

Comprando poder blando: Efectos burbuja y gregario en la ayuda española (2005-2008)

Shopping Soft Power: Bubble and Herd Effects in Spanish Aid (2005-2008)

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Resumen

La comunicación plantea un análisis exploratorio sobre las motivaciones de la asignación geográfica de la AOD española durante el periodo de intenso crecimiento de este flujo financiero internacional entre 2005 y 2008. La hipótesis del trabajo es que el incremento de la AOD española durante este período se canalizó de acuerdo a un comportamiento gregario. En este sentido, España estuvo probablemente más interesada en convertirse en un nuevo miembro del grupo de los donantes *like-minded* dedicándose a “comprar poder blando” mediante la distribución de la ayuda entre los países *aid darlings*.

Palabras clave: ayuda al desarrollo, España, asignación geográfica

Abstract

In this paper we try to explain the motives behind Spanish ODA geographical allocation during the period of domestic aid “bubble” (2005-2008) when the public money for international aid doubled. Our hypothesis is that increases of Spanish ODA during this period were channelled following other donors' behavior (herd behavior). In that sense, Spain was probably more interested in becoming a new member of the group of “like-minded” donors; shopping soft power by delivering aid across the aid darlings.

Key words: development assistance, Spain, geographical allocation

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INTRODUCTION

In the last decade the relationship between foreign aid (Official Development Assistance, ODA) and development has changed dramatically from the focus on volume (how much money is needed) to the issue of getting value for money (Deutscher and Fyson, 2008; Groff, 2011), including how aid is given (Aldasoro *et al.*, 2010), how to spend it (Collier, 2012), and, foremost, where the money goes (de Haan, 2009; Sumner and Tribe, 2011). Behind this latter question (geographical allocation of aid) there is a large body of explanatory and normative literature on why countries give foreign assistance.

In this paper we try to explain the motives of Spanish ODA geographical allocation during the period of domestic aid “bubble” (2005-2008) when the public money for international aid more than doubled. Our hypothesis is that, contrary to the main conclusions of literature on aid allocation (donors’ self interest in terms on commercial or geopolitical factors, and/or recipients’ needs or merits), increases of Spanish ODA during this period were channelled following other donors’ behavior (herd behavior). In that sense, Spain was trying to become a new member of the group of “like-minded” donors shopping soft power by delivering aid across the aid darlings.

The paper is organised as follows. Section 1 surveys the academic literature on the motives for foreign aid. Section 2 describes the rapid transition of Spain towards a like-minded donor in the bubble period. Section 3 considers the herd behavior hypothesis and presents the data and methodology for testing it. In section 4, we show our main results. The paper ends with our conclusions and future research perspectives.

1. WHY DO COUNTRIES GIVE FOREIGN AID?

We can divide academic literature on the geographical allocation of international assistance into two broad groups: analyses of why states give aid to certain countries and not others (positive literature on the geographical allocation of aid), and more advisory studies on how countries should give aid (normative literature on the geographical allocation of aid). Normative literature derives, to a great extent, from work on aid effectiveness by Burnside and Dollar (1997) and from the selectivity model of aid allocation by Collier and Dollar (2001, 2002)¹. As our ultimate goal in this article is to discover the *de facto* objectives behind Spain’s ODA allocation (and not whether Spain should or should not maintain, expand, or contract that presence), this literature review focuses on the first group of analyses, the positive literature.

Positive studies on the motives of international assistance are mostly empirical. They approach the reasons behind international aid from the viewpoint of the donor, according to its own self-interests (self-centered motives) and to the characteristics of the recipient, specifically the latter’s needs or merits (altruistic motives)². This literature follows seminal work by Dudley and Montmarquette (1976), who designed a model for econometric analysis of the causes of international

¹ For a more comprehensive review of normative literature on aid allocation, see García and Olivé (2010).

² We found one single exception to this norm: Arvin and Lew (2010) consider the possibility that happiness in donors and/or recipients might be playing a role in aid selectivity, and conclude that it does in the case of donors.

assistance, and by McKinley and Little (1978a, 1978b, and 1979), who analyzed whether German, British and American aid during the 1960s was given out of self-interest or to meet recipients' needs. Their conclusion was that motives of self-interest clearly prevailed over recipient needs, opening the door to a series of studies that analyze the relative weights of these two factors and their evolution over time. These studies can be classified into a number of groups: (i) works on the general behavior of groups of donors vis-à-vis either all developing countries or one region in particular; (ii) studies on the differences in the allocation pattern by institutions or channels; and (iii) analyses of the motives for co-operation of one particular donor (such as Spain) vis-à-vis all recipients (see Appendix 1)³.

The bulk of these empirical papers analyze the behavior of the whole set of donors in relation to all recipients. In this regard, Alesina and Dollar (2000) conclude, after observing the behavior of total bilateral aid over five periods ranging between 1970 and 1994, that, in general terms, factors such as a nation's colonial past or its voting patterns at the United Nations prevail over the political institutions or the economic policy of recipients. Therefore, results are similar to those of McKinley and Little (1978a, 1978b, and 1979). Something similar happens in the study by Maizels and Nissanke (1984): cross-country regressions to bilateral and multilateral aid flows to 80 developing countries in 1969-70 and 1978-80 reveal that bilateral donors assign international assistance in accordance with their own political, security, investment and trade interests, while multilaterals give aid in compensation for recipients' shortfalls in domestic resources (therefore attending to their needs). In the same fashion, Berthélemy (2006) analyses the reasons for co-operation of the 22 DAC bilateral donors, the European Commission, and multilateral donors to 137 recipient countries from 1980 to 1999, and finds similar results. Donors' interests (geopolitical or commercial factors) are more heavily weighted than recipient needs or "merits" (good governance) in the geographical allocation of bilateral aid, except as regards Switzerland and the Nordic countries. Commercial interests prevail over geopolitical reasons, and there are strong variations in the relative weight of each motive to assist among this group of donors. Meanwhile, the opposite occurs with multilateral donors, which are more influenced by recipient needs in the geographical allocation of aid. Schraeder *et al.* (1998) analyze the allocation pattern of four donor countries (France, Japan, Sweden and the United States) within Africa. They find that, since the 1980s, aid has been allocated according to donors' foreign policy interests rather than to altruistic motives, as argued by the administrations of donor countries. Lundsgaarde *et al.* (2010) share this general view: trade flows are the main driver in geographical allocation of aid.

One study by Neumayer (2003) covering 21 donor countries for the period 1985-97 points out that no donors –not even Scandinavians– assign ODA according to the degree of respect for human rights on the part of the recipients. According to Alesina and Weder (2002), generally speaking, neither multilateral nor bilateral aid is awarded to developing countries with "less corrupt" regimes. Elsewhere, after assessing the determinants of overall net transfers to a panel of 37 sub-Saharan recipients in 1978-98, Birdsall *et al.* (2003) conclude that donors, and bilateral donors in particular, tended to reward indebted countries with bad governance. Therefore,

³ A fourth group can be composed by studies on the sector allocation of aid. See Hicks *et al.* (2005) on the pattern of allocation of environmental assistance, the paper by Tadasse and Fayissa (2009) analyzing US aid for trade, the one by Fink and Redaelli (2010) on the determinants of international emergency aid, by Kuhlitz *et al.* (2010) on the allocation of food aid, Esser and Keating (2011)'s insight into the distribution criteria of global health funding, and Thiele *et al.* (2007) on the prevalence of some MDGs over others in aid targeting.

according to this study, aid does not tend to flow to the most “deserving”. Rather, external multilateral debt seems to attract donors, as do bad policies.

Other studies are not so conclusive about the prevalence of donors’ interests (and the non-prevalence of recipient needs or good governance) in the allocation of international bilateral assistance. Mosley (2006) replicates McKinley and Little’s studies (1978a, 1978b, and 1979) with methodological changes and more current data and concludes that, to a certain extent, recipient needs do indeed serve as a pull factor for international assistance. According to Isopi and Mavrotas (2006), and on the basis of an analysis of the allocation pattern of 20 DAC donors (including Spain) to 176 recipients over 23 years (1980-2003), the motives for assistance vary substantially among donors. Claessens *et al.* (2007) come to a similar conclusion after studying 22 donors with regard to 147 recipients over the 1970-2004 period, finding that there is no uniform behavior among donors. This conclusion is shared by Clist (2011), who insists in donor heterogeneity in geographical allocation patterns.

Literature on the selectivity criteria of international assistance is increasingly responding to the emergence of non traditional donors⁴. Dreher *et al.* (2011) conduct a study comparing the features of selectivity in the two broad groups of traditional and non-traditional donors. According to them, “new” donors are even less poverty sensitive than traditional ones.

Very recently, a second group of literature seems to emerge. These works introduce a more complex –and therefore a more accurate– view on the dynamics behind geographical distribution as it assumes that a single donor, or, more precisely, different institutions or channels within a single donor, might be allocating ODA, for different reasons, to different recipients. These studies were led by works on the differences between bilateral and multilateral assistance. By comparing the 1984-9 period with that of 2000-3, Dollar and Levin (2006) conclude that, in recent years, multilateral donors appear to have become more selective than bilateral donors in the assignment of emergency aid. Dreher *et al.* (2010) compare the allocation criteria of government-administered and NGO-administered Swedish ODA and conclude that government appears to be more poverty sensitive. In that same vein, Nunnenkamp and Öhler (2011) elaborate a work for Germany though differentiating a wider variety of channels and actors –BMZ and its implementation agencies, other ministries, federal states, officially refinanced private donors, German NGOs using their own resources– and point out similar results –that BMZ allocation pattern is more poverty sensitive than local NGOs or other ministries distribution criteria–. Corporate assistance provided by Nestlé is not targeting poor countries to the same extent as Swiss government and NGOs do (Metzger *et al.* 2009). Loman *et al.* (2011) observe that –paradoxically– self-funded Dutch NGOs are more aligned with government geographical preferences than public-funded ones.

The third group of empirical studies on the assignment of aid by wealthy nations includes analyses of the behavior of one particular donor, but such studies are far more rare. Although the aforementioned seminal works by McKinley and Little (1978a, 1978b and 1979) each focuses precisely on one particular donor (Germany, the UK and the US), subsequent works have approached this issue from a broader perspective and on the basis of cross-country empirical methods.

Nevertheless, a few –more recent– works escape this trend. For instance, Macdonald and Hoddinott (2004) approach the criteria behind Canadian international assistance for the period 1984-2000 and find evidence of recipient need as a motive for aid allocation. Other criteria include recipient countries’ human rights record and

⁴ See Avdeeva *et al.* (2011) on the allocation of the Global Fund to Fight AIDS.

membership in the Commonwealth or *la Francophonie*. Moreover, there seems to be an evolution in the relative weight of different motives: altruistic factors are losing strength while commercial interests are gaining. More recently, Reynaert (2011) has analyzed the motive behind EU's assistance to Mediterranean countries. The implementation of economic reforms in partner countries seems to be a stronger pull factor of European assistance than their needs or donor's interests. Unlike the EU, the United States' allocation of international assistance might be more influenced by self interest such as geopolitical or commercial factors –despite the fact that countries with lower GDP per capita get more American aid– (Harrigan and Wang, 2011). According to Jin Kang *et al.* (2011), South Korea's external aid is an important catalyst of FDI flows –a feature shared by Japanese assistance–. Regarding China's foreign assistance, it might not be that “rogue” after all, according to Dreher and Fuch (2011) as it is not mainly pulled by resource endowments in recipient countries.

For the case particular case of Spain we find several works, but the most comprehensive analysis of the geographical allocation of Spanish aid to all developing countries has been conducted by Tezanos (2008). This author divides the motives for assistance into three types: recipient needs, donor interests and aid effectiveness. He concludes that effectiveness plays no role in the decisions behind geographical allocation of Spanish aid. Moreover, the donor's interest clearly prevails over recipients' needs. Other studies on this same issue include those by Alonso (1999), who concludes that the Spanish aid pattern responds to regional factors (with aid mostly channeled to Latin America), and by Sánchez Alcázar (1999), who points out that self-interest factors, especially trade interests, far outstrip any other motives.

As mentioned above, there are also studies that approach the motives for co-operation for a group of donors, also providing details on each member of the group, including the behavior of Spain as a donor. Such is the case, for instance, in Isopi and Mavrotas (2006), who find that the prevailing motives behind Spanish international assistance are trade relations. According to Berthélemy and Tichit (2004), despite the difficulties (chiefly the lack of time series) in analyzing a “newcomer” donor such as Spain, historical and political links and colonial heritage do seem to play a major role.

To sum up, despite the fact that several authors find different prevailing motives behind Spanish co-operation, it seems that factors of self-interest and/or colonial past are given more weight than recipient needs or good governance.

2. SPAIN AS A NEW COMER TO LIKE-MINDED AID

To understand Spain's change in development policy in 2004 with the new Socialist government –and, thereby, its increasing involvement in new recipient countries– it is necessary to go back almost a decade and analyse the domestic political conditions that drove this turn.

During the final term of the Conservative Party (2000-4), the government emphasized the need to subordinate the country's external relations to national interests. As a consequence, much effort was put into the bilateral approach and, more precisely, the transatlantic axis (see, for instance, the Aznar government's support for President Bush's policy in Iraq) (García-Calvo, 2010). Under this scenario, international development was not a priority in the external relations agenda. Moreover, as shown in the First Master Plan for Spanish Co-operation (SMFA, 2000), development policy was conceived with this same approach and, therefore, international co-operation was strongly oriented towards the Latin

American and North African regions. As a consequence, ODA expenses were low according to European and OECD standards, and these were mainly channeled bilaterally to Latin America (Table 1).

This approach to development policy led to criticism, both internationally –for instance, by the OECD, as stated in the Spain 2002 peer review (OECD, 2002)– and domestically, particularly by local NGOs as shown in Intermón Oxfam (2003). Besides the priority of national interests and/or colonial links in guiding Spain’s policy towards developing countries, the focus on Latin America and North Africa also implied that most ODA was being channeled to middle-income countries (incidentally located in Latin America), thus neglecting LDCs and low-income countries (and thus, sub-Saharan Africa). In more general terms, the perception was that Spain was not aligning with the incipient new architecture of development assistance: the Monterrey Consensus, the new agenda on aid effectiveness –summarized at that time in the Rome Declaration– and poverty reduction, the Millennium Declaration and the Millennium Development Goals as the main set of objectives for both donors and recipients.

The Socialist government that came to power in 2004 sought a U-turn in the national and international perceptions of Spain’s international role. Regarding development co-operation, from then on Spain would be more committed to international development (and more precisely to poverty reduction), and LDCs would no longer be neglected. In more general terms, all this would be achieved mainly through a “return” to the international community: aligning with the new development agenda from a multilateral approach (SMFAC, 2005). Thus, the new government was seeking to transform Spanish co-operation into that of a more “like-minded” donor.

This change of direction had consequences for Spanish official co-operation at various levels. Among other changes, the government first reinforced a more participatory and planned approach to implementing development policy. NGOs, trade unions, the business sector, academics and other experts were welcome to discuss an increasing number of official documents: two Master Plans covering 2005-8 and 2009-12 (SMFAC, 2005 and 2009) and over a dozen strategy papers for all kind of sectors –peace-building, gender equality, health, education and migration, among many others⁵. It should be noted, however, that a more strategic view of official development policy did not necessarily emerge.

Secondly, beyond mere political statements, this shift resulted in a huge increase in Spanish ODA over several years, until Spain’s priorities were challenged by the current global economic crisis. According to OECD data, ODA to all recipients almost tripled between 2004 and 2008: from less than \$2.5 billion in 2004 to over \$6.8bn in 2008.

Thirdly, and leaving aside sector distribution, the shift had a slight effect on geographical allocation. The volume of funds to “low-income regions” increased. According to OECD figures, total net ODA to sub-Saharan Africa increased more than six fold in seven years (from almost \$158m. in 2003 to \$1.019 bn in 2009) and aid to South and Central Asia increased twelvefold (from \$11m. to \$147m. in the same period). Moreover, multilateral assistance to developing countries almost tripled, from \$810m. in 2003 to \$2.112 bn in 2009.

⁵ See:

<http://www.maec.es/es/MenuPpal/CooperacionInternacional/Paginas/Cooperacion%20espaola.aspx> for more details.

Table 1: Geographical allocation of Spanish ODA 2003-8 (%)

	2003	2004	2005	2006	2007	2008	Spain	2003-8 DAC/O ECD	EU
<i>By region</i>									
North Africa and Middle East	10.88	14.90	17.14	22.21	11.54	12.41	14.84	18.70	15.04
Latin America and the Caribbean	44.94	45.10	31.36	37.46	35.38	41.15	34.47	7.45	7.25
Sub-Saharan Africa	13.71	12.87	30.09	13.20	14.30	15.20	16.53	30.82	39.16
Asia (except Middle East)	6.59	6.00	6.63	4.76	7.10	6.79	6.31	17.10	13.05
<i>By income level</i>									
Least developed countries	13.75	11.44	21.55	6.78	13.06	14.74	11.55	25.59	26.91
Low-income countries	2.60	2.42	3.24	8.15	2.91	3.11	3.74	11.02	12.94
Middle-income countries	62.32	66.45	56.45	62.52	49.82	43.09	56.77	37.24	34.36
<i>Multilateral</i>	6.12	6.20	6.70	9.30	7.78	7.91	7.34	38.42	54.17

Source: OECD and author's calculations.

3. HYPOTHESIS, METHODOLOGY AND DATA

Besides some few exceptions –see, for instance, Nunnenkamp and Öhler (2011) on German aid–, the academic literature on the geographical allocation of international assistance is filled with cross-country analyses with unnuanced conclusions. Despite the fact that they can extract particular conclusions for each bilateral or multilateral donor, they assume equal behavior by each donor towards all recipient countries and/or in any time period and/or by any specific actor or distribution channel –NGOs, financial cooperation, technical assistance, etc.–⁶. For instance, according to Isopi and Mavrotas (2006), trade relations are the main motive behind Spanish official cooperation. Although this might be true in general terms, it does not allow an exploration of the nuances present in the cooperation of one particular donor towards distinct countries or groups of countries, particularly when it comes to a donor in a process of transition, such as Spain would seem to be. A donor can cooperate with different countries for very different reasons. Furthermore, one of the reasons why this field of research is not yielding clear conclusions is because these empirical techniques force the simplification of a complex reality or process into one or two variables that are not accepted by all researchers⁷.

Surprisingly, there is not much literature on herd behaviour among international donors. Studies by Frot and Santiso (2011) and Koch (2007) are the exception. Nevertheless, while both papers find evidence of herd behaviour among official bilateral donors (Frot and Santiso, 2011) and among NGOs (Koch, 2007), neither explains the factors behind that behaviour. Although Frot and Santiso (2011) observe that donors “herd out” when the local politics shift away from democracy, they fail to find factors to explain “herding in”.

In that sense, Harrigan and Wang (2011) explain the existence of a “bandwagon” effect, “when a recipient receives more aid from one donor this may attract more from other donors as well” (p. 1291). Nunnenkamp and Öhler (2011) compare the allocation of German aid with the DAC donors as a whole and do not find evidence of herd behaviour in German selectivity. However, for the particular case of humanitarian assistance, Fink and Redaelli (2010) observe that the average number of DAC donors attending emergencies increases from 0.47, when none of the big donors have previously responded to that crisis⁸ to 7.07 when they have.

Tezanos and Gutiérrez Sobrao (2011) find evidence of herd behaviour, among other factors, as one of the explanatory variables of Spain’s aid allocation between 1998 and 2009.

Our hypothesis is that increases of Spanish ODA during the bubble period were channelled following other donors’ *de facto* geographical distribution of foreign assistance; that is, Spain had a herd behaviour. Therefore, this particular case can not be explained by the “classical” motives of selectivity identified in economic literature (donors’ self interest in terms on commercial or geopolitical factors, and/or recipients’ needs or merits).

Spanish ODA volume has recorded a huge increase in recent years. Figure 1 displays the evolution of two Spanish ODA measures: (i) total ODA gross

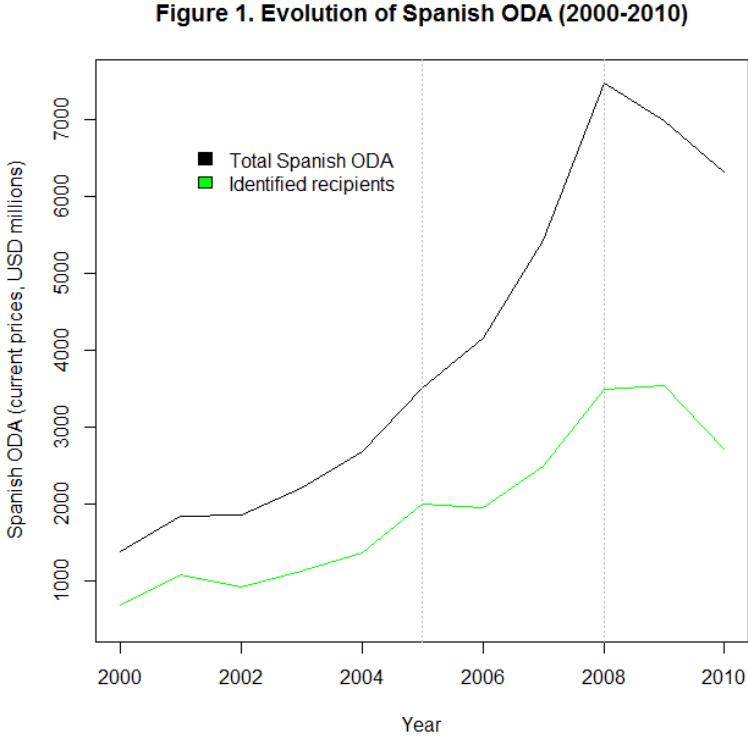
⁶ This idea has also been pointed out by Gounder and Sen (1999).

⁷ This problem becomes obvious when one analyses the role of good or bad governance as a pull factor for international assistance. The study by Canavire *et al.* (2005) is revealing: good governance in the recipient country seems to attract foreign assistance when measured by the World Bank’s CPIA (Country Policy and Institutional Assessments), but not when measured by the Kaufmann index. This problem also appears when levels or processes of development (recipients’ needs) are reduced to GDP growth or per capita income. For further discussion on this issue, see García and Olivie (2010).

⁸ The big donors being the United States, Japan, Germany, United Kingdom and Norway

disbursement and (ii) the share of ODA allocated to an identified partner. We consider this latter measure the indicator of our dependent variable. It shows a particularly large increase in 2007-8 respect the years 2005-6, considered as the baseline.

Figure 1. Evolution of Spanish ODA (2000 – 2010)



To test our hypothesis, we check whether the total number of donors present in a given recipient country has a significant impact on the rate of change of Spanish ODA allocated to that country⁹.

The dependent variable defined as before can just be computed for those countries that were already recipients of Spanish ODA during the baseline period (2005-6). For those countries that were not we can create another dependent variable: a dummy variable that takes value one for those countries that were not receiving ODA at the baseline but they were in the subsequent period.

We first estimate the correlation between the total number of donors present in a recipient country, and the two dependent variables that capture the Spanish ODA allocation policy: (i) rate of change of Spanish ODA allocated to that country and (ii) emergence of the country as new recipient of Spanish ODA.

Then, we proceed with a simple regression which as we know bring us the issue of causality. It is very likely the existence of third factors driving the previous relationship. In order to avoid an omitted variable bias we will proceed by doing a regression of our dependent variables on our variable of interest (total number of donors) controlling for other factors that may be affecting both the presence of bilateral and multilateral partners and the rate of change of Spanish ODA devoted to that country.

The model we would estimate takes the following form:

⁹ The dependent variable is defined as the rate of change of Spanish ODA gross disbursements between 2005-6 and 2007-8. Our variable of interest is defined as the sum of the total number of bilateral donors present in the country in each year of the period 2005-2008.

$$RCSODA_j = \alpha + \beta \cdot TND_j + \gamma' \cdot X_j + u_j$$

where β is the coefficient of interest and X_j is a vector containing factors that may affect both RCSODA and TND. We assume the error term to have a conditional expectation equal to zero.

As we have seen in section 1 literature has identified three important components of vector X_j : (1) donor's interests, among which we may include economic and geopolitical reasons, (2) recipient's needs, and (3) recipient's merits.

We use as control for Spanish' economic interests the bilateral merchandise trade during the period 2005-8 (in logs). Regarding Spanish' geopolitical interests we include a dummy variable indicating the ex-colony condition of the recipient. Recipient's needs are capture by the 2005-6 average log GDP per capita in PPP (2005 US dollars). We also control for the average population of the recipient country during the period 2005-8. Finally, we include an assessment of the governance of the recipient country as control for recipient's merits.

Table 2 shows the variables included in our research, their definition and notation, and the source of the data.

Table 2. Variables and data sources

Variable	Name	Source	Definition
rcsoda2	Rate of change of Spanish ODA	OECD ^a	Rate of change of Spanish ODA gross disbursements from period 2005-6 to 2007-8.
nsodar2	New Spanish ODA recipient	OECD ^a	Dummy variable that takes value one for those countries that were not receiving ODA at the baseline (2005-6) but they were in the subsequent period (2007-8)
tnd58	Total number of donors	OECD ^a	Total number of donors present during the period 2005-8
lbmt58	Bilateral merchandise trade (in logs)	UNCTAD ^b	Bilateral merchandise trade (X+M) during the period 2005-8 (in logs)
lgdp56	loggdp per capita PPP, dollars 2005 (in logs)	World Bank ^c	Average 2005-6 GDP per capita PPP, dollars 2005 (in logs)
excol	Ex-colony	Authors	Dummy variable that takes value one for ex-colonies of Spain
Agover	Average governance	World Bank ^c (Worldwide Governance Indicators Project)	Average 2005-6 governance computed as the arithmetic mean of the six dimensions of governance assesses by the Worldwide Governance Indicators project. The scale range between -2.5 and 2.5 with higher scores meaning better governance
lpop58	Average population during the period 2005-8 (in logs)	United Nations Statistics Division ^d	Average population during the period 2005-8 or the closest available year (in logs).

- a. OECD: Development Database on Aid from DAC Members: DAC online - DAC2a ODA Disbursements.
<http://stats.oecd.org/Index.aspx?DatasetCode=TABLE2A>
- b. UNCTAD – UNCTADSTAT:
http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sRF_ActivePath=P,15912,15914&sRF_Expanded=P,15912,15914
- c. World Bank:
<http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD>
<http://info.worldbank.org/governance/wqi/index.asp>
- d. United Nations Statistics Division:
<http://unstats.un.org/unsd/demographic/products/dyb/dyb2009-2010.htm>

In next section we show some descriptive statistics of these variables. Disaggregating X_j we can express equation (1) as:

$$RCSODA_j = \alpha + \beta \cdot TND_j + \gamma_1 \cdot lbmt58_j + \gamma_2 \cdot lgdp56_j + \gamma_3 \cdot excol_j + \gamma_4 \cdot agover_j + \gamma_5 \cdot lpop58_j + u_j$$

Which we can estimate by ordinary least squares.

4. RESULTS

4.1. Descriptive statistics

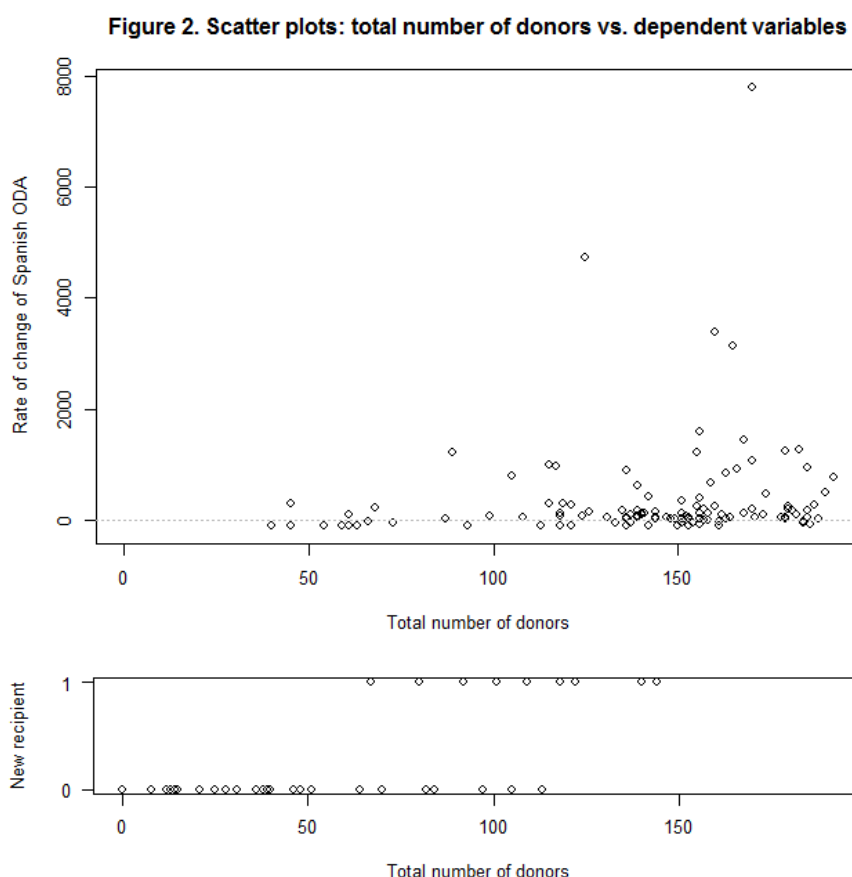
Table 3 shows some statistics of our variables. Bilateral merchandise trade is shown in thousand of US dollars, PIP per capita in PPP US dollars 2005 and population in thousand of individuals.

Table 3. Descriptive statistics

Variable	Mean/Share	Standard deviation	Minimum	Maximum
rcsoda2	373.85	964.16	-100	7,800
nsodar2	0.18	0.39	0	1
tnd58	112.16	59.95	0	192
lbmt58	190,574.1	26.25	14.34	98,425,754
lgdp56	3,888.73	3.19	276.52	69,347.26
excol	0.12	0.33	0	1
agover	-0.32	0.75	-2.24	1.45
lpop58	3,322.69	12.91	2	1,317,838

Figure 2 displays a scatter plot of the dependent variables: (i) rate of change of Spanish ODA and (ii) emergence of a country as (a new) recipient of Spanish ODA against the number of donors present in the country. The relationship is quite clear in the bottom graph, which shows how countries with higher number of donors are more likely to become new recipients. The top graph is less clear but it is also possible to perceive an increasing relationship.

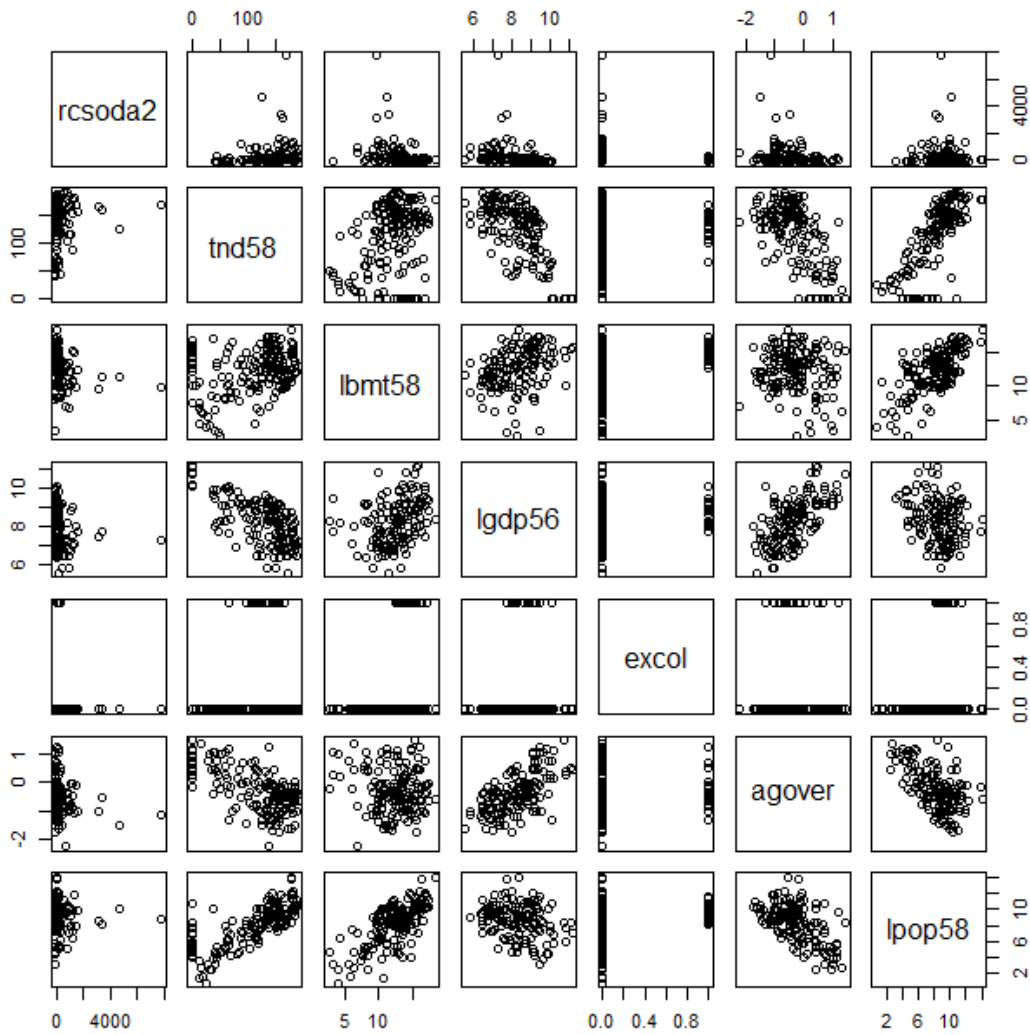
Figure 2. Scatter plots: total numbers of donors vs. dependent variables



Regarding the relationship between the rate of change of Spanish ODA and total number of donors, data display in Figure 2 leads to a Pearson correlation coefficient of 0.138 and to a Spearman correlation coefficient of 0.267. For the case of the relationship between new recipients and total number of donors the Pearson correlation coefficient is much higher: 0.697 when considering all countries included as potential recipients of international aid in the OECD database, and just slightly lower, 0.682, when we restrict the number of potential recipients to those that has at least one donor during the period considered (2005-8).

As we said in previous section correlations are not sufficient evidence of the existence of herd behavior in ODA Spanish allocation. We must control for third factors that may drive those correlations. Unfortunately the introduction of additional controls reduces the sample. The lack of data is especially important for the group of countries with dummy dependent variable. This set of countries was already small and the missing values generated by introducing additional controls made it impossible to perform probit estimations of the herd effect on the probability of a country to become a new recipient of Spanish ODA. Following empirical research would be conducted taking the rate of change of Spanish ODA as dependent variable. Figure 3 includes a matrix of pairwise scatter plots of all the variables we use in following OLS estimations. Those graphs show the correlations among variables. Second row and second column's graphs display total number of donors in y-axis and x-axis respectively and allow us to assess the need for the inclusion of several controls that are strongly correlated with our variable of interest: GDP per capita, governance and population.

Figure 3: Matrix of pairwise scatter plots



4.2. OLS estimations

Table 4 shows the results of OLS estimations on progressively more comprehensive models. In column 1 we present the simple regression model for which the impact of the variable of interest is not significant (p -value = 0.13). It was not an expected result, but it is not the end of the story. As soon as we give more structure to the model, introducing controls for selfish motivation and recipient's needs (columns 2 and 3), heard effect become significant due to the increase in its estimated size. During the Spanish ODA bubble each additional bilateral or multilateral partner a recipient had implied an increased in the rate of change in Spanish ODA allocated to that country of between 5.5 (model OLS1) and 7.1 (model OLS2) percentage points

In order to clarify the reasons behind the change in the size of the estimated herd effect we must analyze graphs in Figure 3. It must be noted that donor community is mainly present in countries with relatively high trade relationship with Spain. As Spanish ODA allocation correlates negatively with its trade flows, while international donors concentrate in countries with relatively high trade ties with Spain, we need to control for the latter to find a significant impact of heard motives. We

identify two opposite forces: altruistic motives vs. herd effect where the former seems stronger for the ODA measure we are working with (assistance effectively allocated geographically).

Model in column 3 introduces a control for recipient needs measure through GDP per capita. This variable is negatively correlated with the rate of change of Spanish ODA (Pearson correlation coefficient = -0.226), that is, Spain seems to be allocating aid according to recipients' needs. Contrary to what may be expected the estimation of the coefficient associated to recipients' needs is not significant, and on top of that it presents a positive sign (*ceteris paribus*, the higher the income per capita the higher the increase of Spanish ODA). The fact that the herd effect does not lose significance and its size gets even increased (compensating the positive sign of *lgdp56*) indicates that herd effect is stronger and is leading the previous apparent sensitivity to recipients' needs.

Model in column 4 adds a dummy indicating the condition of ex-colony of a given country. It is clear that what used to be a significant determinant of Spanish ODA allocation (Tezanos and Gutiérrez Sobrao, 2011) it is not any more. If any, the negative sign of the non-significant estimated effect would suggest that this fact penalized these traditional recipients of Spanish ODA. Neither the size of the effect nor the precision of the estimation of the herd effect changes by introducing this control.

Model called OLS4 introduced a control that reduces slightly the estimated herd effect: each additional bilateral or multilateral partner a recipient had implied an increase in the rate of change in Spanish ODA allocated to that country of 6.6 (model OLS4). It is easy to understand: governance is strongly correlated with the number of donors present in a country and this correlation has the same direction than the one the former has with the rate of change of Spanish ODA (as indicated by the sign of the coefficient associated to the variable that assesses governance): both Spain and community of donors are rewarding bad governance (even if for the case of Spain the effect is not significant). What is the direction of causality? Are both facts simultaneously determined? The fact that herd effect remains highly significant while rewarding bad governance is not significant is not conclusive¹⁰. It seems more convincing the fact that to reward bad governance is not coherent with the evidence that supports the existence of altruistic motivations driving Spanish ODA allocation (lack of economic and geopolitical motivations). The only thing that can explain the fact that Spain was rewarding bad governance is the fact that it was a subproduct of the real motivation of Spanish international aid policy: to follow like-minded countries.

Finally, the introduction of a control for the population of countries does not bring any new insights on the question of interest.

¹⁰In a specification in which we do not control for recipient's GDP per capita the introduction of *agover* drives away herd effect.

Table 4. The effect of total number of donors on the rate of change of Spanish ODA during its ODA bubble (2007-2008)

Dependent variable: rate of change of Spanish ODA from 2005-2006 to 2007-2008. OLS estimations.

	(1) Model OLS0	(2) Model OLS1	(3) Model OLS2	(4) Model OLS3	(5) Model OLS4	(6) Model OLS5
tnd58	3.743 (2.483)	5.471** (2.440)	7.080** (3.249)	7.044** (3.272)	6.619** (3.286)	7.564* (4.295)
lbmt58		-109.092*** (32.897)	-117.435*** (40.669)	-116.160*** (41.791)	-128.092*** (42.890)	-138.130** (64.659)
lgdp56			60.155 (118.167)	61.816 (119.247)	129.347 (131.764)	155.519 (151.889)
excol				-32.557 (225.269)	-37.589 (224.873)	-33.159 (233.847)
agover					-193.085 (161.660)	-224.109 (178.644)
lpop58						-9.466 (100.446)
Intercept	-158.658 (364.079)	1008.222** (495.921)	366.717 (1059.02)	347.41 (1072.078)	-72.944 (1126.398)	-211.344 (1283.983)
N	119	119	115	115	115	109
Adjusted R-squared	0.011	0.089	0.097	0.089	0.092	0.097

Notes: Coefficients associated to different controls, their standard deviations and sample sizes. *** significant at 1%, ** significant at 5% and * significant at 10%

5. CONCLUSIONS

In the last decade, geographical allocation of aid (where the money goes) has become one of the key topics in literature of aid effectiveness. In this paper we have tested the hypothesis of herd effect (Spanish ODA may have channeled following other donors' behaviour) as main driver of delivery aid during the period of huge increase of this international financial flow (the "bubble" period of 2005-2008). To do that we regress the rate of change of Spanish ODA to a given country between 2005-2006 and 2007-2008 on the total number of donors present in that country. As there may be third factors affecting both our dependent variable (the rate of change) and our variable on interest (total number of donors), among which literature identifies donor's interest and recipients' needs or merits, we control for them.

Our results show that herd effect is playing a significant role in the allocation of Spanish aid: each additional bilateral or multilateral partner a recipient had implied an increased in the rate of change in Spanish ODA allocated to that country of between 5.5 and 7.1 percentage points. In that sense, Spain was probably more interested in

becoming a new member of the group of “like-minded” donors shopping soft power by delivering aid across the aid darlings.

And additional exciting finding is that for a wide group of countries there is not any factor explaining Spanish aid delivery decisions. For this group neither the recipients’ needs nor the donors’ interests are significant determinants of the rate of change of Spanish ODA during the bubble period. This fact could be interpreted through the influence of other factors recently considered by an emergence body of literature, such path dependency (past allocation) and differences by donor institutions and/or channels (ONG vs. Official Agencies), that we will explore in future research.

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Appendix 1: Why do countries give foreign aid?

	Donors' self interest	Recipients' needs or merits
<i>All donors to all recipients</i>		
Alesina and Dollar (2000)	nation's colonial past and voting patterns at UN	
Maizels and Nissanke (1984)	political, security, investment and trade interests (bilaterals)	shortfalls in domestic resources (multilaterals)
Berthélemy (2006)	geopolitical or commercial factors (bilaterals except Switzerland and the Nordics)	GDP per capita, debt ratio (multilaterals except EC)
Schraeder <i>et al.</i> (1999)	foreign policy interests (France, Japan, Sweden and the US)	
Lundsgaarde <i>et al.</i> (2010)	trade flows	
Neumayer (2003)	not according to respect for human rights	
Alesina and Weder (2002)	not to less corrupt regimes	
Birdsall <i>et al.</i> (2003)	bad governance in recipients (to African countries and particularly from bilaterals)	
Isopi and Mavrotas (2006)	bilateral trade flows (Japan, Spain, Australia, New Zealand, Portugal)	civil liberties and/or democracy (UK, Italy, Denmark, Germany, Ireland, New Zealand, Portugal, Norway) low human development and/or social aid (US, Germany, Italy, New Zealand, UK, Canada, Switzerland, Spain, the Netherlands, Denmark, Sweden, Norway)
Canavire <i>et al.</i> (2005)		GDP per capita PPP
Sawada <i>et al.</i> (2008)		poverty reduction
Hoeffler and Outram (2011)	trade flows	GDP per capita
Dreher <i>et al.</i> (2011)	no significance of GDP per capita, malnutrition and child mortality (non-traditional donors)	
<i>Differences by donor institutions and/or channels</i>		
Dollar and Levin (2006)		multilaterals more selective than bilaterals
Dreher <i>et al.</i> (2010)	Swedish NGOs: no needs-based allocation	SIDA: low GDP per capita
Nunnenkamp and Öhler (2011)	German "other" ministries: less democratic regimes,	German BMZ: poverty

Loman <i>et al.</i> (2010)	German export market, UN voting coincidence Dutch NGOs: prevailing political regime, bilateral aid flows, path dependency (past allocations)
Metzger <i>et al.</i> (2009)	Nestlé less poverty focused than Swiss ODA and NGOs

One donor to all recipients

McKinley and Little (1978a, 1978b and 1979)	Germany, the US, France: geopolitical, colonial and commercial interests	
Macdonald and Hoddinott (2004)	Canada: membership in the Commonwealth or <i>la Francophonie</i>	human rights
Reynaert (2011)	EU	economic reforms
Harrigan and Wang (2011)	United States: geopolitical and commercial links	
Jin Kang <i>et al.</i> (2011)	FDI flows (South Korea)	
Dreher and Fuch (2011)		not pulled by resource endowments
Tezanos (2008)	Spain: post-colonial links	

Sources: Various.