

# Strategy and Volatility in Foreign Aid Allocation by the Council of the European Union

Alice Iannantuoni  
University of Geneva

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## Research Questions

The Council of the European Union (EU), one of the organization's two legislative bodies, features a rotating Presidency held by a different member state every semester. I am interested in whether member states systematically exploit their position of power in the Presidency to affect EU foreign aid policy and make it reflect their own preferences; and, if so, in the consequences of this dynamic on the volatility of EU aid allocation.

1. Do member states holding the Presidency systematically influence the EU aid budget so as to give more to their former colonies?
2. Do member states holding the Presidency systematically influence the EU aid budget so as to make it mirror their own bilateral preferences?
3. Do the 2007 changes to the Presidency reduce the influence of the member holding the Presidency onto the EU aid budget?
4. What are the implications for the aid's volatility and predictability?

## Empirical Strategy

- Carnegie and Marinov (2017): on average, former colonies of the EU member holding the Presidency receive more EU aid, 1987–2006.
  - Analysis by subset of former colonies of the same EU member: limited evidence of positive effect, only for French group
  - Analysis by year, comparing across recipients: limited evidence of positive effect, only for for two years
  - Analysis by recipient, comparing across years: some positive coefficients, some negative; little evidence that recipients systematically get more EU aid when their former colonizer holds the Presidency
  - Analysis of regression weights: some evidence that most of the highest-weighted observations happen to be from recipients with a positive coefficient in the analysis by recipient
- Does the EU member holding the Presidency affect the EU aid budget so as to make it closer to its own bilateral aid allocation preferences?
  - Exploit EU member states' bilateral aid allocation as a measure of their revealed allocation preferences
  - Positive effect on average
  - Analysis by year, comparing across recipients: consistently positive coefficients for most years
- Does the effect becomes smaller or null after 2006?

## Results: Colonial Relationship

	$Aid_{(t-1)}$			
	British Group		French Group	
$Colony_{(t-2),Jul-Dec}$	-0.74 (0.71)	-0.69 (0.70)	<b>1.16†</b> (0.66)	0.78 (0.65)
Two-way FEs	Yes	Yes	Yes	Yes
Covariates	No	Yes	No	Yes
$N$	1,254	1,254	594	594
$R^2$	0.00092	0.055	0.0057	0.096

†  $p$ -value < 0.1. Standard errors in parenthesis.

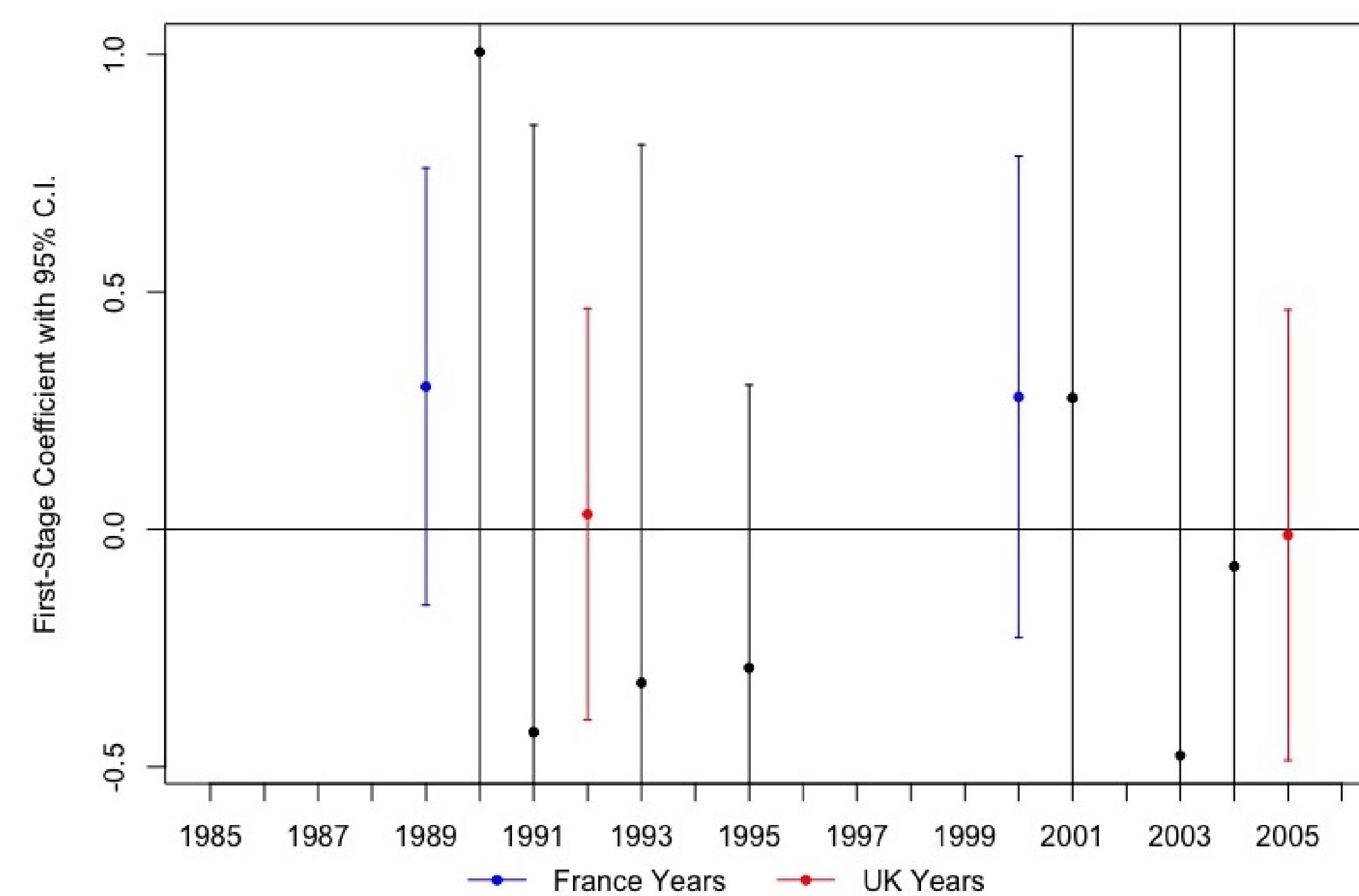


Fig. 2: Effect of former colonial tie with EU member holding the Presidency. Analysis by year.

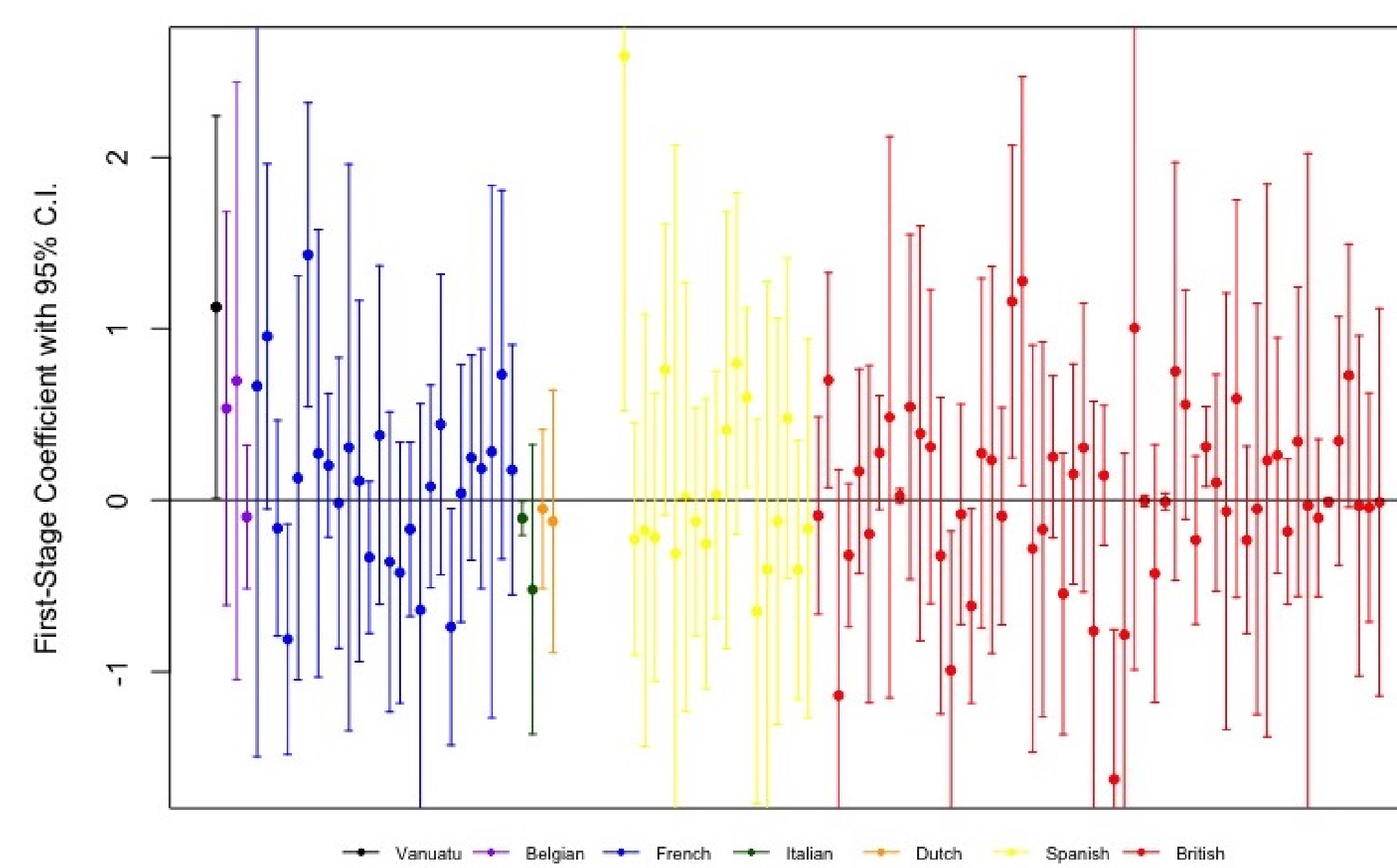


Fig. 3: Effect of former colonial tie with EU member holding the Presidency. Analysis by recipient.

All models include covariates: recipient-year average years of education, exports, imports, FDI, religiosity, oil revenues, democracies in the region, GDP, and GDP per capita.

## Results: Revealed Preferences

	$Aid_{(t-1)}$ 1987–2006	
	$\% \text{ President's Aid}_{(t-2),Jul-Dec}$	<b>7.80*</b> (1.71)
Two-way FEs	Yes	Yes
Covariates	No	Yes
$N$	1,451	1,451
$R^2$	0.016	0.053

\*  $p$ -value < 0.05. Standard errors in parenthesis.

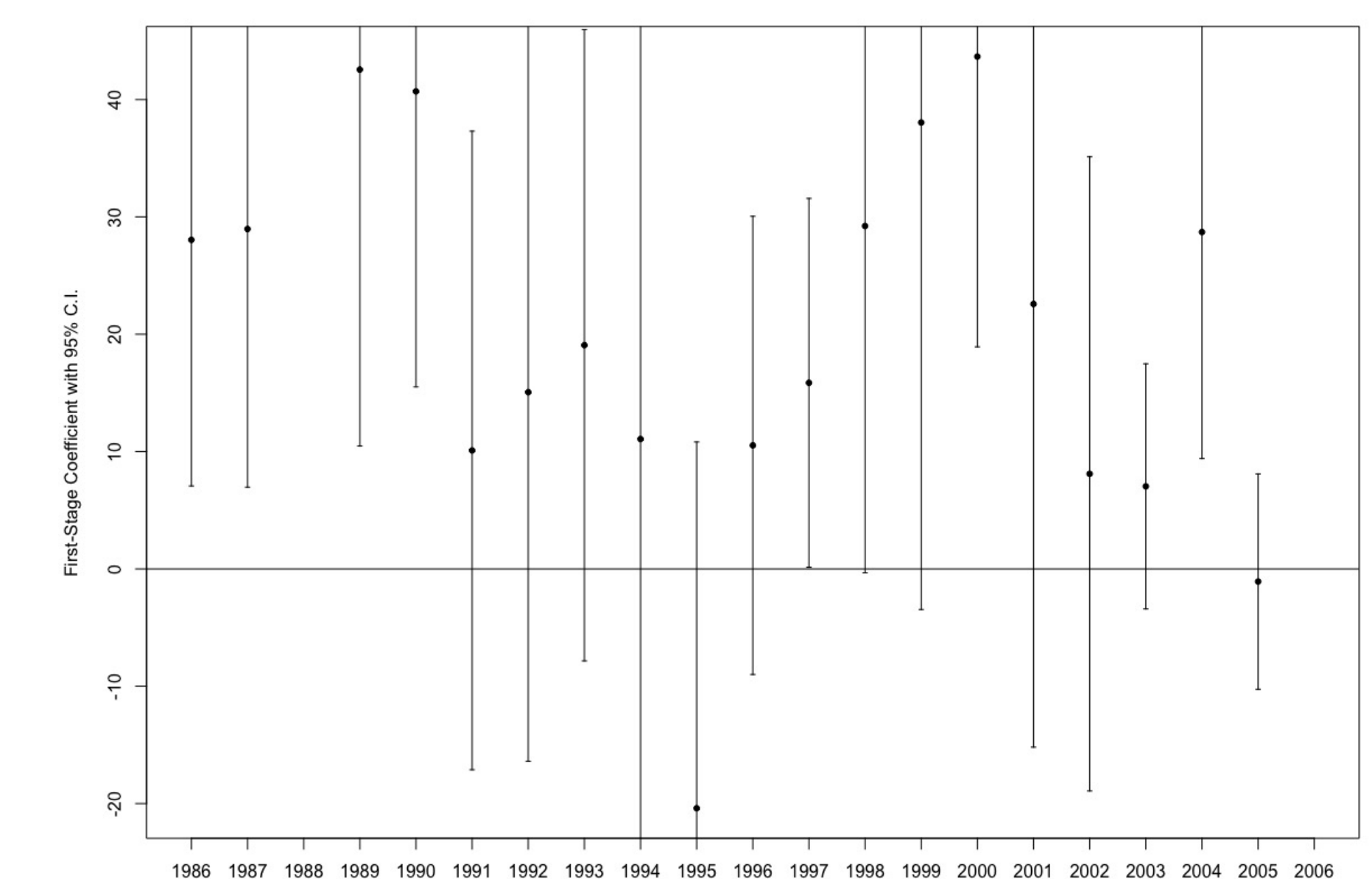


Fig. 5: Effect of bilateral preferences of EU member holding the Presidency. Analysis by year.

## Results: After 2006

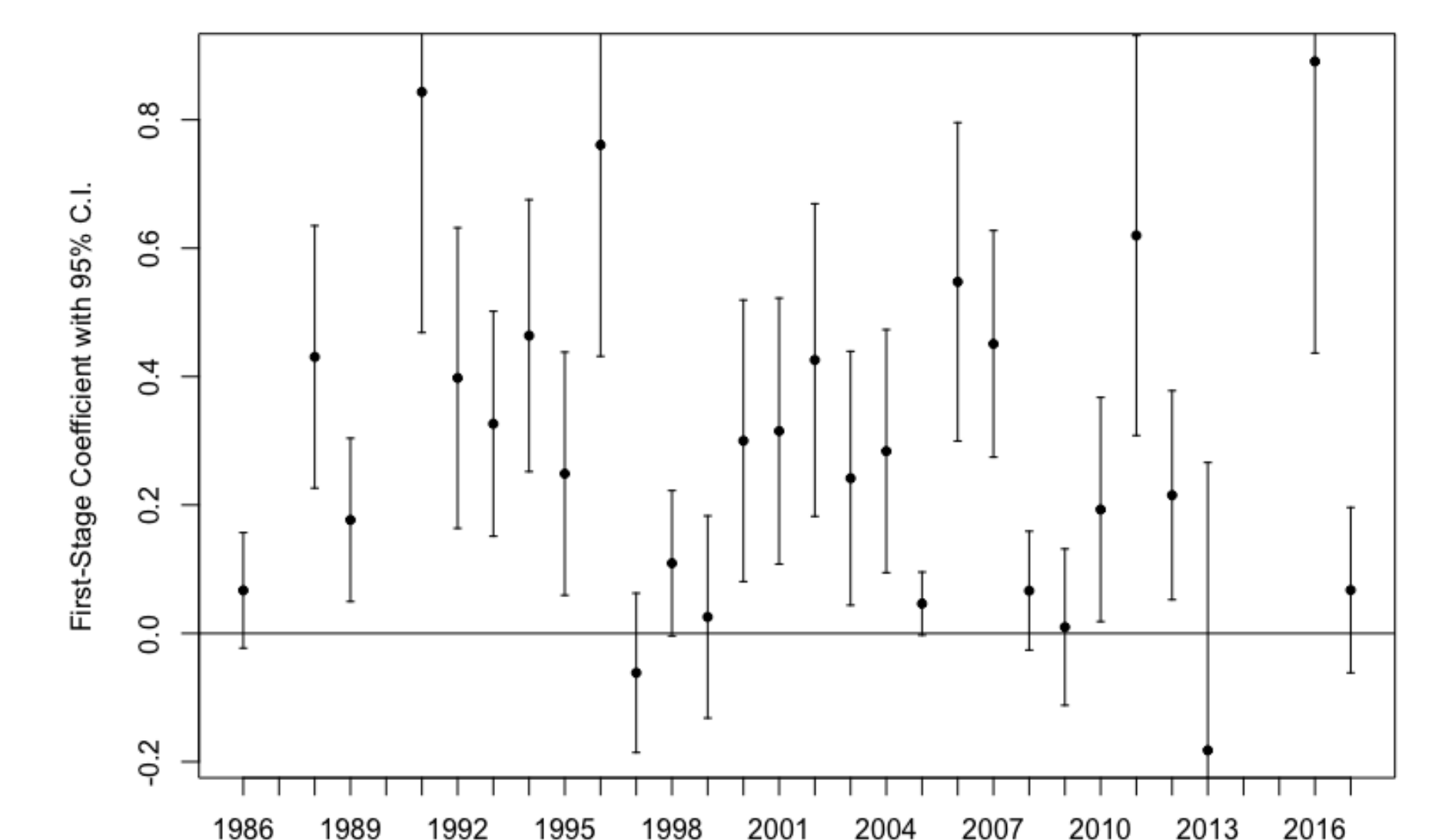


Fig. 6: Effect of bilateral preferences of EU member holding the Presidency. Analysis by year.