Tying the Hands of its Masters?
Interest Coalitions and Multilateral Aid Allocation in the European Union

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ABSTRACT

This paper provides a political economy theory of multilateral aid allocation. We argue that the allocation of multilateral aid depends on the heterogeneity of its member states' interests as well as on the formation of interest coalitions which can overcome the collective action problems inherent in intergovernmental bodies. Whereas member states delegate aid to multilateral institutions in order to signal neutrality of aid allocation to their domestic populations, states have an incentive to covertly bias the multilateral allocation process towards their strategic interests. When member states' preferences over aid allocation are heterogeneous, the multilateral aid agent can implement multilateral aid according to its organizational goals. However, greater homogeneity of members' goals increases the likelihood that members can form powerful interest coalitions and successfully loosen the grip of their ties, and induce the multilateral aid agency to allocate aid according to their strategic interests. We apply our general theory to multilateral aid allocation in the European Union, the most dominant multilateral aid donor in the world over the last decade. The empirical analysis provides robust support for our theoretical argument.

I. INTRODUCTION

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

One reason for the lack of development in Africa can be found in the dynamics of foreign aid allocation. Donor countries have been criticized for allocating their bilateral foreign aid according to their national strategic interests rather than addressing the economic needs and good governance of the poorest countries in the world. Multilateral aid institutions, on the other hand, have been praised as more objective aid-givers who tend to allocate aid according to need and the potential effectiveness of aid allocations. These positive interpretations of multilateral aid effectiveness rest on the assumption that the multilateral aid agency acts independently of its member states. However, observers as well as the public tend to ignore the fact that multilateral aid institutions are comprised of states that attempt to further their national goals, which often contradict the agency's own goals.

This paper provides a comprehensive analysis of decision-making outcomes in multilateral aid institutions, taking into account the effect of delegation problems and coalition formation on aid allocation. Whereas states delegate foreign aid allocation to multilateral aid agents in order to increase the efficiency with which aid is allocated and to achieve economies of scale, unofficially, states aim to influence the multilateral aid agent both formally and informally to shift aid policies towards their national interests. We argue that the greater the heterogeneity of member states' interests in the allocation process, the easier it is for multilateral aid agents to play states against each other and to implement the goals of the aid institution. However, if member states can assert themselves in the decision-making process (either individually or through coalition formation), then multilateral aid allocation will be biased in favor of those members' national interests (whether they be strategic or needs based).

We test whether multilateral aid recipients are more likely to receive aid if they are of strategic interest for powerful coalitions within the multilateral aid institution and whether increasing heterogeneity of interests among members mitigates the strategic interests of the member states. For such a test, we develop a new indicator that takes into account (i) the interests of the member states in the allocation of multilateral aid and (ii) the power of that interest coalition in the multilateral decision-making process. We apply this measure to a unique data set that uses observations on multilateral EU aid allocations to the developing world from 1973 to 2006. The quantitative analysis robustly supports our theoretical argument.

Our results provide new insights for three different strands of literature. First, we contribute to the literature on decision-making outcomes in international organizations by conducting a first test of the effects of interest aggregation in multilateral institutions that takes into account all possible constellations of member states. Whereas the literature has

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[1] For the remainder of the manuscript we will refer to Sub Saharan Africa as Africa.

already provided seminal insights into the effects of member heterogeneity on agency behavior, they have largely focused on analyzing the group of most dominant actors in these institutions.[2] We show that weaker states can also influence decision-making outcomes—if they are able to form interest coalitions. Second, our results shed new light on the question of why states delegate power to international organizations. Whereas current approaches have focused on domestic pressures to delegate the allocation of foreign aid and economies of scale, our approach shows that governments can benefit from delegation if they are able to bias the allocation of multilateral aid. Finally, our results reconcile the debates about whether multilateral aid, particular within the European Union, is based on national strategic interests. Instead of treating aid allocations as a dichotomous outcome, we illuminate the conditions under which multilateral aid is likely to be biased.

II. THE PUZZLE

The allocation of foreign aid through multilateral aid agencies has become increasingly popular since the late 1960s and 1970s. Figure 1 illustrates this trend by graphing total bilateral Official Development Aid (ODA) contributions in constant (2007) billions of US$ from 23 OECD donor countries to a sample of 26 multilateral aid agencies and development banks from 1970-2008.[3] From 1970 to 2008, the amount of foreign aid spent through multilateral aid institutions more than tripled to over 1 trillion US dollars. Currently, donor countries spend about 35 percent of their foreign aid through multilateral institutions.

[Figure 1 about here]

Scholars and observers alike have welcomed these developments because early research on this topic contends that multilateral aid agencies are able to solve problems of coordination between donors and succeed in diluting the strategic components of bilateral foreign aid.[4] The main idea behind delegating substantial management and agenda-setting powers to multilateral aid agencies is that agents can exploit their independence and information advantages to diffuse strategic interests and to ensure a more needs-based approach to multilateral aid giving.[5] Thus, by shifting aid allocation to the multilateral level, foreign aid policies, arguably, have shifted from a strategic perspective towards a more needs-based perspective of foreign aid giving.[6] Whereas *strategic-based aid* focuses on the economic development needs of those countries in which the donor has a national political, military, or commercial interest, *need-based aid* focuses on the development priorities of those countries most in need, be that from a human development or economic perspective. The principle of needs-based aid is nowadays explicitly linked to the principle that aid should be allocated to economically deprived countries that utilize aid effectively. Although the research on how institutional quality affects aid effectiveness tends to be fragile, the idea of allocating aid to countries with competent bureaucracies and sound institutional quality is solid reasoning to policy-makers and citizens alike who aim to promote sustainable economic development.[7]

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[2] Nielson and Tierney (2003); Copelovitch (2010). One exception is Lyne et al (2009) who empirically analyze the influence of formal coalitions on the allocation of social lending.

[3] The data includes all information available from the OECD aid statistics.

[4] Rodrik (1995); Milner (2006); Powell and Bobba (2006); Hicks et al. (2008).

[6] For empirical work on the nature of bilateral versus multilateral aid see Maizels and Nissanke (1984); Tsoutsoplides (1991); Grilli and Riess (1992); Hook (1995); Meernik et al. (1998); Schraeder et al. (1998); Alesina and Dollar (2000); Burnside and Dollar (2000); Alesina and Weder (2002); Neumayer (2003a, b); Dunning (2004: 410); Berthelemy (2006); Lyne et al. (2006); Carbone (2007: 37).

[7] Easterly et al. (2004); Rajan and Subramanian (2008); Knack and Eubank (2009).

However, the theoretical predictions of the hand-tying argument and the idea of coordination and economies of scale have not found consistent support in empirical applications. Multilateral aid allocation oftentimes resembles the interests of the most powerful member countries.[8] Research particularly indicates a strong and robust influence of the political and economic interests of their major shareholder, the United States, on the decisions of multilateral aid agencies. Developing countries that were closely aligned with the United States or served as an important market for US trade flows were much more likely to receive development aid or better lending conditions and much less likely to be punished for non-conforming policies. Strategic biases are not limited to institutions which are dominated by one actor[9]—as an example, scholars debate whether EU multilateral aid has been strategic or not.[10]

These results present a puzzle to the theoretical literature on multilateral aid-giving: If multilateral aid agents tie the government's hands when it comes to *allocation policies* why, or under which conditions, do powerful states have an influence on *allocation outcomes*? We attempt to address this puzzle and to reconcile the existing debates by providing a comprehensive theory of the politics of multilateral aid allocation. Most importantly, our theory moves away from trying to understand multilateral aid allocation as a dichotomous outcome (strategic vs. needs/effectiveness-based). Rather, we analyze the decision-making process *within* the multilateral aid institution and thereby increase our understanding of the conditions under which multilateral aid is likely to be strategic or needs/effectiveness-based.

III. THEORY

This section develops a theory of the politics of multilateral aid allocation. In a nutshell, we argue that even when governments decide to delegate aid to multilateral aid agencies, they have strong incentives to influence the multilateral aid agent so as to bias the allocation of multilateral aid. We show that they can do so if they form powerful coalitions and overcome the collective action problems within the intergovernmental body of the multilateral aid agency.

ASSUMPTIONS

Our theory is based on three important assumptions. First, the management of the multilateral aid institution, the multilateral agent, has intrinsic incentives to provide aid based on economic needs or good governance principles.[11] The staff in multilateral aid organizations such as the World Bank, the IMF, or the European Union is almost principally composed of economists and civil servants with no domestic political objectives or ties to national governments. In fact, most of the institutions explicitly prohibit the selection of staff members based on nationality or for the fulfillment of national quotas. For the most part, therefore, the agencies will have an incentive to achieve the multilateral aid institution's policy objectives: providing aid for the purpose of development.[12]

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

[9] Arvin et al. (2001); Neumayer (2003b); Wolf and Spoden (2000).

[10] Bowls (1989); Tsoutsoplides (1991); Grilli and Riess (1992); Zanger (2000); Berthelemy (2006); Carey (2007); Konstantinova (2009); Bauman et al (2010).

[11] See for example March and Olsen (1988) and Copelovitch (2010).

[12] Some scholars argue that agents in multilateral aid organizations are interested in the survival and growth of

Second, in line with the literature on collective principal theory we assume that governments may overcome their collective action problems to "untie their hands."[13] Their weapon is the formal and informal decision-making process of the intergovernmental bodies within the multilateral institution. EU law allows its members, for example, to adopt measures and policies to further the overall goal of the organization if a majority agrees (Article 179 Treaty establishing European Community). The World Bank works on a similar basis. Despite the existence of the Board of Directors which is generally representative of both donor and recipient countries, changes to Bank policies can only be made with the approval of countries that control 85 percent of the Bank's shares (that is, the donors). In addition, if a country or a coalition of countries has enough market power, it can pressure the multilateral aid agent to bias allocation of aid using side-payments or threats.

Third, we assume that delegation to multilateral aid institutions increases the value of aid provided through coordination and economies of scale. For example, Collier et al. (2001) show that every development dollar channeled through the IDA creates almost two additional private investment dollars are generated for that recipient country. In addition, many of the most pressing problems in developing countries can only be solved if states coordinate their individual efforts effectively.

THE POLITICS OF MULTILATERAL AID ALLOCATION

Member states can influence the multilateral aid agent's allocation decisions if they overcome their collective action problems and induce the agent to allocate aid according to their interests. The amount of influence an individual member state can exert depends therefore on its foreign aid interests relative to other member states and its formal and informal bargaining power within the multilateral aid institution.

[Table 1 about here]

Table 1 provides a simplified overview of the interaction between interest heterogeneity and bargaining power and its effect on multilateral aid allocation. All else equal, when preferences are largely heterogeneous and states have diverging strategic interests, then multilateral aid agents may be able to play members against each other.[14] If member states disagree over whether proposed policy changes are feasible, then the agent can use the uncertainty of negotiations and its own expert knowledge to implement policies that accord with the agency's goals (or to implement status quo policies). In other words, as long as a majority of states disagree that a potential policy falls within the scope of the organization's goals, they cannot change the distributional rules, and thus, multilateral aid policies will follow recipient need principles (upper-left corner in Table 1).

Decision-making deadlocks amongst members with heterogeneous preferences can only be overcome and agent slippage avoided if a dominant member state exists (lower-left corner in Table 1). If one member state has enough formal or informal power to influence the multilateral aid agency individually, it can assert itself over the preferences of other member

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their organization (Vaubel 1996, 2006; Frey 1997; Willett 2000; Vaubel and Willett 1991; Copelovitch 2010). In our case, agent slippage reinforces the needs-based approach. Agents will try to maximize the organization's staff, budget, and mandate, but they are restricted by the multilateral institution's reputation on the domestic level. If multilateral aid institutions lose their reputation as neutral agencies then they would lose their *raison d'être*, their reason for existence. For these reasons, the multilateral aid agency should have a strong, purely egoistic incentive to further the policy goals set by the multilateral aid institution

[13] Nielson and Tierney (2003); Hawkins et al. (2006); Lyne (forthcoming); Lyne et al. (2006); Copelovitch (2010).

[14] Nielson and Tierney (2003: 249).

states. The greater the decision-making power of individual states, the less important are coalition partners with similar preferences, and the easier it is for a state to assert its individual preferences. The US, for example, clearly is the dominant player in the IFIs relative to other member states. The US appointee to the IMF has 16.77 percent of the overall vote, compared to 4.86 percent for the United Kingdom and 1.96 percent for the appointee of the group of Latin American states (Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay). This result accounts for what scholars have found for the influence of US interests within the World Bank and the IMF. Given its formal and informal power, the United States has been able to repeatedly influence loan conditions and sanctions to the benefit of recipients when it was in the United States' national interest.[15] However, there is no such a clear dominance of one state in the European Union. Currently, Germany, France, the United Kingdom, Spain, Italy, and Poland have the largest number of votes, but differences between these countries do not vary much (27-29 votes). In such situations, untying hands implies the formation of interest coalitions.

As member states' preferences become more homogenous, opportunities for coalition formation come about, and the likelihood of imposing its own preferences depends less on a country's status as a dominant player. The more homogenous the preferences of member states about specific policy preferences, regardless of whether these preferences are strategic- or needs-based, the easier it is to overcome existing majority hurdles. Multilateral aid agents cannot insulate themselves from government preferences if a majority of states aim to implement similar policies. For example, Belgium, France, and the United Kingdom formed a coalition in the EC and asserted their desire to increase aid flows to their former colonies without the support of other member states. In other multilaterals – such as the World Bank, the IMF, and the United Nations – we can observe similar developments. For example, the Group of 77, a loose coalition of now over 130 developing nations that was founded in 1964, has become a much more powerful negotiator. Consequently, states can influence the allocation of multilateral aid if they belong to a group of states with homogenous preferences that is sufficiently large to fulfill the majority requirements or able to use informal channels to influence the coalition's position.

Sometimes, several powerful groupings exist, or an interest coalition forms against the interests of a powerful state. In this case, we would expect that the allocation of multilateral aid depends on whether one or the other group is powerful enough to assert itself against the other group (upper-right corner in Table 1). For example, if the members of the European Union vote together within the IMF, they could use their combined 35 percent of the votes to outvote the United States. If a decision deadlock occurs, however, then the agency might play these interests against each other (lower-right corner in Table 1). In general, we would expect that as long as side-payments are possible, interest coalitions have an incentive to collude, or reciprocate. In fact, most of the literature on bargaining in international organizations finds that negotiations are based on cooperation and reciprocity.[16] In other words, governments can collude to provide each other with greater benefits. This allows them to delegate aid and signal to their voters while, covertly, biasing the allocation of multilateral aid. In fact, if collusive behavior is possible then formal decision-making will not be as relevant anymore. Collusive behavior becomes less likely the more heterogeneous the preferences of the member states are because strategies such as log-rolling and side-payments will become more costly to pursue.

For example, in the European Union, France which favors aid to its colonies could collude with the Mediterranean states that favor aid to Latin American developing countries.

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[15] Stone (2002, 2004, 2008).
[16] Axelrod and Keohane (1985); Keohane (1986); Milner (1997); Stasavage (2004); Svolik (2006).

If they find ways to collude, they can bias EU aid allocation to provide larger aid towards the Latin American and African countries that are of strategic interests to both groups. In the G-77, countries often have different opinions about how to achieve sustainable development, but they could collude to improve all members' bargaining stance. Collusion thereby allows them to achieve benefits for everyone.

EMPIRICAL IMPLICATIONS

The discussion above provides a general theory of the politics of multilateral aid allocation. In sum, the ability of member states to bias the allocation of multilateral aid depends on the homogeneity of member state interests and the formal and informal decision-making power of emerging interest coalitions within the intergovernmental body of the multilateral institutions. The ability to overcome collective action problems amongst member states is most difficult when preferences towards aid allocation are heterogeneous. We hypothesize that when this is the case, aid allocation will not be biased by members' strategic interests. However, if powerful members or coalitions exist, then multilateral aid allocation will depend on the coalitions' interests even if no dominant member state exists. Developing countries that have a strong support coalition within the intergovernmental bodies of the multilateral aid institution should receive greater aid flows from this institution independent of its economic needs, ceteris paribus.

Even though the theory is quite general, its application requires careful attention to the existing conditions of the international organizations that underlie the decision making process. In this paper, we test our theoretical argument using the decision-making processes about multilateral aid allocation within the European Union. The European Union is a good test case for several reasons. Most importantly, whereas the World Bank and other multilateral aid agencies are strongly influenced by the dominance of the United States, the European Union has several major players, but none of them are able to assert themselves unilaterally. Consequently, and in contrast to some other multilaterals such as the World Bank, state influence on the allocation of EU multilateral aid should depend on the likelihood of elite collusion and coalition formation. Analyzing the European Union therefore simplifies our test dramatically.[17] Second, the EU Commission is a strong agent with considerable freedoms in day-to-day management of EU aid programs. Our theory assumes that the multilateral aid agent has an interest in implementing the official goal of the organization. Background on the EU Commission demonstrates this relatively well. The Commission has repeatedly defended the interests of the poorest countries against the interests of member states in shifting aid policies towards wealthier regions.[18] In doing so it was able to largely rely on Article 177, the official development goals of the European Union, which focuses on the development of the poorest countries in the world with a special focus on African countries. This observation greatly reduces the complexity of the analysis. We can focus on the influence of a change in member states' homogeneity of interests and do not have to control for any preferences shifts within the EU Commission. Third, Figure 2 illustrates that the European Union has become the most important multilateral aid institution in the world, accounting for more multilateral aid than the World Bank. The implications of EU aid allocation politics for developing countries are therefore very important.

[Figure 2 about here]

Whereas the EU Commission controls European Union multilateral aid allocations, it is

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[17] As a robustness check, we control for the influence of dominant actors such as France and Germany.
[18] Carbone (2007).

the Council of Ministers, consisting of all member states, that decides on the allocation of aid – based on the overall goal as written down in the *acquis communautaire*. The Council of Ministers decides by majority, which enables coalition formation. Following our theory, recipients receive more aid the more powerful the coalition that has a strategic interest in providing aid to that country:

Hypothesis 1: If a recipient country is favored by a powerful interest coalition they will receive greater aid flows from the European Union.

We thus expect that interest coalitions matter for determining the extent of aid flows to recipients from the European Union. Consequently, when member state preferences become heterogeneous, overall aid flows will decline and the influence of the EU Commission should increase:

Hypothesis 2: As the heterogeneity of member states interests increases, overall European Union aid flows to recipient countries will decline.

According to our theoretical discussion, we would further expect that needs-based criteria should become more important when member states preferences about a recipient are heterogeneous:

Hypothesis 3: As the heterogeneity of member preferences increases, European Union aid is more likely to flow to economically poor countries.

Finally, our theory demonstrates that members of multilateral aid institutions generally try to collude in order to distribute aid such that all member states are satisfied. Thus, even if several interest coalitions exist, we would expect that these interest coalitions have an influence on aid allocation even if they do not fulfill the majority requirements of that organization. However, if preference heterogeneity about the overall aid approach increases (e.g. instead of different preferences about allocating aid to recipients within a region there exists large differences about which region to provide aid to), then elite collusion will be less likely. Under these conditions, the EU Commission can play off the interests of the different coalitions and implement its goals largely independent of the interests of the member states:

Hypothesis 4: As the preferences of EU members become more heterogeneous, the ability of interest coalitions to determine aid allocations will decline.

IV. EMPIRICAL ANALYSIS

To test our hypotheses, we use a unique data set with observations on *multilateral* aid flows from the EU to 146 recipient countries over the period 1977-2006 as reported by the OECD's International Development Statistics. As the focus of our analysis is on multilateral EU aid flows to developing countries, our unit of analysis is the country-year.

DEPENDENT VARIABLE

We measure our dependent variable as the log of an individual country's aid receipts from the European Commission to account for the "gross importance" of the given recipient country to the EU.[19] Thus, *EC Aid* is the log of multilateral Official Development Assistance (ODA) commitments from the European Commission to all low- and middle-income countries (in constant 2000 dollars), as reported in the OECD's International Development Statistics. We chose this operationalization over other methods of measuring aid flows, such

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[19] This does not include EU regional or structural funds.

as aid receipts as percent of total aid or aid as a function of population or income per capita for two reasons. First, we are interested in how aid is allocated to recipients and the level of aid is the most direct measure of that concept. Second, alternative measures lead to a number of empirical issues that would render our results difficult to interpret. For example, using aid receipts as a percentage of total aid would make the data compositional. Brandt et al (1999) show that the constraints of compositional data imply a perfect negative correlation between components, leading to inefficient estimates.[20] However, we account for population and income measures as right hand side variables to maintain our dependent variable as the strength of absolute commitment of aid flows. In addition, we test each of these alternative specifications in our robustness checks and continue to find support for our results.

<center>INDEPENDENT VARIABLES</center>

Our theoretical arguments focus on two components within the decision making process of the EU Commission: the formation of interest coalitions and heterogeneity of preferences.

Interest Coalition. Our first variable, *Interest Coalition*, measures the strength of EU member states' interest in a specific recipient country, weighted by their bargaining power. Our goal is a measure that reflects how domestic state preferences about the allocation of foreign aid aggregate in the intergovernmental decision-making body (here the EU Council). To construct this measure we proceed in three steps.

First, we measure saliency of foreign aid interests for each EU member state relying on the well-documented research that shows that bilateral foreign aid flows reflect a donor state's interest in the developing country.[21] Actual bilateral aid allocations account for all dimensions of donor interests and, at the same time, we do not have to assume whether a donor is more interested in economic development or for example geo-political or military strategic factors. We derive the basic aid allocation interests of any EU bilateral donor *i* in any given recipient *j* by taking each donor's bilateral ODA to the recipient, as a percentage of that donor's population for each year *t*:

$$Interest_{i,j,t} = \frac{Aid_{i,j,t}}{Population_{i,t}} \qquad (1)$$

Increasing values for *Interest* imply that a member has increasingly salient interests in providing aid to that country. We use population of the bilateral donor in the denominator to account for the fact that smaller countries often tend to concentrate their bilateral aid on a few countries rather than to give small amounts of aid to many countries. Constructing this measure using the sum of bilateral aid as the denominator has no measureable impact on the results.

In a second step, we have to weigh the saliency of interests by the EU member's bargaining power in the EU Council (data from European Union). Bargaining power is measured as each member's votes as a percentage of all votes. Whereas a member's vote share mainly accounts for its formal bargaining power, but it is also highly correlated with measures of informal bargaining power such as income, population, military strength or

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[20] The typical approach to dealing with this issue in political science is to transform the components into log ratios with respect to a base group and then run a seemingly unrelated regression (SUR) on the groups. While this issue is dealt with quite simply in the literature on vote shares, with over 100 countries in our sample, the interpretation of our results with respect to an individual country would be too difficult to use log ratios (Brandt et al 1999 and Tomz et al 2002).

[21] See for example Maizels and Nissanke (1984), Schraeder et al. (1998), Alesina and Dollar (2000), Stone (2002, 2004, 2008) among others.

historical importance:

$$Power_{i,t} = \frac{Vote_{i,t}}{\sum_{i=1}^{N} Vote_{i,t}} \tag{2}$$

We now have information on each EU member's relative interest saliency in a recipient and its formal bargaining power. In a third step, we combine these two measures and aggregate them to account for the formation of interest groups. The strategic interest function (coalitional support) for a given developing country *j* is therefore given by:

$$Interest\ Coalition_{j,t} = \sum_{i=1}^{N} (Interest_{i,j,t} * Power_{i,t}) \tag{3}$$

The variable *Interest Coalition* thus represents the salience and power of the EU Council's interest in a specific recipient as a function of that member's bargaining strength within the EU. In accordance with our theory, we expect the stronger a developing country's coalitional support within the EU Council, the greater will be their multilateral EU aid receipts. The robustness section demonstrates that alternative operationalizations of the main independent variable do not change the results.

Heterogeneity. In order to measure the heterogeneity of interests within the Council of Ministers we calculate the coefficient of variation (the ratio of the standard deviation to the mean, expressed as a percentage) of EU member's interest saliency.[22] Because we want a measure the average heterogeneity about EU aid goals, we take the average of this measure by year over the various recipient countries. We expect the greater the heterogeneity among EU Council members, the more aid will be distributed to poor countries and the less aid will be distributed to strategically important countries.

Per Capita GDP. To assess recipient needs we use gross domestic product (GDP) per capita in constant (2000) US dollars (data from World Bank Development Indicators). GDP per capita is the most commonly used and relied upon measure of need in the literature on aid. We would prefer to include measures of human development to further account for need, but data restrictions on these variables would result in a significant loss of data, mainly from the poorest countries, thereby biasing our results. Nevertheless, we are confident in *Per Capita GDP* in addition to geographic region as a measure of need, not only because of its wide use across the aid literature, but because of its high degree of correlation with measures of human development such as infant mortality and literacy.[23]

CONTROL VARIABLES

Democracy. We control for the quality of democratic institutions using data from Polity IV.[24]

Imports from EU. To assess strategic interests we use trade flows from the EU to recipient countries. The variable *Imports from EU* measures the natural log of all exports in a given year from the EU to a recipient country (data from World Bank's World Integrated Trade Solution Database).

Post Cold War. Since our data set spans from 1974-2006 and aid strategies changed

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[22] We thank Mark Copelovitch for his idea of how to measure heterogeneity. Note, for our results it does not matter whether we use this measure of heterogeneity or a variable that measures the heterogeneity of member interests by year (that is, averaging the heterogeneity across recipient countries).
[23] Easterly and Dollar 1999.
[24] Marshall et al (2009).

drastically during and after the Cold War, we control for the period of the Cold War. We focus on the year 1989, the watershed year in this context, because most former satellites started holding free elections and the geographic Iron Curtain that had divided the East and the West for over 40 years fell. The Post Cold War variable is equal to 0 prior to 1989 and 1 in 1989 and after.[25]

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

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

*Population. W*e control for the natural log of a country's population in a given year (data from World Bank Development Indicators).

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

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

Lag of Aid. Because aid budgets tend to be quite sticky, we include the lag of our dependent variable (LDV).

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

Table 2 presents descriptive statistics.

[Table 2 about here]

SPECIFICATION

Our first model takes the following linear form: EU multilateral aid to country *j* in year *t* depends on EU aid in year *t-1*, the strength of interest coalition support in recipient *j* (*Coalition*), the level of need of a country (*GDP*), control variables (*Control*), and an error term (ε):

$$Log\ EUAid_{i,t} = \alpha_j + \beta_1 EUAid_{j,t-1} + \beta_2 Coalition_{j,t} + \beta_3 GDP + \beta_4 Controls_{j,t} + \varepsilon_{j,t} \qquad (4)$$

We present feasible generalized least squares (FGLS) regression estimates with a Prais-Winsten transformation of this model (and all subsequent models) accounting for an autoregressive (AR1) error process and report panel corrected standard errors to account for panel heteroskedasticity.[26] Because we have an unbalanced panel, we assume that the error variances are constant within each directed-dyad, but heteroskedastic across dyads. Further,

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[25] One could also use 1991 as watershed year with the coup overthrowing Mikhail Gorbachev and the collapse of the Soviet Union without changing the substantive results. See also Bermeo (2008).

[26] Beck and Katz (1996).

we include a lag of our dependent variable both for theoretical reasons and to deal with the possibility of first order serial correlation. This model evaluates hypothesis 1, that recipients favored by powerful interest coalitions will receive greater aid flows ($\beta_2 > 0$).

Equation (4) tests the independent effect of interest coalitions on aid flows. Our theory leads us to believe that aid flows to developing countries will also depend on the heterogeneity of interests among member states:

$$Log\ EUAid_{i,t} = \alpha_j + \beta_1 EUAid_{j,t-1} + \beta_2 Coalition_{j,t} + \beta_3 Heterogeneity_{j,t} + \beta_4 GDP$$
$$+ \beta_5 Controls + \varepsilon_{j,t} \tag{5}$$

This model evaluates Hypothesis 2, that the greater the heterogeneity of member states interests, the less aid will flow to a particular country ($\beta_3 < 0$). Further, we believe that the impact of both need and strategic interest will be conditional on the heterogeneity of interests of member states:

$$Log\ EUAid_{i,t} = \alpha_j + \beta_1 EUAid_{j,t-1} + \beta_2 Coalition_{j,t} + \beta_3 Heterogeneity_{j,t} + \beta_4 GDP$$
$$+ \beta_5 (Coalition * Heterogeneity)_{j,t} + \beta_6 (GDP * Heterogeneity)_{j,t} + \beta_7 Controls + \varepsilon_{j,t} \tag{6}$$

Equation (6) evaluates Hypotheses 3 and 4, that as the heterogeneity of member states increases, more aid will flow to economically needier countries ($\beta_6 < 0$) and less aid will flow to strategically important countries ($\beta_5 < 0$).

Because we have both a large N (146 recipient countries) and a large T (30 years) we follow Beck and Katz (2001) who show that the inclusion of the lagged dependent variable deals with any problems from missing unit effects and we do not include fixed effects in our main specification. In our robustness checks, we do, however re-estimate our model using OLS with fixed effects in our robustness checks and see no significant differences in our results.

It is also possible that including a LDV in both our GLS estimates and our OLS fixed effects estimates results in biased coefficient estimates.[27] The Arellano and Bond generalized method of moments (GMM) system estimator was specifically designed to deal with panel data that exhibits autocorrelation.[28] The system estimator restricts the correlation between the error term and all explanatory variables to zero, dealing with any possible bias from the inclusion of a lagged dependent variable. In our robustness checks we test for this possibility using system GMM estimates, but do not employ this as our main specification technique because system GMM was designed specifically for cases with many individuals and a small number of time periods and so in our case may not solve the possibility of correlation between the LDV and the error term.[29]

<center>EMPIRICAL RESULTS</center>

The results of our estimations lend considerable support to our hypotheses. Specifically, we find that interest coalitions within the EU have a positive effect on aid flows to a recipient, whereas heterogeneity of member preferences within the Council of Ministers exerts a negative effect. Further, as the heterogeneity of member preferences increases, aid to

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[27] Kiviet (1995) and Nickell (1981).
[28] Arellano and Bond (1991); Arellano and Bover (1995); Blundell and Bond (1998). Kosack and Tobin (2006) explicate the techniques usage in Political Science.
[29] Roodman (2009).

countries in need increases, and the ability of interest coalitions to determine aid allocations falls.

[Table 3 about here]

Table 3 reports the results of Equation (4), our first hypothesis regarding interest coalitions. First, we examine the relationship between coalitional support for a developing country within the EU and EU aid flows. Our measure of coalitional support has a strong, positive influence on EU aid flows to developing countries, providing support for our hypothesis that the greater coalitional support within the EU for a developing country, the greater the recipient's aid receipts, *regardless* of its economic needs for development aid. Specifically, a one standard deviation increase in our measure of interest coalition support results in a 12 percent increase in EU aid flows, providing substantial support for Hypothesis 1.

It is possible that these results are driven by the most powerful members of the EU, primarily France and Germany. To ensure that this is not the case, we excluded both France and Germany from our interest coalition variable. Column (2) reports that *Interest Coalition* retains a positive, significant impact on EU multilateral aid flows despite the exclusion of the two most powerful states in the Council. This provides some confidence that the findings are not driven by the informally most powerful states within the Council of Ministers. Additionally, if elite collusion is the most important factor driving Council decision, then EU members would have an incentive to take into account all members that have salient preferences, regardless of their voting power. To test for this possibility we include our measure of strategic interest excluding the power component.[30] Column (3) shows that while strategic interest has a positive impact on aid flows, it is not significant in our model. Although elite collusion seems to matter, formally and informally more powerful coalitions will have an advantage when attempting to bias EU multilateral aid allocations.

[Table 4 about here]

Table 4 examines the relationship between the preference heterogeneity within the EU Council and the allocation of EU multilateral aid. The results in Column (1) show that member state heterogeneity has a strong, negative influence on EU aid flows. A one-standard deviation increase in heterogeneity among EU members equates to a 29 percent decrease in overall aid flows. This indicates that as the heterogeneity of interests among members about overall aid goals increases, recipients receive, on average, lower aid flows. In other words, heterogeneity within the EU about overall aid goals does *not* increase bureaucratic drift, but rather it seems that member states are less likely to delegate aid if they expect to have little opportunity to bias aid in favor of their national strategic interests.

Nevertheless, the multilateral aid agent does have some influence. In Column (2), we interact *Heterogeneity* with *GDP per capita* in order to test Hypothesis 2.[31] It is difficult to interpret these conditional effects directly from the table. We therefore examine them graphically.

[Figure 3 about here]

Figure 3 shows the effect of a one-percent increase in *GDP per capita* on *EU Aid* conditioned on different levels of *Heterogeneity*, holding all other variables constant. These estimates are generated from the coefficient estimates and the variance-covariance matrices

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[30] We thank Randy Stone for pointing out this possibility.

[31] Because this measure is highly correlated with our measures of time, we exclude our time trend and Cold War variables from any analysis that includes average heterogeneity.

from the regressions in Table 4, Column (2). The solid line represents the conditional effect while the dotted lines indicate a 95 percent confidence interval. In this and in all the subsequent figures we convert the aid data from logs to dollar amounts. The figure shows that the effect of a country's income level (our proxy for need) on their aid receipts from the EU is highly conditional on the heterogeneity of member preferences. Poorer countries always receive less aid than wealthier countries, but the difference diminishes as EU member preferences become more heterogeneous. For example, when EU members have largely homogenous preferences, an increase in 1 percent of GDP would equate to a country receiving, on average, an increase of nearly 1 million U.S. dollars in aid flows from the EU. However, when EU member preferences are largely heterogeneous, an increase of 1 percent of GDP would increase a country's aid receipts by only 500,000 U.S. dollars. Thus, agents will use their discretion to increase aid allocations in favor of poor recipients.

In Table 4, Column (3) we interact our measure of heterogeneity with our coalitional support measure to test Hypothesis 4. Figure 4 shows that as the heterogeneity of member preferences increases, the impact of interest coalitions on EU aid flows decreases. Although the decline is not sharp, we see that at high levels of homogeneity of preferences, an increase of one standard deviation in our interest coalition variable equates to an increase of nearly 800,000 U.S. dollars in aid flows from the EU. Whereas at the highest levels of heterogeneity, an increase of one standard deviation in our interest coalition variable equates to an increase of about 700,000 U.S. dollars in EU aid flows.

[Figure 4 about here]

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

Overall, the results from provide strong support for the importance of interest coalitions in multilateral aid allocations. The analysis therefore provides the first rigorous test of the effects of interest aggregation in multilateral aid institutions that takes into account all possible constellations of member states and it demonstrates the conditions under which multilateral aid is likely captured by member states' strategic interests.

ROBUSTNESS CHECKS

Empirical results are often fragile to changes in model specification. To ensure that our results do not experience this same fragility we ran a number of robustness tests (all results are available from the authors). For each test we use equation (5), where we include measures of both coalitional strength and heterogeneity, but exclude interaction terms.

Estimation Technique. Table 7 includes the results of a number of revised estimations of equation (5). First, it is possible that the inclusion of the LDV does not deal with problems stemming from missing unit effects. To deal with this possibility we estimate Equation (5) using OLS with fixed effects both with and without a LDV. Columns (1) and (2) of Table 7 show that while the magnitude of the results changes, the signs and significance are retained using this estimation technique. It is also possible that including a LDV in both our GLS

estimates and our OLS fixed effects estimates results in biased coefficient estimates. As discussed earlier, the GMM system estimator was designed to deal with this possibility, but is also intended for panels with a small number of time periods.[32] Thus, we estimate Equation (5) using this technique to check the robustness of our results, but do not use it in our main specification. Table 7 Column (3) presents the results of the system GMM estimation. There is a small difference in magnitude, but the remaining results remain consistent. The Sargan/Hansen test reports a p-value of 1, indicating the possibility of over-fitting our endogenous variables. Third, because many countries receive no aid from the EU over many years we estimated our model using a time-series Tobit model. Table 7, Column (4) presents these results, which again, contain minimal changes.

Dependent Variable. We re-estimated Equation 5 altering the dependent variable to account for aid per capita as well as aid as a percentage of all aid flows. In all the specifications, although the coefficient magnitudes change, operationalizing the dependent variable differently does not significantly alter our results.

Interest/Heterogeneity. We tested for the robustness of our main independent variables in two ways. First, we used an alternative measure for heterogeneity by calculating the coefficient of variation for each recipient country and each year. The variable measures how bilateral aid allocations to a recipient vary across EU member states. As with our main variable, we expected that the more homogenous the preferences of member states in favor of a recipient, the greater the aid flows to that recipients. Indeed, we found that the alternative measure provides substantively similar results. Second, it is possible that EU members' interests are not best represented by their bilateral aid flows. As a second proxy for members' interests we used voting affinity within the UN General Assembly, a measure used quite frequently in the literature to measure foreign policy alignment between two countries. We calculated voting affinity or "S-Scores" between Council members and recipient countries from Voeten and Merdzanovic's UN voting data.[33] We then constructed our variables on interest coalitions and heterogeneity in exactly the same way as above for bilateral aid flows. This measure of interests yielded similar results to our original findings.

Control Variables. We also added different sets of control variables. First, we included a variable to control for *Institutional Quality*. Institutional quality is inherently difficult to measure as a concept. Although a number of proxies currently exist, few do so over a long time-period for many countries. To insure that we are truly getting at the measures of institutional quality that impact aid effectiveness we use a frequently used measure from the institutional literature, *Political Risk,* available from the International Country Risk Guide (ICRG).[34] It is measured on a scale from one to 100 with higher numbers signaling better levels of the political environment in a country (that is, lower levels of political risk).[35] Because of limited time availability, we lose over 1,000 observations from the inclusion of this variable. It remains insignificant in the model, but does nothing to significantly alter the overall results of our specification.

Second, we included a variable equal to 1 in any year that a country experienced a financial crisis. This variable was insignificant in each of our models and did not have a

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[32] Arellano and Bond (1991); Arellano and Bover (1995); Blundell and Bond (1998); Roodman (2009)..

[33] Voeten and Merdzanovic (2009).

[34] The ICRG publishes a political risk variable that reflects the overall political environment for investment in a country. The variable is based on institutional indicators compiled by private international investment risk services. The ICRG political risk index utilizes measures of the risk of expropriation, established mechanisms for dispute resolution, contract enforcement, government credibility, corruption in government, and quality of bureaucracy.

[35] The factors that make up the ICRG indicator take account of our theoretical specification of the political environment for investment (Blonigen 2005; Jun and Singh 1996; Wei 2000).

significant impact on our results. As with their former colonies, a main target of EU development assistance has traditionally been the group of African, Caribbean, and Pacific (ACP) countries. Including an ACP dummy does not change the results. We also included fixed time effects into the model. Although many years are significant, and while the magnitude of our results change only slightly, the significance on most variables of interest increased. We also controlled for the fact that beginning in 2004 many CEE countries became ineligible for ODA from the EU because they joined the EU. We both included a dummy variable equal to 1 in every year that a country was a member of the EU and dropped each country-year from our analysis. Again, this had no significant impact on our results.

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

<center>GENERAL APPLICABILITY OF RESULTS</center>

We tested and found support for our theoretical hypotheses using a data set focused on EU multilateral aid allocation, but our theory is applicable beyond the EU to multilateral aid institutions such as the IMF, the World Bank, and the various multilateral development banks. Although we hope to focus future work on applications of our theory across multilateral institutions, here we discuss the broad applicability of our theory.

First, our theory applies to international financial institutions which delegate some managing and agenda-setting powers to a multilateral agent. Virtually all multilateral aid institutions have some form of delegation of financial resources to a multilateral agent who has some capacity to independently manage and implement aid allocations.

Second, our theory applies to international financial institutions which grant some influence to governments. Intergovernmental bodies within multilateral aid institutions serve to control agents and to determine the overall goals of that institution. All multilateral aid institutions have these bodies and whereas agents in the IMF or the World Bank typically have greater independence in the implementation and managing of development projects, they are constrained by the decisions of the Board of Governors.

Third, our theory is flexible to various institutional frameworks. Whereas we selected the EU because of the clarity and simplicity of decision making rules, our general theory is easily adaptable across different institutional rules. For example, we would expect that the influence of interest groups would diminish with the restrictiveness of the decision-making rules within the intergovernmental decision-making body. If members have to decide by unanimity, then they can bias the multilateral aid agent only if they possess enough informal bargaining power to by-pass other members and directly influence the agent. Woods (2003), for example, shows that the United States has such informal influence in the staff of the IMF and the World Bank.

Fourth, our theory is flexible to the asymmetry of its members' decision-making power. Whereas the European Union tries to evenly distribute power among its major players, the United States has been the most dominant player in most other multilateral aid institutions. According to our theory, we would therefore expect that the United States can independently exert an influence on decisions about the allocation of project aid. Nevertheless, our theory implies that it is not just the United States or other very powerful states that influence aid, but

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that coalitions of countries may induce strategic bias. For example, with the increasing coherence of preferences in the EU Council, the EU members have been much more dominant in other multilateral aid institutions when acting as a voting bloc.

V. CONCLUSION

This paper provides a theoretical and empirical analysis of the causes and consequences of interest coalitions in multilateral aid institutions. We argued that the allocation of multilateral aid cannot be simply described as either following economic needs and institutional quality criteria or following the strategic interests of its most dominant members. We demonstrate that whereas multilateral agents aim to allocate aid to the poorest countries in the world, the member states of these institutions, whether weak or strong, can form coalitions if their interests converge and bias the allocation of aid in favor of their national strategic interests. We found strong support for our theoretical argument in an empirical analysis of EU multilateral aid to developing countries from 1977 to 2006. Our results show that EU aid has been more needs based when member states interests were largely heterogeneous and it has been more strategic when interest coalitions became stronger.

These results shed some light on the crowding out of European aid to African countries over the last 20 years. Particularly with the fall of communism and the ambitions of the EU to integrate the Central and Eastern European countries into the Western European system, Africa lost its position as the most important recipient of EU multilateral aid. Not only did the integration of markets lead to higher interdependence in Europe, but West European states also had strong commercial interests because of opportunities in trade and investment. Perhaps most important, although not all member states favored EU Eastern expansion, EU membership of the CEE countries became a distinct possibility leading to further market opportunities and challenges. These developments sharply increased the incentive of all member states (independent of their preferences towards enlargement) to further economic development in Central and Eastern Europe. In other words, the fall of the Berlin Wall led to a convergence of preferences towards increased CEE allocations at the cost of the poorest countries in the world.

Most important, our theory implies that all is not lost for the poorest countries in the world. Care must be taken in current reforms that aim to redesign the multilateral aid institutions. These reforms should better insulate multilateral aid agencies from the strategic designs of their members. If they are able to do so, our theory demonstrates that multilateral aid agencies will be better able to achieve their own strategic goals of reaching the poorest countries. Nevertheless, the question remains of how much delegation is possible before governments lose the incentive to delegate aid to the international level to begin with.

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

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Figure 1: Delegation to Multilateral Aid Institutions in Billions Constant (2007) US$
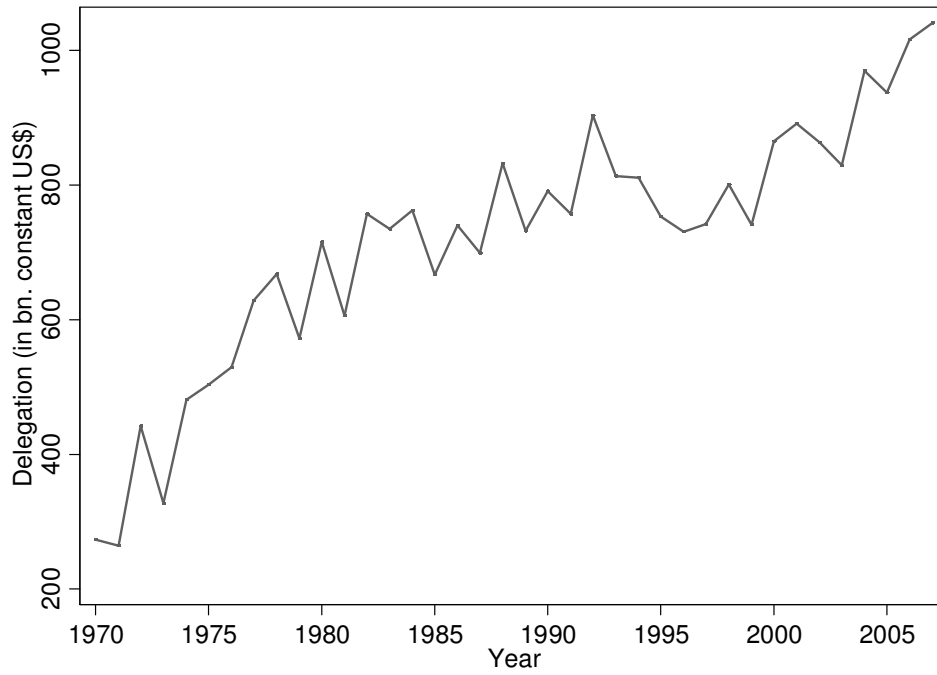
Figure 2: Total Aid Flows in Millions Constant (2000) US$
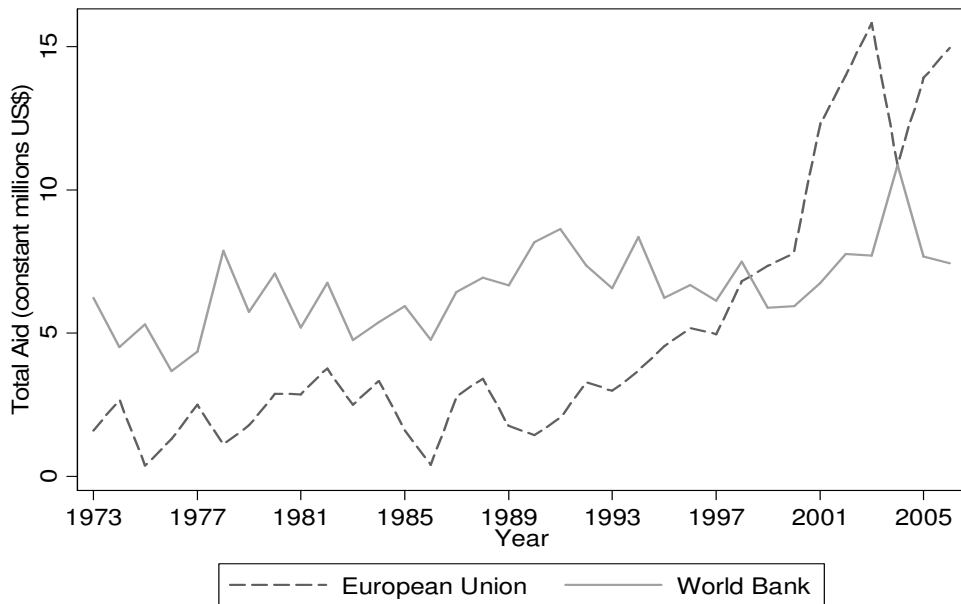
Figure 3: Conditional Effect of an Increase in GDP on EU Multilateral Aid for Varying Levels of Heterogeneity
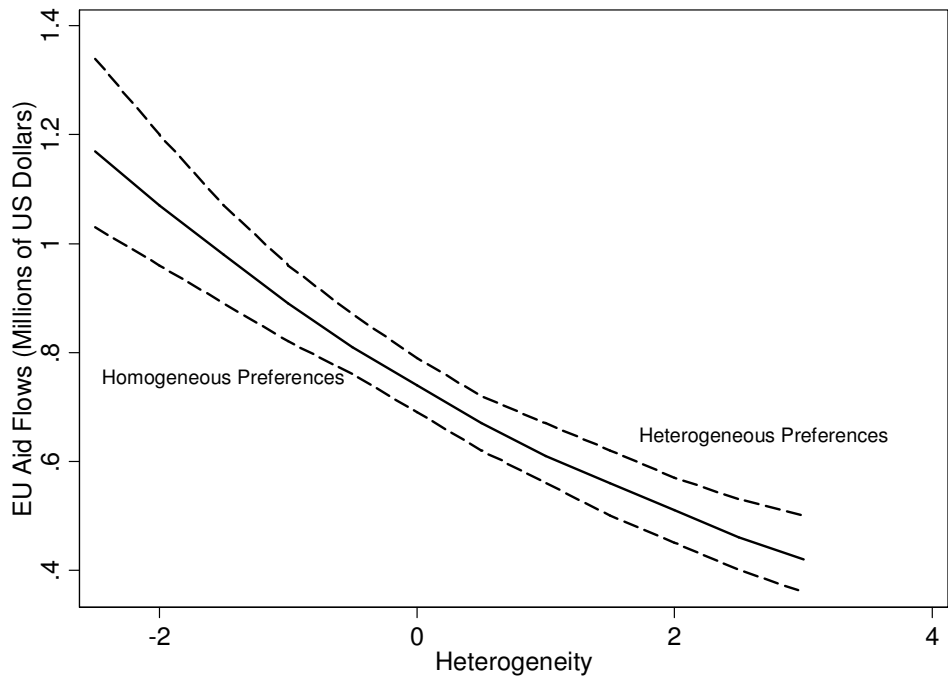
Figure 4: Conditional Effect of a 1-Standard Deviation Increase in Interest Coalition on EU Multilateral Aid For Varying Levels of Heterogeneity
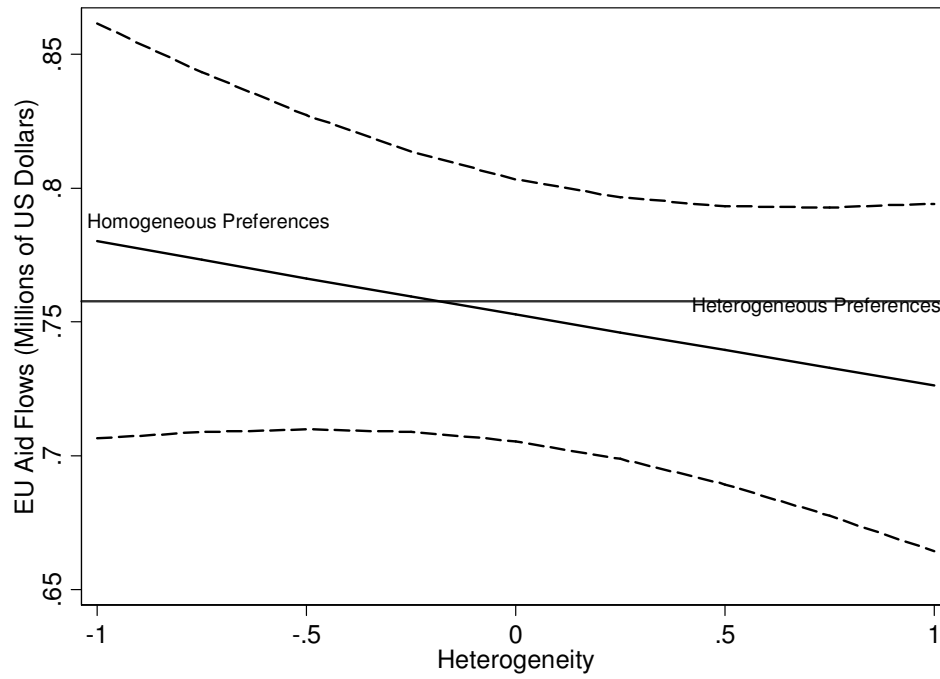
1Table Allocation of Multilateral Aid

	Heterogeneity of Preferences	Dominant Interests Coalition
No Dominant State	Agent	Interest Coalition
Dominant State	Dominant State	Undetermined

Table 2: Descriptive Statistics

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

Table 3: Interest Coalitions and EU Multilateral Aid

	(1)	(2)	(3)
Coalition	0.120**		
	(0.056)		
Coalition (Excluding France & Germany)		0.117**	
		(0.054)	
Interest Saliency (Excluding Power)			0.081
			(0.053)
Aid (Last Period)	0.617***	0.617***	0.618***
	(0.015)	(0.015)	(0.015)
Log GDP Per Capita	-0.423***	-0.422***	-0.404***
	(0.064)	(0.063)	(0.062)
Sub Saharan Africa	0.472*	0.468*	0.474*
	(0.246)	(0.246)	(0.246)
Mid East & N. Africa	-0.114	-0.123	-0.140
	(0.279)	(0.279)	(0.278)
Asia	-0.321	-0.325	-0.326
	(0.274)	(0.274)	(0.274)
LA & Caribbean	-0.568**	-0.574**	-0.592**
	(0.274)	(0.274)	(0.273)
Colony	0.845***	0.845***	0.824***
	(0.194)	(0.194)	(0.194)
Distance	-0.000	-0.000	-0.000
	(0.003)	(0.003)	(0.003)
Trade	0.048***	0.049***	0.050***
	(0.014)	(0.014)	(0.014)
Population	-0.006	-0.005	0.010
	(0.041)	(0.041)	(0.040)
Natural Disaster Deaths	0.856	0.854	0.848
	(0.568)	(0.568)	(0.567)
EU Aid Change	0.015***	0.015***	0.015***
	(0.003)	(0.003)	(0.003)
Democracy	0.023**	0.023**	0.022**
	(0.009)	(0.009)	(0.009)
Time Trend	-0.025**	-0.025**	-0.025**
	(0.012)	(0.012)	(0.012)
Post Cold War	1.487***	1.488***	1.489***
	(0.193)	(0.193)	(0.193)
Constant	52.385**	52.814**	52.115**
	(22.840)	(22.845)	(22.849)
Observations	3217	3217	3217
Number of Recipients	123	123	123
R-Squared	0.64	0.64	0.64

Notes: Equation 4 by FGLS; Dependent Variable: Log of EU Aid Flows
Standard errors in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%

Table 4: Interest Coalitions, Heterogeneity, and EU Multilateral Aid

	(1)	(2)	(3)
Heterogeneity	-0.288***	0.972***	-0.284***
	(0.065)	(0.320)	(0.065)
Coalition	0.154***	0.134**	0.119^
	(0.059)	(0.059)	(0.088)
Log GDP Per Capita	-0.285***	-0.305***	-0.280***
	(0.066)	(0.067)	(0.067)
Heterogeneity*GDP		-0.186***	
		(0.048)	
Heterogeneity*Coalition			-0.036^
			(0.068)
Aid (last period)	0.603***	0.600***	0.602***
	(0.016)	(0.016)	(0.016)
Sub Saharan Africa	0.244	0.310	0.240
	(0.267)	(0.267)	(0.268)
Mid East & N. Africa	-0.445	-0.429	-0.457
	(0.309)	(0.307)	(0.311)
Asia	-0.592*	-0.573*	-0.605*
	(0.314)	(0.314)	(0.316)
LA & Caribbean	-0.974***	-0.956***	-0.987***
	(0.298)	(0.298)	(0.300)
Colony	0.556***	0.562***	0.555***
	(0.205)	(0.204)	(0.205)
Distance	-0.001	-0.001	-0.001
	(0.003)	(0.003)	(0.003)
Trade	0.024	0.020	0.024
	(0.016)	(0.016)	(0.016)
Population	-0.046	-0.022	-0.038
	(0.044)	(0.044)	(0.046)
Natural Disaster Deaths	0.814	0.891	0.816
	(0.563)	(0.566)	(0.562)
EU Aid Change	0.016***	0.016***	0.016***
	(0.003)	(0.003)	(0.003)
Democracy	0.020**	0.018*	0.021**
	(0.010)	(0.010)	(0.010)
Time Trend	-0.027**	-0.026**	-0.027**
	(0.012)	(0.012)	(0.012)
Post Cold War	1.222***	1.229***	1.222***
	(0.199)	(0.199)	(0.199)
Constant	57.904**	56.854**	57.494**
	(23.872)	(23.776)	(23.863)
Observations	2959	2957	2959
Number of id	123	123	123
R-Squared	0.59	0.60	0.59

Notes: Equation 4 by FGLS; Dependent Variable: Log of EU Aid Flows
Standard errors in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%;
^ jointly significant at 10%

Table 5: Interest Coalitions, Heterogeneity, and EU Multilateral Aid

Model	(1)	(2)	(3)	(4)
Heterogeneity	-2.304***	-2.715***	-2.968*	-3.312***
	(0.444)	(0.416)	(1.666)	(0.664)
Political Risk	0.019***		-0.013	
	(0.006)		(0.080)	
Bureaucracy Quality		0.224***		-0.843
		(0.070)		(0.942)
Het*Political Risk			0.012	
			(0.030)	
Het*Bur. Quality				0.406
				(0.363)
Aid (last period)	0.623***	0.625***	0.624***	0.626***
	(0.026)	(0.026)	(0.026)	(0.026)
Sub Saharan Africa	1.674***	1.658***	1.659***	1.614***
	(0.392)	(0.357)	(0.398)	(0.361)
Mid East & N. Africa	-0.050	-0.098	-0.049	-0.114
	(0.391)	(0.364)	(0.389)	(0.363)
Asia	0.389	0.326	0.381	0.318
	(0.379)	(0.348)	(0.381)	(0.348)
LA & Caribbean	0.424	0.370	0.416	0.364
	(0.568)	(0.512)	(0.566)	(0.506)
Colony	0.232	0.214	0.227	0.212
	(0.264)	(0.259)	(0.264)	(0.259)
Distance	-0.010*	-0.008	-0.010*	-0.007
	(0.006)	(0.005)	(0.006)	(0.005)
Trade	-0.046*	-0.007	-0.044*	-0.003
	(0.026)	(0.027)	(0.025)	(0.028)
Population	0.234***	0.176***	0.230***	0.171***
	(0.071)	(0.063)	(0.071)	(0.063)
Natural Disasters	1.785***	1.560***	1.780***	1.590***
	(0.406)	(0.400)	(0.402)	(0.407)
EU Aid Change	0.010***	0.009***	0.010***	0.009***
	(0.003)	(0.003)	(0.003)	(0.003)
Constant	4.349**	6.416***	6.156	8.035***
	(1.789)	(1.563)	(4.655)	(2.075)
Observations	2058	2071	2058	2071
Number of Recipients	102	102	102	102

Dependent Variable: Log of EC Aid Receipts
System GMM models with robust standard errors in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%