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Donors Drive for Aid Allocation: A Public Choice Approach

Ehizuelen Michael Mitchell Omoruyi*
School of Economics, Xiamen University, China
* E-mail of the corresponding author: mmacroe@yahoo.com

Huang Meibo[1]

Abstract
The flows of development assistance from donors to recipients have been addressed as the solution to worldwide poverty. However, there should be a reexamination to the theory that states that any development assistance is beneficial to any receiving nation no matter the situation. Prior surveys into development assistance allocation have concluded that development assistance is earmarked not only according to recipients development desires but also according to donor self-interest. Numerous researches have been conducted within the framework of 'receiving nation need' versus 'donor interest' models; most of the studies proposed that donors' political decisions are not at all times in agreement with the declared objective of earmarking development assistance. This paper will discuss the literature determinants of the allocation of foreign aid in a political economic setting; it will reexamine the topic and look into the issue of what drives bilateral and multilateral donors to earmark development assistance to diverse developing economies by using a public choice theory.
Keywords: Aid allocation, Donor, Lobbies, Public Choice, Recipient, Utility maximizing

1.0 Introduction

For over forty years, foreign aid has been a vital feature of international relations, particularly numerous programs have been designed to lessen global poverty and assist with worldwide economic development. From 2000-2006 the sum of $420 billion United States dollars was offered by the Development Assistance Committee (DAC) nations to assist 190 nations globally (OECD.Stat DACa, 2008). Based on this magnitude of monetary resources transferred to reduce poverty worldwide, it is clear that both the criteria upon which foreign aid is earmarked as well as the effects of foreign aid will attract a great deal of interest among the academic settings. This interest made numerous experts ask the question of whether aid is allocated by donors according to their personal interests or according to development needs of the recipient nations; this question is still mired in controversy. This controversy has brought about several debates from different experts about how the role official development assistance (ODA) assists or hinders the development of third world nation's economic development. There are two competing theories that have emerged as conceptual consensus surrounding the effectiveness of development assistance in diverse recipient countries. On one part, the public interest theory argues that official development assistance (ODA) plays a vital role in filling investment or funding gap and assists in lifting developing nations out of poverty trap (Sachs 2005). Contrarily, the public choice theory debates that official development assistance (ODA) remains ineffective and further damages the receiving nations. The reason why public choice theory think so is because the development assistance goes to the rulers in the field, official development assistance (ODA) project uses manpower from the donor's nations, and therefore both sides have incentives to misappropriate official development assistance (ODA) in a fashion that serve personal interest rather than serving the development needs of the recipient countries (Easterly 2001; Bauer 2000). Donor countries provide development aid for diverse purposes; United States and Germany can be used as a good example of countries that provide development aid for diverse purposes.

The United States development assistance has always had the two fold purpose for furthering the United States foreign policy interests in increasing free markets and democracy while improving the lives of the people of the developing nations.[2] The United States foreign aid mission statement proposes that self-interest is very significant in their allocation of development aid. This can be contrasted to the German aims: The guiding principles of German development aid has been connected with the issue of poverty reduction, promoting equitable forms of globalization, protection of the environment, realizing democracy, and peace building.[3] However, in spite of the dissimilarity in principles it may possibly be that the real allocation of development assistance does not reflect these dissimilar principles. It may, for instance be the case that German development assistance is as well distributed with self-interest in mind.

An increasing amount of current literature explores the subject of what drives bilateral and multilateral donors to distribute development aid to developing nations, employing a political economic framework. Several

[1] Professor of Economics, School of Economics, Xiamen University, China
[2] http://www.usaid.gov (July 2008)
[3] http://www.bmz.de (July 2008)

surveys are conducted within the framework of 'recipient need' versus 'donor interest' model. Most times, donors' political decisions are not at all times in line with the stated goals of development assistance; that is, to promote economic expansion in developing nations, and thus to deliver development assistance on the basis of receiving nations need. Up till now, no consensus has emerged as to whether considerations of receiving nation's needs or donors' own interests dominate the donor's distribution decisions to developing nations, but in any circumstance, donors' interests appear to play a significant role. According to Anecdotal proof, the author proposes that in the procedure of both bilateral and multilateral aid distribution, politicians from donor nations as well as bureaucracies of international financial institutions (IFIs) and diverse interest groups seem to play a role. So, in this case, we try to see which actors within the donor nations and institutions play a significant role in allocating development assistance, and what drives they might have. This will help offer the appropriate micro-foundations to elucidate the utility maximising role of diverse players in the allocation of development assistance based on overall behavioural assumptions from the general Public Choice literature.

This paper is shared into six sections. The first section deals with the introductory part, the second section deals with the theoretical model and further analysis donors drive and justification for providing aid to recipient countries, the third part deliberates on the studies on players who employ their impact on donors and International Financial Institutions (IFIs) to maximise their utility through the allocation of development assistance decisions; while the fourth part will look into the role of interest group in aid allocation, the fifth part will look into bureaucratic interest in aid allocation, and the sixth section will conclude the paper.

2.0 Donor Drives: Theoretical Models and Supporting Evidence

According to a seminal paper presented by Dudley and Montmarquette (1976), both authors recognize three donor drives. Firstly, receiving countries may trade more with donors, furthering the donor nation's economic interests. Secondly, donors may care that their development assistance assists the citizens of the receiving countries enjoy a better standard of living. Finally, donor countries anticipate receiving countries to express appreciation in the form of given backing for donors' interest, maybe in the sphere of international politics. The authors capture these ideas via the following objective function *U* of the decision maker in the donor countries:

(1) $$U = f\ (X, H), H \sum_{j=1}^{n} H_j$$

in this equation *X* represent the donor country's consumption of a private good and *Hj* indicate the consumption of the subjectively measured influence of development assistance to country *j* (*j* = 1, 2 …… m). Additionally, they assume the subsequent functional form for *Hj: aj*

(2)

$$H_j = (nj)^{\alpha} \left(\frac{a_j}{y_j}\right)^{\gamma}, 0 \leq \alpha \leq 1, and\ 0 \leq \gamma < 1$$

in this equation *nj* represent the population in the recipient countries *j,* a_j indicate the per capita assistance received by the recipient country *j,* and y_j show the per capita gross national product (GNP) of the recipient countries *j.* Therefore, the influence perceived by donors of it development assistance to another country is assumed to be growing in the following characteristics of the recipient country: per capita gross national product (GNP), population, and the per capita amount of development assistance received. The donor's budget constraint is written as:

(3) $$\mathrm{X} + \sum_{j=1}^{m} n_j, a_j = Y$$

in this equation, *Y* represent the donor country's gross national product (GNP) used to (i) provide development assistance to the recipient countries. (ii) consume the private good *X.* Employing equations (1) via (3), the donor country's constrained utility maximization problem yields the per capita development assistance to country *j* as

(4) $$a_j = \left(\frac{\gamma_k}{y^{\gamma} n_j^{1-\alpha}}\right)^{\frac{1}{(1-\gamma)}}, j\ 1,\ 2 \ldots\ldots\ m\ a_j$$

Y represent the marginal rate of substitution between *H* and *X (*this reflect the value to the donor of an additional unit of *H* in terms of units of *X*). Equation (4) proposes that per capita development assistance to a country *j* increases when (i) the value to the donor nation providing the development assistance *(k)* is higher. (ii) recipient countries *j's* per capita income (y_j) is lower, and on the part of (iii) the population of the country *j*(*nj*) is lower too.

Furthermore, Dudley and Montmarquette (1976) extend the basic model to permit for administrative costs of development assistance, which increase less than proportionally to the amount of development assistance distributed to a specific recipient country. This basic model leads to scale of economies in providing per capita development assistance to a country and thereby tempers the outcome of equation (4), which proposes that smaller countries should be given more per capita development assistance. Employing the OECD development assistance commitment data from 1970, Dudley and Montmarquette discover comprehensive empirical backing for their results that lower per capita income of the development assistance distributed to recipient countries. Recipient countries tend to increase per capita development assistance by the donor countries, even though the population of the recipient countries has a more ambiguous effect.

According to Dudley (1979), the author considers the interactions between diverse donor countries in providing development assistance. Dudley categorizes interactions into two potential classifications. The first classification was based on the fact that if the development assistance from other donor countries adds to the perceived influence of providing development assistance for a donor country *j,* then the author categorizes such development assistance as an *international public good*. The second classification is based on the fact that if development assistance from other countries lessens the aforementioned influence, then such development assistance is categorized as a *national public good with interaction*. The author shows that the initial kind of development assistance is connected with a classic public goods problem of free-riding; a situation where smaller countries have a tendency to free-ride on the development assistance from larger donor nations. What this mean is that since larger countries have a lower per capita cost for giving certain amount of development assistance, it will make these large donors major providers of development assistance to recipient nations. Based on this positive spillover from such development assistance, the net marginal advantage is lower for smaller donor countries, leading them to give less per capita development assistance than larger countries. In the situation of national public goods with interaction, donors compete for the impact via their development assistance. The outcome is a positively sloped reaction function for a country pertaining to the development assistance offered by a rival country. In equilibrium, development assistance by each of the donors surpasses the level that would be achieved when there is no such strategic competition. Dudley (1979) empirical findings give backing to the *national public goods with interaction model*, proposing that the relevant category of OECD countries was involved in certain form of competition for influence.

In a research conducted by Lahiri and Raimondos-Møller (2000), both authors offer a political economy framework in which diverse ethnic groups in a donor country offer political contributions to the donor regime to lobby for development assistance to the respective source countries of these ethnic groups. Despite the fact that greater lobbying by ethnic group leads to a greater proportion of development assistance to the relevant source country, the corruptibility of the donor regime, among other factors, complements such development assistance flows. Particularly, Lahiri and Raimondos-Møller (2000) define corruption as higher when the regime has a tendency to enjoy relatively greater marginal utility from political contributions regarding national welfare. Employing this definition, they display that when a wealthier ethnic group lobbies for a wealthier recipient country, a rise in corruption lessens the proportion of development assistance to the poorer recipient country. This kind of examination adds a significant caveat to the surveys discussed above: Despite the fact that poverty of recipient countries may be a vital drive in aid allocation, political economy factors like ethnic lobbying may as well impact the real allocation decision.

On the other hand, Chong and Gradstein (2008) provide a median voter model for development assistance, where individuals choose to contribute privately and as well pay tax on their income, which finances development assistance offered by their regime. The total development assistance specified is the sum of private contributions and official development assistance, where the latter is funded by income tax revenues raised for that purpose. Therefore the total development assistance is a public good for the residents of the donor country. Both authors conclude that the development assistance provided is lessened by the higher income inequality in donor country. Chong and Gradstein (2008) as well display that the amount of development assistance given lessens with the inefficiency of the donor regime in effectively offering development assistance to developing countries. This reduction arises from (i) a decrease readiness on the part of electors to fund unsuitable donor development assistance and (ii) the direct effects of inefficiencies in providing development assistance to recipient countries. Both author's empirical findings are broadly consistent with their theoretical results.

A model was presented by Gaytan-Fregoso and Lahiri (2000) that examines the effect of development assistance on illegal immigration from the viewpoint of a family with a migrant member. Analysis like this is worthwhile for development assistance decision for the reason that it offers information on how development assistance may be employed for various policy goals like containing illegal immigration. Aid has two effects in this model; first, development assistance lessens the recipient family's marginal utility of income and hence perceived utility cost of migration. Secondly, development assistance narrows the gap between incomes in the host and source countries of the immigrants, dissuading migration. The first effect has the tendency to encourage migration, which leads to some ambiguity on the effects of development assistance on migration flows. Furthermore, the authors display that if the volume of the initial development assistance is sufficient, then more upsurges in development assistance must lessen immigration.

In Bandyopadhyay, Younas, and Sandler (2011) examination, these authors evaluate the effect of development assistance on terrorism. They display that it may be in the interest of developed countries to offer development assistance to developing countries to assist in alleviating terrorism-related threats. The model states that conditional aid is tied to the counterterrorism effects of the development assistance receiving countries. Development assistance like this can assist in neutralizing the capabilities of terrorist organizations at their source, leading to global lessening in terrorism. However, conditional development assistance like that can as well lead to popular dissatisfaction in the receiving countries, particularly if their citizens feel that their nation is being paid to fight the donor country's war. In a situation like this, conditional aid may assist by improving the living conditions of the populace, in that way improving the recipient regime's perception among its citizens. The examination recognizes the factors that determine optimal allocation of development assistance between such unconditional and conditional uses.

In another analysis, Azam and Thelen (2012) present a survey in which the number of terrorism incidents in a specific country varies from the number of produced for the reason that terrorist attacks may be imported. Therefore, if enforcement financed by development assistance comprises of domestic terrorist groups, the vacuum may be occupied by terrorism originating overseas, with a muted answer of terror attacks to counterterrorism effects of the nation in question. Though the context of the above-mentioned survey varies, they complement our understanding of how development assistance may affect counterterrorism efforts and, in turn, the extent of terrorist danger in a specific recipient or donor country.

2.1 Analysis of Donors Drive and Justification for Aid: The Literature Review

Official Development Assistance (ODA) has incited animated debates from the outset about the underlying motives which lead rich nations to offer aid to poor nations. According to McGillivray and White (1995), they offer a comprehensive study of the literature prior to 1990, whereas Dollar and Levin (2006) and Berthelemy (2006b) offer studies of most current surveys. According to previous literature from Mosley 1978, McKinlay and Little 1977a, 1977b, and 1979, and Maizels and Nissanke 1984, they estimated the allocation of aid through two separate equations; one estimated the strategic interests and the other estimated the developmental concerns of the donor. Previous surveys employed a combined model which involves the receiving countries characteristics and donor countries interest variables. The study thus far discovered that almost without exception, economic and political interests of donor nations is more important than the developmental merits or needs of the receiving nations.

In other analysis with respect to donor drives, Dudley and Montmarquette (1976) model was extended by Trumbull and Wall (1994) by permitting donors to assign diverse weights to development assistance influence for diverse recipient countries. These weights are presumed to vary among receiving nation to capture, among other factors, the geographical, historical, and strategic dissimilarities among receiving countries as perceived by the donor nations. Permitting such recipient effects in addition to period effects lead to the following (a) the first effect is that it amplifies the role of infant mortality (a measure of necessity) and civil rights in recipient countries and (b) the second effect is that it reduces the role of the receiving country per capita income in determining per capita aid flows. A poorer country may not necessarily be given additional development assistance from an altruistic donor country for the reason that the donor nation may punish the recipient regime for political oppression. Along the same lines, Wall and Bandyopadhyay (2007) discover that for an average recipient country, a one-standard-deviation upsurge in that nation civil and political rights as well as regimes effectiveness which correspond to upsurge to the amount of $29 million and $54 million dollars, respectively; these authors concluded that this is the overall development assistance received by these countries.

In another research study, Alesina and Dollar (2000) survey donor behavior for individual country employing OECD data on bilateral development assistance. Though they discover broad backing for the significance of the per capita income of recipient countries in receiving development assistance, they as well discover that ties to former colonies or strategic factors are quite important. For instance, most of the development assistance provided by the United States are been channel to Israel and Egypt, which are not among the poorer recipient countries. On the other hand, France's development assistance is concentrated on its former colonies, while on the part of Japan; their development assistance is channeled to countries with similar global political interest, as measured by similarity in U.N. voting patterns. It can also view as an instrument that is further driven by feelings of guilt and is understood as a compensation for previous wrong-doings (for example, colonial exploitation). The survey as well discovers that donors reward developing nations following greater democratization. Development assistance allocation flows to countries that liberalize in this dimension, even though economic liberalization is not significantly connected with greater surges.

More current surveys discover that global political factors are vital in providing development assistance. Strum, Vreeland and Dreher (2009) and Werker and Kuziemko discover a large positive effect of U.N.

Security Council membership on development assistance recipients. Yearly, these amounts upsurge when (a) major global events take place, and (b) the United Nations or Security Council is given higher levels of media coverage (this is an indication of years with tumultuous foreign affairs). Additionally, the level of development assistance earmark to member nations of the United Nations Security Council "Sharply upsurge in the year in which a nation is elected to the Security Council, remain high all through the two-year period, and return to their previous level nearly immediately upon the time their term is been completed" (Kuziemko and Werker, 2006: 907). In a study carried out by Hoeffler and Outram (2011), both authors discover that aid as well upsurges with an increase in the correlation between the United Nations votes of a donor and recipient nation; however this association is sensitive to specification.

One significant factor related to the allocation of aid is domestic politics. In a research study conducted my Milner and Tingley (2010), they examine five kinds of foreign aid policy votes in the United States House of Representative from 1979-2003. Both authors discover that votes on development assistance correlate with the material interests of representative constituents. Particularly, these authors discover that voting districts with relatively higher capital endowments are more supportive of development assistance, based on the Stolper-Samuelson theorem[1] As well; these authors discover comprehensive political backing for military aid and food aid where they discover no stark distributional effects between capital and labor. One other factor that seems to play a significant role is political ideology. For instance, employing data for a panel of donor nations from 1971-2002, Tingley (2010) discovers that more economically conventional the ideological attention of donor regime, the smaller the amount of money there is in the total development assistance budget.

In another aspect, donors may employ foreign aid to promote trade with recipient nation. If development assistance to a recipient country is employed by a developing country to purchase donor country exports, it can act as an import promotion strategy for the developed country. One of the potential advantages for the donor country comprise of larger real incomes for factors used intensively in the export good and the term of trade benefits. Based on this aspect of thinking, Younas (2008) discovers that "a substantially larger amount of development assistance is offered to recipient countries who import capital goods, whereas there is no significant effect from the imports that comes from other category groups. With that been said, developed donor countries are the main manufacturer and exporters of capital goods, this outcome at any rate partially give backing to their trade benefits drive" (pg.661). More researchers as well discover that trade interest – commonly measured as import from and export to a recipient nation as a percent of donor nation GDP – is associated with higher levels of development assistance (Nath and Sobhee, 2007; Hoeffler and Outram, 2011; Dietrich, 2012), however these estimations may possibly be sensitive to specification (Hoeffler and Outram, 2011).

There was an argument put forward by Finkel, Pérez-Liñán, and Seligson (2007), these authors mentioned that there are two mechanisms via which foreign aid can foster democracy in developing countries. Firstly, development assistance can directly foster democracy "by empowering agents… that struggle for government adjustment in the domestic arena" (pg.410) with development assistance targeted toward political parties, education, human rights groups, labor unions, and women's advocacy networks. Secondly, development assistance can indirectly foster democracy "by changing certain structural conditions that serve as preconditions for government transition or survival" (p.410). To exemplify, development assistance "may possibly foster modernization, promote class changes, and encourage better economic performance; all these factors may possibly have long-term implications for the development of democracy" (p.410). These authors empirical study indicates that an upsurge in donor nation's democracy or regime-targeted development assistance upsurges the aid recipient's level of democracy. Furthermore, Bermeo (2011) confirms this outcome with logit regressions and Monte Caelo simulations and discovers that, holding the overall control variables constant at their median, "an alteration in the amount of democratic development assistance from its value at the 25th percentile to its value at the 75th percentile is related with an upsurge in the possibility of a specific nation democratic transition that occur during a given year from a baseline of 2.15 to 3.12 percent, a 45 percent upsurge" (p.2025).

One other recipient characteristic that may influence development assistance is the presence of conflicts in the receiving country. According to Balla and Reinhardt (2008), these authors argue that "donor nation's perception of the conflict (precisely in the recipient nation) will determine how beneficial it anticipates its development assistance to be at attaining (the donor's) interests. Based on the propensity of the conflict as well as altering aid utility, there is the tendency that the existence of the conflict may possibly cause the donor to change the amount, or the existence, of that development assistance" (p.2568). Proof from this study indicates

[1] If aid fosters domestic production of a certain good (either directly through production of some U.S. good that may be given as aid or indirectly through demand for a U.S. good from aid-receiving nations), then Stolper-Samuleson effects will predict that the real income of factors intensive in these goods will rise. Given that the United States is relatively capital abundant compared with most of the poorer, labor-abundant developing nations, Stolper- Samuelson effects would suggest that U.S. exports will raise the real income of capital.

that, for the 22 donors surveyed, 14 are more probable to earmark more aid to nations experiencing conflicts, 14 are more probable to earmark aid to a region experiencing conflict, and 9 are more probable to lessen the amount of development assistance earmarked to a recipient as conflict upsurges. Looking at an assessment in relation to conflict and aid in a panel of 122 recipients from 1960-1997, Balla and Reinhardt (2008) discover that proximity to conflict is statistically significant and positively associated with regard to development assistance allocation. Additionally, these authors discover that the possibility for a donor nation to choose an aid recipient upsurges as conflict upsurges in the recipient country.

Nowadays, countries are concern about national security and it has been in the forefront of their foreign policy. As the theoretical part in this paper outlines, it is possible to employ development assistance to lessen threats from terrorism originating in developing countries. In a study by Fleck and Kilby (2010:185), both authors states that "beginning in the mid-1990s and continuing into the War on Terror, the significance of need as a criterion for development assistance eligibility fell so that the probability that a higher income from a poorer developing country would be given aid upsurge over time"[1] These authors discover that higher income recipients were 9 percent more probable to be given development assistance during the War on Terror than during the Cold War period. In another study, Demierl-Pegg and Moskowitz (2009) confirm this outcome: The two authors discover that economic development (per capita GDP) had a larger influence on the probability of be given development assistance during the Cold War era than strategic interests (political alliance and bilateral trade) and that per capita GDP as well outweighed bilateral trade and government kind of aid earmark. Additionally, the influence of human rights and economic development on the probability of a recipient country and the amount of development assistance to that nation were higher all through the 1990s than throughout the Cold War period. Certainly, development assistance budgets totally augmented among 22 donor nations since the inception of the War of Terror (Dreher and Fuchs, 2011), and aid earmark decisions altered throughout this era after controlling for United Nations votes, natural disasters, recipient nation movement to democracy, and recipient nation size. In further study from Young and Findley (2011), they discover that targeted (conditional) development assistance can be an effective instrument to dissuade terrorism, particularly when directed at conflict prevention, education, civil society, and health in the recipient nation.

3.0 A Political Economic Approach to Aid Allocation

In accordance with the Public Choice theory, the entire political decision making procedures reflect the interaction of diverse utility maximising players: interest groups, bureaucrats' politicians and voters. So, in order to survey donors' decisions on development assistance, there is need to consider their utility maximization behaviour within the diverse donor nations (bilateral development assistance) and within the international organizations (multilateral development assistance). In the next subsequent discussion, the author will talk about the overall assumptions on special interests and objectives followed by the diverse group of political players, as well as illustrate the meaning of these assumptions in the context of foreign aid.

3.1 Politicians' Interests in Aid Related Decision Making

It is assumed that politicians from donor nations make decisions on the allocation of development aid to developing nations in ways that assist them to serve their personal drives. According to the Public Choice theory, the theory proposes that the key political drive of politicians is to become re-elected and therefore to stay in power. These politicians believe that staying in power involves strengthening voter support and winning (Landau 1990). This backing can be achieved in diverse ways and by diverse means. Providing development assistance to poor nations is usually justified by politicians on the basis of wanting to appease hunger and poverty in developing nations. This can be referred to as the 'moral appeal' of development aid (Michealowa 2003). Distributing development assistance would be perceived by voters in donor nations as providing assistance to people and therefore seen as a generous act on behalf of politicians. So, if there are some non-governmental organizations (NGOs) in donor nations trying to alleviate poverty in developing nations, these organizations would spread the information about the good deed of the politicians among the general public, and particularly with their members. By doing this, it would eventually lead to an upsurge in the political support and votes for the politicians. In order to please the NGOs and the public in general, politicians might choose to distribute development assistance in favour of some domestic interest groups. For instance, development assistance could be tied to donor exports with the intention of delivering benefits for interested local companies and their lobbies. In response, the interest groups would offer political backing as well as campaign contributions to the politicians. According to Michaelowa (1996), the author notes that the phenomenon of tying development assistance to donor exports can only be clarified as a means of increasing the anticipated number of votes.

[1] This analysis excluded countries such as Egypt, Israel, Iraq, and Afghanistan from analysis. These countries exhibit high levels of strategic importance but were excluded because of either a lack of data (Iraq and Afghanistan) or because they were extreme outliers (Egypt and Israel).

Since the voters generally do not take note of tied aid strategies, the net influence on the number of votes hinge on completely on the impact exerted by diverse lobby groups. Furthermore, these lobby groups exert huge impact on the general public in numerous ways. Particularly, they tend to applause the regime intervention connected to tie development assistance as a successful means of creating fresh jobs. As a result of this as well as other kinds of positive propaganda, the general public considered these politicians to be wise in taking decisions at local and international level. Therefore, the chances of reelection are augmented. Mueller (2003) states that, in adopting such a position for certain lobby groups before the election, politicians as well stand to profit in form of campaign contributions, which can be employed to assist acquired more votes. Politicians focus is not only on interest groups but as well on the potential welfare to be profited by their constituents through the allocation of development assistance. For instance, if delivering tied development assistance to developing nations indeed leads to an upsurge in short term employment; then, this would automatically lead to extra votes in the subsequent elections. Judging from an examination of voting in the United States congress with regard to USAID contracts allocation across congressional districts, kilby and Fleck (2001) deliver certain proof confirming that decision making for aid allocation politicians try to satisfy their constituencies so as to win votes in the upcoming elections.

According to Lahiri and Raimondos- Møller (2000) propose that ethnic group may as well be significant within these constituencies. Given their cultural, family and ethnic ties, they value development assistance policies centering on their nations of origin. Internationally, delivering development assistance has become to certain extent a more of a social process and less of an individualistic tendency (Lagae 1990). It seems that there is a sort of ‘bandwagon’ effect, which means that the development assistance policy of one donor nation affects the allocation of aid of other donors. Currently, there has been enormous criticism related to when the United States distributed very little aid per capita in relation to most other donors for the tsunami victims in Asia. Profiting political prestige and losing prestige within the donor community are as well very significant for politicians’ future careers. Politicians can gain support locally by conducting themselves in a socially responsible manner in relation to other donors, since voters as well judge politicians in the international context. Similar things applies when political figure are deciding on their nation’s share of involvement in international organizations. For instance, at the time of fresh replacements at the IDA and IMF, politicians who can successfully hold onto their nations high and advertise this as assistance to the global community might earn a good reputation locally and, consequently extra votes.

Most politicians in donor nations as well attempt to control multilateral lending based on their personal drives. According to Gygi and Frey (1990) point that within global financial institutions, it is not the countries themselves, but somewhat the nation representatives or delegates that are the players. These authors emphasis that, national politicians who want to be re-elected with the intention of staying in power make an effort to force their delegates to act in a fashion that the political figure conceive as popular with the voters. For instance, in global crisis management, like in the Latin American debt crisis, offering debt relief to poor nations via multilateral institutions may possibly affect voters because of the high moral appeal associated with such actions. In an argument put forward by Vaubel (1986, 1991), the author puts forth the ‘dirty work’ hypothesis, arguing that state politicians have the habit of using international financial institutions, like the World Bank, to promote voters’ information cost and therefore easily cover up unavoidable scandals and circumvent pressure. These politicians in donor nations deliver development assistance to unpopular projects via multilateral institutions so as to collude with overseas politicians. Collusions like this can be beneficial for politicians at home in numerous respects, like circumventing criticism from competing politicians. It is extensively mentioned in the literature on the allocation of aid that development assistance is driven by foreign policy concerns of donor nations. These multilateral and bilateral allocations of aid surveys find it to be important. The indication of this is based on the fact that decision makers in donor nations expect recipient nations to conduct themselves in a more favourable way towards their nation after the allocation of aid, giving their backing to the donor’s national interests. This way, the politicians in a donor nation receive certain type of seal of approval for their foreign policy, and hence seem as a better regime which can more successfully look after state interests; in turn, produce more votes for politicians.

The concluding part can be related to the fact that politicians of donor nations make the allocation of aid decisions in a fashion that can maximise their chances of re-election and staying in power. To make sure they are re-elected, they attempt to satisfy the general public at home by uplifting their public image. They always tend to earmark development assistance to developing nations so that they will be considered as the well-wishers of the poor; this ethical application of development assistance is hoped to upsurge their votes. Simultaneously, politicians try to satisfy the interest groups within their nation when distributing development assistance to developing nations. In response, these politicians can acquire campaign donations from business interest group and a higher number of votes from organised ethnic communities which have a special interest in the allocation of aid to a specific nation.

3.2 The Voters' Utility Maximising Role in Aid Allocation

It is often argued that people regularly offer assistance for the reason that they anticipate to get something in return. According to Dudley and Montmarquette (1976) observation, albeit there may well be anticipations to this generality, but casual empiricism allows us to be certain of the fact that these are likely the minority. Therefore, the voters of a donor nation can be assumed as only willing to support the aid allocation to developing nations when such development assistances also maximises their utility. Simultaneously, Michaelowa (1996) argues that even though a typical voter's utility may possibly be chiefly determined by his income and the public utilities delivered to him, it is as well — at least to certain degree — determined by the comfort of others around him. Therefore, utility maximization and altruism are not necessarily exclusive. From the part of the British voters, Mosley (1985) notes that public demand for development assistance is chiefly altruistic, and in situations where a product is seen mainly as a service to others, it is an error to presume that consumers will want less of that product even though its price upsurges.

So, this clarifies why development assistance, which indicates a transfer from the tax payers in donor nations to the receiving nation, is normally acceptable for the electors. Development assistance is considered as charity for the poor, and therefore maximizes elector utility on sympathy grounds. However, it may possibly be the situation that several electors are not well mindful of the level of assistance given by their nations. Electors are normally more worried about the assistance that is been rendered to poor countries, so for that reason they usually give more weight to local matters, like provision of public utilities and unemployment, rather than paying much attention to relative minor expenditures abroad. That is why, public judgment is normally most important as a determining factor of governmental action in regions where the majority of the general public are significantly affected (Lagae 1990). Mayer and Raimondos- Møller (2003) presented a more detailed discussion on this issue. The authors asserted that two kinds of impacts motive political support for development assistance. Firstly, there is the direct advantage as well as the cost from the act of giving development assistance, as individual separately pay higher taxes to fund the payment. Secondly, there might be an indirect impact that occurs every time there are terms-of-trade adjustments. This later outcome works by means of adjusting both donor nations' distribution of income and average income. Furthermore, if electors of donor nations feel threatened in certain way, these electors might support more development assistance- for instance, aid to limit migration or aid for nations involve in war on terrorism; situation like this, might make these electors nation accept higher taxes and the flow of aid for the sake of security.

When it comes to the issue of multilateral aid allocation, we know that electors normally have little impact on the way the international financial institutions operate. Nonetheless, people may as well, to a limited extent, impact the allocation of aid decisions via voice, particularly through the public opinion and press surveys. According to Frey and Gygi (1990) observation, the authors stated that voices will only be raised when international organization is clearly not serving voters' interests. So, it may as well be possible that as a result of better access to information about IFIs' allocation of aid strategies, electors of major shareholder nation, for example the one hosting the institution, impact the institutions' decision making in favour of their personal utility maximisation. Additionally, even though electors of donor nations may not be well conscious of the development assistance given by their nation, they impact decisions when they are conscious of the direct advantage and cost from the act of delivering development assistance. In some situations, when electors feel that providing development assistance could either indirectly upsurge their income (for instance, through benefits from trade) or lessen an existing security threat, then they will be willing to accept as well as advocate more development assistance to developing nations so as to maximise their personal utility.

4.0 Role of Interest Groups in Aid Allocation

Interest groups in addition to politicians and electors influenced the distribution of bilateral and multilateral aid. Two type of interest group exist in this situation. The first one comprises of non-governmental organizations (NGOs), which give backing to development assistance for altruistic reasons, like illiteracy and poverty in developing nations. In Lagae (1990) analysis, the author pointed out that the key concerns of the various interest groups would be the provision of development assistance to developing nations that have server needs. Alternatively, there is the second type of interest groups; these interest groups are normally better organised than the altruistic groups. The existing literature in this context deliberates on ethnic lobbies and business lobbies in donor nations. There will be a detailed deliberation on these two groups below.

4.1 Business Lobbies

The main interest of business lobbies in providing development assistance to developing nation lies in either developing the foreign direct investment opportunities or growing their exports in those nations. Several examinations on across nation, bilateral and multilateral allocation of aid (for instance, Berthélemy 2006, Morrissey 1996, Berthélemy and Tichit 2004, Cooray and Shahiduzzaman 2004, Fleck and Kilby 2006, and

Barro and Lee 2005) know that virtually all donors have trade interest in recipient nations. The outcome of an empirical survey on trade and aid by Wagner (2003) propose that aid is connected with an upsurge in exports of merchandises amounting to 133 percent of aid. Therefore, a donor nation's foreign aid policy founded on business lobbies' self-interest would usually be unfair to nations with which trade is already well-established, or to nations with which they would like to institute further trade in the future. According to Berthélemy (2006), the author notes that export benefits are the strongest drive of tied aid, a phenomenon which persists in spite of incessant effort by the OECD and DAC to lessen it.

According to Mchaelowa (1996) in her example gave an in depth clarification of tied aid. The author discovers that tying aid is a measure to offer national companies with additional orders from developing nations, partly or completely funded by development assistance, and to further potential follow-up orders. Tied aid often allows companies to charge a higher than competitive price, guaranteeing a higher profit margin. According to Morrissey (1996), the author state that all donor nations' business lobbies, particularly those major exporters have therefore supported tied aid to developing nation to certain degree, by applying lobbying pressure on the regime of that nation. Further benefits can be highlighted with regard to what companies and their lobbies receive from tied aid. According to Michaelowa argument, the author state that business lobbies will lobby more intensively for aid to developing nations if the companies enjoy a monopoly position in the domestic market. The reason for this is because if there is no state bidding, but somewhat direct allocation of contracts to a specific company, the company will be able to charge a specific high monopoly price. Another group of companies with potentially high benefits from tied aid are those state companies which are unable to compete at international market prices. These national firms survival hinge on subsidized funding or subsidies conditions provided by tied aid.

On the other hand, export lobbies may as well support aid to developing nations so as to upsurge the purchasing power of the latter. When this happen, it can again lead to higher exports from the donor nations and more orders for the donor nation companies; according to Tsoutsoplides (1991), the author believes that although the relationship to any specific donor nation's exports is clearly weaker than when aid is directly tied to exports of goods and services. In a further analysis, Mosley (1987) indicate that several regimes have realized that merely tying aid is not enough to satisfy donor nation firms, and have therefore resulted to the practice that is been recognized as mixed credits. Mixed credit is referred to those credits that stretched to national exporters at low interest rates by mixing development finance with market funds. In another analysis, Morrissey (1993) states that the drive behind mixed credits is to favour the donor companies and assist these firms to win numerous orders against the competition from other nations companies; in this manner, these donor firms are equivalent to export subsidies. Therefore, the aid allocation from donors to developing nations is supported by business lobbies wanting to acquire subsidies. According to the studies by Maizels and Nissanke (1984) and Mckinley and Little (1979), these authors noticed that not only exports, but as well imports can be affected by foreign aid commitments. Development assistance can secure the import supply line for donor nations' companies, guaranteeing inputs at cheap prices from developing nations, and hence higher proceeds. According to Tsoutsoplides (1991), the author analyses the determinants of the geographical allocation of European Community (EC) development assistance to developing nations, and conclude that the import factor is particularly significant for Europe. Based on numerous strategic commodities, Europe is significantly or completely dependent on external sources. Hence, the allocation of development assistance to recipient nations both serves the purpose of generating goodwill in receiving nations for exports of the donor nations' companies, and guarantees low-cost raw material for these donor firms.

According to Lagae (1990), he believes that development assistance may as well promote a friendly environment for foreign direct investment (FDI) from the donor nations' enterprises. Investment outlets are as vital as exports markets for business interest group; because this is the case, these business interest groups tend to provide a better environment for their business to enable them gain higher profits. These business interest groups prefer more aid to be granted to those recipient countries in which they invest their fund. They provide better educational, physical and social infrastructure with the assistance of aid which later contribute to the profitability of their investment in that recipient country. In a study conducted by Maizels and Nissanke, they concluded that aid to recipient countries can, actually, be interpreted as an external subsidy to guarantee continuous profitability of the overseas investments of donor nation enterprises; so with that, development assistance therefore act as a catalyst for private capital flows (Harms and Lutz, 2005). Furthermore, so as to safeguard already existing overseas direct investment in developing nations from political dangers and competitors from other nations, business lobbies will try to persuade their government to earmark more aid to nations where their enterprises have operations (Tsoutsoplides 1991).

Lending from International Financial Institutions (IFIs) can as well be influence by business lobbies; individual states, particularly powerful states, have motivated international financial institutions (IFIs) lending policies (Fleck and Kilby 2006, Kilby 2006 and Barro and Lee 2005). In a situation like this, it is assumed that regimes press IFIs to lend to nations which are indebted to their banks or to them; international financial institution (IFIs) then lend to those nations so as to circumvent outright default and losses to the shareholders (Dreher 2004). On the other hand, Gould (2001) more precisely argues that it is not the government themselves, but the private actors within the states, like providers of states funding and private banks which try to influence the International Financial Institutions (IFIs) in their favour. Conversely, banks and private investors lend their money to International Financial Institutions (IFIs) via states, for the reason that IFIs guarantee the profitability of their investment and the payback of their money. At times of crisis, in which IFIs specifically hinge on private investors' money, investors and private banks impose numerous conditions in the IFIs programs in their personal interest. According to an investigation from Oatley and Yackee (2000), both authors concluded that the principle beneficiaries of International Monetary Fund (IMF) lending are not developing nations, but somewhat investors from develop nations. Therefore, lending via multilateral institutions may as well be in the interest of some business lobbies and not for the benefit of recipient nations.

In another study carried out by Vaubel (1991), the author concludes that these business lobbies indirectly impact multilateral aid. Most possibly, they attempt to impact multilateral institutions' policies by lobbying to their national finance minister, who represents their nation at the board of governors on International Financial Institutions (IFI). Overall, it is noticeable that business lobbies interested in overseas direct investment, cheap raw material and exports for their companies from foreign nations, lobby both International Financial Institutions (IFIs) and state regimes via diverse channels for their personal purposes. These business lobbies put pressure on the decision makers to earmark aid to those developing nations which are of highest significance for their enterprises. The allocation of aid from donor countries helps to create goodwill in developing nations for their merchandises and as well offers them with direct or indirect subsidies. Allocating aid in this pattern will eventually maximize their utility via higher proceeds. In summarizing the entire aspects discussed above regarding business lobbies' impact on the allocation of aid, we can conclude that utility maximizing business lobbies always attempt to influence decision making in donor nations and at International Financial Institutions (IFIs) to earmark aid to those economies where their business interest is. Several surveys examined above gave backing this thesis: Trade and overseas direct investment interests of donor nations' enterprises have huge significant in influencing the pattern of aid allocation to recipient nations. Development assistance not only creates goodwill for donor nations enterprises, but it as well offer them with a kind of subsidy by creating better physical and social infrastructure in the recipient nations, which raises the proceeds of their enterprise in that recipient nations. In addition, these business lobbies as well impact International Financial Institutions (IFIs) so as to maneuver aid policies to their personal advantage. Therefore, in all, the utility maximising role of business lobbies plays a vital role in aid earmark decision.

4.2 Ethnic Lobbies and Former Colonial Relations

While discussing global political factors for aid allocation, several empirical bilateral and multilateral aid allocation surveys find significant correlations between former colonies and aid. For instance, Alesina and Dollars (2000) report that 99.6 percent of Portuguese, 78 percent of United Kingdom, 53.7 percent of Belgian, 55.5 percent of Australian, 57 percent of French bilateral aid from 1970 to 1994 flow to their former colonies. According to Alesina and Dollars, the author further find 'colonial past' to be much more significant than several other factors in bilateral aid allocation for both analysis of individual donor nations and aggregate regression results. Similar type of outcomes are as well found by Berthélemy (2006), Maizels and Nissanke (1984), and Berthélemy and Tichit (2004). On the part of multilateral aid flows, Neumayer (2003a) notices that nations with longer history of colonization by an OECD nation get more development assistance than others. According to Tsoutsoplides (1991), who did a study on European Community (EC) aid to developing nations, and Stone (2004), who look at International Monetary Fund (IMF) lending to Africa, the authors also find empirical backing for this hypothesis. In Stone analysis, he notices that France played a very significant role in promoting its former colonies' interests when their cases came before the International Monetary Fund (IMF). However, this pattern of allocating development assistance from donors is not dissimilar from their personal self-interest behaviour, to offer benefits to the interest groups in donor nations. On the other hand, Lagae (1990) states that in several situations, the colonial era has created technical and medical expertise oriented towards the ex-colonies' problems. Hence, businessmen and civil servants gained interests in offering development assistance to former colonies.

Furthermore, analysing the role of domestic politics in the allocation of aid, there was an argument from Raimondos-Møller and Lahiri (2000), both authors stated that there is usually a positive relationship between the ethnic composition of a nation and its colonial experience. Thus, the ethnic composition of a donor nation and its corresponding local politics can elucidate the high allocation of aid to former colonies. This proposes an interesting micro-foundation for the robust correlation between colonial ties and aid. According to Raimondos-Møller and Lahiri, they suggest a theoretical model in which they assume that ethnic groups lobby donor nations' regimes for development assistance to their nations of origin. In a further analysis from Raimondos-Møller and Lahiri, they stated that these lobby groups are frequently very successful. For instance, a large proportion of French aid goes to Cameroon, United Kingdom aid goes to India, the United States aid goes to Israel and German aid goes to Turkey. The way these donor nations allocate aid proposes that the corresponding ethnic population in donor nations certainly influence the aid policy of donor nations to their advantage. So the model is based on a political contribution approach; this model assumes that there are two ethnic groups in a donor nation corresponding to two receiving nations, and there are indigenes. Despite the fact that the indigenes are not partial, the ethnic groups make political contributions, and the amount they contribute is contingent upon the policy the regime adopts. An upsurge in the wealth of the ethnic group within donor nation populace means that politicians from those donor nations may possibly get additional political contributions from those ethnic groups and this will make them naturally care more intensively about the welfare of that particular ethnic group. Overall, ethnic group lobbying in donor nations has significant effects for aid allocation.

Additionally, on the part of ethnic lobbies in donor nations, the allocation of aid may as well be influenced by professional lobby groups functioning on behalf of receiving nation regimes. These lobby groups influence the decision making procedure in donor nations in diverse ways, for instance, by offering information and campaign contributions to those responsible for making aid policy decision. This kind of situation is common in nations such as the United States, where lobbying activity via agents is permitted under the Foreign Agent Registration Act (FARA) for some policy decisions. According to Robbins, Gawande and Krishna (2004), these authors examine the lobbying activity for foreigners in the context of the United States trade policy. These authors discover that the influence of foreign lobbying is as vital as that of local lobbying. With this observation, they concluded that development assistance policy of a donor nation may as well be influenced by an organized foreign lobby of the receiving nation. In summary, because of cultural ties to their native nation, ethnic lobbies, family relations and economic interests influenced aid related decision making in donor nations. Even though there are not much empirical studies accessible on the role of ethnic lobbies in the allocation of aid, several surveys on bilateral allocation of aid display that donors tend to earmark a particularly high portion of development assistance to their former colonies. Additionally, it has been noticed that there is a positive relationship between its past colonial experience and the ethnic composition of a donor nation. According to the theoretical model developed by Raimondos-Møller and Lahiri (2000) offers a brilliant analytical framework to test the effect of this ethnic composition on domestic politics in donor nations and their consequences in the decision making processes when it comes to allocating aid to recipient nations. As a final point, professional lobbies that developing nations employed also play numerous significant role in influencing the decision procedure in numerous donor nations.

4.3 NGOs Utility Maximising Behavior

One thing that has grown tremendously over the last decade is the role of NGOs in the process of foreign aid. In general, NGOs development activities are observed as poverty oriented, that is to say, they aimed at assisting the poor in developing nations. Few surveys really interpret NGOs in analogy to their political actors, debating their utility maximizing role in the allocation of development assistance. One instance can be related to Michaelowa (2003), this scholar indicate that by campaigning on matters that attract the general public, like debt relief and poverty, NGOs can effortlessly gain publicity, this will further assist the NGOs to raise finances for their further activities. In a previous survey, Michaelowa (1996) as well indicates that NGOs look like bureaucracies in several ways. In order for the NGOs to promote the growth of their organization and secure the existence, they have to obtain public transfers and private grants. In order to obtain a maximum amount of private and official grants, they attempt to demonstrate that their personal approach is more efficient than official development cooperation. According to Epstein and Gang (2006), the authors came up with a theoretical model that assumes that NGOs as well compete with each other so as to acquire higher financing. The individual size of the NGOs thereby impacts the probability to get development assistance and to earmark it further to dissimilar group of receiving nations. The NGOs know that they are larger in size, and for that reason they have more advantage to influence aid policy decision makers effortlessly by pretending to be the 'real representatives' of the poor, and therefore they would have more significant effect on voters. NGOs that are bigger in size can afford more lobbying and in return acquire higher financing. According to Epstein and Gang, both authors noticed that in order to allow continuous receiving of transfer based on poverty, there is the tendency that an NGO may intentionally earmark finances away from the poorest, so as not to improve position. Even though the role of NGOs in the process of allocating aid is not at all times seen as purely altruistic, but their purpose for their involvement is usually achieved. There is still need for more empirical studies so as to establish a consensus about the utility function of the NGOs.

5.0 Bureaucratic Interests in Aid Allocation

According to Wintrobe (1997), the author believes that the utility of civil servants (bureaucrats) both international agencies and in donor nations is commonly assumed to hinge on their room for discretionary decisions, pleasant working conditions, pay, prestige and power. In order to achieve these objectives, they attempt to maximize their staff, their independence and their budget (Vaubel 1996). In Vaubel (1991) previous study, he argues that to the extent that development assistance bureaucracies are concerned, the entire goals are positively connected to their functioning budget, which in turn hinges on how much of donors' resources are spent on official bilateral and multilateral development assistance. Michaelowa (2003) did a specific study on the Enhanced Heavily Indebted Poor Country Initiative (HIPC-II), in his study, he notice how under certain conditions, debt relief programs can be a welcome opportunity for civil servant (bureaucracies) to replenish finances enhance lending activities and develop their public image.

In general, the public assumed that the bureaucrats disburse fund so as to justify the obtainable budget as well as been able to argue for even more finances in the future. Furthermore, it has been noticed that certain development banks directly connect salaries to the volume of development assistance disbursed so that there is even a direct financial incentive for the individual bureaucrat to extend higher loans or spend more money. In Michaelowa and Hefeker (2005) report, they state that international financial institutions tend to have a preference for high development assistance disbursement, since this justifies a high budget, which in turn is regarded as a sign of bureaucrats' personal power and significance. In another report from Vaubel (1991 and 1996), the author offer proof of 'hurry up lending' by the International Monetary Fund (IMF) and the World Bank, this happens when the dates for quota reviews are imminent. Noticeably, the bureaucracies of both institutions often lend money, even when they are conscious of nonfulfillment with conditions for past loans or conditionalities by the receiving nations. The obvious reason why they engage in this act is because they do not want to retain money, for that reason less disbursement will lead to the consideration that the bureaucrats functioning in these institutions are not efficient and as well would imply the danger of reduced financing in the following years (Dreher 2004).

On the other hand, studies from authors like Easterly (2002) and Wintrobe (1997) specify that bureaucracies should be anticipated to maximise their discretionary budget (this can be referred to as the total budget minus the cost of producing the services), rather than the total budget, for the reason that this will provide them more space to manoeuvre and exercise their power while earmarking development assistance to developing nations. According to a report from Easterly (2002), the author further argues that since there is no effective mechanism for competition among development assistance agencies, aid bureaucracies may possibly collude and act collectively which can be similar to a budget maximising monopolistic bureaucracy. Additionally, Frey (1997) lay emphasis on how international bureaucrat pursue policies that give them influence as well as the highest prestige within the reference groups with which they are linked. In the development assistance business, it is a fact that the bureaucrats' utility is there influenced by the prestige they enjoy within the development assistance community. For instance let take the World Bank, Schneider and Frey (1986) clarify that prestige can be gained within the banking community by performance excellence that is to say, by displaying that the institution's tasks are competently handled. Furthermore, both authors state that prestige in the global banking community can as well be gained by keeping to the generally noticed conservative standards for lending. Furthermore, apart from being an objective in its personal right, this power and prestige with reference to the group involved would assist the bureaucrats to reach a higher reputation within their personal organizations and therefore turn out to be a source for upcoming career development.

In a study conducted by Moe (1997) in relation to the theories of bureaucracies, the author talks about Gordon Tullock's report that bureaucrats are driven more by career advancement than anything else. In another report, Tirole (1994) as well proposes that bureaucrats are worried not so much about the monetary aspect, but rather about their reputation taking into consideration future job prospects and promotions. Therefore, the incentives of upcoming career development and promotions could as well impact bureaucrats functioning in International Financial Institutions (IFIs) and national aid agencies in the allocating of aid decisions in developing nations. Easterly (2002) and Vaubel (1991) propose that the promotion of bureaucrats functioning in aid agencies is chiefly reliant on the size and the number of large projects they handle; thus they are chiefly interested in disbursing as much as possible in order to allow them gain ground. This scenario may clarify why the staff at International Financial Institutions (IFIs) occasionally seems to lend without taking much care about the future repayments. Dreher (2004) believes that the reputation of the present staff can improve irrespective of whether their successors have great problems in dealing with creditors in the future

As the civil servants (bureaucrats) at International Financial Institutions (IFIs) are arbitrated for promotion according to their ability to lend money, it is as well important for them to retain their clients. Specifically, the career development of International Financial Institutions (IFIs) staff may be put in danger if they be unable to find access to high level state officials in the receiving nation (Willett 2001). According to Barro and Lee (2005) empirical test on IMF lending behaviour, they found out that the influence of the bureaucrats incentive structure have a significant correlation between the amount the International Monetary Fund (IMF) is lending to a nation and the share of a nation's nationals among the IMF professional staff of economists. When people that share similar nationality come together it eases networking and often facilitates access to high-level national politicians. All things considered, it seems that the allocation of aid decisions can well be clarified by utility maximisation of bureaucrats in international organizations and in national aid agencies. They invent diverse instruments of lending to disburse money so as to justify their current budget and to demand an even higher budget in the future. More discretionary power and higher prestige is earned when the budget is high; because their pay is also sometimes directly connected to the money they disburse, bureaucrats have a high incentive to maximise lending to developing nations. Additionally, in respect of prestige, pay and power, bureaucrats as well care about their future careers, and therefore they act in a way that permits them to retain their clients. Furthermore, they attempt to earmark aid to developing nations, in a fashion that perceived the quality of well-organized officers within their organization, and therefore in turn receive promotions.

6.0 Conclusion

As numerous poorer countries underway their path of development in the postcolonial era, former colonial powers tried to facilitate this procedure via which resources are provided in the form of development assistance. This drive was dominant in the foreign aid surges during the 1960s period and still remains one of the manifold goals that determine development assistance. Additionally, strategic interests, to pure altruism, have at all times been significant. During the Cold War period, development assistance was employed as a tool to buy allegiance. Currently, development assistance has focused substantially on security concerns, marked particularly by the watershed event of September 11th 2001 event. This review has tried to offer a summary for certain vital theoretical empirical results and models suggested in the literature for additional critical thinking about these matters. In addition to this analysis, the determinant of the allocation of aid in a political economic setting was also discussed; it further discussed the likely micro-foundation for cross-country analysis. In this context the actors involved in the allocation of aid decision making in donor nations and International Financial Institutions (IFIs) were identified; in addition the paper also discussed the relevant arguments in their respective utility functions

Therefore, in this paper, we were able to identify that it is not only the state, but as well the actors within the state which play a major role in the aid policy making of donors by trying to influence donor nations for their personal purposes. Based on a thorough review of aid allocation literature, there was noticeable evidence that bureaucracies, politicians, voters, and interest group of donor nations and institutions similarly exert influence in their respective methods of allocating aid decision in order to pursue their self-interests and maximize their personal utility. Representative and politicians of donor nations at International Financial Institutions (IFIs) earmark development assistance in a fashion that they can maximise their political support for future re-election. While making the allocation of aid decisions to developing nations, these representative and politicians of donor nations attempt not only to satisfy the voters at home, but as well the interests groups in their nations. The most relevant among these interest groups are the ethnic lobbies and business lobbies. Every interest group aim is to attempt to influence decisions that will be to the advantage of their friends at home and relatives. Furthermore, the international civil servants functioning in the International Financial Institutions (IFIs) disburse fund so as to ultimately get power, prestige, and higher pay. On the other hand, the bureaucrats as well have in mind future careers and promotions when making the allocation of aid decisions to developing nations.

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