

The Institutional Foundations
Of
European Union Foreign Aid Policy

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Introduction

The Ukrainian civil war and associated Russian intervention are linked to the European Union's (EU) foreign relations with Ukraine. Whether the EU's policy in Ukraine can be said to be a success or not, it is certainly having an impact on world affairs. Despite this increasing impact of EU foreign policy, most analyses of it view EU foreign policy as a tool of the larger member states. In this paper, we examine one aspect of EU foreign policy, the distribution of foreign aid. We argue that rather than being driven by the greater powers within the EU, EU foreign aid policy is driven by the unanimity voting of Council of Ministers. We further argue that the EU's foreign policy decisions will therefore be constrained by the preferences of those member state governments with the most restrictive criteria for judging the appropriateness of a foreign aid recipient. Finally, we argue that this restrictive criterion is human rights. Applying a combination of factor analysis and regression data set of foreign aid receipts by over 150 countries between 1981 and 2001, we examine the factors associated with EU foreign aid disbursement. We find that far from being a tool of the larger member states, EU foreign aid policy is most similar to the foreign aid policies of the smaller Nordic members, Ireland and the Netherlands. Finally, we find measures of the human rights records of potential recipients significantly predict the amount of aid the EU disburses to those countries.

The remainder of this paper is divided into several sections. First, we examine the current research on foreign aid with particular attention to the foreign policy of the EU. Second, we discuss the institutional politics of EU foreign aid decision making. We then explain our data collection and methodological approaches. Finally, we discuss the results of our factor analysis and regression models.

Foreign Aid and the EU

Foreign aid literature is one of the most-studied areas in political science with theoretical explanations and empirical evidences. The debates about foreign aid determinants are also well known, focusing on two main contrasting ideas of realistic and idealistic thoughts. First, scholars with a realistic understanding of foreign aid determinants argue that donors decide to whom and how much foreign aid is given based on donors' own interests (McKinley and Little, 1977; 1979; Schraeder, Hook, and Taylor, 1998; Palmer, Wohlander, and Morgan, 2002; Fleck and Kilby, 2010). They mainly argue that the strategic interests of donors such as political and economic interests are the most important factors that influence the foreign aid decisions of donors. Second, scholars with an idealistic understanding of foreign aid determinants emphasizes more the recipients' needs such as the economic, political, and social necessities of recipient countries (Cingranelli and Pasquarello, 1985; Meernik, Krueger, and Poe 1998; Berthelemy, 2006). Scholars with this viewpoint focus on the normative and original purposes of foreign aid which is to help developing countries achieve a higher level of economic development. As the extension of this concept, the promotion of human rights and democracy in recipient countries is also considered an important factor (McCormick and Mitchell, 1988; Richards, Gelleny, and Sacko, 2001; Lai, 2003; Knack, 2004; Lebovic and Voeten, 2009).

Along with these traditional studies of bilateral donors, scholars have paid special attention to EU foreign aid (Elgström, 2000; Santiso, 2002; Carbone, 2007; 2010). Initially, the EU provided foreign aid to recipients like one of multilateral organizations such as the United Nations, the World Bank, or the International Monetary Fund. By using the agent-principal theory, scholars show that aid from multilateral organizations tends to follow the most powerful

members' interests when their interests converge (Nielson and Tierney, 2003; Copelovitch, 2010). In contrast, if members' interests do not converge, multilateral organizations can pursue their own agendas (Nielson and Tierney, 2003; Copelovitch, 2010). Interestingly, we may say that the EU has the characteristics of bilateral and multilateral donors (Carbone, 2007). As the EU has developed into a more integrated political system, its behaviors regarding foreign aid need to be reconsidered.

Scholars have begun questioning about how and why the EU provides foreign aid, comparing the EU's and members' foreign aid behaviors. Some show that members of the EU have influenced EU foreign aid with empirical evidences (Zanger 2000). Recently, Schneider and Tobin (2013) argue that interest coalition among members occurs and it does influence the foreign aid allocation of the EU. By focusing on the "formation of interest coalition" among members and "heterogeneity of preferences", they show that the EU's foreign aid patterns follow members' interests, not the EU's development policies (Schneider and Tobin, 2013, 106). If these studies reflect the patterns of EU foreign aid, the EU as an institution has no power to implement its own foreign aid policies, and other European values, especially democracy and human rights, have nothing to do with foreign aid allocations.

Nevertheless, one of the most interesting determinants of EU foreign aid is related to the political conditions of aid recipients, especially in the areas of human rights and democracy. The Treaty of European Union establishes a number of core criteria for the advancement of EU foreign policy goals. Article 2 of the consolidated version of the Treaty of European Union identifies human rights as one of the most important of these core values. If the EU follows this treaty, human rights should be a major factor in influencing the EU's foreign aid allocation. The

EU has promoted human rights through the UN or directly in many developing countries (Smith 2006).

Institutional Politics of EU Foreign Aid

Two of the major theoretical approaches to the study of European Integration are intergovernmentalism (c.f. Moravcsik 1991; Wagner 2003) and institutionalism (c.f. Tsebelis and Garret 2001). These approaches often generate conflicting expectations about the policy outcomes produced by the EU. A number of works have shown that institutionalist expectations fit the results of treaty bargaining at intergovernmental councils better than those of intergovernmentalists (Hug and König 2002; König and Slapin 2004; Slapin 2008). Similarly, there is evidence that the selection of foreign policy decision making institutions at the EU Constitutional Convention were driven more by partisan than by national connections (Jensen, Slapin and König 2007).

The intergovernmentalist approach is based on inter-state bargaining between rational state actors (Moravcsik 1991; Wagner 2003). Advocates of this approach to the study of European Integration expect that all EU policy will reflect the preferences of the most powerful member states. If intergovernmentalist theory could be applied to the formation of EU foreign policy, it would predict that the EU would never be allowed to pursue an independent foreign policy at all. And if such an EU foreign policy did emerge, it would either be restricted to trivialities or compelled to serve the interests of the most powerful member states. In the context of foreign policy, the four most powerful EU member states are France, Germany, Italy and the UK. An intergovernmentalist expectation for EU Foreign aid would therefore be that the foreign aid priorities of these member states would be closely correlated with the foreign aid priorities of the

EU as a whole. This would result from the decisive role the biggest member states would play in driving EU foreign policy.

Hypothesis 1 (intergovernmentalist expectation): *Foreign aid from the EU will increase as foreign aid from the France, Germany, Italy and the UK increase.*

To be clear, we do not expect Hypothesis 1 to be supported by evidence. We test it in this analysis primarily because it is the foremost rival hypothesis to those which we advance below.

The institutionalist approach is based on analysis of the actors, their preferences and the decision making rule through which they make policy. We will start our discussion with an examination of the voting rule applied to EU foreign policy decisions. Council of Ministers adopts foreign policy decisions by unanimity vote (Article 31, TEU). Any member state government or the Commission may propose new policies (Article 30, TEU). Predicting the EU's foreign policy priorities depends on understanding the preferences of the Commission and the member states. Given a unanimous voting rule, foreign policy proposals are more likely to be adopted the less controversial they are. EU foreign aid priorities should reflect the least controversial elements of foreign policy. Candidates for EU foreign aid that engender controversy would be more likely to be subject to the veto of one or more of the member state governments.

Consider a potential foreign aid recipient with some controversial characteristic. Suppose it is closely associated with the particular foreign policy goals on one member state. If French goals, for example, are perceived as imposing costs on any other member state, that member state would have an incentive to veto the planned disbursement of aid. Alternatively, consider a

potential aid recipient with a poor human rights record. If any member state government objects to sending foreign aid to such a state, it would have an incentive to veto the proposal.

Conversely, those potential aid recipients that provoke the least debate will be most likely to receive the unanimous support required for the aid to be disbursed.

Those member states with foreign aid policies least likely to provoke opposition from the other member states would be most likely to have foreign aid patterns similar to that of the EU. This is not because such uncontroversial states drive the agenda necessarily but because their priorities are those most likely to be universally shared among the member states as a whole.

Hypothesis 2 (institutionalist expectation): *Foreign aid from the EU will be most correlated with the foreign patterns of the least controversial member states*

The discussion of the dimensions of EU foreign policy priorities above showed that common values shared by the member states include democracy and human rights. This is not to say that all EU member states place a high priority on these values when deciding how to allocate foreign aid. Rather, we point out that it is unlikely that a potential recipient of foreign aid from the EU would be vetoed by any member state government for having too good of a human rights record. If no member state government would veto an aid recipient over human rights, then human rights becomes the common denominator of EU foreign policy.

Hypothesis 3: *The better the human rights record of the aid recipient, the more foreign aid it will receive from the EU.*

Methods and Data

To test the first two hypotheses, we conduct factor analysis on the data on foreign aid. We used a principle factor analysis approach with verimax rotation. We adopt this method because these approaches are designed to easily identify latent variables that can explain the joint variation of the variables examined. Our first hypothesis, which we derived from the intergovernmentalist approach, is that EU foreign aid should be highly associated with the foreign aid policies of the most powerful member states. We do not believe this hypothesis will be supported. Therefore, we adopt an approach that is designed to give the greatest chance of supporting it. If the foreign policies of the great powers within the EU are driving EU foreign aid, a principle factor analysis has the greatest chance of revealing that.

Similarly, we adopt verimax rotation to enhance the relationships identified. Verimax rotation assumes an orthogonal relationship between the factors identified by the principal factors approach. This has the effect of strengthening the identified relationships. Again, because we believe that the intergovernmentalist hypothesis will not be supported, we adopted methods most likely to support it. In effect, we are rigging the analysis against our expected result.

The variables we include in the factor analysis are the amount of EU foreign aid in million, the variable which we seek to explain. We also include the foreign aid amounts from each member state in the data set. Finally we include the CIRI index of human rights for each country in the data set. As discussed above, our unit of analysis is the country-year. Our factor analysis therefore is of the amounts of aid disbursed to each recipient from the EU and each member state together with a measure of the human rights of the recipient country in a given year.

For time-series cross-sectional tests, the unit of analysis is also country-year with 151 recipient countries covering the periods of 1981-2011. All independent variables are lagged by one year to address the potential endogeneity issues. With time-series cross-sectional data set, we have to consider its characteristics for empirical studies. The differences between units and changes within units over time need to be considered (Greene 2003). That is why we need to adopt fixed-effects and random-effects models, which are widely used for time-series cross-sectional data.

Dependent Variable

By using the data set provided by the Organization for Economic Co-operation and Development (OECD), we collect the amount of Official Development Assistance (ODA) in millions (2012 constant US dollars) provided by 15 members of European Union and the European Commission for the periods of 1981-2011.¹ The data set by the OECD is one of the most comprehensive ones, which is widely used, in the study of foreign aid (Neumayer, 2003; Knack, 2004; Kim, 2014). With logged amount of ODA as a dependent variable, time-series cross-sectional tests are implemented.

Independent and Control Variables

In order to test our hypotheses, we use the CIRI human rights index as a main independent variable that can influence foreign aid of the EU and EU members.² From this widely used

¹ All of these 15 members are the members of European Union before the enlargement in 2004 and OECD Development Co-operation Directorate. For time-series cross-sectional analysis, the amount of ODA is logged to avoid extreme distortion.

² Cingranelli, David L., David L. Richards, and K. Chad Clay. 2014. "The CIRI Human Rights Dataset."

human rights measurements (Powell and Staton, 2009; Kreutz, 2015), we adopt both physical integrity rights and empowerment rights for the empirical tests. The former measures the level of human rights by using the indicators of torture, extrajudicial killing, political imprisonment, and disappearance, varying from 0 with no government respect to 8 with full government respect. Empowerment rights include the indicators of foreign movement, domestic movement, freedom of speech, freedom of assembly and association, workers' rights, electoral self-determination, and freedom of religion, varying from 0 with no government respect to 14 with full government respect.

We include other control variables such as Polity IV, logged GDP per capita, trade volume, logged population, infant mortality rate, cold war, and regional dummies of America, Europe, Africa, Middle East, and Asia. These control variables reflect the political, economic, and social conditions of recipient countries. By following the other empirical studies of foreign aid, we control these variables (Neumayer 2003; Fleck and Kilby, 2010). Polity IV reflects the level of democracy varying from -10 (full authoritarian) to 10 (full democracy).³ This is important to be included to reflect the level of democracy since the EU has emphasized the importance of democracy promotion in recipient countries. Logged GDP per capita and trade volume is related recipient's economic situations. The higher GDP per capita is, the less amount of ODA is needed. Thus, donors tend to decrease the amount of ODA to relatively richer countries. Trade volume is the percentage of trade of GDP. To control the size of recipients, we also include logged population. The infant mortality rate reflects the socio-economic status of recipients. These four variables are from the World Development Indicators.⁴ Since the EU does not have

<http://www.humanrightsdata.com>. Version 2014.04.14.

³ See the website of Polity IV project (<http://www.systemicpeace.org/polity/polity4.htm>).

⁴ See the website of World Development indicators (<http://data.worldbank.org/data-catalog/world-development-indicators>).

an official alliance, it is difficult to control strategic factors related to the security. Thus, we only include the dummy variable of cold war.

Results

Interpreting factor analysis results is a more flexible process than for many other statistical techniques. The results are reported as a table in which the columns represent factors, potential dimensions of covariance among the variables. Each factor has an eigenvalue that reflects its strength as an identified latent explanatory variable. The commonly accepted threshold for regarding a factor as meaningful is an eigenvalue greater than or equal to 1. Only the first two factors have eigenvalues above the threshold. Figure 1 below shows a scree plot of the eigenvalues for each of the factors produced by our analysis. A second way to assess the strength of factors is to interpret the results from those factors that appear “above the elbow” in a scree plot. The “elbow” is the point in a scree plot in which the line in the plot levels off giving the impression of an elbow. In other words, it is the point where the differences in eigenvalues between the factors continue to decrease but at significantly decreased rate. In our case, the scree plot shows that only the first two factors are above the elbow, thus confirming the focus on the first two factors.

INSERT FIGURE 1 HERE

Interpreting the factors in more detail requires examining the loading values for variable on the two interpretable factors we have identified in the analysis thus far. Table 1 below presents the loading values for the first two factors in our analysis. A common rule of thumb for interpreting the loading factors is to view those values with an absolute value of .4 or higher as “loading together” on the dimension represented by that factor. Some scholars will occasionally

take values as low as .35 as indicating some substantive meaning. For our purposes we will discuss values above .35 but give greatest weight to values above .4⁴

INSERT TABLE 1 HERE

The first factor in our analysis has loading values above .4 for the foreign aid disbursements of Denmark, Finland, Ireland, the Netherlands and Sweden. These are indicated with bold font. The loading values for the EU foreign disbursements themselves and those of the U.K. are both between .35 and .4 and are indicated with italics. In the case of the EU foreign aid measure, its loading value of .3796 is the highest value it achieved on any factor. This suggests that the first factor is the best fit with EU foreign aid. The value for the U.K.'s foreign aid disbursements is substantially higher on factor 2 than on the first factor. This suggests that the U.K.'s foreign aid disbursement pattern is moderately associated with the EU foreign aid and the patterns exhibited by Nordic member states, Ireland and the Netherlands. However, none of the other large member states' foreign disbursements are even moderately associated with the EU's foreign aid policy. At the same time, the foreign aid policies most closely associated with those of the EU are those of the smaller member states such as Denmark and Sweden.

The second factor in our analysis exhibits loading values greater than .4 for the foreign aid disbursements of Austria, France, Germany, Italy, and the United Kingdom. This dimension suggests that the largest powers in the EU have very similar foreign aid policies to each other. However, their foreign policies are not as closely linked to those of the EU as a whole. In particular, the second factor underscores that the relationship between British foreign aid policy and the policies of the other large member states is stronger than it is with EU foreign aid.

Hypothesis 1 proposed that EU foreign aid policy should be most highly correlated with the foreign aid policies of the largest member states, especially France, Germany and the U.K.

Hypothesis 2 posited that the member states with the least controversial foreign aid agendas would most closely associated with EU foreign aid. They show two distinct dimensions to the issue space of EU foreign aid. The first, and most closely associated with EU foreign aid policy itself, is dominated by Scandinavian member states, Ireland and the Netherlands. This is consistent with Hypothesis 2. The second dimension is dominated by the larger member states but is not closely linked to EU foreign policy. Taken together these results fail to support the first hypothesis but are consistent with the second hypothesis.

Hypothesis 3 states that aid recipients with better human rights records are more likely to receive a higher amount of foreign aid from the EU. The results of time-series cross-sectional analyses with fixed-effects and random-effects models in Table 2 and 3 significantly support this hypothesis. Table 2 shows that physical integrity rights have a significant and positive impact on the amount of EU foreign given to aid recipients as Models 1, 2, 3, and 4 show. It means that recipient countries with the physical integrity rights such as such as torture, extrajudicial killing, political imprisonment, and disappearance receive a higher amount of ODA from the EU. This findings are aligned with the core ideas of the EU, not reflecting the more powerful members' interests as other studies show (Schneider and Tobin, 2013).

Table 3 contains very similar results to those shown in Table 2. Empowerment rights are also positively and significantly related to the amount of EU foreign aid. Both findings imply that the EU does consider human rights conditions, whether it is physical integrity or empowerment rights, in recipients when it provides foreign aid. In both Table 2 and 3, polity IV scores also have a significant and positive relationship with EU foreign aid allocation. The more democratic aid recipient governments are, the higher amount of foreign aid they receive from the

EU.⁵ Both variables support the idea that the foreign aid allocation of the EU follows the core values of the EU.

The significant and positive relationships between the amount of ODA provided by the EU and human rights imply that human rights can function as the common denominator of the EU foreign policy as we mentioned earlier. This findings are aligned with the second hypothesis, institutionalists' expectation. As more integration within the EU, the more common values of the EU, e.g. human rights and democracy, can influence the foreign aid decisions of the EU. This might be the results of the EU's increased institutional power, especially the EC's power.

INSERT TABLE 2 HERE

INSERT TABLE 3 HERE

Conclusion

We began this paper with the goal of examining the source of EU foreign policy goals. It is commonly argued that EU foreign policy is a tool of the greatest powers that happen to be members of it. In other words, EU foreign policy priorities reflect the priorities of member states like the UK, Germany or France. However, this view ignores the role of institutions in constraining the foreign policy decisions made by the EU. When we examined those institutional features, we found that unanimity voting empowered those member states that were

⁵ In this test, the correlation between democracy and physical integrity rights is not high with 0.393. Meanwhile, the correlation between democracy and empowerment rights are substantively high, 0.733 since empowerment rights are more directly related to the level of democracy. .

most willing to veto the decision rather than those thought of as the most power in traditional terms. We argued that the member states with the most restrictive criteria for disbursing foreign aid would be the drivers of EU foreign policy. Our findings showed that EU foreign policy most closely resembled the foreign aid policies of the Nordic member states, Ireland and the Netherlands. We inferred that the common denominator of this particular group of member states was a high expectation for positive human rights records for countries to which they assign foreign aid. The result is, as our regression results show, that the human rights record of a potential recipient country is a significant predictor of EU foreign aid. This result holds when we control for the wealth, location, and cold war role of the potential recipients.

Our results add to the mounting evidence that EU policy is more heavily constrained by institutional structures than by power politics between the member states. That we find that institutional theories do a better job of explaining EU policy than do intergovernmentalist theory *even in policy areas presumed to be dominated by power politics*, gives even great weight to the significance of the institutional explanation.

Furthermore, our results suggest that human rights is an important component of EU foreign policy. This much is not a surprise for a community of largely long established democratic states. However, our findings provide substantial circumstantial evidence that the source of this emphasis on human rights is the unanimity decision making rule for foreign aid policy. In short, we suggest that the EU's institutional structures are the source of at least one important aspect of EU foreign policy.

Our findings have implications beyond the EU. If institutional constraints can guide EU foreign policy priorities, we should expect similar constraints to exist in other foreign policy

actors. In that sense, our approach is very much in the tradition of the *two-level games* approach to international relations (Putnam 1988).

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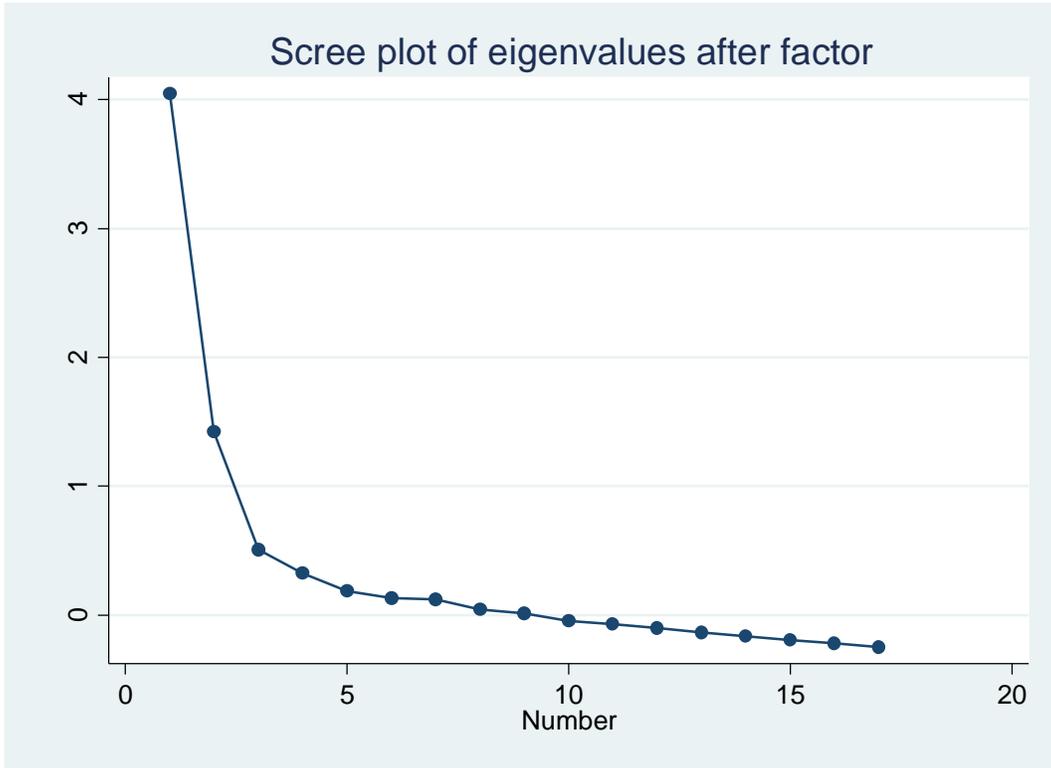


FIGURE 1: Scree Plot of Eigenvalues derived from principal factor analysis with verimax rotation.

TABLE 1: Loading Values for Factors 1 and 2

| Variable | Factor 1 | Factor 2 |
|-------------------|-----------------|-----------------|
| EUAid | .3796 | .1652 |
| Germany Aid | .2200 | .8102 |
| France Aid | .0256 | .5283 |
| UK Aid | .3594 | .5419 |
| Sweden Aid | .7838 | .1231 |
| Spain Aid | .1252 | .2256 |
| Portugal Aid | .1341 | -.0137 |
| Netherlands Aid | .6281 | .2503 |
| Luxembourg Aid | .1558 | .0011 |
| Italy Aid | .2032 | .6625 |
| Ireland Aid | .5596 | .0049 |
| Greece Aid | .0388 | .0491 |
| Finland Aid | .6807 | .3001 |
| Denmark Aid | .7862 | .1186 |
| Belgium Aid | .1339 | .3251 |
| Austria Aid | .0659 | .5938 |
| CIRI Human Rights | .1282 | -.0644 |

TABLE 2: European Union Official Development Assistance from 1981 to 2011 with Physical Integrity Rights

| | Fixed-Effects Models | | Random-Effects Models | |
|--|----------------------|-----------|-----------------------|-----------|
| | (1) | (2) | (3) | (4) |
| Physical Integrity Rights _{t-1} | 0.509*** | 0.197*** | 0.497*** | 0.176*** |
| | (0.031) | (0.038) | (0.030) | (0.038) |
| Polity _{t-1} | | 0.056*** | | 0.057*** |
| | | (0.019) | | (0.018) |
| Logged GDP per capita _{t-1} | | -0.667** | | -1.805*** |
| | | (0.267) | | (0.204) |
| Trade _{t-1} | | 0.006** | | 0.004 |
| | | (0.003) | | (0.003) |
| Logged Population _{t-1} | | -3.171*** | | 0.431** |
| | | (0.579) | | (0.178) |
| Infant Mortality Rate _{t-1} | | -0.051*** | | -0.026*** |
| | | (0.007) | | (0.006) |
| Cold War | | -1.355*** | | -0.950*** |
| | | (0.213) | | (0.183) |
| America | | | | 0.852 |
| | | | | (1.806) |
| Europe | | | | -2.095 |
| | | | | (1.896) |
| Africa | | | | 1.784 |
| | | | | (1.763) |
| Middle East | | | | -2.373 |
| | | | | (1.854) |
| Asia | | | | -1.208 |
| | | | | (1.843) |
| Constant | 11.905*** | 72.540*** | 11.946*** | 21.776*** |
| | (0.126) | (9.717) | (0.409) | (3.621) |
| N of Countries | 151 | 124 | 151 | 124 |
| N | 4,681 | 3,375 | 4,681 | 3,375 |

Note: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

TABLE 3: European Union Official Development Assistance from 1981 to 2011 with Empowerment Rights

| | Fixed-Effects Models | | Random-Effects Models | |
|--------------------------------------|----------------------|----------------------|-----------------------|----------------------|
| | (1) | (2) | (3) | (4) |
| Empowerment Rights _{t-1} | 0.321*** (0.020) | 0.146*** (0.029) | 0.325*** (0.020) | 0.142*** (0.028) |
| Polity _{t-1} | | 0.033 (0.020) | | 0.029 (0.020) |
| Logged GDP per capita _{t-1} | | -0.527** (0.268) | | -1.726*** (0.204) |
| Trade _{t-1} | | 0.007** (0.003) | | 0.005 (0.003) |
| Logged Population _{t-1} | | -3.016*** (0.581) | | 0.402** (0.178) |
| Infant Mortality Rate _{t-1} | | -0.050*** (0.007) | | -0.027*** (0.006) |
| Cold War | | -1.253*** (0.213) | | -0.912*** (0.183) |
| America | | | | 0.649 (1.816) |
| Europe | | | | -1.839 (1.906) |
| Africa | | | | 2.047 (1.773) |
| Middle East | | | | -2.043 (1.865) |
| Asia | | | | -0.954 (1.853) |
| Constant | 11.793*** (0.135) | 68.721*** (9.782) | 11.772*** (0.394) | 21.221*** (3.643) |
| N of Countries | 151 | 124 | 151 | 124 |
| N | 4,681 | 3,375 | 4,681 | 3,375 |

Note: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1