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Zurich** <sup>UZH</sup>

**Department for Political Science**

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# **When International Organizations delegate: The politics of earmarking European Union aid to multilateral aid institutions**

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## Research context

### The proliferation of multilateral funds

Explaining the shift towards non-core multilateral aid and related institutions

- Three universities



UNIVERSITÉ  
DE GENÈVE

UNIVERSITÄT  
HEIDELBERG



- Partners at research institutes, international organizations, donor ministries, and the Organization for Economic Cooperation and Development





## Summary

Research question	Is European Union aid to multilateral aid institutions more earmarked than other donor contributions? If so, why?
Theoretical contribution	Principal-agent theory: double-delegation model from European Union member states to the European Commission to multilateral institutions
Methods	Triangulation using document analysis, multivariate analysis, and survey evidence
Findings	<ul style="list-style-type: none"><li>▪ Earmarking of European Union aid has increased after enlargement.</li><li>▪ European Union member states tend to be the drivers of tighter earmarking.</li></ul>



## The puzzle

- Multilateral aid institutions (MAIs) and the gains from delegation (e.g., Rodrik 1995; Hawkins et al. 2006; Milner & Tingley 2010b)
- MAIs should receive unearmarked contributions to enable them to deliver aid in the most effective manner
- Yet anecdotal evidence indicates that the European Union strongly earmarks its multilateral outflows
- **Puzzle:** Why does the EU earmark its aid if it is only interested in effective development?



## The argument in a nutshell

- European Commission (EC), acting on behalf of its member states, faces an important tradeoff between **efficiency** and **control** (e.g., Sridhar & Woods 2012)
- Efficiency
  - Soft earmarking of MAIs: EC can deliver effective aid to ACP countries and to neighborhood countries – using their capacities
  - EC less subject to electoral pressure than sovereign donors
- Control
  - It is still EU member states deciding over EU aid budget
  - EC must reassure member states to spend aid budget according to their priorities



# The depth of earmarking of European Union aid is theoretically undetermined.

- Prediction on the depth of earmarking?
  - Depends on how the Commission balances the two conflicting objectives – **enhancing effectiveness** through less earmarking versus **signaling control** to its member states through more earmarking
  - Therefore theoretically undetermined



## Hypothesis I

- **European Union aid to multilateral aid institutions is more tightly earmarked the more heterogeneous the preferences among European Union member states.**
  - Number of EU member states
  - Post-enlargement dummy



## Hypothesis II

- **The European Union less earmarks its multi-bi aid in regions where it has little capacity and expertise.**
  - ACP region: EC with presence but little capacity
  - ENP region: EC with presence and more capacity



## Hypothesis III

- **As opposed to principal-driven earmarking, agent-driven earmarking is less for the EU than for sovereign donors.**
  - Principal-driven earmarking: decisions on the strategic allocation of aid with respect to regions and sectors, as well as regulations on how the Commission must manage its multi-bi aid
  - Agent-driven earmarking: issues of the aid program where the Commission has the ability to decide on restrictions on MAIs on its own



## Data and methods

- Quantitative analysis
  - Four years of CRS Activity data (OECD 2013b), focus on **multi-bi aid** (Eichenauer & Reinsberg 2013), manually coded the depth of earmarking, 24 OECD/DAC donors over 1995, 2000, 2005, and 2010
  - Linear regressions and negative binomial regressions on activity-level data
- Qualitative analysis
  - Document analysis
    - FAQ on EC engagement with MAIs
    - Co-financing and Trust Fund Framework Agreement of the World Bank with the EC
  - Interviews with World Bank staff knowledgeable on trust funds (TFs)
    - Concessional Finance and Partnerships VPU (CFPTO)
    - Regional units and sector units → users of TFs



## Key variables

- Main dependent variable: Additive index of earmarking
  - $y = \text{THM} + \text{PRJ} + \text{REG} + \text{CTY} + \text{STAFF} + \text{INST}$
  - Alternative dependent variables for robustness checks
    - Vertical earmarking (by theme or even by project)
    - Horizontal earmarking (by region or even by country)
    - Institutional earmarking
    - Staff secondment
- Key predictors
  - EU dummy
  - Post-enlargement dummy [H1] – interacted with EU dummy
  - Number of EU members [H1] – interacted with EU dummy (we are working on a more direct measure of preference heterogeneity)
  - Dummies on ACP and ENP [H2]



## Control variables

- Project-specific control variables
  - Income group of recipient
  - Region
  - Sector
  - Project size
- Donor-specific control variables
  - Small donor
  - Donor share of bilateral aid
  - ODA/GDP
- Characteristics of the multilateral aid institution
  - Thematically narrow MAI
  - Geographically narrow MAI
  - Hybrid multilateral
  - UN family
- Year effects always included as global control



## Results from multivariate analysis

Hypothesis	Result in main specification	Is it robust?
Preference heterogeneity	<ul style="list-style-type: none"><li>EC aid significantly more earmarked in the year 2010 than in other years</li><li>EC aid more earmarked when EU has more members (not explained by time effect)</li></ul>	Yes
Expertise and capacity	EC aid tends to be less earmarked in ACP and ENP, but not significant (EC not significantly different from others)	Model-dependent
Principal-driven earmarking	<ul style="list-style-type: none"><li>EU aid is more earmarked when earmarking can be imposed by EU member states</li><li>EU aid is less earmarked when earmarking is under the control of the EC</li></ul>	Yes



## Results from qualitative analysis

Hypothesis	Results
Expertise and capacity	Supported. (e.g. where it lacks expertise, “[t]he EC uses TFs to scale up a good program”; but in its own neighborhood, it earmarks more to fill critical gaps)
Principal-driven earmarking	Supported. (i.e. burdensome financial regulation and notional earmarking in MDTFs driven by member states)



## Conclusion

- When international organizations delegate: tradeoff between efficiency and control → depth of earmarking theoretically undetermined
- Preference heterogeneity in the level-I principal increases earmarking
- Level-I principal drives the agent to impose more tight controls on the multi-bi aid program
- Generalizable to other situations of double delegation



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**Thank you very much for your patience.**

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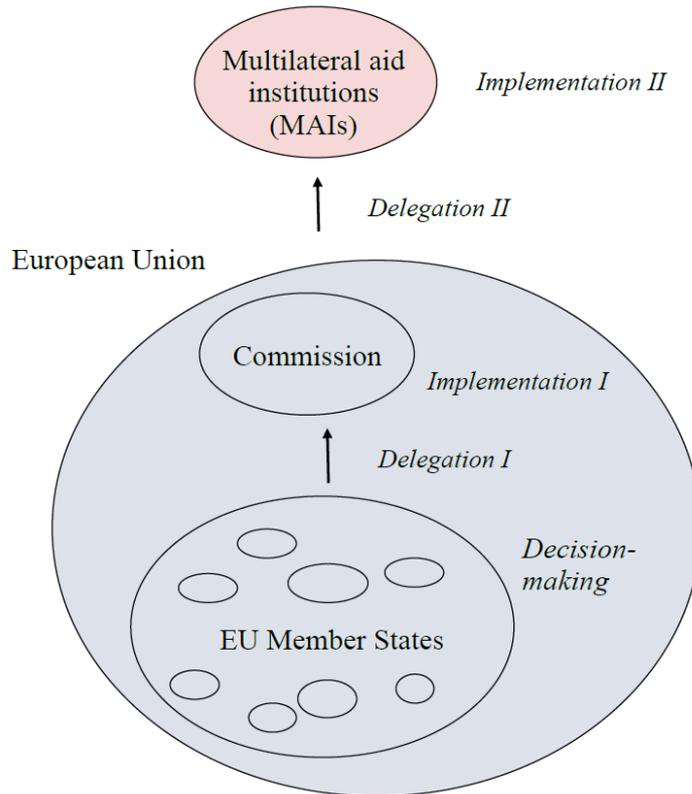
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**Backup slides**



## European Union aid: a double delegation model



### Different aid mechanisms in the European Union

- Assessed contributions from EU member states to the EU budget
- Voluntary contributions via the European Development Fund (EDF)



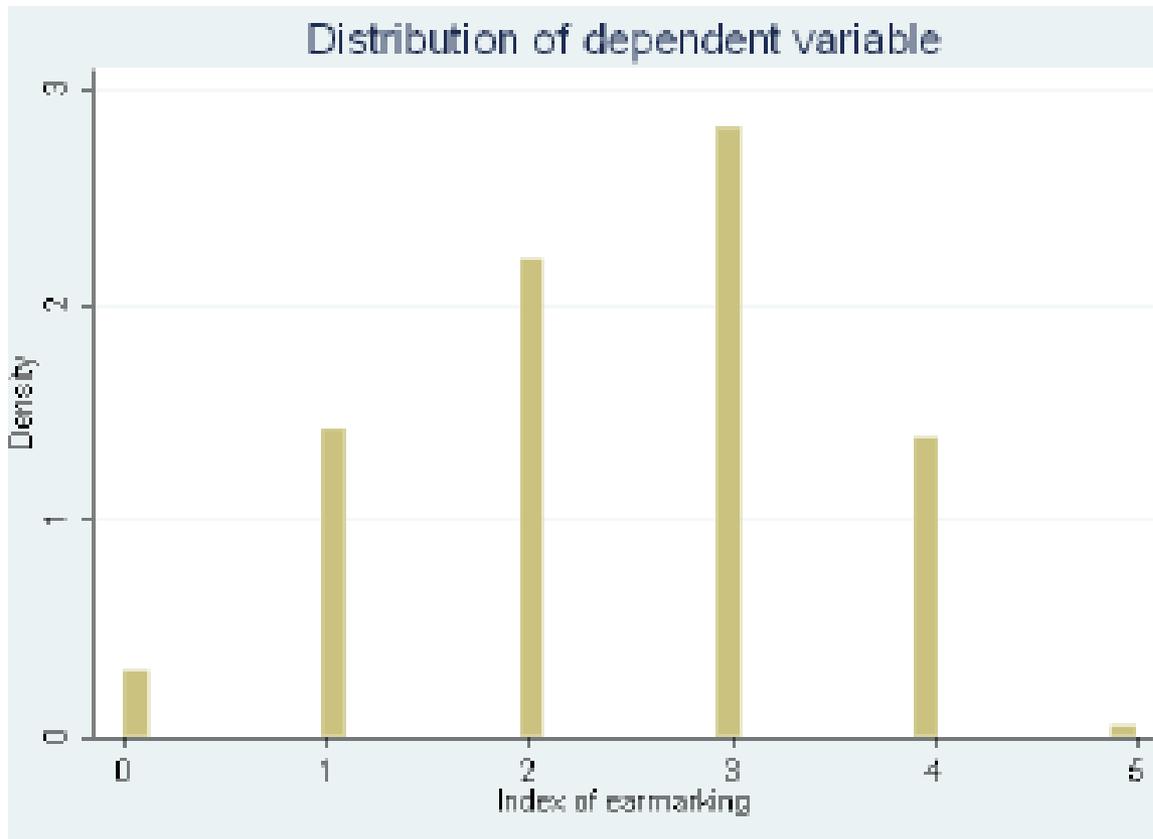
## A glance at the data set

- CRS Aid Activities → focus on multi-bi aid
- Depth of earmarking indicated by a battery of dummy variables to the right of the brown-shaded column

year	donorname	recipientname	sectorcode	s	t	l	channelcode	channelname	CHANNEL1	CF	CF	THM	PRJ	REG	CTY	INST	STAFF	STAFF	HUM	EM	UNEM	TF	SDTF
1996	Austria	Algeria	152	UN PEACE MI	UN-MISSION, FRIEDENSERHALTENDE OPERATION MIN				41310	.	.	0	0	0	1	0	0	0	0	0	0	0	.
1996	Austria	Algeria	930	AID TO ASYL	BUNDESBETREUTE ASYLWERBER (4 PERSONEN)																		
1996	Austria	Algeria	520	FOOD SECUF	NAHRUNGSMITTELHILFEÜBEREINKOMMEN: 1000 T GETREIDEÄQUIVALENT																		
1996	Austria	Angola	930	AID TO ASYL	BUNDESBETREUTE ASYLWERBER (4 PERSONEN)																		
1996	Austria	Angola	114	Higher education																			
1996	Austria	Argentina	114	Higher education																			
1996	Austria	Argentina	114	Higher education																			
1996	Austria	Argentina	114	IMPUTED STU	INDIREKTE STUDIENPLATZKOSTEN																		



## Distribution plot





## No unconditional EU effect

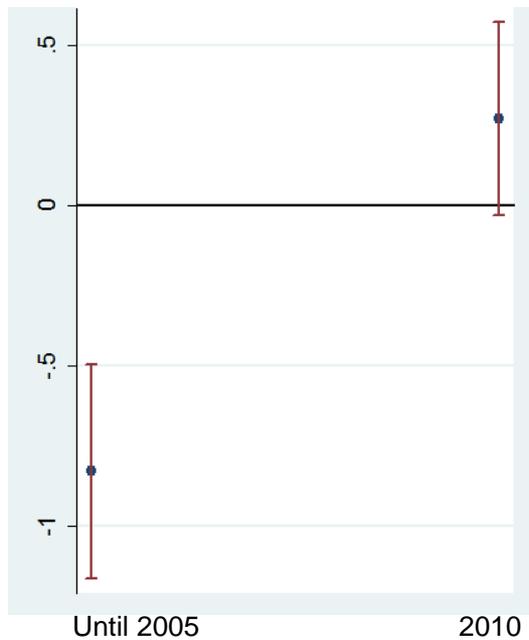
	1	2	3	4
<b>EU dummy</b>	0.23 (0.16)	-0.07 (0.15)	0.00 (0.16)	0.00 (0.15)
<b>Low-income country</b>		0.38*** (0.09)	0.34*** (0.09)	0.36*** (0.09)
<b>Lower-middle income country</b>		0.24** (0.10)	0.20** (0.09)	0.26*** (0.10)
<b>Upper-middle income country</b>		-0.22 (0.14)	-0.23* (0.13)	-0.13 (0.14)
<b>Small donor</b>			-0.25*** (0.08)	-0.24*** (0.06)
<b>Bilateral aid as of total aid</b>			-0.31* (0.19)	-0.38** (0.16)
<b>ODA/GDP of donor</b>			12.27** (5.59)	13.10** (5.12)
<b>Vertical fund</b>				-0.45*** (0.10)
<b>Regional focus</b>				-0.34*** (0.11)
<b>Hybrid multilateral</b>				-0.23 (0.19)
<b>UN family</b>				0.10* (0.05)
<b>Project size</b>		-0.00 (0.00)	-0.00 (0.00)	-0.00** (0.00)
<b>_cons</b>	2.42*** (0.11)	1.75*** (0.15)	1.96*** (0.20)	1.94*** (0.20)
<b>R<sup>2</sup></b>	0.05	0.62	0.63	0.65
<b>N</b>	9775	9775	9567	9563

Control variables included but not shown: year effects, region effects, income group, sector effects.  
 Robust standard errors. Significance levels: \* p<0.1 \*\* p<0.05 \*\*\* p<0.01.  
 Dependent variable: index of earmarking (y1).

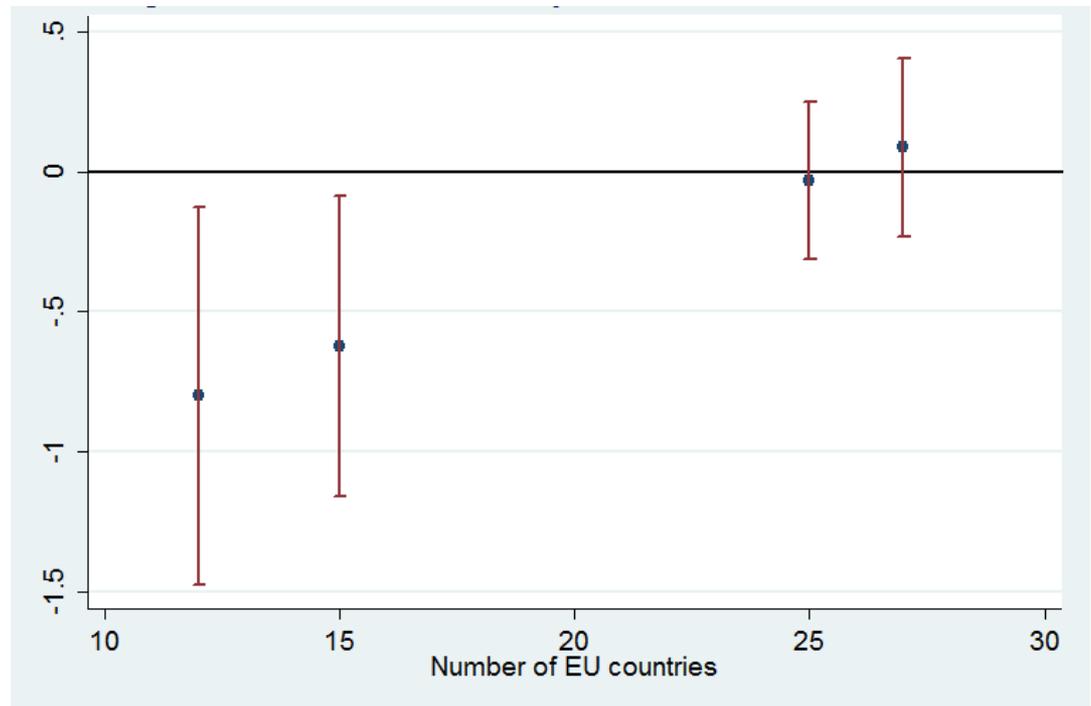


# Hypothesis I: Marginal effect of EU dummy conditional on EU preference heterogeneity

Post-enlargement



Number of EU members





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	1	2	3	4
<b>EU dummy</b>	-1.76***	-2.15***	-2.12***	-1.51**
	(0.57)	(0.66)	(0.66)	(0.65)
<b>N(EU)</b>	-0.04***	-0.01**	-0.01*	-0.01
	(0.01)	(0.01)	(0.01)	(0.01)
<b>EU * N(EU)</b>	0.08***	0.08***	0.08***	0.06**
	(0.02)	(0.03)	(0.03)	(0.03)
<b>Low-income country</b>		0.40***	0.36***	0.38***
		(0.10)	(0.09)	(0.09)
<b>Lower-middle income country</b>		0.26**	0.23**	0.28***
		(0.10)	(0.10)	(0.10)
<b>Upper-middle income country</b>		-0.17	-0.17	-0.10
		(0.14)	(0.13)	(0.14)
<b>Small donor</b>			-0.26***	-0.25***
			(0.08)	(0.06)
<b>Bilateral aid as of total aid</b>			-0.38**	-0.43***
			(0.19)	(0.17)
<b>ODA/GDP of donor</b>			12.28**	13.13***
			(5.52)	(5.07)
<b>Vertical fund</b>				-0.42***
				(0.10)
<b>Regional focus</b>				-0.32***
				(0.11)
<b>Hybrid multilateral</b>				-0.26
				(0.19)
<b>UN family</b>				0.09*
				(0.05)
<b>Project size</b>		-0.00	-0.00	-0.00**
		(0.00)	(0.00)	(0.00)
<b>_cons</b>	2.90***	1.91***	2.14***	2.09***
	(0.22)	(0.20)	(0.24)	(0.24)
<b>R<sup>2</sup></b>	0.05	0.62	0.63	0.66
<b>N</b>	9775	9775	9567	9563

Robust standard errors. Significance levels: \* p<0.1 \*\* p<0.05 \*\*\* p<0.01  
 Dependent variable: index of earmarking (y1). Control variables as before, not shown.  
 N(EU) indicates the number of EU member countries (lagged by one year).



	1	2	3	4
<b>EU dummy</b>	-0.62*** (0.22)	-1.03*** (0.18)	-0.94*** (0.19)	-0.83*** (0.17)
<b>T</b>	-0.58*** (0.15)	-0.22** (0.09)	-0.18* (0.09)	-0.15 (0.09)
<b>EU × T</b>	1.11*** (0.28)	1.23*** (0.24)	1.24*** (0.24)	1.10*** (0.22)
<b>Low-income country</b>		0.40*** (0.10)	0.36*** (0.09)	0.37*** (0.09)
<b>Lower-middle income country</b>		0.22** (0.10)	0.19** (0.09)	0.24** (0.10)
<b>Upper-middle income country</b>		-0.21 (0.14)	-0.22* (0.13)	-0.13 (0.13)
<b>Small donor</b>			-0.26*** (0.07)	-0.25*** (0.06)
<b>Bilateral aid as of total aid</b>			-0.44** (0.18)	-0.49*** (0.17)
<b>ODA/GDP of donor</b>			11.91** (5.49)	12.87** (5.02)
<b>Vertical fund</b>				-0.42*** (0.10)
<b>Regional focus</b>				-0.25** (0.10)
<b>Hybrid multilateral</b>				-0.25 (0.18)
<b>UN family</b>				0.10** (0.05)
<b>Project size</b>		-0.00* (0.00)	-0.00** (0.00)	-0.00*** (0.00)
<b>_cons</b>	2.44*** (0.11)	1.73*** (0.16)	2.02*** (0.20)	1.99*** (0.20)
<b>R<sup>2</sup></b>	0.06	0.64	0.64	0.67
<b>N</b>	9775	9775	9567	9563

Robust standard errors. Significance levels: \* p<0.1 \*\* p<0.05 \*\*\* p<0.01

Dependent variable: index of earmarking (y1). Independent variable *T* is a dummy for the year 2010. Control variables as before, not shown.



	1	2	3	4
<b>EU dummy</b>	-0.17 (0.18)	-0.05 (0.16)	0.10 (0.17)	0.14 (0.18)
<b>ACP country</b>	-0.19 (0.19)	-0.14 (0.10)	-0.09 (0.11)	-0.14 (0.11)
<b>EU × ACP country</b>	0.14 (0.25)	-0.32 (0.25)	-0.33 (0.24)	-0.32 (0.25)
<b>ENP country</b>	0.24 (0.17)	0.08 (0.10)	0.09 (0.10)	0.11 (0.10)
<b>EU × ENP country</b>	-0.05 (0.26)	-0.11 (0.24)	-0.12 (0.25)	-0.16 (0.25)
<b>Fragile country</b>		-0.15*** (0.05)	-0.14*** (0.05)	-0.12** (0.05)
<b>Low-income country</b>		0.30*** (0.08)	0.28*** (0.07)	0.26*** (0.07)
<b>Lower-middle income country</b>		0.31*** (0.08)	0.29*** (0.07)	0.30*** (0.07)
<b>Upper-middle income country</b>		0.13 (0.13)	0.13 (0.12)	0.15 (0.12)
<b>Small donor</b>			-0.13* (0.07)	-0.14** (0.07)
<b>Bilateral aid as of total aid</b>			-0.27 (0.21)	-0.32 (0.21)
<b>ODA/GDP of donor</b>			13.88** (6.16)	14.25** (5.90)
<b>Vertical fund</b>				-0.36*** (0.08)
<b>Regional focus</b>				0.13 (0.10)
<b>Hybrid multilateral</b>				0.44** (0.17)
<b>UN family</b>				-0.04 (0.07)
<b>Project size</b>		-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
<b>_cons</b>	3.27*** (0.13)	3.81*** (0.21)	3.42*** (0.22)	3.98*** (0.26)
<b>R<sup>2</sup></b>	0.14	0.51	0.52	0.53
<b>N</b>	5613	5613	5481	5478

Robust standard errors. Significance levels: \* p<0.1 \*\* p<0.05 \*\*\* p<0.01.  
 Dependent variable: index of earmarking (y1). Controls as before, not shown.



## Hypothesis III

	Principal earmarking	Principal earmarking	Agent earmarking	Agent earmarking
	b/se	b/se	b/se	b/se
<b>EU dummy</b>	0.21*** (0.06)	0.15*** (0.05)	-0.05*** (0.01)	-0.09*** (0.02)
<b>Low-income country</b>		0.21*** (0.07)		0.09** (0.04)
<b>Lower-middle income country</b>		0.22*** (0.07)		0.10*** (0.04)
<b>Upper-middle income country</b>		0.28*** (0.08)		0.09** (0.05)
<b>Project size</b>		0.00*** (0.00)		-0.00*** (0.00)
<b>_cons</b>	0.52*** (0.05)	0.68*** (0.09)	0.24*** (0.04)	0.07 (0.06)
<b>R<sup>2</sup></b>	0.09	0.40	0.03	0.12
<b>N</b>	9807	9807	9807	9807

Robust standard errors. Significance levels: \* p<0.1 \*\* p<0.05 \*\*\* p<0.01.

Dependent variable: index of earmarking (y1). Not shown controls by year, income, region, and sector, as before



	(1) $y_1 \rightarrow H_1$	(2) $y_1 \rightarrow H_1$	(3) $y_1 \rightarrow H_2$
EU dummy	-0.35*** (0.10)	-0.62* (0.32)	0.05 (0.06)
T	-0.08** (0.04)		
EU × T	0.50*** (0.11)		
N(EU)		-0.01* (0.00)	
EU × N(EU)		0.03* (0.01)	
Fragile country			-0.05** (0.02)
ACP country			-0.05 (0.04)
EU × ACP country			-0.11 (0.09)
ENP country			0.04 (0.03)
EU × ENP country			-0.05 (0.08)
Low-income country	0.12*** (0.04)	0.12*** (0.04)	0.09*** (0.03)
Lower-middle income country	0.09** (0.04)	0.11*** (0.04)	0.10*** (0.03)
Upper-middle income country	-0.10* (0.06)	-0.09 (0.06)	0.05 (0.04)
Small donor	-0.12*** (0.04)	-0.13*** (0.04)	-0.04** (0.02)
Bilateral aid as of total aid	-0.26*** (0.09)	-0.23*** (0.08)	-0.10 (0.07)
ODA/GDP of donor	5.93** (2.47)	6.09** (2.49)	4.76** (1.96)
Vertical fund	-0.28** (0.12)	-0.29** (0.12)	-0.13*** (0.03)
Regional focus	-0.12** (0.05)	-0.15*** (0.05)	0.04 (0.03)
Hybrid multilateral	-0.40 (0.31)	-0.39 (0.31)	0.15*** (0.06)
UN family	0.03 (0.03)	0.03 (0.03)	-0.01 (0.02)
Project size	-0.00*** (0.00)	-0.00** (0.00)	-0.00 (0.00)
cons	0.74*** (0.10)	0.80*** (0.12)	1.21*** (0.07)