

DELEGATION AND AGENCY  
IN INTERNATIONAL  
ORGANIZATIONS

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## *Why multilateralism? Foreign aid and domestic principal-agent problems*

HELEN V. MILNER

### INTRODUCTION

Why do countries sometimes use multilateral strategies and institutions for pursuing their foreign policies? Since World War Two the advanced industrial countries – basically, the OECD countries – have chosen to distribute part of their foreign aid through multilateral organizations, such as the European Union (EU), World Bank, IMF, UN, and regional development banks (RDBs). In particular I want to understand why these countries have chosen to delegate varying amounts of aid to these international organizations over the past 40 years. The delegation of aid-giving to multilateral organizations is surprising; it reduces a country's control over its own foreign policy and has the potential to increase principal-agent problems associated with all spending programs. The other choice that these countries had was to use their own bilateral aid agencies to select projects and oversee aid expenditures, which was the traditional practice prior to the 1960s. So the question addressed is why delegate the provision of foreign aid to a multilateral organization instead of using traditional bilateral channels.<sup>1</sup>

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<sup>1</sup> In this volume Lyne, Nielson, and Tierney address a similar question by examining the US decision to delegate, and then rescind, such authority to the Inter-American

The total amount of such multilateral aid is not inconsequential. For instance, the World Bank gives aid in two main forms. The International Bank for Reconstruction and Development (IBRD) uses its donor subscription base as collateral to borrow money on world capital markets, which it then lends at below market interest rates to developing countries. In 2001 the IBRD committed roughly \$10.5 billion in low interest loans (World Bank 2001a). For the poorest who cannot afford even these rates, the bank makes interest-free credits available through its other arm. The International Development Association (IDA) of the World Bank, founded in 1960, gives out grants from moneys it collects from about 40 donor countries. In fiscal year 2001 it gave out roughly \$6.8 billion in aid (World Bank 2001b). Donors must agree to replenish this money every three years. And it supplies only about 25 percent of total World Bank aid funds. In addition to these organizations, the EU, UN, and the RDBs provide substantial aid funds yearly.<sup>2</sup> For 1999, the EU's total commitments approached 8 billion euros (Holland 2002: 89).

The literature on foreign aid is large so I concentrate on that which discusses donor giving (not the impact on recipients) and multilateral (rather than bilateral) giving. The literature on donors focuses on a debate over the motivations of donors. Simplifying, this literature points to two main motivations: the satisfaction of recipient needs or of donor political goals. Does aid promote economic development and meet the needs of recipients, or does aid largely contribute to the foreign policy or economic interests of the donor? A large part of the literature finds that donor interests seem to better explain the nature and allocations of aid given (e.g. Alesina and Dollar 2000; Dudley and Montmarquette 1976; Maizels and Nissanke 1984; McKinlay and Little 1977, 1978;

Development Bank. As Ruggie (1993: 6–14) notes, multilateralism minimally involves the coordination of policies among three or more states. But substantively, it implies more: that behavior is coordinated on the basis of generalized organizing principles, which tend to entail both the indivisibility of the member's behavior for achieving their goals and some form of diffuse reciprocity, as opposed to specific forms.

<sup>2</sup> The RDBs are the African Solidarity Fund, African Development Bank, Asian Development, Central American Bank for Economic Integration, Andean Development Corporation, Caribbean Development Bank, East Caribbean Central Bank, Inter-American Development, Nordic Development Fund. The EBRD gives aid (as loans only) primarily to the ECE countries and Russia; this aid is classified as Official Aid (OA), not ODA; hence it is not counted here.

Burnside and Dollar 2000).<sup>3</sup> Much of this literature shows that the neediest countries do not receive the most aid and that much aid is tied to the donor's interests. As Alesina and Dollar (2000: 33) conclude, "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 similar levels of poverty, a superior policy stance but without a past as a colony." More recent work, such as Lumsdaine (1993), has argued that humanitarian motivations are primary. A good deal of research suggests, however, that bilateral aid is more tied to donor interests than is multilateral aid, which is often more needs-based in its orientation. This debate remains important and vigorous, but it concerns us mainly in what it has to say about multilateral versus bilateral aid giving.

Why is aid given multilaterally? The existing literature, inspired largely by Rodrik (1996), suggests two principal reasons that make multilateral organizations superior to bilateral relationships. The first is an informational one. Since information about recipients is a collective good, it will tend to be underprovided by individual donors. Multilateral agencies are supposedly better at providing information, especially that necessary to monitor the recipient. The second argues that the interaction of multilateral organizations with recipient countries is less politicized than that between donor countries and recipients. If the multilateral organization has some autonomy from its member states, then it can better exercise aid in a conditional way, that is, by making aid conditional on policy changes, than can an individual donor. In addition, if a recipient can play numerous potential donors off one another, the donors may end up giving more aid and getting less influence. Under these conditions, a multilateral institution may be seen as an aid-giving cartel, designed to maximize the donors' influence by presenting a unified front to the recipients. As discussed in the introduction to this volume, multilateralism may be chosen to reduce policy externalities. But these reasons would seem to make multilateral aid preferable in most conditions, leading to the prediction that it should inexorably supplant

<sup>3</sup> Countries, of course, are often seen to differ in their motivations: the United States and France are usually characterized as pursuing their foreign policy goals, although of different types; Japan is often viewed as pursuing its economic interests, while Sweden is more attuned to recipient needs (Dudley and Montmarquette 1976; McKinlay 1979; McKinlay and Little 1977, 1978; Schraeder et al., 1998).

bilateral aid. This has not occurred; instead, most aid is still given bilaterally.<sup>4</sup> This fact suggests that only under certain conditions do acquiring better information, having less politicized relations, and forming an aid-giving cartel become important enough to justify multilateralism. Identifying these conditions is the next important step for advancing such claims. Moreover, since Rodrik's own data do not support these two claims strongly, we are left with an outstanding puzzle.

The argument here relies on domestic politics and principal-agent problems in the donor countries. It claims that the preferences of donor governments and their publics are likely to diverge. Donor governments desire to use foreign aid for political and economic purposes that are related to donor interests. Publics, however, are more interested in addressing the needs of the recipient countries, i.e. their economic development. Publics are reluctant to give their tax dollars for aid when it is controlled by their own government since they have a hard time monitoring the government and they know it has incentives to give aid politically. But since multilateral aid organizations are both reputed for giving more needs-based aid and cannot be as directly controlled by any government, publics will trust more in them to give higher quality aid. It is the fact that multilateral aid agencies have collective principals (Lyne, Nielson, and Tierney, this volume) that gives them their ability to help domestic leaders. When publics are more skeptical about aid, governments will find it in their interest to give more multilateral aid. By doing so, the public is more willing to allocate resources to foreign aid. All sides end up better off: the government can distribute a larger amount of aid than otherwise, and the public gets higher quality aid through multilateral allocation. As Darren Hawkins, David A. Lake, Daniel Nielson, and Michael J. Tierney claim in the introduction, multilateralism can serve a credibility enhancing function, but here a domestic one.

This chapter attempts to explain variations in the pattern of multilateral aid giving over time and across countries using this principal-agent theory of multilateral allocation. Data on multilateral aid exist for the 27 OECD donors, i.e. those in the OECD's Development Assistance Committee (DAC), for the period from 1960 to 1999; sixteen of these

<sup>4</sup> Only 12 percent of all of my country-year observations for the percentage of multilateral aid committed relative to total aid are greater than 50 percent. The median amount of multilateral aid committed relative to total aid is about 32 percent, meaning that bilateral aid-giving is the norm.

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countries have continuous data over the 40-year period. The data show that public opinion toward aid is an important factor in the choice of allocation between multilateral and bilateral aid within donor countries. The more the public dislikes aid in the prior period, the more the government is induced to spend on multilateral aid in the next period. Multilateral aid thus helps solve a domestic principal-agent problem. Domestic politics may be a reason that governments choose to use multilateral international institutions.

### THE PUZZLE? THE COSTS OF MULTILATERAL AID FOR DONOR COUNTRIES

A central purpose of the donation of foreign aid is to influence the recipient's policy choices or other behavior by providing the country with additional resources. These additional resources may be used to continue an existing policy which the donor approves. For instance, American lend-lease aid to Britain during World War Two was intended to increase British resources so that they would and could keep fighting the Nazis. More strongly, aid may be used to alter a recipient state's behavior or policies. The use of conditionality by the World Bank is an example. Aid is influential to the extent that its termination would affect (benefit or hurt) the recipient. It is, of course, a central form of positive sanctions and hence a primary tool of statecraft (Baldwin 1985).

The delegation of aid provision to an international institution is thus puzzling. Why would countries relinquish (some) control over their donations of aid if they are a useful instrument of statecraft? Multilateral aid has not supplanted bilateral aid. For the United States in the late 1990s, for instance, only 25 percent of its aid was multilateral; it is greater than that for many EU countries. It is just that since the 1960s the OECD countries have chosen to give both bilaterally and multilaterally. Historically, this is unusual.

There are at least two puzzles here. The decision by one country to channel its aid through an international institution, rather than donating it bilaterally, is puzzling since this is likely to increase the principal-agent problems facing donors. This choice adds another link in the chain of delegation involving foreign aid, and thus may exacerbate the principal-agent problems inherent in all government spending programs (Lake and McCubbins, this volume). Unless the country completely controls the international institution, it is unlikely that aid provision will be the same as if it were done bilaterally. There is bound to be some slippage between

the desired goals of any one country and the actions of its agent, the international institution.

Second, in a multilateral setting the principal-agent problem becomes even more acute. As noted by other chapters in this volume (Martin; Lyne, Nielson, and Tierney), with many principals collectively trying to direct an international institution, the slippage between the goals of each country and the institution's final output will likely grow. For instance, the World Bank resembles a global cooperative, which is owned by member countries, and in which control is shared by these members. The size of a country's shareholding depends on the size of the country's economy relative to the world economy. Together, the largest industrial countries (the Group of Seven) have about 45 percent of the shares in the World Bank. Thus the rich countries have a good deal of influence over the Bank's policies and practices. The United States has the largest shareholding, at about 17 percent, which gives it the power to veto any changes in the Bank's capital base and Articles of Agreement (85 percent of the shares are needed to effect such changes). According to the Bank however, virtually all other matters, including the approval of loans, are decided by a majority of the votes cast by all members of the Bank. Hence even if the United States has an effective veto, it still cannot decide aid matters on its own; it must compromise with the other members of the Board – the Bank's collective principal, a fact which would seem to give the Bank greater latitude.

The OECD countries are a diverse set of principals with regard to foreign aid provision. They have distinct preferences regarding the amount, type, and distributive criteria for aid-giving. The Scandinavian countries donate much larger portions of their GDPs to aid and give this aid to a wide variety of countries with limited attention to their international political alliances; in contrast, the United States gives a much smaller portion of its wealth to aid and usually targets countries that are political allies. Sweden and Norway gave aid equivalent to 0.8 percent of the GDP in 2000; the United States gave only 0.1 percent of its GDP. The top three recipients of US aid are Russia, Egypt, and Israel; the top three for Sweden and Norway include Tanzania, Mozambique, and South Africa (OECD 2001).

Coordinating aid-giving among such countries is likely to be difficult, and costly. It is also likely to increase the range of outcomes that the agent can implement, and hence to decrease the control that each country exercises over the agent. As Hammond and Knott (1996) and Lyne, Nielson, and Tierney (this volume) show, if collective principals



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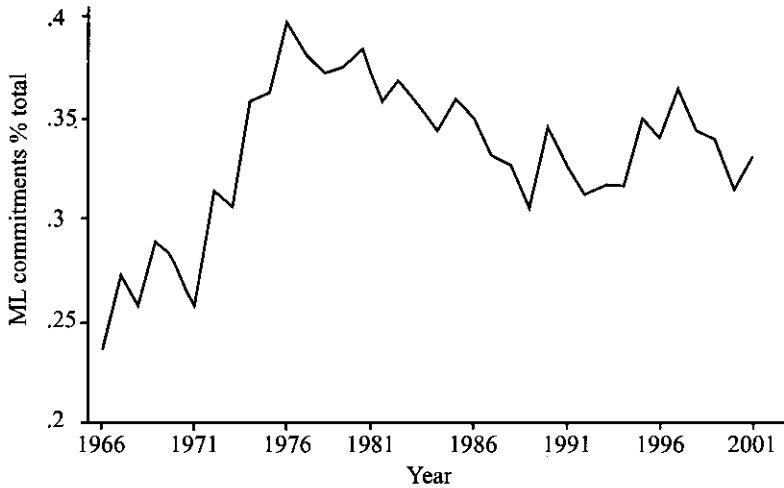


Figure 4.1. Percentage of multilateral aid committed relative to total ODA committed

have different preferences and coordination is costly, the best they can do often is to agree to limit the agency's discretion so that it cannot adopt a policy that is worse for any principal than the initial status quo. As these coordination costs rise or equivalently as the differences among the principals' preferences grow, the agency may gain autonomy. The point is that each OECD country is losing control over aid policy by delegating collectively to a multilateral international institution. As argued in the introduction, if member states are rational, it must be the case that the benefits of multilateral aid outweigh these costs.

As figure 4.1 shows, the average commitment of aid to multilateral organizations by OECD countries has varied over time.<sup>5</sup> As a percentage of total aid, it appears to have risen in the late 1960s and early 1970s, and then to have fallen from around 1976 to 1990. After 1990 it rose and fell, leaving the levels similar at the beginning and end of the decade.<sup>6</sup> It is also the case that countries change the amount that they

<sup>5</sup> The OECD defines multilateral aid as that made to an international institution whose members are governments and whose contributions are pooled with other amounts received so that they lose their identity and become an integral part of the institution's financial assets, and the pooled contributions are disbursed at the institution's discretion (OECD 1999: 81).

<sup>6</sup> All data on foreign aid are from the OECD (2001). See the data at <http://www.oecd.org/dac/stats/>. They are for annual multilateral commitments of aid by each country divided by total ODA commitments. Actual disbursements of aid follow a very

delegate to multilateral organizations over time. Interestingly, for example, Italy went from being in the bottom half of multilateral donors in the 1960s to being the biggest multilateral donor by the 1980s. This cross-national and longitudinal variation in multilateralism is the puzzle motivating this inquiry.

#### THE BENEFITS OF MULTILATERAL AID FOR DONOR COUNTRIES

Most authors seem to agree that multilateral giving will be different than bilateral aid. They suggest that multilateral aid will in itself be less attached to any country's foreign policy goals and more humanitarian in orientation. It is the collective principal relationship, as defined in the second chapter of this volume, that creates the possibility for multilateral aid agencies to be useful to donors. As Balogh noted almost 40 years ago, "bilateral aid was often based on irrelevant criteria aimed at political ends, subject to changes and interruptions from budget to budget, and thus unsatisfactory for [mitigating] inequality in the world . . . [There was also a] tendency for bilateral aid to be tied to grandiose projects when an equal or greater need was for general aid to overall programs of development" (1967: 328).

Since then, research has confirmed that multilateral and bilateral aid are quite different. For instance, multilateral aid tends to be given to poorer countries on average than does bilateral aid (Maizels and Nissanke 1984). As Lumsdaine (1993: 40) states, "Aid channeled through [multilateral] sources – almost a third of the total – could not even be identified as coming from a particular donor. Many donors consciously undertook to direct a large proportion of their aid to the neediest recipients, and multilateral institutions tended to favor large, poor recipients even more than bilateral aid programs." By and large, aid given through multilateral fora cannot be "tied" to purchases from a country's firms, hence undermining the pursuit of donor economic interests. As Martens et al. (2002: 47) note, "a multilateral agency may be able to [better] resist the pressure to make loans for purely political purposes than would the aid arm of a single country." Indeed, in the mid-1960s, Senator William Fulbright argued that all aid should be given multilaterally since this form was the only one that would truly promote

similar pattern, being correlated at about 0.85 with commitments. Later I discuss why I use commitments here.

economic development, but was never able to persuade any government of this (Balogh 1967: 328–29).<sup>7</sup>

In most of the debate on multilateral versus bilateral giving, states have been considered as unitary rational actors. But, as I have argued elsewhere, they may be better analyzed as collective entities composed of rational actors with different preferences (Milner 1997). This perspective allows us to see the strategic interaction within states as an important element of the aid delegation game.<sup>8</sup>

The redistribution of assets internationally is a policy that tends to have limited domestic support, especially when publics are asked to pay for it. Publics tend to have less sympathy for this goal than for similar ones at the domestic level. For instance, in 1998 the last Eurobarometer poll of 15 EU countries shows that on average for all countries over 31 percent think foreign aid should be decreased, and in countries like Belgium and Germany a majority preferred to decrease aid than to increase it even when they were not asked to pay for it. And in the United States a Gallup-poll for 2000 showed that 47 percent desired to reduce foreign aid, while 49 percent wanted to keep it the same or increase it. Foreign aid then is not a policy where policy-makers can count on strong public support. However, most policy-makers realize that aid is an important element of foreign policy and desire to use this tool. In a democracy especially then foreign aid-giving may be subject to strong domestic pressures.

Foreign aid in general poses a principal-agent problem. Like all public spending, it involves long chains of delegation. Publics pay taxes to their governments who then spend this money on various programs including foreign aid. Hence publics first delegate to elected representatives decisions about the levels of taxation and allocations across different spending programs. Bureaucrats, who are the agents of the elected politicians, then implement these decisions. Multilateral delegation of aid adds a further link; aid moneys then pass through some multilateral organization which, as the donors' agent, makes decisions about the distribution

<sup>7</sup> A second point about multilateral aid is that it is often given for long periods of time. Moseley notes that "the very existence of multilateral aid agencies [means that] individual members' subscriptions to those multilateral bodies are contractually fixed several years in advance" (1985: 378). This process is contrasted with bilateral aid programs where yearly allocations are more common.

<sup>8</sup> See also Lyne, Nielson, and Tierney in this volume where domestic conflict between the President and Congress often affects the nature and the extent of delegation to both bilateral and multilateral aid agencies.

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of aid but then passes on to its agents the actual implementation of these decisions.

As Martens et al. (2002) claim, the main difference with foreign aid is that the final link in the feedback chain of delegation is broken. The foreign recipients cannot vote for more or less aid, nor can they usually express their opinion of whether the aid was useful or not and worth the tax monies. On the other side, the real donors – i.e. the publics who pay taxes – also cannot see for themselves how their aid monies were used.

The most striking characteristic of foreign aid is that the same people for whose benefit aid agencies work are not the same as those from whom their revenues are obtained; they actually live in different countries and different political constituencies. This geographic and political separation between beneficiaries and taxpayers blocks the normal performance feedback process: beneficiaries may be able to observe performance but cannot modulate payments as a function of performance. (Martens et al. 2002: 14)

Therefore, foreign aid adds at least two elements to the delegation chain that are distinct from domestic spending programs. Longer chains of delegation and the fact that, unlike with domestic spending programs where voters can see for themselves the benefits of the spending, voters in donor countries cannot measure aid performance reliably mean additional principal-agent problems.

As the principal-agent literature points out, the two most prevalent problems arising from this relationship are moral hazard and adverse selection (e.g. Laffont and Martimort 2002; Martens et al. 2002). Moral hazard arises when agents take actions that are not fully observed by their principals and when these actions promote goals of the agents that differ from those of the principal. Adverse selection occurs when an agent has private information unknown to the principal that the agent manipulates to promote outcomes adverse to the principal's interests. All principal-agent relationships carry the potential for these sub-optimal outcomes, but in the foreign aid arena they are likely to be worse given the two problems noted above that make this area different.

In the foreign aid area, the information problems are extremely severe. Voters in the donor countries have an impossible time evaluating how aid is being used in the recipients. As noted above, the feedback loop is broken and the public paying taxes for aid has little knowledge to use to reward or punish their agents for foreign aid outcomes. Moreover, as Martens et al. (2002) show, moral hazard and adverse selection also arise in information provision about and evaluation of aid programs. Because

of this, rational publics know that what their governments tell them about aid programs is going to be heavily biased. This information problem would not be as acute were it not for the fact that the agents' and principals' interests in aid are likely to diverge. But publics know that the slippage between their preferences for aid and those of their government may be substantial. And they know that their governments have private information about the benefits of aid. Because they know these problems exist, the public will be reluctant to support aid, i.e. to pay taxes for it.<sup>9</sup>

Consider a simple game between voters in a donor country and the agents of that voter, her government or executive branch. The public supports aid for needs-based reasons and is willing to pay taxes for that purpose, but prefers low levels of aid, if any, when it is used for political purposes. The executive likes aid for political purposes; it provides another foreign policy tool. And more tools are always better than fewer. The executive must also worry about the preferences of aid suppliers in the donor country. These interest groups are the direct beneficiaries of aid policies, and they are profit maximizers who give campaign contributions. These interest groups prefer aid for commercial reasons; that is, they want aid given in such a way that maximizes their profits. Agents' preferences vis-à-vis aid differ from those of their principals.

The quantity and quality of aid are linked in terms of actors' preferences. All actors worry about the quality of the aid given. Hoadley (1980) points out that the DAC has four quality targets for donor countries. First, grants are preferred to loans; roughly 84 percent of ODA is supposed to be grants, instead of loans. Second, DAC members should give at least 90 percent of this grant aid to the worst off countries. Third, donors should give less aid that is tied to donor purchases.<sup>10</sup> Last, aid should be given mostly to the very poorest countries to ensure that it is humanitarian aid. Each of these quality indicators implies aid that is less political, less commercial, and less tied to donor's self-interests, and more humanitarian and responsive to recipient needs. Multilateral

<sup>9</sup> In the concluding chapter of this volume, Lake and McCubbins specify the informational conditions for successful delegation.

<sup>10</sup> "The tying of aid is an act of self-interest designed to protect the donor's balance of payments, stimulate its private sector exports, and return a portion of aid to the treasury via taxation" (Hoadley 1980: 132).

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organizations are far more likely to give aid according to these criteria than are bilateral aid programs, which are beset by special interest pressures and concerned with foreign policy problems.

In general, the public by a large majority in most countries prefers aid that is humanitarian to aid that is political. As Lumsdaine (1993: 43) points out, "Publics when asked consistently said aid should go to needy countries that would use it well rather than being used to promote narrow national interest. In one poll of ten European countries, 75 percent favored giving aid to the neediest LDCs rather than those of strategic, political, or economic importance to their own countries." And a recent study of public opinion toward aid (McDonnell, et al. 2003: 20) points out that "In most cases, the overwhelming [public] support for foreign aid is based upon the perception that it will be spent on remedying humanitarian crises."

For the executive, of course, the political nature of aid is what makes it a foreign policy tool; hence the executive is not likely to appreciate a purely humanitarian approach to aid. Moreover, as special interest groups grow in importance to donor executives, their desire for commercially oriented aid will also make executives use aid for reasons opposed by donor publics. As noted above, multilateral organizations, however, tend to give aid in more humanitarian ways, or at least in ways that are less tied to any single donor's self-interest and are surely less commercial. Multilateral aid is going to be closer to the public's preferences.

The government will often have preferences that differ from voters' and face pressures to take actions that diverge from the optimal aid policy preferred by voters. First, capture by interest groups can divert leaders from the policy most preferred by its principal, the voters. Second, governments may also desire to use aid to promote their general foreign policy goals, many of which may have no relation to the needs of the recipients. The government controls what information is given to the public about the results of foreign aid spending. The information about the performance of aid spending is private information held by the government; that is, publics have a hard time knowing how their governments allocated aid, and whether that aid served donor interests or those of the recipient. The principal-agent relationship makes it likely that the government will present only biased information to the public.

The public knows this and hence has little way to judge the performance of aid and thus the benefits that it derives from paying for it. As a recent study of foreign aid and public attitudes toward it claims,

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more than other policies, international development cooperation is characterized by a large gap between its opacity for the public, and its relevance for this very public's concerns about global "bads" (epidemics, threats to the environment, financial instability and crises, etc.) and "goods" (the call for greater justice at the global level). . . Greater transparency of international development policies in donor countries, as well as a stepping up of efforts towards accountability of public authorities, are thus needed. (McDonnell et al. 2003: 30)

Because of these information problems, taxpayers will tend to believe that the benefits of aid are less than political leaders say and thus they will be unwilling to provide as much aid as may be optimal from their point of view. As Smillie et al. claim about public opinion toward aid,

Typically more aware of its failures than its successes, people were concerned that aid is being wasted. Not only do [voters feel that] global problems seem to be getting worse, but "bureaucratic bungling and mismanagement" have diverted assistance away from those who most need it, and have given way to a legacy of "horror stories about rusty tractors and railways to nowhere."

(Smillie et al. 1998: 23)

Political leaders know that this is how voters think. They desire to have a foreign aid budget and will thus try to find ways to publicly commit to an aid regime that provides higher benefits to voters. Multilateral aid programs provide exactly this commitment mechanism. As in Mansfield et al. (2002) where signing an international trade agreement that binds protectionist leaders to freer trade improves their welfare, here a similar process is at work. Giving (more) aid to a multilateral forum ties the leader's hands relative to that aid but also makes the voters more likely to approve of greater aid overall. Thus executives choose some portion of multilateral aid depending on how voters view the ex ante benefits of foreign aid.

For this mechanism to work, some members of the public must know that the government is committing more aid to multilateral organizations than previously. Publics in donor countries, however, are notorious for their lack of information about foreign aid. But two mechanisms at least exist by which voters may learn about a government's aid policy without much effort. First, the multilateral organizations themselves may broadcast widely the fact that governments are giving them more or less aid. Indeed, the OECD has a very public mechanism for alerting publics and other governments to the behavior of its members: the country-specific aid policy reviews that it conducts (OECD 1999). These reviews may signal to the attentive public what their own government is doing in this area. The OECD's DAC has targets for the amount and type of aid-giving

it expects from members (they usually have agreed to these targets) and the reviews specifically ask about the percentage of multilateral giving.

Second, attentive publics and public organizations (NGOs) within a donor country with strong preferences about aid-giving may act as endorsers for other voters. Voters or organizations that care about foreign aid a lot may well invest in the resources to follow what their governments are doing, and they may publicize this information or use it to recommend for and against certain political candidates. For instance, since 1993 a group of NGOs has produced an evaluation of aid programs, called *The Reality of Aid*. A main goal of this group is to publicize the behavior of the OECD countries vis-à-vis their aid-giving (OECD 1999: 107). The use of “endorsers” such as these has been shown to be important in other areas of politics (e.g. Lupia 1992, 1994; Lupia and McCubbins 1994a; Milner and Rosendorff 1996; Milner 1997; Grossman and Helpman 2002; Thompson, this volume; and especially Lake and McCubbins, this volume). Information on the multilateral content of a donor government’s aid is available directly or indirectly from these sources for voters, especially for those who care about the issue.

When the public is very hostile to aid, governments should have to commit larger sums to multilateral programs to reassure voters and induce them to vote for higher aid programs. When voters are more favorable to aid, governments will have to do less to reassure them and aid can be less multilateral. Since governments cannot provide unbiased information to voters about the benefits of aid and voters know this, they must use multilateral aid organizations as signaling devices about their intentions. When they commit to multilateral aid, leaders signal that they are going to use this for more humanitarian purposes and less political or commercial ones. This signal is credible because the donor government cannot control the multilateral organization (completely) and because the organization has a reputation for more needs-based aid-giving.

Do publics really believe that multilateral organizations are better aid providers than their own governments? In many OECD countries, publics often have more confidence in international organizations, such as the EU, than they do in their own governments. Italy, for instance, is a classic case of this; domestic corruption is perceived to be widespread, while the EU, among other international organizations, is perceived to be much “cleaner.” Although many Americans express doubts about international organizations, in most of the OECD countries, especially the Scandinavian ones, international organizations are seen very



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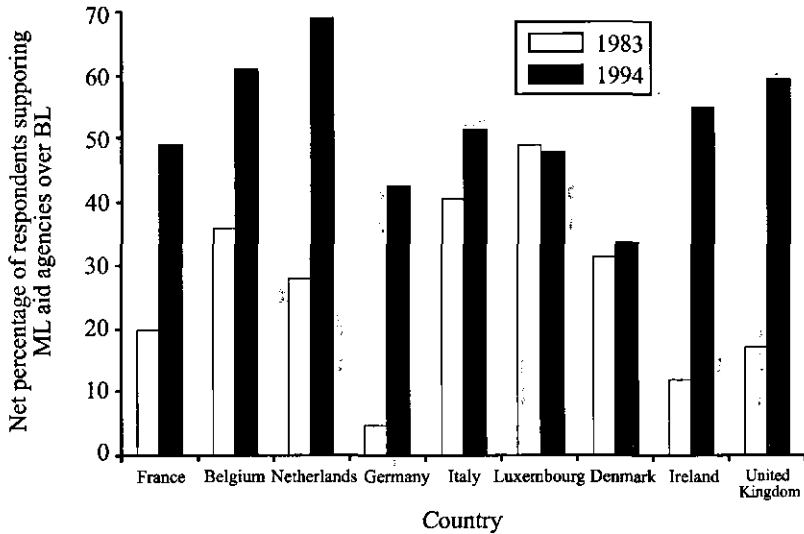


Figure 4.2. Public opinion in the EU: net percentage with greater confidence in multilateral than bilateral organizations

favorably and are often preferred as a means of foreign policy to purely domestic institutions. The Eurobarometer surveys of public opinion support this contention. In 1983 the Eurobarometer asked its members to identify which five groups provided the most useful help to the third world countries. The choices were the national government, the EU, international organizations like the UN, business and industry, and voluntary organizations. In the ten countries responding, the percentage believing it was international organizations like the UN always outnumbered the percentage saying it was the national government. In 1994 the Eurobarometer asked ten of its member countries again the following question: which one of the following do you think is the most effective way for EU countries to give humanitarian assistance; is it each EU country's own individual government, the EU, the UN, or NGOs? For every country, the EU far outpolled the national governments and so did the UN in all but two cases. Figure 4.2 shows the net percentage of positive responses for the EU and international organizations (i.e. the multilateral organizations) after subtracting from them the percentage in favor of the national government. As can be seen, the publics in these countries have far more confidence in multilateral organizations giving aid than in their own governments. Multilateral organizations for aid-giving are thus often seen as better aid providers than their own

governments. Multilateralism thus may be an appealing strategy for governments who face credibility problems with their own voters.

The main hypothesis follows from this model. Multilateralism should be favored when governments most need to reassure their publics about their intentions in aid-giving; that is, when domestic principal-agent problems are the worst. The more skeptical the public is about the (ex ante) benefits of foreign aid, the more likely that governments will turn to multilateral aid organizations for aid-giving. This credible signal provided by multilateral giving will induce voters in donor countries to give more aid overall and thus will benefit executives, even though they lose control of the portion that is multilateral. All groups in the donor country gain from this since the government gets more aid and the public gets higher quality aid.

#### EMPIRICAL ANALYSIS

What factors account for the varying amount of aid that countries give to multilateral organizations relative to their total aid budgets? To address this question, I will examine the data on total multilateral commitments of ODA flows as a percentage of total ODA commitments per country-year (OECD 2001).<sup>11</sup> The data here are for commitments, not disbursements. Given our model, the commitments data – i.e. what countries have decided to provide each year – are preferable, since actual disbursements depend on conditions in both the donor and recipient. Data for 27 DAC countries, with 16 of them having data for all 40 years from 1960–2000, exist. Recent members, such as South Korea (10 years), Greece (4 years), Turkey (8 years), Poland (2 years), the Czech (2 years) and Slovak (1 year) Republics, only have data for a few years. Countries, such as Ireland, Luxembourg, New Zealand, Portugal, and Spain, also have data for about 20–30 years only. This gives a total of 643 observations for the main dependent variable.

The literature discussed above suggests a number of hypotheses that one must control in testing the claims made here. First, certain economic characteristics of countries might make them more or less interested in multilateralism. A country's size, as measured by its population (log of population, LN POP), could have some impact.<sup>12</sup> Smaller countries

<sup>11</sup> See <http://www.oecd.org/dac/stats/>.

<sup>12</sup> Population and GDP are highly correlated among this group ( $r = .93$ ); the log of population is also highly correlated ( $r = .70$ ). Both measures proxy for a country's size. I use the former since I also include GDP per capita.

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might be more multilateral in their orientation since they may not have the economic or political weight to influence other countries bilaterally. A country's level of wealth, as measured by its real per capita GDP (GDP PC), could also affect the choice of multilateral over bilateral. Wealthier countries would be expected to rely on bilateral means more often. A country's extent of ties to the international economy is also important. More trade dependent countries, as measured by their ratios of exports and imports to GDP (TRADE), should be more likely to apply bilateral provision of aid so that they can more directly influence their trading partners, actual and potential. In addition, the amount a country's government spends indicates an interest in or positive attitude toward government aid for the poor, at home and abroad. Government spending as a percentage of GDP (GOV EXP) should be positively related to multilateralism then. All data for these variables comes from the World Bank's (2001b) *World Development Indicators*.

In addition, features of the international system may affect all countries similarly. Donor collusion may also be promoted by external pressures. American hegemony over the period might play a role in fostering multilateral commitments since the United States could be expected to enforce the multilateral rules and punish free riding. Declining US hegemony then would be expected to undermine multilateral giving. On the other hand, the loss of American hegemony might make the demand for effective multilateral coordination rise, and thus promote multilateral aid giving. Thus the extent of American hegemony may matter. Higher levels of US hegemonic power, as measured by America's total trade relative to world trade (US HEGEMONY), may induce greater cooperation among donors, thus increasing the amount of multilateral aid they give. An alternative measure is US GNP relative to the world's total GNP.

Second, strategic competition at the world system level may affect the donor game. The OECD countries were members of the Western security alliance and during the Cold War one would expect that they might desire and be better able to coordinate their policies. Indeed the more intense the competition between East and West during the Cold War, the more aid that might be given, but also the more multilateral aid that might be given. Heightened external competition should increase the will and capacity of the Western countries to coordinate their aid policies to overcome both free-riding and being exploited by recipients. The end of the Cold War in 1989 and the collapse of the USSR in 1991 brought about a precipitous decline in aid flows from the Soviet Union after 1990 (which coincided with a large decline in aid from the OPEC Arab

countries). These changes should have had the effect of reducing OECD aid but also of decreasing the amount given multilaterally. As Arvin says, "Freed from the strategic constraints of the Cold War, donors may feel less tied to a common security agenda and thus more able to pursue their own independent ODA policies" (Arvin 2002: 28). The measure of Cold War competition that I use is an indicator that equals 2 before 1989, 1 from 1989 to 1991, and 0 from then on (COLD WAR).<sup>13</sup> The Cold War should intensify Western countries' cooperation in aid promoting multilateral aid. It should be positively related to the percentage of multilateral aid.

Other factors relating to each country's relations with the rest of the world may also be of significance. A country's relative power, as measured by the size of its GDP as a percentage of US GDP, may indicate how much influence a country can wield on its own. Countries with less relative power (GDP %US) may be more likely to use multilateralism for giving aid since this may increase their influence over recipient countries. In addition, whether a country is a member of the European Union may make a difference. One might expect that countries willing to join the EU and give up substantial control over their domestic and foreign policies to such a multilateral institution may be much more sympathetic to multilateralism in general.

In terms of domestic politics, the model suggests a number of important characteristics for determining a government's choice between multilateral and bilateral aid. Political parties may have different policy preferences regarding foreign aid. This may result from the fact that their core constituents have different preferences about the matter. If so, then giving aid in a multilateral forum may be a means of "locking in" larger amounts of aid than could be given otherwise. One might expect that parties on the left part of the political spectrum would be more interested in foreign aid. Lumsdaine makes this argument explicitly about the preferences of parties on the left; he claims that left parties' greater support for the domestic welfare state translates into more support for foreign aid. "In country after country, the politicians and political parties that strongly advocated aid were those on the left, and factions within political parties that advocated aid were those which

<sup>13</sup> I also looked at two alternative variables to measure the extent of Cold War competition: a dummy that equaled 1 in all years previous to 1990 and a dummy that equaled 1 in all years previous to 1992. These are the alternative dates one could assign to the ending of the Cold War.

were concerned with idealistic causes" (Lumsdaine 1993: 139). If this is true, governments dominated by left parties may be more likely to give aid multilaterally

The partisan orientation of a government may thus matter. I expect that left governments have a greater propensity to give aid multilaterally. I include a variable called PARTISAN, which uses the Comparative Manifesto Project dataset on party programs to code governments and should be negatively related. I use the Gabel and Huber method of calculating party partisanship (Gabel and Huber 2000).<sup>14</sup>

To test my argument, I include a variable measuring public opinion on foreign aid in each country over time (OPINION). Primarily, I use data from a question about aid that asks whether the respondent thinks that their government gives too much, the right amount, or too little foreign aid to poor countries. The percentage saying the right amount plus the percentage saying too little are added together and then from this I subtract the percentage saying too much aid is given. This variable then measures the net public opinion that is favorable to foreign aid in each country that year. I assume that this tells us about the benefits that taxpayers in donor countries believe foreign aid brings them. High levels of favorable opinion indicate a belief that the benefits of aid are high. When voters are optimistic about aid, then governments need to reassure them less about these benefits, and hence prefer to use multilateral aid less. However, when voters are pessimistic about the value of aid, leaders desire to reassure them by providing more multilateral aid, which voters see as a signal that aid will be dedicated to humanitarian assistance. I expect a negative relationship between opinion and multilateral aid.

Collecting data on public opinion about foreign aid is not simple. I have 222 observations for the donor countries from 1963 to 2001. I have data for the 15 current EU countries from 1976 to 1998, and sporadic data for the United States, Canada, Japan, Australia, and Norway.<sup>15</sup> A composite measure of favorable attitudes toward aid was

<sup>14</sup> They take each party in government and create the government score by weighting them by their percentage of seats among the winning coalition. For presidential systems, the variable is constructed as a simple average of the score for parties in control of the legislature and the President's party score. The partisanship variable ranges in theory from 0 to 10, with higher numbers denoting more right-wing governments. The expected sign of PARTISAN then is negative.

<sup>15</sup> The EU data come from eleven Eurobarometer surveys over the past three decades: 1976, 1979, 1980, 1981, 1983, 1987, 1991, 1993, 1994, 1996, 1998. Two general

constructed from different public opinion polls. All those in favor of increased or the same levels of spending on foreign aid were counted as favorable toward aid, and all those favoring decreased spending were subtracted from this. These net percentages of respondents in favor of aid (OPINION<sub>1</sub>) were then used. If one worries about listwise deletion problems and believes that public opinion may be quite stable over time, then imputing values for the intervening years between public opinion surveys may make sense. For years in between where no survey was performed, data were added by using two different methods. First, the last value available was used for all intervening years (OPINION<sub>2</sub>). Second, a linear extrapolation was used to fill in values for intervening years (OPINION<sub>3</sub>). Using these two methods, observations for this variable (OPINION) rise to 418. Unfortunately, this number remains smaller than the data on foreign aid available (643 total observations). I expect that rising public opposition to aid will lead policy-makers to prefer multilateral over bilateral aid. Hence OPINION should be negatively related to the dependent variable.

Finally, I include a variable to capture the total amount of aid committed in the previous period. It may be that multilateral commitments as a percentage of total commitments are changing because total ODA is changing; that is, the denominator is changing and not the numerator. The measure of total ODA commitments as a percentage of GDP (TOTAL COMMIT) for each country in each year is examined as well.

The time series cross-section data used necessitate attention to problems of heteroskedasticity as well as panel and serial correlation. The data include less than 26 countries over 40 years, which means that T is fairly large and often bigger than N and therefore the use of panel-corrected standard errors is appropriate. I sometimes include a time counter variable to pick up linear trends over the period, but this is often dropped since it is never significant and is highly correlated with both the Cold War and the US hegemony variables. I use OLS regressions with panel-corrected standard errors, including country fixed effects and a lagged dependent variable for estimation. Table 4.1 presents the summary statistics for all the variables used.

Tables 4.2A and 4.2B present the results from these regressions for OPINION<sub>1</sub>, which contains only the original data on public opinion.

questions were used. One asked whether the respondent favored increased, decreased, or no change in foreign aid. The other asked whether the respondent was highly favorable, favorable, opposed, or highly opposed to increased foreign aid.

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Table 4.1. *Summary statistics for variables*

Variable	Obs	Mean	Std. Dev.	Min.	Max
ML PC	668	0.33	0.15	0.02	0.92
OPINION1	222	45.59	30.35	-54	96.40
OPINION2	418	43.84	31.95	-54	96.40
OPINION3	418	44.29	29.81	-54	96.40
LN POP	772	16.61	1.37	12.81	19.44
GDP PC	756	20656.35	8838.63	2654.08	52675.27
GOV EXP	729	18.59	4.68	7.32	29.88
TRADE	735	63.13	38.26	9.33	238.70
PARTISAN	686	7.57	0.82	4.66	9.37
TOTAL COMMIT	624	2.72E-09	2.05E-09	7.75E-11	1.18E-08
US HEGEMONY	772	0.27	0.02	0.24	0.31
GDP % US	756	0.15	0.25	0.00	1
YEAR	853	1983	12.31	1960	2002

The lagged dependent variable (LAG ML PC) is positive and significant as expected. A multilateral orientation once acquired seems to stay in place. But note that this variable is nowhere near unity, suggesting that unit root problems might be unimportant. The economic variables match expectations generally, but often do not attain conventional levels of significance. A country's size (LN POP) seems to be negatively related to its multilateral giving, although never significantly. Its wealth (GDP PC) is negatively and often significantly related to multilateralism. Richer and bigger countries tend to give less multilateral aid. Overall government spending as a portion of GNP (GOV EXP) is unexpectedly negative, and usually quite significant. This result implies that as government expenditure rises, executives are less willing to give to multilateral aid organizations. Governments that are better able to tax and spend domestically have less need and desire to use multilateral institutions to distribute their foreign aid. It may be an indicator of government capacity rather than of preferences for spending on the poor, as speculated above.<sup>16</sup>

<sup>16</sup> This negative relationship does not disappear if one eliminates partisanship either. The correlation between them is surprisingly low and positive ( $r = .10$ ).

Table 4.2A. Multilateral commitments as % total ODA committed and OPINION<sub>t</sub>

Dependent variable	ML PC				
	(1)	(2)	(3)	(4)	(5)
OPINION <sub>t</sub>	-0.0005*** (0.0002)	-0.0005*** (0.0002)	-0.0005** (0.0002)	-0.0005*** (0.0002)	-0.0005*** (0.0002)
GDP PC	-0.0000* (0.0000)	-0.0000 (0.0000)	-0.0000** (0.0000)	-0.0000* (0.0000)	-0.0000 (0.0000)
LN POP	-0.0694 (0.1368)	0.0113 (0.1487)	0.0025 (0.1366)	-0.0704 (0.1353)	-0.0575 (0.1390)
GOV EXP	-0.0068* (0.0040)	-0.0067* (0.0040)	-0.0079* (0.0044)	-0.0068* (0.0041)	-0.0068* (0.0041)
PARTISAN	0.0208*** (0.0075)	0.0223*** (0.0075)	0.0212*** (0.0073)	0.0208*** (0.0076)	0.0209*** (0.0074)
LAG ML PC	0.4239*** (0.0803)	0.4195*** (0.0802)	0.4175*** (0.0806)	0.4242*** (0.0802)	0.4225*** (0.0805)
YEAR		-0.0015 (0.0023)			
TRADE			-0.0013 (0.0009)		
COLD WAR					0.0023 (0.0108)
US HEGEMONY				0.0289 (0.3744)	
Constant	1.3590 (2.2213)	2.9674 (3.8046)	0.2435 (2.2135)	1.3706 (2.2023)	1.1537 (2.2672)



Dependent variable	ML PC			
Observations	176	176	176	176
# countries	21	21	21	21
R2	0.84	0.84	0.85	0.84
Wald chi <sup>2</sup>	523726	855	7015	322866
Prob > chi <sup>2</sup>	0.00	0.00	0.00	0.00

Note: OLS with panel-corrected standard errors in parentheses, using STATA 8.2 (xtprcse). ALL IVs, except the year counter, are lagged one period. Country fixed effects included.

Two-tailed tests: \* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%.

Table 4.2B. *Multilateral commitments as % total aid committed and OPINION<sub>t</sub>*

Dependent variable	ML PC			
	(1)	(2)	(3)	(4)
OPINION <sub>t</sub>	-0.0005*** (0.0002)	-0.0005*** (0.0002)	-0.0005*** (0.0002)	-0.0005** (0.0002)
GDP PC	-0.0000* (0.0000)	-0.0000 (0.0000)	-0.0000 (0.0000)	-0.0000 (0.0000)
LN POP	-0.0602 (0.1288)	-0.0856 (0.1413)	-0.0660 (0.1379)	-0.0587 (0.1964)
GOV EXP	-0.0067* (0.0041)	-0.0063 (0.0040)	-0.0074* (0.0041)	-0.0076* (0.0044)
PARTISAN	0.0211*** (0.0074)	0.0220*** (0.0078)	0.0213*** (0.0075)	0.0228*** (0.0077)
LAG ML PC	0.4240*** (0.0803)	0.4158*** (0.0819)	0.4204*** (0.0798)	0.4044*** (0.0829)
GDP %US	0.1219 (0.3578)			0.0160 (0.4638)
TOTAL COMMIT		-2.8717e+06 (4188308.5832)		-4.8841e+06 (4377359.0430)
EU			-0.0381* (0.0207)	-0.0214 (0.0253)
COLD WAR				-0.0015 (0.0144)
US HEGEMONY				0.0256 (0.4378)

Dependent variable	ML PC	
YEAR		0.0006 (0.0042)
TRADE		-0.0014 (0.0011)
Constant	1.2013 (2.0845)	1.3117 (2.2383)
Observations	176	176
Number of countries	21	21
R2	0.84	0.84
Wald chi <sup>2</sup>	10614	3631
Prob > chi <sup>2</sup>	0.00	0.00
		28442
		0.00

Note: OLS with panel-corrected standard errors in parentheses, using STATA 8.2 (xtpcse). ALL IVs, except the year counter, are lagged one period. Country fixed effects included.

Two-tailed tests: \* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%.

The impact of the international system seems limited. American hegemony, measured either as a percentage of world trade or world GNP, is positive as expected but not significant. It seems to have no discernible effect on countries' choices about aid-giving. The dynamics of the Cold War also had no consistent impact on multilateral aid-giving; although always positive, it was never significant.<sup>17</sup> The structure of world politics seemed to play little role in conditioning aid-giving. On the other hand, being a member of the EU seemed to matter. But its impact was unexpected. Joining the EU seemed to lower a country's multilateral contributions.

Domestic politics, in contrast, plays an important role. But this impact was often contrary to expectations. Partisanship was almost always significant; a government's partisan orientation mattered. But this result was contrary to expectations: right governments consistently gave more multilateral aid than did left ones. Given the view of left governments as more sanguine about aid in general, it is hard to understand this result. It could be that right governments are more willing to give aid to multilateral organizations because such organizations are staffed with actors whose preferences are more similar to right parties than are their domestic aid-giving bureaucracies. Right governments may thus avoid bilateral aid and support multilateral giving as a means of controlling their home bureaucracies. Or the result may arise from the fact that right-wing governments like aid less than left ones and can cut bilateral aid more easily than multilateral, thus driving the multilateral percentage of aid higher. Overall, this result is robust and puzzling.

My hypothesis about public opinion is supported strongly by the data. The regressions using public opinion in table 4.2 show that it has the anticipated impact.<sup>18</sup> This result occurs with all three versions of the public opinion variable, as can be seen from tables 4.2A and 4.2B

<sup>17</sup> The Cold War variable is never significant, whether I use the version that marks a change both in 1989 and 1991 or a dummy for 1989 or 1991.

<sup>18</sup> An interesting issue not addressed here is what impact public opinion toward aid has on overall aid budgets. Some, such as McDonnell et al. (2003, 17) claim it has none: "Trying to link those levels of public support with ODA levels almost inevitably leads to the conclusion that the former does not have a direct influence on the latter. Indeed, on the whole, and in spite of some differences among OECD Member countries, foreign policy decisions, and more particularly those relating to aid and international development cooperation, are hardly influenced, at least directly, by the general public's preferences. Governments' strategic priorities, perceptions of political leaders and decision makers, the influence of domestic vested interests and specific pressure groups, or the role of other government

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and 4.3A and 4.3B. As the public in donor countries grows more favorable toward aid in general, the government is less likely to choose multilateral aid-giving. This finding suggests that public opposition to foreign aid may enhance the probability that executives favor multilateral giving. When publics are skeptical about the benefits of aid, governments are more likely to turn aid over to multilateral organizations in order to reassure taxpayers that their money is being well spent (i.e., spent on aid that is more likely to have humanitarian motivations).

These results are quite robust as well. The results in tables 4.2A and 4.2B do not depend on the version of the public opinion variable used; tables 4.3A and 4.3B replicate these results using an interpolated version of the public opinion data, OPINION<sub>3</sub>, which linearly imputes data for public opinion. The results here are very similar to those in tables 4.2A and 4.2B. But note that the number of observations is much larger here, and hence worries about listwise deletion of cases should be alleviated. Using another interpolated version of the public opinion data, OPINION<sub>2</sub>, which simply uses the last value for all periods in between two surveys, the results obtained are virtually identical to those in tables 4.3A and 4.3B. The public opinion variable is always negative and statistically significant.

The results are also robust to a wide variety of changes in the model. As can be seen from tables 4.2A and 4.2B and 4.3A and 4.3B, adding variables does not seem to affect the coefficients on the public opinion variables much, if at all. When the public is skeptical about the benefits of aid, holding numerous other factors constant, leaders are more likely to choose multilateral aid-giving in the next period. Could it be that the amount of multilateral aid committed actually affects public support for aid? That is, does an exogeneity problem exist? Regressing public opinion about aid on the percentage of multilateral commitments shows no significant results. Multilateralism in previous periods has no significant relationship to current public opinion about aid. It is also apparent from tables 4.2B and 4.3B that the results are not driven just by changes in the denominator of the dependent variable. Including a measure of the total amount of aid commitments (TOTAL COMMIT) does not affect the results concerning public opinion, nor does it usually have a significant relationship to current multilateral commitments of aid.

departments and actors in the public domain appear to be much more influential factors." Preliminary data suggest this is not the case.

Table 4.3A. *Multilateral commitments as % total ODA committed and OPINION3*

Dependent variable	ML PC				
	(1)	(2)	(3)	(4)	(5)
OPINION3	-0.0003** (0.0002)	-0.0003* (0.0002)	-0.0003** (0.0002)	-0.0004** (0.0002)	-0.0004** (0.0002)
GDP PC	-0.0000*** (0.0000)	-0.0000 (0.0000)	-0.0000*** (0.0000)	-0.0000* (0.0000)	-0.0000*** (0.0000)
LN POP	0.0155 (0.1124)	0.0640 (0.1371)	0.0264 (0.1150)	0.0480 (0.1130)	0.0144 (0.1126)
GOV EXP	-0.0093*** (0.0035)	-0.0092*** (0.0036)	-0.0096*** (0.0036)	-0.0094*** (0.0036)	-0.0094*** (0.0036)
PARTISAN	0.0156** (0.0062)	0.0164*** (0.0063)	0.0156** (0.0061)	0.0159*** (0.0061)	0.0154** (0.0063)
LAG ML PC	0.4159*** (0.0755)	0.4156*** (0.0753)	0.4155*** (0.0759)	0.4108*** (0.0752)	0.4162*** (0.0754)
YEAR		-0.0010 (0.0021)			
TRADE			-0.0002 (0.0007)		
U.S. HEGEMONY					0.0668 (0.2925)
COLD WAR				0.0090 (0.0088)	
Constant	0.0585 (1.8394)	1.1560 (3.3262)	-0.1095 (1.8741)	-0.5208 (1.8536)	0.0626 (1.8413)
Obs	337	337	337	337	337

Dependent variable	ML PC	
	21	21
# countries	21	21
R2	0.75	0.75
Wald chi <sup>2</sup>	125279	23928
Prob > chi <sup>2</sup>	0.00	0.00
		142467
		23148
		0.76
		0.00
		134195
		0.00

Note: OLS with panel-corrected standard errors in parentheses, using STATA 8.2 (xtpcse). ALL IVs, except the year counter, are lagged one period. Country fixed effects included.

Two-tailed tests: \* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%.

Table 4.3B. *Multilateral commitments as % total ODA committed and OPINION3*

Dependent variable	ML PC			
	(1)	(2)	(3)	(4)
OPINION3	-0.0004** (0.0002)	-0.0004** (0.0002)	-0.0003* (0.0002)	-0.0004* (0.0002)
GDP PC	-0.0000*** (0.0000)	-0.0000 (0.0000)	-0.0000*** (0.0000)	-0.0000 (0.0000)
LN POP	0.0099 (0.1115)	-0.0366 (0.1175)	0.0155 (0.1125)	-0.0348 (0.1747)
GOV EXP	-0.0094*** (0.0035)	-0.0081** (0.0035)	-0.0093*** (0.0036)	-0.0091** (0.0037)
PARTISAN	0.0151** (0.0061)	0.0180*** (0.0062)	0.0155** (0.0062)	0.0172*** (0.0065)
LAG ML PC	0.4150*** (0.0756)	0.3933*** (0.0752)	0.4159*** (0.0755)	0.3784*** (0.0773)
GDP %US	-0.1690 (0.3251)			-0.4355 (0.4191)
TOTAL COMMIT		-8.93e+06** (4398367.41)		-1.11e+07** (4659486.84)
EU			0.0017 (0.0339)	0.0110 (0.0306)
COLD WAR				0.0079 (0.0105)
US HEGEMONY				-0.2080 (0.3239)
YEAR				0.0010



Dependent variable	ML PC	
TRADE		(0.0033)
Constant		-0.0009 (0.0008)
Observations	0.1640 (1.8215)	0.0582 (1.8399)
Number of countries	337 21	337 21
R2	0.75	0.75
Wald chi <sup>2</sup>	21888	134073
Prob > chi <sup>2</sup>	0.00	0.00

Notes: OLS with panel-corrected standard errors in parentheses, using STATA 8.2 (xtpcse). ALL IVs, except the year counter, are lagged one period. Country fixed effects included.

Two-tailed tests: \* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%.

These results and the robustness checks add strong empirical support to the model's main proposition. Multilateralism responds to domestic politics, and seems related to the overcoming of principal-agent problems internally. Public opposition to foreign aid prompts governments to search for mechanisms to shield aid from the public's skepticism, and the commitment of aid to multilateral institutions allows governments to protect their aid budgets while better satisfying the public which desires greater needs-based aid-giving.

## CONCLUSIONS

This chapter has explored why countries choose to allocate their foreign aid through multilateral channels rather than through bilateral ones. Giving aid through multilateral institutions represents a fairly new procedure for most countries. Moreover, aid given through multilateral means looks different than other forms of aid. It is much harder for donors to exercise direct influence when using multilateral aid-giving. This aid is not tied; it tends to be given to the poorest countries – i.e., those most in need; and it is often given as grants, instead of loans. Thus this aid may be of higher quality than bilateral aid, but it is surely of less direct political utility to donor governments.

The puzzle concerning multilateral aid can thus be rephrased as one about why donor countries would be willing to exchange political influence for higher quality aid. Under what conditions does this exchange make sense for political leaders in donor countries? Some scholars, as noted above, have speculated that multilateral aid occurs because it is more effective or efficient. It can solve donor information problems, facilitate collusion among them, and/or make the conditionality of aid more effective and less political. If this is the case, then the puzzle is why isn't more aid given multilaterally; why just one-third of all aid? Why are rational leaders making inefficient choices two-thirds of the time? Clearly, leaders in donor countries perceive a loss from giving aid multilaterally, and hence optimize the allocation of it on the margin.

Under what conditions is giving aid through multilateral institutions an optimal choice for national governments? I argue that this choice is made to solve a domestic principal-agent problem. Like all government spending programs, foreign aid entails a delegation process from voters/taxpayers to elected governments to bureaucrats. In foreign aid the principal-agent problem is further exacerbated since the principals have very little information about the benefits they receive from their tax

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money spent on aid.<sup>4</sup> Aid goes to recipients in foreign countries who cannot vote in the donor country, and taxpayers in donor countries have little knowledge of how their tax dollars are spent in these foreign countries. The feedback link between spending and its benefits is broken in foreign aid. Hence voters in donor countries have to rely upon limited and biased information provided by their governments, whose agencies all have incentives to misrepresent aid's benefits. Voters know that governments have private information about aid, and they know that their agents have goals that differ from their own. They formulate beliefs about the benefits of foreign aid and gauge their willingness to pay for it relative to these benefits. When they are pessimistic about the value of aid, voters will not want to allocate money to the aid budget. Their agents thus need to find a way to reassure some voters at least. One way to do this is to give some portion of aid through a multilateral agency, which some voters at least believe to be a higher quality dispenser of aid. Hence as public opinion about foreign aid becomes more negative, executives are increasingly likely to channel more aid through multilateral organizations to reassure voters. Multilateral aid institutions thus can solve a principal-agent problem for donor countries.

The data here support this proposition. As public opinion vis-à-vis foreign aid becomes more negative, more aid is channeled through multilateral organizations. This result holds even when controlling for a wide variety of other factors. In sum, governments may delegate aid delivery to international institutions when their publics lack information about the consequences of aid and fear that their governments will deviate from their wishes concerning its use. By using the international organization to send aid, the government issues a credible signal about the use of foreign aid; the collective principal relationship to the multilateral agency allows it to be useful to national leaders. In this way, the presence of international institutions can make domestic as well as international actors better off by helping to solve a principal-agent problem in domestic politics. Political leaders in democracies will have greater motivations to create and maintain multilateral international institutions in these types of situations. As the introduction to this volume notes, multilateralism will be chosen when the benefits for principals outweigh the costs, but it should be remembered that these benefits can be largely domestic.