

Why Donors Give Aid and to Whom? A Critique of the Historical and Contemporary Aid Allocation Regime

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Abstract

The paper examines aid allocation policies of bilateral donors. Covering the historical as well as contemporary international aid regime during both the Cold War and post-Cold War periods, the paper explores that bilateral aid donors have continued to pursue their geo-strategic, security, political, trade and economic interests while providing aid to developing countries across the globe. Based on the review of vast literature covering different time periods, aid allocation criteria of different bilateral aid donors are also compared and contrasted to find the extent to which donors differ on the basis of their aid allocation trends and policies. Research reveals that all bilateral donors are not motivated solely by self-interest. There are certain donors whose foreign aid policies are largely apolitical and are mostly guided by humanitarian considerations. Donors such as Canada, the Netherlands and the Nordic Countries (Norway, Denmark, Sweden and Finland) are distinct from larger donors (US, UK, Japan, France and Germany) on account of their aid policies which are more philanthropic and development-driven. The study concludes that despite consistent and sustained efforts of the organisations like the Development Assistance Committee (DAC) to reform the policy and practice of aid giving at the international level, the provision of aid is still motivated more by donors' own objectives rather than humanitarian considerations and developmental pursuits of aid recipients.

Keywords: Aid; Aid allocation; Bilateral donors; Trade interests.

Introduction: Why and How Aid Started?

Development aid, or as it is formally termed, Overseas Development Assistance (ODA) in its current form, is over six

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decades old. It formally originated in the post-World War II landscape after the United States' (US) Secretary of State General George Marshall elaborated a detailed programme for the reconstruction of war-ravaged Europe. Under Marshall's eponymous Plan, the US provided US \$13 billion as an aid package to Europe to rebuild its war-battered economy. According to Raffer and Singer, "after approval by Congress in 1948 the US spent 2-3 per cent (excluding military aid) of its GNP under this initiative during the six years".¹

The Marshall Plan played a significant role in the restoration of the European economy and its success led to US President Truman's 'Point Four Programme' that he outlined in his historic inaugural address in 1949.² In the context of a wide-ranging socio-economic vision for the US, President Truman stated, 'fourth, we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas'.³ In the same tone, President Truman mentioned that more than half of the world population was suffering from hunger, disease and poverty and that other wealthy nations should cooperate with the US to help these underdeveloped people. Thus, it was the Marshall Plan and Truman's Point Four Programme that led to the beginning of foreign assistance from developed to underdeveloped countries.

Besides rebuilding European countries under the Marshall Plan, this period also saw the beginning of the process of decolonisation taking place in other parts of the world leading to the emergence of new states. Between 1945 and 1970, about 60 countries achieved independence throughout Africa, Asia, the Pacific and the Near East. As a result of rapid decolonisation, according to McMichael, "from 1945 to 1981, 105 new states joined the United Nations (UN) ... swelling UN ranks from 51 to 156".⁴ The onset of the Cold War between the US and the Union of Soviet Socialist Republics (USSR) and the success of the Marshall Plan persuaded the US to employ a similar mechanism of the injection of capital and technological assistance to bring development to underdeveloped countries. Thus, the rationale for foreign aid was on the one hand to enable newly independent countries to achieve economic growth, and on the other hand to keep them from joining the communist bloc.

The Cold War Period and Donors' Self-Interest in the Allocation of Aid

According to Lumsdaine, the foreign aid industry has a massive

structure consisting of “half a trillion dollars, a score of donor countries, many international agencies and 120 recipient countries over half a century”.⁵ Hence, the author claims that a programme having such a global presence and magnitude must be guided and motivated by donors’ own interests comprising trade, political, strategic and security concerns. Different bilateral donors prioritise different sets of interests at different times, and factors such as past colonial links, culture, language and traditional ties are also taken into account in the provision of aid. To what extent different bilateral donors take these factors into account and to what extent they address the developmental needs of recipients while allocating aid, is discussed below.

The Earlier Studies on Aid Allocation

One dominant perspective on aid from major bilateral donors is in the context of their foreign policies. Some early studies undertaken by McKinlay and McKinlay and Little examined the US, British, French, and German foreign aid allocations over the years 1960-70 from the perspective of foreign policies of these donors and the humanitarian and developmental needs of aid recipients.⁶ They developed a systematic humanitarian needs model of aid and a foreign policy model of aid and tested them against annual foreign aid disbursement from these donors. Regarding the humanitarian model of aid allocation from each of these donors, the authors used per capita aid received as a dependent variable and the independent variables were grouped into two categories. One included the welfare needs of the countries receiving aid, such as per capita Gross Domestic Product (GDP), per capita calorie consumption, and the number of doctors per 100,000 population, and the other comprised of the economic performance of the recipients, such as size of international liquidity as a percentage of imports and the rate of growth of GDP.

For testing the foreign policy model of aid, McKinlay and Little included different factors and categorised these into five main groups comprising donors’ (i)trade interests, (ii)security interests, (iii)power political interests, (iv) development and performance interests, and (v) political stability and democracy interests. To quantify these into measureable units, for example donors’ trade interests, the authors used recipients’ gross value of exports to and imports from donors. Variables quantifying security interests were donors’ security ties comprising the presence or absence of bilateral defence treaty or pact, military base (where absence is equal to 0 and presence is counted 1), military assistance and arms sales. Besides

this, security interests of these major Western bilateral donors (US, UK, France and Germany) were also measured by keeping in view factors such as trade and security relations of the recipients with the Communist bloc. This consisted of exports to and imports from the Communist bloc, and bilateral defence treaty, military assistance and arms sales.

Testing all these variables by running multiple regressions, they found that there were some differences in the types of interests the US, UK, France and Germany pursued. Overall, “the aid relationships of each of the four major Western donors are compatible with the foreign policy interpretation of aid”.⁷

The above analysis shows that during the 1960s and 70s, these four major Western donors used aid more as a foreign policy tool to achieve their respective interests. During these years and the continuing Cold War period, foreign assistance of major donors was motivated by strategic and security concerns. Depicting the Cold War scenario as a competition between two main competitors: the US and the Communist Bloc, Beim asserts that each player was trying its best to enhance and expand its influence over those who were not an active part of the game, such as those new states who had won independence during the 1950s and 1960s in Asia, the Middle East, Africa and Latin America.⁸ Raffer and Singer state that throughout this period, “development aid was inseparably connected to the policies of the bi-polar world”.⁹ One superpower was vying to increase its sphere of influence, the other was trying to contain the former’s and enhance its own influence through different means including foreign aid.

Foreign Aid in the Latter Period of the Cold War

Following the pioneering research of McKinlay and Little, numerous scholars have critiqued aid allocation policies of bilateral donors at different times. Using recipients’ need and donors’ interest models, Maizels and Nissanke evaluated aid data for 80 developing countries for two periods: 1969-70 and 1978-80.¹⁰ The focus of their research was the major bilateral donors examined by McKinlay and Little, plus Japan. In agreement to the earlier studies discussed above regarding the variable or factor of population size in determining aid, Maizels and Nissanke also asserted that “population size can legitimately be taken to represent recipient need, since larger developing countries can be said to require more foreign aid than smaller countries at the same level of development”.¹¹ They also used variables such as life expectancy at birth, infant mortality and literacy.

To construct donors' interest model, these authors utilized a slightly different set of categories including (i) political and security interests, (ii) investment interests, and (iii) trade interests. To quantify these interests, variables were used including arms sale, a kind of military or political alliance or association, foreign direct investment (FDI) of the donors' trans-national corporations in low-income countries, and markets for exports or sources of imports in the recipient countries. Like the earlier findings of McKinlay and Little for the years 1960-1970, the new results also substantiated that "bilateral aid allocations are made largely (for some donors) or solely (for others) in support of donors' perceived foreign economic, political and security interests".¹²

Like the studies discussed above, McGillivray used another econometric model to examine the aid giving criteria of the DAC donors for the period 1969-1984 for a sample of 85 recipient countries.¹³ The author called it income-weighted per capita aid index: based on per capita net disbursements of ODA to recipient states. On the basis of this, he measured the aid allocation performance of donors. In this study, those donors scored high who gave more aid to recipients on the basis of their (recipients') needs. Here, per capita income was used as an indicator of the development needs of recipient countries. According to McGillivray, "it is assumed that the lower a country's per capita income, the greater its need for aid".¹⁴ Besides this, the author argued that population size was also an important factor concerning a country's need for aid. This is because a highly populated recipient country requires more aid than a less populated having similar per capita income and poverty levels. He showed that Denmark and Norway were exceptional performers allocating most aid to address the developmental objectives and needs of the recipients while donors including as the US, France, Germany, Italy, Austria, and New Zealand gave more importance to political, strategic, commercial and traditional ties in the allocation of official aid.

In most of these works on aid allocation, the focus was either on a group of donors or all the OECD donors. Some studies have focused on specific donors and recipients. For example, Schraeder, Hook and Taylor examined aid from France, Japan, Sweden and the US to African countries in the 1980s.¹⁵ These donors were selected for analysis because they were recognised as major foreign aid players within the African context. The African continent was chosen because it is quite diverse and consists of a large number of countries.

Schraeder, Hook and Taylor took various factors into account, such as moral and humanitarian considerations; geo-

strategic significance; economic potential; ideological stance; cultural affiliation; and physical location of recipients. Foreign aid policies of these donors were shown to be multifaceted and complex as they varied greatly to accomplish different objectives. In terms of specific donors, Schraeder, Hook and Taylor found that during the 1980s, US official aid to Africa was driven by strategic and ideological interests associated with the Cold War, while Japan's economic self-interest were the principal determinants in its aid to the region. In the case of France, this study found that throughout this decade, former French colonies were favoured, as they received more than 80 percent of French annual aid for Africa. In general, Schraeder, Hook and Taylor insisted that humanitarian considerations were rarely prioritised by these donors and concluded that their findings "clearly reject the rhetorical statements of policy makers within the industrialized North who publicly assert that foreign aid is an altruistic tool of foreign policy".¹⁶

All the studies discussed so far in this section have found strong links between donors' aid and their geo-strategic, security and commercial interests. Whether it is a group of different donors or a single donor; and whether the focus is Africa or other region, such as the Middle East and Asia, foreign aid has largely been used by donors to further their interests. Most scholarship on aid allocation has reinforced the assumption that from its inception and then throughout the Cold War period, the majority of donors manipulated foreign aid as a foreign policy instrument. Some developing countries have been getting most aid from a number of bilateral donors not because of their acute poverty, but because of their past colonial history and/or geo-strategic and political significance. Round and Odedokun show that during 1970-2000, over 70 percent of bilateral aid from the UK and France has been targeted to their former colonies.¹⁷ All this does not mean that these countries were given more aid on the basis of their humanitarian and developmental needs, but more so because of their geo-strategic, security and political significance for these donors. It is evident from the preceding discussion that during the Cold War period, most bilateral donors continued to prioritise their own interests in the allocation of aid.

The End of the Cold War and New Targets for Aid Allocation

The Cold War came to an end with the collapse of the USSR and it was felt, somewhat idealistically, that there would be no more rationale for aid to be used as a strategic tool. Indeed, as the threat

of communism vanished, so did the geo-political rationale for aid to many developing countries, and consequently the overall aid flows decreased sharply in the 1990s.¹⁸

During the post-Cold War decade of the 1990s, donors started to focus on a new set of issues, such as democratisation, good governance, human rights, the rule of law, and poverty alleviation.¹⁹ It is interesting to recall that during most of the Cold War period, all these issues were rarely commented on by a majority of Western capitalist donors. For example, the regimes of Marcos (1965-1986) in the Philippines, General Zia (1977-1988) in Pakistan, Suharto (1967-1998) in Indonesia and the Samozas in Nicaragua were marred by massive corruption, political repression and human rights abuses throughout these years. However, as mentioned earlier, due to the Cold War compulsions, major bilateral donors generally overlooked these issues and pursued their own ideological and geo-strategic goals.

In the 1990s, the consensus emerged that aid would be more effective if given to countries who make good use of it. The World Bank, in its 1998 report on the assessment of aid, emphasised that foreign aid can be more effective if coupled with stable macroeconomic environments, open trade regimes, efficient public bureaucracies and institutions that can deliver education, health, and other public services.²⁰ In this context, the question of motivation was whether recipients fulfilled these criteria to be eligible for ODA and whether most donors really gave aid to those who deserved it: on the basis of their needs or because they had good institution in place to utilise aid effectively. The answer, discussed below, is less than satisfactory.

During this period, studies pertaining to the allocation of aid from donors started focusing on policy issues. The widely-cited study of Burnside and Dollar examined the correlations among aid, good policies and economic growth.²¹ The authors made a distinction between good and bad policies by employing variables, such as trade openness, inflation, and frequency of assassinations (to measure civil unrest). Based on these, percentage of annual per capital GDP growth was measured for 56 countries to find whether good or bad policies affected this variable. Burnside and Dollar showed that aid had “a more positive impact on growth in good policy environments”²². However, their analysis also showed that most bilateral donors still gave more importance to their strategic interests in the allocation of aid and usually did not take into consideration the quality of recipient countries’ economic policies.

Similarly, by developing a poverty-efficient aid allocation model, Collier and Dollar suggest that if allocated efficiently, the efficiency and productivity of aid could be doubled in reducing poverty.²³ They used the World Bank Country Policy and Institutional Assessment (CPIA) framework, which rates countries against a set of criteria comprising economic management, structural policies, policies concerning social inclusion and equity, and public sector management and institutions. These authors argued that aid can be more effective if given to countries with macro-economic policies characterised by stability, openness of trade, the rule of law and transparency. Despite this, however, practically most bilateral donors pursued their own politico-strategic, security, and commercial interests while allocating aid, and continued to ignore issues, such as transparency, accountability, good governance, democracy and human rights in recipient countries.²⁴

In order to examine whether some changes have taken place in the behaviour and policies of donors, Alesina and Dollar examined the OECD aid data for 1970-1994 covering a wide range of bilateral donors.²⁵ They stated their main purpose was to explain the “behaviour of bilateral donors – in the aggregate and individually - on the basis of recipients’ poverty, the quality of their institutions and policy, and variables capturing the strategic interests of donors”.²⁶ There is a major distinction between their analysis of donors and the earlier works. Here, the authors focused on three main aspects, including the recipients’ needs, the quality of their policies, and donors’ strategic interests. Unlike most previous studies, these authors measured donor strategic interests by employing a different variable, using records of the UN voting patterns. For each pair of donor and recipient, they calculated the correlation of their voting records in the general assembly and used this as an index of each donor’s friendship with the recipient. Overall, like the existing dominant rationale for aid allocation, Alesina and Dollar also substantiated that political and strategic considerations were more important for most donors and that “bilateral aid has only a weak association with poverty, democracy, and good policy”.²⁷

There are other studies which throw considerable light on the politics of aid allocation and recent priorities and interests of bilateral donors. One such work, focusing on the allocation of aid in the 1980s and 90s, is by Berthe’lemy and Tichit.²⁸ Their work explored whether donors’ aid allocation criteria have changed after the end of the Cold War or not. Their study examined 22 donors of the OECD and 137

recipient countries. For donors' commercial interests, trade, both import and export between the recipient and the donor expressed as percentage of the donors' GDP, was employed. Berthe'lemy and Tichit demonstrated that there was a positive correlation between donors' interests and their aid allocation in the 1980s, although there were some variations among donors. These authors pointed out that unlike the 1980s, aid in the 1990s was influenced more by donors' commercial interests and less by political and colonial links.

Berthe'lemy also examined aid disbursement from of both bilateral and multilateral donors and compared donors among themselves on the basis of their aid allocations.²⁹ The author claims to have used the largest and most comprehensive available data for examining motivations behind aid provision. He investigated aid from 22 donors of the DAC of the OECD to 137 recipients for the years 1980-1999. Using aid flows in constant 1985 US \$, the author employed variables such as former colonial links of Belgium, France, Portugal, Spain and the UK. For measuring trade and commercial interests, this study used net export to recipient countries as a percentage of the donors' GDP. To estimate needs of recipients, like a number of earlier studies, the author has used per capita income because the "most straightforward indicator of beneficiary needs is income per capita...if aid is to be allocated based on recipient needs, the poorer countries should receive more, and the richer countries less".³⁰ Besides this, Berthe'lemy has also tried other socio-economic variables, such as life expectancy at birth, child mortality, literacy rate, and school enrolment ratios. His findings showed that donors such as Switzerland, Austria, Ireland and most Nordic countries were among the most altruistic, giving aid based on recipients' needs. On the other hand, Australia, France, Italy, Japan and the US were noticed to be among the most egoistic, linking aid to their own interests.

Canavire, Nunnenkamp, Thiele and Triveño compared the aid allocation behaviour of bilateral donors with that of multilateral donors for the years 1999-2002.³¹ Their study also examined the widespread perception that the latter are superior due to a stronger orientation towards poverty concerns. Furthermore, they also assessed nine major bilateral donors individually to account for differences with regard to the relative importance of selfish and altruistic motivations of aid. The authors used these terms respectively for donors who gave aid for humanitarian purposes and those who pursued self-interest. Like the early research, this work also focused on both donors' interests and recipients' needs. On the basis of their analysis, Canavire et al. asserted that some donors were more

altruistic in aid allocation but donors like Australia, France, Italy, Japan and the US largely pursued their trade and geo-strategic goals. They also pointed out that export interests have influenced the aid allocation of donors often regarded as altruistic, except the Netherlands and Sweden.

From these studies, it can be concluded that both during as well as after the Cold War, the majority of bilateral donors have continued to use aid largely as a strategic and political tool to pursue their foreign policy goals. Besides the OECD donors, other non-traditional donors have also employed aid for politico-strategic objectives. In his analysis of Arab bilateral aid donors and multilateral aid agencies from 1974-1997, Neumayer found that they followed similar trends in their aid policies.³² He showed these donors gave more aid to governments having no diplomatic relations with Israel and having similar voting patterns with Saudi Arabia in the UN General Assembly. Thus, the overall aid allocation literature has clearly shown that the overarching determinants of aid provision from most bilateral aid donors continue to be their own interests.

Tied Aid and Donors' Trade and Commercial Interests

As this study has illustrated, a number of bilateral donors have continued pursuing multiple interests in the allocation of foreign aid, including trade and commercial benefits. An important aspect linked to donors' interests in the provision of foreign assistance is the issue of tied aid. In order to promote trade and commercial interests of domestic industries and business lobbies and firms, some bilateral donors (such as the US) tie their aid to the procurement of goods and services. In such cases, donors make it conditional for aid recipient countries to spend a substantial share of the committed aid on the purchase of technology in donor countries or to employ citizens of these countries as consultants and contractors in aid projects. Morrissey states that "tying leads to higher prices, an inefficient allocation of resources and increases the likelihood of inappropriate technology being exported to recipients".³³ It implies that tying of aid incurs extra costs to recipients and the goods and services bought from the donors as a result may not be very appropriate and of good quality in comparison to those procured in the open market. The World Bank has estimated that tying of aid reduces the actual value of aid by about a quarter.³⁴

The available evidence indicates that at times bilateral donors make it mandatory for their aid recipients to use a ratio of the allocated assistance for the purchase of goods and services. For instance, the US ties its official aid to the procurement of goods and

services and has made it mandatory by law that nearly all its aid must be spent on US-produced stuffs.³⁵ Section 604 of the US Foreign Assistance Act of 1961, sometimes referred to as the 'Buy America' stipulation, restricts the consumption of US assistance outside US markets.³⁶ The act concerning the procurement of goods and services ensures that maximum US aid funds be spent on US made commodities and employ US citizens in US-funded interventions. Besides this, Section 604 also states that all goods must be shipped through US freight companies. A report by Action Aid Alliance, a network of international non-governmental organisations, mentions that despite having signed up to international agreements and commitments on untying, the US maintains a dogged behaviour on the issue of tied aid.³⁷ The report states that the US does not provide data to the OECD on the tied status of its aid. It adds that the latest available figures reported to the DAC are from 1996, where the figures showed that an estimated 71.6 percent of US bilateral aid commitments were tied to the purchase of US goods and services. According to the same report, the US was at the forefront in the OECD to exempt food and technical assistance from tying policy. Concerning US food aid, Tarnoff and Nowels assert that "under current legislation, three-fourths of all food aid must be shipped by US carriers... more than 90 per cent of food aid expenditures will be spent in the United States".³⁸ In this context, it is relevant to recall that in the early 1950s, shipping US wheat aid to Pakistan in US ships would cost US \$26 per ton while the prevalent market rate was US \$12-14 per ton.³⁹ It has been stated that Pakistan was bound to transport all the commodities in the US vessels.

To overcome the challenge of tied aid, several steps have been taken by the international aid community. Among these initiatives was the 2001 DAC Recommendations on Untying ODA to the Least Developed Countries (LLDC), which was agreed upon by all the OECD donors in 2002. The 2005 Paris Declaration renewed this commitment by stating that "DAC donor will continue to make progress on untying as encouraged by the 2001 DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries".⁴⁰ However, despite these commitments and pledges, Riddel claims that "more than 70 per cent of United States ODA to the LLDCs remains tied".⁴¹ He states that for more than half of their ODA, the OECD donors neither report nor declare the share of aid which is tied or untied. It can be inferred from the whole analysis and discussion that different bilateral donors have continued to extract commercial benefits from their aid programmes in one way or the other.

Are Some Bilateral Donors Different than Others? A Comparison of Different Donors

As this paper has shown, there are a range of factors that play a varying role in the allocation of aid decision-making in donor countries. If some bilateral donors give preference to their former colonies, for others, trade can be a motivating factor in different recipient countries. However, all bilateral donors are not motivated solely by self-interest. There are examples of certain donors whose foreign aid policies are largely apolitical and are mostly guided by humanitarian considerations. Donors like Canada, the Netherlands and the Nordic Countries (Norway, Denmark, Sweden and Finland) are considered to be distinct from the larger donors (US, UK, Japan, France and Germany). It is argued that these donors are unique because their aid policies are motivated largely by philanthropic and developmental concerns.⁴² These donors give a higher share of their ODA to the poorest countries. Unlike the larger donors, strategic, political or commercial interests do not influence their aid policies to the same extent. It does not mean that they are completely free from any kind of self-interest; they are, however, not influenced by these features to the extent of their larger counterparts.

In their recent evaluation of the aid policies and programmes of the Nordic countries, Gates and Hoeffler have highlighted various aspects of these donors that make them distinctive from other bilateral donors.⁴³ They substantiate the earlier findings that Nordic donors are exceptional who give a higher share of aid to the poorest nations of the Sub-Saharan Africa. They affirm that unlike other donors who proclaim one thing and practice contrary to it, Nordic countries virtually follow what they announce. For instance, these donors give more aid to democracies and to recipients with good human rights record, such as in the context of Africa, aid to Tanzania, Zambia and Mozambique. Similarly, none of the Nordic donors provides more aid to political allies nor do they prioritize geo-political self-interest over the needs of recipients. Likewise, most Nordic donors, including Norway, Denmark and Sweden are among the few countries that have fulfilled the UN target of giving at least 0.7 percent of their GNP as ODA.⁴⁴ Given these features of the Nordic donors in terms of their bilateral aid allocation policies, they can rightly be considered role models for other bilateral aid donors, particularly for the larger ones.

Conclusion

This paper has explored the main motivations and criteria of aid allocations for a host of aid donors. It has clearly illustrated that both during and after the Cold War, and irrespective of the types of

variables used and analyses carried out, geo-strategic, security, trade and economic interests have been the predominant determinants of most aid allocation, particularly from larger bilateral donors. Most donors have continued to use aid as a tool for achieving different self-interest. The bulk of the available evidence indicates that by and large there is a weak correlation between what the majority of donors say and what they practice in terms of aid allocation. It is evident from their aid allocation policies, especially of the larger OECD donors, that humanitarian and developmental needs of recipients are secondary and donors' own interests are primary drivers. However, bilateral aid programmes of some donors, particularly of the Nordic donors, are largely guided by developmental objectives as they primarily address the developmental needs of recipients and provide a normative model for others. Overall, the dominant perception that aid is more an instrument and tool for bilateral donors to further their interests holds true until this day. In view of past policies and practices of aid donors, in future too aid is likely to be used by donors as a tool of foreign policy for accomplishing their own objectives.

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