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Interest Coalitions and Multilateral Aid Allocation in the European Union[1]

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This paper analyzes multilateral aid allocation in the European Union (EU). We argue that EU members can influence the aid allocation process toward their national interests if they form powerful coalitions that bias the European Commission's development policies. When EU members' preferences over aid allocation are heterogeneous, the Commission can implement multilateral aid according to its programmatic goals. Greater homogeneity of EU members' goals, however, increases the likelihood that members can form powerful interest coalitions and induce the Commission to allocate aid according to their own national interests. The empirical analysis provides robust support for our theoretical argument, and the findings generally indicate that interest coalitions play an important role in multilateral aid allocation.

> "The European Union is firmly committed to the Millennium Development Goals and is working hard to eradicate poverty and improve living conditions by 2015."
>
> José Barroso,
> President of the EU Commission, 2010

In 2000, the European Union (EU), together with 192 members of the United Nations and over 23 international organizations, committed itself to the Millennium Development Goals, a plan to reduce extreme poverty by 2015. Many regions have made great progress toward that goal, but reports paint a less rosy picture for sub-Saharan Africa, where economic growth is desperately needed and where the least amount of progress has been made. One reason for the lack of development in Africa can be found in the dynamics of foreign aid allocation. Governments have been criticized for allocating foreign aid according to their national strategic interests rather than addressing the economic and institutional needs of the poorest countries in the world. And although observers and policymakers have praised multilateral aid institutions as more objective aid-givers, recent research indicates that multilateral aid allocation exhibits similar biases with detrimental effects on development outcomes (Nielson and Tierney 2003; Copelovitch 2010).

To understand some of the obstacles to development in these poor countries, we must first understand the decision-making processes in multilateral aid institutions. This paper analyzes decision-making outcomes on multilateral aid policies within the EU by taking into account the interrelationship between intergovernmental and supranational actors. We argue that EU members delegate foreign aid allocation to the European Commission to increase the efficiency with which aid is allocated, but that these benefits crucially depend on whether the Commission allocates the aid in accordance with the individual EU member's foreign aid preferences (whether they be strategic or development based). Members can assert themselves in the decision-making process and put pressure on the Commission either if they are individually powerful or if they form coalitions in the intergovernmental bargaining process. The more homogenous the preferences of EU member states, the greater their ability to form influential coalitions and the more likely that European aid allocation will be biased in favor of members' own interests. If the preferences of EU members diverge, however, then the Commission increases its ability to play member states against each other and to implement its official development goals, which emphasize the poorest countries in the world.

To test our argument, we compile a data set with observations on EU multilateral aid allocations to the developing world from 1973 to 2006. We develop an indicator of interest coalitions that measures the strength of EU member states' interest in a specific recipient country, weighted by the EU members' bargaining power in the Council. The quantitative analysis robustly supports our theoretical arguments. Powerful EU members and EU members that can form powerful coalitions can bias the multilateral aid allocation process away from the

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European Union's official development goals. Greater heterogeneity increases the ability of the Commission to pursue its development interests, but at the same time limits its financial resources to do so.

Our paper provides the first application of the collective principal model to the EU. Most work on power politics in international institutions has focused on analyzing either political processes within the IMF and the World Bank (with a focus on US influence) or specific aid projects (for example, environmental or social aid) across a group of multilateral development banks. There has been no in-depth analysis of the politics of European aid, even though the EU is now the largest multilateral aid donor in the world, allocating more resources than even the World Bank. The implications of European aid allocation politics for developing countries are therefore very important. At the same time, our findings are of more general interest for scholars who analyze decision-making outcomes in multilateral aid institutions. Whereas our paper builds on the important insights of collective principal theory (Nielson and Tierney 2003), it also expands this theory in two important ways. First, our theory can explain the strong findings on dominant donors, but it also explicitly analyzes the influence of coalition formation on multilateral aid allocation (and provides a measure for interest coalitions that is easily applied to other multilateral aid institutions, individual aid sectors, or specific donor groups).[2] Second, our empirical findings provide new insights into the consequences of agency slippage. Whereas scholars have emphasized the negative effects of agency slippage, our findings indicate that agency slippage may also have positive effects because it increases the ability of the multilateral agency to provide aid that is consistent with the goal of sustainable economic development. We also find that although agency slippage increases the ability of the agent to implement its preferred policies, it decreases its ability to expand its resources to pursue these objectives. This stands in contrast to traditional models that assume that heterogeneity of principals' preferences leads to an expansion of the agent's budget. As we show, in situations in which principals can decide on the amount of delegation to the agent, agency slippage does not necessarily lead to budgetary expansions.

The Puzzle

The allocation of foreign aid through multilateral aid agencies has become increasingly popular since the late 1960s and 1970s. From 1970 to 2008, the amount of foreign aid spent through multilateral aid institutions more than tripled to over 30 billion US dollars. Currently, donor countries on average spend about 35% of their foreign aid through multilateral channels, a substantial amount, given public perceptions about how multilateral aid is spent. Incentives to delegate foreign aid to multilateral aid institutions have been particularly pronounced in the EU. EU members have not only decided to coordinate their bilateral aid efforts more thoroughly, but they have steadily increased the amount of foreign aid given through the Commission. In 2008, EU members spent 17% of their foreign aid through the EU (and 37% through multilateral aid institutions more generally). EU multilateral aid accounts for about 13.9% of all developing aid in the world (almost 60% if one takes into account bilateral aid from EU members). This unprecedented increase in contributions has made the EU the largest multilateral aid donor in the world and the third largest donor overall after the United States and Germany.

Scholars and observers alike have welcomed these developments. The primary rationale behind delegating substantial management and agenda-setting powers to the Commission is that it can exploit its independence and informational advantages to diffuse strategic interests and to ensure a more development-based approach to foreign aid.[3] However, the theoretical predictions of this hand-tying argument have not found consistent support in empirical applications of European aid allocation. Rather, scholars find a consistent and dominant effect of government interests on the allocation of European aid (Tsoutsoplides 1991; Zanger 2000; Baumann, Berthelemy, and Michaelowa 2010). These findings present a puzzle to the theoretical literature on European aid-giving: If the Commission ties its members' hands when it comes to allocation policies, why do EU members have influence over allocation outcomes?

We address this question by analyzing EU decision making on aid policies taking into account the relationships among EU governments and the Commission. Our theory is based on the important insights of the collective principal theory which stipulates that decision-making outcomes in international institutions should be affected by the relationship between the group of member states (the principals) and the organizational agent (Nielson and Tierney 2003; Hawkins, Lake, Nielson, and Tierney 2006). Extant collective principal theory provides two important insights. First, multilateral aid tends to follow the interests of the most powerful member countries, particularly if their interests converge (Schoultz 1982; Thacker 1999; Stone 2002, 2004, 2008; Nielson and Tierney 2003; Faini and Grilli 2004; Copelovitch 2010). Second, if the preferences of the most dominant donors diverge, then the multilateral agent will be able to pursue its own interests by implementing its preferred policies and providing more loans and grants (Nielson and Tierney 2003; Hawkins et al. 2006; Copelovitch 2010).

Our theory extends these theories by modeling intergovernmental decision making such that all EU members can influence the Commission if they form interest coalitions. Indeed, if we follow the historical debates about European aid allocation, there is evidence that interest coalitions lobbied for particular aid policies in the Council (Grilli 1993). For example, France and Belgium formed a coalition before EU development policy was even established, hoping to focus development policy on their former African colonies. Their interests clashed with those of Germany and the Netherlands, which lobbied in favor of a more global and humanitarian approach to EU development policy. The accession of nine new members between 1972 and 1995 led to a dramatic increase in heterogeneity among members with

[2] To the best of our knowledge, Lyne, Nielson, and Tierney (2009) is the only published paper that empirically analyzes all possible coalitions within multilateral aid institutions. Our paper differs from theirs in three important respects. First, they focus on the influence of coalitions on social lending; we focus on the allocation of multilateral aid more general. Second, they find no great power influence on social lending; we show that both great power and coalitions matter. Finally, they focus on the influence of governments; we additionally model the agent as a strategic actor.

[3] Rodrik (1995) provides a general theoretical basis for this argument.

regard to the goals of EU development policy. The UK wanted to include its former colonies, the Mediterranean countries supported the inclusion of Latin America, and the Nordic countries promoted a more general humanitarian approach. Following the unexpected fall of the Soviet Union beginning in 1989, EU members started to support the concentration of European aid efforts on the countries of Central and Eastern Europe. With this convergence of interests, EU multilateral aid in the 2000s favored transition countries in Eastern Europe, while crowding out aid to sub-Saharan Africa. Our theory acknowledges that these opportunities exist and models how the interaction between EU members and the Commission can affect aid allocation, particularly if the members' preferences diverge from the EU's programmatic goals.

Theory

This section develops a theory of the politics of European aid allocation. We argue that even though EU members benefit from delegating aid to the EU, these benefits depend on their ability to influence the Commission so as to bias the allocation of multilateral aid in favor of their development goals. EU members are able to exert influence if their preferences align with other EU members so that they can form powerful coalitions that overcome the collective action problems within the intergovernmental bargaining process.

Our theory focuses on explaining the allocation of EU *multilateral* aid, which excludes the bilateral aid of its member states. The Commission manages two main programs that provide European development grants.[4] The first program is integrated into and financed by the common EU budget. The second program, through the European Development Fund (EDF), allows governments to provide development assistance outside of the common EU budget. The decision-making process in the EU concerning European aid allocation is very similar to the decision-making processes within the regional and multilateral development banks, where the multilateral aid agent implements aid policies, but is controlled by an intergovernmental body which reaches decisions by some type of majority rule. Whereas the Commission controls aid allocations as the multilateral agent, it is the EU members that decide overall development policy, based on goals formulated in the *acquis communautaire* (the common body of rules and norms). EU members decide by qualified majority, which provides opportunities for coalition formation.

Our theory is based on two assumptions. First, the Commission aims to maximize its staff, budget, and mandate to provide aid to promote economic development (Vaubel 1996, 2006; Frey 1997). EU staff is almost principally composed of economists and civil servants with no domestic political objectives or ties to national governments. For the most part, therefore, the Commission itself has defended the interests of the poorest countries against the interests of member states in shifting aid policies toward wealthier regions (Carbone 2007). In doing so, it has been able to largely rely on Article 177, the official development goals of the EU, which focuses on the development of the poorest countries in the world with a special focus on African countries.

Second, delegation to the Commission increases the value of aid provided. Governments benefit because delegation implies burden sharing of development efforts. When pooling resources, governments can lower their individual costs of providing foreign aid without having to compromise on their overall goals. Delegation also provides opportunities to influence other member states through the intergovernmental process. In addition, whereas the bulk of resources come from public funds in EU member states, European aid programs receive additional funding from capital markets (for those resources that are dedicated to loans through, for example, the EDF's Investment Facility) or from the public and private sectors. For example, the European Investment Fund (EIB) contributes additional resources to the EDF from its own resources, which are raised on capital markets. In addition, both the Commission and the EDF engage in co-financing with the EIB, non-governmental organizations, EU members, as well as third-party countries (European Commission 2002). This multiplies the operational budgets that members are able to control. By pooling the administrative apparatus, the EU also significantly decreases administrative and organizational costs.

These delegation gains are only valuable for EU members, however, if the Commission's allocation of aid mirrors the members' preferences over foreign aid allocation. Because even efficient aid-giving is not very beneficial to a member if European aid is not allocated according to that member's interests, individual governments try to shift allocation decisions at the European level as close as possible to their ideal policies. Members can influence the Commission's allocation decisions through the intergovernmental decision-making process. If a majority of members agree to change allocation policies, then the Commission has to implement these changes. The amount of influence an individual member exerts in the bargaining process depends on its interests relative to the interests of other member states as well as its bargaining power. The most straightforward case in which a member can influence allocation decisions is if it is powerful enough either to assert itself in the negotiations or to influence the Commission individually. Such bargaining power can come from a country's vote share or its ability to use its domestic resources to provide side-payments to other members with different preferences. Germany and France have been considered dominant players in the EU, not just because of their large vote shares, but also because of their ability to informally influence negotiations. This leads to our first testable empirical implication[5]:

Hypothesis 1: *If a dominant EU member favors a recipient country, that recipient will receive more EU multilateral aid.*

Dominance of one EU member is not the only way to bias European aid. As members' preferences become more homogenous, opportunities for coalition formation arise. The more homogenous the preferences about specific policies, the easier it is to form coalitions and to overcome existing majority hurdles. The Commission cannot insulate itself from these preferences if a majority of states aim to implement similar policies. For example,

[4] In addition to the programs discussed here, the EIB provides some concessional loans, but most of its funding for concessional loans comes from the EDF and is earmarked.

[5] This result accounts for what scholars have found for the influence of US interests within the World Bank and the IMF.

Belgium, France, and the UK formed a coalition and asserted their desire to increase aid to their former colonies without the support of other member states. Consequently, EU members, weak and powerful alike, can influence the allocation of European aid if they belong to a group of states with homogenous preferences that is sufficiently large enough to fulfill the majority requirements:

Hypothesis 1b: *If a powerful interest coalition of EU members favors a recipient country, that recipient will receive more EU multilateral aid.*

Thus, powerful individual members or coalitions of members are able to influence the allocation of multilateral aid away from the interests of the Commission, leading to European aid that is less focused on organizational goals and more focused on the interests of the member states (if these interests diverge from the EU's official goals).

Coalition formation becomes increasingly difficult when members' preferences diverge. If members disagree over whether proposed policy changes are feasible, then the Commission can use the uncertainty of negotiations and its own expert knowledge to implement policies that accord with its goals (or to implement status quo policies). As long as a majority of EU members disagree that a potential policy falls within the scope of the EU's goals, they cannot change the distributional rules. This has two important empirical implications. First, we expect that as the heterogeneity of interests increases, the influence of coalitions' interests on the allocation of European aid declines:

Hypothesis 2a: *As the heterogeneity of EU member preferences increases, interest coalitions will be less likely to influence the allocation of European aid.*

Second, an increase in preference heterogeneity should also lead to an increase in the Commission's ability to determine the allocation of European aid. But what effect does this have on who gets European aid? If—as assumed above—the Commission aims to implement the EU's official development goals, then greater heterogeneity would imply that the Commission can allocate aid according to economic need and principles of good governance:

Hypothesis 2b: *As the heterogeneity of EU member preferences increases, countries with greater development needs are more likely to receive European aid.*

In sum, the ability of EU governments to bias the allocation of multilateral aid depends on the homogeneity of EU members' interests and the bargaining power of emerging interest coalitions within the EU. The ability to overcome collective action problems among EU member states is most difficult when preferences toward aid allocation are heterogeneous. When EU member preferences are heterogeneous, aid allocation will increase the ability of the EU Commission to pursue the EU's programmatic goals. However, if interest coalitions form, then EU 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 Council should receive greater aid from the EU independent of their economic needs, *ceteris paribus*.

Empirical Analysis

This section tests our theoretical hypotheses. The empirical analysis focuses on EU multilateral aid allocation (excluding any bilateral aid from EU member states as well as EU structural and cohesion funds) to developing countries. We use a data set with observations on European aid to 146 recipient countries over the period 1977–2006.[6] The unit of analysis is the recipient-year.

Dependent Variable

The dependent variable, *EU Aid Receipts,* is measured as the log of ODA commitments from the Commission to all low- and middle-income countries (in constant 2000 US dollars), as reported in the OECD's International Development Statistics.[7] We chose this operationalization over other methods of measuring aid receipts, such as aid as a percent of total aid or aid as a function of population or income per capita because we are interested in *how* aid is allocated to recipients. In other words, we want to measure the "gross importance" of the given recipient country to the EU. The level of European aid is the most direct measure of that concept. Nevertheless, we account for population and income measures as right-hand side variables, and we substitute our dependent variable with aid per capita and aid as a percentage of the recipient's GDP in our robustness checks.

Independent Variables

Our theoretical argument focuses on two components within the European decision-making process that affect European aid allocation: the formation of interest coalitions (Hypotheses 1a and 1b) and the heterogeneity of preferences (Hypotheses 2a and 2b).

Interest Coalition measures the strength of EU members' interest in a specific recipient country, weighted by the members' bargaining power in the Council. To construct this measure, we proceed in three steps. First, we measure the salience of foreign aid interests for each member, relying on research that shows that bilateral foreign aid reflects a donor's interest in providing multilateral aid to a developing country (Stone 2002, 2004, 2008). Bilateral aid accounts for all dimensions of a member's interests, particularly strategic and development aid. By using bilateral aid, we do not have to make assumptions about whether a donor is more interested in economic development or in supporting its geo-political and military goals, but can instead acknowledge that governments typically pursue both goals at the same time. Theoretically, we expect that EU members follow both strategic and development interests in the Council and both should therefore be reflected in European aid allocation.[8] We derive the basic aid allocation interests of any EU member i in any given recipient j by taking each member's bilateral aid flows to the recipient, as a proportion of that member's population for each year t:

[6] This includes all recipient countries in the OECD database considered "developing" by the OECD.

[7] This includes EU budget aid, EDF aid, and EIB's concessional aid.

[8] It could be that the EU members' ability to assert themselves is different depending on whether they are pursuing strategic or development interests. In the robustness section, we will use two alternative measures for interest saliency that allow us to distinguish between the two types of aid-giving. Neither provides substantially different results.

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

Increasing values for *Interest* imply that the EU member has increasingly salient interests in providing multilateral aid to that country. We use EU member population 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.[9]

In a second step, we weigh interest saliency by the EU member's bargaining power in the Council of Ministers (data are from the EU).[10] Bargaining power is measured as each member's number of votes as a proportion of total votes in the Council. Whereas a member's vote share mainly accounts for its formal bargaining power, it is also highly correlated with measures of informal bargaining power such as income, population, military strength, or historical importance:

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

We now have information on each member's interest saliency in a recipient and its bargaining power. To examine the impact of any individual EU member on European aid flows to recipients, we combine *Interest* and *Power* for that member. To test our hypothesis on the influence of dominant EU members (Hypothesis 1a), we analyze the individual influence of Germany and France (the two most dominant members of the EU) on European aid flows:

$$Dominant\ EU\ Member_{j,t} = Interest_{j,t} * Power_t \quad (3)$$

Dominant EU Member measures, for each aid recipient, the saliency of German (or French) interest weighted by German (or French) voting power in the Council. To test our hypothesis on coalition formation (Hypothesis 1b), we combine our measures of *Interest* and *Power* and aggregate them across Council members. The value of *Interest Coalition* for a given recipient country j in any given year t is calculated as:

$$Interest\ Coalition_{j,t} = \sum_{i=1}^{N} (Interest_{i,j,t} * Power_{i,t}) \quad (4)$$

The variable *Interest Coalition* thus represents the EU Council's interest salience in a specific recipient. We expect that the stronger a developing country's support within the Council (in terms of saliency and power), the greater its European aid receipts.

Figure 1 illustrates our measure by examining changes in interest coalitions averaged by region over time. In line with the historical evidence discussed above, a strong interest coalition in favor of providing aid to countries in Central and Eastern Europe emerged in the early 1990s. Similarly, support for European aid to Asia dramatically increased beginning in the late 1980s, which owes to the increasing importance of India and China to EU members (especially of late). EU member support for Africa and Latin America has remained relatively constant, but within each region we observe much variation both across and within countries. Figure 2 graphs *Interest Coalition* for four African countries: Congo, D.R. (a former Belgian colony), Ghana (a former British colony), Mozambique (a former Portuguese colony), and Niger (a former French colony). Mozambique, a relatively poor country, had almost no support within the Council until the beginning of 2000. Since then, EU member support has increased dramatically, most likely coinciding with its second democratic election and the political stability the country has experienced since their elections. Ghana and Congo D.R. have had relatively rocky support coalitions and both experienced a significant downswing in the 1980s. Finally, Niger's support has been relatively stable, though decreasing from the late 1980s onward.

Heterogeneity measures the heterogeneity of aid allocation interests across EU members in the Council for each year. To measure *Heterogeneity*, we calculate the coefficient of variation, which is the ratio of the standard deviation to the mean, expressed as a percentage of EU members' interest saliency in each year of observation. We expect

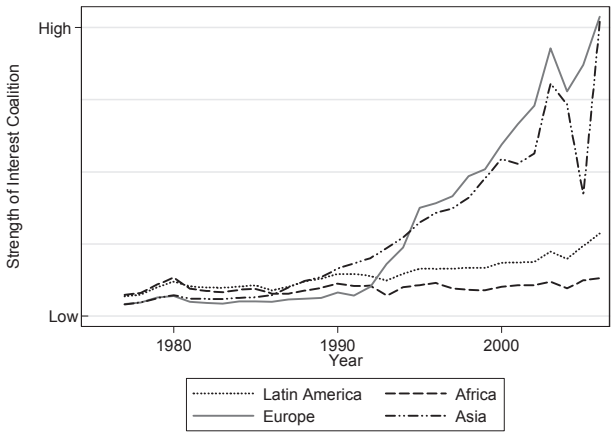

FIG 1. Interest Coalitions by Region

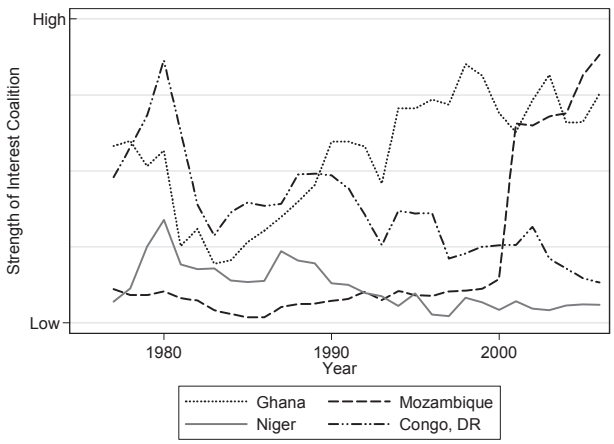

FIG 2. Interest Coalitions of Selected African Countries

[9] Our results do not change substantively if we use gross domestic product or total aid in the denominator.

[10] Decisions about the EDF are made by the EDF committee, which represents all EU members and is chaired by the Commission. Unfortunately, the OECD does not provide separate data for EDF and EU budget aid. We use Council vote shares because both Council and EDF committee vote shares are highly correlated with a member's GDP.

that the greater the heterogeneity of interests among EU members, the less important interest coalitions are for European aid allocation (Hypothesis 2a), and the more likely European aid will be distributed to poor countries (Hypothesis 2b).

To test Hypothesis 2b, we also need a measure for the recipient countries' development needs. We use the log of gross domestic product (GDP) per capita in constant (2000) US dollars as our main indicator for development need (data are from the World Bank [2011]). *Per Capita GDP* 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 development need, but including these variables would result in a significant loss of data, mainly from the poorest countries, thereby biasing our empirical results. Nevertheless, we are confident that *Per Capita GDP* provides a good approximation not only because of its wide use across the aid literature, but because of its high correlation with measures of human development such as infant mortality and literacy (Easterly and Dollar 1999).

Control Variables

Our choice of control variables was guided by the relevant empirical literature on aid allocation decisions cited above. Institutional quality is nowadays intrinsically linked to providing development aid. We control for the quality of democratic institutions (*Institutional Quality*) using data from Polity IV (Marshall, Jaggers, and Gurr 2009). To assess strategic economic interests, we include *Imports from EU*, which is measured as the natural log of all imports in a given year a recipient country receives from the EU. Data are from the World Bank's World Integrated Trade Solution Database. Since our data set spans from 1974 to 2006, and aid strategies changed drastically during and after the Cold War, we control for this time period. *Post–Cold War* takes the value 0 prior to 1989 and 1 in 1989 and after. *Distance* measures the natural log of the geographic distance (in kilometers) between a given country and Brussels. Data are from Gleditsch and Ward (2001). We further use a dummy variable equal to 1 if a country has ever been a colony of an EU member and a 0 otherwise (*Colony*), and we control for the natural log of a country's population in a given year (*Population*). Data are from the World Bank Development Indicators. To account for emergency aid allocations to countries that experience natural disasters, we include the sum of deaths in the country per year due to natural disasters (*Natural Disaster Deaths*). Data are from the EM-DAT International Disaster Database. We control for the change in total aid receipts (*EU Aid Change*) because a change in multilateral aid receipts could be the result of a change in the total amount of aid. Finally, we include the lag of our dependent variable, a set of regional dummies, and a time trend. Table 1 presents descriptive statistics.

Specification

Our econometric specification takes the following linear form: EU multilateral aid to recipient j in year t depends on the log of EU aid in year *t-1*, coalition support (or dominant donor support) in recipient j (*Interest Coalition*), interest heterogeneity among EU members (*Heterogeneity*), the level of a recipient's development needs (*Per Capita GDP*), control variables (*Control*), and an error term (ε):

Table 1. Descriptive Statistics

Variable	*N*	*Mean*	*SD*	*Min*	*Max*
EU Aid Receipts (log)	5007	5.81	4.75	0	14.72
Interest Coalition	5007	0	1	−0.33	30.21
Heterogeneity	4033	0	1	−2.26	1.50
Per Capita GDP (log)	4062	7.08	1.26	4.03	10.41
Sub Saharan Africa	5007	0.29	0.46	0	1
Middle East & North Africa	5007	0.06	0.24	0	1
Asia	5007	0.26	0.44	0	1
Latin America & Caribbean	5007	0.22	0.41	0	1
Colony	5007	0.71	0.46	0	1
Distance (log)	5007	67.70	36.22	7.22	164.95
Imports from EU (log)	4467	11.20	4.44	−0.30	18.22
Population (log)	4860	15.16	2.08	9.89	20.99
Natural Disaster Deaths	4857	422	6818	0	300000
EU Aid Change (%)	5007	3.44	16.53	−55.33	45.27
Institutional Quality	3942	9.15	6.87	0	20

$$\begin{aligned} \textit{EU Aid Receipts}\,(\textit{log})_{j,t} = {} & \alpha + \beta_1 \textit{EU Aid Receipts}\,(\textit{log})_{j,t-1} \\ & + \beta_2 \textit{Interest Coalition}_{j,t} \\ & + \beta_3 \textit{Heterogeneity}_{j,t} \\ & + \beta_4 \textit{Per Capita GDP}\,(\textit{log})_{j,t} \\ & + \beta_7 \textit{Controls}_{j,t} + \varepsilon_{j,t} \end{aligned} \tag{5}$$

According to Hypothesis 1a, recipients favored by dominant members should receive greater aid receipts, *ceteris paribus* ($\beta_2 > 0$). We test this hypothesis for the effect of Germany and France. Hypothesis 1b states that recipients favored by powerful interest coalitions will receive greater aid receipts, *ceteris paribus* ($\beta_2 > 0$). To evaluate Hypotheses 2a and 2b, we include an interaction term into our main specification:

$$\begin{aligned} \textit{EU Aid Receipts}\,(\textit{log})_{j,t} = {} & \alpha + \beta_1 \textit{EU Aid Receipts}\,(\textit{log})_{j,t-1} \\ & + \beta_2 \textit{Interest Coalition}_{j,t} \\ & + \beta_3 \textit{Heterogeneity}_{j,t} \\ & + \beta_4 \textit{Per Capita GDP}\,(\textit{log})_{j,t} \\ & + \beta_5 (\textit{Interest Coalition} * \textit{Heterogeneity})_{j,t} \\ & + \beta_6 (\textit{Per Capita GDP} * \textit{Heterogeneity})_{j,t} \\ & + \beta_7 \textit{Controls}_{j,t} + \varepsilon_{j,t} \end{aligned} \tag{6}$$

Hypothesis 2a states that if interest heterogeneity increases, EU member states will be less likely to influence aid allocation, *ceteris paribus* ($\beta_5 < 0$). We test this hypothesis by interacting *Interest Coalition* and *Heterogeneity*. Hypothesis 2b states that as interest heterogeneity increases, poorer countries will receive more aid, *ceteris paribus* ($\beta_6 < 0$). We use an interaction between *Per Capita GDP* and *Heterogeneity* to test this hypothesis.

For all estimates, we present feasible generalized least squares (FGLS) regression estimates with a Prais–Winsten transformation accounting for first-order correlation within each panel and we report panel corrected standard errors to account for panel heteroskedasticity (Beck and Katz 1996). Because we have an unbalanced panel,

Table 2. Interest Coalitions and EU Multilateral Aid

DV: EU Aid Receipts (log)	*Model 1*	*Model 2*	*Model 3*	*Model 4*
Interest Coalition		0.154 (0.059)***	0.119 (0.088)****	0.134 (0.059)**
Dominant Member (Germany)	0.082 (0.041)**			
Dominant Member (France)	0.142 (0.045)***			
Heterogeneity	−0.299 (0.065)***	−0.288 (0.065)***	−0.284 (0.065)***	0.972 (0.320)***
Per Capita GDP (log)	−0.253 (0.064)***	−0.285 (0.066)***	−0.280 (0.067)***	−0.305 (0.067)***
Heterogeneity * Coalition			−0.036 (0.068)****	
Heterogeneity * GDP				−0.186 (0.048)***
Lagged Dependent Variable	0.602 (0.016)***	0.603 (0.016)***	0.602 (0.016)***	0.600 (0.016)***
Sub-Saharan Africa	0.279 (0.266)	0.244 (0.267)	0.240 (0.268)	0.310 (0.267)
Middle East & North Africa	−0.480 (0.305)	−0.445 (0.309)	−0.457 (0.311)	−0.429 (0.307)
Asia	−0.596 (0.314)*	−0.592 (0.314)*	−0.605 (0.316)*	−0.573 (0.314)*
Latin America & Caribbean	−0.927 (0.297)***	−0.974 (0.298)***	−0.987 (0.300)***	−0.956 (0.298)***
Colony	0.353 (0.206)*	0.556 (0.205)***	0.555 (0.205)***	0.562 (0.204)***
Distance (log)	0.001 (0.003)	−0.001 (0.003)	−0.001 (0.003)	−0.001 (0.003)
Imports from EU (log)	0.022 (0.016)	0.024 (0.016)	0.024 (0.016)	0.020 (0.016)
Population (log)	−0.046 (0.043)	−0.046 (0.044)	−0.038 (0.046)	−0.022 (0.044)
Natural Disaster Deaths	0.885 (0.568)	0.814 (0.563)	0.816 (0.562)	0.891 (0.566)
EU Aid Change (%)	0.016 (0.003)***	0.016 (0.003)***	0.016 (0.003)***	0.016 (0.003)***
Institutional Quality	0.021 (0.010)**	0.020 (0.010)**	0.021 (0.010)**	0.018 (0.010)*
Time Trend	−0.025 (0.012)**	−0.027 (0.012)**	−0.027 (0.012)**	−0.026 (0.012)**
Post-Cold War	1.222 (0.199)***	1.222 (0.199)***	1.222 (0.199)***	1.229 (0.199)***
Constant	53.213 (23.799)**	57.904 (23.872)**	57.494 (23.863)**	56.854 (23.776)**
Number of Observations	2959	2959	2959	2957
Number of Recipients	123	123	123	123
R^2	0.60	0.59	0.59	0.60

(*Notes.* Equations 5 and 6 by FGLS.
Standard errors in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%; **** jointly significant at 10%).

we assume that the error variances are constant within each directed dyad, but heteroskedastic across dyads. Further, we include a lagged dependent variable (LDV) to deal with the possibility of first-order serial correlation. Because we have a large N (146 recipient countries) and a large T (30 years), we follow Beck and Katz (2001) who show that the inclusion of a LDV deals with some of the problems from missing unit effects by capturing much of the variance that might otherwise be assigned to the covariates.[11]

Empirical Results

Table 2 presents the results of our main hypothesis tests. We find that interest coalitions are an important determinant of European aid allocation. In addition, greater heterogeneity of EU member interests leads to an erosion of political influence on the aid allocation process and to an increase in aid to poor recipient countries.

Model 1 examines the influence of dominant EU members (France and Germany) on European aid allocation (Hypothesis 1a). We find that the greater the dominant members' interest in a recipient country, the more aid this recipient receives. A one standard deviation increase in *Dominant Member (Germany)* leads to an 8% increase in EU aid to that recipient. Similarly, a one standard deviation increase in *Dominant Member (France)* leads to a 14% increase in European aid. This finding supports our hypothesis that dominant members are able to influence the decision-making process within the EU, and it demonstrates that past findings on the role of the United States in the World Bank and IMF carry over to the EU. Model 2 analyzes the relationship between coalition support for a developing country within the Council and European aid receipts (Hypothesis 1b). *Interest Coalition* has a significant, positive influence on European aid receipts, providing support for our hypothesis that the greater coalition support for a developing country, the greater the recipient's aid receipts, *regardless* of its development needs. The substantive effect is large as well. A one standard deviation increase in *Interest Coalition* results in a 15% increase in European aid receipts.

Model 3 examines the relationship between Council heterogeneity and the ability of member coalitions to influence European aid allocation (Hypothesis 2a). Since it is difficult to interpret the conditional effects directly, we examine them graphically using the coefficient estimates and the variance–covariance matrices from Model 3. The solid line in Figure 3 shows the relationship between a one standard deviation increase in *Interest Coalition* on the amount of European aid allocated to each recipient as the preferences of EU members become more heterogeneous. The dotted lines represent the 95% confidence interval. The relationship is negative: As interest heterogeneity increases, the impact of interest coalitions on European aid allocation decreases. If preferences are very homogenous (for example at -2 which is close to the minimum in our sample), a one standard deviation increase in *Interest Coalition* equates to an increase in aid flows to that recipient of nearly 20%. If preferences are very heterogeneous (for example, at 1.5, which is the maximum in our sample), however, a one standard deviation increase in *Interest Coalition* equates to an increase in European aid of only 6.5%. At the highest

[11] The LDV along with the panel corrected standard errors goes some way towards dealing with the exclusion of fixed effects in our specification, but to verify that this is not a problem, we re-estimate our model using ordinary least squares (OLS) with fixed effects in the robustness section. It is also possible that including a LDV in both our FGLS estimates and our OLS fixed effects estimates leads to biased coefficient estimates (Nickell 1981). The robustness section presents results of a model that uses the Arellano and Bond generalized method of moments (GMM) system estimator.

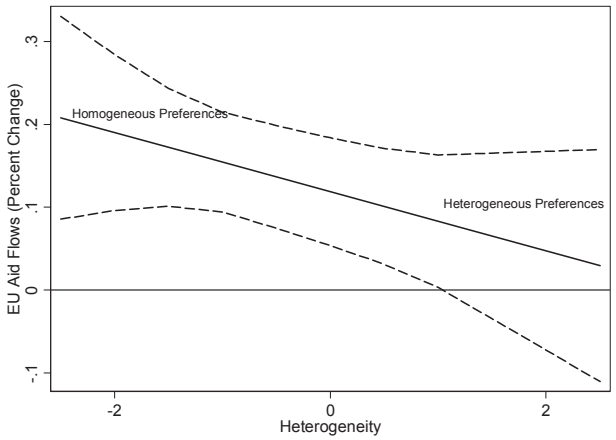

FIG 3. Effect of an Increase in Interest Coalition on EU Multilateral Aid for Varying Levels of Heterogeneity

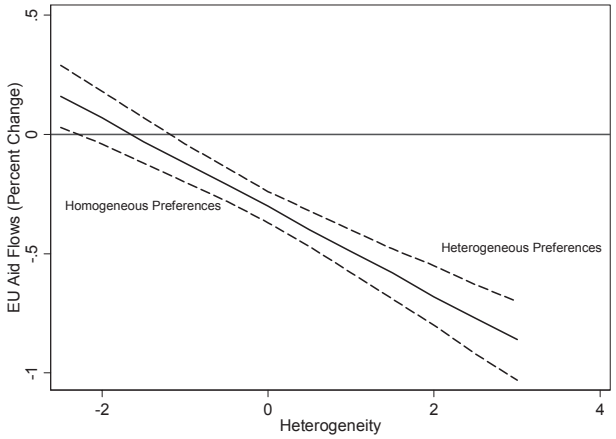

FIG 4. Effect of an Increase in GDP on EU Multilateral Aid for Varying Levels of Heterogeneity

levels of heterogeneity, EU members can do little to affect the Commission's allocation of aid; the effect of interest coalitions on European aid allocation becomes insignificant.

Model 4 analyzes the relationship between Council heterogeneity and the ability of the Commission to provide aid to the poorest countries (Hypothesis 2b). Figure 4 graphs the effect of a 1% increase in *GDP per capita* on *EU Aid* for different levels of *Heterogeneity*, holding all other variables constant. We find that the relationship between a country's income level (our proxy for development) and their aid receipts depends on the heterogeneity of member preferences. As the heterogeneity of interests increases, poor countries, on average, receive more aid from the EU. When EU members have largely heterogeneous preferences (for example, at 1.5, which is the maximum in our sample), a 1% increase in a recipient's GDP would decrease its aid receipts by nearly 60%. When member preferences are largely homogeneous (for example at -2, which is close to the minimum in our sample), a 1% increase in the recipient's GDP would increase its aid receipts by 7%. This provides support for Hypothesis 2b that as the heterogeneity of EU member preferences increases, poorer countries are more likely to receive European aid. At the same time, it indicates that EU members indeed have aid allocation preferences that are, on average, more strategic than the official development goals pursued by the Commission.

Together, these results provide strong support for our theory. Interest coalitions play a central role in the allocation of European multilateral aid, and it is important to analyze such coalitions and their interaction with the Commission in order to get a fuller understanding of the politics of multilateral aid. The more powerful these coalitions are, the greater their ability to bias the aid allocation process in favor of their foreign policy goals. However, if member interests diverge, the Commission can play members against each other to pursue its own interests, which are more development oriented than those of the Council members. Although these findings provide some support for the general literature on agency slippage, it is important to discuss the unconditional relationship between interest heterogeneity and European aid flows as well. Independently, *Heterogeneity* has a negative and significant influence on aid receipts. That is, on average recipients receive less aid if EU members' preferences about overall aid goals diverge. A one standard deviation increase in heterogeneity among members equates to a 29% decrease in overall aid. The effect is robust across all model specifications and indicates that interest heterogeneity may increase the Commission's ability to pursue the official EU aid goals, but contrary to the agency slippage argument, it does *not* increase the Commission's ability to expand the size of the European aid budget. We believe that this negative finding owes to the ability of EU governments to determine the size of their contributions. The findings then indicate that EU members are less likely to delegate foreign aid if they expect little opportunity to bias aid in favor of their national interests.

Finally, we turn to our control variables. The coefficients of the variables that capture development needs point in the expected direction. The poorer the recipient and the greater its institutional quality, the greater its aid receipts from the EU (see, however, the conditional effect of GDP). African countries also tend to get more aid than Central and Eastern European countries (our excluded case). *Distance*, *Imports from* EU, and *Population* do not enter significantly into our model. *Colony*, *EU Aid Change*, *Natural Disaster Deaths*, as well as *Post–Cold War* have a positive effect on aid receipts.

Robustness Checks

Empirical results are often fragile to changes in model specification. To ensure that our results do not experience this same fragility, we conducted a number of robustness tests. For each test, we use Equation 5, where we include both *Interest Coalition* and *Heterogeneity*, but exclude the interaction terms.

Our main independent variables, *Interest Coalition* and *Heterogeneity*, are based on the assumption that bilateral aid allocation patterns provide a good approximation to measure the aid allocation interests that EU members defend during Council negotiations. We can think of four potential problems with this measurement. First, bilateral aid allocation patterns are a function of both the strategic and development interests of EU member states. They are thus influenced by many of the control variables that we use in the main models, such as *Trade*, *GDP*, or *Colony*. An alternative way to analyze the influence of interest saliency and bargaining power on European aid allocation is to estimate rather than measure *Interest Saliency* in a first-stage regression and then

use the predicted probabilities as an estimate of interest coalitions in the second stage. Specifically, we estimate the following first-stage regression[12]:

$$\begin{aligned} EU\ Aid\ Receipts(log)_{i,j,t} = & \alpha_j + \beta_1 Imports\ from\ EU\ (log)_{i,j,t} \\ & + \beta_2 Distance_{i,j} \\ & + \beta_3 Alliance_{i,j,t} + \beta_4 Colony_{i,j} \\ & + \beta_5 Region_j + \beta_6 Per\ Capita\ GDP\ (log)_{j,t} \\ & + \beta_7 Institutional\ Quality + \varepsilon_{j,t} \end{aligned} \quad (7)$$

The predicted estimates from this equation represent the strategic and non-strategic determinants of bilateral aid, with the residuals accounting for other factors that might influence the decision to give bilateral aid. In a second step, we use the predicted probabilities to calculate *Interest Coalition* and *Heterogeneity* and re-estimate Equation 5 excluding the control variables used in the first stage of Equation 7:

$$\begin{aligned} EU\ Aid\ Receipts\ (log)_{j,t} = & \alpha + \beta_2 EU\ Aid\ Receipts\ (log)_{j,t-1} \\ & + \beta_2 Predicted\ Interest\ Coalition_{j,t} \\ & + \beta_3 Heterogeneity_{j,t} + \beta_4 Controls \\ & + \varepsilon_{j,t} \end{aligned} \quad (8)$$

All models are estimated with corrected standard errors to account for the additional uncertainty introduced by the predictions in the second stage. Model 5 in Table 3 presents the results, which are not significantly different from our main results in Table 1.

Second, whereas we argue that EU members aim to influence European aid allocation in the Council negotiations so as to achieve both their strategic and development objectives, it could be that the EU members' ability to assert themselves is different for these two dimensions of aid-giving. Specifically, members may receive greater marginal returns per aid dollar if strategic interests are at stake because they benefit from supporting development, *and* they achieve their foreign policy goals. On the one hand, this could weaken its bargaining leverage in the Council negotiations, leading to a weakening of the relationship between *Interest Coalition* and European aid allocation. On the other hand, it could induce the member to bargain even harder, leading to a strengthening of the relationship between *Interest Coalition* and European aid allocation. If this were true, then we would expect differences between the development-based portion and the strategic-based portion of an EU member's interests. Our bilateral aid measure cannot test for this directly. We therefore calculated a measure of interest coalitions separating out these different motivations for aid. First, we substitute bilateral aid with voting affinity within the UN General Assembly, a measure used in the literature to account for foreign policy alignment, which more likely represents the purely strategic portion of an EU member's interest in a recipient country. We calculated voting affinity (s-scores) between Council members and recipient countries from Voeten and Merdzanovic's (2009) UN voting data. Second, we replicated our two-stage estimation strategy in Equation 7, predicting bilateral aid in two components: (i) based only on the strategic interest of the donor and excluding development objectives (*Per Capita GDP* and *Institutional Quality*) and (ii) based only on development objectives. In the second stage, we substituted these two predicted estimates for our measure of interest coalition.

Models 6 and 7 present the results. The relationship between *Interest Coalition* and European aid allocation remains positive and significant for both types of aid preferences. Further, according to the confidence intervals for both point estimates, there is no difference in magnitude between the two types of preferences.

Third, the results for *Interest Coalition* could be driven by the influence of Germany and France, as two dominant members of the Council. To analyze whether this is the case, we excluded both France and Germany from our interest coalition variable (Table 4, Model 8) and included them separately. The main findings are robust to these changes.

Fourth, it could be that Council decisions are based on an informal negotiation process where the final decision takes into account the preferences of all EU members that have salient interests, regardless of their voting power. To test for this possibility, we include *Interest Coalition* excluding the power component. Table 4, Model 9 shows that while *Interest* itself has a positive sign, it is not significant in our model. This implies that powerful coalitions have an advantage when attempting to bias European aid allocations.[13] This finding is very important for our theory as it provides the foundation for the importance of coalition dynamics in the EU. At the same time, it provides support for previous work on dominant donors since it shows that their influence is not simply due to saliency but also to their advantageous bargaining position.

Table 5 includes the results of a number of revised estimations. 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 use OLS with fixed effects (both with and without LDV). Models 10 and 11 show that while the magnitudes of the results change, the signs and significance levels are retained. It is also possible that including a LDV in both our GLS estimates and our OLS fixed effects estimates results in biased coefficient estimates. We estimate a GMM model, which was specifically designed to deal with panel data that exhibits autocorrelation, to verify the robustness of our results (Arellano and Bond 1991; Kosack and Tobin 2006). Model 12 shows that there is a small difference in magnitude, but the results remain consistent. The Sargan–Hansen test reports a *p*-value of one, indicating the possibility of over-fitting our endogenous variables. Finally, because many developing countries received no aid from the EU over many years, we estimated our model using a time-series Tobit model. Model 13 presents these results, which again contain minimal changes.

We further checked for the robustness of our results by estimating the main models with different operationalizations of the dependent variable. Table 6, Model 14 uses total aid allocation divided by the recipient's population (*Aid Per Capita*), and Model 15 uses the log of total aid allocation divided by the recipient country's GDP (*Log of Aid/GDP*). Although the coefficient magnitudes change as a function of the different measurement, operationalizing

[12] All variables are equivalent to those described in empirical section with the addition of *Alliance,* which takes 1 in any year that the donor and recipient were in a military alliance. Data is from the Alliance Treaty Obligations and Provisions Project, available at http://atop.rice.edu/.

[13] This is in line with theories of consensus bargaining in the EU, which shows that EU members take into account the formal power of each member when formulating a consensus decision. See for example Thomson, Stokman, Achen, and Koenig (2006).

TABLE 3. Robustness Checks, Interest Coalitions I

DV: EU Aid Receipts (log)	*Model 5 Predicted Estimates for Interest (Strategic and Non-strategic)*	*Model 6 UN S-Scores for Interest*	*Model 7 Predicted Estimates for Interest (Components Split)*
Interest Coalition (predicted estimates)	0.516 (0.056)***		
Heterogeneity (predicted estimates)	−0.590 (0.102)***		
Interest Coalition (UN S-Score)		0.485 (0.076)***	
Heterogeneity (UN S-Score)		−0.219 (0.096)**	
Interest Coalition (predicted estimates strategic interest)			0.371 (0.063)***
Heterogeneity (predicted estimates strategic interest)			−0.607 (0.095)***
Interest Coalition (predicted estimates development interest)			0.497 (0.063)***
Heterogeneity (predicted estimates development interest)			−5.27 (.0655)***
Per Capita GDP (log)		−0.400 (0.060)***	
Lagged Dependent Variable	0.660 (0.015)***	0.608 (0.015)***	0.612 (0.016)***
Constant	−119.321(40.473)***	−6.028 (26.458)	98.864 (28.004)***
Number of Observations	2939	3213	2939
Number of Recipients	126	122	126
R^2	0.61	0.65	0.61

(*Notes.* Equation 5 by FGLS; Standard errors in parentheses; Control Variables omitted to save space.
*Significant at 10%; ** significant at 5%; *** significant at 1%).

TABLE 4. Robustness Checks, Interest Coalitions II

DV: EU Aid Receipts (log)	*Model 8*	*Model 9*
Dominant Member (Germany)	0.080 (0.043)*	
Dominant Member (France)	0.170 (0.045)***	
Coalition (Excluding France & Germany)	0.109 (0.055)**	
Interest Saliency (Excluding Power)		0.081 (0.053)
Lagged Dependent Variable	0.609 (0.015)***	0.618 (0.015)***
Per Capita GDP (log)	−0.442 (0.064)***	−0.404 (0.062)***
Sub-Saharan Africa	0.484 (0.245)**	0.474 (0.246)*
Middle East & North Africa	−0.102 (0.277)	−0.140 (0.278)
Asia	−0.344 (0.274)	−0.326 (0.274)
Latin America & Caribbean	−0.487 (0.273)*	−0.592 (0.273)**
Colony	0.700 (0.198)***	0.824 (0.194)***
Distance (log)	−0.000 (0.003)	−0.000 (0.003)
Imports from EU (log)	0.044 (0.015)****	0.050 (0.014)***
Population (log)	−0.045 (0.042)	0.010 (0.040)
Natural Disaster Deaths	0.953 (0.575)*	0.848 (0.567)
EU Aid Change (%)	0.014 (0.003)***	0.015 (0.003)***
Institutional Quality	0.026 (0.009)**	0.022 (0.009)**
Time Trend	−0.023 (0.012)**	−0.025 (0.012)**
Post-Cold War	1.494 (0.193)***	1.489 (0.193)***
Constant	50.363 (22.859)**	52.115 (22.849)**
Number of Observations	3217	3217
Number of Recipients	123	123
R^2	0.64	0.64

(*Notes.* Equation 5 by FGLS; Standard errors in parentheses.
*Significant at 10%; ** significant at 5%; *** significant at 1%).

the dependent variable differently does not significantly alter our results.

We also added different sets of control variables. The results are available upon request from the authors. First, we replaced *Colony* with dummy variables for each of the colonial powers. Interestingly, French and British colonies receive more aid than non-colonies, while Spanish and Italian colonies receive less aid than non-colonies (Belgian and Portuguese colonies are not significantly different from non-colonies). Second, we included an alternative measure of institutional quality. We use political risk, a commonly used measure available from the International Country Risk Guide (ICRG). It is measured on a scale from 1 to 100 with higher numbers signaling better levels of the political environment in a country (that is, lower levels of political risk). Because of limited time availability, we lose over 1,000 observations from the inclusion of this variable. Third, we included a dummy for African, Caribbean, and Pacific (ACP) countries. Fourth, we include fixed time effects into the model. Fifth, we both included a dummy variable equal to one in every year that a country was a member of the EU and dropped each country-year from our analysis. None of these estimations yield substantively different results.

Finally we checked whether the results could be unduly affected by outliers. We examined the means and standard deviations of all variables to check for anything unusual, and we employed a number of standard regression diagnostics, including Cook's distances, dfbetas, and added-variable plots. The tests revealed very few disproportionately influential observations. Only Turkey from 2002 to 2006, the Czech Republic from 2002 to 2003 and Romania from 2001 to 2004 stood out. Removing these had no effect on the results.

Conclusion

The EU is the largest multilateral aid donor in the world, yet scant attention has been paid to how and why it allocates its foreign aid resources. We argued that the allocation of EU multilateral aid is influenced by how decision-making processes within the Council translate into the ability of EU members to bias the Commission's aid policies toward their foreign aid interests. If aid allocation interests in the Council converge, European

Table 5. Robustness Checks, Model Specification

DV: EU Aid Receipts (log)	*Model 10 OLS, FE*	*Model 11 OLS, FE*	*Model 12 GMM System*	*Model 13 Tobit*
Interest Coalition	0.202 (0.071)***	0.334 (0.078)***	0.188 (0.061)***	0.213 (0.062)***
Heterogeneity	−0.273 (0.081)***	−0.410 (0.089)***	−0.416 (0.082)***	−0.340 (0.072)***
Per Capita GDP (log)	0.010 (0.258)	0.008 (0.284)	−0.313 (0.087)***	−0.342 (0.091)***
Lagged Dependent Variable	0.405 (0.017)***		0.558 (0.024)***	0.508 (0.018)***
Sub-Saharan Africa			0.301 (0.276)	0.434 (0.325)
Middle East & North Africa			−0.404 (0.389)	−0.571 (0.370)
Asia			−0.662 (0.343)*	−0.652 (0.365)*
Latin America & Caribbean			−1.195 (0.416)***	−1.096 (0.362)***
Colony			0.524 (0.241)**	0.681 (0.240)***
Distance (log)			−0.002 (0.004)	−0.001 (0.004)
Imports from EU (log)	0.091 (0.039)**	0.138 (0.043)***	0.038 (0.025)	0.047 (0.027)*
Population (log)	−6.006 (0.816)***	−10.264 (0.877)***	−0.077 (0.058)	−0.077 (0.058)
Natural Disaster Deaths	0.506 (0.673)	0.633 (0.741)	0.596 (0.358)*	0.742 (0.676)
EU Aid Change (%)	0.015 (0.003)***	0.011 (0.003)***	0.019 (0.003)***	0.015 (0.003)***
Institutional Quality	−0.017 (0.015)	−0.035 (0.017)**	0.044 (0.009)***	0.017 (0.011)
Time Trend	0.134 (0.024)***	0.287 (0.025)***		−0.012 (0.013)
Post-Cold War	1.445 (0.212)***	1.603 (0.234)***		1.195 (0.213)***
Constant	−167.58 (36.658)***	−402.64 (38.951)***	5.759 (1.126)***	28.458 (25.945)
Number of Observations	2959	2959	2959	2959
Number of Recipients	123	123	123	123
R^2	0.36	0.23		

(*Notes.* Equation 5 by various methods; Standard errors in parentheses.
* Significant at 10%; ** significant at 5%; ***significant at 1%).

Table 6. Robustness Checks, Dependent Variable

	Model 14 DV: Aid Per Capita	*Model 15 DV: Log of Aid/GDP*
Interest Coalition	0.032 (0.020)*	0.098 (0.039)**
Heterogeneity	−0.149 (0.039)***	−0.130 (0.035)***
Per Capita GDP (log)	−0.092 (0.041)**	−0.616 (0.044)***
Lagged Dependent Variable	0.412 (0.022)***	0.500 (0.018)***
Sub-Saharan Africa	−0.367 (0.153)**	0.103 (0.141)
Mid East & North Africa	−0.271 (0.174)	−0.103 (0.142)
Asia	−0.653 (0.170)***	−0.494 (0.159)***
Latin America & Caribbean	−0.880 (0.174)***	−0.461 (0.156)***
Colony	0.317 (0.110)***	0.328 (0.096)***
Distance (log)	−0.004 (0.002)**	−0.002 (0.002)
Imports from EU (log)	−0.004 (0.011)	0.006 (0.011)
Population (log)	−0.412 (0.032)***	0.072 (0.026)***
Natural Disaster Deaths	0.120 (0.254)	0.446 (0.305)
EU Aid Change (%)	0.008 (0.002)***	0.009 (0.002)***
Institutional Quality	0.023 (0.006)***	0.016 (0.005)***
Time Trend	−0.015 (0.007)**	0.014 (0.007)**
Post-Cold War	−0.120 (0.126)	0.136 (0.107)
Constant	−26.392 (14.632)*	−24.793 (13.167)*
Number of Observations	2107	2874
Number of Recipients	120	122
R^2	0.53	0.66

(*Notes.* Equation 5 by FGLS; Standard errors in parentheses.
* Significant at 10%; ** significant at 5%; ***significant at 1%).

aid is likely to be biased toward the interests of its dominant members or powerful interest coalitions. If interests in the Council diverge, then the Commission can play the interests of EU members against each other and allocate aid to the poorest countries. However, at the same time, it will face declining financial resources to do so because EU members' willingness to delegate their foreign aid through the Commission declines. The empirical analysis provides robust support for our theory.

This paper provides a first analysis of collective principal dynamics in the EU, and it also provides new insights for decision-making processes and multilateral aid allocation in general. First, we show that influence in multilateral aid allocation is not limited to the most dominant donors, but that weak states can form powerful interest coalitions that have an effect on aid allocation. Interestingly, we find that power does matter and that EU members cannot rely on informal bargaining to assert their interests. Second, whereas principal-agent theories typically expect an increase in the organizational budget if the principals' preferences diverge, we show that the Commission actually has fewer resources at its disposal in such situations. This finding is a consequence of allowing EU members to substitute multilateral aid-giving with bilateral aid-giving. A decline in their influence then triggers a decline in the amount of resources they delegate to these institutions.

There are several reasons as to why we believe that our theory is applicable beyond the EU to other multilateral aid institutions as well. First, our theory applies to institutions that delegate at least some management and agenda-setting powers to a multilateral agent. Virtually, all multilateral aid institutions rely on the delegation of financial resources to a multilateral agent who, in turn, has some capacity to independently manage and implement aid allocation. Second, our theory applies to institutions that grant influence to governments. Intergovernmental bodies 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 management of development projects, they are constrained by the decisions of the Board of Executive Directors. Third, our theory is flexible to various institutional frameworks. For

example, we 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 bypass 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.

Our paper focuses on the ability of interest coalitions to influence *who* gets European aid. One interesting venue for future research would be to analyze the ability of interest coalitions to influence *how* European aid is spent. For example, the EU has imposed positive conditionality in many of its aid projects where recipients are more likely to receive aid if they have strong records of good governance. The Commission and EU members could have diverging preferences about whether and to what extent conditionality should be applied in these cases. We expect that our general theory of interest coalitions would hold, but it could be important to analyze the interests of the Council and the Commission on the one hand, and variations in such interests across Council members on the other.

The decision to give foreign aid has never been one based solely on altruism. Yet, the primary rationale behind delegating management and agenda-setting powers to the EU has been to ensure a more development-based approach to foreign aid. In a time when many multilateral aid institutions are being reformed to ensure greater efficiency and effectiveness, our theory speaks to the possibility for reform. If reforms are able to better insulate multilateral aid agencies from the strategic designs of their members, multilateral aid agencies will be better able to achieve their goals of reaching the poorest countries. Nevertheless, the question remains of how much delegation is possible before governments lose their incentive to delegate aid to the international level in the first place.

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