

The Needy Donor: An Empirical Analysis of India's Aid Motives

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Abstract: It is puzzling that India, which has a large domestic constituency of people suffering from underdevelopment, chronic poverty and mal-governance, is emerging as an important aid donor. With the intension of learning why poor countries provide foreign aid, this article is the first to econometrically analyze India's aid allocation decisions. First, we utilize cross-sectional data on aid commitments by the Ministry of External Affairs to 127 developing countries, obtained in US dollars from AidData for the 2008-2010 period. Second, we compare India's bilateral aid allocation with that of other donors. Our findings show that India's aid allocation is partially in line with our expectations of the behavior of a "needy" donor. Commercial and political self-interests dominate India's aid allocation. Moreover, we find that geographically closer countries are favored and that countries at a similar developmental stage are more likely to enter India's aid program.

Key words: Foreign aid, new donors, aid allocation, South-South Cooperation, India.

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1. Introduction

India, widely seen as one of the success stories of globalization, has significantly accelerated its economic growth since the inception of economic reforms in 1991 (Basu and Maertens 2007; Basu 2008; Panagariya 2010). India is one of the fastest growing economies in the world and host to some of the largest foreign investment inflows in recent years (UNCTAD 2010). Yet, for many, India's progress since its independence 65 years ago is disappointing. Despite rapid economic growth over the last decade, some areas in India continue to be severely underdeveloped (Banerjee 2010). India has a large domestic constituency of people suffering from underdevelopment, chronic poverty and mal-governance. According to the World Bank's (2011) estimates, 37% of the Indian population is below the poverty line of US\$ 1.25 a day. Moreover, India ranks below its neighbors Bangladesh, Bhutan, Nepal, Pakistan and Sri Lanka in terms of life expectancy, access to sanitation, infant immunization, and underweight children. It also ranks below Bangladesh, Bhutan and Sri Lanka in controlling the infant mortality rate (Dreze and Sen 2011), below Sri Lanka in terms of the literacy rate and access to education (UNESCO 2011), below Nepal in the 2011 Global Hunger Index (GHI 2011), and below Bangladesh with respect to controlling literacy among female youths (Dreze and Sen 2011).

Therefore, it is not surprising to note that despite its rapid economic growth in recent years, India is still one of the recipients of development aid. In 2009, the total net official development assistance received by India from all donor countries was about US\$ 2.502 billion, of which US\$ 1.578 billion was in the form of net bilateral aid flows from countries organized in the Development Assistance Committee (DAC) (OECD 2012).¹ With US\$ 630 million, India is still the single largest recipient of development aid from the United Kingdom (OECD 2012). This being said, it is puzzling to note that India itself is an aid donor.² In fact, Indian engagement in delivering foreign aid goes back to the 1950s, with its primary target being to provide development assistance to neighboring countries. Traditionally, Indian foreign aid has focused on technical assistance. Ever since it began in 1964, the Indian Technical and Economic Cooperation (ITEC), India's flagship external assistance program, has provided training,

¹ Moreover, India also receives a substantial amount of aid from international NGOs. For example, in 2010, the Bill & Melinda Gates Foundation committed US\$ 100 million to India (OECD 2012).

² Note that India avoids the term 'donor'. It rather perceives itself as a partner in South-South cooperation (see Chaturvedi 2008 for a discussion).

education and technical expertise to about 40,000 NGO personnel, scholars and leaders from developing countries (Agrawal 2007).

Over the last few years, aid from India has diversified and gained prominence. During the economic reforms period 1992-2009, official foreign assistance provided under the umbrella of the Ministry of External Affairs (MEA) amounted to INR 18,950 crores (US\$ 4,473 million) according to its annual reports (MEA 1993-2010). The Ministry allocated INR 2359 crores (US\$ 444 million) to aid-related activities in the 2009 financial year alone (MEA 2010). According to Manning (2006: 375), India, together with China, is one of the two ‘heavyweights’ among the non-DAC donors. India’s increased commitment to providing development aid is reflected in the government’s decision to setup a separate agency by 2012 in order to oversee the aid allocation process (Patel 2011).

In contrast to the extensive empirical literature on the allocation of development aid from Western donor countries (e.g., Alesina and Dollar 2000), analyses on development assistance provided by non-DAC donors lack rigorous empirical analysis. Notable exceptions are Neumayer (2003a, 2004) on Arab aid, Dreher and Fuchs (2011) on China’s foreign assistance, and Dreher et al. (2011) on aid from donors outside the DAC in general (excluding India).³ Concerning India’s foreign aid in particular, to the best of our knowledge, no prior study provides an econometric analysis of the determinants of India’s aid allocation decisions. This paper aims to fill this gap in the literature. A better understanding of the factors driving India’s aid allocation decisions may offer important insights into why poor countries serve as donors of foreign aid to other developing countries.

India claims that its aid is more need-oriented than aid from richer donor countries as its economic-political structure is closer to that of other developing countries. To test this empirically, we analyze whether India provides more aid to countries that are closer to India in terms of economic development. At the same time, many suspect that India might be increasingly using foreign aid as an instrument to gain access to overseas markets for its goods and services, pave the way for Indian investment abroad, as well as secure access to natural resources (e.g., Agrawal 2007; Kragelund 2008). Another argument put forward is that Indian

³ Given that India is poorer in terms of per-capita income than any of the donors covered in Dreher et al. (2011), India serves as an excellent case to study the behavior of “needy” donors.

aid is extensively used as a foreign policy tool to expand the country's geopolitical and diplomatic influence (e.g., Agrawal 2007). The consensus in the literature is that political and commercial interests are important determinants of aid allocation for the DAC group of "rich" donors (e.g., Alesina and Dollar 2000; Kuziemko and Werker 2006; Neumayer 2005) as well as for multilateral organizations (e.g. Dreher et al. 2009). Not only do we also expect to find this for the "needy" donor India, we expect these relationships to be even more pronounced. We argue that India has more incentives to provide politically and commercially motivated aid since the country lags behind DAC donors in terms of economic development. We will elaborate this hypothesis below and test it empirically.

The paper is structured as follows. Section 2 introduces India's foreign aid program and examines its evolution over time. Based on the previous aid literature, Section 3 develops our hypotheses on the aid allocation behavior of a "needy" donor. In Section 4, we empirically analyze the determinants of aid allocations by the MEA based on data for the years 2008-2010 from AidData, a project-level database (Findley et al. 2009). To analyze whether Indian aid is special, we further compare India's aid allocation decisions with those of other donors. In particular, we test whether Indian aid is motivated to a higher extent by political and commercial considerations and to a lesser extent by recipient needs compared to aid from "rich" donors. Finally, Section 5 summarizes our results, concludes, and provides policy implications.

2. An Overview of India's Aid Program

The origins of Indian development aid date back to the Colombo Plan of 1950, which was formulated in Sri Lanka by a group of Commonwealth countries (including India) with the objective of providing assistance to developing countries in order to raise their respective living standards. Along with the Colombo Plan, India provided aid in the form of funding projects, as well as providing grants, loans and military aid. India's primary target in its early days after independence was to support neighboring countries, in particular Bhutan, Myanmar, and Nepal.⁴ However, despite its active role, Indian development aid largely remained confined to the field of technical assistance, mainly due to resource scarcity and strong demand for developmental funds

⁴ For 1958, Chanana (2009) highlights Indian aid commitments of about Rs. 100 million (US\$ 21 million) in multi-year grants to Nepal, Rs. 200 million (US\$ 42 million) to Myanmar, and the financing of 60% of Bhutan's budget.

within the country.⁵ As a founding member of both groups of states, India's aid program was anchored in the Non-Aligned Movement and the Group of 77 at the United Nations.

After the collapse of the USSR and a severe balance-of-payments crisis, India introduced pro-market economic reforms in 1991. Eventually, as the economy grew stronger, India deepened its engagement with developing countries and extended its aid program. The 2003-04 budget speech is considered as a sharp break in India's role as an actor in international development cooperation. India wanted to be perceived primarily as an aid donor and not as a recipient of foreign assistance. Following the speech, India announced several key changes to its development cooperation (e.g., Price 2004). First, the country would only accept government-to-government aid that is untied and provided by five selected countries or the European Union. Second, India would repay its debt to most of its bilateral donors and multilateral institutions. Third, it would extend its own aid effort to other developing countries through debt cancellations for some Highly Indebted Poor Countries, and an increase in its grant and project assistance under the so-called India Development Initiative. Although the actual policy changes were softer in the beginning than the speech seemed to imply (see Price 2004 for a discussion), it became clear that India intended to play an important role in the world of international development cooperation. The provision of credit lines via India's Exim Bank is one of the most prominent outcomes of these reforms.

To provide a better understanding of how India's aid program evolved over time, we compiled data on India's aid budget since 1966 based on the annual reports of the Ministry of External Affairs (MEA 1967–2011).⁶ This information needs to be interpreted with caution because of significant changes over time in the way the ministry categorizes its aid amounts.⁷ Apart from that, note that the data exclude aid flows from institutions other than the MEA. Moreover, we lack detailed information on which fraction of the calculated aggregated aid values

⁵ According to Dutt (1980), a total of 1,442 people received technical training in India under the Colombo Plan up until 1960. According to the Colombo Plan Reports (as cited in Dutt 1980), this number increased to 3,550 between 1961 and 1971.

⁶ In the early days of India's aid program, there was no specific department that was responsible for overseeing the activities associated with development aid projects (Dutt 1980). It was only in 1968 that a coordinating unit was set up within the MEA with the specific objective of managing development aid activities. This provides at least a partial explanation for the poor data availability and quality for Indian aid initially.

⁷ Values for grant-in-aid to the Indian Council of Cultural Relations and support to the African National Congress are excluded from our analysis. See Agrawal (2007) for a discussion of limitations of the use of data from MEA annual reports as a proxy for India's aid budget.

satisfy the OECD's definition of Official Development Assistance (ODA).⁸ Nevertheless, the figures should provide the reader with an intuition of the overall evolution of the size of India's aid program. As can be seen from Figure 1, there is a spike in India's aid budget in 1972. This is largely due to the additional external assistance provided by India to Bangladesh, which obtained independence from then West Pakistan (now Pakistan) in 1971 with the help of India. According to the MEA annual report in 1973, India allocated about 132.8 crores Indian rupees (US\$ 67 million in 2000 constant prices) in the form of grants, and 34.8 crores Indian rupees (US\$ 17 million in 2000 constant prices) in the form of concessional loans to Bangladesh in 1972. In addition, as a response to the food shortage in Bangladesh, India committed to providing 930,000 tons of food grain in December 1972. In total, in 11 months of the financial year 1972-73,⁹ India allotted roughly 150 crores Indian rupees (US\$ 76 million in 2000 constant prices) of aid to Bangladesh (MEA 1973).

India's aid disbursements suffered a large decline during the early 1990s, a period marred by balance-of-payments problems and political crises. However, from the mid-1990s onwards, there has been a surge in disbursements of development aid. Though there were ups and downs, which could be attributed to political instability in the 1990s and to the Global Financial Crisis starting in 2008, India's aid budget shows an increasing trend during the economic reforms period that started in 1991. More precisely, India's aid budget rose from 13.3 crores Indian rupees (about US\$ 342.9 million in constant 2000 prices) in 1966, to about 2917.4 crores Indian rupees (US\$ 429.2 million in constant 2000 prices) in 2010, which is roughly 0.005% of India's GDP. This amount, which only captures MEA aid, is larger than Greece' and Portugal's aid programs, is comparable to Austria's total ODA (US\$ 431.4 million in constant 2000 prices) and amounts to more than 40% of total aid from Italy (US\$ 925.4 million in constant 2000 prices).¹⁰

⁸ Note that the DAC defines ODA as financial flows to developing countries provided by official agencies with the objective to promote economic development and welfare, and that contain a grant element of at least 25% (see <http://www.oecd.org/dataoecd/26/14/26415658.PDF>, accessed August 2011). Although we lack detailed information on the concessionality of each individual loan, it seems that aid provided by the MEA by and large qualifies as ODA. According to a study by ECOSOC (2008), 80% of India's total aid disbursed is grants. The remaining fraction is loans with an estimated grant element of 53-57%.

⁹ Note that the Indian financial year begins from 1st April and ends on 31st March.

¹⁰ A comparison with the non-DAC donors covered in Dreher et al. (2011: 1952) underlines that India is one of the most important providers of development assistance outside the DAC. Kuwait is the only country out of 14 non-DAC donors studied that is comparable in size in terms of total annual aid commitments.

In addition to the MEA, India provides concessional finance via its Export-Import (Exim) Bank. The sum of all financial flows provided by the Exim Bank between 2005 and 2009 and registered on AidData (Findley et al. 2009) amounts to US\$ 2.45 billion (in constant 2000 prices). Of those loans that can be tracked to a recipient country, 73.2% was allocated to Sub-Saharan African countries. Although Sinha and Hubbard (2011) find that most credits satisfy the criteria of a grant element of at least 25%, they conclude that Indian LOCs do not qualify as ODA as defined by the OECD. Since the credit lines are extended for the purpose of export promotion, these flows meet the criteria of officially supported export credits instead.¹¹ Therefore, we restrict our empirical analysis below to cover financial flows provided by the MEA only.

3. Theory and Hypotheses

The extensive literature on the allocation of development aid emphasizes that aid from Western donors and multilateral institutions is guided by strategic interests, in addition to economic needs in developing countries (Alesina and Dollar 2000; Kuziemko and Werker 2006; Dreher et al. 2009). In contrast, research on non-DAC aid is still in its infancy. Manning (2006), ECOSOC (2008) and Kragelund (2008, 2010) provide good overviews on aid activities of these so-called new donors. Among the few econometric studies of aid allocation by non-DAC donors are Neumayer (2003a, 2004) on Arab aid, Dreher and Fuchs (2011) on China's foreign assistance, and Dreher et al. (2011) on aid from donors outside the DAC in general. The literature usually groups the determinants of a donor's aid allocation into three categories. First, aid allocation follows recipient needs. Based on humanitarian motives, altruist countries provide more assistance to poorer countries. The overarching goal is poverty reduction. Second, aid is allocated based on good policies. Following the idea of merit, countries with good policies and good institutions are supported through increased aid flows. Third, donors' aid patterns are shaped by political and commercial self-interests. In the following, we discuss whether and how these motives are reflected in India's aid policy.

¹¹ According to Sinha and Hubbard, the grant element varies between 41.25% for Heavily Indebted Poor Countries (HIPC) and 17.11% to 24.56% for middle-income countries with medium to high levels of debt.

Referring to the role that Indian values might play in India's aid provision, Meier and Murphy (2011: 7) point out that, "Hinduism, Buddhism, Islam and Sikhism all espouse solidarity with the suffering and giving without expectations for return." In line with this, the Indian government claims that its aid program indeed responds to the economic needs of developing countries. For example, the MEA describes the ITEC program as "an earnest attempt by India to share the fruits of its [i.e., India's] socio-economic development and technological achievement with other developing countries" (ITEC 2011). According to Banerjee (1982: 27), India provides aid to neighboring countries "with the sole objective of restoring the local citizens to a place of primacy." If this is the case, India's aid should be targeted to needier countries.¹² We test the following hypothesis:

Hypothesis 1a: *India's aid allocation responds to the economic needs of developing countries.*

In this regard, Banerjee (1982: 55) claims that India's aid is particularly need-oriented since it provides the "appropriate technology and managerial experience" to other developing countries. He argues that India's aid is more need-oriented than aid provided by "rich" donors as its economic-political structure is closer to that of other developing countries. Similarly, the Indian MEA claims that it "possess[es] skills of manpower and technology more appropriate to the geographical and ecological conditions and the stage of technological development of several developing countries."¹³ If we take this argument at face value, this implies that India should allocate more aid to countries that are at a similar stage of development. Consequently, aid from India should decrease with a recipient country's distance to India's own development level. Figure 2 graphically displays the relationship between aid commitments from and the developmental distance to India. We will test the following hypothesis:

Hypothesis 1b: *The "needy" donor India allocates more aid to countries at a similar stage of development.*

¹² Dreher et al. (2011), in turn, find that non-DAC donors care less for recipient need than traditional DAC donors. Note, however, that their study excludes aid from India.

¹³ Quoted on several websites of Indian embassies, e.g., the Indian embassy in Azerbaijan: <http://indianembassybaku.org/en/8/> (accessed: February 8, 2012).

At the same time, India emphasizes that its aid serves “mutual benefit” (ITEC 2011), i.e., its aid allocation is also motivated by Indian interests that are not directly related to the developmental concerns of its partner countries in the developing world. In this regard, the MEA (2004: 133) openly admits that “[t]he Government has been using development aid, including grants and Lines of Credit (LOCs) on concessional terms as tools for promotion of India’s political, economic and commercial interests.” With respect to commercial interests, Indian aid is seen as an instrument not only to gain access to overseas markets for its goods and services, but also to pave the way for Indian investment abroad (Price 2004; Agrawal 2007; Kragelund 2008). The fact that India’s aid is mainly ‘tied aid’ suggests that commercial interests play a dominant role. Moreover, India’s aid is said to be targeted at developing countries possessing oil and other natural resources in order to meet the rising demand for energy resources back home (e.g., Chanana 2009). While the MEA (2009: xiii) admits that its aid was “helping Indian companies get project contracts and orders for supply of goods,” it is emphasized that “the LoCs have helped in infrastructure development in these regions thereby creating considerable goodwill for the country.” With respect to the TEAM-9¹⁴ program, Kragelund (2008) also identifies an overlap with the business activities of Indian oil companies.

In addition to commercial interests, the Indian foreign aid program is seen as a foreign policy tool to expand the country’s geopolitical and diplomatic influence beyond the South Asian region, and to build military alliances elsewhere (e.g., Agrawal 2007). In this regard, Lafargue (2006) notes that Zambia, an Indian aid recipient, did not criticize India’s nuclear tests in 1998 and recognized in 2003 that the Jammu and Kashmir regions are a part of India. Aid is considered a part of India’s efforts to obtain support for the country’s bid for a permanent seat in the United Nations Security Council (e.g., Kragelund 2008).¹⁵ Moreover, India perceives its aid program as a tool to improve its image around the world. In this regard, the MEA states that the ITEC program “has generated immense goodwill and substantive cooperation among the developing countries,” and that it “constitutes an integral part of India’s South-South Cooperation effort which has been a traditional pillar of the country’s foreign policy and

¹⁴ The Techno Economic Approach for Africa India Movement (TEAM-9) program offers LOCs to nine West African countries.

¹⁵ Price (2004) hypothesizes that India, as an aid recipient, accepts aid only from three current permanent Council members and from three proposed Council members for the very same reason.

diplomacy” (ITEC 2011). According to Agrawal (2007: 2), India aims to “develop a viable ‘pro-India’ constituency among key decision makers in recipient countries.” Contrasting these views, Banerjee (1982: 54) argues that “India does not provide aid to its neighbours with the hope of extending its influence in the region.” He criticizes allegations that India’s aid was motivated by selfish motives.¹⁶ Focusing on how India can actually use aid as a foreign policy tool, Dutt (1980) lists five elements: first, to improve bilateral relations, second, to improve India’s image, third, to gain leverage and influence over recipient countries, fourth, to reward recipients’ policy position, and fifth, to maintain the stability and status quo in recipient countries. Taken together, we test the following hypothesis:

Hypothesis 2a: *India’s aid allocation is guided by India’s political and commercial self-interests.*

With India emerging on the world stage as a significant provider of development assistance, critics of its aid program question the diversion of resources away from internal development given the chronic socio-economic problems plaguing India. It is this paradox which raises suspicion that India’s aid has mainly been allocated based on the country’s own interests. We expect a “needy” donor to behave differently than a developed donor country. More precisely, the importance of self-interest should be larger in India’s case than for “rich” donor countries for several reasons. First, a “needy” donor is more exposed to public criticism of its aid allocation because of domestic deficiencies. In order to defend its aid allocation vis-à-vis its electorate, the country might be more inclined to follow political and commercial interests to a larger extent. In this regard, Price (2004) notes that the Indian government had to emphasize the benefits that accrue to India in order to gain domestic support for its foreign aid policy, especially the aid reforms after the 2003-04 Finance Minister’s budget speech. Note that this need to defend aid expenditure is even larger in democracies like India, where the government faces elections, than in autocratic donor countries. A second explanation is evident if one assumes a declining marginal utility of wealth, i.e., a “needy” donor like India values an additional dollar of wealth

¹⁶ Banerjee (1982) claims that India does not make recipient countries dependent on its assistance, instead strengthening their self-reliance. Moreover, he argues that India did not install any military bases in a major recipient country.

more than richer countries. The “needy” donor, lagging behind the “rich” donor in terms of wealth, consequently has more incentives to provide strategic aid than the “rich” donor does. We formulate the following hypothesis:

Hypothesis 2b: *While the elasticity to recipient needs is lower for a “needy” donor like India compared to “rich” donors, the opposite is true for political and commercial factors in regards to their respective aid allocations.*

4. Empirical Analysis

4.1 Overview

In this section, we employ data on aid commitments by the MEA in US dollars, obtained from the project-level database AidData (Findley et al. 2009).¹⁷ Data are available for the 2008-2010 period.¹⁸ We only include aid projects traceable to countries, thus excluding aid provided to regions if we lack information on the country breakdown. We further exclude projects related to military assistance, as well as aid provided to countries that are not on the DAC list of aid recipients.¹⁹ Our aim is to estimate the motives behind India’s aid allocation decisions. Beyond that, we compare India’s aid allocation with other donor countries in order to investigate whether aid from the “needy” donor India is allocated on different grounds.

The lion’s share (93.3%) of India’s aid administered by the MEA was allocated to South Asian countries (see Figure 3). With the exception of Pakistan, all six South Asian countries were beneficiaries of Indian aid in this period of time. Southeast Asian countries received 5.7% of MEA aid during this period. This corresponds to a total of 18 countries which have obtained development assistance in this region. 2.2% of the Ministry’s total aid amount has been received by 38 Sub-Saharan African countries, and 1.6% was directed to eight transition economies in Eastern Europe and Central Asia. In the Middle East and North Africa, only Palestine and Syria benefited from Indian aid (1.2% of India’s total aid amount in the 2008-2010 period). Indian support in this region was significantly concentrated on providing various types of humanitarian

¹⁷ While the first entry in the aid database is “Welfare Activities for the Muktiyoddhas (Freedom Fighters)” in Bangladesh in 2008, the database ends with an IT center in Osh in the Kyrgyz Republic in 2010.

¹⁸ Chanana (2009: 11) notes that “[i]n the past few years, there have been marked shifts in the size, focus and strategic thinking behind India’s foreign aid programme.”

¹⁹ The DAC List of ODA Recipients is available at: <http://www.oecd.org/dataoecd/23/34/37954893.pdf>, as of January 1, 2006, accessed February 14, 2011).

assistance to Palestine. Finally, less than 0.04% of total aid allocations by the MEA were made available to 10 Latin American countries. Taken together, it is evident that India strongly favors countries in its neighborhood, as has been argued previously (e.g., Price 2005; Katti et al. 2009; Meier and Murphy 2011).

Figure 4 puts the spotlight on the sectoral aid allocations. Due to space constraints, the figure captures India's aid allocation in key sectors only, while all other sectors are grouped into a residual category named "others." As can be seen, 23.1% of the aid committed was targeted to the energy sector (DAC code: 230), covering both the production and distribution of energy in recipient countries. The second most important sector was drinking water provision and sanitation facilities (DAC code: 140), making up 15% of the Ministry's total aid amount. 12.8% of MEA aid is allocated to transport and storage facilities in recipient countries (DAC code: 210), closely followed by 11.8% earmarked for commodity aid and general program assistance (DAC code: 500), which includes contributions for general development purposes in recipient countries. We also find that about 9.5% of total aid was allocated towards the development of activities associated with strengthening the administrative apparatus and government planning, activities promoting good governance, strengthening civil society, and other social infrastructure projects in the recipient countries, respectively (DAC codes: 150 and 160). Around 8.6% of the Ministry's aid was allocated to multi-sector activities (DAC code: 400), and 7.5% to the development of health-related activities such as building hospitals and health centers, and the provision of other health infrastructure (DAC code: 120). The MEA also earmarked 5.6% and 1.4% of the aid for industrial development (DAC codes: 321-323 and 331-332) and communications facilities (DAC code: 220), respectively. About 3.2% and 0.6% of the MEA's aid amount was targeted at the education sector (DAC code: 110) and Agriculture and allied sectors (DAC code: 311-313). Finally, 0.9% of the total aid was allocated to humanitarian purposes (DAC code: 700) and 0.4% of aid went for sectors which are unspecified (DAC code: 998).

These numbers serve as a first indication that India's foreign aid is motivated more by donors' commercial interests in comparison to need-based issues plaguing recipient countries. This is reflected in the fact that about 45% of the Ministry's aid has been directed at commercial sectors. Nevertheless, the development aid provided by the MEA also covers sectors concerned

with the overall development of basic public goods (such as health, drinking water, education and agriculture), which made up for about 24% of total aid allocations.

4.2 Data and Methodology

We follow the common practice in the aid allocation literature and estimate India's aid allocation in two steps. First, we estimate which countries enter India's aid program. Our dependent variable is a dummy variable that takes a value of 1 if India provided aid to a developing country on the DAC list of aid recipients. Second, given that a country receives aid from India, we estimate the (logged) amount of aid in US dollar that has been committed to a particular recipient country. One way to estimate the first step (the so-called gate-keeping stage) is a Probit (or Logit) model, which takes the binary nature of the data into account. In the second step, it is preferable to include the inverse Mills ratio derived from the first step to avoid any selection bias. However, we lack a suitable exclusion variable and are thus restricted to an Ordinary Least Squares (OLS) estimation of the aid amount allocated to a recipient country. We sum bilateral aid allocation over the 2008-2010 period since it is difficult to explain aid allocation on a yearly basis due to its volatility (see also Gupta et al. 2006; Dreher et al. 2011).

Concerning the selection of our explanatory variables, we follow the previous literature on aid allocation, in particular that of aid allocation by emerging donors (e.g., Dreher et al. 2011; Dreher and Fuchs 2011). To control for the effect of geographic proximity, we account for the (logged) distance between the recipient and the donor country.²⁰ Distance can be seen as a proxy for costs associated with the provision of development aid. Aid costs are expected to be a particular concern for a "needy" donor with limited resources like India. Apart from this explanation, India might favor countries in its neighborhood (with the exception of Pakistan due to the bilateral conflict over Kashmir) as it aspires to become a regional power. Dreher et al. (2011) find that, in general, 'new' donors are more likely to provide aid to countries that are geographically closer to them. Given that India is even poorer in terms of per-capita income than

²⁰ As defined in Mayer and Zignago (2006), bilateral distances are computed as the average of the distance between the major cities of the two countries, which are weighted by the share of the city in the overall population.

any of the donors covered in Dreher et al. (2011), we expect to find a pronounced effect of distance on aid allocation for the “needy” donor under investigation.

We use several variables to examine whether India’s aid responds to the needs of other developing countries. To reflect humanitarian motives, need orientation of donors is proxied by the recipient country’s (logged) per-capita GDP (measured in 2005 international dollars). A need-oriented donor should provide more aid to poorer countries. Thus, we expect a negative effect of this income measure since richer countries need fewer resources to develop. Next, we include the developmental distance measured as the (log) absolute difference between the per-capita income of India and that of a particular recipient country. Hypothesis 1b implies that India’s aid decreases with the developmental distance to a recipient country. Furthermore, we control for the (log) population of recipient countries. The intuition here is that larger countries need more resources to obtain visible effects of aid provision. In addition, we control for the (log) total number of people affected by natural disasters as an additional indicator for recipient need since disaster relief is part of the aid program of the MEA.

To proxy donors’ political self-interests, we follow the literature and employ a recipient country’s voting alignment with India in the United Nations General Assembly (UNGA). This seems to be of large relevance for India since “marshalling support for Indian positions in forums such as the UN take up much of India’s diplomatic effort” (Dutt 1980: 678). Relying on data from Voeten and Merdzanovic (2009) and updated by Kilby (2009), we calculate the number of times a country votes in line with India (either both voting yes, both voting no, both voting abstentions, or both being absent). We then divide the resulting value by the total number of votes in a particular year to derive a measure of voting coincidence between zero and one. Various empirical studies find that developing countries are favored in donors’ aid allocation decisions when they have closer political ties (Thacker 1999; Alesina and Dollar 2000; Barro and Lee 2005; Dreher et al. 2009). We also include a dummy variable capturing whether India and a partner country were both colonized by the British Crown to test whether this plays any role in India’s aid allocation. Referring to colonization, Banerjee (1982: 54) views India’s aid “as a part of the process to undo the injustice of ages.” In addition, India has developed strong political ties with countries sharing common colonial ties in South Asia, Southeast Asia, and also in Sub-Saharan Africa (Johnson and Kumar 2011).

To account for commercial interests, we include India's (log) total exports to a particular recipient country in constant US\$. In addition, we follow Dreher et al. (2011) and use the recipient country's (log) depletion of mineral and energy resources as a proxy for a recipient's endowment of natural resources.

Finally, to account for merit as a motive for aid supply, institutional quality in the recipient countries is proxied by the Freedom House Index, which captures a wide range of measures of civil liberties and political freedom. We take the average of the civil and political liberties indices computed by Freedom House (2009), coded on a scale of 1-7, higher values representing worse liberties, and lower values reflecting full liberties. As the world's largest democracy, India might reward democratic countries and provide less aid to autocratic countries in comparison. Note that India is the second largest donor in the UN Democracy Fund (US\$ 25 million as of 5 January 2012), which underlines the importance that India attributes to the support of democratization.²¹ Alternatively, India might follow the 'spirit of Bandung' (Lafargue 2006) and follow the principle of non-interference into internal affairs, i.e., its aid allocation might be independent of the institutional characteristics of the recipient country.

For our time-varying explanatory variables, we take lagged values, i.e., the corresponding value in 2007, to mitigate endogeneity issues. The only exception is the disaster variable since it is reasonable to assume that the occurrence of natural catastrophes is exogenous. Since our export variable and the UNGA voting alignment show a relatively high volatility over time, we follow Dreher et al. (2011) and take the average of the respective values in the three years preceding our period of investigation (2005-2007). All definitions and sources of variables are provided in Appendix A1.

4.3 Main Results

Table 1 displays our results. While columns 1-3 show the results for the gate-keeping stage, columns 4-6 highlight the results of the allocation decision. According to the baseline regression in column 1, countries closer to India are favored. The probability that a country receives aid from India decreases with geographic distance, at the one-percent level of significance.

²¹ See UNDEF webpage: http://www.un.org/democracyfund/Donors/donors_index.html (accessed 11 February 2012).

Analyzing the coefficient on GDP per capita, Indian aid shows some need orientation. The probability that a developing country receives aid from India decreases with a country's stage of development. The coefficient is statistically significant, at the five-percent level. In turn, both the number of people affected by natural disasters and country size has no significant impact on the probability that a developing country enters India's aid program, at conventional levels of significance. Also, political and commercial variables do not have a significant effect on Indian aid in the gate-keeping stage. The coefficient on the UNGA voting alignment, the common colony dummy, Indian exports and the variable capturing the extraction of natural resources are all not statistically significant at conventional levels. The same is true for the Freedom House Index. This latter finding can be interpreted as an indication that India's aid allocation of today still follows the 'spirit of Bandung' with the principle of non-interference into internal affairs.

To test whether India favors countries at a similar developmental stage (Hypothesis 1b), we add the developmental distance to India to our regression in column 2. The corresponding coefficient is negative, as expected, and statistically significant at the ten-percent level, supporting the idea that countries closer to India in terms of economic development are favored by the MEA. The coefficient on per-capita GDP, however, loses a part of its statistical significance, but remains significant at the ten-percent level. Considering that the developmental distance between India and developing countries is correlated with the recipient's per-capita income, we drop this latter variable as a next step. As shown in column 3, we find that the developmental distance variable reaches statistical significance at the one-percent level. The results for the other explanatory variables remain qualitatively the same in columns 2 and 3 compared to our baseline in column 1.

Analyzing the allocation decision (columns 4), we do not find a significant link between a recipient country's stage of development and the amount of aid received. This also holds true if we use the developmental distance between India and the recipient instead of the recipient country's per-capita GDP (column 6), or if we include both variables at the same time (column 5). While we did not find that disaster-affected countries are more likely to enter India's aid program, countries suffering from a natural disaster receive larger aid amounts if they are already among India's aid recipients. If the number of people affected increases by one percent, India's

aid commitments increase by 0.12 percent. Our results also show that larger countries are disfavored as the coefficient on population is negative and statistically significant, at the one-percent level. While this seems surprising at first, this result is in line with empirical evidence for China (Dreher and Fuchs 2011) and six other so-called new donors (Dreher et al. 2011). As in the gate-keeping stage, geographic proximity is also an important determinant of aid amounts. A one-percent increase in the distance from India to a particular recipient country decreases India's aid commitments by 2.22 percent, on average.

Political and commercial motives are important for India's aid allocation decisions. Recipients with both a closer voting alignment with India in the UNGA and stronger commercial ties (proxied by Indian exports to recipient countries) indeed receive larger aid flows from the "needy" donor, both coefficients being significant at the one-percent level. If the voting alignment increases by ten percentage points, India increases its aid commitments by 1.02%, on average. If Indian exports increase by one percent, aid increases by 0.41%. These results support the arguments of Price who notes that "India's current assistance strategy is clearly determined by political factors (strengthening relations with other developing countries, for example to gain support for India's bid to gain a permanent seat on the UN Security Council) and by economic factors (such as gaining access to markets or raw materials)." In contrast to our expectations, India disfavors countries that share a common colonial history. The coefficient on the common colonizer dummy shows a surprising negative sign and is statistically significant, at the five-percent level. Finally, recipient countries' extraction of natural resources and their political freedom index do not have a statistically significant impact on the size of India's aid flows, at conventional levels of significance.

Overall, the empirical results lend some support in favor of our "needy"-donor hypotheses. First, countries at a similar developmental stage are more likely to enter India's aid program (but do not receive larger aid amounts). Second, political and commercial interests impact on the size of India's aid flows. As a next step, we will compare the role that political and commercial motives play in India's aid allocation decisions with aid flows from richer donors. By doing this, we test whether aid allocation from the "needy" donor India is driven to a higher extent by political and commercial motives than it is the case for richer donor countries (Hypothesis 2b).

4.4 Comparison with DAC and Other Non-DAC Donors

Finally, we compare India's aid allocation with other donors to evaluate whether aid from the "needy" donor under investigation is special.²² Dutt (1980, p. 676) expects India's aid allocation to be closer to that of the big powers than to Scandinavian aid since "Indian elites perceive India as having a role on the world stage," an impression that became even more evident after the 2003 budget speech. The pattern of India's aid allocation is compared to the following longstanding members of the DAC: the United States, Japan, the three largest EU countries (Germany, France and the United Kingdom) and the so-called 'like-minded donors' or 'good donors' (Canada, Denmark, Netherlands, Norway and Sweden). This latter group is said to provide development aid predominantly based on humanitarian motives.²³ Beyond that, we compare India's aid allocation with that of South Korea, another large emerging Asian donor, which became a DAC member in 2009, and with the United Arab Emirates, which has provided sizable aid amounts since the oil crises of the 1970s. Data on ODA from these donors cover again the 2008-2010 period and are obtained from the OECD (2012). Unfortunately, we cannot compare India with the largest non-DAC donor China since we lack sufficient data on China's foreign aid after 2005 (see Dreher and Fuchs 2011 for a discussion). We use the same explanatory variables as in our baseline model in column 1 of Table 1. To be more precise, this means that we now employ the recipient's UNGA voting alignment with the respective donor (not necessarily India) and, analogously, we take the exports of the respective donor to a recipient economy.

In order to be able to compare the effects between donors, we run nested regressions rather than individual regressions for each donor (see also Berthélemy 2006; Dreher et al. 2011; Dreher and Fuchs 2011). This is done by interacting dummies for each donor country or donor group with each of our explanatory variables. In addition to the coefficients and the corresponding p-value of all explanatory variables for all donors (in parentheses), we compute

²² Data on aid allocation from the countries under comparison were obtained from the OECD (2012).

²³ Note that doubts have been raised as to whether the positive image of these donor countries is warranted (see for example Neumayer (2003b) with respect to human rights, or Strømme et al. (2011) with respect to peace and human security). Similarly, Easterly and Williamson (forthcoming) find that Scandinavian donors perform surprisingly badly in their ranking of aid agency practices.

the p-values of a Wald test for differences in the effect of a variable for a particular country and India (in italics).

Table 2 displays our results. Analyzing the role of recipient needs as measured by per-capita GDP, we find that Indian aid shows the least need-orientation than that of any donor under investigation. The coefficient on per-capita GDP for India is the only one that is positive, and it is significantly different from all traditional DAC donors, at the one-percent level of significance. Moreover, India is the only donor for which population size has a negative effect on aid commitments that is statistically significant at conventional levels, which questions India's concerns for recipients' needs. Analyzing the p-values of the Wald test in italics, this behavior is outstanding among the donors under investigation.

The effect of geographic distance between donor and recipient is the largest for India compared to all other donors included in the analysis. This can be interpreted as evidence that aid costs matter more for a "needy" donor than for "rich" donors. The p-values of the Wald test in italics show that the distance coefficient for India is significantly different, at least at the five percent level, from the U.S., the EU-3, the "good" donors, and South Korea. Analyzing the impact of the UNGA voting alignment on aid allocation, the coefficient for India is found to be the largest among the donors under investigation. While Indian aid is significantly more motivated by politics than aid from all of the so-called traditional donors, the difference in coefficients is not statistically significant with respect to South Korea and the United Arab Emirates. While we do not find India providing aid to countries which share similar colonial legacy, the EU-3, the "good" donors and the United Arab Emirates provide significantly more aid to countries having had a colonial relationship with the respective donor country.

Indian aid has a significantly closer link to commercial relationships than aid from the United States, the so-called "good" donors, Japan and Korea. Only the EU-3 show a larger coefficient than India. However, the difference in coefficients is not statistically significant at conventional levels. With regard to its relationship to natural resource endowments, however, Indian aid shows less commercial motivation than aid from the United States and the EU-3, with this difference significant at the ten-percent level with respect to India. The coefficients for the United States and the EU-3 themselves are, however, not significantly different from zero at

conventional levels. Finally, we do not find evidence that any of the donors under investigation reward countries with greater political freedom.

4.5 Robustness checks

Next, we examine the robustness of our findings in the following ways. We add ten variables that might influence India's aid commitments in addition to those included in column 2 and 4, respectively. First, Indian aid allocation decisions are said to be related to the prevalence of Indian diaspora communities (e.g., Dutt 1980; Banerjee 1982; Lafargue 2006).²⁴ The (log) Indian migrant stock in recipient countries for the 2000 round of population censuses is obtained from two sources, namely the Global Migrant Origin Database (Parsons et al. 2007) and the MEA (2001). Second, in order to examine whether India's aid program is responsive to the presence of Chinese development aid in recipient countries, we include a variable capturing the number of completed Chinese aid projects in recipient countries as a share of China's total aid as defined in Dreher and Fuchs (2011). A positive sign could suggest intense aid competition between the two Asian powers, as suggested by some scholars (see Cheru and Obi 2011 for instance). Third, we replace a recipient country's per-capita GDP with its (logged) under-5 mortality rate as an alternative measure of India's need orientation. Fourth, we add a dummy for countries which share a border with India to test whether India favors its direct neighbors in addition to the role played by geographic distance. Fifth, we restrict the UNGA voting alignment index to cover only key votes as defined by the U.S. State Department (Kilby 2009). Sixth, we replace the common colonizer dummy with a dummy that takes a value of 1 if India and a recipient country share the official or primary language (i.e., English). Seventh, the common colonizer dummy is substituted by a dummy variable that takes a value of 1 if the recipient country is a non-suspended member of the Commonwealth of Nations. Eighth, we make use of a recipient's (logged) oil production in tons as an alternative proxy for endowment with natural resources. Ninth, we also replace the Freedom House Index with a dummy capturing whether a recipient country qualifies as a democracy as defined in Cheibub et al. (2010). Tenth, we also add a variable capturing the control of corruption in recipient countries from Kaufmann et al. (2009).

²⁴ Lafargue (2006) identifies Indian diaspora as intermediaries for Indian investments in their respective host country.

Detailed tables containing the regression results are not reported to save space (results available upon request [see Appendices B1 and B2 for referees]). In the gate-keeping stage, we do not find any statistical significance for the variables listed above, at conventional. The only exception is the dummy for countries that share a common official or primary language that is marginally significant. Neither do Indian diaspora communities, nor does the presence of Chinese aid projects lead to a significant increase (or decrease) of the probability that a developing country enters India's aid program. The outlined changes in the definition of the various explanatory variables do not change our main conclusions. In the allocation stage, we confirm the positive significant effect of a country's UNGA voting alignment with India at the one-percent level when we restrict the alignment variable to cover key votes only. We also find an effect of a recipient's control of corruption on the amount of aid received from India, which is significantly different from zero at the one-percent level. This suggests that India favors less corrupt countries. What is counterintuitive though is the coefficient of oil production in tons, which is negative and statistically significant at the five-percent level. This is however in line with the results in Dreher and Fuchs (2011). Apart from these variables, all other variables introduced here are not significant at conventional levels.

Finally, we also compare India's aid allocation with other donors taking into account the sample of only Indian aid recipients only during the period 2008-2010²⁵. As before, we run nested regressions by interacting dummies for each donor country with each of our explanatory variables. From the India's viewpoint, the results with restricted sample broadly mirror the baseline results reported in table 2. However, notable changes can be seen for other donors on variables: per-capita GDP, UNGA voting alignment, and exports. With respect to per-capita GDP, US, EU-3 and Japan lose their statistical significance. Likewise, the UNGA voting alignment is statistically not different from zero for US and EU-3 donors which were significant at 10 percent and one percent respectively in table 2. Although the EU-3 and good donors retain the expected sign and level of significance on exports, South Korea and UAE are now positive and significantly different from zero at 10 percent and one percent respectively. We believe that these changes in the results might be driven by the change in the overall sample size. That said, results with respect to other variables are in line with the results reported in table 2.

²⁵ In total there are about 70 aid recipient countries from India during the period 2008-2010.

5. Conclusion and Policy Implications

India, with its large amount of the population suffering from underdevelopment, chronic poverty and mal-governance, has jumped onto the bandwagon in the ‘business’ of development aid. This is puzzling. According to the World Bank’s new report on India, about 37% of the Indian population lives on less than US\$1.25 a day (World Bank 2011). Although India has a large number of anti-poverty schemes and programs to tackle these problems, the progress made in poverty reduction is rather small. Against this background, it is ironic that India provides development aid to other developing countries. Many of India’s aid recipients even have a larger per-capita income than India.²⁶ In fact, India’s ongoing commitment to provide external assistance to aid-seeking countries is reflected in the government’s decision to setup a separate agency by 2012, which will oversee the emerging donor’s aid allocation process.

With the intension to learn why poor countries such as India provide foreign aid, this paper has made an attempt to empirically analyze India’s aid allocation decisions. We utilized data on aid commitments by the Ministry of External Affairs to 127 developing countries in US dollars, obtained from the AidData database for the 2008-2010 period. To examine whether India is different, we also compared India’s aid allocation decisions with those of other donors. Our empirical results show that India’s aid allocation is partially in line with our expectations of the behavior of a “needy” donor. Commercial and political self-interests dominate India’s aid allocation. Moreover, we find that geographically closer countries are favored and that countries at a similar developmental stage are more likely to enter India’s aid program.

From our results, it appears that the “needy” donor India mainly cares about its own needs rather than the needs of others. Given India’s domestic problems, this is understandable. Although India’s own interests dominate its aid allocation, it may nevertheless be the case that India’s assistance is effective in terms of poverty reduction and other developmental goals with respect to recipient countries. This merits further investigation. Concerning political self-interest, Agrawal (2007) raises doubts over long-term political gains resulting from India’s engagement.

²⁶ 23 recipients of Indian aid had a larger per-capita income than India (based on 2007 values of per-capita GDP in international dollars and purchasing power parity): Armenia, Belarus, Bhutan, Botswana, Cape Verde, Cuba, Ecuador, El Salvador, Fiji, Grenada, Indonesia, Jamaica, Maldives, Marshall Islands, Mauritius, Namibia, Samoa, Sao Tome and Principe, Seychelles, Sri Lanka, Tonga and Turkmenistan.

Future research may also evaluate whether Indian aid, officially aimed at the promotion of India's welfare in addition to that of aid recipients, does actually support India's own development.

These results suggest several potential policy considerations. First, while we find that India's allocation behavior meets our expectations of a "needy" donor, India itself does not want to be perceived as a "needy" donor. This is made clear by the comments of India's Minister of Finance, Pranab Mukherjee, who characterized British aid to India as a "peanut" compared to India's own engagement as an aid donor.²⁷ In addition to that, India made its intentions clear by announcing to setup a foreign aid agency, something akin to USAID in USA and DFID in UK, to manage distribution of development to other developing countries over the next five to 10 years²⁸. Thus if India aspires to be recognized as a potential aid donor it may be beneficial from India's point of view to increase the transparency through provision of detailed records of its development aid transactions. Providing clear and transparent records will not only alleviate India's credibility as an emerging aid donor but will also enhance the scope for coordination with other aid donors. Second, our estimates lend support to the anecdotal evidence that aid is used by India as a commercial and political tool, to increase trade, secure access to resources and project more influence toward its neighbors and other developing countries. If donors like India have a mix of altruistic and self-interest motives, disentangling these motives by creating different bodies for development-oriented aid, trade-oriented aid and political aid along the lines of some DAC donors would optimize the achievement of goals.

²⁷ "India tells Britain: We don't want your aid," *The Telegraph*, 4 February 2012, available at: <http://www.telegraph.co.uk/news/worldnews/asia/india/9061844/India-tells-Britain-We-dont-want-your-aid.html>

²⁸ <http://www.economist.com/node/21525899>

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Table 1: Allocation of India's aid commitments (2008-2010)

	SELECTION			ALLOCATION		
	Probit			OLS		
	(1)	(2)	(3)	(4)	(5)	(6)
(log) Distance	-0.760*** (0.005)	-0.719*** (0.009)	-0.708*** (0.009)	-2.229*** (0.000)	-2.264*** (0.000)	-2.264*** (0.000)
(log) GDP per capita	-0.372** (0.016)	-0.277 (0.106)		0.065 (0.848)	0.012 (0.972)	
(log) Developmental distance		-0.260** (0.045)	-0.316*** (0.009)		0.207 (0.191)	0.209 (0.180)
(log) Affected from disasters	-0.058 (0.158)	-0.079* (0.065)	-0.060 (0.159)	0.121* (0.073)	0.140** (0.045)	0.139** (0.020)
(log) Population	-0.110 (0.469)	-0.071 (0.658)	0.010 (0.948)	-0.798*** (0.002)	-0.845*** (0.001)	-0.848*** (0.002)
UN voting alignment	1.507 (0.294)	1.470 (0.323)	1.307 (0.373)	10.178*** (0.000)	10.216*** (0.000)	10.240*** (0.000)
Common colonizer	-0.097 (0.737)	-0.034 (0.909)	0.059 (0.839)	-1.283** (0.027)	-1.397** (0.018)	-1.400** (0.021)
(log) Indian exports	-0.048 (0.640)	-0.050 (0.635)	-0.100 (0.307)	0.412*** (0.007)	0.420*** (0.007)	0.422*** (0.006)
(log) Mineral and energy depletion	-0.001 (0.972)	-0.005 (0.757)	-0.014 (0.385)	-0.027 (0.308)	-0.023 (0.372)	-0.023 (0.334)
Political rights	-0.124 (0.168)	-0.137 (0.133)	-0.114 (0.189)	-0.038 (0.778)	-0.024 (0.858)	-0.025 (0.851)
Constant	11.875*** (0.001)	12.499*** (0.001)	10.091*** (0.002)	29.029*** (0.000)	28.528*** (0.000)	28.629*** (0.000)
Number of observations	127	127	127	48	48	48
Prob>Chi2 / Prob>F	0.008	0.001	0.002	0.000	0.000	0.000
(Pseudo) R-Squared	0.14	0.16	0.15	0.73	0.73	0.74

Note: * (**, ***) indicates significance at the ten (five, one) percent level

Table 2: Comparison of India's aid allocation with other donors (2008-2010)

	India	USA	EU-3	Good donors	Japan	Korea	UAE
(log) Distance	-2.229*** (0.000)	-0.073 (0.885) <i>0.001</i>	-0.139 (0.559) <i>0.000</i>	-0.434 (0.152) <i>0.000</i>	-1.680*** (0.000) <i>0.173</i>	-1.016** (0.032) <i>0.033</i>	-1.365 (0.145) <i>0.380</i>
(log) GDP per capita	0.065 (0.834)	-0.715*** (0.008) <i>0.039</i>	-0.881*** (0.000) <i>0.001</i>	-0.835*** (0.000) <i>0.024</i>	-0.481*** (0.002) <i>0.167</i>	-0.235 (0.472) <i>0.504</i>	-0.333 (0.397) <i>0.505</i>
(log) Affected from disasters	0.121** (0.047)	0.056 (0.390) <i>0.431</i>	-0.036 (0.428) <i>0.016</i>	0.056 (0.188) <i>0.375</i>	0.142*** (0.001) <i>0.794</i>	0.073 (0.360) <i>0.630</i>	-0.091 (0.381) <i>0.120</i>
(log) Population	-0.798*** (0.000)	0.761*** (0.000) <i>0.000</i>	0.505*** (0.000) <i>0.000</i>	0.327*** (0.002) <i>0.000</i>	0.273*** (0.005) <i>0.000</i>	0.542*** (0.007) <i>0.000</i>	-0.068 (0.814) <i>0.069</i>
UN voting alignment	10.178*** (0.000)	3.813* (0.068) <i>0.031</i>	5.401*** (0.003) <i>0.064</i>	-2.181 (0.314) <i>0.000</i>	1.415 (0.578) <i>0.015</i>	2.985 (0.529) <i>0.138</i>	4.165 (0.247) <i>0.183</i>
Common colonizer	-1.283** (0.014)	2.392 (0.145) <i>0.032</i>	1.328*** (0.000) <i>0.000</i>	3.934*** (0.000) <i>0.000</i>	0.551 (0.312) <i>0.011</i>	0.554 (0.501) <i>0.086</i>	1.653** (0.044) <i>0.005</i>
(log) Indian exports	0.412*** (0.002)	0.039 (0.835) <i>0.070</i>	0.480*** (0.000) <i>0.662</i>	0.112* (0.070) <i>0.039</i>	0.034 (0.619) <i>0.013</i>	0.078 (0.550) <i>0.048</i>	0.113 (0.312) <i>0.113</i>
(log) Mineral and energy depletion	-0.027 (0.263)	0.022 (0.314) <i>0.073</i>	0.012 (0.403) <i>0.090</i>	-0.020 (0.275) <i>0.807</i>	-0.010 (0.415) <i>0.529</i>	-0.011 (0.715) <i>0.682</i>	0.024 (0.574) <i>0.341</i>
Political rights	-0.038 (0.758)	-0.087 (0.425) <i>0.746</i>	0.087 (0.201) <i>0.339</i>	-0.073 (0.344) <i>0.805</i>	-0.079 (0.358) <i>0.787</i>	-0.029 (0.840) <i>0.958</i>	-0.061 (0.800) <i>0.938</i>
Constant	29.029*** (0.000)	-14.426** (0.047)	-20.305*** (0.000)	-4.322 (0.479)	5.454 (0.319)	-11.648 (0.107)	-0.513 (0.963)
Number of observations	1294						
Number of recipients	127						
R-Squared	0.61						

Notes:

- Estimation technique: OLS with standard errors clustered by recipient country
- Dependent variable: (log) Aid commitments to recipient country, sum 2008-2010
- The regression includes donor (group) dummies and all explanatory variables are interacted with these dummies
- We report coefficients of the explanatory variables (corresponding p-values in parentheses)
- In italics: p-values of a Wald test of equal marginal effects of the respective donor (group) compared to India
- * (**, ***) indicates significance at the ten (five, one) percent level

Figure 1: Aid provided by the MEA in millions of constant 2000 US\$ (1966-2010)

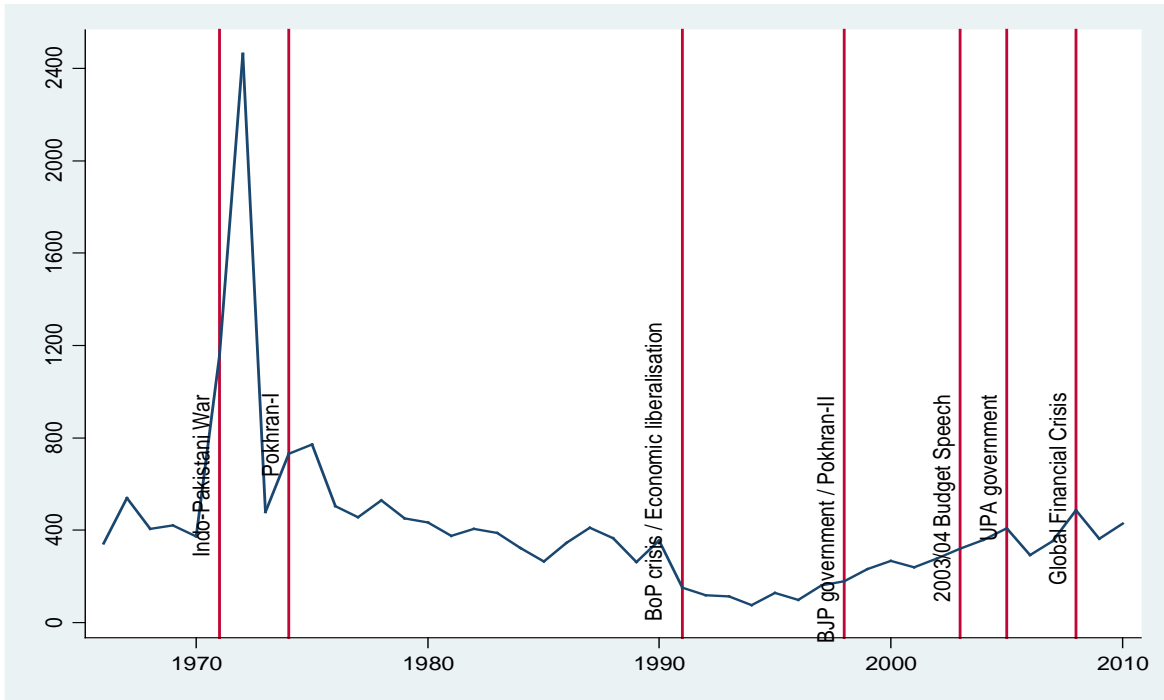


Figure 2: Aid allocation and developmental distance

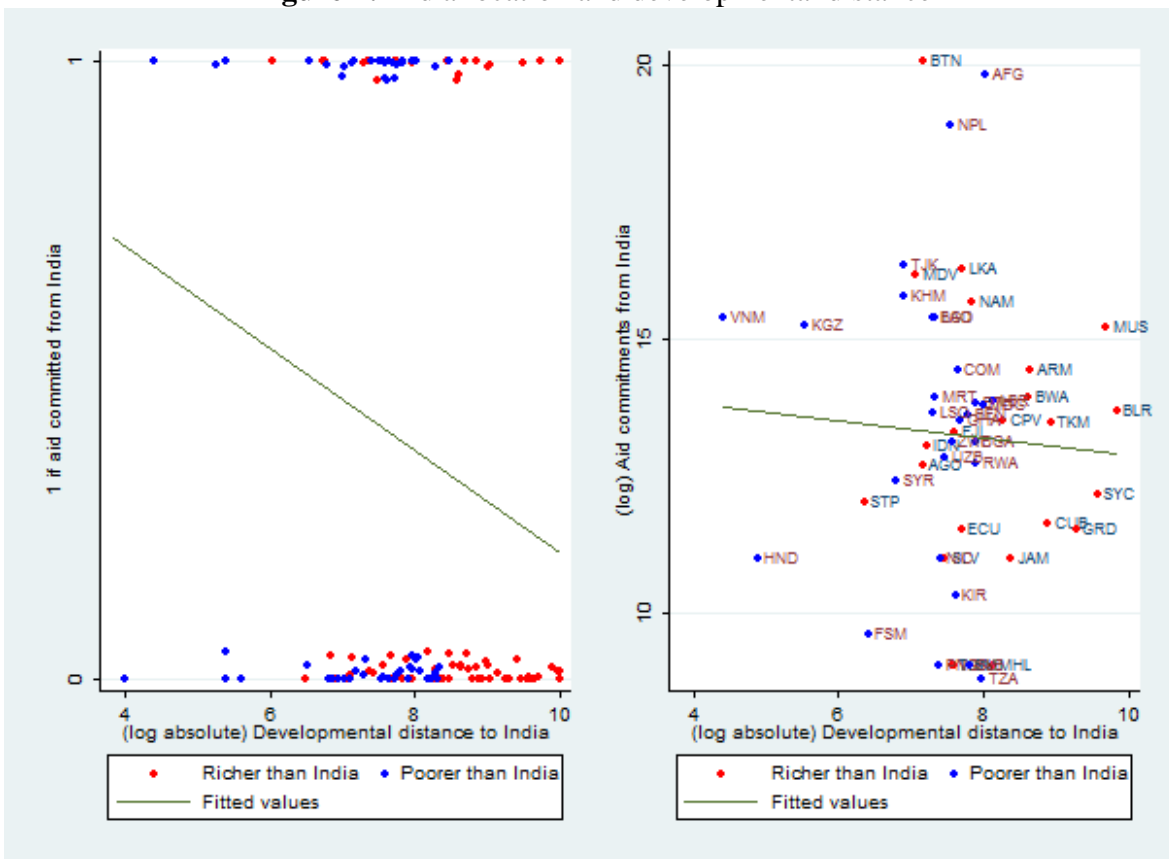


Figure 3: India's aid allocation by region (MEA, 2008-2010)

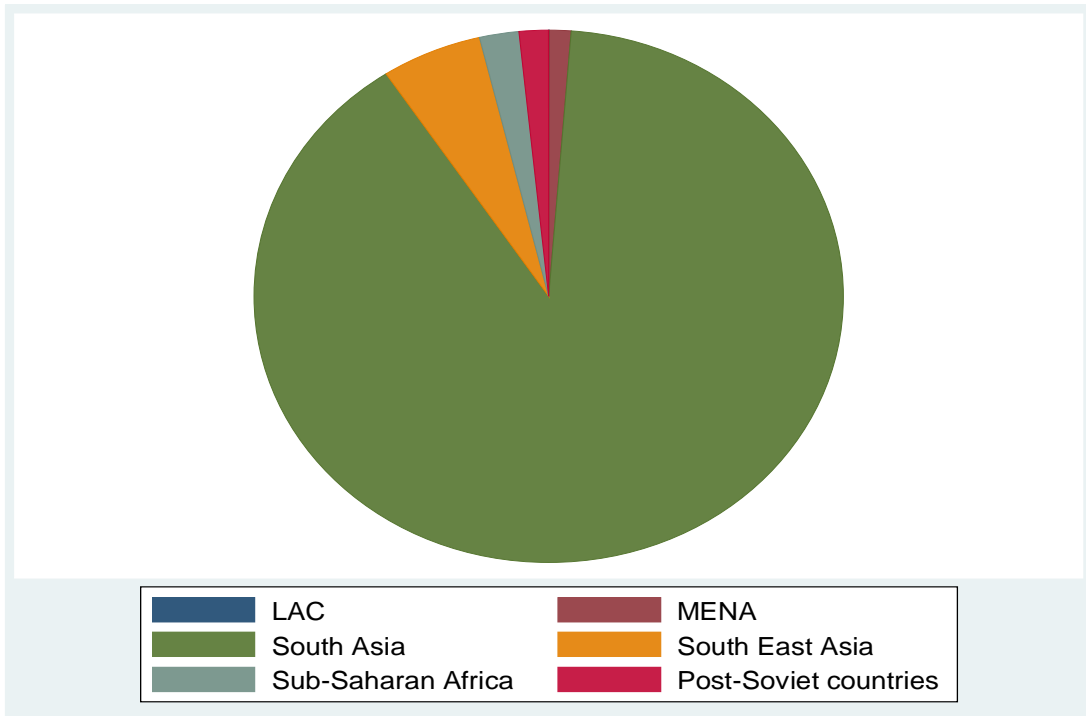
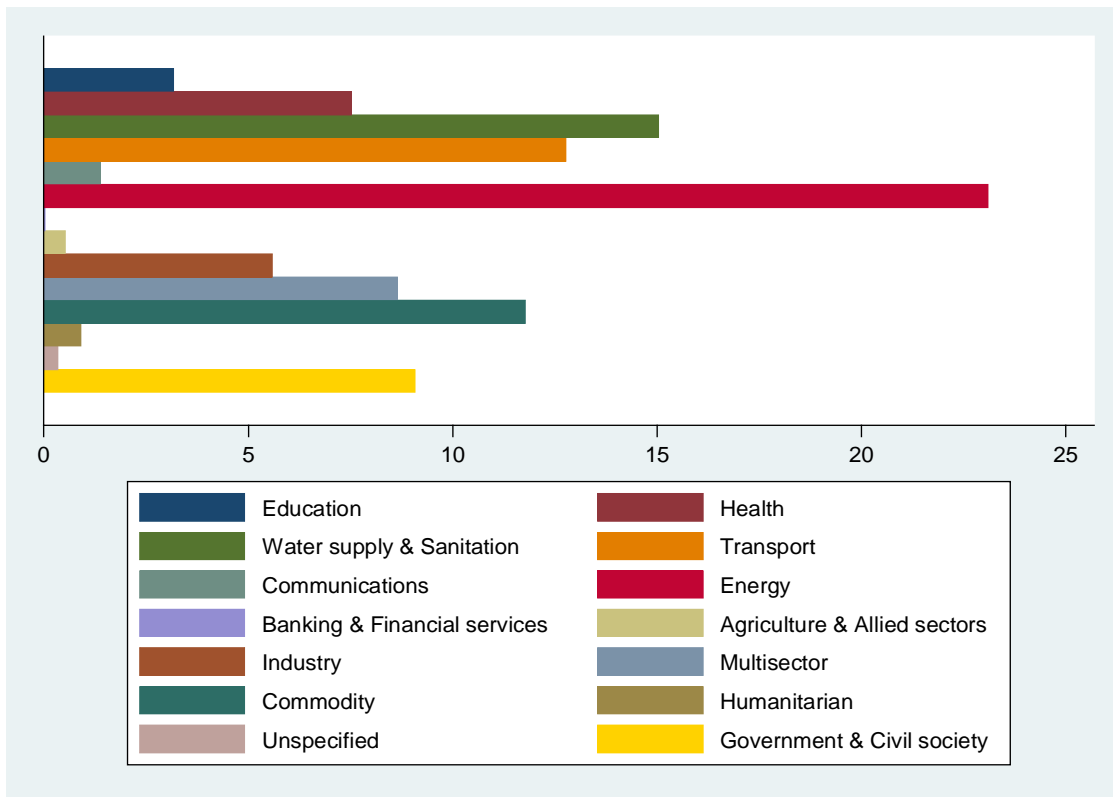


Figure 4: India's aid allocation by sector (MEA, 2008-2010)



Appendix A1: Definitions and sources

Variable	Description	Source
<i>Explained variables</i>		
1 if aid commitment	1 if aid committed to recipient country, 2008-2010	AidData (Findley et al. 2009)
(log) Aid commitment	(log) Aid commitments to recipient country, sum, 2008-2010	AidData (Findley et al. 2009)
<i>Explanatory variables: Main results</i>		
(log) GDP per capita	(log) GDP per capita (constant 2005 I\$), lag	Penn World Tables (Heston et al. 2009)
(log) Developmental distance	(log) Absolute difference between the per-capita GDP of donor and recipient, lag	Own construction based on Penn World Tables
(log) Affected from disasters	(log) Number of people affected by disasters, average	EM-DAT (2010)
(log) Population	(log) Total population, lag	Penn World Tables (Heston et al. 2009)
(log) Distance	(log) Bilateral distance (weighted by populations of major cities)	CEPII (Mayer and Zignago 2006)
UN voting alignment	UNGA voting alignment between donor and recipient, lag	Voeten and Merdzanovic (2009), Kilby (2009)
Common colonizer	1 if donor and recipient have had a common colonizer after 1945 or have ever had a colonial link	CEPII (Mayer and Zignago 2006)
(log) Indian/Bilateral exports	(log) Total exports to recipient country, lag	UN Comtrade via WITS (http://wits.worldbank.org)
(log) Mineral and energy depletion	(log) Product of unit resource rents and physical quantities of energy and minerals extracted, lag	World Bank (http://data.worldbank.org/indicator)
Freedom House index	Average of political and civil rights rated on a seven-point scale (1: most free), lag	Freedom House (2009)
<i>Explanatory variables: Robustness checks</i>		
(log) Indian migrants (definition 1)	(log) Indian migrant stock in recipient country for the 2000 round of population censuses	Global Migrant Origin Database (Parsons et al. 2007)
(log) Indian migrants (definition 2)	(log) Estimated size of Indian community in recipient country, 2001	MEA (2001b)
Chinese aid projects	Number of Chinese aid projects completed in recipient country (% of total), 1996-2005	Dreher and Fuchs (2011)
(log) Under-5 mortality Rate	(log) Mortality rate, under 5 years (per 1000), lag	World Bank (http://data.worldbank.org/indicator)
Neighbor	1 if donor and recipient share a border	CEPII (Mayer and Zignago 2006)
UN voting alignment (key votes)	UNGA voting alignment on key votes between donor and recipient, lag	Voeten and Merdzanovic (2009), Kilby (2009)
Common official language	1 if donor and recipient have a common official or primary language	CEPII (Mayer and Zignago 2006)
Commonwealth	1 if recipient is a non-suspended member of the Commonwealth	www.thecommonwealth.org , internet research
(log) Oil production	(log) Oil production in tonnes, lag	BP (2010)
Democracy	1 if the regime qualifies as democratic, lag	Cheibub et al. (2010)
Control of corruption	Index ranging from -2.5 to 2.5 with higher values corresponding to better governance, lag	Kaufmann et al. (2009)

Notes:

- Values in current US\$ have been transformed to constant 2000 US\$ using US Consumer Price Indices from the World Bank (<http://data.worldbank.org/indicator>)
- The value of 1 has been added to exports and natural resource variables as well as to the number of people affected by disasters before taking logarithms

Appendix A2: Descriptive statistics

	Obs	Mean	Std. Dev.	Min	Max
1 if aid commitment	127	0.38	0.49	0.00	1.00
(log) Aid commitment	48	13.14	2.56	8.79	20.07
(log) GDP per capita	127	8.38	0.97	5.95	10.16
(log) Developmental distance	127	7.88	1.09	3.83	10.00
(log) Affected from disasters	127	9.13	4.39	0.00	18.71
(log) Population	127	15.55	2.08	9.93	21.00
(log) Distance	127	8.83	0.63	7.04	9.74
UN Voting alignment	127	0.78	0.11	0.38	0.89
Common colonizer	127	0.29	0.46	0.00	1.00
(log) Mineral and energy depletion	127	12.95	10.27	0.00	25.82
Freedom House index	127	3.76	1.72	1.00	7.00
(log) Indian migrants (definition 1)	127	6.14	2.99	0.00	13.86
(log) Indian migrants (definition 2)	127	4.66	4.25	0.00	14.33
Chinese project aid	126	0.74	0.94	0.00	4.62
(log) Under-5 mortality Rate	127	3.82	0.90	1.76	5.57
Neighbor	127	0.04	0.20	0.00	1.00
UN Voting alignment (key votes)	127	0.73	0.14	0.25	0.93
Common official language	127	0.34	0.48	0.00	1.00
Commonwealth	127	0.31	0.46	0.00	1.00
(log) Oil production in tonnes	127	4.48	7.62	0.00	20.02
Democracy	127	0.52	0.50	0.00	1.00
Control of Corruption	125	-0.47	0.59	-1.38	1.34

Note: Descriptive statistics for sample as in Table 1, column 1

Appendix B1 (ONLY FOR REVIEWERS): Allocation of India's aid commitments (Probit, 2008-2010): Robustness checks

	baseline	(1a)	(1b)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(log) Developmental distance	-0.316*** (0.009)	-0.315*** (0.009)	-0.348*** (0.005)	-0.293** (0.019)		-0.317*** (0.008)	-0.324*** (0.008)	-0.342*** (0.005)	-0.323*** (0.008)	-0.225* (0.056)	-0.295** (0.012)	-0.277** (0.026)
(log) Affected from disasters	-0.060 (0.159)	-0.058 (0.179)	-0.061 (0.156)	-0.069 (0.109)	-0.016 (0.681)	-0.059 (0.161)	-0.058 (0.165)	-0.070* (0.096)	-0.063 (0.136)	-0.041 (0.294)	-0.051 (0.210)	-0.063 (0.137)
(log) Population	0.010 (0.948)	0.000 (0.999)	0.030 (0.842)	0.027 (0.859)	-0.044 (0.747)	0.010 (0.948)	0.013 (0.930)	0.066 (0.648)	0.051 (0.721)	0.016 (0.905)	-0.022 (0.880)	-0.027 (0.861)
(log) Distance	-0.708*** (0.009)	-0.679** (0.020)	-0.703*** (0.010)	-0.633** (0.023)	-0.756*** (0.004)	-0.716** (0.013)	-0.670** (0.012)	-0.722** (0.012)	-0.695** (0.012)	-0.594** (0.021)	-0.611*** (0.010)	-0.786*** (0.005)
UN voting alignment	1.307 (0.373)	1.331 (0.363)	1.125 (0.449)	1.049 (0.474)	1.131 (0.417)	1.312 (0.371)		1.576 (0.285)	1.103 (0.448)	1.374 (0.325)	1.164 (0.415)	0.948 (0.530)
Common colonizer	0.059 (0.839)	0.039 (0.894)	-0.006 (0.984)	0.063 (0.828)	0.036 (0.899)	0.062 (0.830)	0.037 (0.901)			0.011 (0.968)	0.108 (0.714)	0.061 (0.835)
(log) Indian exports	-0.100 (0.307)	-0.108 (0.277)	-0.133 (0.196)	-0.099 (0.328)	-0.094 (0.311)	-0.100 (0.309)	-0.103 (0.282)	-0.111 (0.239)	-0.117 (0.220)	-0.121 (0.211)	-0.089 (0.350)	-0.082 (0.410)
(log) Mineral and energy depletion	-0.014 (0.385)	-0.014 (0.395)	-0.017 (0.423)	-0.013 (0.423)	-0.009 (0.566)	-0.014 (0.385)	-0.015 (0.358)	-0.016 (0.325)	-0.015 (0.353)		-0.015 (0.350)	-0.013 (0.428)
Political rights	-0.114 (0.189)	-0.111 (0.210)	-0.111 (0.196)	-0.113 (0.199)	-0.089 (0.317)	-0.115 (0.190)	-0.128 (0.159)	-0.100 (0.250)	-0.095 (0.273)	-0.026 (0.769)		-0.157 (0.120)
(log) Indian migrants (definition 1)		0.017 (0.766)										
(log) Indian migrants (definition 2)			0.036 (0.339)									
Chinese project aid				0.163 (0.243)								
(log) Under-5 mortality Rate					0.074 (0.622)							
Neighbor						-0.049 (0.947)						
UN voting alignment (key votes)							1.158 (0.297)					
Common official language								0.516* (0.091)				
Commonwealth									0.387 (0.182)			
(log) Oil production										-0.033 (0.126)		
Democracy											0.205 (0.456)	
Control of Corruption												-0.222 (0.440)
Constant	10.091*** (0.002)	9.954*** (0.002)	10.581*** (0.001)	9.102*** (0.006)	8.056*** (0.008)	10.162*** (0.002)	10.027*** (0.002)	9.407*** (0.004)	9.682*** (0.003)	8.027*** (0.009)	8.852*** (0.002)	11.086*** (0.001)
Number of observations	127	127	127	126	128	127	127	127	127	135	127	125
Pseudo R-Squared	0.15	0.15	0.15	0.15	0.10	0.15	0.15	0.17	0.16	0.13	0.14	0.15

Notes:

-* (**, ***) indicates significance at the ten (five, one) percent level

- Dependent variable: (log) Aid commitments to recipient country, sum 2008-2010

Appendix B2 (ONLY FOR REVIEWERS): Allocation of India's aid commitments (OLS, 2008-2010): Robustness checks

	baseline	(1a)	(1b)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(log) Developmental distance	0.209 (0.180)	0.224 (0.191)	0.208 (0.191)	0.314* (0.053)		0.210 (0.177)	0.099 (0.541)	0.169 (0.339)	0.259* (0.100)	0.218 (0.183)	0.216 (0.160)	0.088 (0.491)
(log) Affected from disasters	0.139** (0.020)	0.139** (0.023)	0.139** (0.022)	0.162*** (0.009)	0.091 (0.171)	0.132** (0.030)	0.145** (0.022)	0.144** (0.027)	0.171*** (0.006)	0.140** (0.016)	0.142** (0.016)	0.142*** (0.009)
(log) Population	-0.848*** (0.002)	-0.818*** (0.005)	-0.848*** (0.002)	-0.802*** (0.001)	-0.854*** (0.001)	-0.818*** (0.002)	-0.845*** (0.003)	-0.710*** (0.009)	-0.961*** (0.001)	-0.833*** (0.003)	-0.853*** (0.002)	-0.724*** (0.002)
(log) Distance	-2.264*** (0.000)	-2.368*** (0.000)	-2.264*** (0.000)	-2.292*** (0.000)	-2.146*** (0.000)	-2.080*** (0.000)	-1.573*** (0.000)	-2.270*** (0.000)	-2.352*** (0.000)	-2.508*** (0.000)	-2.247*** (0.000)	-2.101*** (0.000)
UN voting alignment	10.240*** (0.000)	9.889*** (0.000)	10.239*** (0.000)	9.783*** (0.000)	10.796*** (0.000)	10.169*** (0.000)		8.795*** (0.002)	10.737*** (0.000)	9.744*** (0.000)	10.177*** (0.000)	9.607*** (0.000)
Common colonizer	-1.400** (0.021)	-1.344** (0.032)	-1.402** (0.019)	-1.417** (0.011)	-1.274** (0.034)	-1.380** (0.025)	-1.505*** (0.008)			-1.514*** (0.007)	-1.377** (0.031)	-1.527*** (0.007)
(log) Indian exports	0.422*** (0.006)	0.442*** (0.007)	0.421*** (0.008)	0.454*** (0.004)	0.454*** (0.003)	0.404*** (0.008)	0.478*** (0.005)	0.291* (0.060)	0.414*** (0.005)	0.418*** (0.005)	0.423*** (0.006)	0.326** (0.021)
(log) Mineral and energy depletion	-0.023 (0.334)	-0.022 (0.354)	-0.023 (0.325)	-0.036 (0.187)	-0.022 (0.349)	-0.022 (0.368)	-0.048* (0.058)	-0.012 (0.616)	-0.010 (0.700)		-0.023 (0.327)	-0.021 (0.287)
Political rights	-0.025 (0.851)	-0.029 (0.836)	-0.025 (0.851)	0.017 (0.905)	-0.035 (0.792)	-0.009 (0.950)	-0.012 (0.929)	-0.028 (0.839)	-0.070 (0.607)	-0.042 (0.681)		0.144 (0.205)
(log) Indian migrants (definition 1)		-0.057 (0.632)										
(log) Indian migrants (definition 2)			0.001 (0.980)									
Chinese project aid				-0.420 (0.144)								
(log) Under-5 mortality Rate					0.386 (0.212)							
Neighbor						0.888 (0.199)						
UN voting alignment (key votes)							9.144*** (0.000)					
Common official language								-0.727 (0.225)				
Commonwealth									-1.635*** (0.003)			
(log) Oil production										-0.053 (0.117)		
Democracy											0.066 (0.901)	
Control of Corruption												1.310*** (0.000)
(log) Population squared												
Constant	28.629*** (0.000)	29.236*** (0.000)	28.649*** (0.000)	27.382*** (0.000)	27.208*** (0.000)	26.865*** (0.000)	23.924*** (0.000)	29.938*** (0.000)	30.431*** (0.000)	30.929*** (0.000)	28.360*** (0.000)	28.409*** (0.000)
Constant	48	48	48	48	48	48	48	48	48	51	48	47
Prob>F	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Adjusted R-Squared	0.74	0.73	0.73	0.76	0.74	0.74	0.74	0.69	0.76	0.75	0.74	0.81

Notes:

- * (**, ***) indicates significance at the ten (five, one) percent level

- Dependent variable in columns (1) to (10): (log) Aid commitments to recipient country, sum 2008-2010

Appendix B3 (ONLY FOR REVIEWERS): Comparison of India's aid allocation with other donors (Indian aid recipients only, 2008-2010)

	India	USA	EU-3	Good donors	Japan	Korea	UAE
(log) Distance	-2.229*** (0.000)	-0.594 (0.428)	-0.702 (0.203)	-0.575 (0.204)	-1.530*** (0.000)	-0.760 (0.167)	-1.919** (0.049)
		<i>0.065</i>	<i>0.007</i>	<i>0.006</i>	<i>0.164</i>	<i>0.017</i>	<i>0.747</i>
(log) GDP per capita	0.065 (0.843)	0.092 (0.844)	-0.369 (0.253)	-0.550* (0.084)	-0.075 (0.763)	0.014 (0.971)	-0.455 (0.365)
		<i>0.955</i>	<i>0.221</i>	<i>0.230</i>	<i>0.782</i>	<i>0.921</i>	<i>0.489</i>
(log) Affected from disasters	0.121* (0.062)	0.148* (0.083)	0.038 (0.571)	0.034 (0.651)	0.161*** (0.009)	0.130 (0.237)	-0.369*** (0.000)
		<i>0.803</i>	<i>0.262</i>	<i>0.380</i>	<i>0.696</i>	<i>0.943</i>	<i>0.000</i>
(log) Population	-0.798*** (0.001)	1.142*** (0.001)	0.608*** (0.002)	0.533*** (0.000)	0.206 (0.126)	0.815*** (0.001)	-0.132 (0.698)
		<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.001</i>	<i>0.000</i>	<i>0.132</i>
UN voting alignment	10.178*** (0.000)	7.285 (0.107)	3.765 (0.248)	-1.540 (0.687)	-0.186 (0.946)	0.875 (0.854)	3.274 (0.175)
		<i>0.581</i>	<i>0.060</i>	<i>0.009</i>	<i>0.006</i>	<i>0.051</i>	<i>0.045</i>
Common colonizer	-1.283** (0.022)	3.787** (0.019)	1.111*** (0.007)	1.721*** (0.002)	0.633 (0.309)	0.000 (.)	-0.490 (0.569)
		<i>0.002</i>	<i>0.001</i>	<i>0.000</i>	<i>0.007</i>	<i>0.018</i>	<i>0.518</i>
(log) Indian exports	0.412*** (0.005)	-0.141 (0.601)	0.506*** (0.001)	0.182** (0.030)	0.143 (0.112)	0.261* (0.068)	1.224*** (0.000)
		<i>0.042</i>	<i>0.611</i>	<i>0.144</i>	<i>0.122</i>	<i>0.368</i>	<i>0.018</i>
(log) Mineral and energy depletion	-0.027 (0.291)	0.044 (0.238)	-0.011 (0.638)	-0.033 (0.205)	-0.019 (0.297)	-0.079** (0.017)	-0.064 (0.257)
		<i>0.035</i>	<i>0.523</i>	<i>0.844</i>	<i>0.802</i>	<i>0.253</i>	<i>0.575</i>
Political rights	-0.038 (0.770)	-0.230 (0.180)	-0.032 (0.746)	-0.107 (0.276)	-0.080 (0.466)	0.115 (0.452)	-0.890*** (0.002)
		<i>0.322</i>	<i>0.965</i>	<i>0.655</i>	<i>0.815</i>	<i>0.382</i>	<i>0.009</i>
Constant	29.029*** (0.000)	-20.001** (0.049)	-20.162*** (0.007)	-9.376 (0.215)	1.057 (0.889)	-21.837** (0.017)	-2.996 (0.798)
Number of observations	503						
Number of recipients	48						
R-Squared	0.74						

Notes:

- Estimation technique: OLS with standard errors clustered by recipient country
- Dependent variable: (log) Aid commitments to recipient country, sum 2008-2010
- The regression includes donor (group) dummies and all explanatory variables are interacted with these dummies
- We report coefficients of the explanatory variables (corresponding p-values in parentheses)
- In italics: p-values of a Wald test of equal marginal effects of the respective donor (group) compared to India
- * (**, ***) indicates significance at the ten (five, one) percent level