be more pronounced (see also Bueno de Mesquita et al., 2003).

Especially the results of Mattes et al. (2015) highlight, however, that changes in the foreign policy of a country are more abrupt between administrations than within. This is due to the fact that leadership changes are ultimately connected with changes in foreign policy objectives of the respective government. Changes in foreign policy objectives are due to changes in the domestic support group. A democratically elected vote- and office-seeking government faces constraints by its selectorate and therefore chooses its foreign policy in accordance with the preferences of this part of the populace (Putnam, 1988; Moravcsik, 1993). In autocracies the population is generally not eligible to vote or their vote does not make a decisive difference. Nonetheless, leaders in dictatorships are constraint by core support groups – like the regime party, the royal family, or the military (Cheibub et al., 2010; Geddes et al., 2014) – and pursue foreign policy goals that are generally consistent with these interests.

Because governments still have some leverage when it comes to satisfying the foreign policy preferences of its core support group, personal relationships between statesmen affect the chances for cooperation and confrontation in international relations alike. Consider as an example the nuclear agreement with Iran, which was possible after Hassan Rouhani's inauguration and seemed unthinkable under his predecessor Mahmoud Ahmadinejad. And at the same time, such an agreement deemed likewise unthinkable under US President George W. Bush. The fact that

President Barack Obama, even in a system with checks and balances like in the US with large parts of the US Congress being against an agreement, could arrange such an agreement with Iran highlights the effect of specific leaders even further.

Hence, even when considering all constraints that policymakers face when conducting foreign policy, statesmen still matter.[2] And as the example above suggests, both leaders matter for bilateral relations between any two countries. In other words, if country A experiences a leadership turnover, both the government in country A re-aligns its foreign policy towards country B and the latter re-aligns its policy towards the former. Thus, changes in the head of executive in either country of a dyad serve as potential predetermined breaking points in the foreign relations between countries.

2.3 Foreign Policy Signals and Aid Allocation

Because a new leader in country A has the potential to change bilateral relations, the leader in country B faces increasing uncertainty about the behavior of country A in the aftermath of a leadership change. Assuming incomplete information, the reaction of country B hinges on observable characteristics of the new leadership in A. However, these observable characteristics are biased because of incomplete information as well as incentives to misrepresent true intensions (Fearon, 1995). Country B's reaction therefore relies on foreign policy signals country A sends towards country B. For example, Weisiger and Yarhi-Milo (2015) provide empirical evidence that the reputation regarding a country's dispute resolve is always considered by the other party. These signals are even more important if there is no prior observable behavior of an actor.

Going a step further, we model this notion in a simple framework consisting of one aid donor and one aid recipient. The donor possesses of two policy adjustment options to leadership changes in the recipient country: rewarding political friends with more ODA and depriving political opponents of external revenues. Whether a country under new leadership is a political friend or an enemy is difficult to judge. Hence, monadic leadership change should not alter the allocation decision of the donor. However, if the donor relies on foreign policy signals, these should determine the optimal reaction to leadership turnover.

As for the recipient country's government, any new leader has basically two choices concerning their foreign policy towards the donor. They can converge towards a common ideal position on international issues or diverge from them, respectively. This choice constitutes the signal. Note that this should even be the case when a national leader runs on an 'anti-west/anti-imperialist' platform in the run-up to the election. Because leaders not always keep what they promise on the campaign trail, a favorable signal to the West after inauguration might make up

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[2] In addition, there is a flourishing field studying the effect of statesmen or leadership change on various outcomes, such as trade or monetary policy (McGillivray and Smith, 2004), democratization and conflict (Jones and Olken, 2005, 2009), or economic growth (Jong-A-Pin and Yu, 2014).

for previous hardship. Given that donors have an incentive to bind promising new leaders early on, they have an incentive to reward them with additional aid, especially to compensate the support group for the pro-Western approach. To the contrary, the donor makes it hard for a new leader by decreasing or abolishing aid if he or she sends a bad signal – for example, by voting against the donor's interest in the UNGA. This might be especially effective, given that new leaders in developing countries usually face severe economic challenges when entering office. According to these considerations, we arrive at the following hypotheses:

H1: The effect of leadership change in recipient countries on aid flows is conditional on the signal new leaders send to the donor. Alignment with the donor increases aid flows; dis-alignment decreases aid flows.

However, the effect might not only originate from recipient country leader changes. Consider the opposite case, for example if a new US President enters office. Newly elected US Presidents usually try to accomplish international success rather quickly. As an example, Barack Obama vouched to reset relations with the Middle East and reduce US interference in his Cairo speech shortly after his inauguration (Times, 2009). Again, donor country leaders face their international counterparts as given variables at the moment they enter office. Hence, they also consider foreign policy signals from the developing world in reaction to leadership changes in donor countries. If leaders welcome a new president and signal that they will work with him or her, they might again receive additional aid as part of a charm offensive. If a new leader in a donor country receives hostile signals from a recipient country's political leadership, aid flows decrease. In both cases we argue that first impressions matter a great deal and should influence the allocation of aid in different ways, since they reinforce the idea that a new leader can change bilateral relations. Hence, our second hypothesis is:

H2: Convergence towards a donor after leadership change in a donor country increases aid flows; divergence decreases aid flows.

Assuming that both mechanisms influence political aid disbursement, there is also a third scenario. In some instances, leadership in the recipient as well as in the donor country occur at the same time. In these cases it is possible that personal relationships between leaders are reset on both sides and the new governments have to react to fundamentally different support groups. Hence the donor leader has few expectations of the new recipient leader and the recipient leader has few expectations of the new donor leader. To this effect, this scenario is characterized by even higher foreign policy uncertainty due to the fact that both leaderships have to act and react at the same time. We argue that increasing uncertainty amplifies the magnitude of the signaling effect, because the first impression, which signals the type of each country to the other country, reduces uncertainty much more than if one

administration is constant and the new leader has information about past behavior. Hypothesis 3 is accordingly:

H3: The magnitude of the signaling effect of recipient countries after leadership change on aid flows is greater if both leaders change at the same time.

3 Data

This section describes the data we use to test our hypotheses and provides some descriptive evidence. Our dependent variable is aid flows. In line with Faye and Niehaus (2012), we use ODA commitments instead of disbursement. Targeting commitments as a reaction to signals is easier, given the fact that disbursement might stem from earlier projects or is delayed by the preparation of future projects. We obtain the data from the database of the OECD (2015). Because aid commitments are highly skewed, we use log-transformed values. Note that we do not have any problems regarding an abundance of zeros or negative values (see table 1).

We use data from the Archigos dataset (Goemans et al., 2009) to identify dyadic administration changes.[3] We define dyadic administration change as each change of leadership in a country dyad. We thus assume that foreign politics is 'high politics' and therefore primarily influenced by a country's head of executive.

To illustrate our approach, consider that President Barack Obama and President Dilma Rousseff constitute the current dyad between the United States and Brazil. Whenever one of the two incumbents leaves office, we code a dyadic leadership change, which results in a new dyad between Brazil and the US. Previous research would have only coded a leadership change if Dilma Rousseff left office (Dreher and Jensen, 2013). The resulting sample consists of 124 recipient countries that – together with the G7 countries – form 645 country dyads over the period from 1975 to 2011. The panel is unbalanced since some countries enter the dataset at later points in time, for example the countries of Eastern Europe and the former Soviet Union which simply did not receive any aid from the G7 before the dissolution of the Soviet Union. This country and period selection leaves us with 5047 administration pairs and 4426 dyadic leadership changes (see table 1).

The average administration dyad lasts about six years. By construction of the administration dyad, the shortest period is one year. The most durable administration dyads are between Germany under the Kohl administration and several other recipient countries with a duration of 16 years; the exact time Helmut Kohl was in office. It is important to note that all G7 countries, besides the US due to term limits, have administration dyads lasting longer than 10 years. Hence, long dyads are not a phenomena reserved to Germany as a donor country alone.

As pointed out, we code a leadership change for both donor and recipient coun-

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[3] We use the current Archigos beta-version, which is still under revision and has been kindly made available to us by Shu Yu and Michael Ward.

Table 1: Descriptive Statistics

	N	Min	Med	Mean	Max	SD
ODA commitments	16991	0.01	13.19	70.31	19721.40	272.23
ln ODA commitments	16991	-4.61	2.58	2.28	9.89	2.33
Administration dyads	16991	1	–	–	5047	–
Administration change	16991	0.00	0.00	0.26	1.00	0.44
Recipient change	16991	0.00	0.00	0.10	1.00	0.30
Donor change	16991	0.00	0.00	0.17	1.00	0.38
Mutual change	16991	0.00	0.00	0.03	1.00	0.16
Foreign policy signal	16991	-0.67	-0.00	-0.00	0.67	0.08
Past mean alignment	16991	0.03	0.69	0.63	1.00	0.22
Administration dyad duration	16991	1.00	5.00	5.90	16.00	3.67

tries if the current leader of country i in year t differs from the leader of country i in year $t-1$. However, leaders do almost never leave office on January 1st. When several leaders have been in power in a country in a given year, we always code the leader that has spent the highest fraction of days in office during that year. We thus assume that the leader with the most days in office has the highest probability to shape foreign policy in one year. Note that we differ in this regard from Mattes et al. (2015) who chose to code the leader that is in power during December for the whole year.

To measure the political relations between administration dyads and the signal countries send out to each other, we follow Faye and Niehaus (2012) and take the percentage of votes any two countries in one administration dyad vote in line with one another in the UNGA. The data is obtained from the Voeten (2013) dataset. Albeit not the best possible measure for foreign policy signaling, data on UNGA voting alignment is available for almost all countries throughout our time period. Furthermore, because this measure is constructed relatively simple, it is easy to interpret, although it has it's problems (Häge and Hug, 2014).

Figure 1 plots the un-weighted mean alignment between the different G7 donors and their respective aid recipients over time. At a first glance we see that, on average, the United States have a much lower alignment with their recipients than the other G7 donors. This might however be due to the much broader engagement the US shows, seeing it is by far the largest donor, or simply because many small states try to counter-balance the US (Voeten, 2004). Hence, it comes as no surprise that the least aligned countries are the US and Syria in recent years and Afghanistan in the early 1980s. The highest alignment, i.e. full alignment, is between several donors and Eastern European countries during the early 1990s. Note that we consciously chose to use the alignment over all votes and did not consider strategic votes (Kilby, 2009; Dreher and Jensen, 2013), because we want to capture the general foreign policy preferences, which are arguably not as much distorted by strategic voting (Andersen et al., 2006). We thus argue that our results should be a lower bound, since the positive signal towards donors should be smaller.

Note that Häge and Hug (2014) show that affinity scores are very sensitive to the
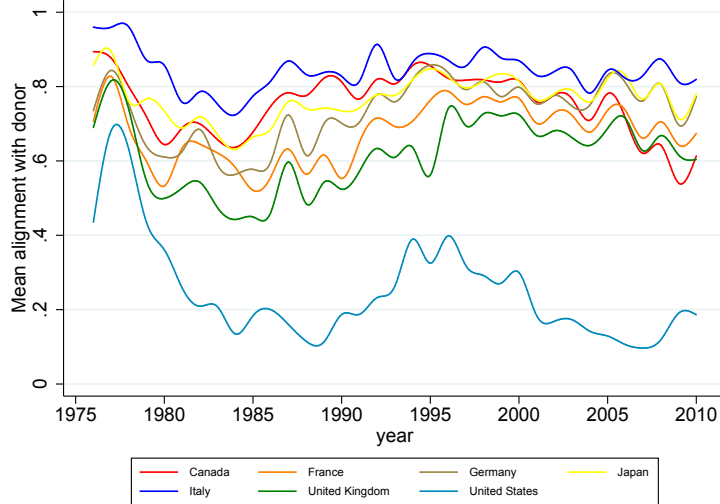
Figure 1: Mean Alignment between Donor and its Recipient Countries

inclusion of consensus votes, which dramatically increase affinity reducing variation between pairs. This is another reason to stick with the same procedure as Faye and Niehaus (2012). Nonetheless, we make use of different measures in the robustness section of the paper.

To construct the specific signal countries send, we use the difference in voting alignment between $t-1$ (the year of the last leader) and t (the first year of the new leader). The difference in voting alignment ranges from -0.667 to +0.667.

4 Methods and Findings

In our baseline model we regress the natural logarithm of ODA commitments in t of donor country d to recipient country r on the interaction between administration change and foreign policy signaling, i.e. the corresponding voting alignment change from $t-1$ (the year of the last leader in one of the two countries) to t (the first year of the new leader in one of the two countries; see equation 1). We expect a positive and statistically significant interaction effect of θ implying that positive signals increase aid flows, while negative signals decrease aid flows. α_{dt} are donor-recipient fixed effects capturing unobserved time-invariant heterogeneity for specific country dyads. In addition, γ_t are year fixed effects.

$$
\begin{aligned}
lnODA_{drijt} =& \beta_0 + \beta_1 admin_{drijt} + \beta_2 signal_{drijt} + \theta admin_{drijt} * signal_{drijt} \\
& + \alpha_{dr} + \gamma_t + \epsilon_{drijt}
\end{aligned}
$$

(1)

The results of our baseline estimation are presented in table 2. We phase in the different components of our baseline estimation in columns 1 to 3. Note that all specifications make use of donor-recipient and year fixed effects. Column 1 shows that there is a positive effect of dyadic administration change on ODA commitments

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from donor to recipient in a given donor-recipient pair. Contrary to hypothesis 1, dyadic leadership changes have a direct and aid increasing effect. However, this effect does not seem to be entirely robust when controlling for other determinants of development aid. Column 2 highlights that yearly changes in alignment have no effect on their own. This makes sense, since previous literature has already highlighted that yearly changes do not change the general relationship between countries (e.g., Faye and Niehaus, 2012).

Table 2: Baseline Results

| | Dependent variable: ln ODA commitments | | | |
	(1)	(2)	(3)	(4)
Administration change	0.052**		0.057**	0.022
	(0.025)		(0.025)	(0.024)
Foreign policy signal		-0.025	-0.421***	-0.353***
		(0.124)	(0.139)	(0.134)
Admin change * signal			1.422***	1.206***
			(0.304)	(0.326)
Past mean alignment				0.977***
				(0.327)
# of observations	16991	16991	16991	15878
# of dyads	645	645	645	634
R-squared	0.034	0.033	0.035	0.036
Donor-recipient FE	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes

Robust standard errors in parentheses, clustered on donor-recipient dyad.
Star level: *** p<0.01, ** p<0.05, * p<0.1.

In column 3, we include our main independent variable – the interaction between political alignment and leadership change – into the model. Leadership change is still positive and statistically significant, yet only as long as there is no signal after a leadership turnover. As expected, the interaction term is positive and statistically significant. Hence, as soon as a newly elected leader sends a positive foreign policy signal towards the donor countries, the effect of leadership change on the amount of aid commitments becomes much more pronounced. Similarly, leadership turnover combined with negative signaling results in less aid commitments due to the size of the interaction effect. The effect of signaling itself is negative. Signaling political friendship thus does not seem to work in years without administration changes in the donor or recipient country.

In a next step we augment our baseline model and include the average past alignment between donor-recipient administration (see equation 2). We basically stick to the conceptualization of Faye and Niehaus (2012), but average the alignment over administration changes, because we are interested in dyadic instead of monadic administration alignment.[4] The effect of past alignment ψ is supposed to capture how well previous administrations worked with each other in general and therefore

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[4] Note that we change the notation in order to capture the fact that we are actually interested in the ODA commitments between the donor administration dj and the recipient administration ri in year t.

explains path dependency in current relations. The main difference compared to the Faye and Niehaus (2012) is that our maximum average alignment is 16 years, while Faye and Niehaus (2012) have cases where the alignment is averaged over nearly the entire sample period. For instance, Muammar al-Gaddafi ruled Lybia from 1977 to 2011 and basically covered the whole spectrum of political friendship with several G7 countries over the years. We argue that our measure is superior because it does not blur the current relations as much by relations from decades ago.

$$
\begin{aligned}
(2) \quad lnODA_{drijt} = & \beta_0 + \beta_1 admin_{drijt} + \beta_2 signal_{drijt} + \theta admin_{drijt} * signal_{drijt} \\
& + \psi avalignment_{drijt-1} + \alpha_{dt} + \gamma_t + \epsilon_{drijt}
\end{aligned}
$$

The results of this augmented specification are reported in column 4 of table 2. Controlling for average alignment patterns does not affect size and statistical significance of the interaction term and short-term alignment changes. Interestingly, the effect of leadership changes vanishes if countries do not send foreign policy signals. All in all, the interaction effect shows that the signaling mechanism is indeed of critical importance for ODA commitments. Recipients in donor-recipient dyads that send positive signals in the form of closer voting alignment receive more aid, while recipients that engage in dis-alignment receive substantially less ODA. Additionally, the reversed direction of alignment changes in general might hint to the fact that the additional aid received during administration change years with positive signals fades out in the following years.

To further test the conditional effect of leadership change and foreign policy signals on the allocation of aid commitments, we differentiate between signals occurring either after recipient or after donor administration changes, as well as in case of changes in both donor and recipient countries (see equation 3).

$$
\begin{aligned}
(3) \quad lnODA_{drijt} = & \beta_0 + \beta_c admin_{drijt} + \beta_2 signal_{drijt} + \theta_c admin_{drijt} * signal_{drijt} \\
& + \psi avalignment_{drijt-1} + \alpha_{dt} + \gamma_t + \epsilon_{drijt}
\end{aligned}
$$

Note that β_1 and θ have been changed to β_c and θ_c, where c is a factor variable with four elements. 0 implies no leader change in either country, 1 corresponds to recipient country leader change, 2 to donor country leader change, and 3 indexes simultaneous leadership turnover in both countries. The results are presented in columns 1 to 4 in table 3.

Column 1 shows that there is actually no effect of leader change in recipient countries on ODA commitments, but that the effect is mainly driven by changes in donor countries corresponding to an increase in ODA commitments. Taken at face value, this is in line with the charm offensive argument. Column 2 shows again no effect of yearly changes in alignment on ODA commitments. In column 3 we see the inverse relationship between foreign policy alignment changes and ODA commitments in years in which no leadership change occurs. The effect of donor change is again positive, unconditional on signaling, while mutual change and recipient change

Table 3: Disaggregated Leader Change

	Dependent variable: ln ODA commitments			
	(1)	(2)	(3)	(4)
Recipient change	-0.053		-0.050	-0.080**
	(0.038)		(0.038)	(0.037)
Donor change	0.117***		0.124***	0.083***
	(0.030)		(0.030)	(0.030)
Mutual change	-0.022		-0.007	-0.058
	(0.071)		(0.072)	(0.075)
Foreign policy signal		-0.025	-0.468***	-0.393***
		(0.124)	(0.142)	(0.136)
Recipient change * signal			2.127***	1.980***
			(0.450)	(0.466)
Donor change * signal			1.194***	0.978***
			(0.374)	(0.378)
Mutual change * signal			1.341*	1.067
			(0.755)	(0.799)
Past mean alignment				0.967***
				(0.323)
# of observations	16991	16991	16991	15878
# of dyads	645	645	645	634
R-squared	0.034	0.033	0.036	0.037
Donor-recipient FE	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes

Robust standard errors in parentheses, clustered on donor-recipient dyad.
Star level: *** p<0.01, ** p<0.05, * p<0.1.

have no effect. The same is true for donor changes, while mutual changes are only borderline significant and lose their statistical significance as soon as we include the average of past administration pair alignment (column 4). Note that the effect of unconditional recipient change turns negative, although only at the 10% significance level. Taken together, these results support hypothesis 1 and 2, while they do not support hypothesis 3.[5]

Should recipient countries really care about these effects? To answer this question, we estimate the marginal effects of the signal at its mean value, conditional on the respective type of administration change.[6] At the mean signal, which is in all three cases slight dis-alignment between the donor and the recipient, recipients receive 8.2% less ODA commitments during their first year, while they receive 7.6% higher ODA commitments, while there is no significant effect of mutual change. If a recipient however dis-aligns by more than one standard deviation following leader change it receives 26.1% less ODA commitments. There is no effect in the similar case for donors. If the recipient aligns itself by one standard deviation it receives no additional ODA. Only in the case of very strong alignment – defined by a change of two standard deviations – the recipient receives 24% more ODA, while in the

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[5] Note however that we have much fewer observations for mutual change than for the other leadership changes – 1709 recipient only changes, 2906 donor only changes, 422 mutual changes (see table 1).

[6] Note that the mean values of the signal differ between the three different forms of administration change. The mean value of the signal is -.001 for recipient change, -.007 for donor change, and -0.185 for mutual change.

opposite case the country faces cuts of around 43%. The donor case is again very different. Dis-alignment seems to have no effect, but positive signals get rewarded with additional aid. A move toward the donor by one standard deviation results in 16% more ODA commitments; and the extreme case of an increase by two standard deviations gets rewarded with 24% more ODA commitments. These results suggest that the effect is indeed of high economic significance and that there is a huge benefit of treating donor and recipient leader change separately. While recipient leader change is mostly accompanied by ODA cuts, donor change can fill the public purse of recipient countries if its government sends positive signals.

One obstacle to these findings is reversed causality. Many studies point out that donors massively engage in vote buying (Dreher and Jensen, 2007; Dreher and Sturm, 2012; Carter and Stone, 2015). Hence, our results could also be explained the other way around. It might be the case that those new recipient leaders that receive substantial amounts of ODA commitments during their first year send positive signals, while those that receive reductions in ODA commitments send negative signals. The same applies for new leaders in donor countries. Imagine that new donor leaders give extra aid to some of their recipients, while cutting aid to others. Those who receive extra aid might welcome the new donor leader with positive signals in the UNGA, while those that experiences cut-backs send negative signals.

The best solution to tackle this problem would be to employ an instrument that affects the signal countries send and that is at the same time independent of any aid commitments. Unfortunately we are unaware of a convincing instrument that we could employ. Instead we will proceed by carefully analyzing the effect of ODA and past ODA on the signal and then proceed by analyzing the time-structure of the effect of θ.

Table 4 provides a set of specifications where we regress contemporary ODA and lagged ODA interacted with leader change on the signal, i.e. difference in political alignment. In column 1 to 2 we report the specifications using contemporary ODA in the year of leadership turnover. Column 1 reports a very small and only marginally significant effect of ODA commitments on the signal in t. Administration changes only exhibit an effect on the signal for donor countries and mutual change, while the interaction has a small and positive effect of recipient and donor change. Hence, there seems to be an effect of ODA commitments in the first year of a new donor or recipient leader on the signal they receive from recipients (column 1).

However, the effect of the recipient change interaction collapses as soon as we control for past alignment (column 2), while the effect of administration changes and the donor change interaction survive. Hence, the results do not concern us too much; the effect is rather small and only affects donor change. It is even consistent with our argument that new donor leaders try to sway their recipients in supporting them on international issues. Yet the magnitude of the effect is comparably small given that the signal ranges from -0.667 to 0.667 and ODA is measured on a logarithmic scale. This is also true for the recipient interaction.

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Table 4: Influence of ODA on Foreign Policy Signal

	Dependent variable: UNGA voting alignment			
	(1)	(2)	(3)	(4)
Recipient change	-0.002	0.000	0.001	0.002
	(0.003)	(0.003)	(0.003)	(0.003)
Donor change	-0.010***	-0.007***	-0.007***	-0.006***
	(0.002)	(0.002)	(0.002)	(0.002)
Mutual change	-0.013***	-0.014***	-0.014***	-0.013***
	(0.005)	(0.005)	(0.005)	(0.005)
ln ODA (t)	-0.001*	-0.001		
	(0.000)	(0.000)		
Recipient change * ln ODA (t)	0.002**	0.001		
	(0.001)	(0.001)		
Donor change * ln ODA (t)	0.002***	0.002***		
	(0.001)	(0.001)		
Mutual change * ln ODA (t)	0.001	0.001		
	(0.001)	(0.001)		
ln ODA (t–1)			-0.000	-0.000
			(0.000)	(0.000)
Recipient change * ln ODA (t–1)			0.001	0.001
			(0.001)	(0.001)
Donor change * ln ODA (t–1)			0.001**	0.001**
			(0.001)	(0.001)
Mutual change * ln ODA (t–1)			0.001	0.001
			(0.001)	(0.001)
Past mean alignment		-0.086***		-0.086***
		(0.006)		(0.006)
# of observations	16991	15878	15878	15878
# of dyads	645	634	634	634
R-squared	0.291	0.314	0.309	0.314
Donor-recipient FE	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes

Robust standard errors in parentheses, clustered on donor-recipient dyad.
Star level: *** p<0.01, ** p<0.05, * p<0.1.

In columns 3 and 4 we use lagged ODA instead of current ODA commitments. This procedure leads basically to the same results. The magnitude of the interaction of ODA with donor leader change is cut in half, while the recipient interaction is never significant. In summary the results suggest that reversed causality is not a major issue for our previous findings. This increases confidence that is indeed the signal of a new leader that alters ODA commitments.

In a final step, we investigate how lasting the effect of the signal is. Table 5 provides the timing structure of several leads and lags of the signal and leader change on ODA commitments. A priori we would expect that future leader changes interacted with the signal should not affect ODA commitments, while we would expect that the effect of the signal should phase out over time, because countries in the same administration dyad get to know each other. Hence, the uncertainty-reducing effect of the first impression loses its power.

Column 1 and 2 show that there is no effect of future recipient leader change on ODA provision. Yet there is an effect of donor leader change and mutual change on

ODA commitments two years before the change occurs and an effect of donor leader change one year before the change. The difference between recipients and donors makes sense, since donor leader change is in many cases more predictable due to regular elections or even term limits. To the contrary, many recipient countries do not hold purely democratic elections or do not hold elections at all (Gandhi and Przeworski, 2007; Svolik, 2012; Schedler, 2002). The interaction effect only holds for the donor in the year before the donor leader change. Especially this finding makes us more confident in our presumed mechanism, since donors do not seem to crop their aid provision during their election years.

Column 3 shows the previous results from the contemporaneous effect of our interactions on ODA commitments. Columns 4 to 7 report the results regarding the ODA provision for the first to the fourth year after the leader change. The effect of leader change itself collapses for all three forms of leader change. This is in line with our argument insofar as we argue that if there should be any ODA commitments to sway a new leader, they should work immediately. Relations should become more stable with more interactions and uncertainty drops over time. Another finding in line with our argument for dyadic leader change is that the past alignment between a donor and recipient administration dyad becomes insignificant two years after the leadership change.

The interaction effect for donor change fades away immediately and only pops up marginally significant two years after the donor leader change. This points to the fact that donors do indeed engage in some charm offensive the year they enter office. Concerning recipient leader change, the signal seems however to be much more important. We find a slowly decreasing effect in the three years following the change and the initial signal, which only turns out statistically insignificant four years after the leader change.[7] Again, we can make no statements about the effect of mutual leader change conditional on their foreign policy signal.

Summarizing our findings, we have strong support for hypothesis 1 and some evidence for hypothesis 2. On the other hand, we can make no definitive statements about the validity of hypothesis 3. Our findings show that it is important to control for leader change in donor countries that potentially distort the allocation of ODA if one wants to capture the true effect of recipient leader change on aid. Especially the magnitude of the marginal effects suggests that there is a window of opportunity in the case of donor leader change and a window of dis-opportunity in the case of recipient leader change.

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[7] Note however that the average administration pair duration is only about six years. Hence it is possible that the effect is reversed by new changes.

Table 5: Timing of Foreign Policy Signal on ODA

	(1) t+2	(2) t+1	(3) t	(4) t−1	(5) t−2	(6) t−3	(7) t−4
			Dependent variable: ln ODA commitments				
Recipient change	-0.021	-0.026	-0.080**	-0.014	-0.059	-0.000	0.020
	(0.032)	(0.035)	(0.037)	(0.037)	(0.038)	(0.037)	(0.037)
Donor change	0.207***	0.074**	0.083***	-0.029	0.002	-0.026	-0.023
	(0.031)	(0.030)	(0.030)	(0.029)	(0.030)	(0.031)	(0.033)
Mutual change	0.262***	-0.015	-0.058	0.023	-0.076	-0.013	-0.000
	(0.079)	(0.081)	(0.075)	(0.083)	(0.081)	(0.080)	(0.083)
Foreign policy signal	-0.176	-0.060	-0.393***	0.014	-0.086	0.199	0.315*
	(0.151)	(0.141)	(0.136)	(0.154)	(0.143)	(0.159)	(0.183)
Recipient change * signal	0.467	0.467	1.980***	1.943***	1.869***	1.524**	0.883
	(0.455)	(0.440)	(0.466)	(0.539)	(0.629)	(0.667)	(0.673)
Donor change * signal	0.702	0.288	0.978***	0.225	0.712*	0.052	-0.622
	(0.460)	(0.351)	(0.378)	(0.383)	(0.388)	(0.394)	(0.445)
Mutual change * signal	0.856	0.010	1.067	1.022	1.415	1.082	-1.095
	(0.910)	(0.921)	(0.799)	(1.085)	(1.093)	(1.011)	(0.969)
Past mean alignment	1.209***	1.232***	0.967***	0.688**	0.268	0.005	-0.053
	(0.323)	(0.314)	(0.323)	(0.336)	(0.350)	(0.354)	(0.358)
# of observations	14954	15878	15878	14954	14240	13587	12988
# of dyads	627	634	634	627	624	620	604
R-squared	0.043	0.040	0.037	0.034	0.036	0.034	0.032
Donor-recipient FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Robust standard errors in parentheses, clustered on donor-recipient dyad.

Star level: *** $p<0.01$, ** $p<0.05$, * $p<0.1$.

5 Robustness Tests

In this section we test the robustness of our findings to different sets of control variables as well as past ODA commitments. After all, our results could also suffer from spurious correlation driven by past ODA commitments that just happen to be systematic before leaders change. One possibility would be that our results are co-determined by political aid cycles uncovered by Faye and Niehaus (2012).

For our first robustness test we submit our previous specification, mainly relying on recipient-donor and year fixed effects along past alignment, to the specification of other studies, either studying the effect of political aid cycles and aid bribery in general or leader change. Table 6 presents the results of the augmented specifications of Faye and Niehaus (2012), Dreher and Jensen (2013) analyzing leader change towards the effect of alignment with the US on key votes, Mattes et al. (2015) highlighting the importance of military alliances and the change of domestic support groups on foreign policy change after leader change, and finally Carter and Stone (2015) who highlight the fact that democracies are more frequently submitted to aid bribery than autocracies. All the variables are taken from the respective sources, while we adapt some variables to our dyadic setting. This is due to the fact that some studies are either only considering the US and its recipients (Dreher and Jensen, 2013; Carter and Stone, 2015) or work in an entirely monadic framework (Mattes et al., 2015). Table 9 in the appendix provides an overview of the variables and their sources. Note that due to space constraints we choose not to report the control variables. Nevertheless, they show the expected signs in line with previous research.

Column 1 in table 6 reports the results using the Faye and Niehaus (2012) controls (population and GDP of donor and recipient) the results are unchanged to our preferred baseline specification. In column 2 we include – following Mattes et al. (2015) – the military alliance of the recipient US, or Soviet Union/Russia and again donor and recipient GDP and population. The results are again stable and in line with our core specification. Column 3 reports the specification in line with Dreher and Jensen (2013) in which we control for both donor and recipient GDP per capita, the color of the political party, and Cold War effects.[8] We also interact leader change as well as our interaction with the Post-Cold War period according to Dreher and Jensen (2013).

The unconditional effects change slightly. During the Cold War only mutual change has a negative effect on ODA commitments in a given dyad. After the Cold War new donor leaders seem to reduce ODA in their first year in the absence of any signal. The interactions on the other hand are rather stable. In the post-Cold War period our results are similar. Yet during the Cold War only the signals of new recipient leaders have an effect, which is bigger in terms of its magnitude compared to the post-Cold War period. This is in line with arguments about the importance during alignment during the Cold War (Voeten, 2000; Leeds and Mattes,

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[8] Note that we exclude the measure for corruption since it drops our observations dramatically

Table 6: Baseline Results – Comparison to Other Model Specifications

	Dependent variable: ln ODA commitments			
	(1)	(2)	(3)	(4)
	FN2012	MLC2015	DJ2013	CS2015
Past mean alignment	1.943***	0.941***	1.449***	1.436***
	(0.325)	(0.323)	(0.314)	(0.317)
Recipient change	-0.082**	-0.080**		
	(0.037)	(0.037)		
Donor change	0.079***	0.085***		
	(0.029)	(0.029)		
Mutual change	-0.046	-0.062		
	(0.075)	(0.075)		
Foreign policy signal	-0.506***	-0.379***		
	(0.135)	(0.136)		
Recipient change * signal	2.230***	1.948***		
	(0.463)	(0.466)		
Donor change * signal	1.554***	0.967**		
	(0.385)	(0.379)		
Mutual change * signal	1.609*	1.037		
	(0.834)	(0.799)		
			During Cold War	*Non-democracy*
Recipient change			-0.017	-0.122**
			(0.066)	(0.052)
Donor change			0.065	0.085**
			(0.054)	(0.033)
Mutual change			-0.310**	-0.104
			(0.143)	(0.102)
Recipient change * signal			2.327***	1.819***
			(0.801)	(0.657)
Donor change * signal			0.837	1.174***
			(0.604)	(0.425)
Mutual change * signal			0.991	0.587
			(1.118)	(1.040)
			Post Cold War	*Democracy*
Recipient change			-0.177**	-0.017
			(0.088)	(0.067)
Donor change			0.017	0.075
			(0.082)	(0.070)
Mutual change			omitted	0.024
			–	(0.100)
Recipient change * signal			1.786***	1.833***
			(0.567)	(0.600)
Donor change * signal			1.489***	0.642
			(0.457)	(0.678)
Mutual change * signal			1.000	1.680
			(1.073)	(1.196)
# of observations	15878	15878	15878	15878
# of dyads	634	634	634	634
R-squared	0.048	0.039	0.060	0.059
Donor-recipient FE	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes

Robust standard errors in parentheses, clustered on donor-recipient dyad.
Star level: *** $p<0.01$, ** $p<0.05$, * $p<0.1$.

2007). Finally, non-democratic leader change is associated with a reduction of ODA commitments, although at a rather small magnitude. After donor leader change autocracies receive a slight increase in ODA form their donors. For democracies neither effect is present. The signaling part becomes more interesting. Both new non-democratic leaders and democratic leaders receive more aid from their donors if they send positive signals during their first year. Note that the magnitude is basically the same. The signal towards a new donor on the other hand is only significant for non-democracies, which get rewarded for positive signs and punished for negative signs.

In a next step we test if our results are driven by extreme observations with regard to the signal. Since the difference in alignment suffers from high kurtosis, we decided to only consider signals following leader change that are in the inter-quartile range (ranging from -0.051 to 0.041). These signals are much smaller than in our original specification. However these extreme signals have already been partially controlled for in the robustness specification following Mattes et al. (2015) where we controlled for changes of the political system.

Table 7 presents our core specification using only signals of the inter-quartile range. The signal without leader change has no statistically significant effect and predicts a negative effect on ODA (column 1). This suggests that the extreme changes actually bias our results downward. Note also that donor leader change has now a small positive and significant effect on ODA irrespective of the signal sent by its recipients; again pointing to the fact that new donor leaders try to win everyone over after inauguration. The signaling effect of recipient leader change is robust, while its magnitude more than doubles (compare column 2 and 3). We interpret this as diminishing returns towards the signal. Hence a positive signal gives you more aid, while a very positive signal actually reduces the additional aid and vice versa. The signal interaction with donor leader change turns insignificant in column 2 and is only marginally significant in column 3 where we control for past alignment. However, the size of the effect nearly doubles.

We conclude that extreme signals tend to bias our results downward and are hence no major problem for the results of our study. If anything the magnitude of the marginal effect is bigger than reported earlier.

The final issue we tackle is spurious correlation in ODA commitments. It could very well be the case that a donor provides more commitments in a pre-leader change year and then converges to its mean commitments during change years. Of course the effect could also run the other way around, and the aid-increasing effect is simply due to the fact that donors want to spent more on the new guy in office than the old one. Yet this is only problematic if the donor can anticipate the future signals from new recipient leaders, or an old donor leader can anticipate the signals of recipient leaders towards his or her successor. However we control for it either way. Table 8 reports the results of our core specification including lagged ODA commitments as well as lead ODA commitments.

Table 7: Baseline Results – Signal Restricted to Inter Quartile Range

| | Dependent variable: ln ODA commitments | | |
	(1)	(2)	(3)
Recipient change		-0.013	-0.024
		(0.050)	(0.050)
Donor change		0.173***	0.130***
		(0.041)	(0.041)
Mutual change		0.092	0.032
		(0.103)	(0.101)
Foreign policy signal	-0.367**	-0.394***	-0.338**
(inter quartile range)	(0.144)	(0.145)	(0.141)
Recipient change * signal		4.975***	4.571***
		(1.595)	(1.644)
Donor change * signal		2.376	2.802*
		(1.470)	(1.532)
Mutual change * signal		3.266	2.660
		(3.855)	(3.729)
Past mean alignment			0.956***
			(0.341)
# of observations	14493	14493	13572
# of dyads	642	642	632
R-squared	0.031	0.033	0.034
Donor-recipient FE	Yes	Yes	Yes
Time FE	Yes	Yes	Yes

Robust standard errors in parentheses, clustered on donor-recipient dyad.
Star level: *** $p<0.01$, ** $p<0.05$, * $p<0.1$.

Columns 1 to 3 of table 8 show that both the interaction of recipient leader change and donor leader change are robust to the inclusion of future ODA commitments as well as lagged ODA commitments. However the inclusion of the lagged and future dependent variables could lead to massive auto-correlation and endogeneity, which might bias our results in unknown ways. Another issue that was not addresses so far is Nickell bias, which should however be small given our large time series (Nickell, 1981). Nonetheless, we replicate the procedure using Roodman's (2009) system GMM estimator (see also Arellano and Bond, 1991; Blundell and Bond, 1998). Results are presented in columns 4 and 5. Again the results of the interaction terms are robust and keep their expected direction. However, we have a problem with over-identification suggested by the high Hansen test weakening our results. Roodman (2009) points out that this is a regular problem in panels with large T. Reducing the amount of lags, however, does not solve the problem. Our confidence in the GMM-estimations is thus rather low. Yet since they don't tell us a different story, we do not take this as a major problem.

Summing up, our results are robust to the inclusion of several controls, excluding extreme signals, the inclusion of past and future ODA commitments, and other estimation models; all of which do not alter the effect significantly.

Table 8: Baseline Results – Further Robustness Tests

	Dependent variable: ln ODA commitments				
	(1)	(2)	(3)	(4)	(5)
ln ODA (t–1)	0.478***		0.335***		
	(0.018)		(0.009)		
ln ODA (t+1)		0.479***	0.345***		0.637***
		(0.018)	(0.010)		(0.017)
Recipient change	-0.068**	-0.059*	-0.052*	-0.020	-0.023
	(0.032)	(0.030)	(0.029)	(0.072)	(0.037)
Donor change	0.048*	0.030	0.010	-0.073	-0.025
	(0.027)	(0.029)	(0.027)	(0.089)	(0.042)
Mutual change	-0.051	-0.087	-0.075	-0.077	-0.095
	(0.062)	(0.063)	(0.056)	(0.158)	(0.079)
Foreign policy signal	-0.364**	-0.398***	-0.404**	-0.758***	-0.493***
	(0.153)	(0.154)	(0.157)	(0.190)	(0.161)
Recipient change * signal	1.401***	1.270***	1.143***	1.670**	0.791*
	(0.412)	(0.366)	(0.336)	(0.717)	(0.419)
Donor change * signal	0.840***	0.933***	0.924***	1.514***	1.072***
	(0.320)	(0.330)	(0.304)	(0.577)	(0.356)
Mutual change * signal	1.062	0.402	0.676	2.625*	0.878
	(0.678)	(0.710)	(0.618)	(1.364)	(0.856)
Past mean alignment	0.379**	0.623***	0.273**	-1.885***	-0.599***
	(0.187)	(0.175)	(0.118)	(0.331)	(0.132)
# of observations	15878	14954	14954	15878	14954
# of dyads	634	627	627	634	627
R-squared	0.261	0.259	0.354	–	–
Donor-recipient FE	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes
GMM estimator	No	No	No	Yes	Yes
Arellano-Bond test (Prob>z)	–	–	–	0.666	0.000
Hansen test (Prob>chi2)	–	–	–	1.000	1.000

Robust standard errors in parentheses, clustered on donor-recipient dyad.
Star level: *** $p<0.01$, ** $p<0.05$, * $p<0.1$.

6 Conclusion

This study analyzes the effect of dyadic administration change – defined as a change in the head of the executive in either the aid recipient or donor country – on aid commitments from the G7 donors. While there is no robust effect of leader change on aid commitments in general, there is a robust effect on aid commitments conditional on the signal new donor leaders receive from recipients or new recipient leaders send towards its donor. We utilize changes in the UNGA voting alignment between donors and recipients as a measure for foreign policy signals. In line with Faye and Niehaus (2012) we argue that this introduces in fact a difference in difference estimation between more and less aligning recipients towards their donor.

Our results consistently point to the fact that new recipient leaders that send positive signals during their first year in office receive substantially more aid commitments from their donors compared to those that do not. On the other hand, leaders that send a negative signal get significantly less ODA commitment than others. The same is true for recipients that send positive signals to incoming donor leaders.

The actual mechanism is however much different. While new recipient leaders face mainly the prospect of massive cutbacks in the case that they dis-align themselves from a donor, the signals to a new donor are basically only an opportunity to increase ODA commitments. Cutbacks range from 8.2% to 43% for dis-aligning new recipient leaders and amount to 7.6% to 16% increases for recipients that align themselves with a new donor leader. Yet, aid increases following donor change are only short term. In contrast, recipient leader effects fade out only after 4 years suggesting that the first impression of a new recipient leader is a major determinant of the recipient country's bilateral aid provision. Hence, we conclude that new recipient leaders must very warily consider their foreign policy objective at the beginning of their incumbency.

Our results provide another important determinant of the volatility of development aid, which has been shown to have negative consequences (Nielsen et al., 2011). Our results also relate to the political importance of recipients. It seems that the behavior of recipient countries in international relations comes under detailed scrutiny following leader change. Previous studies suggest a similar effect for countries entering the UNSC (Kuziemko and Werker, 2006).

Regarding the importance of our mechanism for aid volatility, there is however need for more research, since Dreher et al. (2015) highlight that other donors like China might compensate recipients that suffer aid reductions from established donors like the G7. This points to an interesting question which we was not addressed in the current study: Are the reward and punishment strategies following the Cold War mainly driven by a fractionalization of foreign policy interests, where regional powers forge new alliances? Voeten (2000) shows that foreign policy alignment if measured by UNGA voting alignment is more and more fractionalized in recent years. Flores-Macias and Kreps (2013) show that countries that trade more with China have a tendency to also align themselves with China in the UNGA. Fuchs and Klann (2013) highlight that China much like the US uses trade as a tool to enforce political compliance. And Dippel (2015) suggests that this phenomenon is also present between established donors; Japan seems to reward countries that join the pro-whaling side in the International Whaling Commission with additional aid, while France and the UK cut ODA to states that support Japan's request (Dippel, 2015).

On a global dimension, future research should investigate whether the tendencies we discovered are also present in international organizations, like the World Bank or the IMF. Up to date, there are hints in the literature that international are used in a similar way (Kilby, 2006; Dreher et al., 2009a,b). Taken together, our results highlight once more that higher scrutiny is required to dis-entangle development aid from politically motivated side payments if the latter might actually do more harm than good (Dreher et al., 2013).

7 Appendix

Table 9: Variables and Sources for Table 6

Specification	Variables	Source
Faye and Niehaus (2012)	GDP of donor and recipient	PWT 7.1
	Population of donor and recipient	PWT 7.1
Mattes et al. (2015)	Democracy dummy if PolityIV $>= 6$	Polity IV
	Political system transition	Polity IV
	USA defense pact	Correlates of War
	RUS defense pact	Correlates of War
Dreher and Jensen (2013)	GDP per capita of donor and recipient	WDI 2015
	Same political color dummy	Beck et al. 2001
Carter and Stone (2015)	Democracy dummy	Cheibub et al. 2010
	GDP per capita of donor and recipient	WDI 2015
	Same political color dummy	Beck et al. 2001

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