

## Motivation

- Development cooperation is under pressure; this leads to the question of whether it constitutes a reasonable investment for donor countries
- So far, the scientific debate has mainly focussed on aid effectiveness and donor motives; there was no systematic survey of aid's benefits for donors
- In a recent study, we close this gap by systematically investigating (based on a review of about 200 studies) under which conditions development cooperation is also beneficial for donors
- We rely on the concept of „mutual interest aid“

# When can we call aid “mutual interest”?

- If it provides benefits for donor *and* improves recipient population’s welfare  
Not necessarily within the same domain and timeframe

Donor benefits	Recipient benefits	Classification
High	High	Clear case of mutual interest ODA
High	Low/zero/negative	Narrowly self-interested aid
Low/zero/negative	High	Primarily recipient-focused aid, altruistic
Low/zero/negative	Low/zero/negative	Low benefit aid

# Conceptual framework: 3 dimensions matter

## **Domain of benefits**

- Economic
- Political/Diplomatic
- Security/Stability

## **Timing of benefits**

- Short-term
- Medium to long term

## **Directness of benefits**

- Direct
- Indirect

## Why Mutual Interest Aid?

- Primarily altruistic aid not politically viable
- Narrowly self-interested aid typically aims at short-run gains (e.g. export promotion) but has little development benefit (e.g. tied aid); donors thereby forgo longer-term benefits (stable markets; alignment; stability)
- With mutual-interest aid donors can realize **economic, geopolitical and security/stability benefits** in long-term partnerships

## Economic Benefits

- **Fostering exports:** When specifically aimed at stimulating trade (aid-for-trade), aid can increase donor exports
- **Raising FDI:** Aid that has successfully supported social and physical infrastructure and governance has been proven to increase FDI (one study: around 2 dollars of FDI drawn in for every dollar of aid invested)
- **Access to Resources:** Aid can be a proactive tool for gaining a foothold in markets critical to future supply chains

## Geopolitical Benefits

- Short-term diplomatic alignment (e.g. UN voting) can often be achieved regardless of aid effectiveness
- Durable geopolitical influence is impacted by aid that is perceived as legitimate and beneficial by recipient

## Security/Stability Benefits: Conflict

- Aid can reduce the chances of civil war and of conflict recurring
  - Each Euro invested in conflict prevention can save up to 25 Euros in terms of prevented humanitarian crises, safety expenditures and economic losses
  - Aid has been shown to prevent recurrence of conflict (one study estimates the probability can be reduced by up to 36%), e.g. through truth and reconciliation commissions
  - Mostly not successful in ending conflict

## Security/Stability Benefits: Irregular Migration

- Aid that improves basic services (e.g. health and education) reduces the aspiration to migrate and actual migration rates; but: An income transfer without accompanying improvements in conditions can raise irregular migration (migration hump)
- Post-conflict aid lowers risk of displacement; stabilizing fragile regions and prevent renewed conflict can thus reduce future irregular migration flows
- Aid that strengthens climate resilience can reduce displacement by stabilizing livelihoods (e.g. drought-resistant crops)



## Security/Stability Benefits: Global Public Goods

- Effective investment in climate mitigation and global health (if successful) is mutual interest aid by definition due to the public good property
- Global health interventions such as strengthening pandemic preparedness have probably the highest direct return on investment for donors
- Climate mitigation aid also tends to effective

# Conclusion

We conducted a broad survey of the empirical literature on the effects of ODA on donor countries and identified various areas of mutual interest

- ODA can provide multidimensional benefits to donor countries
- Many of these benefits are indirect and long-term
- Intangibles hard to price: in particular geopolitical, diplomatic, and security-related returns
- Longer-run effects notoriously hard to measure, hence many gaps in empirical research or low confidence in results