

Interest Coalitions and Multilateral Aid:  
Is the EU Bad for Africa?

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ABSTRACT

This paper analyzes the political economy of multilateral aid allocation. We argue that the allocation of multilateral aid depends on the aggregation of its member states' interests. When member states' preferences over aid allocation are heterogenous, the aid agent can implement multilateral aid according to its organizational goals, that is, to the neediest countries. However, greater homogeneity of state members' goals increases the likelihood that members can overcome collective action problems, and thereby allocate aid according to their strategic interests. We apply our general theory to multilateral aid allocation in the European Union, the most dominant multilateral aid donor in the world over the last decade. A tobit random effects analysis shows that coalitional support among EU members for a recipient country leads to greater multilateral aid flows from the EU to that recipient independent of its actual needs. Additionally, we show that during the Cold War, when EU members' preferences were largely heterogeneous, EU multilateral aid generally benefited the poorest states, particularly in Sub Saharan Africa. In contrast, after 1989 as EU member preferences converged on aiding the integration of Central and Eastern European countries into the European Union, African countries have lost out on important aid flows.

## INTRODUCTION

In September 2000, 192 members of the United Nations and over 23 international organizations came together in New York City and committed themselves to the Millennium Development Goals, a plan to reduce extreme poverty by the year 2015. Recent poverty estimates from the World Bank in 2008 show that many regions have made great progress towards that goal.<sup>1</sup> Yet, the report paints a less rosy picture for Sub Saharan Africa, where economic growth is most desperately needed and where the least amount of progress has been made.<sup>2</sup> Virtually all 26 countries that are ranked lowest in the United Nations Human Development Index (HDI) are on the African continent. The share of Sub-Saharan Africans living below the poverty line of US\$1.25 a day remained at a constant level of 50% between 1981 and 2005. Forecasts predict that a third of the world's poor will live in Africa by 2015 if this trend persists.

One reason for the lack of development in Africa can be found in the dynamics of foreign aid allocation. Donor countries have been continuously criticized for allocating their bilateral foreign aid according to their national strategic interests rather than addressing the economic needs of the poorest countries in the world.<sup>3</sup> Multilateral aid institutions, on the other hand, have been praised as more objective aid-givers who tend to allocate aid according to economic needs and good governance criteria.<sup>4</sup> These positive interpretations of multilateral aid effectiveness

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<sup>1</sup> World Bank (2008). In Asia, for example, the share of people living below the poverty line has fallen from almost 80% in 1981 to 18% in 2005.

<sup>2</sup> For the remainder of the manuscript we will refer to Sub Saharan Africa as Africa.

<sup>3</sup> By strategic interests, we refer both to military and commercial interests.

<sup>4</sup> One exception is that the World Bank and the IMF are not independent aid givers if the interests of the United States are at stake. See, for example, Schoultz (1982); Frey and Schneider (1986); Thacker (1999); Stone (2002, 2004, 2008a); Woods (2003); Faini and Grilli (2004); Vreeland (2005); Andersen et al. (2006); Dreher and Jensen (2007).

rest on the assumption that the multilateral agency acts independently. However, they tend to ignore the fact that multilateral aid institutions are comprised of states that attempt to further their national goals, oftentimes going against the agency's own goals. If member states can assert themselves in the decision-making process (either individually or through a coalition), then multilateral aid allocation will be biased in favor of those members' national interests (whether they be strategic or needs based). To understand the allocation of multilateral aid, it is therefore important to analyze the aggregation of member states' interests as well as coalitional politics within multilateral aid institutions.

This paper provides the first theoretical and empirical analysis of the effect of interest coalitions on multilateral aid allocation. In a nutshell, our theory states that member states in most multilateral aid institutions delegate decision-making powers to the multilateral aid agency which has considerable freedom in managing and allocating multilateral aid. However, states aim to influence the multilateral aid agent both formally and informally in order to shift the aid policies towards their national—strategic—interests. Specifically, we show that the greater the heterogeneity of member states' interests, the easier it is for multilateral aid agents to play states against each other and to implement the goals of the aid institution, that is to allocate aid to the neediest countries. However, if members have homogeneous preferences and can form effective interest coalitions, then they can induce the multilateral aid agent to pursue their strategic goals.

We test our theory in two ways. First, we develop an indicator that takes into account (i) the interests of the member states in the allocation of multilateral aid and (ii) the strength of that interest coalition in the multilateral decision-making process. We apply this measure to a unique data set that uses observations on multilateral EU aid allocations to the developing world from 1973 to 2006. The EU provides a good test case particularly because it has not been dominated

by one strong actor and is has been the most significant multilateral aid institution during the last decade.<sup>5</sup> As our theory suggests, we find that recipients are more likely to receive aid – independent of their economic needs – the stronger the interest coalition of EU member states behind that recipient.

Second, we conduct an alternative, historical examination of the allocation of EU aid to shed more light on the emergence of important coalitions over times. We find that for many years, the EU Commission had been able to implement aid policies that favored the neediest countries in Africa because EU members could not coordinate their vastly different strategic preferences to influence the EU Commission’s aid policies. The fall of the Iron Curtain in the early 1990s, however, drastically changed this situation. Specifically, it increased the EU members’ geopolitical and commercial interest in Central and Eastern Europe (CEE). In turn, this dramatically increased the homogeneity of member states’ strategic interests and led to a shift of EU aid policies in favor of CEE countries diminishing Africa’s importance as the former main beneficiary of EU aid.

This analysis, therefore, provides the first test of interest aggregation in multilateral aid institutions. We demonstrate that multilateral strategic aid differs from domestic strategic aid to the extent that allocation decisions depend on some aggregation of interests within an institution where those interests may diverge substantially. It is therefore crucial to analyze decision-making processes within multilateral institutions and the relationships between donor countries and aid agencies in order to explain how multilateral aid is distributed. For the reform processes that are currently ongoing in many multilateral aid institutions this implies that multilateral aid institutions have to insulate themselves from national interests even more in order to improve on

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<sup>5</sup> See Appendix A. Data does *not* include bilateral aid from EU member states.

the problems of bilateral foreign aid.

## THE MULTILATERAL AID PUZZLE

Two principles of aid-giving exist among policy-makers. Need-based aid focuses on the development priorities of those countries most in need, be that from a human development or economic perspective. Strategic-based aid, on the other hand, focuses on the economic development needs of those countries in which the donor has a foreign policy or economic interest. Most individuals want their tax dollars focused on those countries most in need of development assistance.<sup>6</sup> Governments, however, prefer to target their assistance to countries that are strategically important, and consequently, the geographical distribution of bilateral foreign aid in most countries accords with national political, military and commercial interests.<sup>7</sup> This behavior has direct consequences for the prospects of economic development in recipient countries.<sup>8</sup> Strategy-driven donors cannot credibly enforce the conditions associated with their foreign aid because their strategic goals persist even if the recipient country does not fulfill the conditions that came with the aid disbursements.<sup>9</sup> Recipient countries therefore have much lower incentives to fulfill the conditions associated with aid disbursements and aid allocations remain ineffective.

Given the poor performance of bilateral aid, many observers have turned to multilateral aid institutions. A multilateral aid agency's aim is to implement the development goals established

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<sup>6</sup> Lumsdaine (1993, 43); McDonnell et al. (2003: 20); and Smillie et al. (1998).

<sup>7</sup> Maizels and Nissanke (1984); Meernik et al. (1998); Schraeder et al. (1998); Alesina and Dollar (2000); Burnside and Dollar (2000); Alesina and Weder (2002); Neumayer (2003a, b); Berthelemy (2006).

<sup>8</sup> For an in-depth overview of the literature on foreign aid effectiveness see McGillivray et al. (2006).

<sup>9</sup> Rodrik (1995); Collier (1997); Killick (1998, 165); Schraeder et al. (1998); Thacker (1999); Alesina and Dollar (2000); Collier and Dollar (2001); Svensson (2003); Dunning (2004); Oatley and Yackee (2004); Stone (2004); Fleck and Kilby (2006); Bearce and Tirone (2008).

by its member states and, accordingly, the multilateral agency should distribute aid based on economic needs rather than strategic interests.<sup>10</sup> The World Bank, for example, focuses on the elimination of poverty and sustained development for the poorest nations in the world.<sup>11</sup> Along similar lines, the EU identifies its development cooperation policy as “(...) the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them [and] the smooth and gradual integration of the developing countries into the world economy.”<sup>12</sup>

This rather intuitive argument finds considerable support in the empirical literature.<sup>13</sup> This literature even claims that multilateral aid is more effective in reducing poverty than bilateral aid because their conditionality carries more weight in the developing countries’ policy-making.<sup>14</sup> Yet a more in-depth assessment of multilateral aid flows does not support a pure recipient-needs argument. Neumayer (2003b) demonstrates significant differences in aid allocation between different multilateral aid institutions. Further, in Figure 1 which examines aggregate aid flows from multilateral aid institutions to regions in the world (measured as a percent of total flows), there is little support for a pure recipient needs argument.

[Figure 1 about here]

Although African countries (solid dark grey line) were among the main recipients of multilateral aid over the time period 1973-2006, it is in fact Asia that received the largest share of multilateral aid. This comes as a surprise because on average the per capita GDP of Asia was

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<sup>10</sup> Lynne et al. (2006); Carbone (2007: 37); Maizels and Nissanke (1984: 886); Dunning (2004: 410); Rodrik (1995); Neumayer (2003b).

<sup>11</sup> World Bank Millennium Development Goals.

<sup>12</sup> Article 177 Amsterdam Treaty.

<sup>13</sup> Maizels and Nissanke (1984); Tsoutsoplides (1991); Grilli and Riess (1993); Hook (1995), Schraeder et al. (1998); Burnside and Dollar (2000); Neumayer (2003a, b).

<sup>14</sup> Rodrik (1995).

over three times as large as the per capita GDP of Africa (US\$ 940 in Africa compared to US\$ 3,889 in Asia). Of the 49 Least Developed Countries (LDCs), 33 are situated in Africa and only 10 in Asia. Further, Latin American countries with an average per capita GDP of US \$3,231 received equal or higher shares of multilateral aid than African countries. The regional aid patterns of multilateral aid therefore stand in sharp contrast to the stated goals of multilateral aid agencies. The most pressing question then is: if, as claimed, multilateral aid is distributed on the basis of recipient needs, why do these dynamics exist?

Recent work has shed some light on this puzzle. This research indicates a strong and robust influence of the political and economic interests of their major shareholder, the United States, on decisions of the IFIs.<sup>15</sup> Developing countries that were closely aligned with the United States or served as an important market for US trade flows were much more likely to receive development aid or better lending conditions and much less likely to be punished for non-conforming policies. These theories explain the contradictory findings in the literature on IMF lending and World Bank aid when US interests are not taken into account, but they do not explain why multilateral aid allocation in institutions which are not dominated by one actor also display strategic characteristics.<sup>16</sup> We therefore lack a more general understanding of the political dynamics of multilateral aid allocations.

## COLLECTIVE PRINCIPALS AND MULTILATERAL AID POLICIES

Our theory is based on the valuable insights of the existing literature, but also acknowledges that the political decision-making process within multilateral aid institutions strongly influences

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<sup>15</sup> Schoultz (1982); Frey and Schneider (1986); Thacker (1999); Stone (2002, 2004, 2008a); Woods (2003); Faini and Grilli (2004); Fleck and Kilby (2006); Vreeland (2005); Andersen et al. (2006); Dreher and Jensen (2007).

<sup>16</sup> Arvin et al. (2001); Neumayer (2003b); Wolf and Spoden (2000).

the patterns of aid allocation. To develop such a theory we rely on a variant of the common agency model.<sup>17</sup> Common agency models allow us to analyze the outcomes of the decision-making process when multiple principals, oftentimes with diverging interests, simultaneously try to influence an agency's policies.<sup>18</sup> Our variant of the model follows seminal work by Nielson and Tierney in which principals use a specific set of institutions—such as majority or supermajority rule—to aggregate their individual preferences and induce the agent to implement this aggregate preference. This resembles what IO scholars dub a collective principal.<sup>19</sup> The concept of a collective principal differs from the concept of multiple principals. With multiple principals, one assumes that states with diverging interests independently try to induce the agent to act in accordance with their diverging interests and thereby compete against each other. Whereas a multiple principle model is applicable in situations when actors have heterogeneous preferences, by modeling member states as collective principals, we are able to more fully analyze decision-making outcomes in multilateral institutions when member state preferences are not radically different.

Recall, multilateral aid agencies were established to support the economic development of the neediest countries, and their missions and goals reflect this approach. The EU Commission is the most important agent in the daily business of allocating aid in the EU.<sup>20</sup> It can autonomously manage and implement EU aid as long as it stays within overall budget appropriations (most programs underlie five year budget plans). Additionally, it prepares the proposals which are then discussed in the EU Council. Agents, however, must also take into consideration the strategic goals of the member governments (its principals). Otherwise,

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<sup>17</sup> e.g. Bernheim and Whinston (1986); Dixit et al. (1997).

<sup>18</sup> Grossman and Helpman (2002: 25).

<sup>19</sup> Nielson and Tierney (2003); Hawkins et al. (2006); Lyne (forthcoming); Lyne et al. (2006).

governments no longer have an incentive to allocate money to the multilateral aid institution.<sup>21</sup> EU law allows its members, for example, to adopt measures and policies to further the overall goal of the organization if a majority agrees (Article 179 Treaty establishing European Community). The World Bank works on a similar basis. Despite the existence of the Board of Directors which is generally representative of both donor and recipient countries, changes to Bank policies can only be made with the approval of countries that control 85% of the Bank's shares (that is, the donors).

Consequently, although member states are domestically bound to advance economic development in the poorest nations, they are able to use the decision-making process of the multilateral agencies to bring policies closer to their strategic goals. The degree to which multilateral aid agents can pursue the institutional goals crucially depends on their ability to insulate themselves from the influence of their principals—so called agent slippage.<sup>22</sup> Within multilateral aid organizations opportunities for agent slippage most importantly depends on the likelihood that governments with preferences diverging from those of the aid agency overcome the collective action costs of forming a decision-making cartel.

All else equal, when preferences are largely heterogeneous and states have diverging strategic interests, then multilateral aid agents “may be able to play members of the collective principal against each other.”<sup>23</sup> If member states disagree over whether proposed policy changes are feasible then the agent can use the uncertainty of negotiations and its own expert knowledge to implement policies that accord with the agency’s goals (or to implement status quo policies).

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<sup>20</sup> Cox and Koning 1997; Carbone 2007.

<sup>21</sup> Woods (2003: 94).

<sup>22</sup> For a discussion on agency slippage and solutions see for example McCubbins and Schwartz (1987), Kiewiet and McCubbins (1991), Nielson and Tierney (2003), Hawkins et al. (2006).

<sup>23</sup> Nielson and Tierney (2003: 249).

In other words, as long as a majority of states disagree that a potential policy falls within the scope of the organization's goals, they cannot change the distributional rules, and thus, multilateral aid policies will follow recipient need principles.

In this extreme case, the member states act as multiple principals which individually try to influence the multilateral aid agent to implement diverging policy goals. Decision-making deadlocks amongst members of multilateral organizations can only be overcome and agent slippage avoided if one or several dominant players exist. Decision-making power either owes to actual voting power or to the power to influence other members' decisions through side-payments, deals, or threats. In doing so, dominant member states can exert informal influence on the decisions of the multilateral institution.<sup>24</sup> All member states are expected to have at least some decision-making power, but the bargaining leverage of individual member states can vary dramatically. The greater the decision-making power of individual states, the less important are coalition partners with similar preferences, and the easier it is for a state to assert its individual preferences. The US, for example, clearly is the dominant player in the IFIs relative to other member states. The US appointee to the IMF has 16.77% of the overall vote, compared to 4.86% for the United Kingdom and 1.96% for the appointee of the group of Latin American states (Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay). There is no such a clear dominance of one state in the European Union. Currently, Germany, France, the United Kingdom, Spain, Italy, and Poland have the largest number of votes, but differences between these countries do not vary much (27-29 votes).

If opportunities for coalition formation exist, then the likelihood of imposing its own preferences depends less on a country's status as a dominant player. The more homogenous the

preferences of member states about specific policy preferences, regardless of whether these preferences are strategic or needs-based, the easier it is to overcome existing majority hurdles. Multilateral aid agents cannot insulate themselves from government preferences if a majority of states aim to implement similar policies. For example, Belgium, France, and the United Kingdom formed a coalition in the EC and asserted their desire to increase aid flows to their former colonies without the support of other member states. Consequently, states can influence the allocation of multilateral aid if they belong to a group of states with homogenous preferences that is sufficiently large to fulfill the majority requirements or able to use informal channels to influence the collective principal's position.<sup>25</sup>

Even if governments assert themselves in the decision-making process, it is important to keep in mind that domestic voter preferences can serve as an important restriction to the government's intentions. If multilateral aid policies consistently or sharply deviate from the official goals of the organization, multilateral institutions would lose their reputation as aid institutions that provide higher benefits to the electorate. Consequently, incumbents would lose political support for foreign aid and thereby an instrument to conduct foreign policy. Nevertheless, foreign aid often plays a minor role in the electorate's decision making calculus, and voters do not usually have information about specific aid policies.<sup>26</sup> Consequently, if governments follow the broad aims of the organization but pursue their interests within these goals, it is unlikely that the multilateral organization will lose its reputation. For example, the successful attempts of France,

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<sup>24</sup> Woods (2003). Note, even weak states can sometimes rely on such bargaining tactics to exert influence on the bargaining outcomes (e.g., Steinberg 2002; Stone 2008a, b).

<sup>25</sup> Homogeneous preferences could be one way of dealing with the information problems faced by national governments asserted by Vaubel (2006). That is, when the preferences of enough states converge, then the financing share of this collective principal would increase, giving them a greater interest in overcoming informational constraints.

<sup>26</sup> Vaubel (2006)

the United Kingdom, and Belgium to focus EC aid on its former colonial states rested on the fact that their former colonies were mostly poor developing countries and therefore fell in line with the official aid policies. Based on their status, the three former colonial powers then managed to attract asymmetrically large funds for their former colonies.

In sum, we argue that the ability to overcome collective action problems amongst member states is most difficult when preferences towards aid allocation are heterogeneous. We hypothesize that when this is the case, aid allocation will depend on the goals of the agency. However, if powerful coalitions exist, then multilateral aid allocation will depend on the coalitions' interests even if no dominant member state exists. Developing countries that have a strong support coalition within the intergovernmental bodies of the multilateral aid institution should receive greater aid flows from this institution independent of its economic needs, *ceteris paribus*.

## EMPIRICAL ANALYSIS

We test our theoretical argument using the decision-making processes about multilateral aid allocation within the European Union. For this, we collected a unique data set with observations from EU aid flows to 146 recipient countries over the period 1977-2006. The European Union is a good test case for several reasons. First, the EU Commission is a strong agent with considerable freedoms in day-to-day management of EU aid programs. Our theory assumes that the multilateral aid agent has an interest in implementing the official goal of the organization. Background on the EU Commission demonstrates this relatively well. The Commission has repeatedly defended the interests of the poorest countries against the interests of member states

in shifting aid policies towards wealthier regions.<sup>27</sup> In doing so it was able to largely rely on Article 177, the official development goals of the European Union, which focuses on the development of the poorest countries in the world with a special focus on African countries. This observation greatly reduces the complexity of the analysis. We can focus on the influence of a change in member states' homogeneity of interests and do not have to control for a shift in the preferences of the EU Commission.

Second, whereas the World Bank and other multilateral aid agencies are strongly influenced by the United States as a very dominant player, the European Union has several major players which could never assert themselves unilaterally. Analyzing the European Union therefore simplifies our test dramatically because we do not have to control for the influence of dominant actors which could overshadow most of the coalition building process. Nevertheless, our analysis will control for the influence of dominant actors such as France and Germany.

Third, appendix A illustrates that the European Union has become the most important multilateral aid institution in the world, accounting for more multilateral aid than the World Bank. The implications of EU aid allocation politics for developing countries are therefore very important.

#### DEPENDENT VARIABLE

As the focus of our analysis is on multilateral EU aid flows to developing countries, our unit of analysis is the country-year. We measure our dependent variable as the log of an individual country's aid receipts from the European Commission to account for the "gross importance" of the given recipient country to the EU, following from McKinlay and Little (1977)'s model of

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<sup>27</sup> Carbone (2007).

absolute commitment.<sup>28</sup> Thus, *EC Aid* is the log of multilateral Official Development Assistance (ODA) commitments from the European Commission to all low- and middle-income countries (in constant 2000 dollars), as reported in the OECD's International Development Statistics.

Extant research on multilateral and bilateral aid flows uses varying methods to measure the dependent variable of aid flows. Neumayer (2003c) measures aid as an individual country's aid receipts as a percent of total aid in that year. Although this specification would allow us to analyze the trade-offs that governments face when determining allocations of a fixed aid budget, it leads to a number of empirical issues that would render our results difficult to interpret. Other authors use aid as a function of population or income per capita. Each of these would introduce measurement problems into our dependent variable and we account for them as right hand side variables to maintain our dependent variable as the strength of absolute commitment of aid flows. However, we test each of these specifications in our robustness checks and continue to find support for our results.

#### INDEPENDENT VARIABLES

Our main argument states that multilateral aid is not as insulated as observers believe. Whereas the multilateral aid agency is largely able to distribute aid according to recipient needs, the collective principal can influence aid allocation decisions if interest coalitions form which shape multilateral aid policies. We therefore must examine the effects of interest coalitions and recipient needs on the allocation of EU multilateral aid. We expect that the EU Commission attempts to distribute aid according to recipient needs, but independent of this, the focus of EU

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<sup>28</sup> It is important to note that this does not include regional or structural funds that are limited to accession countries.

aid allocation shifts according to the interests of major coalitions (if those interests diverge from the Commission's policies).

*GDP per capita.* To assess recipient needs we use gross domestic product (GDP) per capita in 2000 US dollars. Data from World Bank Development Indicators. GDP per capita is the most commonly used and relied upon measure of need in the literature on aid. It measures the average level of income in a country, and therefore an individual's ability to care for themselves and their family. We would prefer to include measures of human development to further account for need, but data restrictions on these variables would result in a significant loss of data, mainly from the poorest countries, thereby biasing our results. Nevertheless, we are confident in *Per Capita GDP* in addition to geographic region as a measure of need, not only because of its wide use across the aid literature, but because of its high degree of correlation with measures of human development such as infant mortality and literacy.<sup>29</sup> In addition, however, we will control for the level of democracy in a recipient country to capture the increasing importance of 'good governance' in aid allocation decisions.

*Interest Coalition.* To examine whether and when interest coalitions between member states are formed (and thus, to make predictions about the allocation of EU aid), we construct a new measure of EU coalitional support for any given developing country. Our goal is a measure that reflects how domestic state preferences about the allocation of foreign aid aggregate in the intergovernmental decision-making body (here the EU Council) to represent the interests of the collective principal. To do so, we can rely on the well-documented research that shows that bilateral foreign aid flows reflect a donor state's interest in the developing country.<sup>30</sup> Analyzing

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<sup>29</sup> Easterly and Dollar 1999.

<sup>30</sup> See for example Maizels and Nissanke (1984), Schraeder, Hook and Taylor (1998), Alesina and Dollar (2000) among others. Further, Bermeo (2008) argues that even with a shift in strategy for bilateral donors after the Cold

bilateral aid has the advantage that we have an indicator that incorporates all dimensions of donor interests and we do not have to assume whether a donor is more interested in economic development or for example geo-political or military factors. We can therefore derive the basic aid allocation interests of any EU bilateral donor in any given country by taking EU member  $i$ 's bilateral ODA to developing country  $j$ , as a percentage of the bilateral donor's total ODA:

$$EUAid_i = \frac{Aid_{i,j}}{\sum_{j=1}^n Aid_{i,j}} \quad (1)$$

This measure indicates the relative importance of a recipient country to each EU donor country.

In a second step, we need to aggregate the individual interests to capture the interests of the collective principal. This can be done by examining the decision-making rules within the intergovernmental body. Whether a donor can assert itself in the EU Council depends on its bargaining power. We rely on a country's bargaining power in terms of relative votes in the EU Council and derive the bargaining power (or strength) of any EU member by taking the number member  $i$ 's votes in the EU council as a percentage of all votes:

$$EUStrength_i = \frac{Vote_i}{\sum_{i=1}^n Vote_i} \quad (2)$$

The strategic interest function (coalitional support) for any EU member  $i$ , that is their strategic interest in a given developing country  $j$  is given by combining equations (1) and (2):

$$Coalitional\ Support_j = \sum_{i=1}^n EUAid_i * EUVote_i \quad (3)$$

The variable thus represents the strategic interest of the EU member as a function of that

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War, basic aid allocation decisions still depend on the strategic interests of the donor.

member's bargaining strength within the EU. In accordance with our theory, we expect that independent of their economic needs, the stronger a developing country's coalitional support within the EU Council, the greater will be their multilateral EU aid receipts.

*Coalitional Support* is the first attempt to measure the interests of a collective principal and it is easily applicable to other decision-making problems in international institutions. An additional advantage of this measure is that it combines the domestic interests of each state and aggregates them by bargaining power within the international decision-making body.<sup>31</sup> Finally, the measure is capable of capturing the notion of dominant states within multilateral aid institutions.

One potential drawback of the coalitional support variable is that it rests on the assumption that the EU members' interests in EU multilateral aid allocation are based on their bilateral aid allocation decisions. Although we think this is a logical assumption, later we will provide an alternative test of our theory which rests on a qualitative, historical analysis of interest coalitions in EU multilateral aid allocation over time. Specifically, by tracing existing interest coalitions in the EU over time, we find a structural break in the coalitions for multilateral aid allocations within the EU. Whereas the preferences of the Council and the Commission were largely homogenous before the end of the Cold War, they significantly diverged after the Cold War. This allows us to test whether this change had an impact on EU aid allocation to the poorest regions in the world. This second test bears the additional advantage of explicitly analyzing the consequences of a divergence of the collective principal and the agent.

## CONTROL VARIABLES

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<sup>31</sup> Our measure focuses on formal voting rules, but in general it is possible to use different measures of formal and informal bargaining strength.

In addition to our main independent variables, we will add a battery of control variables. Our choice of control variables closely follows the accepted literature on the determinants of aid flows.

*Post Cold War.* Since our data set spans from 1974-2006 and aid strategies changed drastically during and after the Cold War, we control for the period of the Cold War. We focus on the year 1989, the watershed year in this context, because most former satellites started holding free elections and the geographic Iron Curtain that had divided the East and the West for over 40 years fell. The Post Cold War variable is equal to 0 prior to 1989 and 1 in 1989 and after.<sup>32</sup>

*Imports from EU.* The variable *Imports from EU* measures the natural log of all exports in a given year from the EU to a recipient country. Data from Barbieri et al (2008).

*Distance.* Additionally, the shorter the distance between a recipient country and the capital of the EU, the greater the political and economic interest the EU is likely to have in that country. *Distance* measures the natural log of the geographic distance (in kilometers) between a given country and Brussels. Data from Gleditsch and Ward (2001).

*Colony.* Former colonies should be favored by EU aid policies because of the special interest that former colonizers have in those colonies and their relative economic deprivation. We use a dummy variable equal to 1 if a country has ever been a colony of a member of the EU and a 0 otherwise.

*Democracy.* At least in recent years, EU countries have begun to favor democratic governments in order to promote good governance. We use a country's Polity IV score to measure the level of democracy.<sup>33</sup>

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<sup>32</sup> One could also use 1991 as watershed year with the coup overthrowing Mikhail Gorbachev and the collapse of the Soviet Union without changing the substantive results.

<sup>33</sup> Marshall et al (2009)

*Population.* We control for the natural log of a country's population in a given year. Data from World Bank Development Indicators.

*Natural Disasters.* To account for emergency aid allocations to countries or regions that have experienced natural disasters, we also include the sum of deaths in a country per year due to natural disasters. Data from the EM-DAT International Disaster Database.

*EU Aid Change.* A change in multilateral aid flows from the EC could be the result of a change in the total amount of aid. For example, overall aid flows from the EU may have decreased as a result of donor fatigue.<sup>34</sup> On the other hand, aid flows from the EU could have increased as a result of agent slippage. The EU Commission has an inherent incentive to increase the number of aid programs (and thereby its importance). To avoid any problems we control for the change in total aid flows in all estimations.

*Time Trend and Regional Dummies.* Finally, we include a set of regional dummies into the regression model to control for differences of aid flows across regions as well as a time trend.

Descriptive statistics available in Appendix B

#### SPECIFICATION

Our main model takes the following form: EU multilateral aid to country  $j$  in year  $t$  depends on EU aid in year  $t-1$ , the coalitional support of European Countries in country  $j$  (Coalition), recipient country-specific need-based characteristics (need), control variables (control), and an error term ( $\varepsilon$ ):

$$EUAid_{i,t} = \alpha_j + \beta_1 EUAid_{j,t-1} + \beta_2 Coalition_{j,t} + \beta_3 Need_{i,t} + \sum \beta^* Controls_{j,t} + \varepsilon_{j,t} \quad (4)$$

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<sup>34</sup> Burnell (1991).

The nature of our dependent variable potentially leads to complications because many countries receive no aid from the EU over many years. Thus, the estimation technique that best fits the structure of our data is a time-series tobit model.<sup>35</sup> This maximum likelihood technique deals not only with the bounded nature of our dependent variable, but with the great number of zeros within the data. Tobit was designed specifically to deal with variables that are continuous over some range, but censored on one or both ends. The Tobit estimator proceeds in two-steps. In the first step, we estimate a latent variable  $EU_{aid}^*$  as a function of a set of explanatory variables. In the second step, we define our observed dependent variable  $EU_{aid}$  to be equal to the latent variable when it is above zero, otherwise equal to zero. Thus, we are able to deal with both censoring and clustering through this estimation technique.<sup>36</sup>

Additionally, a Wald test of first-order serial correlation suggests that first-order serial correlation is present when the lagged dependent variable (LDV) is not included in the model. With a LDV, serial correlation is absent. The inclusion of a LDV can lead to a downward bias in the explanatory variables and is therefore only recommended in dynamic models.<sup>37</sup> We therefore estimated all models without a LDV and found that the substantive findings do not change.

Although we would like to test the consistency and efficiency of the results of our fixed effects model versus a random effects model, time-series tobit models do not allow for fixed effects. Therefore, we rely on a random-effects model. We used bootstrapped standard errors to

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<sup>35</sup> A number of studies deal with this problem by estimating a two-stage equation where in the first stage, they estimate eligibility for aid and then run a linear estimation in the second-stage on eligible countries. We find two problems with estimating eligibility. First, it would seem that the same factors that would determine eligibility would also determine the amount of the aid flow (and therefore render the use of a Heckman selection model inappropriate). And second, in reality, all countries are eligible to receive aid from the EU. It is simply that the country's needs and the strategic importance for the EU may not be as great as for other countries.

<sup>36</sup> Maddala 1983.

<sup>37</sup> Achen (2000); Keele and Kelly (2006)

deal with possible bias due to heteroskedasticity in the error structure.

## EMPIRICAL RESULTS

The results of our estimations lend considerable support to our theory. Specifically, we find that the greater the coalitional support for a developing country from the EU, the more aid flows that the developing country will receive. Further, we find that this coalitional support is not simply a function of the power of France and Germany within the EU.

[Table 1 about here]

Table 1 reports the results of our base and model and our main hypothesis. First, we examine the relationship between coalitional support for a developing country within the EU and EU aid flows. Our measure of coalitional support has a strong, positive influence on EU aid flows to developing countries, giving support to our hypothesis that the more coalitional support within the EU for a developing country, the greater their aid flows, *regardless* of their level of need. Specifically, we find that greater coalitional support results significantly increases multilateral aid flows from the EU holding economic needs constant.

It is possible that these results are being driven by the most powerful members of the EU, primarily France and Germany. To insure that this is not the case, we recreate our coalitional power variable excluding both France and Germany and include the strength and interests of France and Germany separately. Column (2) reports these results. All three of the variables have a positive impact on EU multilateral aid flows (although Germany is not statistically significant in our model). Nevertheless, overall coalitional support is the most powerful indicator of EU aid flows, and at the same time, individual French support for a country also has a strong, positive effect on multilateral EU aid flows. Thus, our coalitional variable accounts for

the interests of powerful members but is not driven by it. Most importantly, these results imply that multilateral aid allocations are a function of the collective principal. This suggests that future work on IMF and World Bank lending must take into account the interests of the collective principle rather than focusing on US interests alone.

The control variables follow the expected directions found in the majority of the aid literature. Our primary measure of need, *per capita GDP*, has a strong negative relationship indicating that all else equal, the poorer the country, the greater the aid flows into that country. Similarly, African countries tend to get more aid than other countries, but there is no statistically significant difference between other regions of the world and Central and Eastern European Countries (our excluded case). Our measures of strategic interest are also interesting. Former colonies, important trading partners and democracies receive greater aid flows, though distance between countries does not enter significantly into our model. Additionally, countries with larger populations tend to see lower aid flows than countries with smaller populations. Changes in aid flows, deaths from natural disasters as well as the end of the Cold War all have a positive effect on aid flows.

The results from our test of coalitional support provide strong support for the importance of interest coalitions in multilateral aid allocations. The analysis therefore provides the first rigorous test of the collective principal theory in international institutions and it demonstrates the conditions under which multilateral aid is likely captured by member states' strategic interests. The quantitative analysis has indicated that interest coalitions have an influence on allocation decisions independent of the economic conditions in the recipient country.

One potential problem with our main independent variable could occur if EU member's interests on the EU level differ from their interests on the domestic level. In this case, our

variable of coalitional support *might* not do well in capturing the interests of member states in European Union aid politics. We now turn to an alternative test of our theory which is based on historical qualitative evidence of interest coalitions within the European Union.

#### COLLECTIVE PRINCIPALS, EU MULTILATERAL AID AND AFRICA

In this section we focus on EU aid allocations before and after the Cold War. The Cold War provides us with an ‘extreme’ situation in which member states with largely heterogeneous preferences regarding the allocation of aid towards different regions converged on one goal—providing aid to the countries in Central and Eastern Europe. Comparing EU aid decisions during and after the Cold War can therefore serve as an alternative test of our theory. In addition, it tests more explicitly the argument that the collective principal can override the agent’s decision if a homogenous coalition of states diverges from the agent’s preference.

##### *EU aid and Interest Coalitions in Historical Perspective*

We can trace the well documented historical developments of bargaining on multilateral aid policies within the EU Council in order to analyze the change in interest coalitions over time. The debates preceding the establishment of EU development policy demonstrate that member states had highly conflicting preferences about which countries should benefit from EU multilateral aid. France and Belgium hoped to focus development policy on their former African colonies. Germany and the Netherlands, on the other hand, wanted to pursue a more global and humanitarian approach to EU development policy. The colonial powers had an advantageous bargaining position because they credibly threatened to withdraw cooperation and forced other

member states to comply with their interests.<sup>38</sup> In other words, the colonial powers were able to form a powerful coalition (particularly after the accession of the United Kingdom) that was instrumental in shaping EU development policies. Further, the EU Commission should have been more than happy to support these preferences because most former colonies are extremely poor.<sup>39</sup>

The accessions of 1972 (United Kingdom, Ireland, Denmark), 1981 (Greece), 1986 (Spain, Portugal), and 1995 (Austria, Sweden, Finland) led to a dramatic increase in heterogeneity among members about the goals of EU development policies. The United Kingdom, for example, wanted to expand the group of associated countries to include its former colonies in Africa, Asia, and the Caribbean. It generally favored a more global approach to EU multilateral aid. The Mediterranean countries favored the development of Latin America, whereas the Nordic countries aligned with the German and Dutch approach of pursuing a more general humanitarian approach to EU development. Traditional approaches would conclude that Africa's aid flows should have declined in favor of other regions such as Latin America. Our theory, however, predicts that the increase in diversity should have increased the EU Commission's ability to insulate itself and to provide more aid to the least developed countries. In other words, during the Cold War the constant increase in heterogeneity should have been favorable for Sub Saharan Africa.

The unexpected fall of the Soviet Union beginning in 1989 led to dramatic changes in the EU. Interstate military conflicts became virtually implausible, the CEE countries were integrated in the world economy, and their political and economic stability became an immediate concern

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<sup>38</sup> Grilli (2003).

<sup>39</sup> In fact, of the twenty-six countries ranked as "low" in the most recent Human Development Index, only Liberia was not a European colony.

of the West European nations. Not only did the integration of markets lead to higher interdependence in Europe, but West European states also had strong commercial interests because of opportunities in trade and investment. Perhaps most important, although not all member states favored EU Eastern expansion EU membership of the CEE countries became a distinct possibility leading to further market opportunities and challenges. These developments sharply increased the incentive of all member states (independent of their preferences towards enlargement) to further economic development in Central and Eastern Europe.

In other words, the end of the Cold War dramatically altered not only the preferences of individual states, but their ability to collectively shape aid allocations within the European Union. Specifically, the end of the Cold war should have increased the CEE countries' flows of EU aid at the cost of the poorest countries in the world. We therefore expect that during the Cold War, EU multilateral aid should be largely allocated according to recipient needs and benefit the poorest countries particularly in Sub-Saharan Africa. On the other hand, after the Cold War, EU multilateral aid should become more strategic and largely benefit the countries in Central and Eastern Europe at the expense of Sub-Saharan African countries.

We test this using a model identical to equation (4), but include a series of interaction terms between our variables for need and strategy and the post Cold-War period:

$$\begin{aligned}
 EUAid_{i,t} = & \alpha_j + \beta_1 EUAid_{j,t-1} + \beta_2 Need / Strategy_{i,t} + \beta_3 PostCW_t \\
 & + \beta_4 Need / Strategy * PostCW + \sum \beta * control_{j,t} + \varepsilon_{i,t}
 \end{aligned}
 \tag{5}$$

Equation (5) allows us to test our hypothesis by analyzing the effect of the post cold war period on aid allocation to the poorest countries in the world. Most importantly, we expect that although aid allocation during the Cold War should have been influenced by the economic needs of recipients and therefore mainly favored countries in Sub-Saharan Africa, the end of the Cold

War increased EU multilateral aid to CEE countries at the expense of African countries.<sup>40</sup> Most importantly, we do not argue that aid to CEE countries should not have increased, but our theory holds if this increase in aid came at the cost of the poorest countries in the world.

*Cold War and EU Aid Allocation: Empirical Findings*

The results of our Cold War estimations lend further support to our theory. Overall, we find that before the Cold War, aid was distributed according to need as well according to the interests of the most influential members of the EU: the former colonial powers. After the Cold War, as all EU member country's preferences converged, the EU increased scarce development funding to strategically important countries, at the expense of the neediest countries and formerly important countries such as their former colonies.

[Table 2 about here]

Table 2 reports the results of equation (5). Again, the models fit our data well with highly significant results for the Wald test across specifications. Additionally, our model works very well at predicting existing aid flows. A comparison between predicted and actual aid flows reveal that on average our predictions were off by only one percent.

We first examine the relationship between indicators of need and strategic interest on the one hand, and aid flows on the other, not accounting for the structural break in 1989. Column (1) shows that the dummy variable for countries in Africa is positive and significant, indicating that countries in Africa, on average, receive greater aid flows than countries in Central and Eastern Europe (our omitted case). At the same time, *per capita GDP* (another proxy for recipient needs)

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<sup>40</sup> The EU Commission's goal of providing aid according to its organizational goals was certainly improved by the fact that Sub Saharan Africa also had a strategic interest to Western countries during the Cold War as a battleground between capitalism and communism.

is negatively correlated with aid flows; that is, as a country gets poorer, its aid flows should increase. Our strategic variables also have the expected relationships with aid flows. Specifically, the larger the amount of trade between a country (the greater the strategic commercial interest) and EU member countries, the greater the expected aid flows. Democratic countries and former colonies have greater aid flows than less-democratic countries and non-colonies. The greater the distance between a country and Brussels, the lower the expected aid flows, however this result is not statistically significant in the baseline model.

Consequently, not accounting for the effect of the Cold War would lead scholars to believe that the EU provides aid based on a mixture of need and strategic interest. However, the results in the baseline model cannot be fully trusted if our argument about the importance of need and strategic interest is correct. Indeed, the aid patterns look quite different when we control for the structural break in 1989 in columns (2-5).

Column (2) analyzes whether allocation patterns to African countries (compared to CEE countries) changed following the Cold War.<sup>41</sup> Our results suggest that during the Cold War, African Countries received significantly larger aid flows than CEE countries. However, after the Cold War, they (on average) received 20 percent lower EU aid flows than CEE countries. This provides support for the argument that before the Cold War, African countries received greater flows of EU aid than other (less needy) countries, but after the Cold War, African countries received lower flows than the more strategically important CEE countries.

Column (3) looks in greater depth at hypothesis 3 by examining aid allocations according to income level. GDP per capita does not change substantially throughout the specifications. We find that during the Cold War (in line with the overall aid goals stated by the EU) wealthier states

received marginally lower flows of EU aid than they did after the Cold War. However, the interaction between GDP and the post-Cold War variable is positive, indicating a reversal in aid flows. In other words, need was an important allocation factor during the Cold War, but this trend reversed after the Cold War.

Our results are further strengthened when examining the conditional impact of strategic interests on aid flows. First we turn to former EU colonies to determine if they fared differently before or after the Cold War. Column (4) shows that during the Cold War, former European colonies on average received aid flows 97 percent greater than their non-colony counterparts. After the Cold War, as expected, colonies still receive greater aid from their former masters, but this declines by nearly 14 percent.

Commercial interests play a major role in the strategic decision-making of aid donors. As such, it is interesting to look at the conditional impact of EU exports on aid flows to developing countries before and after the Cold War. Commercial interests should have become much more important following the Cold War with new trade opportunities in Eastern Europe. Column (5) shows that both during and after the Cold War, EU exports were positively related to aid shares. Importantly, the interaction between commercial interests and the post-Cold War dummy variable indicate that strategic commercial interests were much more important after the Cold War. For example, during the Cold War a one-percent increase in trade flows from the EU would account for only a 6 percent increase in a country's share of EU aid flows, after the Cold War, a one-percent increase in trade flows would account for a 38 percent increase in aid flows, a very important difference for a poor country.

In sum, our empirical analysis demonstrates (i) that the stronger the coalitional power of EU

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<sup>41</sup> All our results hold across all of our specifications even when we include all interaction effects.

member states, the more the EU gives multilateral to the coalition's strategic interests, (ii) the EU Commission was largely able to follow its goals of allocating aid to the neediest countries in the period before 1989 and (iii) that it lost its flexibility to do so after EU member states' preferences converged on giving more aid to the CEE countries. These findings lend support to our argument that aid becomes more strategic with the homogeneity and bargaining power of EU member states.

#### ROBUSTNESS CHECKS

Empirical results are often fragile to changes in model specification. To ensure that our results do not experience this same fragility we ran a number of robustness tests (all results are available from the authors).

*Dependent Variable.* First, we re-ran model (1) altering our dependent variable to account for aid per capita as well as aid as a percentage of all aid flows. In all the specifications, although the coefficient magnitudes change, operationalizing the dependent variable differently does not significantly alter our results.

*Specification.* Second, we used linear estimation with panel corrected standard errors (with and without a lagged dependent variable) to account for the possibility of cross-sectional and temporal error complications in our standard errors. Again, none of our results changed significantly across these estimation techniques.

*Control Variables.* Third, we added different sets of control variables. Faini and Grilli (2004) claim that IFIs may increase lending to either prevent or help deal with exceptional circumstances such as financial crises. We include a variable equal to 1 in any year that a country experienced a financial crisis. This variable was insignificant in each of our models and did not

have a significant impact on our results. As with their former colonies, a main target of EU development assistance has traditionally been the group of African, Caribbean, and Pacific (ACP) countries. We find that during the Cold War, the ACP countries received more aid compared to non-ACP countries, but this positive effect was dampened by the end of the Cold War.<sup>42</sup> We also included fixed time effects into the model. Although many years are significant, and while the magnitude of our results change only slightly, the significance on most variables of interest increases. We also need to account for the fact that beginning in 2004 many CEE countries became ineligible for ODA from the EU because they joined the EU. We both included a dummy variable equal to 1 in every year that a country was a member of the EU and dropped each country-year from our analysis. Again, this had no significant impact on our results.

*Outliers.* Finally, as with any large-N analysis we were concerned that our results in this paper could be unduly affected by outliers. For example, Turkey over the last few years has received an increasingly large share of EU aid flows.<sup>43</sup> We examined the means and standard deviations of the variables themselves to check for anything unusual, and we employed a number of standard regression diagnostics, including cooks distances, dfbetas, and added-variable plots. The tests revealed very few disproportionately influential observations: only Turkey from 2002-2006, the Czech Republic from 2002-2003, and Romania from 2001-2004 the stood out. Removing these had no effect on the results, and thus we retained them in our estimation.

## CONCLUSION

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<sup>42</sup> We chose to omit the ACP variable from our final estimation because it was highly correlated (0.66) with our dummy variable for Africa and the colony variable.

<sup>43</sup> The case of Turkey exemplifies our theory. Turkey has been an official applicant state since the 1980s but never acceded to the EU. Nevertheless, EU members should be generally interested in the development of countries that are officially associated with the EU.

Especially in times of economic downturn, foreign aid is one of the primary sources of capital for poor countries. We argue that, contrary to the established literature, the neediest countries cannot always count on multilateral institutions to favor their needs over countries with greater strategic interest for donors. The reason is that when the strategic interests of principals in multilateral institutions converge, they are able to overcome collective action problems and change the purely need-based focus of multilateral institutions. We have demonstrated this for the case of changing interest coalitions in the European Union over time.

Our results imply that European integration was indeed bad news for African countries. Particularly with the fall of communism and the ambitions of the EU to integrate the Central and Eastern European countries into the Western European system, a crowding out effect has occurred in which Africa lost its position as the most important recipient of EU multilateral aid. Our theory, however, implies that all is not lost for the neediest countries. Care must be taken in current reforms that aim to redesign multilateral aid institutions. These reforms should better insulate multilateral aid agencies from the strategic designs of their members. In the European Union, the EU Commission needs to be granted greater independence to allocate multilateral aid according to its stated goals. Indeed, our results provide some support to the EU Commission's argument in the ongoing debate about whether to include EU aid to the ACP countries into the EU budget and therefore increase supranational control over aid policies.<sup>44</sup> This would establish an important additional hurdle to push for strategic interests and eventually allow the EU Commission to foster the Union's official development goals and to increase Africa's aid shares

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<sup>44</sup> Aid to ACP countries is channeled through the European Development Fund (EDF). Allocation decisions are mainly intergovernmental because the EU Parliament—the EU's other supranational body—cannot control aid that is channeled through the EDF. In all cases where aid is channeled through the EU budget, the EU Parliament can (and actually did in two cases) reject the budget if it does not agree with Council decision on the dispersion of aid (Cox and Koning 1997: 24). The EU Council can only override these decisions unanimously.

back to Cold War levels.

On a general note, our results provide a first step to a more general understanding of multilateral aid allocation. They provide a rationale for analyzing political processes within and across multilateral institutions. We believe that two avenues could be particularly fruitful. First, scholars must analyze interest aggregation in multilateral aid organizations. Currently, interest focuses on powerful individual players, but we have made a case for looking at powerful interest coalitions as well. Second, we should increase efforts to analyze these processes from a comparative perspective. The Cold War provides a test of our theory for the EU, but we conjecture that these same mechanisms are at play in all multilateral institutions. A comparative analysis of these institutions could offer insights into rule-making procedures that curb or encourage the strategic interests of powerful coalitions and is likely to provide some guidance on the extent of delegation that is necessary to guarantee effective development policies for Sub-Saharan Africa.

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Figure 1: Regional Aid (in % of total Multilateral Aid), 1973-2006

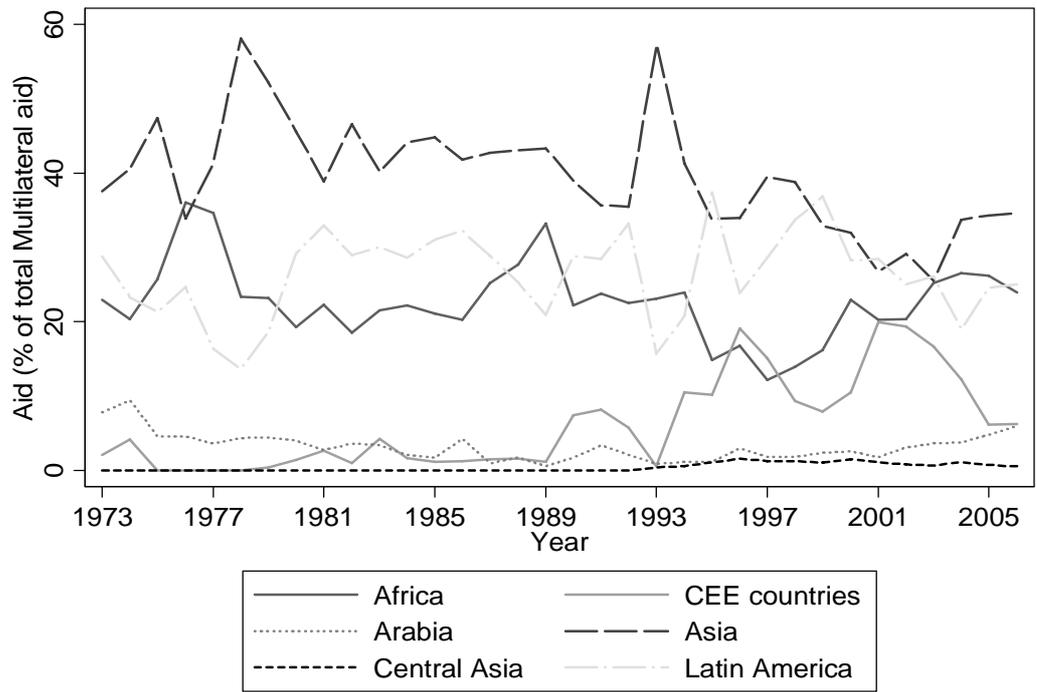


Table 1  
Equation (4) by Time Series Tobit

Dependent Variable: Log of EC Aid Receipts			
Model	(1)	(2)	(3)
Aid (last period)	0.536*** (0.017)	0.535*** (0.030)	0.536*** (0.032)
GDP	-0.789*** (0.096)	-0.771*** (0.119)	-0.775*** (0.108)
Sub Saharan Africa	0.606** (0.289)	0.633** (0.315)	0.613* (0.392)
Mid East & N. Africa	-0.008 (0.319)	0.017 (0.296)	0.014 (0.377)
Asia	-0.296 (0.328)	-0.236 (0.388)	-0.277 (0.490)
LA & Caribbean	-0.210 (0.332)	-0.110 (0.416)	-0.106 (0.489)
Colony	0.825*** (0.205)	0.745*** (0.178)	0.659*** (0.258)
Distance	-0.002 (0.004)	-0.002 (0.004)	-0.001 (0.005)
Trade	0.234*** (0.053)	0.231*** (0.060)	0.219*** (0.054)
Population	-0.137** (0.065)	-0.203*** (0.078)	-0.200*** (0.067)
Natural Disasters	0.847 (0.685)	0.915 (0.326)	0.949** (0.430)
EU Aid Change	0.014*** (0.003)	0.014*** (0.003)	0.014*** (0.003)
Democracy	0.020* (0.010)	0.020** (0.011)	0.023** (0.010)
Year	-0.013 (0.012)	-0.013 (0.010)	-0.013 (0.008)
Post Cold War	1.455*** (0.204)	1.446*** (0.176)	1.453*** (0.157)
Support (Coalitional)		0.267*** (0.082)	
Support (France)			1.148*** (0.479)
Support (Germany)			0.318 (0.259)
Support (Coalitional: w/out France/Germany)			2.142* (1.305)
Constant	33.393 (24.456)	34.564 (19.699)	34.506** (15.996)
Observations	3256	3256	3256
Number of id	127	127	127

Standard errors in parentheses

\* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%

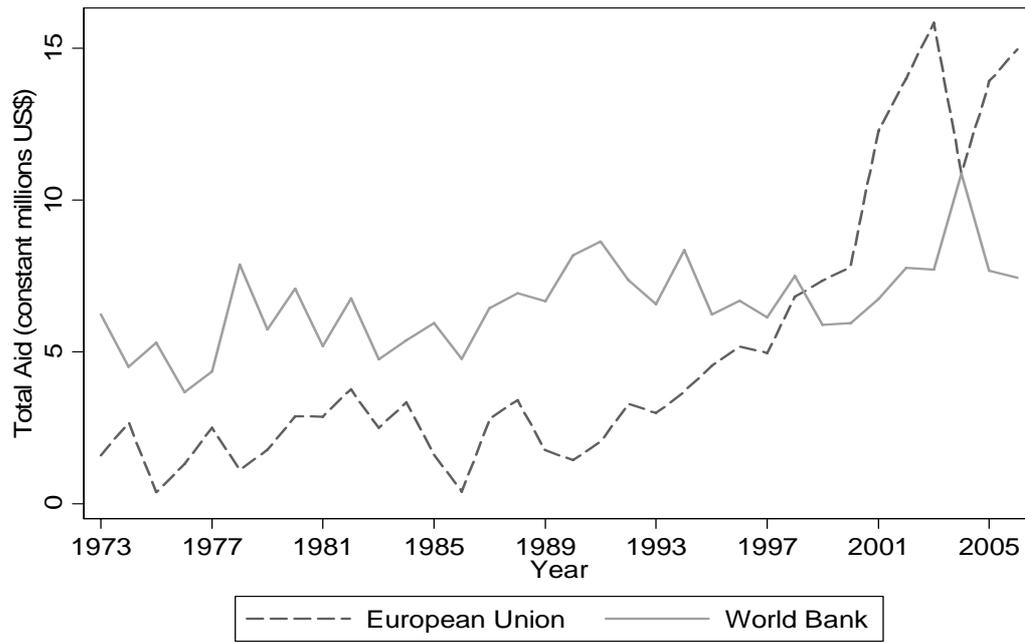
Table 2  
Equation (5) by Time Series Tobit

Dependent Variable: Log of EC Aid Receipts						
Model	(1)	(2)	(3)	(4)	(5)	(6)
Aid (last period)	0.538*** (0.017)	0.506*** (0.017)	0.522*** (0.017)	0.535*** (0.017)	0.514*** (0.017)	0.495*** (0.017)
GDP	-0.820*** (0.097)	-0.798*** (0.098)	-1.113*** (0.115)	-0.783*** (0.095)	-0.851*** (0.099)	-0.796*** (0.123)
Sub Saharan Africa	0.576** (0.288)	1.644*** (0.323)	0.632** (0.293)	0.625** (0.283)	0.705** (0.298)	1.600*** (0.334)
Mid East & N. Africa	0.026 (0.319)	0.078 (0.330)	0.104 (0.324)	-0.024 (0.313)	0.133 (0.330)	0.152 (0.333)
Asia	-0.292 (0.327)	-0.361 (0.338)	-0.298 (0.332)	-0.343 (0.322)	-0.258 (0.338)	-0.348 (0.341)
LA & Caribbean	-0.221 (0.331)	-0.261 (0.343)	-0.154 (0.337)	-0.175 (0.325)	-0.111 (0.343)	-0.173 (0.347)
Colony	0.785*** (0.204)	0.998*** (0.213)	0.844*** (0.208)	0.977*** (0.213)	0.874*** (0.212)	1.087*** (0.227)
Distance	-0.002 (0.004)	-0.001 (0.004)	-0.002 (0.004)	-0.001 (0.003)	-0.002 (0.004)	-0.001 (0.004)
Trade	0.240*** (0.053)	0.198*** (0.053)	0.232*** (0.053)	0.222*** (0.052)	0.061 (0.060)	0.067 (0.061)
Population	-0.148** (0.065)	-0.089 (0.066)	-0.136** (0.066)	-0.116* (0.065)	-0.151** (0.067)	-0.095 (0.068)
Natural Disasters	0.732 (0.690)	0.656 (0.678)	0.708 (0.682)	0.856 (0.685)	0.790 (0.680)	0.657 (0.676)
EU Aid Change	0.016*** (0.003)	0.013*** (0.003)	0.014*** (0.003)	0.014*** (0.003)	0.014*** (0.003)	0.013*** (0.003)
Democracy	0.028*** (0.010)	0.025** (0.010)	0.023** (0.010)	0.020** (0.010)	0.020* (0.010)	0.024** (0.010)
Year	0.057*** (0.008)	-0.007 (0.012)	-0.014 (0.012)	-0.012 (0.012)	-0.013 (0.012)	-0.008 (0.012)
Post Cold War		2.171*** (0.220)	-1.785*** (0.633)	1.677*** (0.230)	-0.404 (0.358)	1.242 (0.798)
Africa* PostCW		-1.813*** (0.220)				-1.597*** (0.262)
GDP* PostCW			0.481*** (0.089)			-0.066 (0.114)
Trade* PostCW					0.322*** (0.051)	0.242*** (0.057)
Colony* PostCW				-0.135** (0.065)		-0.065 (0.066)
Constant	-104.212*** (14.971)	21.737 (24.233)	37.352 (24.338)	31.108 (24.468)	35.846 (24.291)	23.306 (24.236)
Observation N	3256	3256	3256	3256	3256	3256
Country N	127	127	127	127	127	127

Standard errors in parentheses

\* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%

Appendix A: Total Aid Flows in Millions Constant (2000) US Dollars



Appendix B  
Summary Statistics

<b>Variable</b>	<b>Obs</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
Aid Flows	5692	5.37	4.82	0	14.72
GDP	4438	2539	3733	56	35450
Africa	5678	0.32	0.47	0	1
Asia	5678	0.23	0.42	0	1
LA & Carib.	5678	0.22	0.41	0	1
Colony	5678	0.71	0.46	0	1
ACP	5678	0.35	0.48	0	1
Distance	5678	8.63	0.68	6.58	9.71
Imports	4541	5.70	2.21	0	12.47
Population	5507	15.13	2.08	9.89	20.99
Natural Disasters	5508	422	6818	0	300000
EU Aid Change	5511	312061	1627272	-5533365	4526822