



Eric Neumayer

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# **Is respect for human rights rewarded?**

## **An analysis of total bilateral and multilateral aid flows**

### **REVISED VERSION**

**Dr Eric Neumayer**

Lecturer in Environment and Development

Department of Geography and Environment, London School of Economics  
and Political Science, Houghton Street, London WC2A 2AE, UK

Phone: 0207-955-7598. Fax: 0207-955-7412. Email: [e.neumayer@lse.ac.uk](mailto:e.neumayer@lse.ac.uk)

## **I. INTRODUCTION**

Foreign aid provides an important income source for quite a few developing countries.<sup>1</sup> It also provides a tool for donor countries' foreign policy making. Consequently, the determinants of aid allocation have been addressed by academic studies for some time. One of the factors examined is whether respect for human rights has been rewarded by donor countries.

This article differs and improves upon the existing literature on four major accounts: First, it uses a new set of data on bilateral and multilateral aid flows developed by World Bank staff. These data represent more valid estimations of the true aid content of assistance to developing countries than the data used in relevant studies before.<sup>2</sup> Second, instead of looking at aid from a single country or a small number of countries only, the dependent variable comprises the allocation of aid from all sources, both bilateral and multilateral. There has been too little focus on countries other than the US and on a comparison between bilateral and multilateral aid. Third, panel data are employed covering the period from 1984 to 1995. In addition to more efficient estimation, using such data also has the advantage that special techniques such as fixed-effects and random-effects estimation can be employed, which can control for the possible bias due to unobserved country heterogeneity on the estimated coefficients. Fourth, I avoid the bias of some of the literature that has implicitly equated human rights with political/civil rights, sometimes subsumed under the heading of "democratic governance". To do so, I

introduce a further variable, namely respect for personal integrity rights, which has been used before by a number of studies addressing US aid allocation.<sup>3</sup>

Why would one expect respect for human rights to play some role in the allocation of aid? The answer is that aid donors claim so.<sup>4</sup> But are these claims followed in the practice of aid allocation? This is the question this paper will try to answer.

## **II. REVIEW OF LITERATURE**

Most of the existing literature has focused on the role of human rights in US foreign aid allocation. It paints a rather mixed picture, with most studies agreeing that human rights impact upon some aspect of US aid allocation, however. Cingranelli and Pasquarello, for example, examine whether human rights play a statistically significant role in whether a Latin American country received any aid (so-called gate-keeping stage) and, if so, how much aid it received (so-called level stage) in 1982.<sup>5</sup> They find a positive relationship between respect for human rights and certain types of US foreign aid at the level stage, a finding disputed by Carleton and Stohl, however, who argue that their results are not robust to the exclusion of outliers, in particular El Salvador, and to the use of alternative measures of human rights.<sup>6</sup> Addressing some of the problems in the Cingranelli and Pasquarello paper, Poe finds again that human rights considerations are important determinants of the level of US aid allocation in 1980 and 1984.<sup>7</sup> So do Poe and Sirirangsi for the

period 1983 to 1988, but at the gatekeeping rather than at the level stage, however.<sup>8</sup> Abrams and Lewis for 1991 and Poe et al. for the period 1983-91 (and Latin American aid recipients only), without distinguishing between the two stages, confirm the result that human rights play a statistically significant role in US aid allocation.<sup>9</sup> Apodaca and Stohl in a panel covering the period 1976 to 1995 also find a statistically significant impact of human rights on both stages in the case of economic aid.<sup>10</sup> However, human rights considerations play no role in the case of military aid.

As concerns aid allocation by individual country donors other than the US, the existing evidence also provides a rather mixed picture concerning the impact of human rights. Svensson examines various donor countries' aid allocation covering the period from 1970 to 1994.<sup>11</sup> He finds that respect for political/civil rights has a positive impact upon whether a country receives any aid at all from Canada, Japan and the US, but not from Denmark, France, Germany, Italy, Norway, Sweden and the United Kingdom (UK). He also finds that political and civil rights lead to the receipt of higher total aid flows from Canada, Denmark, Norway and Sweden, the so-called like-minded countries that traditionally put emphasis on democracy and human rights in their development assistance, and the UK. He finds no effect for the large donors Germany, Japan and the US, for which he suggests that political and strategic goals render rewarding democratic regimes unimportant. Similarly, no effect is found for France and Italy, for which colonial ties play by far the largest role in determining aid allocation. Alesina and Dollar in a study of the

period 1970 to 1994 also come to the conclusion that the 14 donors they look at differ from each other.<sup>12</sup> However, they find that political rights have a positive impact on the amount of aid allocated by Australia, Canada, Germany, Japan, the Netherlands, the Scandinavian countries lumped together, the UK and the US, but not by Austria, Belgium, France or Italy. Hence, whilst they confirm Svensson's finding with respect to the like-minded countries, the UK, France and Italy, they come to more positive conclusions about Germany, Japan and the US. They also find that if all bilateral aid is summed up, political rights still exert a positive impact upon the allocation of aid.

Neumayer analyses bilateral aid allocation by all 21 countries that form the Organisation of Economic Co-operation and Development's (OECD) Development Assistance Committee over the period 1985 to 1997.<sup>13</sup> In addition to respect for civil and political rights ("democracy"), he also looks at personal integrity rights. He finds that respect for civil and political rights plays a statistically significant role for almost all aid donors on whether a country is deemed eligible for the receipt of aid. However, only the like-minded countries with the exception of Sweden, Germany, Italy, Japan, Luxembourg, Switzerland, the UK and the US also provide more aid to more democratic regimes. Personal integrity rights, on the other hand, are insignificant at best and exert a negative influence on aid eligibility at worst. Only Australia, Denmark, Japan, New Zealand and the UK are estimated to give more aid to countries with a greater respect for these rights. Interestingly,

these rights play a role in the aid allocation by few donors only and there is no systematic difference apparent between the like-minded countries and the rest of donor countries as concerns the impact of respect for personal integrity rights on aid allocation. This stands in striking contrast to the self-proclaimed commitment of the like-minded countries with respect to the importance of human rights in their development assistance.

This paper focuses on total aggregate bilateral and multilateral aid flows and on the impact that various forms of human rights might or might not have on these flows. This is a relatively neglected subject of study. Indeed, there seem to exist only two relevant papers. Trumbull and Wall include a variable for political/civil rights in panel estimations for total aid flows (bilateral and multilateral combined) over the 1984-89 period finding a positive relationship between rights and the receipt of aid.<sup>14</sup> Neumayer analyses aid allocation from 1983 to 1997 by regional multilateral development banks and three United Nations agencies: the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF) and the United Nations Regular Programme of Technical Assistance (UNTA).<sup>15</sup> He finds that greater respect for civil and political rights are associated with higher receipts of aid only in the case of the Inter-American Development Bank and, in some model estimations, in case of UNICEF and UNTA.

### **III. MEASURING RESPECT FOR HUMAN RIGHTS**

The studies addressing aid allocation for a range of donors and not just the US all use exclusively Freedom House data for measuring the extent of a government's respect for political rights and (sometimes) civil liberties within a country. Political rights refer to, for example, the existence and fairness of elections, the freedom to organise in different political parties or groupings, the existence of party competition, opposition and the possibility to take over power via elections. Civil liberties refer to, for example, the freedom of assembly, the right to open and free discussion, the independence of media, the freedom of religious expression, the protection from political terror, the prevalence of the rule of law, security of property rights and the freedom to undertake business, the freedom to choose marriage partners and the size of family.<sup>16</sup> Instead, in this paper I also use a variable measuring respect for personal integrity rights with data from the two Purdue Political Terror Scales (PTS) in accordance with most of the studies that specifically look at US aid allocation.<sup>17</sup> Even though there is some overlap with the concept of civil liberties from Freedom House, these scales have a much clearer focus on what constitutes arguably the very core of human rights and they are not simply redundant.<sup>18</sup> One of the two PTS is based upon a codification of country information from Amnesty International's annual human rights reports to a scale from 1 (best) to 5 (worst). Analogously, the other scale is based upon information from the US Department of State's Country Reports on Human Rights Practices. Codification is according to rules as follows:



1. Countries ... under a secure rule of law, people are not imprisoned for their views, and torture is rare or exceptional... Political murders are extraordinarily rare.

2. There is a limited amount of imprisonment for nonviolent political activity. However, few are affected, torture and beatings are exceptional... Political murder is rare.

3. There is extensive political imprisonment, or a recent history of such imprisonment. Execution or other political murders and brutality may be common. Unlimited detention, with or without trial, for political views is accepted...

4. The practices of Level 3 are expanded to larger numbers. Murders, disappearances, and torture are a common part of life... In spite of its generality, on this level violence affects primarily those who interest themselves in politics or ideas.

5. The violence of Level 4 has been extended to the whole population... The leaders of these societies place no limits on the means or thoroughness with which they pursue personal or ideological goals.

The major difference between personal integrity rights and the political/civil rights from Freedom House data lies in two things: personal integrity rights violations are without doubt non-excusable and are not subject to the relativist challenge.<sup>19</sup> There simply is no justification whatsoever for

political imprisonment, torture and murder. Governments that employ or tolerate such activities are guilty of political terrorism (hence the name of the scales). Political/civil rights violations do not carry quite the same status. While such arguments can be shown to be erroneous in the view of this author and many others<sup>20</sup>, the argument that these rights are contingent on a particular form of Western culture and that a certain amount of political/civil rights violations are somehow “necessary” for the stability of certain countries and the welfare of their people cannot be as readily dismissed as the argument that political imprisonment, torture and murder are “necessary” for the same purpose. In this sense, McCann and Gibney are correct in arguing that the PTS refer to ‘policies within the developing world which all theorists and investigators would agree constitute egregious miscarriages of political authority’ and represent ‘the most serious form of human rights abuses’.<sup>21</sup>

Note that the measures used in this study only capture what is sometimes called first-generation rights, but not economic and social rights, sometimes also called second-generation rights. There are mainly two reasons for this exclusion. First, governments can be better held responsible for violations of first-generation rights than for economic and social rights. Respect for the latter rights can be partly or wholly outside the reach of realistic governmental action. It is difficult to discern whether a low achievement on economic and social rights is a consequence of neglect or malevolent governmental activity or simply the consequence of a country’s poverty. Second, and related to this, low achievement of these rights might be reason for the receipt of more rather

than less aid. The reason is the overlap with a country's need for foreign aid. Countries with low gross domestic product (GDP) per capita (and low scores on such indicators as life expectancy, infant mortality and literacy) are more in need for foreign aid, but are also less likely to satisfy economic and social rights.

Similarly uncovered from the operational definition of human rights employed in this article are cultural rights as well as rights for particular groups – for example, women's rights, rights for gay people and rights of ethnic minorities. The reason for this exclusion is not that this author would disregard their importance. It is probably true that, again, governments can be better held responsible for violations of personal integrity and political/civil rights than for these other rights, given that disrespect for these rights is usually an undesirable, but nevertheless integral part of social conventions, norms and behaviour. However, this alone would not represent enough reason to exclude them. Rather, they cannot be included because no comprehensive quantitative index for their measurement is available.

#### **IV. RESEARCH DESIGN**

##### **A. The dependent variable**

Most existing studies of the determinants of aid allocation are based on net official development assistance (ODA) data from the Organisation of Economic Co-operation and Development (OECD), which measures the

disbursement of grants and highly concessional loans (that is, loans with a grant element of at least 25%) minus amortization. For a whole range of reasons this does not represent the true value of resource transfer from donor to recipient.<sup>22</sup> Two of those reasons are that net ODA counts highly concessional loans at their face value instead of at their grant equivalent value and neglects loans with low concessionality even though they have a certain, if low, grant element. Chang, Fernandez-Arias and Serven have therefore developed a new data set of what they call effective development assistance (EDA) based on the World Bank's Debtor Reporting System that attempts to correct most of the shortcomings of the ODA measure.<sup>23</sup> They also take out ODA in the form of technical assistance as donors often tie such assistance to the condition that goods and services are bought from the donor country.<sup>24</sup> Our dependent variable is the share of EDA a country receives as a percentage of the total amount of bilateral or multilateral EDA allocated.

## **B. The independent variables**

Three groups of independent variables are used in the estimations in accordance with the literature on aid allocation in the wake of McKinlay and Little's pioneering work.<sup>25</sup> The first group comprises what will be called here 'recipient need' variables as they try to measure the need of a country for receiving aid. The second group consists of 'donor interest' variables as they try to measure the interest donor countries have in allocating aid to a particular country. The third group consists of 'human rights' variables as they try to

measure the extent to which a recipient country respects personal integrity and political/civil rights and therefore merits the receipt of aid. Also, population is used as an explanatory variable. Given that the share of total aid is taken to be the dependent variable, population size *must* be one of the explanatory variables to account for the fact that, all other things equal, China is likely to receive more aid than, say, the Dominican Republic.

The only need variable actually used in the regressions reported below is gross domestic product (GDP) per capita in purchasing power parity, which was transformed into real 1995US\$ using the unit value of the world import price index.<sup>26</sup> In some regressions used in sensitivity analysis, either a modified version of the Human Development Index (HDI), developed by the United Nations Development Programme (UNDP), where the income component of the official HDI was taken out, or the so-called Physical Quality of Life Index (PQLI) was used in addition to GDP.<sup>27</sup>

Four ‘interest’ variables are used: The first is the number of years the recipient country has been a former colony of an OECD country in the 20<sup>th</sup> century.<sup>28</sup> It is a well established result that donor countries favour their former colonies in part at least because of an interest in maintaining their influence on those countries. The second variable is the minimum distance between the capital city of a recipient country to either New York, Rotterdam or Tokyo.<sup>29</sup> Some individual donor countries give more aid to geographically close countries for reasons of strategic-political interest and we want to test whether this preference exists at the aggregate level as well.<sup>30</sup> This variable is

supposed to proxy this interest for the major aid donors: The US and Canada, European Union countries as well as Japan. The third variable is a dummy variable, which is set to 1 if a country was considered Socialist.<sup>31</sup> The expectation is that these countries might receive less bilateral and multilateral aid given that their political-economic system stands in contrast to that of the major Western donors. Lastly, a dummy variable for Egypt was included as well to account for its special role as an important Western ally in the Middle East.

The two 'human rights' variables used have already been introduced and justified above. The first is the respect for personal integrity rights based upon the Purdue Political Terror Scales (PTS). For the purpose of this article the simple average of the two indices has been taken. If one index was unavailable for a particular year, the other one available was taken over for the aggregate index. The index was then reversed such that 1 means worst and 5 means best human rights performance. In addition, a variable was created measuring improvement in this index as the period's index minus the index of the period before.<sup>32</sup>

The second variable is the combined political rights and civil liberties index from Freedom House.<sup>33</sup> They are based on expert surveys assessing the extent to which a country effectively provides for political rights and civil liberties, both measured on a 1 (best) to 7 (worst) scale. A combined political/civil rights index was created by adding the two variables so that the index ranges from 2 to 14, which was then reversed and transformed to a 1

(worst) to 5 (best) scale. Similar to the personal integrity rights index, an additional variable was created measuring improvement in political/civil rights as the period's index minus the index of the period before.

Of course, instead of Freedom House data alternative measures of “democracy” could have been taken, for example, the Polity data,<sup>34</sup> which are also based on expert judgement on aspects of institutionalised democracy and autocracy, or Vanhanen's index,<sup>35</sup> which is not based on surveys, but is a combination of a competition variable, calculated by subtracting the percentage of votes won by the largest party from 100, and a participation variable, taken as the percentage of the total population participating in elections.<sup>36</sup> However, it was felt that the Freedom House data are closest to a rights focused measure of political and civil freedom and were therefore the preferred choice here.<sup>37</sup> Also, Freedom House data are available for more countries than the other two measures.

### **C. The panel**

Both EDA and PTS data are not available for all aid receiving countries, in particular not for the very small ones. The following countries had to be excluded from the sample since they had EDA data available, but no entries on the PTS: Belize, Botswana, Cape Verde, Dominica, Fiji, Gabon, Grenada, Malta, Mauritius, Mongolia, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Sao Tome and Principe, Solomon Islands, the Slovak Republic, Tonga, Vanuatu and Western Samoa. The following countries had to be

excluded due to missing EDA data: Bahrain, Cyprus, Israel, Mauritius, Namibia, Saudi Arabia, Singapore and the United Arab Emirates. Of all the excluded countries, Israel is by far the most important aid recipient. It is also a very special case, however, and its exclusion could be justified as an outlier as well. To the very least, had Israel been part of the sample, a dummy variable for Israel would have been necessary.

All independent variables consist of three year averages in order to smooth annual fluctuations starting from 1983, i.e. 1983-85, 1986-88, 1989-91, 1992-94. The dependent variable consists of three year averages as well, but starts from 1984 to allow a one year time lag between the independent variables and their effect on the dependent variable.<sup>38</sup> That is, the last period covers EDA per capita in the period 1993-95. A total of 103 countries were included in the sample. Note, however, that not all countries have entries in all time periods.

#### **D. The hypotheses**

The allocation of aid is probably rooted in a mixture of different motivations. Nobody would seriously suggest that only recipient need or only donor interest determine the pattern of aid allocation. Our first hypothesis to be tested is therefore

*H1: Both 'recipient need' and 'donor interest' variables are statistically significant explanatory variables of aid allocation.*



More disputed is what role human rights play. We will keep personal integrity rights and political/civil rights separate and test for whether either the level of respect for these rights or a positive development of those rights over time implies that a country receives more aid per capita. This leads us to four more hypotheses:

*H2: Countries with a higher index of political/civil rights receive more aid per capita.*

*H3: Countries with a positive development in their index of political/civil rights receive more aid per capita.*

*H4: Countries with a higher index of personal integrity rights receive more aid per capita.*

*H5: Countries with a positive development in their index of personal integrity rights receive more aid per capita.*

Besides these five hypotheses to be tested, we will also examine whether there are any systematic differences between the allocation of bilateral versus multilateral aid apparent.

## E. Methodology

Formally, we test the following panel data model:

$$y_{it} = \alpha + x'_{it}\beta + \gamma_t + (a_i + u_{it})$$

Time is indicated by  $t$ , countries are indicated by  $i$ ,  $y$  is the (logged) share of aid a country receives,  $\alpha$  is a constant,  $x'$  contains the explanatory variables,  $\beta$  is the corresponding vector of coefficients to be estimated.<sup>39</sup> The  $\gamma$  variables are T-1 period specific dummy variables.<sup>40</sup> Their inclusion lets each time period have its own intercept to allow for aggregate time effects that affect all countries. The  $a_i$  represent individual country effects. Their inclusion in the model to be tested ensures that unobserved country heterogeneity, that is heterogeneity of countries that is not fully captured by the explanatory variables, is accounted for. This is important as it is often difficult to quantify all country characteristics potentially influencing the allocation of aid, particularly at the aggregate level. As long as these factors are time-invariant, then they are included in the individual country effects  $a_i$  even if they cannot be specifically controlled for.

Fixed-effects and random-effects are the two most important advanced techniques to estimate such a model.<sup>41</sup> The fixed-effects estimator subtracts from the equation to be estimated the average of the equation. Because of this so-called within transformation the individual country effects  $a_i$  are wiped out and the coefficients are estimated based on the time variation within each

cross-sectional unit. The big advantage of the fixed-effects estimator is that any potential correlation of the explanatory variables with the fixed effects is avoided since the fixed effects and therefore their correlation with the explanatory variables are wiped out from the equation to be estimated. Note that without the within transformation correlation of the explanatory variables with the fixed effects would bias our estimations. One disadvantage of using the fixed-effects estimator is that the coefficients of time-invariant variables cannot be estimated. Also, variables with very little time-variation are estimated inefficiently. This is a disadvantage of this estimator for our purpose here since some of our variables to be tested are either time invariant or vary only very little over time. The random-effects estimator can estimate time-invariant variables and will estimate all coefficients more efficiently as it uses both the cross-sectional (between) and time-series (within) variation of the data. However, it depends on the assumption that the country effects are not correlated with the explanatory variables so that the individual country effects  $a_i$  can be regarded as part of a composite error term  $v_{it} = a_i + u_{it}$ . This random-effects assumption can be tested with a so-called Hausman test. This tests whether the coefficients estimated by a random-effects estimator systematically differ from the coefficients estimated by a fixed-effects estimator for those variables that can be estimated with the fixed-effects estimator. Only if this test fails to reject the hypothesis that the coefficients do not systematically differ from each other, can we assume that the individual country effects can be treated as random effects and we can therefore trust that

the estimated coefficients of the random effects estimator are free from unobserved heterogeneity bias.

All estimations are undertaken with standard errors that are robust towards arbitrary heteroscedasticity and serial correlation. In addition, standard errors allow for the possibility that observations are clustered, that is, they are assumed to be independent merely across, but not necessarily within countries over time. Non-robust standard errors are usually too low, providing false statistical significance and therefore credence to some variables and theories. Note that because almost all countries receive some aid in all time periods, no analysis for the ‘gate-keeping’ stage could be undertaken. All estimates therefore refer to the share of aid received, not to the probability of receiving a non-zero amount of aid.

## **V. RESULTS**

Regression I in table 1 shows the results of random-effects estimation of the model for bilateral aid. We find that more populous and poorer countries receive a greater share of aid. Also, the dummy variable for Egypt is significantly positive as expected. Colonial experience and the Egyptian dummy are the only donor interest variables, which test significantly with the expected sign. Neither geographically more distant nor Socialist countries receive a smaller share of aid.

< Insert table 1 here >

The next four variables provide estimates for our human rights variables. The coefficient of the index of political/civil rights is significantly positive, implying that countries with greater respect for these rights receive more aid. Improvements in these rights over time are not followed by higher receipts of aid, however. Indeed, the sign of the relevant variable is opposite to expectation, but highly insignificantly so. The coefficient of the index of personal integrity rights is also negative, but it marginally fails to be significant at the 10 per cent level. Improvements in the respect of personal integrity rights are followed by higher receipts of aid and significantly so. This suggests that if respect for personal integrity rights is rewarded at the aggregate bilateral level, then it is changes in the extent of respect for personal integrity rights that matters rather than the level of respect itself.

Regression II tests the same model as regression I also with random-effects estimation, but for multilateral aid instead. More populous and poorer countries receive more aid similar to the case of bilateral aid allocation. Note that multilateral aid is much more sensitive towards the poverty of recipient countries than bilateral aid is. A one per cent increase in income is followed by a 0.27 per cent decrease in the share of multilateral aid received, but only a 0.12 per cent decrease in bilateral aid. The colonial experience and Egypt dummy variables remain significant with their expected signs, indicating that multilateral lending as well is influenced by the interest of the major donor

countries in their former colonies and in supporting Egypt. The respective coefficients are smaller than in the case of bilateral aid, suggesting that multilateral aid is less sensitive towards these factors. The political/civil rights and the change in personal integrity rights variables lose their statistical significance. Instead, the change in respect for political/civil rights gains statistical significance with the expected sign. If respect for these rights is rewarded at the aggregate multilateral level, then it is changes in the extent of respect for civil/political rights that matters rather than the level of respect itself.

The Hausman test clearly fails to reject the random-effects assumption in the case of bilateral aid. This suggests that our estimates are free from systematic bias due to unobserved fixed country effects not controlled for in our model. In the case of multilateral aid, the Hausman test rejects the random-effects assumption at the 5 per cent level. Regression III therefore provides fixed-effects estimation results for multilateral aid. Note that colonial experience, geographical distance as well as the Egyptian dummy variable are dropped as they are time-invariant variables and they are wiped out in fixed-effects estimations as explained in the last section. The population and the income variables become insignificant, which is likely due to the loss in the efficiency of estimation in fixed-effects compared to random-effects estimation. Interestingly and more importantly, however, the results for our human rights variables are very similar to the random-effects estimations. In particular, the change in respect for political/civil rights is still significantly

positive, suggesting that our estimation result is not biased by the existence of unobserved fixed country effects.

## **VI. Sensitivity tests**

The purpose of this section is to check the robustness of the results reported in the last section. To start with, the inclusion of further control variables – for example, the inclusion of further recipient need variables such as the PQLI or the modified HDI (see definition above) – does not alter the main results. In particular, the coefficients of both PQLI and HDI are statistically insignificant, indicating that it is only income which matters for aggregate bilateral and multilateral aid allocation, not other aspects of recipient need.

As concerns the variable measuring respect for personal integrity rights, it is sometimes suggested that the US Department of State's Country Reports on Human Rights Practices are subject to some ideologically motivated bias.<sup>42</sup> Poe, Carey and Vazquez test this hypothesis and find some limited evidence that at times, particularly in the early years, the US Department of State favoured allies of the US in its reports and was biased against its enemies.<sup>43</sup> Replacing the variable used in the regressions reported above, which combined the PTS derived from the US Department of State's and amnesty international's reports, with the one based on the latter only has effects as follows: the change in respect for personal integrity rights variable is rendered insignificant in the case of bilateral aid allocation and nothing changes in the case of multilateral aid allocation.

One might be concerned about multicollinearity amongst our human rights variables. However, the partial correlations between the variables are all well below .5. In addition, variance inflation factors were computed. The factors for all individual variables as well as its mean are below or around two and thus well below levels anywhere near causing concern.<sup>44</sup> There is therefore absolutely no reason to be concerned about multicollinearity.

With respect to the exclusion of outliers, Belsley, Kuh and Welsch suggest excluding observations as outliers that have both high residuals and a high leverage.<sup>45</sup> Applying their criterion together with their suggested cut-off point excludes 21 observations in the case of bilateral aid and 25 observations in the case of multilateral aid allocation.<sup>46</sup> The major results remain the same, however.

One might also wonder whether there is a greater impact of human rights on aid allocation after the end of the Cold War. After all, during Cold War times human rights considerations often played a secondary role due to the ongoing conflict between Western countries and their communist opponents. If we restrict the sample to the period 1990 to 1995, then there is no difference in results in the case of bilateral aid allocation. With respect to multilateral aid allocation, the change in the respect for personal integrity rights now becomes statistically significant with the expected positive sign as well in addition to the analogous variable of change in the respect for civil/political rights.



## **VII. DISCUSSION AND CONCLUDING OBSERVATIONS**

The first hypothesis is confirmed by the empirical analysis of this paper. Both ‘recipient need’ and ‘donor interest’ variables play a statistically significant role in the allocation of aid, irrespective of whether we look at bilateral versus multilateral aid. However, only colonial experience and the Western interest in supporting Egypt play a role in terms of donor interest. Whilst geographical distance plays a role for some individual donors,<sup>47</sup> the results of this paper show that this does not translate into a statistically significant impact at the aggregate bilateral or multilateral level. Maybe surprisingly, there also does not seem to be a bias against Socialist countries at this level as there is, for example, for aid allocation by the US. In accordance with the existing literature, we find that multilateral aid is more sensitive to recipient need and less sensitive to donor interest than bilateral aid.

Is respect for human rights in aid recipient countries rewarded by donor countries? The results reported here provide a mixed picture, which is in accordance with the rather mixed evidence of existing studies on individual donors as discussed in the literature review. There is some indication that respect for human rights plays a role in the bilateral allocation of aid. Countries with higher respect for political/civil rights receive statistically significantly more aid (confirming the second hypothesis). How much? Regression I suggests that a one unit increase in the index of political/civil rights leads to the receipt of about 6 per cent higher share of aid. But improvements in this respect are not rewarded by higher aid (rejecting the

third hypothesis). The opposite is true as regards respect for personal integrity rights. Countries with a higher level of respect do not receive more aid (rejecting the fourth hypothesis), but countries that improve their respect for personal integrity rights over time do (confirming the fifth hypothesis). A one unit improvement in respect for personal integrity rights is rewarded by again about 4 per cent higher share of aid according to regression I. As concerns multilateral aid allocation, only the third hypothesis is confirmed. Countries, which improve their index of civil/political rights by one point receive on average a 7 per cent higher share of aid. While these increases in aid are not negligible, they are still rather modest given that a one unit increase in an index that runs from 1 to 5 is rather substantial.

Has the end of the Cold War meant that respect for human rights plays a more important role in the allocation of aid? The answer is no for bilateral aid allocation. As concerns multilateral aid allocation, improvements in respect for personal integrity rights additionally becomes significant, suggesting that the end of the Cold War has opened some opportunity for rewarding countries, which improve their respect for these rights.

All in all, however, the results in this study lead to the rather sobering conclusion that human rights play a limited role in the allocation of aggregate bilateral and multilateral aid and that not much has improved as a consequence of the end of the Cold War. In some sense, these results are maybe not particularly surprising, given that human rights are at best one of a range of factors affecting the allocation of aid. Nor is providing more aid to countries

with a good human rights record and less aid to countries with a poor record the only response open to donor countries or agencies. But the results are nevertheless somewhat disappointing to the extent that one believes that respect for human rights should play a more prominent role in the allocation of aid.

**Table 1****Panel estimations of bilateral and multilateral aid.**

	<b>I</b> 1984-95 ln (bilateral aid) random-effects	<b>II</b> 1984-95 ln (multilateral aid) random-effects	<b>III</b> 1984-95 ln (multilateral aid) fixed-effects
ln (population)	.15*** (6.12)	.15*** (3.78)	.63 (1.22)
ln (GDP)	-.12*** (2.70)	-.27*** (5.75)	-.14 (1.52)
Dummy-Egypt	1.41*** (19.45)	.27*** (2.59)	
ln (colony)	.15*** (4.09)	.03** (2.27)	
ln (distance)	-.05 (.92)	.06 (1.11)	
Dummy-Socialist	.10 (1.12)	.06 (.92)	.04 (.45)
political/civil rights	.06** (210)	-.02 (.63)	-.06 (1.09)
change political/civil rights	-.03 (.99)	.07* (1.85)	.09* (1.73)
personal integrity rights	-.06 (1.62)	.02 (.57)	.05 (1.07)
change personal integrity rights	.04* (1.79)	-.02 (.96)	-.05 (1.21)
# observations	377	377	377
# countries	103	103	103
Hausman test chi2	3.58	20.37	
Hausman test p-value	.9643	.0259	

Note: Panel regressions with three-year averages and standard errors robust towards arbitrary heteroscedasticity, auto-correlation and country cluster effects. Absolute z-values in parentheses. Time dummy coefficients not reported. \* statistically significant at 10 % level \*\* at 5 % level \*\*\* at 1 % level.

## ENDNOTES

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<sup>1</sup> Foreign aid finances on average about 50% of central government expenditures of the 50 most aid-dependent countries. See Jakob Svensson, *Foreign Aid and Rent-seeking*, 51 JOURNAL OF INTERNATIONAL ECONOMICS 437, 438 (2000).

<sup>2</sup> They have been recently used by, for example, Svensson, *supra* note 1, on the relationship between foreign aid and a country's extent of corruption and by Burnside and Dollar, *Aid, Policies and Growth*, 90 AMERICAN ECONOMIC REVIEW 847 (2000), on the relationship between foreign aid, economic policies and economic growth.

<sup>3</sup> See, for example, David Carleton and Michael Stohl, *The Role of Human Rights in U.S. Foreign Assistance Policy: a Critique and Reappraisal*, 31 AMERICAN JOURNAL OF POLITICAL SCIENCE 1002 (1987); Steven C. Poe and Rangsim Sirirangsi, *Human Rights and U.S. Economic Aid During the Reagan Years*, 75 SOCIAL SCIENCE QUARTERLY 494 (1994); Steven Poe, Suzanne Pilatovsky, Brian Miller and Ayo Ogundele, *Human Rights and US Foreign Aid Revisited: the Latin American Region*, 16 HUMAN RIGHTS QUARTERLY 539 (1994).

<sup>4</sup> See, for example, KATARINA TOMAŠEVSKI, BETWEEN SANCTIONS AND ELECTIONS: AID DONORS AND THEIR HUMAN RIGHTS PERFORMANCE (1997) and ERIC NEUMAYER, EXPLAINING THE PATTERN OF AID GIVING (2003). Indicative of this is the fact that when the US Department of State started to issue country reports on human rights practices in 1977, the only countries covered were those receiving US aid.

<sup>5</sup> David L. Cingranelli and Thomas E. Pasquarello, *Human Rights Practices and the Distribution of U.S. Foreign Aid to Latin American Countries*, 29 AMERICAN JOURNAL OF POLITICAL SCIENCE 539 (1985).

<sup>6</sup> Carleton and Stohl, *supra* note 3.

<sup>7</sup> Steven C. Poe, *Human Rights and Economic Aid Allocation under Ronald Reagan and Jimmy Carter*, 36 AMERICAN JOURNAL OF POLITICAL SCIENCE 147 (1992).

<sup>8</sup> Poe and Sirirangsi, *supra* note 3.

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- <sup>9</sup> Poe et al., *supra* note 3; Burton A. Abrams and Kenneth A. Lewis, *Human Rights and the Distribution of U.S. Foreign Aid*, 77 PUBLIC CHOICE 815 (1993).
- <sup>10</sup> Clair Apodaca and Michael Stohl, *United States Human Rights Policy and Foreign Assistance*, 43 INTERNATIONAL STUDIES QUARTERLY 185 (1999).
- <sup>11</sup> Jakob Svensson, *Aid, Growth and Democracy*, 11 ECONOMICS AND POLITICS 275 (1999).
- <sup>12</sup> Alberto Alesina and David Dollar, *Who Gives Foreign Aid to Whom and Why?*, 5 JOURNAL OF ECONOMIC GROWTH 33 (2000).
- <sup>13</sup> Eric Neumayer, *Do Human Rights Matter in Bilateral Aid Allocation? A Quantitative Analysis of 21 Donor Countries*, SOCIAL SCIENCE QUARTERLY (forthcoming).
- <sup>14</sup> William N. Trumbull and Howard J. Wall, *Estimating Aid-allocation Criteria with Panel Data*, 104 ECONOMIC JOURNAL 876 (1994).
- <sup>15</sup> Eric Neumayer, *The Determinants of Aid Allocation by Regional Development Banks and United Nations Agencies*, INTERNATIONAL STUDIES QUARTERLY (forthcoming).
- <sup>16</sup> See, ADRIAN KARATNYCKY ED., FREEDOM IN THE WORLD. THE ANNUAL SURVEY OF POLITICAL RIGHTS & CIVIL LIBERTIES 1998-1999, 547-549 (1999).
- <sup>17</sup> The PTS were originally developed by Michael Stohl and were updated under the management of Mark Gibney, both from Purdue University.
- <sup>18</sup> Indeed, the partial Pearson correlation coefficient is relatively low ( $r = .18$ ;  $n = 379$ ).
- <sup>19</sup> For a comprehensive analysis of the relativist challenge to human rights, see Michael J. Perry, *Are Human Rights Universal? The Relativist Challenge and Related Matters*, 19 HUMAN RIGHTS QUARTERLY 461 (1997).
- <sup>20</sup> See, for example, Aung San Suu Kyi, *Transcending the Clash of Cultures: Freedom, Development and Human Worth*, 6 JOURNAL OF DEMOCRACY 11 (1995); Bruce E. Moon and William J. Dixon, *Basic Needs and Growth-Welfare Trade-Offs*, 36 INTERNATIONAL STUDIES QUARTERLY 191 (1992).

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<sup>21</sup> James A. McCann and Mark Gibney, *An Overview of Political Terror in the Developing World, 1980-1991*, in HUMAN RIGHTS AND DEVELOPING COUNTRIES 15, 16 (Louis Cingranelli vol. ed., 1996) (4 POLICY STUDIES AND DEVELOPING NATIONS (Stuart S. Nagel ed. 1996)).

<sup>22</sup> See CHARLES C. CHANG, EDUARDO FERNANDEZ-ARIAS AND LUIS SERVEN, MEASURING AID FLOWS: A NEW APPROACH (manuscript on file with author), 3-5 (1998).

<sup>23</sup> *Id.*

<sup>24</sup> Ideally, they would have wanted to estimate the grant equivalent of technical assistance, but saw themselves unable to do so.

<sup>25</sup> R.D. McKinlay and R. Little, *A Foreign Policy Model of U.S. Bilateral Aid Allocation*, 30 WORLD POLITICS 58 (1977).

<sup>26</sup> Income data taken from WORLD BANK, WORLD DEVELOPMENT INDICATORS ON CD-ROM (2000). Data for unit value of the import price index taken from IMF, WORLD FINANCIAL STATISTICS ON CD-ROM (2000).

<sup>27</sup> Data taken from NICK VAN DER LIJN, MEASURING WELL-BEING WITH SOCIAL INDICATORS, HDI, PQLI, AND BWI FOR 133 COUNTRIES FOR 1975, 1980, 1985, 1988, AND 1992 (manuscript on file with author) (1995).

<sup>28</sup> Data taken from Alesina and Dollar, *supra* note 12.

<sup>29</sup> Data taken from J.L. GALLUP AND J.D. SACHS, GEOGRAPHY AND ECONOMIC DEVELOPMENT (manuscript on file with author) (1999). If this data was not available for a particular country, the existing data from a geographically close country was taken instead.

<sup>30</sup> See Neumayer, *supra* note 4.

<sup>31</sup> As listed in JÁNOS KORNAI, THE SOCIALIST SYSTEM: THE POLITICAL ECONOMY OF COMMUNISM, Table 1.1 (1992).

<sup>32</sup> Similar variables have been created by, for example, Cingranelli and Pasquarello, *supra* note 5, and Poe and Sirirangsi, *supra* note 3.

<sup>33</sup> FREEDOM HOUSE, FREEDOM IN THE WORLD (2000).

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<sup>34</sup> Keith Jagers and Ted Robert Gurr, *Tracking Democracy's Third Wave with the Polity III Data*, 32 JOURNAL OF PEACE RESEARCH 469 (1995).

<sup>35</sup> Tatu Vanhanen, *A New Dataset for Measuring Democracy, 1810-1998*, 37 JOURNAL OF PEACE RESEARCH 251 (2000).

<sup>36</sup> Jagers and Gurr, *supra* note 34, 475, report very high correlation coefficients between the indices. It is most unlikely therefore that the main results of this paper would change if one of these alternative indices was used instead.

<sup>37</sup> For an elaborate argument that political and civil rights are not simply guaranteed by electoral democracy, see Jack Donnelly, *Human Rights, Democracy, and Development*, 21 HUMAN RIGHTS QUARTERLY 608 (1999).

<sup>38</sup> Cingranelli and Pasquarello, *supra* note 5, and Poe and Sirirangasi, *supra* note 3, for example, use a two year time lag, but, while there are good reasons to presume a time lag, two years seems to be too long in the view of this author. The results are not affected by the choice of time lag.

<sup>39</sup> The dependent variable is logged in order to mitigate potential problems with skewedness in the distribution of suicide data.

<sup>40</sup> Note that, as with other dummy variables, one of the time effects must be dropped in order to avoid perfect collinearity.

<sup>41</sup> See JEFFREY WOOLDRIDGE, *ECONOMETRIC ANALYSIS OF CROSS SECTION AND PANEL DATA* (2002) for an excellent overview of panel data estimation techniques.

<sup>42</sup> See Judith Eleanor Innes, *Human Rights Reporting as a Policy Tool: An Examination of the State Department Country Reports*, in *HUMAN RIGHTS AND STATISTICS: GETTING THE RECORD STRAIGHT* 235 (Thomas B. Jabine & Richard P. Claude eds., 1992).

<sup>43</sup> Steven C. Poe, Sabine C. Carey and Tanya C. Vazquez, *How are These Pictures Different? A Quantitative Comparison of the US State Department and Amnesty International Human Rights Reports, 1976-1995*, 23 HUMAN RIGHTS QUARTERLY 650 (2001).

<sup>44</sup> PAUL KENNEDY, *A GUIDE TO ECONOMETRICS* (1992).



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<sup>45</sup> D.A. BELSLEY, E. KUH AND R.E. WELSCH, REGRESSION DIAGNOSTICS (1980).

<sup>46</sup> The criterion is to exclude an observation if its so-called DFITS is greater than twice the square root of  $(k/n)$ , where  $k$  is the number of independent variables and  $n$  the number of observations. DFITS is defined as the square root of  $(h_i/(1-h_i))$ , where  $h_i$  is an observation's leverage, multiplied by its studentized residual.

<sup>47</sup> See Neumayer, *supra* note 4.