

**UNIVERSITA' CATTOLICA DEL SACRO CUORE  
MILANO**

**Dottorato di Ricerca in Economia e Finanza  
dell'Amministrazione Pubblica**

**ciclo XXIV**

**S.S.D: SECS-P/01, SECS-P/06**

**GOVERNANCE AND SELECTIVITY  
IN MULTILATERAL AID ALLOCATION**

**Tesi di Dottorato di: David Rinaldi  
Matricola: 3703810**

**Anno Accademico 2011/12**



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# Table of Contents

Introductory Remarks .....	5
CHAPTER I - Contracting for Aid: a Review of the Theoretical Background.....	13
1. Introduction .....	14
2. Key Literature on Aid Contracts .....	17
2.1 Beyond classic conditionality .....	26
2.2 Competing for Aid.....	28
3. Targeting Aid to Poverty and Governance .....	29
4. Non-Altruistic Donors .....	32
5. Modelling Multilateral Institutions.....	36
6. Concluding Remarks .....	37
7. References .....	39
CHAPTER II - Do International Organizations Care About the Recipients' Performance on Governance?Evidence from Multilateral Aid Allocation.....	41
1. Introduction .....	42
2. Literature on Aid and Governance .....	45
3. Defining and Measuring Governance.....	48
4. Data and Descriptive Statistics .....	51
5. Methodology.....	54
5.1 Identification Strategy .....	56
6. Results .....	59
7. Robustness Checks .....	67
8. Concluding Remarks .....	69
9. References .....	71
10. Appendix.....	74

CHAPTER III - The Non-Increasing Selectivity of Multilateral Aid: 1980-2008 .....	80
1. Introduction .....	81
2. Literature review .....	84
3. Data and Hypotheses .....	88
3.1 Variables on Poverty and Needs.....	92
3.2 Variables on Institutions.....	93
3.3 Variables on Policy.....	94
3.4 Variables on Political-Strategic Motives.....	95
3.5 Additional Covariates .....	97
4. Methodology.....	99
4.1 The Timeline .....	102
5. Results .....	103
5.1 Selectivity on Poverty and Needs.....	107
5.2 Selectivity on Institutions .....	112
5.3 Selectivity on Policies .....	112
5.4 Selectivity on Political-Strategic Variables.....	113
5.5 Results by Agency .....	115
6. Conclusions .....	117
7. Reference.....	120
8. Appendix .....	126
Concluding Remarks and Research Agenda .....	135
Acknowledgements and Disclaimer .....	138

# CHAPTER I

## Contracting for Aid: a Review of the Theoretical Background

### **Abstract**

Aid goes to poor countries to help them escape from poverty, but in the presence of non-benevolent leaders who have an interest to maintain high levels of foreign assistance to increase their private rent, the reform effort towards developmental policies is sub-optimal. This chapter reviews the theoretical literature devoted to the study of the incentive problems of aid allocation and to the definition of optimal aid contracts. The chapter will identify areas of potential improvement in literature modelling aid as targeted for multiple objectives. When aid is linked to the governance level, besides than to the poverty level, of the recipient country, the endogeneity of poverty and corruption related issues has not yet been taken into consideration. Moreover, the political economy of the donor has not yet been integrated as a pivotal feature of aid models.

Keywords: Aid Allocation, Governance, Moral Hazard, Aid Contest, Poverty Trap

## **CHAPTER II**

# **Do International Organizations Care About the Recipients' Performance on Governance? Evidence from Multilateral Aid Allocation**

### **Abstract**

The aim of the study is to check whether the emphasis on good governance by multilateral agencies is reflected in aid allocation decisions.

We study if and how informal governance determines multilateral aid allocations with a panel of 115 countries over the period 1997-2009. The endogeneity of aid on governance is tackled with a set of instruments including ethnic fractionalization and the legal origin of the recipient country, in a GMM-Diff setting.

Despite the leading role of public governance in determining the success of development policies and the commitment of some donors to more selective aid, there is still no evidence that multilateral aid allocation takes good governance into account at the aggregate level. However, there is evidence that aid increases with governance up to the third governance quartile and that concessional loans are responsive to governance levels.

Keywords: Aid Allocation, Good Governance, Multilateral Aid, Ethnic Fractionalization

## CHAPTER III

# The Non-Increasing Selectivity of Multilateral Aid: 1980-2008

### Abstract

This study explores how the selectivity of multilateral aid varies over time. We employ a three-dimensional panel ranging from 1980 to 2008 with 127 recipient countries and 4 multilateral bodies: the World Bank (WB) IDA, the IMF, the United Nations, and the European Commission. The aim of the paper is twofold: first, we provide a scrutiny of the three selectivity criteria most often addressed in the literature, i) selectivity on poverty and needs, ii) selectivity on democratic institutions, iii) selectivity on economic policies. Secondly, we evaluate the variation over time of donors' political-strategic motives by studying the correlation between aid and the UN General Assembly voting alignment and Security Council membership.

At the aggregate level, we find no change in the responsiveness to poverty, whereas there is a decrease in the emphasis on which sound institutions and policies are targeted from 1998 onward. Moreover, an intensification of the political economy motives behind multilateral aid allocation is displayed. The general figures are mostly driven by the EC and the UN, while the WB IDA exhibits increasing selectivity on democracy and, together with the IMF concessional lending is nowadays less concerned with political-strategic motives. Results are robust to static and dynamic fixed effects, random effect Tobit, and GMM Sys models.

Keywords: Aid Allocation, Selectivity, Multilateral Aid, Voting Alignment,