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MULTILATERALISM IN THE AID ALLOCATION -WHY DO DONORS GIVE AID MULTILATERALLY?

Abstract:

After World War Two, the advanced countries tend to use multilateral approach to deal with international affairs. As the widening and deepening of globalization, more and more multilateral institutions have been created and become very important actors in on the global stage. In the international development aid system, the growing number of multilateral aid agencies indicates the popularity of multilateralism among most of the world. However, the scale of multilateral aid is still very small comparing with bilateral aid.

Donors support the multilateral agencies while they still finance the bilateral aid projects by themselves. The first puzzling here is sometimes we can find the multilateral agencies and donor countries implement similar projects in the same recipient country. This overlapping is also criticized by many scholars regarding as the aid fragmentation issues. What's more, although multilateral aid is argued to be more sensitive to recipient country's real needs, the increase of bilateral aid is far beyond the increase of multilateral aid. Therefore, it is necessary to figure out the donor's motivation behind the aid allocation policy regarding bilateral aid and multilateral aid.

This paper investigates the determinants of donors' multilateral aid policy by focusing on the characteristics of donors. The substantial literatures have been investigated the bilateral aid policy by focusing on the recipient side and the ties between donor and recipient. This paper emphasizes the domestic determinants' influence on the policy making by applying the quantitative methodology.

The panel data analysis is based on the data of OECD DAC 23 member countries from 1990 to 2012. Dependent variable is the willingness to contribute to multilateral aid, measured by the multilateral aid per total ODA. The basic equation and independent variables are:

$Y\_it = \alpha +$ Population it + GDP it + Military expenditure it + Trade it + Government expenditure it + Political ideology $+ \varepsilon\_it$

The result shows that, the government's motivation for multilateral aid is influenced by the scale of the country and the capacity of the government. Small country tends to prefer the multilateral aid to bilateral aid since the economic scale and the government's capacity is limited. On the other hand, the political and economic interests' influence on multilateral aid contribution is not supported by the quantitative analysis.

Keywords:

Aid Allocation, Multilateral aid, Bilateral aid