Trading for Aid: European Union Development and Pre-Accession Assistance

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The European Union (EU), through its own budget as well as that of its member states, is by far the largest provider of development and humanitarian aid to the rest of the world. Unlike other major donors, such as the United States or Japan, the EU's Official Development Assistance (ODA) is not concentrated in a single country and region and instead spans 55 key recipient countries (EU Donor Atlas 2006).[1] Europe's leadership in the areas of development and humanitarian assistance is undisputed and backed up by a number of policy documents and statements. Yet, there are surprisingly few studies of what factors determine the annual fluctuations of EU ODA (for exceptions, see Zanger 2000 and Carey 2007), and to my knowledge - no studies on the determinants of the EU's pre-accession assistance to applicant countries. Moreover, a recent announcement, in April 2008, by the Organization for Economic Cooperation and Development (OECD) that EU Official Development Assistance in 2006 decreased, despite promises to the contrary, makes studying the question of the determinants of European aid in a systematic way even more relevant.

This paper, using data for a total of 152 countries and 38 years, examines official development aid and pre-accession assistance provided by the European Union by assessing the economic, political and institutional factors that determine why such assistance varies across space and time. In addition to major scholarly explanations of what determines financial aid allocations, by focusing on the budget of the EU, rather than on that of its individual member states, I am also able to explore how EU institutions, in particular the European Council, shape the Community's allocations. The first section of the paper summarizes the scholarly literature regarding the major explanations for bilateral aid by individual countries and the European Union, keeping in mind the relative dearth of studies about the latter's ODA and pre-accession

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[1] EU development assistance supports a variety of sectors, such as the development of social and economic infrastructure, debt relief, administration and emergency assistance, thus being a lot more comprehensive than for example US foreign aid which is almost exclusively focused on defense and security.

aid. I put a particular emphasis on the institutional interactions within the European Union as an explanation for variations in ODA. Scholarly accounts of variations in foreign assistance are grouped in two models, depending on whether the focus is on the needs of the recipient or on the preferences of the donor. The *recipient need* model argues that aid is driven by the economic, social and political needs of the receiving country, i.e. that greater needs translate in higher levels of assistance. The *donor interests* model, on the other hand, puts an emphasis on the strategic and economic interests of the giving country or entity, arguing that donors give more aid to those countries that are important to them, broadly defined. From these two models, I draw five testable propositions about the factors that drive the distribution of financial aid, both for official development assistance and for pre-accession by the European Union. The following section presents the operationalization of the variables used to test the above-listed propositions, using as dependent variables ODA commitments, ODA disbursements, as well as pre-accession aid provided through Phare and Cards programs, allowing me to later analyze whether different factors play a role in allocating these three different types of foreign assistance.

The third section of the paper proceeds with the analysis, which reveals that while donors often overlook the receiving country's needs with respect to political development, the latter's economic needs have an impact on levels of assistance. This conclusion holds for both types of ODA and for pre-accession aid, and regardless of whether economic needs are defined in terms of economic wealth, economic growth or the need to build a market economy. The analysis also shows that donor interests, defined both in strategic and economic terms, play a role in determining levels of foreign aid distributed by the European Union. For example, ODA recipient countries that are former colonies of the EU member states receive higher levels of assistance simply because of their colonial past as well as when their former colonial power

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holds the rotating presidency of the European Council. Donor economic interests, expressed in trade relations with ODA and pre-accession funds recipient countries, also are among the most consistent and substantively significant explanations of aid variation. The final section of the paper concludes and suggests directions for future research.

Determinants of European Union Foreign Aid

The literature on Western foreign assistance to the developing countries is rather voluminous and spans questions ranging from 'why some donors favor certain countries' to 'is aid effective in promoting good governance and economic policies'. In this paper I focus on the first question and, by drawing on several studies of individual countries' foreign assistance, I develop a series of propositions of what explains the distribution of bilateral aid provided by the European Union. While much of the literature on foreign aid focuses on individual countries and not on multi-national entities, the fact that the European Commission has its own discretionary budget for development aid leads me to the assumption that in distributing such aid, the EU acts as a unitary actor. In developing the propositions for determinants of EU foreign assistance, however, I account for the role that individual member states play, through the European Council in allocating aid to the developing world. After drawing propositions from the *recipient needs* and *donor interests* models below, in the next section, I test these propositions to both EU Official Development Assistance provided to the developing world and to pre-accession aid provided to the applicant countries.

Two sets of arguments dominate the explanations of how donor countries allocate financial assistance to recipients in the developing world. The *recipient needs* model, derived from the assumption of the West's moral obligations to help those in need, argues that the need of the receiving countries drives the amount of aid they receive over time. The *donor interests*

model, on the other hand, sees foreign development assistance as driven by the strategic and economic considerations of the donor countries. Empirical analyses testing the propositions of these two models are rare, focused primarily on the Cold War period, and reach conflicting conclusions. Below I briefly summarize the conclusions of the leading studies focused on the distribution of foreign aid and for each of the models I outline the hypotheses relevant to the disbursement of EU aid.

Recipient Needs Model

The 'recipient characteristics' model best fits into the idealism paradigm of international relations, which has a positive outlook on the motivations of state actors and individuals. Thus, in deciding to which countries to give financial assistance and how much, donors are assumed to follow the economic, political and social needs of the recipient countries. While 'need' could be expressed in a variety of ways, e.g. income and poverty levels, infant mortality, population, and levels of human and political development, the basic proposition stemming from the 'recipient characteristics' model is that countries that are lacking in the areas supported by foreign aid would receive more assistance than countries that are better off in these areas. Several studies support this model, especially when recipients' characteristics are defined in economic terms.

Overall, higher infant mortality levels (Trumbull and Wall, 1994), lower incomes (Alesina and Dollar, 2000; Maizels and Nissanke, 1984), lower Physical Quality of Life Index (Maizels and Nissanke, 1984) and lower life expectancy (Schraeder, Hook, and Taylor, 1998) are positively associated with levels of financial assistance. Interestingly, however, when researchers account for the economic needs of the recipient country's government, expressed as the proportion of government consumption of the nation's gross domestic product, there is no evidence that recipients with bigger governments receive more aid than countries with smaller

ones (Ali and Isse, 2006). This last finding confirms the notion that the plight of the recipient countries' citizens rather than the financial needs of their governments is what drives foreign development assistance at least partially. Ali and Isse (2006) also do not find support for the argument that "countries that depend on private capital [measured both at FDI and private lending credits] tend to attract less foreign aid" (245) because countries that attract more foreign investment are perceived as needing less foreign aid. In their study, there is no relationship between level of capital inflows and foreign aid.

Going beyond the economic needs of either citizens or the recipient government, research is much less conclusive on whether the recipient countries' political development needs have an impact on foreign aid. The fundamental question explored in such studies is whether the political, civil and human rights record of the receiving country's governments has an impact on the donor countries' willingness to provide development assistance. Formulating propositions to evaluate this question is not straightforward as the donor's considerations could go in two directions. On the one hand, donors might be more willing to support countries with worse records of political development and use aid as a conditionality tool to improve these records. On the other hand, however, donors might consider providing larger aid packages to recipients who have proven their ability to improve their political and human rights environments. The few studies that evaluate the role of democracy and human rights records on official development assistance leave room for future research.

For example, in the Alesina and Dollar (2000) study, measures of civil rights and rule of law do not predict levels of foreign aid as neither measure reaches statistical significance, although a variable capturing level of democracy indicate that donors tend to favor more democratic countries as recipients. Such results are consistent with Breuning and Ishyiama's

(1999) finding that bilateral aid from Western to Eastern Europe goes to the more democratic countries. Zanger (2000) and Carey (2007)[2] provide a more in-depth analysis of the role human rights and good governance considerations play in the distribution of aid by the EU and major individual donors. Similar to Alesina and Dollar (2000), however, Zanger (2000) also does not find any impact of human rights records, democracy level or democratization on the distribution of aid by the European Commission or France as an individual donor, although the author does find that human rights violations tend to impact aid provided by Germany and the United Kingdom. In fact, in the Zanger (2000) analysis, Germany is the only country that 'punished extremely repressive regimes" (306), while the UK seems to give more ODA to extremely repressive regimes than to regimes with medium-level human rights violations. These results indicate that the need to improve human rights records does not lead to more foreign aid, except for the United Kingdom, whose ODA tends to favor repressive regimes. The opposite is also true, i.e. that by limiting foreign aid to repressive regimes, Germany is not rewarding them, i.e. that accounting for human rights records when providing aid is not a question of need but of good moral judgment.

In addition to level of democracy and human rights abuses, Carey (2007) evaluates the donor's reaction to changes in those levels, i.e. democratization and improvements in human rights records, respectively. The author's most consistent results concern the change in the recipient country's democracy score, indicating that increased democratization leads to higher levels of foreign assistance from the European Union, as well as from the United Kingdom, Germany and France as individual donors. Deterioration of human rights records has no impact on foreign aid, while human rights improvements lead to more aid from Germany and France but not from the European Union or the United Kingdom. Overall, however, the evaluation of the

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[2] Sabine C. Zanger and Sabine C. Carey are the same person.

role of political and human rights 'needs' remain inconclusive at best. Moreover, defining what constitutes a 'need' in terms of political development, as well as distinguishing those needs from the interests of the donor states, also remains very controversial.

The European Union's relationship with its applicant countries keeps the question of how levels of democracy affect the disbursement of foreign assistance relevant in the scholarly debate. Among the EU's accession criteria, having a functioning democracy, as well as the protection of human and minority rights, remain among the most critical ones, and the Union has specific programs aimed at improving the applicant countries chances of meeting those criteria. There are, however, no studies evaluating the extent to which the European Union considers the applicant countries' 'need' in meeting the accession criteria in relations to other competing factors affect the disbursement of foreign aid. In the analysis section that follows below, this paper begins to fill this academic void by analyzing the factors that affect the disbursement of Phare and Cards funds, with a specific focus on evaluating EU's considerations regarding democracy, human and minority rights, and *acquis communautaire* transposition.

Donor Interests Model

The notion that in distributing foreign aid donors are driven by their own interests has roots in both realist and Marxist traditions. The classic realist view is that donors give aid in order to advance their own political and military positions. Both realists and Marxists acknowledge that economic considerations, i.e. the recipient's economic potential for the donor country and the perpetuation of the economic disparities between the donor and the recipients, respectively. The majority of the foreign aid literature seems to lend support to the 'donor interests' model. For instance, Alesina and Dollar (2000) clearly show that donors give more aid to those allies and countries, which tend to vote with them at United Nations sessions. This is

especially true for recipients of aid from Japan, as well as for two countries that receive the bulk of the US foreign aid, Egypt and Israel. In the case of the European Union's assessment of the strategic importance of its aid recipients, since the EU rarely acts with a single voice in the global arena, it would hardly be prudent to evaluate and compare voting patterns between the EU and each recipient country. One could make the argument, however, that the EU's strategic interests could be present and expressed both through former colonial linkages as well as through geographic proximity for the recipients of EU pre-accession aid.

Studies on determinants of development aid find substantial support for the argument that donors tend to support their former colonial possessions, a conclusion that Alesina and Dollar (2000) confirm for every donor and every former colonial recipient. Zanger (2000) and Carey (2007) fine-tune the evaluation of donors' interests in supporting their former colonies and also find that the African, Caribbean and Pacific (ACP) countries, used as a proxy for colonial past, received more ODA not only from their former colonial powers, such as France or the United Kingdom but from the European Union as well. In other words, the EU's ODA tends to favor those countries with which member states have close post-colonial links. Other donor interest factors that are positively associated with foreign aid disbursement are security alliance between donor and recipient (Schraeder, Hook, and Taylor, 1998), petrol reserves in the recipient country (Breuning and Ishiyama, 1999), stocks of private direct investment (Maizels and Nissanke, 1984), and the availability of strategic raw materials (Maizels and Nissanke, 1984).

Given the strong evidence that donor countries show an interest in supporting their former colonial possessions, I evaluate how such post-colonial preferences are expressed through the ODA provided by the European Union, testing for the possibility that member states with strong preferences towards supporting certain recipients would work through the EU institutions

to affect EU aid to those recipients. To determine what constitutes a donor 'interest' at the level of the European Union, I briefly overview the process and politics of approving the budget of the European Union with an eye on how this process might help determine whose interests are involved in the process. Three European Union institutions are primarily involved in the management of the European Union Official Development Budget, the Council of the European Union, the European Parliament and the European Commission. The budget for the European Communities, including that for development assistance is proposed by the Commission and approved after a negotiation between the Council and the Parliament. On the Commission's side the process is headed by the Commissioners for Development and Humanitarian Aid and External Relations. As the European Commissioners do not represent and promote the interests of their countries of origin, I expect member states' interests with respect to development aid to be reflected through the European Council and the European Parliament. Although there is no specific Council of Ministers for Development, the General Affairs Council dedicates two sessions a year on development issues. Generally, I expect that European Council leadership by member states interested in supporting development assistance would be associated with increased levels of EU's ODA.[3]

In addition to strategic considerations, expressed for example through colonial links, of particular interest when evaluating the European Union's role as a major source of development assistance is the impact of the donor's economic interests. Partially, such interests are expressed in the assistance provided to the donors' former colonies, as there is strong evidence of the close

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[3] The primary actor on the Parliament's side is the Committee for Development, and one could make the argument that the overall composition of the EP would affect levels of development assistance, as there is some evidence that more socially democratic countries tend to provide more aid. However, since in this paper I deal with ODA and pre-accession aid provided to specific countries and the EP composition is dominated by ideological, not national divisions, I do not include the EP the actors determining the EU's ODA. I leave the question of the EP's role in providing development assistance in general to future research.

economic ties between the two. Yet, the European Union is the largest free trade area in the world and one could argue that this entity also has a strong interest in promoting and rewarding trading links with non-member states, and that moreover, such links are expressions of the strategic economic interests of the Union. The evidence with respect to how openness to trade affects official development assistance, however, is rather mixed. Using an index of overall trade openness, Alesina and Dollar (2000) consistently show that greater trade openness positively affects both overall aid and assistance from every single donor country, while Ali and Isse's (2006) findings do not find support such a relationship. In fact, Ali and Isse (2006) find that recipient countries that are more protective in their trade policies, i.e. those with higher levies on trade, relative to their gross domestic product, receive more foreign aid than countries where taxes on trade are less important for the country's budget. Accounting for trade openness towards a specific donor, Zanger (2000) and Carey (2007) show that trade with France increases the aid received from this donor, although trade openness towards the EU, Germany or the United Kingdom does not have an impact on ODA from them. In their study of African countries, Maizels and Nissanke (1984) also find that foreign assistance dispersed by Germany, Japan and the United Kingdom favors countries that are dependent on the donor country for exports.

Summary of Propositions

Recipient Needs Model

Hypothesis 1: The greater the economic needs of a recipient country, the higher the level of official development assistance it will receive from the European Union.

Hypothesis 2: The greater the political development needs of a recipient country, the higher the level of official development assistance it will receive from the European Union.

Hypothesis 3: The greater the improvements an EU applicant country needs with respect to

meeting the accession criteria, the higher the level of pre-accession assistance it will receive

from the European Union.

Donor Interest Model

Hypothesis 4: The greater the strategic importance of the recipient country for the EU, the higher

the levels of official development assistance it would receive from the European Union.

Sub-Hypothesis 4a: Recipient countries with colonial ties to a European Union member state will

receive higher levels of official development assistance than countries with no such colonial past.

Sub-Hypothesis 4b: Recipient countries with colonial ties to a European Union member state,

holding the rotating European Council presidency, will receive higher levels of official

development assistance than countries with no such colonial past.

Sub-Hypothesis 4c: The closer the geographic proximity between the EU applicant country and

the EU, the higher the level of pre-accession assistance it will receive from the EU.

Hypothesis 5: The greater the economic importance of the recipient country for the EU, the

higher the level of official development assistance it will receive from the European Union.

Capturing EU Foreign Assistance and its Determinants

Recipient Needs Model

As dependent variables in the analysis evaluating European Union Official Development

Assistance (ODA), I use ODA commitments and ODA gross disbursements for the period 1970-

2006.[4] For each country, I measure the ODA commitments and disbursements as a percentage of

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[4] ODA data is available only until 2006. The time period 1970-2006 reflects the range for which most data points are available for most countries. The number of years included in each regression analysis varies depending on the availability of the measures that are used in it.

the total European Commission ODA commitments and disbursements, respectively.[5] When

evaluating pre-accession assistance, I use Phare and Cards programs allocations for the applicant

countries for the period 1989-2007.[6] Similarly, I capture the relative amount of pre-accession

assistance received by each applicant country, compared to overall pre-accession assistance.[7]

Evaluating the relative share of development or pre-accession assistance that each country

receives provides a better measure of the importance the donor attributes to each recipient than

for example a measure that accounts for aid as a percentage of each recipient country's GDP. I

use a database compiled by the Development Cooperation Directorate of the Organization for

Economic Cooperation and Development (OECD) for the ODA data and Phare Programme

Annual Reports, as well as the European Commission website, for the pre-accession data.[8]

I capture the economic needs of each ODA recipient country in two ways, per capita

GDP and annual percentage change in GDP. Such indicators reflect the overall state of economic

affairs in each recipient country and while indicators or human development needs could also be

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[5] The countries and territories included in the ODA analysis are Afghanistan, Algeria, Angola, Anguilla, Antigua & Barbuda, Argentina, Armenia, Aruba, Azerbaijan, Bahamas, Bangladesh, Barbados, Belize, Benin, Bolivia, Botswana, Brazil, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Chad, Chile, China, Colombia, Comoros, Congo Democratic Republic, (Republic of) Congo, Costa Rica, Cote d'Ivoire, Croatia, Cuba, Cyprus, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Ethiopia, Fiji, French Polynesia, Gabon, Gambia, Georgia, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, India, Indonesia, Iran, Iraq, Israel, Jamaica, Jordan, Kazakhstan, Kenya, Kiribati, (Democratic Republic of) Korea, Korea, Kyrgyz Republic, Laos, Lebanon, Lesotho, Liberia, Macedonia, Madagascar, Malawi, Malaysia, Mali, Malta, Mauritania, Mauritius, Mexico, Moldova, Mongolia, Montserrat, Morocco, Mozambique, Myanmar (Burma), Namibia, Nepal, Netherlands Antilles, New Caledonia, Nicaragua, Niger, Nigeria, Pakistan, Palestinian Administered Areas, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Rwanda, Samoa, Sao Tome & Principe, Senegal, Seychelles, Sierra Leone, Singapore, Slovenia, Solomon Islands, Somalia, South Africa, Sri Lanka, St. Lucia, St.Vincent and Grenadines, Sudan, Suriname, Swaziland, Syria, Tajikistan, Tanzania, Thailand, Togo, Tonga, Trinidad & Tobago, Tunisia, Turkey, Turkmenistan, Uganda, Uruguay, Uzbekistan, Vanuatu, Venezuela, Viet Nam, Yemen, Zambia, Zimbabwe.
[6] As with ODA, the 1989-2007 period reflects the longest range for which data is available for some countries. actual number of data points included in each regression varies. Pre-accession data is only available at the commitment level. How much of the allocated Phare and Cards resources are utilized by the applicant countries is information that is not widely available. Thus, I do not include pre-accession disbursements in this analysis.
[7] The pre-accession countries included in this analysis are Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia. Both Croatia and Macedonia are included in the ODA and pre-accession aid analyses.
[8] http://europa.eu/scadplus/leg/en/lvb/r18002.htm.

included in such an analysis, I leave this for future research. Regarding political needs, each recipient country's general level of political development is reflected in its democratization score, developed by Marshall and Jaggers (2007) in the Polity IV project. I use the difference between the polity score for each year and the maximum possible democracy score, ten on the -10 to 10 scale. On this scale of political development needs, a score of zero would indicate a most democratic political environment, while a score of 20 – a most repressive regime, testing for the expectation that countries with higher political development need scores would received greater levels of assistance than countries would lower needs to build up their democracies. I also use Carey's (2007) two binary variables to capture either improvements or deterioration with respect to each recipient country's records on human rights (454).

A sub-set of the analysis deals explicitly with the European Union's pre-accession aid to its applicant countries and evaluates the argument that such assistance is related to the needs of each applicant to improve its ability to meet the accession criteria. To account for pre-accession needs, I focus on the three EU membership criteria, being a democracy, having a functioning market economy and adopting the *acquis communautaire*. I use Marshall and Gurr's (2007) political development needs scale, described above, to account for the distance between each accession country' level of democracy and the score for a functioning democracy. To capture the degree to which a country approximates a functioning market economy, I calculate an Index of Economic Reform, using measures designed by the European Bank for Reconstruction and Development (EBRD). The measurement scale for these indexes, which ranges from one to 4.33, compares each transition economy from Central and Eastern Europe to the standards of the advanced industrialized countries. A score of one indicates no change from a communist economy, while a score of 4.33 means that the country's economy is no different from that of an

industrialized nation. To produce the Index of Economic Reform, I average the measures

capturing progress with respect to enterprise reform, competition policy, banking sector reform,

reform in other financial institutions, extensiveness and effectiveness of company law, small-

scale and large-scale privatization, and price liberalization. I then calculate the difference

between the index for each country and the maximum possible score, 4.33 (that of a functioning

market economy), accounting for the economic criteria 'needs' for each country.

The third EU accession criterion refers to the adoption of *acquis communautaire*, i.e. the

legal framework of the European Communities. I use an index developed by Lucian Cernat at the

United Nations Conference on Trade and Development (UNCTAD) that captures each

applicant's country's progress with respect to adopting the *acquis*, i.e. the so-called legal

approximation by coding opinions issued by the European Commission, annual progress reports,

and other relevant documents. The measure is divided in three categories, no progress from

previous years is coded as zero, little or unsatisfactory progress – one, satisfactory progress –

two and significant progress – three (116). Although Cernat's measure is available for all 31

acquis chapters, for the purpose of this analysis, I use the difference between a maximum

possible score for each year, reflecting significant progress in *acquis* adoption and the average of

the scores for the internal market and economic and monetary union acquis. All of the variables

capturing the recipient country's need are lagged one year.

Donor Interest Model

Capturing the strategic importance for the European Union of the recipient countries is

complicated by the reality that the EU rarely acts with a unified voice in world affairs and thus it

would be hard to argue that the EU has a unified strategic interest towards a particular country.

Based on previous research, however, there is evidence that foreign aid donors tend to provide

greater assistance to their former colonial possessions. Thus, to capture the EU's strategic interests first at a general level, I use a variable coding whether or not the recipient country has been a colonial possession of an EU member state. To further fine-tune the role of colonial heritage in the ODA determination process I account for the colonial linkages between each recipient country and the members of the rotating European Council Presidency for a given year. For each year in the period 1970-2006, I first determine which countries held the Presidency of the European Council. I then code the ODA recipient countries by assigning a score of one if their former colonial power(s) held the Council Presidency in the previous year, and a score of zero if otherwise. Since for every calendar year there are two countries that take the Council presidency, I assign a code of one to the receiving country if any of Council presidency countries was among its colonial powers. There are very few instances when both EU member states that held the presidency for any given year shared colonial history with the same recipient countries, therefore, I do not code these instances in any differently. Due to the nature of the budget process, I assume a one-year lag both in the influence of the general EU Colony measure and in the role of the Council members over the foreign aid for their former colonies.

As the accession countries do not share colonial history with the EU member states, I use geographic proximity as a proxy of the strategic significance of the applicant country for the European Union. Applicant country's geographic proximity to the EU is captured in sharing a political border with an EU member state. I measure the economic importance of the recipient country (both of official development assistance and of pre-accession aid) in terms of trade openness between each country and the European Union. I use both the relative share of each recipient country's imports from the European Union and the relative share of its exports to the European Union as measures of trade openness. I use the International Monetary Fund's

Direction of Trade Statistics Yearbook for the trade data. Table 1 summarizes the variables, measures and data sources used in this analysis.

TABLE ONE ABOUT HERE

Economic Needs and Interests Determine European Union Assistance

Table 2 presents the ordinary least square regression results for official development assistance and pre-accession aid provided by the European Commission. Models one and two use ODA commitments as dependent variables, while models three and four – ODA disbursements. Models one and three use level of democracy to capture the recipient countries political development needs, while models two and four use variables capturing changes in the human rights situation in each recipient country. The last model presents the results for pre-accession Phare and Cards aid as a dependent variable. The expectation of the recipient needs model that donor and pre-accession assistance would be higher for those countries that are lagging behind in development or in meeting the accession requirements is confirmed, with the exception of the role of GDP change in shaping ODA commitments. Consistently, in the first four models, poorer countries, expressed in lower GDP per capita on average received greater ODA commitments and disbursements. While annual changes in overall GDP do not affect *commitments* for development assistance, countries experiencing economic slowdown receive larger aid *disbursements* that faster growing economies, results that are very telling about the considerations of European Commission officials in disbursing EU aid. Concerning pre-accession aid, countries further away from meeting the economic criteria for EU membership, expressed in a measure capturing the legal economic environment in each economy, receive more aid than countries that are closer to becoming functioning market economies.

TABLE TWO ABOUT HERE

While the analysis convincingly shows that donors tend to consider the economic needs of the recipients of their aid, the opposite is true regarding the latter political development needs. In the five regressions presented in Table 2, of the three measures capturing political need, level of democracy, improving or worsening human rights situation, only one reaches statistical significance. Countries with improving human rights records tend to receive greater ODA commitments, an outcome that is opposite to the expectations of the recipient needs model. Human rights records, however, have no impact on ODA disbursements. Explaining the role of the state of human rights protections in the recipient country is of course somewhat problematic. While donors might be more willing to support governments that do not persecute their citizens, providing support for repressive regimes, even with the hope of improving their human rights records, would be considered 'bad taste' at the very least. In this respect, it is quite understandable why the measure capturing worsening human rights records does not reach statistical significance. It is quite clear though that ODA and pre-accession aid are not used as tools to promote democracy, as recipient needs with respect to improving their levels of democracy has no significance for levels of assistance. Similarly, Phare and Cards assistance does not increase for countries that are lagging behind in terms of adopting the *acquis communautaire*, as indicated by the lack of significance for the *AcquisNeed* variable in model five.

Regarding the predictions of the second model, i.e. that the interests of the donor determine levels of development and pre-accession, the results in Table 2 very clearly indicate that a colonial history with an EU member state results in higher levels of both ODA commitments and disbursements. It is rather interesting that the variable capturing whether the recipient is a former colony of the immediate past president of the European Council retains

statistical significance even when included along with a general measure of colonial past. In other words, while the European Union tends to provide more ODA to the former colonies of its member states, this impact is further augmented by the former colonial powers holding the rotating Council presidency. It is also interesting to note that both the significance and size of the coefficients for both colonial past variables decrease for ODA disbursements when compared to ODA commitments, indicating that such colonial history is more significant in determining the latter rather than the former. Since the EU applicant countries do not share colonial links with the EU member states, I use sharing a political border with an EU member to account for any strategic interests the donor has in the countries receiving Phare and Cards aid. The results are opposite from the predicted ones as pre-accession countries bordering the EU receive lower levels of aid than pre-accession countries without an EU border. There are a number of potential explanations for this discrepancy, such as an interaction between need and border, to be explored in future analysis, as well as an understanding that being further away from the EU equals proximity to more unstable regions and thus perhaps being of greater strategic importance for the EU.

Hypothesis 5 predicts that stronger economic interests of the European Union in the recipient country would translate in higher level of assistance. I use two variables to capture the linkages between the economies of the EU and those of the recipients. The share of the goods that each recipient exports to the EU as a percentage of total EU imports from the world indicates the market share of the recipient country in the EU's economy and thus the importance of this country for the EU market. The other measure captures the share of recipient's imports from the EU as a percentage of EU's exports to the world, a proxy for the importance of the recipient's market for the EU's economy. In both cases, the measures capture European

economic interests, for either the EU's consumers and domestic producers or the EU's exporters. Across all five models, both measures are strongly and consistently significant and the different signs of the regression coefficients for are rather indicative for the kind of economic interests are supported by ODA and pre-accession aid.

As the share of exports from the recipient country to the EU increase, the level of assistance decreases, indicating that recipient countries with greater share of the EU's domestic market tend to receive less assistance than countries that sell fewer goods to the EU. Such results could be interpreted as a form of protection for domestic producers, i.e. by tying assistance to level of exports to the EU, the Commission is seemingly penalizing countries with larger shares of the EU's domestic market. This conclusion is reinforced by the positive coefficients for the second variable capturing EU's economic interests in the recipient countries, i.e. the share of the latter's imports from the total EU exports. Again consistently across all models, countries with larger share of the EU's world exports receive higher levels of assistance than recipients that tend to imports less from the EU. Put simply, through its development and pre-accession assistance, and when controlling for the economic and political needs of the recipient countries, as well as the EU's strategic interests, the European Union tends to reward countries that buy more EU products and sell less of their own goods to the EU's market.[9]

Conclusions and Directions for Future Research

This paper builds on the literature on the determinants of foreign aid by western democracies to explore, among other factors, the role of the European Council in shaping the EU's official development and pre-accession assistance. From the *recipient needs* and *donor*

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[9] By including the lagged dependent variable I also show that institutional inertia plays a significant role in determining ODA commitments, ODA disbursements as well as pre-accession aid. It is also interesting to note that the constant in all regressions is negative, indicating decreasing levels of both ODA and pre-accession aid, all other things held constant.

interests models, I develop five propositions of the factors explaining why ODA and pre-accession aid vary by country and year. In summary, the propositions derived from the *recipient needs* model state that countries' with lower levels of economic and political development will receive higher levels of ODA from the European Union. Similarly, the expectations of this model are that pre-accession countries from Central and Eastern Europe lagging behind in meeting the EU membership criteria will be allocated higher levels of pre-accession aid than countries that are closer to meeting the accession criteria. The alternative set of explanations focus on the strategic and economic importance of the receiving country for the donor entity, assuming that higher importance would translate in higher levels of assistance. In this *donor interest* model, I fine-tune the strategic interests of the EU by accounting for colonial history with any EU member state as well as for such linkages with the immediate past country that held the rotating European Council presidency.

The analysis uses data for ODA commitments, ODA disbursements for 138 countries over a 38-year period, as well as pre-accession aid for 14 countries over a maximum of 19 years. Consistently, the analysis shows that economic factors, expressed both in terms of recipient economic needs as well as donor economic interests drive the variation in levels of development and pre-accession aid. As expected, countries with lower GDP per capita, lower levels of economic growth, as well as those with economies that are do not fully function along the principles of a market economy, receive greater levels of ODA or pre-accession aid, respectively. The economic interests of the European Union as a donor entity also shape its foreign aid, as the Commission tends to provide greater assistance to those countries whose share of imports from the EU is higher, and to recipients that have a lower share of the exports to the Union. Recipient

needs with respect to political development play at best a marginal role in determining EU foreign aid, while progress with adopting the *acquis communautaire* has no such role at all.

The impact of the economic interests factors in shaping ODA and accession aid could be further fine-tuned by including a measure of foreign direct investment (FDI) flows from the donor to the recipient country, a complementary, and much less studied, expression of the donors' economic interest. In the studies overviewed in this paper, only Ali and Isse (2006) include measures of overall foreign direct investment, relative to the recipient's gross domestic product and both studies find support for the argument that openness to foreign investment leads to more foreign assistance. I would argue, however, that foreign direct investment as an expression of the donor's economic interest in the recipient country should be treated in the same way as trade openness, i.e. accounting for FDI from the each donor to each recipient. Such data however, are much harder to come by and therefore I leave exploring the variable to future iteration of this analysis.

Donor's FDI flows to the recipient countries are, of course, hard to separate from the donor's strategic interests. In this analysis, I use colonial linkages with the EU member states overall and with a specific countries holding the rotating European Council Presidency in particular and I find strong evidence that, in both cases, colonial past is associated with higher levels of development assistance. While the evidence in support for the budget role of the Council presidency is quite strong, the role of other EU institutions, in particular the European Parliament and its composition, or the Community's office for humanitarian assistance, for example, remains subjects for future research. It would also be interesting to explore how has the EU's strategic and economic interests in the developing world changed as a consequence of the 5th enlargement.

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Table 1. Variables, Measures and Sources

Variable	Measures	Source(s)
Official Development Assistance	- *ODACommit*: EC ODA Commitments per country as a percentage of total EC ODA Commitments (in millions of current USD). - *ODADisburs*: EC ODA Gross Disbursements per country a percentage of total EC ODA Gross Disbursements (in millions of current USD) - *ApplAid*: Pre-accession aid (PHARE and CARDS) per country as a percentage of total pre-accession aid (in millions of Euro)	OECD PHARE and CARDS Programmes
Economic Needs	- *GDPCap*: Gross Domestic Product per capita (in USD) - *GDPChange*: Yearly change in gross domestic product (in percentages)	United Nations Statistics Division
Political Development Needs	- *DemNeed*: Level of democracy (Maximum possible Polity IV score minus each country's score for each year) - *HumanRightsBetter*: Improvement of human rights score by at least 3 points from the previous year - *HumanRightsWorse*: Deterioration of human rights score by at least 3 points from the previous year	Polity IV Dataset Carey (2007)
Pre-accession needs	- *DemNeed*: Level of democracy (Maximum possible Polity IV score minus each country's score for each year) - *EconNeed*: EBRD difference from maximum - *AcquisNeed:* Level of *acquis* approximation	Polity IV Dataset EBRD Transition Indicators Lucian Cernat (UN***)
Strategic importance	- *ColonyEU*: Former colony of a EU member state - *ColonyCouncil*: Former colony of a EU member state holding the rotating Council Presidency in the previous year - *BorderEU:* = 1 if the applicant country shares a border with an EU member states; = 0 otherwise	Author's own calculations
Economic importance	- *ExportsEU*: Relative share of exports to the European Union - *ImportsEU*: Relative share of imports from the European Union	Author's own calculations

Table 2. Ordinary Least Square Results

Variable	Model 1 β (pcse)	Model 2 β (pcse)	Model 3 β (pcse)	Model 4 β (pcse)	Model 5 β (pcse)
$GDPCap_{t-1}$	-.000078*** (.0000087)	-.000062*** (.000008)	-.00005*** (.000006)	-.000042*** (.000006)	
$GDPChange_{t-1}$	-.0018 (.0016)	-.0029 (.0019)	-.0018* (.001)	-.0028** (.001)	
$EconNeed_{t-1}$					.15*** (.053)
$DemNeed_{t-1}$	-.0014 (.002)		.0009 (.001)		-.029 (.021)
$HumanRights$ $Worse$		-.13 (.08)		-.064 (.053)	
$HumanRights$ $Better$		.17* (.09)		.043 (.07)	
$AcquisNeed_{t-1}$					.11 (.19)
$ColonyEU$	.13*** (.042)	.16*** (.05)	.06* (.03)	.07** (.03)	
$ColonyCouncil$	.069** (.028)	.06** (.03)	.04** (.02)	.03* (.02)	
$BorderEU$					-.21*** (.068)
$ExportsEU_{t-1}$	-.32*** (.08)	-.44*** (.09)	-.17*** (.054)	-.24*** (.075)	-.58** (.23)
$ImportsEU_{t-1}$	.68*** (.11)	.78*** (.13)	.34*** (.08)	.40*** (.098)	.78*** (.21)
$ODACommit_{t-1}$	.48*** .018)	.49*** (.019)			
$ODADisburs_{t-1}$			.68*** (.016)	.66*** (.017)	
$ApplAid_{t-1}$					.45*** (.096)
Constant	-.34*** (.047)	-.53*** (.06)	-.15*** (.03)	-.29*** (.042)	-.06 (.49)
N	2956	2633	2883	2674	97
R^2	0.3386	0.3706	0.5794	0.5889	0.6912

Note: The panel corrected standard errors (PCSEs) are obtained by the xtpcse procedure in Stata 7.0; * p <.1, ** p < .05, *** p < .01