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Bilateral Aid to Least Developed Countries: A Study of the U.S., the U.K., France and Japan

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Bilateral Aid to Least Developed Countries: A Study of the U.S., the U.K., France and Japan

Abstract

Bilateral aid allocation is affected by a number of factors on the donor side. It has been found that public satisfaction with government positively affects the willingness to give bilateral aid (Gradstein and Chong, 2007). Economic and strategic interests of the donor country play a role in determining bilateral aid allocation (Tingley, 2009). Perhaps the most interesting finding is that ideology has a significant impact on bilateral aid allocation (Fleck and Kilby, 2001) (Milner and Tingley, 2010).

BILATERAL AID TO LEAST DEVELOPED COUNTRIES: A STUDY OF THE U.S., THE U.K., FRANCE, AND JAPAN

Dave Warren

I. INTRODUCTION AND LITERATURE REVIEW

Bilateral aid allocation is affected by a number of factors on the donor side. It has been found that public satisfaction with government positively affects the willingness to give bilateral aid (Gradstein and Chong, 2007). Economic and strategic interests of the donor country play a role in determining bilateral aid allocation (Tingley, 2009). Perhaps the most interesting finding is that ideology has a significant impact on bilateral aid allocation (Fleck and Kilby, 2001) (Milner and Tingley, 2010).

The relationship between ideology and aid allocation is not one-dimensional, meaning in some situations conservatives actually give more bilateral aid than liberals. However, liberal-conservative shifts in ideology tend to cause bilateral aid allocation to shift in a way that reflects the priorities of the ideology in control. Specifically, when the more liberal leaning party is in control, bilateral aid with humanitarian concerns and bilateral aid to low-income countries increases (Tingley, 2010). On the other hand, when the more conservative leaning party is in control, bilateral aid allocation tends to shift away from humanitarian concerns toward economic and trade driven concerns (Fleck and Kilby, 2001) (Ram, 2003). This makes sense due to the differences between liberal and conservative ideology. Conservatives place an emphasis on limiting the role of government. Thus limiting the ability of government to be used as a tool to eradicate inequality (Hicks and Swank, 1992). Furthermore, the conservative ideology places an emphasis on shrinking the state budget which could lead to shrinking foreign aid budgets (Adams, 1998). This contrasts with liberals who place a greater emphasis on humanitarian concerns and believe in using the state as a tool to eradicate poverty (Hicks and Swank, 1992). Adding to this argument, it has been found that those who consider themselves left-leaning are more likely to approve of government humanitarian aid than those who consider themselves right-leaning (Chong and Gradstein, 2008).

Multiple studies have viewed the role ideology plays on bilateral aid allocation specifically for the United States. Fleck and Kilby (2006) review party control in U.S. Congress and presidential control in relation to foreign bilateral aid. The study breaks up foreign bilateral aid into four categories: development concerns, strategic importance, commercial importance, and democratization. The major finding in the study is that when the president and Congress are more liberal, development concerns receive more weight than when the president or Congress are more conservative. On the other hand, the study finds that when Congress is more conservative, commercial concerns have more weight than when Congress is liberal. Three separate regressions are used in the study. The dependent variable in regression 1 is whether or not a country receives aid. The dependent variable in regression 2 is whether or not the region (group of countries) receives aid. The dependent variable in regression 3 is the amount of aid a country receives. The independent variables in the study are the same for all three regressions. They include: amount of aid given by small donor countries, U.S. exports, U.S. imports, UN voting, Democracy (of U.S.), GDP, and Population (of U.S.). The regressions run over several time periods to separate the effects of the cold war. The study uses panel data from 1960 through 1997.

Fleck and Kilby published a follow up study in 2010 focusing on the same issues with the addition of the War on Terror. Their 2010 study reviewed the U.S. bilateral aid budget from 1955-2005 with respect to party control in Congress and the presidency. The main finding of the study is that aid flows to all developing countries have increased recently, including those countries closely involved in the War on Terror and those countries not involved with the War on Terror.

Moss and Goldstein (2005) viewed the U.S. bilateral aid allocation situation using some different methods than Fleck and Kilby. Their research question was: Are there differences through time

between the Republicans and the Democrats in terms of providing aid to Africa? The study used data from OECD on U.S. bilateral flows of overseas development assistance to Sub-Saharan Africa from 1961-2000. There are several dependent variables in the study including: bilateral aid given to Sub-Saharan Africa in U.S. dollars adjusted for inflation; and the percentage of all bilateral aid given to Sub-Saharan African countries. The independent variables in the study are measures of political party control by year operationalized by dummy variables. Moss and Goldstein (2005) found that it is the relationship between Congress and the president that provides the most influence on how much aid is given. Specifically, they found that when one party has control of at least the presidency and house, aid flows to African developing countries are much higher than when the president and all of Congress are at odds.

The purpose of this study is to view ideology's effect on bilateral aid allocation to LDCs, by focusing on the bilateral aid giving countries. This study will attempt to isolate precisely which pieces of government (if any) actually affect bilateral aid given to LDCs.

II. HYPOTHESIS AND TESTING

This study's hypothesis is that, all factors held constant, the more liberal a government is the more that government will give bilateral aid to LDCs. To test the relationship between ideology and bilateral aid to LDCs, the top four bilateral aid donors are analyzed. These donors are the United States, The United Kingdom, France, and Japan. For each country two regressions are run: one spanning from 1960-2009 and the other spanning from 1980-2009. The purpose of the 1980-2009 regression is to control for the possibility that the importance of aiding LDCs changed over time. The results of the second regression should be more consistent with the current ideological views and current events. In all eight regressions the dependent variable is bilateral aid to LDCs in current U.S. dollars. All eight regressions also include two independent variables GDP in current U.S. dollars and GDP growth with one year of lag applied. These data are from the World Bank. The inclusion of both GDP and bilateral aid in current U.S. dollars controls for the U.S. economy interfering with the study. Because both variables are in the same terms, changes in the U.S. economy due to inflation or international purchasing power affect

both variables equally. GDP is expected to have a significant positive effect on bilateral aid given to LDCs. GDP growth is included in all eight equations to control for the economic cycle in each country. This study hypothesizes that in the years following an economic boom, countries will be more likely to give larger amounts of aid to LDCs. This is why one year of lag is given to the GDP growth variable. All economic data are from the World Bank. The final variable in each equation measures the political ideology that has control of the country. This variable is different for each country, since the political system in each country is different. The data for the political variables are from European Election Database, Uselectionatlas.org and Electionresources.org. The base regression equation with a place holder for the political variable is as follows:

$$\text{Bilateral aid to LDCs} = \text{GDP} + \text{GDP growth (Lagged 1 year)} + \text{Political Variable}$$

Variables that represent significant time periods are also present for certain equations. As mentioned before, Moss and Goldstein (2005) suggested the Cold War era may have an impact on bilateral aid. This variable is included in the U.S. regressions. Fleck and Kilby (2010) found a rise in aid coinciding with the beginning of the War on Terror. This "War on Terror" variable is included in the final equations for both the United States and the United Kingdom. It is found insignificant for the France equation.

Appendix A contains a list of current LDCs for reference as of 2010. It should be noted that the countries contained in this list have changed slightly over time. The data used in the regressions reflect these changes.

Ideology Variable for the United States

In the U.S., The Democratic Party is more liberal while the Republican Party is more conservative. The President of the United States has significant power in determining the foreign policy of the country. The House and the Senate in the U.S. both have the power to vote down an appropriations bill. Therefore, the ideology of all three will be included in the U.S. political variable. This study codes the party control of the House, Senate, and Presidency into a three letter variable. The first letter of the variable represents which party has control of the House. The second represents which party has control of the Senate. The

third represents the party that has control of the Presidency. For example, if the Republicans controlled the House and the Senate, while the Democrats controlled the presidency, the variable would be "RRD". Five different combinations of party control in the U.S. have occurred since 1960. The combinations are "DDD," "DDR," "RRD," "RDR," "DRR," and "RRR". The combination that has not occurred from 1960-2009 is "RDD". In the regression equations for the U.S. DDD is not included because it is the control variable. This means that all the other political variables are in terms of full democratic control. Since full democratic control means full liberal control for the purposes of this study, all other U.S. political variables are predicted to have a significant negative impact on the amount of bilateral aid given to LDCs. These political variables are constructed in the same way that the Moss and Goldstein (2003) constructed their political variables.

$$\text{U.S. aid to LDCs} = \text{GDP} + \text{GDP growth} - \text{DDR} - \text{RRD} - \text{RDR} - \text{DRR} - \text{RRR}$$

III. RESULTS: UNITED STATES

Table 1 shows the results for the U.S. equations. GDP was positive and significant at the .01 level across both equations. The War on Terror variable was also significant at the .01 level across both equations. It accounted for an extra \$1.9 billion in bilateral aid in the full equation and an extra 1.2 billion bilateral aid dollars in the 1980-2010 equation. The Cold War variable however, was not significant in the 1980-2010 equations and was only significant at the .1 level in the full equation. The "War on Terror" results agree with the findings of the most recent Fleck and Kilby (2010) study.

Table 1: Regression Results For Both U.S. Equations

	U.S. 1960-2009	U.S. 1980-2009
GDP (Current U.S. dollars)	.0003745*** (-0.913)	.00047558*** (-0.856)
GDP Growth (1 Year of Lag)	-79767710 *** (-.102)	-116575058* (-.121)
War on Terror (1 = Yes)	1934041998 *** (-0.477)	1206057149 *** (-0.472)
Cold War (1= Yes)	659594293 * (-0.185)	496931025 (-0.169)
DDR	-238740658 (-.064)	-698157135 ** (-.156)
DRR	-208934383 -0.039	-20543046 (-.004)
RRD	-1382599605 *** (-.255)	-1816575842 *** (-.366)
RDR	-2602987158 *** (-.290)	-2956482333 *** (-.372)
RRR	-1252985346 *** (-.193)	-1368485098 *** (-.234)
Adjusted R Squared	0.937	0.935

1. Significant at .1 =* ; .05 =** ; .01 = ***
2. Number in parenthesis = Beta weights
3. Political Variables are in terms of full Democrat (left-wing) Control "DDD"
4. Political Variable code = first letter is House control, second letter is Senate control, third letter is Presidency control

When using full liberal government as the control for the U.S. there is a significant reduction in bilateral aid given in three out of the other five government combinations across both equations. These government combinations are represented in table 1 by RRR, RDR and RRD variables. Each is significant at the .01 level. The years that they span are: 2003-2006 (W. Bush administration "RRR"), 2001-2002 (W. Bush administration "RDR"), and 1995-2000 (Clinton administration "RRD"). The DDR variable is significant (in the negative direction) at the .05 level in the 1980-2010 equation only. It includes 1987-2002 (Regan and Bush administrations) and 2007-2008 (W. Bush administration). The only political combination that did not have significantly lower bilateral aid given to LDCs was the DRR variable which occurred from 1981 through 1986 during the Reagan administration.

These results generally support the hypothesis that more conservative governments give less bilateral aid to LDCs. However, the 1981-1986 (Reagan administration) "DRR" variable does not support the hypothesis. Figure 1 shows a plot of U.S. bilateral aid to LDCs over time.

Ideology Variable for the United Kingdom

In the U.K. the Labour Party represents the more liberal ideology while the Conservative Party represents the more conservative party. Foreign policy in the U.K. is determined by the prime minister and the cabinet ministers. Cabinet ministers are appointed by the prime minister. Appropriation bills in the U.K. are passed by the House of Commons. Therefore, the government groups that have the most power to influence bilateral aid to LDCs are the Prime Minister and the House of Commons. Since the party that controls the House of Commons also controls the Prime Minister seat, the variable for the U.K. is reduced down to a single dummy variable called "Prime Minister." A "1" indicates a liberal Prime Minister (and liberal majority in the House of Commons), and a "0" indicates a conservative Prime Minister (and conservative majority in the House of Commons). The full regression equation for the United Kingdom is as follows:

$$\text{U.K. aid to LDCs} = \text{GDP} + \text{GDP growth} + \text{Prime Minister}$$

IV. RESULTS: UNITED KINGDOM

For the United Kingdom, the GDP variable and the War on Terror variable were both posi-

five and significant at the .01 level across the full equation and the 1980-2009 equation. The results are shown in Table 2. Similar to the results for the United States, the War on Terror has had a substantial effect. The full model shows an extra 600 million bilateral aid dollars given to LDCs as a result of the War on Terror and the 1980-2010 model shows an extra 450 million dollars given. Figure 2 shows a timeline of United Kingdom bilateral aid allocation.

The political variable for the United Kingdom was not significant in either equation, which does not support the hypothesis of this study. There are several possible explanations why the ideology variable was insignificant in the United Kingdom case. The most obvious answer is that the Conservative Party and the Labour Party simply do not differ in their views on foreign policy and, more specifically, on bilateral aid allocation. This explanation should be given some degree of credit; recently, the Labour Party has begun moving closer to the position of the Conservative Party on a number of issues, including economic issues. Another explanation is omitted variable bias. The House of Lords was an omitted variable in these equations and may have had an impact.

Ideology Variable for France

In France the more liberal ideology is represented by an alliance of political parties including the Socialist Party, the French Communist Party, the Greens, the Radical Socialist Party, and the Citizen's Movement Party. The more conservative ideology is represented by a different alliance of parties including the Union for Popular Movement,

the Rally for the Republic, and the Union for French Democracy. This means that the political variables in the equations for France represent the alliances instead of individual parties.

Executive Powers are split between the

Table 2: U. K. Regression Results For Both Equations

	U.K. 1960-2009	U.K. 1980-2009
GDP (Current U.S. dollars)	.00079900887124 *** (-0.898)	.0009844897909*** (-0.924)
GDP Growth (1 Year of Lag)	-19263319.46 (-.050)	-42981144 (-.102)
Labour Party Prime Minister (1=Yes)	58771709.23 (-0.043)	29943316.52 (-0.020)
War On Terror (1=Yes)	593834247.78 *** (-0.319)	448709281*** (-0.271)
Adjusted R Squared	0.884	0.865

Significant at .1 =* ; .05 =** ; .01 = ***
Number in parenthesis = Beta weights

president and the prime minister. Both have power in determining foreign policy. Appropriation bills are voted on by both the National Assembly and the Senate. The Senate has been conservative controlled since 1960. The ideology in control of the National Assembly of France is also the ideology in control of the Prime Minister position. Therefore, the political variable for France is reduced down to two dummy variables. In this equation those variables will be called the "President variable" and the "Prime Minister" variable. The "Prime Minister" variable is a "1" if the liberal alliance controls the Prime Minister position (also means control of National Assembly) and a "0" if the conservative alliance controls the position. The President dummy variable works in the same way. The full regression equation for France is as follows:

$$\text{France's bilateral aid to LDCs} = \text{GDP} + \text{GDP growth} + \text{Prime Minister} + \text{President} + \text{GDP} + \text{GDP growth} + \text{liberal control}$$

V. RESULTS: FRANCE

The GDP variable for France was significant and positive at the .01 level across both equations. Table 3 shows the final regression equations for France. A War on Terror variable was attempted for both of the France regressions and was found insignificant. Results for the France equations with the War on Terror variable included are found in Appendix B.

The prime minister variable for France was found insignificant across both equations. The

Table 3: Final Regression Results For France

	France 1960-2009	France 1980-2009
GDP (Current U.S. dollars)	.00059414550 *** (-0.765)	.000501698854 *** (-0.714)
GDP Growth (1 Year of Lag)	-14908190.65 (-.050)	-4311037.16 (-.011)
President (1=Liberal)	466857912.52 *** (-0.369)	376003464.676** (-0.423)
Lower House (1=Majority Liberal) (Prime Minister liberal)	34481836.77 (-0.026)	-11558884.21 (-.013)
Adjusted R Squared	0.707	0.187

1. Significant at .1 =* ; .05 =** ; .01 = ***
 2. Number in parenthesis = Beta weights

president variable was found positive and significant for both equations. The president variable is significant at the .01 level in the full model and is significant at the .05 level in the 1980-2009 model.

The results from the presidency variable support the hypothesis of this study, but the results from the prime minister variable do not. Both the prime minister's party and the president's party have varied consistently over time. From 1960-1980, the President of France was of the conservative party alliance. From 1981-2009 the president was of the liberal party alliance. Figure 3 shows a plot of France's bilateral aid allocation over time.

Similar to the United Kingdom situation, there are a number of possibilities to explain why the prime minister variable is not significant in the equation. One explanation is that the ideology of the left alliance in the National Assembly and prime minister seat are not that different from the ideology of the right alliance. However, this explanation is not as plausible in this case as it was in the case of the U.K. because it includes the president variable that is significant. Since the president variable is significant in this case, it suggests that the party alliances do act differently when they are in power (in regards to bilateral aid allocation). An alternative explanation is that the Prime Minister seat and majority control on the National Assembly have less power over bilateral aid distribution than the presidency does.

Ideology Variable for Japan

In Japan the liberal ideology is represented by an alliance of parties (also known as the total opposition): The Social Democratic Party, People's New Party, and New Party Nippon. The conservative ideology is represented by a separate alliance of parties (also known as the ruling coalition): The Liberal Democratic Party (LDP), New Komeito Party, and Japan Renaissance Party. Appropriation bills in Japan are voted on by the House of Representatives (lower house). The Prime Minister of Japan

has substantial power in determining foreign policy. The Prime Minister of Japan and the House of Representatives have been controlled by the conservatives over all years of this study (except for a 3-year situation from '93-'96').

After the election of '93, members of both alliances cast a vote of no confidence against the newly elected Prime Minister Morihiro Hosokawa. Hosokawa in return dissolved the House of Representatives, which caused members of the LDP to defect and form new parties. Some of these newly formed parties were allied with the more liberal opposition alliance which ultimately gave the liberal opposition alliance a slight majority in the Lower House. This lasted until '96 when the LDP regained majority. This three year period from '93-'96 will be represented by the dummy variable called "liberal control". The regression equation for Japan is as follows:

$$\text{Japan's bilateral aid to LDCs} = \text{GDP} + \text{GDP growth} + \text{liberal control}$$

VI. RESULTS: JAPAN

GDP is positive and significant at the .01 level across both equations for Japan. However, the political variable for Japan is not significant in either equation. Table 4 shows the regression results for Japan.

Similar to the models for France and the United Kingdom, there are several possible explanations for why the political variable for Japan was insignificant. The bilateral aid allocation ruling coalition may not differ substantially from the bilateral aid allocation of the opposition alliance. Another possible explanation involves the data set used to test the Japan model. As mentioned before, the opposition alliance only controlled the House of Representatives (and prime minister seat) for a total of three years over the course of this study. During that three year period, a number of former ruling coalition members joined the opposition coalition and one of the sessions of the House of Representatives was dissolved by the prime minister. It is possible that there was not enough time to make a meaningful change

Table 4: Regression results for both equations for Japan

	Japan 1960-2009	Japan 1980-2009
GDP (Current U.S. dollars)	.000277851 *** (-0.909)	.0001824182 *** (-0.671)
GDP Growth (1 Year of Lag)	-3251078.98 (-.021)	14804663.58 (-0.087)
No Confidence / Split (1 = yes)	74225811.48 (-0.032)	351561898.41 ** (-0.287)
Adjusted R Squared	0.872	0.707

1. Significant at .1 =* ; .05 =** ; .01 = ***
2. Number in parenthesis = Beta weights

in policy, specifically foreign policy involving bilateral aid allocation, during this period. A plot of Japan's bilateral aid allocation to LDCs over time is shown in figure 4.

VII. LIMITATIONS

Aside from aforementioned limitations, there are several areas where the models do not capture exactly what they are intended to capture. The GDP growth variable which was present in every equation is either insignificant or significant in the negative direction. These results do not support the hypothesis of this study. The GDP growth variable is intended to control for the economic cycle. These findings suggest that either GDP growth is not an accurate indicator of the economic cycle for this equation or that the economic cycle has no effect on bilateral aid allocation to LDCs. Future research in this area may be needed to find a more accurate indicator for the economic cycle if it does affect bilateral aid allocation.

Another limitation of this study is that the political variable across each equation only roughly captures the actual ideology. The political variables in the equations used here capture only the ideology of the party or alliance of parties and not the ideology of the actual political office holder. Therefore, variations in ideology across the same party or party alliance are not captured here. A very liberal office holder in the more liberal party is counted equally with a centrist liberal in the same party even though their ideologies and the impacts they have on policy are likely different.

Perhaps the most serious limitation of this study is that disasters and events are unaccount-

ed for (except the World War era and the War on Terror). This means that whichever side happens to be in power when these events and disasters occur will experience a boost to their bilateral aid output. Examples of these disasters and events include the genocide in Rwanda, and Hurricane Irene.

VIII. CONCLUSION

The findings of this study indicate that ideology affects bilateral aid allocation differently in each country. In the United Kingdom and in Japan the results suggest that ideology may not have a substantial impact on bilateral aid allocation to LDCs. However, these results disagree from what past studies have found. The measure of ideology in this study is systematically different than it was in the previous studies. Most prior studies employed an ideology index similar to the indexes proposed by Budge (1993) and Potrafke (2009). This could have played a role in the differing results. In France, only the president is found to have a significant impact on bilateral aid allocation while the results suggest that the Prime Minister and National Assembly control has no substantial effect on bilateral aid allocation. The War on Terror variable was significant and powerful in the United Kingdom yet it was insignificant in France. The results for France somewhat agree with the hypothesis of this study and past literature. It specifically raises the possibility that in France, it is not the ideology of the entire government that matters, but just that of the president in regards to bilateral aid allocation to LDCs.

The results for the U.S. in this study indicate that a fully liberal controlled U.S. government gives more bilateral aid to LDCs than a split U.S. government or a fully conservatively controlled U.S. government. These differ from the results found in the Moss and Goldstein (2005) study even though the political variable was constructed in the same way. In the Moss and Goldstein (2005) study, only the RDR and RRD variables were found to have significantly reduced level of bilateral aid given. Their conclusion was that only certain split government administrations saw lower bilateral aid given.

This may be due to a number of differences between the two models. The database used for the Moss and Goldstein (2005) study included only Sub-Saharan African countries (which largely

coincide with LDCs, see appendix A) and only spanned from 1961-2001. The economic control variables in the Moss and Goldstein (2005) study also differ from the economic control variables used in this study. The results of the impact of ideology on bilateral aid given do, however, agree with the findings of all three of the Fleck and Kilby studies (2001) (2003) (2010). Ultimately, when addressing aid allocation from the U.S, this study adds more weight to the argument that liberals do give more bilateral aid to developing countries than conservatives.

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Data the World Bank <http://www.worldbank.org/>.

European election database http://www.nsd.uib.no/european_election_database

United States Election Atlas uselectionatlas.org

APPENDIX A

LDC countries as of 2010

Africa – (33) Angola, Benin, Burkina Faso, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Dem. Rep. of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Zambia

Asia – (10) Afghanistan, Bangladesh, Bhutan, Cambodia, Lao PDR, Maldives, Myanmar, Nepal, Timor-Leste, Yemen

Pacific - (4) Kiribati, Samoa, Solomon Islands, Tuvalu Vanuatu

Caribbean – (1) Haiti

Appendix B Supplemental France Regression Results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0.864	0.747	0.716	3.17 E+ 08

a. Predictors: (Constant), GDPgrowth, majority Parliament, President, WARonTERROR, GDP

Coefficients

Model	Understandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t-statistic	Sig.
1 (Constant)	16790947.44	1.78E+08		0.094	0.925
President	5.14E+08	1.24E+08	0.399	4.164	0
majorityParliament	262765.323	1.19E+08	0	0.002	0.998
WARonTERROR	-17311282.07	2.09E+08	-0.011	-0.083	0.934
GDP	0.001	0	0.832	5.682	0
GDPgrowth	16019323.43	31006134	0.057	0.517	0.608

a. Dependent Variable: LDCaid

APPENDIX C

Fig. 1. Time of U.S. bilateral aid to LDCs

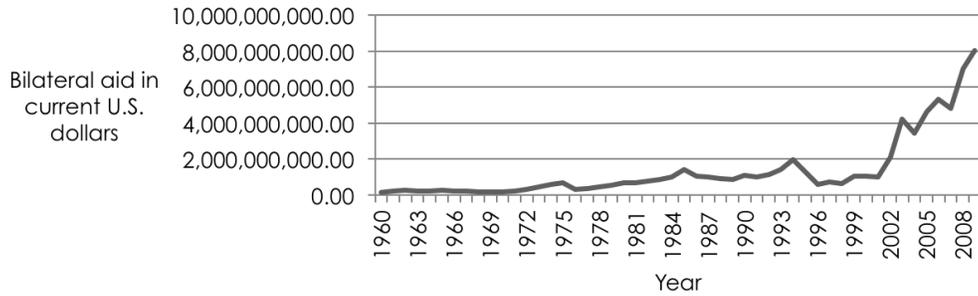


Fig. 2. U.K. Bilateral aid allocation timeline

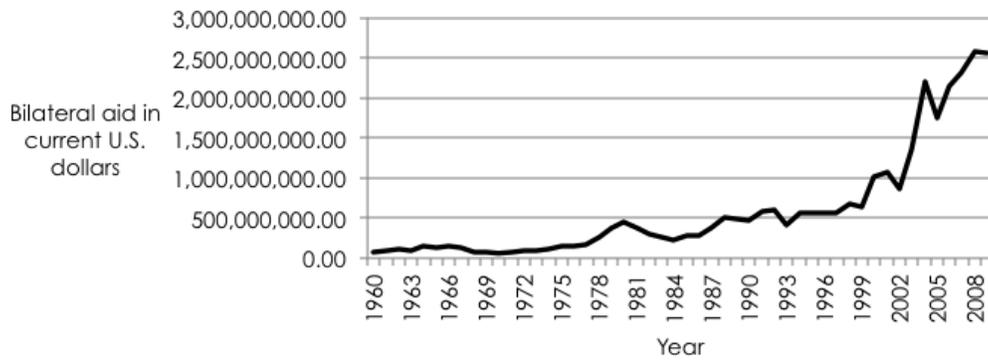


Fig. 3. France's bilateral aid allocation over time

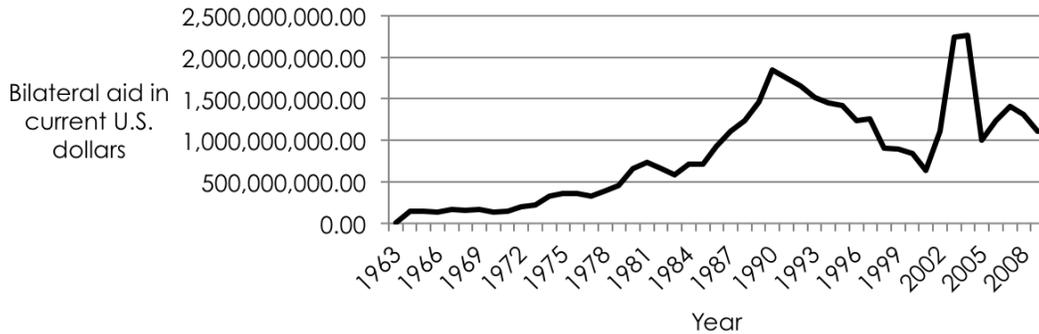


Fig. 4. Timeline of Japan's bilateral aid allocation

