

Why Multilateralism?
Foreign Aid and Domestic Principal-Agent Problems

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Abstract: Why do countries delegate the distribution of foreign aid to international institutions? Specifically, why have the advanced industrial countries 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)? The delegation of aid provision to an international institution is puzzling. Why would governments relinquish control over their aid if they are a useful instrument of statecraft? Governments 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 preferences concerning its use. By using the international organization to send aid, the government issues a credible signal to voters about the use of foreign aid. This signal leaves all actors better off by helping to solve a principal-agent problem in domestic politics. When publics are more 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. Using data on about 20 donor countries of the OECD from 1960-2000, I investigate the sources of multilateral giving, showing that public opinion has the expected negative relationship to multilateral aid-giving.

I. Introduction.

Why do countries sometimes use multilateral strategies and institutions for pursuing their foreign policies? Here I explore why countries delegate the distribution of their foreign aid to international institutions. Since World War II 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 won foreign policy and has the potential to increase the principal-agent problems associated with all spending programs. The other choice that these countries had was to use the bilateral provision of aid, 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 the traditional bilateral channels.¹

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 Group 2001). For the poorest who cannot afford even these rates, the bank makes interest-free credits available through its other arm. The International

¹ . 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.

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 2001). Donors must agree to replenish this money every three years. And it supplies only about 25% of total World Bank aid funds. In addition to these organizations, the EU, UN, and the RDBs provide substantial aid funds yearly.² For 1999, the EU's total commitments approached €8 billion (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's needs or of donor's 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? The former suggests that aid should be directed at the poorest countries with the largest needs for assistance. The latter suggests that domestic politics in the donor will shape how much aid is given to whom and that foreign policy goals, such as containing communism, maintaining a sphere of influence, and supporting countries with strategic importance or with large concentrations of bilateral trade or capital flows, will be central in the aid giving process.³

² . 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.

³ . Note that the latter motivation can be broken down into two components: a realist one that focuses on foreign policy goals and a more Marxist one that emphasizes economic interests.

A large part of the literature finds that donor interests seem to better explain the nature and allocations of aid given (e.g., Alesina 2000; Dudley 1976; Maizels 1984; McKinlay 1977; McKinlay 1978; Burnside and Dollar 2000).⁴ Much of this literature shows that the neediest countries did not receive the most aid and that much aid was 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), provides the 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

⁴ . Countries, of course, are often seen to differ in their motivations: the US 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 1976; McKinlay 1979; McKinlay 1977; McKinlay 1978; Schraeder, Hook, and Taylor 1998).

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. These reasons would seem to make multilateral aid preferable in almost all conditions, leading to the prediction that it should inexorably supplant bilateral aid. But this has not occurred; most aid is still given bilaterally.⁵ 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 the first 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

⁵ . Only 12% of all of my country-year observations for the percent of multilateral aid committed relative to total aid are greater than 50%. The median amount of multilateral aid committed relative to total aid is about 32%, meaning that bilateral aid giving is the norm.

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. 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.

This paper 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 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.

II. 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 WWII 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 US in late 1990s, for instance, only 25% of its aid was multilateral; it is greater than that for many EU countries (as table 1C shows). It is just that since the 1960s the OECD countries have chosen to do both; they 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. 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 the country and the actions of its agent, the international institution. As Barnett and Finnemore (1980: 705-6) note, this implies that the international organization in this context be treated as an autonomous agent with its own preferences that may differ from those of its principals. One expects that these

institutions would like to see their resources grow; hence they always prefer that more aid be donated by their members, and they prefer more aid with fewer strings attached to it. Both the international institution and the donor may desire that aid is given most effectively, but what constitutes effectiveness may differ greatly between the principal and agent. And this difference may drive a wedge between the two actors.

Second, in a multilateral setting the principal-agent problem becomes even more acute. With multiple principals trying to direct an international institution, it is likely that the slippage between the goals of each country and the institution's final output is even larger. 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 US has an effective veto, it still cannot decide aid matters on its own in this forum; it must compromise with the other principals, a fact which would seem to give the Bank as the agent greater latitude. The puzzle is then why delegate this foreign policy tool to an international institution and to one that has collective principals?

The OECD countries are a diverse set of principals with regard to foreign aid provision. That is, they seem to 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 wide variety of countries with limited attention to their political alliances; in contrast, the US 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% of the GDP in 2000; the US gave only 0.1% 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 these 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) show, if collective principals 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 discretion. The point is that each OECD country is losing control over aid policy by delegating to a multilateral international institution. Why have they chosen to do this? If they are rational, it must be the case that the benefits of multilateral aid outweigh these costs for the donors.

As figure 1 shows, the average commitment of aid to multilateral organizations by OECD has varied over time.⁶ As a percentage of total aid, it appears to have risen in the

⁶ . 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 their lose their

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.⁷ What accounts for this longitudinal pattern? It is also the case that countries change the amount that they delegate to multilateral organizations over time. A simple regression for each donor country on its percent of total aid given multilaterally shows that for six countries this proportion is rising over time, while for nine countries it is falling over the period.⁸ Interestingly, for some of the largest donors multilateral aid appears to be falling, while for the smallest ones it is a rising percent of their aid allocations.

Tables 1A-C rank the donor countries by their percentage of aid given through multilateral organizations roughly once each decade. It shows that countries not only give quite different amount of their aid multilaterally, but that over time this percentage is changing for each one of them. For example, France starts off in 1967 giving the least proportion of its aid through multilateral organizations, a mere 6.2%. This amount more than tripled to roughly 22% by 1980, still leaving France as one of the least multilateral. Throughout the 1980s and 1990s, France's percent rises to around 25%, still ranking her in the bottom third of all multilateral donors. Interestingly, Italy went from being in the bottom half of multilateral donors in the 1960s to being the biggest multilateral donor by

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)

⁷ . 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 similar pattern, being correlated at about 0.85 with commitments. Later I discuss why I use commitments here. An earlier paper (Milner 2003) does the same analysis but for gross disbursements; the results are similar.

⁸ . The coefficient on date (a counter for the year) is positive and significant for Australia, Belgium, France, Germany, Italy, and the UK. It is negative and significant for Austria, Denmark, Greece, Ireland, Luxembourg, Norway, Portugal, Sweden and Switzerland. The US, Netherlands, Japan, Finland, Canada, New Zealand and Spain have insignificant results, while there are too few observations for Turkey, South Korea, Poland, the Czech and Slovak Republics. Germany is treated as two countries: West Germany until 1990 and then Germany.

the 1980s. This cross-national and longitudinal variation in multilateralism is the puzzle motivating this inquiry.⁹

III. An Answer: The Benefits of Multilateral Aid for Donor Countries.

Most authors seem to agree that multilateral giving will be of a different type 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. 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 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

⁹ . The percent of aid committed multilaterally is not the only way to measure a country's multilateral aid effort. This percentage implicitly assumes that bilateral and multilateral aid are in a trade-off; they are pure substitutes. But it could be that they are complements. If both are rising since the overall aid budget is rising, then this percentage only reflects the fact that one is growing faster than the other. Hence if the aid budget is rising and both are increasing but bilateral aid for some reason is growing faster than multilateral, this percentage will fall. This fact might create the impression that multilateral effort is falling, when in fact it is rising. In this case, another measure of multilateral aid effort could be preferred. This is the percent of multilateral aid relative to total GDP.

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 economic development, but was never able to persuade any government of this (Balogh 1967: 328-9). This provides our central puzzle.¹⁰ Why are countries sometimes willing to give up control over the recipients and forms of aid?

The delegation literature provides us with several possible answers to this question. As Bendor, Glazer, and Hammond (2001) note, the problem of delegation arises in its most difficult form when both principal and agent have incentives to defect. The general problem for principal-agent models is that principals cannot perfectly monitor their agents nor construct complete long-term contracts to control their behavior, agents know this and hence can get away with behavior that is not in the principal’s interest. This leads the principal to prefer not to delegate to the agent, but this poses large costs for the principal if he has to undertake the activity himself. The principal may not have the time, expertise, information or political capacity to perform the task successfully. The principal thus has to decide whether the costs of doing it himself outweigh the losses from delegation. The pareto-optimal outcome is (delegate, work), but when both have incentives to defect the prisoner’s dilemma outcome of (control, shirk)

¹⁰ . 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.

occurs. This is the most difficult game; if neither prefers to defect or if only one does, then successful delegation is more likely. In other words, if multilateral institutions are simply better at distributing aid and donor governments know this, then there is no real puzzle. There remains an empirical puzzle, however, in this case. If the cooperative outcome (delegate, work) is a Nash equilibrium, then 1.) why do countries still give the majority of their aid bilaterally, and 2.) why have countries in the past never delegated this function internationally?

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.

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% 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 US a Gallup poll for 2000 showed that 47% desired to reduce foreign aid, while 49% 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. In the foreign aid domain, additional links in this chain arise. Foreign aid is sometimes given to aid suppliers who then make further decisions about how aid is spent, and/or foreign governments with their elected representatives and bureaucracies become elements in this principal-agent chain. 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 of aid but then passes on to its agents the actual implementation of these decisions.

As Martens et al. (2002: 14) 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 suboptimal 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.

Consider a simple game between voters in the public 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 and give campaign contributions. Halliburton, for example, is a main aid distributor in Iraq these days. 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 points out that the DAC has four quality targets for donor countries (Hoadley 1980). First, grants are preferred to loans; roughly 84% of ODA is supposed to be grants, instead of loans. Second, DAC members should give at least 90% of this grant aid to the worst off countries. Third, donors should

give less aid that is tied to donor purchases.¹¹ 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 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% 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 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

¹¹ . "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)

to any single donor's self-interest and are surely less commercial. Multilateral aid is going to be closer to the public's preferences.

Using a game similar to Martens et al. (2002: 160-61), we can see why this principal-agent game between the public and the executive may lead to some level of multilateral aid giving. Donor citizens must pay taxes to their government for spending programs. Total taxes, T , are then spent on various spending projects, T_i , including foreign aid, T_a . All spending programs have preference targets, B_i , which when attained bring benefits for the public. The public's consumer surplus then is the difference between the benefits of the program and its tax costs ($B_i - T_i$). The direct domestic beneficiaries of the program, the special interest groups who supply the aid for instance, reap profits depending on their opportunity costs of supply. The elected government must take both of these factors, as well as its own foreign policy preferences, into account when deciding on the optimal allocation of spending.

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.¹² The information about the performance of aid spending is private information held by the government; that is, publics have a hard time knowing

¹² . The government and its challengers offer voters different levels of taxes and distributions of their taxes among programs during the elections; once a government is elected, it implements this level and distribution. In the next period, voters then vote for or against the incumbent on the basis of their preferences about taxes and spending. Governments who are viewed as offering too much foreign aid lose support in the next election period.

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 (McDonnell 2003: 30) claims, “more than other policies, international development co-operation 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.”

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. (1998: 23) 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.’”

Voters can affect the overall level of government spending, T , and the distribution of spending among public programs, T_i . Voters can choose among candidates who offer different levels of taxes and different distributions of spending programs in their electoral

programs. Incumbent executives have the ability due to principal-agent problems to mislead voters into believing the benefits of programs are higher than they really are. Voters know this and will either seek independent evaluations of these benefits or will choose lower levels of taxes to pay for them. For domestic programs, voters can often find good information independent of governments; their own experiences and a free press in the donor country can provide these. But for foreign aid, as noted above, these feedback mechanisms are lacking. Recipient countries may be far away and may not have anything like a free press. Knowing this, voters will tend to believe that benefits of aid are small (always smaller than what their government says) and thus that their tax allocation to aid should be small(er) as well.

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, Milner and Rosendorff (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 organization 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 percent 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 others areas of politics (Lupia 1992 & 1994; Lupia and McCubbins 1994; Milner and Rosendorff 1996; Milner 1997; Grossman and Helpman 2002). 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 (i.e., they believe the benefits from aid, B_a , are small), 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 (i.e., they believe B_a is large), governments will have to do less to reassure them and aid will 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 countries here, especially the Scandinavian ones, international organizations are seen very favorably and are often preferred as a means of foreign policy to purely domestic institutions. Multilateral organizations for aid giving are thus often seen as better aid providers than their own governments for a variety of reasons. Multilateralism thus may be an appealing strategy for governments who face credibility problems with their own voters.

The main hypothesis to be examined 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.

IV. Empirical Analysis.

What factors account for the amount of aid that countries give to multilateral organizations relative to their total aid budgets? Why does this percent vary over time and across countries? To address this question, I will examine the data on total multilateral commitments of ODA flows as a percent of total ODA commitments per country-year (OECD 2001) (see <http://www.oecd.org/dac/stats/>). The data here are for commitments, not disbursements. Given our model, the commitments data—i.e., what countries have decided to provide each year-- is preferable, since actual disbursements depend on conditions in both the donor and recipient. I have data for 27 DAC countries, with 16 of them having data for all forty years from 1960-2000. 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. I explore what factors lead to changes in the amount of multilateral aid committed as a percent of total aid that donors decide to commit in each year.

The literature discussion above suggested a number of hypotheses that one must control for 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 be have some impact.¹³ Smaller countries 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. It should be notes that trade dependence is highly correlated with both population and GDP. 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 percent of GDP (GOV EXP) should be positively related to multilateralism then. All data for these variables comes from the World Bank's World Development Indicators.

In addition, features of the international system at any point in time 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 US could be expected to enforce the multilateral rules and punish free riding. Declining US hegemony then would be expected to undermine multilateral

¹³ . 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.

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).¹⁴ As discussed above, the Cold War should intensify Western countries' cooperation in aid promoting multilateral aid. It should be positively related to the percent 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 percent 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 (EU, or previously, the European Community, EC) 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. One expects then a positive relationship between being a member of the EU and giving multilateral aid.

In terms of domestic politics, the discussion above and the model suggest 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 (1993) makes this argument explicitly about the

¹⁴ . 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.

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 were concerned with idealistic causes" (Lumsdaine 1993: 139). These parties and their constituents may have a greater interest in helping the poor and using government to do so. Lumsdaine again shows that voters on the left of the ideological scale were more likely to support foreign aid than were those on the right (1993: 143). 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). 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.

To directly 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 percent saying the right amount plus the percent saying too little are added together and then from this I subtract the percent 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 US, Canada, Japan, Australia, and Norway.¹⁵ A composite measure of favorable attitudes toward aid was 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 (OPINION1) 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

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

years in between where no survey was performed, data was added by using two different methods. First, the last value available was used for all intervening years (OPINION2). Second, a linear extrapolation was used to fill in values for intervening years (OPINION3). 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 possible). 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 percent of total commitments are simply changing because total ODA is changing; that is, the denominator is changing and not the numerator. The measure of total ODA commitments as a percent of GDP (TOTAL COMMIT) for each country in each year is examined as well.¹⁶

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 forty 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,

¹⁶ . I also examined just total commitments of ODA, not the percent. The results do not differ from those reported below.

including country fixed effects and a lagged dependent variable for estimation. Table 2 presents the summary statistics for all the variables used.

Tables 3a and 3b presents the results from these regressions for OPINION1, which contains only the original data on public opinion. 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. This result suggests that 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.¹⁷

The impact of the international system seems limited. American hegemony, measured either as a percent 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;

¹⁷ . This negative relationship does not disappear if one eliminates partisanship either. The correlation between them is surprisingly low and positive ($r=.10$).

although always positive, it was never significant.¹⁸ The structure of world politics seemed to play little role in conditioning aid-giving. Multilateralism was not driven in this area by the dynamics of the international system. 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. Overall, this result remains robust and puzzling.

My hypothesis about public opinion is supported strongly by the data. The regressions using public opinion in table 3 show that it has the anticipated impact.¹⁹ This result occurs with all three versions of the public opinion variable, as can be seen from

¹⁸ . 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.

¹⁹ . 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 co-operation, 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 departments and actors in the public domain appear to be much more influential factors." Preliminary data suggest this is not the case.

tables 3a and 3b and 4a and 4b. 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 3a and 3b do not depend on the version of the public opinion variable used; tables 4a and 4b replicate these results using an interpolated version of the public opinion data, OPINION3, which linearly imputes data for public opinion. The results here are very similar to those in tables 3a and 3b. 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, OPINION2, which simply uses the last value for all periods in between two surveys, the results obtained are virtually identical to those in tables 4a and 4b.²⁰ 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 3a and 3b and 4a and 4b, 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

²⁰ . This data is available from the author.

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 3b and 4b 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.

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 wrath, 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.

V. Conclusions.

This paper 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-third 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. As noted above, the cost is a loss of direct political influence over whom the recipient is and what he must do to continue receiving aid.

The question thus is 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 money spent on aid. 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 credible way to signal the high(er) value of aid. One way to do this is to give some portion of aid through a multilateral agency, which voters know to be a high(er) 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 solve a principal-agent problem, whether moral hazard or adverse selection, for donor countries.

The data here supports 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 terms of economic variables, bigger countries (larger population), wealthier ones (higher per capita GNP), and ones that have higher government spending give less multilateral aid. The international environment seems to exert little systematic influence over this choice. American hegemony and the extent of Cold War competition have no discernible effect on the choice of multilateral aid provision. Domestic factors seem to matter more. The past levels of multilateral aid given were significant influences on current multilateral aid flows. Partisanship had significant influence. More left-wing governments gave less

multilateral aid, thus calling into question the relationship between partisanship and foreign aid in general.

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 to voters about the use of foreign aid. This signal leaves all actors better off. 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 democratic politics. Political leaders in democracies will have greater motivations to create and maintain multilateral international institutions in these types of situations.

Multilateral Commitments as % Total ODA Commitments

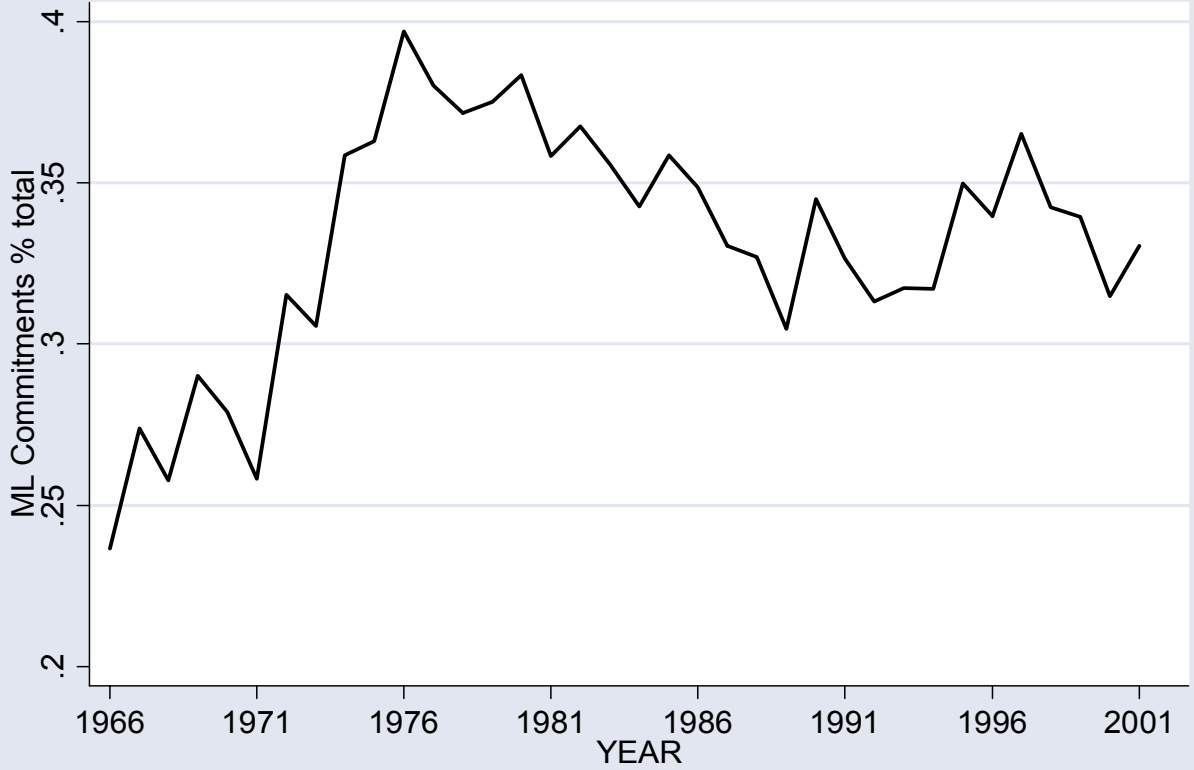


Table 1A: Rank of Countries by Multilateral % of Aid Commitments, 1967

Country	% ML AID to Total
Norway	62.3%
Switzerland	60.8%
Sweden	59.4%
Denmark	39.4%
Belgium	24.8%
Austria	23.4%
Netherlands	22.8%
Canada	22.2%
West Germany	19.1%
United States	15.3%
Italy	14.3%
United Kingdom	12.6%
Japan	10.0%
Australia	9.7%
France	6.2%

Table 1B: Rank of Countries by % of Multilateral Aid Committed, 1980

Country	% ML AID to Total
Italy	89.5%
Ireland	67.7%
Canada	52.4%
Denmark	50.5%
Norway	45.1%
United Kingdom	40.4%
Austria	37.7%
Finland	36.1%
Belgium	34.1%
New Zealand	31.4%
Sweden	28.9%
Switzerland	25.9%
Australia	25.7%
West Germany	25.7%
Japan	24.0%
Netherlands	22.9%
France	22.7%
United States	16.8%

Table 1C: Rank of Countries by % of Multilateral Aid Committed, 1998

Country	% ML AID to Total
Greece	64.7%
Italy	62.7%
Denmark	50.9%
United Kingdom	41.1%
Finland	40.4%
Germany	39.9%
Belgium	38.3%
Ireland	37.8%
Norway	35.3%
Spain	32.9%
Luxembourg	32.7%
Canada	31.7%
Portugal	31.6%
Netherlands	30.4%
United States	28.8%
Austria	27.8%
Australia	26.7%
Sweden	24.8%
New Zealand	23.2%
France	23.0%
Switzerland	17.2%
Japan	11.5%

Table 2: 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

Table 3A: Multilateral Commitments as % Total ODA Committed & OPINION1

Dependent Variable:	ML PC				
	(1)	(2)	(3)	(4)	(5)
OPINION1	-0.0005***	-0.0005***	-0.0005**	-0.0005***	-0.0005***
	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(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	0.0113	0.0025	-0.0704	-0.0575
	(0.1368)	(0.1487)	(0.1366)	(0.1353)	(0.1390)
GOV EXP	-0.0068*	-0.0067*	-0.0079*	-0.0068*	-0.0068*
	(0.0040)	(0.0040)	(0.0044)	(0.0041)	(0.0041)
PARTISAN	0.0208***	0.0223***	0.0212***	0.0208***	0.0209***
	(0.0075)	(0.0075)	(0.0073)	(0.0076)	(0.0074)
LAG ML PC	0.4239***	0.4195***	0.4175***	0.4242***	0.4225***
	(0.0803)	(0.0802)	(0.0806)	(0.0802)	(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	2.9674	0.2435	1.3706	1.1537
	(2.2213)	(3.8046)	(2.2135)	(2.2023)	(2.2672)
Observations	176	176	176	176	176
# countries	21	21	21	21	21
R2	0.84	0.84	0.85	0.84	0.84
Wald chi2	523726	855	7015	322866	2257
Prob > chi2	0.00	0.00	0.00	0.00	0.00

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%.

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Table 3B: Multilateral Commitments as % Total Aid Committed & OPINION1

Dependent Variable:	ML PC			
	(1)	(2)	(3)	(4)
OPINION1	-0.0005***	-0.0005***	-0.0005***	-0.0005**
	(0.0002)	(0.0002)	(0.0002)	(0.0002)
GDP PC	-0.0000*	-0.0000	-0.0000	-0.0000
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
LN POP	-0.0602	-0.0856	-0.0660	-0.0587
	(0.1288)	(0.1413)	(0.1379)	(0.1964)
GOV EXP	-0.0067*	-0.0063	-0.0074*	-0.0076*
	(0.0041)	(0.0040)	(0.0041)	(0.0044)
PARTISAN	0.0211***	0.0220***	0.0213***	0.0228***
	(0.0074)	(0.0078)	(0.0075)	(0.0077)
LAG ML PC	0.4240***	0.4158***	0.4204***	0.4044***
	(0.0803)	(0.0819)	(0.0798)	(0.0829)
GDP %US	0.1219			0.0160
	(0.3578)			(0.4638)
TOTAL COMMIT		-2.8717e+06		-4.8841e+06
		(4188308.5832)		(4377359.0430)
EU			-0.0381*	-0.0214
			(0.0207)	(0.0253)
COLD WAR				-0.0015
				(0.0144)
US HEGEMONY				0.0256
				(0.4378)
YEAR				0.0006
				(0.0042)
TRADE				-0.0014
				(0.0011)
Constant	1.2013	1.6036	1.3117	0.0246
	(2.0845)	(2.2873)	(2.2383)	(6.5158)
Observations	176	176	176	176
Number of	21	21	21	21
R2	0.84	0.84	0.84	0.85
Wald chi2	10614	1994	3631	28442
Prob > chi2	0.00	0.00	0.00	0.00

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%.

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Table 4A: Multilateral Commitments as % Total ODA Committed & OPINION3

Dependent Variable:	ML PC				
	(1)	(2)	(3)	(4)	(5)
OPINION3	-0.0003**	-0.0003*	-0.0003**	-0.0004**	-0.0004**
	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(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	0.0640	0.0264	0.0480	0.0144
	(0.1124)	(0.1371)	(0.1150)	(0.1130)	(0.1126)
GOV EXP	-0.0093***	-0.0092***	-0.0096***	-0.0094***	-0.0094***
	(0.0035)	(0.0036)	(0.0036)	(0.0036)	(0.0036)
PARTISAN	0.0156**	0.0164***	0.0156**	0.0159***	0.0154**
	(0.0062)	(0.0063)	(0.0061)	(0.0061)	(0.0063)
LAG ML PC	0.4159***	0.4156***	0.4155***	0.4108***	0.4162***
	(0.0755)	(0.0753)	(0.0759)	(0.0752)	(0.0754)
YEAR		-0.0010			
		(0.0021)			
TRADE			-0.0002		
			(0.0007)		
US HEGEMONY					0.0668
					(0.2925)
COLD WAR				0.0090	
				(0.0088)	
Constant	0.0585	1.1560	-0.1095	-0.5208	0.0626
	(1.8394)	(3.3262)	(1.8741)	(1.8536)	(1.8413)
Obs	337	337	337	337	337
# countries	21	21	21	21	21
R2	0.75	0.75	0.75	0.76	0.75
Wald chi2	125279	23928	142467	23148	134195
Prob > chi2	0.00	0.00	0.00	0.00	0.00

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%.

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Table 4B: Multilateral Commitments as % Total ODA Committed & OPINION3

Dependent Variable:	ML PC			
	(1)	(2)	(3)	(4)
OPINION3	-0.0004**	-0.0004**	-0.0003*	-0.0004*
	(0.0002)	(0.0002)	(0.0002)	(0.0002)
GDP PC	-0.0000***	-0.0000	-0.0000***	-0.0000
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
LN POP	0.0099	-0.0366	0.0155	-0.0348
	(0.1115)	(0.1175)	(0.1125)	(0.1747)
GOV EXP	-0.0094***	-0.0081**	-0.0093***	-0.0091**
	(0.0035)	(0.0035)	(0.0036)	(0.0037)
PARTISAN	0.0151**	0.0180***	0.0155**	0.0172***
	(0.0061)	(0.0062)	(0.0062)	(0.0065)
LAG ML PC	0.4150***	0.3933***	0.4159***	0.3784***
	(0.0756)	(0.0752)	(0.0755)	(0.0773)
GDP %US	-0.1690			-0.4355
	(0.3251)			(0.4191)
TOTAL COMMIT		-8.93e+06**		-1.11e+07**
		(4398367.41)		(4659486.84)
EU			0.0017	0.0110
			(0.0339)	(0.0306)
COLD WAR				0.0079
				(0.0105)
US HEGEMONY				-0.2080
				(0.3239)
YEAR				0.0010
				(0.0033)
TRADE				-0.0009
				(0.0008)
Constant	0.1640	0.8602	0.0582	-0.9594
	(1.8215)	(1.9105)	(1.8399)	(4.8208)
Observations	337	337	337	337
Number of	21	21	21	21
R2	0.75	0.76	0.75	0.76
Wald chi2	21888	20220	134073	7543
Prob > chi2	0.00	0.00	0.00	0.00

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%.

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