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

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

by

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A thesis submitted to the
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This thesis entitled:
Explaining A New Foreign Aid Recipient: The European Union's Provision of Foreign Aid to Regional Trade Agreements, 1995-2013
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has been approved for the Department of Political Science

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Date __________________

The final copy of this thesis has been examined by the signatories, and we find that both the content and the form meet acceptable presentation standards of scholarly work in the above mentioned discipline.
What explains the emergence of intergovernmental organizations (IGOs) as recipients of foreign aid? I argue that foreign aid provision to IGOs is a significant development in the foreign policy of the European Union and explain this phenomenon by modifying the traditional donor interest versus recipient need framework for understanding aid allocations, where aid giving to IGOs, rather than states, is a new tool of aid allocation for the purpose of recipient need rather than the pursuit of donor interests. Using original data on European Commission foreign aid allocations to PTAs from 1995-2013, I test the argument that EU aid allocations are primarily determined by economic and trade development considerations and present three key propositions, where a) foreign aid allocations from the EU will be larger when aid is allocated to PTAs with greater economic and trade development need; b) aid allocations from the EU are not driven primarily by donor interest considerations; and c) aid allocations from the EU will be greater when allocated to PTAs with a high degree of institutional independence from member states, indicating a depoliticized aid environment. Using quantitative analysis, I find considerable support for these propositions and supplement the statistical findings with qualitative case research based upon elite-level interviews of European Commission officials. I show that indeed, when the European Union provides aid to PTAs, they give aid predominantly to more needy, independent PTAs, not to further their own interests as an aid donor.
Dedication

To Nora Grace. Never be afraid to follow your dreams!
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Chapter 1

Introduction

1.1 Understanding IGOs as Aid Recipients: An Introduction

What explains the emergence of international governmental organizations (IGOs) as recipients of foreign aid? Studies of the drivers of aid allocation by donor states are prevalent as are studies of aid recipients in the form of states (see Alesina and Dollar, 2000; Bearce and Tirone, 2007; Lancaster, 2007; Milner and Tingley, 2009; Schraeder, Hook, and Taylor, 1998). What makes the above question interesting, however, is the puzzle that arises in the form of the recipient: the IGO, a new and perhaps unconventional aid recipient that defies the logic behind much of what we know about foreign aid. In this dissertation, I argue that this new form of aid recipient represents a new development in the provision of foreign aid that warrants exploration and has implications for how scholars of IGOs and foreign aid understand the nexus of these entities.

Multilateral institutions such as the World Trade Organization, World Bank, International Monetary Fund, and the European Union, along with a few states, are increasingly allocating portions of their ODA budgets to IGOs. This is a significant development in foreign aid, as the traditional aid recipients are states, not groups of states. For example, the World Bank allocated $1.25 million in aid to the Economic Community of Central African States (CEMAC) in 2011 for enhancing transport and trade facilitation (World Bank, 2011). This was only one of many regionally-focused aid projects the World Bank funded in a single year. In 2009, the IMF continued funding to the Eastern Caribbean Currency Union (ECCU) in hopes of reversing a regional economic slowdown (IMF, 2009). The EU, perhaps the most prominent donor of aid to IGO recipients,
regularly funds aid projects to ASEAN, SADC, COMESA, and the Andean Community, to name only a handful of IGO recipients of EU aid. Finally, it is not only IGOs who provide aid to IGO recipients; even the United States has begun to accept this new foreign aid recipient. In November, 2012 the United States Agency for International Development (USAID) announced a new commitment to funding for the African Development Banks Migration and Development Fund, and the agency has voiced support for aid to LDCs seeking regional integration in lieu of bilateral trade development (USAID 2003; 2012).

To the extent that IGO aid recipients are an increasing component of aid budgets, it is necessary to understand both the growth and implications of this new aid recipient, and the foreign aid literature has so far ignored this development. Answering the questions of why IGOs receive aid, which IGOs get aid, aid effectiveness, and the implications of this new foreign aid relationship must be addressed if we are to understand the current state of foreign aid exchanges in the global economy. If key aid donors such as the World Bank, IMF, United States, and European Union (EU) are adopting the trend of aiding IGOs and have been doing so for some time, then the literature on foreign aid and IGOs must begin to address the phenomenon as well.

Foreign aid provision to IGOs is a significant development in the international political economy and can be explained by modifying the donor interest versus recipient need framework for understanding foreign aid allocations more generally. In short, this dissertation argues that aid to IGOs is a new type of aid allocation that is best understood as a tool to promote economic and trade development rather than as a foreign policy tool used in pursuit of donor interests. It has been argued in the literature that states who wish to provide some of their foreign aid for recipient need purposes are likely to delegate the aid provision task to multilateral organizations because of the depoliticization of IGO aid giving (see Lebovic and Voeten, 2006, 2009; Milner 2006). Using a similar logic, I argue that when development concerns are at the center of aid provision, i.e. aid for recipient need, then donors will allocate aid to IGOs rather than individual states because of the depoliticized nature of the IGO environment.

Thus far, no attention has been paid to IGOs as foreign aid recipients, despite the fact that
donors such as the EU have been allocating aid to IGO recipients for decades. The main form of IGO receiving this foreign aid is the regional trade agreement (RTA), and I show that the RTA aid recipient makes sense given the need focus of the aid and the understanding that trade liberalization is a central component to long term economic growth. This study is the first attempt to explain both the motivations for and implications of IGOs as aid recipients, and as a result this dissertation provides an important addition to the foreign aid literature. Studies of foreign aid have sought to examine and reexamine the motivations and practices of aid donors whether they are states or IGOs as well as those of aid recipients, i.e. states. Until we also recognize and understand the development of the IGO as recipient, the literature on foreign aid will be unable to account for this development in foreign aid interactions in the international political economy.

1.2 Outline of the Dissertation

The remainder of the dissertation proceeds as follows. In Chapter Two, I present the primary research question of what explains the rise of IGOs as foreign aid recipients and then use the chapter to establish the importance of the question and why it has not yet been answered. I describe IGO foreign aid generally as well as EU aid to RTAs more specifically. Here, I argue that aid allocated to IGOs, and RTAs in particular, is not well-understood using the traditional donor interest framework of understanding foreign aid allocations. I highlight the need to address this new development in foreign aid allocations and suggest that the IGO recipient may be accounted for within a recipient need logic of foreign aid.

Chapter Three focuses on the proposed answer to my research question. Here I develop the argument that the emergence of IGOs as foreign aid recipients can be explained within a recipient need framework wherein the less politicized IGO environment allows for need-based aid giving to be more effectively pursued in the IGO context as opposed to more traditional bilateral aid. Chapter Three is theory driven; this is where I outline what we know and do not know with respect to multilateral aid giving generally and EU aid more specifically, and detail my proposed answer to the research question, explaining how we can conceive of IGO recipients as a new form of need-
driven foreign aid. I also outline why RTAs, rather than some other form of IGO, is spearheading the IGO as recipient movement, and discuss the trade component of these IGOs as attractive for long term development growth. I conclude the chapter by presenting testable hypotheses and set up the empirical chapters to follow.

Chapter Four is the first of three empirical chapters. This chapter focuses on large-N statistical tests of my research question and hypotheses. Using original data, I conduct several statistical tests of my question, with time series cross sectional models examining EU aid allocations to RTAs over the time period 1995-2011. To preview, I find evidence to support my argument that aid to RTAs is driven by recipient need considerations. Further, RTAs become more attractive aid donors when they have an institutional design that provides them with relative degrees of institutional independence from their member states.

Chapter Five provides qualitative evidence in support of my statistical findings. This chapter uses interview evidence from elite-level interviews at the European Commission in Brussels, Belgium to highlight how aid allocation decisions are made at the EC level. I further illustrate the need and institutional design component of aid to RTAs by examining illustrative case examples of several African RTAs.

Chapter Six is the final empirical chapter and offers a new, although secondary research question: does aid to RTAs work? It also serves as a step towards examining the implications of the theory and findings that comprise the main argument of the dissertation. Given my theory that foreign aid given to IGO recipients is based on development considerations and the institutional independence of the RTA, I test to see whether this aid is indeed effective using a large-N analysis of the gravity model of trade and the role played by EU foreign at producing effects on the trade development of RTAs.

Chapter Seven is the concluding chapter of the dissertation and ties the entire study together. Here I summarize the dissertation, highlight key findings from my empirical chapters, and offer implications of this research for our understandings of IGOs, foreign aid, and trade, concluding by offering directions for future research.
Chapter 2

Research Question

2.1 Introduction

What explains the emergence of IGOs as recipients of foreign aid? This question is an important one because aid to IGOs is a relatively new development in foreign aid that may have real implications for aid activities in the future. The central existing debate about foreign aid focuses on whether and how aid allocations have implications for aid effectiveness. If it is indeed true that the way aid is allocated matters for effectiveness, then this new way of allocating aid, to an IGO, may challenge the structure of this critical debate. Certainly, given the aid literature is focused almost universally on states as recipients, understanding this new aid recipient is critical if we are truly interested in understanding how aid works and why donors have the aid policies they do. Furthermore, if foreign aid given to IGOs is effective, then the phenomenon is likely to grow. Thus, it becomes important to understand this new development in its early stages so that we can better understand why IGOs as recipients are increasingly attractive to aid donors and whether this relatively new phenomenon should be expected to develop further.

This chapter establishes the importance of this research question, and does so with a descriptive look at aid to IGOs. I then establish that this important question is unanswered in the second half of the chapter. Of course, the very newness of the development of the IGO as aid recipient implies that this is a question that has likely not been studied. However, I show that even the existing literature on foreign aid fails to give us an adequate answer to why IGOs have emerged as aid recipients. On the one hand, it might be possible to argue that aid to RTAs is a
new conceptualization of donor interest, where some set of aid donors sees it as politically advantageous to provide aid via an IGO. However, as I will argue, aid to IGOs is anathema to traditional expectations regarding aid as an exchange relationship. On the other hand, it could be argued that aid is a function of isomorphism so often detected in studies of institutional proliferation. While this may be a partial explanation of aid to IGOs, I present an argument for why this cannot be a complete answer to the research question at hand. In what follows, I establish the importance of this research question, presenting a descriptive look at aid to IGOs, before demonstrating that this question is unanswered by more thoroughly discussing these two possible answers to the question of why IGOs receive aid.

2.2 A New Development in Foreign Aid: Aid to IGOs

Aid donors, such as the WTO, World Bank, International Monetary Fund (IMF), United States, and the EU are increasingly allocating portions of their ODA budgets to IGOs in the specific institutional form of regional trade agreements (RTAs). The arguments and theory I present in this dissertation are focused on this aid to RTAs, but are also generalizable to other types of IGOs, as I discuss in Chapter 3. IGOs have attributes that are increasingly attractive to aid donors, such as centralization and independence (Abbott and Snidal 2000). This centralization may allow for aid to impact multiple states who are mutual members of a given IGO, thereby providing aid donors with more bang for their buck, while independence may provide a degree of neutrality to the aid being given, a factor that could impact aid effectiveness. Hence, IGOs of varying forms that possess these characteristics may be increasingly attractive as aid recipients. The focus here on RTAs is due in large part to the fact that this is the institutional form currently receiving the most IGO aid. The European Union began the practice of aiding RTAs, but other donors are following suit and the practice has grown considerably since the 1990’s. As aid to RTAs has grown, the importance of answering the question of why IGOs receive foreign aid is also growing. Again, if the aid literature is correct that the way aid is allocated has implications for aid effectiveness, it becomes important to understand how allocating aid to RTAs matters for aid effectiveness as well. RTAs have some
specific features in addition to varying degrees of centralization and independence that make these IGOs especially attractive as aid recipients, and I discuss the practice and attractiveness of RTAs as recipients in this section.

Furthermore, to the extent that RTAs are attractive aid recipients, it is possible that a wide range of aid donors will increasingly begin to allocate portions of their aid budgets to RTA recipients. Indeed, the list of aid donors who have increasingly begun to aid RTAs is growing and includes states, such as the US, and IGO donors, such as the World Bank. To the extent that RTA recipients are increasingly attractive to aid donors, we should see the number of state and IGO donors who allocate aid to RTA recipients increase. Currently, the most prolific donor to RTAs is the EU. The EU’s leadership on this front may make some intuitive sense because the EU is also an RTA, but institutional similarity does not require or imply that the EU should remain the most active donor of RTA assistance. The focus of this dissertation is on aid coming from the EU, but this is because of the EU’s groundbreaking and significant involvement in this specific type of aid giving, as well as the availability of original data on aid from the EU to RTAs. However, this focus on EU aid does not limit the generalizability of the arguments I make to other state or IGO donors. The arguments for why RTAs are attractive aid recipients rest on the attractiveness of the institutional form of the recipient and have little to do with the institutional form of the aid donor, as will be shown.

2.2.1 A descriptive look at aid to RTAs

In this dissertation, RTAs are defined as formalized trade agreements among three or more geographically-proximate members. RTAs, increasingly prominent features of the international political economy, are created with the aim of liberalizing trade policies among members. Substantively, aid to RTAs differs from bilateral foreign aid, both in terms of the number of donors who give aid to RTAs and the size of the aid packages given. While RTAs are a very specific type of IGO, they share some of the same attributes as other types of IGOs, i.e. centralization and independence, qualities that are seen as attractive to the states who choose to use IGOs for the
pursuit of policy objectives (Abbott and Snidal 2000).

While the focus of this dissertation is on European Union aid to RTAs, and the EU is admittedly at the forefront of this type of aid giving, it is by no means the only donor in this regard. The United States, via the United States Agency for International Development (USAID) is increasingly including aid to RTAs in its budget in the form of trade capacity assistance. For example, between 2006 and 2010 USAID provided aid to the members of the Central American Free Trade Agreement-Dominican Republic, CAFTA-DR, to assist in bringing all member states into trade compliance under this treaty (USAID, 2011). However, US aid to RTAs isn’t limited to those agreements of which it is a member and this assistance goes to RTAs in nearly all regions of the globe.

In Africa, USAID funded four RTAs, with the Common Market for Eastern and Southern Africa (COMESA) receiving just over $482,000 in trade capacity assistance in 2011, while in 2008 SACU received over $100,000. In Asia, the Association of Southeast Asian Nations, or ASEAN, and the Asia-Pacific Economic Cooperation (APEC) each received nearly $360,000 in assistance in 2012. In addition to the CAFTA-DR aid, Latin American RTAs including the Andean Community, the Southern Cone Common Market, or MERCOSUR as it is more commonly known, and the Free Trade Agreement of the Americas (FTAA) all received US aid. In the Caribbean, The Caribbean Community (CARICOM) received upwards of $108,000 in USAID assistance in 2005 (Trade Capacity Building Database 2013). Thus, the United States has begun to see assisting RTAs as an integral part of it’s USAID budget, funding agreements in most regions. The World Bank has also been involved in providing assistance to RTAs in the form of loans. In 2005 the Bank allocated a series of loans for statistical capacity building to various RTAs, including the Andean Community ($4 million) and CARICOM ($19 million). World Bank funds in the amount of $8 million also helped with a study on customs and border patrol in COMESA.

Data on aid to RTAs is difficult to come by largely because it is a fairly new practice. USAID reports on aid to RTAs begin in 2000, and World Bank reports generally come from the 2000’s onward. Even the EU, perhaps the largest donor to RTAs, has only been engaging seriously in
this practice since the early 1990s. Thus, aiding RTAs is a fairly new phenomenon. Clearly, it is also a relatively small portion of most aid budgets. US aid to state recipients often figures into the millions of dollars per year, especially when given to strategic allies like Egypt or Israel, while the largest USAID aid package to an RTA appeared to be only $360,000. Similarly, when EU aid goes to state recipients these aid packages can easily reach into the millions, while aid to RTAs is typically in smaller amounts and measured by thousands, rather than millions, of euros.

While it may appear that this relatively new development in foreign aid is insignificant due to its small size compared to bilateral aid, it is also the case that small, targeted aid packages can have real effectiveness and importance, as has been shown with democracy aid. Scott and Steele (2011, 2005) find a relationship between aid and effectiveness in smaller, targeted democracy assistance packages while larger, more generic economic aid amounts tend to have little impact on the democratization of recipients. The conclusion is that smaller projects directed at specific goals, such as democratic participation and institution-building may be both more effective and efficient at promoting democratization in spite of their small dollar amounts and precisely because of their targeted nature (Scott and Steele 2011, p. 65). Aid packages to RTAs are often similarly targeted, as shown above. Aid for Trade (AfT), which I discuss in Section 2.2.3, is targeted specifically at trade capacity-building, regional integration assistance is targeted specifically to the institutions of various RTAs to strengthen their capacity, and other forms of trade and infrastructure assistance are earmarked for very specific projects and goals. These small, targeted aid packages to RTAs may work in a manner similar to democracy aid, where small amounts need not necessarily mean a lack of aid effectiveness.

Again, aid to RTAs is a fairly new development, but is a growing practice among a wide range of donors. Despite often coming in small aid packages, aid to RTAs and explaining why this practice has developed is an important endeavor. As more and more aid donors engage in the practice, it is necessary to understand the motivations for this new practice. Due to the difficulty of acquiring data on aid to RTAs, I focus on EU aid to RTAs in this and subsequent chapters. In the following subsection I discuss the nature of EU aid to RTAs. I then situate EU aid into the
broader, WTO-led focus on Aid for Trade.

2.2.2 European Union Aid to RTAs As A Leading Edge Example

As the EU has sought to integrate a more cohesive foreign policy, the European Commission (EC) has joined the global push to improve the economic development of poor states through the liberalization of trade. Much of the focus of the EC’s trade and development policy has long been limited to the Africa, Caribbean, and Pacific (ACP) countries given the colonial legacies of member states. However, according to a high level official in the EC Directorate General (DG) for Trade, while the emphasis on trade with the ACP began to shift in the early 2000s from unilateral and bilateral trade preferences, by 2003 EC officials began to view the promotion of regional trade and integration as the way forward. Indeed, the consensus coming from DG Trade and DG EuropeAid, Development, and Cooperation is that regional integration through trade is a key tool for regional development, with the Commission justifying this approach based on its own experience of peace and economic stability through regional integration:

The European Commission strongly believes that regional integration is an effective means of achieving prosperity, peace and security. Inspired by its own success, the EU places regional integration alongside trade as one of its priorities for development cooperation. The Commission’s work in this area is implemented through the use of regional programming documents, drafted in consultation with the relevant regional organizations. The aim is to help developing regions implement their own regional integration agendas (EuropeAid, 2012).

Further, when DG Trade officials are asked why the EU chooses to include regional integration as a significant goal of their trade and development policies, the phrase it’s in our DNA is likely to come up alongside other more traditional explanations for integration, including the benefits of freer trade, market access, and lower prices for consumers.

Implementation of trade and development policies focusing on regional integration takes the form of geographic programs in which regions and countries are allocated varying amounts of foreign aid through three main funds: the European Neighborhood and Partnership Instrument (ENPI),
the European Development Fund (EDF), and the Development Co-operation Instrument (DCI). These three funding instruments correspond to the level of connectedness of the region with the EU. ENPI countries and regions are considered part of the EU’s Neighborhood Policy and are the most geographically proximate non-European states, the EDF serves the ACP region, and the DCI covers regions not of historical importance to EU member state interests, such as Latin America (EuropeAid, 2012). Foreign aid packages used to promote trade and regional integration focus on capacity-building with an emphasis on promoting freer trade, the formation of customs unions, and regional macroeconomic stability (EuropeAid, 2012).

The Commissions 2005 European Consensus on Development, a joint statement of the three main EU institutions, the Commission, Council of Ministers, and European Parliament, is clear on the importance of promoting development through regional economic integration and trade, stating,

The Community will assist developing countries on trade and regional integration through fostering equitable and environmentally sustainable growth, smooth and gradual integration into the world economy, and linking trade and poverty reduction or equivalent strategies. The priorities in this area are institutional and capacity building to design and effectively implement sound trade and integration policies, as well as support for the private sector to take advantage of new trading opportunities (Official Journal of the European Union, 2006/C 46/01).

Thus, much of the focus of EU development policy is geared toward the promotion of trade liberalization on a regional level, with the hope that regional integration will work for developing countries just as it worked for European states in the aftermath of the Second World War. The EU, along with many aid donors, has also begun to focus on providing trade-related assistance in the form of AfT. It is to this type of aid that I now turn.

2.2.3 Aid for Trade

Aid for Trade (AfT) is aid targeted specifically for the development of trade practices and infrastructures. It is necessary to discuss this very particular type of aid when examining aid
to RTAs because of the trade integration focus of these IGOs. While I argue in Chapter 3 that the answer to the question of why IGOs receive foreign aid is generalizable to various types of institutions, RTAs, being the most common IGO aid recipient, do have some unique characteristics that have helped them become one of the first types of IGOs to receive foreign aid. Specifically, the aim of RTAs, to lower barriers to trade and integrate trade policy among a group of states, places these IGOs in harmony with the trade-development nexus that has for many years been at the center of the development policies of many aid donors. AfT was developed in the late 1990’s in response to the demands of developing countries for assistance with trade liberalization costs. AfT represented a realization by the OECD states, in response to developing state pressure, that Washington Consensus-style trade liberalization is a costly venture for developing countries, who are often needy both in terms of economic and trade development. According to the WTO, the IGO at the forefront of AfT policy,

The WTO-led Aid for Trade initiative encourages developing country governments and donors to recognize the role that trade can play in development. In particular, the Initiative seeks to mobilize resources to address the trade-related constraints identified by developing and Least-developed countries, (WTO, 2013).

AfT represents a concerted effort by developed economies to provide targeted ODA for economic development purposes, with the expectation that improving trade openness will lead to economic growth in recipients (Stiglitz and Charlton, 2006). Integration into the multilateral trading system via membership in RTAs is a key goal of AfT, which highlights the importance of trade agreements to the ultimate goal of furthering economic development (OECD, 2006). Indeed, a key intention of AfT’s Trade Related Technical Assistance is to

help countries negotiate, reform, and prepare for closer integration in the multilateral trading system; it covers activities such as analysis and implementation of multilateral trade agreements, trade policy mainstreaming, and technical standards, trade facilitation including tariff structures and customs regimes, support to regional trade agreements and human resources development in trade, (OECD, p. 27, 2006).
That the AfT agenda places such a significant reliance on trade integration and trade agreements suggests that RTA promotion may be a worthwhile focus of aid for economic development purposes and helps in beginning to think about why this new development in aid recipients is worthy of explanation.

AfT has also been shown to be particularly effective in assisting recipient countries in liberalizing trade practices. Bearce et al (2013) show that US AfT has had considerable success in increasing recipient country exports, where "a 1 increase in total USAfT has been associated with a 69 increase in recipient exports two years later," (Bearce et al 2013, 164). Among the explanations for why this particular form of aid can be especially effective at increasing recipient exports, Bearce et al argue that AfT is much less fungible than other types of foreign aid, as this type of aid is specifically targeted on a relatively narrow set of projects (namely those directed at improving private sector trade practices, public sector trade policies, and trade infrastructure) that the recipient government either could not accomplish on its own (due to a lack of expertise) or would not accomplish without foreign aid (due to other more pressing spending priorities). Both considerations suggest that aid for trade may be less fungible than traditional development aid,” (Bearce et al 2013, 165).

Such evidence of AfT effectiveness might be an additional explanation for why RTAs, as a specific type of IGO, are especially attractive as aid recipients. Where donors are concerned with increasing the economic development of recipients via trade liberalization, RTAs make intuitive sense as aid recipients because of their goal of reducing barriers to trade.

Further, the EU touts itself as the single largest donor of AfT in the international system, giving more than $3.5 billion in AfT yearly since 2010 (European Commission, 2012). The EU gives specific focus to promoting regional integration via AfT in Africa, but is a donor to regional PTAs worldwide. In a 2007 AfT Strategy Report, the EC promised to focus on:

...supporting regional integration and achieving greater complementarity and cooperation at the regional level, the EU will:
Collectively upgrade AIT at the regional level so as to further strengthen its support to regional organizations’ implementation of their regional integration strategies, including by:
- supporting regional organisations’ capacity to organise coordination and wider stakeholder involvement at the regional level;
- assisting, where needed, regional organisations in the further identification and prioritisation of trade-related needs;
- providing adequate responses to priorities, using joint delivery mechanisms where possible,” (European Commission, 2007).

Given this focus on the part of the Commission for aiding regions in addition to states, I argue that it is necessary to understand this development in EC aid giving by placing it in a broader theory of why RTAs are increasingly attractive aid recipients. It is important to gain a theoretical perspective on this growing aid practice that is likely to continue across regions and donors. In the next section I discuss possible answers to the question of why IGOs are recipients of foreign aid and explain why existing theories about IGOs and aid are insufficient for understanding RTAs as aid recipients.

2.3 What Explains the Emergence of Aid to RTAs? Possible Explanations

This dissertation explains the rise of IGOs as foreign aid recipients, as the question of why IGOs have become recipients has yet to be answered. In Chapter 3, I explain my argument for why RTAs receive aid; before elaborating my argument in the following chapter I here consider other possible answers to the question of why RTAs receive foreign aid. First, there is a vast literature on the determinants of foreign aid giving, and the reasons behind the allocation of aid packages have been well-documented by academics, with both donor interests and recipient need explanations for aid giving. Much of the evidence on aid suggests a considerable influence of donor interest factors trumping recipient need considerations in determining aid recipients. While it may therefore seem obvious given the size of the existing literature to rely on previous explanations of aid giving to explain the puzzle at hand, I argue that current understandings about aid recipients and the motivations of aid donors are not suited to understanding why RTAs receive aid. Second, another possible explanation for RTAs as aid recipients comes from the literature on IGOs more broadly,
namely the tendency to observe institutional isomorphism, or similarity, across IGOs. However, I see both of these answers as insufficient for explaining RTAs as aid recipients, and I discuss each in turn.

### 2.3.1 Donor interest explanations and aid to RTAs

There is no shortage of work studying the determinants of aid allocations. As the practice of giving foreign aid has grown, beginning in the Cold War era and showing no sign of slowing today, so too have the number of analyses of both bilateral and multilateral aid. Most commonly, studies focus on how the political and strategic interests of aid donors determines who they aid and how much money is allocated to certain recipients, with considerations of need being the less relevant predictor of aid. Donor interest explanations are almost overwhelmingly found to predict bilateral aid relationships. I discuss donor interests and aid allocations and show why these studies of more traditional aid relationships between an aid donor and a state recipient, are insufficient for answering the question of what determines aid to RTA recipients.

The foreign aid literature has as its foundation the question of the determinants of aid from a donor to a state recipient. During the Cold War and since, the primary form an aid relationship takes is bilateral, from a single donor to a single recipient. In one of the earliest studies of the foreign aid relationship, McKinlay and Little (1979) developed the donor interest versus recipient need model for explaining the aid of a single donor, the United States. Their work was very much in response to that of Morgenthau (1962), which pointed out the "baffling" nature of the aid relationship, which can appear to be both need-driven and interest-based (Morgenthau 1962, p.301). On the one hand humanitarian interests are often reflected in US rhetoric on foreign aid, but in practice these concerns seem not always to determine aid giving. Harkening a realist interpretation of aid, where foreign aid is seen merely as one of many tools in a state’s toolbox to extract policy concessions and interest-based gains from aid recipients that would not otherwise be attainable for the donor, McKinlay and Little write,
Based on an examination of the pattern of aid distribution, the findings show, first, that there are no grounds for thinking that the United States employs humanitarian criteria when distributing aid, and second, that the United States tends to use the power base of a country to determine the size of its aid allocation. The distribution of aid, therefore, conforms to a realist image of international politics,” (McKinlay and Little 1979, 237).

So just what makes up the donor interest models of aid allocations? Beginning with McKinlay and Little, this model includes a number of predictors for aid allocations, with definitions of donor interest centered around the importance of security, power, political, and economic interests of the US, among others (McKinlay and Little, 1979, 239-240). Overwhelmingly, McKinlay and Little find that donor interest variables predict US foreign aid, while recipient need variables, such as recipient country wealth and economic growth, do not.

Since this early study on foreign aid, others have found similar results when expanding their analyses both to other aid donors as well as into more recent years. Maizels and Nissanke (1984) find that even when other donors are included in their analysis, political and power/security variables robustly predict bilateral aid giving, while recipient need measures lack explanatory power. Lumsdaine (1993) and Schrader, Hook, and Taylor (1998) disaggregate donor interests into considerations over former colonies, trade relationships, security alliances, and military spending measures, among others. Both find that donor interests in these varying forms tend to trump need in bilateral aid relationships.

In a recent seminal study, Alesina and Dollar (2000) summarize and compare the existing aid literature on both the determinants and effects of foreign aid. Examining aid giving between 1970 and 1994 and for a variety of donors, they seek to "explain the behavior of bilateral donors" in giving aid (Alesina and Dollar 2000, 35). What they find is perhaps not surprising:

We find considerable evidence that the pattern of aid giving is dictated by political and strategic considerations. An inefficient, economically closed, mismanaged non-democratic former colony politically friendly to its former colonizer, receives more foreign aid than another country with a similar level of poverty, a superior policy stance, but without a past as a colony, (Alesina and Dollar 2000, 33).
Dollar and Levin (2006) find similarly strong support for former colonial relationships for those aid donors who have significant colonial histories, and as recently as 2011, Hoeffler and Outram write, 

Virtually without exception, the research to date has found that the political and economic interests of donors outweigh the developmental needs or merits of the recipients, (Hoeffler and Outram 2011, 238).

Colonial history is of special concern for many European donors, as are commercial and trade interests. In a 1992 study of the determinants of EC bilateral and multilateral aid giving, Grilli and Riess find that the strongest predictor of EC member state aid was exports from the donor to the recipient (Grilli and Riess 1992). Whether interests are measured in terms of power, colonial history, or trade relationships, the evidence is clear that the interests of the donor matters most in determining aid allocations. Thus, the findings regarding donor interest explanations for bilateral aid giving have been robustly confirmed throughout decades of research. Overwhelmingly, in traditional bilateral aid relationships, on which most of foreign aid literature is focused, the interests of donor states outweigh concerns over recipient need when aid allocations are made.

As I will show empirically in subsequent chapters, aid to RTAs is not a story of donor interest. There are several explanations for the inadequacy of the donor interest model for explaining aid to RTAs, and the traditional donor interest model is fundamentally at odds with the nature of the donor-HTA recipient relationship. First, those who subscribe to the donor interest model assume that aid is essentially an exchange, whereby donors promise aid to a recipient in exchange for some type of policy/alliance commitment. Thus, donors expect a return on their investment, and will allocate where this exchange is profitable, and reallocate aid when it is not. But as Morgenthau and others have pointed out, for this exchange to work, the channel between donor and recipient must be clear, i.e. the donor must be able to effectively communicate the political cost of the aid to the recipient, and the recipient must be able to clearly identify the donor making these claims. If the donor has no obvious means of expressing their desires and/or the recipient does not realize from where the aid comes, this exchange relationship is challenged. The desire for clarity, and even direct control, in this type of aid relationship means it is especially well suited to bilateral aid
giving, where a single state donor can directly communicate with a single state recipient the terms of the aid. Such is not the case in this story.

In the RTA context, the conditions allowing for successful exchanges in aid giving are not met. The donor, bilateral or multilateral, allocates aid to an independent organization that must use the aid so that it most helps all of the states in the RTA. As a result, to the extent that traditional donor interest stories comprise a donor dictating some type of behavior to a state, this becomes increasingly difficult to do in an IGO context where multiple states interact. It is unlikely in any given case that a donor would require or even want the exchange relationship with all RTA members, and even if they did, we have a further complication: the fact that the donor is not communicating directly with the member countries, but through their independent secretariat. As Morgenthau writes,

...the political effects of foreign aid are lost if its foreign source is not obvious to the recipients. For it is not aid as such or its beneficial results that creates political loyalties on the part of the recipient, but the positive relationship that the mind of the recipient establishes between the aid and its beneficial results, on the one hand, and the political philosophy, the political system, and the political objectives of the giver, on the other, (Morgenthau 1962, 308-309).

Dated as this passage may be, it makes a very good point: to benefit the donor, the recipient needs to clearly know and feel obliged to the donor in exchange for the aid. In an RTA context, it may not be immediately obvious to all RTA members where aid given to the organization, rather than directly to their own governments, comes from; all they see is an influx of assistance. Donors will therefore have the most authority to use aid for their own interests when the direct donor-recipient relationship is upheld. Again, this implies a single donor giving to a single recipient. When the number of actors is multiplied on either the donor or recipient end, this direct relationship is challenged. If the donor wishes to use their aid allocations as a foreign policy tool to pursue self interest, it only makes sense that they would do so in such a way as to maintain full control of the aid transaction.

Indeed, this is why so much of the evidence regarding the determinants of bilateral aid shows
the overwhelming explanatory power of interest-based variables in determining allocations. The RTA as recipient challenges this transaction. In an RTA context, the donor gives aid to an independent, de-politicized intergovernmental organization that does not face the same consequences as a singular state recipient if the donor’s terms are not met. Donor governments rarely have meaningful political ties to RTAs in other regions of the world. If the RTA does not give the donor what it wants, the donor cannot refuse to pay membership dues; they never paid them in the first place. The donor cannot declare war or sanction and RTA in protest; RTAs exist across members, which member state(s) would the angry donor punish? Because foreign aid is not cheap, and comes at some political and economic cost to the donor, the less risk and greater clarity involved in the transaction the better. Donors who aren’t sure of the benefits of a given aid transaction to their own interests will seek more certain conditions. This may be in large part why so many aid relationships are of the more traditional state-state form; this type of relationship is the least risky to aid donors that see their aid packages as investments in a donor-approved outcome.

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

Third, given that this benefit is worth paying for it may also have some time dimension, a fact that is supported by the relative stickiness of aid relationships. For example, the United States has for many years maintained a sizeable aid relationship with Egypt, a strong Middle Eastern ally in a region in which the US is decidedly not viewed with friendly eyes. During the recent tumult in which the military ousted democratically elected president Mohamed Morsi, the US was
slow to condemn this action by cutting off aid from the US to the Egyptian government. Even when President Obama did eventually decide to partially cut US aid to Egypt in October 2013, four months after the coup, he faced severe criticisms from both sides of the political spectrum for endangering US interests in the area because of this action (Hudson 2013).

The reluctance for donor states to cut off or suspend foreign aid when recipients pursue bad policies in other aspects of their domestic or foreign policy is one reason why state donors often reserve some subset of their aid pool, that which they wish to actually go for recipient need, to be channelled through multilateral donors, who are not so tied by their political/strategic interests in the recipient that they cannot react when recipients do not use their aid for need purposes (Lebovic and Voeten 2006; 2009). This tendency to reserve some aid giving to be delegated to an agent donor in cases of need further demonstrates why existing explanations of donor interest in aid allocations cannot be sufficient to explain aid to RTAs. When donors want to use aid to pursue interests, which is most of the time, they seek to maintain direct control over a relatively certain exchange by giving aid directly to a state recipient. This cannot be done when the recipient is an RTA.

The donor-RTA relationship is fundamentally at odds with the exchange of foreign aid giving for donor interest. RTA recipients, especially the member states who may directly or indirectly benefit from aid to the organization, are not interacting primarily with the donor, thereby weakening the donor’s ability to express their preferences with respect to the aid exchange to all parties involved. Furthermore, donors who care more about their interests than recipient need will seek out the bilateral relationship where they can retain the most control over the exchange, ensuring that aid goes to attractive recipients. When donors are concerned with recipient need, they will be more likely to give aid multilaterally or through other channels.

Thus, if we look to the bulk of the existing literature on the determinants of foreign aid to answer the question of why IGOs are emerging as aid recipients, we are left with a question which is still unanswered. Most of the foreign aid literature has been focused on the nature of a donor-state aid relationship where donor interests trump recipient needs in determining aid allocations to recipients. If we try to apply this literature in the RTA as recipient context, we fundamentally
misunderstand the prerequisites for this interest-based aid relationship to be successful. While donor interests might be a knee-jerk, first glance type of answer to the question of why IGOs receive foreign aid, it is an insufficient answer.

2.3.2 Institutional isomorphism and aid to RTAs

A second possible answer to the question of why RTAs receive foreign aid comes from sociological institutionalism and organizational theory arguments regarding the proliferation of institutional isomorphism, or the tendency to observe institutions of many types proliferating with similar structures, purposes, and activities (see DiMaggio and Powell 1992; Meyer 2009). If RTAs are receiving aid because of the influence of institutional isomorphism, this could be considered as an extension of the donor interest argument for foreign aid allocations and would answer the question of why RTAs with a very EU-specific theory. However, as I argue, while institutional isomorphism and EU interests may appear at first glance to explain RTA aid recipients, this is also an insufficient answer to the research question at hand.

From sociological institutionalism came the observation that institutions often mirror one another, to surprising degrees. Regardless of the context, institutions become legitimized by societies, who develop these organizations in situations of uncertainty. In rational attempts to develop systems that work and in uncertain environments where problem-solving is difficult, we tend to observe new institutions that replicate the previously legitimized institutional design when developing and altering their new or existing institutional structures (see DiMaggio and Powell 1991). In the international relations context, institutional isomorphism has been used to explain many of the institutional structures we study. Constructivists who seek not to assume states as the primary actors in international politics but to ask why international society is structured around the state-as-unit have often looked to institutional isomorphism to explain this phenomenon. Despite other possible, and sometimes better, means of organizing groups of people and territories, ”sovereign states are a remarkably robust organizational form that has edged out all competitors,” writes Martha Finnemore in her overview of this institutionalist theory (Finnemore 1996, 334). A soci-
ological institutionalist approach would explain this development as arising from the development of cultural norms that have over time and space externally legitimized the state as an ideal organizational form primarily via replication, and most obviously codified in the peace of Westphalia in 1648.

Institutional isomorphism has been used not only to explain the existence of states as territories with easily defined borders, but also the institutional structures within states, i.e. their systems of government, presence of militaries, systems of welfare, and etcetera. Why, a sociological institutionalist might ask, do all states have similar sets of basic institutional structures when states themselves vary quite dramatically in their wealth, geography, capabilities, and environments? Again, the answer can be found in the spread of cultural norms that emphasize such institutional designs as necessary components for legitimate states.

Isomorphism can, and has been, used as a partial explanation for the rise in the number of RTAs in the international political economy. Following the great experiment in regional integration that is the European Union, other similar regional integration projects began to crop up in all areas of the globe. The EU, which in its original form as the European Coal and Steel Community emerged as a means of preventing further intra-continental conflict among Europe’s major powers France and Germany, sought to integrate the economies of these two states in order to make peace more profitable and war more costly. This project reflected a growing recognition among other major powers that better management of the rules for international financial and trade relations was needed in the post-World War II world. Thus, throughout the latter half of the 20th century, and especially once it became apparent that the European project was working, other states began to emulate the regional integration model. Additionally, while RTAs are often explained by trade and globalization experts as a response to inequalities and unfair policies in the WTO system, and certainly smaller countries have felt disadvantaged in the 159 member state WTO negotiating ring (see Bhagwati 1993, Bhagwati and Panagariya 1996, Hertz and Wagner 2001, Laird 1999, Mansfield and Reinhardt 2003, Summers 1991), such an explanation could account for bilateral, non-regional PTAs as well as RTAs, and we are still left to explain the spread of the RTA institutional form.
Both PTAs and RTAs allow for greater bargaining power among signatories and relative ease of negotiation, and furthermore both may liberalize trade among members.

Proponents of institutional isomorphism might argue, however, that the RTA has become legitimized in the minds of many states who seek these goals of bargaining power and trade openness because of the evidence of success and resulting legitimacy of the European model, despite the fact that this regional institutional form may not make functional sense for all states and regions. As the number of RTAs has grown dramatically since the 1990’s, this movement toward regional integration often, on the surface at least, mirrors the European model, but when looked at more closely especially in the African context, many of these RTAs are not only disfunctional, but overlap in problematic ways, such as in terms of membership and obligations as a result of membership (Juplle, Jolliff, and Wojcik, no date). In as much as the tendency for institutions to isomorphize is a partial explanation for the number of these institutions in the international political economy today, this explanation doesn’t necessarily tell us anything about why these RTAs are receiving foreign aid. While DiMaggio and Powell (1991) believe institutional isomorphism can occur because of coercion, mimetic processes, or normative pressures, these various causal mechanisms do not necessarily lead to the conclusion that foreign aid is a likely, or even obvious, means to this end.

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

the tendency of the EU to ‘reproduce itself’ (Bretherton and Vogler 1999: 249) in
its relations with non-members. The argument goes that the EU addresses patterns of interdependence 'through the external projection of internal solutions' (Lavenex 2004: 695). The projection might reflect an embellished or selective model of governance, but it is 'an operational one' (Nicolaidis and Howse 2002: 768)...My understanding is that much of the EU’s action can be characterized as an unreflective attempt to promote its own model because institutions tend to export institutional isomorphism as a default option... (Bicchi 2006, 286-287; emphasis added).

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

The region that the EU seems to regard as most promising with regard to isomorphic regionalism is Latin America, particularly its Southern Cone, which is culturally the most similar world region and has also implemented a common market project (Mercosur) that might develop along European lines, (Schimmelfennig 2009, 13).

While the EU may see regionalism as a viable option for MERCOSUR, Schimmelfennig notes that other examples of EU interactions in the developing world don’t necessarily display any preference for regional integration, and cases such as the African Union, widely known to be modeled after the EU, didn’t necessarily come about by EU encouragement for a pseudo-EU in Africa. Similarly, the Barcelona Process, which encouraged regional integration and deeper relations for the Euro-Med countries more closely resembled the structure of the Commission on Security Cooperation in Europe (CSCE) than the European Community (Schimmelfennig 2009).

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

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

While some might argue that the EU is pushing regionalism to legitimate its own model elsewhere, it could also be argued that as the single best and most observable case of the success of regional integration, the EU needs no further legitimation. With its own seat in WTO negotiations, and a campaign for an EU chair in the UN Security Council, the EU as a model is clearly not illegitimate in the mind of the international polity, thus it shouldn’t need to push its model on others in order to legitimate itself. Finally, as I have already said, the institutional isomorphism approach assumes the practice of aiding RTAs is a uniquely European phenomenon, but this is simply not the case. Instead, other institutional actors like the World Bank, WTO, regional development banks, as well as state actors including the United States, are engaging in this practice. If isomorphism and the desire of the EU to reproduce itself is the answer to my question, why should we observe non-EU actors engaging in similar practices? The answer is we shouldn’t.

Institutional isomorphism, though it may well be taking place, doesn’t answer my research question of why IGOs are emerging as foreign aid recipients. It is true that the EU may at times recommend its own model to emerging regions, and certainly some of these RTAs are adopting the EU model of economic integration in hopes that it may work for them, with or without EU support. But this is a process that is occurring in tandem with aid to RTAs, not causing it. For the isomorphism answer to hold true, we should only observe aid coming from RTA donors to RTA recipients, but this is not observably true in the real world. Though this dissertation focuses on
EU aid, this is because of the availability of EU data and the groundbreaking work the EU has done here, not because the EU is the only donor engaging in this activity. If the EU’s aid is only about promoting isomorphism, how do we account for other donors’ decisions to do the same? The arguments I propose in Chapter 3 are not specific to one donor, but are concerned with specific attributes of the recipient in answering the research question at hand. Thus, even if institutional isomorphism appears to explain in whole or in part the question of why IGOs receive foreign aid, it is at best an insufficient answer.

2.4 Conclusion

As has been discussed, the question of why IGOs receive foreign aid is an interesting one, not only because of the novelty of the phenomenon, but because of the implications this new aid transaction has for our understanding of aid allocations and effectiveness. Further, to the extent that aid to RTAs is likely to grow as a practice among a wide range of donors, it becomes pertinent to understand the practice as it is developing in hopes of gaining academic and policy leverage on this new aid relationship. After discussing the importance of this new research question I have discussed whether two first-glance answers to the question are useful: do donor interests and/or institutional isomorphism explain this development? While these could be proposed as possible explanations for why RTAs receive foreign aid, I argue that both are insufficient explanations. Rather, as I show in the next chapter, something different is at work here. In Chapter 3 I argue that aid to RTAs represents a new, more trade-oriented approach to addressing the development needs of aid recipients. In addition to the attractiveness of development through trade, aid to RTAs is driven by the attractiveness of a relatively depoliticized aid recipient, following the logic of the IGO as a depoliticized aid donor, where multilateral institutions are better able to give aid for recipient need than can happen in the traditional state-state setting. Further, as I will show in the preceding chapters, the statistical findings largely support my arguments and discredit the donor interest and isomorphism approaches to explaining RTA aid recipients.
Chapter 3

Theory

3.1 Introduction

The previous chapter established the importance of the research question, *(what explains the emergence of IGOs as recipients of foreign aid?)* and discussed two possible answers to this question: that either donor interest or institutional isomorphism can explain the IGO aid recipient. As was discussed, both of these potential answers are insufficient for understanding aid to IGO recipients. This chapter carefully lays out and explains my answer to the question of why IGOs receive foreign aid and concludes with several testable hypotheses. In short, I argue that rather than being a phenomenon developed according to interests of aid donors or promotion of isomorphism, aid to IGOs is in fact highly motivated by recipient need, and I develop a theory about why IGOs, broadly speaking, may be attractive aid recipients. In addition, considering aid to RTAs specifically (the type of IGO currently receiving the most aid), I also develop an explanation for why this particular institutional form is at the forefront of this development. To preview, the institutional choice of the RTA recipient makes it attractive for addressing recipient need because of the less politicized nature of the IGO as compared to state recipients, and the economic and trade development focus of the RTA in particular. The chapter proceeds as follows...

3.2 Starting Premises

Before establishing that aid to IGOs is aid given for recipient need, I must acknowledge two starting premises, or assumptions, upon which my argument is based. The first is that there are
some set of actors who wish to provide foreign aid for development purposes and the second is that aid, no matter its motivation, is often contaminated by politicization at both ends, i.e. in the donor and the recipient. Both of these things are well-established in the literature and therefore do not need to be re-tested here, though I now discuss each briefly.

Beginning as early as the Marshall Plan in 1948, the intention behind the giving of foreign aid has been, at least in part, to address recipient need. Though the Plan’s political and strategic motivations have been well-documented, it remains true that the way to achieve political and strategic stability in Western Europe, as perceived by the United States, was to address the critical economic needs of the region via a radical influx of financial assistance. Charged with rectifying the economic and humanitarian crisis that enveloped Europe after World War II, the Marshall Plan had a number of motivations, not least among those to act “as a bulwark against communism, an economic measure which would help maintain the conditions of prosperity, a device to continue America’s booming export trade, and as aid to others in the tradition of American charity and generosity,” (Hitchens, 1968, p. 51 emphasis added).

Indeed, the focus on economic need, even if not completely devoid of political motivations, has continued since the Marshall Plan era and been transplanted into development policy in other regions of the world (see Wood, 1986). According to the United States Agency for International Development’s (USAID) website,

The United States has a long history of extending a helping hand to people overseas struggling to make a better life. It is a history that both reflects the American people’s compassion and support of human dignity as well as advances the U.S. foreign policy interests, (USAID, 2014).

Furthermore, the desire of aid to address need is not limited to the United States. The advanced industrial economies of the world overwhelmingly distribute foreign aid to the global south, and even critics of aid policy, such as William Easterly, acknowledge that motivations for this aid are not purely political. Discussing a January 2005 speech by then UK Chancellor of the Exchequer Gordon Brown, Easterly writes that Brown “called for a doubling of foreign aid, a Marshall Plan
for the world’s poor...” but then goes on to argue that while politicians such as Brown may indeed be very well-intentioned, aid has continued to fail “because of the ineffective efforts by those who do care,” (Easterly 2006, 3, 7). Thus, even some of foreign aid’s most vocal critics acknowledge that some care, some concern for need, is involved in the giving of aid. Finally, as discussed in Chapter 2, the critical debate of the foreign aid literature about whether aid is given primarily for donor interest or recipient need finds consistently that recipient need is a factor driving aid policy, even if it is often trumped by donor interests, especially in the bilateral aid exchange.

It is clear that at least some set of actors do wish to provide aid for development purposes, and the answer to the question of why IGOs are emerging as recipients of aid rests on this starting assumption. But the explanation for IGOs as aid recipients rests equally on another starting premise, that aid is often contaminated, at either the donor or recipient end, by politicization. Regardless of the motivations of aid, it can become tainted by other factors. Such tendencies can be seen by returning to the Marshall Plan example, which was motivated by US strategic interests in stabilizing the West European economies to preserve profitable US trade relationships as well as prevent the spread of communism. Such concerns undoubtedly structured Marshall Plan policies around these goals, at times at the expense of a pure commitment to European needs. Post-Cold War aid to developing countries in Latin America and other regions, while motivated in part to address the development needs of the recipients, were also based fundamentally around the goal of pushing Washington Consensus-style structural adjustment policies in the interest of stabilizing the global economy and promoting free market policies that would benefit the US and other developed country economic interests, goals that have often done more harm than good in terms of promoting economic development in recipients with widely varying contextual factors at work (Stiglitz 2003).

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

Having laid out these premises I now turn to answering the proposed question of why IGOs are increasingly recipients of foreign aid. The answer to this question is, I believe, based fundamentally on these two starting premises: that some set of donors wish to give aid for recipient need purposes and that this aid is often politicized, or contaminated, at either the donor or recipient end. As mentioned, this is not a new recognition on the part of practitioners or students of aid, and I look to what we currently know about how to make aid for recipient need less politicized to inform my generalized theory about why IGO recipients are increasingly allocated foreign aid.

### 3.3 The Development Orientation of IGO Donors

In Chapter 2, I present evidence showing the tendency for state donors to prioritize the pursuit of political/strategic interest over need in their aid giving. The evidence on this is vast and conclusive. However, this is a finding that primarily applies to bilateral aid coming from a single state donor. In their efforts to determine which factors drive aid allocations, interest or need considerations, scholars have observed important differences in the determinants of aid when donors are not states but instead are multilateral IGOs. In short, numerous studies have shown clear evidence that when donors wish to give aid for recipient need, i.e. development purposes, they can do so most effectively by delegating the aid provision task to IGO donors. I discuss this practice extensively in Section 3.3 before applying the logic of IGO donors to IGOs as recipients in Section 3.4.

#### 3.3.1 Evidence on aid for development and IGO donors

Since the rise in multilateral aid giving starting in the 1970’s, where donor countries delegate a certain amount of aid giving through IGOs as donor agents, marked differences in the determinants of aid between the bilateral and multilateral levels have been observed. Recall that recipient need considerations refer to aid that is given to recipients who have economic development needs. Often these needs are measured in terms of per capita wealth of poor countries, the presence or absence of
economic growth, human development indicators, and etcetera, with the expectation that needier countries should receive more foreign aid, ceteris paribus. The literature overwhelmingly supports this claim, as I now discuss.

Comparing the patterns of bilateral and multilateral aid giving have repeatedly revealed interesting results. Maizels and Nissanke (1984) examine both bilateral and multilateral aid flows between 1969 and 1980 and find that multilateral aid given by such groups as the IMF, World Bank Group, regional development banks, and European Community, is predicted most strongly by the recipient need model, not the donor interest model. This finding is the opposite for the cases of bilateral aid (Maizels and Nissanke 1984, 883). Alesina and Dollar (2000) argue similarly, stating that "...most authors find that the determinants of bilateral and multilateral aid are quite different and one cannot explain the two together," (Alesina and Dollar 2000, 35).

Arguing that aid can be more effective for development when bilateral and multilateral aid donors take into account the presence of sound economic and political institutions when considering recipient countries, Dollar and Levin find that

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

Lancaster (2007) discusses the rise of multilateral foreign aid in her book, Foreign Aid: Diplomacy, Development, Domestic Politics, and its distinct nature from bilateral aid giving. While bilateral aid has been repeatedly shown to be used as a foreign policy tool of self-interested donors, multilateral aid is fundamentally different. Discussing aid from such IGOs as the World Bank, European Union, regional development banks, and United Nations in the 1970s and 1980s, Lancaster writes:

Aid from these agencies was regarded as among the most developmentally oriented of aid programs, because multilateral agencies, unlike governments, did not have
diplomatic, commercial, or cultural motives that typically influenced country allocation and use of bilateral aid, (Lancaster 2007, 42).

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

Similarly, in the EC context Grilli and Riess (1992) compare the practices of European Community and EC member state foreign aid giving. They find results that confirm the bilateral/multilateral divide:

...unlike bilateral aid, multilateral EC assistance to associated countries seems to have been largely influenced by the needs of the recipients since the very beginning. The commercial interests of the member countries, represented by their exports to associated countries, do not appear to significantly influence Community-level aid allocation after 1971. HDI has the strongest significance of all the explanatory variables until 1988... (Grilli and Riess 1992, 212-213).

It should be noted here that Grilli and Riess’ data end in 1988, so it is not the case that their post-1988 analysis uncovers a non-recipient need result for EC aid.

There does appear to be significant variation in the determinants of aid from bilateral versus multilateral donors, a finding supported by decades of research. Therefore, the tendency for IGO
donors to give priority to development need in aid allocation decisions need not be re-tested here; this has already been established repeatedly. However, I argue that if it is the case, and has been well-established, that IGO donors are better at giving aid for development than are state donors, it is likely also the case that, for similar reasons IGOs may be attractive aid recipients when development need takes precedence over political interests in the aid relationship.

3.3.2 Explaining the need-based focus of the IGO donor

Given the recipient need model’s ability to explain the aid allocations of IGO donors, what are the conditions that allow IGO donors to highlight development need in their aid allocations over donor interest considerations? It is important to understand the mechanisms behind IGO donors before applying this logic to IGO recipients.

As shown above in Section 3.3.1, IGOs are often the most effective donors of aid given for economic development purposes, but why is this the case? Explanations for the ability of IGO donors to focus on aiding recipients who need assistance the most point to several basic attributes of IGOs that have been identified as making IGOs attractive actors across a range of activities and policy areas, not just with respect to foreign aid. The ability of IGOs to collect reliable, unbiased information, monitor the compliance of member states with respect to institutional and international law, and engage in enforcement and punishment activities have long been regarded as some of the most useful activities IGOs engage in (see Abbott and Snidal 1998, Chayes and Chayes 1993, Dai 2002, Martin and Simmons 1998, Thompson 2006). Further, these activities have been noted as explanations for why states have seen it as beneficial to delegate aid provision to IGO donors. For example, Milner (2006) argues that states will choose to give aid through multilateral institutions when they believe IGOs to have better information about where aid can be best applied, the capabilities to monitor effectiveness, or when states wish to avoid the perception of politicization that often accompanies bilateral aid. IGOs are seen by voters in donor states as being less politicized in their aid giving and more humanitarian-minded and trustworthy in aid allocation. This perception of IGOs by voters may be especially useful if voters are inclined to be
skeptical of the benefits of foreign aid, and Milner argues that voters tend to punish governments less if aid is given through a neutral, but effective, IGO rather than for strategic purposes. Thus, Milner describes not only the informational and monitoring capabilities of IGOs as making them attractive aid donors, but also public perceptions about the need focus of IGOs as an explanation for why IGOs are often attractive donors of aid when aid is meant to truly address need. IGOs have reputations as being less politicized aid donors because of their ability to collect reliable information and monitor how aid money is spent, making these actors better able to ensure that aid is used for recipient need.

The argument that IGOs are less politicized givers of aid than states is key to why we see an increase in the number of IGOs as donors and to understanding why IGOs are now becoming aid recipients as well. Continuing with the IGO as donor for now, Lebovic and Voeten (2006, 2009), echoing the arguments of Milner, argue that IGOs are well established as providers of ODA and are known for having greater concern than states for whether aid actually addresses developmental problems, as well as a greater ability to act in light of this concern because of the less politicized, independent institutional design of the IGO. For example, in deciding whether to aid states with human rights abuse records, IGOs are more willing than states to slow or even stop aid entirely to an offending recipient until the behavior is rectified. While state donors are often tied to their relations with human rights abusers because of the need to maintain military bases, etc. and therefore feel that altering or cutting off aid may jeopardize their foreign policy interests with the recipient, multilateral institutions do not have the same concerns and are therefore freer to punish or reward recipients for their behavior. Similarly, other evidence suggests that IGOs are much more demand-driven in their aid-giving, often waiting for recipient countries to signal or ask outright for assistance, thereby suggesting a greater need-based approach to aid than is displayed by donor states (Rivera-Arriaga, 2005). Given the evidence for the need-based focus of many IGO donors, the logic follows that when states truly wish to allocate aid based on recipient need, they may be more likely to channel their aid budgets in part via delegation to multilateral institutions. Extending this logic, where a less-politicized aid donor leads to more need-focused aid provision, a
less-politicized aid recipient may further enhance the ability of aid given to benefit the recipient’s development need. I discuss this argument further in Section 3.4.

Furthermore, while not yet discussed directly, the independence of the IGO is what makes it able to perform the above tasks to effectively, and IGO independence has long been identified as a key attribute making these institutions especially useful in world politics. Abbott and Snidal (1998) argue that states allow IGOs to be semi-autonomous actors in order to benefit from these institutions as neutral third parties and to promote institutional legitimacy. While IGOs often act with independence in pre-specified issue areas, states remain the most powerful actors and are free to alter, ignore, or disband the IGO if they are unhappy with the actions taken by the IGO in its independent capacity. However, for the most part states and IGOs alike try to uphold the independence of the institution in order to maintain both the legitimacy and functionality of the IGO. While IGOs are understood here to be semi-autonomous actors, free to act independently so long as they do so with the mandate of their associated member states, it is important not to underestimate the importance of this independent IGO design (for more on IGOs as semi-autonomous actors, see Barnett and Finnemore (1999, 2005); Chayes and Chayes (1993); and Martin and Simmons (1998). While indeed IGOs vary in terms of their institutional independence, it is this independence that makes IGOs able to perform actions such as collecting and sharing information and monitoring and punishing behavior, thereby making them ideal donors for aid given for recipient need. This independence will likewise be a critical part of my answer for why IGOs are also now becoming aid recipients.

In addition to the information, monitoring, and enforcement/punishment activities of IGOs, another attribute makes them especially attractive as aid donors who are less politicized than state donors and can thereby better address development need with their aid allocations: the preference heterogeneity embedded in these institutions. While preference homogeneity has been identified as a key explanation for why states opt into certain IGOs and even as a condition for delegation (see Boehmer and Nordstrom 2008, Hawkins et al 2006, Hooghe and Marks 2012), Gartzke, Nordstrom, and Boehmer (n.d.) find that preference heterogeneity within an IGO generally increases
the institution’s efficacy and reputation for resolving member state differences. With respect to delegation, Koremenos (2008) finds that in fact, preference heterogeneity of an IGO are both likely to cause states to delegate activities to an IGO, as increased preference heterogeneity makes it more attractive to delegate a given activity to an independent IGO in order to solve disputes among members who might conflict if left to pursue a given activity on their own. Regarding foreign aid, if there are actors who wish to give some aid for recipient need and thereby shield this aid from donor interests, it makes sense to delegate aid allocations to IGO donors, doing so removes some set of aid allocations from the politicization within the donor state’s own government, which suffers from preference heterogeneity among political parties, factions, citizens, etc., and ensures that an autonomous IGO, which also has preference heterogeneity among members, must seek to satisfy a lowest common denominator among member state aid policies. Given that foreign aid in its most basic purpose is meant to address development, IGOs identify the objective of improving development as most likely to be approved by its members and allocate aid according to need to the best of its ability.

I have established that IGOs are indeed seen as effective donors of aid for recipient need, presented evidence regarding the ability of IGOs to target need over interest in their aid allocations, and explained the mechanisms behind the utility of the IGO as donors. The rest of the chapter is devoted to applying these and similar arguments to explaining not why IGOs are aid donors, but why they are increasingly becoming aid recipients. Section 4 begins this task by examining the institutional attributes of IGO recipients that make them ideal recipients of aid for development purposes.

3.4 Applying the Need-Focused Logic of IGO Donors to IGO Recipients

As I have already argued, the supply-side actor in foreign aid is often determined by the intent of the aid. Since we know that IGOs are less politicized aid donors as compared to states, might IGOs also act as less politicized aid recipients as compared to their state recipient counterparts? I argue that this is indeed the case because of the nature of IGOs as semi-autonomous actors.
Applying the same arguments as the IGO as donor literature, I expect IGOs to be less politicized aid recipients because of their information, monitoring, and enforcement/punishment activities as well as their preference heterogeneity. Just as these factors make IGO donors attractive, so too do they make IGO recipients less-politicized, ideal aid recipients when aid is meant to have development effects.

3.4.1 IGO activities and the attractiveness of the IGO recipient

Recall the starting premises of this chapter, that a.) there are some set of actors who wish to provide aid for development purposes, and b.) foreign aid, no matter its motivation, is often contaminated by politicization at both the donor and recipient end. Section 3 detailed the validity of these two premises when considering the IGO as donor, but they must also be the case if we are to understand the IGO as recipient. Aid donors sometimes wish to provide aid for recipient need, and when they do have this preference, they wish for this aid to in fact improve development in the recipient. When the aid donor is too politicized to carry out this task reliably or effectively without political/strategic contamination jeopardizing the need focus of the aid, they delegate this task to an IGO donor. However, if the donor in the aid relationship can so easily be contaminated by political goals, as shown in Chapter 2, couldn’t the recipient be just as easily contaminated by political interests?

Indeed, there is much literature showing the tendency for aid to be contaminated, primarily through corruption and rent-seeking activities of the recipient government (Alesina and Weder 1999, Asongu 2012, Easterly 2006, Easterly and Pfutze 2008, Svensson 2000). Aid donors, be they bilateral or multilateral, seem to have difficulty distributing their aid budgets to less corrupt governments (Alesina and Weder 1999), and the problem of foreign aid not being spent by the recipient as it is intended by the donor is increasingly scrutinized in studies of aid effectiveness. In fact, the influx of foreign aid may be a partial cause of more corrupt activities by recipient governments who use the incoming funds for private consumption or the payment of rents and other nontransparent activities at the expense of the public expenditures for which the aid is
intended (Svensson 2000). The problem appears especially prevalent in Africa (see Asongu 2012), no doubt because corruption and poverty tend to be highly correlated, and most of the world’s ODA is focused on the continent. Noting that aid windfalls have often created aid dependencies in Africa, Brautigam and Knack (2004) argue that large aid packages particularly have a negative effect on good governance in African states, who are often weak and may succumb to pressures of corruption even if the government itself might otherwise choose to distribute aid effectively.

Though donors of all types have trouble allocating aid to less corrupt countries over their more corrupt counterparts, Easterly and Pfutze (2008) do find some evidence that certain aid agencies, such as the African Development Bank and World Bank, are better at this type of aid selectivity than others. Still, the problem remains a daunting one for aid donors when some of the neediest aid recipients are likely also to be the most corrupt. However, I argue that as the IGO donor can obtain reliable information on the practices of aid recipients and monitor/enforce punishments when aid receivers pursue bad policies because of their independent institutional design, the IGO recipient is similarly able to act in this manner. Aid allocated to an IGO recipient may be more effectively monitored by the receiving IGO, who has full discretion to disburse aid among its members, and the aid donor can more reliably trust the activities of the IGO recipient due to the independence and relative neutrality of the institutional recipient as compared to the state as recipient.

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

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

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

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

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

Of course, preference heterogeneity may increase or decrease according to the number of
members in the IGO and the extent to which the IGO is made up of similar or disparate states in
terms of wealth, power, size, etc. Preference heterogeneity alone is not enough to ensure that IGOs
are the best recipients of foreign aid for economic development. The second feature of IGOs that
makes them more favorable need-based aid recipients is their relative independence from their mem-
ber states. Abbott and Snidal (1998) argue that states create IGOs with a degree of pre-approved
independence in order to enhance the efficacy of the IGO as a neutral arbiter of member states and
to allow for meaningful cooperation within the institution. Independence helps with depoliticiza-
tion of aid in a number of ways. First, because IGOs have an independence administrative body,
the neutrality of aid dispensation is preserved. The IGO itself does not share political-strategic interests with the aid donor because it is not affiliated with any single state, removing foreign policy-induced aid politicization due to the aforementioned preference heterogeneity of members and because of the neutrality of the IGO administration. Second, this independent administration is not answerable to voters, so it does not need to satisfy any group of constituents in order to remain in power, thereby removing the voter-driven politicization that is present in state donors. Finally, because IGOs often maintain some form of budgetary discretion, they are free to employ officials for mechanisms of oversight, monitoring and punishment (Abbott and Snidal, 1998). Having oversight for how aid is spent within the member countries allows IGOs to monitor where aid is effective, whether it is distributed to appropriate projects and areas, and where aid may be misused. This monitoring then allows IGOs to reassess aid once it has been spent and decide where it should be dispensed in future to continue effectiveness for recipient need.

To illustrate, take again the hypothetical IGO discussed above. In making decisions on how to distribute need-based aid, the secretariat must put economic need as the first priority given the shared underdevelopment of the group. However, this does not mean there won’t be pressure from member states as to how best to dispense funds. Further, it can be imagined that the most powerful (in terms of wealth) state in this group, State D, might have more sway on the secretariat than the least powerful, State E. If the secretariat is independent, the amount of pressure applied by any single member state will only have a moderate effect because it is simply not in the interest of any one member state to attempt to dominate IGO policy. IGOs are formed in part because they are semi-autonomous actors who exist to facilitate interstate cooperation. If IGOs are not independent they cannot be effective in their broader goal of facilitating positive interactions among states (Abbott and Snidal, 1998). A loss of independence in one policy area can lead to contamination of neutrality across issues, thereby undermining the IGO legitimacy as a whole. Thus, while State D might wish to pressure the secretariat into allocating more aid to itself, the IGO’s interest is to apply a more egalitarian aid policy rather than risk the overall legitimacy of the organization.

IGOs are also free, withing their budgetary and oversight duties, to hire experts in policy
areas for consultation and execution of policy. Many IGO officials themselves are either prior members of or have current ties to epistemic communities that help in development of effective policy solutions. The World Bank, for example, is an IGO known for participation in epistemic communities of knowledge on economic and social development policies, often bringing together other key multilateral organizations such as the IMF and WTO for conferences with development experts and policymakers to promote policy solutions through knowledge on best practices and scientific evidence of policy success (Stone, 2004). IGOs rarely work alone in this respect, with vast ties to NGOs and other experts on the ground working together to achieve policy success.

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

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

**Proposition 1: Aid to IGO recipients is based on the degree of institutional independence of the IGO recipient.**

What is clear from the above arguments is that aid to IGO recipients is based both on independence and development concern. Because there are some set of donors who wish to give aid for economic development purposes, we see the IGO recipient develop because of the less politicized environment that these recipients can offer donors of need-based aid.

### 3.5 A New Way of Addressing Development Need

As I have already discussed, aid to IGO recipients must be understood as aid for recipient need and in the previous section I developed an explanation for why IGOs in a broad sense can be attractive aid recipients. The next part of the answer to my question, however, deals with a specific subset of IGOs currently receiving the most in terms of aid allocations, the RTA. While it is important to understand that my theory applies to IGOs in general, the prevalence of the RTA in this context means that there is likely something about this institutional type that attracts it to aid donors. As I show, aid to RTAs can be explained starting with my two premises that some set of donors want to give aid for recipient need and that this aid can sometimes become contaminated. I argue that if we are to understand the RTA recipient, we must consider that aid for recipient
need may be undergoing some changes to the traditional classification of need in terms of economic size or growth. The importance of trade development is increasingly being considered by donors, who view trade openness as a key component of sustainable economic and political development in needy recipients.

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

3.5.1 The trade-development relationship and RTA recipient

The ability of free trade to produce economic growth is a finding often touted by economists (see Dollar 1992, Krueger 1998, Fischer 2000, Sachs and Warner 1995, Stiglitz 2000). While some question the link between openness and growth (Rodriguez and Rodrik 2000), others show a strong relationship between liberalization and growth in developing country economies and even prescribe trade openness as a potential path to growth (Fischer 2000). Trade openness, it is argued, leads to enhanced productivity and better use of factor endowments, as well as greater ease of technology transfers and production techniques that can help developing economies grow and compete. Further, increased trade openness is associated with greater foreign direct investment (FDI), income that developing economies sorely need (Makki and Somwaru 2004).
For many developing states, the move toward greater trade liberalization and membership in RTAs in particular has been motivated by a number of factors, not least of which are both European and American support of regional integration programs in the form of the European Union and NAFTA, respectively, as well as the blatant failures of import-substitution industrialization (ISI) in the Latin American economies during the 1980's. Further, the obvious and rapid growth of the outward-oriented Asian tigers served to fuel the belief, prominent among the OECD and aid institutions, that trade openness is a key component of lasting economic development (Frankel 1997). Thus, it is perhaps not surprising that aid donors who are particularly concerned with effective and long-term economic growth are beginning to include trade policy among their areas of concern. Similarly, the readiness of the global south to also pursue liberalization both bilaterally and in the form of RTAs indicates a new opportunity to rethink how aid has been used and allocated in the past.

RTAs are institutions set up for the deliberate purpose of liberalizing trade among member states. They can vary in terms of depth, ranging from the very basic preferential trade agreement (PTA), where some group of trading partners agree to engage in lowering tariff barriers between themselves, to a full blown economic union (see Frankel 1997), although this particular version is not yet achieved by any existing RTA. No matter the depth of the RTA, the intention is very clearly to promote greater trade openness. The evidence of the trade-producing effectiveness of these arrangements, however, is mixed. On one side, scholars argue that it is difficult to distinguish the effects of RTAs on trade, as states who are already prone to trade liberalization are the most likely joiners of such institutions. Additionally, some have argued that RTAs may be more trade-diverting than trade-producing, causing increases in intra-RTA trade but having no effect on or even minimizing extra-RTA trade, an effect that may be especially strong in south-south RTAs (see Foroutan 1998, Schiff 1997, Viner 1950, Yeats 1998).

However, others find that even developing world RTAs can have positive effects on trade, increasing trade volumes of formerly protectionist states by lowering tariff and non-tariff barriers to trade (Cernat 2001, Flores 1997, Frankel 1997). Trade-producing RTAs may be especially
attractive tools for economic development given the ability of these groups to lower barriers to trade even in unlikely south-south environments where liberalizing trade in poor and developing economies may lead to economic growth, but to the extent that RTAs may not always have the trade liberalizing effects that policymakers hope, are there other ways in which RTAs may be attractive aid recipients? In short, yes. There are a variety of other, so-called nontraditional mechanisms that make RTAs an attractive means for promoting growth in poor states. I discuss them in turn.

First, membership in IGOs more broadly often serves as a signal to members and non-members alike regarding state behavior. In the RTA context, Fernandez and Portes (1998) argue the act of joining the organization signals member state desire to pursue liberal trading practices, even if they are not immediately capable of realizing these goals. Such signaling may be a cost-effective mechanism by which aid donors can easily identify recipients committed to best-practice policies with respect to economic growth, thereby ensuring a greater likelihood for aid effectiveness in promoting development in the long run even if greater trade openness is not feasible in the short term. Membership in RTAs can serve to lock-in member states to market liberalization commitments, helping these countries overcome time inconsistency problems that could otherwise threaten trade policy.

An RTA, by making the cost of even a small deviation from an agreed trade liberalization large (either by forcing the country to exit from the agreement or by having members punish the deviating country), makes it easier to overcome small temptations that culminate in a greatly distorted economy overall, (Fernandez and Portes 1998, p 204).

Evidence of such commitments may make RTAs and their members more attractive to investors, trading partners, and aid donors seeking to maximize aid effectiveness. The ability of RTAs to produce economic growth via both traditional and non-traditional gains from trade may help explain this new development of aid giving to regional IGOs.

Additionally, RTAs have other attractive features to aid donors related to non-economic policies beneficial for growth, such as when RTA membership requires some form of institution-
alized committment to democratization, security, and rule of law. RTA’s sometimes make such non-economic policy commitments of members. With respect to democratization, MERCOSUR includes a democracy clause for all members in addition to setting trade policy requirements (Pevehouse 2002). Given that scholars and aid donors alike have found that sustainable development tends to go hand in hand with democratization, such policy commitments can act as an additional signal regarding aid effectiveness. Some RTA memberships also entail a security commitment. The stabilizing effects of these agreements on conflict, tying economic interdependence and peaceful relations, can serve as a further signal of commitment by states not only to peace, but to sustainable economic policies (see Aydin 2010; Haftel 2007). While RTA membership may have direct and indirect economic and trade effects that make these organizations attractive to donors, their non-economic effects, which may also contribute to development goals, can incentivize aid donors who wish to give aid for maximum need effectiveness.

3.5.2 RTAs, Aid for Trade, and identifying trade need

As previewed in Chapter 2, AfT is a particular type of foreign aid given specifically to promote the development of trade infrastructure and openness in the recipient. AfT was developed in the late 1990’s in response to the demands of developing countries for assistance with trade liberalization costs. AfT represented a realization by the OECD states, in response to developing state pressure, that Washington Consensus-style trade liberalization is a costly venture for developing countries, who are often needy both in terms of economic and trade development. According to the WTO, the IGO at the forefront of AfT policy,

The WTO-led Aid for Trade initiative encourages developing country governments and donors to recognize the role that trade can play in development. In particular, the Initiative seeks to mobilize resources to address the trade-related constraints identified by developing and Least-developed countries, (WTO, 2013).

AfT represents a concerted effort by developed economies to provide targeted ODA for economic development purposes, with the expectation that improving trade openness will lead to economic
growth in recipients (Stiglitz and Charlton, 2006). Integration into the multilateral trading system via membership in RTAs is a key goal of AfT, which highlights the importance of trade agreements to the ultimate goal of furthering economic development (OECD, 2006). Indeed, a key intention of AfT’s Trade Related Technical Assistance is to

help countries negotiate, reform, and prepare for closer integration in the multilateral trading system; it covers activities such as analysis and implementation of multilateral trade agreements, trade policy mainstreaming, and technical standards, trade facilitation including tariff structures and customs regimes, support to regional trade agreements and human resources development in trade, (OECD, p. 27, 2006).

That the AfT agenda places such a significant reliance on trade integration and trade agreements suggests that RTA promotion may be a worthwhile focus of aid for economic development purposes and helps in beginning to think about why this new development in aid recipients is worthy of explanation.

AfT has also been shown to be particularly effective in assisting recipient countries in liberalizing trade practices. Bearce et al (2013) show that US AfT has had considerable success in increasing recipient country exports, where "a 1 increase in total USAfT has been associated with a 69 increase in recipient exports two years later," (Bearce et al 2013, 164). Among the explanations for why this particular form of aid can be especially effective at increasing recipient exports, Bearce et al argue that AfT is much less fungible than other types of foreign aid, as this type of aid is specifically targeted on a relatively narrow set of projects (namely those directed at improving private sector trade practices, public sector trade policies, and trade infrastructure) that the recipient government either could not accomplish on its own (due to a lack of expertise) or would not accomplish without foreign aid (due to other more pressing spending priorities). Both considerations suggest that aid for trade may be less fungible than traditional development aid, (Bearce et al 2013, 165).

Such evidence of AfT effectiveness might be an additional explanation for why RTAs, as a specific type of IGO, are especially attractive as aid recipients. Where donors are concerned with increasing
the economic development of recipients via trade liberalization, RTAs make intuitive sense as aid recipients because of their goal of reducing barriers to trade.

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

I argue that aid to RTA recipients reflects concern for economic development, as traditionally conceived, and trade development, as the AfT movement demonstrates. This argument leads me to my second key hypothesis:

**Proposition 2: Aid to IGO recipients is based on development considerations.**

Moreover, I presented evidence in Chapter 2 that makes clear that aid to IGO recipients cannot be given for the express purpose of donor interest, and as Chapter 3 has so far made clear, the donor interest story simply does not make sense in the context of an IGO recipient. Thus, the final key proposition is as follows:

**Proposition 3: Aid to IGO recipients is not based primarily on the strategic interests of the donor.**

If donors wish to pursue their political or strategic interests in their aid allocations, it makes the most sense that they would retain complete control over the aid relationship and not relinquish any authority over to an IGO donor or recipient who, owing to their independence, could use the aid for other purposes or simply refuse to respond to the donor’s demands. The claim that aid to
RTAs is determined by economic development considerations and that RTAs as recipients may be used because of their less politicized nature suggests that it cannot be the case that aid allocation decisions to IGO recipients are largely based upon the strategic interest of the donor.

3.6 Hypotheses

My proposed answer to the question of why IGOs, and RTAs in particular, are increasingly recipients of foreign aid has been laid out in the preceding sections. IGOs are ideal aid recipients when donors care about giving aid for need because they are less politicized recipients than states owing to their institutional independence. RTAs specifically are ideal aid recipients because of the realization by many donors and developing countries alike that sound economic and political development is often bolstered by the liberalization of trading practices among needy states and regions. Because RTAs are a subset of IGOs and often carry many of the attributes of institutional independence, they are increasingly aid recipients when aid is given either for traditional economic development purposes or when donors are concerned also with trade need. As I laid out this explanation for IGO/RTA aid recipients, I also presented several propositions based upon my arguments. In this section, I derive from each of these three propositions testable hypotheses. I present each in turn, as they will be tested in the following chapters.

Paramount to my argument in explaining the decision to provide aid to the IGO recipient is that the nature of the IGO plays a role in making these IGOs attractive as recipients of foreign aid. Not all institutions are created equal, and if it is indeed the case that IGOs are being aided because they are less politicized and independent, it follows that the greater the independence of the recipient from the member states, the more favorable the environment for less politicized foreign aid spending, thus recall Proposition 1: Aid to IGO recipients is based on the degree of institutional independence of the IGO recipient.

IGO recipients who have independent, well-functioning bureaucracies, free from political manipulation by member states will be less beholden to individual state interests in determining how best to spend foreign aid received. To the contrary, in IGOs where the institutional structure
is not easily separable from the member state governments or where one state tends to dominate proceedings and policy-making, the aid environment will likely be highly politicized, and therefore less attractive to donors with need-based giving in mind. Given that a key argument for why IGOs are better aid donors for recipient need is due to their relative independence from members, thereby allowing them the freedom to allocate aid on the basis of need rather than interest, the same should be true of IGO aid recipients, which leads to the first hypothesis of my study:

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

Similarly, I argue that foreign aid allocations to IGOs are based on the preference heterogeneity existing within the IGO recipient. The more likely member states are to disagree over their political and strategic interests, the more likely they are to agree that there are some interests they do share, and in the case of needy IGOs receiving aid, this shared need is mutual development. In order to satisfy this lowest common denominator need and remain legitimate, the recipient IGO will spend the aid on member states’ developmental needs rather than appear to be acting politically and allowing member states to co-opt them into using aid for other purposes.

**H2**: Foreign aid allocations will be larger (smaller) to IGOs with more (less) preference heterogeneity as measured in terms of UN Affinity scores.

IGO aid donors are known for having recipient need concerns when allocating foreign aid, a fact attributed to the depoliticized environment in which aid decisions are made in the IGO context. For scholars such as Milner, this is what allows IGO donors to focus more on giving aid for economic development purposes. Bilateral donors with political/strategic concerns to pursue as well as constituents to appease are more focused on their own interests in aid giving. To the extent this is true and IGO recipients are semi-autonomous actors who are not punished by voters because of where and/or how much aid they give, and the preference heterogeneity of IGOs means that aid for recipient need is a more likely equilibrium policy than is aid for strategic aims, I argue that when IGOs receive aid it will be for economic development purposes. Recall *Proposition 2*: Aid to IGO recipients is based on development considerations. Given the less politicized IGO recipient, I expect to find that when considering the motivations of aid allocations, aid to IGO recipients
will be motivated by concerns over the overall poverty and lack of development of IGO members in terms of low GDP per capita or Human Development Index (HDI) scores, both traditional economic development indicators.

**H3:** *Foreign aid allocations will be larger (smaller) when aid is allocated to IGO recipients with lower (higher) GDP per capita.*

**H4:** *Foreign aid allocations will be larger (smaller) when aid is allocated to IGO recipients with lower (higher) Human Development Index (HDI) scores.*

If the AfT logic is correct and donors are increasingly considering trade policy as a critical component of overall development, I also expect that aid will be given out of a concern for trade development within the agreement. Economists frequently argue that free trade leads to faster economic growth (see Krueger, 1998; Fischer, 2000; Sachs and Warner, 1995; Stiglitz, 2000) and thus I argue that trade development need can be seen as another type of economic development indicator. Gamberoni and Newfarmer (2009) examine trade capacity and performance to assist policy-makers in identifying states with a high potential demand for AfT-type assistance, where states that are underperforming in terms of trade flows may be a signal for AfT-giving agencies that trade development assistance is needed. By examining economic and trade development indicators, I argue that the neediest RTAs should get more aid than those whose members have higher levels of economic and trade development.

**H5:** *Foreign aid allocations will be larger (smaller) when aid is allocated to RTA recipients with higher (lower) average Aid for Trade demand.*

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

**H6:** *Foreign aid allocations will be greatest when both development need and independence are high, and aid allocations will be smaller when either need or independence are low.*

The claim that aid to IGOs is determined by economic development considerations and that IGOs as recipients may be used because of their depoliticized nature suggests that it must not be
the case that aid allocation decisions are largely based upon the strategic interest of the donor. Recall *Proposition 3*: Aid to RTA recipients is not based primarily on the strategic interests of the donor. This proposition that aid to IGOs is not driven by national strategic interest is grounded in a large body of existing literature arguing that foreign aid is often a tool used by donor governments as a transaction with weaker states for political ends (see Alesina and Dollar, 2000; Lancaster, 2007; Schraeder, Hook, and Taylor, 1998). Lumsdaine (1993) and Schraeder, Hook, and Taylor (1998) find strong evidence that strategic interests such as aiding former colonies and existing or potential trading relationships with donor states lead donor governments to give more aid to states with these characteristics than to states purely on a need basis.

Recalling that the data I use in this dissertation comes from the EU, we must consider what donor interests look like in the European context. The three most powerful states, Britain, France, and Germany, all have potential aid interests in the form of maintaining former colonial relationships, trade relationships, and foreign policy harmonization more generally (see Alesina and Dollar, 2000; Arvin and Drewes, 2001; Berthelemy, 2006; Boone, 1996; Lancaster, 2007; Pinto-Duschinsky, 1991; and Zanger, 2000). If national strategic interests are at work in the EU’s aid allocation practices, they will likely be dominated by these three most powerful member states. To capture the tendency for powerful EU members to use EU aid to preserve and/or guide their relationships with aid recipients, I examine the affinity of the RTA member states with Britain, France, and Germany. The proposition that EU aid decisions to RTAs are not driven by strategic interests such as foreign policy interests lead me to three testable hypotheses:

*H7*: EU foreign aid allocations are not strongly correlated with average UNGA voting affinity between Britain and the RTA recipient.

*H8*: EU foreign aid allocations are not strongly correlated with average UNGA voting affinity between France and the RTA recipient.

*H9*: EU foreign aid allocations are not strongly correlated with the average UNGA voting affinity between Germany and the RTA recipient.

One final strategic interest to consider is that of the EU itself. As discussed in Chapter
2, some have argued that the EU’s interests are not defined by those of their powerful member states, but are motivated by the desire of the EU to promote its model of regional integration elsewhere through the promotion of institutional isomorphism (see Bicch, 2006; Borzel and Risse, 2012; Jupille, Jolliff, and Wojcik no date; and Schimmelfinneg, 2009). Therefore I present the final hypothesis:

\[ H10: \text{EU foreign aid allocations are not strongly correlated with attempts by the EU to promote institutional isomorphism in the recipient RTA.} \]

In sum, I expect to find positive and significant relationships between the measures for institutional independence, economic development considerations and aid, while there should be no observable relationship between aid and the strategic interests of the donor. These relationships are tested in Chapter 4.

3.7 Conclusion

This chapter has laid out my proposed answer to the question of what explains the emergence of IGOs as recipients of foreign aid. I have answered the question based on the starting premises that a.) some set of donors wish to give aid for need, and b.) aid is often contaminated at either the donor or recipient end by politicization. Starting from these assumptions, I explain how many of the same explanations for IGO aid donors can be used to explain the IGO recipient. IGO recipients are better able than state recipients to use aid for development need because of their information, monitoring, and enforcement/punishment capabilities that are derived from their institutional independence and embedded preference heterogeneity. Further, I have explained the rise of the RTA in particular as the IGO at the forefront of this development by explaining how scholars and aid donors alike are beginning to see trade development as a critical component of development more broadly, a recognition that is reflected in the AfT movement. I presented six propositions based upon my arguments and derived from these propositions a series of testable hypotheses. These hypotheses and my arguments will be tested in the next three chapters.
Chapter 4

Evidence on EU Aid to RTAs

4.1 Introduction

This chapter begins with the hypotheses previously stated at the end of Chapter 3 and then develops and tests these hypotheses empirically using large-N quantitative analysis. The chapter proceeds in five subsequent stages, beginning with a brief re-statement of the aforementioned hypotheses. Second, I discuss in detail the original data on EU aid allocations collected for this project as well as the other variables used and I explain and account for the statistical model for empirical testing. Third, I present the results of the statistical analysis and in the fourth section I discuss the implications of my findings in greater detail. Finally, I conclude by summarizing the chapter and previewing the final two empirical chapters to follow.

4.2 The Argument Restated

In Chapter 3, I explained my proposed answer to the question of what explains the emergence of IGOs as recipients of foreign aid, beginning with the two starting premises that a.) some set of donors wish to give aid for need, and b.) aid is often contaminated at either the donor or recipient end by politicization. Given that there are some set of donors who wish to give aid for development need, I argue that IGO recipients may be seen as better able than state recipients to use aid for development need because of their information, monitoring, and enforcement/punishment capabilities derived from their institutional independence and embedded preference heterogeneity. Further, I explained the rise of the RTA in particular as the IGO at the forefront of this development
by explaining how scholars and aid donors alike are beginning to see trade development as a critical component of development more broadly, a recognition that is reflected in the AfT movement. I presented three propositions based upon my arguments and derived from these propositions a series of testable hypotheses. I restate these propositions and their accompanying hypotheses here:

**Proposition 1: Aid to RTA recipients is based on the degree of institutional independence of the RTA recipient.**

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

*H2: Foreign aid allocations will be larger (smaller) to IGOs with more (less) preference heterogeneity as measured in terms of intra-RTA UN Affinity scores.*

**Proposition 2: Aid to RTA recipients is based on development considerations.**

*H3: Foreign aid allocations will be larger (smaller) to RTA recipients with lower (higher) GDP per capita.*

*H4: Foreign aid allocations will be larger (smaller) to RTA recipients with lower (higher) Human Development Index (HDI) scores.*

*H5: Foreign aid allocations will be larger (smaller) to RTA recipients with higher (lower) average Aid for Trade demand.*

*H6: Foreign aid allocations will be greatest when both development need and independence are high, and aid allocations will be smaller when either need or independence are low.*

**Proposition 3: Aid to RTA recipients is not based primarily on the strategic interests of the donor.**

*H7: EU foreign aid allocations are not strongly correlated with the average UNGA voting affinity between Britain and the RTA recipient.*

*H8: EU foreign aid allocations are not strongly correlated with the average UNGA voting affinity between France and the RTA recipient.*

*H9: EU foreign aid allocations are not strongly correlated with the average UNGA voting affinity between Germany and the RTA recipient.*

*H10: EU foreign aid allocations are not strongly correlated with attempts by the EU to promote
in institutional isomorphism in the recipient RTA.

Testing these hypotheses is the substance of this chapter. In what follows I discuss the data and statistical model I use to operationalize these tests.

4.3 The Data and Statistical Model

The large-N statistical analyses presented here in Chapter 4 are performed using original data collected during field research at the European Commission in Brussels, Belgium during the summer of 2011. The EU focus of this chapter is due not to theoretical limitations however, but rather data availability. While the US, World Bank, IMF, and WTO are actively aiding RTAs, the EU was the earliest adopter of this practice and thus has the longest and most accessible record of available data, beginning at least as early as the 1990’s, while it is unclear when these other donors began the practice. Therefore data limitations, not theoretical priors, lead to the focus on aid allocated by the European Union. Propositions 1 and 2, that aid to RTAs is based on the institutional independence of the recipient and that aid is driven by development considerations, are generalizable to aid from all donors and seek to explain not the aid donor, but the aid recipient. Indeed, it is only Proposition 3, in which I argue that aid to RTAs is not driven primarily by strategic interests of donors that I must develop an argument that is specific to the EU because of the structure of the data. While the proposition stated generically does apply to RTA recipients regardless of the donor, operationalization of the associated hypotheses requires thinking specifically about what the particular strategic interests of the EU might be. Thus, apart from this nuance that is required to test Proposition 3, I believe the theory presented in Chapter 3 to be generalizable to the provision of aid to RTA recipients, and possibly even other IGO recipients, regardless of who donates the assistance.

The dataset uses the RTA-year unit of analysis and spans the years 1995-2013, though because of data limitations many of the models only analyze data through 2011. I begin analysis in 1995 because this coincides with the beginning of the Aid for Trade movement. AfT was a policy that came out of the WTO Uruguay Round, which ended in 1994, in response to developing country
requests for technical assistance to meet the WTO’s push for open markets in these countries where trade liberalization was quite costly and preferential treatment under the General Agreement on Tariffs and Trade (GATT) had been abolished (Bearce et al., 2013). Thus, AfT was a new aid practice beginning in 1995, and is differentiated from foreign aid more generally because of the focus on technical assistance and capacity building in countries that face such obstacles to opening their markets (WTO, 2001). ¹

The model specification is Ordinary Least Squares (OLS) with standard errors clustered on the RTA and year fixed effects to account for the independent effects of time. Unit fixed effects are not used as key independent variables have little over time variation, so compounding these measures with unit fixed effects would in effect wipe out all across-unit variation. Nickell (1981) bias would likely also be a problem with the inclusion of both year and unit fixed effects as the tendency for fixed effects to bias coefficients downwards in panel data is often acute in such situations, especially given the relatively short time span of the data. I discuss the dependent and key independent variables and controls below.

4.3.1 Dependent Variable

The dependent variable, EU Aid, in all models presented in the following section is operationalized as EU aid to the RTA measured in millions of euros. It is often the practice of the EU to allocate aid in five year packages; for example, the EU might allocate €12 million to SADC during the period 2000-2004. Because of this and to increase the time variation of my analysis, I divide all five year packages into yearly aid distributions. Thus, in this case rather than code aid to SADC as €12 million in only year 2000, the year in which the aid was allocated, I code SADC as receiving €2.4 million in each year 2000-2004. In cases where aid was allocated only in a single year and for a one year cycle, the data were coded accordingly. The data are presented in the unlogged form, though transformations using the natural logarithm do not affect the results. Further, because

¹ Data fall out of the model in 2011 because of the data limitations in the World Development Indicators (WDI 2012) dataset.
of the five year structure of EU aid packages, the dependent variable is given a five year lead to account for the necessary lag effect between the observation of RTA conditions and the decision to allocate aid. Thus, a given independent variable in year $t$ should be expected to impact $EU\ Aid$ in year $t+5$. $^2$

4.3.2 Key Independent Variables and Controls

As indicators to test Proposition 1 and Hypotheses 1 and 2, I use five main independent variables. The first independent variable of interest is $RTA\ Independence$. This measure is taken from Haftel and Thompson’s (2006) data operationalizing IGO independence. The variable is an ordinal scale of 0-6 measuring the extent to which IGOs have structured decision-making procedures, a supranational bureaucracy, and third party dispute settlement procedures. Within each of these three categories there are indicators for various structures within. Decision-making procedures include both voting rules and the presence and type of decision-making body the IGO employs. The supranational bureaucracy indicator accounts for the presence of “...a permanent technical and administrative body that manages the operation of the IO on a regular basis,” (Haftel and Thompson, 2006, 260) as well as the authority of the bureaucracy. Finally, the third-party dispute settlement indicator tracks whether there is a binding dispute settlement mechanism within the IGO and/or a standing tribunal. Haftel and Thompson apply this measure, operationalized as 0 if none of these features are present and 6 if all are present, thereby indicating a highly independent IGO, to a set of 30 regional integration arrangements (RIAs). As their focus is on RIAs, not RTAs, the sample does not provide complete coverage of my data. As a result, I used their coding scheme to code those RTAs in my sample not included in the Haftel and Thompson data. RTAs in my sample range from scores of 0, such as in the case of the South African Customs Union (SACU), to 5 in the Andean Community. The mean score is 2.006 across 1641 observations. I expect to see

$^2$ All aid analyzed comes from the EU itself and the independent budget of the European Commission. This five year lead effectively imposes a five year lag on all independent variables, and performs the additional function of acting as a test for potential endogeneity of the aid relationship. I also include $EU\ Aid$ on the right hand side of the equation to account for first order serial autocorrelation and the fact that, generally speaking, aid given in year $t-1$ is highly predictive of aid given in year $t$. $^3$, all aid in this study is allocated solely by the Commission and is completely separate from the individual aid budgets of the member states.
a positive relationship between *RTA Independence* and *EU Aid* in my analysis.

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

To test my arguments about the impact of the preference heterogeneity of RTAs as making them attractive aid recipients, I include two variables, *Intra-RTA Affinity* and *Power Concentration*. As a specific measure of preference heterogeneity, *Intra-RTA Affinity* utilizes Strezhnev and Voeten’s (2013) ideal point estimates of affinity in UN General Assembly (UNGA) voting for all RTA members. The average intra-RTA affinity score is taken for each year. Higher values of *Intra-RTA Affinity* should indicate less preference heterogeneity within the RTA, as members generally agree on issues as reflected in their UNGA voting patterns. More similar voting patterns indicate similar preferences, or preference homogeneity. However, RTAs with lower *Intra-RTA Affinity* may be seen as having more preference heterogeneity, making them attractive aid recipients according to the arguments I presented in Chapter 3. Where RTA members tend to vote differently in the UNGA, they can be said to have varying preferences. In my story, the presence of such preference variation, or heterogeneity, indicates an RTA that is an attractive aid recipient because no single

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4 Precedent for taking the mean Affinity score is found in Gartzke, Nordstrom, and Boehmer (2010) who use Affinity to measure the similarity of state preferences in IOs and include a variable for "major power contention" that "...compares the similarity of mean scores for all states with those for major powers in the IO," (Gartzke, Nordstrom, and Boehmer, 2010, 14). Similarly, Hooghe and Marks (2012) use mean affinity values to capture preference heterogeneity in their study of IGO authority.
state is likely to dominate aid spending on the basis of political interests. Preference heterogeneity on political and strategic issues, such as those often dominating UNGA voting, means that RTA members will be more likely to settle on using aid not for these divisive issues, but for shared goals of development, as such issues are the ones in which the members share. To ensure that such political contamination does not take place on the recipient end and aid is used for development, donors will allocate more aid to RTAs that have greater preference heterogeneity. Intra-RTA Affinity should therefore be negatively related to EU Aid.

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

**Proposition 2** argues that RTA recipients are given aid because of development considerations and I operationalize tests of this proposition and Hypotheses 3-6 with three key measures. **GDP per capita** simply takes the logged value of the average GDP per capita of all RTA member states in each year. This and all economic data are taken from the World Development Indicators 2012 data. GDP per capita is a common measure for recipient need in the foreign aid literature and is expected to have a negative relationship with aid, where greater development need is indicated by lower values of GDP per capita. Another common measure of recipient need is taken from the Human Development Index 2013 data. **HDI** is a composite index of education rates, life expectancy, wealth, and standard of living, and takes the average HDI scores for all
RTA members. Lower *HDI* values indicate greater human development need. I expect a negative relationship between *HDI* and aid to RTAs. Of course, *lnGDP per capita* and *HDI* are highly collinear and serve as robustness checks on one another in the models to follow. Those RTAs with lower average GDP per capita should receive more aid, as should RTAs with lower average HDI scores. Both variables are weighted by GDP and are expected to be negatively related to *EU Aid*.

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

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

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

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

### 4.4 Results

To test *Proposition 1,* in which I argue that aid to RTAs is based on the institutional independence and preference heterogeneity of the recipient, I run a series of models that capture the relationship between these institutional attributes and EU aid. In Chapter 3 I developed a
story in which RTAs are attractive aid recipients when they are independent and can therefore provide a lower chance of aid becoming contaminated at the recipient end because of the needs of an independent IGO in satisfying the basic needs and interests of all its member states. I test this proposition using equation 4.1:

$$EU Aid_t + 5 = \beta_1 + \beta_2 EU Aid_{t-1} + \beta_3 Population_t + \beta_4 Polity_t$$

$$+ \beta_5 RTA Independence_t + \alpha_t Year + \epsilon_t$$

(4.1)

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

The results are presented here in Table 4.1, models 1.1-1.4, and provide evidence in support of my first proposition. Model 1.1 simply depicts the basic relationship between RTA Independence and EU Aid. The coefficient for RTA Independence is positive and significant as predicted, and suggests that for every 1 point increase in an RTA’s independence score, i.e. indicating a greater degree of independence, EU Aid increases by an average of €1.78 million. These results are present even while controlling for the previous year’s aid in the Lagged DV, a control that is known to frequently wash out results. The size control, Population is positively correlated with EU Aid as expected, but not significant, and Polity is statistically insignificant but with a negative sign.

As a robustness check, model 1.2 substitutes Permanent Secretary for RTA Independence to detect whether another measure of institutional independence performs similarly, and indeed the result is in fact stronger than before, with Permanent Secretary achieving a statistical significance of .05 and showing that RTAs with a permanent secretary in their institutional design can be
expected to get an average of €8.2 million more than those RTAs without such an institution.  

Furthermore, as should be expected, Population does achieve statistical significance, while Polity remains negative and an insignificant predictor of aid.

Models 1.3 and 1.4, capture the relationship between preference heterogeneity and EU Aid and begin in model 1.3 by substituting Intra-RTA Affinity in place of the independence measures. Using all the same controls as in the previous models, Intra-RTA Affinity displays a negative and significant (at the .05 level) relationship with EU aid, where a one point decrease in average Intra-RTA Affinity, indicating a greater degree of preference heterogeneity, leads to an increase in aid by approximately €6.5 million. Population loses its statistical significance in model 1.3, while the sign on the Polity control flips to positive, a result that is a bit puzzling. Model 4.4 substitutes Power Concentration for Intra-RTA Affinity. Indeed, the measure performs as expected, with RTAs in which Power Concentration is low receiving larger amounts of EU Aid, and this result is significant at the .05 level. However, overall the findings in models 1.1-1.4 do indeed seem to support the hypotheses associated with Proposition 1, as both institutional independence and preference heterogeneity appear to be strong predictors of aid to RTA recipients.

Now that the relationship between aid and the independence of the RTA recipient has been established, I move on to test Proposition 2 while holding constant the effects of institutional independence using the RTA Independence measure. Table 4.3 examines the ability of development considerations to explain EU Aid, beginning with the traditional economic measures of wealth and human development and then employing trade need as a new way of understanding recipient need, and I do so using the following equation:

\[
EU Aid_{it} + 5 = \beta_1 + \beta_2 EU Aid_{it} + \beta_3 Population_{it} + \beta_4 Polity_{it} + \beta_5 RTA Independence_{it} + \beta_6 Recipient Need_{it} + \alpha_t Year + \epsilon_{it}
\]  

5 While one might question why I do not proceed with this indicator instead of the RTA Independence measure given these strong results, I would point out that the Permanent Secretary measure causes my sample size to drop from 407 to 259, and because I wish to preserve as many observations as possible and believe the RTA Independence captures more variance in terms of the independent structure of RTAs, I proceed in future models with this measure.
Table 4.1: RTA Independence and EU Aid

<table>
<thead>
<tr>
<th></th>
<th>Model (1.1)</th>
<th>Model (1.2)</th>
<th>Model (1.3)</th>
<th>Model (1.4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagged DV (+)</td>
<td>1.038***</td>
<td>0.870***</td>
<td>0.996***</td>
<td>1.016***</td>
</tr>
<tr>
<td></td>
<td>(0.0902)</td>
<td>(0.138)</td>
<td>(0.0975)</td>
<td>(0.104)</td>
</tr>
<tr>
<td>Population (+)</td>
<td>0.597</td>
<td>3.966**</td>
<td>1.034</td>
<td>1.779*</td>
</tr>
<tr>
<td></td>
<td>(1.005)</td>
<td>(1.674)</td>
<td>(0.847)</td>
<td>(1.036)</td>
</tr>
<tr>
<td>Polity (+)</td>
<td>-0.247</td>
<td>-0.359</td>
<td>0.218</td>
<td>-0.0366</td>
</tr>
<tr>
<td></td>
<td>(0.212)</td>
<td>(0.355)</td>
<td>(0.201)</td>
<td>(0.174)</td>
</tr>
<tr>
<td>RTA Independence (+)</td>
<td>1.781*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1.012)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent Secretary (+)</td>
<td></td>
<td>8.207**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(3.718)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intra-RTA Affinity (-)</td>
<td></td>
<td></td>
<td>-6.504**</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(2.663)</td>
<td></td>
</tr>
<tr>
<td>Power Concentration (-)</td>
<td>-1.91e-12**</td>
<td></td>
<td></td>
<td>-1.91e-12**</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(9.03e-13)</td>
</tr>
<tr>
<td>Constant</td>
<td>-15.42</td>
<td>-78.32*</td>
<td>-22.60</td>
<td>-33.11</td>
</tr>
<tr>
<td></td>
<td>(17.90)</td>
<td>(31.74)</td>
<td>(15.98)</td>
<td>(19.01)</td>
</tr>
</tbody>
</table>

Observations: 407 259 444 444
R-Squared: .48 .53 .49 .49

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

Table 4.2: Correlation of Independence and Preference Heterogeneity Measures

<table>
<thead>
<tr>
<th>Variables</th>
<th>RTA Independence</th>
<th>Perm. Secretary</th>
<th>Power Concentration</th>
<th>Intra-RTA Affinity</th>
</tr>
</thead>
<tbody>
<tr>
<td>RTA Independence</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perm. Secretary</td>
<td>0.3243</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power Concentration</td>
<td>-0.0531</td>
<td>-0.5872</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Intra-RTA Affinity</td>
<td>0.0513</td>
<td>-0.1596</td>
<td>.1625</td>
<td>1.000</td>
</tr>
</tbody>
</table>
### Table 4.3: Development Need and EU Aid to RTAs

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

Standard errors in parentheses.

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

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

### Table 4.4: Correlation of Economic Development Measures

<table>
<thead>
<tr>
<th>Variables</th>
<th>GDP per capita</th>
<th>HDI</th>
<th>Trade Need</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HDI</td>
<td>0.846</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Trade Need</td>
<td>-0.448</td>
<td>-0.788</td>
<td>1.000</td>
</tr>
</tbody>
</table>
This basic equation, where I also measure recipient need using the Human Development Index mean score for the RTA instead of GDP per capita, is run in models 2.1 and 2.2. In model 2.1, GDP per capita has a negative and statistically significant at the .01 level, relationship with EU Aid, where a one point decrease in the average logged GDP per capita of the recipient is associated with a nearly €3 million increase in the amount of aid received. This is the expected relationship and a strong indicator that in fact, aid to RTA recipients is a story of aid for recipient need. The positive effects of RTA Independence are still present even when recipient need is taken into account as well. Furthermore both Population and Polity have positive signs but do not detract from the explanatory power of need and independence.

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

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

While I am not sure what is driving the Polity results, I can merely suggest that this constant insignificance does indicate that aid to RTAs is not a story of democratization. What is perhaps more interesting is the Population result. According to traditional foreign aid models, size should be a fairly consistent and significant predictor of aid recipients, but in these models this is not the case. I believe what is going on here is that once again, the RTA is a fundamentally different recipient than states. While aid to state recipients may in large part be driven by the size of the recipient, this simply does not seem to be the case when we look at RTA recipients. While I currently have no real theoretical priors as to why size doesn’t matter when aid is given to RTAs, this is something I would like to explore in future work.
Before moving on to testing Proposition 3 regarding the strategic interests of the EU as a donor, it is appropriate to present a test of my sixth hypothesis, which asserts that aid allocations should be greatest when both development need and independence are high in a given RTA. This is done in Table 4.5, using the equation 4.3.

\[
EU\text{Aid}_{it} + 5 = \beta_1 + \beta_2 \text{LaggedDV}_{it} + \beta_3 \text{Population}_{it} + \beta_4 \text{Polity}_{it} \\
+ \beta_5 \text{RTAIndependence}_{it} + \beta_6 \text{GDPpercapita}_{it} + \beta_7 \text{RTAIndependence} \times \text{GDPpercapita}_{it} \\
\alpha_t \text{Year} + \epsilon_{it} 
\]

(4.3)

The marginal effects of all interactions presented in Table 4.5 are presented in the Appendix, though Figures 1 and 2 show the marginal effects of interacting GDP per capita and RTA Independence for the reader’s convenience. As is depicted in Figures 1 and 2, the effect of RTA Independence is conditional on the level of GDP per capita. Figure 1 graphs the effect of GDP per capita on the RTA Independence coefficient as the level of GDP per capita varies from its minimum to maximum levels, while Figure 2 graphs the effect of RTA Independence from its minimum to maximum levels on the GDP per capita coefficient. As is depicted, the effect of this interaction terms is conditional on both the need and independence of the recipient. The logged value of GDP per capita matters when combined only with a relatively independent RTA, while independence only explains who gets EU aid at very low levels of wealth. Thus, as expected in Table 4.5, the effects of combining independence with recipient need are present. While both independent and needy RTAs get aid, the most likely cases of aid allocation rest in those RTAs where both need and institutional independence are demonstrated. This result holds also for the interactions between RTA Independence and HDI and Trade Need, respectively.

Having established a clear statistical relationship between my key measures for institutional independence and recipient need considerations, it is now time to examine Proposition 3, which states that aid to RTAs is not primarily given based on the strategic interests of the donor. This is done in Table 4.6 and using the equation:
Table 4.5: Development Need, Independence, and EU Aid to RTAs

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

Standard errors in parentheses
* p < 0.10, ** p < 0.05, *** p < 0.01

\[ EUAid_{it} + 5 = \beta_1 + \beta_2 EUAid_{it} + \beta_3 Population_{it} + \beta_4 Polity_{it} \]
\[ + \beta_5 DonorInterest_{it} + \alpha_4 Year + \epsilon_{it} \]

I begin in model 4.1 by examining the effect of British strategic interests on EU Aid. First,
my independence and recipient need measures, RTA Independence and GDP per capita, both retain their expected and significant predictive power, where more independent RTAs get more aid and more needy RTAs do as well. However, the measure for British interests, Affinity with Britain appears to have no relationship with EU Aid, thereby suggesting that if strategic interests are involved in EU aid to RTAs, they are certainly not British interests.

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

As argued in Chapters 2 and 3, perhaps in the EU case strategic interest shouldn’t be defined as those interests of any particular member state, but the interest of the EU itself. Some have argued that this could be a story of institutional isomorphism, in which the EU is attempting to replicate its "model" elsewhere in the world and so gives aid to institutions that are formed in order to emulate the EU. To account for this, I employ Isomorphism in model 4.4 to test this argument. If the isomorphism logic is correct, we should expect to see the EU allocating more aid to those institutions that look the most like itself. In fact, this does not appear to be the case. Isomorphism not only appears to have no relationship with EU Aid, but that relationship that it does have is a negative one. Furthermore, once again, both RTA Independence and GDP per capita retain their expected results.

As a final test of Proposition 3 I include model 4.5, which includes all the strategic interest measures together in a single model. In this model, RTA Independence does lose it’s significant result, though GDP per capita is still negatively associated with aid and significant at the .01 level. However, Affinity with Britain also turns on and is positively associated with EU aid, so perhaps there is some strategic political interest seeping into aid allocations to RTAs despite the need orientations of most of these packages. Still, Affinity with France fails to turn on, and even
Table 4.6: Strategic Interest and EU Aid to RTAs

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

Standard errors in parentheses
(+/(-) indicates expected relationship with dependent variable.
* p < 0.10, ** p < 0.05, *** p < 0.01
more interestingly *Affinity with Germany* turns negative and significant, an admittedly puzzling result. However, once again I may have an issue of high collinearity among my strategic interest variables that could explain the differing results in model 6.5 from those in models 4.1 and 4.3. Note in Table 7 the high collinearity of the three affinity variables with one another. This may cause the sign and significance transformations that occur in model 4.5 of Table 4.6. RTAs that have a high degree of UNGA voting affinity with Britain are likely to also share this affinity with France and even Germany. Thus, this could be driving the results in model 4.5. Finally, note in model 4.5 that *Isomorphism* once again fails to show a connection to *EU Aid*.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Affinity with Britain</th>
<th>Affinity with France</th>
<th>Affinity with Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affinity with Britain</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affinity with France</td>
<td>0.9418</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Affinity with Germany</td>
<td>0.3918</td>
<td>0.501</td>
<td>1.000</td>
</tr>
</tbody>
</table>

### 4.5 Conclusions

As I have established, the results presented in the following section largely support my arguments that aid to RTA recipients is based on the degree of independence of the institution and on the degree of recipient need, measured both in terms of economic and trade need. Further, when interacting independence with need, we see an even greater effect, where RTAs that are both highly independent and more needy get the most aid. This confirms the arguments stated by *Proposition 1* and *Proposition 2* and their associated hypotheses. In only one case, model 5 in Table 6, do the strategic interests of the donor appear as a significant predictor of *EU Aid*, but this result is likely explained by the high degree of collinearity between the strategic interest variables included in the model.

Given this, I can proceed under the assumption that in fact, aid to RTA recipients represents a fundamentally different approach to foreign aid than does aid to traditional state recipients. While aid to states is often at least weakly associated with the economic need of the recipient, all
too often donor interests are more pressing, and such explanations are better predictors of aid than are need measures. In the case of the RTA recipient, this does not appear to be true; recipient need trumps donor interest in explaining aid allocations. What’s more, the choice of the RTA recipient represents an institutional choice, where donors seeking to allocate aid for recipient need can do so to an RTA that is independent and/or has a high degree of preference heterogeneity within it, thereby protecting the aid from being contaminated by political interests at the recipient end. Finally, not only does aid to RTAs appear to reflect a particular institutional choice and a desire to give aid for recipient need, this need does not have to be defined only in traditional economic terms. Rather, the RTA as recipient can be said to reflect a desire by donors to promote development through free trade. The potential demand for AfT of the RTA is a strong predictor of EU aid. It may be the case then that donors are coming to understand recipient need as both economic and trade oriented, and that the two are inextricably linked.
Chapter 5

Interview-Based Evidence on EU Aid to RTAs

5.1 Introduction

In Chapters 3 and 4, I present an explanation for why RTAs are attractive aid recipients in the international system and present supportive statistical evidence for this explanation. Indeed, the findings of this study suggest that RTAs who are under-developed economically, lacking in trade development, and institutionally independent from their member states tend to recieve more foriegn aid than their better-developed, less-independent peers. However, what the previous chapters lack is an in-depth examination of how aid allocation decisions are made in practice. Any good large-N empirical evidence is only made better by qualitative illustration of the causal story the data suggest, and so I present evidence from elite interviews in order to provide a nuanced examination of EU aid that is supportive of my argument and statistical findings.

The interviews for this qualitative examination of aid were conducted at the European Commission offices in Brussels, Belgium. In the summer of 2014, I met with 15 development and trade policy officials and analysts at the Directorate General (DG) for Development and Europe Aid (DEVCO), the DG for Trade, and the European External Action Service (EEAS). The interviewees ranged from a DG Cabinet member, Division Head, area specialists and desk officers, and even a communications officer. The area expertise of the interviewees spanned all the covered regions and in particular several individuals had overlapping expertise in the RTAs of Africa.¹

¹ RTA expertise covered by interviewees includes ASEAN, CARICOM, COMESA, EAC, ECOWAS, IGAD, IOC, MERCOSUR, SACU, SADC, and WAEMU, as well as thematic coordinators whose regional focus is widespread so as to cover issue-level, rather than regional-level policy.
Interviews were selected based upon job description and area of expertise, i.e. the regions/RTAs in each person’s portfolio, though availability of subjects was somewhat limited. The interviews were semi-structured with questions targeting the main elements of my theory, though tailoring was necessary to incorporate greater information about a subject’s issue-area or regional knowledge.

In preview, the findings from these interviews largely support my arguments and large-N statistical evidence. The European Commission, via DGs DEVCO and Trade as well as the EEAS, actively seek to deliver aid to RTAs based on the independence and capacities of the RTAs, but with a primary focus on the development need of the member states. Poorer regions and their associated RTAs typically get more aid than more prosperous regions, though the process for allocating aid via DG DEVCO is largely demand-driven, meaning that aid recipients request aid and the Commission responds, rather than the other way round. Further, this demand-driven nature of aid-giving partially negates the conventional wisdom on foreign aid relationships, where aid is a policy tool used to further the interests of the donor, rather than the needs of the recipient. In the following sections of this chapter I discuss in sequence the evidence supporting my three propositions by combining information obtained through my elite interviews as well as archival research and RTA case knowledge.

5.2 Evidence on the Independence of Aid Recipients

Recall in Chapter 3 the argument that IGOs are potentially attractive aid recipients because of their independent institutional structures. Independence enables IGO recipients to be particularly responsive to the development needs of their members because of the information, monitoring, and enforcement capabilities they possess. IGO aid recipients are able to collect nonbiased information about the development conditions and policies of their member states. Given that most South-South IGOs exist in the form of RTAs with specific economic and trade focuses, this means that these institutions must be able to obtain reliable information on their members’ economic conditions and practices in order to further the mission of the RTA, which may range in scope from simply lowering tariffs to a full-scale common market and currency. In order for RTAs to be
productive they must be able to monitor their member states cooperation within the agreement and be able to punish those member states who pursue bad policies or defect from the agreement. It is these informational tasks that in part make RTAs successful economic institutions, and also these same features that make them attractive aid recipients. As aid donors begin to see the development of regions as a gateway towards solidifying the development of states, as they seek to find additional aid recipients who can be trusted to spend money as intended, and if they have concerns about the ability of states to effectively use aid, donors are rational in the incorporation of RTAs as aid recipients.

Indeed, the large-N statistical evidence supports this claim. In Chapter 4, I show that more independent RTAs tend to get more aid than their less independent counterparts. Using Haftel and Thompson’s (2006) classification of IGO independence, I find that for each increase in an RTA’s independence score, an RTA could expect an increase in their aid of €1.7 million. Haftel and Thompson create a six point scale of independence where IGOs with decision-making procedures such as majority voting and a decision-making body such as a ministerial council, a supranational bureaucracy with the power to both initiate and advise on policy, and a third-party dispute settlement system all indicate degrees of independence. An RTA with all of these elements would receive a higher independence score in Haftel and Thompson’s study, as they do here, and the accumulation of these independence features signals an RTA that has a greater degree of independence from its member states than does an RTA with only one or two of these features. The findings in Chapter 4 show that clearly independence as conceptualized by Haftel and Thompson is a significant factor in its own right. Here I discuss qualitative interview evidence to support this statistical result.

5.2.1 Interview Evidence on Independence and Aid

In 2011, the European Commission proposed the Agenda for Change, laying out a strategy to make EU aid "both more strategic and more targeted," in addressing the Millenium Development Goals (European Commission, 2011). The Agenda lays out the Commission’s revitalized
development aid policy:

...the EU must seek to focus its offer to partner countries where it can have the greatest impact and should concentrate its development cooperation in support of
- human rights, democracy and other key elements of good governance;
- inclusive and sustainable growth for human development.
To ensure best value for money, this should be accompanied by:
- differentiated development partnerships;
  coordinated EU action;
- improved coherence among EU policies (Agenda for Change, 2011, p. 4).

Despite the singular mention of "partner countries" in this statement, the policy goes on to claim a significant role played by RTAs in the pursuit of sustainable development. Section 3.2 of the Agenda states

**Regional development and integration** can spur trade and investment and foster peace and stability. The EU should support regional and continental integration efforts (including South-South initiatives) through partners' policies in areas such as markets, infrastructure and cross-border cooperation on water, energy and security. Support will be offered to tackle competitiveness gaps, as part of the EU’s substantial and growing *Aid for Trade activities, Economic Partnership Agreements* and *other free trade agreements with developing regions*. (Agenda for Change, 2011, p. 8 *Bold font included in the original*).

Though the EC’s inclusion of RTAs as recipients of aid was codified in the Cotonou Agreement in 2000, the Agenda, according to DEVCO officials, shows that the focus on RTAs means that development isn’t simply viewed as an end in itself. "The idea is that if you go through regional organizations you can help them build better standards for investments, etc. Then economic growth takes off." In deciding which organizations to develop in order to create this long-standing economic growth, all interviewees shared nearly the same turn of phrase: it’s a question of "capacity". While capacity can mean many things, it is clear through my discussions with officials in both DEVCO and Trade that capacity is a pseudonym for independence, and several agreed with this use of the term.

Mark Henderson, Policy Officer at DG Trade, comments that in order to assess the capacity of an RTA recipient the Commission, "Need(s) to have confidence that money will be spent ap-
propriately, but then you have the question of if the organization can absorb the process.” This comment highlights two critical aspects of EC decision-making with respect to aid recipients. First, the desire to find RTAs that can spend aid appropriately directly echoes the argument made in this chapter that RTAs are attractive recipients when their independence enables them to spend aid the way it is intended. For the EC, an RTA with the capacity to spend aid appropriately is one with a sound institutional structure that prevents the misuse or misdirection of aid funds. Georgio Cocchi, Deputy Head of Unit for Thematic Programmes in DEVCO elaborates, ”the credibility of the organization”, is key, says Cocchi, ”Credibility means a structure or secretariat, coherent mandate, [an organization that is] capable of formulating policy, and [has] some financial capabilities.”

The second important point highlighted by Henderson is the question of whether the organization can absorb the process of development with aid. From the perspective of Christophe Kiener in DG Trade, the Commission directorate general with direct power to negotiate EU trade agreements, trade works in regions that are ready for regionalism. ”Choosing regions means helping regions to further their regional integration. In regional organizations where there is a customs union with a secretariat, success is easier... [RTAs] need institutional independence, efficiency, and a signal of readiness.” The independence of an institution is a signal to DEVCO and the Aid for Trade unit in DG Trade that an RTA is ready and able to spend the aid given to them appropriately. A more developed institution has the confidence of its member states, and can be a key player in promoting good economic and trade policies within its members. Though RTAs vary considerably in their institutional structure and capacity, as Kiener suggests, there is at least a greater confidence on the part of the EU that RTAs with developed scope and institutionalization, i.e. a working customs union, is the type of independent organization that is truly working to develop the economies of its members. With this confidence, the Commission is much more eager to allocate aid.

It is not the case that the Commission is ‘picking winners’ when choosing which RTAs to aid, however. In fact, the process is largely demand-driven. RTAs must make a request to DEVCO in order to receive aid. While it is up to DEVCO and other Commission units to negotiate aid
amounts between the recipient and the EU as well as monitor aid spending, it is the organization that makes the original request. If the Commission were seeking to cherry pick aid allocations based on likelihood of success they could easily deny aid requests, but this is not done. Furthermore, the Commission understands that in the world of developing RTAs, independence is relative. Thus, a not insignificant portion of aid packages to RTAs includes money specifically to support the institutional development of the organization itself. While some RTAs need more money for technical assistance and institutional support than others, this aid focus allows the Commission to better prepare less independent RTAs to develop their institutional structures and mandates further in the short term, in hopes of addressing development on a regional basis in the long term.

5.2.2 Highlights from ECOWAS and WAEMU

To further assess the role played by independence in guiding Commission aid allocations, I turn to the cases of two West African organizations, the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU). ECOWAS was formed in 1975 with the goal of fostering peace and security in the West African region through economic integration and trade. The plan was for ECOWAS to eventually establish a common market, but reductions in intra-ECOWAS tariffs were slow to take hold and only really began in 1990. Though a common external tariff has been established, full integration into a common market through eradication of all tariffs within ECOWAS remains to be seen (Musila 2005). Within ECOWAS, eight member states who share the CFA franc, a currency backed by the treasury of France, formed the WAEMU in 1994 as a currency union. Being a member of ECOWAS and not WAEMU does not cause conflicting membership obligations, given the common ECOWAS external tariff, and this situation makes these two organizations quite different from several other African RTAs, in which overlapping memberships in multiple customs unions do indeed create complications of obligation and monetary policy (see Jupille, Jolliff, and Wojcik, no date).

From the start ECOWAS and WAEMU have some advantages over other similar RTAs. The member states of the two organizations include Benin, Burkina Faso, Guinea-Bissau, Ivory Coast,
Figure 5.1: Member States of ECOWAS and WAEMU
Mail, Niger, Senegal, and Togo (ECOWAS and WAEMU), and Cape Verde, Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone (ECOWAS) as shown in Figure 1. Economically, the region has seen growth in recent years but is regularly in the bottom three poorest RTAs in the data, with an average GDP per capita of roughly $500. Further, according to the EU’s 2008-2013 Regional Indicative Programme (RIP), trade integration is lagging considerably.

Politically speaking, both interview subjects and the RIP identify civil conflict as the biggest threat to the region’s development, rather than the interstate wars that mar other African regions. Indeed, ECOWAS intervened militarily during the First Liberian Civil War in 1990 and has seen repeated civil conflict in Liberia, Cote d’Ivoire, and most recently Nigeria. Despite having an institutional structure and mandate many viewed as lacking in its ability to undertake effective peacekeeping in the Liberian conflict, the organization was able to set up a neutral Standing Mediation Committee comprised of representatives from member states and became involved in the peace process (Adeleke 1995). While the operation was only temporarily successful, examples of regional organizations engaging in conflict mediation are relatively rare and the ECOWAS intervention signals a basic institutional independence and strength within the organization. However, given the tendency for civil conflict in the region and the recent outbreak of the ebola virus, the countries of ECOWAS and WAEMU struggle to maintain domestic stability while attempting economic and trade development in the two economic institutions of the region.

In terms of the attractiveness of these two institutions as foreign aid recipients, two features stand out and reflect the comments made by the previously mentioned interview subjects: the capacity and credibility of these organizations. Recall from the interview evidence above that it is both the capacity and credibility of RTAs that signals their relative independence from their member states. In terms of capacity, institutions must have a detailed structure that includes more than just a secretariat, but preferably a ministerial body and adjudicative body as well. Elaborate design features help reassure donors that an RTA is not just a puppet of the member states and has some larger mission and the organizational features in place, thereby reassuring donors that aid can be used effectively.
In addition to capacity, RTAs gain credibility as they are able to successfully carry out their economic mandates. As the interview with Kiener suggested, the Commission has greater confidence that aid will be used to benefit development when an RTA has achieved some meaningful economic goals, such as a customs union. Combined, the institutional design and policy achievement of organizations signals to donors the degree to which the institution is relatively independent from the member states, making it an attractive aid donor. Multiple institutional structures within the organization and the ability to carry out policy commitments such as a customs union requires an RTA to achieve some level of supranationality and be independent. The cases of ECOWAS and WAEMU demonstrate both capacity and credibility as desired by the Commission.

First, in terms of their institutional independence scores as derived from Haftel (2006), WAEMU sits at a 4 and ECOWAS at a 3 on a 0-5 scale. Thus, both institutions are relatively independent. Further, the RIP remarks specifically on the structures of these institutions as making them valuable players in the economic development of the West African countries and ongoing aid partners to the EU:

ECOWAS is trying to consolidate itself by restructuring and strengthening its institutions. From an institutional point of view, the Executive Secretariat was transformed in 2007 into a Commission composed of a President and Vice-President and seven other Commissioners, and the Parliament and Court of Justice of the Community were restructured as well as the ECOWAS Bank for Investment and Development (EBID). ECOWAS has made great progress in the area of conflict prevention, peace and security. It has also implemented major economic integration policies...WAEMU has set up a solid institutional framework with a decision-making structure which is framed by clear legislative texts, and credible and stable machinery for own-resource financing. These factors have helped the WAEMU Commission to acquire substantial technical and administrative capacity and to fully play its key role in deepening economic integration between its member states...(RIP, 2008, p.24).

As the RIP suggests, the institutional designs have created considerable capacity, i.e. independence, within these two institutions, and in the case of WAEMU, the RIP explicitly references the role played by the institutional framework in allowing for a legalistic and credible organization. This confidence in the independence and credibility of these organizations plays a key role in the decision
by the EU to allocate aid. Indeed, in addition to being two of the most independent institutions
in my sample, WAEMU and ECOWAS rank second and eighth, respectively, in terms of average
Commission aid received between 1995 and 2011.

Second, despite the ongoing threat of civil conflict, analysts at DEVCO identify WAEMU
and ECOWAS as two of the more successful RTAs in the ACP region, thanks to the achievement
of a functioning customs union within WAEMU in 2000 and the recent expansion of the union to
the other ECOWAS members. Speaking with the DEVCO Head of Unit for Regional Integration
in West Africa, it became apparent that the ability of these RTAs to achieve a customs union
is a great achievement for the region, and the EU was actively involved in helping ECOWAS to
complete the customs union agreement. Such progress is promising to the EU when allocating
aid, as the Commission is quite optimistic that along with economic integration, aid can assist
the ECOWAS countries in liberalizing trade as well. In West Africa, intraregional trade is only
approximately 2% of the overall trade of ECOWAS members, according to DEVCO. Without trade
in oil, intraregional trade drops to almost zero. But the EC is hopeful that with aid to support the
institutions of the organizations and aid for technical support, the small pre-existing
intraregional trade and infrastructures can be improved. According to the 2008-2013 RIP, 70% of
the €597 million allocated to West Africa in the 10th European Development Fund (EDF) budget
was to be spent on regional integration and competitiveness, an increase from only 42% allocated
to regional integration in the 9th EDF and a result of disappointment at a lack of increase in
intraregional trade during the 9th EDF budget. It is the success of ECOWAS and WAEMU in terms
of maintaining and expanding a successful customs union that supports Commission confidence in
the ability of these organizations to continue to grow and expand, using aid appropriately to support
these objectives.

If the countries of West Africa are to develop and benefit from trade, reforms
need to be implemented at [the] national and regional level to create an enabling
environment favorable to enterprises and exports from the region...Generally speak-
ing, the support provided by the EC has helped WAEMU and ECOWAS to carry
out significant legislative, regulatory and research work with a view to laying the
foundations for regional integration of West Africa’s economies. This work by the regional organisations has covered both factors which directly determine trade and accompanying macroeconomic and sectoral policies, (RIP, p. 18, 38).

Thus, the capacity of the institutional design and the credibility signaled by WAEMU and ECOWAS in achievement of economic integration continue to signal to the Commission that aid for development is spent accordingly in these institutions. The EU touts that along with its member states it is the largest contributor of development assistance to West Africa, and this relationship is likely to continue because of the trusting relationship established between the Commission via DG DEVCO and the institutions of WAEMU and ECOWAS. The independence of these institutions allows for such a relationship to exist, and both the EU and the ECOWAS Secretariat report that success in the region is in part due to the aid provided by the Commission.

5.3 Evidence on the Development Orientation of EU Aid

Having established the preference for allocating foreign aid to RTAs that are independent from their member states, I now present evidence on my second proposition and set of hypotheses. As discussed previously, RTAs are attractive recipients of aid when donors wish for aid to primarily address recipient need. Institutional independence helps to reassure donors that an organization can spend aid for need without the risk of politicization by the RTA’s member states, but independence alone should not be seen as a sufficient condition for aid. Instead, it is the overall economic development need of the member states that is of primary concern.

In the previous chapter, I show that RTAs with lower aggregate GDP per capita among member states tend to get more EC aid than wealthier RTAs. These results hold when the average Human Development Index scores were used as well. Similarly, those RTAs that had a greater need for Aid for Trade, meaning they lack the basic infrastructures necessary to easily engage in trade liberalization, also got more aid. Further and quite important for my argument, I also show that RTAs expressing development need and greater independence received more aid than less needy, less independent institutions. These statistical results support my hypothesis that needier RTAs
will get more aid than less needy RTAs, and support my argument that aid given to institutions is meant to address economic development rather than serve as a foreign policy tool of the donor. In this section I present interview evidence to further support this argument and confirm the recipient need hypothesis.

5.3.1 Interview Evidence on Development Policy

Evidence on the development orientation of EC aid policy abounds in the interview data, both in terms of aid to support economic growth and aid for trade development. The original codification of the Commission’s efforts to support economic development through regional organizations appears in Article 28 of the Cotonou Agreement:

Cooperation shall provide effective assistance to achieve the objectives and priorities which the ACP States have set themselves in the context of regional and sub-regional cooperation and integration, including inter-regional and intra ACP cooperation. Regional cooperation may also involved non-ACP developing countries as well as Overseas Countries and Territories (OCTs) and outermost regions. In this context, cooperation support shall aim to:

a) foster the gradual integration of the ACP States into the world economy;
b) accelerate economic cooperation and development both within and between the regions of the ACP States;
c) promote the free movement of persons, goods, services, capital, labour and technology among ACP countries;
d) accelerate diversification of the economies of the ACP States; and coordination and harmonisation of regional and sub-regional cooperation policies; and
e) promote and expand inter and intra ACP trade with third countries. (Partnership Agreement ACP-EC, Cotonou, 2000, Article 28.)

It is important to note that Article 28 of the Cotonou Agreement, signed originally in 2000 and revised in 2005, expressly calls for assistance to regional organizations in terms of promoting economic development and trade to improve the economic development of RTA member states. Further, though EU development policy was historically concerned with the ACP countries, Cotonou makes it clear that RTAs are to be supported by EU assistance whether they contain ACP or non-ACP members.
To fund RTAs, the EU uses two primary budgetary sources. The first is the EDF, which is the main instrument for funding ACP countries and regions specifically. The Fund takes the form of six year allocations and is largely demand-driven, as already discussed. The second main instrument for funding RTAs is the Development Cooperation Instrument (DCI), which is allocated towards non-ACP countries and regions. Both aid instruments come from the Budget of the European Union and are fairly comparable in size: the 2014-2020 EDF is €31,589 million while the DCI for the same period is €23,200 million. Though allocations out of the EDF and DCI are primarily requested by the recipient states and organizations, analysts at DEVCO insist that there are many details and criteria in terms of determining allocation amounts apart from the independence of the RTA, namely the average GDP and HDI of member states, population, geography, and etcetera.

Reiterating the importance of Cotonou in terms of formalizing aid to regions, multiple DEVCO officials state that the fundamental goal of Commission aid to RTAs is fighting poverty and promoting development cooperation. The increasing focus on trade development is meant to help promote economic growth more generally, which the EU hopes will contribute to poverty reduction with the member states of the organization. Marc Litvine, DEVCO Latin American specialist, notes that

States in regional organizations are usually small economies. If the economy is closed by borders and taxes, this is bad for growth. There are two perspectives on how to fix this. In the first, [countries] should directly enter into the globalized world, but here a focus on [trading in] comparative advantage can be harmful. In the second, [countries] should open borders and grow markets into regions and allow regional economies to grow and fight poverty in this way. This approach worked for the EU so we support this elsewhere.

The above comment demonstrates the importance placed by the Commission on regional trade liberalization as a factor contributing to economic development, but it also demonstrates an interesting line of thought present in EU aid policy: the idea that regional liberalization worked for Europe so it may work elsewhere. Related to this sentiment is the practice of applying the principle of subsidiarity to regional aid policy. Subsidiarity is a staple in EU policy domestically and determines
that law and policy-making should be done at the lowest level of government possible, i.e. local or subnational issues should be determined in local governments, national issues in the national governments, and Europe-wide issues should be decided at the EU level. In terms of aid policy, the same logic applies. “In deciding whether to aid states or regions, it is based on subsidiarity. Keep the control at the lowest level possible, but where appropriate as well. Regional support is for projects best addressed at the regional level,” says Jean-Christophe Virieu. Economic development can be appropriately addressed at the regional level, but this aid does not mean displacement of bilateral aid to the regional level. Rather, aid given to an RTA is meant to complement aid given bilaterally to member states as well. In terms of promoting economic development through Aid for Trade, the Commission views the regional level as the most appropriate for this type of assistance.

Further, there is an increased effort on the part of the Commission to learn from past aid mistakes. The EDF and DCI are revised every six years with the partial purpose being to assess and improve aid focuses and projects from the previous six years. The 10th EDF increased the focus on aid for trade liberalization after disappointments from the lack of liberalization in certain regions during the 9th EDF. There is also a growing effort to tailor aid allocations to RTAs based on their specific needs. For RTAs in the Pacific, Virieu says this means working with the public sector, strengthening regional institutions, and lowering barriers to trade. In Latin America, this often means aid for technical assistance rather than broad ODA, while in Africa the focus is still largely on economic aid and infrastructure. To get a more nuanced look at the development orientation of EC aid, I turn to the case of the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC).

5.3.2 Highlights from COMESA and the EAC

COMESA and the EAC are two RTAs that include member states in eastern and southern Africa. The EAC is small in terms of the number of members, with only Burundi, Kenya, Rwanda, and Tanzania taking part in this FTA/customs union. COMESA encompasses 19 countries: Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya,
Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe. COMESA includes all EAC member states except for Tanzania. While membership overlap was not a problem in the West African organizations because WAEMU is a customs union while ECOWAS is merely an FTA, COMESA is actively trying to become a customs union as well. Because in practice states cannot be a member of two customs unions, this has created significant difficulties for the economic and trade integration of these two organizations.

However, overlapping memberships are not the only problems facing COMESA and EAC. First, like WAEMU and ECOWAS, the member states of these countries are overwhelmingly LDCs, with an average GDP per capita across members of between $400 to $550. According to the 2008-2013 RIP for Eastern and Southern Africa, the region is doing relatively well in terms of intraregional trade, but poor infrastructure and the lack of access to ports for many countries continues to hamper the trade liberalization of both organizations. Second, unlike West Africa, the COMESA and EAC countries have regularly experienced significant interstate conflict, a fact that hampers both economic growth and trade in the region (RIP, 2008, p. 6-8).

Deciding how best to allocate aid to such troubled, underdeveloped organizations is a problem the EC has grappled with for decades. The main problem hindering intraregional trade according to officials at DEVCO and Trade are the overlapping memberships of the two organizations. Resolving trade issues is the key focus of EC aid policy to the region, but ameliorating traditional economic development concerns is seen as critical too. To do this, the Commission budget for the region, which includes not only COMESA and the EAC but also the Intergovernmental Authority on Development (IGAD) and the Indian Ocean Commission (IOC), under the 10th EDF is €645 million. Of that, 85% is allocated to regional economic integration, 10% to regional political cooperation, and the remaining 5% to other programs (RIP, p. 44).

On the trade dimension, the Commission has actively provided a portion of the financial assistance they give to these organizations to support a Tripartite Agreement between COMESA, EAC, and the other main RTA in the region, the South African Development Commission (SADC).
Figure 5.2: Member States of COMESA and EAC
The issue of overlapping memberships and mandates, and their possible effects on the pace of regional integration in Africa, is of concern not only to African countries themselves, but also to the wider international community. However, if it is to be sustainable and viable, the pace and direction of regional integration in Africa will be determined by the African countries concerned, taking into account social, cultural, historical, economic and political factors...the COMESA/SADC/EAC Tripartite Task Force is addressing the harmonisation of trade and customs programmes (RIP, p. 15).

To address this issue and help assist these organizations to in fact harmonize their rules and obligations, the RIP states that one of the main objectives of EC funding under the 10th EDF is to "Facilitate the development and implementation of joint programmes on the basis of SADC-EAC-COMESA Tripartite," (RIP, Annex, p. 3). Additional support under regional economic integration goes towards development of infrastructure, trade-related assistance and capacity development, bilateral member state support to help members harmonize their trade policies with those of the RTAs, and support for natural resource conservation.

On the poverty dimension, the Commission clearly hopes that trade integration will produce economic growth. By subsidizing the costs of liberalization, the EU supports the goal of a 6-7% increase in growth over the period of the RIP. Given the destabilizing effects of interstate conflict in COMESA and EAC, a vital strategy of the Commission is to support Aid for Trade with additional assistance to manage political strife and conflict, and policy documents make clear the recognition of the link between these two issues in aid allocation:

The general objective of [the regional political cooperation] focal area is to assure peace and security and provide a framework for balanced development through higher levels of regional cooperation...The active participation of economic actors and citizens in regional integration, through increased freedom of movement backed by viable cross-border institutions, can itself exert a powerful influence in encouraging and maintaining stability and interdependence (RIP, p. 40).

Thus, the cases of COMESA and EAC illustrate that the Commission is dedicated to supplying aid to RTAs in the name of recipient need. Among the RTAs in my sample, the EAC ranks second in terms of overall economic development need and COMESA 5th, according to the average
GDP per capita as shown in Figure 2. When examining trade need in Figure 3, EAC ranks as the 5th and COMESA the 7th most needy RTAs. This need is addressed through the allocation of aid to both organizations that averages near €40 million per year, and the EAC is the leader in terms of average EC aid received yearly from 1995-2011. The amount of aid flowing to these organizations, as well as the policy statements found in the Commission’s Regional Indicative Programme and the statements of interviewees confirms the development orientation of this aid.

In tailoring aid allocations to COMESA and EAC around supporting a harmonization of customs union and trade policy, infrastructure, and political stabilization, the Commission is attempting to address both traditional and trade-related development need in two organizations that clearly demonstrate a lack of development. The focus on aiding these regions, rather than just their member states, highlights the principle of subsidiarity in the workings of EC aid. Trade liberalization, if left alone to be negotiated among single states lacks sufficient progress to render the region out of the severe economic underdevelopment which hampers it. By addressing economic and trade need at the regional level and creating regional economies, the EU, COMESA, EAC, and other RTAs in my sample hope that growth and prosperity will take off and become sustainable.

5.4 Evidence on the Donor Interest Focus of EU Aid

To address my final proposition, that aid to RTAs is not given primarily to further the strategic interest of the donor, I provide interview evidence to support this argument. The findings of the large-N statistical analysis from Chapter 4 show that only UNGA voting affinity with Britain appears to significantly predict EC aid to RTAs. These findings not show a loss of explanatory power for either RTA independence or recipient need. This suggests that while some small degree of strategic interest could be at play in aid allocations, recipient need is still the priority of aid given by the Commission.

The evidence collected from my interviews at the Commission confirm my statistical findings. Across the board, interviewees discussed the priority of need over interest and suggested several reasons why the EC is able to overcome strategic interests in the provision of aid to RTAs. First,
under the EDF and DCI as well as the RIPs, the aid given by the EC is largely demand driven. Second, the voting procedures to approve the EDF and DCI prevent member states from exerting too much individual power over aid allocation priorities. Third, the motivations of aid to RTAs are truly about trade liberalization and simply do not reflect a desire by the EU to gain market access. Finally, it is not the policy of the EU to promote regionalism where it is not wanted, as arguments for institutional isomorphism might counter. I discuss these features of Commission aid to RTAs in this section.

5.4.1 How Aid Decisions Are Made in the EC

First, it is important to understand that the aid allocation process of the Commission is largely demand-driven. While the Commission has exclusive power to decide which RTAs get more aid than others, and for which types of projects aid is allocated, it cannot easily force aid on an RTA without a specific request from the potential recipient. Once aid is requested, the RTAs themselves submit a plan and template for how they would like the aid to be spent. Once decided in the Annual Action Plan and/or RIP, the Commission allows the recipient RTA to take control of the aid administration. Returning to the cases of WAEMU and ECOWAS, the EC states that

The [European Union’s] regional strategy is based on the WAEMU and ECOWAS economic integration agenda...(RIP, p. 8).

And then later...

In order to implement the activities laid down in this indicative programme, the President of the WAEMU Commission and the President of the ECOWAS Commission will take on the task of regional authorising officer. The choice of one or other for a particular project or activity will be by mutual agreement reached during the organisations' coordination/consultation activities. They may delegate their mandate for specific projects or actions, either to one of the national authorising officers of the West African countries, or to one of the specialist organisations of the two regional organisations (RIP, p. 59).
With respect to the various African RTAs specifically, Irene Giribaldi notes that the EU only works with those RTAs recognized by the African Union, and works hard to promote an aid policy that is mutually agreeable to all involved on both the European and African sides. Thus, there is considerable evidence that while the Commission certainly has a lot of power to decide which organizations get large sums of aid, it is the organizations themselves that determine whether or not they receive any aid from the Commission. This fact makes it difficult to argue that the EU is picking which RTAs to aid based on strategic interests, as it is up to the RTAs themselves to request and spend Commission aid according to their own needs.

The second important point to emphasize is that Commission officials are very frank about the role played by the member states in trying to influence aid allocation decisions. Several of them acknowledged to me that when they have an opportunity to persuade the Commission to allocate aid towards a certain recipient, member states do tend to try to assert this influence. However, this is only done in ways that are very low cost to the member states, as two factors make the hard pursuit of this influence not particularly worth the effort. The first factor is the voting mechanisms for the EDF and DCI aid instruments. To approve the budgets member states must vote, but the procedure is qualified majority voting (QMV). While member states are apportioned votes based on the amount they contribute to the aid budget, QMV dissuades member states from being able to hold the aid allocations hostage in preference for specific recipients. Further, both the EDF and DCI are supported on the basis of thematic and issue-based Annual Action Plans that provide the specifics to the budgets on who will receive money, which regions are of high importance, and the type of aid to be allocated. The procedure for approving these Annual Action Plans is consensus, further reducing the ability of states to politicize the process heavily.

According to officials both at Devco and Trade, member state haggling over preferred treatment to former colonies or RTAs of strategic interest is generally not a problem. According to Mark Litvine, “Member states do have influence on where aid goes, but this isn’t such a problem.” The EDF was created specifically to fund former colonies of member states, Litvine goes on, but these former colonial powers also have significant aid budgets of their own in which to fund their former
colonial interests. Furthermore, it should be noted that in the previous section of this chapter I highlighted the fact that the answer to assisting needy states that are not former colonial interests of EU states is the DCI, which has a budget that rivals that of the EDF. So while there may be small tendencies by member states to prefer aiding those RTAs with former colonies, there is no compelling reason for them to insist that this be done at the expense of other needy recipients. Furthermore, the institutional features in place prevent this from happening to any significant degree. Additionally, Giorgio Cocchi at Devco points out that the main areas in which member states show concern is with regard to the quality of the programs and aid the Commission is providing, not about where aid should go.

The third possible criticism of aid to RTAs as being subject to the strategic interests of the donors would be the accusation that the EU is allocating funds to RTAs because they wish to gain key market access. However, once again the evidence is largely to the contrary. Multiple interviewees suggested that the market access the EU gets out of these aid arrangements is minimal, with one interviewee going so far as to say that what the EU gets is "peanuts", or nothing much. Indeed, officials at DG Trade emphasize that aid to needy RTAs is meant to bring more states and regions into WTO-style trade liberalization, rather than to gain access to attractive markets. "Today the focus is on increasing competitiveness to open growth. Development is a key consideration.", states Christophe Keiner from DG Trade. His colleague agrees: "The guiding principles of supporting regionalism are not EU interests, but putting states on the WTO track and helping to open markets. It is good for them."

The regional model is one the EU is invested in because they believe trade liberalization within regions can bring regional prosperity. "Aid relationships can sometimes be a push from Europe in getting states to trade more within their own regions than they do with Europe. We are fond of the regional organizations to anchor country cooperation and security, working together instead of fighting with each other...A big part of it is seeing the regions as a way of anchoring and stabilizing and then down the road [integration] will be good for everyone."
However, to counter the final argument regarding the politicization of EC aid as a way to promote and legitimize the "EU model" of integration via isomorphism, the point is made that the Commission "doesn’t force [regionalism] on places where they don’t want trade. This wouldn’t be money wisely spent," says Mark Henderson of DG Trade. Additionally, the demand-driven aspect of aid allocation dissuades this type of activity as well. And further, the EU is often disappointed by the trajectories these organizations take in terms of their institutional development and policies, as the previous cases of COMESA and the EAC illustrate. Similar problems have come up with SADC, notes Angel Carro-Carroso of the EEAS. The EC has learned to accept the agency of the organizations, because integration should be an organic process.

In democracy and human rights, what happens if the EU doesn’t accept regional outcomes? Look at the example of Zimbabwe. The situation is not great, but what do you do? We recognize the outcome, but highlight the difficulties created. Mugabe as chair of SADC is passing the EU a message. What do you do with it? I would like to use the region to stabilize the situation in Zimbabwe. Two months ago there were elections in Malawi. SADC observed the elections. They didn’t go well. The winner shouldn’t have won. But everything took place peacefully. And the region accepted it, as did the population. So even if the EU disagrees with the assessment, they tone down the criticism because there is no point in making matters worse.

SADC presents several interesting problems for EC aid policy to the region, but also for the donor interest explanation for aid to RTAs. While SADC is itself a problematic organization, low in terms of its independence scores but also another competing customs union in the southern and eastern Africa regions, it still competes as one of the largest recipients of EC aid. My interviewees noted the significant degree of both economic and trade need in the region. However, a critic might point out that SADC also contains the country of South Africa, which competes on its own as a regional hegemon and has the strategic interests of the British and EU itself due to economic strength and colonial history. So perhaps what explains aid to SADC is South African membership. This is not the case, however. A SADC expert at the EEAS explains, "South Africa isn’t technically a part of the SADC RIP. It can’t draw resources from the region, and can only participate if they put some of their own resources towards [SADC assistance]."
Figure 5.3: Member States of SADC
Thus, the obvious criticisms of EC aid to RTAs are largely dissipated by the evidence from interviews at the Commission. While member states and interests are not absent from the Commission’s aid policy to RTAs, they are not the driving forces, either. Aid is demand-driven, member states are institutionally prevented from exercising too much influence over policy, trade integration and development are the key policy concerns of the Commission, and institutional isomorphism is not a key motivation. Even on the recipient end, member states in an RTA must apply to the recipient organization for funds these organizations are given by the Commission, and in many cases the RTAs are charged with significant oversight that money is spent as agreed upon by the EU and the RTA. While interests cannot be said to be absent in this process, it is clear from my discussions with officials at Devco, Trade, and the EEAS that this is not what drives aid allocations or policy, rather it is the need of the recipients. This supports my findings in Chapter 4 and the arguments and theories presented in Chapter 3 that IGOs indeed are attractive aid donors and recipients for need because politicization is decreased in these institutional environments.

5.5 Discussion and Conclusions

In sum, the evidence collected from my discussions with EC officials at DGs DEVCO and Trade as well as the EEAS support my statistical findings in Chapter 4 and shed further light on how aid policy decisions are made in the EU context. The European Commission actively seeks to deliver aid to RTAs based on the independence and capacities of the RTAs, but with a primary focus on the development need of the member states. The European Union sees regional trade integration as a possible path towards economic development both within regions and states, and supports this with aid specifically allocated to RTAs that demonstrate both economic and trade need. Further, the decision-making focuses and features of the EC at least partially negates the conventional wisdom on foreign aid relationships, where aid is a policy tool used to further the interests of the donor, rather than the needs of the recipient. Having supplied both quantitative and qualitative evidence in support of my main arguments, in the following chapter, I turn to an examination of whether or not the practice of giving foreign aid to RTA recipients is effective in
promoting developmental goals.
Chapter 6

Does It Work? Evidence on RTA Aid Effectiveness

6.1 Introduction

Does foreign aid allocated to RTA recipients improve their development? In the previous chapters of this dissertation I explain why the independent institutional design of RTAs and the development need focus of aid donors accounts for the rise of the RTA as a recipient of foreign aid. In this final empirical chapter, I ask the logical follow-up question: does this aid to RTAs work? Of course, I show evidence in this dissertation that aid to RTAs is need-driven, but given that aiding RTAs is a relatively new practice that has only begun to take off in recent years, we can only know if RTAs and other types of IGOs will continue to gain prominence as aid recipients if aiding these institutions actually fosters trade growth. If aid to RTAs is both need-driven and effective at addressing this need, we should expect the practice to continue to grow. If, however, aid to RTAs is not effective at improving trade growth despite its intent, then it is likely that the RTA aid recipient will disappear as donors look for more effective aid channels.

The chapter proceeds in five stages including this introduction. In Section 2, I discuss the competing arguments for whether we should expect aid to RTAs to be effective, especially in terms of trade development, and present several testable hypotheses to be examined. Section 3 explains the data and statistical model used to test the effectiveness of aid to RTAs, and Section 4 includes a presentation of the results of a large-N statistical analysis. Finally, Section 5 offers conclusions and suggestions for moving forward in the study of RTA aid recipients.
6.2 Arguments For and Against Aid Effectiveness to RTAs

There are many arguments for and against trade effectiveness, and it is important to analyze both here. In previous chapters of the dissertation, I argue and demonstrate that aid to RTAs is given because of the need and attractiveness of the IGO recipient. This study of why RTAs are increasingly recipients of aid examines aid allocated to RTAs by the European Union (EU) and finds that institutional characteristics of the recipient and the need focus of the donor explain the RTAs who get aid and how much they receive.

Rather than repeat the findings of previous chapters, below I briefly summarize the arguments already presented for why aid to RTAs should be effective and devote more time to account for why this aid might not be effective, a topic previously unaddressed in this dissertation. To preview, the aid effectiveness literature is less developed than the research program on the determinants of aid, and there are reasons to be skeptical about the ability of aid to address recipient need. Further, given the focus of this paper on the new practice of aiding RTAs, the limited size of aid dollars allocated and the temporal expectations for aid effects lead to caution regarding the likelihood of seeing discernible effects of RTA aid on development.

6.2.1 Why Aid Given to RTAs Should Be Effective

In Chapter 3, I argue that aid to RTAs is more oriented towards the need of the recipient than is aid to state recipients due to the relatively independent structure of IGOs. Here, I argue that aid to RTAs should be effective due both to this development need-orientation of the aid itself and because of the institutional independence of the RTA recipient. I briefly discuss both explanations here.

First, the attractiveness of RTA recipients based on their independent institutional designs can be summed up by focusing on two attributes these IGOs share, some degree of independence from their member states and a heterogeneity of preferences among member states. Preference heterogeneity of RTA members creates an environment where, in seeking to satisfy all member
states regarding aid policy and to maintain legitimacy by executing policy, the RTA focuses aid where it can identify shared interests among members. Given that harmonious shared interests are likely to be few, especially in larger RTAs, the common denominator in these situations is the need for economic and trade development given that most RTAs exist in the global South.

While preference heterogeneity creates the opportunity for RTA aid recipients to focus aid on need, it is the independence of the institution that makes these IGOs especially attractive aid recipients and is most likely to lead to aid effectiveness. RTAs vary in terms of their independence from member states, as some have very minimal or weak institutional designs while others have quite sophisticated variations. But where independence is present, RTAs provide a less politicized environment for aid spending. RTAs with independent institutional designs, in trying to overcome the challenges of preference heterogeneity, have capabilities that are outside the bounds of power of member states. Independent RTAs generally have the capabilities to engage in information and monitoring activities that are vital to a successful IGO (Abbott and Snidal 1998). Similarly, the same independence that allows for the gathering of reliable information also allows the RTA to monitor aid spending in member states and ensure that aid is not channeled to the wrong projects, corrupt governments, or wasted in other ways. Effective aid monitoring by the recipient reveals both successes and problems in aid allocated to the RTA. Where aid is effective, the institution can report back to the donor and success may ensure extension or even expansion of the aid relationship. Where problems are detected, the independence of the RTA from its members allows the organization to respond without risking political fallout from member states and/or their voters (Lebovic and Voeten 2006, Milner 2006).

Institutional independence, then, creates a favorable environment for aid allocated to RTAs to be spent effectively. RTA recipients are likely to use aid for development need because this is a shared interest among member states. Beyond this need focus, the RTA recipient is able to gather reliable information about aid spending and monitor project success. Where aid is spent appropriately and/or works, this can be reported back to the donor as evidence of recipient legitimacy. Where problems are detected, the fact that RTAs are not held directly accountable
to a single state’s interests or the preferences of member state citizens means that the RTA can attempt to remedy the issue and even redirect aid without facing the same political consequences that a state recipient faces in a similar situation.

The second argument for why aid to RTAs should be effective at addressing development need is that this is exactly what the aid is intended to do. Numerous studies find that aid which is selective in its intent and targeted for development need is effective. Dollar and Levin (2006) argue that IGO aid donors target their aid allocations toward poverty alleviation and are therefore more selective in terms of giving aid to where it is most needed and where it is likely to be effective based upon the existence of "sound economic and political institutions" in the recipient (Dollar and Levin 2006, 2035). While Dollar and Levin find more selectivity in aid from multilateral donors than from bilateral donors, the literature on democracy aid that suggests aid selectivity comes from bilateral donors as well. There is evidence that while general Official Development Assistance (ODA) is intended in part to address political liberalization either directly or indirectly via promoting economic development, targeted aid packages geared specifically for democratic assistance projects and given to recipients who use the aid appropriately works (see Brautigam and Knack 2004, Finkel, Perez-Linan, and Seligson 2007, Scott and Steele 2005, 2011).

Returning to the economic aid literature, Dietrich (2013) argues that when donors of any type want effective aid and are wary of politicization or interests of the recipient getting in the way of this effectiveness, they will be highly selective in their aid allocation decisions, often targeting aid to multilateral actors rather than giving aid bilaterally to a state government. Finally, studies suggest that regardless of selectivity in aid, assistance given based on development need, rather than the strategic interests of the donor, is shown to be effective at addressing need. Aid given for donor interests does not tend to have positive effects on growth, however (Bearce and Tirone 2010, Headey 2008).

Both the independent institutional design and the trade need focus of assistance combine to make aid likely to be effective when given to RTAs. I have already established the selectivity of aid to RTAs based on these two features in Chapter 4, thus I will not re-test these features here.
Instead, I expect to find aid effectiveness by examining the goals of AfT and whether aid helps achieve these goals.

6.2.2 Why Aid Given to RTAs Should Not Be Effective

While there is existing evidence to suggest that aid allocated to RTAs should be effective at addressing recipient need, there is also a significant body of literature that suggests there should be no positive effect from this aid on development. It is important to address these arguments here, and they fall into three camps: 1. foreign aid is just not good at producing growth, 2. aid allocations to RTAs are not large enough to make a discernible impact, and 3. this aid takes so long to become effective that positive results are difficult to tease out. I discuss each in turn.

Generally speaking, the foreign aid effectiveness research program is much less developed than is the program on the determinants of aid. This is problematic both for scholars and practitioners alike. Although studies such as those above have found evidence of effectiveness when aid is targeted to development concerns, there are perhaps more studies that are pessimistic about the productiveness of foreign aid.

In one of the earliest studies of aid effectiveness, Boone (1996) finds little support for predictions of foreign aid effectiveness at decreasing poverty in recipient states. Though Boone is primarily concerned with the ways in which various political regime types spend aid, thereby perhaps leading to differences in aid effectiveness in autocracies versus democracies, the empirical results show no improvements on basic development indicators as a result of aid. Burnside and Dollar (2002) extend the debate on the relationship between aid and institutions and find that aid can increase economic growth in recipients with "good" economic institutions in place already, but Easterly, Levine, and Roodman (2003) show that in extending the data from Burnside and Dollar, the finding that aid works in good economic policy environments falls away. Easterly (2001) examines the link between aid and investment, with the assumption being that increased investment leads to increased growth, but finds little evidence that ODA improves investment. And Easterly (2003) is highly skeptical of the ability of aid agencies, usually large multinational IGOs to give aid
effectively. Returning to the relationship between aid and democratization, Knack (2004) finds no evidence that foreign aid improves the democracy levels of aid recipients.

The general consensus in the literature appears to be that if aid is to be effective, it is only so under certain conditions, as the various counter-arguments to the above studies suggest (for examples, see Bearce and Tirone 2009, Burnside and Dollar 2002, Dietrich 2013, Dollar and Levin 2004, 2006). Thus, the link often appears to be quite tenuous, with the ability for aid to be effective quite limited. Of course, another explanation for this difficulty in assigning causality to aid could be because of the complicated nature of supporting internal policy change from external financial sources. Indeed, in their review of the aid effectiveness literature, Bourguignon and Sunberg write that this may be due to the difficulty of determining whether aid leads to its intended changes because of "noise in the causal chain," (Bourguignon and Sunberg 2007, 316). Hansen and Tarp (2000), though finding support for the link between aid and growth, illustrate through their summary of the effectiveness findings just how difficult it is to show results given the myriad projects aid can be used for, the micro-versus-macro level analyses that seem to conflict in their results, and the various growth models aid may seek to address. Similarly, in arguing against the findings of Burnside and Dollar, Easterly (2003), admittedly a well-known aid critic, writes that,

There [is] a long and inconclusive literature that was hampered by limited data availability, debates about the mechanisms through which aid would affect growth, and disagreements over econometric specification...Since [Burnside and Dollar] found that aid boosts growth in good policy environments, there have been a number of other papers reacting to their results...These papers conduct useful variations and extensions...such as introducing additional control variables, using non-linear specifications, etc. Some of these papers confirm the message that aid only works in a good policy environment, while others drive out the aid*policy interaction terms with other variables. (Easterly 2003, 1-2).

Thus, regardless of personal priors towards aid effectiveness, studies on both sides of the debate acknowledge the difficulty of showing aid effects, whether it be from problems of model specification or from problems with the aid itself. Given this tendency for the effects of aid to get lost in the causal chain, it is not illogical to begin to examine the relationship between aid and growth with
caution and pessimism. However, as I show above, there are conditions in which it does appear that aid can produce its intended results. Though the so-called deck may be stacked against aid, and we must approach any effectiveness analysis with understandings of the limitations of data and practice, growth may still be possible to observe.

If the mixed conclusions about aid generally cause concern within the effectiveness research program, there are other reasons to move forward with skepticism, too, especially in the context of this paper. The first reason concerns the amount of aid being allocated and whether or not aid requires significant dollar amounts in order to work or if smaller aid packages can be effective. Most existing studies of aid generally examine the effects of large aid packages, tens and hundreds of million dollars per country per year, and still struggle to see results. This study examines aid specifically to RTAs, and as such the aid amounts being tested are relatively small. As Chapters 2 and 3 of this dissertation point out, the practice of allocating foreign aid to RTAs is quite a new development, with the European Union (EU) being at the leading edge. Over the course of 16 years between 1995 and 2011, the EU gave upwards of $3 billion USD in aid to RTAs. Compare this to the total EU foreign aid budget in just a single year, 2013, of approximately $15 billion USD and the total United States foreign aid budget of approximately $32 billion USD and the realization is that the aid amounts being examined here are extraordinarily small (AidData 2014).

Couple these small aid packages with the intention of the aid, to strengthen regional trade and economic development in recipient RTAs, and it is easily realized that lofty goals are being paired with small aid dollars. This alone is a significant explanation for why we might expect to see no relationship between aid and effectiveness in the RTA context. The expectation that $3 billion in EU aid across a 16 year time span could show improvements in development where we struggle to see improvements from the $32 billion the U.S. alone is able to allocate in their total budget may sound absurd, and I submit that as such, this paper is unlikely to see results. There is simply not enough money or time in this study to expect to see economic growth, measured as growth in GDP per capita or any other traditional measure of economic development, among the RTAs to which the EU allocates aid. Recall, however, that the aid being spent here is primarily considered
to be Aid for Trade (AfT), and therefore has alternative short and long term goals with respect to
growth. According to the World Trade Organization (WTO):

Aid for Trade is about helping developing countries, in particular the least developed, to build the trade capacity and infrastructure they need to benefit from trade opening...it includes technical assistance–helping countries to develop trade strategies, negotiate more effectively, and implement outcomes. Infrastructure–building the roads, ports, and telecommunications that link domestic and global markets. Productive capacity–investing in industries and sectors so countries can diversify exports and build on comparative advantages. And adjustment assistance–helping with the costs associated with tariff reductions, preference erosion, or declining terms of trade, (WTO Aid for Trade Factsheet, 2015).

The European Union similarly characterizes AfT but places it in the context of helping
countries develop through trade liberalization and trade agreements, stating in the 2007 EU Strategy
on Aid for Trade that:

As an element of the broader development policies and objectives to reach the Millenium Development Goals (MDGs), supporting demand-driven reforms of trade related policies as well as removing supply-side constraints related to productive capacities, economic infrastructure and trade related adjustment, AfT is crucial for developing countries in order to implement and benefit from trade agreements...The EU AfT Strategy aims at delivering an effective response to countries own trade-related priorities in the context of their poverty reduction strategies (European Union, 2007).

What is clear from these statements from the WTO and EU is that AfT has multiple goals. As stated by the WTO the immediate goals are to increase the capacities of recipients to engage in free trade by providing assistance to improve infrastructure, policy, and practices. The EU statement, however, makes clear the medium and long term goals of this assistance: to increase recipient trade flows and ultimately help to alleviate poverty. Thus, while $3 billion over 16 years may not touch the long term goal of poverty alleviation, it may be able to produce improvements in the smaller, technical assistance-type goals of AfT. Still, admittedly these are small aid amounts even in the AfT context. The EU’s total AfT budget was €3.48 billion in 2012. Even in the world of AfT, the amount being allocated to RTAs versus states on a yearly basis is quite small.
Second to the issue of the amount of aid allocated in allowing for an assessment of aid effectiveness in the RTA context is the issue of time. More specifically, practitioners of AfT know that for allocated aid to lead to trade and economic growth patience is needed. In Chapter 6, I present evidence from interviews with European Commission (EC) trade and development officials regarding the intent and purpose of EU aid to RTAs. During these interviews, officials were routinely posed the question of what it meant for this aid to be effective. For many, gradualism was the approach. While measuring success might involved top level indicators, such as increased exports or an increase in the proportion of the RTA economies devoted to trade, the admission was regularly made that the ability to see a lot of change in terms of top numbers is small, especially in the short term. “Sometimes there are clear physical indicators, other times this isn’t so clear,” said an EC official responsible for overseeing trade-related technical assistance. Generally progress is shown in the short run by looking for “contributions to progress”, such as the implementation of project-level success on trade agreements and capacities, rather than progress itself, idealized as increased trade. “Success is very difficult to prove, especially in trade,” said another official. It often takes 5-7 years simply to see improvements in capacities to trade, with trade increases sometimes not observed for as long as 20 years if at all.

The mixed effectiveness shown by ODA as a whole on development outcomes, coupled with the specific challenges of aid observed in this study, namely the small amounts of aid being observed and the time expected to see progress, leads to significant arguments as to why we might not observe EU aid to RTAs being successful, at least in the short term. Quite simply, this is a very new practice, really only getting started since the AfT movement began after the WTO’s Uruguay Round in 1995. However, as discussed in previous chapters, other donors are starting to get on board with the practice of aiding RTAs, and the EU itself has increased its aid activity with RTAs over recent years. Thus, it becomes important to at least begin to analyze the effectiveness of this aid given the completion of task of the rest of this dissertation: explaining why RTAs get aid. If it is the case that RTAs receive aid because of the recipient-need orientation of the donor and the desire to promote development through trade liberalization, is it also the case that this aid
works? The rest of this paper offers a preliminary answer to this secondary research question of the dissertation.

### 6.2.3 Theorizing Aid Effectiveness

With acknowledgement of the contradictions present in the aid effectiveness literature and the specific challenges of finding aid effectiveness presented by the quantity and time horizon of aid to RTAs, this study offers a test of whether aid to RTAs achieves its intended goals. Though there is much evidence to be skeptical of both the ability to empirically detect aid effectiveness and the utility of aid itself in producing desirable outcomes, I also presented evidence that aid can be effective under a certain set of conditions, such as when donor interests do not determine aid allocations (Bearce and Tirone 2009) and when aid is selectively targeted to where it is needed and can be used effectively (Dietrich 2013, Dollar and Levin 2004, 2006). As shown in Chapter 4, aid to RTAs meets these basic conditions. Indeed, aid to RTA recipients is best explained under the recipient need framework where RTAs with lower average GDP per capita and Human Development Indicators and with greater need for trade liberalization receive more aid than their better developed counterparts. Further, donor interests do not appear to be a primary determinant of aid allocations. In addition and fitting with the arguments by Dietrich (2013), Milner (2006), and others, it does appear that in allocating aid to RTA recipients, the EU is attempting to take advantage of the relatively de-politicized IGO environment offered by the RTA in order to enhance the effectiveness of this need-driven aid. As Chapter 4 makes clear, RTAs with greater institutional independence from their member states are highly preferred over less independent RTAs in terms of who gets aid and how much.

Having shown that aid to RTAs meets the basic criteria for aid to be effective, how might we expect to see evidence of this effectiveness? The majority of aid allocated to RTAs is given for purposes of trade development, with the desired impact being to improve the trade practices of RTAs in order to eventually lead to economic growth seen in part from the benefits of trade liberalization. Hence, the goal of Aid for Trade in its simplest form is trade development. However,
as I have also shown, trade development itself is tricky and requires establishment of good practices and policies as well as improvements in the ability of RTAs to engage in trade in order for trade growth to be achieved. Given this, I present in Figure 6.1 the basic expected relationship between aid and trade outcomes that I test in this paper.

Figure 6.1: The Relationship Between RTA Aid and Growth

As shown in Figure 6.1, the primary desired effect of RTA aid is to produce trade growth. This is the most basic goal of Aid for Trade and the primary way in which AfT effectiveness has been studied previously (see Bearce et al 2013). Ideally, one might expect to see that when aid is given to RTAs this aid has a direct and meaningful impact over time on trade flows, where more aid leads to more growth in trade. This is the primary causal channel examined in this paper. As discussed though, this effect may take considerable time to appear, 10-20 years or more, according to EU officials. Therefore, I propose a less-direct but shorter term effect of aid on trade where aid is allocated to an RTA and intermediate effects on trade capacity are seen in the short term. These improvements in capacity to trade then lead to growth in trade within the RTA at a later period. This intermediate relationship is also presented in Figure 6.1.

This figure also serves as a visual representation of the two hypotheses tested in this paper:

**H1:** RTAs who get more (less) aid will experience greater (lesser) improvements in their intra-RTA trade development.

**H2:** RTAs who get more (less) aid will experience greater (lesser) improvements in their trade
The ultimate expectation for aid to RTAs is that it will produce growth in intra-RTA trade, with the assumption that the less-politicized environment of the RTA recipient and the recipient-need focus of the aid donors creates the conditions necessary for this aid to be effective. However, given the challenges posed to detecting aid effects, it is also likely that while trade growth effects are not visible in the short time span of this study, we still might observe smaller trade capacity improvements in the short run, with the expectation then that improvements in the ability of RTAs to engage in trade could lead to trade growth in the long term. In the remainder of this paper I discuss the data and statistical model used to empirically test these hypotheses, present and discuss the results of the large-N analysis, and offer some conclusions.

6.3 Testing the Effect of Aid on Trade

6.3.1 Data and Statistical Model

The large-N statistical analyses presented here, as in Chapter 4, are performed using original data collected at the European Commission on EC aid allocations to RTAs. The dataset uses the RTA-year unit of analysis and spans the years 1995-2013, though because of data limitations many of the models only analyze data through 2011. The model specification is Ordinary Least Squares (OLS) with fixed effects and standard errors clustered on the RTA. The fixed effects model allows for an accounting of unobservable traits within each RTA that could also explain variation in the dependent variable. I run each model by leading the dependent variable 1, 5, or 10 years ahead of the other variables because of the expected time it takes for aid to affect the dependent variable and due to concerns over endogeneity in the form of reverse causality. However, the results from Chapter 4 serve as evidence against the reverse causality story in which aid would be allocated to RTAs who are performing better in terms of trade. Indeed, as shown previously, aid is allocated based on trade need, measured in terms of underperformance of exports and poor infrastructures or capacity to trade, not to RTAs that exhibit a lack of trade need, i.e. moderate to high exports,
etcetera. Thus, the argument that endogeneity may be at work in this analysis is unlikely given the existing evidence.

Based on interviews with trade officials at the EU presented in Chapter 5 and arguments made above, I have reason to expect that aid takes a significant amount of time to be effective at improving trade outcomes; some officials even suggest it could take at least 20 years for detectable increases in trade outputs as a result of AfT. Unfortunately, the data we have on Aid for Trade are only just beginning to span 20 years, and the limitations of various independent variables in my study further limit the time variation of this analysis. The 20 year expectation means that results are perhaps unlikely in the following tests given that I am limited to a maximum of 10 years of analysis. Despite this, I proceed accordingly. Admittedly, including 5 and 10 year leads creates significant reductions in the number of observations in many of my models. I hope to remedy this problem over time as data availability increases for more recent years. Further, within each model I also include the dependent variable on the right hand side of the equation.\(^1\) I discuss the dependent and key independent variables and controls here.

### 6.3.2 Dependent Variables

To examine the effectiveness of EU AfT on trade development, which is the primary effect shown above in Figure 6.1, I analyze a basic measure of trade development effects with the basic equation 6.1 presented below. The ultimate goal of AfT is to increase exports, and following existing models of AfT effectiveness (see Bearce et al 2013), I operationalize this measure by taking the logged value of the sum of intra-RTA exports. Because the most basic goal of an RTA is to facilitate regional trade within the institution by making trade between the member states less costly than trading absent the RTA institution, I expect that if aid is to be effective in terms of increasing exports the most likely increase should be seen within the RTA itself, rather than in extra-RTA trade. \textit{Total Exports} is a dyadic measure of intra-RTA export data measuring the sum

\(^1\) Given the leading of the dependent variable on the left hand side, the inclusion of the dependent variable can be understood essentially as a lagged dependent variable would and creates a control for autocorrelation.
of all exports between dyads within the RTA measured in millions of current US dollars, and taken from the International Monetary Fund’s Direction of Trade Statistics. This measure accounts for total trade within the RTA, and I expect to find that greater levels of aid lead to greater increases in Total Exports, i.e. aid leads to greater intra-RTA trade.

\[
TotalExports_{it+N} = \beta_1 + \beta_2 Trade_{it} + \beta_3 GDP_{it} + \beta_4 EUAid_{it} + \beta_5 RTA_i + \epsilon_{it}
\]  

(6.1)

### 6.3.3 Key Independent Variable and Controls

The main independent variable of interest, EU Aid, is the same measure used as the key dependent variable in Chapter 4. In all models presented, EU Aid is operationalized as yearly EU aid to the RTA converted from euros to millions of US dollars. EU Aid is presented in the logged form.²

In addition to the aid measure, I include the variables associated with a standard gravity model of trade when analyzing the dyadic dependent variables associated with equation 6.1. In the gravity model, trade is predicted by incorporating measures of wealth and distance into the model equation (Tinbergen 1962). The expectation here is that wealthy countries tend to trade more with one another than less wealthy countries. All else being equal, states who can afford to trade do so at higher levels than those that cannot. To account for RTA wealth, GDP measures the total gross domestic product of all RTA member states in each year. GDP is the size of the RTA economy as a whole, and given the gravity model logic, I expect to see a positive relationship between wealth and trade, where richer RTAs engage in intra-RTA trade more than their poorer counterparts. The logic behind including distance in the gravity model specification is that apart from wealth, the best predictor of two countries’ trading practices is the distance between them, e.g. countries closer together face lower natural barriers to trade and should therefore trade more with

² Again, it is important to note that at no point do I analyze aggregate EU member state aid as a measure for EU Aid, all aid in this study is allocated solely by the Commission and is completely separate from the individual aid budgets of the member states.
one another than a pair of countries with a large distance separating them. Here, the relationship
generated is negative, where shorter average distances between RTA capitals should allow for more
intra-RTA trade. However, given the use of fixed effects, the distance indicator is washed out in
my models, though its effects are accounted for.  

6.3.4 Results

The empirical tests of equation 1 are presented below in Table 6.1. I begin by examining
the relationship between EU Aid and Total Exports as this is the simplest measure of the intended
effects of Aid for Trade. In Table 6.1, models 1.1-1.3 examine the effects of aid when Total Exports
is led by 1, 5, and 10 years, respectively, controlling for the effects of Total Exports in year t and
GDP. Though it is likely to be quite difficult to see results as previously discussed, recall that
Total Exports are expected to increase over time as aid to the RTA increases. Indeed, in model
1.1 (a 1 year lead) I expect to find no significant relationship between aid and exports, and this
is the case as shown. This result does provide further evidence against concerns of endogeneity,
as if increases in trade were causing aid allocations, we would expect a stronger relationship in
model 1.1, with decreased effectiveness in models 1.2 and 1.3. However, notice that in moving
from model 1.1 to 1.2, I observe not only an increase in the size of the EU Aid coefficient, but
also a significant, positive relationship between aid and Total Exports. While there is no observed
relationship between aid and total exports when exports is given a one year lead, after 5 years
(model 1.2) there is a positive effect on exports by aid which is present when Total Exports is led
by 10 years as well. Thus, controlling for both previous levels of exports and RTA size, it does
appear that EU Aid is positively and significantly correlated with increases in intra-RTA trade as
the amount of time between the aid allocation and the export year increases.

To interpret the EU Aid coefficient, given the logged values of both the dependent and
independent variable, we see that a 1% increase in EU aid is associated with a .02% increase in

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3 It should be noted that the use of fixed effects is new to the models in this chapter. I do not use fixed effects in
Chapter 4 because several of the measures used to test the determinants of aid, such as Independence, do not vary
over time, making them incompatible with an RTA fixed effects model. Here, however, data limitations are not a
concern, so I include them in the trade effectiveness models.
Table 6.1: The Effect of RTA Aid on Total Exports

<table>
<thead>
<tr>
<th></th>
<th>(1.1) F1. Total Exports</th>
<th>(1.2) F5. Total Exports</th>
<th>(1.3) F10. Total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Exports</td>
<td>0.826*** (0.0615)</td>
<td>0.769*** (0.154)</td>
<td>0.36* (0.212)</td>
</tr>
<tr>
<td>GDP</td>
<td>0.143** (0.0590)</td>
<td>0.0303 (0.176)</td>
<td>0.0504 (0.251)</td>
</tr>
<tr>
<td>EU Aid</td>
<td>0.00299 (0.00240)</td>
<td>0.0166** (0.00728)</td>
<td>0.0132*** (0.00498)</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.176 (0.824)</td>
<td>4.592 (3.234)</td>
<td>13.34* (5.000)</td>
</tr>
<tr>
<td>Observations</td>
<td>583</td>
<td>431</td>
<td>247</td>
</tr>
</tbody>
</table>

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$
intra-RTA exports over 5 years, and a similar increase by 10 years. Though the effect here is admitted small, the observation of any effect is cause for optimism to practitioners and scholars of aid given the difficulties of examining aid effectiveness generally and small aid packages that are meant to have a long time horizon, specifically. The mean value of RTA/year EU Aid lagged 5 years in the sample is just under $2.9 million. A 1% increase in EU aid amounts to $28,600. The mean value of Total Exports is $1.13 billion, indicating that at 0.017% increase in exports equals about $19 million. Thus, a $1 increase in EU aid is associated with about a $671 increase in Total Exports after 5 years for an average RTA.

The substantive effect of aid is therefore not negligible. Further, the size of the effect of EU AfT on RTA trade is comparable to AfT effectiveness found in other works. In their examination of the effects of United States Aid for Trade, Bearce et al. (2013) find a similar effect size for US AfT. Additionally, given that RTAs who get aid demonstrate low levels of economic and human development as well as trade, one might argue that any increase, even small, is significant in this context.

The positive and statistically significant effect of aid on intra-RTA exports, as hypothesized in H1, supports my argument that aid allocated to RTAs should lead to improvements in the trade development of recipient RTAs. Indeed, this is the primary effect intended by practitioners of AfT and is represented in Figure 6.1. I next test the effects of aid on the capacity of RTAs to trade, the intermediate effect shown in Figure 6.1.

6.4 Testing the Effect of Aid on Trade Capacity

6.4.1 Data and Statistical Model

The same basic model structure used in Table 6.1 is used in this secondary test of the effects of aid on RTA trade capacity. Due to data limitations on the trade capacity measures as discussed below, the years included in this analysis are sometimes truncated from 1995-2013 to 2005-2013. The model specification is once again OLS with fixed effects and standard errors clustered on the
The unit of analysis is the RTA-year. Given the data limitations, all models are presented using only a 5 year lead on the dependent variable. This is appropriate given my theory that aid should have short term effects on trade capacity, which is then assumed to lead to longer term effects on trade development (see Figure 6.1).

6.4.2 Variables and Controls

The secondary relationship proposed by my second hypothesis is whether aid has short term effects on measures of trade capacity, as this is the more immediate goal of AfT. In theory, AfT should lead to increases in the capacity of RTAs to engage in trade within a few years. This improvement in capacity to trade would then lead to actual increases in trade in the longer term. I test the relationship between aid and three potential indicators of trade capacity in this paper: 1. the cost to export goods, 2. the time it takes to export goods, and 3. tariffs on trade. Of course, there are any number of indicators that may directly or indirectly measure an RTA’s capacity to trade and arguments can be made for and against those I include here. However, I submit that if the immediate goal of AfT is to increase capacity to trade, an encapsulation of that capacity includes the time and cost of exporting goods. RTAs are set up primarily to make it cheaper to trade within a formal institution. This increased affordability, at its most basic level, involves a reduction in the tariff barriers to trade. However, many RTAs in the developing world have trouble even achieving these basic commitments. EC officials, when asked about why RTAs get aid often speak of the recognition that many of these RTAs haven’t yet lived up to the terms of the RTA agreement itself, and therefore need extra assistance in doing so. Thus, looking at whether EU aid is correlated with lower tariffs is one way to observe intermediate effects of aid on capacity to trade. Average Tariffs measures the average weighted tariff levels of all RTA members imposed on all trading partners and is taken from the World Development Indicators data. Since tariffs are measured as a percent and have a lower and upward bound for their value, it makes little sense to log this measure and so I do not.

The second measure of cost of trade, which can be thought of as a proxy for other, smaller
goals of AfT such as improving infrastructures, practices, bureaucracies, etc. to trade is \textit{Export Cost}. This is the logged value of the average cost for all RTA members to export a 20-foot shipping container across borders, measured in USD per container. The \textit{Export Cost} measure comes from the World Development Indicators’ \textit{Cost of Doing Business} dataset. It is important to note the limitations of this variable, as the measure only began to be collected in 2005. Thus, using this measure in my models causes a reduction in the time series by 10 years, a significant loss. Also from the \textit{Cost of Doing Business} data is the \textit{Export Time} measure. I include this third and final measure of capacity to trade because I expect that when the goals of AfT are realized, both cost and time needed to export goods across borders should be reduced. \textit{Export Time} measures the time average time it takes, in days, to export goods from one country to another. In my models this variable is presented as the logged form of the average export time for each country in the RTA. Given the goals of EU aid, I expect that more aid should be associated with a reduction in the time and cost to export goods, and this is modeled in equation 2.

\begin{equation}
\text{TradeCapacity}_{it+N} = \beta_1 + \beta_2 \text{TradeCapacity}_{it} + \beta_4 \text{EU Aid}_{it} + \beta_5 \text{RTA}_i \\
+ \epsilon_{it}
\end{equation}

(6.2)

The main independent variable of interest, \textit{EU Aid}, is the same as that in the previous section. Further, I include the dependent variable with a 5 year lead on the right hand side of the equation in all models to account for autocorrelation.

\subsection*{6.4.3 Results}

Before discussing the results of the intermediate analysis, it is important to remind the reader that these intermediate effects are expected to take a shorter time to appear than the longer term trade effects. Thus, in Table 6.2, all models are given only a 5 year lead on the dependent variable and differentiation across models is based on the dependent variable of interest, rather than variance on the time lead. The lack of time dimension is also critical due to the data limitations on the \textit{Export Time} and \textit{Export Cost} variables, for which I only have data from 2005-2013. Given this
short time series, creating larger temporal leads becomes increasingly problematic for degrees of freedom and the inclusion of additional variables.

Table 6.2: The Effect of RTA Aid on Capacity to Trade

<table>
<thead>
<tr>
<th></th>
<th>(2.1)</th>
<th>(2.2)</th>
<th>(2.3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>F5. Export Cost</td>
<td>0.286***</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.0689)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export Time</td>
<td></td>
<td>0.235**</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.104)</td>
<td></td>
</tr>
<tr>
<td>Average Tariffs</td>
<td></td>
<td></td>
<td>0.0866***</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.0329)</td>
</tr>
<tr>
<td>EU Aid</td>
<td>-0.00588***</td>
<td>-0.00187*</td>
<td>-0.0873*</td>
</tr>
<tr>
<td></td>
<td>(0.00162)</td>
<td>(0.00120)</td>
<td>(0.0502)</td>
</tr>
<tr>
<td>Constant</td>
<td>5.233***</td>
<td>2.372***</td>
<td>7.320***</td>
</tr>
<tr>
<td></td>
<td>(0.528)</td>
<td>(0.346)</td>
<td>(0.489)</td>
</tr>
<tr>
<td>Observations</td>
<td>185</td>
<td>115</td>
<td>291</td>
</tr>
</tbody>
</table>

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 6.2 begins in model 2.1 by analyzing the relationship between aid and Export Cost, with the anticipated relationship of increases in aid leading to decreases in the average cost to export over 5 years. Though not presented here, in models 2.1-2.3 all dependent variables are insignificant and positive when given a one year lead on the dependent variable. By 5 years, EU Aid does express a significant relationship with Export Cost. Given the log specification of both variables, we can easily interpret the relationship to indicate that for every 1% of EU Aid, RTAs can expect to experience a .005% decrease in the average cost of member states to export goods, even when controlling for previous year export costs. Substantively, the average RTA-year aid allocation in model 2.1 is $7.3 million while the average cost to transport a 20 foot container as measured by Export Cost is $2,410. A 1% increase in aid amounts to $73,000 while a .005% decrease in the cost of exporting amounts to about $12. Thus, $1 in EU Aid can expect to reduce the cost of exporting in an average RTA by about $1.65, a 50% return on each aid dollar spent.
The effect size is admittedly small, but note the small number of observations in model 2.1 and 2.2 compared to model 2.3 and those in the previous two tables. While effects are unlikely to be seen and are admittedly small perhaps due to the small sample size, I still observe them here.

Model 2.2 examines the effect of aid on Export Time and shows a statistically significant relationship at the .05 level. Here, the results show that for every 1% of EU aid, the average time it takes for RTA members to export their goods decreases by .24 percent over the 5 year period. The average export time in model 2.2 is roughly 28 days. Given the smaller sample in model 2.2, a $1 increase in aid allocations per RTA-year amounts to approximately $35,500, and $1 in EU Aid can be expected to reduce the mean Export Time of recipient RTAs by 1.6 days over 5 years. Again, a small substantive effect, but statistically significant. With greater data availability it is hoped we would see an increase in the effect size over time.

Finally, model 2.3 examines the effect of aid on the average weighted tariff levels of all RTA members. These are tariff levels imposed by each RTA member state on all trading partners in a given year. Admittedly it would be preferable to isolate the tariff rates imposed within the RTA itself, rather than also including tariff rates imposed on non-members, but data sources are limiting here. Though the time span of the data increases from that observed in models 2.1 and 2.2, the results in model 2.3 are slightly weaker. Though the significant (at the .10 level) and negative relationship exists between EU Aid and Average Tariffs, we can be somewhat less confident in the strength of this relationship. Still, it does appear that EU aid has a negative impact on tariffs and with better, more specific data on tariff levels within the RTA we may see the effect size and confidence increase.

6.5 Conclusions

I show in this paper that despite the challenges to empirically testing and demonstrating the effects of aid to RTAs, it does appear that aid allocated to RTAs is achieving some of its goals. First, I show that EU AfT does have a direct, long term effect on trade development in recipient RTAs. Over 5 to 10 years RTAs who receive more aid can expect to see increases in their total
intra-RTA export flows.

Additionally, I show that not only are the longer term goals of trade development being slowly realized by RTA recipients, so too are the intermediate goals of trade capacity enhancement. RTAs that get more EU aid tend to see decreases in the cost to export goods, the time needed to export goods, and average tariffs imposed on goods within 5 years. The achievement of these smaller goals of Aid for Trade is further evidence that AfT is working in both its intermediate and long term goals, and supports the findings of existing studies of AfT given in other contexts.

More importantly for the purposes of this dissertation, I show that not only is the RTA increasingly receiving aid because of the recipient need orientation of donors and because of the attractively less-politicized aid environment that the RTA as IGO provides, but that RTAs who get this aid do actually see improvements in their trade development. These findings are important both for scholars and practitioners of aid. First, this study accounts for the rise of a new aid recipient that had previously been unnoticed in the scholarly research program on aid. Second, given that it does appear this aid allocated to RTAs works to achieve its goals, scholars should expect to see practitioners increase the use of RTAs as aid recipients in future. Third, for practitioners, this is good news that an innovative aid policy development, around only since the mid-1990’s, is in fact working. These results suggest that as time goes on, we should expect to see more RTAs receiving aid from multiple donors where donors truly wish to promote development in aid recipients. Further, if patient, both donors and recipients can expect to see valuable returns on aid dollars spent. This is evidence to promote optimism that the RTA aid recipient will be around for the foreseeable future and deserves to be better understood.
Chapter 7

Conclusions

7.1 Introduction

To conclude the project, this final chapter summarizes the main arguments and findings of the previous five chapters. Beyond this recounting of the project, I spend considerable time drawing out the implications of my study for broader areas of research. First, I believe the findings on the attractiveness of institutional independence has relevance to the literature on the rational design on international institutions research program as well as studies of IGO effectiveness. Second, the arguments I present about the nature of aid to RTAs have direct implications for both the determinants of foreign aid and the aid effectiveness literatures, and should prompt further study here. Finally, the findings that aid to RTAs has trade effects speaks very specifically to the Aid for Trade literature as well as the current debate about the trade effects of RTAs themselves and the challenges of promoting South-South trade. Beyond drawing out these implications, I then offer plans for where the project goes from here in terms of publishing the dissertation in several related articles as well as extension projects that I am or plan to work on in the near term.

7.2 Why Give Foreign Aid to RTAs?

This dissertation has addressed the research question of why give aid to regional trade agreements and uses original data to analyze this growing phenomenon. The growth in foreign aid allocations to RTAs has emerged since the mid-1990’s, with the European Union acting as the main donor spearheading this practice. RTAs from all major global regions receive EU aid, though
who gets aid and how much varies across these new aid recipients.

To account for the rise of the RTA aid recipient in Chapter 2, I challenge traditional understandings of the determinants of foreign aid while outlining the rise of aid to IGOs. While the EU is the most active donor that allocates aid to RTAs, other donors are engaging in this practice as well. These donors include the United States, United Kingdom, Germany, Sweden, and Japan as the most prolific state donors of aid to RTAs, and the IMF, World Bank, and of course the WTO as major IGO donors of aid to RTAs. The practice of providing Aid for Trade began out of calls from developing countries negotiating in the Uruguay Round expressing their desire to engage in greater trade liberalization but without the financial resources to do so. As a result, donors of all types began to provide foreign aid in the form of trade capacity assistance, or AfT. The realization on the part of the EU, based on its own experience as a trade bloc that experienced significant economic advancement from regional trade, that AfT could be funnelled to regions as well as states, prompted their decision to begin allocating foreign aid to RTAs.

To answer the question of why RTAs receive foreign aid on a deeper level and offer a theory of this aid that is generalizable to all aid donors and all IGO recipients, I begin with the research program on the determinants of aid and challenge the traditional donor interest explanation for aid allocations. Donors have two primary choices facing their aid allocation decisions, whether they should give aid for recipient need or to pursue their own strategic interests. The tendency for donor interests to offer a more systematic explanation for aid allocations than recipient need is well-established in the literature (see Alesina and Dollar 2000, Lumsdaine 1993, McKinlay and Little 1979, and Schraeder, Hook, and Taylor 1998). Although the formal purpose of foreign aid is to promote economic growth in aid recipients, studies routinely find that alliances, colonial relationships, trade, and other interest indicators offer better explanations of aid allocations than indicators of need such as Human Development Index scores or GDP per capita.

But the donor interest explanation for why RTAs receive aid is illogical in the RTA context given the exchange relationship that this model suggests. If donors give aid to recipients to further their own interests, they would rationally want to maintain as much control over the aid exchange
as possible so as to ensure that they allocate aid to the recipients with the greatest strategic interest to the donor and so as to ensure that once aid is given to these recipients, the donor profits in some way from the transaction. This requires a clear channel between donor and recipient, as Morgenthau (1962) wrote. However, the IGO recipient by nature dilutes this clear channel from donor to recipient, where the IGO institutional structure faces fewer political constraints and pressures given its institutional autonomy from states than do state recipients who must maintain strong political interests. Thus, in allocating aid to an IGO recipient, the donor must accept some degree of agency slack as the IGO is not beholden to the donor politically in the same way that a state recipient is. Further, the donor interest model implies that donors who give aid for political reasons have very little concern over whether aid, once allocated, alleviates the poverty need of the recipient. As a result, they will prioritize aid allocations to those middle or low income countries that have some strategic value to the donor rather than to those recipients that have the greatest overall development need. Given these assumptions of the donor interest model, the IGO as aid recipient make little sense if donors are only concerned with giving foreign aid in order to extract some political gain as a result.

However, the preponderance of donor interests contaminating foreign aid allocations does not mean that aid is never given for need, nor that some donors don’t have need in mind when creating their aid budgets. In Chapter 3, I present an argument for why the recipient need model, rather than the donor interest model, best explains aid to IGOs. Though donor interest explanations tend to determine aid allocations, recipient need indicators offer the second-best explanation of aid (Alesina and Dollar 2000). Starting from the premises that indeed some set of donors do wish to give aid for development need and that aid is often contaminated by politicization at both the donor and recipient end, I lay out the argument for the dissertation in this chapter. IGO donors are effective donors of aid for need in part because of their institutional designs and the preference heterogeneity of member states. The importance of institutional independence here is key. IGOs that have some institutional autonomy from their members, meaning that they retain a degree of power to inform and make decisions without member state approval, are able to focus on need-
based aid. IGOs can better focus on need than interests in aid allocations in part because they have many donor member states to satisfy with the policies they follow. These member states have varying preferences as to how foreign aid is spent, and given the strategic nature of aid, may even be tempted to pressure the IGO intermediary to funnel aid towards their own preferences. However, when making aid allocation decisions the IGO must grapple with these same pressures from all relevant member states. In doing so, the general strategy is to identify areas where interests overlap, and in the case of aid donors in the IGO environment, this overlapping interest is that aid be directed towards need. Thus, managing the preference heterogeneity of members allows for a depoliticization of the budgetary process. Further, the state donors who delegate aid provision to an IGO donor can trust the information and monitoring capabilities of an independent IGO secretariat that is not beholden to the political interests of a single member state.

These same arguments about what makes IGOs attractive donors of aid for need can be used in part to understand why we now see IGOs as aid recipients. I argue that IGO recipients are attractive when aid is intended to be spent for need because of their independence and preference heterogeneity. Aid donors, be they state or IGO, are better able to trust an IGO recipient with an independent institutional design more than a less independent IGO or state recipient as this autonomy provides the same type of buffer from aid contamination as it does in the IGO-as-donor context. Recipient IGO independence acts as a signal to aid donors that the recipient will be able to neutrally and accurately spend aid in areas and member states in which it is needed most, as the recipient must satisfy both its member states and the aid donor that this aid for need is being spent for this purpose. Independent IGO recipients are less-politicized than state recipients, have more trusted information gathering and monitoring capabilities, and greater transparency than many needy state recipients. This reassures aid donors that aid can be used where it is needed most and not fall victim to contamination by political interests as easily as it can in a state recipient environment. Additionally, the IGO recipient also deals with preference heterogeneity in the same ways as do IGO donors. These recipients must show their own members that they are using aid for the shared interests of the states that comprise the IGO, lest risk charges of unfairness,
politicization, and even a potential loss of legitimacy if the habit goes on long. Thus again, the structures of the IGO recipient better prepare this particular type of recipient to spend aid for need rather than be tempted to use this money for strategic political interests.

To account for the rise of the RTA as the particular type of IGO currently receiving most foreign aid, I also turn in Chapter 3 to the trade focus of these organizations to explain the RTA aid recipient. Most aid allocated to RTAs comes in the form of Aid for Trade, a very particular type of aid meant to address capacity and trade issues in recipients. The logic behind AfT is to enable developing countries to liberalize trade in order to promote long term economic growth. As a type of aid, AfT developed out of the 1995 Uruguay Round and calls by developing countries with a desire to enter into the global market but facing extraordinary costs in doing so given their ever-present economic, and often geographic, limitations. As a result, aid donors, led by the WTO began to offer these countries AfT specifically to help increase the technical capacities and practices of these states and allow them to engage in free trade with slightly lower financial barriers to entry.

The demand of poor countries for AfT, the global North’s response, and the policy recommendations of economists worldwide helped propel an increased awareness on the part of aid and development policy practitioners that trade development is an essential component of long-term economic development. This increased awareness of the significance of trade development in promoting economic growth set the stage for RTAs to become recipients of AfT. Taking up the importance of integrating trade and development policy in foreign aid, the European Union, based on their own positive experience of growth via regional trade, then took the logical next step of combining existing AfT practices of aiding states with also including RTAs in their aid allocation budgets. The motivation for the EU, which stems in large part from their own experience, also makes trade sense. The gravity model of trade demonstrates that countries tend to trade the most with their neighbors. RTAs by nature include groupings of states that border one another. As IGOs, these organizations are set up very specifically to facilitate trade integration by lowering both tariff and non-tariff barriers to trade. The combination of the increased understanding of trade development as integral to economic growth, the institutional form of the RTA, and the EU’s
historical experience helped to propel the RTA as the IGO that currently is leading the movement of IGO aid recipients.

In Chapter 4, I provide the main empirical test of my argument. I hypothesize that aid allocated to RTAs is driven primarily by economic and trade considerations as well as the degree of independence of the organization. The hypothesis that aid to RTAs is not best explained by donor interests is also examined. I use original data collected at the European Commission on EU AfT to 38 RTAs in all major world regions from 1995-2011 as the main dependent variable of interest. To test my hypotheses, I use existing data on RTA institutional design as well as both traditional economic development and newer trade development indicators. The results clearly demonstrate that independence matters for aid allocations to RTAs. For every 1 point increase in an RTAs independence score, on average they receive €1.78 million more in aid per year. These results are comparable for several alternative measures of both independence and preference heterogeneity. In support of the recipient need argument for aid, I show that economic development, understood to include both traditional indicators of need, i.e. GDP per capita of the recipient, and newer indicators of trade need, also predicts aid. For every reduction in the average GDP per capita of an RTA by $1000, we see an increase in aid by nearly €3 million, with similarly strong results when examining the effect of low human development on aid as well. In terms of trade need, a 1 point increase in an RTA’s average AfT need is associated with a €3 million increase in EU aid. Both institutional independence and development need are strong predictors of aid to RTAs, and this effect is examined as an interaction as well, with strong, positive results. RTAs that are both highly independent and have more economic and/or trade development need get more aid than their less independent, less needy counterparts. These results, as do others, hold even when controlling for known predictors of aid such as population size and democracy, as well as previous aid.

Donor interests carry less explanatory power in these models. I account for the donor interest framework by examining the closeness of the relationship of each RTA with major European powers France, Germany, and Britain as well as testing for an EU interest in promoting institutional isomorphism of its regional model throughout the world. While RTAs with high UN voting affinity
with Britain do appear to get more aid than other RTAs, there is not evidence to suggest that affinity with France and/or Germany predicts EU foreign aid. Further, to counter the argument that a particular strategic interest of the EU may be simply to provide aid to RTAs with a similar institutional structure to its own, thereby promoting its own model on a global scale, I examine whether institutional isomorphism explains aid to RTAs, and find no relationship. Thus, while there are consistent and strong results to support the recipient need framework and the attractiveness of an independent institutional design of RTA recipients, donor interest models do not fare as well. These results support the proposed answer to my research question as presented in Chapter 3, and demonstrate the attractiveness of IGO aid recipients for donors who wish to give aid for need, rather than politics.

To support the large-N statistical evidence in Chapter 5, I present qualitative interview evidence with trade and aid officials at the European Commission. The interviews for this qualitative examination of aid were conducted in Brussels, Belgium with 15 development and trade policy officials and analysts at the Directorate General (DG) for Development and Europe Aid (DEVCO), the DG for Trade, and the European External Action Service (EEAS). The interviewees ranged in rank from desk analysts to policy negotiators and their area expertise spanned all the covered regions of my data. Indeed, the interview evidence largely supports my argument and statistical findings. The European Commission, via DGs DEVCO and Trade and the EEAS, deliver aid to RTAs based on the independence of the recipients, but with a primary focus on the development need of the member states. Poorer regions and their associated RTAs typically get more aid than more prosperous regions, though the process for allocating aid via DG DEVCO is largely demand-driven, meaning that aid recipients request aid and the Commission responds, rather than the other way round. Further, this demand-driven nature of aid-giving partially negates the conventional wisdom on foreign aid relationships, where aid is a policy tool used to further the interests of the donor, rather than the needs of the recipient. I further present case narratives to highlight the aid process. To illustrate the attractiveness of independent RTAs for aid I discuss the role played by institutional design in aid to ECOWAS and WAEMU. The EAC and COMESA provide illustrations of how aid
is directed to especially needy organizations in terms of both economic and trade need. Finally, the particular way in which SADC is allocated foreign aid but the limited ability of key member state South Africa to benefit from this aid provides evidence to suggest that the EU isn’t engaging in pursuit of their own interests in their allocation of AfT to regions.

7.3 Does the Aid Work?

Finally, in Chapter 6, I ask whether EU foreign aid allocated to IGO recipients is effective in achieving its goal of promoting trade development. I argue that aid given to RTAs should be effective given the institutional independence of the IGO and due to the recipient need (rather than strategic interest) focus of the aid allocation. Answering the question of aid effectiveness to RTAs is important, as demonstrating effectiveness likely means that this particular type of aid recipient will continue to grow in terms of the amount of aid allocated to RTAs by various donors. However, if this aid is not effective, it is likely aid donors will begin to think of alternative means to promoting economic and trade development.

Of course, there are many reasons why aid to RTAs might not be effective at achieving trade development results, such as the fact that the research program on foreign aid effectiveness is less well developed than the aid determinants literature, and the evidence to suggest that foreign aid of any kind is overwhelmingly effective is minimal. While there is support for the effectiveness of targeted aid at alleviating development issues, the context of aid to RTAs presents some logistical issues that makes the likelihood of finding statistical evidence for aid effectiveness low. First, aiding RTAs is a new practicem only really beginning since 1995. This newness means that the time series in which to study aid effectiveness is quite small. Complicating this is the fact that AfT is sometimes thought to be a particularly slow-moving type of aid, in which it takes years, even decades, in which to see results. This limits the time span of the study even further. Finally, compared to aid allocated to state recipients, the aid that RTAs receive is quite small. These small aid packages may make detecting aid effects even more difficult. Given the obstacles to demonstrating aid effects even in long time series studies of aid to state recipients, i.e. larger amounts, the evidence on effectiveness
is mixed. Thus, I approach this final analysis with considerable caution.

As a test of this secondary research question, I hypothesize that RTA recipients receiving aid experience greater trade effectiveness than RTAs who are not aid recipients. I examine the effects of EU aid allocations on direct and indirect measures of trade. Direct measures of trade include total exports and export growth of the RTA as a whole, while indirect measures include tariff rates, growth in the number of products being exported, and time to export. I expect aid to have a lagged effect on these various measures, with aid causing an increase in the indirect trade measures within a few years, which then paves the way for increases in the direct trade measures in the longer term and I find evidence that aid does have a positive, significant effect on trade of the RTA recipient. In fact, I find in this analysis that for every $1 in aid, average RTA can expect their intra-RTA exports to increase by about $671 over 10 years. While it generally takes years for aid to produce direct results on exports and export growth, the slow lag between aid allocation and results is expected both by my argument and by aid donors. Further, this delayed effect also helps rule out endogeneity as an alternative explanation. Additionally, I find significant effects of aid on indirect trade capacity measures. For every $1 spent in aid, an RTA can see on average a 1.65 decrease in the cost to export, a reduction in the time to export by 1.6 days, and a reduction in tariffs by about %.08 over 5 years. These results fit the logic of Aid for Trade, where aid is often given for trade facilitation, such as improvement of infrastructures, practices, and policies, leading to export growth among aid recipients.

7.4 Implications of Aid to RTAs

The implications of this study on aid to RTAs are wide ranging and speak to literatures on institutional design, foreign aid, and trade.

In terms of the relevance of my findings on the attractiveness of IGOs as aid recipients to the IGO literature more broadly, I first suggest that this study makes a contribution to the rational design of international institutions (RDII) research program directly. The RDII program, as elaborated by Koremenos, Lipson, and Snidal (2001a, 2001b) and responded to by others, argues
that international institutions are created by actors who have specific goals in mind that they wish these institutions to achieve. As illustrated by the 2001 special edition of *International Organization* on the subject, we see that actors who have trade goals create trade organizations (Rosendorff and Milner 2001), security goals lead to security organizations (Kydd 2001), and so on. Much of the work of RDII explains the institutional design of IGOs as a dependent variable, explained by the interests of the actors who create these institutions. However, as Bearce, Eldredge, and Jolliiff (2015) note, little attention has been paid by the RDII program to studying the effects of these design features.

While this paper examines institutional design broadly in terms of the independence of RTA institutions from member states, it is clear from my findings that the design of RTAs matters for the attractiveness of these institutions as foreign aid recipients. Typically, the effects of institutional design are understood in terms of the goals of the institution or the signaling effects on member states. In terms of the effects of design features on actors’ policy goals, some have examined the effects of specific institutional design features (Bearce, Eldredge, and Jolliiff 2015, Mitchell 2006) or the effects of institutions as a whole (Bernauer 1995, Hafner-Burton 2008; 2013, Haftel 2007; 2010, Neumayer 2005) on policy outcomes. With respect to the ability of institutional design to act as a signaling mechanism to members, Pevehouse (2002) finds that the democracy requirements of some regional IGOs signals to potential members that policy changes are required for entry and that joining such IGOs acts as a signal to domestic and international audiences that the member state is committed to democratization. Other studies have found that membership in regional organizations may have signaling and information effects on conflict between both member and non-member states, and this effect, largely seen to be a pacifying one, is due in various degrees to the IGO structure and design (Aydin 2010, Bearce and Omori 2006, Mansfield, Pevehouse and Bearce 1999).

In this dissertation, I show that institutional design matters as a signal to non-member aid donors on the ability of RTAs to receive and use aid for recipient need. Institutional independence acts as an independent variable that has effects on foreign aid allocations, where more independent
RTAs tend to receive more foreign aid than less independent organizations. While it is probably not the case that RTAs, even those in the global south, are designed with future foreign aid possibilities in mind, the effects of this design structure should not be overlooked and do speak to the criticism of the RDII literature that we should spend more time examining the effects of design features rather than the determinants of these assumed to be rational constructions. Further, it is important to consider unintended effects of institutional design as well as the intended effects, as I have shown here that IGOs with independent institutional structures not only signal policy directions to member states as others have demonstrated, but they also signal important information to non-member states and IGOs who wish to interact with the RTA in other dimensions besides trade. Just as studies have shown unintended or at least secondary effects of economic IGOs on conflict and peace, this study demonstrates that IGOs with well-developed institutions can have unintended but meaningful effects on the attractiveness of these organizations as aid recipients.

Given these findings, I suggest that a key contribution of this study is to the literature on IGOs and institutional design. I show evidence that design matters in IGO construction. Further, I add to the literature on the effects of IGO design features on intended policy outcomes. Not only is it worth studying whether design features affect the ability of IGOs to achieve their main policy goals, such as the ability of trade agreements to promote trade, but through my study on aid to RTAs I also show that it is worth studying the unintended or secondary effects of IGO design as well. Additionally, given the clear relationship between IGO independence and foreign aid, we might expect more developers of IGOs, and RTAs in particular, to increasingly adopt more independent institutional features in order to attract foreign aid. In this situation, we could consider the foreign aid attractiveness of an IGO to not just be an unintended consequence of institutional design, but in fact an intended consequence of this design, with real implications for RTA aid and growth.

In addition to the implications of this study to the IGO literature, there are also implications to be drawn out in terms of how we understand foreign aid, especially in the post-Uruguay Round era. As was set up in Chapter 2 and recapped above, the literature on the determinants of aid is divided between the debate over whether donor interests or recipient need best explain aid
allocations. While I have demonstrated that aid allocated to IGOs is best explained using the recipient need framework, there may be wider implications to draw here.

First, my findings do lend support to the argument that aid is indeed determined, at least some of the time, by need. While this is not a novel finding, it is one that is somewhat rare in the literature. Overwhelmingly, as discussed above, the research program on foreign aid finds that the best explanation for aid allocated to state recipients is in fact donor interests. As states continue to be the primary recipients of aid, especially as compared to IGO recipients, it is nonetheless interesting to find that in this unique aid recipient, donor interests offer little explanation of why certain IGO recipients get aid and others do not. As I have shown, rather than factors such as trade with the EU or colonial legacies providing clear explanations of aid, in the RTA context it is the average GDP per capita, Human Development Index score, or Aid for Trad need score that best explains aid allocations. These findings are robust, especially when examining the more traditional indicators of economic development need, such as GDP per capita or HDI.

The significance of the finding that aid to RTAs is best explained by need should not be lost on the reader, especially given the unique institutional form of the recipient and the additional finding that not only is aid allocated to the places that need it most, but it also appears to have significant effects on trade capacity and trade flows, i.e. it works. We have long known that when donors wish their foreign aid to be effective at addressing recipient need they will support the provision of foreign aid by IGO donors of which they are members, such as the IMF or UN. And as these IGO donors prove their effectiveness in allocating aid for need, or at least demonstrate a greater effectiveness at delivering aid for need than state donors, the practice has grown. This trajectory is illustrated by the growth of the World Bank’s poverty alleviation approach since the end of European reconstruction and the shift since the 1980’s on the part of the IMF to technical assistance for lower and middle income countries.

Just as the practice of IGO donors allocating aid in favor of recipient need as grown, at least in part due to increased effectiveness at targeting aid for need, so too should we expect the practice of aiding IGO recipients to grow, and for the same reasons. When donors want to give aid for
development need, they have two options: they can either give the aid directly to state recipients or they can give the aid to IGO recipients. While most aid is given to state recipients, this aid transaction is often fraught with similar problems of politicization as is aid given by state donors. The development of the IGO aid recipient means that donors can allocate aid to a needy recipient that has similar depoliticizing institutions as the big IGO donors and also has shown that it is a recipient who sees development effects from this aid. Given that the AfT movement is fairly new, developing since the WTO’s Uruguay Round in 1995, but has grown since, we should expect to see aid donors who wish to give the type of aid, or perhaps other aid for development, increasingly allocate this money to RTA recipients given the positive effects of AfT on trade outcomes in the RTA environment.

The Aid for Trade focus of aid to RTAs leads me to the final, but perhaps most significant, implication of this study: the fact that aid to RTAs shows further evidence that AfT works, and most importantly, can foster South-South trade. There has been much debate in the literature about whether regional trade agreements, as alternatives to the WTO, actually foster South-South trade. These concerns center around whether RTAs are trade-diverting or trade-creating, and if they are trade-creating, who benefits? There is considerable evidence to suggest that RTAs tend to enhance North-South trade at the expense of South-South trade. This finding is problematic given that development economists argue the path to long term economic growth requires more South-South trade and that goal is the main reason why these institutions are created in the first place.

The evidence in Chapter 6 suggests that AfT allocated to RTAs is, in fact, enhancing South-South trade in these RTAs, as intra-RTA exports experience significant increases in trade over the course of a decade when they receive EU AfT. This finding is important because it suggests that AfT can help foster South-South trade, and the evidence that RTAs are producing trade among their members, rather than between their members and an external, northern trading partner, has tended to be scant. The implication that foreign aid can help foster South-South trade is a significant one, and should lead us to expect more of this type of aid and the associated trade effects
as both donors and recipients realize these effects. These findings also speak to the literature on AfT effectiveness more generally, which has been optimistic about the ability of AfT to promote bilateral trade (see Bearce et al 2013). Here, we now have evidence that AfT can be effective at a multilateral level as well. Thus again, given the ability of aid to RTAs to produce development effects, the general implication should be that this aid relationship continues to grow into the future as more and more donors and recipients wish to see their need-based aid have positive effects on development outcomes.

7.5 Future Research Plans

Moving forward, I am working on turning the dissertation project into three published articles. The first manuscript prepared is the article version of the front half of the dissertation, focusing on answering the question of why aid RTAs, and will present a shortened version of the arguments presented in Chapters 2 and 3 and the hypotheses and tests presented in Chapter 4. This document is being prepared this summer and is scheduled to be presented at the APSA Annual Meeting in September 2015. Shortly after this, or perhaps even before, I plan to submit the article to either International Organization or International Studies Quarterly for publication. Given the recent publication of Dietrich’s (2013) paper on aid bypass in ISQ, I think this is the most likely option here.

A second but very related paper will then be developed focusing on the qualitative chapter of the dissertation. The paper will pair the research question and arguments from Chapters 2 and 3 with the interview evidence from Chapter 5. To further develop this qualitative paper, I plan to develop case studies of several RTAs who receive EU aid. The method for choosing cases will likely be based on a most-similar approach examining four RTAs. Four similar RTAS in terms of membership, region, or scope will be chosen, but two of these organizations will serve as examples of RTAs that receives more aid while the others do not. The case studies will then use process tracing to explain how my arguments about institutional independence and recipient need account for aid in one context but not the other. Another approach might be to expand the case narratives
of WAEMU/ECOWAS, EAC/COMESA, and SADC that are already in Chapter 5 into case studies themselves. In either approach, further research will be done on the specific RTAs to add a greater understanding of what RTA aid recipients look like, how their independent features make them more or less attractive aid recipients, and how they demonstrate development and trade need. This paper will likely be proposed for the ISA 2016 conference with the intention of eventual submission in 2015 or 2016 to a major European journal, most likely the *European Journal of Political Science*, as I believe the best audience for this paper, which plays up the EU’s role in aid, is a European one.

The third and final paper I anticipate from this project is the paper that demonstrates the effectiveness of aid to RTAs. This will be a standalone paper that builds off the arguments of the front half of the dissertation but focuses solely on why and how AfT can have trade and trade capacity effects in RTA recipients. It will focus on the quantitative analysis in Chapter 6 and will also draw out the implications of these findings in terms of RTA aid as promoting South-South trade. As a primarily IPE paper, I am not yet sure of the best audience for the paper. Submission to ISQ is probably the most likely starting point here.

In terms of follow-up projects, I plan to situate the arguments and findings from my dissertation within a broader question of institutional choice in an article I have already begun work on. The main research questions is what factors determine whether aid donors (state or IGO) decide to give aid to carefully chosen recipients (state or IGO)? I am expanding my dataset to include aid from all donors, both states and IGOs, to all recipients, both state and IGOs, using AidData 3.0. I plan to develop a manuscript examining the factors that determine the choice of both aid donor and recipient. This project would have broader implications for the literature on institutional design and choice. Obvious extensions of this work in the longer term could analyze the effectiveness of these various types of aid relationships in achieving their goals, and regional case analysis might serve nicely to highlight the nuance of these aid relationships in the different economic and political backdrops of the global South.

Finally, in a current side project to the dissertation, I am working to analyze the unintended
effects of allocating aid to RTA recipients. In A New Look at the Democracy-Free Trade Nexus: The EUs Aid to PTAs and Democratization, a paper currently in early draft form, I identify democratization effects of EU aid to PTAs, though this aid is not intended to directly promote democratization within the PTA recipients. I suggest that given trade openness and democracy are often seen as going hand-in-hand, these unintended democratization effects should perhaps not be so surprising and are yet another example of how development need of aid recipients often entails both economic and political reform.

7.6 Conclusion

To conclude, this project offers a well-informed answer to the question of why do RTAs receive foreign aid and has contributed original data to the foreign aid literature. Although the project may be seen as small in its execution, the theory about why IGOs are attractive aid recipients can be applied to any potential IGO that might begin to receive foreign aid, and is not limited to the RTA institutional form examined here. Similarly, though the data are limited to the European Union, the argument I present is generalizable to all donors, be they state or IGO, and further examination of this question will demonstrate as much. Indeed, given the effectiveness of this type of aid, we should expect to see the practice of allocating foreign aid to IGOs expanding to other types of IGOs, be they regional banks, political integration organizations such as the African Union, non-trade regional economic organizations (REOs), or any type of IGO that contains a significant number of developing countries and has as part of its mission development goals.


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.1 Appendix
Marginal Effect of lnGDP per capita on RTA Independence

Figure 1: Marginal Effects of lnGDP per capita on RTA Independence
Marginal Effect of HDI on RTA Independence

Figure 2: Marginal Effect of HDI on RTA Independence
Figure 3: Marginal Effect of Trade Need on RTA Independence