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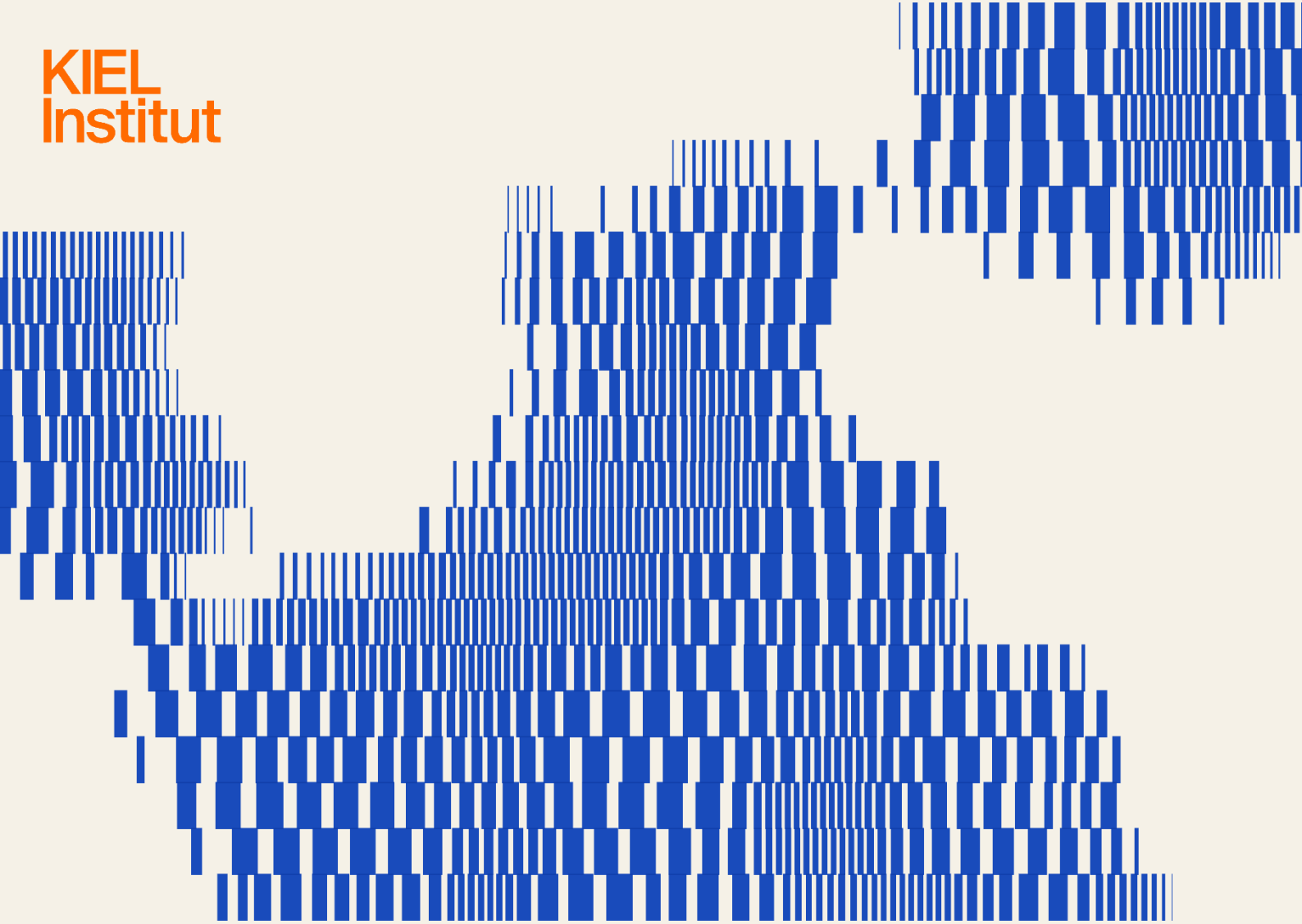

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What Geopolitical Returns Does ODA Bring?

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Abstract

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We review the literature on the political economy of foreign aid, examining the geopolitical returns generated by Official Development Assistance (ODA). Our paper identifies conditions under which donors are able to influence political and economic outcomes in recipient countries, shape their behavior in global affairs, and adjust to domestic and international challenges. First, we introduce our paper and outline the structure of our review. Second, we examine how the international system influences foreign aid motivations. Third, we discuss the literature on aid-giving practices and their geopolitical effects. Fourth, we explore the relationship between aid and international organizations. Fifth, we identify key challenges to the traditional aid architecture. Sixth, building on an emerging body of research in international development finance, we propose future directions for the study of ODA in a contested global landscape. Finally, we conclude by summarizing the main insights from our review.

Keywords: foreign aid, geopolitics, foreign policy, development, international organizations, development finance, aid effectiveness
JELs: F35, O19, P45

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1 Introduction

International development assistance has long been regarded as a vital instrument for alleviating poverty and fostering economic growth in low- and middle-income countries. Yet, over the past several years, the landscape of international development assistance is facing unprecedented challenges. Most recently, the Trump administration's announcement of steep cuts to foreign aid budgets has raised alarm about immediate humanitarian consequences, the erosion of U.S. soft power, and the broader future of the Official Development Assistance (ODA) regime (Sablich and Ainsworth, 2025).

This retrenchment is not unique to the United States. Germany, once among the most generous donors, has reduced its ODA budget in response to mounting domestic budgetary pressures and shifting political priorities. France, despite its stated commitment to global development, has scaled back disbursements in certain regions, citing fiscal constraints and a focus on domestic social programs (Becel, 2025). The United Kingdom, historically a leader in aid generosity, formally abandoned its long-standing commitment to spend 0.7 percent of Gross National Income (GNI) on foreign aid in 2021, and in 2025 Prime Minister Keir Starmer announced moving from 0.5 percent of GNI to 0.3 percent in 2027 to be spent on aid (Brien and Loft, 2025). Together, these developments point to a broader retreat from global development commitments by major donors, casting uncertainty over the future of international cooperation in addressing poverty, inequality, and climate change. Understanding the origins of these reductions requires a broader reflection on the historical trajectory and underlying motivations of foreign aid.

The modern foreign aid regime traces its roots to the U.S. Marshall Plan, designed to support Europe's post-war recovery. This initiative marked the beginning of systematic international assistance, soon institutionalized through the creation of the Bretton Woods institutions in 1944 (Kharas, 2014). As the world sought to rebuild from the devastation of the Second World War, international cooperation around development financing emerged as a central pillar of the global economic order. By the late 1960s, foreign aid had evolved into

a more structured and formalized international regime. The concept of Official Development Assistance (ODA) was introduced in 1969, referring to concessional financing aimed at promoting the economic development and welfare of developing countries. ODA became the internationally recognized standard for measuring development cooperation, with rules and reporting overseen by the OECD Development Assistance Committee (DAC). Over time, the DAC aid regime has addressed a broad range of objectives—from providing humanitarian relief to fostering democratic governance.

Despite its humanitarian and development objectives, foreign aid has always been shaped by geopolitical considerations. We review the political economy literature on the allocation of aid and shed light on the conditions under which aid promotes geopolitical benefits (e.g., Alesina and Dollar, 2000; de Mesquita and Smith, 2007). We define geopolitical benefits or returns as any political returns that foreign aid can bring to donors. These benefits can materialize in the form of political alignment in international organizations, policy concessions and preferred access to resources, or improved donor image in recipient countries. Donors also benefit indirectly from aid as the promotion of democracy or the pursuit of development more broadly can be critical for international stability and donor national security. We contribute to the broader discussion on how ODA can serve the mutual interests of recipients and donors by identifying the conditions under which aid generates geopolitical returns (Heidland et al., 2025). While most of the literature understands geopolitical returns as motivational factors for aid-giving, we also present evidence from observational and experimental studies showing that foreign aid can yield benefits to donors when it is sustained and has a greater focus on development impact.

Our paper presents the literature in four main sections. Section 2 outlines the role of aid in world affairs and argues that the geostrategic logic of aid is not confined to the Cold War period. It has evolved to reflect shifting priorities in the international system. After the Cold War, donors increasingly linked aid to good governance, market reforms, and democratization, viewing development not only as a moral imperative but also as a means

to reduce cross-border risks, such as terrorism, migration, and pandemics (e.g., Dreher and Fuchs, 2011; Bermeo, 2017, 2018; Dunning, 2004).

Donors use aid to secure policy concessions, reward aligned governments, and influence domestic politics in recipient countries. Section 3 presents how donors can achieve such geopolitical outcomes relying on different aid allocation and delivery practices. Political conditionalities and aid suspensions are tools to enforce compliance, though their effectiveness varies with regime type, donor credibility, and aid dependency (Cheeseman et al., 2024). In weak institutional contexts, donors often bypass governments, channeling aid through NGOs, which can have significant political implications on regime stability (e.g., Allen et al., 2024, 2023; DiLorenzo, 2018). Foreign aid is also a tool of soft power, yielding positive perceptions of donor countries (e.g., Anyiam-Osigwe et al., 2025; Dietrich et al., 2018).

Donors have also been allocating aid to influence states' behavior in international organizations (section 4). Multilateral organizations offer efficiency but are not immune to geopolitics (e.g., Dreher et al., 2022, 2014; Fleck and Kilby, 2006). Donors, especially powerful ones like the U.S., use bilateral aid to influence voting behavior in forums such as the UN Security Council and multilateral aid to obfuscate domestically costly foreign policing. Countries serving on the UNSC or aligning with major powers often receive more aid, revealing the strategic underpinnings of both bilateral and multilateral development finance. DAC donors also influence lending patterns of increasingly prominent regional international financial institutions, as evidenced by research that is regaining interest in the field of international organizations (e.g., Anyiam-Osigwe and Vreeland, 2024; Anyiam-Osigwe and Qian, 2025; Kilby, 2006).

Section 5 explores how international and domestic challenges test the OECD-DAC aid regime and affect the way donors generate geopolitical benefits. In the more recent period, traditional donors have had to contend with new competitors in the development finance space (section 5.1). Emerging actors like China offer alternative sources of funding, often with fewer conditions and faster disbursement, challenging the normative and operational

dominance of the DAC-led aid regime (e.g., Dreher et al., 2013). Recipient countries have gained greater agency by leveraging these competing sources of finance, while traditional donors have responded by adjusting their aid-giving practices (e.g., Zeitz, 2024).

Foreign aid has also become entangled in domestic political debates within donor countries (section 5.2). The rise of populist parties—particularly in Europe and North America—has politicized foreign aid, portraying it as an elite-driven policy disconnected from national interests (Hackenesch et al., 2022). While the impact of populism on aid levels remains contested, there is growing evidence that it affects compliance with international development norms (e.g., Bau et al., 2025b).

Section 6 explores how donors are responding to this new international environment by modifying their bilateral allocation strategies. We identify emerging research showing that donors maximize the pursuit of their strategic economic interests with bilateral cooperation instruments alternative to traditional aid organizations, including, for example, national development finance institutions (Bau et al., 2025). We suggest that more research is needed in these areas.

2 Foreign Aid and the International System

Governments pursue foreign policy priorities internationally, and foreign aid can provide support in such an endeavor. The foreign aid regime originated during the Cold War and was largely driven by donor geopolitical considerations. In the first subsection we review canonical literature on the role of foreign aid as a tool of foreign influence. The second subsection presents how the aid regime reacted to changing governments' priorities over time. Our review of the literature makes the case that, regardless of the period, donors have largely tied foreign aid allocation to geopolitical considerations while increasingly pursuing the impact of development. However, much of the scholarship focuses on donor motivations and aid decision-making, therefore not providing an assessment of whether such aid promotion

has been harmful or promoted mutual interests.

2.1 Foreign Aid and the Cold War

There is a consensus based on empirical studies of aid allocation that, during the Cold War, aid was primarily a tool for advancing the political and economic interests of donor states. In their early contribution, McKinlay and Little (1977) proposed a classification system to distinguish between donor's geopolitical or strategic interests, donor's commercial interests, and recipient needs. They show that political and security concerns were motives that significantly drove U.S. aid spending during the Cold War. Empirical evidence showing the U.S. strategically driven aid-giving orientation during the Cold War holds for other donors such as France (McKinlay and Little, 1978b) and Great Britain (McKinlay and Little, 1978a). Donor countries primarily pursued their own interests during the Cold War, but not all donors were pursuing the same strategic interests. Maizels and Nissanke (1984) show that U.S. bilateral aid became almost entirely driven by foreign political and security considerations in the late 1970s (1978–1980), compared to a more diversified set of interests in the earlier period (1969–1970). Specifically, U.S. commercial interests in Latin America, which were significant in the earlier period, largely disappeared in the later years. Instead, following the Camp David Accords, there was a massive expansion of both economic and military assistance to Israel and Egypt, reflecting the heightened political and strategic priorities in the Middle East.

In contrast to the United States, France's aid allocations did not appear to be influenced by foreign political or security considerations, proxied by arms transfers. Rather, French aid was largely motivated by economic interests–both for former colonies and countries where France had substantial private investments. This finding is nuanced by Schraeder et al. (1998) who find for the decade of the 1980s that French aid, as for foreign assistance provided by Japan, Sweden and the United States, was driven by ideological factors.

Germany displayed yet another trajectory (Maizels and Nissanke, 1984). In the late 1960s

(1969–1970), German aid was predominantly driven by foreign political objectives. However, by the late 1970s, the significance of political motives and the linkages between aid, arms transfers, and trade had diminished. This shift is likely attributable to the conclusion of successive trade and aid agreements between the European Economic Community (EEC) and countries in Africa, the Caribbean, and the Pacific (ACP), which may have institutionalized trade relations and reduced the need for bilateral aid as a tool of foreign policy influence.

Another important insight from the literature studying aid allocation during the Cold War is that the strategic use of foreign aid can be maximized in specific situations. de Mesquita and Smith (2007) consider that aid is a strategic exchange, where donors provide aid in return for policy concessions from recipients. These concessions are valuable to donors, often serving political, strategic, or economic interests, especially when it comes to supporting a policy that is unpopular in the donor country. The likelihood and size of policy concessions depend on the political institutions of both donor and recipient states, specifically their selectorates and winning coalitions. Smaller winning coalitions in recipient countries were more likely to make policy concessions in exchange for aid.

Despite important findings, this literature has mostly focused on the post-1970 period of the Cold War. Introducing original data for the period pre-1970, Lee (2022) finds that U.S. foreign aid before 1970 was mostly unconditional and therefore politically attractive to recipient countries.

2.2 Foreign Aid in the Post-Cold War Period

With the end of the Cold War, debates were renewed over the extent to which foreign aid continued to serve the strategic interests of donor countries. Research shows that aid continued to buy or reward the support of allies and countries that are geopolitically important to donors (Alesina and Dollar, 2000; Kuziemko and Werker, 2006; Dreher et al., 2008; Carter and Stone, 2015; Dreher et al., 2022). Donors provided aid to maintain alliances at the United Nations General Assembly (Alesina and Dollar, 2000) and rewarded countries for aligning their votes by providing them with more aid (Hoeffler and Sterck, 2022). The post- Cold War period was also associated with a broadening out of political conditionalities. Although aid may have

still been associated with the pursuit of geopolitical considerations, donors were expecting it to be more effective for development when provided in a supportive economic and political environment. While the effect of bilateral aid on economic growth was insignificant during the Cold War, it became positive, significant, and sizeable from 2001 onwards (Bearce and Tirone, 2010; Headey, 2008). Bearce and Tirone (2010) identify a mechanism where aid can serve as a financial incentive for recipient governments to engage in market-oriented reforms, thereby promoting growth.

Donors also increasingly focused on democracy promotion, a foreign aid priority often regarded as reflecting soft power abroad. The promotion of democracy was considered as a necessary driver to promote political rights as well as economic prosperity in recipient countries and at the same time offered donors the possibility of advancing liberal agendas. In this area, aid has been shown to have potentially negative effects on corruption or positive effects on democracy. In a replication study using the Freedom House Index of Political Freedom, Dunning (2004) shows that aid—measured as the share of bilateral aid relative to recipients' national Gross Domestic Product (GDP)—had a positive effect on democracy only between 1987 and 1997. During the Cold War, aid was often provided to authoritarian regimes in order to secure strategic alliances, making threats to condition aid on democratic reforms largely non-credible. The collapse of the Soviet Union reduced the strategic importance of maintaining authoritarian client states in Africa. With fewer alternatives for external patronage, African leaders became more vulnerable to donor pressure, making aid conditionality more effective.

Donors appeared more credible to recipient governments in making aid conditional on reforms, but also themselves enjoyed greater room for maneuver to implement aid likely to have a positive impact on populations. During the Cold War donors were disincentivized to pursue democratic change, as competition with the Soviet Union was leading them to allocate aid in ways that favored the elite. Reduced geopolitical competition in the post-Cold War period allowed them to be more selective in the composition of aid allocation. They also focused more on development outcomes than before (Dietrich and Winters, 2021). As a result, donors increasingly provided non-fungible aid that would reduce the opportunity for autocratic leaders to divert aid to strengthen their autocratic rule. At the same time, as

Bermeo's research finds, donors continue to provide more fungible aid to countries of high strategic importance, allowing their governments to use it to strengthen their position. Unlike oil revenues, which consistently undermine democratization, the impact of aid depends on how donors choose to give the aid.

Notably, however, aid in the post-Cold War era has remained shaped by strategic considerations. Whereas during the Cold War it primarily served as an instrument of geopolitical competition, and prioritized alliances over development, donors in the post-Cold War and post-2001 periods have increasingly viewed aid as a tool for mitigating cross-border risks. From this perspective, aid should help promote development in regions that are most likely to produce negative externalities. The literature emphasizes that aid has a stabilizing effect on political environments or can induce economic growth that contributes to limiting emigration, improving security, and generating economic dividends (see Heidland et al. (2025, 15-18)).

In the early 2000s, donors increasingly considered that underdevelopment abroad would create negative spillovers directly affecting their national security. These spillovers include issues like terrorism, unwanted migration, the spread of diseases, regional instability, crime, and trafficking in persons and illicit substances. Dreher and Fuchs (2011) find that traditional donors increased their aid effort during the War on Terror period. They provide evidence showing that countries where terror originated were not more likely to receive aid, but if selected, they received it in larger amounts. Countries that are more important for U.S. counterterrorism received more aid while accounting for recipient needs and democratic advantage (Fleck and Kilby, 2010). Bermeo (2017, 2018) finds that in the period following 9/11, factors associated with underdevelopment giving rise to negative spillovers, namely distance from the donor country, population size, migration, donor imports, and natural disasters, positively predict the allocation of aid. In the case of migration, there is evidence indicating that donors systematically channel aid to source countries of migrants (Czaika et al., 2011; Bermeo and Leblang, 2015) although it is nuanced by other studies arguing that a country where migration originates does not receive more aid compared to other recipients (Clemens and Postel, 2018).

Empirical studies have helped us to understand whether or not donors are effective at

improving development abroad to limit negative spillovers. Heidland et al. (2025, 16) consider the conflict-migration nexus as a critical security spillover. They identify that foreign aid has a preventive effect on conflict, and particularly when it stabilizes income. However, this effect reverses in weak institutional settings or when aid flows are volatile. Foreign aid can also prolong conflicts. U.S. food aid can inadvertently subsidize combatants, thereby prolonging conflict (Nunn and Qian, 2014), while the visibility of aid programs may shift citizens' loyalties, potentially threatening rebels (Beath et al., 2011; Crost et al., 2014; Wood and Molfino, 2016; Wood and Sullivan, 2015). Finally, in periods following conflicts, aid can substantially reduce the risk of conflict recurrence. Chances are higher when donor engagement is sustained for at least a decade, and peacekeeping operations are accompanied by longer-term governance reforms. Aid in post-conflict settings also significantly improves social outcomes that may contribute to stabilizing the environment (Donaubauer et al., 2019).

Foreign aid can help to mitigate potential negative spillovers. It has also been shown to prevent terrorism. Aid flows to education have the strongest effect on the occurrence of terrorist attacks, but the impact is also significant for aid to conflict prevention, health, and civil society programs (Young and Findley, 2011). Aid can also contribute to reducing the risk of attacks in recipient countries. As reported by Heidland et al. (2025), Burcu and Tirone (2018) estimate that a USD 60 million increase in foreign aid spending is associated with a 10 percent decrease in domestic terrorist attacks. Foreign aid thus contributes to stabilizing country environments and mitigating the spread of terrorism across borders.

Finally, foreign aid also contributes to limiting irregular mitigation which is framed as a contribution to stability.[1] Aid flows can influence both the incentives for populations to remain in their home country and the feasibility of pursuing migration. They are likely to limit emigration if they succeed in improving local amenities (Dustmann and Okatenko, 2014) or if they contribute to changing the recipient countries' migration policies (Dreher et al., 2019). Other researchers identify a positive association between foreign aid and emigration (Berthelemy et al., 2009; Belloc, 2015; Clemens and Postel, 2018). One explanation is that improved infrastructure could increase emigration by lowering its costs (Morten and Oliveira,

[1] See Heidland et al. (2025) for a careful review of the literature on aid and migration.

2016). Focusing on the relationship between the World Bank's lending and migration, Fuchs et al. (2023) find that the effect of aid differs in the short and long run. In the short term, foreign aid improves individual expectations about their future and trust in national institutions, which translates into reduced individual migration preferences and asylum-seeker flows. In the longer term, the authors argue, foreign aid fosters improvements in individual welfare through poverty reduction and income increases, resulting in larger regular migration to high-income countries.

2.3 Evidence at the Sub-National Level

While the previous subsections examined cross-national evidence on donor motivations, a growing body of research now employs subnational data to study the relationship between aid allocation and donor strategic interests. This shift has proven valuable for reassessing long-standing claims about the drivers and effects of aid. Subnational approaches allow scholars to address many of the causal identification challenges that constrain cross-national analyses.

Research focusing on subnational aid allocation focuses both on multilateral and bilateral official providers. Evidence at the subnational level indicates that multilateral development banks' lending can be shaped by political motives in recipient countries. Studying the sub-national lending of the World Bank and the African Development Bank in Kenya, Jablonski (2014) shows that the incumbent parties manage to influence the distribution of aid to ethnic groups likely to respond favorably and support them politically. This is made possible by the fungibility of aid, with multilateral donors leaving recipient governments sufficient room for maneuver.

Other pioneering work has demonstrated a negative association between the subnational distribution of multilateral aid and the levels of wealth in recipient regions (Briggs, 2017, 2021). The observed allocation pattern is driven by the bureaucratic incentives faced by World Bank Task Team Leaders. The pressure to deliver multiple, large, and successful projects encourages staff to concentrate efforts in wealthier regions, where conditions are more favorable for project implementation and performance. Nunnenkamp et al. (2017) also find weak evidence of needs-based allocation of World Bank aid across Indian districts. The World

Bank's subnational aid allocation is rather shaped by the commercial interests of the major shareholders of the organization. This is in line with findings from other cross-national studies (Dreher et al., 2009a,b, 2019).

While subnational evidence suggests that recipient economic characteristics and donor commercial interests shape multilateral aid allocation, many of these studies omit political factors from their specifications. For a long time, such measures were either unavailable or remained limited in geographic and temporal scope. Time-invariant characteristics that would explain donor sustained preferences for allocating aid to a specific region would typically be captured by donor-recipient region fixed effects. In addition, data on bilateral aid at the subnational level was firmly lacking. Only recently have data collection efforts at the subnational level produced geocoded information on bilateral aid and measures of strategic interest, enabling researchers to revisit long-standing questions about aid allocation using subnational analyses (Bomprezzi et al., 2025).

Recent research on bilateral subnational aid allocation provides further empirical evidence indicating that donors pursue geostrategic motives. Bommer et al. (2022) provide evidence that U.S. Foreign Disaster Assistance is shaped by regional favoritism. When the birth region of the leader governing the country is affected by a disaster, it is more likely to receive foreign aid. Using another measure for regional favoritism, Bomprezzi et al. (2025) show that regions of birth of leaders and their spouses receive more bilateral aid from European donors and the U.S. They find that a second-order administrative region (ADM2) receives almost twice the amount of aid–about USD half a million more, on average, during the tenure of a leader whose spouse was born there, compared to what this region receives at other times. While donors may safeguard aid allocation from political interferences, subtle informal networks can redirect aid. However, although targeted aid may please political leaders and their spouses, it risks undermining development impact. The effect of aid on development, measured as the logarithm average of nighttime light intensity, is stronger for birth regions, but diminishes as aid flows increase.

Further, empirical testing at the subnational level provides evidence that economic interests also play a significant role in shaping the allocation of bilateral aid. Controlling for important geostrategic factors such as the presence of natural resources in the regions of the

recipient countries, Bomprezzi et al. (2025) find that regions in which firms are linked to European industries are more likely to receive bilateral ODA. Each additional ownership tie in a region is associated with a 5.7 percent increase in bilateral aid. Their study offers a novel measure of the pursuit of economic interests by capturing the presence of firms owned by European companies in Africa. These findings make the case for a clear benefit to donor countries. Future research could investigate whether aid targeted at recipient regions where firms are owned by European businesses is more likely to generate development impact.

2.4 Foreign Aid-Giving Practices and (Geo-)Political Out- comes

Foreign aid allocation studies broadly support the argument that development assistance responds to geopolitical motives. This argument is robust against a wide range of measurements and empirical strategies. While the literature remains fairly quiet regarding whether such aid benefits recipient countries, evidence suggests that over time donors have increasingly paid attention to generating positive development because well-functioning programs help contribute to stability and national security objectives. The extensive literature review by Heidland et al (2025) provides a more detailed account of cases of mutual interest in the context of migration and security objectives. In this section, we present research that considers heterogeneity in aid-giving practices and how they generate different political effects within recipient countries. In particular, we focus on the aid provided to governments (section 3.1) and to civil society (section 3.2).

2.5 Aid to Governments and the Effectiveness of Conditionality

Research on aid allocation considers that aid can be used to obtain policy deals with countries that are strategic to donors. The extraction of policy concessions implies, by definition, that aid is allocated to governments and, preferably, that this aid is fungible (Bermeo, 2016). Nevertheless, donor governments can also influence the behavior of recipient countries through political conditionalities. They can steer aid allocation and use financial resources to sanction or reward recipients according to their state behavior and the implementation of

particular policy reforms. Conditionalities often aim to promote democratic governance and human rights (Molenaers et al., 2015, 2). International financial institutions like the IMF and the World Bank also use conditionalities for the implementation of liberal, market-oriented reforms (Reinsberg et al., 2019).

For a donor, the implementation of conditionality can come with costs. Conditionalities often require governments to implement unpopular policies and donors can be blamed for that, which ultimately affects their reputation. To avoid being named and shamed, donor countries sometimes implement aid conditionalities in countries under IMF programs. This gives the possibility for donor governments to transfer the blame to the IMF for requiring such reforms (Stubbs et al., 2016). The extent to which recipient country publics accept donor conditionalities depends on citizens' trust in their government. Using cross-national survey data from the Afrobarometer, Clark, Dolan, and Zeitz (2025) find that citizens that have higher levels of trust in their own government are less likely to support conditionalities imposed by donors. However, when citizens express distrust toward their domestic sovereign, they are more likely to support conditionalities as they perceive donor intervention through conditions as a source of external accountability.

Traditional donors can use aid suspensions or withdrawals as enforcement mechanisms (Cheeseman, Swedlund, and O'Brien-Udry, 2024). Aid suspensions and withdrawals are a form of political conditionality involving the retractation of promised aid, as a punitive and reactive response by donors to the actions or non-actions of recipients (Cheeseman et al., 2024, 178). While aid sanctions can be more effective than other forms of economic coercion (Mertens, 2024), their effectiveness depends on donors sticking to their objectives (Cheeseman, 2015; Dunning, 2004) as well as the credibility of donors in keeping their promises (Swedlund, 2017).

Recipient domestic factors also play a role: Authoritarian regimes that do not face political opposition or competitive elections are better positioned to resist external pressure (Portela and Mora-Sanguinetti, 2023). The evidence suggests that aid suspensions exert similar effects on military regimes and monarchies as other foreign policy sanctions, but the effect is null on single-party regimes. While these findings rely on a relatively small-N study, they suggest that foreign aid donors can thwart policy change in countries with democracies or hybrid political

regimes.

The relationship between a donor and a recipient country also conditions the impact of aid sanctions. Aid suspensions and withdrawals prove more effective when recipient governments are more dependent on the donor for aid (Brown, 2005) and when aid is cut in sectors that are more likely to provoke public backlash, imposing higher political costs on the recipient government, such as in healthcare (Cheeseman et al., 2023). When recipient governments lose aid they are at a reduced capacity to deliver promised public services to their population (Carnegie and Dolan, 2021; Dolan, 2020). One example is Lebanon, where the withdrawal of aid in response to corruption and a lack of reform led to massive protests as citizens experienced deteriorating public services (Baylouny, 2020).

2.6 Bypass Aid and Political Outcomes

Donors do not provide aid solely to governments of recipient countries. They can exercise political leveraging in ways other than conditionality. In countries with weaker institutions, traditional donors channel their aid through third-party actors such as NGOs or international organizations, rather than recipient governments (Dietrich, 2013, 2016, 2021). This is known as bypass aid. This channel of delivery can be conditional on the strategic importance of the government. For example, Adhikari (2019) shows that support of US-backed resolutions in the UNGA is systematically associated with more government-to-government aid than is given to countries that hold different positions. Interacting recipient governance with donor strategic interests, Allen et al. (2024) show that strategically important recipient states for the donors receive less bypass aid as governance improves, as compared to non-strategic recipients. The recipient's military importance is proxied by the existence of an alliance between the donor and the recipient, economic ties are captured by donors' exports to the recipient country, and economic importance is measured by the ideal point distance in the United Nations General Assembly.

Governments choose how much aid to bypass, depending on how much they want to get out of the recipients. However, bypass aid can also have consequences for recipient countries and in particular leadership tenure. Allen et al. (2023) show that choosing to deliver in the form

of bypass aid can have a punitive effect for recipient governments, driving the leader out. They show that an increase in countries' reliance on bypass aid by one standard deviation increases the risk of government turnover by 13 percent. The conditional, regime change effect of bypass aid on leader tenure is only significant for the most autocratic regimes. The cost of bypass aid is thus greater for autocratic than for democratic leaders. The authors argue that this can be explained by the fact that in democracies, bypass aid continues to provide the public goods on which democratic leaders depend.

Bypass aid initiatives such as the United States President's Emergency Plan for AIDS Relief (PEPFAR) have been widely celebrated as global success stories and have contributed to a shift toward favoring aid that benefits donors as well as recipients. Whereas vertical programs like PEPFAR can have unintended consequences for recipient domestic governments or target issue areas favored by donors (Lee and Izama, 2015), there is large evidence indicating that they maximize mutual benefits. For recipient countries, PEPFAR investments have brought economic, educational, and health benefits beyond HIV. Using a difference-in-difference estimate, Wagner et al. (2015) find that in ten African countries supported by PEPFAR, there is a 13 percent increase in population-level male employment compared to countries receiving little to no PEPFAR funding. Countries supported by PEPFAR with Country Operating Plans also exhibit improved health conditions beyond HIV. In a study covering the period from 2004 to 2018, targeted countries showed a 20 percent reduction in all-cause mortality, a 25 percent reduction in maternal mortality, a 35 percent reduction in child mortality, and an increase of 8–11 percent in childhood immunizations for measles, hepatitis B, diphtheria, tetanus, and polio (Gaumer et al., 2024).

Empirical evidence suggests that the United States also benefited from financing bypass initiatives such as PEPFAR. From 2001 to 2024, U.S. goods exports to Africa—including motor vehicles and parts, aircraft, oil and gas field equipment, mineral fuels, and wheat—have increased four-fold, ranging from USD 6.9 to 32.1 billion (Office of the United States Trade Representative, 2024). Whereas the effect of PEPFAR on strengthening trade relations between the U.S. and African countries remains empirically untested, vertical health programs such as PEPFAR arguably participate in improving global stability which is perceived as necessary to expand international trade. For instance, PEPFAR-supported health

information systems, laboratory infrastructure, and disease surveillance capacities have enhanced countries' ability to prepare for and respond to pandemics. During the COVID-19 pandemic, more than 3.4 million SARS-CoV-2 tests were conducted over the course of one year at PEPFAR-supported sites across 16 countries (Cluver et al., 2025, p. 1707). These systems also bolster countries' capacity to manage emerging transboundary health threats, including hemorrhagic fevers and other global health security risks (Daschle and Frist, 2018; Mirza et al., 2022).

Bypass aid initiatives can foster recipient public support for donors. While some case studies suggest that foreign aid has limited effectiveness in improving public opinion of donors—particularly in contexts of U.S. aid in Afghanistan and Kenya (Bradbury and Kleinman, 2010; Fishstein, 2010; Gompelman, 2011; Gordon, 2011)—systematic analyses offer a more nuanced view. In a first attempt to systematically study the effect of vertical programs substantially funded by individual donors, Goldsmith et al. (2014) find that PEPFAR investments are associated with more favorable perceptions of U.S. leadership in supported countries. A key challenge in studying the relationship between aid and public perceptions lies in endogeneity: Donors may strategically allocate more aid to countries where they seek to improve their image. To address this concern, Goldsmith and colleagues employ an instrumental variables approach, using the severity of the HIV/AIDS prevalence as an exogenous predictor of PEPFAR aid allocation. Their findings indicate that PEPFAR significantly enhances perceptions of U.S. leadership. The authors attribute this effect to several mechanisms: (1) the initiative targets urgent health needs where local governments have been unable to respond; (2) it demonstrates sustained donor engagement over time; (3) it delivers measurable health impacts that increase perceived effectiveness; and (4) it is highly visible due to explicit U.S. branding, which facilitates attribution to the donor. These findings suggest that when donors engage in a sustained, effective, visible, and needs-based manner, their aid efforts may yield positive returns in the form of increased public support for the donor government.

At the same time, bypass aid has political consequences that donors care about. For example, aid programs that substitute for government transfers, directly affecting civil unrest. DiLorenzo (2018) tests this mechanism and shows that bypass aid reduces popular

resistance to autocrats. Bypass aid delivers goods and services (like food, health care, and education) directly to the population, improving citizens' short-term welfare. This lowers citizens' incentives to protest or challenge autocratic regimes, because their immediate needs are partially met without needing to push for political change. As bypass aid improves the status quo for individuals, it increases the opportunity cost for engaging in political resistance. The implication is that the choice of bypass aid for donor countries has an influence on the stability of autocratic regimes. Bypass aid may undermine prospects for democratic change by reducing incentives for popular mobilization.

3 Foreign Aid and International Organizations

International organizations represent another means by which donors can generate geopolitical returns. Donors can use bilateral aid to influence developing countries' behavior in organizations such as the United Nations Security Council (section 4.1). They can also directly influence decision-making at multilateral development banks and offer preferential lending conditions as a reward for borrowers' favorable alignment with donors in world affairs (section 4.2).

3.1 Aid and Influence at International Organizations

International organizations play a major role in the governance of global affairs. In the case of international development, multilateral financing can be seen as more effective than bilateral aid. Multilateral funding increases efficiency by using the organizational resources of the Secretariat, sharing the cost associated with running programs, or pooling larger resources (Milner and Tingley, 2013; Reinsberg et al., 2017). Equally, multilateral institutions exacerbate principal-agents problems associated with funds, reducing a country's control over its own foreign policy and thus preventing individual donors from promoting their domestic interests (Milner, 2006).

To compensate for the diversification of interests within international organizations, donor countries often use bilateral aid strategically to influence the votes of other member

states in their favor (Fleck and Kilby, 2006). A well-documented example in the literature is the case of temporary members of the United Nations Security Council (UNSC). Because the UNSC votes by open ballot, the positions taken by elected members carry significant global weight on critical issues of international peace and security (Dreher et al., 2014, p. 52). Research shows that receiving bilateral aid increases the likelihood of a developing country being elected as a temporary member of the Council, thereby allowing donor countries to secure additional diplomatic support (Dreher et al., 2008). Examining the relationship between U.S. bilateral aid flows and financing from multilateral institutions and individual decisions of the UNSC, Dreher et al. (2022) find that the U.S. uses bilateral aid to influence the UNSC votes of its allies. Conversely, the U.S. prefers the multilateral channel when it seeks the support of countries with which it is not traditionally allied, and for which granting financial assistance could be domestically costly. To further establish the causal effect of aid on vote buying, Alexander and Rooney (2019) leverage exogenous variation using the staggered rotating structure of the non-permanent members of the UNSC to estimate voting similarity between states and the U.S. They find that states that are more prone to vote against the U.S. at the UN General Assembly are more likely to receive U.S. foreign aid.

3.2 Donors and Multilateral Development Banks

International organizations are major providers of aid. Donors can exert direct influence on multilateral development banks to influence their lending behavior in a way that promotes their geopolitical interests. This is particularly well documented when it comes to the conditionalities attached to international financial institutions such as the International Monetary Fund (IMF) and the World Bank. Allies of the U.S. in the UN General Assembly receive more favorable treatment from the IMF, particularly in the period leading up to elections (Dreher and Jensen, 2007). When countries are temporary members of the UN Security Council, they are subject to about 30 percent fewer conditions imposed by the IMF (Dreher et al., 2015). Powerful donor countries seek to ease IMF conditionalities and their enforcement when their own strategic interests are involved (Stone, 2004, 2011).

Recipient countries that have important political ties to donors also receive more favorable

treatment from the World Bank. Kilby (2013) finds that countries of geopolitical significance undergo shorter project preparation phases, and Kersting and Kilby (2016) report that politically aligned countries receive loan disbursements more quickly before elections. Kilby and Michaelowa (2019) also note that these countries receive systematically more favorable performance evaluations.

Importantly, World Bank recipients do not necessarily get more favorable lending treatment because of active lobbying of members with a lot of formal or informal power. Clark and Dolan (2021) find that borrower countries that vote with the United States at the United Nations are required to enact fewer domestic policy reforms, and do so on fewer and softer issue areas. However, they do not attribute this to active U.S. intervention on behalf of these borrowers. Rather, they argue that World Bank staff tend to design programs that align with U.S. preferences. These findings are important for our understanding of how the World Bank may or may not promote the geopolitical interests of its aid-giving members. U.S. interests are pursued through the bureaucratic routines within the international organization.

Temporary membership of the UNSC is also associated with preferential treatment in the allocation of development finance, often interpreted as a reward for political alignment. Non-permanent members are more likely to receive World Bank project loans and International Monetary Fund loans with relatively soft conditionality (Dreher et al., 2009a,b). For example, the United States increases its bilateral foreign aid by more than 50 percent when a country serves on the UNSC (Kuziemko and Werker, 2006). Dreher et al. (2022) find that temporary Security Council members receive more bilateral and multilateral aid only when they support the positions of the U.S.

4 Challenges to the DAC Aid Regime

Foreign aid-giving practices have been progressively formalized as part of a regime led by the OECD Development Assistance Committee. Donors have established norms and good practices to promote aid effectiveness and research suggests that the monitoring of such practices is sheltered from political interferences (Iannantuoni et al., 2025b). However, the

consensus on the continued effectiveness of the aid is gradually being called into question (section 5.1). OECD providers are increasingly facing competition with non-traditional donors. They also experience a decline in domestic support due to the backlash against globalization (section 5.2). These international and domestic challenges affecting donors have steered members of the research community to provide a better understanding of the extent to which these challenges may lead to the erosion of the DAC aid regime.

4.1 Foreign Aid and Development Finance Competition

The landscape of international development finance has significantly evolved since the beginning of the 2000s. Although countries' access to development finance was long dominated by traditional donors and international financial institutions, it has broadened to new sources. These alternative sources of external finance are debt relief, which, in itself, constitutes a flow of development finance, as well as official Chinese finance and private finance via access to bond markets (Zeitz, 2024).

The literature on foreign aid has focused a great deal of attention on Chinese finance and how it differs from traditional development aid. It is generally considered to be more oriented towards infrastructure financing, disbursed more rapidly, more costly, but not associated with political conditionalities (Zeitz, 2024; Dreher et al., 2022). These characteristics make it particularly popular with recipient governments compared to traditional development aid. This can be explained by domestic electoral reasons: Leaders can claim development finance flows to respond to popular needs and this is especially the case for Chinese finance (Cruz and Schneider, 2017). This view is not always shared by donor countries. Based on a survey experiment of donor officials working in Sub-Saharan Africa, Swedlund (2017) shows that while recipients are believed to prefer Chinese finance, many donors perceive Chinese lending as sufficiently different and their own aid as sufficiently important for recipient governments to retain their bargaining power vis-à-vis donors.

In practice, research indicates that official Chinese finance has an impact on the aid-giving practices of traditional donors. Using a panel of 54 Sub-Saharan African countries over the 1980-2013 period, Hernandez (2017) shows that competition with China has a significant impact

on traditional lending. Recipient countries that receive more Chinese finance receive World Bank loans with fewer conditions. Chinese official finance offers recipient governments an exit option, which limits their incentives to comply with conditionalities of traditional donors. Focusing on World Bank project agreements for a sample of 42 Sub- Saharan African countries from 2000-2014, Watkins (2022) finds that a one percent increase in Chinese official finance as a proportion of GDP over the project's duration decreases the likelihood of recipient compliance with the terms of the project agreement by 12 percent.

While existing research has focused largely on the effects of alternative development finance on World Bank lending, Vadlamannati et al. (2023) examine U.S. behavior across ten different multilateral development banks.[2] They find that the United States votes in support for loans to countries that receive Chinese finance, but only when these countries receive low levels of Chinese lending. This suggests that the United States may be competing over countries that are members of the Belt and Road Initiative, that may want to cooperate with China economically but that do not want to become over-reliant on China. Zeitz (2024) shows that recipient countries that diversify their external financing portfolio to include not only Chinese finance but also private finance can secure more attractive terms in their aid agreements with traditional donors. On average, traditional donors give more aid to recipient countries when these receive a greater share of external funding from non-traditional sources. In Sub-Saharan Africa, traditional donors also tend to respond by increasing the share of their projects in infrastructure-intensive sectors.

Aid can also provide broader gains for donors by influencing public opinion in recipient countries. By demonstrating tangible benefits in recipient communities, donor programs can win hearts and minds, strengthening diplomatic relationships and enhancing the country's global influence. Thus, aid can be understood as a key component of a broader soft power strategy aimed at enhancing the donor's reputation in the recipient country (Nye, 2017). Research has explored whether and under what conditions donors can leverage aid to cultivate a positive reputation in recipient countries.

[2] The MDBs surveyed are International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, Multilateral Investment Guarantee Agency, European Bank for Reconstruction and Development, Asian Development Bank, African Development Bank, Inter-American Development Bank, The Global Environment Facility, and The International Fund for Agricultural Development.

For example, survey experiments have demonstrated that recipients of aid often develop more favorable perceptions of donor countries. For example, Dietrich et al. (2018) conducted a study in Bangladesh and found that when the U.S. was identified as the donor funding a network of health clinics, there was a small but significant increase in positive perceptions of U.S. influence in the country. Research by Wellner et al. (2022) on Chinese development projects finds that the completion of Chinese-financed development projects increases public support for the Chinese government, particularly for larger projects and those with more generous financial terms. However, over time, this effect diminishes for individuals living closer to a Chinese-financed project, suggesting growing dissatisfaction.

If foreign aid can improve a donor's reputation among the public, what does this mean for competition and rivalry between donors? Some studies specifically consider whether donors can use aid to sway public opinion when they are competing with one another for influence (Humphrey and Michaelowa, 2019; Gafuri, 2024). For example, Blair et al. (2022) use Afrobarometer public opinion data to show that in several African countries, individuals living near Chinese aid projects report lower affinity for China, while showing increased support for the U.S. Similarly, U.S. aid projects lead to weaker support for China and stronger support for the U.S. Blair and colleagues conclude that, rather than undermining U.S. soft power, Chinese aid seems to boost U.S. stature and contribute to greater reported commitment to liberal democratic values. Anyiam-Osigwe et al. (2025) employ a survey experiment in South Africa and Nigeria to show that, while both EU and Chinese funded development projects yield more positive public perceptions among the two publics, a comparison between the effects of EU and Chinese assistance among respondents who care about corruption and governance issues indicates that respondents may trust the EU more than China when it comes to good governance and debt sustainability of their programs. Kim et al. (2025) report evidence from a conjoint survey experiment fielded to the public in seven developing countries that shows a preference for aid projects implemented by donors described as democratic and transparent.

Partisan preferences of domestic populations also shape support for foreign aid in a diversified landscape of donors. Using experimental evidence, Bush and Prather (2020) show that in Tunisia, supporters of the leading secular party, Nidaa Tounes, prefer to receive aid from two pro-secular donors, France and the U.S. Conversely, supporters of the Islamist party,

Enhahda, express greater preference to engage with Qatar, a pro-Islamist donor. Although the experimental treatment by Bush and Prather does not focus on development finance competition, their study demonstrates that even when DAC donors' engagement is increasingly diluted in a wider pool of official aid providers, donors continue to receive support for ideological reasons. Experimental evidence of elites' perceptions of development finance corroborates findings observed at the level of the public. Using a pre-registered conjoint experiment sampling 3,641 elites including cabinet ministers, members of parliament, private sector executives, and civil society leaders from 141 low- and middle-income countries (LMICs), Blair et al. (2024) show that the DAC aid regime is systematically favored over the Chinese aid regime. Elites' respondents, 42 percent of whom were officials from government agencies, embraced references for larger grants and concessional loans. They prioritized transportation infrastructure projects that have become widely associated with corruption in LMICs (Hanauer and Morris, 2014). However, contrary to implicit assumptions of the resource curse theory, elites also prefer projects with transparent terms and labor, corruption, and environmental regulations, and are at worst indifferent towards good governance conditionalities. Interestingly, these results hold for elites in autocratic countries that are expected to prefer Chinese finance. While Blair and colleagues' study is based on a single-wave survey conducted during the COVID-19 pandemic—a period marked by a sharp increase in debt to China, which may have temporarily increased support for the DAC aid regime—their findings challenge the conventional view that Chinese aid is more attractive or competitive than that offered by DAC donors to recipient countries.

4.2 Foreign Aid and the Backlash Against Globalization

Traditional donor countries which have designed the aid architecture of the OECD-DAC and provide aid are increasingly governed by populist governments. Development aid can be a target for populists: Populist ideology places primacy on domestic interest, yet aid is framed as a policy of international solidarity, transferring taxpayers' resources abroad instead of contributing to domestic distributive effects.

Existing empirical evidence is mixed regarding whether populist governments of donor

countries reduce support for foreign aid. Hammerschmidt et al. (2022) find that when DAC donors see an increasing share of populist radical right-wing parties (PRRPs) in their legislative and executive branches, they tend to reduce aid commitments. In particular, the decrease in foreign aid commitments is more important when the share of PRRPs is higher in a parliament with a minority government. The analysis is confined to the period between 1990-2016 which excludes the important, conservative-oriented, renewal of the U.S. Congress in 2018 as well as the rise of populist parties in other large donors such as France in 2022 where the far-right populist party Rassemblement National obtained 89 seats at the legislative elections, compared to 8 in the past 2017 election. Using a survey experiment, Heinrich et al. (2021) show that populist-related individual attitudes in the public are associated with less support for aid. The effect of general populism on negative support for foreign aid is observed to be higher in the UK than in the U.S. The authors also find that an increase in immigration conservatism as well as the number of anti-government protests in a donor country are systematically associated with a reduction in aid commitment per capita.

Others do not find populism to have substantial negative effects on foreign aid commitment levels. Hackenesch et al. (2022) find that the rise of PRRPs has not been associated with an overall reduction in foreign aid. Rather, they observe a change in the sectoral composition of aid, PRRPs being associated with a higher share of aid for migration-containment objectives, and less aid for addressing climate change and for multilateral organizations. Suzuki (2023) argues that populist far-right parties use the threat of aid cuts to exert pressure on recipient countries that are the source of heavy migration flows toward the donor. Finally, Tokhi and Zimmermann (2025) show that, while far-right donors do not differ from others in bilateral aid spending, they reduce their earmarked commitments significantly—a sign that they seek to limit the influence of international organizations and their liberal mandates on their aid giving.

Populists can also direct their anti-foreign aid behavior towards international organizations. Traditional donors operate a set of rules promoted by the OECD-DAC, the world's leading standard-setting international organization in development cooperation (Iannantuoni et al., 2025b,a; Steinwand, 2024). However, populists express a sense of disaffection toward elitist, globally defined norms. Populists do not wish to be dictated to by

international organizations as to how they should allocate their aid. In fact, as the share of populists in the legislature of donor countries increases, Bau et al. (2025b) observe that countries are less compliant with international best practice in aid-giving. They suggest that aid bureaucrats anticipate populist opposition to international organizations' directives and are likely to design projects that exclude them.

Disaffection with the DAC aid regime can be nuanced depending on the status of the donor. Newer members of the OECD Development Assistance Committee, namely the Baltic states and countries from the Visegrád Group, exhibit a high degree of compliance with DAC procedural rules and, in some cases, even outperform the traditional donors who played a foundational role in establishing the global aid architecture (Bau et al., 2025a). This is largely due to the influence and capacity-building efforts of the OECD Secretariat which aims to develop the statistical capacities of the new DAC member countries, needed to produce quality data to monitor implementation and produce recommendations for other more substantial standards relating to giving aid in the field of climate, the environment or gender, for example.

5 Emerging Research in International Development Finance

The diversification of external financing for developing countries and the backlash against globalization in donor countries are two phenomena that are putting pressure on traditional development assistance. We suggest that donors are likely to deviate from traditional ODA to support other forms of development finance that enable them to continue pursuing their strategic interests while securing their economies. First, preliminary evidence from a burgeoning body of research suggests that donors are increasingly favoring their bilateral cooperation instruments to maximize the pursuit of their economic interests (section 6.1). This is evidenced by the rise of national development finance institutions (DFIs). DFIs have become the most dynamic instruments of bilateral donor cooperation over the past decade. Importantly, we suggest that traditional ODA may remain important, conditioning the allocation of other forms of development finance. Second, renewed scholarly interest in regional development banks outlined in section 6.2 indicates that multilateral arenas remain important when donors want to

preserve their political influence.

5.1 Bilateral Development Finance

Bilateral aid remains a preferred channel for donors when it comes to promoting their strategic interests. In particular, traditional donors are motivated to give aid when it serves commercial interests (Alesina and Dollar, 2000; Bomprezzi et al., 2025; Hoeffler and Sterck, 2022; Dreher et al., 2022; Younas, 2008; Barthel et al., 2014; Hoeffler and Outram, 2011). A growing body of research suggests that ODA can strengthen the private sector in developing countries and indirectly benefit donor countries.

Economists in particular are interested in the effects of foreign aid on trade. One mechanism usually identified is that aid has virtuous effects in stimulating the private sector in developing countries and promoting exports. In particular, climate aid has positive effects on countries that are vulnerable to climate risks. For instance, Gamso (2025) shows that climate aid can mitigate the negative effects of climate risk on foreign direct investment (FDI), suggesting that donors may use aid to signal support for climate-vulnerable economies and reassure private investors. However, the direction of causality remains a central concern in this literature, as aid allocation may itself be driven by strategic motives, including trade considerations (Bermeo, 2017). To address endogeneity concerns, Bayramoglu et al. (2023) instrument bilateral trade flows using a shift-share approach based on quasi-exogenous changes in world demand for products previously traded between countries. Their results indicate that a 10 percent increase in exports from a recipient to a donor leads to an approximately 3 percent increase in climate aid, with stronger effects in countries more vulnerable to environmental risks. This evidence supports the view that climate aid can stabilize climate-vulnerable business environments.

The choices regarding where and how to allocate aid can also reflect economically motivated geopolitical considerations. In the European context, some refer to the "geopoliticization" of the external economic policies pursued by the European Commission (Bauerle Danzman and Meunier 2024; Rosen and Meunier, 2023). In 2021, the Commission launched the Global Gateway Initiative with an explicit focus on pursuing mutual interests with

partner countries. Powerful members represented at the Council Presidency and the EU High Representative, as well as the European Commission, converged on the need to position the EU as a geopolitical actor in the financing of infrastructure projects (Heldt, 2023).

This shift in development priorities sheds light on understudied actors and instruments that can maximize the pursuit of mutual interests. The existing literature remains relatively agnostic as to whether different development cooperation instruments produce the same effects on the private sector in developing countries. Research generally contrasts foreign aid with other foreign economic policy instruments such as foreign direct investments (Kosack and Tobin, 2006; Milner and Tingley, 2015). However, over the past decade traditional donors have increasingly relied on national development finance institutions to engage with the private sector of developing countries.

National DFIs became prominent in the financing of the implementation of the European Union's development cooperation policy under the Ursula von der Leyen Commission, with a focus on the pursuit of the economic interests of the member states. Tracing historical changes in the European development cooperation policy, Bau and Dietrich (2025) show that the Commission has placed DFIs center stage within the European financial development architecture. The European Commission also increased its coordination power over the allocation of guarantees, in a way that is aligned with geopolitical priorities. Using project-level descriptive evidence, they suggest that within the European Union, DFIs are strongly connected with the private sector in member states, positioning continental firms to implement projects abroad.

The growing support of donor governments for DFIs has often been interpreted as a shift away from traditional aid (Craviotto, 2023). However, ODA can play a catalytic role in shaping other forms of development finance. Bau, Dietrich, Qian, and Trinh (2025) find that DFIs are more likely to invest in recipient second-order administrative regions where national aid agencies already have operational presence and finance ODA activities. Using subnational data, the authors find that moving from zero to the average logged ODA count or commitment corresponds to an estimated 26–38 percent increase in the probability of DFI allocation at the ADM1 level, and 26–40 percent at the ADM2 level. Donor traditional aid agencies produce targeted information that is useful to inform DFI investment decision- making and increase

their confidence in investing in markets under-served in commercial capital where they can also promote development impact. The influence of ODA on shaping DFI investments has strengthened over time, which the authors attribute to the increasing formalization of inter-agency coordination within donor bureaucracies.

However, research in this area remains limited to date. An in-depth examination of the evidence base for mutual interest aid indicates that the rise of self-interested aid, a paradigmatic example of which is tied aid, has brought few narrow gains for donors but has considerably eroded the trust given by recipient countries (Heidland et al., 2025). Emerging research is clarifying the origins and decision-making processes of bilateral development finance institutions, yet we still know little about the returns they generate for both recipient and donor countries. Future work should therefore focus on these overlooked institutions and identify which bilateral, ODA-funded instruments are most likely to maximize mutual benefits.

5.2 Regional Development Finance

Beyond traditional international financial institutions like the World Bank, regional multilateral development banks (MDBs) are also important providers of development finance. These institutions are strategic entry points for traditional donors and arouse renewed interest among researchers. The lending volumes of these organizations, which include, among others, the African Development Bank (AfDB), the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank, the Corporación Andina de Fomento (CAF, Development Bank of Latin America and the Caribbean), the Inter-American Development Bank, and more recently the New Development Bank for the BRICS, have grown considerably. Maintaining influence over regional MDB lending has taken on added significance for traditional donors, as emerging evidence indicates that the Asian Infrastructure Investment Bank (AIIB) could erode the political leverage the United States has historically derived from its leadership role at the World Bank (Qian et al., 2023).

In an early study, Kilby (2006) finds that both Japan and the U.S. have systematic influence over the distribution of Asian Development Bank funds. These results hold even when

excluding China—a strategic country for the U.S—and India—strategic for Japan—representing about 75 percent of ADB's lending over the period of study (1968-2002). Donor trade and geopolitical interests still play a greater role than humanitarian factors, thereby implying that ADB lending follows donor-shareholders' strategic interests rather than recipient needs. For example, Lim and Vreeland (2013) find that donor interests have a stronger influence on the lending of the Asian Development Bank than on that of the World Bank. They show that Japan's influence at the ADB is associated with increases of roughly 30 percent in lending to Asian non-permanent members of the UN Security Council.

Recent research on other regional development banks suggests that their lending is influenced by the interests of traditional donors. Focusing on the African Development Bank's shareholders' influence over the bank lending between 1995 and 2015, Anyiam-Osigwe and Vreeland (2024) find preliminary evidence that African countries that are politically aligned with and economically important for Japan receive larger commitments from the AfDB. This pattern does not hold for the United States. This is consistent with another study where Anyiam-Osigwe and Qian (2025) find early empirical evidence that U.S. executive directors in Washington D.C. may influence World Bank lending toward recipient countries that are important for U.S. political interests but not AfDB funding.

6 Conclusion

This paper reviews the literature on foreign aid and related studies in development finance and identifies the conditions under which ODA generates geopolitical returns to donor countries. We present important research findings and methodological advancements in aid allocation research. Different empirical strategies show that foreign aid tends to respond to donors' geopolitical motives and can also generate benefits to donors.

Assessing geopolitical returns remains challenging. While foreign aid can generate benefits for donors, these are often indirect. In addition, cross-national studies prevail and most studies are correlational, sometimes without including a robust identification strategy, which invites the reader to be cautious with the results. However, research findings obtained using experimental methods suggest that aid yields soft power to donors. In particular,

bypass aid initiatives such as PEPFAR have significantly improved the image of donors in recipient countries. In addition, at a time when aid is being slashed and competition with non-DAC donors is increasing, there is mounting empirical evidence suggesting that the public in recipient countries tend to prefer democratic and transparent donors.

Aid can generate important geopolitical returns when it is effectively disbursed. Beyond the immediate humanitarian or developmental objectives, well-targeted programs can enhance stability and national security by reducing the risks of conflict or state failure, thereby producing spillover benefits for both recipients and donors. For instance, aid that fosters a stabilizing effect in fragile regions not only improves the lives of local populations but also reduces the likelihood of regional insecurity that could threaten donor interests. Similarly, evidence from high-visibility vertical programs such as health initiatives shows that donors may strengthen their international reputation when citizens in recipient countries perceive donor effectiveness and sustained engagement over time. These reputational gains are politically valuable, reinforcing donors' soft power and credibility abroad.

Foreign aid can benefit both the donor and the recipient. However, while programs may achieve their stated objectives, they can also generate unintended or distortionary consequences. The case of the U.S. President's Emergency Plan for AIDS Relief (PEPFAR) is frequently cited: Although the initiative saved millions of lives, it also redirected scarce health system resources toward HIV/AIDS at the expense of addressing other pressing diseases (e.g., Lee and Izama, 2015). This illustrates a broader dilemma: Aid projects may simultaneously deliver tangible benefits to both donors and recipients, but often within a narrowed or selective definition of effectiveness. Therefore, the assessment of mutual interests should take into account the broader impact of aid.

Recent scholarship highlights two major challenges to the OECD–DAC aid regime: intensifying international competition and domestic political pressures in donor countries. On the international side, the rise of non-traditional financiers—most notably China, but also private capital markets and other emerging providers—has broadened recipients' access to development finance. These new options allow recipient governments to bargain more effectively, reducing their dependence on conditional DAC aid. At the same time, regional development banks have become critical arenas of competition, with donor governments

leveraging them as strategic entry points to preserve influence across the Global South. Domestically, the growing strength of populist parties in Europe and North America has politicized aid. While evidence on whether populism reduces aggregate aid levels is mixed, it clearly affects how aid is given. Populist governments are also more likely to distance themselves from DAC norms, thereby eroding compliance with international standards.

In response to these pressures, donors are reshaping their bilateral cooperation strategies. Donors can adjust the size of their projects or the sectoral composition of aid to remain relevant to recipient governments. Another key manifestation has been the proliferation of bilateral development finance instruments, evidenced by rise of DFIs. Donors can use them to advance commercial and strategic interests. In the European Union, this has been in line with a broadening political consensus to increasingly use aid to secure economic opportunities abroad. Emerging research shows that DFI investments often follow the footprint of national aid agencies, suggesting that ODA can play a catalytic role in shaping non-traditional forms of aid.

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