

UNDERSTANDING THE PATTERNS OF AID FLOWS: CASE STUDIES ON EMERGING DONORS

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ABSTRACT

This paper studies the aid patterns and their formulation of four emerging donors India, Thailand, China and South Korea. The aim of this paper is to see how aid patterns have emerged in these countries and what the factors responsible for that are. There has been a lot of debate over the aid patterns of emerging donors and traditional DAC donors. Two common aspects were highlighted during the study 1) commonalities between traditional donors and emerging donors; and 2) diversity among the emerging donors themselves.

INTRODUCTION

The global foreign aid landscape is changing rapidly as more & more organizations, NGOs, countries and philanthropic activities are coming up. In Asia, Japan is no longer dominant in terms of aid volume as so-called emerging donors –China, India, Thailand and South Korea are becoming increasingly influential. These countries are becoming a major source of aid provider to poor countries in the Asian region. Further nations like China and India have even extended their boundaries beyond Asia and now supply aid to Africa.

In recent years “emerging donors” have gained attention with regards to their potential aid goals and development agendas behind such goals. They are seen to pursue their own national interest in the name of aid-namely in the form of Tied Loan and placing little importance on issues like good governance, human development and poverty reduction for their recipients. They are also accused of creating huge debt burden over poor countries as their recipients by providing them with heavy loans (Manning, 2006). Reisen (2007) claims their aid has resulted in furtherance of donors interest leading to prolongation of dictatorial rule in recipient nations. He further explains this point with the help of China that in order to claim its share over Africa has written-off the complete African debts. Sato (2010) on the other hand with his research experiences concludes that aid from emerging donors is no different from traditional DAC donors and will not generate any trouble for DAC donors in the future.

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To illustrate his point he takes the example of South Korea stating that South Korea has not only graduated from recipient to aid donor but along with that, it has become the member of DAC.

However, in order to come to the level of the United States and Europe, these emerging donors have to identify additional technical area and regions of great importance to the recipients. Chinese president Xi Jinping on his inaugural trip to Africa in March 2013 declared that there will be “no strings attached” to China’s assistance. But still, there is an emerging debate on their aid practices “whether their aid practices have convergence with traditional practices of DAC members or not”.

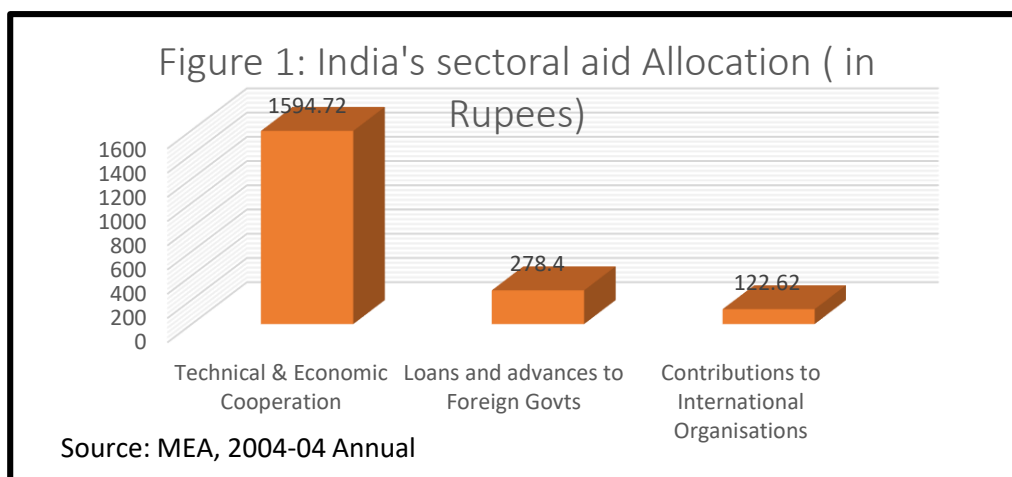
There is a generous amount of literature available on aid and the conditions that accrue with it. Burnell (1993) in his paper highlighted some aspects of the donor country’s interest from the perspective of the receiving country. There are a lot of terms and conditions attached to the aid through which the donor country tries to install a system of good government. Some of these include clarification of objectives and aims to be fulfilled related to the aid, transparency, consistent application of the purpose, understanding the political system of the recipient country, so that the application of the rules and regulations is not jeopardized. Ideally, all the political conditionalities should be implemented as per the reasons provided and should remain transparent and accountable. This is not so attainable in the real world as the things work through a power struggle.

Hiemenz and Dowling (1993) co-authored a paper that explained at length about the issues concerning the development assistance provided to countries. As per the data taken in the paper, the per capita aid flow reflects a bias against populated countries, however, there was no proof of middle-income bias. The correlation between development and aid is sensitive to the changes in the model and data. Middle-income bias may be established through the politicization of aid or by including economies of small islands as they receive small amounts of aid but high per capita inflow. The paper has analyzed a sample of 90 countries which eliminates the middle-income bias for the period of 1970-72 as well for 1976-78. But it did establish low-income bias for 1976-78 data. However, this variation in aid pattern cannot be concluded as a long term change with such little evidence.

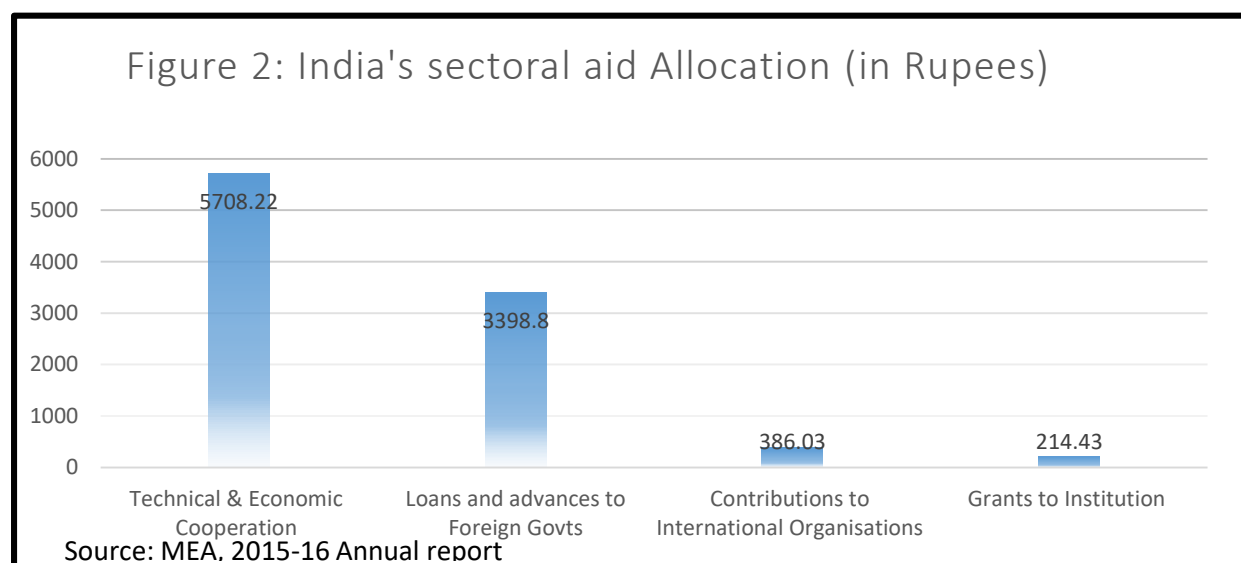
CASE STUDIES

CASE 1: INDIA’S AID PROGRAMME

India’s aid dates back to 1950s with the main objective of providing the support to its neighbors, in particular, Bhutan, Myanmar, and Nepal. The aid was mainly provided in the form of loans, grants and military assistance (Ministry of External Affairs (MEA), 1967). India’s aid disbursement witnessed a sharp decline during the 1990s due to balance-of-payments crisis but since then it is on a rise and has increased from 13.3 crores in 1996 to 2917.4 crores in 2010 (MEA, 2010) which is larger than Greece and Portugal’s aid programme and 40 % of Italy’s total aid (MEA, 2010).



In addition to MEA, India also provides aid via EXIM Bank whose flows amount to US\$ 2.45 million between 2005 and 2009 (EXIM, 2009). However, Sinha and Hubbard (2011) claim that most credits satisfy the category of grant elements and 25 % of grants which goes to Indian LOCs do not qualify the criteria of ODA as defined by OECD. Banerjee (1982) claims that India’s aid is particularly “need-oriented” as the nation provides aid with appropriate technology and technical expertise to the recipient country.



On the other hand, MEA openly admits that Indian government has been providing foreign aid either in forms of loans or grants as an essential tool for promoting India’s political, economic and commercial interest. Channa (2009) states that India’s aid is mainly targeted to countries which are rich in natural resources in order to meet the demand of such resources back at home, hence calling India’s aid as TIED-AID.

Price (2004) defends Indian government by stating that needy donor like India is exposed to various political criticisms with regards to its aid policy and hence such countries need to have their vested interest in giving aid because it helps them strengthen domestic policy. In

keeping with country's desire to become a major power, India has increased its horizon of foreign aid from Central Asia to South-east Asia, from neighbors to Africa. India claims its aid as a Development Assistance which is provided in the form of infrastructure, health and education. However, India's aid to Africa is totally different and is provided to train civil servants, engineers, purchase Indian equipment's and sending technical expertise from India.

Commercial and political interest has been embedded in India's foreign aid program. And as more & more Indian companies are releasing that they need to extend their boundaries in terms of natural resource-Africa continent as a whole is making more sense for India from both public and private angle.

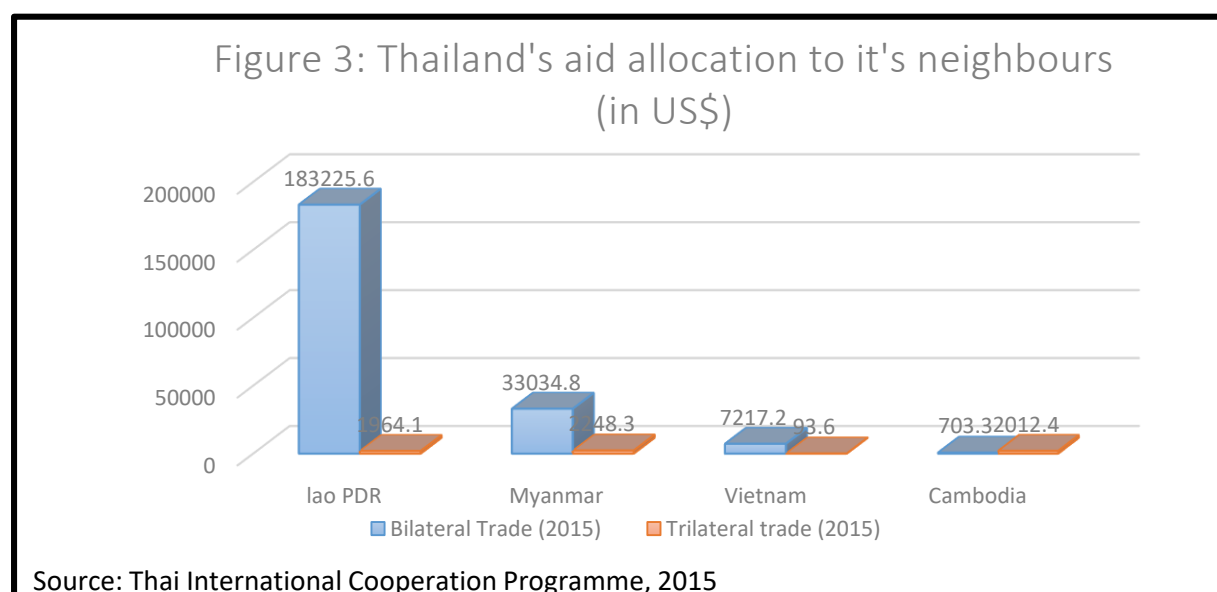
In the light of the trends, India is trying to establish itself as a leader of South-South Cooperation and to achieve this, India is joining and creating various aid groups like Afghanistan Donor Group, IBSA forum and lot more.

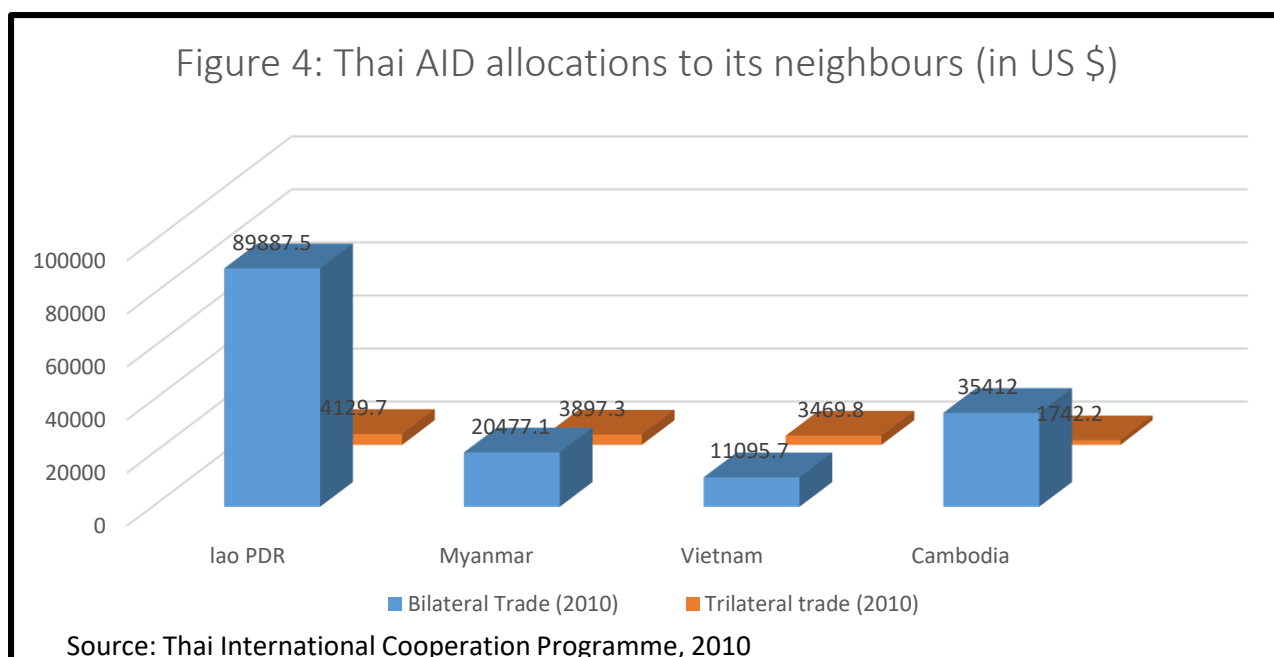
CASE 2: THAILAND'S AID COOPERATION

Thailand aid practices can be traced back to 1988 when Prime Minister Chatchai Chun than transformed Indo-china by turning battlefields into market creating opportunities and since then, Thailand has never looked back with regards to its aid activities. Thai aid is given both in forms of grants and loan for technical expertise, personnel development, and infrastructure to its neighboring poor countries like Myanmar, Cambodia, and Laos.

Thai aid in forms of loans majorly goes for infrastructure development like road building, construction of railways, hospitals etc. All form of aid activities done by private sector in the form of Joint Ventures with making Thai companies leaders in other countries markets.

Critics claim that increase in Thai aid to its neighboring countries is major to stop illegal immigration from such countries and hence to keep a check on such matters an agency ACMECS (Ayeyawady-Chao Pharya-Mekong Economic Cooperation Society) was created in 2003 which became an ideal platform to combat such tensions between Thai and its neighbors. As already stated the large part of Thai's aid goes to Myanmar, Cambodia and Laos followed by Sri Lanka, Bangladesh, Malaysia, Sudan, and Pakistan.





Thai Aid is provided with the following 3 main objectives:

- Promotion of economic relations and security, especially in relations to neighboring countries.
- Fulfillment of international obligation
- Development of international community.

Keeping above-mentioned point, it clearly indicates that Thai's intention is to follow DAC aid pattern. Even Thai officials believe that Thailand will not adopt any of its own policies regarding supplying aid rather it would follow the western way-DAC style of ODA.

CASE 3: CHINA: FROM POLITICAL TO COMMERCIALIST

The pattern of Chinese aid was originally ideological and politically based on a regional superpower model by providing aid as an international public good with the intention of defending its status as the Third World's hegemon. But, the current Chinese aid pattern has converted into a commercialize model conceptualizing aid as donor's "vanguard of trade and investment."

During the cold war, china focussed on political interests by giving aid in the form of grants to none- aligned countries, enforcing its "one China policy" simultaneously. In recent times, Chinese aid, in combination with the "Open Door Policy", is seen as a mechanism to fulfill donor's economic interests and its further economic development. But, the "One China policy" still holds as a political component. Soft and commercial loan schemes are being utilized for supporting the infrastructure sectors of developing Asian and African countries which are important from an economic perspective.

To understand this change in Chinese aid pattern, deeper study of the country's domestic and international factors that led to this change is necessary.

During the cold war, ‘The People’s Republic of China (PRC)’ was found in 1949. It immediately started seeing itself as the Third World’s leader. This can be proved by the fact that while it was receiving aid from USSR, PRC started acting as an emerging donor. After the Korean war (1953), it supported North Korea in its reconstruction and offered assistance to Vietnam like neighboring Asian communist countries. USSR abruptly suspended its aid to China in July 1960 due to some ideological conflict. China realized the vulnerability attached to foreign aid dependence.¹ After this experience, China conceptualized aid as “assistance in achieving economic self-reliance.”

Towards the end of the cold war, China was experiencing accelerated economic growth. Immediately after the end, DAC donor countries suffered from aid fatigue because of fiscal pressure. Both these events led to sharp fall in aid flow to China from these countries as they realized that China’s requirement of aid has reduced. To overcome a slowdown in Chinese economic growth path, it was necessary to have access to natural resources and new markets which led to the recent change in foreign aid policy direction.

The domestic factors played an important role in facilitating these changes.

When China’s tenth five-year plan was drafted, it was the hour of need for structural adjustment within the domestic market and overseas market expansion. Development resources were falling short increasingly and foreign currency reserves were soaring. Also, increasing globalization led to trade friction with American and European markets. National policies accredited the requirement of resource acquisition and the importance of going global. Though there was no mention of it in the tenth five-year plan, still aid became an important part of China’s national development strategy. But, china’s MOFCOM admits the fact that for improving China’s general international relationships and strengthening trade relations with developing countries, foreign aid plays an important role.² There is no doubt about the fact that Chinese aid contains the aim of developing the domestic economy of China utilizing the gains from Chinese businesses’ overseas investment. This explains the recent stress of Chinese aid to Africa.

Given severe regional inequalities in China and it still being in the developing stage, it is obvious that expenditure on aid will be conflicting with budgetary fund allocations for enhancing the conditions of the underdeveloped regions. It is very difficult to escape from domestic criticism of providing aid to foreign lands when funds are required for the domestic purpose. Therefore, information on aid-related activities is kind of sparse and it is most likely the inadequacy of transparency that has helped China to avoid domestic criticism. Not even one of the earlier five year plans mentioned aid and information on aid in the public domain are rarely available. But, the eleventh five-year plan shows the signs of modifications in this practice as for the first time, it included an “explicit statement on aid to developing countries.”

The international factors also influence Chinese aid pattern. Right from the initial stage, for its extreme aid competition with Taiwan, china used aid to Africa and Oceania. The countries which had diplomatic relations with Taiwan were denied of the aid by China. The only condition attached to Chinese aid is acceptance of its One China Policy. Recently, Costa Rica

¹ (Jin 2004, 117).

² (Wang 2006,438)

broke its diplomatic relations with Taiwan in order to establish them with china. This shows that the rivalry still continues.

One more criteria which have been incorporated recently in Chinese aid policy is the geopolitical considerations which are reflected by its aid to Southeast Asian countries and Indian Ocean countries.

Chinese aid policy incorporates elements of long-term continuity. The principles of “Equality and mutual benefit/win-win” and “non-interference in internal affairs” were first articulated in the “Eight Principles for China's Foreign Aid” unveiled during Premier Zhou Enlai’s tour of 11 Asian and African countries from late 1963 to early 1964, and they persist till today. In spite of on-going reform since 1995, foreign aid remains “a concrete reflection of the Eight Principles of the new situation” (Zhang 1996, 70). The first Principles is to “...firmly maintain the principle of equality and mutual benefit. Aid is not a unilateral gift but of a mutual nature.” Since the 1960s, this principle has been continuously mentioned in official documents and is assumed as the most important guiding principle of China’s foreign aid policy.

All types of Chinese aid are provided in “exchange for something,” though the “something” differs across different time periods with respect to the different recipient countries involved.

The second Principle, “to respect the sovereignty of recipient countries and to require no conditions and no privileges”, also found its presence until today. Consistently following the non-interventionist policies, China has been able to win the friendship of countries characterized by non-democratic governance and human rights violations also by providing aid to them under this policy.

During the cold war, Chinese aid was in the form of grants and was majorly distributed to Non-Aligned countries. In the 1970s, its aid volume was estimated as greater than that of all DAC countries’ average. However, when eventually the need for funds for development grew in China itself, the aid purpose changed track towards promotion of its own economic development. This required a strategic approach to making the investments which are financed by the aid, more effective.

Attempting to use the funds for assistance from means other than its budgetary allocations, it has fund new sources of funding. By allowing Chinese SOEs to take part in international competitive bidding so as to win procurements which are funded by multilateral institutions’ aid and other donors, by getting funding from financial markets, and by combining local financial resources in developing countries with its aid finance, China is using external assistance.

The “trinity-style” of cooperation has been pursued in recent years. Chinese foreign aid exhibits some unique features which distinguish it from the traditional donors’ pattern. Chinese government offers aid in the form of a barter for the utilizable natural resources of African countries which they are endowed with. In this way, development is accelerated both in the donor country, china, and its aid recipients.

This model of incorporating and utilizing aid for the development in both donor and recipient countries is a distinct “Chinese-style development-assistance type of aid.”

China offers foreign aid in forms like technical assistance, human resource development, medical aid, humanitarian aid, grants, turnkey projects, debt relief, etc. As can be seen by the tables 1 and 2 below, according to China’s White Paper on Foreign aid, almost two-third of

its aid got to LDCs and other low-income countries. Also, about 80% of its foreign aid goes to Asia and Africa.

Table 1: Geographical distribution of Chinese foreign aid (in %)

Till 2009		2010-12	
Africa	45.7	Africa	51.8
Asia	32.8	Asia	30.5
Latin America and the Carribean	12.7	Latin America and the Carribean	8.4
Oceania	4	Oceania	4.2
Europe	0.3	Europe	1.7
others	4.5	others	3.4

Table 2: Distribution of Chinese Foreign Assistance Funds according to income level of countries till 2009

Till 2009		2010-2012	
Least Developed Countries	39.7	Least Developed Countries	52.1
Low and Medium-income Countries	19.9	Lower Middle-income Countries	21.2
Other low-income countries	23.4	Other low-income countries	9
Medium and high-income countries	11	upper middle income countries	12.3
Others	6	Others	5.4

China also provides aid to Sudan and Angola, the countries which are not able to receive official aid because of factors like civil conflict or human rights violations. Chinese aid has contributed to the economic autonomy of these countries by enabling them to realize the potential of their unexploited resources and to utilize these same resources.

Under this kind of aid approach, it provides aid not only for mining projects but also in the same aid package for related infrastructures, such as railways and ports, thereby creating stability in resource supplies. This model of Chinese aid embodies the win-win principle which is the expressed cornerstone of Chinese aid.

A question then arises that “itself being a developing country, why does China provide aid?” The simplest answer to this lies in the fact that Chinese aid is not exported. By advancing the overseas business development of Chinese firms, it serves China’s own national development agenda. It is a clever paradox that because China is a developing country, it provides aid for its own development.

CASE 4: SOUTH KOREA: MODELLED ON JAPANESE AID

Purposes of Aid and related Strategies and Policies

South Korea, also known as the Republic of Korea achieved independence in 1987. With favoring growth prospects it became a donor in the Official Development Assistance (ODA). By 2010, it had joined the prestigious Development Assistance Committee (DAC) of Organisation of Economic Co-operation and Development (OECD) as a donor. It was a big accomplishment for it as it had transitioned from being a recipient to a donor.

South Korea has been actively providing aid since 1963; however ever since then the pattern and purpose associated with trade has developed. In the initial stage, the government of South Korea considered it as a strategic prospect. It worked towards establishing diplomatic ties at an international level, so to establish only South Korea as the sole legitimate role in the Korean Peninsula. After establishing itself as a prosperous economy in the 1980s with surplus on external payment, and a strong international presence, it became an active patron of fulfilling the role of an aid donor. South Korea being heavily dependent on external trade, planned to develop its business through aid. However, recently it has moved to its donor interests and is actually considering the needs of the recipient involved along with incorporating universal values.

According to, Vision 2030, the volume of aid quantitatively will expand and the purpose will be to incorporate an MDG direction and to be DAC-minded. The following suggestions were made:

1. Expanding the aid volume: Official Development Assistance (ODA)/Gross National Income (GNI) will increase to 0.11% for 2010 and 0.25% in 2015.
2. Being selective and focus: even though the aid is provided for Asia, Africa will continue to receive aid for humanitarian causes.
3. Untying aid: the untied ratio of united Korean aid which is just 2.6% increased to 37.18% in 2010 and it was agreed that 40% loans and 90% grants in 2015 will meet the standards set by DAC.
4. Active participation of the public: public consciousness will be encouraged to ensure support for the purpose of aid.

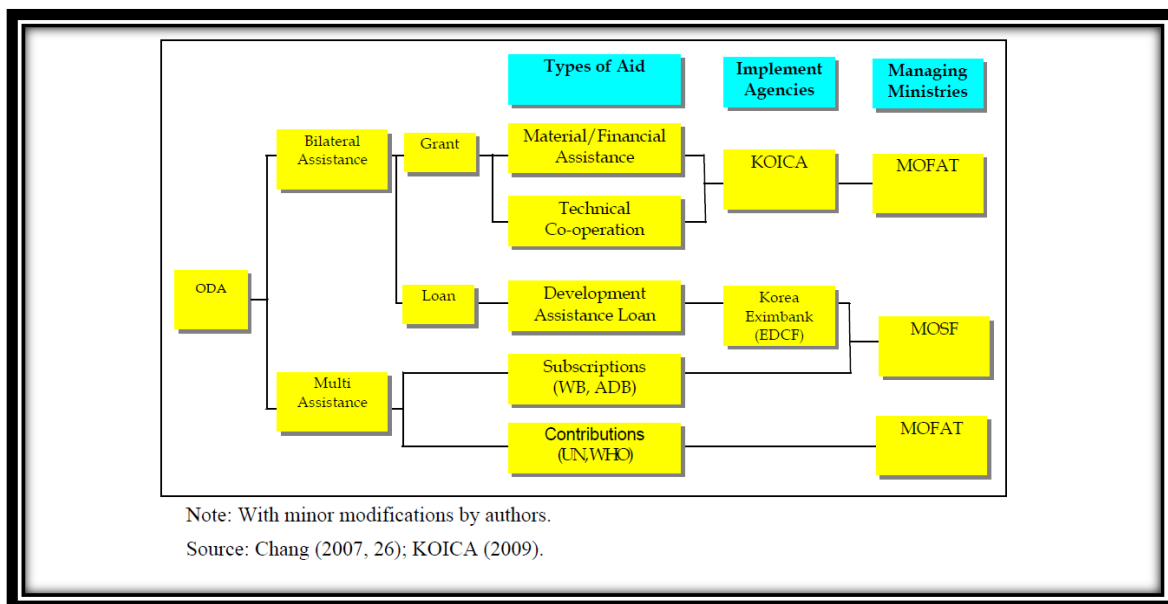
The radical shifting of aid towards MDGs and DAC are applicable to the aid provided by the executive agencies. Korea International Co-operation Agency (KOICA) always had the social development stand, advocating poverty reduction and sustainability, the assistance purpose of Economic Development Cooperation Fund (EDCF) was to establish equally advantageous relations with its recipients. Economic conditions and the availability of natural resources play a role for EDCF loans. EDCF has now added aid for environmental as well as health sectors through incorporating poverty reduction and sustainability. Thus, it plans to align its strategies with socially centric MDG criteria.

In 2009, it a net ODA of US\$850.7 million to Development Assistance Committee (DAC) at Organisation for Economic Cooperation and Development (OECD) net Official Development Assistance (ODA), which comprised of bilateral ODA worth US\$615.81 million and US\$234.94 million of multilateral ODA. South Korea also provides aid to the northern portion of the Korean peninsula. Though this part is under the government of North Korea, South Korea has constitutional control over it and continues to provide aid assistance. It provided approximately US\$ 558 million assistance in 2007, but as the administration of North Korea changed in 2008 the aid assistance declined dramatically.

Institutions and Aid

South Korea's ODA is very similar to that of Japan, which involves granting aid and concessional loans. The loan policy is proposed by the Ministry of Strategy and Finance (MOSF) and implemented by EDCF. Aid granting policy is formulated by the Ministry of Foreign Affairs and Trade (MOFAT) and implemented by KOICA. To co-ordinate these

incompatible views, the International Development Cooperation Committee (IDCC) was established as a permanent body. It is led by the Premier and comprises of members from 15 ODA-related ministries, executing agencies, a representative from Korea Exim bank, and 12–13 private sector representatives. it functions as an agency which coordinates Korean aid related policies at the inter-ministerial level and formulates mid- and long-term aid related plans.; even after so many provisions, the position of the Premier is not very strong which is shown by the weak coordination of the institution.



HOW IS THE COUNTRY PERFORMING?

The country has been providing aid since the 60s; however, after the establishment of EDCF and KOICA, its aid activities have improved. Under Roh Moo-hyun’s government, the volume of aid became three times and stood at US\$ 743 million in 2005. It is more than Ireland and Greece, the volume of aid provided by Korea is 1/7th of DAC’s average level. Korea can be considered as a mid-level of aid provider as its ODA/GNI ratio was 0.09 % in 2005, which is highest ODA in Korean history, but below DAC’s average which stands at 33.3%.

		(unit: US\$ million)											
Year	1987	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Bilateral	1.4	71.5	123.2	111.3	124.7	131.4	131.2	171.5	206.8	245.2	330.8	456.5	516.5
Loan	1.4	50.1	53.4	54.8	37.2	39.0	47.8	53.0	66.7	145.5	212.1	315.4	256.5
Grant	-	21.4	69.9	56.6	87.5	92.4	83.4	118.6	140.1	99.7	118.7	141.1	260.0
Multilateral	22.1	44.5	35.8	74.3	58.0	186.1	80.9	93.1	72.0	120.7	92.6	287.2	112.4
ODA/GNI (%)	0.018	0.026	0.033	0.042	0.058	0.079	0.047	0.06	0.06	0.06	0.06	0.09	0.08
Grant Element	100	70.1	43.3	49.2	29.8	29.7	36.4	30.9	32.2	59.3	64.1	69.1	49.7
Total Amount	23.5	116.0	159.2	185.6	182.7	317.5	212.1	264.7	278.8	365.9	423.3	743.6	629.0

Source: Hyun (2006, 10).

Korean aid has focused on many sectors set separately by EDCF and KOICA. EDCF does not really give a preference but on the basis of disbursement, communication and transportation sub-sectors have been prioritized. Now that the MDGs are being aligned with the aid assistance, Korea is focusing on various social sectors such as health, water supply, education and civil society. KOICA has eight sectoral priorities: ICT, health, rural development, education, environment, disaster management, governance and energy and industry. In the year 2005, it provided 20% to the health sector, 16% in education, 15% for disaster management, 13% to governance, finally 10% to ICT. Korea also targets regions for aid provision. EDCF prioritizes Bangladesh, Angola, Guatemala, Cambodia, Indonesia, Columbia, Sri Lanka, Yemen, Pakistan, Vietnam, and Philippines. KOICA, on the other hand, considers Kenya, Bangladesh, Ghana, Laos, Cambodia, Vietnam, Uzbekistan, Congo, Tanzania, Mongolia, Ethiopia, Indonesia, Paraguay, Sri Lanka, Philippines and Peru as its priority. 2006 Data shows that 78% aid is provided to Asia, 8% to Africa, and 5% to Latin America, 24.5 percent to LDCs, 12.9 percent to low-income countries (LICs), and 49.4 percent to low-middle-income countries (LMICs).

KOREA'S AID PATTERN

Korea's Aid model depicts somewhat a midway Japanese model of aid and the DAC model. The aid that the country has been providing is somewhat commercial and holds a striking resemblance to the aid Japan provided during the 1960s and 1970s. Both Japan and South Korea have often concentrated on economic rather than political or military aspects of the neighboring country. However, from 1980s Japan started to balance its commercial model with the DAC model, South Korea followed in Japan's footsteps and started to balance its trade by 2000s. South Korea supports poverty alleviation, fulfillment of MDGs, and expansion of untied aid to LDCs. Even though Korea's model and pattern of aid are transforming into a DAC model, it will try to achieve a balance between its economic interests and the needs of the recipients. The model is vague and lacks domestic backing; still, it focuses on the reduction of poverty, improving the health sector, improving governance and development of human resource. However, the government is dormant with regard to gender and environmental issues, as it feels that these do not promote economic development. As per DAC's recommendation Korea needs to concentrate more on human rights and governance issues. Thus, both the countries have very similar aid patterns, which are not only limited to their roots but also the transformation. As a consequence of various political and economic similarities between the two, and South Korea's knowledge of Japanese policies and languages, it has very well picked up the approach Japan uses for its aid.

CONCLUSION

The aid of these emerging donors is diverse and has transformed in its own way. Chinese aid was initially of superpower model establishing its political super power over recipients. But it has now transformed into commercial power looking aid as a guard for trade and investments in needy nations. Indian aid holds similarity with Chinese model. Initially, India adopted South-South Cooperation in its aid model with its neighbors but after Gulf War of 1991, it has also changed its aid vision to Commercialisation.

South Korea, on the other hand, started with Commercialisation following the footsteps of Japanese model giving importance to donor's need but after 1990's its aid is mixed with humanitarian, commercial and other development-related aid practices. Thai aid is

completely following the DAC model of aid with the purpose of achieving DAC membership.

Potter (2008) indicates that the purpose of providing aid by any emerging donor is to obtain DAC membership and that is the main reason for transformation in the aid patterns of all the 4 countries from political egoism to humanitarian aid practices ultimately chasing the steps followed by traditional DAC members. Another important characteristic of their aid is that aid from emerging donor is provided for quite inexpensive projects with advanced specifications as compared to the aid from DAC members.

The process of aid allocation needs to be understood. The concept of development aid being provided to countries with poor growth records has often hampered the link between aid and growth. To solve this problem we need to consider the factors that may control aid allocations without depending on the needs of the recipient. The political situation of a donor country may affect the motivation as well as the amount to be provided to the developing countries. Thus, the political scenario may impact the purpose of aid, which will, in turn, impact the relationship between aid and development the effects of aid on development (Fleck and Kilby, 2007).

A panel data analysis for a period of 1960 to 1997 suggests that there are several criteria to U.S allocating bilateral aid allocation, such as development concerns, commercial importance, strategic importance, and democratization. Also, the criterion for allocating aid differs methodically and considerably between conservative and liberal regimes. Under the liberal regimes, the bilateral aid given by the US is similar to that of small owners which are basically given for development purposes and humanitarian causes. On the contrary, conservative regimes in the US allocate aid which mirrors more of mercantilist trend For the past decade, there has been an intense debate on improving aid effectiveness through ex-post selectivity i.e. governments of developing countries which have shown an improvement in their governance should be provided with budgetary assistance rather than funds for structural programs and various projects.

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