

## Table of Contents

<b>Bachelor Thesis within Economics</b> .....	<b>i</b>
<b>Kandidatuppsats inom Nationalekonomi</b> .....	<b>ii</b>
<b>1 Introduction</b> .....	<b>1</b>
1.1 Purpose .....	2
1.2 Outline .....	2
<b>2 Background</b> .....	<b>3</b>
2.1 A brief history: Aid effectiveness and poverty alleviation .....	3
2.2 Good policies and the aid squared approach .....	3
2.3 The role of Swedish ODA .....	4
<b>3 Previous research</b> .....	<b>6</b>
3.1 Institutions .....	6
3.2 Fungibility .....	7
3.3 On the effectiveness of foreign aid .....	8
3.4 History of Swedish ODA activities .....	11
<b>4 Theoretical framework</b> .....	<b>13</b>
4.1 The Svensson framework: democratic consistency .....	14
4.2 The Burnside and Dollar framework: good policies consistency .....	15
4.3 Institutional consistency .....	15
<b>5 Model and data</b> .....	<b>17</b>
5.1 Data .....	18
<b>6 Empirical analysis</b> .....	<b>20</b>
6.1 Democratic consistency .....	20
6.2 Good policies consistency .....	21
6.3 Institutional Consistency .....	22
6.4 Extended analysis .....	23
<b>7 Conclusions</b> .....	<b>25</b>
7.1 Policy recommendations .....	25
<b>References</b> .....	<b>27</b>
<b>Appendices</b> .....	<b>32</b>
Appendix 1: Disbursements 1980-2006. ....	32
Appendix 2: Disbursements 1980-1996. ....	32
Appendix 3: Disbursements 1997-2006. ....	32
Appendix 4: Disbursements to small countries 1980-2006. ....	32
Appendix 5: Disbursements to medium-sized countries 1980-2006. ....	33
Appendix 6: Disbursements to large countries 1980-2006. ....	33
Appendix 7: Disbursements to small countries 1980-1996. ....	33

Appendix 8: Disbursements to small countries 1997-2006.....	33
Appendix 9: Disbursements to medium-sized countries 1980-1996.....	34
Appendix 10: Disbursements to medium-sized countries 1997-2006.....	34
Appendix 11: Disbursements to large countries 1980-1996.....	34
Appendix 12: Disbursements to large countries 1997-2006.....	34
Appendix 13: Disbursements to medium-sized countries 1980-2006, excluding Iraq and Afghanistan.....	35
Appendix 14: Disbursements 1997-2006, excluding Iraq and Afghanistan.....	35
Appendix 15: Disbursements 1980-2006 with dummy variables.....	35
Appendix 16: Disbursements 1980-2006.....	35

## Tables

Table 2.1.....	5
Table 3.1.....	9
Table 3.2.....	12
Table 3.3.....	18
Table 3.4.....	18
Table 3.5.....	19
Table 4.1.....	20
Table 4.2.....	21
Table 4.3.....	22

## Equations

Equation 1.....	17
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# 1 Introduction

On the 11<sup>th</sup> of December 2003, Swedish public service radio proclaimed that the Swedish International development cooperation agency (Sida) disburses foreign aid, ‘in despite of knowledge of swindles’ and then proceeds to report that ‘some of the officials at Sida experience a conflict of interests in performing their duties’. Said officials seemed to be under the impression that ‘handling of risks of corruption must be weighted against their wish to dole out as much money as possible’ (Nilsson, 2008, p. 61). How did such an adverse reasoning end up in an institution responsible for the majority of Swedish Official Development Assistance (ODA) and whose mandate is to alleviate poverty, based on the priorities of poor societies?

The effectiveness of foreign aid has been a heatedly discussed issue over the past decade. The debate was popularized through the hopeful pledge of Sachs (2005) and the sceptic tone of Easterly (2006) – a clash that transformed an academic disagreement into a public concern in mainstream media and in virtually every national parliament in the world.

Internationally, there is no tendency for undemocratic or corrupt governments to receive less foreign aid (Alesina & Weder, 1999; Svensson, 2000). It is however the outspoken objective for Swedish ODA to support democratic (and egalitarian) states and it is officially affirmed that a state of democracy is a prerequisite for sustainable growth (The Swedish Government, 2008a). Hence, it makes intuitive sense that aid could be used to encourage such behaviours among recipients, while attending to their needs.

On a global scale, ODA disbursements have not been fully guided by the humanitarian needs of recipient countries but also to a varying degree by political alliances and the occurrence of colonial history. The Nordic countries however, have generally been respondents to ‘good’ indicators, such as income levels and decent institutional status. (Alesina & Dollar, 2000) Yet, in 1995, then Swedish Prime Minister, Ingvar Carlsson, was seen laughing side by side with Ugandan dictator Yoweri Museveni in Stockholm, as the latter proclaimed that Uganda practices what was being referred to as a ‘no-party-democracy’ (Nilsson, 2008, p. 183).

Schraeder, Taylor and Hook (1998) on the other hand, notes how Sweden has been described as a generous donor guided by humanitarian considerations in the literature, but the authors fail to find any statistical relationships to verify that notion. Nilsson (2008) confirms that the history of Swedish ODA certainly is no rose garden. Throughout the years Sida has consciously disbursed funds to corrupt governments where Swedish taxpayers’ money made direct contributions to the war machines of dictatorships, foremost in sub-Saharan Africa. There is even some evidence that Sida manipulated country reports intended to the Swedish government in order to secure funding and political relations (Nilsson, 2008).

This thesis adds to the limited knowledge of the behaviour of Swedish ODA agencies and the determinants of Swedish foreign aid by exploring the connections in between research findings and disbursements of ODA; a link not previously assessed. This topic is interesting and worthy of attention because it is of such widespread concern and since such a vast amount of economic research has been dedicated to investigating foreign aid effectiveness the past decade while it remains a pitfall for politicians and officials.

## 1.1 Purpose

The purpose of this thesis is to analyse Swedish ODA, with respect to the recipient's form of governance and whether or not the ODA in question is disbursed in such a way that it can be considered in line with its own mandate on the one hand and with contemporary research regarding the effectiveness of foreign aid and poverty eradication on the other.

The author will test for connections in between Swedish ODA and what will be identified as democratic consistency, institutional consistency and good policies consistency of ODA disbursements. The consistencies encompass what is established as the direct mandate of Swedish aid or efficiency-fostering criteria affirmed by the Swedish ODA agencies.

## 1.2 Outline

First, in the *introduction* section a prologue to the subject is presented. In the *background* section the reader is given an overview of contemporary research. All influential previous research will be summarized and Sweden's role will be clarified in the *previous studies* section. Some issues will be given special attention due to their inherent tight connection with the topic of this thesis, namely the role of institutions and the effects of fungibility. This is followed by the *theoretical framework* of the thesis, derived from previous research on the topic. In the *empirical analysis* section, testing will be utilised to assess the relationship between real-life conditions, the theoretical framework and the purpose of this paper. Finally, the *conclusions* drawn in the thesis will be summarized and useful *policy recommendations* will be suggested.

## 2 Background

The definition of ODA used in this paper is that of the Development Assistance Committee (DAC) as outlined in OECD (2008), where ODA is defined as a type of development assistance, formally as those flows from the DAC members to Part I List of Aid Recipients – developing countries – including their subsidiary organisations. To be accounted for as ODA, the flow must fulfil two decisive factors: first, it must be disbursed with the outspoken intention of *advancing economic development* and second, its nature must be *concessional*, conveying an embedded grant element amounting to at least 25 percent of the total disbursement. However, in reality, the transfers are normally all grants, usually averaging over ninety percent (Boone, 1996). Etymologically, ODA is not synonymous to foreign aid, since the latter could include private flows and other sources. Throughout this text, ODA will sometimes be referred to as “development assistance”, “foreign aid” or simply “aid”, but – if nothing else is stated – *in the strict sense the terms will always refer to ODA as defined in this section.*

### 2.1 A brief history: Aid effectiveness and poverty alleviation

Below, some basic concepts of economic development are outlined. This section is an attempt to sum up the cumulative knowledge base of contemporary scholars, regarding when ODA is effective and what policies and institutions a potential recipient country should adopt if seeking to alleviate poverty.

Boone (1996) sparked the present academic discussion with the finding that there is no apparent connection in between the volume of foreign aid and growth. Also, foreign aid is perceived as first and foremost utilised for financing increased consumption and not having a significant impact on investment, or on human development indicators – it did, however, seem to contribute to bigger government. (Boone, 1996)

### 2.2 Good policies and the aid squared approach

In a widely referenced paper, Craig Burnside and David Dollar (B-D) concluded that foreign aid has had a positive impact on growth in a good economic policy environment – judged by three factors: fiscal, monetary and trade policies – while maintaining that aid to governments with unsound such policies had not been effective (Burnside & Dollar, 2000). Svensson (1999) extends on the findings of B-D by noting how good policies might be proxies for a relatively democratic state of affairs and notes that aid seems more effective in recipient countries where political rights are relatively strong.

However, this research has been extensively criticised. Notably, Easterly, Levine and Roodman (2004) did not find any significant relationships between growth and policies using the same methodology as the original study but with more recent and extended datasets. Specifically, the B-D findings have been extensively criticised for the use of an aid-policy interaction variable<sup>1</sup> that has not been proven significant over more extensive time periods than the four year time spans and up to 1993 that was considered in the original study (Easterly et al. 2004; Roodman 2007a).

Furthermore, by investigating cross-country relationships, Rajan and Subramanian (2005a) found no evidence of connections between aid and growth, regardless of policies put to use

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<sup>1</sup> An interaction variable is a variable formed by multiplication of two or more independent variables.

by the recipient. Hansen and Tarp (2001) asserts that – on average – aid is effective, but stresses that there are decreasing returns to aid and that results vary depending on estimator and control variables chosen; these are implications of the use of an aid-squared methodology that is reported to drive-out the previous aid-policy interaction variable used in the good policies approach.

In an attempt to test the robustness of the findings in various aid-growth related papers – including those of Burnside and Dollar (2000) and Hansen and Tarp (2001) – Roodman (2007a) concludes that each and every paper validated appear fragile, particularly to expansion of the original samples.

All influential contemporary literature on the aid-growth relationship will be thoroughly outlined below, including a going through of the rather parsimonious research carried out for the Sweden-specific case.

### **2.3 The role of Swedish ODA**

Swedish foreign aid is set to one percent of gross national income; at present value about 34 billion SEK, most of which is disbursed as ODA (The Swedish Government, 2008b). The main focus of Sida and other agencies is to assist poor people in enhancing their living conditions. It is the explicit goal for Swedish ODA to contribute to the advancement of the UN millennium development goals, to safeguard a democratic development and to strengthen individual liberties, develop institutions and facilitating international trade. It is also the objective to provide help that is in line with the priorities of poor people. (The Swedish Government, 2003)

Sida has been criticised (e.g. by Segerfeldt, 2007) for not taking this mandate seriously and for being too selective in the question of what, if any, economic research guides its actions (see section 3.3). For example, it could be argued that Sida's policy on lesbian, gay, bisexual and transgender issues in international cooperation – as outlined in Sida (2006) – might stand in conflict to what is realistically to be considered a 'priority of the poor'.

When the Swedish government appointed a parliamentary committee, Globkom, to investigate Swedish aid cooperation efforts, Svensson (2001) informs them of the lack of robust relationships between aid and growth and proceed to making policy suggestions stressing that today's situation is far from optimal. Globkom (2002), however, still reports that there is evidence that aid is effective given good policies and democracy with no regard for this caution and even with a reference to the Svensson report.

As noted in the introduction part, Swedish ODA has largely been characterised in the literature as guided by humanitarian concern and the need of developing countries. Empirical testing however, have failed to support this notion. When Schraeder et al. (1998) perform statistical tests of Swedish ODA destined to Africa during the 1980's, disbursements turned out to be unresponsive to both caloric intake and life expectancy. Instead, the political nature of the recipient proved a more important determinant. The authors observe how 'the progressive nature of Swedish political culture ensured first and foremost that ideologically progressive regimes were favoured by the Swedish political elite' (Schraeder et al., 1998, p. 315).

Further, Schraeder et al. (1998) stresses that Sweden is exhibiting typical middle-state behaviour, that is, the tendency for a state of relatively small economic significance to focus its ODA activities towards a geographical cluster or in another way segmented group of countries. Table 2.1 illustrates their findings as well as those of Nilsson (2008); during the

1980' and the 1990's, many of Sweden's top recipients of foreign aid were indeed brutal regimes, many of which were outspoken socialist states.

**Table 2.1:** The ten biggest recipients of Swedish ODA, adjusted for recipient income, 1980-1989 and 1990-1999, including democratic classification from Freedom House and PPP adjusted GDP per capita growth.

1980-1989	Status	%	1990-1999	Status	%
Tanzania	Not Free	-9	Tanzania	Partly/Not Free	-5
Vietnam	Not Free	32	Ethiopia	Partly/Not Free	5
India	Free	35	Mozambique	Partly/Not Free	23
Mozambique	Not Free	-9	Zambia	Free/Partly Free	-21
Ethiopia	Not Free	-6	Bangladesh	Partly Free	30
Bangladesh	Partly Free	12	Angola	Not Free	-13
Zambia	Partly Free	-16	Uganda	Partly Free	31
Angola	Not Free	-11	India	Free	40
Kenya	Partly/Not Free	5	Vietnam	Not Free	67
Zimbabwe	Partly Free	6	Nicaragua	Partly Free	14

Sources: OECD 2008; Maddison2008; Aten, Heston & Summers 2006; Freedom House 2007

As is noticeable from Table 2.1, freer and more stable regimes seemed to benefit more from aid, judging from these figures alone. This is, of course, not evidence of a causal link between aid and growth, but more probably a manifestation of the relationship between growth and some other variables, such as economic freedom<sup>2</sup>.

<sup>2</sup> For a discussion on this relationship, see de Haan & Sturm (2000). For a thorough review of studies conducted on this relationship, see Doucouliagos and Ulubasoglu (2006).

### 3 Previous research

This section will be utilised to attempt to give a summary of the critical findings of earlier research, relating to the effectiveness of foreign aid and to summarising Sweden's historical contribution to the issue. Also, some general concepts needed to grasp the analysis will be outlined.

#### 3.1 Institutions

Within the context of various analytical frameworks, different scholars have stressed the impact of sound institutions on growth, generally defining them as 'the social, economic, legal, and political organization of a society' (Acemoglu & Johnson, 2005, p. 950). Easterly and Levine (2003) find that such institutional factors are critical for sustainable economic development and conversely, that other suggested factors, such as policies, tropics, germs or crops could only affect growth through institutions.

Rodrik, Subramanian and Tribbi (2002) asserts that institutions are the chief explanatory factor for economic growth and that trade and geography are insignificant factors, once institutions are accounted for; however, it is pointed out that trade affects institutions positively. Dollar and Kraay (2003) affirms this view (although they find direct effects on growth from trade) and further argues that countries with better institutions tend to trade more extensively.

The importance of private property rights has been addressed specifically by Hernando de Soto (2000), in the widely referenced work *The Mystery of Capital*. He argues that poor people do not necessarily lack resources. In fact, the people of developing countries possess "dead capital", amounting to about \$9.34 trillion, globally. What they do not have, however, is the de jure right to their own possessions in a holistic system of property right protection – meaning that informal possessions cannot be leveraged into capital (i.e. used as collateral when being considered for loans) and hence dramatically decreases investment prospects. (de Soto, 2001)

Further, land that nobody owns will suffer from reduced potential, since nobody will invest in something that could be expropriated at any time by governments, warlords or some alliance thereof, in the absence of a checks-and-balances system. Formal property will, argues de Soto, bring about benefits such as the networking of people, the protection of transactions and the transformation of assets into more fungible ones, providing incentives to use their full potential. (de Soto, 2001)

By this token, it is an intuitive finding that property rights institutions have 'a first-order effect on income per capita, investment to GDP, the level of credit, and stock market development' (Acemoglu & Johnson 2005, p. 975). In light of this fact, it does not seem probable that ODA has a high chance of successfully bringing about growth in a state of inferior institutional quality.

Douglas North (1981) distinguishes between a "contract theory" and a "predatory theory" of the state (cited in Acemoglu & Johnson, 2005). A recent approach to quantifying institutional quality is proposed in Acemoglu, Johnson and Robinson (2001), where *European settler mortality* is suggested as a measurement of the habitability of a new colony. The idea is that the worse the initial living conditions for settlers arriving in a to-be colony, the less attractive the spot for a long-term settlement and hence the higher probability for extractive (predatory) institutions to be put in place solely to haul out resources to a third location. This is believed to provide a natural experiment in comparing the two types of institutions.



Extractive institutions would generally not emphasize secure property rights or the enforcement of contracts; the Belgian colonisation of the Congo – where 240 per 1000 settlers perished – is a case in point. Conversely, where living conditions were good, (contract) institutions for sustainable living were put in place, as were the cases in Canada, the United States and New Zealand, where settler mortality was low. The negative link between economic growth and settler mortality rates is strong over time. (Acemoglu et al., 2001)

Subsequently, it has been shown that – intuitively – elevated settler mortality rates are associated with higher macroeconomic instability and more frequent economic crises (Acemoglu, Johnson, Robinson & Thaicharoen, 2003). The author of this paper wishes to stress that settler mortality offers guidance not only in correlation between variables but also in causality matters. The fact that this variable offers such a good estimator of economic development lends support to what is concluded in Kaufman and Kraay (2003): institutions may be a *prerequisite* for growth and not a *complement* to growth. Easterly and Pack (2004) reinforces this finding by noting that shortage of financial capital is not what is constraining development in Sub-Saharan Africa. In light of the above, an underlying proposition for this thesis will be that foreign aid will – all else equal – be more effective where institutions initially are reasonably strong.

Thus, there is not much academic controversy about the role of institutions in development. However, the effects of ODA on institutional quality are at this point in time not entirely clear, but there is indeed some evidence to suspect that aid may have perverse effects. As concluded by Rajan and Subramanian (2007), for example, aid inflows may have the intuitive effect of rendering a recipient government less dependent on tax revenues.

Moss, Pettersson and Van de Walle (2006) reviews the literature and lend further support to the notion that aid may indeed work counter-productively in this sense, while noting a possible aid-institutions paradox, where governments have less incentives to invest in effective public institutions the more aid it receives. Djankov, Garcia and Reynal-Querol (2005) goes so far as to claiming that aid is a ‘curse’ and finds that for high levels of aid, 75 percent of GDP or more, it poses a serious and long-term threat to development by weakening democratic institutions.

Bottom line here is that governments that receive large percentages of foreign aid may not only lack incentives to be prone to reform, but might even be implicitly encouraged to deteriorate the situation. Consequently, Bräutigam and Knack (2004) find such relationships between higher levels of foreign aid and the worsening of governmental quality as well as with lower tax effort in Africa; their recommendation is to provide better aid through increased selectivity, pointing to the successful case of South Korea, Taiwan and Botswana to prove that foreign aid might indeed work.

## 3.2 Fungibility

In this context, fungibility – the notion that aid frees up resources that can be put to use in other sectors of the economy than otherwise planned – is a vital concept. Pack and Pack (1993) and Svensson (2001) show how fungibility might contribute to a counter-productive resource allocation and how money can be spent contrary to the donor’s intentions. Consequently, Feyzioglu, Swaroop and Zhu (1998) lend support to the fungibility concept by noting how earmarked grants tend to decrease domestic spending on education, agriculture and energy. In addition, a functioning democracy is an important determinant for a government’s possibility to deliver public services in the first place – even when adjusted for per capita income (Easterly, 2006).



Paul Collier, despite being an aid optimist, estimates that about 40% of Africa's military expenses are de facto financed by foreign aid, even though the aid in question may have been earmarked for other sectors (Collier, 2007). Nilsson (2008) describes how Swedish ODA – through fungibility – has been put to use in ways not intended and even sarcastically remarks how in the 1980s, Swedish ODA sponsored Marxist school books, written by East German experts in Ethiopia, while funds became available for use in the army.

However, research on this topic is limited. Svensson (2001) notes how fungibility is a hard concept to test for, in part due to lack of relevant data and in part due to lack of knowledge of the counterfactual: how a government would have reacted in the absence of a foreign aid disbursement (Svensson, 2001, p. 6).

A present trend in Swedish ODA is the move from project support based assistance towards a larger share of aid devoted to budget support, where recipient countries are given larger degree of autonomy in administering the disbursed funds (Sida, 2008). Indeed, increased recipient ownership of funds is a direction in line with the recommendations in the *Paris Declaration on the effectiveness of foreign aid*, signed by over 100 countries in 2005 (Bourguignon & Sundberg, 2007). In 2007, Sida decided not to disburse budget support to Bolivia, Honduras and Nicaragua, due to their alleged insufficient poverty alleviation policies (Sida, 2008).

It is noteworthy how, in 2006, Sweden doled out budget support to eight states; Burkina Faso, Mali, Mozambique, Nicaragua, Rwanda, Tanzania, Uganda and Zambia and how the Swedish government did not follow through on the checks and balances it had imposed on itself in seven out of these eight cases, while at the same time being kept in the dark by Sida, regarding the risks of budget support (Riksrevisionen 2007a; 2007b).

Naturally, the nuisance involved with the fungibility issue is further exacerbated when aid is not at all conditioned, since the concept of budget support allows for no external audit regarding how the disbursed funds were really used. Riksrevisionen (2007b) points out various troublesome facts in the Swedish government's contemporary collaborations regarding this form of disbursements; notably how it has been handled in the cases of Mozambique and Tanzania and how the reports from Sida to the Swedish government neglected to point out the obvious risks involved with this type of development assistance.

### **3.3 On the effectiveness of foreign aid**

In 2007, Göran Holmqvist, then general director of Sida, claims that 'over the past 10 years, some 50 scientific articles have been published by prominent economists [on the effectiveness of foreign aid]. Almost all of these concluded that aid contributes positively to the economic development of [developing] countries' (Holmqvist, 2007). As reasoned above and as we shall conclude below, this is simply not true. Additionally, as pointed out by Doucouliagos and Paldam (2005), the *number* of studies alone expressing positive links between aid and growth is not proof that such a relationship exists.

As previously noted, there are diverging views regarding the efficiency of ODA and whether or not development aid has any at all abilities of bringing about growth. Table 3.1 relates to the critical findings in the most well renowned recent literature.

**Table 3.1:** Summary of influential literature and key findings; aid effectiveness

Author(s)	Key findings
Boone (1996)	Aid has no apparent effect on growth, investment or human development indicators
Burnside & Dollar (2000)	Aid has a positive effect on growth if the recipient country is fiscally sound, maintains openness to trade and keeps inflation in check.
Svensson (1999)	Aid effectiveness appears positively correlated with the recipient's degree of democracy, as measured by civil and political liberties in the Freedom House index.
Dalgaard & Hansen (2001)	Contradicts Burnside and Dollar (2000). Shows that the results are fragile, even to small changes in the original sample.
Hansen & Tarp (2001)	Aid is effective on average, but is subject to decreasing returns. More research is needed before findings should be cultivated into policy recommendations.
Chauvet & Guillaumont (2001)	Contradicts Burnside and Dollar (2000). Asserts that aid works best in countries with difficult economic settings, including low population, frequent natural disasters and volatile terms of trade.
Easterly (2003)	Finds no relationships between aid and growth. Aid should have more realistic perspectives, i.e. <i>help on a here-and-there basis</i> and not <i>launch regions into self-supporting growth</i> .
Easterly et al. (2004)	Contradicts Burnside and Dollar (2000). Finds no significant relationship between aid and growth when samples expand.
Clemens, Radelet & Bhavani (2004)	Differs between short run and long run financial support. Aid that is intended to boost growth in the short time span appears to be effective.
Dalgaard, Hansen & Tarp (2004)	ODA effectiveness depends on climate. Aid appears to be effective outside of the tropics.
Collier & Hoeffler (2004)	Introduces a triple-interaction variable. Aid seems to be effective in countries that are recovering from civil war <i>and</i> that have good policies.

Rajan & Subramanian (2005a)	Implicitly contradicts Burnside and Dollar (2000), Dalggaard et al. (2004) and Clemens et al. (2004). Finds no evidence that aid has any effect on growth, regardless of policies when examining cross-country evidence.
Rajan & Subramanian (2005b)	Foreign aid seems to be causing exchange rate overvaluations with subsequent depressing effects on exports and the manufacturing sector, resulting in a re-allocation of funds towards the non-traded sector <sup>3</sup> .
Kraay & Raddatz (2007)	Finds no evidence for so-called poverty-traps, contradicting an important rationale for development aid, i.e. the one utilised by Sachs (2005).
Roodman (2007a); Roodman (2007b)	Explicitly contradicts the seven most influential papers in the aid-growth literature, including Burnside and Dollar (2000), Hansen and Tarp (2001), Chauvet and Guillaume (2001), Dalggaard et al. (2004); Collier and Hoefler (2004) and Clemens et al. (2004). Concludes that the aid-growth evidence to date seems fragile, especially to sample expansion. Asserts that climate might be the closest factor to explaining aid effectiveness so far.

Naturally, various other scholars have implied positive links between aid and growth in their research, albeit without adding new knowledge to the body of empirical research on the overall macroeconomic impact of foreign aid. Normally, those have built upon one or many of the above reports and are hence subjects of the same criticism. Such scholars include Lensink & White (2000); Collier & Dollar (2002) and Addison, Mavrotas, and McGillivray (2005). Others have concurred with the critics of the aid-growth research, i.e. Jensen and Paldam (2006), which concludes that neither the virtues of the good policies approach nor the aid squared methodology<sup>4</sup> could be generalised and reproduced with different sets of data.

This thesis searches for thoroughly reasoned policy implications that would be of value to aid agencies in a donor nation. Numerous scholars have shown that aid is correlated with growth for a certain set of variables, for some specific years or that some interaction variable enters statistically significant with aid for specific periods. However, no scholar (with one possible exception, see below) has been able to incorporate their views in a holistic model useful enough to make general policy implications without at the same time seeing the model in question fundamentally confuted by other scholars. B-D constructs such a model, which is appealing to politicians and the electorate alike<sup>5</sup> and had it not been falsi-

<sup>3</sup> This phenomenon is sometimes referred to as *the Dutch disease of foreign aid*. For a further discussion, see Arellano, Bulir, Lane and Lipschitz (2009).

<sup>4</sup> Referred to as the Medicine Model, after the diminishing returns implication of aid-squared models, whereas too much aid might work counter-productively, i.e. as in Hansen & Tarp (2001).

<sup>5</sup> Hence its popularity, according to some scholars, i.e. Easterly (2006)

fied, would have proven a case-in-point. This is the view advocated in Easterly (2003) and Roodman (2007a) among others, all of which exert criticism over scholars' at times reckless choice of model specification.

There might, however, be one exception, namely Svensson (1999), who asserts the link between aid effectiveness and political rights. It should be noted that this paper explicitly complements the B-D findings and that it has not been under the same amount of scrutiny, due to its relatively small spread. The findings have not been replicated to the knowledge of the author of this thesis. Roodman (2007a) mentions the paper but does not proceed to testing it.

Bearing this in mind, the author of this thesis will be in agreement with Svensson (1999) and argue that aid to democratic states and the rewarding of democratisation is certainly preferable as compared to its alternatives, both in terms of efficiency and on democracy's own merits, ipso facto. Findings like these might indicate that some of the parameters in the B-D study might in reality have been proxies for democratic governance (Svensson, 2001). Aid to a democracy would at the same time alleviate some of the problems involved with fungibility. Furthermore, a serious famine has never struck within the boundaries of a democratic state with a free press (Sen, 1999).

Other than this, the author does not argue that aid does not work. It is undoubtedly the case that some aid has ended up serving its intended purpose; i.e. financed investment, but the information on the macroeconomic net effects of ODA are largely absent in the literature. This is what Mosley (1987) refers to as the *micro-macro paradox of foreign aid*: although numerous case-studies have shown that individual projects have been successful on the micro level, tangible results on the macro level have remained elusive<sup>6</sup>. It is the opinion of the author that aid should be evaluated on its macroeconomic *net* effects, notably because it might have depressing effects of other parts of the economy than the one directly affected by monetary inflows, as noted in Rajan and Subramanian (2005b).

It is observed from the above table and from the previous outline of arguments that there certainly is no established research consensus to be found on the topic. The author has not come across any peer-reviewed research advocating the effectiveness of foreign aid that has not been directly or indirectly fundamentally disproved by other scholars, if attempted.

Conclusively, Doucouliagos and Paldam (2005) provide a meta-analysis of the aid literature for the past 40 years (accepted for publication in the *Journal of Economic Surveys*) – a total of 97 studies. They find that aid most probably have not been effective to this point and suggests different reasons why aid pessimistic research may have been marginalised. Also, the researchers deliver a caveat for other scholars: all results produced by model innovation should be treated with caution until the results have been independently replicable. (Doucouliagos & Paldam, 2005)

### **3.4 History of Swedish ODA activities**

As noted above, the author has found that research literature on Swedish ODA with respect to the recipient's form of governance is parsimonious. However, this section will outline the key findings in literature regarding Swedish ODA flows and past policy regimes.

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<sup>6</sup> For a formidable discussion and illustration, see Doucouliagos and Paldam (2005).

**Table 3.2:** Summary of literature and key findings; Sweden's role

Author(s)	Key Findings
Kärre & Svensson (1989)	Swedish ODA has generally been generous and characterised by altruistic motives. Up until this point (the late 1980's), there is an apparent consensus among Swedish political parties concerning which aid is desirable.
Schraeder et al. (1998)	No relationships were found between Swedish aid disbursements and the humanitarian needs of recipient countries. Sweden occupies a distinct niche with carefully selected partners. Aid is driven by ideological concerns, which has resulted in cultivation of relationships with "progressive" socialist and Marxist leaders. Eighty percent of Swedish foreign aid in Africa went to socialist governments. Sweden represents a case-in-point for middle-power behaviour in foreign aid.
Center for Global Development (2008)	Concludes that Swedish aid is relatively selective in choosing poor but non-corrupt recipient states. Also notes that Sweden's official aid quantities are the most generous in the world and that Swedish aid has improved over the past 5 years.
Nilsson (2008)	Swedish ODA has been disbursed with the best of intentions, but has contributed to keeping dictators in office. ODA flows have financed war and genocide, at times even with Sida being informed about the thwarting of Swedish ideals. The process has been exacerbated by fungibility.

## 4 Theoretical framework

Many scholars cited above concludes that aid should be focused to countries that fulfil some type of criteria. For example, it is suggested that the ‘quality of the recipient – its policies and institutions – is thus a good indicator, albeit not a full determinant, of the recipient’s ability and willingness to use aid.’ (Rajan & Subramanian 2005a, p. 15)

Bourguignon and Sundberg (2007) notes how it is important to direct aid to where results can be monitored and that allocation of aid on the basis of performance is a likely path to go down in the future. It is asserted that aid is increasingly disbursed ‘on the basis of country performance that combines governance, general policy environment and some intermediate or final results’ (Bourguignon & Sundberg, 2007, p. 325). In light of the reasoning put forth in the background section, where it is affirmed that aid might even hamper institutional development, this point cannot be overstated. That is, aid could possibly harm institutions but is nevertheless unlikely to fulfil its objectives if institutions are too weak.

It is indeed difficult to suggest useful policy implications since there is no general consensus that development aid works in the first place. However, available knowledge on poverty alleviation can indeed serve as a guide for how an environment that best utilises resources should look like. In light of the above, it is the opinion of the author that development aid, *if disbursed*, should be distributed where results can be monitored to the furthest extent possible. Hence, policymakers should consider the consistencies outlined below. According to the best available research on aid effectiveness and on poverty alleviation, foreign aid should satisfy:

- *Democratic consistency.* Fungibility analysis suggests that a recipient government should be, to the furthest extent possible, accountable for its actions in order to spend disbursed funds righteously. Consequently, some research has indicated that aid to more democratic states might be more effective in bringing about growth (Svensson, 1999).
- *Institutional consistency.* The quality and type of institutions seems to be essential for sustainable growth and might well be a prerequisite for it. As discussed above, aid may in fact counteract the development of sound institutions but nevertheless; it is intuitive that it would still make the best contributions, if any, where institutions are initially strong. It is the opinion of the author that completely failed states should not be recipients of Swedish ODA.

The remainder of this thesis will attempt to test whether or not Swedish ODA is disbursed in line with the above conditions. The author will however consider aid that fulfils the condition of:

- *Good policies consistency.* Because of its enormous influence and because it has been acknowledged by the Swedish government<sup>7</sup>, this thesis will also test whether disbursements can be considered in line with the Good policies model as outlined in Burnside and Dollar (2000).

Naturally, the ideal situation would be one where Swedish ODA is found consistent with *all three* criterions.

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<sup>7</sup> I.e. see the report from the parliamentary committee for Swedish aid cooperation, Globkom (2002, p.190-191) discussed above.

On a side note, Bourguignon and Sundberg (2007, p. 321) asserts that it is ‘illusory to believe that all interventions can be subject to impact evaluation, and that evaluations will permit to direct the flow of aid exclusively to ‘what works’, as some<sup>8</sup> have suggested’. The author of this paper disagrees. As long as the macroeconomic effects of foreign aid remain ambiguous and so long as the impact of aid might even be negative it seems naïve at best to disburse ODA into the unknown.

Some might argue that, given world conditions, it is not realistic to maintain control over all of the projects financed by outflows of Swedish ODA. Those concerns are most probably well founded. Such anxiety, however, does not constitute an argument to disburse ODA where information is absent, but rather not to disburse more funds than can be accounted for as long as research on the topic is ambiguous. As noted above, budget support can simply not be traced once it has been absorbed by the budget of the recipient. Therefore, the author argues that budget support, without exceptions, should be disbursed to governments deemed accountable for their actions.

#### **4.1 The Svensson framework: democratic consistency**

As initially noted, Svensson (1999) adds to the aid-growth literature by suggesting a link in between aid effectiveness and a democratic state of affairs; this finding is a complement to the findings of B-D and is explicitly affirmed by the Swedish government and ODA agencies – that is, it might be the single variable that first and foremost merits our attention analytically, even when ignoring the arguably intrinsic value in a democratic development. The caution expressed by Doucouliagos and Paldam (2005) should definitely be taken into account at this point: the results have not been replicated beyond the original study’s time period or with other sets of data and should be treated with due caution. However, as previously elaborated upon, it is the opinion of the author that aid should be considered *qua* aid, and that aid to more democratic states is preferable regardless of the robustness of the findings. Not least since aid to such states is minimising the fungibility issue.

The methodology of the original paper is rather straightforward: the government is assumed to exert power, but it can only do so while being held accountable to the electorate. Free speech and the possibility of voting an administration out of office, according to this framework, will work to ensure a more efficient use of resources, including foreign aid. Further, it is argued that since donors in reality have small possibilities of influencing recipient policy decisions and since aid is fungible, there is a need to address government behaviour when pondering the foreign aid. (Svensson, 1999)

Measuring democracy is admittedly a difficult endeavour. In the original paper, Svensson (1999) uses the political rights and civil liberties classifications from Freedom House (2007). In this context, one should note how the Freedom House index has been extensively criticised for favouring American allies during the cold war. See, for example, Munck and Verkuilen (2002). It is being used here for simplicity, i.e. since it was used in the original analysis and because observations are available for the whole time period and for virtually every country in the dataset.

If Swedish aid is disbursed in such a way as to satisfy its own mandate to maintain a political rights oriented approach to development assistance and, indeed, to be in line with the

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<sup>8</sup> The authors are referring to such papers as Collier and Dollar (2002).



only non-contradicted research regarding aid effectiveness the author of this thesis has found, it should be *negatively* correlated with the Freedom House classification.

## 4.2 The Burnside and Dollar framework: good policies consistency

As has been shown, B-D approach is perhaps not academically fit to serve as a holistic model of aid, given the data available at this point. However, as previously noted, the good policies approach has been voiced in defence of development assistance by Swedish politicians and should therefore be validated in light of what disbursements have been made. Additionally, it is the single most influential case for ODA effectiveness, which on its own merits qualifies it as eligible for testing.

The findings of B-D rest on the analytical approach by Solow (1956) and other contributors to neoclassical growth theory and hence the underlying idea is that aid has the potential of bringing about growth by stimulating domestic savings and investment with decreasing returns to capital.

For Swedish ODA to be considered disbursed in accordance with the good policies approach there should be a positive relationship between ODA and trade openness and a negative relationship between ODA and inflation rates *as well as* with a government deficit.

The good policies approach to foreign aid was constructed by B-D, using trade openness data from Sachs and Warner (1995), which composes data decennially for the 1960's and 1980's. This data has subsequently been improved and extended to the 1990's by Wacziarg and Welch (2008). Ideally, these figures would have been used here, however, this thesis aims to cover more recent years and the author wishes to include as many observations as possible.

Therefore exports and imports as a percentage of GDP from World Bank (2007) are being used in their stead. Furthermore, this enables more detailed investigations, since the new figure is available yearly, whereas the Sachs and Warner index is constant for each decade. There is an obvious problem with this approach, though, namely that the utterly destitute countries often consist of subsistence farmers and, hence, do not trade much. However, as noted by Collier (2007), developing countries overall depend on the manufacturing sector for 80% of its income. It is the belief of the author of this paper that total trade over GDP is the best available estimator of trade openness until the Sachs and Warner (1995) index has been further extended.

The biggest problem with this particular part of the empirical analysis is the availability of data on fiscal prudence. The Government Finance Statistics in IMF (2008b) provides a comprehensive view of cash surpluses and deficits, yearly since 1990 and is analytically useful, but unavailability of data will cut off more than half of the original observations in the sample from the analysis and hence tests will be run both with and without this parameter. Even worse, there is adverse selection: when including this variable; the countries missing in the data tend to be the poorest, most corrupt and the ones that merit our attention. For now, this variable will be ignored, but briefly reassessed in the findings section for institutional consistency in the empirical analysis part.

## 4.3 Institutional consistency

Following the initial discussion, *institutional quality seems to be a prerequisite for sustainable growth*, which is the most undisputed previous research finding presented in this thesis. Following

the reasoning put forth in de Soto (2000), Dollar and Kraay (2003) and Rodrik et al. (2002) it is the opinion of the author that aid to an inferior institutional environment is, all else equal, more likely to be wasted.

There are numerous ways of measuring institutional quality<sup>9</sup>. The author has chosen to work with a proxy for secure contract and property rights: the Contract-Intensive Money (CIM) measure proposed Clague, Keefer, Knack and Olson (1999) and defined as the ratio of non-currency money to the total money supply. This reflects general reliance on the banking system; CIM will converge to 1 as public confidence increases. Ideally, CIM will be a good proxy both for institutional quality in general and on private property institutions in particular. CIM has the benefits of being an objective measure and it is widely available. CIM is positively related to investment, income and growth (Clague et al. 1999). Hence, Swedish aid should be positively correlated with the CIM variable to be considered consistent with institutional quality.

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<sup>9</sup> The author's personal preference is the one introduced by Fund For Peace (2008). Alas, it does not cover enough years to be fruitfully utilised here.

## 5 Model and data

A serious fallacy involved in using unadjusted ODA as the dependent variable is the known tendency for smaller countries to receive more aid, i.e. as noted by Burnside and Dollar (2000). The author has decided to use the logarithmic value of ODA over population as the dependent variable. This has various implications, the most important one being that countries with large populations become less important in terms of impact on the dependent variable. This problem is alleviated by a classification of small, medium-sized and large countries. However, the reader should still take note that a minor contribution to a small country, such as Cape Verde, might outweigh a big contribution to a large country, like India, even inside each group of classification.

Following many other researchers in this field, the author will be utilising panel data. Formally, Gujarati (2003, p. 28) defines panel data as cross-sectional and time data carried out for the same unit (read: country) over time. Specifically, 27 years and 132 countries will be covered in this study.

Further, the author addresses the question whether or not Swedish ODA is disbursed in accordance with contemporary research. Since virtually all previous research findings presented in the Background section of this paper has been published during the past decade, the dataset will also be split up based on observation year, where the two categories corresponds to the years 1980-1996 and 1997-2006, respectively. This enables introspection of the two periods and, more importantly, the possibility to investigate whether or not Swedish ODA agencies, has changed their behaviour, if needed, in the face of new research regarding the effectiveness of their work.

The following model is utilised:

$$\ln Y = \beta_0 + \beta_1 \ln G + \beta_2 \ln C + \beta_3 \ln W + \beta_4 \lambda + \beta_5 \mu + \beta_6 \pi + \beta_7 \rho + \varepsilon \quad (\text{Equation 1})$$

Y = ODA over population, or **ODAC**

G = ODA over GDP lagged one year, or **ODAT-1/GDPT-1**

C = Recipient GDP per capita lagged one year, or **GDPC-1**

W = World ODA as a percentage of recipient GDP, or **ODAWORLD**

$\lambda$  = Import and Export share of recipient GDP, or **OPENNESS**

$\mu$  = Recipient GDP deflator, or **INFLATION**

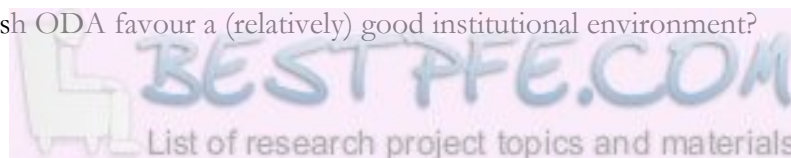
$\pi$  = Recipient CIM measure, or **INSTITUTIONS**

$\rho$  = Cumulated recipient Freedom House rank (civil *and* political), or **DEMOCRACY**

$\varepsilon$  = Error term

Formally, the research questions tested are the following:

- Is there a systematic correlation between Swedish ODA flows and democratic accountability of the recipient state?
- Is there a systematic correlation between Swedish ODA flows and good (economic) policies in use by the recipient state?
- Does Swedish ODA favour a (relatively) good institutional environment?



## 5.1 Data

The dataset used to run the regressions in this thesis is compiled as follows:

- Data over Swedish Net ODA disbursements, 1980-2006 in constant dollar prices from OECD (2008).
- PPP-adjusted GDP per capita, absolute GDP and population figures, 1980-2006 from Maddison (2008).
- Inflation rates as measured by the GDP deflator, export and import shares of GDP as a proxy for trade openness from World Bank (2007).
- The  $M_2$  and Cash measures from IMF (2008a). Used to calculate the CIM measure defined in Clague et al. (1999) as  $(M_2 - C)/M_2$ .
- Government cash deficit/surplus from Government Finance Statistics in IMF (2008b).
- Ratings on democracy from Freedom House (2007)

The sample displays no immediate warning flags for linear relationships among the regressors, commonly referred to as multicollinearity. For example,  $R^2$  values are not suspiciously high in relation to the individual t-values. However, for certainty, the sample will be tested.

**Table 3.3.** Correlation Matrix for Equation 1

	Ln (ODA <sub>t-1</sub> /GDP <sub>t-1</sub> )	Ln GDPC <sub>T-1</sub>	Ln ODA <sub>WORLD</sub>	OPENNESS	INFLATION	INSTITUTIONS	DEMOCRACY
Ln (ODA <sub>t-1</sub> /GDP <sub>t-1</sub> )	1,00	-0,52	0,67	0,15	-0,02	-0,06	0,08
Ln GDPC <sub>T-1</sub>	-0,52	1,00	-0,67	0,17	0,02	0,39	-0,39
Ln ODA <sub>WORLD</sub>	0,67	-0,67	1,00	0,17	-0,02	-0,31	0,18
OPENNESS	0,15	0,17	0,17	1,00	-0,04	0,20	-0,10
INFLATION	-0,02	0,02	-0,02	-0,04	1,00	-0,05	-0,05
INSTITUTIONS	-0,06	0,39	-0,31	0,20	-0,05	1,00	-0,39
DEMOCRACY	0,08	-0,39	0,18	-0,10	-0,05	-0,39	1,00

As is observed from Table 3.3, the pair wise correlations are not outrageously high and never in excess of 0.8, suggested by Gujarati (2003) as a rule of thumb for when multicollinearity is a serious problem. To be certain, the Variance Inflating Factor (VIF) will be studied in further detail.

**Table 3.4.** Auxiliary  $R^2$  and Variance Inflating Factor for Equation 1

	$R^2$	VIF
Ln ODA <sub>t-1</sub> /GDP <sub>t-1</sub>	0,50	2,00
Ln GDPC <sub>T-1</sub>	0,61	2,56
Ln ODA <sub>WORLD</sub>	0,65	2,86
OPENNESS	0,21	1,27
INFLATION	0,01	1,01
INSTITUTIONS	0,30	1,43
DEMOCRACY	0,25	1,33

Note how, in Table 3.4, when each independent variable is regressed on the rest of the regressors,  $R^2$  values are generally quite low and never in excess of the corresponding figures for the original regression, referred to in Gujarati (2003) as *Klien's rule of thumb* and indicating non-presence of serious multicollinearity. Moreover, the VIF for each sequential auxiliary regression is drastically below the value 10, suggested by Gujarati (2003) as a breaking point for the acceptable. In light of the above figures, it is concluded beyond the reason of a doubt that there is no serious multicollinearity problems involved in the sample used and that the standard errors obtained from the regressions are non-plagued by multicollinearity.

Following Gujarati (2003), there is always reason to suspect heteroscedasticity, unequal variance among the error terms, in cross-sectional data as a rule rather than an exception. When utilising the testing suggested by White (1980); White's General Heteroscedasticity Test it is obvious that heteroscedasticity is likely present in the model as can be seen from Table 3.5. This could mean that estimators are not efficient and that the usual t-tests from the regressions possibly cannot be trusted.

**Table 3.5.** White's General Heteroscedasticity Test for Equation 1

	Value	Probability
F-statistic	4,24	0,000
Obs*R <sup>2</sup>	169,03	0,000

Gujarati (2003) further takes note how the incidence that an error term is correlated with its own lagged value, referred to as autocorrelation, is far from uncommon in time series data. However, testing for autocorrelation in panel data is complicated, requires externally programmed applications regardless of statistical software and hence far beyond the scope of this thesis. When reviewing the rest of this thesis and when interpreting the results, the reader should bear in mind that problems with autocorrelation are far from unlikely. In essence, that means the standard t-tests may be unreliable.

Remedies for autocorrelation, such as the robust standard errors suggested by Newey and West (1987) do not apply to panel data. However, to alleviate the problems with heteroscedasticity among the independent variables, the White standard errors and covariance will be used while testing. Those are derived from the procedure presented by White (1980). However, correcting can only take us so far. The reader should still attempt to interpret results with some amount of caution.

Normally, in a case of panel data regression, time dummy variables would be used to filter out year specific effects. However, as can be noted by comparing Appendix 15 to Appendix 1, dummies produce no major effects on t-values or coefficients and are individually statistically insignificant in virtually every case. Hence, the author has decided not to use this approach in order to conserve degrees of freedom. However, since the dummies perfectly explain the democracy regressor, these variables cannot be used in conjunction with each other. Thus, there could be year-specific effects in the democracy variable not accounted for in the regressions basis for the analysis.

## 6 Empirical analysis

In this section the theoretical framework will be utilised to analyse the data collected.

### 6.1 Democratic consistency

In this section, the author addresses the relationships in between ODA flows and democratic accountability of the recipient state.

The findings are summarized in Table 4.1.

**Table 4.1.** Democratic consistency of Swedish ODA: summary. Dependent variable: Ln ODAC

	Coefficient	t-Stat
<b>All countries (Appendices 1-3)</b>		
1980-2006	0,0003	0,03
1980-1996	0,0144	0,75
1997-2006	-0,0108	-0,78
<b>Small countries (Appendices 4 &amp; 7-8)</b>		
1980-2006	0,0286	1,18
1980-1996	0,0359	0,35
1997-2006	-0,0022	-0,05
<b>Medium-sized countries (Appendices 5 &amp; 9-10)</b>		
1980-2006	0,0077	0,39
1980-1996	0,0359	0,98
1997-2006	-0,049	-0,20
<b>Large countries (Appendices 6 &amp; 11-12)</b>		
1980-2006	-0,0131	-0,86
1980-1996	-0,0086	-0,74
1997-2006	-0,0101	-0,73
** = p<0,01, * = p<0,05		

By studying Table 4.1 and Appendices 1-12, it is obvious that the empirical investigation reveals no relationships between the ODA and democracy variables. When testing for all countries in both time periods the coefficient is negative, but too insignificant to be of any use analytically. Alas, this is rather representative for testing in the subsamples. When testing for different time periods and while the coefficient for the estimator never reaches significance, not in any time period or in any subset in regards to country size, the sign of the coefficient fluctuates, not suggesting that it has been of general interest to Swedish ODA agencies.

The non-existent relationship between ODA and democracy is hardly a revolutionary finding, since poor countries will tend to be less democratic and since Swedish ODA is obviously poverty oriented, judging from the high significance of the lagged income variable. Nevertheless, as will be elaborated upon, the purpose of this thesis is not to comment upon the tendency of aid to be driven by poverty, but rather to control for consistency with its own mandate and to make inference regarding whether or not it is likely to be effective in bringing about growth and thereby alleviating poverty. These figures lend no support to that notion.

Fact remains that – good intentions set aside – the figures presented here reveals no evidence that aid has been systematically disbursed to relatively more democratic states. It fails to prove that the democratic consistency criterion put forth above holds true for Sweden.

## 6.2 Good policies consistency

This section performs tests to determine whether or not Swedish aid disbursements are probable to benefit countries with so-called good policies, as judged by the good policies consistency criterion put forth in the theoretical framework. The policies in question are derived from Burnside and Dollar (2000) and specifically deal with fiscal prudence, battling of inflation and trade openness, respectively.

As can be seen by comparing Appendix 1 to Appendix 16 and its added variable FISCAL, it is difficult to motivate the fiscal prudence variable's raison d'être in these regressions. Given that it decimates the sample considerably without reaching significance, it will be left out of the preceding analysis. The findings for the other variables are summarized in Table 4.1.

**Table 4.2.** Good policies consistency of Swedish ODA: summary. Dependent variable: Ln ODAC

	Inflation	t-Stat	Openness	t-Stat
<b>All countries (Appendices 1-3)</b>				
1980-2006	0,0001	1,74	-0,0004	-0,45
1980-1996	0,0001	1,87	-0,0002	-0,15
1997-2006	0,0004	0,67	-0,0007	-0,63
<b>Small countries (Appendices 4 &amp; 7-8)</b>				
1980-2006	0,0003	1,81	-0,0027	-1,47
1980-1996	0,0004	1,88	-0,0052*	-2,37
1997-2006	-0,0098	-1,02	-0,0004	-0,13
<b>Medium-sized countries (Appendices 5 &amp; 9-10)</b>				
1980-2006	0,0000*	1,97	-0,0002	-0,17
1980-1996	0,0001	1,78	0,0012	0,51
1997-2006	0,0005	0,74	-0,011	-0,61
<b>Large countries (Appendices 6 &amp; 11-12)</b>				
1980-2006	0,0001	0,31	-0,0006	-0,31
1980-1996	0,0000	0,11	-0,0039	-0,83
1997-2006	-0,0101	-0,45	0,0000	0,05
** = p<0,01, * = p<0,05				

By having a look at Table 4.2 and Appendices 1-12, it is evident that the data investigated reveals no indications that Swedish ODA has been systematically disbursed to countries pursuing a good policy agenda for any of the two approaches utilised here.

When testing for good policies consistency of disbursements, a similar picture as for democratic consistency emerges. Statistical significances or nearby values are parsimonious, and where found coupled with the undesired sign. As was the case with democracy-consistency, the tests have failed to reveal evidence that Swedish ODA is systematically disbursed in such a way as to satisfy the good policies criterion.

While bearing in mind the historical lack of empirical studies, this might be understandable for the 1980-1997 period. However, the picture does not change much from the first period to the second, as is noticeable from Appendix 2.

This fact is indeed intriguing for various reasons. First, the Burnside and Dollar (2000) study was circulated as a World Bank working paper since 1997 and can be said to have had its biggest impact from the years 1998 onwards. The figures presented here indicate that Swedish aid did not change much in response to this shift in paradigms. That is, during a time when the academic community and the World Bank urged donor countries to reward sound policies<sup>10</sup>, Sweden did – in fact – not change much at all, judging from these figures alone.

Second, the alleged tendency for good policies to boost aid effectiveness has been used to justify the actions of Swedish ODA agencies. This might struck as somewhat peculiar since, apparently, this data does not support that this rhetoric was ever transformed into policy recommendation to guide the work of those agencies.

### 6.3 Institutional Consistency

Because of their inherent links to development, in this section the author comments upon the findings regarding Swedish ODA and institutional quality of the recipient state.

The findings are summarized in Table 4.3.

**Table 4.3.** Institutional consistency of Swedish ODA: summary. Dependent variable: Ln ODAC

	Coefficient	t-Stat
<b>All countries (Appendices 1-3)</b>		
1980-2006	0,7667**	2,61
1980-1996	1,2245*	2,22
1997-2006	0,2761	0,93
<b>Small countries (Appendices 4 &amp; 7-8)</b>		
1980-2006	1,1883**	2,60
1980-1996	2,6680*	2,16
1997-2006	0,0345	0,06
<b>Medium-sized countries (Appendices 5 &amp; 9-10)</b>		
1980-2006	1,0347*	2,24
1980-1996	1,3342	1,65
1997-2006	0,5931	1,14
<b>Large countries (Appendices 6 &amp; 11-12)</b>		
1980-2006	0,1488	0,32
1980-1996	0,4813	0,71
1997-2006	0,0648	0,14
** = $p < 0,01$ , * = $p < 0,05$		

When testing the full sample for both periods in one single regression, a tendency is noticeable that is in line with the conclusion from Center for Global Development (2008). The variable denoting institutional consistency of foreign aid (CIM) enters positive and significant at the 1% level, indicating that ODA has favoured good institutions over the whole time period.

When dividing the sample into two periods, the first period (1980-1996) is reminiscent of the big picture situation with CIM significant at the 1 percent level. However, when studying the second period (1997-2008) the institutions variable loses significance. An initial

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<sup>10</sup> E.g. Collier and Dollar (2002), which was first circulated as a working paper in 1998.



objection to these results is that the drop might perhaps be explained by increased support to the war-torn countries Iraq and Afghanistan. However, as is noted from Appendix 13 and 14, excluding them does not dramatically alter the original picture. While running the same regressions all over, but ignoring these two countries the institutions variable remains insignificant both for the second period as a whole and for medium-sized countries (to which both belong) in the second period.

It might however be the case that the general uptrend in CIM values over the period, magnified by the inclusion of the post-USSR states, has a role to play. That is, there might simply be less of a difference to explain. This does, however, not overshadow the troublesome findings that the previous Swedish support to relatively good institutional quality seems to be on the decrease.

When filtering the sample to reflect population size it is apparent that institutional support has been the strongest in small and medium-sized states. However, the variable enters highly insignificant for large countries in all subsamples. When cross-tabulating the population size filter with the period categories, the picture is clearer. There was an apparent tendency for disbursements to favour institutional quality during the first period where CIM is significant for small countries at the 5 percent level and near significant for medium-sized countries.

Alas, during the second period, the significance fades for all regressions and the parameter enters insignificant for all country sizes. Bearing in mind that Swedish aid has increased from the first period to the second, this seems to indicate that the systematic support for institutional quality is on the decrease. However, the author wishes to stress that more research is needed to support such a proposition with certainty.

## **6.4 Extended analysis**

A recurring objection to the results presented here is likely to be related to the possibly optimistic finding that Swedish aid is clearly poverty oriented and that following neo-classical reasoning, such support is more effective, all else equal. Consequently, an impoverished state of the recipient is even rewarded in the rankings provided by Center for Global Development (2008). The author does not suggest that poor people should not receive funds. Perhaps they should, but then again: the purpose underlying this thesis is to test the likelihood of efficacy and the mandate of Swedish ODA and – sadly – destitution does not seem to be a sufficient criterion.

This thesis has searched for connections in between contemporary research and Swedish ODA disbursements. Such connections have been found – in rhetoric, not in practice. It is the opinion of the author that accountability is the key issue in the foreign aid puzzle – for recipient countries and for donor agencies alike. It is about time for the Swedish donor industry to stop hiding behind research, if the work carried out in their offices is not guided by the research cited.

On the optimistic side, it seems like the finding of Alesina and Dollar (2000), that Nordic countries have tended to support a relatively healthy institutional environment holds true for Sweden overall and in some of the subsamples. Alas, this finding is obviously overshadowed by the tendency for this support to be on the decrease in recent times. Take note that the sections in the official agencies' documents where institutions are even mentioned are parsimonious. If there is a tacit need to justify further ODA activities why not turn aid

around to yet again support institutions and *subsequently* convey this observable fact to politicians and the electorate?

Judging by the testing provided here alone, the previous decade of research seems in fact to have passed by rather unnoticed, which is a remarkable finding if indeed true. No radically new ways of disbursing aid has been found by investigation of these figures. Naturally, this is a troublesome finding for two reasons. First, if aid research is not used to guide the work of Swedish ODA agencies, then what is? According to Nilsson (2008) the answer might even be complete arbitrariness.

Second, since the research findings of B-D and Svensson (1999) has been used to stick up for the occurrence of the Swedish aid industry in the first place, would it not have been reasonable to assume that at least one of the policy parameters or the democracy parameter should have been statistically significant for at least *one* group of countries?

Not surprisingly, by far the most significant variable in the tests carried out is past disbursements. As a matter of fact, this relationship remains significant at the 1 percent level when lagging the past disbursements variable 5, 10 or even 15 years. This might be interpreted as conclusive with the proposition that Swedish ODA perhaps has not been that swift in adapting to new research findings, not implying that it should follow the whims of every single scholar. This might indicate that historical alliances are a superior determinant of disbursements, as compared to contemporary research – hardly a flattering finding.

Now, imagine how a sensible agency could benefit from scholarly advice. For example, as Svensson (1999) expresses in one of the research foundations for this analysis, there are features of the democratic state's incentive structure that could prove useful tools for fostering aid effectiveness. If neglecting this advice, Sida and others are not only acting contrary to their own guidelines, but more importantly, they act irrational.

Some might argue that econometrics can only take us so far. Is solidarity too broad a concept to be accounted for by a crude reasoning on the basis of economic logic? Well, perhaps, but then again: ODA should be evaluated on the same terms in which it is justified. If the economic argument is voiced *pro*, any logic will tell us that it will have to be used *con*. There may be purely philosophical arguments for foreign aid, but they should be evaluated outside of the economic debate.

In light of the above findings, or lack thereof, it might be argued that Swedish ODA is (or used to be) doled out in accordance with some idea of common sense, relating to the (previous) institutional support, but certainly not in accordance with expert opinions, although the latter is obviously used as a means to an end. As far as the author of this paper is concerned there are two paths to choose from at present: to put one's money where one's mouth is and to take economists recommendations seriously, or to communicate what is really happening and that there certainly are good sides to Sweden's support to poor nations. Today, regrettably, the remark of Easterly (2006) does not seem too far off: *that didn't work – let's try again!*

## 7 Conclusions

To recapitulate the purpose, the aim of this thesis has been *to analyse whether Swedish ODA is disbursed in such a way that it can be considered in line with its own mandate on the one hand and with contemporary research regarding the effectiveness of foreign aid and poverty eradication on the other*. This has been investigated via analysis of panel data.

Although, no clear-cut consensus exists regarding when and if aid is effective there is research to indicate that aid is more effective in more *democratic* states. On top of this, *institutions* have been identified as essential to the growth process and without which it improbable that aid is effective. The *good policies* approach has had major influence on the debate and has been implied to guide the work of Swedish ODA agencies. Therefore, these characteristics has been defined as most relevant for testing, since they encompass in the broad sense the recipient characteristics that were sought in the purpose of this paper.

The author has not found any evidence that that Swedish development assistance is disbursed in correspondence with available research regarding aid effectiveness, despite the fact that such research is frequently cited as justification for the operations of Swedish ODA agencies. Both the democracy and the good policy parameters have entered insignificantly for most periods and types of countries and when significant the correlation has been preceded by the wrong sign.

Swedish ODA flows have been shown to be generally favouring of societies of relatively better institutional quality, albeit with a potentially decreasing tendency from the first period to the second. Support for institutional quality appears to be strongest for small and medium-sized countries. However, it is troublesome that significant results for the second period do not materialise.

Since Swedish ODA in general and Sida in particular have been subjects to rather extensive criticism over the past decade, the author has suggested that institutional consistency is re-established and thereafter communicated. Further, research should be articulated in the public debate only after it has been implemented into policy.

Alas, it is difficult to conclude that the past decade of aid research cited in the Background section has had a substantial impact on the way in which Swedish ODA is paid out. Despite the fact that said research is utilised in rhetoric, the tests performed here do not reveal any thorough changes when testing the first period from 1980 to 1996 as compared to the past 10 years of data availability.

### 7.1 Policy recommendations

The first rule of foreign aid should be to minimise any potential damage. Disbursements of budget support to outright undemocratic nations or any at all support to governments involved in war efforts, must be carefully pondered and not taken on lightly. As is indicated in the background section and as is supported by the empirical analysis performed in this thesis, there is no evidence to support that Swedish ODA has been consistently guided by economic rationale. Not over the past decades and most probably not today. The monitor-

ing of aid disbursements must function properly and it must be undertaken to the benefit of recipient societies and *not* recipient governments, donor nations, western politicians or aid bureaucrats.

Continuous financial support to non-free states with few signs of improvements should not be considered. It is the opinion of the author that numerous states and quasi-states that are recipients of Swedish ODA today should be immediately excluded from further cooperation. Such states include, but are certainly not limited to, Cuba and North Korea.

As this analysis has shown, the use of research seemingly has been limited to justifying the past operations and not to improve the future ones. If politicians *are* genuinely interested in making aid more effective and *not* in assuming a defence position, the policy recommendations suggested by accredited scholars should be carefully implemented.

Information and innovation, not handouts, is the only thing that can eradicate poverty in the long run. One of the recommendations to Globkom in Svensson (2001, p 17-18) was to 'mediate ideas instead of money'. In assisting institution building in destitute nations, money might not be the most effective mean to the end. There are numerous ways to support developing nations, such as military assistance and freer trade. Aid may or may not play a role in the eradication of poverty, but if history taught us one thing, it is that no universal remedy is readily available.

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# Appendices

## Appendix 1: Disbursements 1980-2006.

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 1384

White diagonal standard errors & covariance (d.f, corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob,
CONSTANT	4,6634	0,5198	8,9712	0,0000
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,7779	0,0203	38,2441	0,0000
Ln GDPC <sub>T-1</sub>	0,9119	0,0673	13,5591	0,0000
Ln ODA <sub>WORLD</sub>	0,2625	0,0359	7,3141	0,0000
OPENNESS	-0,0004	0,0008	-0,4545	0,6495
INFLATION	0,0001	0,0000	1,7363	0,0827
INSTITUTIONS	0,7667	0,2937	2,6108	0,0091
DEMOCRACY	0,0003	0,0115	0,0256	0,9796
R-squared	0,7959	Prob(F-statistic)		0,0000

## Appendix 2: Disbursements 1980-1996.

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 674

White diagonal standard errors & covariance (d.f, corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob,
CONSTANT	3,5447	0,8994	3,9412	0,0001
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,7428	0,0285	26,0311	0,0000
Ln GDPC <sub>T-1</sub>	0,9580	0,1223	7,8314	0,0000
Ln ODA <sub>WORLD</sub>	0,3211	0,0544	5,9012	0,0000
OPENNESS	-0,0002	0,0013	-0,1529	0,8785
INFLATION	0,0001	0,0000	1,8710	0,0618
INSTITUTIONS	1,2245	0,5508	2,2229	0,0266
DEMOCRACY	0,0144	0,0191	0,7544	0,4509
R-squared	0,7764	Prob(F-statistic)		0,0000

## Appendix 3: Disbursements 1997-2006.

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 710

White diagonal standard errors & covariance (d.f, corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob,
CONSTANT	5,9200	0,5543	10,6792	0,0000
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,8245	0,0281	29,3732	0,0000
Ln GDPC <sub>T-1</sub>	0,8638	0,0755	11,4370	0,0000
Ln ODA <sub>WORLD</sub>	0,1872	0,0469	3,9902	0,0001
OPENNESS	-0,0007	0,0011	-0,6325	0,5273
INFLATION	0,0004	0,0006	0,6659	0,5057
INSTITUTIONS	0,2761	0,2965	0,9311	0,3521
DEMOCRACY	-0,0108	0,0140	-0,7755	0,4383
R-squared	0,8218	Prob(F-statistic)		0,0000

## Appendix 4: Disbursements to small countries 1980-2006.

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 366

White diagonal standard errors & covariance (d.f, corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob,
CONSTANT	4,2324	1,2955	3,2670	0,0000
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,7129	0,0387	18,4337	0,0000
Ln GDPC <sub>T-1</sub>	0,8090	0,1495	5,4114	0,0000
Ln ODA <sub>WORLD</sub>	0,2544	0,0759	3,3519	0,0002
OPENNESS	-0,0027	0,0016	-1,4744	0,1413
INFLATION	0,0003	0,0002	1,8168	0,0701
INSTITUTIONS	1,1883	0,5426	2,5986	0,0097
DEMOCRACY	0,0286	0,0275	1,1828	0,2377
R-squared	0,66	Prob(F-statistic)		0,0000

## Appendix 5: Disbursements to medium-sized countries 1980-2006.

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 637

White diagonal standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CONSTANT	3,9113	0,9141	4,2789	0,0000
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,7824	0,0333	23,4907	0,0000
Ln GDPC <sub>T-1</sub>	1,0095	0,1331	7,5838	0,0000
Ln ODA <sub>WORLD</sub>	0,3160	0,0700	4,6157	0,0000
OPENNESS	-0,0002	0,0013	-0,1747	0,8614
INFLATION	0,0000	0,0000	1,9736	0,0489
INSTITUTIONS	1,0347	0,4623	2,2381	0,0256
DEMOCRACY	0,0077	0,0199	0,3867	0,6991
R-squared	0,75	Prob(F-statistic)		0,0000

## Appendix 6: Disbursements to large countries 1980-2006.

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 381

White diagonal standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CONSTANT	5,7535	0,5331	10,7923	0,0000
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,7965	0,0392	20,3116	0,0000
Ln GDPC <sub>T-1</sub>	0,8359	0,1023	8,1703	0,0000
Ln ODA <sub>WORLD</sub>	0,1880	0,0534	3,5178	0,0005
OPENNESS	-0,0006	0,0017	-0,3527	0,7245
INFLATION	0,0001	0,0002	0,3142	0,7536
INSTITUTIONS	0,1488	0,4682	0,3179	0,7507
DEMOCRACY	-0,0131	0,0152	-0,8647	0,3878
R-squared	0,81	Prob(F-statistic)		0,0000

## Appendix 7: Disbursements to small countries 1980-1996.

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 183

White diagonal standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CONSTANT	3,7229	2,4317	1,5310	0,1276
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,6728	0,0512	13,1506	0,0000
Ln GDPC <sub>T-1</sub>	0,7164	0,3011	2,3794	0,0184
Ln ODA <sub>WORLD</sub>	0,3425	0,1520	2,2536	0,0255
OPENNESS	-0,0052	0,0022	-2,3742	0,0187
INFLATION	0,0004	0,0002	1,8807	0,0617
INSTITUTIONS	2,6680	1,2349	2,1605	0,0321
DEMOCRACY	0,0359	0,0386	0,9304	0,3535
R-squared	0,69	Prob(F-statistic)		0,0000

## Appendix 8: Disbursements to small countries 1997-2006.

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 183

White diagonal standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CONSTANT	5,0952	1,3793	3,6940	0,0003
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,7357	0,0557	13,2073	0,0000
Ln GDPC <sub>T-1</sub>	0,8080	0,1635	4,9410	0,0000
Ln ODA <sub>WORLD</sub>	0,1692	0,0889	1,9044	0,0585
OPENNESS	-0,0004	0,0030	-0,1344	0,8933
INFLATION	-0,0098	0,0096	-1,0192	0,3095
INSTITUTIONS	0,0345	0,5905	0,0584	0,9535
DEMOCRACY	-0,0022	0,0439	-0,0512	0,9592
R-squared	0,58	Prob(F-statistic)		0,0000

## Appendix 9: Disbursements to medium-sized countries 1980-1996.

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 302

White diagonal standard errors & covariance (d.f, corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CONSTANT	1,8719	1,7312	1,0813	0,2805
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,7359	0,0499	14,7542	0,0000
Ln GDPC <sub>T-1</sub>	1,1488	0,2755	4,1695	0,0000
Ln ODA <sub>WORLD</sub>	0,3867	0,1142	3,3846	0,0008
OPENNESS	0,0012	0,0023	0,5127	0,6085
INFLATION	0,0001	0,0000	1,7844	0,0754
INSTITUTIONS	1,3342	0,8067	1,6538	0,0992
DEMOCRACY	0,0359	0,0367	0,9785	0,3286
R-squared	0,68	Prob(F-statistic)		0,0000

## Appendix 10: Disbursements to medium-sized countries 1997-2006.

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 335

White diagonal standard errors & covariance (d.f, corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CONSTANT	5,4103	1,0849	4,9868	0,0000
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,8284	0,0460	18,0046	0,0000
Ln GDPC <sub>T-1</sub>	0,9364	0,1380	6,7865	0,0000
Ln ODA <sub>WORLD</sub>	0,2455	0,0934	2,6280	0,0090
OPENNESS	-0,0011	0,0018	-0,6094	0,5427
INFLATION	0,0005	0,0006	0,7481	0,4550
INSTITUTIONS	0,5931	0,5223	1,1356	0,2569
DEMOCRACY	-0,0049	0,0239	-0,2039	0,8385
R-squared	0,82	Prob(F-statistic)		0,0000

## Appendix 11: Disbursements to large countries 1980-1996.

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 189

White diagonal standard errors & covariance (d.f, corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CONSTANT	5,1190	0,9400	5,4460	0,0000
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,7234	0,0625	11,5825	0,0000
Ln GDPC <sub>T-1</sub>	0,7557	0,1891	3,9958	0,0001
Ln ODA <sub>WORLD</sub>	0,2293	0,0847	2,7064	0,0075
OPENNESS	-0,0039	0,0048	-0,8282	0,4086
INFLATION	0,0000	0,0002	0,1119	0,9110
INSTITUTIONS	0,4813	0,6768	0,7111	0,4779
DEMOCRACY	-0,0086	0,0262	-0,3295	0,7422
R-squared	0,71	Prob(F-statistic)		0,0000

## Appendix 12: Disbursements to large countries 1997-2006.

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 212

White diagonal standard errors & covariance (d.f, corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CONSTANT	6,2874	0,5617	11,1943	0,0000
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,8878	0,0379	23,4374	0,0000
Ln GDPC <sub>T-1</sub>	0,9386	0,0897	10,4591	0,0000
Ln ODA <sub>WORLD</sub>	0,1359	0,0637	2,1344	0,0340
OPENNESS	0,0000	0,0015	0,0053	0,9958
INFLATION	-0,0015	0,0033	-0,4530	0,6510
INSTITUTIONS	0,0648	0,4643	0,1396	0,8891
DEMOCRACY	-0,0101	0,0139	-0,7316	0,4652
R-squared	0,91	F-statistic		0,0000

### Appendix 13: Disbursements to medium-sized countries 1980-2006, excluding Iraq and Afghanistan

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 1384

White diagonal standard errors & covariance (d.f, corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob,
CONSTANT	4,6634	0,5198	8,9712	0,0000
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,7779	0,0203	38,2441	0,0000
Ln GDPC <sub>T-1</sub>	0,9119	0,0673	13,5591	0,0000
Ln ODA <sub>WORLD</sub>	0,2625	0,0359	7,3141	0,0000
OPENNESS	-0,0004	0,0008	-0,4545	0,6495
INFLATION	0,0001	0,0000	1,7363	0,0827
INSTITUTIONS	0,7667	0,2937	2,6108	0,0091
DEMOCRACY	0,0003	0,0115	0,0256	0,9796
R-squared	0,80	Prob(F-statistic)	0,0000	

### Appendix 14: Disbursements 1997-2006, excluding Iraq and Afghanistan

Dependent Variable: Ln ODAC

Total panel (unbalanced) observations: 710

White diagonal standard errors & covariance (d.f, corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob,
CONSTANT	5,9200	0,5543	10,6792	0,0000
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,8245	0,0281	29,3732	0,0000
Ln GDPC <sub>T-1</sub>	0,8638	0,0755	11,4370	0,0000
Ln ODA <sub>WORLD</sub>	0,1872	0,0469	3,9902	0,0001
OPENNESS	-0,0007	0,0011	-0,6325	0,5273
INFLATION	0,0004	0,0006	0,6659	0,5057
INSTITUTIONS	0,2761	0,2965	0,9311	0,3521
DEMOCRACY	-0,0108	0,0140	-0,7755	0,4383
R-squared	0,82	Prob(F-statistic)		

### Appendix 15: Disbursements 1980-2006 with dummy variables

Dependent Variable: Ln ODAC

Included observations: 1430 after adjustments

White diagonal standard errors & covariance (d.f, corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob,
CONSTANT	4,7679	0,4291	11,1107	0,0000
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,7752	0,0214	36,2079	0,0000
Ln GDPC <sub>T-1</sub>	0,8973	0,0607	14,7818	0,0000
Ln ODA <sub>WORLD</sub>	0,2660	0,0338	7,8741	0,0000
OPENNESS	-0,0001	0,0009	-0,1689	0,8659
INFLATION	0,0001	0,0000	1,7244	0,0849
INSTITUTIONS	0,7359	0,3017	2,4391	0,0148
R-squared	0,80	Prob(F-statistic)	0,0000	

For simplicity, the dummies are not displayed in the table.

### Appendix 16: Disbursements 1980-2006.

Dependent Variable: LOG(ODAC)

Total panel (unbalanced) observations: 683

White diagonal standard errors & covariance (d.f, corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob,
CONSTANT	4,4328	0,6262	7,0788	0,0000
Ln (ODA <sub>T-1</sub> /GDP <sub>T-1</sub> )	0,7515	0,0289	26,0450	0,0000
Ln GDPC <sub>T-1</sub>	0,8794	0,0930	9,4524	0,0000
Ln ODA <sub>WORLD</sub>	0,2790	0,0426	6,5459	0,0000
OPENNESS	-0,0006	0,0013	-0,4557	0,6487
INFLATION	0,0000	0,0001	0,4576	0,6474
INSTITUTIONS	1,0931	0,4391	2,4895	0,0130
CONSTANT	-0,0209	0,0163	-1,2794	0,2012
FISCAL	-0,0208	0,0127	-1,6401	0,1015
R-squared	0,80	Prob(F-statistic)		