

# HEIDELBERG UNIVERSITY

CHAIR OF INTERNATIONAL AND DEVELOPMENT POLITICS

PROF. DR. AXEL DREHER



Prof. Dr. Axel Dreher, AWI, Heidelberg University, Bergheimer Straße 58, D-69115 Heidelberg

---

Heidelberg, October 21, 2011

## Wintersemester 2011/12 Bachelorseminar “Development Aid”

Prof. Dr. Axel Dreher

Tel: 54-2921

Fax: 54 -3649

Office hour: please arrange per e-mail (office: 01.019)

Email: [axel.dreher@awi.uni-heidelberg.de](mailto:axel.dreher@awi.uni-heidelberg.de)

Web: [www.uni-heidelberg.de/fakultaeten/wiso/awi/professuren/intwipol/index\\_en.html](http://www.uni-heidelberg.de/fakultaeten/wiso/awi/professuren/intwipol/index_en.html)

First Meeting: Wednesday, October 12, 2011, 14.15-16.00h, 00.28. This is where topics will be allocated.

Seminar: Friday, January 20, 09.00-18.00h, Bibliotheks-Seminarraum  
Saturday, January 21, 09.00-18.00h, Bibliotheks-Seminarraum

Deadline for enrollment: Wednesday, October 26, 2011

Deadline for papers: Saturday, January 14, 2012, 23:59

Please send an electronic version of your seminar paper (preferably pdf, otherwise Word) to Hannes Öhler ([hannes.oehler@awi.uni-heidelberg.de](mailto:hannes.oehler@awi.uni-heidelberg.de)).

If you fail to meet this deadline, you fail the course!

After the deadline you will receive one of the papers written by another student as a paper for discussion. Please prepare a short critical review of this paper for the seminar meeting.

Grading will be based on: Your seminar paper (60 percent)  
Your presentation and Q&A session (15+10 minutes, 30 percent)  
Your discussion of another paper (5 minutes, 10 percent)  
Your participation during discussions (at the margin)  
(You will only be graded when present during all presentations!)

Language: Papers have to be written in German or English.  
Seminar meetings and all presentations will take place in English.

Note: This Syllabus is preliminary

# Topics for “Development Aid”

## I. Theories of Development Aid

### 1. Theories of Development Aid

Abegaz, Berhanu, 2005, Multilateral development aid for Africa, *Economic Systems* 29: 433-454.

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

## II. Aid Allocation

### 2. What determines the allocation of bilateral aid?

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

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

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

Dreher, Axel and Andreas Fuchs, 2011, Does Terror Increase Aid? *Public Choice*, forthcoming.

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

Thiele, Rainer; Peter Nunnenkamp and Axel Dreher, 2007, Do Donors Target Aid in Line with the Millennium Development Goals? A Sector Perspective of Aid Allocation, *Review of World Economics* 143, 4: 596-630.

### 3. Are ‘new’ donors different?

Dreher, Axel and Andreas Fuchs, 2011, Rogue Aid? The Determinants of China's Aid Allocation, Courant Research Centre: Poverty, Equity and Growth Discussion Paper 93, September 2011.

Dreher, Axel; Peter Nunnenkamp and Rainer Thiele, 2010, Are ‘New’ Donors Different? Comparing the Allocation of Bilateral Aid between Non-DAC and DAC Donor Countries? *World Development*, forthcoming.

### 4. What determines the allocation of multilateral aid?

Barnebeck Andersen, Thomas; Henrik Hansen and Thomas Markussen, 2006, US politics and World Bank IDA-lending, *Journal of Development Studies* 42, 5: 772-794.

Dreher, Axel; Jan-Egbert Sturm and James Vreeland, 2009, Global Horse Trading: IMF loans for votes in the United Nations Security Council, *European Economic Review* 53: 742-757.

Dreher, Axel; Jan-Egbert Sturm and James Vreeland, 2009, Development Aid and International Politics: Does membership on the UN Security Council influence World Bank decisions? *Journal of Development Economics* 88: 1-18.

- Frey, Bruno S. and Friedrich Schneider, 1986, Competing Models of International Lending Activity, *Journal of Development Economics* 20, 3: 225-245.
- Kaja, Ashwin and Eric Werker, 2010, Corporate Governance at the World Bank and the Dilemma of Global Governance, *World Bank Economic Review* 24, 2: 171-198.
- Kilby, Christopher, 2006, Donor Influence in MDBs: The Case of the Asian Development Bank, *Review of International Organizations* 1, 2: 173-195.

#### 5. What determines the allocation of NGO aid?

- Barr, A. and Fafchamps, M., 2005, A Client-Community Assessment of the NGO Sector in Uganda. *Journal of Development Studies* 42, 4: 611-639.
- Dreher, Axel; Florian Mölders and Peter Nunnenkamp, 2010, Are NGOs the Better Donors? A Case Study of Aid Allocation for Sweden, *World Economy* 33, 2: 147-176.
- Dreher, Axel; Peter Nunnenkamp, Hannes Öhler and Johannes Weisser, 2009, Financial Dependence and Aid Allocation by Swiss NGOs: A Panel Tobit Analysis, *Economic Development and Cultural Change*, forthcoming.
- Fruttero, A., and Varun Gauri, 2005, The Strategic Choices of NGOs: Location Decisions in Rural Bangladesh, *Journal of Development Studies* 41, 5, 759-787.
- Koch, Dirk-Jan; Axel Dreher, Rainer Thiele and Peter Nunnenkamp, 2009, Keeping a Low Profile: What Determines the Allocation of Aid by Non-Governmental Organizations? *World Development* 37, 5: 902-918.
- Nancy, G. and B. Yontcheva, 2006, Does NGO Aid Go to the Poor? Empirical Evidence from Europe, IMF Working Paper 06/39. Washington, D.C.
- Werker, Eric D. and Faisal Z. Ahmand, 2008, What Do Nongovernmental Organizations Do? *Journal of Economic Perspectives* 22, 2.

### III. Conditionality

#### 6. A critical assessment of aid conditionality

- Coate, Stephen and Stephen Morris, 1995, Altruism, the Samaritan's Dilemma, and Government transfer policy, *American Economic Review* 85, 1: 46-57.
- Coate, Stephen and Stephen Morris, 1996, Policy Conditionality, PIER Working Paper 97-013.
- Collier, Paul; Patrick Guillaumont, Sylviane Guillaumont and Jan W. Gunning, 1997, Redesigning Conditionality? *World Development* 25, 9: 1399-1407.
- Dreher, Axel, 2009, IMF Conditionality: Theory and Evidence, *Public Choice* 141, 1-2: 233-267.
- Dreher, Axel and Nathan M. Jensen, 2007, Independent Actor or Agent? An Empirical Analysis of the Impact of US Interests on IMF Conditions, *Journal of Law & Economics* 50, 1: 105-124.
- Dreher, Axel and Roland Vaubel, 2004, The Causes and Consequences of IMF Conditionality, *Emerging Markets Finance and Trade* 40, 3: 26-54.
- Öhler Hannes; Peter Nunnenkamp and Axel Dreher, 2011. Does Conditionality Work? A Test for an Innovative US Aid Scheme, *European Economic Review*, forthcoming.

### IV. Debt relief as a form of development aid?

7. How did heavily indebted poor countries become heavily indebted?
8. Does debt relief work?

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

## **V. Easterly vs. Sachs: Alternative Routes for Development?**

9. Easterly vs. Sachs – A critical assessment of Sachs’s proposals to save the world from poverty
10. Easterly vs. Sachs – A critical assessment of Easterly’s critique of Sachs’s proposals

- Bajpai, Nirupam; Jeffrey D. Sachs and Nicole H. Volavka, 2004, Reaching the Millennium Development Goals in South Asia, CGSD Working Paper No. 17.
- Easterly, William, 2009, Can the West save Africa? *Journal of Economic Literature* 47, 2: 373-447.
- Easterly, William, 2006, Reliving the 50s: the Big Push, Poverty Traps, and Takeoffs in Economic Development, *Journal of Economic Growth* 11, 2: 289-318.
- Easterly, William, 2006, The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good, New York: Penguin Books, Chapters 1-7.
- Sachs, Jeffrey D., 2006, The End of Poverty: Economic Possibilities for Our Time, New York: Penguin Books, Chapters 12-14.
- Sachs, Jeffrey D.; John W. McArthur, Guido Schmidt-Traub, Margaret Kruk, Chandrika Bahadur, Michael Faye and Gordon McCord, 2004, Ending Africa's Poverty Trap, *Brookings Papers on Economic Activity*, Issue 1, 2004: 117-240.

## **VI. Aid effectiveness**

11. Does the effectiveness of bilateral aid depend on “good” policies?

- Burnside, Craig and David Dollar, 2000, Aid, Policies and Growth, *American Economic Review* 90, 4: 847-868.
- Dalgaard, Carl-Johann; Henrik Hansen and Finn Tarp, 2004, On the Empirics of Foreign Aid and Growth, *Economic Journal* 114: F191-216.
- Doucouliagos, Chris and Martin Paldam, 2009, The Aid Effectiveness Literature – The Sad Result of 40 Years of Research, *Journal of Economic Surveys* 23, 3: 433-461.
- Dollar, David and Craig Burnside, 2000, Aid, Policies, and Growth, *American Economic Review* 90, 4: 847-868.
- Easterly, William; Ross Levine and David Roodman, 2004, Aid, Policies and Growth: Comment, *American Economic Review* 94, 3: 774-80.
- Hansen, Finn and Henrik Tarp, 2001, Aid and Growth Regressions, *Journal of Development Economics* 64, 2: 547-570.
- Nowak-Lehmann D., Felicitas ; Inmaculada Martínez-Zarzoso, Dierk Herzer, Stephan Klasen and Axel Dreher, 2011, Does foreign aid really raise per-capita income? A time series perspective, *Canadian Journal of Economics*, forthcoming.
- Rajan, Raghuram G. and Arvind Subramanian, 2008, Aid and Growth: What Does the Cross-Country Evidence Really Show? *Review of Economics and Statistics* 90, 4: 643-665.
- Roodman, David, 2007, The Anarchy of Numbers: Aid, Development, and Cross-Country Empirics, *World Bank Economic Review* 21, 2: 255-277.
- Roodman, David, 2008, Through the Looking Glass, and What OLS Found There: On Growth, Foreign Aid, and Reverse Causality, CGD Working Paper 137.

## 12. Choosing the right outcome. Is bilateral aid effective after all?

- Azam, Jean-Paul and Véronique Thelen, 2010, Foreign Aid vs. Military Intervention in the War on Terror, *Journal of Conflict Resolution* 54: 237-61.
- Clemens, Michael; Steven Radelet and Rikhil Bhavnani, 2004, Counting chickens when they hatch: The short term effect of aid on growth, Center for Global Development Working Paper Number 44.
- Dreher, Axel; Peter Nunnenkamp and Rainer Thiele, 2008, Does US Aid Buy UN General Assembly Votes? A Disaggregated Analysis, *Public Choice* 136, 1: 139-164.
- Dreher, Axel; Peter Nunnenkamp and Rainer Thiele, 2008, Does Aid for Education Educate Children? Evidence from Panel Data, *World Bank Economic Review* 22, 2: 291-314.
- Williamson, Claudia R., 2008, Foreign aid and human development: the impact of foreign aid to the health sector, *Southern Economic Journal* 75, 1: 188-207.

## 13. Is multilateral aid effective?

- Dreher, Axel and Bernhard Boockmann, 2003, The Contribution of the IMF and the World Bank to Economic Freedom, *European Journal of Political Economy* 19, 3: 633-649.
- Dreher, Axel, 2006, IMF and Economic Growth: The Effects of Programs, Loans, and Compliance with Conditionality, *World Development* 34, 5: 769-788.
- Dreher, Axel and Martin Gassebner, 2011, Do IMF and World Bank programs induce government crises? *International Organization*, forthcoming.
- Dreher, Axel and Stefanie Walter, 2010, Does the IMF Help or Hurt? The Effect of IMF programs on the likelihood and outcome of currency crises, *World Development* 38, 1: 1-18.
- Przeworski, Adam and James Vreeland, 2000, The Effect of IMF Programs on Economic Growth, *Journal of Development Economics* 62: 385-421.

Easterly, William, 2005, What did structural adjustment adjust? The association of policies and growth with repeated IMF and World Bank adjustment loans, *Journal of Development Economics* 76, 1-22.

## **VII. Reasons for the ineffectiveness of aid**

### 14. Why is aid so ineffective? Commercial interests of donors

Nowak-Lehmann D., Felicitas; Inmaculada Martínez-Zarzoso, Stephan Klasen and Dierk Herzer, 2008, Aid and Trade – A Donor’s Perspective, Ibero America Institute for Econ. Research (IAI) Discussion Papers 171.

Martínez Zarzoso, Inmaculada; Felictas Nowak-Lehmann D., Stephan Klasen and Mario Larch, 2008, Does German Development Aid Promote German Exports? Ibero America Institute for Econ. Research (IAI) Discussion Papers 170.

### 15. Why is aid so ineffective? Political interests of donors

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

Barnebeck Andersen, Thomas; Henrik Hansen and Thomas Markussen, 2006, US politics and World Bank IDA-lending, *Journal of Development Studies* 42, 5: 772-794.

Dreher, Axel; Jan-Egbert Sturm and James Vreeland, 2009, Global Horse Trading: IMF loans for votes in the United Nations Security Council, *European Economic Review* 53: 742-757.

Dreher, Axel; Jan-Egbert Sturm and James Vreeland, 2009, Development Aid and International Politics: Does membership on the UN Security Council influence World Bank decisions? *Journal of Development Economics* 88: 1-18.

Fleck, R.K., and Christopher Kilby, 2006, World Bank Independence: A Model and Statistical Analysis of U.S. Influence, *Review of Development Economics* 10, 2: 210-223.

Frey, Bruno S. and Friedrich Schneider, 1986, Competing Models of International Lending Activity, *Journal of Development Economics* 20, 3: 225-245.

Kaja, Ashwin and Eric Werker, 2010, Corporate Governance at the World Bank and the Dilemma of Global Governance, *World Bank Economic Review* 24, 2: 171-198.

Kilby, Christopher, 2006, Donor Influence in MDBs: The Case of the Asian Development Bank, *Review of International Organizations* 1, 2: 173-195.

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

Neumayer, Eric, 2005, Is the Allocation of Food Aid Free from Donor Interest Bias? *Journal of Development Studies* 41, 3: 394-411.

Oatley, Thomas and Jason Yackee, 2004, American Interests and IMF Lending, *International Politics* 41, 3: 415-429.

Thacker, Strom, 1999, The High Politics of IMF Lending, *World Politics* 52: 38-75.

### 16. Why is aid so ineffective? Aid and side effects

Adam, Christopher S. and David L. Bevan, 2006, Aid and the supply side: Public investment, export performance, and Dutch Disease in low-income countries, *World Bank Economic Review* 20: 261-290.

Collier, Paul and Anke Hoeffler, 2007, Unintended consequences: Does aid promote arms races? *Oxford Bulletin of Economics and Statistics* 69: 1-27.

Friedman, Milton, 1958, Foreign Economic Aid: Means and Objectives, *Yale Review* 47, 4: 500-516.

- Knack, Stephen, 2001, Aid Dependence and the Quality of Government: Cross-Country Empirical Tests, *Southern Economic Journal* 68, 2: 310-329.
- Knack, Stephen, 2004, Does foreign aid promote democracy? *International Studies Quarterly* 48: 251-266.
- McKinley, Terry, 2005, Why is “the dutch disease” always a disease? The macroeconomic consequences of scaling up ODA, UNDP/IPC Working Paper No 10.
- Remmer, Karen, 2004, Does Foreign Aid Promote the Expansion of Government? *American Journal of Political Science* 48: 77-92.
- Svensson, Jakob, 2000, Foreign Aid and Rent-Seeking, *Journal of International Economics* 51, 2: 437-461.
- Rajan, Raghuram G. and Arvind Subramanian, 2011, Aid, Dutch disease, and manufacturing growth, *Journal of Development Economics* 94, 1: 106-118.

#### 17. Why is aid so ineffective? Aid and Fungibility

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

#### 18. Can poor countries absorb more aid?

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

### **VIII. Reform proposals for a more effective delivery of aid**

#### 19. Can selectivity make aid more effective?

- Easterly, William, 2006, The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good, New York: Penguin Books, Chapter 11.
- Hagen, Rune J., 2004, Foreign Aid and Domestic Politics Implications for Aid Selectivity, Norwegian School of Economics and Business Administration, mimeo.
- McGillivray, M., 2003, Aid Effectiveness and Selectivity: Integrating Multiple Objectives into Aid Allocations, *DAC Journal* 4, 3: 27-40.
- Wane, Waly, 2004, The Quality of Foreign Aid – Country Selectivity or Donors Incentives? World Bank Policy Research Working Paper 3325.

#### 20. Aid or trade – alternatives for poverty reduction?

- Stiglitz, Joseph E. and Andrew Charlton, 2006, Aid for Trade – A report for the Commonwealth Secretariat.
- IMF and World Bank, 2005, Doha Development Agenda and Aid for Trade, Washington, DC.
- OECD, 2006, Aid for Trade – Making it Effective, Paris.
- UNCTAD, 2004, The Least Developed Countries Report 2004 – Linking International Trade with Poverty Reduction, New York and Geneva.

## Guideline for Seminar Papers

### Editing

You may use any word processing software that you feel comfortable with. Preferentially make use of LaTeX in case you decide to use a lot of formulas in your paper. Papers have to be submitted by Email in PDF format.

### Style

- Font Size: 12 pt
- Line Spread: 1.5pt
- Alignment: justified
- border: 2.5cm

### Length

The seminar papers should not exceed 12 pages excluding references, tables and title page.

### Organization

- Cover (Include name, student number, title)
- Table of Contents: Number headings in the table of contents and the text identically.
- Table of Figures: List all figures (if any) with number and heading.
- List of Tables: List all tables with number and heading.
- (Table of Symbols: List all symbols and variables (if any) with their definitions.)
- Content: The introduction leads to and defines the subject, the body deals with the subject and the summary sums up the results in a critical manner. Number content, table of contents, table of figures, the list of tables, and the table of symbols. Reduce the number of footnotes to a minimum. Abbreviations have to be explained. Number only important equations that you refer to. Within the text argue in economic terms and not with variables. Orthography, grammar, and style are taken into account. Refrain from excessive bulleting and numbering.
- References
- (Appendix)

### Quotations, References and Plagiarism

**Quotations:** use Harvard style, i.e. quote within the text and not in footnotes (e.g., as has been shown by Sturm (2006)...).

**References:** all studies that you have quoted in the text have to appear in the reference list. Anything that you have only read, but that is not quoted in the text, must NOT appear in the list of references. There are no restrictions on the reference style. However, consistency is required.

**Plagiarism:** any text parts (of more than two words) or ideas that are not strictly your own have to be marked. That means that the text has to be phrased in a way that makes unambiguously clear which parts are your own thoughts and which part repeats ideas from other persons. Failure to do so will result in the rejection of your paper, i.e., you fail the course, and possible further disciplinary measures by the Ruprecht-Karl University of Heidelberg. Don't even think about copy/pasting your paper from the internet. Each paper will be tested in that respect.



## **Finding Literature**

The references that you get from us are only a starting point (and we will not provide these articles). You are supposed to do your own literature research. The first step in the search for relevant literature is to check the reference lists of the literature that we gave you. Good sources for economic literature, among others, are:

- <http://ideas.repec.org>
- <http://www.jstor.org>
- Business Source Premier and EconLit (via the university library website)
- <http://www.nber.org>
- <http://www.cepr.org>

A rule of thumb is that the list of references should have about as many entries as there are pages in the seminar paper, e.g., 20 pages, 15-25 references. Be prepared to read about the double amount of papers that finally make it into the list of references. Wikipedia is not a scientific source.

## **Deadlines**

Make sure that you hand in your paper *exactly* on time. If you miss the deadline, the rules are strict and you will not pass the course.

## **Interaction with your supervisor**

It is recommended that you meet your supervisor (at least once, but better twice) in order to discuss the progress of your paper. The first meeting should happen within about two weeks after you started working on the paper.