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## The allocation of German aid: Self-interest and government ideology

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## **Working Papers**

**Kiel Institute  
for the World Economy**



### **The Allocation of German Aid: Self-interest and Government Ideology**

**Axel Dreher  
Peter Nunnenkamp  
Maya Schmaljohann**

**No. 1817 | January 2013**

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## **The Allocation of German Aid: Self-interest and Government Ideology\***

Axel Dreher, Peter Nunnenkamp, Maya Schmaljohann

Abstract:

We investigate the importance of geo-strategic and commercial motives for the allocation of German aid to 138 countries over the 1973-2010 period. We find that geo-strategic and – less robustly – commercial motives matter. When we relate geo-strategic and commercial motives to the political color of the German government in general, and the Ministry for Economic Cooperation and Development and the Federal Foreign Office in particular, we find their importance to increase under socialist leadership. Socialist leadership also decreases the amount of aid commitments, controlled for other factors.

Keywords: aid allocation; government ideology.

JEL classification: F35, F53, F63

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## 1. Introduction

The importance of leaders in shaping the policies of their country has recently moved into the spotlight in economics and political science alike. Jones and Olken (2005; 2009) find that leadership change can affect economic policy and outcomes, democratization, and conflict. McGillivray and Smith (2004) report that leadership change in authoritarian regimes leads to a major decline in trade. Dreher and Jensen (2013) show that leaders affect their country's foreign policy position. Potrafke (2009) finds that government ideology matters for voting alignment with the United States in the UN General Assembly.

The literature on development aid has largely ignored the potentially important role of political leadership.<sup>1</sup> It typically focuses on the motives of donor countries as unitary actors, thereby failing to account for varying ideologies of governments and different political affiliations of those in charge of development aid. The lack of empirical evidence is particularly striking when it comes to the question of whether political leadership and government ideology help explain the importance of geo-strategic and commercial motives of aid, and why it appears to vary not only across donor countries, but also over time.<sup>2</sup>

In this paper, we try to fill this gap by focusing on geo-strategic and commercial motives underlying the allocation of German aid. Such motives are unlikely to be constant over time as changes in political leadership can be expected to have important bearings on the allocation of foreign aid. Therefore, our major aim is to assess whether the political ideology of the government and the political affiliation of the relevant ministers have mattered for the importance of geo-strategic and commercial motives in the allocation of German aid since the 1970s.

Germany offers a particularly interesting case to analyze the impact of political ideology on the importance of selfish aid motivations. The dominant political orientation of German

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<sup>1</sup> A few studies have addressed the role of political ideology for the overall size of aid budgets; see Fuchs et al. (2012) for an overview. By contrast, ideology has typically been ignored as a determinant of aid allocation and its underlying motivations.

<sup>2</sup> Fleck and Kilby (2006) represent the major exception from this typical neglect in aid allocation studies (see Section 2 for details).

governments has shifted back and forth from conservative to socialist. Moreover, various coalition governments appointed conservative, liberal and socialist politicians to serve as ministers of the Ministry for Economic Cooperation and Development. Coalition partners with a different political orientation have often held office in the Federal Foreign Office. Both ministries are important players involved in the allocation of German aid, while their motivations are not necessarily aligned (Nunnenkamp and Öhler 2011).

We specify our hypotheses and how they relate to the previous literature in Section 2. As detailed in Section 3, we employ fixed-effects Tobit estimations for a panel of 138 recipient countries over the 1973-2010 period to test the hypothesis that the relative importance of selfish aid motivations varies according to the ideological orientation of the ruling government in general, and the relevant players within the administration. Section 4 presents our empirical results. We find that less aid is committed under socialist leadership, controlled for other factors. Geo-strategic and commercial motives appear to be important. When we relate these motives to the political color of the German government, the Ministry for Economic Cooperation and Development, and the Federal Foreign Office, we find their importance to increase under socialist leadership. Our findings are thus in sharp contrast with the widespread belief that mainly conservative governments use aid as a means to promote exports and strengthen strategic alliances. The final section concludes.

## **2. Background and hypotheses**

We link two separate strands of the previous literature on foreign aid. First, our analysis relates to the large number of studies on aid allocation across recipient countries. Second, we draw on the much smaller literature on the determinants of donor generosity, notably the role political ideology plays in determining the overall size of aid budgets. This second strand of the literature also touches on recent work on the importance of individual leaders in shaping the policies of their countries.

Various studies on the allocation of aid by official donors of the OECD's Development Assistance Committee (DAC) have shown that aid is not only motivated by altruism, but also by the

self-interest of donors. Alesina and Dollar (2000: 33) find “considerable evidence that the direction of foreign aid is dictated as much by political and strategic considerations, as by the economic needs and policy performance of the recipients.” Alesina and Dollar introduced UN voting patterns as an indicator of political aid motivations. Recipients received more aid from all major donors when voting in line with the donor country in the UN General Assembly. This almost uniform empirical pattern suggests, if only implicitly, that political motives of aid span over the whole ideological spectrum of donor governments.

The fixed effects estimations by Höffler and Outram (2011) provide a more nuanced picture on UN voting as a determinant of aid allocation. They find, inter alia, that Germany’s aid allocation responds positively to recipient countries’ voting in line with the United States; but voting in line with Germany itself has no significant effects on German aid. The cross-section analysis of Nunnenkamp and Öhler (2011) focuses on comparing the allocation of German aid through different channels, including non-governmental organizations. Nevertheless, it is of some interest in the present context that Nunnenkamp and Öhler (2011: 316) find “clear evidence for German political interests [as reflected in UN voting coincidence] being associated with the allocation of aid through various channels.” The Social Democratic Party (SPD) was in charge of the Ministry for Economic Cooperation and Development during the 2005-2007 period considered in Nunnenkamp and Öhler – until November 2005 under the SPD-led government of Chancellor Schröder and subsequently in the grand coalition under the conservative Chancellor Merkel.<sup>3</sup> This provides the first indication that geo-strategic aid motivations may not be restricted to times when conservative ideologies dominate German development cooperation.

Subsequent research has employed refined measures of political and strategic interest. In particular, recent research provides evidence that governments elected to the United Nations

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<sup>3</sup> Note that the SPD also held the Federal Foreign Office in the grand coalition (see Appendix A). In contrast to Nunnenkamp and Öhler (2011), the cross-country study of Faust and Ziaja (2012) covers German aid allocation during two sub-periods after the end of the Cold War (1992-1999 and 2000-2008). UN voting proves to be statistically insignificant in most of the estimations reported by Faust and Ziaja.

Security Council (UNSC) receive more generous financial support than other developing countries. Dreher et al. (2009a) show that elected UNSC members are more likely to participate in IMF programs. Moreover, fewer and laxer conditions are attached to IMF programs for UNSC members. UNSC members also receive more aid from the United States, the World Bank, the Asian Development Bank, and the United Nations Development Program (Kuziemko and Werker 2006; Dreher et al. 2009b; Lim and Vreeland 2013).<sup>4</sup> Figure 1 visualizes the amount of German aid committed to countries on and not on the UNSC (in constant 2010 million US\$). As can be seen, temporary members of the UNSC receive more than double the amount of aid compared to non-members. Aid commitments are largest in the two years of membership.

Temporary UNSC membership has a conceptual advantage over previous attempts to measure the importance of geo-strategic considerations in that it is exogenous to variables that might be directly related to foreign aid (Bueno de Mesquita and Smith 2010; Dreher et al. 2012). Countries enter the UNSC for two years, and are precluded from immediate re-election. It is difficult to think of variables affecting the amount of aid a country receives in the two years it serves on the UNSC that are unrelated to geo-strategic motivations. Dreher et al. (2012) confirm the idiosyncrasies of UNSC selection.

Considerable evidence exists that donors are using aid as a means of buying political support from recipient countries in the United Nations. It has received less attention, however, whether the importance of geo-strategic motives of aid varies over the ideological spectrum of donor governments and whether the party affiliation of the political leaders of a country's aid authorities makes a difference.

Essentially the same is true for commercial motivations of aid. It is widely accepted that the allocation of aid is shaped by trade-related interests of donors, though not necessarily to the same extent across donors and over time. Berthélemy and Tichit (2004) find a strong impact of bilateral

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<sup>4</sup> On the contrary, UNSC membership does not seem to affect loans by the Inter-American Development Bank (Bland and Kilby 2012; Hernandez 2012).

trade intensity on the allocation of aid. More recent studies underscore the relevance of trade-related interests (e.g., Younas 2008; Höffler and Outram 2011). According to Berthélemy and Tichit (2004), such trade-related interests vary between donor countries.<sup>5</sup> Berthélemy (2006) ranks various donors according to the elasticity of aid with respect to bilateral trade intensity. Most of the larger donors, including Germany, are rated ‘moderately egoistic.’ At the same time, Dollar and Levin (2006), as well as Claessens et al. (2009), find that donors have recently become more altruistic by targeting aid at poor recipient countries with sound institutions and economic policies.<sup>6</sup> This could also be the case for Germany. According to Nunnenkamp and Öhler (2011), German exports to recipient countries were *negatively* associated with German aid in recent years (2005-2007), which is in stark contrast to commercial aid motivations.<sup>7</sup> However, what actually drives the changes in the allocation of aid over time and whether these changes are likely to persist, remains up for debate.

Turning to the second strand of the relevant literature, it is now widely believed that individual leaders can make a difference with respect to a country’s policies. Specifically, several authors expect that left-wing politicians are more supportive of foreign aid than right-wing politicians (e.g., Thérien and Noel 2000; Milner and Tingley 2010). Socialist beliefs call for government intervention in order to reduce inequality through redistribution of income and wealth. According to conservative beliefs, government intervention has to be kept to the minimum in order not to impair individual effort and interfere in markets. Being less concerned about inequality at home, conservatives appear to be predisposed with spending less on foreign aid as a means of reducing worldwide inequality.<sup>8</sup>

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<sup>5</sup> Feeny and McGillivray (2008) stress that the determinants of aid also differ between major recipient countries.

<sup>6</sup> For a more sceptical assessment, see Nunnenkamp and Thiele (2006) who conclude that export-related interests and post-colonial ties remained important.

<sup>7</sup> As noted before, Faust and Ziaja (2012) cover the post-Cold War period. They find trade-related interests to be relevant for German aid allocation.

<sup>8</sup> See also Noel and Thérien (1995).



All the same, the dichotomy of a pro-aid left and a contra-aid right may be overly simplistic. Two major arguments have been advanced in the literature as to why left-leaning governments do not necessarily run larger aid budgets. Altruistic motivations of aid are not confined to socialist traditions of redistribution. Rather, conservative governments may be as generous as socialist ones since Christian roots call for international solidarity, too (Thérien and Noel 2000).<sup>9</sup> Furthermore, one may suspect that business-friendly conservative governments grant aid to foster the economic interests of their political constituencies, e.g., by using aid as a means of export promotion (Round and Odedokun 2004).<sup>10</sup>

Indeed, empirical findings are mixed with regard to the effect of political ideology on international solidarity, measured by the overall size of foreign aid budgets. Thérien and Noel (2000), as well as Chong and Gradstein (2008), find that left-wing governments grant more aid. Brech and Potrafke (2012) corroborate this result for aid delivered as bilateral grants, though not for other forms of aid. Partisanship variables proved to be insignificant in the analysis of donors' aid effort by Lundsgaarde et al. (2010). According to some studies, however, the overall aid effort of right-wing governments is even stronger than that of left-wing governments (Round and Odedokun 2004; Goldstein and Moss 2005; Bertoli et al. 2007).

Our subsequent analysis is not concerned with overall aid efforts, instead focusing on the distribution of a given aid budget across recipient countries. We follow previous aid allocation studies and analyze *bilateral* aid relations.<sup>11</sup> Importantly, our estimation approach allows us to assess whether conservative or socialist governments provide more aid to particular recipient countries for selfish reasons, by interacting the variables reflecting geo-strategic and commercial motives of aid with indicators of political ideology and partisanship (see Section 3 for details). To

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<sup>9</sup> See also Goldstein and Moss (2005) on “compassionate conservatives” in the United States.

<sup>10</sup> Tingley's (2010) finding that aid efforts to middle-income recipient countries were unaffected when conservative governments ruled in donor countries, whereas conservative governments granted less aid to low-income recipient countries than left-wing governments, could also fit into this argument. Middle-income countries can reasonably be assumed to be of a greater commercial interest to donor countries than low-income countries.

<sup>11</sup> However, we take into account that left-wing governments may be more inclined to use multilateral aid channels than right-wing governments. See Section 3 for details.

the best of our knowledge, Fleck and Kilby (2006)'s study on US aid over the 1960-1997 period is the only one employing a similar approach to assess the role of political changes on bilateral aid allocation. Fleck and Kilby rate US presidents and congresses on a liberal-conservative scale. They show, inter alia, that commercial interests have greater weight under more conservative congresses. By contrast, the impact of shifts towards Republican presidents and more conservative congresses on geo-strategic aid motivations (proxied by UN voting affinity) proves to be weak and ambiguous.

Our study differs in several respects from Fleck and Kilby (2006). First, our analysis extends into the most recent past, while Fleck and Kilby barely cover the period during which donors may have become more altruistic. Second, we employ temporary membership on the UNSC, in addition to voting patterns in the UNGA, as an exogenous measure of geo-strategic self-interest (see above). Third, we account for partisanship at the level of the relevant ministries, in addition to the political ideology at the top of German governments (chancellors). In contrast to the United States, German governments are typically coalitions of political parties placed at different points of the ideological spectrum so that the findings for the United States do not necessarily carry over to the allocation of German aid.

We hypothesize that both the general political ideology of German governments in office as well as partisanship of ministers in charge of international development cooperation matter for the importance of geo-strategic and commercial motives in the allocation of German bilateral aid.<sup>12</sup> However, split political competencies over international development cooperation and the institutional complexity at the level of the German aid administration (through so-called implementation agencies) could have weakened the impact of ideology and partisanship on aid allocation. German development cooperation has typically been characterized by incongruent political ideologies as the heads of the Ministry for Economic Cooperation and Development and

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<sup>12</sup> See Breuning (1995: 246) for a discussion on the role of ministers in charge of development cooperation for political agenda setting in Belgium, the Netherlands and the United Kingdom: "The political affiliation of the minister has the potential to affect the debate in Parliament as a whole." However, agenda setting does not appear to be affected significantly by the political affiliation of ministers in Breuning's study.

the Federal Foreign Office had different party affiliations in German governments until recently.<sup>13</sup> As noted by Faust and Ziaja (2012), both ministries are struggling over competencies in the field of international development cooperation. At the same time, the German aid regime is characterized by a complex and fragmented structure of implementing agencies. A recent peer review of German aid noted: “Given the wide variety of actors within the German system, it is a challenge to bring coherence to the design and implementation to its aid” (OECD 2006: 58). Brombacher (2009) argues that the complex administrative system tends to undermine political control of development cooperation.<sup>14</sup> Specifically, “bureaucracy controlled foreign aid” (Easterly 2002: 247) could imply that administrative rigidity and bureaucratic incentives weaken the links between political ideology and aid allocation criteria.

### 3. Data and Method

We investigate the importance of geo-strategic and commercial motives as drivers of German aid, and how these motives depend on ideology:

$$Aid_{it} = \beta UNSC_{it} + \gamma UNGA_{it-1} + \delta Exports_{it-1} + \zeta Social_{itj} + \theta X_{it-1} + \tau_t + \eta_i + \varepsilon_{it}, \quad (1)$$

where  $Aid_{it}$  is (logged) aid committed by Germany in year  $t$  to recipient  $i$ ,<sup>15</sup> measured in constant US\$.  $UNSC_{it}$  indicates membership in the United Nations Security Council, while  $UNGA_{it-1}$  captures the recipient’s voting behavior in the General Assembly in the previous year. Voting behavior can range between zero and one, with zero indicating that the recipient never voted in line with Germany in year  $t-1$ , and one indicating that voting was always the same.<sup>16</sup> Given that the bulk of voting is in the last quarter of the year, it is important to lag the variable as otherwise aid would

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<sup>13</sup> The situation has changed since November 2005 under the two governments led by Chancellor Merkel (see Appendix A for details). Round and Odedokun (2004) suspect that coalitions of parties with incongruent ideologies and policies have larger overall aid budgets; but these authors do not consider bilateral aid allocation. Martens (2002: 182) argues that aid programs “are likely to be broader and more vaguely defined” if coalitions include a wide range of parties.

<sup>14</sup> See also Faust and Ziaja (2012: 8) and the references cited there.

<sup>15</sup> In order not to lose those observations where no aid is granted we add one before taking logs.

<sup>16</sup> Note that we treat abstentions and absences as one half, following Dreher and Sturm (2012), among many others.

precede voting in time. *Exports* are the (logged) exports from Germany to the respective recipient country (taken from Comtrade, and measured in constant 2005 US\$). To minimize problems of reversed causality, we also lag this variable. *Social* captures the political orientation of the heads of government (chancellor), the Federal Ministry for Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung, BMZ), and the Federal Foreign Office (Auswärtiges Amt, AA). *Social* is set to one in year  $t$  when the respective government unit  $j$  has been headed by a politician from the socialist SPD. The variable is coded as a (proportionate) fraction of one if socialist politicians were in charge for only part of year  $t$ .<sup>17</sup> We use contemporaneous values, assuming that the current politician can affect new aid commitments.

Our set of control variables, represented by the vector  $X$  in equation (1), follows the previous literature on aid allocation (see Section 2). We add the log of the recipient country's GDP per capita (measured in constant 2000 US\$, and taken from the World Bank's World Development Indicators 2012) to capture need. Richer countries should receive less aid, all else being equal. We include the (log of the) recipient country's population given that we do not measure the aid variable in per capita terms – and expect countries with a larger population to receive more aid.<sup>18</sup> We control for “merit” by including the recipient country's level of democracy, measured through the imputed Polity IV indicator of democracy (taken from Teorell et al. 2011).<sup>19</sup> The index ranges between 0 and 10, with larger values indicating more democracy. We also control for (the log of) German commitments of aid channeled through multilateral organizations (measured in constant US\$). Our results might be biased unless it is taken into account that socialist governments tend to rely on multilateral channels to a greater extent. While we use contemporaneous values of multilateral aid,

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<sup>17</sup> The variable is coded as zero if the chancellor was from the conservative CDU throughout year  $t$ . In the case of the relevant ministries, it is coded as zero if the Minister for Economic Cooperation and Development or the Minister for Foreign Affairs belonged to parties other than the SPD – i.e., either the CDU, the liberal party (FDP) or the green party (Die Grünen) – throughout year  $t$ .

<sup>18</sup> However, the effect of population could also be negative once the level of development is controlled for. Boone (1996) suggests that a smaller population may proxy for the ease in which a country can be bribed, while offering the same benefits in “one-country-one-vote”-organizations like the United Nations General Assembly.

<sup>19</sup> The original source of Polity IV is Marshall and Jaggers (2003). Teorell et al. (2011) have imputed missing Polity IV data by regressing it on Freedom House's Civil Liberties measure. This imputed measure is thus more complete than the original.

the other control variables are lagged by one year. We include a linear time trend  $\tau_t$  and fixed country effects  $\eta_i$ ;<sup>20</sup>  $\varepsilon_{it}$  is the error term, and standard errors are clustered at the country level. Appendix B reports all variables and sources used, while we show summary statistics in Appendix C.

Equation (1) allows us to test for the importance of geo-strategic and commercial motives for the allocation of German aid. It also allows us to test whether the political color of leaders of the government and those ministries responsible for the allocation of the bulk of German aid makes a difference regarding the amount of country-specific aid commitments. This question is interesting in its own right. However, we are mainly interested in assessing whether the relative importance of geo-strategic and commercial motives varies with the political color of these leaders. We therefore interact our proxies for geo-strategic and commercial motives with the party affiliation of the three government authorities of interest (chancellor, BMZ and AA):

$$Aid_{it} = \beta UNSC_{it} + \gamma UNGA_{it-1} + \delta Exports_{it-1} + \zeta Social_{itj} + \lambda_1 UNSC_{it} * Social_{itj} + \lambda_2 UNGA_{it-1} * Social_{itj} + \lambda_3 Exports_{it-1} * Social_{itj} + \theta X_{it-1} + \tau_t + \eta_i + \varepsilon_{it} . \quad (2)$$

The next section reports the results.

#### 4. Results

Column 1 of Table 1 restricts the fixed effects in equation (1) to zero and excludes  $Social_{itj}$ . The results are in line with much of the previous literature: The amount of aid committed increases with need (proxied by lower GDP per capita) and a larger population, at the one percent level of significance, while the recipient's level of democracy is not significant at conventional levels. The amount of aid committed via multilateral channels is also insignificant. Among our variables of interest, exports and voting in the UNGA are significant at the one and five percent level,

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<sup>20</sup> Note that the coefficients in the Tobit model are not affected by the so-called “incidental parameter problem” (Greene 2004). While the standard errors are generally biased downwards in a short sample, this can be neglected when the number of years is comparably large (as is the case here).

respectively, while temporary UNSC membership is marginally insignificant. All three variables have the expected positive coefficient. However, voting in the UNGA could be the consequence rather than a determinant of aid – the omission of country fixed effects renders reversed causality particularly likely. While it is hard to imagine that the positive coefficient of exports is due to reversed causality, the coefficient might reflect omitted variables bias rather than the causal effect of exports as long as fixed country effects are excluded. Therefore, we add the country-specific effects in all subsequent estimations.

As can be seen in column 2, GDP per capita and population are no longer significant at conventional levels. The comparably small variation within recipient countries from their mean does not allow for the identification of significant effects. The same holds for exports, which become marginally insignificant.

The results with respect to UNGA voting are qualitatively unchanged compared to column 1. The coefficient implies that an increase in voting affinity in the UNGA by one standard deviation from the median of 0.65 to 0.76 increases aid commitments by about 12 percent. It should be noted, however, that controlling for fixed country effects does not necessarily imply that voting *causally* affects aid. Rather, a change in aid receipts over time could lead to greater UNGA voting affinity. Independent of whether aid is used as a bribe to induce a change in voting behavior or rewards past voting behavior, our results show that the recipient's voting in the UNGA does matter.

Furthermore, German aid commitments are larger if countries are temporary members of the UNSC. This mirrors findings for other donors such as the United States (Kuziemko and Werker 2006), the IMF (Dreher et al. 2009a), the World Bank (Dreher et al. 2009b), and the Asian Development Bank (Lim and Vreeland 2013). In contrast to UNGA voting, we interpret the coefficient on the UNSC variable to be causal given that UNSC membership is clearly unrelated to any variable that might also determine aid commitments over time (Dreher et al. 2012). Quantitatively, the coefficient implies that German bilateral aid commitments increase by almost 31

percent for countries serving temporarily on the UNSC. Given yearly commitments in the order of US\$ 50 million for the average sample country temporary membership of the UNSC would increase German aid by more than US\$ 15 million.

In columns 3-5 we turn to the question of whether the political color of leaders matters for the amount of bilateral aid commitments. In column 3 we enter the dummy variable indicating that the chancellor was from the socialist SPD. Column 4 adds the corresponding dummy for a left-wing minister of development (BMZ), while column 5 adds the corresponding dummy for a left-wing foreign minister. Generally speaking, we find that the political color of leaders matters for German bilateral aid commitments. This resembles similar findings with respect to other policy areas, like a country's foreign policy position (Potrafke 2009; Dreher and Jensen 2013).<sup>21</sup> More specifically, aid commitments prove to be lower under socialist governments in column 3, at the one percent level of significance. This result is in conflict with the conventional wisdom that left-wing politicians are more supportive of foreign aid than right-wing politicians (see Section 2). Instead, it is in line with some previous empirical studies that found the overall aid effort of right-wing governments to be stronger than that of left-wing governments (Round and Odedokun 2004; Goldstein and Moss 2005; Bertoli et al. 2007).

The finding that socialist leadership is associated with less German bilateral aid holds in columns 4 and 5. This is even though the coefficient capturing leadership at the general government level becomes insignificant when controlling for a socialist BMZ (column 4), where aid now decreases with a socialist BMZ. Note that the dummies reflecting the political orientation of the BMZ and the government differ only for a few years, namely the 2005-2009 period when the chancellor was conservative and the BMZ was headed by a minister from the SPD. Once we control for the color of the BMZ, we can no longer identify the effect of the government, due to multicollinearity. By contrast, the coefficient capturing leadership at the general government level

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<sup>21</sup> See Belke and Potrafke (2012) on monetary policy in the OECD and Potrafke (2011) for an analysis of education and cultural expenditures in West German states. Potrafke (2012) reports mixed results regarding the impact of the German government's political orientation on social policy.

remains significantly negative once we control for socialist leadership of the Federal Foreign Office. At the same time, the significantly negative dummy for the latter underscores that socialist leadership is associated with less German bilateral aid. The size of the coefficients is of substantial quantitative importance. For example, column 3 indicates a decrease of aid commitments by almost 32 percent under socialist governments.

Accounting for the political orientation of leaders, we find that exports are significant at the ten percent level in columns 4 and 5, but not in column 3, of Table 1. The effect of commercial motives on the allocation of German bilateral aid can therefore not be considered to be robust, which is in line with the ambiguous findings of earlier studies (see Section 2). German aid is increasing with more democracy in the recipient countries in the extended specifications, though only at the ten percent level. In contrast, the effects of UNGA voting and temporary membership on the UNSC are hardly affected when accounting for the political color of leadership at the government and ministerial level. Both coefficients are significantly positive, at least at the ten percent level, in all fixed effects specifications.

As discussed in Section 2, temporary membership on the UNSC has been suggested as an exogenous determinant of aid in different contexts, but has not so far been considered in the context of German aid. Thus, before turning to the interactions between the political color of leaders and the importance of commercial and geo-strategic motives, we delve deeper into the analysis of geo-politically motivated German aid. Table 2 includes dummies ranging from up to two years before a country was elected to serve on the UNSC to up to two years after the completion of its UNSC term. It is often known well in advance which country will be the next representative of a certain region (Dreher et al. 2012). However, it is not unusual that more than one country competes for this position. In these cases, it will only be clear by October of a certain year, the month the election takes place, who will enter the UNSC on January 1 the following year (Dreher et al. 2012).



The election procedure can explain the results of Table 2 well. The results in column 1 show that German aid commitments increase significantly, on average, in the year before the election (when in many cases it will already be known who will become a member). The dummy is only marginally significant in the year of the election, probably because pending competitive elections mitigate the effects of anticipated membership. Most importantly, commitments are significantly higher for temporary members of the UNSC during their two-year term, but not significantly higher when the country has left the UNSC. The positive effect during the two-year term remains after consecutively excluding the other dummies, as shown in columns 2-4.

We also investigate whether the effect is more pronounced in “important” years. We follow Kuziemko and Werker (2006) and classify a year’s importance based on the number of UNSC-related articles in the New York Times. Indeed, as Kuziemko and Werker (2006) find for the United States, the increase in aid only prevails in important years (column 5). According to the coefficient, commitments increase by 45 percent when serving on the UNSC in an important year. Overall, we conclude that geo-strategic aid motivations matter.

The estimations reported in Tables 3-5 focus on the interactions between the political color of the chancellor and the relevant ministers and the importance of selfish motives underlying the allocation of German bilateral aid (equation 2). In a first step, we test whether the commercial motivation of aid is more (or less) pronounced under left-wing leadership (Table 3). As can be seen, the results for our control variables are hardly affected (compared to the corresponding columns 3-5 of Table 1) when we add the interactions between German exports and the political color of leaders. While changes in need within recipient countries continue to be insignificant, German aid reacts positively to merit in terms of more democracy (at the ten percent level), UNGA voting affinity (also at the ten percent level in columns 1 and 3, but marginally insignificant in column 2), and temporary UNSC membership (at the five percent level at least). In Table 1 we did not find a robust

average effect of commercial motives *per se*. However, the average might well hide important differences between conservative and socialist leadership of the relevant institutions.

The results in Table 3 indeed show significant differences, even though the insignificant interaction with the political orientation of the chancellor in column 1 may suggest otherwise. In column 2, we interact the dummy for an SPD-led BMZ with (logged) exports.<sup>22</sup> We find that exports matter more for German aid commitments when the BMZ is under socialist leadership, at the one percent level. Calculating the marginal effect, the elasticity of aid with respect to exports is 0.55 percent under a socialist BMZ, but 0.31 percent otherwise. Similarly, commercial motives figure more prominently when the Federal Foreign Office is under socialist leadership (column 3).

The prominence of export-related self-interest under socialist leadership may be surprising. Rather, one could have suspected that business-friendly conservative ministers grant aid to foster the economic interests of their political constituencies (Round and Odedokun 2004). Yet our results are quite plausible when considering that small and medium-sized firms (the so-called *Mittelstand*) constitute 98 percent of all German exporters and, thus, the backbone of Germany's trade and labor market performance (Haunschild et al. 2007). The workers in these firms tend to be relatively qualified, unionized and politically left-leaning. In other words, they represent a highly relevant political constituency for SPD-led government authorities. It should also be noted that an SPD-led BMZ launched the idea of so-called anchor countries (BMZ 2004). Accordingly, major regional players among the developing countries should receive special attention with respect to German aid – arguably not least because they are important trading partners.

In the next step, we investigate whether the geo-strategic motivation of aid is more (or less) pronounced under left-wing leadership. Table 4 focuses on short-term geo-strategic considerations by interacting the dummies for socialist leadership at the government and ministerial levels with temporary membership on the UNSC. Once again, our control variables are hardly affected by this

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<sup>22</sup> As before in Table 1, we control for SPD-led governments. The results are similar when we exclude this dummy.

modification. At the same time, none of the interacted variables are significant at conventional levels. This suggests that German governments of different political color and with varying party affiliations of the relevant ministers largely resemble each other in granting more aid to temporary members of the UNSC.

By contrast, the political orientation of German government authorities matters when interacted with UNGA voting instead (Table 5). Controlling for temporary membership on the UNSC (and fixed country effects), UNGA voting captures the association of German aid commitments with changes in longer-term political alliances. Surprisingly, we find that such alliances matter more for SPD-led governments and ministries, at the five percent level of significance at least. The marginal effects are substantial, where increases in German aid commitments of 47 percent arise due to an increase in UNGA voting compliance by 0.1 under an SPD-led government and 52 percent under an SPD-led BMZ (calculated at the mean of the explanatory variables). The marginal effect of UNGA voting is even stronger under an SPD-led Federal Foreign Office. However, except for a few weeks in 1982, it was only in 2005-2009 that the SPD was in charge of the Foreign Office. The political constellation was clearly exceptional during this period insofar as the SPD was also in charge of the BMZ in the grand coalition with the CDU (see Appendix A). It is possible that the Foreign Office reacted to the BMZ's special treatment of 'anchor countries' by strengthening its own geo-strategic allocation of aid. More importantly perhaps, Germany's efforts to gain UNSC membership figured high on the foreign policy agenda and could have strengthened the Foreign Office's geo-strategic aid allocation. Gaining a permanent seat, a longer-term aim of German foreign policy, required political alliances. In the shorter run, aid could have been used in anticipation of the competitive election of Germany as a temporary UNSC member in October 2010.

To summarize, it seems that both conservative and socialist German leaders allocate aid according to important short-term geo-strategic considerations, measured by temporary membership

on the UNSC, while SPD-led governments and ministries pay more attention to longer-term alliances, measured by voting compliance in the UNGA.

## **5. Conclusion**

In this paper we investigated the importance of geo-strategic and commercial motives for the allocation of German aid. Our empirical analysis covers 138 recipient countries over the 1973-2010 period. While the inclusion of fixed country effects minimizes the potential importance of reversed causality or omitted variables bias, we admit that it is hard to identify the causal effect of longer-term strategic and commercial motives in a bullet-proof way. However, regarding short-term geo-strategic motives, we make use of an indicator that has recently been shown to be exogenous to aid: temporary membership in the United Nations Security Council. We are thus confident that our estimates can be interpreted as a causal relationship between geo-strategic motives and aid commitments.

Our results show that temporary UNSC members receive larger commitments of German aid, controlled for fixed country effects and other important determinants of aid. Countries voting in line with Germany in the United Nations General Assembly and – less robustly – important trading partners also receive more aid. We thus conclude that geo-strategic and commercial motives matter for the allocation of German aid.

Our second contribution relates the importance of these motives to the political orientation of the German government, the Ministry for Economic Cooperation and Development, and the Federal Foreign Office. Surprisingly, we find that Germany commits less aid, on average, when the government and the relevant ministries are SPD-led. We also find that the importance of commercial motives increases under socialist leadership. We attribute this finding to the importance of small and medium-sized firms for German exports and the unionization and left-wing political orientation of the workers in these companies.

Concerning geo-strategic motives, the evidence is more ambiguous. On the one hand, political ideology at the government and ministerial levels does not affect the importance of temporary membership on the UNSC for German aid commitments. On the other hand, socialist leadership is associated with more German aid committed to political allies in the UN General Assembly. Political alliances in the UNGA may support German ambitions of gaining a permanent seat on the UNSC in the longer run. Arguably, socialist leaders in Germany are less reluctant than conservative leaders to press this agenda – similar to what has been observed under the SPD-led government under Chancellor Schröder in 2002-2005 with respect to domestic reforms of labor markets and the welfare system. Another explanation might be that socialist-led governments and ministries are under more pressure than their conservative counterparts to justify new aid commitments to the electorate, i.e., to avoid public perceptions that “socialist” aid flows indiscriminately and too generously.

It might not be bad per se that donors benefit from the aid relationship, unless selfish aid motivations undermine the effectiveness of aid for the recipients. However, recent research suggests that politically motivated aid is generally less effective (Dreher et al. 2013). We leave it for future research to analyze whether this finding also holds for the effectiveness of German aid, which would thereby help in clarifying the potential costs of political and commercial favoritism for the recipients of German aid.

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Table 1: Determinants of German Aid, 1973-2010, Tobit

	(1)	(2)	(3)	(4)	(5)
Log Multilateral Aid	0.155 (0.60)	0.411 (0.14)	0.085 (0.75)	0.145 (0.59)	0.162 (0.54)
Log GDPpc <sub>t-1</sub>	-1.002*** (0.00)	-0.962 (0.12)	-0.928 (0.13)	-0.877 (0.15)	-0.878 (0.15)
Log Exports <sub>t-1</sub>	0.559*** (0.00)	0.350 (0.12)	0.356 (0.11)	0.415* (0.07)	0.412* (0.07)
Log Population <sub>t-1</sub>	0.804*** (0.00)	-0.647 (0.62)	-0.788 (0.54)	-0.976 (0.45)	-0.968 (0.45)
Polity <sub>t-1</sub>	0.033 (0.54)	0.116 (0.11)	0.122* (0.09)	0.126* (0.08)	0.126* (0.08)
UNGA Voting <sub>t-1</sub>	1.709** (0.04)	1.051* (0.09)	1.123* (0.07)	1.060* (0.08)	1.054* (0.09)
UNSC	0.253 (0.11)	0.270*** (0.01)	0.267*** (0.01)	0.257** (0.01)	0.257** (0.01)
Socialist Government			-0.381*** (0.00)	0.216 (0.23)	-0.484*** (0.00)
Socialist BMZ				-0.702*** (0.00)	
Socialist AA					-0.672*** (0.00)
Time Trend	-0.043*** (0.00)	-0.009 (0.80)	-0.004 (0.92)	0.008 (0.83)	0.006 (0.85)
Country Dummies	NO	YES	YES	YES	YES
Observations	3947	3947	3947	3947	3947
Countries	138	138	138	138	138
Pseudo R <sup>2</sup>	0.134	0.222	0.223	0.225	0.224

Notes: p-values in parentheses (standard errors clustered at the country level); \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

Table 2: German Aid and UNSC membership, 1973-2010, Tobit

	(1)	(2)	(3)	(4)	(5)
Log Multilateral Aid	0.089 (0.74)	0.088 (0.74)	0.087 (0.74)	0.086 (0.75)	0.160 (0.61)
Log GDPpc <sub>t-1</sub>	-0.948 (0.12)	-0.945 (0.12)	-0.934 (0.13)	-0.928 (0.13)	-1.134 (0.11)
Log Exports <sub>t-1</sub>	0.356 (0.11)	0.356 (0.11)	0.356 (0.11)	0.356 (0.11)	0.364 (0.11)
Log Population <sub>t-1</sub>	-0.811 (0.53)	-0.808 (0.53)	-0.794 (0.54)	-0.788 (0.54)	-0.574 (0.68)
Polity <sub>t-1</sub>	0.121* (0.09)	0.121* (0.09)	0.122* (0.09)	0.122* (0.09)	0.128* (0.08)
UNGA Voting <sub>t-1</sub>	1.106* (0.07)	1.108* (0.07)	1.117* (0.07)	1.121* (0.07)	1.262* (0.05)
Socialist Government	-0.380*** (0.00)	-0.380*** (0.00)	-0.380*** (0.00)	-0.381*** (0.00)	-0.357*** (0.00)
Two Years before UNSC	0.086 (0.39)				
Year before Election on UNSC	0.279*** (0.01)	0.272*** (0.01)			
Year of Election on UNSC	0.199 (0.10)	0.191* (0.10)	0.163 (0.13)		
First Year on UNSC	0.280** (0.02)	0.272** (0.02)	0.245** (0.02)	0.234** (0.02)	
Second Year on UNSC	0.348** (0.02)	0.340** (0.01)	0.313** (0.02)	0.302** (0.02)	
Year after UNSC	0.115 (0.25)	0.109 (0.23)			
Two Years after UNSC	0.018 (0.86)				
UNSC in Unimportant Year					0.233 (0.17)
UNSC in Somewhat Important Year					0.163 (0.31)
UNSC in Important Year					0.373** (0.01)
Time Trend	-0.003 (0.94)	-0.003 (0.93)	-0.003 (0.92)	-0.004 (0.92)	-0.010 (0.80)
Country Dummies	YES	YES	YES	YES	YES
Observations	3947	3947	3947	3947	3694
Countries	138	138	138	138	138
Pseudo R <sup>2</sup>	0.223	0.223	0.223	0.223	0.226

Notes: p-values in parentheses (standard errors clustered at the country level); \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

Table 3: Political Color and Commercial Determinants of German Aid, 1973-2010, Tobit

	(1)	(2)	(3)
Log Multilateral Aid	0.079 (0.76)	0.118 (0.66)	0.144 (0.59)
Log GDPpc <sub>t-1</sub>	-0.903 (0.14)	-0.866 (0.13)	-0.952 (0.11)
Log Exports <sub>t-1</sub>	0.323 (0.16)	0.312 (0.19)	0.392* (0.08)
Log Population <sub>t-1</sub>	-0.722 (0.58)	-0.839 (0.51)	-1.000 (0.43)
Polity <sub>t-1</sub>	0.123* (0.09)	0.130* (0.07)	0.127* (0.08)
UNGA Voting <sub>t-1</sub>	1.060* (0.08)	0.857 (0.14)	1.024* (0.09)
UNSC	0.271*** (0.01)	0.264*** (0.01)	0.254** (0.01)
Socialist Government	-1.574 (0.15)	0.286 (0.10)	-0.476*** (0.00)
Exports <sub>t-1</sub> *Socialist Government	0.088 (0.23)		
Socialist BMZ		-4.046*** (0.00)	
Exports <sub>t-1</sub> *Socialist BMZ		0.240*** (0.00)	
Socialist AA			-4.644*** (0.00)
Exports <sub>t-1</sub> *Socialist AA			0.290*** (0.00)
Time Trend	-0.003 (0.92)	0.010 (0.77)	0.007 (0.83)
Country Dummies	YES	YES	YES
Observations	3947	3947	3947
Countries	138	138	138
Pseudo R <sup>2</sup>	0.224	0.227	0.226

Notes: p-values in parentheses (standard errors clustered at the country level); \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

Table 4: Political Color and Geo-strategic Determinants of German Aid I, 1973-2010, Tobit

	(1)	(2)	(3)
Log Multilateral Aid	0.086 (0.75)	0.145 (0.59)	0.161 (0.55)
Log GDPpc <sub>t-1</sub>	-0.930 (0.13)	-0.877 (0.15)	-0.879 (0.15)
Log Exports <sub>t-1</sub>	0.357 (0.11)	0.415* (0.07)	0.413* (0.07)
Log Population <sub>t-1</sub>	-0.788 (0.54)	-0.976 (0.45)	-0.969 (0.45)
Polity <sub>t-1</sub>	0.122* (0.09)	0.126* (0.08)	0.126* (0.08)
UNGA Voting <sub>t-1</sub>	1.124* (0.07)	1.060* (0.08)	1.053* (0.09)
UNSC	0.303** (0.04)	0.253 (0.12)	0.242** (0.02)
Socialist Government	-0.376*** (0.00)	0.216 (0.23)	-0.484*** (0.00)
UNSC*Socialist Government	-0.083 (0.66)		
Socialist BMZ		-0.702*** (0.00)	
UNSC*Socialist BMZ		0.006 (0.98)	
Socialist AA			-0.679*** (0.00)
UNSC*Socialist AA			0.138 (0.68)
Time Trend	-0.004 (0.92)	0.008 (0.83)	0.006 (0.85)
Country Dummies	YES	YES	YES
Observations	3947	3947	3947
Countries	138	138	138
Pseudo R <sup>2</sup>	0.223	0.225	0.224

Notes: p-values in parentheses (standard errors clustered at the country level); \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

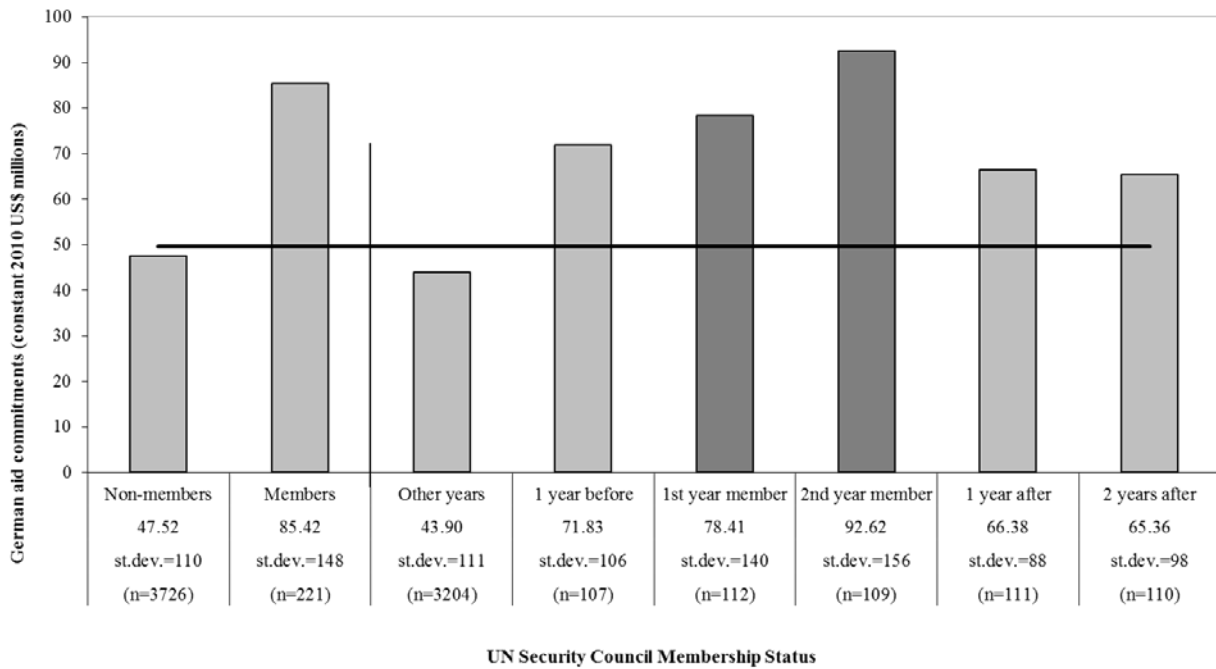
Table 5: Political Color and Geo-strategic Determinants of German Aid II, 1973-2010, Tobit

	(1)	(2)	(3)
Log Multilateral Aid	0.167 (0.54)	0.262 (0.33)	0.216 (0.41)
Log GDP <sub>pc,t-1</sub>	-0.899 (0.14)	-0.852 (0.15)	-0.888 (0.13)
Log Exports <sub>t-1</sub>	0.360 (0.11)	0.412* (0.07)	0.420* (0.06)
Log Population <sub>t-1</sub>	-0.861 (0.50)	-0.958 (0.45)	-0.752 (0.55)
Polity <sub>t-1</sub>	0.128* (0.07)	0.131* (0.07)	0.120* (0.09)
UNSC	0.267*** (0.01)	0.250** (0.01)	0.232** (0.02)
UNGA Voting <sub>t-1</sub>	-0.281 (0.76)	-0.919 (0.35)	0.815 (0.16)
Socialist Government	-1.684*** (0.00)	0.260 (0.14)	-0.472*** (0.00)
UNGA <sub>t-1</sub> *Socialist Government	2.019** (0.01)		
Socialist BMZ		-2.489*** (0.00)	
UNGA <sub>t-1</sub> *Socialist BMZ		2.741** (0.01)	
Socialist AA			-5.981*** (0.00)
UNGA <sub>t-1</sub> *Socialist AA			7.538*** (0.00)
Time Trend	-0.005 (0.89)	0.003 (0.94)	0.002 (0.94)
Country Dummies	YES	YES	YES
Observations	3947	3947	3947
Countries	138	138	138
Pseudo R <sup>2</sup>	0.224	0.225	0.225

Notes: p-values in parentheses (standard errors clustered at the country level); \* p<0.10, \*\* p<0.05, \*\*\* p<0.01



Figure 1: German aid commitments by UN Security Council Membership over time



The horizontal line shows the average German aid commitments across our entire sample.

## Appendix A: Political Color in Charge

Begin of term	End of term	Chancellor	Ministry for Economic Cooperation and Development	Minister for Foreign Affairs
21-Oct-69	1-Oct-82	SPD	SPD	FDP
4-Oct-82	16-Sep-82	CDU	CSU	FDP
17-Sep-82	1-Oct-82	CDU	CSU	SPD
2-Oct-82	26-Oct-98	CDU	CSU	FDP
27-Oct-98	21-Nov-05	SPD	SPD	Grüne
22-Nov-05	28-Oct-09	CDU	SPD	SPD
28-Oct-09		CDU	FDP	FDP

Notes: CDU and CSU = conservative (Christlich Demokratische Union Deutschlands and Christlich-Soziale Union in Bayern, the Bavarian sister party of the CDU); FDP = liberal (Freie Demokratische Partei); Grüne = green (Bündnis 90/ Die Grünen); SPD = socialist (Sozialdemokratische Partei Deutschlands).

## Appendix B: Sources

Variable	Description	Source
ODA commitments (log)	Bilateral German ODA commitments to country $i$ in year $t$ in constant 2010 US\$, logged	OECD Query Wizard for International Development Statistics
Multilateral ODA commitments (log)	German ODA commitments to multilateral organizations to country $i$ in year $t$ in constant 2010 US\$, logged	OECD Query Wizard for International Development Statistics
GDP per capita (log)	GDP per capita in constant 2000 US\$, logged	World Bank, World Development Indicators (2012)
Exports (log)	German exports to country $i$ in year $t$ in constant, deflated with 2005 US CPI, logged	UN Comtrade Database
Population (log)	Total population, logged	World Bank, World Development Indicators (2012)
Imputed Polity	With Freedom House Civil Liberties index imputed Polity IV. Index ranges from 0 – 10 where 0 reflects least democratic and 10 most democratic.	Teorell et al. 2011
UNGA voting	Share of voting in line with Germany in the UN General Assembly	Erik Voeten & Anton Strezhnev (2008)
UNSC	Dummy for being temporary member on the UN Security Council	Dreher et al. (2009b); <a href="http://www.un.org">www.un.org</a>
Socialist Government	Dummy coded 1 if Chancellor is from socialist party (SPD)	<a href="http://www.bundestag.de">www.bundestag.de</a>
Socialist BMZ	Dummy coded 1 if Minister is from socialist party (SPD)	<a href="http://www.bundestag.de">www.bundestag.de</a>
Socialist AA	Dummy coded 1 if Minister is from socialist party (SPD)	<a href="http://www.bundestag.de">www.bundestag.de</a>

## Appendix C: Summary Statistics

Variable	Observations	Mean	Standard Deviation	Minimum	Maximum
Socialist Government	3947	0.42	0.48	0	1
Socialist BMZ	3947	0.54	0.48	0	1
Socialist AA	3947	0.13	0.32	0	1
ODA Commitments (in millions, constant 2010 USD)	3947	50	113	0	2240
Multilateral ODA Commitments (in millions, constant 2010)	3947	3580	1020	1550	6730
GDP per capita (constant 2000 USD)	3940	2505	4220	58	61375
Exports (in thousands, constant 2005 USD)	3947	6046	14600	0	199000
Population (in millions)	3947	26	89	0.04	1170
Polity IV	3728	5.06	3.11	0	10
UNGA Voting	3947	0.66	0.08	0.33	0.97
UNSC	3947	0.06	0.23	0	1