Explaining A New Foreign Aid Recipient: The European Union's Provision of Aid to Regional Trade Agreements, 1995-2013

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1 Introduction

What explains the emergence of international governmental organizations (IGOs) as recipients of foreign aid? Studies of the drivers of aid allocation by donor states are prevalent in the literature as are studies of aid recipients in the form of states. However, aid donors such as the European Union (EU), United States, World Trade Organization (WTO) and others are beginning to allocate some portion of their aid budgets not only to state recipients, but to IGO recipients as well. This is a phenomenon that has so far been undocumented in the literature and presents challenges to traditional understandings of foreign aid. In this paper I argue that this new form of aid recipient, the IGO, warrants further exploration and challenges traditional understandings of foreign aid as given for recipient need.

2 Why Aid RTAs?

Foreign aid donors, such as the WTO, World Bank, International Monetary Fund (IMF), United States, and the European Union are increasingly allocating portions of their aid budgets to IGOs in the specific institutional form of RTAs, defined here as formalized trade agreements among three or more geographically-proximate members. Increasingly prominent features of the international political economy, RTAs are created with the aim of liberalizing trade policies among members, and are an institutional form perpetuated largely in response to Washington Consensus economic policies as well as the economic success of the EU. But as a recipient of

foreign aid IGOs and RTAs specifically are fairly new and interesting bedfellows when compared to the most common form of aid recipient: the state.

Further, the IGO as aid recipient is confounding when situating them within the conventional wisdom on foreign aid allocations: that aid is a foreign policy tool used by powerful states in exchange for some sort of strategic good provided by weaker states. However, in order to develop a theory of aid to IGOs, it is important to first address why the conventional wisdom is an insufficent explanation for the attractiveness of IGO recipients. In the sections that follow, I present competing arguments for aid allocations to RTAs and develop a theory of why the IGO is an attractive aid recipient that challenges the conventional wisdom on the exchange of foreign aid.

2.1 Competing Arguments on Aid Allocations

There is a vast literature on the determinants of foreign aid giving and the reasons behind the allocation of aid packages have been well-documented by academics, with both donor interests and recipient need as the two dominant explanations for aid allocations. Much of the evidence on aid suggests a considerable influence of donor interest factors trumping recipient need considerations in determining aid recipients. As the practice of giving foreign aid has grown, so too have analyses of both bilateral and multilateral aid. Donor interest explanations of aid allocation focus on how the political and strategic interests of aid donors determine which states they aid and how much money is given, while recipient need explanations look to the economic development of the recipient as the primary determinant of aid allocations. Both of these explanations are discussed below.

The foreign aid literature has as its foundation the question of the determinants of aid from a donor to a state recipient. Since the Cold War, the primary form of aid relationship is bilateral, from a single donor to a single recipient. In one of the earliest studies of foreign aid exchanges, McKinlay and Little (1979) developed the donor interest versus recipient need model in response to Morgenthau (1962), who pointed out the "baffling" nature of the aid relationship, which can appear to be both need-driven and interest-based. These models include a number of predictors for aid allocations. On the donor interest side, arguments center on the importance of security, power, political, and economic interests of the US. Recipient need models focus on

recipient country wealth and growth indicators, as well as human development (McKinlay and Little, 1979). Overwhelmingly, McKinlay and Little find that donor interest variables predict US foreign aid, while recipient need variables do not. Others have found a similar but strong pattern of donor interest outweighing recipient need in explaining aid relationships (see Abbott and Snidal 1998, Dollar and Levin 2006, Lumsdaine 1993, Maizels and Nissanke 1984, Schraeder, Hook, and Taylor 1998). Summing the state of the literature, Hoeffler and Outram (2011) write, "Virtually without exception, the research to date has found that the political and economic interests of donors outweigh the developmental needs or merits of the recipients," (Hoeffler and Outram 2011, 238).

However, there are strong reasons to suspect that aid to RTAs is not a story of donor interest. Most significantly, the traditional donor interest model is fundamentally at odds with the nature of the donor-RTA recipient relationship. Those who subscribe to the donor interest model assume that aid is essentially an exchange, whereby donors promise aid to a recipient for some type of policy/alliance commitment. Thus, donors expect a return on their investment and will allocate where this exchange is profitable, reallocating aid when it is not. But as Morgenthau and others have pointed out, for this exchange to work, the channel between donor and recipient must be clear, i.e. the donor must be able to effectively communicate the political cost of the aid to the recipient, and the recipient must be able to clearly identify the donor making these claims. If the donor has no obvious means of expressing their desires and/or the recipient does not realize where the aid comes from, this exchange relationship is challenged. The desire for clarity, and even direct control, in this type of aid relationship means it is especially well suited to bilateral aid giving, *where a single state donor can directly communicate with a single state recipient the terms of the aid.*

In the IGO context, the conditions allowing for successful exchanges in aid giving are not met. The donor, bilateral or multilateral, allocates aid to an independent organization that must use the aid so that it helps all of the states in the IGO. As a result, to the extent that traditional donor interest stories comprise a donor dictating some type of behavior to a state, this exchange becomes increasingly difficult to do in an IGO context where multiple states interact and make demands through the IGO bureaucracy rather than directly with the donor country. To benefit the donor, the recipient needs to clearly feel obliged to the donor in exchange for the aid, but

in an RTA context it may not be immediately obvious to all RTA members where aid given to the organization rather than directly to their own governments comes from; all they see is an influx of assistance. Donors have the most authority to use aid for their own interests when the direct donor-recipient relationship is preserved. When the number of actors is multiplied on either the donor or recipient end, this direct relationship is challenged. If the donor wishes to use their aid allocations as a foreign policy tool to pursue self interest, *it only makes sense that they would do so in such a way as to maintain full control of the aid transaction*, i.e. bilaterally.

Relatedly, the implication of the donor interest model that aid is essentially an exchange, implies that donors would want to be especially selective regarding where the aid goes, with little regard for whether aid ultimately helps with economic development or goes into the pockets of a corrupt dictator, as long as the exchange achieves the desired ends. Again, here the direct state-to-state aid relationship is ideal, whereas giving aid to an RTA with multiple members requires the donor to relinquish some control as to which RTA members benefit from the aid exchange. There is some benefit to cultivating a relationship with the recipient, but not if the donor is at odds with some RTA members and not others, or wishes only a few states to benefit from the aid exchange but not all. This type of selectivity is difficult to achieve in the IGO context.

Hence, the donor-RTA relationship is fundamentally at odds with the exchange of foreign aid giving for donor interest. RTA recipients, especially the member states who may directly or indirectly benefit from aid to the organization, are not interacting primarily with the donor, thereby weakening the donor's ability to express their preferences to all parties involved with respect to the aid exchange. Furthermore, donors who care more about their own interests than recipient need will seek out the bilateral relationship where they can retain the most control over the exchange, ensuring that aid goes to ideal recipients. While donor interests might be a knee-jerk, first glance answer to the question of why IGOs receive foreign aid, it is an insufficient answer.

This brings us to the alternative explanation of aid allocations: recipient need. While donor interest arguments better explain bilateral aid relationships, it is rarely the case that recipient need is not at all a concern of aid donors. Recall that recipient need considerations refer to aid that is given to recipients with economic development needs; often these needs are measured in

terms of per capita wealth of poor countries, the presence or absence of economic growth, human development indicators, and etcetera, with the expectation that needier countries should receive more foreign aid, ceteris paribus. But, given the politics of foreign aid as discussed above, it is difficult for donors to pursue aid relationships in support of need without jeopardizing their strategic interests of aid as a foreign policy tool. As a result, studies of the determinants of foreign aid often find that recipient need factors tend to show up most in multilateral, not bilateral, aid relationships.

Maizels and Nissanke (1984) examine both bilateral and multilateral aid flows between 1969 and 1980 and find that multilateral aid giving by IGOs is predicted most strongly by the recipient need model, not the donor interest model. This finding is the opposite for cases of bilateral aid (Maizels and Nissanke 1984, 883). Dollar and Levin (2006) write that,

> "...multilateral aid has a positive and significant relationship with both democracy and property rights/rule of law. Bilateral aid has a positive, but weaker relationship with democracy and no significant relationship with rule of law. In this sense, multilateral aid is more 'selective' than bilateral aid. At the same time, *we find multilateral aid to be more effectively targeted to poor countries*." (Dollar and Levin 2006, 2036; emphasis added).

Lancaster (2007) discusses the rise of multilateral foreign aid and its distinct nature from bilateral aid, showing that IGO aid is overwhelmingly more targeted towards recipient need. In the 1990's, the World Bank especially began to re-assess their development aid policy in light of struggles for aid success. The Bank began to dictate less to recipient states regarding policy conditionality for their loans and began "putting the recipient government in the driver's seat" (Lancaster 2007, 49) to allow recipient countries to identify their country-specific needs in order to make more development progress than had occurred under the previous, top-down aid approach of the World Bank. Stiglitz (2006) also finds that such self-awareness and willingness to put recipient needs ahead of the interests and preferred policies of the Bank allowed for relative success of World Bank aid in promoting economic development. The act of allowing recipients to help dictate aid policy is also anathema to the donor interest explanations that account so well for bilateral aid. If donor interests explain multilateral aid giving, such as in the case of the World Bank, we shouldn't expect to see a major IGO relinquishing control over how aid money is spent in favor of a more recipient-minded aid policy, and yet both Stiglitz and Lancaster find evidence for exactly this.

There does appear to be significant variation in the determinants of aid from bilateral versus multilateral donors, a finding supported by decades of research. Furthermore, while both donor interest and recipient need explanations in their current form are frequently used to explain aid from donors to state recipients, in this case the recipient is different: an IGO, not the state. This is a fact which challenges directly the donor interest model of aid allocation and requires modification of the recipient need model as well.

On a final note, there is another possible answer to the question of why RTAs, rather than another form of IGO, receive foreign aid that is specific to the donor in this analysis, the EU. Sociological institutionalism and organizational theory on the proliferation of institutional isomorphism, or the tendency to observe institutions of many types proliferating with similar structures, purposes, and activities (see DiMaggio and Powell 1992; Meyer 2009) could potentially be applied to argue that RTAs are receiving more foreign aid because of an EU interest in promoting the proliferation of this particular institutional type. If RTAs are receiving aid because of the influence of institutional isomorphism, this could be considered as an extension of the donor interest argument for foreign aid allocations and would answer the question of why RTAs with a very EU-specific theory. However, while institutional isomorphism and EU interests may appear at first glance to explain RTA aid recipients, this is also an insufficient answer to the research question at hand.

To the extent that this tendency to aid RTAs is an EU phenomenon, and as I have shown the practice is *not* limited to the EU, scholars of EU foreign policy (EUFP) have attempted to argue that a main, or at least underlying, objective in EUFP is to export this European model to other parts of the world. Bicchi (2006) explains that the EU has increasingly been viewed either as a normative or a civilizing power by those who study the aims of EUFP. On the normative side, proponents argue that the EU routinely seeks to promote 'universal norms and principles', such as trade openness, democracy, the value of human rights, and sustainable environmental policy, in its foreign and neighborhood policies. While this is often visibly the case in EU foreign policy statements, others who take the 'civilizing power' approach point to

> "the tendency of the EU to 'reproduce itself' (Bretherton and Vogler 1999: 249) in its relations with non-members. The argument goes that the EU addresses patterns of interdependence 'through the external projection of internal solutions' (Lavenex 2004: 695). The projection might reflect an embellished or selective model of governance, but it is 'an operational one' (Nicolaidis and Howse 2002: 768)...My un-

> derstanding is that much of the EU's action can be characterized as an unreflexive attempt to promote its own model *because institutions tend to export institutional isomorphism as a default option...*" (Bicchi 2006, 286-287; emphasis added).

The civilizing view, thus, takes an institutional isomorphism approach to understanding why the EU tends to support regional integration projects in non-EU territories. Bicchi's focus is on the EU's neighborhood policy toward the Mediterranean, but others have pointed to EU relations with African, Asian, and even Latin American RTAs as evidence of the EU pushing its model elsewhere (Schimmelfennig 2009).

Others are similarly skeptical that the EU is pushing 'isomorphic regionalism' on other regions of the world. Borzel and Risse (2012) argue that the tendency to call isomorphism in RTAs and other regional institutions overshadows the dramatic variation in institutional outcomes in many cases. While EU influence on regional processes is "patchy, often shallow but certainly not spurious," (Borzel and Risse 2012, 194) there is also "a lot of variation in outcomes" (Borzel and Risse 2012, 204) that comes with varying capabilities of states and regions to implement EU-style reforms as well as varying EU focuses with respect to the proximity of regions the Europe itself.

Given this divide among even experts on European foreign policy about the degree to which the EU model is generating isomorphic change elsewhere, it is unlikely that any desire, conscious or unconscious on the part of the EU, to push regionalism is a sufficient answer to the question of why RTAs get aid. While indeed the EU may identify and promote cases of regional integration where it believes this model may work, that is likely not the sole factor at work here. And while some RTAs may mimic the EU model, such activities are occurring regardless, not because of, the foreign aid that these institutions receive.

Institutional isomorphism, though it may well be taking place, doesn't answer my research question of why IGOs are emerging as foreign aid recipients and is really another manifestation of the donor interest story of aid allocations. But if donor interests, be they generalizable or EU-specific, do not account for aid to IGOs and RTAs in particular, what does? I present the proposed answer to the question of why IGOs receive foreign aid here.

2.2 Accounting for Aid to RTAs

Two starting premises, or assumptions, provide the basis for understanding aid to IGO recipients. First, there are some set of actors who wish to provide foreign aid for development purposes; second, aid, no matter its motivation, is often contaminated by politicization at both ends, i.e. in the donor and the recipient. Both of these tendencies are well-established in the literature and therefore do not need to be re-tested here. I discuss each briefly.

Beginning as early as the Marshall Plan in 1948, the intention behind the giving of foreign aid has been, at least in part, to address recipient need. Charged with rectifying the economic and humanitarian crisis that enveloped Europe after World War II, the Marshall Plan had a number of motivations, not least among those to act "as a bulwark against communism, an economic measure which would help maintain the conditions of prosperity, a device to continue America's booming export trade, and *as aid to others in the tradition of American charity and generosity*," (Hitchens, 1968, p. 51 *emphasis added*).

Indeed, the focus on economic need, even if not completely devoid of political motivations, has continued since the Marshall Plan era and been transplanted into United States' development policy in other regions of the world (see Wood, 1986). And, the desire for aid to address need is not limited to the United States. The advanced industrial economies of the world overwhelmingly distribute foreign aid to the global south, and even critics of aid policy, such as William Easterly, acknowledge that motivations for this aid are not purely political. Commenting on a January 2005 speech by then UK Chancellor of the Exchequer Gordon Brown, Easterly writes that Brown "called for a doubling of foreign aid, a Marshall Plan for the world's poor..." but then goes on to argue that while politicians such as Brown may indeed be very well-intentioned, aid has continued to fail "because of the ineffective efforts by those who do care," (Easterly 2006, 3, 7). Thus, even some of foreign aid's most vocal critics acknowledge that some care and concern for need is involved in the giving of aid.

It is clear that at least some set of actors do wish to provide aid for development purposes, and the answer to the question of why IGOs are emerging as recipients of aid rests in part on this starting assumption. But the explanation for IGOs as aid recipients rests equally on another starting premise, that aid is often contaminated, at either the donor or recipient end, by politicization. Regardless of the motivations for aid, it can become tainted by other factors.

Such tendencies can be seen by returning to the Marshall Plan example, which was motivated by US strategic interests in stabilizing the West European economies to preserve profitable US trade relationships as well as prevent the spread of communism. Such concerns undoubtedly structured Marshall Plan policies around these goals, at times at the expense of a pure commitment to European needs. Post-Cold War aid to developing countries in Latin America and other regions, while motivated in part to address the development needs of the recipients, were also based fundamentally around the goal of pushing Washington Consensus-style structural adjustment policies in the interest of stabilizing the global economy and promoting free market policies to benefit the US and other developed country economic interests, goals that have often done more harm than good in terms of promoting economic development in recipients with widely varying contextual factors at work (Stiglitz 2003).

Be the contamination benign, as in good intentions lacking effective policy knowledge, or more malignant, where aid for need is thinly veiled by more political motivations, such aid is unlikely to be very effective for development purposes. However, policymakers and academics alike have begun to search for aid channels that offer less contamination, or politicization. Based on the premise that aid is often politicized at either the donor or recipient end, I argue that aid to IGOs is a new attempt to decrease the opportunities for contamination of aid given for development.

Having laid out these premises I now turn to answering the proposed question of why IGOs are increasingly recipients of foreign aid. In short, I argue that rather than being a phenomenon developed according to interests of aid donors, aid to IGOs is in fact highly motivated by recipient need concerns, and I develop a theory about why IGOs, broadly speaking, may be attractive aid recipients through which recipient need can be addressed. In addition, considering aid to RTAs specifically, as this is the subset of IGOs currently receiving the most aid, I also develop an explanation for why this particular institutional form is at the forefront of this development. To preview, the institutional choice of the RTA recipient makes it attractive for addressing recipient need because of the less politicized nature of the IGO as compared to state recipients, and the economic and trade development focus of the RTA in particular.

2.2.1 Applying the Need Focus of Multilateral Donors to IGO Recipients

Multilateral donors such as IGOs are often the most effective donors of aid given for economic development purposes, but why is this the case? Explanations for the ability of IGO donors to focus on aiding recipients who need assistance the most point to several basic attributes of IGOs that have been identified as making IGOs attractive actors across a range of activities and policy areas, not just with respect to foreign aid. The ability of IGOs to collect reliable, unbiased information, monitor the compliance of member states with respect to institutional and international law, and engage in enforcement and punishment activities have long been regarded as some of the most useful activities IGOs engage in (see Abbott and Snidal 1998, Chayes and Chayes 1993, Dai 2002, Martin and Simmons 1998, Thompson 2006). Further, these activities have been noted as explanations for why states have seen it as beneficial to delegate aid provision to IGO donors. For example, Milner (2006) argues that states will choose to give aid through multilateral institutions when they believe IGOs to have better information about where aid can be best applied, the capabilities to monitor effectiveness, or when states wish to avoid the perception of politicization that often accompanies bilateral aid. IGOs have reputations as being less politicized aid donors because of their ability to collect reliable information and monitor how aid money is spent, making these actors better able to ensure that aid is used for recipient need.

The argument that IGOs are less politicized aid donors than states is derived from the design features and intent of IGOs that make them effective agents of states for other purposes as well. For example, in deciding whether to aid states with human rights abuse records, IGO donors are more willing than states to slow or even stop aid entirely to an offending recipient until the behavior is rectified. While state donors are often tied to their relations with human rights abusers because of the need to maintain military bases, etc. and therefore feel that altering or cutting off aid may jeopardize their foreign policy interests with the recipient, multilateral institutions do not have the same concerns and are therefore freer to punish or reward recipients for their behavior (Lebovic and Voeten 2006, 2009). Similarly, other evidence suggests that IGOs are much more demand-driven in their aid-giving, often waiting for recipient countries to signal or ask outright for assistance, thereby suggesting a greater need-based approach to aid than is displayed by donor states (Rivera-Arriaga, 2005). Given the evidence for the need-based focus

of many IGO donors, the logic follows that when states truly wish to allocate aid based on recipient need, they may be more likely to channel their aid budgets in part via delegation to multilateral institutions. Extending this logic, where a less-politicized aid donor leads to more need-focused aid provision, a less-politicized aid recipient may further enhance the ability of aid given to benefit the receiver's development need.

It is the independence of the IGO donor that makes it able to perform the above tasks effectively (Abbott and Snidal 1998; Barnett and Finnemore 1999, 2005; Chayes and Chayes 1993; and Martin and Simmons 1998). While indeed IGOs vary in terms of their institutional independence, it is this independence that allows IGOs to perform actions such as collecting and sharing information and monitoring and punishing behavior, thereby making them ideal donors for aid given for recipient need. Related to independence, Gartzke, Nordstrom, and Boehmer (n.d.) find that preference heterogeneity among IGO members generally increases the institution's efficacy and reputation for resolving member state differences, thereby reinforcing the autonomy of the institution. With respect to delegation, Koremenos (2008) finds that in fact, preference heterogeneity of an IGO are both likely to cause states to delegate activities to an IGO, as increased preference heterogeneity makes it more attractive to delegate a given activity to an independent IGO in order to solve disputes among members who might conflict if left to pursue a given activity on their own.

Regarding foreign aid, if there are actors who wish to give some aid for recipient need and thereby shield this aid from donor interests, it makes sense to delegate aid allocations to IGO donors, doing so removes some set of aid allocations from the politicization within the donor state's own government, which suffers from preference heterogeneity among political parties, factions, citizens, etc., and ensures that an autonomous IGO, which also has preference heterogeneity among members, must seek to satisfy a lowest common denominator among member state aid policies. Given that foreign aid in its most basic purpose is meant to address development, IGO donors identify the objective of improving development as most likely to be approved by its members and allocate aid according to need to the best of its ability.

The existing theories on IGO design and effectiveness can be used here to understand why IGOs are increasingly recipients of aid for recipient need. Applying the same arguments as the IGO as donor literature, I expect IGOs to be less politicized aid recipients because of their

independence and preference heterogeneity. Just as these factors make IGO donors attractive, so too do they make IGO recipients less-politicized, more ideal aid recipients when aid is meant to have development effects.

Recall the starting premises of the argument that a.) there are some set of actors who wish to provide aid for development purposes, and b.) foreign aid, no matter its motivation, is often contaminated by politicization at both the donor and recipient end. Indeed, there is much literature showing the tendency for aid to be contaminated, primarily through corruption and rent-seeking activities of the recipient government (Alesina and Weder 1999, Asongu 2012, Easterly 2006, Easterly and Pfutze 2008, Svensson 2000). Aid donors, be they bilateral or multilateral, seem to have difficulty distributing their aid budgets to less corrupt governments (Alesina and Weder 1999), and the problem of foreign aid not being spent by the recipient as it is intended by the donor is increasingly scrutinized in studies of aid effectiveness. In fact, the influx of foreign aid may be a partial cause of more corrupt activities by recipient governments who use the incoming funds for private consumption or the payment of rents and other nontransparent activities at the expense of the public expenditures for which the aid is intended (Svensson 2000).

The problem appears especially prevalent in Africa (see Asongu 2012), no doubt because corruption and poverty tend to be highly correlated, and most of the world's ODA is focused on the continent. Noting that aid windfalls have often created aid dependencies in Africa, Brautigam and Knack (2004) argue that large aid packages particularly have a negative effect on good governance in African states, who are often weak and may succumb to pressures of corruption even if the government itself might otherwise choose to distribute aid effectively. Aid allocated to an IGO recipient in lieu of a state may be more effectively monitored by the receiving IGO, who has full discretion to disburse aid among its members, and the aid donor can more reliably trust the activities of the IGO recipient due to the independence and relative neutrality of the institutional recipient as compared to the state as recipient.

Abbott and Snidal (1998) argue that states create IGOs with a degree of pre-approved independence in order to enhance the efficacy of the IGO as a neutral arbiter of member states and to allow for meaningful cooperation within the institution. Independence helps with depoliticization of aid in a number of ways. First, because IGOs have an independence administrative

body, the neutrality of aid dispensation is preserved. The IGO itself does not share political-strategic interests with the aid donor because it is not affiliated with any single state, removing foreign policy-induced aid politicization due to the aforementioned preference heterogeneity of members and because of the neutrality of the IGO administration. Second, this independent administration is not answerable to voters, so it does not need to satisfy any group of constituents in order to remain in power, thereby removing the voter-driven politicization that is present in state donors. Finally, because IGOs often maintain some form of budgetary discretion, they are free to employ officials for mechanisms of oversight, monitoring and punishment (Abbott and Snidal, 1998). Having oversight for how aid is spent within the member countries allows IGOs to monitor where aid is effective, whether it is distributed to appropriate projects and areas, and where aid may be misused. This monitoring allows IGOs to reassess aid once it has been spent and decide where it should be dispensed in future to continue effectiveness for recipient need.

IGOs are known to be reliable providers of information and often more transparent than governments, and IGO independence is what makes these organizations valuable and effective state agents. Independence further makes IGOs attractive as aid recipients for many of the same reasons they are attractive aid donors. If a recipient IGO allocates aid among its members and detects misuse of aid, it is unlikely to be highly politically costly for the IGO to rescind or reduce the aid flow to the offending state. And because IGOs have independent secretariats who are not beholden to voters and/or powerful domestic interests, the IGO may be better able to overcome the temptations of the types of perverse incentives highlighted by the literature and therefore allocate aid more effectively than could a government recipient vying for every chance to remain in power.

IGOs are also free, within their budgetary and oversight duties, to hire policy experts for consultation and execution of policy. Many IGO officials themselves are either prior members of or have current ties to epistemic communities that help in development of effective policy solutions. The World Bank, for example, is an IGO known for participation in epistemic communities of knowledge on economic and social development policies, often bringing together other key multilateral organizations such as the IMF and WTO for conferences with development experts and policymakers to promote policy solutions through knowledge on best practices and

scientific evidence of policy success (Stone, 2004). IGOs rarely work alone in this respect, with vast ties to NGOs and other experts on the ground working together to achieve policy success.

This reliance of IGOs on experts both in-house and in epistemic communities allows IGOs to gain access to depoliticized information-sharing where policy effectiveness is at the forefront of policymaking. Advocates of a global civil society in which issues of human rights, social development, human security, and other need-based issues motivate policymakers argue that the existence of the associated epistemic communities, NGOs and IGOs with which they interact have had a depoliticizing effect on world politics, wherein human, economic, and social development issues cross-cut state based interests (Jaeger, 2007; Maclean, 2003). Thus, to the extent that IGOs are indeed able to independently assess state-level need and have informed policy responses based upon their own and others' expertise, I argue that the depoliticized information networks of IGOs also assist in the depoliticized nature of recipient need at this level.

In addition to their activities and independence, IGO recipients also have the same benefits of preference heterogeneity among members as IGO donors. When IGO recipients get aid, they must spend it in ways that will satisfice member states. While member states likely have very different preferences for how aid dollars are spent, they also likely have a mutual interest of need, as IGO recipients should include member states who are developing countries or LDCs. Thus, the IGO recipient can satisfice member states that aid is being spent in their mutual interest and for best practice if it is spent according to need, rather than political interest.

To illustrate, consider and IGO with five members, all of whom are LDCs, chosen to receive some sum of ODA. The IGO has an independent secretariat and a unanimous voting procedure allowing for equal weight to the opinions of all member countries and must dispense the donated ODA effectively. Member state A has a GDP per capita of $900 but is a relatively stable, established democracy. Member state B also has a GDP per capita of $900 and is somewhat democratic, but also operates under an informal but extensive system of clientelism. Member state C has a somewhat higher GDP per capita of $1000 but has severe ethno-religious cleavages and is on the brink of civil war. Member state D is the wealthiest at $1500 GDP per capita but has an oil based economy which has created severe economic inequalities within the country. Finally, member state E is the poorest, with only $800 GDP per capita and a fully authoritarian government.

Each member state has varying interests and might be expected to spend bilaterally allocated foreign aid differently depending on the amount of oversight accompanying the aid. Member state A might be the most trustworthy aid recipient given its fully democratic regime type and economic underdevelopment. Member state B is clearly underdeveloped, but its leaders cannot be trusted to use ODA for development purposes when they are actively seeking to bribe constituents in order to maintain power. Member state C is also poor, but while the regime in power might spend the aid money for development purposes so as to prevent regime collapse, it might just as easily be expected to spend the money on only those parts of the country that are seen as supportive to the government in power, or to bolster support on one side in preparation for war. Finally, in member states D and E, greed of those in power is the real problem. While D is the wealthiest of the group, this wealth is misleading and those in power do not wish to change the unequal status quo. E is the poorest of all members, but the authoritarian leader operates in an opaque manner, with no obligation to ensure development assistance gets to those who most need it in the country.

Any type of aid recipient can have varying interests and without direct intervention by the donor may not be trustworthy a steward of need-based aid despite all clearly experiencing problems of underdevelopment. However, aid has been allocated to the IGO of which these states are all members, and thus their separate interests become less salient when the semi-autonomous IGO must make decisions about how to dispense the aid. While each member has a somewhat different domestic situation compared to the others, the one underlying similarity is their shared economic underdevelopment. Therefore, it is relatively easy for the first goal of the IGO recipient in determining who within the IGO gets aid to distribute the aid in a manner that is proportional to need, as this is the one shared interest of all member states. Though all members are underdeveloped, the poorest, State E, should get more ODA than the wealthiest, State D, irrespective of the other interests at hand. Given the preference heterogeneity of the IGO, it becomes necessary to identify areas of shared interest and dispense aid for this purpose. In the case of this hypothetical IGO, the shared interest is need, so aid is distributed by the IGO recipient accordingly.

Of course, preference heterogeneity may increase or decrease according to the number of members in the IGO and the extent to which the IGO is made up of similar or disparate states

in terms of wealth, power, size, etc. Preference heterogeneity alone is not enough to ensure that IGOs are the best recipients of foreign aid for economic development. However, as with an independent institutional design, preference heterogeneity can work to increase accountability and decrease the politicization of the aid recipient, thereby allowing for more effective development aid exchanges.

In partial answer to the question of why IGOs are increasingly recipients of foreign aid, I have argued that the same features that make IGOs attractive foreign aid donors also make them attractive aid recipients. Assuming that some set of donors wish to give aid for recipient need purposes and that this aid is often politicized, or contaminated, at either the donor or recipient end, IGOs may increasingly be viewed as ideal aid recipients because of their capabilities as independent institutions that inform, monitor, and punish bad behaviors by member states who benefit from IGO aid. Further, the preference heterogeneity of IGO recipients means that IGOs who receive aid must satisfice all member states that the aid is being spent to their shared mutual interest, development need. Thus, I argue that IGO recipients are generally more need-focused than their state recipient peers, and are able to focus aid they receive for developmental purposes because they have certain capabilities as institutions that states often lack. IGO aid recipients can obtain reliable information about which members need aid most and for what purposes. They can also monitor the way aid is used in their member states and punish members who misuse the aid they are allocated, and preference heterogeneities among member states help to further prevent aid politicization. This argument leads to the first key proposition of the argument: **Proposition 1: Aid to IGO recipients is based on the degree of institutional independence of the IGO recipient.** Just like aid coming from IGO donors, I expect aid given to IGO recipients to be better explained by recipient need than donor interest because of the independence that many IGOs are endowed with. Independent institutional designs allow IGOs to act as less politicized aid recipients, thereby making aid more focused on development.

2.2.2 Aid to IGOs as a New Way of Addressing Development Need

Aid to IGO recipients must be understood as aid for recipient need. The second part of the answer to why RTAs are increasingly aid recipients deals with a specific subset of IGOs currently

receiving the most in terms of aid allocations, the RTA. While it is important to understand that my theory applies to IGOs in general, the prevalence of the RTA in this context means that there is likely something about this institutional type that attracts it to aid donors. As I show, aid to RTAs can be explained starting with my two premises that some set of donors want to give aid for recipient need and that this aid can sometimes become contaminated. I argue that if we are to understand the RTA recipient, we must consider that aid for recipient need may be undergoing some changes to the traditional classification of need in terms of economic size or growth. The importance of trade development is increasingly being considered by donors, who view trade openness as a key component of sustainable economic and political development in needy recipients.

Traditionally, foreign aid meant to address need is given for economic and/or political development purposes and allocated to states with poor or underperforming economies, low human development, or poor records of good governance. Certainly it is the case that aid to IGOs is also motivated by these same factors and can be seen in this traditional sense of development need. However, the specific form that aid to IGOs is taking, as aid predominantly to a particular type of IGO, the RTA, indicates a somewhat more expansive understanding of development need. RTAs are a very specific institutional form concerned primarily with liberalizing trade among member states. If this type of IGO in particular is a rising aid recipient, I argue that this indicates an increased focus on the importance of trade development as a critical component of the broader economic and political development of needy aid recipients.

The ability of free trade to produce economic growth is a finding often touted by economists (see Dollar 1992, Krueger 1998, Fischer 2000, Sachs and Warner 1995, Stiglitz 2000). While some question the link between openness and growth (Rodriguez and Rodrik 2000), others show a strong relationship between liberalization and growth in developing country economies and even prescribe trade openness as a potential path to growth (Fischer 2000). Trade openness, it is argued, leads to enhanced productivity and better use of factor endowments, as well as greater ease of technology transfers and production techniques that can help developing economies grow and compete. Further, increased trade openness is associated with greater foreign direct investment (FDI), income that developing economies sorely need (Makki and Somwaru 2004).

For many developing states, the move toward greater trade liberalization and membership

in RTAs in particular has been motivated by a number of factors, not least of which are both European and American support of regional integration programs in the form of the EU and NAFTA, respectively, as well as the blatant failures of import-substitution industrialization (ISI) in the Latin American economies during the 1980's. Further, the obvious and rapid growth of the outward-oriented Asian tigers served to fuel the belief, prominent among the OECD and aid institutions, that trade openness is a key component of lasting economic development (Frankel 1997). It is perhaps not surprising that aid donors who are particularly concerned with effective and long-term economic growth are beginning to include trade policy among their areas of concern. Similarly, the readiness of the global south to also pursue liberalization both bilaterally and in the form of RTAs indicates a new opportunity to rethink how aid has been used and allocated in the past.

RTAs are institutions set up for the deliberate purpose of liberalizing trade among member states. They can vary in terms of depth, ranging from the very basic preferential trade agreement (PTA), where some group of trading partners agree to engage in lowering tariff barriers between themselves, to a full blown economic union (see Frankel 1997), although this particular version is not yet achieved by any existing RTA. No matter the depth of the RTA, the intention is very clearly to promote greater trade openness. The evidence of the trade-producing effectiveness of these arrangements, however, is mixed (see Cernat 2001, Flores 1997, Foroutan 1998, Frankel 1997, Schiff 1997, Viner 1950, Yeats 1998). But, trade-producing RTAs may be especially attractive tools for economic development given the ability of these groups to lower barriers to trade even in unlikely south-south environments where liberalizing trade in poor and developing economies may lead to economic growth, but to the extent that RTAs may not always have the trade liberalizing effects that policymakers hope, there other ways in which RTAs may be attractive aid recipients.

First, membership in IGOs more broadly often serves as a signal to members and non-members alike regarding state behavior. In the RTA context, Fernandez and Portes (1998) argue the act of joining the organization signals member state desire to pursue liberal trading practices, even if they are not immediately capable of realizing these goals. Membership in RTAs can serve to lock-in member states to market liberalization commitments, helping these countries overcome time inconsistency problems that could otherwise threaten trade policy

(Fernandez and Portes 1998).

Additionally, RTAs have other attractive features to aid donors related to non-economic policies beneficial for growth, such as when RTA membership requires some form of institutionalized commitment to democratization, security, and rule of law. RTAs sometimes make such non-economic policy commitments of members, such as in areas of security, democratization, human rights, etc, all of which might provide stabilizing effects on the region, leading to increased trade and acting as further signals to aid donors (for more on these additional effects see Aydin 2010, Haftel 2007, and Pevehouse 2002). While RTA membership may have direct and indirect economic and trade effects that make these organizations attractive to donors, their non-economic effects, which may also contribute to development goals, can incentivize aid donors who wish to give aid for maximum need effectiveness.

Much of the aid allocated to RTAs is in the form of Aid for Trade, or AfT. AfT is a particular type of foreign aid given specifically to promote the development of trade infrastructure and openness in the recipient and was developed in the late 1990's in response to the demands of developing countries for assistance with trade liberalization costs. AfT represented a realization by the OECD states, in response to developing state pressure, that Washington Consensus-style trade liberalization is a costly venture for developing countries, who are often needy both in terms of economic and trade development.

Aid for Trade represents a concerted effort by developed economies to provide targeted ODA for economic development purposes, with the expectation that improving trade openness will lead to economic growth in recipients (Stiglitz and Charlton, 2006). Integration into the multilateral trading system via membership in RTAs is a key goal of AfT, which highlights the importance of trade agreements to the ultimate goal of furthering economic development (OECD, 2006). That the AfT agenda places such a significant reliance on trade integration and trade agreements suggests that RTA promotion may be a worthwhile focus of aid for economic development purposes and helps in beginning to think about why this new development in aid recipients is worthy of explanation.

AfT has also been shown to be particularly effective in assisting recipient countries in liberalizing trade practices. Bearce et al (2013) show that US AfT has had considerable success in increasing recipient country exports, where "a $1 increase in total USAfT has been associated with a 69$

increase in recipient exports two years later," (Bearce et al 2013, 164). Among the explanations for why this particular form of aid can be especially effective at increasing recipient exports, Bearce et al argue that AfT is much less fungible than other types of foreign aid. Such evidence of AfT effectiveness might be an additional explanation for why RTAs, as a specific type of IGO, are especially attractive as aid recipients. Where donors are concerned with increasing the economic development of recipients via trade liberalization, RTAs make intuitive sense as aid recipients because of their goal of reducing barriers to trade.

In their study of AfT need among state recipients, Gamberoni and Newfarmer (2009) identify various factors that might indicate need for this type of trade assistance, and I argue that these and similar factors may also be increasingly considered by aid donors when they see trade development as a part of recipient need. RTAs that exhibit particular need for AfT assistance might exhibit low average exports as a percentage of GDP, or their member states may have poor infrastructures, institutions, and incentives for producing and living up to optimal trade openness (Gamberoni and Newfarmer 2009, 3). Given the potentially strong link between economic development and open trade policy, donors who wish to give aid for recipient need may be identifying the RTA as a particularly advantageous vessel for delivering a more rounded, need-focus in their aid policies. **Proposition 2: Aid to IGO recipients is based on development considerations** expects that RTAs which demonstrate a greater degree of trade need to receive more foreign aid.

Finally, as explained above if donors wish to pursue their political or strategic interests in their aid allocations, it makes the most sense that they would retain complete control over the aid relationship and not relinquish authority over to an IGO donor or recipient who, owing to their independence, could use the aid for other purposes or simply refuse to respond to the donor's demands. The final proposition of the argument reflects this expectation: **Proposition 3: Aid to IGO recipients is not based primarily on the strategic interests of the donor.** The claim that aid to RTAs is determined by economic development considerations and that RTAs as recipients may be used because of their less politicized nature suggests that it cannot be the case that aid allocation decisions to IGO recipients are largely based upon the strategic interest of the donor.

3 An Empirical Test of the Argument

The proposed answer to the question of why IGOs, and RTAs in particular, are increasingly recipients of foreign aid has been laid out in the preceding sections. IGOs are ideal aid recipients when donors care about giving aid for need because they are less politicized recipients than states owing to their institutional independence. RTAs specifically are ideal aid recipients because of the realization by many donors and developing countries alike that sound economic and political development is often bolstered by the liberalization of trading practices among needy states and regions. Because RTAs are a subset of IGOs and often carry many of the attributes of institutional independence, they are increasingly aid recipients when aid is given either for traditional economic development purposes or when donors are concerned also with trade need. Several propositions based upon my arguments are presented and I derive from each of these three propositions testable hypotheses. First, *H1* reflects *Proposition 1*, that more independent IGOs get more development aid in the RTA context.

H1: Foreign aid allocations will be larger (smaller) to more (less) independent IGOs.

Given the less politicized IGO recipient, I expect to find that when considering the motivations of aid allocations, aid to IGO recipients will be motivated by concerns over the overall poverty and lack of development of IGO members in terms of low GDP per capita or Human Development Index (HDI) scores, both traditional economic development indicators. Thus, *H2* reflects the logic presented in *Proposition 2*.

H2: Foreign aid allocations will be larger (smaller) when aid is allocated to IGO recipients with greater (lesser) development need.

Given Propositions 1 and 2, I argue that an interaction effect is likely to take place when RTA recipients are both independent and in need of development. Thus, the final hypothesis derived from my first two propositions is:

H3:Foreign aid allocations will be greatest when both development need and independence are high, and aid allocations will be smaller when either need or independence are low.

The claim that aid to IGOs is determined by economic development considerations and that IGOs as recipients may be used because of their depoliticized nature suggests that it must not be the case that aid allocation decisions are largely based upon the strategic interest of the donor. Recall *Proposition 3*: Aid to RTA recipients is not based primarily on the strategic

interests of the donor. Therefore, the final key hypothesis of the argument is shown by *H4*.

H4: EU foreign aid allocations are not strongly correlated with the strategic interests of the aid donor.

In sum, I expect to find positive and significant relationships between the measures for institutional independence, economic development considerations and aid, while there should be no observable relationship between aid and the strategic interests of the donor. These relationships are tested below.

3.1 Data and Statistical Model

The large-N statistical analyses presented here are performed using original data collected during field research at the European Commission in Brussels, Belgium during the summer of 2011. The EU focus of this paper is due not to theoretical limitations, but rather data availability. While the US, World Bank, IMF, and WTO are actively aiding RTAs, the EU was the earliest adopter of this practice and thus has the longest and most accessible record of available data, beginning at least as early as the 1990's. Therefore data limitations, not theoretical priors, lead to the focus on aid allocated by the European Union. Further, my argument is not conditioned by the EU as donor and is generalizable beyond this single actor. Indeed, it is only *Proposition 3*, in which I argue that aid to RTAs is not driven primarily by strategic interests of donors, that requires specification of the empirical test to account for individual donor interests. In these models, I do develop donor-specific tests tailored to the EU data, but these variations do not challenge the theoretical underpinnings of this paper.

The dataset uses the RTA-year unit of analysis and spans the years 1995-2013, though because of data limitations many of the models only analyze data through 2011. Analysis begins in 1995 because this coincides with the beginning of the AfT movement. The model specification is Ordinary Least Squares (OLS) with standard errors clustered on the RTA and year fixed effects to account for the independent effects of time. Unit fixed effects are not used as key independent variables have little over time variation, so compounding these measures with unit fixed effects would in effect wipe out all across-unit variation. Nickell (1981) bias would likely also be a problem with the inclusion of both year and unit fixed effects as the tendency for fixed effects to bias coefficients downwards in panel data is often acute in such

situations, especially given the relatively short time span of the data. I discuss the dependent and key independent variables and controls below.

3.2 Dependent Variable

The dependent variable in all models, *EU Aid*, is operationalized as EU aid to the RTA measured in millions of euros, yearly. It is often the practice of the EU to allocate aid in five year packages; for example, the EU might allocate €12 million to SADC during the period 2000-2004. Because of this and to increase the time variation of my analysis, I divide all five year packages into yearly aid distributions. Thus, in this case rather than code aid to SADC as €12 million in only year 2000, the year in which the aid was allocated, I code SADC as receiving €2.4 million in each year 2000-2004. In cases where aid was allocated only in a single year and for a one year cycle, the data are coded accordingly. *EU Aid* is presented in the unlogged form, though transformations using the natural logarithm do not affect the results. Further, because of the five year structure of EU aid packages, the dependent variable is given a five year lead to account for the necessary lag effect between the observation of RTA conditions and the decision to allocate aid. Thus, a given independent variable in year t should be expected to impact *EU Aid* in year *t+5*. [1]

3.3 Key Independent Variables and Controls

Five main independent variables are used to test the argument on foreign aid and IGO recipients. The first independent variable of interest is *RTA Independence*. This measure is taken from Haftel and Thompson's (2006) data operationalizing IGO independence. The variable is an ordinal scale of 0-6 measuring the extent to which IGOs have structured decision-making procedures, a supranational bureaucracy, and third party dispute settlement procedures. Within each of these three categories there are indicators for various structures within. Decision-making procedures include both voting rules and the presence and type of decision-making body the IGO employs. The supranational bureaucracy indicator accounts for the presence of "...a permanent technical and administrative body that manages the operation of the IO on a regular basis," (Haftel and

[1] All aid analyzed comes from the EU itself and the independent budget of the European Commission. This five year lead effectively imposes a five year lag on all independent variables, and performs the additional function of acting as a test for potential endogeneity of the aid relationship. I also include *EU Aid* on the right hand side of the equation to account for first order serial autocorrelation and the fact that, generally speaking, aid given in year *t-1* is highly predictive of aid given in year *t*. [2], all aid in this study is allocated solely by the Commission and is completely separate from the individual aid budgets of the member states.

Thompson, 2006, 260) as well as the authority of the bureaucracy. Finally, the third-party dispute settlement indicator tracks whether there is a binding dispute settlement mechanism within the IGO and/or a standing tribunal. Haftel and Thompson apply this measure, operationalized as 0 if none of these features are present and 6 if all are present, thereby indicating a highly independent IGO, to a set of 30 regional integration arrangements (RIAs). As their focus is on RIAs, not RTAs, the sample does not provide complete coverage of my data. As a result, I used their coding scheme to code those RTAs in my sample not included in the Haftel and Thompson data. RTAs range from scores of 0, such as in the case of the South African Customs Union (SACU), to 5 in the Andean Community. The mean score is 2.006 across 1641 observations. I expect to see a positive relationship between *RTA Independence* and *EU Aid* in my analysis.

RTAs with a higher *RTA Independence* score should receive more aid than those RTAs with lower levels of institutional independence. As a check on *RTA Independence* I also use a dichotomous measure indicating the presence or absence of a *Permanent Secretary* within the organization. This indicator is derived from Haftel's (2013) data on the design of regional economic organizations (REOs). *Permanent Secretary* is coded simply as 0 if no permanent secretary exists and 1 if it does. As a second measure to account for independence, the presence of a permanent secretary is meant to capture those institutions that have at least a weakly independent infrastructure which the presence of a permanent secretary would indicate. However, compared to *RTA Independence*, *Permanent Secretary* offers considerably less variation. Most (24) RTAs do have this institutional feature, and I rely predominantly on the more detailed *RTA Independence* measure as my main indicator of institutional independence.

To test my arguments about the impact of the preference heterogeneity of RTAs as making them attractive aid recipients, I include two variables, *Intra-RTA Affinity* and *Power Concentration*. As a specific measure of preference heterogeneity, *Intra-RTA Affinity* utilizes Strezhnev and Voeten's (2013) ideal point estimates of affinity in UN General Assembly (UNGA) voting for all RTA members. The average intra-RTA affinity score is taken for each year [3] Higher values of *Intra-RTA Affinity* should indicate less preference heterogeneity within the RTA, as

[3]Precedent for taking the mean Affinity score is found in Gartzke, Nordstrom, and Boehmer (2010) who use Affinity to measure the similarity of state preferences in IOs and include a variable for "major power contention" that "...compares the similarity of mean scores for all states with those for major powers in the IO," (Gartzke, Nordstrom, and Boehmer, 2010, 14). Similarly, Hooghe and Marks (2012) use mean affinity values to capture preference heterogeneity in their study of IGO authority.

members generally agree on issues as reflected in their UNGA voting patterns. More similar voting patterns indicate similar preferences, or preference homogeneity. However, RTAs with lower *Intra-RTA Affinity* may be seen as having more preference heterogeneity, making them attractive aid recipients. Where RTA members tend to vote differently in the UNGA, they can be said to have varying preferences. The presence of such preference variation, or heterogeneity, indicates an RTA that is an attractive aid recipient because no single state is likely to dominate aid spending on the basis of political interests. Preference heterogeneity on political and strategic issues, such as those often dominating UNGA voting, means that RTA members will be more likely to settle on using aid not for these divisive issues, but for shared goals of development, as such issues are the ones in which the members share. To ensure that such political contamination does not take place on the recipient end and aid is used for development, donors will allocate more aid to RTAs that have greater preference heterogeneity. *Intra-RTA Affinity* should therefore be negatively related to *EU Aid*.

Power Concentration is the standard deviation of the gross domestic product (GDP) of all RTA members in each year. I argue that RTAs with significant concentration of power (GDP) in one or two member states are likely to be more susceptible to institutional capture by the powerful members and therefore reflect only those interests of powerful member states, i.e. they should display homogenous preferences, whereas in RTAs where power is more evenly distributed among all members, the RTA will better reflect those interests of all members, i.e. they should display heterogeneous preferences. Thus, *Power Concentration* acts as a robustness check on *Intra-RTA Affinity* and assures the presence of preference heterogeneity in the absence of a high degree of power concentrated in one or two RTA members. I expect that *Power Concentration* will be negatively correlated with aid, as lower values indicate a greater likelihood of heterogeneous preferences to be present in the organization.

Proposition 2 argues that RTA recipients are given aid because of development considerations and I operationalize tests of this proposition and Hypotheses 3-6 with three key measures. *GDP per capita* simply takes the logged value of the average GDP per capita of all RTA member states in each year. This and all economic data are taken from the World Development Indicators 2012 data. GDP per capita is expected to have a negative relationship with aid, where greater development need is indicated by lower values of *GDP per capita*. Another com-

mon measure of recipient need is taken from the Human Development Index 2013 data. *HDI* is a composite index of education rates, life expectancy, wealth, and standard of living, and takes the average HDI scores for all RTA members. Lower *HDI* values indicate greater human development need. I expect a negative relationship between *HDI* and aid to RTAs. Of course, *lnGDP per capita* and *HDI* are highly collinear and serve as robustness checks on one another in the models to follow. Those RTAs with lower average GDP per capita should receive more aid, as should RTAs with lower average HDI scores. Both variables are weighted by GDP and are expected to be negatively related to *EU Aid*.

Along with the traditional economic development criteria, I argue that perhaps trade development concerns motivate aid allocation decisions, given the application of the Aid for Trade logic. I argue that if an AfT rationale is at work in aid allocations to RTAs, we should observe more aid flowing to RTAs experiencing higher levels of potential demand for AfT, i.e. indicating trade need. I test trade development need using Gamberoni and Newfarmer's (2009) "Potential Demand for Aid for Trade" index, where demand for AfT is measured along a 5 point scale, with lower scores indicating less demand and higher scores indicating more potential demand for AfT, i.e. trade need. This variable, *Trade Need*, is averaged for all RTA member states to create a mean score. I expect that *Trade Need* will be positively correlated with aid to RTAs, i.e. those RTAs with the most potential AfT demand should be receiving more aid.

Finally, *Proposition 3* suggests that aid to RTAs is not motivated by the strategic interests of the donor, as many studies of aid to states indicate (Alesina and Dollar, 2000; Berthelemy, 2006; Boone, 1996; Lancaster, 2007; Schraeder, Hook, and Taylor, 1998). It is here that I put forth hypotheses and tests that are specific, given my data availability issues and the resulting focus on aid from the EU. The measures of strategic interest I employ here measure the affinity of the RTA member states with the three most powerful EU member states, Britain, France, and Germany. Many studies highlight the tendencies of these three countries to use their own foreign aid budgets and that of the EU to pursue their particular strategic interests (Alesina and Dollar, 2000; Arvin and Drewes, 2001; Berthelemy, 2006; Boone, 1996; Lancaster, 2007; Lumsdaine, 1993; Pinto-Duschinsky, 1991; Schraeder, Hook, and Taylor, 1998).

To get at these interests and the tendency for these large EU members to co-opt Commission aid to RTAs in favor of those states with which they have strong ties, I measure the Affinity

of UNGA voting among RTA members with each of these major EU powers. *Affinity with Britain, Affinity with France*, and *Affinity with Germany* measure the average RTA member state Affinity with each country. If strategic interests of these states are politicizing EU aid to RTAs, I would expect to see a positive relationship with these variables and aid. However, I argue that there should be no strong statistical relationship between the Affinity measures and EU aid, because this type of aid relationship is anathema to the practice of aiding an IGO. As a final measure of strategic interests, it could be the case that the EU's interests are not defined by those of their powerful member states, but instead are motivated by the desire of the EU to promote it's model of regional integration elsewhere. To capture this, I include *Isomorphism*, a measure taken from Gray and Slapin's (2009) elite survey data on REOs and examines the ambition of the goals of the institution. This variable represents an 18 point scale in which higher scores reflect a greater ambition of goals (i.e. deeper economic and trade integration) and lower scores reflect shallow agreements. As the EU achieves a score of 18, I would expect that if this logic is correct, we should see more *EU Aid* going to those RTAs with higher values of *Isomorphism*.

Additionally, I include several control variables to assess the impact of other factors on aid to RTAs. Because larger recipients may tend to get more aid, I include *Population*, which takes the logged sum of the populations of all RTA member states, as a size control. *Polity* controls for the influence of democracy on aid allocations to RTAs. If there is a democratic component to aiding RTAs, one might expect that more democratic RTAs get more aid. *Polity* is the average Polity IV score (on a scale of -10 to 10) taken for all RTA members in each year.

3.4 Evidence on Aid to RTAs

To test *Proposition 1*, in which I argue that aid to RTAs is based on the institutional independence and preference heterogeneity of the recipient, I run a series of models that capture the relationship between these institutional attributes and EU aid. I test this proposition using equation 1,:

$$\begin{aligned} EUAid_it + 5 = \beta_1 + \beta_2 EUAid_it + \beta_3 Population_it + \beta_4 Polity_it \\ + \beta_5 RTAIndependence_it + \alpha_t Year + \epsilon_it \end{aligned} \tag{1}$$

Recall that I expect each measure of *RTA Independence* to be positively related to aid. Furthermore, even in IGOs that are not so independent, we might expect that the preference heterogeneity among IGO members, in this case the heterogeneity of preferences regarding trade policy within an RTA, must be reconciled in part by even a weakly independent institution, and IGOs that have a greater degree of preference heterogeneity embedded within them will also ensure a less contaminated aid environment than if aid were given to a state recipient. The measures used to capture preference heterogeneity, *Intra-RTA Affinity* and *Power Concentration* should be negatively correlated with the dependent variable.

The results are presented here in Table 1, models 1.1-1.4, and provide evidence in support of the first proposition. Model 1 depicts the basic relationship between *RTA Independence* and *EU Aid*. The coefficient for *RTA Independence* is positive and significant as predicted, and suggests that for every 1 point increase in an RTA's independence score, i.e. indicating a greater degree of independence, *EU Aid* increases by an average of €1.78 million. These results are present even while controlling for the previous year's aid in the *Lagged DV*, a control that is known to frequently wash out results. The size control, *Population* is positively correlated with *EU Aid* as expected but not significant, and *Polity* is statistically insignificant but with a negative sign.

As a robustness check, model 2 substitutes *Permanent Secretary* for *RTA Independence* to detect whether another measure of institutional independence performs similarly, and indeed the result is in fact stronger than before, with *Permanent Secretary* achieving a statistical significance of .05 and showing that RTAs with a permanent secretary in their institutional design can be expected to get an average of €8.2 million more than those RTAs without such an institution. [4] Furthermore, as should be expected, *Population* does achieve statistical significance, while *Polity* remains negative and an insignificant predictor of aid.

Models 1.3 and 1.4 seek to capture the relationship between preference heterogeneity and *EU Aid* and begin in model 1.3 by substituting *Intra-RTA Affinity* in place of the independence measures. Using all the same controls as in the previous models, *Intra-RTA Affinity* displays a negative and significant (at the .05 level) relationship with EU aid, where a one point decrease in average *Intra-RTA Affinity*, indicating a greater degree of preference heterogeneity, leads to

[4] While one might question why I do not proceed with this indicator instead of the *RTA Independence* measure given these strong results, I would point out that the *Permanent Secretary* measure causes my sample size to drop from 407 to 259, and because I wish to preserve as many observations as possible and believe the *RTA Independence* captures more variance in terms of the independent structure of RTAs, I proceed in future models with this measure.

Table 1: RTA Independence and EU Aid

	(1.1) Model	(1.2) Model	(1.3) Model	(1.4) Model
Lagged DV (+)	1.038***	0.870***	0.996***	1.016***
	(0.0902)	(0.138)	(0.0975)	(0.104)
Population (+)	0.597	3.966**	1.034	1.779*
	(1.005)	(1.674)	(0.847)	(1.036)
Polity (+)	-0.247	-0.359	0.218	-0.0366
	(0.212)	(0.355)	(0.201)	(0.174)
RTA Independence (+)	1.781*			
	(1.012)			
Permanent Secretary (+)		8.207**		
		(3.718)		
Intra-RTA Affinity (-)			-6.504**	
			(2.663)	
Power Concentration (-)				-1.91e-12**
				(9.03e-13)
Constant	-15.42	-78.32*	-22.60	-33.11
	(17.90)	(31.74)	(15.98)	(19.01)
Observations	407	259	444	444
R-Squared	.48	.53	.49	.49

Standard errors in parentheses.

(+)/(-) indicates expected relationship with dependent variable.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

an increase in aid by approximately €6.5 million. *Population* loses its statistical significance in model 1.3, while the sign on the *Polity* control flips to positive, a result that is a bit puzzling. Model 1.4 substitutes *Power Concentration* for *Intra-RTA Affinity*. Indeed, the measure performs as expected, with RTAs in which *Power Concentration* is low receiving larger amounts of *EU Aid*, and this result is significant at the .05 level. However, overall the findings in models 1.1-1.4 do indeed seem to support the hypotheses associated with *Proposition 1*, as both institutional independence *and* preference heterogeneity appear to be strong predictors of aid to RTA recipients.

Table 2: Development Need and EU Aid to RTAs

	(2.1) Model	(2.2) Model	(2.3) Model
Lagged DV (+)	0.910***	0.860***	0.956***
	(0.0998)	(0.1000)	(0.0891)
Population (+)	0.569	0.618	0.762
	(0.852)	(0.870)	(0.961)
Polity (+)	0.0473	0.125	-0.227
	(0.170)	(0.202)	(0.177)
Independence (+)	1.492*	2.149***	2.112**
	(0.843)	(0.819)	(0.960)
GDP per capita (-)	-2.949***		
	(1.025)		
HDI (-)		-34.52***	
		(10.68)	
Trade Need (+)			3.017***
			(0.965)
Constant	7.274	1.999	-26.54
	(16.39)	(16.52)	(18.24)
Observations	407	402	407
R-square	.54	.55	.51

Standard errors in parentheses.
(+)/(-) indicates expected relationship with dependent variable.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Now that the relationship between aid and the independence of the RTA recipient has been established, I move on to test *Proposition 2* while holding constant the effects of institutional independence using the *RTA Independence* measure. Table 2 examines the ability of development

considerations to explain *EU Aid*, beginning with traditional economic measures of wealth and human development and then employing trade need as a new way of understanding recipient need using the following equation:

$$\begin{aligned} EUAid_it + 5 = \beta_1 + \beta_2 EUAid_it + \beta_3 Population_it + \beta_4 Polity_it \\ + \beta_5 RTAIndependence_it + \beta_6 RecipientNeed_it + \alpha_t Year + \epsilon_it \end{aligned} \tag{2}$$

This basic equation, where I also measure recipient need using the Human Development Index mean score for the RTA instead of GDP per capita, is run in models 2.1 and 2.2. In model 2.1, *GDP per capita* has a negative and statistically significant at the .01 level, relationship with *EU Aid*, where a one point decrease in the average logged GDP per capita of the recipient is associated with a nearly €3 million increase in the amount of aid recieved. This is the expected relationship and a strong indication that in fact, aid to RTA recipients is a story of aid for recipient need. The positive effects of *RTA Independence* are still present even when recipient need is taken into account as well. Furthermore both *Population* and *Polity* have positive signs but do not detract from the explanatory power of need and independence.

Model 2.2 substitutes the *HDI* measure as a robustness check on *GDP per capita* and the results are similar. The coefficient on *HDI* is quite large compared to the previous measure, but the relationship is still negative and significant at the .01 level. Further, *Intra-RTA Affinity* maintains its positive and significant (now at .01) relationship with *EU Aid* with no change in the effects from the controls.

In model 2.3 I employ my additional measure of recipient need, *Trade Need*. Unlike the economic measures, the relationship between *Trade Need* and aid should be positive, as higher values of Gamberoni and Newfarmer's (2009) measure indicate a greater potential demand for AfT, i.e more trade need. Indeed, *Trade Need* performs as I argue it should; a one point increase in the RTA's average AfT need score is associated with an increase in *EU Aid* by €3million, and this result is significant at the .01 level. Once again, the effect of *RTA Independence* is present and significant, telling us that both need and institutional independence are strong predictors of aid to RTA recipients. *Population* retains a positive sign but never achieves

statistical significance in Table 2, while the sign for *Polity* flips back to negative. [5]

Before moving on to testing *Proposition 3* regarding the strategic interests of the EU as a donor, it is appropriate to present a test of the third hypothesis, which asserts that aid allocations should be greatest when both development need and independence are high in a given RTA. This is done in Table 3, using the equation:

$$\begin{aligned} EUAid_it + 5 = \beta_1 + \beta_2 LaggedDV_it + \beta_3 Population_it + \beta_4 Polity_it \\ + \beta_5 RTAIndependence_it + \beta_6 GDPpercapita_it + \beta_7 RTAIndependence * GDPpercapita_it \\ \alpha_t Year + \epsilon_it \end{aligned} \tag{3}$$

The marginal effects of all interactions presented in Table 3 are presented in the Appendix, though Figures 1 and 2 show the marginal effects of interacting *GDP per capita* and *RTA Independence* for the reader's convenience. As is depicted in Figures 1 and 2, the effect of *RTA Independence* is conditional on the level of *GDP per capita*. Figure 1 graphs the effect of *GDP per capita* on the *RTA Independence* coefficient as the level of *GDP per capita* varies from its minimum to maximum levels, while Figure 2 graphs the effect of *RTA Independence* from its minimum to maximum levels on the *GDP per capita* coefficient. As is depicted, the effect of this interaction terms is conditional on both the need and independence of the recipient. The logged value of *GDP per capita* matters when combined only with a relatively independent RTA, while independence only explains who gets EU aid at very low levels of wealth. Thus, as expected in Table 3, the effects of combining independence with recipient need are present. While both independent and needy RTAs get aid, the most likely cases of aid allocation rest in those RTAs where *both* need and institutional independence are demonstrated. This result holds also for the interactions between *RTA Independence* and *HDI* and *Trade Need*, respectively.

Having established a clear statistical relationship between my key measures for institutional

[5] While I am not sure what is driving the *Polity* results, I can merely suggest that this constant insignificance does indicate that aid to RTAs is not a story of democratization. What is perhaps more interesting is the *Population* result. According to traditional foreign aid models, size should be a fairly consistent and significant predictor of aid recipients, but in these models this is not the case. I believe what is going on here is that once again, the RTA is a fundamentally different recipient than states. While aid to state recipients may in large part be driven by the size of the recipient, this simply does not seem to be the case when we look at RTA recipients. While I currently have no real theoretical priors as to why size doesn't matter when aid is given to RTAs, this is something I would like to explore in future work.

Table 3: Development Need, Independence, and EU Aid to RTAs

	(3.1) Model	(3.2) Model	(3.3) Model
Lagged DV (+)	0.884***	0.819***	0.941***
	(0.0923)	(0.0813)	(0.0842)
lnPopulation (+)	0.489	0.477	0.636
	(0.867)	(0.887)	(0.992)
Polity (+)	0.0697	0.205	-0.160
	(0.153)	(0.168)	(0.182)
RTA Independence (+)	8.941**	8.804***	-0.223
	(3.893)	(2.857)	(1.936)
lnGDP per capita (-)	-0.849		
	(1.491)		
Independence*GDP per capita (-)	-0.970**		
	(0.491)		
HDI (-)		-9.362	
		(14.88)	
Independence*HDI (-)		-11.39**	
		(4.837)	
Trade Need (+)			1.095
			(1.317)
Independence*Trade Need (+)			0.909*
			(0.663)
Constant	-7.462	-9.921	-19.20
	(17.17)	(17.16)	(19.42)
Observations	407	402	407
R-squared	.55	.56	.52

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

independence and recipient need considerations, it is now time to examine *Proposition 3*, which states that aid to RTAs is not primarily given based on the strategic interests of the donor. This is done in Table 4 and using the equation:

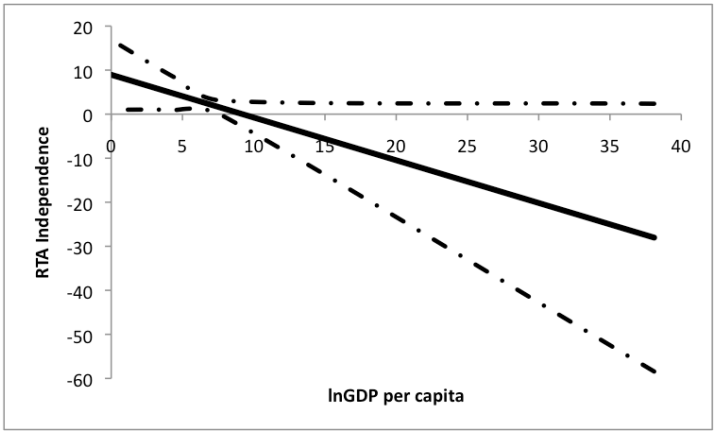

Figure 1: Marginal Effect of LnGDP per capita on RTA Independence

$$EUAid_it + 5 = \beta_1 + \beta_2 EUAid_it + \beta_3 Population_it + \beta_4 Polity_it + \beta_5 DonorInterest_it + \alpha_t Year + \epsilon_it \quad (4)$$

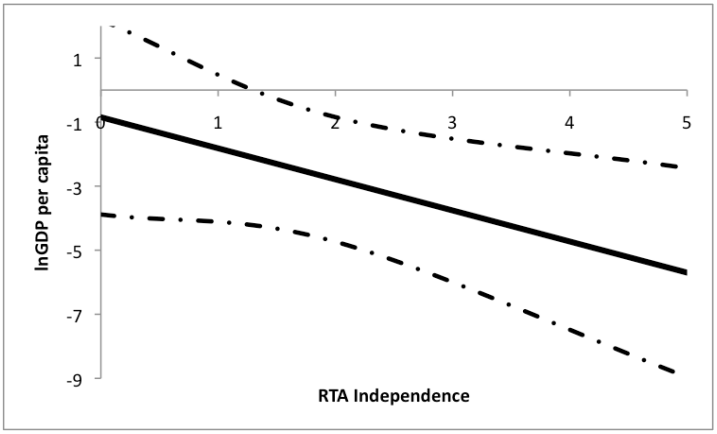

Figure 2: Marginal Effect of RTA Independence on lnGDP per capita

I begin in model 4.1 by examining the effect of British strategic interests on *EU Aid*. First, my independence and recipient need measures, *RTA Independence* and *GDP per capita*, both

retain their expected and significant predictive power, where more independent RTAs get more aid and more needy RTAs do as well. However, the measure for British interests, *Affinity with Britain* appears to have no relationship with *EU Aid*, thereby suggesting that if strategic interests are involved in EU aid to RTAs, they are certainly not British interests.

Models 4.2 and 4.3 replace British strategic interests with French (model 4.2) and German (model 4.3) strategic political interests. In neither model do *Affinity with France* or *Affinity with Germany* display a relationship with *EU Aid*, while both *RTA Independence* and *GDP per capita* maintain their predicted results. Thus, at no point in models 4.1-4.3 do the strategic interests of the EU, operationalized as the strategic interests of major EU members, overcome the explanatory power of institutional independence and recipient need in accounting for *EU Aid*.

As discussed, perhaps in the EU case strategic interest shouldn't be defined as those interests of any particular member state, but the interest of the EU itself. Some have argued that this could be a story of institutional isomorphism, in which the EU is attempting to replicate its "model" elsewhere in the world and so gives aid to institutions that are formed in order to emulate the EU. To account for this, I employ *Isomorphism* in model 4.4 to test this argument. If the isomorphism logic is correct, we should expect to see the EU allocating more aid to those institutions that look the most like itself. In fact, this does not appear to be the case. *Isomorphism* not only appears to have no relationship with *EU Aid*, but that relationship that it does have is a negative one. Furthermore, once again, both *RTA Independence* and *GDP per capita* retain their expected results.

As a final test of *Proposition 3* I include model 4.5, which includes all the strategic interest measures together in a single model. In this model, *RTA Independence* does lose it's significant result, though *GDP per capita* is still negatively associated with aid and significant at the .01 level. However, *Affinity with Britain* also turns on and is positively associated with EU aid, so perhaps there is some strategic political interest seeping into aid allocations to RTAs despite the need orientations of most of these packages. Still, *Affinity with France* fails to turn on, and even more interestingly *Affinity with Germany* turns negative and significant, an admittedly puzzling result. However, once again I may have an issue of high collinearity among my strategic interest variables that could explain the differing results in model 4.5 from those in models 4.1

Table 4: Strategic Interest and EU Aid to RTAs

	(4.1) Model	(4.2) Model	4.3) Model	(4.4) Model	(4.5) Model
Lagged DV (+)	0.896***	0.901***	0.903***	0.913***	0.802***
	(0.0990)	(0.0990)	(0.100)	(0.0884)	(0.0920)
Population (+)	0.675	0.656	0.704	0.725	0.175
	(0.930)	(0.941)	(1.136)	(0.853)	(1.166)
Polity (+)	0.0774	0.0668	0.0669	-0.0378	-0.00921
	(0.181)	(0.180)	(0.181)	(0.180)	(0.200)
Independence (+)	1.266*	1.344*	1.365*	1.196*	0.726
	(0.869)	(0.880)	(0.886)	(0.894)	(0.895)
GDP per capita (-)	-2.921***	-2.916***	-2.909***	-2.825***	-3.482***
	(1.022)	(1.035)	(1.088)	(0.990)	(0.957)
Affinity with Britain (+)	5.822				172.7*
	(7.725)				(91.12)
Affinity with France (+)		4.043			-79.80
		(7.356)			(133.7)
Affinity with Germany (+)			2.782		-92.85*
			(6.212)		(63.35)
Isomorphism (+)				-0.0228	-0.188
				(0.685)	(0.667)
Constant	0.620	2.201	1.981	6.071	28.94
	(22.57)	(23.16)	(26.62)	(13.03)	(23.26)
Observations	407	407	393	324	310
R-squared	.54	.54	.53	.54	.57

Standard errors in parentheses

(+)/(-) indicates expected relationship with dependent variable.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

and 4.3. This may cause the sign and significance transformations that occur in model 4.5 of Table 4. RTAs that have a high degree of UNGA voting affinity with Britain are likely to also share this affinity with France and even Germany. Thus, this could be driving the results in model 4.5. Finally, note in model 4.5 that *Isomorphism* once again fails to show a connection to *EU Aid*.

4 Conclusions

The paper asks the question of what explains the emergence of IGOs, specifically RTAs, as foreign aid recipients? My proposed answer claims that aid to RTAs can be explained best when viewed using similar explanations for why we see IGOs as aid donors. It has been shown that states who wish to provide some of their foreign aid for recipient need purposes are likely to delegate the aid provision task to multilateral organizations because of the depoliticization of IGO aid giving (Lebovic and Voeten, 2006, 2009; Milner, 2006). Motivated by a similar logic, I present strong empirical evidence suggesting that when economic development concerns are at the center of aid provision, i.e. aid for recipient need, donors will allocate aid to IGOs rather than individual states because of the depoliticized nature of the IGO environment. If the IGO donor is seen as depoliticized and independent from its members, why not also the IGO recipient? Across all models, recipient need measures strongly predict EU aid allocations. Further, using a measure of the quality of infrastructure of the RTA, I argue that better infrastructures indicate more independent, i.e. depoliticized, RTA environments that are more amenable to aid donated with need in mind.

While the AfT movement suggests a new vision of foreign aid earmarked for trade creation as a means to indirectly promote economic development, and I argue that AfT may explain why we see RTAs receiving foreign aid given that this subset of IGOs is developed in the name of (at least) trade creation, the evidence presented here is less supportive of this explanation for the RTA aid recipient. Neither measure of trade need appears to explain EU aid, and as a result I cautiously suggest a need to reevaluate how trade need is understood. While the rhetoric of the EU suggest strong support for an AfT agenda, this may not be such an active policy when aiding RTAs, a result that is indeed puzzling. It is possible though that more independent, i.e. better structured, RTAs are also the ones more likely to be trade-creating. If this is the

case, perhaps donors like the EU put more credit towards a depoliticized recipient who is able to address economic development concerns effectively over RTAs in need of trade assistance but who cannot be trusted as faithful stewards of development aid because their institutional infrastructure is not sound.

Future work should strive to better measure and account for exactly what institutional features are attractive for RTA aid recipients. If it is the case that RTAs are being allocated foreign aid because of the independent, depoliticized nature of their institutions, to what extent is this a question of institutional choice, and might we see other types of IGOs, such as development banks, on the receiving end of foreign aid budgets as well? Furthermore, as this is an early draft, I seek to employ more and better controls, such as trade with the EU, as well as more sophisticated multi-level modeling techniques in future to better test my argument. However, this first glance at the motivations for aid to RTAs provides encouraging results, and suggests a definite need to create room for this new aid recipient in the established literature on the giving and receiving of foreign aid.

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6 Appendix

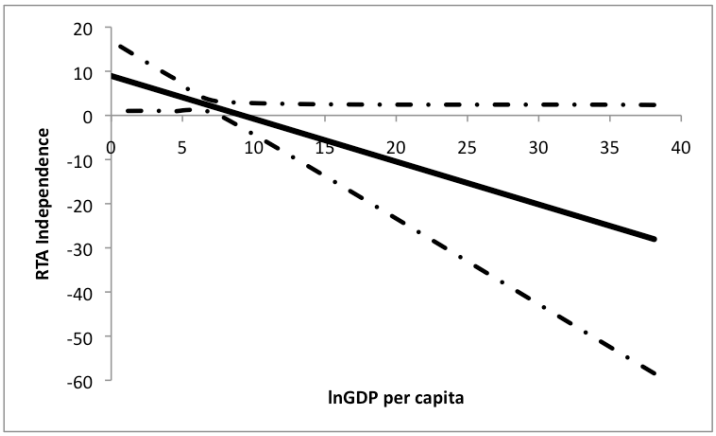

Figure 3: Marginal Effect of LnGDP per capita on RTA Independence

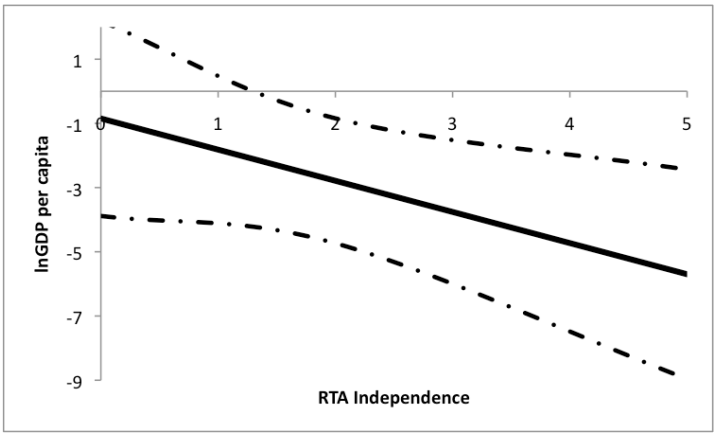

Figure 4: Marginal Effect of RTA Independence on lnGDP per capita

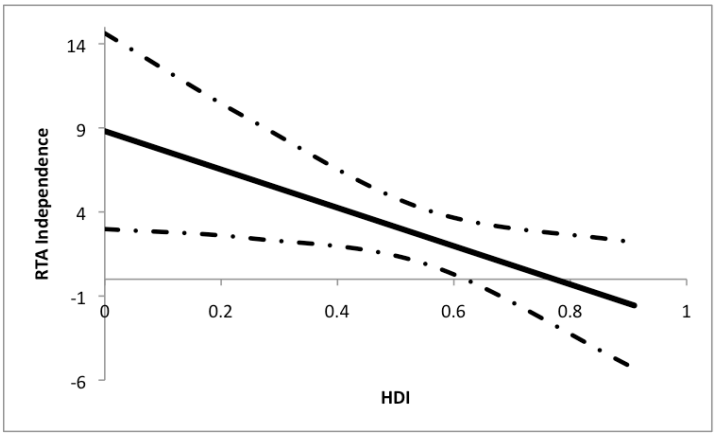

Figure 5: Marginal Effect of HDI on RTA Independence

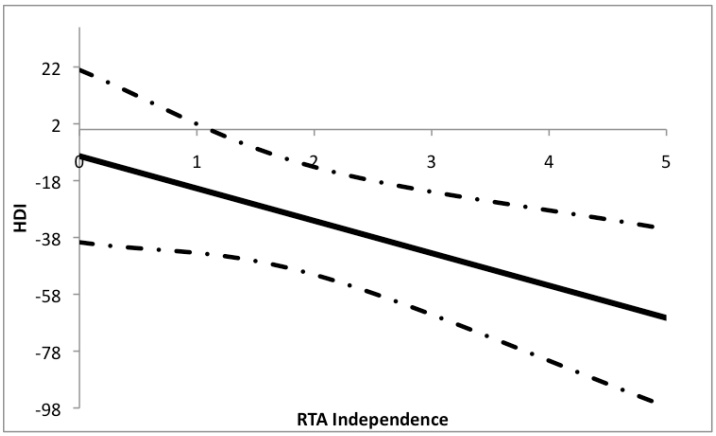

Figure 6: Marginal Effect of RTA Independence on HDI

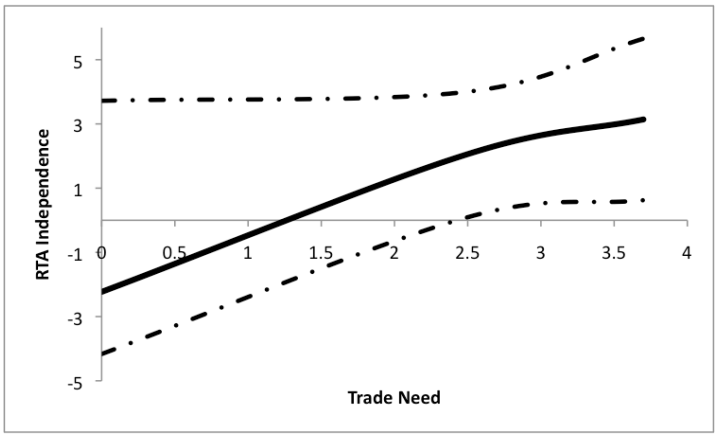

Figure 7: Marginal Effect of Trade Need on RTA Independence

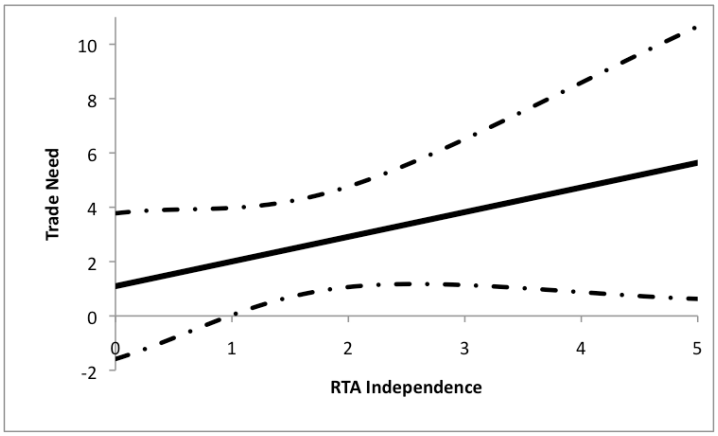

Figure 8: Marginal Effect of RTA Independence on Trade Need