



Wintersemester 2008/2009
Development Aid

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Time of Lecture: Tuesday, 10:15-11:45, Theologicum – T01

First Lecture: Tuesday, October 14, 2008

No Lectures on: October 21, December 16, **January 27.**

Additional Lecture on: January 14, 2009, 14.15-15.45h, OEC 0.168

Exercise: Wednesday, 14.15-15.45h, OEC 0.168; from third week

Exam:

There will be a 90-minute exam at the end of the term.

- 1. Introduction**
- 2. Aid Allocation**
- 3. Conditionality**
- 4. Debt relief as a form of development aid?**
- 5. Easterly vs. Sachs: Alternative Routes for Development?**
- 6. Aid effectiveness**
- 7. Reasons for the ineffectiveness of aid**
- 8. Way forward?**

1. Introduction

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

Literature:

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

United Nations: The Millennium Development Goals, <http://www.developmentgoals.org/>

The Changing Landscape for Official Flows, World Bank: Global Development Finance 2004, chapter 4, http://siteresources.worldbank.org/GDFINT2004/Home/20177151/gdf_Chapter%204.pdf

2. Aid Allocation

2.1. Bilateral Aid

*Alesina, Alberto and David Dollar, 2000, Who Gives Foreign Aid to Whom and Why? *Journal of Economic Growth* 5, 1: 33-63.

*Alesina, Alberto and Beatrice Weder, 2002, Do Corrupt Governments Receive Less Foreign Aid? *American Economic Review* 92, 4: 1126–1137.

Amprou, J., P. Guillaumont and S. Guillaumont, 2005, Aid Selectivity to Augmented Criteria, Paper presented at the “Development Economics Meeting” of the Association Francaise de Sciences Economiques, May 2005, mimeo.

Berthélemy, J.-C., 2006, Bilateral Donors’ Interest vs. Recipients’ Development Motives in Aid Allocation: Do All Donors Behave the Same? *Review of Development Economics* 10, 2: 179-194.

Berthélemy, J.-C. and A. Tichit, 2004, Bilateral Donors’ Aid Allocation Decisions: A Three-dimensional Panel Analysis, *International Review of Economics and Finance* 13, 3: 253-274.

Canavire, G., P. Nunnenkamp, R. Thiele, and L. Triveño, 2006, Assessing the Allocation of Aid: Developmental Concerns and the Self-Interest of Donors, *Indian Economic Journal* 54, 1: 26-43.

Collier, Paul and David Dollar, 2002, Aid Allocation and Poverty Reduction, *European Economic Review* 46, 8: 1475-1500.

*Dollar, David and V. Levin, 2006, The Increasing Selectivity of Foreign Aid, 1984–2003, *World Development* 34, 12: 2034-2046.

Easterly, William and Tobias Pfutze, 2008, Where Does the Money Go? Best and Worst Practices in Foreign Aid, *Journal of Economic Perspectives* 22, 2.

Gates, S. and Anke Hoeffler, 2004, Global Aid Allocation: Are Nordic Donors Different, CSAE Working Paper 2004-34. Centre for the Study of African Economies, Oxford University.

*Kuziemko, Ilyana and Eric Werker, 2006, How much is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations, *Journal of Political Economy* 114, 5: 905-930.

Neumayer, Eric, 2003, The Pattern of Giving Aid: The Impact of Good Governance on Development Assistance, *Routledge Studies in Development Economics* 34, London and New York.

- Neumayer, Eric, 2005, Is the Allocation of Food Aid Free from Donor Interest Bias? *Journal of Development Studies* 41, 3: 394-411.
- Nunnenkamp, Peter and Rainer Thiele, 2006, Targeting Aid to the Needy and Deserving: Nothing But Promises? *The World Economy* 29, 9: 1177-1201.
- *Thiele, Rainer, Peter Nunnenkamp and Axel Dreher, 2007, Do Donors Target Aid in Line with the Millennium Development Goals? A Sector Perspective of Aid Allocation, *Review of World Economics* 143, 4: 596-630.

2.2. Multilateral Aid

- Barnebeck Andersen, Thomas, Henrik Hansen and Thomas Markussen, 2006, US politics and World Bank IDA-lending, *Journal of Development Studies*, forthcoming.
- Copelovitch, Mark, 2008, Master or Servant? Agency Slack and the politics of IMF Lending, mimeo.
- *Dreher, Axel, Jan-Egbert Sturm and James Vreeland, 2008, Global Horse Trading: IMF loans for votes in the United Nations Security Council, KOF Working Paper 151, ETH Zurich.
- *Dreher, Axel, Jan-Egbert Sturm and James Vreeland, 2009, Development Aid and International Politics: Does membership on the UN Security Council influence World Bank decisions? *Journal of Development Economics* 88: 1-18.
- Fleck, R.K., and Christopher Kilby, 2006, World Bank Independence: A Model and Statistical Analysis of U.S. Influence, *Review of Development Economics* 10, 2: 210-223.
- *Frey, Bruno S. and Friedrich Schneider, 1986, Competing Models of International Lending Activity, *Journal of Development Economics* 20, 3: 225-245.
- *Kaja, Ashwin and Eric Werker, 2008, Institutionalized Insiders: Board membership and loan commitments at the World Bank, mimeo.
- Kilby, Christopher, 2006, Donor Influence in MDBs: The Case of the Asian Development Bank, *Review of International Organizations* 1, 2: 173-195.
- Oatley, Thomas and Jason Yackee, 2004, American Interests and IMF Lending, *International Politics* 41, 3: 415-429.
- Thacker, Strom, 1999, The High Politics of IMF Lending, *World Politics* 52: 38-75.

2.3. Aid by Non-Governmental Organizations (NGOs)

- Barr, A. and Fafchamps, M., 2005, A Client-Community Assessment of the NGO Sector in Uganda. *Journal of Development Studies* 42, 4: 611-639.
- Dreher, Axel, Florian Mölders and Peter Nunnenkamp, 2007, Are NGOs the Better Donors? A Case Study of Aid Allocation for Sweden, KOF Working Paper 180, ETH Zurich, November 2007.
- Fruttero, A., and Varun Gauri, 2005, The Strategic Choices of NGOs: Location Decisions in Rural Bangladesh, *Journal of Development Studies* 41, 5, 759-787.
- *Koch, Dirk-Jan, Axel Dreher, Rainer Thiele and Peter Nunnenkamp, 2008, Keeping a Low Profile: What Determines the Allocation of Aid by Non-Governmental Organizations? *World Development*, forthcoming.
- Koch, Dirk-Jan, 2007, Blind Spots on the Map of Aid Allocations, Concentration and Complementarity of International NGO Aid. Research Paper 2007/45, World Institute of Development Economics Research, Helsinki.
- Koch, Dirk-Jan, J. Westeneng and R. Ruben, 2007, Does Marketisation of Aid Reduce Country Poverty Targeting of Private Aid Agencies? *European Journal of Development Research* 19, 4: 635-656.
- *Nancy, G. and B. Yontcheva, 2006, Does NGO Aid Go to the Poor? Empirical Evidence from Europe, IMF Working Paper 06/39. Washington, D.C.

- Nunnenkamp, Peter, Janina Weingarh and Johannes Weisser, 2008, Is NGO aid not so different after all? Comparing the allocation of Swiss aid by private and official donors. Kiel Institute for the World Economy, Working Paper 1405, March.
- Werker, Eric D. and Faisal Z. Ahmand, 2008, What Do Nongovernmental Organizations Do? *Journal of Economic Perspectives* 22, 2.

3. Conditionality

- Bruce, N. and M. Waldman, 1991, Transfers in Kind: Why They Can Be Efficient and Nonpaternalistic, *American Economic Review* 81, 5: 1345-1351.
- Coate, Stephen and Stephen Morris, 1995, Altruism, the Samaritan's Dilemma, and Government transfer policy, *American Economic Review* 85, 1: 46-57.
- Coate, Stephen and Stephen Morris, 1996, Policy Conditionality, PIER Working Paper 97-013.
- Collier, Paul; Patrick Guillaumont, Sylviane Guillaumont and Jan W. Gunning, 1997, Redesigning Conditionality? *World Development* 25, 9: 1399-1407.
- *Dreher, Axel, 2008, IMF Conditionality: Theory and Evidence, KOF Working Paper 188, ETH Zurich.
- *Dreher, Axel and Nathan M. Jensen, 2007, Independent Actor or Agent? An Empirical Analysis of the Impact of US Interests on IMF Conditions, *Journal of Law & Economics* 50, 1: 105-124.
- Dreher, Axel and Roland Vaubel, 2004, The Causes and Consequences of IMF Conditionality, *Emerging Markets Finance and Trade* 40, 3: 26-54.
- Kanbur, Ravi, 2000, Aid conditionality and debt in Africa, in: F. Tarp (ed.), *Foreign Aid and Development*, London and New York, Routledge: 409-422.

4. Debt relief as a form of development aid?

- Cassimon, Danny and Bjorn Van Campenhout, 2007, Aid Effectiveness, Debt Relief and Public Finance Response: Evidence from a Panel of HIPC Countries, *Review of World Economics*, 143, 4: 742-763.
- Cordella, Tito, Giovanni Dell'Ariccia and Kenneth M. Kletzer, 2003, Conditional Aid, Sovereign Debt, and Debt Relief, IMF, mimeo.
- Daseking, Christina and Robert Powell, 1999, From Toronto Terms to the HIPIC Initiative: A Brief History of Debt Relief for Low-Income Countries, IMF Working Paper 99/142.
- *Depetris Chauvin, Nicolas M. and Aart Kraay, 2005, What Has 100 Billion Dollars Worth of Debt Relief Done for Low-Income Countries? Mimeo.
- *Easterly, William, 2002, How did Highly Indebted Poor Countries Become Highly Indebted? Reviewing Two Decades of Debt Relief, *World Development* 30, 10: 1677-1696.
- Hepp, Ralf, 2005, Health Expenditures under the HIPC Debt Initiative, University of California, Davis, mimeo.
- Policy and Operations Evaluation Department, Netherlands Ministry of Foreign Affairs, 2003, Results of International Debt relief, 1990–1999, IOB Evaluations 292.
- Michaelowa, Katharina, 2003, The political economy of the enhanced HIPC-Initiative, *Public Choice* 114: 461-476.
- Moss, Todd, 2006, Will Debt Relief Make a Difference? Impact and Expectations of the Multilateral Debt Relief Initiative, Center for Global Development Working Paper No. 88.
- Morrissey, Oliver, 2001, Pro-Poor Conditionality for Aid and Debt Relief in East Africa, CREDIT Research Paper 01, 15.
- Sturzenegger, Federico and Jeromin Zettelmeyer, 2006, Creditors Losses Versus Debt Relief: Results from a Decade of Sovereign Debt Crises, mimeo.

5. Easterly vs. Sachs: Alternative Routes for Development?

Bajpai, Nirupam, Jeffrey D. Sachs and Nicole H. Volavka, 2004, Reaching the Millennium Development Goals in South Asia, CGSD Working Paper No. 17.

*Easterly vs. Sachs reading list: various documents (available in Stud.IP).

Easterly, William, 2008, Can the West save Africa? *Journal of Economic Literature*, forthcoming.

Easterly, William, 2006, Reliving the 50s: the Big Push, Poverty Traps, and Takeoffs in Economic Development, *Journal of Economic Growth* 11, 2: 289-318.

Easterly, William, 2006, The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good, New York: Penguin Books, Chapters 1-7.

Sachs, Jeffrey D., 2006, The End of Poverty: Economic Possibilities for Our Time, New York: Penguin Books, Chapters 12-14.

Sachs, Jeffrey D., John W. McArthur, Guido Schmidt-Traub, Margaret Kruk, Chandrika Bahadur, Michael Faye and Gordon McCord, 2004, Ending Africa's Poverty Trap, *Brookings Papers on Economic Activity*, Issue 1, 2004: 117-240.

6. Aid effectiveness

6.1. Bilateral Aid

*Alesina, Alesina and Beatrice Weder, 2002, Do Corrupt Governments Receive Less Foreign Aid? *American Economic Review* 92, 4: 1126-1137.

*Burnside, Craig and David Dollar, 2000, Aid, Policies and Growth, *American Economic Review* 90, 4: 847-868.

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*Clemens, Michael, Steven Radelet and Rikhil Bhavnani, 2004, Counting chickens when they hatch: The short term effect of aid on growth, Center for Global Development Working Paper Number 44.

Collier, Paul, 2005, Is Aid Oil? An analysis of whether Africa can absorb more aid, Oxford University, mimeo.

Collier, Paul and David Dollar, 2002, Aid Allocation and Poverty Reduction, *European Economic Review* 46, 8: 1475-1500.

*Doucouliagos, Chris and Martin Paldam, 2005, The Aid Effectiveness Literature – The Sad Result of 40 Years of Research, Aarhus University Economics Paper No. 2005-15.

Dalgaard, Carl-Johann, Henrik Hansen and Finn Tarp, 2004, On the Empirics of Foreign Aid and Growth, *Economic Journal* 114: F191-216.

Dollar, David and Craig Burnside, 2000, Aid, Policies, and Growth, *American Economic Review* 90, 4: 847-868.

Djankov, Simeon, Jose G. Montalvo and Marta Reynal-Querol, 2005, The curse of aid, World Bank and CEPR, mimeo.

Dreher, Axel and Jan-Egbert Sturm, 2006, Do IMF and World Bank Influence Voting in the UN General Assembly? KOF Working Paper 137, ETH Zurich.

Dreher, Axel, Peter Nunnenkamp and Rainer Thiele, 2006, Does US Aid Buy UN General Assembly Votes? A Disaggregated Analysis, *Public Choice*, forthcoming.

*Dreher, Axel, Rainer Thiele and Peter Nunnenkamp, Does Aid for Education Educate Children? Evidence from Panel Data, *World Bank Economic Review*, forthcoming.

Doucouliagos, Hristos and Martin Paldam, 2005, Conditional Aid Effectiveness. A Meta Study, University of Aarhus, Working Paper no. 2005-14.

*Easterly, William, Ross Levine and David Roodman, 2004, Aid, Policies and Growth: Comment, *American Economic Review* 94, 3: 774-80.

- Hansen, Finn and Henrik Tarp, 2001, Aid and Growth Regressions, *Journal of Development Economics* 64, 2: 547-570.
- Roodman, David, 2004, An Index of Donor Performance, Center for Global Development Working Paper 42. Washington, D.C.
- *Rajan, Raghuram G. and Arvind Subramanian, 2008, Aid and Growth: What Does the Cross-Country Evidence Really Show? *Review of Economics and Statistics* 90(4): 643–665.
- Subramanian, Arvind and Utsav Kumar, 2005, Counting Chickens Before They Hatch: A Comment, International Monetary Fund, mimeograph.
- Werker, Eric, Faisal Z. Ahmed and Charles Cohen, 2007, How is Foreign Aid Spent? Evidence from a Natural Experiment, Harvard Business School Working Paper, No. 07-074.
- Williamson, Claudia R., 2008, Foreign aid and human development: the impact of foreign aid to the health sector, *Southern Economic Journal* 75, 1: 188-207.

6.2. Multilateral Aid

- Bernhard Boockmann and Axel Dreher, 2003, The Contribution of the IMF and the World Bank to Economic Freedom, *European Journal of Political Economy* 19, 3: 633-649.
- *Dollar, David and Jakob Svensson, 2000, What Explains the Success or Failure of Structural Adjustment Programs? *Economic Journal* 110, 466: 894-917.
- Dreher, Axel, 2006, IMF and Economic Growth: The Effects of Programs, Loans, and Compliance with Conditionality, *World Development* 34, 5: 769-788.
- Dreher, Axel and Martin Gassebner, 2008, Do IMF and World Bank programs induce government crises? An empirical analysis, mimeo.
- Dreher, Axel; Stephan Klasen; James Vreeland and Eric Werker, 2009, The costs of favoritism: Is politically-driven aid less effective? Mimeo.
- *Dreher, Axel and Stefanie Walter, 2008, Does the IMF Help or Hurt? The Effect of IMF programs on the likelihood and outcome of currency crises, KOF Working Paper 186, ETH Zurich.
- Przeworski, Adam and James Vreeland, 2000, The Effect of IMF Programs on Economic Growth, *Journal of Development Economics* 62: 385-421.
- *Easterly, William, 2005, What did structural adjustment adjust? The association of policies and growth with repeated IMF and World Bank adjustment loans, *Journal of Development Economics* 76, 1-22.

7. Reasons for the ineffectiveness of aid

7.1. Commercial interests of donors

- Nowak-Lehmann D., Felicitas, Inmaculada Martínez-Zarzoso, Stephan Klasen and Dierk Herzer, 2008, Aid and Trade – A Donor’s Perspective, Ibero America Institute for Econ. Research (IAI) Discussion Papers 171.
- Martínez Zarzoso, Inmaculada, Felictas Nowak-Lehmann D., Stephan Klasen and Mario Larch, 2008, Does German Development Aid Promote German Exports? Ibero America Institute for Econ. Research (IAI) Discussion Papers 170.

7.2. Political interests of donors

- Alesina, Alberto and David Dollar, 2000, Who Gives Foreign Aid to Whom and Why? *Journal of Economic Growth* 5, 1: 33-63.
- Barnebeck Andersen, Thomas, Henrik Hansen and Thomas Markussen, 2006, US politics and World Bank IDA-lending, *Journal of Development Studies*, forthcoming.

- Dreher, Axel, Jan-Egbert Sturm and James Vreeland, 2006, Does membership on the UN Security Council influence IMF decisions? Evidence from panel data, KOF Working Paper 151, ETH Zurich.
- Dreher, Axel, Jan-Egbert Sturm and James Vreeland, 2009, Development Aid and International Politics: Does membership on the UN Security Council influence World Bank decisions? *Journal of Development Economics* 88: 1-18.
- Fleck, R.K., and Christopher Kilby, 2006, World Bank Independence: A Model and Statistical Analysis of U.S. Influence, *Review of Development Economics* 10, 2: 210-223.
- Frey, Bruno S. and Friedrich Schneider, 1986, Competing Models of International Lending Activity, *Journal of Development Economics* 20, 3: 225-245.
- Kaja, Ashwin and Eric Werker, 2008, Institutionalized Insiders: Board membership and loan commitments at the World Bank, mimeo.
- Kilby, Christopher, 2006, Donor Influence in MDBs: The Case of the Asian Development Bank, *Review of International Organizations* 1, 2: 173-195.
- Kuziemko, Ilyana and Eric Werker, 2006, How much is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations, *Journal of Political Economy* 114, 5: 905-930.
- Neumayer, Eric, 2005, Is the Allocation of Food Aid Free from Donor Interest Bias? *Journal of Development Studies* 41, 3: 394-411.
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- Thacker, Strom, 1999, The High Politics of IMF Lending, *World Politics* 52: 38-75.

7.3. Aid distorts incentives

- Casella, Alessandra and Barry Eichengreen, 1996, Can Foreign Aid Accelerate Stabilisation? *Economic Journal* 106, 436: 605-19.
- Economidesa, George, Sarantis Kalyvitisa and Apostolis Philippopoulos, 2004, Do Foreign Aid and Transfers Distort Incentives and Hurt Growth?_Theory and evidence from 75 aid-recipient countries, Athens University, mimeo.
- Svensson, Jakob, 2000, Foreign Aid and Rent Seeking, *Journal of International Economics* 51, 2: 437-61.
- Zinnes, Clifford and Bineswaree Bolaky, 2002, Harnessing the Power of Incentives: A Framework for Increasing Effectiveness by Design, IRIS Center Working Paper.

7.5. Aid and the Dutch disease

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

7.4. Aid, corruption, and “bad” institutions

- Birdsall, Nancy, 2007, Do No Harm: Aid, Weak Institutions, and the Missing Middle in Africa, *Development Policy Review* 25, 5: 575-598.
- Drometer, Marcus, 2008, Foreign Emergency Aid and Political Accountability, LMU, mimeo.
- Shirley, Mary M., 2005, Can Aid Reform Institutions? The Ronald Coase Institute, mimeo.

7.5. Fungibility of aid

- Feyzioglu, T., V. Swaroop and M. Zhu, 1998, A Panel Data Analysis of the Fungibility of Foreign Aid, *World Bank Economic Review* 12, 1: 29-58.
- van de Walle, D. and R. Mu, 2007, Fungibility and the Flypaper Effect of Project Aid, World Bank Policy Research Working Paper 4133, Washington, D.C.
- Van de Sijpe, Nicolas, 2007, Is aid fungible? Evidence from the education and health sectors, Centre for the Study of African Economies, mimeo.

8. Way forward?

8.1. Selectivity?

Easterly, William, 2006, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, New York: Penguin Books, Chapter 11.

Jansen Hagen, Rune, 2004, *Foreign Aid and Domestic Politics Implications for Aid Selectivity*, Norwegian School of Economics and Business Administration, mimeo.

McGillivray, M., 2003, *Aid Effectiveness and Selectivity: Integrating Multiple Objectives into Aid Allocations*, *DAC Journal* 4, 3: 27-40.

Wane, Waly, 2004, *The Quality of Foreign Aid – Country Selectivity or Donors Incentives?* World Bank Policy Research Working Paper 3325.

8.2. Aid for trade?

Stiglitz, Joseph E. and Andrew Charlton, 2006, *Aid for Trade – A report for the Commonwealth Secretariat*.

IMF and World Bank, 2005, *Doha Development Agenda and Aid for Trade*, Washington, DC.

OECD, 2006, *Aid for Trade – Making it Effective*, Paris.