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## Identifying Mutual Interests

### How Donor Countries Benefit from Foreign Aid

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# ABSTRACT

# IDENTIFYING MUTUAL INTERESTS: HOW DONOR COUNTRIES BENEFIT FROM FOREIGN AID

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Official development assistance (ODA) is widely studied for its impact on recipient countries, but its effects on donor countries remain underexplored. To address this gap systematically, we develop a conceptual framework for understanding when foreign aid generates measurable returns for donor countries as well as those cases when donor and recipient interests align—what we term mutual interest ODA. We categorize potential donor benefits into three domains: economic, geopolitical, and security-related, and distinguish these benefits by their timing and degree of directness. We then systematically survey the empirical evidence on donor benefits, assessing the empirical credibility and magnitude of estimated effects and pointing out research gaps. We find consistent evidence of substantial donor benefits across all three domains. A key insight is that aggregate aid flows often mask significant variation: The returns to donors depend critically on the type of aid, delivery modality, and recipient context. These findings have important implications for both academic and policy debates on the effectiveness, political sustainability, and future direction of development aid.

Keywords: foreign aid; donor country benefits, aid effectiveness; development policy

JEL classification: F35, O19, H87, D64

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# 1 Introduction

In early 2025 the United States abruptly took an axe to its foreign aid programs, with the administration terminating 83 percent of USAID projects, and stopping Official Development Assistance (ODA) to some countries, such as Senegal, completely. Across the Atlantic, the United Kingdom simultaneously pared its ODA budget back from 0.5 to 0.3 percent of national income, cuts so deep that the development minister resigned in protest. Other important donor countries, such as the Netherlands and Sweden, had already substantially slashed their aid budgets following the election of more nationalist parties. Other key donors like Germany are considering cuts and whether to overhaul their aid policies substantially.

ODA has traditionally been justified primarily on moral and humanitarian grounds, with research and policy debates primarily focused on its impact on recipient countries. Yet the tension between altruistic motivations and strategic self-interest has long been recognized. An influential example is Morgenthau (1962), who argued that aid functions as a foreign policy tool for donors to pursue power and influence while being cloaked in humanitarian rhetoric. Seminal empirical work, such as Alesina and Dollar (2000), demonstrated that Cold War allies and countries aligning with donor preferences at the United Nations received disproportionately more aid, highlighting the political and strategic dimensions of aid allocation. Over time, a consensus has emerged that ODA is typically shaped by a mix of humanitarian concern and more or less "enlightened" self-interest (Kuziemko and Werker 2006, Werker et al. 2009, Faye and Niehaus 2012, Findley 2018).

Recent developments have made the question of donor interest more urgent. Mounting fiscal pressures, rising skepticism of aid effectiveness, and calls for greater accountability have increased demands for aid to serve demonstrable national interests. However, while motivations for aid allocation and the benefits of ODA for recipients have been widely studied (Doucouliagos and Paldam 2009, Clemens et al. 2012, Qian 2015, Dreher et al. 2024), the benefits for donors remain poorly understood. This creates a critical gap: without a systematic understanding of how aid benefits donors, it is difficult to design aid in a way that is both effective and politically sustainable.

In this paper, we address that gap by introducing the concept of *mutual interest ODA*: development assistance that generates tangible benefits for both donors and recipients. We develop a novel conceptual framework that classifies these mutual interests along three key dimensions: domain (economic, political/diplomatic, security/stability), timing (short-term versus medium-to-long-term), and directness (direct versus indirect benefits). Using this framework, we systematically assess the existing empirical evidence across each domain, to identify clear cases of mutual benefit for donors and recipients. We then evaluate the credibility of effect size estimates and the magnitude of effects, while also highlighting significant research gaps.

Our analysis reveals that examining aggregate aid often provides a misleading picture of mutual benefits. Instead, disaggregated analysis by aid type, sector, implementation modality, and context yields more nuanced insights into where donor and recipient interests align most closely. We find particularly strong evidence—defined as statistical significance with a large magnitude—for mutual benefits in areas such as aid for trade and infrastructure, post-conflict stabilization, and health, where benefits to donors are often direct, occur within politically relevant timeframes, and are supported by strong empirical evidence with large effect sizes. For example, aid for trade raises both donor exports and recipient trade capacity; post-conflict stabilization reduces migration and security risks; and health interventions reduce the risk of negative spillovers to donor country citizens and improve productivity and regional stability while yielding reputational and economic gains for donors.

Our perspective is thus quite different from the traditional aid effectiveness and aid allocation literature. Empirical studies such as Briggs (2017) and survey articles such as Dreher et al. (2024) highlight different aid allocation motives, but they are less informative about returns to donors. Many papers in the aid allocation literature imply the donor returns but do not measure them. Aid allocation decisions can be understood as evidence that countries see benefits in reaching certain goals, but the specific return remains unquantified. In this paper, we go a step further by collecting the evidence on donor returns within one framework.

Understanding donor benefits also requires engaging with evidence on the link between aid allocation and effectiveness. Motivations not only shape allocation decisions but can also influence aid effectiveness, as shown by Bermeo (2011), who finds that strategic motivations shape not just allocation but also impact. Effectiveness further depends on aid type, delivery mechanism, and contextual factors including recipient governance quality, donor characteristics, and political alignments, as Dreher et al. (2024) discuss. Recipient-side interests also play a key role, as shown by studies such as Angeles and Neanidis (2009) that highlight that aid is substantially more effective if the local elites are actively involved and supportive.

By focusing on mutual benefits, we fundamentally reframe the aid debate to move beyond the paradigm that aid is primarily charity for the benefit of others. Our analysis reveals that when designed with both donor and recipient interests in mind, development assistance functions less as a one-way transfer and more as an investment with measurable returns.

We thereby serve multiple constituencies. For proponents of aid, our analysis offers a rationale that affirms that moral imperatives and national interests are not mutually exclusive. For skeptics who question the return on investment for donor countries, we provide evidence-based assessments of the economic, geopolitical, and security-related benefits that aid can yield for donors. By quantifying these benefits and identifying conditions under which they can be reaped, we offer a practical framework for structuring aid so as to balance fiscal responsibility with development effectiveness. Our paper does not address the question of whether the overall returns from sending resources abroad outweigh the opportunity cost of foregoing domestic opportunities.

Among the various domains of mutual interest, investments in global health security, such as pandemic preparedness, stand out for their high empirical return on investment, measurable cost avoidance for donors, and ability to generate broad, sustained public benefits. These interventions offer a particularly compelling case of mutual interest ODA. Given the scale of risks and the relatively modest investment required, this area deserves special emphasis in designing future aid portfolios.

The remainder of the paper is structured as follows. In the next section, we introduce our conceptual framework and key definitions (Section 2). We then start the empirical assessment with economic returns in Section 3, followed by political returns in Section 4. For a more detailed analysis of the (geo)political returns, we refer the reader to the companion paper (Bau and Dietrich 2025), which provides a deep dive into this domain. We put particular emphasis on the third domain of returns, those arising from enhancing security and stability in different dimensions—reducing conflict (Section 5.1), addressing displacement and irregular migration (Section 5.2), and the provision of global public goods such as health and climate resilience (Section 5.3). The former two require a particularly nuanced discussion since the effects of ODA in these areas are highly complex and determine whether returns to donors and recipients are positive or may even turn negative.

## 2 Conceptual Framework

Conceptually, we approach the challenge of integrating donor and recipient benefits of ODA through an ODA-based utility function that policymakers in donor countries seek to maximize.

Our analysis focuses on optimizing the returns from Official Development Assistance (ODA) from a donor country's perspective. It explicitly centers on citizen welfare rather than the personal interests of policymakers, bureaucracies, or special-interest groups, since raising citizens' welfare is the most general and most widely agreed-upon definition of optimal policy for the mainly democratic countries that are ODA donors. We conceptualize these returns through a weighted benefit function that captures both domestic and foreign outcomes:

$$W = \lambda \sum_{i=1}^{I} \omega_i U_i + (1 - \lambda) \sum_{j=1}^{J} \theta_j U_j \tag{1}$$

where $U_i$ is the utility of citizen $i = 1, ..., I$ of the donor country and $U_j$ is the utility of foreigner $j = 1, ..., J$, who lives abroad and is a potential beneficiary of aid spending in the recipient country. The parameters $\omega_i$ and $\theta_j$ are weights, capturing that policymakers may prioritize the welfare of particular societal groups within the donor or recipient country. The term $\lambda \in [0, 1]$ represents the relative importance that policymakers assign to domestic versus foreign welfare.

This return function differs from a comprehensive social welfare function that would determine optimal aid allocation by comparing ODA's marginal returns to alternative uses of public funds. Instead, our approach takes the existence of an aid budget as given and focuses on maximizing its returns from the donor's perspective.

In recent decades, aid has often been designed—or at least presented—as prioritizing recipient welfare, corresponding to a relatively low $\lambda$. However, political realities increasingly necessitate that donor benefits receive greater consideration (a higher $\lambda$).

We define ODA spending as "donor benefiting" if it increases the respective utility terms ($U_i$ and $U_j$) in our ODA-based return function. While this return function provides a framework for evaluating ODA, it also helps explain why mutual interest projects emerge as particularly valuable for donor countries. Consider the range of possible aid outcomes: Projects yielding low benefits for both donors and recipients clearly fail to optimize our function regardless of $\lambda$. Projects generating high recipient benefits but low donor returns become increasingly suboptimal as political preferences are geared toward domestic considerations (higher $\lambda$). The currently observable trend of shrinking aid budgets and greater domestic scrutiny across major donors suggests precisely a shift to a higher $\lambda$. However, evidence from aid policy debates and international commitments indicates that $\lambda$, while increasing, remains significantly below 1—donor countries continue to value development objectives, albeit with greater emphasis on domestic returns. Given this intermediate $\lambda$ and the typically concave nature of utility functions (with diminishing marginal returns), mutual interest projects—those generating substantial benefits for both donors and recipients—will generally maximize our return function. This occurs because the steeper portions of both domestic and foreign utility curves can be simultaneously exploited. In contrast, narrowly self-interested aid with very high domestic returns but minimal recipient benefits sacrifices substantial potential foreign utility gains while capturing only incremental domestic utility due to diminishing returns.

To conceptualize the interaction between donor and recipient welfare systematically, in Table 1 we classify aid according to the combination of the size of benefits for donors and recipients. This classification helps identify when ODA serves genuinely balanced mutual interests versus when benefits are heavily skewed toward either donor or recipient.

When both donor and recipient benefits are high, there is a clear case of mutual interest ODA. Identifying such instances is a key purpose of this paper. Conversely, when donor benefits are high but recipient benefits are low or even negative, aid is narrowly self-interested. Such cases may even disregard or undermine development objectives. An example is tied aid that mandates procurement from donor countries at inflated prices, creating immediate commercial benefits for donors, crowding out domestic production in the recipient country or from other suppliers, while likely reducing aid effectiveness. With donor-centered preferences (a high $\lambda$ in the social welfare function), even such an example of benefits for the donor country while potentially harming the recipient country can still lead to sizable overall welfare gains from the perspective of the donor country.

Aid that primarily benefits recipients but not donors is altruistic. Examples include well-targeted humanitarian assistance or social sector investments with minimal immediate returns to donors. Such aid may hold moral value (or benefit anyone with a low $\lambda$) but it can become politically vulnerable during periods of fiscal retrenchment, highlighting why mutual interest aid is particularly policy-relevant.

Low-benefit aid, where neither donor nor recipient benefits substantially, often results from poor design, implementation failures, or misaligned incentives. Such aid can originate from the planning and implementation bureaucracy if there is insufficient demand for demonstrated impact.

Building on this classification, our conceptual framework structures donor benefits along three key dimensions. While the table distinguishes aid types by considering both donor and recipient benefits, we now focus more closely on the donor side because this is the research gap we seek to address with this paper.

**1. Domain:** We distinguish economic, political/diplomatic as well as security/stability benefits.

| Donor benefits | Recipient benefits | Classification |
| --- | --- | --- |
| High | High | Clear case of mutual interest ODA |
| High | Low/zero/negative | Narrowly self-interested aid |
| Low/zero/negative | High | Primarily recipient-focused aid, altruistic |
| Low/zero/negative | Low/zero/negative | Low benefit aid |

**Table 1** – Classification of aid based on donor and recipient benefits

Economic benefits include direct trade effects (increased exports from donor to recipient), investment opportunities, and access to natural resources. For instance, infrastructure aid may offer procurement contracts to donor firms while simultaneously enhancing recipient market access and income level.

Political and diplomatic benefits capture that ODA can enhance global influence, soft power, and institutional alignment between countries, and can lead to more favorable voting patterns in international forums. An illustrative case is bilateral aid translating into UN voting alignment, which may even create domestic legitimacy for recipient governments.

Security and stability benefits arise from aid activities promoting peace, preventing conflicts, and contributing to key public goods such as limiting climate change, avoiding pandemics, and ensuring refugee protection.

**2. Timing:** Our second dimension considers when benefits arise. We distinguish between short-term benefits and medium-to-longer-term benefits. The former materialize within one to three years of aid disbursement. Examples include immediate procurement contracts, diplomatic goodwill during international negotiations, or short-term humanitarian stabilization. Medium- to long-term benefits accrue over periods exceeding three years. Examples include trade and investment relationships, durable political alliances, strengthened institutions, and gradual improvements in stability, as well as benefits in terms of avoiding risks from threats such as climate change and pandemics.

This temporal dimension is particularly important because political incentives often prioritize short-term, visible benefits, potentially at the expense of more substantial long-term gains. The discount factor that policymakers apply to future benefits critically influences aid allocation decisions. An important result of our analysis of the empirical state of knowledge is that the timeframe with the most credible causal identification of ODA effects is typically the short to medium term, aligning closely with the most policy-relevant timeframe for decision-makers navigating electoral cycles.

**3. Directness:** The third dimension differentiates how immediately and explicitly benefits derive from aid. Direct benefits stem explicitly and traceably from ODA, such as increased exports resulting directly from aid-financed infrastructure projects or diplomatic concessions granted in exchange for aid commitments. Indirect benefits arise as secondary effects or spillovers, such as enhanced political stability indirectly fostering better trade relations or reduced migration pressures. While indirect benefits can be substantial, they are often harder to measure and to attribute causally to aid interventions.

These dimensions can interact in important ways. For example, short-term, direct economic benefits (e.g., tied aid contracts) tend to be politically attractive due to their immediate visibility and traceability. Conversely, long-term, indirect security and stability benefits—though potentially substantial—are politically less compelling due to delayed and less visible impacts. Recognizing these interactions is essential for understanding political incentives underlying aid decisions, such as why certain types of aid are politically popular despite questionable developmental impact.

Applying this framework empirically presents several challenges. First, benefits vary significantly across a number of features, such as aid type, aid delivery mechanism (e.g., project aid versus budget support, grants versus loans, and bilateral versus multilateral channeling of aid), targeted sectors and intended outcomes. Second, establishing causality is inherently difficult, particularly for indirect and longer-term benefits. Therefore, our empirical analysis prioritizes studies with robust causal identification strategies, critically assesses the credibility of the available evidence, and points out research gaps. Third, measuring certain benefits, especially political influence or security improvements, often cannot be easily mapped into dollar valuations as is possible for interventions that target exports or health.

In the subsequent sections, we apply the conceptual framework developed above to the different domains of benefits, highlighting instances where sizable donor and recipient benefits point to the existence of mutual interest aid.

## 3 Economic Returns

We begin our empirical analysis by examining the economic domain of donor-recipient mutual benefits, which are among the most direct and clearly visible benefits for donors because they can occur fast and in an attributable fashion, not as dispersed effects on millions of donor country citizens that are small if measured in isolation. The specific indirect economic benefits from improving security and stability will be covered in a later chapter.

### Aggregate Aid and Exports

Whether more aid increases exports from recipient countries is theoretically ambiguous: The impact might be negative through an exchange rate appreciation caused by the resource inflow, or positive due to an income effect. Accordingly, the empirical evidence is inconclusive: Bandyopadhyay et al. (2007) find that large amounts of foreign aid adversely affect recipients' export performance; Nowak-Lehmann et al. (2013) find that the direct impact of bilateral development aid on recipient countries' bilateral exports to donor countries is insignificant; and Martínez-Zarzoso et al. (2012) find a positive effect.

By contrast, most studies suggest that the impact of aid on donor exports is more consistently positive (e.g., Martínez-Zarzoso et al. 2016, Silva and Nelson 2012), creating a direct and immediate benefit for donors. This is largely due to the tying of aid to the purchase of products and services provided by companies from the country providing the aid. Even if tying aid raises both donor and recipient exports, requiring procurement from the donor country will often not be in the interest of the recipient because it decreases the effectiveness of aid. The OECD-DAC estimates that tied aid raises the costs of procurement by 15 to 30 percent on average. There is tentative evidence that the untying of aid required by OECD-DAC principles has weakened the relationship between aid and donor exports (Martínez-Zarzoso et al. 2014), with strong heterogeneity across donors. According to one study (Otor 2014), Japan, a country known for only reluctantly untying aid, even raised its long-run returns on one U.S. dollar of aid spent from between USD 1.41 and 1.86 in the pre-1992 period to between USD 2.03 and 2.62 in the post-1992 period, without any concomitant increase in recipient exports. Tied aid may nonetheless generate sizable returns for recipients in other domains, which helps explain why recipient countries are often willing to accept it. However, from the perspective of global efficiency, tying aid to procurement from the donor country is clearly a second-best option. If this reduces recipient benefits substantially, it constitutes narrowly self-interested ODA, according to the classification in Table 1. In the extreme case, where recipient benefits are low and no additional donor benefits arise in other domains, untying, as required by the OECD-DAC, would result in low-benefit aid that should not be pursued. Instead, such funds should be redirected toward more effective uses that increase the weighted benefit the decision-maker seeks to maximize.

A less understood aspect is the long-term effect of ODA in creating new export markets for products from the donor country. The benefits may be large. However, the topic is fraught with identification problems, as it requires isolating the effect of aid from that of the many other factors that may co-determine the level, type and modality of aid.

### Aid and Access to Natural Resources

Similar to tied aid, using ODA as a means of securing the import of natural resources into donor countries would be expected to primarily serve the interest of the donor, but it might also generate sizable recipient benefits if it contributes to local income and employment. However, there is no direct evidence from empirical studies that test for the existence of these benefits, constituting a sizable research gap. A recent aid allocation study by Arezki et al. (2024) employs a gravity approach akin to a difference-in-difference estimation comparing countries which were exposed to resource discoveries (treated) and countries that were not (not treated), both before and after discoveries, and finds that following a mineral discovery, a recipient country receives 36 percent more aid compared to a country without such a discovery. This would indirectly point to self-interested aid, while it is empirically unclear whether resource-seeking aid also benefits recipients.

### Aid for Trade and Exports

To specifically foster the integration of developing countries into export markets, the "Aid for Trade" initiative was launched by the World Trade Organization in 2005. Aid for trade aims to support recipients' trade integration through two basic mechanisms: It seeks to mitigate supply-side bottlenecks such as insufficiently developed infrastructure, thereby lowering trade costs, and it provides technical assistance that helps recipients comply with trade regulations or participate successfully in trade negotiations ("trade facilitation"). The existing literature consistently points to the effectiveness of aid for trade in raising recipient countries' exports (Vijil and Wagner 2012, Cali and Te Velde 2011, Hühne et al. 2014, Martínez-Zarzoso et al. 2017). Hühne et al. (2014) show that both channels work, with a somewhat stronger effect of trade facilitation. While trade facilitation is clearly focused on fostering recipient exports, aid for trade might also directly facilitate recipient imports from donor countries by reducing trade costs. According to most studies, it indeed also raises donor exports (Hühne et al. 2014, Nishitateno and Umetani 2023), i.e., both recipients and donors benefit. Nishitateno and Umetani (2023) compare major donors and detect considerable heterogeneity in economic returns across donors: For one additional U.S. dollar in trade-related aid, Japan receives USD 1.1 in additional exports, whereas France receives USD 0.6. Hühne et al. (2014) integrate the recipient and donor perspectives in a nested gravity model where they test for differences in the effects of aid for trade on the trade flows in opposite directions. According to their empirical estimations, aid for trade promotes trade in both directions, with moderate but still sizable quantitative impacts that are somewhat lower for donors: A doubling of aid for trade means that exports from recipient to donor countries increase by about five percent, while imports by recipients from donors increase by about three percent.

Aid for trade thus appears to be a strong candidate for mutual interest ODA under a moderate $\lambda$.

### Aid and FDI

If aid raises FDI, this is likely to benefit both the donor through the investment opportunities for its enterprises and the recipient by providing capital and technology as key ingredients for accelerating economic growth. In a companion paper that investigates the donor and recipient benefits of public technology cooperation, Wantchekon (2025) argues that private-public partnerships between enterprises and donor governments can play a crucial role when it comes to achieving mutual interest aid.

The small existing empirical literature on the impact of aggregate aid on FDI suggests that the relationship might not exist. According to Harms and Lutz (2006), the effect of aggregate foreign aid on FDI is not significantly different from zero. Kimura and Todo (2010) find the same for foreign aid in general, the only exception being a positive impact of Japanese aid on Japanese investment in recipient countries.

A clearer and more positive picture emerges when looking at specific aid categories and groups of recipients. First, donor support for factors that are complementary to FDI tends to be associated with more FDI (Donaubauer et al. 2016, Selaya and Sunesen 2012). The regression results provided by Selaya and Sunesen (2012) suggest that one aid dollar invested in social and physical infrastructure as well as improved governance draws in around two dollars of FDI in the long run. Donaubauer et al. (2016) show that aid for physical infrastructure promotes FDI. Second, there is some evidence that increasing FDI through ODA does not work below a certain income threshold, possibly because of bottlenecks such as weak governance and low human capital in low-income countries. Asiedu et al. (2009) even find negative effects of aid on FDI in low-income recipient countries. Overall, this suggests mutual interest aid, but only for specific aid categories and more developed recipients.

Most studies analyzing the impact of foreign aid on exports and FDI typically employ panel data and gravity-type approaches, which can account for a large part of the heterogeneity across countries through a proper set of fixed effects. Yet, biases in the estimates are likely to remain. Most notably, there may be reverse causality, e.g., when existing trade relations between countries affect the level of aid for trade. If studies consistently point in the same direction—as is the case for aid for trade and certain types of aid with respect to FDI—this gives us confidence that the benefits exist.

### Aid-Growth Link

The vast existing empirical literature on the effectiveness of foreign aid in raising economic growth and development in recipient countries has so far yielded ambiguous results (e.g., Qian 2015). This is partly because most studies have used aggregate aid, where some components, such as emergency assistance, are not at all expected to affect economic growth rates, while others may do so through widely differing mechanisms. Another key challenge has been to properly identify the causal impact of aid on growth. The few studies that carefully address the possible endogeneity of foreign aid have not been able to resolve the empirical ambiguity. Dreher and Langlotz (2020) instrument foreign assistance with a shift-share instrument, interacting donor government fractionalization with each recipient country's probability of receiving aid from a particular donor. Their results suggest that the effect of foreign aid on economic growth is insignificant. Galiani et al. (2017) apply an approach that resembles the quasi-experimental regression discontinuity design, exploiting the fact that some of the poor countries receiving aid from the World Bank's International Development Association (IDA) crossed the income threshold over the period under consideration and thus became ineligible for IDA grants. They find that foreign aid increases growth. Even the studies that find a positive growth effect of foreign aid generally point to moderate magnitudes. Clemens et al. (2012), for example, estimate that raising economic growth by one percentage point per year in the average recipient country would require aid in the order of 10 percent of GDP. Even if there is a small growth effect at the level of the recipient country, the resulting indirect increase in economic benefits for the donor country will be very small at best, rendering donor benefits through the growth channel highly unlikely.

### Assessment of the Returns of ODA

In summary, economic mutual benefits from ODA are most clearly realized in aid for trade and infrastructure-related investments. These generate tangible short- to medium-term gains for donors and recipients alike in terms of both export growth and FDI inflows into the recipient country. The magnitude of these effects does not make ODA a break-even investment for the public budget—that would require additional taxes to be over a dollar per ODA dollar spent. But when the donor country also values aspects such as the diversification of its supply chains or is willing to invest in the (hardly studied but likely large) long-term returns from establishing new bilateral economic ties, the economic benefits become sizable. The evidence for mutual benefits through the growth channel is considerably weaker. Aid forms such as tied aid, by contrast, often undermine recipient welfare and are better classified as narrowly self-interested. For resource-seeking aid, no clear conclusion can be drawn, pointing to an existing research gap.

These findings suggest that donors aiming to maximize joint welfare should prioritize aid modalities that offer traceable and relatively immediate economic returns, particularly in middle-income or institutionally capable recipient contexts.

Any short- or medium-term economic gains of ODA should not be evaluated in isolation from the broader impact of development assistance. Although ODA generally produces less immediate domestic economic stimulus than purpose-designed fiscal policies targeted at the donor's own economy, the economic returns from development assistance effectively reduce the net cost of achieving the primary non-economic benefits of ODA for donors that we will cover in the next sections. From the perspective of a policymaker in the donor country who maximizes a weighted social welfare function, economic returns from aid—particularly those that are direct and short-term—may increase the political feasibility of aid spending by reducing the opportunity cost. This cost-offsetting effect substantially improves the comprehensive cost-benefit calculus of development assistance programs.

# 4 (Geo)Political Returns

ODA also serves as a tool for donors to pursue political and geopolitical objectives. This constitutes the second key domain of benefits for donors. These returns include enhanced diplomatic influence, improved international reputation, stronger bilateral strategic alliances, and influence on domestic political dynamics in recipient countries. The benefits to donors are typically indirect, often long-term, and more difficult to quantify than trade or migration effects that can often be tracked in official statistics.

Foreign aid has always straddled the line between altruism and statecraft. Morgenthau (1962)'s classic essay framed foreign assistance as "one of the methods of foreign policy," a non-military instrument by which states pursue power and influence. Subsequent political-economy theories, from selectorate-model explanations (de Mesquita and Smith 2009) capturing the idea that a leader's main objective is to stay in power, to principal–agent perspectives on multilateral aid (Milner 2006), formalized the idea that donors embed strategic objectives, such as securing allies, markets, or normative leverage, within ODA.

Empirical studies leave little doubt that geostrategic motives shape who receives aid. During the Cold War, flows from both the United States and the Soviet bloc tracked alliance patterns, ideological blocs, and proxy contests (McKinlay and Little 1977, Maizels and Nissanke 1984). With the collapse of the Soviet Union, many predicted aid allocation would become purely driven by developmental objectives. Instead, the post-9/11 "War on Terror" re-securitized aid (Woods 2005, Duffield 2006, Fleck and Kilby 2010). Today, great power competition again looms large. OECD donors cite "values-based partnerships," while China's Belt and Road Initiative offers alternative finance; both patterns are consistent with aid being a tool in a contested geopolitical landscape (Heldt 2023, Dreher et al. 2022). A recent survey paper by Bau and Dietrich (2025) catalogues these geopolitical uses of ODA in much more depth than our paper and documents how donors tailor instruments to specific political objectives.

However, aid allocation is not the same as returns to donors. Their spending to pursue influence does not prove that they succeed. Robust causal evidence exists for some channels, but for most others, benefits are diffuse, indirect, or hard to express in monetary terms. Soft power dividends, alliance durability, or domestic regime change often resist precise measurement, making the realized return far more uncertain than the intent revealed by donor countries' allocation decisions.

We identify four channels that generate political dividends for donors in exchange for foreign assistance. Aid is used to promote geostrategic interests, including those focused on advancing national security (Bearce and Tirone 2010, Fleck and Kilby 2010), support regime change or alignment (Bermeo 2011, Kersting and Kilby 2014), and gain political support in international fora such as the United Nations (Kuziemko and Werker 2006, Dreher et al. 2009). Increasingly, donors also deploy aid to enhance their reputation abroad, seeking soft power benefits (Dietrich et al. 2018).

**Soft Power**

Nye (2017)'s concept of "soft power" emphasizes the ability to attract and persuade rather than coerce. ODA, if perceived as altruistic and effective, can strengthen a donor's international image and improve diplomatic relations. Such ODA offers reputational benefits by positioning the donor as a benevolent actor, potentially enhancing public opinion in recipient countries and facilitating diplomatic cooperation.

Empirical evidence on these soft power effects is mixed but instructive. For example, Blair et al. (2022) demonstrate that U.S. aid increases approval of the U.S. among African publics, while Chinese aid does not, suggesting that aid quality, transparency, and perceived intent matter. Goldsmith et al. (2014) and Jakubowski et al. (2019) similarly report that U.S. health aid increases favorable attitudes toward the United States, for example, in the context of the anti-HIV/AIDS and anti-Malaria programs launched under President George W. Bush. However, the mechanisms through which aid visibility translates into soft power gains remain complex. Dietrich et al. (2018) find that while explicit information about U.S. funding of health projects in Bangladesh slightly improves general perceptions of the United States, it fails to shift opinions on substantive foreign policy issues. This highlights the limits of aid branding as a soft power tool. By contrast, Böhnke and Zürcher (2013) analyze U.S. aid to Afghanistan and observe no significant effect on local opinion. In this case, however, the aid was delivered in an active conflict zone where security concerns and high threat perceptions dominated local attitudes, making the security situation rather than aid provision the primary driver of opinions toward international actors.

Experimental studies also reinforce the role of geopolitical alignment. Kim and Lim (2023) find that South Korean-funded aid projects improved Australian public perceptions. When the same project was attributed to China, no such improvement occurred. These findings suggest that aid can generate soft power gains, but such gains depend on the geopolitical relationship between donor and recipient, as well as how the aid is perceived.

### Influence in Multilateral Arenas

One of the most consistently documented political returns from ODA is diplomatic alignment, particularly voting behavior in international organizations. A substantial empirical literature shows that donors systematically use aid to influence how recipient countries vote in the United Nations General Assembly (UNGA) and other international forums. Alesina and Dollar (2000) demonstrate that countries with greater voting similarity to the donor receive more bilateral aid. This correlation reflects a strategic logic: Donors reward political loyalty and aim to shape multilateral decisions in their favor.

A striking piece of evidence comes from temporary membership on the UN Security Council (UNSC). Because 10 UNGA members rotate onto the UNSC for two-year terms, researchers have treated this like a natural experiment to see if being in a strategically important voting seat brings extra aid. Kuziemko and Werker (2006) found that when countries serve on the UNSC, they receive a 59 percent increase in U.S. bilateral aid on average, and about eight percent more aid from UN agencies. This is powerful evidence that major donors (and even UN institutions influenced by them) use aid to "buy" votes or cooperation on important international decisions. These effects are strongest during years with high-stakes votes, reinforcing the interpretation that donors use aid to "buy" cooperation on strategic issues. Dreher et al. (2008) and Carter and Stone (2015) reach similar conclusions, showing that aid flows increase in anticipation of important UN votes and that recipient countries do, in fact, adjust their voting to align more closely with donor preferences, confirming that the allocation yields a measurable return.

Emerging powers have also adopted this approach. Although the evidence on China's use of aid for diplomatic leverage is more mixed, some studies suggest that Chinese aid recipients are more likely to support China (Raess et al. 2022). However, other analyses, such as those examining the Belt and Road Initiative, find no systematic alignment in UN voting patterns (Steinert and Weyrauch 2024). This suggests that while aid may influence diplomatic behavior, its effectiveness varies by donor and context.

### Strategic Bilateral Alignment

Beyond multilateral institutions, aid plays a role in bilateral strategic relationships. Donors use ODA to strengthen alliances, reinforce buffer states, and stabilize geopolitically sensitive regions. During the Cold War, for example, aid flows were heavily influenced by defense alliances and ideological alignment, with development objectives subordinated to geopolitical calculations. McKinlay and Little (1977) demonstrate U.S. foreign aid during this period served to maintain influence in strategically important regions, regardless of recipient poverty levels or democratic performance. Merrill (1990) supported this idea by showing, with the example of India, that aid flows in this era correlated strongly with defense pacts and ideological alignment. Such strategic bilateral alignment creates broader benefits for like-minded countries, such as other member states of the European Union.

A growing body of evidence suggests that donors strategically deploy aid not only to maintain alliances but also to induce specific policy changes in recipient countries. De Mesquita and Smith (2007) develop a theoretical framework showing how aid-for-policy deals emerge, with donors offering assistance in exchange for valuable policy concessions. Their empirical analysis of USAID data demonstrates that the amount and likelihood of aid depend on how strongly the donor seeks policy concessions and the recipient's political institutions—specifically, leaders with small winning coalitions are more likely to accept aid in exchange for politically costly policy changes. The democratization agenda represents one significant area where donors seek to leverage aid for political change. Bermeo (2011) finds that the relationship between aid and democratization depends on donor characteristics. Between 1992 and 2007, aid from democratic donors was associated with increased likelihood of democratic transitions, while aid from authoritarian donors exhibited the opposite relationship. Kersting and Kilby (2014) provide complementary evidence, demonstrating that donors both allocate aid in response to democratization and create incentives for democratic reform.

#### Security

In the post-9/11 context, aid became increasingly linked to counterterrorism strategies, as studies such as Fleck and Kilby (2010) show by pointing out that countries with higher relevance to U.S. counterterrorism received more aid, even if they were not the poorest or most democratic. While this pattern highlights a geopolitical allocation motive (rewarding counterterrorism partners), whether such spending actually yields the security and stability returns donors seek—namely lower terrorism risk and broader conflict reduction—is assessed in Section 5.1, which covers returns from reducing conflict and political instability.

#### Quality of Evidence

The empirical evidence on geopolitical returns from aid exhibits methodological rigor in some domains while remaining underdeveloped in others. Studies examining diplomatic alignment, particularly those exploiting quasi-experimental variation from UN Security Council rotations, provide credible causal identification of how aid translates into voting alignment. The rotating nature of UNSC membership creates plausibly exogenous variation that allows researchers to isolate the effect of strategic importance on both aid flows and subsequent diplomatic behavior.

Similarly, experimental and survey-based evidence on soft power effects employs robust micro-level designs that establish clear causal links between aid provision and public sentiment. However, a critical gap remains in translating these micro-level attitude changes into macro-level soft power returns—we know aid can improve public opinion, but whether and how this converts into tangible diplomatic leverage or policy influence remains largely unmeasured.

The evidence on strategic partnerships suffers from more fundamental identification challenges, as the endogenous nature of alliance formation and aid allocation makes it difficult to separate correlation from causation. Most studies in this domain rely on cross-country regressions with extensive controls, which, while suggestive, cannot definitively establish that aid generates (rather than merely accompanies) strategic alignment. The field would benefit from more quasi-experimental approaches that exploit exogenous shocks to either aid availability or strategic needs.

The best identified papers confirm that targeted aid can purchase specific, observable diplomatic acts, while broader geopolitical pay-offs remain plausible but empirically fragile. Future work needs designs that connect micro-level attitude shifts to macro-level behavior and develop novel proxies, such as agenda-setting success or preferential access, to capture the intangible nature of influence.

### Assessment of the Returns of ODA

While political and geopolitical returns from aid are inherently more difficult to quantify than economic gains or security spillovers, they represent a crucial component of the mutual interest framework. The evidence demonstrates that aid can and does generate diplomatic dividends, though the magnitude and persistence of these effects vary considerably across contexts. For policymakers, the key question is what value they put on the political or diplomatic benefits. Within our conceptual framework, this depends on what welfare effect the specific benefit creates. The answer to that question also likely depends on how large the political leverage is, which depends on the specific geopolitical moment. During periods of intense great power competition or when seeking support for critical international initiatives, even modest improvements in diplomatic alignment may carry substantial value.

A crucial distinction emerges between domains where donor benefits align with aid effectiveness versus those where they diverge. In health- and stability-related interventions, donor benefits are directly tied to what the aid achieves: pandemic prevention protects donor populations, conflict reduction benefits donors through avoided spillovers. In contrast, in the geopolitical domain and particularly in the context of political alliances or UN voting alignment, donor benefits often stem not from what the aid accomplishes, but simply from the act of giving it. In such cases, the specific development outcomes targeted with the funds appear secondary. This dynamic creates a temptation for donors to design ODA in ways that cater to the interests of recipient-country elites (Dreher et al. 2016) in order to secure geopolitical returns. However, succumbing to this temptation risks undermining aid effectiveness. Extensive evidence shows that aid driven by strategic or egoistic motives is significantly less effective than aid rooted in recipient needs and altruistic objectives (Headey 2008, Kilby and Dreher 2010, Dreher et al. 2018).

Thus, the potentially lower effectiveness of strategically motivated aid creates a strategic choice that depends critically on $\lambda$—the relative weight policymakers assign to domestic versus recipient welfare. When $\lambda$ is high, donors may rationally prioritize aid allocation that secures immediate geopolitical returns even at the cost of reduced developmental effectiveness. However, when $\lambda$ is lower, the optimal strategy shifts toward aid that genuinely promotes development, as this approach not only serves recipient interests but also generates more durable geopolitical benefits through enhanced legitimacy and soft power.

While short-term diplomatic alignment can often be achieved regardless of aid effectiveness, durable geopolitical influence——particularly soft power gains——appears to depend on aid that is perceived as legitimate and beneficial by recipient populations. This suggests that, beyond the volume of assistance, the quality of aid and the perceived intent behind it are critical dimensions for donors to consider.

# 5 Security and Stability

Instability caused by conflict, displacement, pandemics, or climate shocks can generate substantial economic and political spillovers that indirectly affect donor countries. As a result, the promotion of security and stability abroad is increasingly viewed not only as a humanitarian imperative but also as a form of risk management and strategic investment for donors.

This section examines how development assistance can contribute to donor interests through its effects on security and stability. Section 5.1 addresses the role of aid in conflict prevention, violence reduction, and post-conflict recovery. Section 5.2 critically explores the relationship between ODA and irregular migration. Section 5.3 turns to the provision of global public goods, such as pandemic prevention and climate resilience, as a further channel through which aid may promote both international and domestic stability. Together, these chapters consider the mechanisms through which ODA may generate security-related returns for donors across different contexts.

## 5.1 Conflict and Political Instability

In this section, we turn to the domain of conflict and political stability. Political instability in recipient countries can generate substantial costs for donor countries through its direct and indirect effects on migration, security, and economic dividends. While benefits to recipients are typically humanitarian and developmental, political stability can also serve donor interests by mitigating these costly spillovers. Many of the areas in this section are related to global and at times also local public goods, such as safety, refugee protection, and limiting climate change.

**Stability as a Mutual Interest**

Conflict and fragility impose substantial externalities on other countries, which donors also recognize as national interest concerns. Recent crises underscore the donor-recipient convergence of interests with regard to stability. The 2015 refugee crisis in Europe, driven by conflicts in Syria, Afghanistan, and Iraq that accounted for over 75 percent of arrivals (UNCHR), illustrated how instability in distant regions can impose immediate fiscal and political costs on donor countries. Germany spent over EUR 20 billion in 2016 responding to refugees, including EUR 7 billion on humanitarian aid and stability efforts in origin regions (Politico). Likewise, terrorist networks flourishing in weak states have exported violence to donor countries, most dramatically on 9/11, which prompted costly military interventions overseas. The U.S. "Global War on Terror" has cost an estimated USD 8 trillion over two decades, illustrating the huge price of instability that spills over borders (Kimball, 2021).

Fragile states typically lack the institutions to absorb shocks peacefully. When violence flares or governments collapse, the resulting refugee flows, trafficking routes, and supply-chain disruptions impose immediate fiscal and political costs on donor countries. Donors therefore have a clear self-interest in seeing partner regions remain stable. The remainder of this subsection follows a two-step logic. First, we trace how greater political stability abroad translates into concrete donor returns such as lower irregular migration, fewer security threats, and steadier economic linkages. Second, we examine the extent to which ODA can credibly deliver that stability.

**Migration.** One immediate effect of instability on donor interests is through migration. In Section 5.2, we provide a comprehensive discussion of the effectiveness of ODA spending targeted at migration decisions. Here, by contrast, we specifically highlight the conflict-migration nexus as a critical security spillover.

Armed conflict is a key predictor for large-scale forced migration. Cross-national studies show that conflict intensity in origin countries—measured by civil war fatalities, political terror, or repression—explains a substantial share of variation in asylum applications to Europe and other OECD countries (Hatton 2009, 2016, Carammia et al. 2022, Boss et al. 2024, Ruhe and Kuhnt 2025). Even groups with typically low emigration aspirations report high intentions to leave during conflict periods.

While tougher asylum laws or higher unemployment in destination countries may discourage some migrants, these "pull" factors are generally secondary (Neumayer 2004, Thielemann 2006, Detlefsen et al. 2022, Beber et al. 2024). In contrast, deteriorating security in origin countries is a robust "push" factor. Quantitative analyses confirm that major violence is strongly associated with asylum flows.

Many studies rely on observational data, documenting correlations between conflict outbreaks and spikes in refugee flows. The causal arrow is often clear in extreme cases (a war indisputably forces people to flee), yet more routine forms of fragility—say, chronically weak governance or low-level violence—may affect migration decisions in more diffuse ways. Broadly, the evidence that major instability drives people across borders is credible and consistent with theory, but precise estimates come with uncertainty. It is also largely focused on high-profile conflicts such as the Syrian Civil War; the effect of subtler political instability on "economic" migration is harder to isolate.

**Terrorism.** Donor countries often view promoting stability in fragile states as a means of advancing their own security interests, particularly in the wake of high-profile global security incidents. Among those threats, terrorism represents the most direct and politically salient security risk to donor populations. Fragile, ungoverned regions can become breeding grounds for extremist movements that export violence. For donor countries, these risks represent costly security threats in both human and fiscal terms. Donor nations learned this lesson in the post-9/11 era and repositioned development aid as a tool of counter-terrorism policy, thus adding a strategic dimension to ODA's moral underpinning.

Empirical studies provide evidence for this channel. Foreign aid can help pacify terrorism. For example, Young and Findley (2011) estimate that increasing aid to education by a standard deviation is associated with a 70 percent reduction in cross-border terrorist attacks. Allocating a standard deviation more aid to conflict prevention, health, and civil-society programs lowers attacks by around 30–40 percent (governance aid points the same way but less decisively). These results suggest that targeted, well-designed aid can serve as a preventive tool against terrorism that can yield substantial security gains for donors.

Complementary findings by Basuchoudhary and Shughart (2010) support the idea that instability abroad is linked to transnational security threats. Using country fixed effects, the authors show that greater ethnic conflict (measured by lower "ethnic tensions" scores) is associated with a greater number of transnational terrorist attacks originating from a country.

Savun and Tirone (2018) reinforce the mutual interest logic, showing that not only transnational terrorist attacks but also domestic ones decline with increased aid spending. They estimate that an average aid allocation of about USD 60 million is associated with roughly a 10 percent reduction in domestic terrorist attacks within the recipient country. This underlines how stability-focused aid can simultaneously protect recipient populations from local violence while addressing the conditions that can eventually spawn transnational terrorism affecting donor nations.

Bandyopadhyay et al. (2014) shift the focus from attack counts to the economic fallout of terrorism, showing that foreign aid can act as insurance for donor-sensitive assets: Higher ODA markedly attenuates the negative effect of both domestic and transnational terrorist incidents on net FDI inflows.

In short, a dollar spent building schools or clinics in a fragile state today may translate into fewer terrorist plots and radicalized youth that threaten donor countries tomorrow. Future spending needs on policing, counter-radicalization, or military intervention will likely fall. The donor benefit here is indirect and especially prevalent in the medium to long term, but easy to explain to voters given the high visibility of terrorism. This aligns closely with a high $\lambda$ social welfare function: Resources are justified not only by their developmental impact but also by their contribution to national security.

Despite promising findings, establishing robust causal links between aid, fragility, and terrorism remains methodologically challenging. Scholars mostly rely on cross-country regressions to link instability to terror. Nevertheless, the convergence of findings across independent studies, coupled with strong theoretical plausibility and policy relevance, makes the security rationale for well-targeted aid compelling.

**Economic Dividends.** Fragility and conflict in recipient countries generate not only humanitarian costs but also substantial economic spillovers that directly affect donor economies. Open economies are interconnected through trade, investment, and finance, so instability can reverberate widely. When a nation descends into civil war, its neighbors often lose trade revenue, face disrupted supply chains, and must shoulder an influx of refugees. Even geographically distant donors are affected through mechanisms such as commodity price volatility, lost export markets, and reduced investment opportunities. For example, political unrest in oil-producing nations like Libya or Iraq has contributed to sharp spikes in global energy prices, with tangible effects on inflation and consumer spending in donor countries.

A striking estimate by Collier (2007) places the average global cost of a civil war in a low-income country at approximately USD 64 billion. This figure not only accounts for the direct destruction but also the broader regional and international economic spillovers. A recent long-run panel covering 150 years shows that large interstate wars lower output in neighboring economies by more than ten percent within five years, with the impact fading only gradually with distance, underscoring the magnitude of these cross-border spillovers (Federle et al. 2024). Glick and Taylor (2010) provide further evidence by analyzing nearly 140 years of data with a gravity trade model. They find that wars reduce bilateral trade between warring nations by about 80 percent and also trade between belligerents and neutral countries falls by an average of 12 percent. These trade losses are not transient. The depressed trade levels persist for up to a decade after the conflict. Similarly, Martin et al. (2008) find that an intense civil war reduces a country's external trade by about 25 percent in the first year and the shortfall grows to roughly 40 percent that still persist even 25 years later. For donor countries with commercial interests in developing markets, conflicts in recipient countries can thus mean enduring loss of export potential.

Beyond trade effects, instability severely impacts investment flows that benefit both donor and recipient economies. Busse and Hefeker (2007) demonstrate that political stability and the absence of violent conflict are among the strongest predictors of FDI inflows. This suggests that conflict acts as a risk premium for international investors, who either postpone projects or demand prohibitively high returns to offset perceived risks.

Consequently, the evidence indicates that stability-enhancing ODA generates positive economic externalities for donor economies by expanding viable investment destinations and trade markets, creating a channel through which development assistance indirectly contributes to donor commercial interests.

The economic costs of political instability and conflict for affected countries are well documented, but research directly quantifying these costs from a donor perspective remains relatively scarce. Nevertheless, the bilateral nature of trade and investment relationships implies costs for donors even without direct measurement. Most studies rely on gravity models of trade or panel regression frameworks to quantify impacts on international trade and FDI due to conflict. Despite methodological challenges in quantifying indirect costs that propagate through global supply chains, the consistency of findings across different contexts provides reasonable confidence in the magnitude of economic spillovers from recipient instability to donor economies. The primary research gap involves mapping how these costs distribute across different donor countries and sectors.

### Can Aid Buy Stability?

While the previous section established that instability imposes substantial costs on donor countries, this section examines whether and under what conditions aid can reduce the risk of conflict onset or de-escalate violence during ongoing conflict. We organize the discussion around three focal questions: (1) Can aid prevent the onset of conflict? (2) Can aid reduce violence during conflicts and help end them more quickly? (3) Can aid reduce the risk of conflict reoccurrence? The best available empirical evidence yields a mixed answer that is cautiously optimistic but nuanced: Aid can promote stability when well-targeted, context-sensitive, and delivered in the right way.

**Theoretical Ambiguity and Mechanisms.** Theoretical frameworks, such as Steinwand (2015), show that even stability-oriented aid can paradoxically increase the risk of conflict under certain conditions, particularly when recipient governments exploit donor preferences to extract higher rents, creating domestic unrest.

The empirical record highlights three recurrent pitfalls. First, sizable aid flows inflate lootable rents and can trigger violent competition for control of them (Grossman 1992, Crost et al. 2014). Second, sustained external financing may erode domestic revenue effort and shift accountability from citizens to donors—an "aid–institutions paradox" that ultimately weakens governance (Bräutigam and Knack 2004, Moss et al. 2006, Besley and Mueller 2021). Third, technocratic, donor-driven programs can bypass local actors, reinforcing existing hierarchies and eroding legitimacy (Von Billerbeck 2015, Autesserre 2010).

The effects of aid ultimately depend on the type of aid provided, the stage of conflict, and the mechanisms through which aid operates.

Gisselquist (2021) identifies four mechanisms through which aid can influence peace-building. Firstly, aid can reduce conflict by promoting economic development and alleviating poverty, which has been associated with conflict risk (Braithwaite et al. 2016). This mechanism builds on the idea that higher income and better livelihoods raise the opportunity cost of rebellion and ease grievances linked to underdevelopment (Collier and Hoeffler 2004). However, as argued in the section on economic benefits above, the evidence on whether aid is able to systematically raise incomes in recipient countries is mixed. A second important channel operates through the effects of aid on society, including how it shapes incentives for various social groups. Locally initiated, community-supported peace-building activities have been shown to be highly effective when done right (Autesserre 2017). Peace initiatives are most successful when they recognize and empower local knowledge, capacities, and priorities rather than imposing a one-size-fits-all strategy. Conversely, aid projects that exclude portions of a community may inadvertently increase grievances and prompt insurgent activity (Karell and Schutte 2018). Third, external aid can also relax critical budget and capacity constraints in fragile states, enabling governments to provide basic services and security that they otherwise could not (Bräutigam and Knack 2004). A promising tool is targeted state-capacity aid: Donor-financed "parallel public service" teams in Sierra Leone accelerated post-war policy delivery (Tavakoli et al. 2017), and comparative evidence from eight post-conflict cases shows that countries receiving the heaviest support for public-financial-management reforms—Afghanistan, Kosovo, Sierra Leone, and the West Bank and Gaza—made substantial progress in fiscal control and transparency (Fritz et al. 2012). Fourth and finally, micro-level programs aimed at reconciliation, reconstruction, and demobilization can change individual incentives and attitudes, creating durable peace dividends. Evidence from post-conflict settings demonstrates that aid-driven reconstruction, truth and reconciliation initiatives, and carefully implemented disarmament efforts help foster cooperative behavior, rebuild trust, and alter local social dynamics in ways that persist even after projects end (Fearon et al. 2009, Cilliers et al. 2016, Phayal et al. 2015).

**Empirical Evidence of ODA's Effect on Conflict.** While these are plausible channels through which aid could reduce conflict, empirical findings indicate that these pathways are highly context-dependent. The very factors that enable aid to promote stability can also determine whether aid unintentionally fuels new grievances, encourages rent-seeking, or prolongs violence. As Findley (2018) highlights, the effect of aid varies across the conflict cycle—onset, escalation, and recurrence. For example, Bluhm et al. (2021) instrument bilateral aid with donor-country political fractionalization, and find that while aid does not spark conflict in states at peace or prolong full-scale civil wars, it does exacerbate and escalate smaller-scale violence when conflict is already underway. These findings suggest that the same aid program may produce very different outcomes depending on timing and conflict intensity.

**Conflict Onset and Underdevelopment.** Low levels of economic development and slow growth are among the most robust predictors of civil war onset. Across countries, income per capita is strongly negatively associated with the risk of civil conflict (Collier and Hoeffler 2004). For example, Fearon and Laitin (2003) estimate a USD 1,000 decrease in real per-capita income raises the annual odds of a new civil war by roughly 41 percent. Using exogenous rainfall variation to identify the causal effect of growth shocks, Miguel et al. (2004) show that negative economic shocks can trigger civil wars: A drop in GDP growth of five percentage points (due to exogenous rainfall shocks in their African sample) increases the risk of civil war in the following year by about 12 percentage points—about a 50 percent increase over the average risk. These results support a causal link between economic shocks and instability, highlighting a preventative role that aid can play.

Micro-evidence underscores that the economic structure of growth matters in this context. In Colombia, a sharp fall in the price of labor-intensive coffee raised violence by lowering wages and thus the opportunity cost of rebellion, whereas a rise in the price of capital-intensive oil heightened violence by increasing the spoils available for predation through a classic "rapacity" effect (Dube and Vargas 2013). This contrast implies that growth driven by human-capital or employment-rich sectors is more likely to pacify, while windfalls in enclave-type natural-resource sectors can instead incentivize conflict.

Aid can thus serve as a conflict prevention tool in peaceful but fragile settings. Cross-country evidence suggests that aid has a beneficial indirect effect on peace through promoting economic growth (Collier and Hoeffler 2002b). However, consistency and predictability matter: Nielsen et al. (2011) show that sudden aid cuts significantly increase the probability of civil war onset.

By contrast, foreign aid itself can serve as a buffer against conflicts triggered by economic distress. Savun and Tirone (2012) exploit variation in ODA and export-price shocks to show that aid helps prevent war following negative income shocks. In their model, aid cushions government budgets so that losers have less incentive to rebel after a collapse in commodity prices. Another strand of literature emphasizes targeted aid in politically sensitive settings. Savun and Tirone (2011) use instrumental variables (donor GDP and political affinity) to isolate the effect of democracy assistance. They report that in countries undergoing political liberalization, higher levels of democracy aid significantly reduce the probability of civil war onset. In this context, each additional dollar of democracy aid per thousand population lowers the relative risk of conflict by about four percent in a democratizing state.

A particularly compelling example is provided by Mueller et al. (2024), who use a dynamic early-warning model spanning over 150 developing economies to monetarily quantify the effect of prevention. Their findings demonstrate great efficiency: Every one U.S. dollar spent on well-timed conflict-prevention measures yields an average long-run payoff of USD 26–75 in still-peaceful countries and up to USD 103 in states with recent violence—far exceeding the USD 27 return when intervention occurs only after full-scale war erupts. These substantial payoffs reflect the massive avoided costs of conflict spillovers across borders.

Yet the preventive role of aid is far from automatic. Windfalls—whether from natural resources or foreign transfers—can raise the expected returns on violence when institutions are weak. Sollenberg (2012) develops a rent-seeking framework and finds that foreign aid—treated as exogenous non-tax revenue—creates incentives for elites to engage in competitive rent-seeking and distributional conflict. Using global conflict and aid data, she finds that large aid flows are linked to higher war risk in states with very weak institutions. Besley and Persson (2011) argue that strong fiscal and legal checks can curb predation incentives, whereas fragile states lack such safeguards. Many papers stress such heterogeneity: Overall, aid seems to have a positive effect on reducing the risk of conflict onset. However, this effect can backfire when institutions are weak and when flows are volatile.

To summarize, aid can reduce the probability of conflict onset—especially when stable, targeted, and deployed in environments with at least moderate levels of capacity. Its preventive effect can be expected to be stronger when it stabilizes income. However, the impact can reverse in weak institutional settings or when flows are volatile. When well-designed, this form of aid can constitute mutual interest ODA. In fragile settings, risks of perverse incentives suggest donors should be much more cautious.

**Conflict Dynamics.** During an active conflict, foreign aid continues to play an important role in shaping its dynamics. One well-documented concern is that humanitarian and development aid flowing into war zones can inadvertently sustain or even intensify violence.

For example, Nunn and Qian (2014) exploit exogenous variation in U.S. wheat production to instrument U.S. food aid. Their cross-country instrumental-variable estimates indicate that increases in U.S. food aid significantly raise the duration of civil wars. The authors argue that up to 80 percent of food aid can be diverted into the war economy, effectively subsidizing combatants and prolonging fighting. Similarly, Bluhm et al. (2021) show that receiving more bilateral aid significantly raises the probability that an ongoing low-level conflict will escalate to full civil war.

Another set of studies shows that aid can shift rebel incentives in ways that intensify fighting rather than reduce it. When projects visibly improve governance or public services in contested areas, insurgents often strike preemptively to prevent a swing in civilian loyalty and a strengthening of the government's position in contested areas; attacks on aid workers, clinics, and schools rise where aid threatens rebel authority (Wood and Molfino 2016, Wood and Sullivan 2015, Crost et al. 2014, Beath et al. 2017). In a similar sense, humanitarian assistance may prolong war if it alters the battlefield calculations of each side. Narang (2015) models how aid increases uncertainty over future capabilities and finds empirically that larger aid deliveries widen the bargaining range, making negotiated settlement less likely. Aid can also create moral-hazard effects: When combatants or local elites come to rely on external resources, they have incentives to keep hostilities active so that aid continues, a dynamic Bapat (2011) documents across multiple conflicts. Finally, geographic and operational factors matter tremendously—aid projects that are spatially concentrated yet distant from government protection become particularly vulnerable to capture, while aid delivery structures themselves may become strategic targets for violence (Findley et al. 2011, 2023, Narang and Stanton 2017).

However, other work points to conflict-reducing effects of aid. One such example is Gehring et al. (2022), who use georeferenced World Bank and Chinese project-level aid data for African provinces to trace aid's impact on lethal violence. They find that foreign development projects cause a net decrease in local conflict. In particular, projects in transport and finance appear to diminish killings by government forces. Their analysis suggests that well-targeted development aid can stabilize volatile regions by improving infrastructure and livelihoods.

De Ree and Nillesen (2009)'s cross-country panel for 39 sub-Saharan states finds that a 10 percent increase in aid-to-GDP lowers the probability that an ongoing civil war survives the next year by about eight percentage points, while having no detectable effect on war onset. Instrumenting aid with donor-country GDP, they argue that aid shortens conflicts by easing government budget constraints rather than deterring rebellions ex ante.

More micro-level work highlights contexts in which development spending can reduce violence. Using detailed data on 42,000 U.S. Commander's Emergency Response Program projects in Afghanistan and Iraq, Berman et al. (2013) show that especially small, labor-intensive projects (typically under USD 50,000) that are implemented where counter-insurgency troop presence is high, lower insurgent attacks by roughly six percent in treated districts.

Experimental evidence supports these stabilizing effects. A randomized evaluation of conditional cash transfers in the Philippines found a substantial decrease in conflict-related incidents in treatment villages compared to control villages in the first nine months of the program, as well as diminished insurgent influence compared to control areas. The paper demonstrates how household income support can tangibly reduce violence at the local level by raising opportunity costs of rebel recruitment, although municipality-wide effects remain less clear (Crost et al. 2016).

Well-targeted stabilization aid in secure areas can therefore qualify as mutual interest. Indiscriminate aid in contested territories is better classified as low-benefit as it might even aggravate conflict.

To close this subsection, it is worth noting a strand of work that does not study conventional ODA flows but nevertheless illustrates how donor resources can be deployed with striking effect inside violent settings. In post-war Liberia, Blattman et al. (2017) randomly offered high-risk, largely ex-combatant men an eight-week cognitive behavioral therapy (CBT) course and/or a one-off USD 200 cash grant. One year later, the CBT + cash group committed roughly half as many armed robberies and assaults as controls, whereas cash-only or therapy-only arms showed much smaller or fading impacts. A decade on, the same cohort still exhibits 0.2–0.3 standard-deviation reductions in violent and antisocial behavior, with the strongest effects among the highest-risk men (Blattman et al. 2023). Although framed as crime-prevention rather than "aid," these donor-financed programs demonstrate that modest, well-targeted cash plus psychosocial support can durably shrink the pool of potential recruits for renewed conflict—pointing to an effective complement to more traditional stabilization assistance.

**Post-Conflict Recovery and Risk of Recurrence.** After active hostilities cease, countries often receive a surge of international aid to assist in rebuilding. A central premise in policy circles is that generous post-conflict aid, alongside peacekeeping and diplomacy, is necessary to prevent a relapse into war. External assistance can help by underwriting the peace deal—for example, funding the reintegration of rebels, power-sharing institutions, or security-sector reforms—thereby making it more attractive for all sides to maintain peace.

The evidence suggests that well-targeted post-conflict aid can substantially reduce the risk of reoccurrence through multiple channels. Doyle and Sambanis (2006) found that multidimensional international involvement combining aid, peacekeeping, and institutional reforms reduces the probability of conflict recurrence by 36 percent. Similarly, Quinn et al. (2007) demonstrate that aid investments raising per-capita income and improving public health outcomes tangibly reduce relapse risk by increasing opportunity costs for renewed fighting. The timing and duration of assistance proves critical: Collier and Hoeffler (2002a) highlight that donors often withdraw too early, yet post-conflict absorptive capacity for aid actually increases after initial stabilization, suggesting benefits from sustained engagement over a decade or longer.

Sector-specific studies find uneven impacts. Using country-level data (UCDP), Donaubauer et al. (2019) distinguish the effects of spending on social and economic infrastructure. They report that post-conflict aid significantly boosts social infrastructure indicators (education enrollment, health, clean water) but has no effect on economic infrastructure (electricity, roads, etc.).

Mross et al. (2022) take a broader peacebuilding view. Studying 36 cases of civil war, they disaggregate international support into five types (peacekeeping, security, governance, socio-economic development, societal transformation). They find that no single aid component suffices; peacekeeping alone is not enough, but support for political/governance reform is present in most cases of lasting peace. Critically, they show that only combined packages of assistance across governance, economic and social support can address "difficult contexts" and sustain peace.

South Africa's democratic transition offers an instructive case of effective post-conflict stabilization through targeted aid. Following apartheid's end, between 1994-1999 donors directed approximately USD 5 billion toward the transition, with an unusually high proportion (40-62 percent depending on the donor) allocated to democracy and governance initiatives (Hearn 2000). This aid funded crucial institutions like the Truth and Reconciliation Commission, supported the landmark 1994 elections, and strengthened civil society organizations. Evidence suggests lasting impact: Gautier et al. (2023) find that Norwegian-funded TRC radio broadcasts significantly improved interethnic relations for over a decade, while De Kadt (2017) estimates that aid-supported electoral participation in 1994 accounts for 7-20 percent of today's electorate.

Generous aid immediately after war may not necessarily guarantee peace, but depends on context and good implementation. Narang (2014) even finds negative impacts of aid on post-conflict recovery. He examines a cross-national panel of post-conflict episodes and finds that higher levels of humanitarian assistance are associated with shorter peace durations. The intuition provided is that aid often flows to the losing faction (on the grounds of "need"), giving them resources to contest the settlement and renegotiate power.

Overall, the evidence indicates that post-conflict aid offers perhaps the clearest case of mutual benefit—providing recipient states crucial resources for rebuilding while significantly reducing the likelihood of renewed conflicts that would impose substantial security, economic, and humanitarian costs on donors. However, effectiveness hinges on comprehensive, sustained approaches that address both immediate stabilization needs and longer-term governance reforms, highlighting the importance of coherent, well-sequenced assistance rather than narrowly targeted or prematurely withdrawn support.

Much of what we know about aid and conflict still comes from cross-country panel studies that examine aggregate ODA flows (e.g., Addison et al. 2002, Collier and Hoeffler 2007, Blattman and Miguel 2010). While useful for spotting broad correlations, this work faces familiar hurdles: Aid is highly endogenous, country-level measures mask sub-national targeting, and results are sensitive to how the researchers deal with rare but large shocks (Nielsen et al. 2011). In response, a second wave of research has shifted to micro-data and quasi-experiments. Geocoded project studies in Afghanistan (Sexton 2016, Beath et al. 2017), the Philippines (Crost et al. 2014, 2016), Colombia (Weintraub 2016), and across sub-Saharan Africa (Findley et al. 2023) exploit spatial variation, matching, RDD, or IV designs to tackle selection more directly. These papers reveal that the configuration of aid matters: Concentrated funding streams often become military prizes and raise battlefield deaths, whereas more diffuse or civilian-focused programs can have neutral or context-dependent effects. While some literature dissects specific aid instruments such as food aid (Nunn and Qian 2014) or military assistance (Sexton 2016), the field still lacks a systematic comparison of which modalities yield the largest "peace dividends" under which conditions. Overall, identification strategies have improved, but evidence remains fragmented and highly contextual, leaving open the key policy question of how to tailor aid packages for maximum stabilizing impact.

### Assessment of the Returns of ODA

Aid that helps prevent or mitigate conflict indirectly protects economic interests in donor countries by preserving trade flows, maintaining market access, and reducing commodity price volatility. Although the benefits to donors are indirect and accrue in particular over the long run, their magnitude is potentially large. In this chapter, we pointed to several very substantial point estimates of individual studies in reducing or avoiding conflict. The extent to which these matter for donor country citizens and their policymakers depend on their preferences and political priorities.

If donor governments place high weight on domestic welfare (high $\lambda$), ODA targeted at conflict prevention and political stability can be justified not on altruistic grounds, but because it reduces costly downstream consequences at home, from refugee influxes to sending troops or funds for crisis interventions. In this light, aid that facilitates peace becomes a form of global public good provision that aligns well with national interest.

However, the surveyed literature quite clearly shows that stability-enhancing aid is not a guaranteed tool. Under the right conditions, it can yield mutual benefits. The effects are highly context-dependent, but the potential return on investment is high when aid is deployed strategically and with sensitivity to local dynamics.

The evidence on conflict dynamics reveals a complex pattern in which aid can either fuel or dampen violence depending on territorial control, project type, and implementation approach. Meanwhile, post-conflict recovery assistance offers perhaps the clearest case for mutual benefits, with substantial evidence that well-structured support packages can dramatically reduce the risk of conflict recurrence while creating conditions for economic revival that benefit all parties.

The connection between stability and donor interest is well-established, while the empirical evidence also shows that, although context-dependent, aid can improve stability when implemented correctly and provide very large returns if conflict can be prevented in the first place. This logic suggests that donors should prioritize stability-oriented aid as a strategic investment.

Crucially, the effectiveness of aid in reducing conflict hinges not on volume alone but on how well it is aligned with the political economy and security context. Poorly designed interventions can backfire, while well-targeted programs can yield disproportionately large benefits for both recipients and donors.

## 5.2 Migration

Migration is a highly salient policy issue in many donor countries and has become a major justification for the use of ODA. Unlike in the case of other domains covered in this paper, the alignment of donor and recipient interests is less straightforward. ODA aimed at reducing irregular migration is often framed as a contribution to stability—by lowering pressures on asylum systems and reducing domestic political tensions and unrest in host countries. However, the welfare effects of such aid are not always shared. What improves political and social stability in donor countries may come at a cost to recipient countries, for instance by restricting mobility. As a result, migration-related ODA raises more difficult questions as to whether and to what extent both sides benefit.

### Identifying the Mutual Interest on Migration

It is essential to distinguish between regular and irregular migration. Regular migration refers to the lawful movement of individuals across borders, typically under work, study, or family reunification visas, or through refugee resettlement programs. Irregular migration occurs when individuals enter or remain in a country without proper authorization, outside the legal frameworks of origin, transit, or destination states. Origin countries of migrants, who are (potential) recipients of ODA in the cases relevant here, have no intrinsic interest in curbing migration, regular or irregular, for the benefit of destination countries. Their concerns are primarily domestic. Large-scale emigration, particularly when driven by desperation, can signal governance failure. Reducing the structural push factors behind such migration, by improving livelihoods, education, health services, and infrastructure, can enhance political legitimacy. Origin countries, therefore, have a clear interest in receiving ODA that targets these areas. If such aid also reduces emigration, it may have the added benefit of limiting brain drain.

However, governments in origin countries face a trade-off: Emigration acts as a political and labor market pressure valve (Hirschman 1970) and it generates remittances that alleviate poverty and provide a key form of income diversification for families. As a result, reducing irregular emigration without compensatory legal migration pathways may provoke public backlash, particularly if citizens perceive their government as acting in the interest of foreign states. Remittances furthermore fuel local economies. Even though remittance income is typically untaxed, remittances contribute indirectly to public revenue through consumption-driven growth, thus also benefiting governments.

ODA that reduces involuntary migration pressures aligns with development objectives. Origin countries, however, cannot be expected to seek migration reduction per se. They may be won over with the offer of ODA. Furthermore, regularizing the emigration pathways their citizens use, helping them switch from irregular to regular migration channels, may be in their interest. At the international level, origin-country governments can also leverage cooperation on migration management to gain access to long-term development finance, preferential trade terms, or visa facilitation agreements—further reinforcing the mutual nature of this interest.

From the perspective of destination countries, regular migration is of little concern as it can be managed effectively through visa policies.[1] The focus related to the use of ODA is therefore clearly on irregular migration. For donor country governments, the most important concern with respect to irregular migration is public opinion and its effect at the voting booth. The concerns regarding immigration among voters in the main donor countries in Europe and North America are primarily sociotropic; voters care about the impact on the country as a whole and on their fellow citizens in the host society, but less about the impact of immigration on them personally. The perceived cultural impact is particularly important (Hainmueller and Hopkins 2014, Weber et al. 2024).

There are two components of irregular migration on which the views of voters in destination countries vary vastly. First, a widely shared view among voters is that illegal migration should be reduced and that pathways into labor markets and family reunification should be well-managed. Second, views regarding irregular migration resulting from people fleeing persecution or conflict are more nuanced. Far from merely wanting to keep out asylum seekers and refugees completely, the citizens of donor countries support asylum and refugee policies with humanitarian elements (Bansak et al. 2016) and there is widespread support for asylum and refugee protection (Jeannet et al. 2021). Many voters are, however, unwilling to accept a high level of uncertainty about inflows. Public demand for limits and controls can be seen as a substitute for low trust in the ability of governments to cope with shocks. People with higher trust in their governments find such safeguards less important (Jeannet et al. 2023). Reducing irregular migration by controlling the number of forced migrants while ensuring that the public good "refugee protection" is provided is thus the main area that voters care about. A mix of reducing the root causes of such migration, spending to host refugees abroad, and enforcing border controls in collaboration with transit countries (Vrânceanu et al. 2023) is likely to receive broad support in the population.

That means there is a clear mutual interest between origin countries and destination countries when it comes to reducing irregular migration by improving conditions in the country of origin through ODA. Using ODA to create incentives for greater border controls or patrolling of the seas by origin or transit countries would be a more cynical use of funds that is not generally in the interest of the recipient country and typically can only be achieved if there is a complementary attractive offer that benefits the recipient country.

[1] In this review we leave out the discussion of how immigration, including the irregular type, can benefit donor countries, for which there is clear evidence (see for example the surveys by Kerr and Kerr 2011, Becker and Ferrara 2019, Clemens and Hunt 2019, Edo 2019).

### Evidence of ODA's Effects on Migration

While some ODA directly targets migration, aid can also primarily target other outcomes and affect migration as a side effect. This may create additional benefits for the donor country. However, we can expect that ODA that is specifically designed to target migration will be more effective at doing so.

Two major channels through which aid affects migration are through its impact on the relative attractiveness of staying in the origin country and its effect on the feasibility of undertaking migration. But there are further angles on how aid can affect migration. In total, we assess six major pathways.

**Income.** An influential stylized relationship relating income and migration is the "migration hump." According to this framework, while migration becomes less desirable with higher incomes, what counts for low-income countries is the capability of people to migrate (De Haas 2021, Clemens 2014). As incomes rise, the feasibility of migration increases faster than its attractiveness declines, resulting in increased migration. Only at higher income levels does migration start to decline. While this overall relationship at the country level remains very difficult to identify causally and there are open questions as to whether it holds in the medium to long-run (Clemens and Postel 2018, Benček and Schneiderheinze 2024, Clemens and Mendola 2024), there is convincing evidence documenting this relationship at the micro level. A prime example is Gazeaud et al. (2023), who conducted a randomized controlled trial in the Comoros. They found that households receiving cash-for-work transfers exhibited a 38 percent increase in (irregular) international migration to Mayotte, a nearby and relatively easily accessible French territory. Similarly, Angelucci (2015) showed that the Mexican "Oportunidades" conditional cash transfer program increased labor migration to the U.S., typically irregular, among eligible people by 50 percent. These large increases in migration rates should be compared against the absolute migration rate, which only rose from 0.7 percent to 1.1 percent. Not migrating remains the norm even if capabilities improve. However, these findings suggest that cash transfers may be counterproductive if the goal is to reduce migration, particularly when cash transfers are not coupled with improvements in local conditions.

**Service Provision and Public Amenities.** A more promising avenue is investments in local amenities and basic services, which have shown more consistent negative effects on migration aspirations and flows. In a more correlational piece, Dustmann and Okatenko (2014) found that satisfaction with local public amenities is a stronger determinant of migration intentions than income or general living standards. They report that in Sub-Saharan Africa, a one standard deviation increase in satisfaction with public services reduces migration intentions by 27 percentage points, explaining 60 percent of the variance in migration aspirations, compared to just four percent explained by wealth. Akim and Heidland (2025) provide micro-evidence from the EU Trust Fund for Africa (EUTF) using a difference-in-difference approach. They find that compared to subnational regions that did not benefit from EUTF or only did so later, the start of EUTF in a region was associated with a five to ten percentage point increase in the reported satisfaction with basic services such as education and health. These more positive perceptions happen in parallel to a five percentage point reduction in migration aspirations—about one seventh of the average level. Working at the cross-country level, where migration flows can be studied, Lanati and Thiele (2018a,b) document that ODA targeting public goods and social infrastructure reduces short- to medium-term regular migration flows, whereas ODA focused solely on income generation has little to no effect. Improving public amenities thus seems to be a way to both reduce migration aspirations and actual migration flows. Given that ODA can be effective in funding improvements in local amenities and these improvements are in the interest of the local population and result in lower emigration pressure, there is a clear case of mutual interest ODA. Health and education benefits come on top, making this type of spending even more compelling.

**Employment.** Another major channel often cited in both policy and academic literature is employment. Surveys across many developing countries consistently find a lack of jobs and economic opportunity as key motivations for migration. However, empirical studies such as Fuchs et al. (2024) find no significant short-term effect of general ODA on employment at the regional level. While ODA can support job creation by improving business environments or through vocational training, these effects tend to materialize only in the medium to long term. Furthermore, many training programs have shown limited standalone effectiveness in low-income countries, where labor demand remains weak (Agarwal and Mani 2025). The track record of such programs is better if they focus on less developed contexts and on poorer and female participants (Beber et al. 2025). However, these are population groups that are generally less likely to migrate to donor countries. Carranza and McKenzie (2024) argue that job training may help improve matching between workers and firms, but without demand-side interventions, their impact on migration is minimal. To summarize, skills training programs yield little hope for short-term reductions in irregular migration, but if effective, they can contribute to a larger pool from which to recruit more skilled migrants.

**Security.** Another key approach of multifaceted aid programs such as EUTF is reducing violence, which is also a key push factor (Clemens 2021). As discussed in Section 5.1, if not designed with extreme care, ODA can do more harm than good in settings with conflict. If aid can make conditions more stable, this may not only directly reduce irregular migration, but also increase aid effectiveness (Caselli and Presbitero 2020). In turn, in fragile states, the odds can be stacked against ODA achieving an effective reduction of irregular migration because there are many reasons to want to leave and because aid effectiveness tends to be lower. In line with this, but not causally identifying the effect of fragility, Fuchs et al. (2024) find that World Bank development projects are effective in reducing migration aspirations, but only in non-fragile settings.

**Climate Resilience.** Climate change and environmental shocks also increasingly shape migration patterns. Risk-averse households often respond to such uncertainties by diversifying income sources, including through migration (Stark and Bloom 1985, Gröger and Zylberberg 2016). However, empirical work suggests that most environmentally induced migration is internal—often to urban centers—rather than international (Beine and Parsons 2015, Millock 2015, Cipollina et al. 2024). In these settings, resilience-enhancing ODA interventions, such as supporting drought-resistant agriculture or irrigation, may reduce migration over time (Fishman and Li 2022), but clear evidence is relatively scarce.

**Information.** Information campaigns have emerged as another tool for reducing irregular migration. These interventions aim to increase awareness about the risks associated with irregular pathways. The evidence is mixed (Mesplé-Somps and Nilsson 2023, Tjaden and Dunsch 2021). There are examples of effective campaigns, such as Tjaden and Gninafon (2022) who find that low-cost video campaigns in Guinea increased awareness and reduced migration intentions for 10–20 percent of viewers in the short term (five months post-intervention). While modest, these effects are significant relative to the low cost of the interventions. Nevertheless, such campaigns have limited long-term impact and are unlikely to deter migrants when the expected return on migration remains high. An emerging interpretation of the many studies carried out over the past three years suggests that information campaigns are only effective in specific contexts, namely when local conditions do not strongly favor migration over staying. In high emigration contexts, migrants are often well aware of the risks of irregular migration (Beber and Scacco 2022). Still, they may ignore the risk out of hopelessness (Mbaye 2014, Detlefsen et al. 2022).

**Assessment of the Returns of ODA**

Considering only a narrow cost-effectiveness perspective that focuses on the direct benefit of these types of ODA, the data appear sobering at first and seem to require a very high willingness to pay to make these interventions worthwhile. Fuchs et al. (2024) and Restelli (2021) estimate that reducing one asylum application through general ODA costs in the lower six-digit USD range. However, this must be compared to the alternative of hosting asylum seekers and the possible negative effects that may arise, including political destabilization. These estimates bundle various ODA types, including those with no discernible or even adverse effects on migration. More targeted interventions focused on service provision or specific demographics are presumed to be more efficient, though this could not yet be robustly shown by researchers because the better the targeting of a program, the more difficult is the endogeneity problem to solve for an empirical study.

What about the alternatives to ODA? Are there more cost-effective ways of reducing irregular migration? Border enforcement is frequently proposed as a substitute for ODA in reducing irregular migration. However, the little quantitative evidence that exists suggests it is no more cost-effective. Allen et al. (2024) estimate that the U.S. government's extension of the border wall between 2006 and 2010 cost USD 2.3 billion and reduced Mexican migration by 311,000, equating to roughly USD 7,400 per deterred migrant. Completing the full wall would have cost over USD 67 billion, with only marginal additional reductions in migration. In the European context, with over 14,000 km of land and 50,000 km of sea borders, replication of such a strategy is logistically and financially implausible. Properly understanding when deterrence works and who it discourages requires a detailed understanding of the motives of irregular migrants (Ryo 2013). One key issue is that border controls do not address root causes and can generate significant humanitarian and ethical concerns.

In conclusion, the evidence demonstrates that ODA can affect migration decisions through multiple channels, but its impact is typically modest, highly context-dependent, and contingent on careful targeting. Investments in basic services and amenities appear most effective at reducing migration aspirations in the short term. Income-enhancing transfers, while potentially increasing migration, can be beneficial for other development goals but are unlikely to contribute effectively to reducing irregular migration. Employment interventions, resilience programs, and information campaigns can complement these strategies but must be embedded within broader structural reforms. Importantly, interventions such as investments in public services and well-thought-out resilience programs are in the mutual interest of donor and beneficiary countries.

**Quality of the Evidence.** When assessing the effectiveness of ODA in influencing migration, the major empirical obstacle is endogeneity of aid allocation. Aid flows are targeted to specific areas with a purpose. This causes two major empirical problems. First, reverse causality if areas with high irregular migration are more likely to receive any aid or higher volumes. Second, omitted variable bias occurs when factors simultaneously affect migration outcomes and aid allocation. If these factors are not accounted for in the research design, the estimated effect in a regression will be biased. The approaches to overcoming this problem include experiments (e.g., Gazeaud et al. 2023), which typically have the disadvantage of low external validity, or quasi-experimental approaches that exploit instrumental variables (e.g., Lanati and Thiele 2018b, Dreher et al. 2019, Marchal et al. 2022, Fuchs et al. 2024). Most studies only assess aggregate aid. This means that a precise identification of the relative effectiveness of certain types of projects is not attempted. The studies that attempt these can often compare the relative effectiveness of different types of projects between contexts, but interpreting this evidence requires caution, as the projects implemented in a region will typically be targeted to the context (Akim and Heidland 2025). Exceptions are, on the one hand, case studies of individual projects which can be compared to similar projects in other countries as the evidence base grows, and, to some extent, studies that assess the effectiveness of ODA that is not specifically targeted to reduce migration (Fuchs et al. 2024). However, targeted evaluations, especially of specific aid modalities in varying contexts, are still needed.

**Summary on ODA for Root Causes of Irregular Migration.** The evidence suggests that ODA can influence migration through multiple channels, though effects are typically modest and context-dependent. From a donor perspective, the key benefits of migration-related ODA lie in its potential to reduce irregular migration pressures that are politically costly, unpredictable, and difficult to manage through border enforcement alone. ODA that effectively lowers irregular migration can reduce domestic political tensions, lower public expenditure on border enforcement and asylum processing, and help preserve the functioning and public support of humanitarian protection systems.

Interventions that improve public services, local stability, and resilience are the most promising forms of mutual interest ODA. Income-focused or training-based interventions show less consistent effects. These may be valuable for development outcomes but do not serve donor interests in reducing irregular migration. Information campaigns offer a cost-effective complement but are insufficient alone.

Compared to alternatives such as exclusive reliance on border enforcement, ODA has the advantage of providing a mutual interest case as long as it is well designed. Unlike enforcement strategies, it addresses root causes and given its benefits for recipients, it can be attractive to a broad group of voters with various levels of $\lambda$.

### 5.3 Global Public Goods

Some of the strongest potential cases for mutual interest ODA lie in providing global public goods (GPGs). Their defining feature is benefits that cross borders paired with non-excludability and non-rivalry across countries, i.e., nobody else loses access to the benefit as would be the case for a normal good that can only be consumed once. ODA that provides such public goods can even be optimal for policymakers who care hardly at all about foreigners' welfare if it either creates large enough indirect effects for the donor country or if this is achieved as countries join forces and provide complementary finance, leveraging the individual contribution. Unlike types of ODA that primarily address local needs, GPG-focused aid is motivated by global needs and addresses risks that directly or indirectly affect donor welfare and recipient welfare alike.

In this section, we survey the evidence regarding the two types of GPG that are politically most relevant: global health and climate change. Both are areas where donor and recipient interests may align more closely than commonly assumed, particularly when prevention or resilience-building is both effective and cost-efficient. The benefits to donors are largely indirect and realized over the medium to long term. However, some interventions such as incentivizing early reporting of disease outbreaks generate expected benefits almost immediately, even if the likelihood of any specific outbreak is low. Overall, the magnitude of benefits from addressing the two types of GPGs may be substantial, especially in avoided losses, making GPGs a promising category for mutual interest ODA, albeit with some remaining research gaps that should be closed. Given the scale of potential returns, particularly in scenarios involving systemic risks, GPG-related aid may warrant greater attention from donor governments—even from policymakers who are purely driven by the interests of their own citizens.

The non-rivalrous and transnational nature of GPGs provides a strong rationale for delivering related ODA through multilateral channels. Institutions such as the Green Climate Fund and the World Health Organization exemplify this approach, enabling burden-sharing, reducing free-rider risks, and improving coordination, monitoring, and enforcement. Beyond functional efficiency, multilateral settings also create reputational benefits for donors. Unlike bilateral aid, which is often perceived as being driven by geopolitical self-interest, contributions to multilateral funds offer a clearer signal of altruistic motives and normative alignment—even if donor benefits influence the decision. This signaling can enhance donors' soft power and international legitimacy. It also helps explain why voluntary contributions to multilateral GPG funds do not necessarily crowd out bilateral aid, but may instead tap into distinct political incentives. Structuring GPG-related ODA to yield both strategic and reputational benefits can thus broaden the political coalition for sustained donor support.

#### 5.3.1 Health

Foreign aid targeting health is often viewed as a tool for alleviating suffering in low- and middle-income countries, but it also yields important benefits for donor countries' own health security and well-being. From a theoretical perspective, several categories of health-related ODA are well-suited to create benefits for donor country citizens and advance mutual interests. Global health security investments, such as cross-border pandemic preparedness, disease surveillance, and vaccine access, offer classic examples of global public goods, where donor contributions reduce the risk of costly transnational spillovers. Antimicrobial resistance (AMR) control similarly fits this logic as an intervention aiming to prevent the emergence of resistant pathogens that could undermine health systems everywhere, including in donor countries (Nathan 2020). These areas all yield indirect security- and stability-related benefits that are rather long-term.

In addition, health interventions might deliver direct and more short-term benefits in other domains by creating export stimulation (Fuchs et al. 2025), reducing discontent with governments and thus promoting political stability, reducing irregular migration (see Section 5.2), and potentially improving diplomatic standing, such as China attempted with its mask diplomacy.

**Primarily Local Diseases.** The type of health issue targeted determines whether the benefits for the donor country are in large part health-related (e.g., in the case of pandemics) or whether they primarily occur in other domains, such as the economic domain. For more local illnesses such as Malaria (Goodman et al. 1999, Conteh et al. 2021, Schmit et al. 2024), the benefits of ODA can still be very significant. These returns are especially large when interventions occur during childhood (Nores and Barnett 2010, Black et al. 2022), with extensive evidence linking early-life health improvements, such as undernutrition prevention (Alderman et al. 2016) and vaccination (Sim et al. 2020, Li et al. 2021), to better life outcomes over the long term.

While these impacts are well documented for beneficiaries, they also create substantial indirect benefits for donor countries. Healthier populations become more viable consumers and trading partners, and stronger contributors to regional stability. Complementing the micro-level evidence on malaria control, vaccination, and nutrition, a macro analysis by the Lancet Commission on Investing in Health shows that a bundle of interventions aimed at HIV, tuberculosis, malaria, and maternal-child conditions in low- and lower-middle-income countries would generate economic benefits worth roughly USD 9-20 for every USD 1 of program cost once the full-income value of longer, healthier lives is counted (Jamison et al. 2013).

More broadly, improving health in developing countries can promote economic growth (Ridhwan et al. 2022) and other economic benefits that are also interesting for donor country firms, such as higher worker productivity (Bloom et al. 2024).

In addition, health interacts closely with the political economy in a country (Besley and Kudamatsu 2006, Lynch 2023), further reinforcing the mutual benefits of ODA in this area, even if the initial focus on diseases is considered "local". An illustration comes from the United States, where excess premature mortality among Black Americans was estimated to have reduced the voting-age Black population by roughly 1.4 million in 2004; enough, had those lives been saved, to have potentially flipped seven Senate and eleven gubernatorial races (Rodriguez et al. 2015).

Given the low cost of many interventions and the high stakes (e.g., death, stunting, lifelong cognitive damage), there is a strong case for action on both altruistic and self-interested grounds, even when donors heavily discount recipient welfare (high $\lambda$).

**Antimicrobial Resistance.** Another high-stakes, long-term risk is antimicrobial resistance. While empirical quantification is more limited, the logic is analogous: Weak stewardship of antibiotics in low- and middle-income countries contributes to the evolution and spread of drug-resistant pathogens. These can cross borders, threatening treatment efficacy in donor-country hospitals, and are estimated to have the potential to create many trillions of dollars' worth of damages (see e.g., AMR 2014, Piddock 2016, Ho et al. 2025).

Recent modeling integrates human health burden projections with economic models to estimate the impact of AMR on global economies and health systems (McDonnell et al. 2024). If resistance everywhere rose as fast as in today's worst-affected countries (bottom 15 percent), annual global output in 2050 would be USD 1.7 trillion (0.8 percent of GDP) lower and hospital bills USD 176 billion higher, with high-income donors carrying much of that macro shock. By contrast, a donor-financed package that pairs universal access to effective treatment with accelerated antibiotic innovation, costed at about USD 63 billion per year, or roughly 0.004 percent of high-income GDP, would lift world GDP by almost USD 960 billion and cut health spending by USD 97 billion annually by 2050, yielding an estimated 28-to-1 return on investment.

**Containing Pandemics and Infectious Disease Spread.** Hardly anything has greater potential for negative spillovers to other countries than a pandemic, making pandemic prevention an ideal candidate for large donor benefits. The 2002-2004 SARS CoV-1 outbreak, which could be contained after killing over 8,000 people in 30 countries, was estimated to have cost around USD 30 billion (Keogh-Brown and Smith 2008). The SARS CoV-2 (COVID-19) outbreak, by contrast, went global. By early 2023 the virus had led to over 700 million confirmed infections and more than six million deaths worldwide. A systematic review by Faramarzi et al. (2024) found that indirect costs arising from the pandemic, such as lost productivity due to mortality and morbidity, ensuing supply chain disruptions, and vastly reduced consumer spending, added up to an average toll of 10.5 percent of GDP. Scaling this to the global level yields over USD 10 trillion. One has to add the direct cost of treating the disease to this number. Clearly, preventing or containing such outbreaks can thus have a high economic return.

Historical examples provide strong support for the ability to control infectious disease through ODA in ways that yield sizable benefits for the citizens of donor countries. The best-understood policy in response to the HIV/AIDS pandemic is the United States President's Emergency Plan for AIDS Relief (PEPFAR). It is estimated that treatments provided under the program have saved 26 million lives, and 7.8 million babies have been born HIV-free as a result (US Department of State 2024). PEPFAR's investments in health infrastructure, data systems, and workforce training in over 50 countries have also built critical global capacity for managing pandemics such as Ebola, COVID-19, and mpox. Beyond health, PEPFAR has advanced U.S. geopolitical interests by improving perceptions of American leadership (Goldsmith et al. 2014, Nkengasong et al. 2024). Tompsett (2020) estimates that extending antiretroviral therapy coverage to an additional one percent of a country's population increases life expectancy by 6.7 percent and per capita growth rates by 1.4 percentage points. Her estimates imply that Sub-Saharan Africa's growth would have been approximately one-third lower without the expansion of treatment. Such large growth effects likely entailed economic benefits for U.S. firms, although precise estimates are not available. Overall, the program cost only USD 4.9 billion in 2024 (Archibong 2024). These large health and growth benefits, combined with soft power gains and relatively low fiscal cost to the donor country, make PEPFAR a prime example of mutual interest ODA.

The global eradication of smallpox, achieved through a WHO-led campaign and substantial donor funding, not only saved millions of lives but also delivered quantifiable savings for donors. The United States, the largest contributor, recouped its total investment every 26 days in avoided vaccination and treatment costs (Fenner et al. 1988). Similarly, the Global Polio Eradication Initiative has reduced polio incidence by over 99 percent since 1988, and in at least one case, donor-funded eradication infrastructure was effectively repurposed to contain an Ebola outbreak in Nigeria before it could spread further (Craig et al. 2017, Shuaib et al. 2014). Polio eradication efforts (funded by OECD countries through the Global Polio Eradication Initiative) are projected to yield USD 14 billion in global cost savings by 2050 compared to the continued costs of controlling polio indefinitely (Zimmermann et al. 2020).

An analysis by the Commission on a Global Health Risk Framework for the Future established in the aftermath of the Ebola epidemic estimated that future pandemics could generate annual economic losses of approximately USD 60 billion (Sands et al. 2016). Estimates by others are an order of magnitude larger. Glennerster et al. (2022) estimate the global social losses from future pandemics at an annual USD 700 billion. In contrast, the Commission recommended prevention measures, including strengthening public health systems in low- and middle-income countries and increasing investment in research and development, which it estimated would require just USD 4.5 billion per year. Modeling by the Kenneth C Griffin Initiative for the Economics of Pandemic Preparedness (Imperial College) finds that strengthening pandemic preparedness has an extremely high return on investment for donors. For example, investing one U.S. dollar in pandemic preparedness is estimated to yield over USD 1,700 in health benefits (deaths averted) and USD 1,100 in economic benefits for the United States if a COVID-19-like pandemic occurs in the next decade (Doohan and Hauck 2021).

As a key institutional component of global pandemic preparedness infrastructure, WHO's own investment case estimates that multilateral health investments through the organization generate approximately USD 35 in benefits for every USD 1 invested, based on modeling that attributes a portion of an estimated 40 million lives saved to WHO's normative and technical support functions (Organization 2024). This return on investment rivals the high-performing bilateral programs described above, reinforcing the economic case for donor investment in global health security.

These examples show that the benefits of prevention can by far exceed the associated costs.

One issue with pandemic prevention is that there are often reactive responses that are far less efficient than a future-oriented, long-term spending model that acts as insurance against outbreaks. Berry et al. (2018) estimate the optimal policy in the context of Ebola prevention. They estimate the discounted expected cost of the optimal self-insurance-cum-protection (SICP) funding strategy at USD 10.5 billion, with benefits of USD 18.5 billion. Hence, the net benefit of avoiding an outbreak is a return of USD 1.76 on the dollar. The optimal policy is a long-term strategy that requires a large initial investment and only smaller but continuous annual expenses thereafter. The benefits accrue particularly in the long term.

Given the importance of cost-effectiveness in health-related decision-making, the literature measuring the monetary value of health interventions is extensive. Often, systematic reviews and meta-analyses are available that pool evidence from dozens or hundreds of individual trials or modeling exercises. Policymakers thus have the opportunity to make informed decisions between different potential uses of monetized indicators, such as the cost of a disability-adjusted life year, based on their priorities. Assessments of the benefits to individual donor countries are less developed since global health benefits are a public good and the academic literature that does not focus on recipient benefits analyzes global estimates.

From a donor perspective, investments in global health security represent a textbook case of mutual interest ODA. Pandemic preparedness, surveillance infrastructure, and antimicrobial resistance control are interventions that generate substantial indirect benefits for donor countries by reducing the risk of disease outbreaks that can result in large-scale mortality, economic disruption, and political instability. At the same time, there are large benefits to recipients. The estimated benefits of containment policies are particularly high at the global level, as is typical of a global public good. But even for individual countries that are not at all interested in the welfare of other countries ($\lambda = 1$ in our framework), prevention can have a positive return: Consider an example of a 10 percent loss in GDP in a country such as Germany, which would amount to over USD 450 billion. The return on investment of a multi-billion-dollar spending package for prevention would be highly positive if the probability of a pandemic is non-negligible (cf., for example, the optimal policy framework developed by Berry et al. 2018). Benefits accrue predominantly over the medium to long term and are often realized only when prevention succeeds in averting crises—which would then be invisible. Nevertheless, theoretical expectations and historical precedent both point to pandemic-related health aid as a global public good with high returns.

A major source of uncertainty for the financing of public health-related expenditure is the United States' decision to withdraw from the WHO, announced on January 20, 2025. Unless this decision is reversed, the U.S. is set to officially exit the organization in January 2026, following the required one-year notice period. This will result in the loss of the biggest donor within the WHO, and create the need for major spending cuts that come on top of the U.S. cutting its bilateral health-related aid and domestic research funding on health issues. A hopeful sign is the WHO Pandemic Agreement, which was adopted on May 20, 2025, by 124 WHO member states. The agreement's components include enhancing international cooperation on warning systems, data-sharing, and research as well as far more widely shared production and distribution of medicinal products and protective equipment.

### 5.3.2 Climate Change Mitigation and Adaptation

Climate finance has traditionally focused on emission reduction through mitigation measures, such as expanding renewable energy generation. In contrast, adaptation aid, which aims to enhance the resilience of local populations to global warming, has only recently gained momentum. This shift occurred when industrialized countries began committing large amounts of up to USD 100 billion per year to developing countries within the framework of international climate negotiations (Román et al. 2019). However, these commitments have been slow to translate into actual projects on the ground.

**Mitigation Aid.** Mitigation aid is explicitly designed to provide the global public good of emissions reduction. Reinsberg et al. (2017) show that, in addressing cross-border challenges such as climate change, donors have a high propensity to work through multi-donor trust funds managed by the World Bank. This suggests that for mitigation aid, bilateral economic and political donor benefits play a less prominent role than for other aid categories such as physical infrastructure.

The existing evidence consistently indicates that aid for climate mitigation—often bundled with adaptation aid in empirical studies, though mitigation aid still remains the dominant component—is successful in reaching its primary objective: reducing $CO_2$ emissions. According to Wu et al. (2021), climate aid has both direct and indirect carbon reduction effects. Directly, it reduces carbon emissions through the implementation of climate-related projects and the additional resources devoted to emission abatement after the implementation of these projects. Indirectly, it can promote the gradual substitution of clean energy for traditional fossil energy sources. In the specific context of the member countries of the Belt and Road Initiative, Zeng et al. (2022) corroborate the importance of these two channels for climate-aid-related emissions reductions. Similarly, Liu et al. (2023) find that energy aid contributes to reducing recipients' $CO_2$ emissions. This impact primarily stems from aid focusing on renewable energy generation and energy policies. The authors identify two primary transmission mechanisms: The structural effect, whereby aid alters the energy mix by increasing reliance on renewables, and the technical effect, which revolves around the potential of energy aid to stimulate the adoption of low-carbon technologies within recipient nations.

By virtue of their public good properties, carbon emissions reductions provide benefits to both donors and recipients. While recipients may have a weaker preference for global climate protection than donors, they gain additional advantages, such as health effects from lower air pollution, when energy generation shifts to renewable sources. Furthermore, the aid inflows could raise incomes in recipient countries.

Beyond the direct donor benefits from emissions reductions, climate aid may also yield several indirect donor benefits. Román et al. (2019) examine the economic effects of expenditures driven by climate actions, taking into account the role of international trade. Using a Global Multi-Regional Input-Output framework to track both domestic as well as spillover effects of climate finance disbursements, they estimate that about 30 percent of the economic co-benefits of climate actions flow to countries other than the recipient country, including the donor. Gamso (2025) adds a further dimension, hypothesizing that climate aid inflows signal a host country's capacity to address key climate risks to multinational enterprises, causing foreign direct investment to follow. The hypothesis is confirmed empirically: Estimates using a panel regression framework show that climate risks deter multinational enterprises from investing in countries that receive low levels of climate aid. However, this effect vanishes as climate aid inflows rise.

What does this evidence imply for the categorization of climate mitigation aid in terms of our conceptual framework? The estimates of aid-induced emission reductions are based on cross-country regressions that do not all use state-of-the-art econometric techniques for identification. Nevertheless, as the results suggest quite consistently that climate mitigation aid is effective, we can conclude—with a bit of caution—that climate mitigation aid generates meaningful global public goods, most notably carbon emission reductions, from which both donors and recipient countries benefit. Climate mitigation aid can thus constitute mutual interest aid.

However, important research gaps remain. Future work is needed that provides stronger causal evidence on the emission reduction potential of climate mitigation aid, and also evidence on the magnitude of the effects, which could then be compared to the benefits of alternative uses of the resources, e.g., for climate policies in the donor country. While the empirical literature generally suggests some effectiveness of climate mitigation aid, concerns remain regarding the additionality of funded projects, the inflation of baselines, and the potential for fungibility that undermines net impact.

These concerns have motivated alternative mechanisms. Recent work by Edenhofer et al. (2025) proposes a novel institutional framework designed to scale up climate finance through self-interested coalitions of fossil fuel importers (such as the EU and China) earmarking fuel import tax revenues to jurisdictional reward fund mechanisms in low- and middle-income countries. Their calculations suggest that such fuel importer tax coalitions could mobilize tens of billions of dollars annually. Moreover, additional jurisdictional reward funds for climate mitigation, pandemic prevention/preparedness and global health could be set up and funded through further tax coalitions based on taxes on aviation/maritime shipping emissions and luxury goods, where coalition membership rules could be structured in such a way that most or even all countries would end up finding it in their own interest to participate. Overall, this architecture could mobilize hundreds of billions of dollars annually for climate mitigation and other global public goods—potentially transforming climate finance from a moral obligation into a pragmatic mutual interest investment. This approach complements our mutual interest ODA framework by demonstrating how structured coalitions and outcome-based transfers can harness national self-interest to achieve global climate goals. Notably, even if one assumes full additionality of current mitigation aid, adding jurisdictional reward mechanisms remains optimal as long as their marginal benefit exceeds their cost. This makes them a complementary rather than competing instrument. Empirical evidence from bilateral programs such as Norway's results-based agreement with Guyana supports this approach, showing that such designs can yield real mitigation outcomes at relatively low cost (Roopsind et al. 2019), strengthening the case for donor governments to consider funding architectures that scale with both effectiveness and political defensibility.

**Adaptation Aid.** Aid specifically tailored to supporting recipient country populations to adapt to climate change is a very recent phenomenon and has accordingly been subject to hardly any empirical scrutiny so far. Nevertheless, there is an established literature on the adaptation to climate change in agriculture, arguably the sector most directly and severely affected by climate change. Practices designed to enhance farmers' resilience to climate shocks are often referred to as "climate-smart" agriculture. The main goals of these practices are to maintain—or even raise—agricultural productivity and to improve food and nutrition security. By boosting incomes and shielding health and labor productivity from negative impacts, climate-smart agriculture is also expected to generate long-term welfare gains.

The evidence is encouraging, consistently pointing to successes of climate-smart agriculture. Adam and Abdulai (2023), for example, show that minimum tillage practices can reduce household food insecurity by over 40 percent, while Mwungu et al. (2019) estimate that introducing stress-tolerant varieties have the potential of increasing net crop income by 18 to 32 percent. These findings suggest that, if effectively supporting such practices, climate adaptation aid could generate sizable recipient benefits.

While rigorous empirical studies have yet to clearly quantify the donor returns to climate adaptation aid, this does not imply that such aid is purely altruistically motivated (as would be reflected in a low $\lambda$). On the contrary, there is a growing strategic logic underpinning donor investments in climate resilience visible in policy documents. Many policymakers and researchers view climate shocks as key drivers of fragility and displacement. An example is the hypothesis that drought played a key role in causing Syria's civil war, which was widely discussed among policymakers and even in the popular media for a while (e.g., Kelley et al. 2015, Gleick 2014, Selby et al. 2017, Eklund et al. 2022).

Evidence that donors are not purely altruistic in their adaptation aid is provided by Weiler et al. (2018), who find that donors reward well-governed countries with adaptation aid and also use their adaptation aid to promote their own economic interests in the form of exports. Economic interests include the stabilization of supply chains for domestic firms over the medium to long term, which have been shown to be negatively affected by climate hazards (Reardon and Vos 2023).

In addition to economic motives, donors may aim for enhanced soft power and greater donor credibility in international diplomacy. Demonstrating strong commitments to finance adaptation may also grant donors greater leverage in climate negotiations. Both are direct short-term benefits, for which there is no direct empirical evidence yet. Indirect evidence comes from the aid allocation literature: Weiler et al. (2018) find that a recipient is neither more likely to receive adaptation aid, nor higher amounts of it, if it votes the same way as the donor in the UN. The importance of stability-related donor benefits, including reductions in climate-driven instability and conflict risks, has already been discussed in previous sections.

While rigorous evidence on donor returns is limited, the strategic rationale for donor interest is plausible and increasingly reflected in policy discourse. Donors may see adaptation aid as a preemptive investment in reducing instability, conflict, and displacement, which makes this a potential case of mutual interest ODA that deserves further empirical scrutiny. With adaptation aid possibly gaining in importance relative to mitigation aid, research on donor benefits as well as recipient benefits is likely to pay off. This would, for example, include establishing a link between climate adaptation aid and climate-smart agriculture but also exploring its impact on other dimensions such as healthcare.

In summary, climate mitigation aid is likely to be a case of mutual interest aid, even though the evidence base supporting this is not very strong. For adaptation aid, which has so far fallen short of mitigation aid in terms of funding but is expected to gain in importance, whether it fulfills its potential as mutual interest ODA or whether it is predominantly altruistic needs to be proven in future research.

# 6 Conclusion

This paper identifies where and how ODA generates tangible returns for donor countries while advancing recipient welfare. We refer to these as cases of mutual interest ODA. Our framework also reorients the research agenda: Future empirical work should not only ask whether aid works, but for whom, under what conditions, and through which channels. Understanding and quantifying donor benefits is central to ensuring that development cooperation remains both effective and politically sustainable.

We then systematically document how direct and indirect benefits can arise in the three domains we assess—economic benefits, (geo-)political benefits, and security/stability benefits. The results are summarized in Table 2.

In the economic domain, we find compelling evidence that ODA can stimulate trade and foreign direct investment, especially through aid for trade programs and infrastructure financing. These instruments yield clear mutual benefits. However, other economic channels, such as improved access to strategic resources, remain under-researched. Crucially, the often-assumed growth impact of ODA on recipient economies remains modest, which suggests that relying on spillovers via growth alone is an insufficient rationale for donor returns in the short to medium term.

In the geopolitical domain, ODA can rapidly deliver limited influence, most visibly in multilateral voting, and occasionally unlock specific policy concessions. Yet its long-term success depends on legitimacy and alignment with local priorities as analyses regarding soft power gains suggest. Here the coupling of benefits across domains becomes particularly relevant. Policymakers have a choice whether they exert influence through ODA that really makes a difference to recipients or whether they prioritize more self-centered variants without regard for recipient benefits. For example, delivering aid on the condition that recipients purchase goods or services from the donor country may provide short-term economic benefits for the donor, but often results in ODA delivering limited and sometimes even negative returns to recipients. Recipient countries do realize this. Criticism of the status quo on ODA is therefore widespread, hurting the reputation and political influence of the donors. Purely self-interested ODA is therefore unlikely to be optimal for achieving geopolitical benefits, such as closer alignment or greater soft power. Donor countries should reassess their ODA strategy in light of this evidence.

An often underappreciated yet potentially particularly important domain is security and stability. Here, ODA often functions not as a transactional investment but as *strategic insurance*. It mitigates spillovers from fragility, conflict, and risks such as pandemics. The benefits to donor countries materialize indirectly, typically in the medium or long term, and are frequently rather invisible in the public debate—because they are avoided losses rather than demonstrable gains.

The returns in the domain of global public goods, particularly health, are especially striking. Investments in pandemic preparedness, vaccination infrastructure, and infectious disease control yield donor returns that are both large in scale and well-documented. With benefit-cost ratios often far exceeding 10:1, the case for preemptive investment is exceptionally strong, even if policymakers are almost exclusively focused on the welfare of their own citizens.

**Table 2** – Classification of Aid Types According to Donor and Recipient Benefits

| Type of Aid / Outcome Targeted | Donor Benefits | Recipient Benefits | Classification | Rationale |
|---|---|---|---|---|
| Aid for Trade & Infrastructure | High | High | Mutual interest ODA | Boosts exports and FDI; widely documented mutual gains. |
| Conflict Prevention Aid | High | High | Mutual interest ODA | Prevents costly spillovers, but effectiveness depends on institutional and timing context. |
| Post-Conflict Stabilization | High | High | Mutual interest ODA | Strong evidence of peace dividends. |
| Global Health (e.g., pandemic preparedness) | High | High | Mutual interest ODA | Major shared benefits; prevention yields high ROI for donors and improves global health security. |
| Climate Mitigation Aid | High | High | Mutual interest ODA | Global public good; direct (emissions) and indirect (diplomatic/technological) benefits. |
| Soft Power through Effective Aid | High (if effective) | High | Mutual interest ODA | Gains occur when aid is visible, high quality, and aligns with local needs. |
| FDI-Complementary Aid (e.g., infrastructure) | High (in specific contexts) | High (in specific contexts) | Mutual interest ODA | Effective primarily in more developed settings with complementary institutions and infrastructure. |
| Service Provision to Reduce Migration Pressure | Moderate or High | High | Mutual interest ODA | Improves local living conditions and reduces irregular migration. |
| Primarily Local Health Interventions | Medium | High | Recipient-focused or mutual interest ODA | Local health aid yields indirect economic, political, and strategic returns. |
| Climate Adaptation Aid | Low or Moderate | High | Latent mutual interest aid | Recipient benefits likely large; donor benefits indirect or under-researched but plausible. |
| Aid to Promote Economic Growth | Low | Ambiguous | Low-benefit or recipient-focused | Mixed and modest effects on growth; indirect short-term donor returns negligible. |
| Cash Transfers to Reduce Irregular Migration | Low or Negative | High | Primarily recipient-focused aid | May increase migration by enabling it; developmentally valuable but potentially at odds with donor goals. |

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| Type of Aid / Outcome Targeted | Donor Benefits | Recipient Benefits | Classification | Rationale |
|---|---|---|---|---|
| ODA During Conflicts | Mixed | Mixed | Low benefit aid or mutual interest ODA | Aid may be stabilizing or worsen and prolong conflict, depending on context and delivery method. |
| Resource-Seeking Aid | High | Unclear | Possibly narrowly self-interested aid | Research gap. |
| UN Vote Alignment & Strategic Alliances | High | Low | Narrowly self-interested aid | Empirically boosts donor influence; weak recipient development links. |
| Information Campaigns on Irregular Migration | Low or Moderate | Low | Typically self-interested aid | Modest, context-dependent effects; may be seen as serving donor interests unless paired with broader improvements of living conditions. |
| Tied Aid | High | Low or Negative | Narrowly self-interested aid | Delivery mode, not primary purpose. Benefits donors but inflates costs, undermining effectiveness for recipients. |

Delivery and timing are key. As the evidence for ongoing conflicts shows, aid may be diverted or increase the stakes for conflict parties. Awareness of the potential harm of injecting resources into certain contexts is critical and well-designed aid will require even more contextual knowledge than usual in difficult settings. The same point holds more broadly for contexts of low state capacity or if local elites do not have aligned interests (Dercon 2022). In some cases, it can be better to disengage and do less.

To formalize shifting prioritization of what donor countries want to gain from aid, our conceptual framework introduces the parameter $\lambda$, capturing the relative weight policymakers attach to the welfare of donor country citizens and recipient country citizens. Especially under conditions of high cross-border risk, well-targeted ODA enhances donor country resilience by fostering global stability. When $\lambda$ is high, i.e., when domestic interests dominate, investing in external stability turns from being primarily an altruistic priority to an extension of the national interest. The relative importance of different interventions shifts to the uses of ODA that provide larger donor country benefits.

Effectiveness is not automatic. Mutual interest emerges only when aid objectives align with recipient country priorities. Poorly calibrated interventions can backfire, worsening instability or failing to yield returns. This is particularly relevant in the current context of tightening budgets and increased scrutiny of public spending. In such an environment, the volatility of ODA, often driven by reactive political pressures, can weaken both recipient planning and the realization of donor-side benefits. These dynamics underscore the importance of identifying and maintaining a stable core of high-impact, mutually beneficial aid programs. Such stability not only enhances developmental outcomes but also makes aid more defensible in domestic political debates, offering a resilient anchor point in increasingly contested fiscal landscapes. The need for strategic consistency and political alignment in aid design applies across domains, but is particularly important in the stability and geopolitical arenas. The rise of self-interested aid, such as tied aid or strong conditionality for migration cooperation, can deliver narrow gains for donors but risks eroding recipient trust and long-term development outcomes. Recent anti-Western and especially anti-French sentiment in the coup-affected Sahel countries can serve as an example of this.

For ODA targeted at global public goods, multilateral delivery channels may be particularly well-suited. These institutions are designed to internalize cross-border externalities and can better coordinate action in areas where benefits are not confined to bilateral relationships.

It is also important to consider coupling benefits across domains. A program that delivers moderate returns in trade or geopolitics may become highly valuable when it also enhances regional stability or reduces refugee flows. Yet comparing outcomes across domains is difficult. While some returns can be quantified in monetary terms, e.g., increased exports or benefits of climate change mitigation, others, such as gains in soft power or conflict avoidance, resist easy valuation and differ in relevance depending on the voter or policymaker perspective. This complexity reinforces the need for a principled approach to aid design: one that recognizes trade-offs and maximizes alignment between donor and recipient priorities.

This leads to a reframing of the central policy question. The issue is no longer whether aid should serve donor interests—that debate seems politically largely settled—but how to structure aid so that it advances shared interests in a politically feasible and developmentally effective manner. Especially in an era of tightening budgets, domestic contestation, and rising geopolitical fragmentation, aligning donor goals with recipient needs is not just ethically sound, it is also strategically wise.

That is why the current retreat of major donors like the United States and the United Kingdom from development cooperation is so consequential. It weakens their soft power, reduces global influence, and forgoes strategic opportunities in areas such as pandemic preparedness and security cooperation. Yet this trajectory is not inevitable. The central insight of our paper is that aid can be designed in ways that serve donor interests while genuinely advancing recipient welfare. Mutual interest ODA offers a pragmatic path forward that is politically defensible at home and substantively effective abroad.

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