

Multilateralism and Foreign Aid

Helen V. Milner

Princeton University

December 2013

Based on Previous Research (1)

Why Multilateralism?

Foreign Aid and Domestic Principal-Agent Problems

In Darren Hawkins et al., eds. *Delegation and Agency in International Organizations*. New York: Cambridge University Press, 2006, pp. 107-139.

Cross-national donor data & study over time

Based on Previous Research (2)

“The Choice for Multilateralism: Foreign Aid and American Foreign Policy”

Coauthored with Dustin Tingley,
Harvard University

Published in Review of International Organizations 2013

US survey data & study

Based on Previous Research (3)

Which Devil in Development? A Randomized Study of Citizen Actions Supporting Foreign Aid in Uganda

Co-Authored with Daniel L. Nielson and Michael G. Findley

Recipient survey & data 2012

Introduction

- Governments can pursue foreign policies either **unilaterally** or **multilaterally**.
- What determines which they *choose* to use?
 - Most choose both. But how much of each?
 - Lots of differences across countries in this.
 - And differences over time within same country.
 - Why?
 - What factors lead governments to choose ML vs BL?



Multilateralism

- Unilateralism refers to a set of policies that are not coordinated with other countries and/or that engage with one other country alone.
 - E.g., bilateral aid
- Multilateralism implies adopting a **coordinated** approach among three or more states.
 - Some mean more than this (2).
 - International **Institution** used to deploy aid
 - Coordination around **norms** for action.
 - E.g., Non-discrimination, reciprocity, DAC Paris Declaration

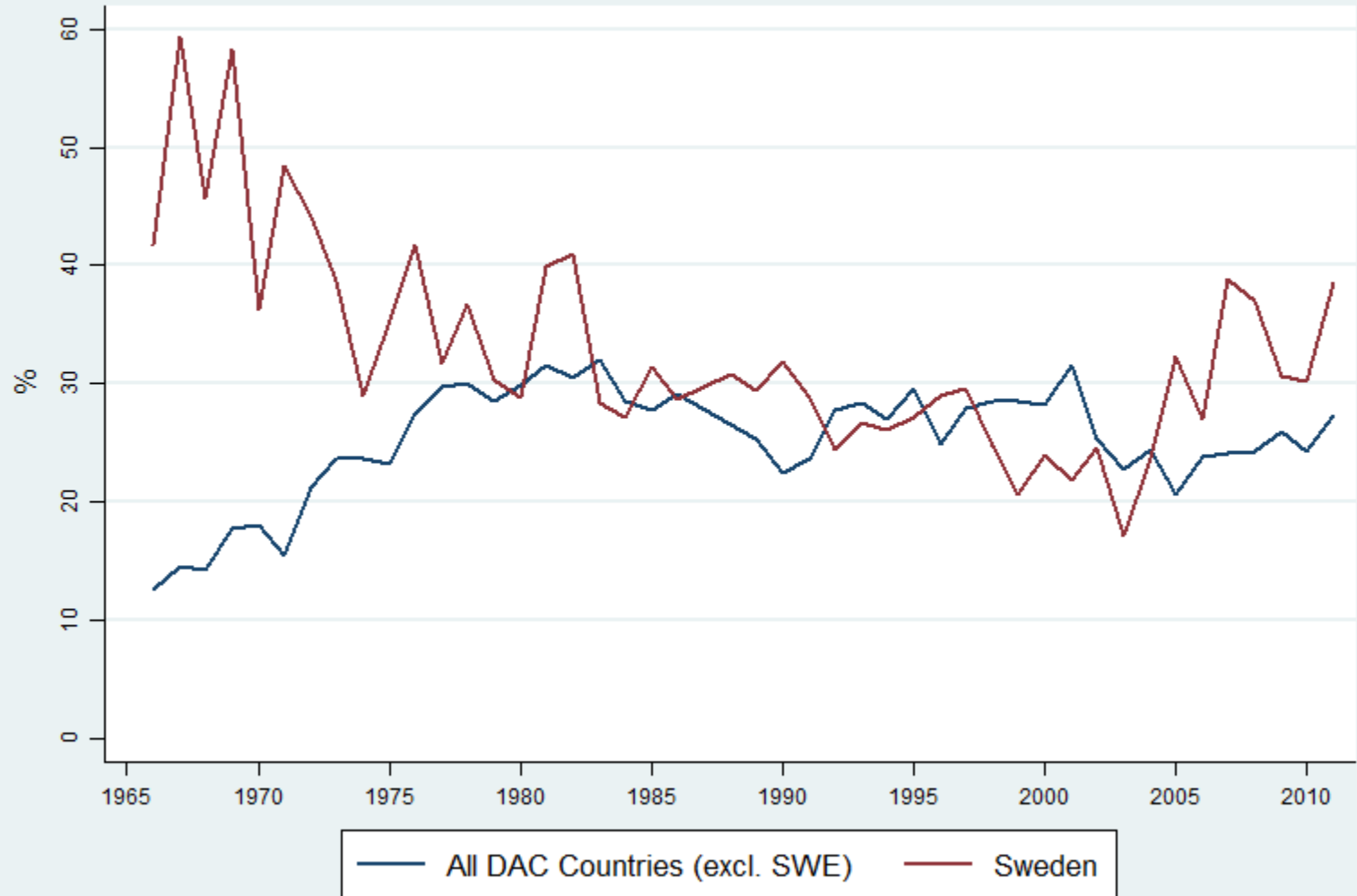
Foreign Aid & Multilateralism

- Long thought that ML is best.
- All aid should be given via ML channels.
- More recent data suggest that **ML aid is better**
 - Less geared to donor economic or political interests
 - More likely to deliver economic growth & political stability in poor countries
 - Have to compromise among donors
 - IO has some control
- **But most aid is NOT ML! Why?**



Multilateral ODA Commitments

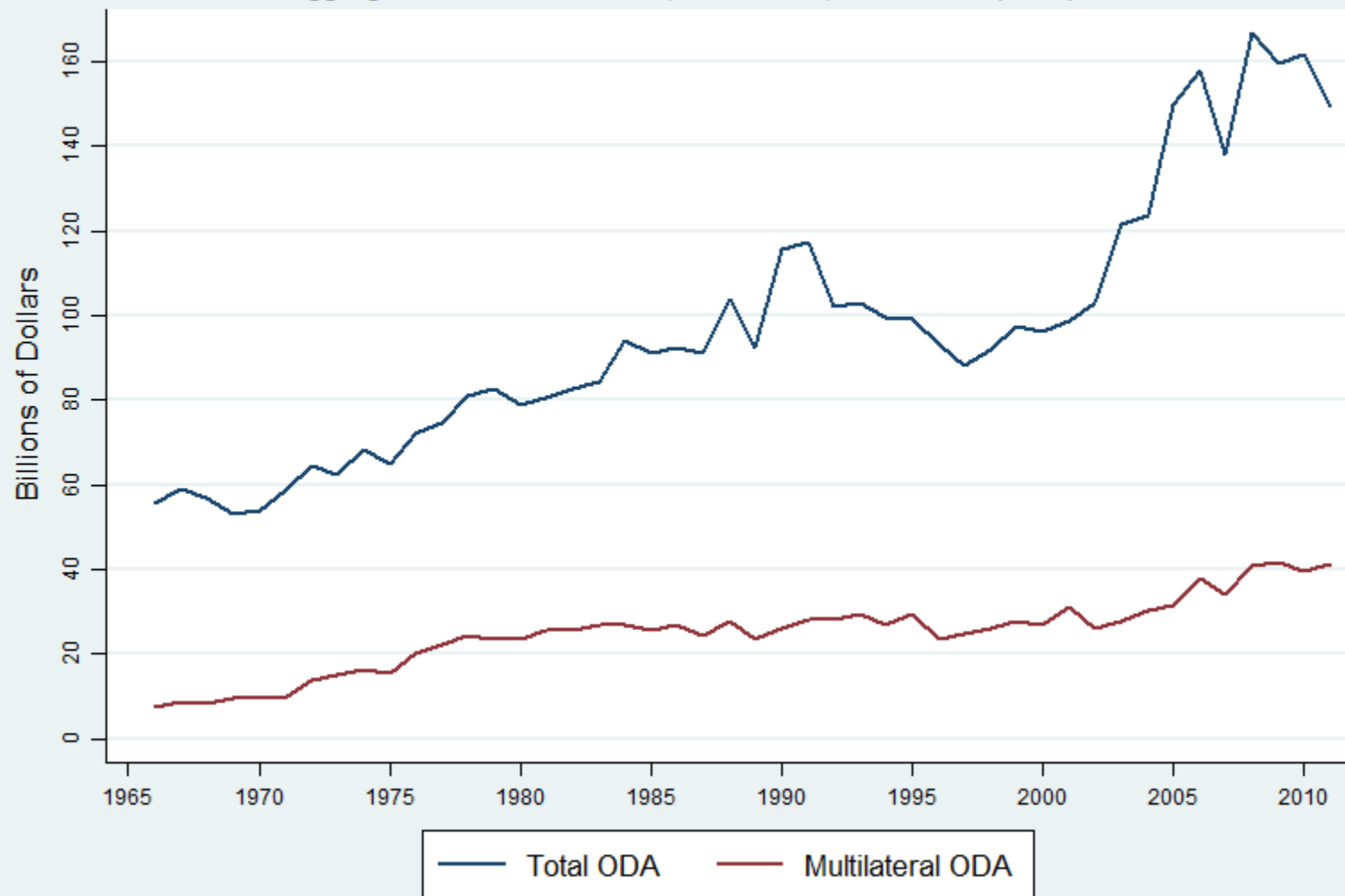
1966-2011, as a percentage of total ODA commitments





DAC ODA Commitments: Total vs. Multilateral

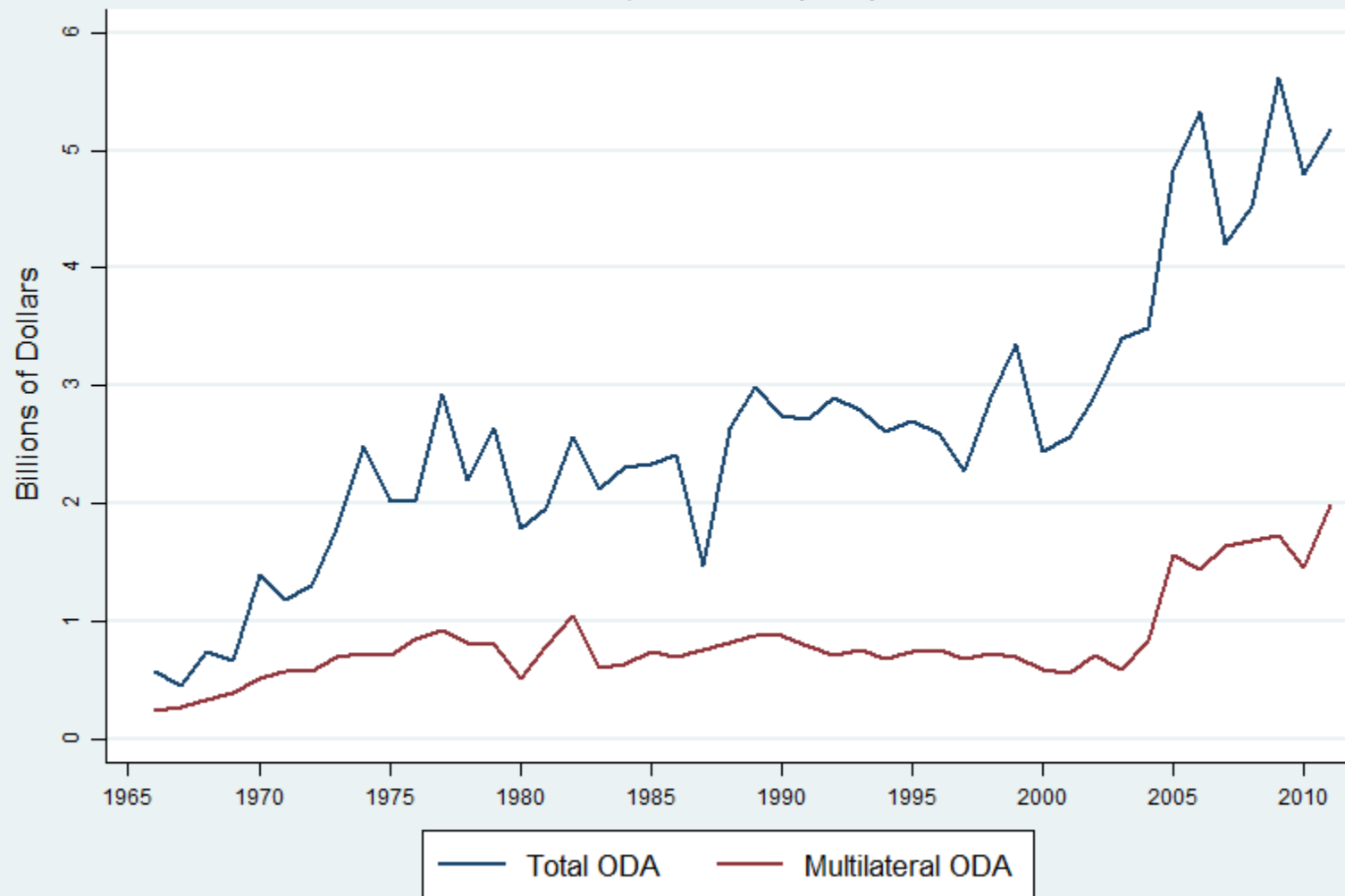
Aggregate All DAC Countries, 1966-2011, in constant (2011) dollars





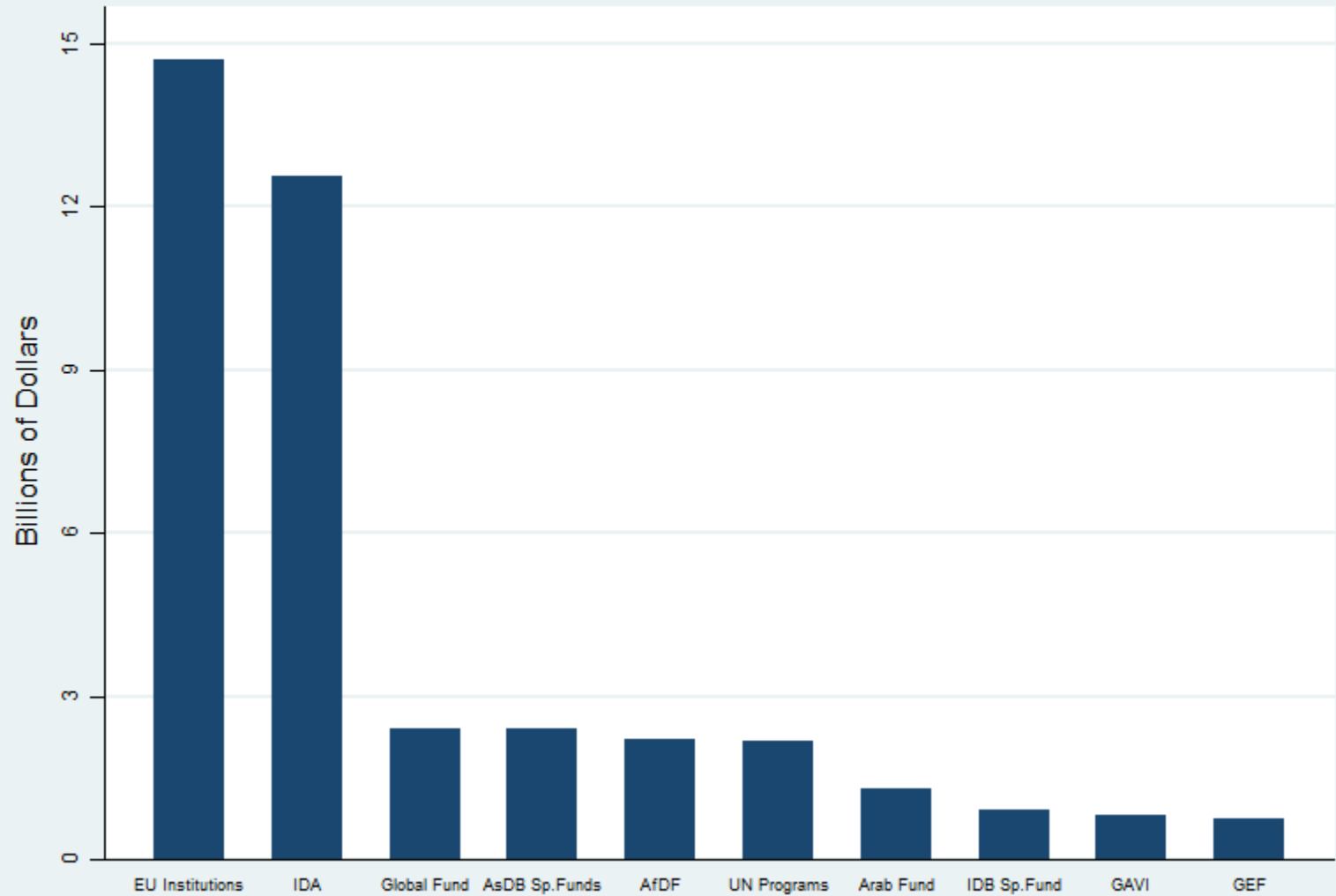
Swedish ODA Commitments: Total vs. Multilateral

1966-2011, in constant (2011) dollars





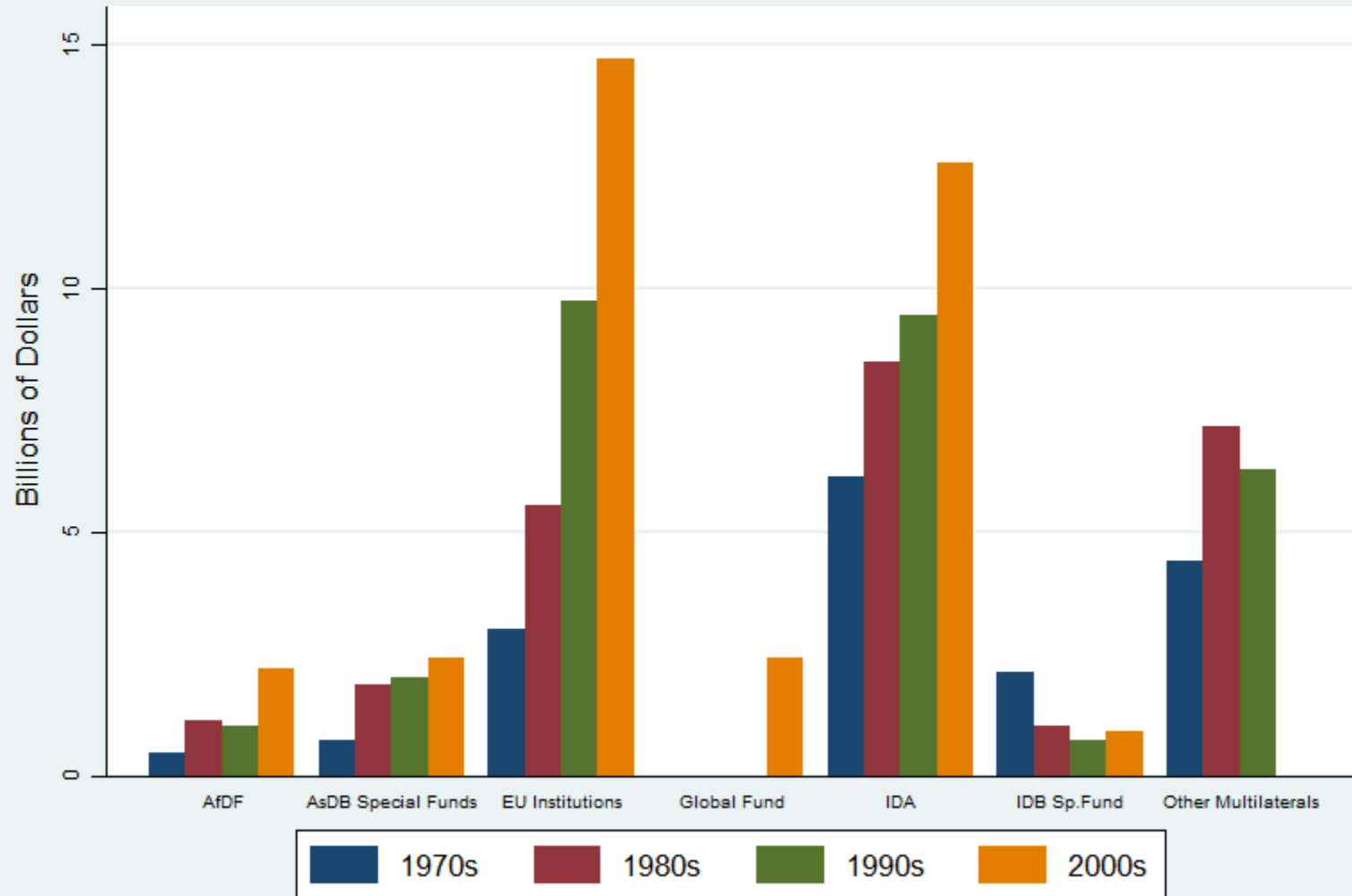
Top-10 Largest Multilateral Donors, 2000 - 2011
Average annual commitments by institution, in constant (2011) dollars





Largest Multilateral Donors, 1970s - 2000s

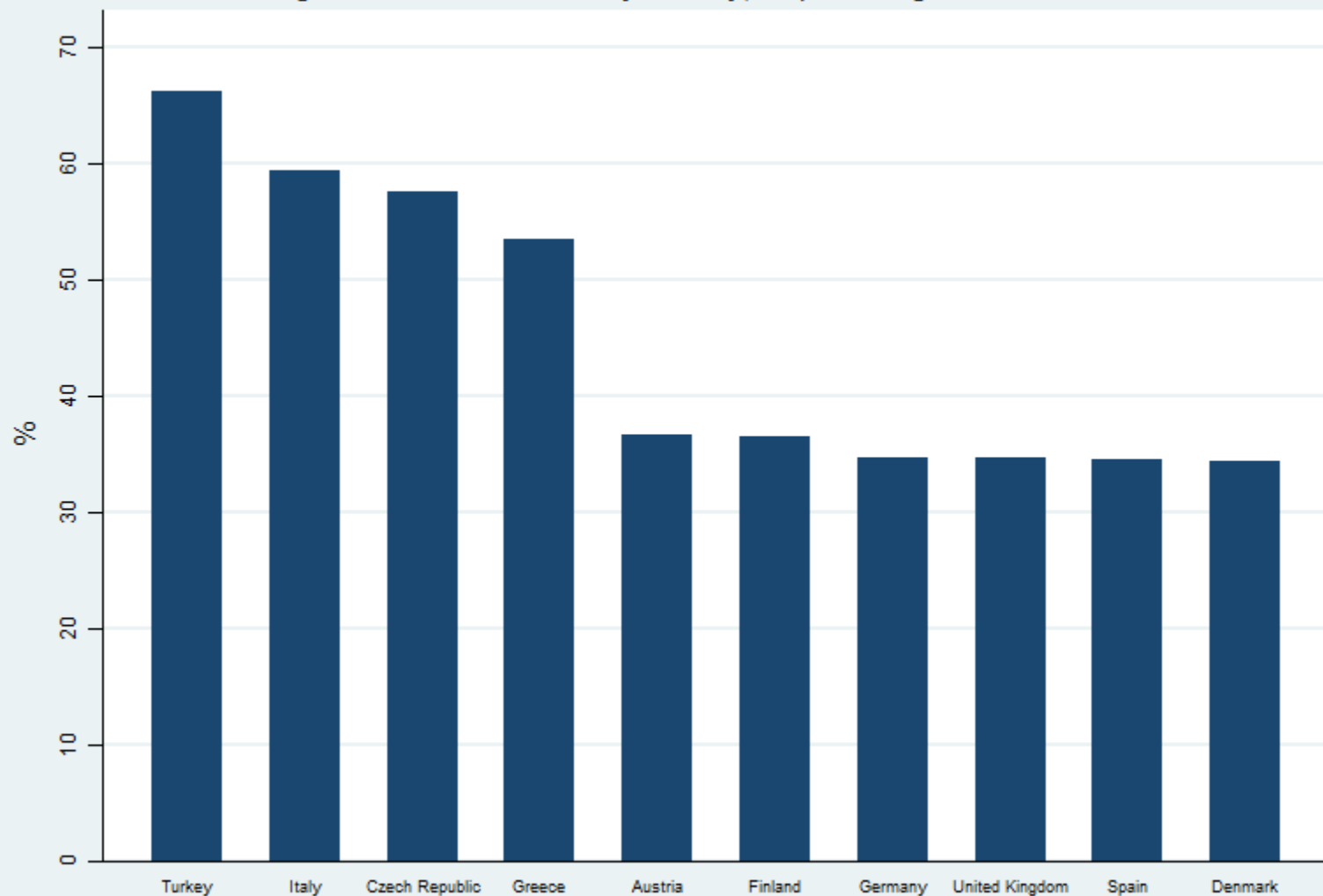
Average annual commitments by decade and institution, in constant (2011) dollars





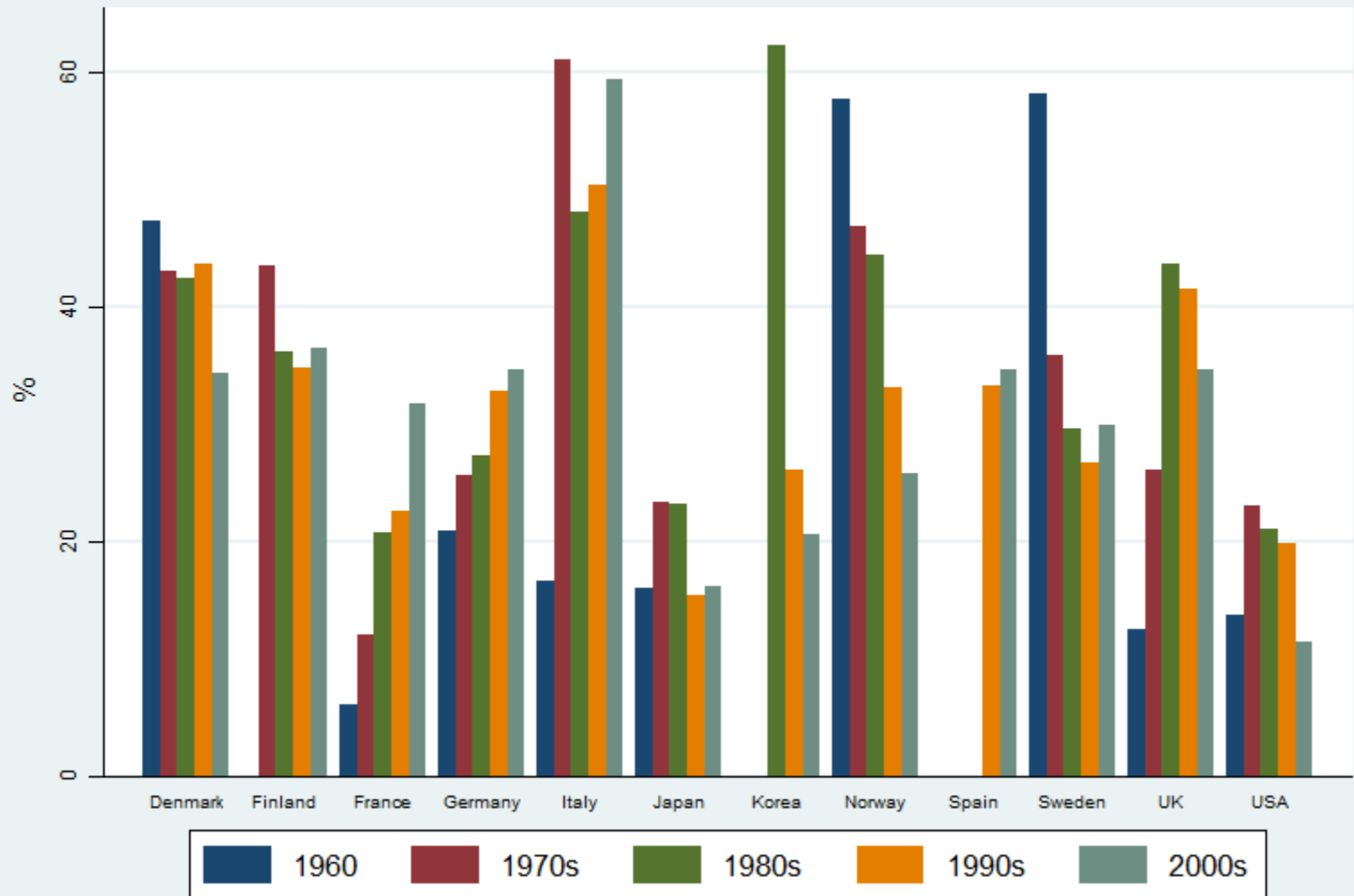
Top-10 Donors Who Mainly Give Multilaterally, 2000-2011

Average annual commitments by country, as percentage of total commitments



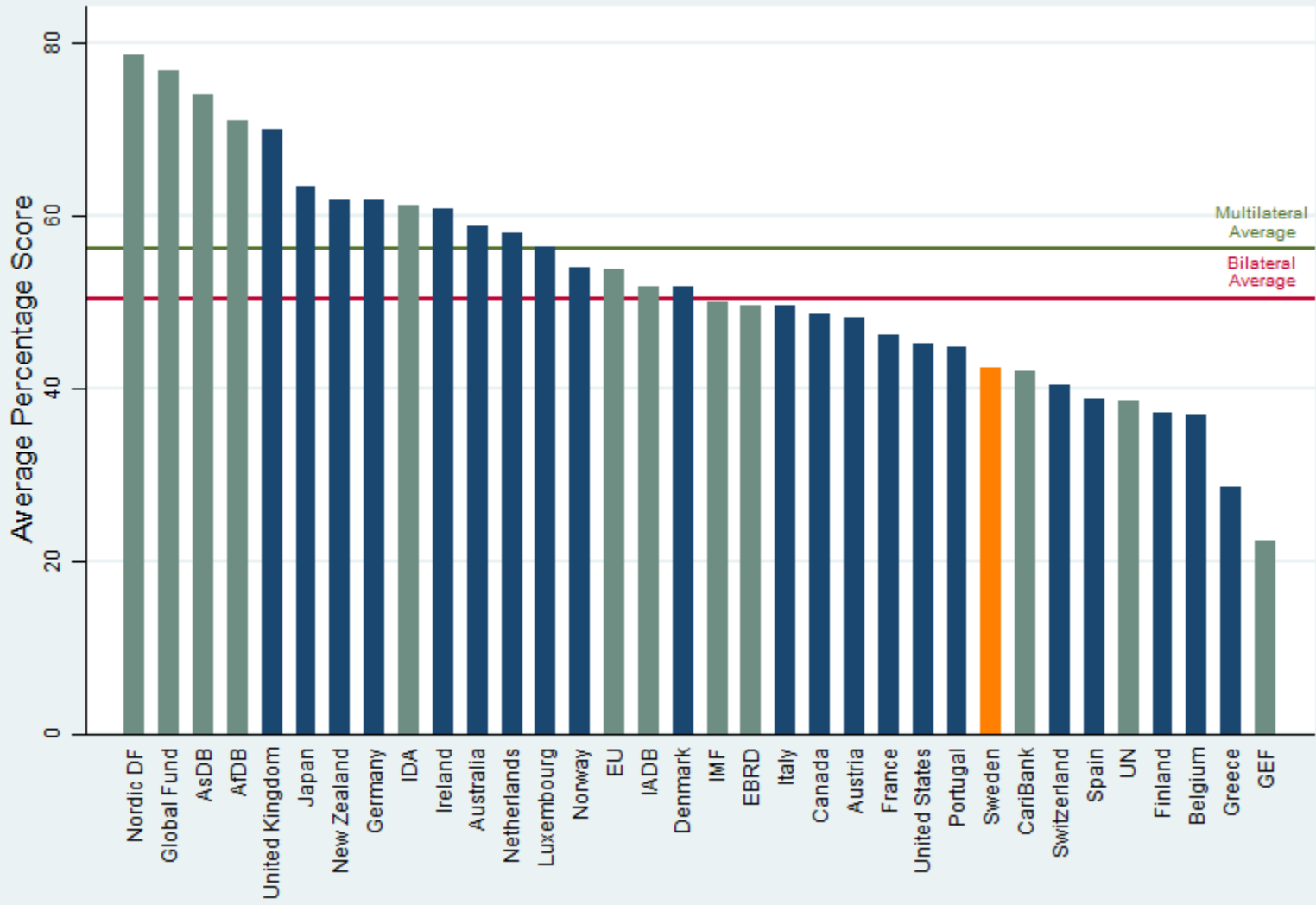


Selected Donors' Multilateral ODA, 1960s - 2000s
Average annual commitments by country, as percentage of total commitments



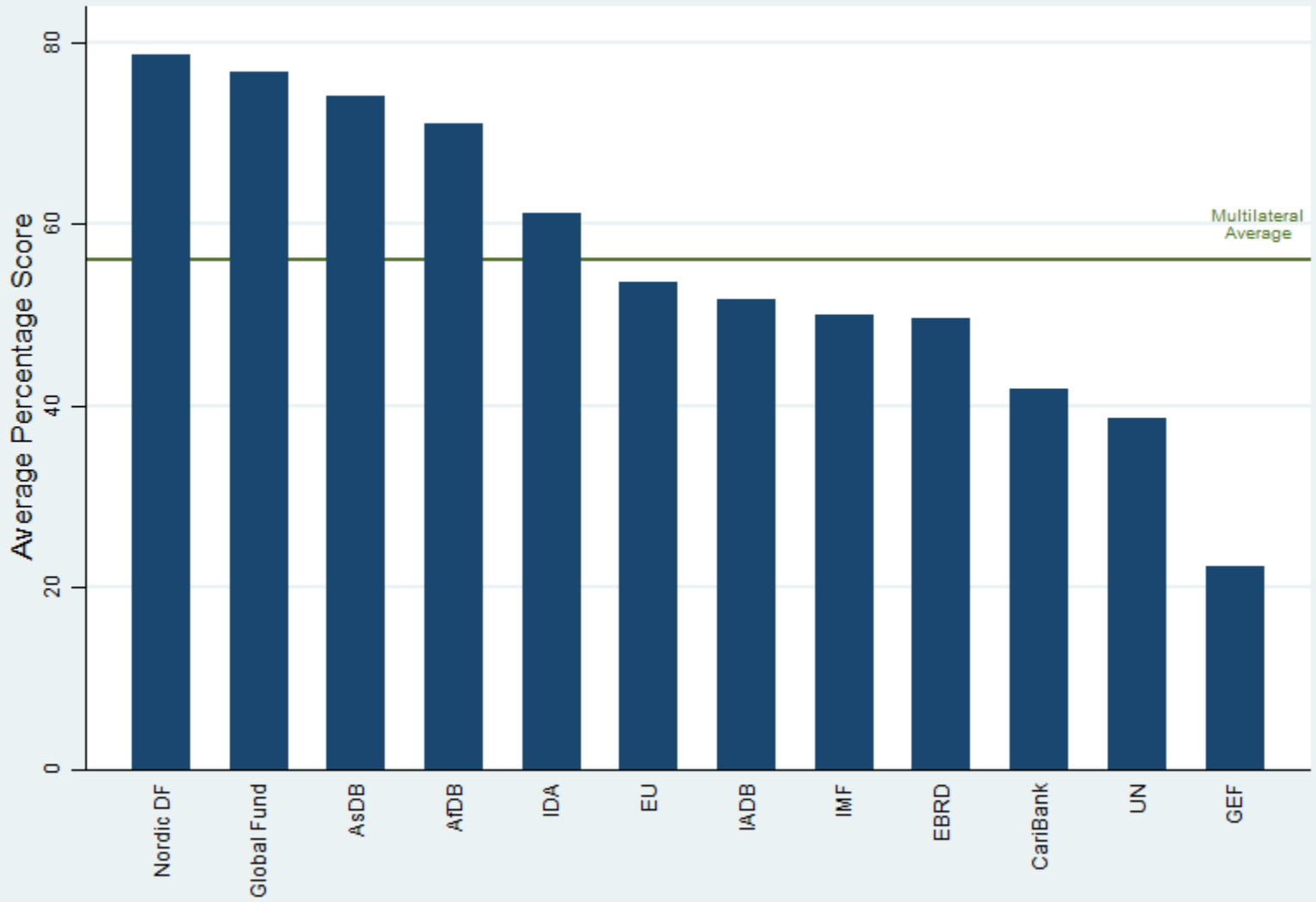


Donor Agencies in Terms of Agency Practices





Multilateral Donor Agencies in Terms of Agency Practices



My Approach

- **Principal-Agent Models**
- Focus on incentives of actors in strategic interaction with incomplete information.
- Actors in different positions have different incentives and information, which leads to different behaviors.
- International and domestic actors in PA relationship.
- This often leads to suboptimal outcomes!



Principal-Agent Models

- **Principal**=the actor with formal authority or ownership
 - But s/he must depend on an agent because of lack of expertise, informational asymmetries, time constraints
 - **DELEGATION** necessary
- **Agent**=actor with informational advantage who must take actions to realize principal's goals
- Principal must incentivize agent to get her/him to work to realize principal's goals.
- Agent must have some **DISCRETION** but not too much.

Key features of Principal-Agent Models

- **1: Agent impact.**
 - The agent takes an action that determines (with some risk) a payoff to the principal.
- **2: Information asymmetry.**
 - The principal can readily observe the outcome but not the action of the agent. Monitoring of agent actions may be theoretically possible, but gathering complete information is regarded as prohibitively expensive.
- **3: Asymmetry in preferences.**
 - The agent's preferences are assumed to differ from the principal's.
- **4: Rationality on both sides.**
 - Despite this & because of the above, **suboptimal outcomes** can arise.

Problems in P-A Relations

- **Moral Hazard**
 - Agent takes action that involves too much risk and causes losses to principal since monitoring is imperfect.
- **Adverse Selection**
 - Because of hidden info principal may select the wrong agent who fails to realize P's goals
- **Failure to Delegate**
 - Fear of MH and AS lead to failure to select agent at all and worse outcomes
- **Agency Drift**
 - From principal's perspective, agent's actions not helpful
 - Inefficiencies, slack.



Costs & Benefits of Aid Delegation

- ML Costs?
 - **Loss of control** over funds
 - how are decisions made on which recipients get what?
 - Inflexibility (harder to change allocations in ML)
 - Less effective since less monitoring
- ML Benefits?
 - More aid than otherwise (**burden sharing**)
 - Collective decisions better (less politicized, less likely to address donor needs)
 - More monitoring and conditionality
 - More donor coordination

Control vs Burden Sharing

- Delegation to multilateral agent means principal gives up some **control** over policy & outcomes
 - (Hawkins et al., 2006; Nielson and Tierney, 2003; Tierney, 2006).
 - Other countries have preferences over policy and multilateral may have its own preferences as well.
- Delegation to multilateral also means that **burdens will be shared**, other efficiency improvements available (greater public goods provision, etc.).
- P-A model focuses attention on tension between burden-sharing and control.

Burden Sharing & Collective Action

- “From the perspective of a recipient country’s welfare, incentives for any one donor to shirk on activities that maximize overall development in favor of activities that contribute to donor-specific goals strengthen as the number of donors increase.”
- ML can help solve free riding and burden sharing
- Ex: World Bank regular replenishments of donor commitments to the IDA require a certain number of donors agree to commit to a substantial level of aid giving in order to move forward.

Burden Sharing

- Representative Long (wrt to World Bank's International Development Association (IDA)): "Is it not true if we cut this...that this will have a multiplier effect in causing every other contributing nation to make a significant reduction?" ([CongressionalRecord, 1977, pg. 20573](#)).
- "The Kasich amendment would cut \$56 million, but, in fact, it has the impact, because it is leveraged 118 times, which makes it undoubtedly the most single cost-effective element in our entire foreign aid budget...the capital contribution to the World Bank eliminated by this amendment leverages burden-sharing by other countries at a ratio greater than \$4 for every \$1 of US contribution"

Control

- Why does control of aid funds matter?
- Different goals of Principal vs Agent
- Goals in aid policy:
 - Donor economic interests
 - support business at home
 - Donor political interests & geopolitics
 - make recipients allies, change their policies
 - Economic development in recipient
 - Political change in recipient
 - Mixed motives

Control

- “The committee is deeply concerned over the trend to direct an increasing amount of US foreign assistance through the multilateral institutions...The same degree of detailed examination which is possible in the bilateral foreign assistance programs is impossible in the multilateral assistance programs. The Congress does not know when, where, or how the budget requests will be disbursed by these multilateral organizations because they do not justify their requests by specific project" (House Appropriation Committee Report to Nixon)
- Government control over MLs not complete, even if strong
- But many believe that IOs like WB & EU evade national control

Aid & Domestic Politics in Donors

- Control matters if different actors have **different preferences**, esp. relative to the IO
- ML may have preference for aid goals
- If domestic actors vary in goals of aid, and some are closer to ML, then those may be more in favor of delegation to ML.
- Some prefer military aid and bilateral geostrategic aid which focuses on national security goals.
- Some favor economic and development aid.
- Delegation to ML organization is much less costly for those who share its goals.
- Note this is not just a story about aid.
 - For those who prefer the same levels of aid, their preferences over ML differ.

US attitudes toward ML Aid

- Surveys over time
- Majorities support BL aid over ML
- But why?
 - Fear of loss of control
 - P-A model supported by data
 - True in other countries?

American ML vs BL Aid Preferences

- “Would you prefer that the U.S. give economic aid directly to a country or give aid to an international organization (such as the World Bank or International Monetary Fund) which then would give it to the country?”
- **Multilateral vs. Bilateral Preference**

	Multilateral	Bilateral	Don't Know
Summer 2008	20 %	50 %	30 %
Fall 2008	34 %	66 %	
Fall 2009	27 %	73 %	
Fall 2010	22%	78%	

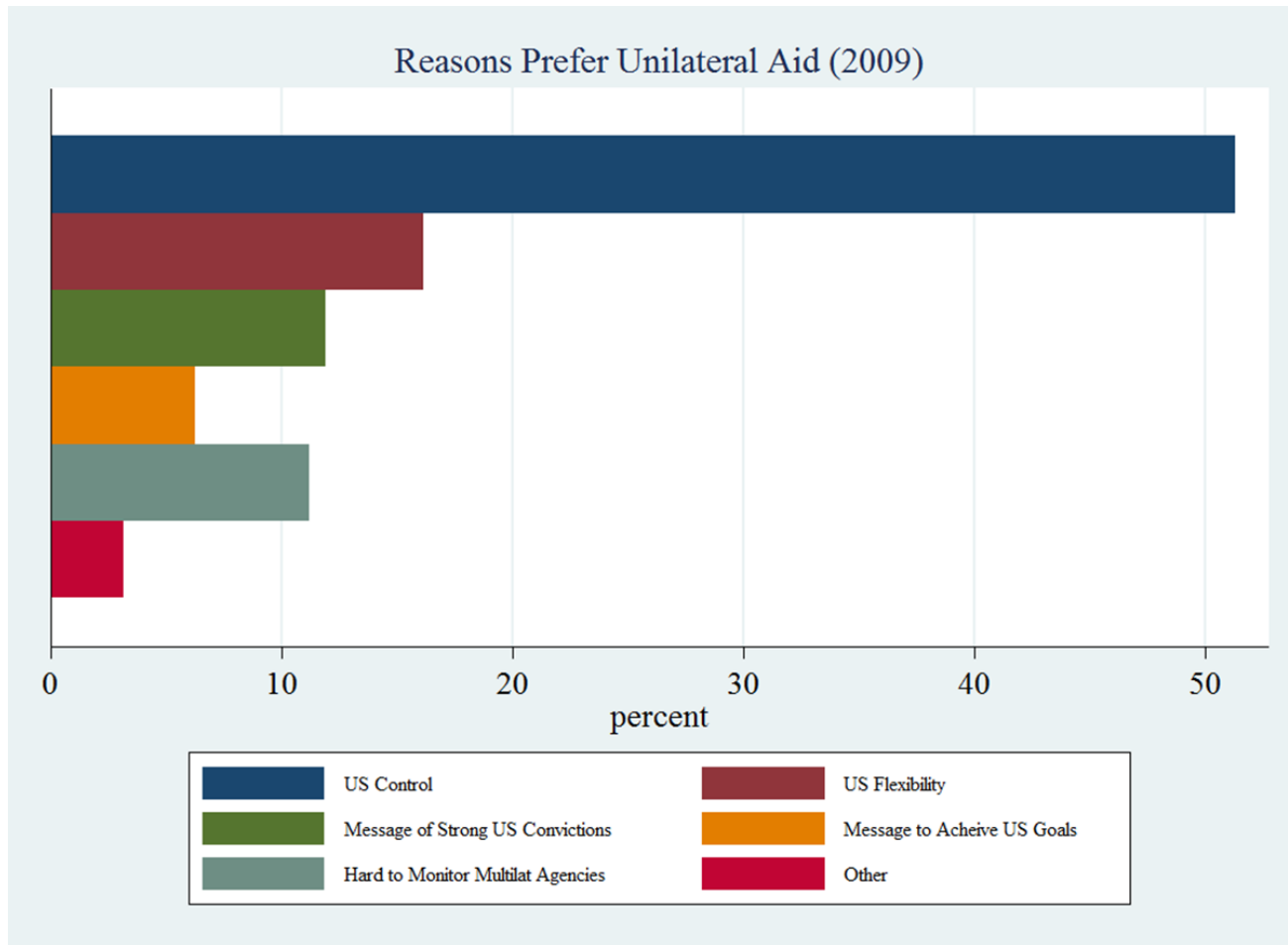
American Opinion on Aid

	Bilateral	Multilateral	Don't Know	N
PIPA 2000	41.00%	59.00%		577
YouGov Summer 2008	50.19%	19.06%	30.75%	2650
YouGov Fall 2008	66.40%	33.60%		979
YouGov Fall 2009	73.44%	26.56%		1500
YouGov Fall 2010 (DK excluded)	77.90%	22.10%		759
YouGov Fall 2010 (DK included)	53.28%	15.11%	31.60%	995
YouGov Fall 2010 (DK follow-up)	72.25%	27.75%		989
TRIPS 2011	44.52%	55.48%		1058

Unilateral Reasons

- This means that the US **controls** the economic aid and that other countries cannot influence how it is used. (**PA model**)
- This gives the US the most flexibility.
- This sends a message to countries receiving aid from the US that the US has strong convictions.
- This sends a message to other countries—countries not receiving aid that the US does not have good relations with—that the US is more serious/determined to achieve its goals.
- It is harder for multilateral aid agencies to be monitored by US organizations.
- Other

American Opinion: Reasons for Unilateralism

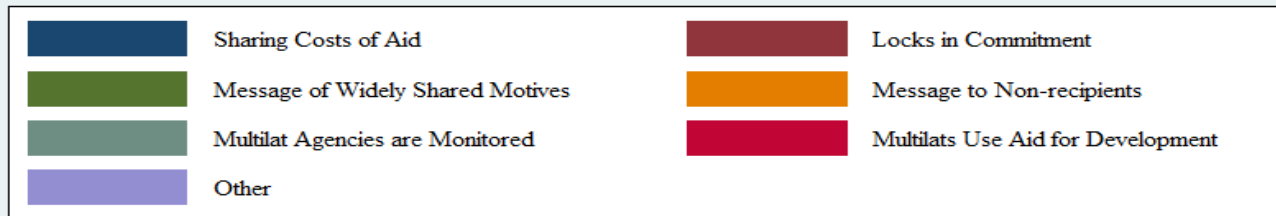
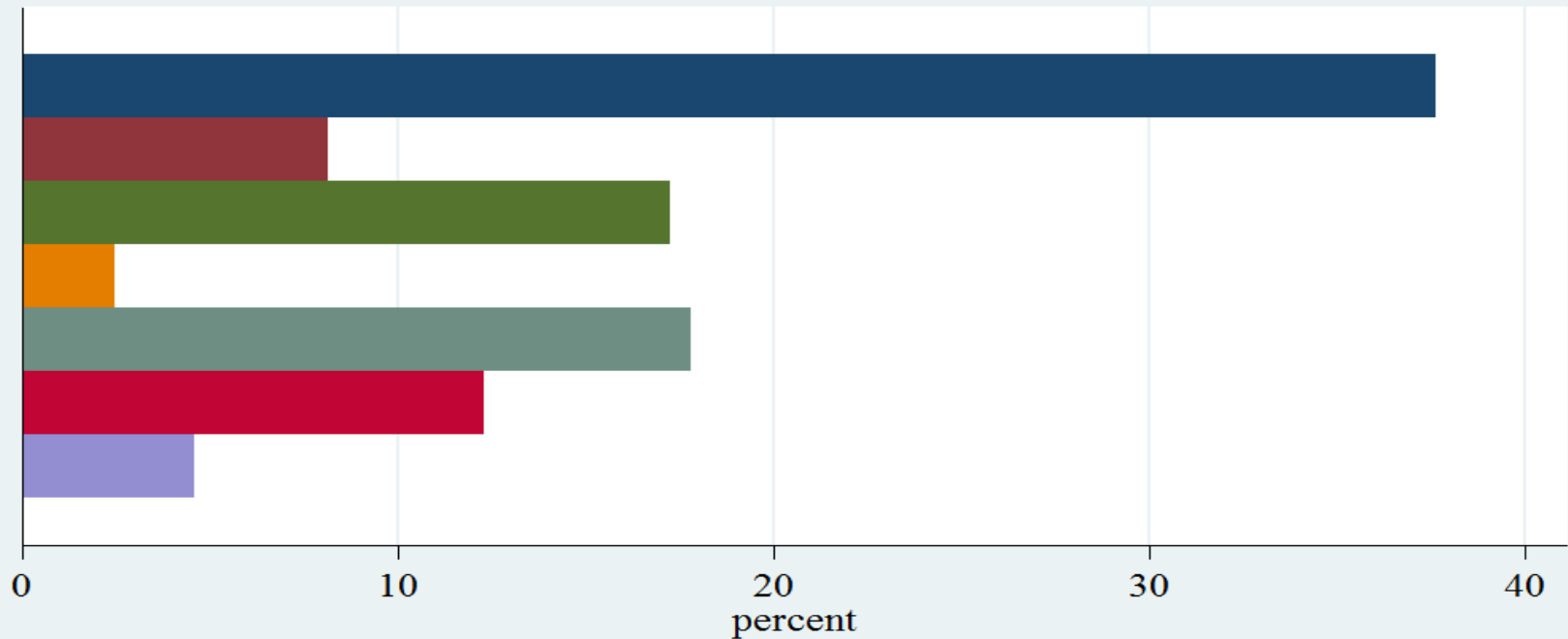


Multilateral Reasons

- This involves **sharing the costs** of economic aid with partner countries. (**PA model**)
- This locks the US into its international commitments more solidly.
- This sends a message to countries receiving aid that the US's motives are widely shared.
- This sends a message to other countries—countries not receiving aid that the US does not have good relations with—that its partners are more serious /determined to achieve their goals.
- Multilateral aid agencies are monitored by more organizations around the world.
- Multilaterals prevent the US government from using aid for things other than economic development.
- Other

American Opinion: Multilateralism Reasons

Reasons Prefer Multilateral Aid (2009)



Reasons Given for Preferences

- **52%** of those preferring unilateral aid say main reason is the **control** this gives the US in 2009.
 - **Elites: 51%**
 - 44% in 2008
 - 47% in 2010
- **37%** preferring multilateral aid say main reason is **burden sharing** in 2009.
 - **Elites: 37%**
 - 32% in 2008
 - 19% in 2010
- Little difference in ranking by party, but control is hugely important to Republicans

Delegation in Foreign Aid Giving

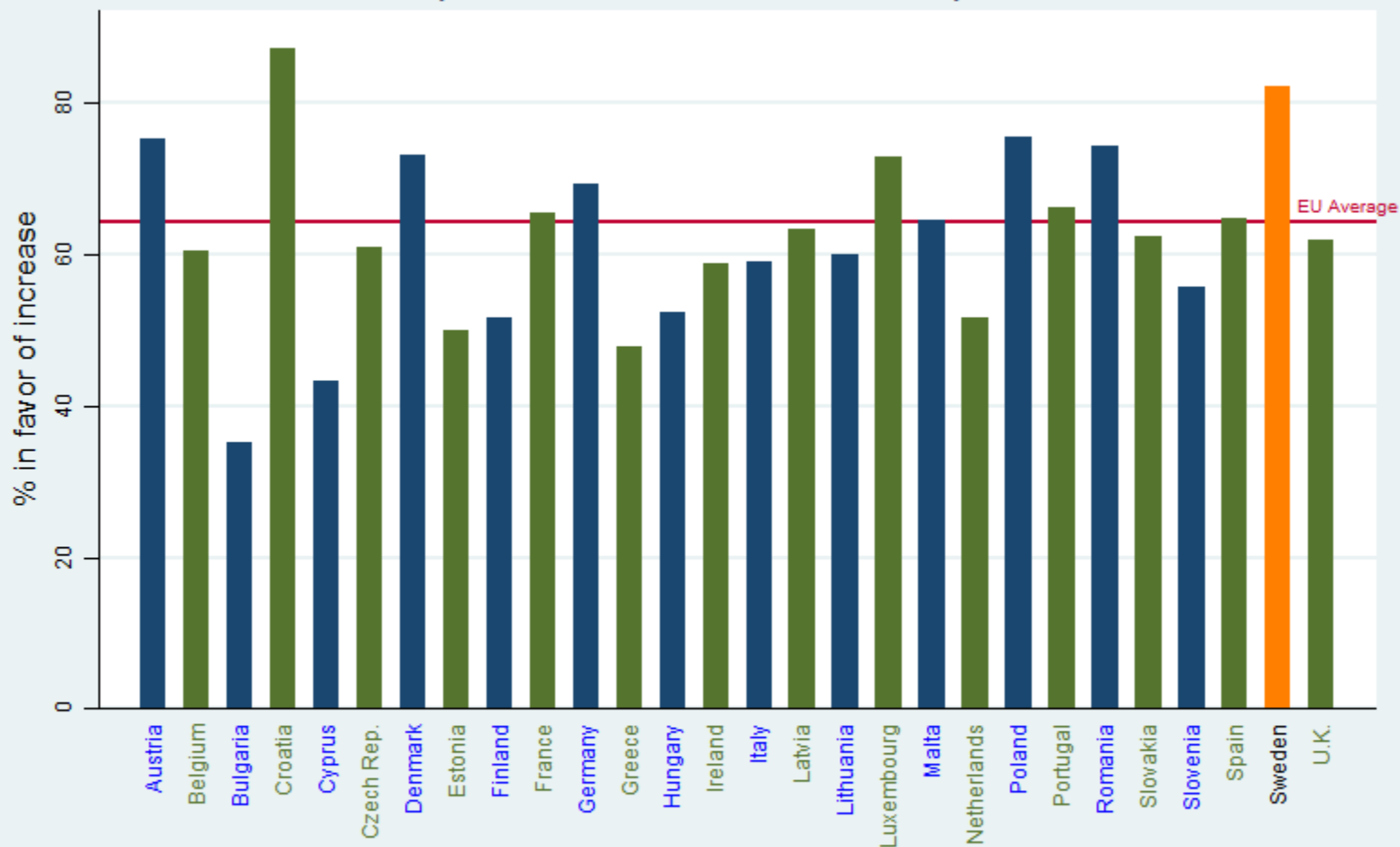
- There are long chains of delegation in aid
- **1st**, democracy link (1st paper)
 - Most donors were democracies
 - Public delegates to government to give aid
 - When do they and when will they prefer ML?
- **2nd**, international institutional link (2nd paper)
 - Government delegates to IO like EUSAID, WB
 - When do they do this? And how much?
- **3rd**, recipient link (3rd project)
 - International institution delegates to recipient government to give aid (e.g., WB to Uganda)
 - When and how much delegation?

The Domestic Politics of Delegation

- Voters, at least on left, prefer aid for development.
- Do they trust their governments to do this, esp with bilateral aid?
 - Governments more concerned w/ economy & geopolitics
 - Dislike of aid, esp bilateral aid, leads governments to use ML channel more
- Less trust and more suspicion of government, the more they favor ML aid.
- ML institutions seen as serving recipient needs more, more focused on development



European Attitudes towards Development Aid

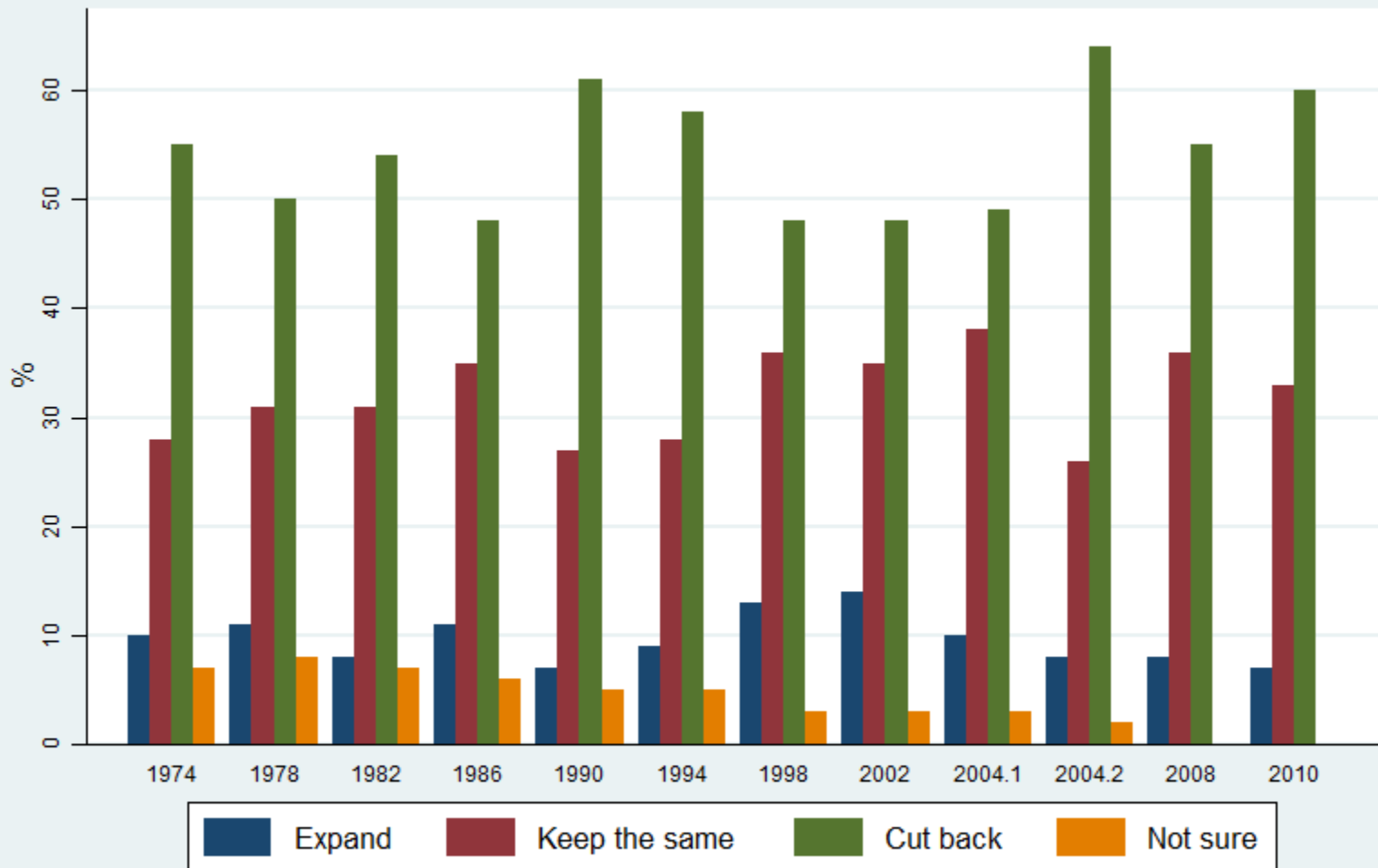


Source: Eurobarometer 77.4 (May/June 2013), Q2b

The EU has promised to increase the level of its aid to developing countries. Given the current economic situation, which of the following statements best describes your opinion?

Increase beyond promise / Increase & keep promise / Do not increase & break promise / Reduce & break promise

U.S. Public Opinion towards Foreign Aid



Source: Chicago Council on Global Affairs, 1974-2010

Question: Below is a list of present federal government programs. For each, please select whether you feel it should be expanded, cut back or kept about the same: Economic Aid to Other Nations?

Governments & ML Aid

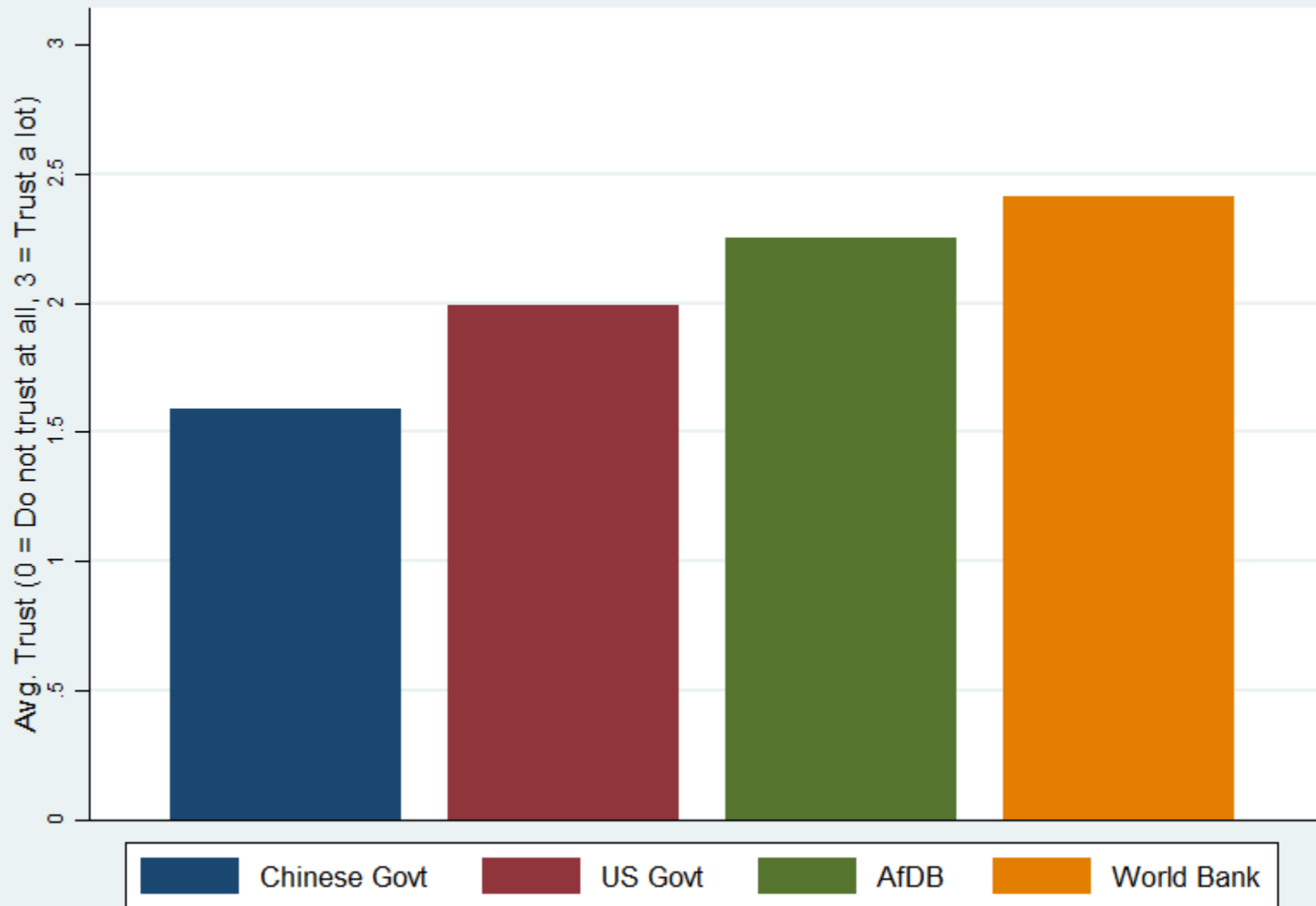
- When are they more likely to use ML aid?
- When pushed by the public...losing support for aid overall
- When they trust the ML institution more, that is, when their goals for aid overlap more
- When they can control or monitor the ML aid institution better. (RDBs vs WB)

Recipients & ML Aid

- What do they think about ML vs BL aid?
- In Uganda there is a slight preference for ML aid
- ML aid institutions seen as more trustworthy than domestic ones
- ML aid institution seen as more transparent than domestic ones.
- Public approves of conditionality bc of weak domestic government accountability



Ugandan Trust in International Donors



Trust in Domestic Institutions & International Donors

	Intl	IMF	USAID	WB	UNDP	AfDB
Domestic	<i>Means</i>	3.07	3.38	3.34	3.29	3.15
LC5	2.92	-4.07	-15.41	-16.53	-9.93	-6.86
LC3	3.07	0.01	-11.15	-11.35	-6.41	-2.63
MP	3.02	-1.38	-12.24	-12.81	-7.38	-3.99
Parliament	3.03	-0.95	-12.43	-12.83	-7.42	-3.70
NRM	2.89	-4.43	-14.76	-16.16	-9.56	-6.96
President	3.06	-0.09	-10.04	-10.41	-5.73	-2.44

Note: Mean trust in italics; t-statistics in cells. Bold t-stats indicate significant differences. Negative t-stats mean that the international institution is more trusted than the domestic one.

Mechanisms for Multilateral Donor Preference

	Mean (Multilateral Aid)	Mean (Bilateral Aid)	t statistic on difference
Trust	3.27	2.80	9.86
Transparency	0.63	0.37	21.15
Conditionality	2.97	2.97	0.05

Other Points of Interest

- Consider choice for multilateralism in other issue areas (e.g., military deployment) though we expect to find similar importance of PA theory.
 - New data: most Americans prefer ML in **military** (60%), then trade (35%) & then aid (25%).
- Left voters always more in favor of ML than conservative ones.
 - Is this true everywhere?
 - Coding party manifestos across the donors now...

Conclusions

- ML vs BL choice is important in foreign policy
- Not as much ML aid as we might expect. Why?
- From P-A perspective, fear of delegation due to loss of control
 - Differences in goals for aid btw government and ML
 - Conservative governments delegate less?
 - Concerns about monitoring of ML
- What can be done?
 - Preference convergence btw government and ML
 - Tighter monitoring of ML by government

THANK YOU

Knowledge Question Re MLs

- Representative sample of Americans 2010 survey
- Have you ever heard of the World Bank?
- Overall, 69% say yes. Roughly 2/3s of pop.
- No partisan differences:
 - Republicans: 70%
 - Democrats: 69%.
- But much lower for IMF (44%) and USAID (29%)
 - Why?

Multilateral ODA Disbursements

1966-2011, as a percentage of total ODA gross disbursements

