Balázs SZENT-IVÁNYI

Aid Allocation of the Emerging Central and Eastern European Donors

Abstract

The paper examines the main characteristics of the (re)emerging foreign aid policies of the Visegrád countries (the Czech Republic, Hungary, Poland, Slovakia), concentrating on the allocation of their aid resources. We adopt a simple econometric approach, similar to the ones used in the literature for analyzing the aid allocation of the OECD DAC donors. Using this approach, we examine the various factors that influence aid allocation of the Visegrád countries, using data for the years 2001-2006. Our most important conclusion is that aid allocation decisions by the four emerging donors are not influenced by the level of poverty or the previous performance (measured by the level of economic growth or the quality of institutions) of the recipients. The main determining factor seems to be geographic proximity, as countries in the Western-Balkans and the Post-Soviet region receive much more aid from the Visegrád countries than other recipients. Historical ties (pre-1989 development relations) are also found to be significant explanatory factors. This allocation is in line with the foreign policy and business interests of these new donors, but it can also be a consequence of the fact that their foreign aid policies are still in their infancy.

Keywords
Visegrád countries, foreign aid, aid allocation, emerging donors

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Introduction

In the past decade a number of Central and Eastern European countries have emerged as new donors of foreign aid. Although these countries already had certain forms of development-related cooperation with Third World countries during the Cold War, the pre-1989 experiences are difficult to compare with their current, (re)emerging aid policies. There is a clear pressure, related mostly from OECD and EU membership, for these new donors to align themselves with the norms and principles of the international development aid regime. Many special characteristics are observable however in the Central and Eastern European donors which predict that they will behave differently than the OECD DAC member countries. In part this may be related to the fact that their foreign aid policies are still in their infancy, but it is also undeniable that their motivations for giving aid are also somewhat different than those of the Western donors. It is logical to assume that the consequences of these different motivations are identifiable in the quality and allocation of aid provided by the emerging donors.

In this paper we examine the determining factors behind the aid allocation of the Central and Eastern European donors, using a simple regression method. Our goal is to show that these donors take different factors into consideration when making decisions on how to allocate their aid resources than the most OECD DAC countries do. More specifically, the hypothesis of our research is that the Central and Eastern European donors do not take into account the recipients' need for aid (measured by their per capita income levels), nor their previous performance (measured by their growth performance or institutional quality). There is a growing body of literature that argues that these factors are increasingly important in explaining the aid allocation of the OECD DAC countries. We argue however, that due to the emergent character of their aid policies and their different motivations for giving aid, Central and Eastern European countries will take other factors into consideration when making their aid allocation decisions.

We do not wish to analyze the quality of aid provided by the Central and Eastern European donors, as the lack of data would seriously hinder any such attempts. We reduce the scope of the countries we examine to the four Visegrád countries, namely the Czech Republic, Hungary, Poland and Slovakia, as they have the most advanced and significant foreign aid policies in the region. According to our knowledge, the aid allocation of these countries has so far not been scrutinized extensively in the literature.

The paper is structured as follows: Section 1 reviews the literature on the aid allocation of the OECD DAC donors, with a special focus on the methodology of the various studies and their results. Section 2 lists the main common characteristics of the aid policies of the four Visegrád countries. Section 3 introduces a few stylized facts concerning the aid allocation of these emerging donors, and section 4 contains the description and estimation of our regression model. Section 5 concludes the paper. Throughout the paper, the terms aid, foreign aid, and development assistance are used as synonyms, and they always refer to the OECD's statistical category of ODA (official development assistance).

1. Aid allocation of the OECD DAC donors

There are no single and unambiguous conclusions in the literature examining the determinants of aid allocation. One of the main reasons for this is that each donor country may have several motivations for giving aid and it can be difficult to pinpoint any single driving force. But even if we could identify the main determining factors in case of a single donor country, the diversity among donors would still make any generalization exceedingly difficult. A second reason for the mixed of results in the literature is related to the question of what time period the various authors analyze. It is quite clear that the aid allocation decisions of the donors were influenced by different factors during the Cold War than the ones that are relevant today.

The main models for explaining aid allocation in the literature are the recipient need and the donor interest models (McKinley and Little 1979; Gounder 1994; McGillicray 2003). According to the former, aid allocation should be driven by the needs of the recipients, therefore countries with lower incomes, higher levels of poverty, or lower levels of human development should receive more aid. The donor interest model on the other hand states that foreign aid serves donor interests, and thus those countries will receive more resources which have some kind of political, economic or other relations with the given donors. Although this distinction is to some extent flawed, as donors may have interests in giving aid to poor countries to reduce poverty, it has become a frequent point of reference in the literature.

The majority of authors analyzing the period of the Cold War clearly subscribe to the donor interest model. They conclude that aid allocation decisions were primarily driven by strategic and geopolitical considerations, and so donors usually gave more aid to countries that were important to them due to some strategic reason. Aid was used as a tool of influence in this context. Alesina and Dollar (2000) for example showed that during the Cold War the donors gave more aid to those recipients with which they had longer colonial ties or which belonged to the same alliance system as they did. The case of the United States is well known, which used aid to achieve geopolitical goals ever since the birth of foreign aid (Morgenthau 1963), as it gave more resources to those countries which were especially important in the containment of regional Soviet influence. Israel and Egypt, especially after the 1979 Camp David agreement, also received huge amounts of US assistance. McKinley and Little (1979: 243) came to the conclusion that there is “no grounds for asserting that humanitarian criteria have any significant direct influence” on aid US allocation.

However, during the Cold War, economic and trade considerations also meant an important motivation for donors. In an influential early study, Maizels and Nissanke (1984) argued that among other motivations, donors give more aid to countries with which they have higher volumes of trade. There is a relative consensus however in the literature that during the Cold War the previous performance of the recipients, the quality of their political leadership, the level of poverty (Maizels and Nissanke 1984), the respect of human rights (Neumayer 2003) or the level of corruption (Alesina and Weder 2002) were not decisive factors in determining the amount of aid they received from the donors.

Although the literature examining the Post-Cold War era also has mixed conclusions, there seems to be some degree of consensus concerning the fact that changes have occurred in donor behavior. Dollar and Levine (2004) for example came to the conclusion that since the second half of the nineties an increasing number of donors are taking the previous performance (measured by the quality of institutions and policies using the World Banks CPIA index) and levels of income of the recipients into consideration when deciding on how to allocate their aid. Their findings are supported by the conclusions of Isopi and Mavrotas (2006). Bandyopadhyay and Wall (2006), also examining the post-1989 period found that aid and per capita income have been negatively related, while aid has been positively related to infant mortality, human rights, and government effectiveness.

The reason behind this perceived shift from donor interests to recipient needs may be related to increased ethical considerations of the donors, but probably security-related aspects are the most important. Perhaps it does not even mean a shift towards recipient needs, rather a shift within donor interests.[1] Poverty and security challenges posed by state weakness became especially apparent for donors after the turn of the Millennium (and the 9/11 terrorist attacks). Foreign aid can serve as a tool for battling such global threats (Brainad *et al* 2003; Rotberg 2002). This however would require effective and well allocated resources. As shown by Collier and Dollar (2002), there is a close link between the allocation of aid and its overall effectiveness. According to their results, the number of people pulled out of poverty can be maximized if those countries receive the most aid where per capita incomes are low, but policies and institutions are of good quality. McGillivray *et al* (2005) in a review on the empirical literature argued that aid effectiveness has been increasing since the 1990's, which may in part be due to a more effective allocation of aid.

Most of the works mentioned above seek to make generalizations on the level the entire foreign aid regime. Other authors however concentrate only on a single donor, or a group of donors, and try to establish the factors that effect their aid allocation. This approach allows for more clear-cut conclusions, as it does not seek to generalize results for the heterogeneous group of all aid donor countries (Gounder 1984; Schraeder, Hook and Taylor 1998; Berthélemy 2006). According to these studies, the well-known, although simplistic cleavage between "altruistic" and "egoistic" donors is clearly identifiable. While many donors (such as Sweden, Norway, Denmark, Luxembourg, the Netherlands of the United Kingdom) do take into consideration the needs of the recipients when determining the allocation of their aid; others, such as the United States or Japan seem more interested in furthering their own shorter term interests, and try to reap the economic benefits from foreign aid. Still, it is possible to identify some shift even in US foreign aid policy as well, such as the creation of the Millennium Challenge Account in 2004 (Radelet 2003).

[1] Danielson and Wohlgemuth (2005) argue that donors such as Sweden are not driven by altruism, but rather a kind of "enlightened egoism". This refers to the fact that such countries have recognized that instead of short term economic and foreign policy benefits, it is in their long term national security interest to decrease global poverty.

Most of the works cited above use regression methods to identify the main factors which influence the allocation of foreign aid. The dependent variable in such regressions is the amount of aid a recipient receives (either from one donor, or all donors). The independent variables represent such factors which may influence this amount, but of course taking all such factors into account is not easy. In fact, quantifying some the determinants of aid allocation into variables in a regression model raises many questions. The main works in the literature usually use the following independent variables (Maizels and Nissanke 1984; Alesina and Dollar 2000; Berthélemy 2006; Younas 2008):

- variables indicating recipient need, such as GDP per capita, levels of poverty or some measure of human development;
- variables indicating the previous performance of the recipient, which try to capture how much aid the recipient "deserves", and how effectively it can use these resources. This can be measured by levels of economic growth, the quality of economic and political institutions, the quality of economic policies or the level of corruption;
- variables indicating donor interests, measuring the intensity of relations between the recipient and the donor(s), such as those indicating former colonial ties, the volume of bilateral trade, the stock of bilateral investments, the participation in a common military alliance, etc.;
- other variables, such as the size of the population in the recipient country.

The models in the literature are usually estimated using panel data in order to increase the number of observations in the regression, following the methods suggested by Trumbull and Wall (1994). It must be noted however that the results of such regression-based studies must always be treated with a degree of skepticism. Due to the inherent uncertainties of the method, conclusions based on regression analysis should only be accepted if they are also supported by research using other methodologies, such as case studies. Still, there appears to be much less methodological debate in the literature on the regression analysis of aid allocation then there is, for example, on the regression analysis of the effects of aid on economic growth[2] We feel that regression analysis is an appropriate methodology for analyzing the aid allocation decisions of the Central and Eastern European countries, as it can help in identifying common patterns which may be different than those observable in case of the OECD DAC donors. So

[2] See for example Rodríguez (2007) or Roodman (2007).

far, according to our knowledge, only descriptive case studies have been published to analyze the foreign aid policies of these countries. Before we introduce our simple regression approach, we feel it is important to draw up the main characteristics of the foreign aid policies of the Visegrád countries, as well as the factors that determine these.

2. The main characteristics of the Visegrád donors

After the turn of the Millennium, the Czech Republic, Hungary, Poland and Slovakia all started to create, or recreate their international development policies. All four countries possessed some degree of former international development experience, since before 1989 they all had development relations with Third World countries in one form or another. During the Cold War the countries of the Eastern Block did not have sovereign foreign policies, and thus their international development efforts were also subordinated to the political, military and other interests of the Soviet Union. This influence could be pinpointed in the allocation of their aid: the recipients were mostly developing countries with socialist or strongly leftist governments, not to mention the formal allies of the Soviet Block (Carbone 2004: 244). It is difficult to compare these pre-1989 foreign aid policies of the Visegrád countries to the classic project- and program oriented approach of the OECD DAC member states, as they mainly consisted of the delivery of in kind goods, technical cooperation, scholarships and tied aid credits (Szentes *s.a.*; Baginski 2002).[3]

With the end of the Cold War and the initiation of the transition process, Czechoslovakia, Hungary and Poland all suspended their foreign aid policies, which was an understandable decision given the severe recession that the economic transformation process caused. With the European Community's PHARE program these countries became recipients of foreign aid. Throughout the nineties, foreign aid was basically restricted to giving a limited amount of scholarships to developing country students, as well as membership fees and other ad hoc contributions to international organizations (such as the WHO, the ILO or the UNDP). In the case of Hungary, an important form of aid was the resources granted to ethnic Hungarians

[3] A detailed scientific analysis of these pre-1989 development policies is missing from the literature. We must not however underestimate the importance of these policies. Hungary for example in the 1970's spent an average 0,7 percent of its national income on various forms of foreign aid, which is an extremely high level, even though the methodologies for calculating both national incomes and aid levels in the Eastern Block at the time do not permit comparisons with Western donors and current aid levels (HUN-IDA 2004). The opinion of Michaux (2002: 19) therefore, who states that the Central and Eastern European countries do not have any development traditions is clearly wrong.

living in the Ukraine, Romania and the former Yugoslavia. But all together the nineties were characterized by the steep decline of foreign aid polices.

By the end of the decade an increasing international pressure appeared on the four countries to take their share in aiding poorer countries. At first, this pressure stemmed from membership in the OECD,[4] and later the EU was also prominent in pushing these countries to create new foreign aid policies. Still, the issue of international development cooperation was spectacularly neglected during the accession negotiations, which signified the low political priority that both sides attached to it (Balázs 2003; Lightfoot 2008; Harmer and Cotterrell 2005: 11). Besides international pressure, other factors might have also contributed to the creation of these policies after the Millennium. Drozd (2007: 6) for example remarks that in the case of Poland an important factor was to demonstrate that the country's transition to a full-fledged market economy has been completed. All four countries laid down the legal, institutional and financial foundations of their new international development policies between 2001 and 2003, the process of which was helped by a joint capacity building project carried out by the Canadian International Development Agency (CIDA) and the United Nations Development Program (UNDP). It is clear therefore that the international development policies of the Western countries served as role-models for the emerging foreign aid policies of the four Visegrád countries.

Taken this historical background into consideration, it is difficult to compare the current emerging foreign aid policies of the four countries with those of the OECD DAC donors, who have many decades of experience. These differing characteristics lead to different goals and motivations for the Visegrád countries than the ones observable in case of the Western donors. The main characteristics are the following:

- The Visegrád countries are small states and neither of them was a colonial power, which leads to the conclusion that their former political relations with developing countries were sporadic at best. As they did not have sovereign foreign policies before the transition, they did not have the possibility to form relationships with developing countries according to their own national interests (Baginski 2002; Carbone 2004).

[4] The Czech Republic became a member of the OECD in 1995, followed by Hungary and Poland in 1996, and Slovakia in 2000. This however did not mean automatic membership in the OECD DAC, where the four countries have only observer status to this day.

- As a partial consequence of the above, the Visegrád countries only have limited economic ties today with developing countries as well.
- The four countries are much less affected by the security threats caused by global poverty and state weakness, at least on the level of perceptions. They count more as transit countries in case of international migration and drug-trafficking, and the threat of terrorism is not significant. The dangers of global pandemics however, cannot be neglected by these countries either.
- The questions of international development are usually not part of the public discourse agendas in the four countries, and so public awareness about these issues is also much lower than in the Western donors. This is well reflected by the various Eurobarometer surveys, which also show at the same time that the citizens of the Visegrád countries are not indifferent towards the situation in the developing countries from a moral standpoint (see for example Eurobarometer 2007).
- The four countries are facing severe development challenges of their own and so it may be difficult for governments to justify spending large amounts on foreign aid towards the taxpayers. Wishes to join the euro-zone and the straightjacket of the Maastricht-criteria also limit any possibilities these countries may have for a quick increase in funds spent on foreign aid.

It is clear that the few characteristics listed above will definitely have an effect on the quantity, quality and allocation of the foreign aid disbursed by the four Central and Eastern European countries. We only make a few remarks concerning quantity and quality, as our research is mainly confined to examining the allocation of their resources.

The amount of aid disbursed by the Visegrád countries is quite low compared to the OECD DAC average, both compared to the GNI's of the respective donors and especially in absolute terms. Table 1 shows the evolution in the past years of the ODA/GNI figures of the four countries and compares it to the DAC average. Although an increasing trend is visible to some extent, 2007 showed stagnation, and in case of Hungary a rather spectacular decline. With the exception of Hungary, where the decline of the ODA/GNI also meant the decline of the absolute amount spent on foreign aid, stagnating ratios hide increasing absolute amounts (OECD 2007a: 33; 2008: 33).

[INSERT TABLE 1 HERE]

It is difficult to draw any clear conclusions concerning the quality of aid channeled by the four countries. Even though some descriptive and even normative studies have been published in the past years (see for example Kiss 2007, Drozd 2007 or OECD 2007b), a lack of comparable data renders any such attempt almost impossible. These few existing studies do permit a fair amount of critical remarks concerning aid quality, but it must be kept in mind that we are dealing with emerging foreign aid policies, still in the phase of learning. Still, the most important generalizable conclusions from these studies are the following:

- The institutional settings for aid delivery in the four countries are highly fragmented. Too many organizations and ministries are involved, there is a lack of strategic focus, the proliferation of partners and sectors and thus resources is clearly present (OECD 2007b: 14; World Bank 2007: 3; Kiss 2007: 8-9; 11; Zagranica Group 2007: 15).
- Their foreign aid policies are highly donor-driven, the recipients have little influence on planning and programming resources. Recipient ownership is basically non-existent (OECD 2007b: 20; Zagranica 2007: 19).
- The evaluation of projects is not given ample emphasis, feedback and organizational learning are neglected (OECD 2007b: 21).

It is clear that more research is required in order to gain broader insights into the qualitative aspects of foreign aid channeled by the Visegrád countries. From our perspective however, the quality of aid is secondary, the main question is who they give it to. Taking the historical background and other characteristics of the four countries described in this section into account, it is also possible to gain better insights into their aid allocation decisions.

3. A few stylized facts on the aid allocation of the Visegrád Countries

Perhaps one of the most striking features of the aid allocation of the Visegrád countries is that they seem to concentrate most of their resources on partners in their neighborhood, mainly the Western Balkans and the Post-Soviet region. Although the stability of these two regions is important for all European countries, it is a paramount interest for Central and Eastern Europe, as they would be the ones most hardly hit by potential instability in the forms of increased migration, decreasing international trade and foreign investments and increasing levels of organized crime. Avoiding further conflict in the former Yugoslavia and promoting political stability and economic growth in the Commonwealth of Independent States (CIS) is one of the most important foreign policy interest of the Visegrád countries. Some numbers relating to their aid allocation data shows it well how important these two regions are for the four emerging donors. In 2005, the Czech Republic channeled the largest share, 26 percent of its bilateral aid to European countries, and a further 15 percent to countries in Central Asia (Adamcová *et al* 2006: 76). Serbia and the Ukraine were among the top three recipients. In 2005 Poland disbursed 61 percent of its total bilateral aid to European countries, the top three recipients being Serbia, Ukraine and Uzbekistan (Development Co-operation Poland 2007). Hungary channeled 43 percent in 2005 to European countries, with Serbia and the Ukraine also being among the top three partners (Kiss 2007: 13).

Some further conclusions on the partner countries may be drawn from Table 2, which lists all those countries with which the Visegrád donors have had more important bilateral aid relationships between 2001 and 2007, or which were defined as partner countries in some official document or policy statement.

[INSERT TABLE 2 HERE]

Browsing Table 2, it becomes clear that the partner countries of the four emerging donors may be divided into the following three groups (with some exceptions):

- countries belonging to the immediate neighborhood, or in other words to the Western Balkans or the CIS region; these countries are dominant in Table 2.;
- the inclusion of Iraq and Afghanistan is a result of international obligations and the close ties to the United States;[5]
- the final group is composed of partner countries "inherited" from the Communist period. These are the countries with whom development partnerships have already existed before the transition, such as Yemen, Ethiopia, Vietnam, Mongolia, Cambodia, Angola, Mozambique, Laos. Formerly (or in some cases even today) these countries all had socialist-oriented political systems, or for some other reason they hoped to gain (development or military) assistance from the Soviet Block.

[5] Hungary and the Czech Republic even manage two provincial reconstruction teams in Afghanistan.

The question of arises why do the Visegrád countries choose far-flung developing recipients, why don't they concentrate all their aid resources to their neighboring countries (and perhaps on any international obligations)? Their security-related motivations for giving aid clearly dictate giving aid to potentially unstable countries in their proximity. Being present in far away developing countries also entails costs that may be prohibitively high for such emerging donors. Also, they have much more limited economic and political ties with these countries. The reason for supporting such countries, in our opinion, is international pressure, since both the EU and the OECD expect (although perhaps they do not explicitly state it) that the emerging Central and Eastern European donors support less developed countries as well (Michaux 2002; Drozd 2007: 10). If they have to select such partner countries, it seems a logical decision for them to select ones with which they have previously (before the transition) had relations and thus may have some experience.

4. Regression approach, data and results

The few facts mentioned above and the grouping of partner countries shown in Table 2 still do not prove that the four emerging donors systematically behave in a fundamentally different fashion than the OECD DAC donors do. In order to pinpoint the factors that influence the aid allocation decisions of the Visegrád countries we employ a simply regression approach, in some aspects similar to the ones used for analyzing the aid allocation decisions of the DAC members in the literature (Maizels and Nissanke 1984; Schraeder, Hook and Taylor 1998; Alesina and Dollar 2000; Dollar and Levine 2004; Berthélemy 2006; Younas 2008). The models used of course must be adapted to the characteristics of the Visegrád countries and limits posed by the availability of data. For one thing, we cannot use panel data methods, as we do not have long enough time series data for the aid allocation of the four donors. Therefore, in our approach we create an average of all the necessary variables for the years between 2001 and 2006, and thus obtain a single cross-sectional dataset. The basic model we estimate is summarized in equation (1).

$$\log(\mathrm{V4ODAcap}_j) = \beta_0 + \beta_1\log(\mathrm{pop}_j) + \beta_2\log(\mathrm{GDPcap}_j) + \beta_3\mathrm{GDPgr}_j + \beta_4\mathrm{Int}_j + \beta_5\mathrm{Balkan}_j + \beta_6\mathrm{CIS}_j + \beta_7\mathrm{Soc}_j \quad (1)$$

where

- $\mathrm{V4ODAcap}_j$: annual average per capita ODA received by recipient j from the Visegrád donors, using data from the OECD DAC;

- pop_j: the average size of recipients j's population, using data from the IMF;
- $GDPcap_j$: average per capita GDP of recipient j in purchasing power parity, data from the IMF;
- $GDPgr_j$: average annual rate of GDP growth in recipient j, data from the IMF;
- Int_j: average institutional quality in recipient j, using data from Freedom House and Political Risk Services;
- $Balkan_j$: dummy variable, indicating whether recipient j is a country in the Balkans or not;
- CIS_j: dummy variable, indicating whether recipient j is a member country of the CIS or not (the value of the dummy is also 1 in case of Georgia);
- Soc_j: dummy variable, indicating whether recipient j was a recipient of aid from either of the Visegrád countries before 1989.

We attempted to take all potential factors into consideration in our model which may have an impact on how the aid resources of the four emerging donors are allocated among recipients. Our model includes variables measuring the need of recipients for aid (GDP per capita), the previous performance of the recipients (growth rate and the quality of institutions), as well as variables relating to the political and security-related interests we have observed concerning the aid allocation of the Visegrád countries (dummy variables signifying the geographical position of the recipients). The dummy variable relating to the pre-1989 partner countries tries to catch the effects of path dependency (Szent-Iványi and Tétényi 2008).[6] It is regretful that there is no appropriate variable for measuring economic relations between the Visegrád donors and their aid receiving partners. In the literature on the OECD DAC donors, usually the volume of bilateral trade, or the stock of foreign direct investment is used. These data however are not readily available in case of our four donors. We hope however that this will not weaken the explanatory power of our model, since the economic interests of the Visegrád donors would mainly predict larger aid flows to the Balkans and the CIS regions, thus these interests may be captured sufficiently by the two dummy variables relating to these two regions.

[6] See the appendix for data sources.

As mentioned, we use a cross sectional dataset, gained from averaging the annual values of the data for the years between 2001 and 2006 for all countries that have received aid from one or more of the Visegrád donors, according to the StratExtracts Online database of the OECD DAC. Each recipient thus constitutes a single observation. The main reason for using such averaged data is to control for the effects of large annual fluctuations in the aid flows (which are relatively common). The dependent variable is created by adding the amount of aid a recipient receives from the four donors, divided by the population of the recipient. The dependent variable is added in relative (per capita) terms, following Maizels and Nissanke (1984) and Chauvet (2002). Correlation coefficients between the variables in our model are not large, and thus we do not fear that multicollinearity will bias the estimates of the regression parameters.

Between 2001 and 2006 altogether 106 countries[7] haves received smaller or larger amounts of ODA from one or more of the Visegrád donors.[8] Most of these countries have only gotten very small amounts, and there are only 21 countries which have received more than 1 million dollars per year. Table 3 contains the list of these countries.

[INSERT TABLE 3 HERE]

Table 4 contains the results of the estimation of our basic model, as well as some simple sensitivity tests. In model (1) we use the data from Freedom House to measure institutional quality in recipients (variable int_fh). Freedom House publishes two index numbers in their annual report "Freedom in the World", one measuring political rights, the other measuring civil liberties. Both are rated on a scale of 1 to 7, with 1 representing the highest and 7 the lowest level of freedom. In our model, we have taken the two indicators and averaged them across countries to get a single indicator measuring the quality of political institutions.

[INSERT TABLE 4 HERE]

[7] We are however only able to work with 105 countries because Iraq falls out due to lack of data.
[8] This does not mean that the four donors have actually financed development projects in all these countries, as expenses such as refugee costs, scholarships and debt forgiveness also qualify as ODA.

The conclusions from model (1) in Table 4 are quite straightforward: the four Visegrád countries do not take into account the level of poverty or the performance of their recipients when determining their aid allocation, as neither GDP per capita, neither the level of GDP growth, nor the quality of institutions are significant. It seems that these emerging donors make their aid allocation decisions based exclusively on the population level of the recipient, geographic proximity and former (pre-1989) relations. The explanatory power of model (1) is reasonably high for such regressions (the size of the coefficient of determination is 0,57). The results of estimating the first model therefore support the hypothesis of our paper.

In model (2) of Table 4 we used a different indicator to measure institutional quality. Instead of the measure used by Freedom House, we use one of the indicators published by Political Risk Services' (PRS) in its International Country Risk Guide (ICRG). We have chosen the "law and order" index from the publication, which measures the degree of independence of the judicial system of the country, but also how much the people and the government respect the laws (including the probability of expropriation). These factors are one of the main determinants of how secure property rights are in an economy and whether is it worth doing long term investments. Thus, the "law and order" index is a reasonably good measure of the economic institutions which affect long term growth and the effectiveness of aid (Szent-Iványi 2007). "Law and order" is measured on scale of 1 to 6, where lower scores mean a lower level of the observance of law and the independence of the court system.

Interestingly, in model (2) the "law and order" index turned out to be significant at the 5 percent level and the coefficient is positive. This would imply that countries with higher levels of law and order receive more aid from the Visegrád countries. However, some caution is in order with this result: as Political Risk Services provides data on a smaller number of countries than Freedom House does, we had to drop 24 observations from this second model because the index was not available for them. Many of the countries dropped from the regression are ones that have low quality legal institutions and systems, but receive high amounts of aid from the four emerging donors, such as Afghanistan, Bosnia and Herzegovina, FYR Macedonia, Georgia or Uzbekistan. It may be probable that dropping these countries distorts the results, but on the other hand we cannot rule out the possibility that the Visegrád donors may actually take the quality of institutions into account, as measured by the index from the ICRG.

In model (3) we dropped both institutional variables from the regression, and included too dummy variables. One represents Afghanistan, a significant outlier not accounted for in the other dummy variables, and the other one represents the countries of Sub-Saharan Africa, perhaps the region most in need of foreign resources. The dummy on Afghanistan is of course significant, and adding it to the model increases the explanatory power. The dummy on Sub-Saharan Africa is not significant.

Models (4) and (5) only include the significant variables; the former with the index from PRS's ICRG, the latter contains no variable on institutional quality. There are no surprises in these two models, perhaps the only change is that in model (4) the PRS index is now only significant at the 10 percent level. Our results therefore seem to be robust: when determining the allocation of their aid, the Visegrád donors do not take into consideration the income levels of the recipients, their economic performance, nor their political institutions (measured by the respect of political and civil liberties). Besides the size of the population, the only significant explanatory factors are related to geographic proximity, pre-1989 relations and in case of Afghanistan (and potentially Iraq) the existence of international commitments. It also seems that a different measure of institutional quality ("law and order") may also be significant, although the fact that we lose many observations when including this variable in our regression greatly decreases the robustness of this final result. According to model (5) in Table 4, countries in the Western Balkans (Serbia, Bosnia and Herzegovina, Albania, Macedonia) *ceteris paribus* receive more than four and a half times (360 percent) more aid from the Visegrád donors than any other of their partners. The CIS countries (and Georgia), as well as the pre-1989 partners also receive more aid, in both their case the amounts are approximately 260 percent higher.

All models examined have a determination coefficient between 0.57 and 0.61, which can be regarded as reasonably high in case of such regressions. Of course, it is not possible to obtain too high explanatory power, as the foreign aid allocation of a donor country is always affected by unforeseen events (such as natural catastrophes which require urgent humanitarian assistance) or *ad hoc* political considerations, which would be more difficult to model. We are also aware of the fact that our regression analysis would require further tests and perhaps methods more sophisticated than OLS in order to be truly robust. However, as our conclusions are in line with the stylized facts and the limited case study evidence, we feel it identifies well the factors that influence aid allocation in the four emerging donors.

Conclusions

In our paper we analyzed the foreign aid policies of the four emerging Visegrád donors with a special emphasis on the factors that determine the allocation of their aid resources. The conclusions that can be drawn from our analysis clearly support the main hypothesis of our paper. The level of poverty (measured by per capita GDP) and the previous performance of the recipients (measured by the rate of economic growth or the quality of institutions) are not significant factors in explaining the aid allocation of the four donor countries.

According to our results, the Visegrád donors seem to behave in a similar fashion to the donors that the literature has labeled 'egoistic', at least when it comes to their aid allocation. The four countries mainly support recipients in relation to which they have political, security and economic interests, as countries in the Western Balkans and the CIS region are the most important recipients. The reduction of global poverty is clearly not a consideration. While this observed aid allocation is in line with the interests of the four donor countries, the question arises how much it is due to strategic decisions. It is plausible for example, that the Visegrád only choose recipients from their 'neighborhood' fore reasons of convenience. Providing large scale foreign aid to extremely poor countries in Sub-Saharan Africa or other far away developing regions would be much more costly, and the experience of the four emerging donors in those areas is also much less. A further explanation may be that the four donors have some kind of perceived or actual comparative advantage compared to other donors in the Western Balkan and CIS regions. Therefore, more than one explanation may be possible for the observed 'egoistic' aid allocation, but determining which one is relevant is beyond the scope of this current paper.

A further question may arise in close connection with the above: in the long run, due to processes of 'Europeanization' and other forces, can we expect convergence between the practice of the Western-European donors and the Visegrád donors? Will the latter shift their focus in time to poor developing countries or will they prefer to concentrate their resources to countries in their proximity in the longer run as well? The European Union has an important role to play in such a potential convergence process, as it can create an 'anchor' for the aid policies of the Central and Eastern European countries through its explicit and implicit requirements. A direction of further research (and a potentially important contribution to the literature on Europeanization) would be the analysis of the main characteristics of this process.

Last, but not least, we must address one more issue. Throughout the paper, we implied that the four Visegrád donors behave the same way in their foreign aid policies. This implicit assumption, even though it was a necessary simplification for our research, is however probably not correct. Even though the four countries have similar historical and institutional backgrounds, similar foreign policy and security interests and goals, there are also many distinct factors influencing the aid policies and aid allocation of the Czech Republic, Hungary, Poland and Slovakia. Analyzing these characteristics and their consequences however requires longer time series, as well as better qualitative data.

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Tables

Table 1. ODA/GNI ratios in the Visegrád countries between 2002 and 2007, in percent

	2002	2003	2004	2005	2006	2007
Czech Republic	0,07	0,10	0,11	0,11	0,12	0,11
Hungary	..	0,03	0,06	0,11	0,13	0,08
Poland	..	0,01	0,05	0,07	0,09	0,09
Slovakia	0,02	0,05	0,07	0,12	0,10	0,09
OECD DAC average	0,23	0,25	0,26	0,33	0,31	0,28

Source: OECD 2007a: 33; 2008: 33.

Table 2. Declared priority and other important partner countries of the Visegrád countries in 2007.

Czech Republic	Hungary	Poland	Slovakia
Afghanistan	Afghanistan	Afghanistan	Afghanistan
Angola	Bosnia and Herzegovina	Angola	Albania
Bosnia and Herzegovina	Cambodia	Belarus	Belarus
Iraq	China	Georgia	Bosnia and Herzegovina
Moldova	Ethiopia	Iraq	FYR Macedonia
Mongolia	FYR Macedonia	Moldova	Kazakhstan
Serbia	Iraq	Palestine Authority	Kenya
Vietnam	Kyrgyzstan	Serbia	Kyrgyzstan
Yemen	Laos	Ukraine	Mongolia
Zambia	Moldova	Uzbekistan	Mozambique
	Mongolia	Vietnam	Serbia
	Palestine Authority		Sudan
	Serbia		Tajikistan
	Ukraine		Ukraine
	Vietnam		Uzbekistan
	Yemen		

Sources: Adamcova *et al* (2006); Kiss (2007); Development Co-operation Poland (2007); SlovakAid (2006)

Table 3. Recipients receiving more one million dollars of ODA per year from the four Visegrád donors between 2001 and 2006

Partner country	**Average V4 ODA (million dollars)**	**Partner country**	**Average V4 ODA (million dollars)**
Iraq	27,29	Mongolia	2,94
Serbia & Montenegro	17,24	Kazakhstan	2,68
Angola	15,79	Ethiopia	2,33
Ukraine	14,52	Uzbekistan	2,25
Yemen	7,97	Moldavia	2,19
Belarus	7,07	Tanzania	1,70
Afghanistan	6,65	India	1,57
Sudan	5,98	Georgia	1,38
Bosnia & Herzegovina	5,47	Pakistan	1,00
China	4,07	Albania	1,00
Vietnam	3,45		

Source: Author's calculations based on OECD StatExtracts Online

Table 4. Cross sectional OLS estimates for the aid allocation of the Visegrád donors, between 2001 and 2006

Dependent variable: log(V4ODAcap)					
	(1)	**(2)**	**(3)**	**(4)**	**(5)**
log(gdp_cap)	0.008 (0.061)	-0.15 (-1.094)	0.087 (-0.47)	-	-
log(pop)	-0.445* (-6.704)	-0.443* (-4.783)	-0.439* (-5.5)	-0.453* (-5.14)	-0.448* (-7.316
gdp_gr	0.017 (0.404)	-0.009 (-0.162)	-0.009 (-0.24)	-	-
int_fh	-0.012 (-0.13)	-	-	-	-
int_prs	-	0.271** (2.005)	-	0.224*** (1.795)	-
Balkan	3.625* (6.01)	3.548* (3.625)	3.645* (5.822)	3.397* (3.577)	3.691* (6.256)
CIS	2.52* (5.14)	2.97* (5.068)	2.683* (5.67)	2.882* (4.768)	2.638* (5.795)
Soc	2.575* (4.073)	2.851* (-3.72)	2.742* (4.473)	2.939* (4.088)	2.665* (4.49)
Africa	-	-	0.043 (0.093)	-	-
Afghanistan	-	-	4.104* (7.896)	-	3.89* (28.103)
constant	-3.815* (-3.492)	-3.275* (-3.246)	-4.456* (-2.611)	-4.345* (-9.814)	-3.765* (-19.166)
R^2	0.57	0.60	0.61	0.60	0.61
Adj. R^2	0.54	0.57	0.58	0.57	0.59
Number of observations (n)	105	81	105	81	105

Notes: t-statistics in parenthesis. The standard errors are heteroskedasticity-robust (using White's method).

* = Significant at the 1 percent level.

** = Significant at the 5 percent level.

*** = Significant at the 10 percent level.

Appendix: Data sources

Variable	Data source
Per capita GDP (GDPcap)	IMF World Economic Outlook Database Online
Population data (pop)	IMF World Economic Outlook Database Online
GDP growth rate (GDPgr)	IMF World Economic Outlook Database Online
ODA data (V4ODAcap)	OECD StatExtracts Online
Freedom House index (int_fh)	Freedom House: Freedom in the World Online
‘Law and order’ index (int_prs)	Political Risk Services: International Country Risk Guide 2008

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