

Political Aid Cycles

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Motivation

Core Results

Buying What?

Implications

Conclusion

- Top research priority in development
- Empirical work accelerated following Boone (1994)
 - Focus on effectiveness at promoting growth / reducing poverty
 - Little consensus
- Where next?
 - Heterogenous impacts? (Burnside-Dollar 2000, Easterly-Levine-Roodman 2004)
 - Better instruments? (Bazzi-Clemens 2009, Werker-Cohen 2009)
 - Negative mechanisms? (Rajan-Subramanian 2005, Heckelman-Knack 2008)
 - Heterogenous aid? (Clemens-Radelet-Bhavnani 2004)

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- Common theme is focus on growth/poverty outcomes
- Makes sense: ODA is defined as
 - Grants or concessionary loans
 - Undertaken by the official sector;
 - With **promotion of economic development and welfare as the main objective;**
 - Excluding transfers for military purposes;
 - Excluding transfers to private individuals.

“To those peoples in the huts and villages across the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required - not because the Communists may be doing it, not because we seek their votes, but because it is right. If a free society cannot help the many who are poor, it cannot save the few who are rich.”

— John F. Kennedy (1961 Inaugural Address)

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Case of 2006 Palestinian Elections:

- U.S. supported Palestinian Authority faced strong opposition from Hamas
- Immediately before election USAID funded
 - Distribution of free food and water,
 - Street cleaning campaign,
 - Computers for community centers, and a
 - National youth soccer tournament

“...the plan is to have events running every day of the coming week, .. such that there is a constant stream of announcements and public outreach about positive happenings all over Palestinian areas in the critical week before the elections.”

— Report distributed to USAID and State Department officials (Washington Post, 2006)

Do donors systematically intervene in foreign elections by adjusting aid flows?

- Unclear: frequency of demand and availability of substitute methods
- Implications:
 1. Looking at development impacts of this aid will not estimate marginal TEs of infrastructure (say)
 - Political IVs likely pick out the “wrong” components of aid
 2. More work on political impacts of aid makes sense
 - Per se (e.g. voting)
 - As a channel to development impacts: leader selection (Jones-Olken 2005)

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- Look at bilateral aid flows (*drt* observations, *dr* FEs)
- Look at *differential* effects of executive elections by geopolitical alignment of donor and incumbent recipient administration
- Find large aid cycles
 - No mean election-year effect
 - High-alignment recipients get more aid
 - Low-alignment recipients get less aid
- Interpretation tests
 - Concentrated in competitive elections
 - (Weakly) opposite patterns in US NED funding to non-government groups
- Characterization: what kinds of leaders are we selecting?
- What do political instruments estimate?

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- ODA: OECD DAC, 1975-2004, constant 2004 \$ US
- Election-facilitating aid: DAC CRS
- Elections, competitiveness: WB Database of Political Institutions (Beck, Clarke, Groff, Keefer, Walsh 2005)
- Alignment: UN Voting (Voeten 2005)
- Corruption: ICRG index
- National Endowment for Democracy aid: home-made
- Demographic & Economic controls: World Development Indicators (World Bank, 2005)

Focus on 5 largest donors: US, Japan, Germany, France, UK – 77% of aid commitments

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How might aid influence election outcomes?

- Social spending (Levitt & Snyder 1997)
 - Directly
 - Indirectly as a signal of candidate quality (Rogoff 1990)

- Diversion to campaign finance

- Voters update beliefs about candidate

- Voters update beliefs about candidate's propensity to get aid

Are There Direct Election Effects?

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$$ODA_{drt} = \alpha_{dr} + \delta ELEC_{rt} + X'_{drt}\beta + \epsilon_{drt}$$

- ϵ_{drt} multi-way clustered
- Views that predict a significant δ :
 - Endogenous election timing
 - Recipient requests view
 - Elections and effectiveness at promoting development
 - Could be more effective (incentives)
 - Could be less effective (conflict, patronage)
- Influence view predicts $\delta_1 = 0$

Results: No Direct Election Effect

Regressor	I	II	III	IV
Exec. Election	2.218 (4.589)	2.183 (3.29)	-1.093 (3.552)	0.428 (3.275)
Population				-0.439 (0.374)
GDP				0.22 (0.073)***
Population (Donor)				-4.018 (0.83)***
GDP (Donor)				0.045 (0.01)***
Donor/Recipient FEs	Y	Y	Y	Y
Year FEs	N	Y	N	N
Recipient Trends	N	N	Y	N
N	15315	15315	15315	13495
R^2	0	0.003	0.018	0.006

Robust standard errors clustered by donor, recipient, and year in parenthesis. Statistical significance is denoted as: * $p < 0.10$,

** $p < 0.05$, *** $p < 0.01$

Are There Differential Election Effects?

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$$ODA_{drt} = \alpha_{dr} + \delta_1 UN_{drt} + \delta_2 ELEC_{rt} + \delta_3 ELEC_{rt} * UN_{drt} + X'_{drt} \beta + \mu_{drt}$$

- UN_{drt} : % of UN votes for which both countries voted the same way, averaged over incumbent recipient term
- Following Alesina & Dollar 2000, *not* necessarily meant to imply vote-buying a la Kuziemko & Werker
- Examples: in 2004 US was most aligned with Israel (0.96) and least aligned with North Korea (0.02); France was *least* aligned with Israel (0.51) and most aligned with Slovenia (0.98)
- 2004 Pew Global Attitudes Survey: US-recipient UN Votes negatively correlated with
 - Percent taking a favorable view of the US ($\rho = -0.22, p = 0.26$)
 - Percent believing US takes into account interests of countries like theirs ($\rho = -0.35, p = 0.07$)

Results: Differential Election Effect

Regressor	I	II	III	IV
UN Agreement	-36.678 (24.295)	-16.45 (21.303)	-54.914 (20.492)***	-81.142 (40.855)**
Exec. Election	-25.671 (8.532)***	-27.346 (9.848)***	-31.232 (8.053)***	-23.102 (7.395)***
UN Agreement * Exec. Election	43.081 (16.568)***	45.458 (17.687)**	46.563 (15.682)***	36.734 (14.374)**
Population				-0.447 (0.379)
GDP				0.228 (0.074)***
Population (Donor)				-4.43 (0.852)***
GDP (Donor)				0.048 (0.009)***
Donor/Recipient FEs	Y	Y	Y	Y
Year FEs	N	Y	N	N
Recipient Trends	N	N	Y	N
N	15315	15315	15315	13495
R^2	0	0.004	0.019	0.007

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Two standard deviation change in alignment → \$19 million more aid

- At $\mu + \sigma$ alignment this is a +\$11 million effect
- At $\mu - \sigma$ alignment this is a -\$8 million effect
- Relative to bilateral aid flows
 - 33% of mean bilateral aid
- Relative to election expenses
 - Little known for sure
 - \$6-\$10 million guestimates for recent Kenyan presidential campaigns
 - Vicente (2007): votes cost \$4.20 in Sao Tome and Principe's presidential election

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Influence hypothesis predicts

- Effects concentrated in competitive elections
 - Caveat: unclear how importance of outcome varies with competitiveness

- No or opposite patterns in aid flows to non-government organizations

Are Effects Stronger in Close Elections?

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$$\begin{aligned} ODA_{drt} = & \alpha_{dr} + \delta_1 UN_{drt} + \delta_2 ELEC_{rt} + \delta_3 NONCOMP_{rt} \\ & + \delta_4 ELEC_{rt} * UN_{drt} * NONCOMP_{dt} \\ & + \delta_5 ELEC_{rt} * UN_{drt} + \delta_6 ELEC_{rt} * NONCOMP_{rt} \\ & + \delta_7 UN_{drt} * NONCOMP_{rt} + X'_{drt} \beta + \mu_{drt} \end{aligned}$$

Two complementary measures of $NONCOMP_{rt}$ (both from DPI):

- Whether winner's share exceeded 75%
 - E.g. Zimbabwe in 1996: Mugabe wins with 93%
 - Strengths: objective,
 - Limitations: availability (1/5 sample), potential endogeneity

- Whether multiple parties were allowed
 - Strengths: widely available, objective
 - Weaknesses: coarse

Effects Are Limited To Close Elections

Regressor	I	II	III	IV	V	VI
UN Agreement	-15.707 (33.949)	-6.744 (13.574)	-32.429 (21.2)	-38.916 (22.608)*	-18.687 (20.08)	-52.449 (22.607)**
Exec. Election	-15.973 (8.887)*	-16.519 (8.906)*	-20.088 (8.613)**	-42.758 (13.51)***	-43.488 (14.639)***	-47.31 (12.778)***
UN Agreement * Exec. Election (δ_4)	21.738 (13.426)	22.641 (13.57)*	24.513 (14.22)*	63.478 (23.365)***	65.564 (24.683)***	65.776 (22.194)***
Noncomp. (%) (δ_3)	-4.533 (3.132)	-2.846 (6.946)	-7.407 (4.859)			
UN * Noncomp. (%)	-2.959 (6.988)	1.744 (8.84)	-0.175 (4.747)			
Noncomp. (%) * Elec. (δ_5)	16.146 (7.662)**	15.672 (7.215)**	21.711 (7.978)***			
UN * Noncomp. (%) * Elec. (δ_7)	-20.454 (3.643)***	-20.97 (5.848)***	-26.414 (7.917)***			
Noncomp. (EIEC) (δ_3)				-4.861 (7.755)	-7.57 (15.908)	2.916 (15.071)
UN * Noncomp. (EIEC)				-7.273 (18.679)	-4.212 (16.483)	-13.918 (21.301)
Noncomp. (EIEC) * Elec. (δ_5)				40.829 (14.91)***	39.947 (14.578)***	38.7 (17.571)**
UN * Noncomp. (EIEC) * Elec. (δ_7)				-50.811 (22.692)**	-51.08 (22.787)**	-46.886 (24.846)*
$\delta_3 + \delta_5 = 0$ (p-value)	0.99	0.94	0.88	0.59	0.52	0.33
$\delta_4 + \delta_7 = 0$ (p-value)	0.94	0.92	0.91	0.19	0.18	0.15
Donor/Recipient FEs	Y	Y	Y	Y	Y	Y
Year FEs	N	Y	N	N	Y	N
Recipient Trends	N	N	Y	N	N	Y
N	3315	3315	3315	15305	15305	15305
R ²	0.000	0.000	0.000	0.000	0.000	0.000

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- Value: unobservables related to aid effectiveness, say, should generate similar patterns here
- No systematic cross-donor data
- US: National Endowment for Democracy
 - Established 1983 under Reagan to promote democracy
 - 99% in annual revenue (\$110 million) from federal govt
 - Stated policy: “not [to] pick and choose among the democratic competitors in countries where such competition is possible”
 - But... funded opposition groups to Nobel Laureate Oscar Arias (Costa Rica), who clashed with Reagan over Contras
 - We obtained data for 1990-2005

NED Cycles Oppose ODA Cycles

Regressor	I	II	III	IV	V (ODA)
UN Agreement	-0.07 (0.11)	0.052 (0.054)	-0.036 (0.082)	-0.023 (0.068)	-354.479 (150.97)**
Exec. Election	0.054 (0.058)	0.063 (0.053)	0.05 (0.043)	0.067 (0.054)	-140.143 (71.982)*
UN Agreement * Exec. Election	-0.137 (0.159)	-0.179 (0.14)	-0.127 (0.097)	-0.191 (0.142)	484.226 (256.728)*
Population				-0.001 (0.002)	
GDP				0.002 (0)***	
Population (Donor)				0.002 (0.002)	
GDP (Donor)				0 (0)	
Donor/Recipient FEs	Y	Y	Y	Y	Y
Year FEs	N	Y	N	N	N
Recipient Trends	N	N	Y	N	N
N	1601	1601	1601	1511	1601
R^2	0.002	0.025	0.452	0.201	0.004

What Are Donors Selecting For?

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- Essential for understanding impact on development
- We take two approaches
 1. Experiment with measures other than UN alignment
 - Relatively clear interpretation
 - Limited availability
 2. Omnibus test for agreement of cycles across donors
 - Intuition: if ours results are driven by some leader characteristic that all donors desire, cycles should match up
 - Does *not* let us reject the hypothesis that some leader characteristic orthogonal to UN alignment matters

Do Other Measures Generate Similar Results?

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- Few measures with extended coverage available
- We use ICRG corruption index
 - Subjective measure of “excessive patronage, nepotism, job reservations, favor-for-favors, secret party funding and suspiciously close ties between politics and business”.
 - Available from 1982 and for 90 recipients
 - Rescaled to $[0, 1]$ for comparability with UN votes (higher = more corrupt)

Do Donors Value Governance?

Regressor	I	II	III	IV	V	VI	VII
UN Agreement	-69.479 (71.651)	-31.054 (52.954)	-72.197 (52.383)				-67.497 (68.279)
Exec. Election	-43.443 (12.433) ^{***}	-43.462 (13.412) ^{***}	-48.39 (10.341) ^{***}	21.628 (17.156)	22.322 (16.872)	29.19 (20.542)	-43.376 (12.485) ^{***}
UN Agreement * Exec. Election	65.498 (23.416) ^{***}	67.681 (25.068) ^{***}	69.022 (21.056) ^{***}				65.006 (23.5) ^{***}
Corruption				32.799 (25.107)	42.025 (27.802)	29.003 (40.126)	26.443 (19.843)
Corruption * Exec. Election				-43.382 (30.004)	-42.076 (28.275)	-61.686 (44.138)	
Donor/Recipient FEs	Y	Y	Y	Y	Y	Y	Y
Year FEs	N	Y	N	N	Y	N	N
Recipient Trends	N	N	Y	N	N	Y	N
N	8340	8340	8340	8340	8340	8340	8340
R^2	0.001	0.004	0.028	0	0.004	0.027	0.001

Second Approach: Donor Decomposition

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Decompose

$$UN_{drt} \equiv \overline{UN}_{rt} + \widetilde{UN}_{drt}$$

- If donors favor common leader attributes (e.g. competence) then the common component should drive the results
- If donors care only about bilateral relationships then both components should have similar effects
- We enter both components as separate regressors and interactions with elections

Idiosyncratic Components Drive the Results

Regressor	I	II	III	IV
UN Donor Avg.	-23.455 (27.936)	25.292 (23.867)	-53.314 (33.786)	-39.641 (36.092)
UN Residual	-53.023 (8.487)***	-53.023 (25.197)**	-53.023 (16.871)***	-179.88 (66.536)***
Exec. Election	1.163 (16.18)	-5.853 (16.089)	-15.374 (11.261)	-1.525 (11.13)
UN Donor Avg. * Exec. Election (δ_4)	1.78 (26.162)	12.165 (28.92)	22.168 (22.602)	3.771 (21.309)
UN Residual * Exec. Election (δ_5)	51.59 (18.808)***	51.59 (19.323)***	51.59 (18.495)***	40.753 (17.12)**
Population				-0.424 (0.374)
GDP				0.226 (0.074)***
Population (Donor)				-4.941 (0.759)***
GDP (Donor)				0.051 (0.008)***
$\delta_4 = \delta_5$ (p-value)	0.18	0.27	0.38	0.22
Donor/Recipient FEs	Y	Y	Y	Y
Year FEs	N	Y	N	N
Recipient Trends	N	N	Y	N
N	15315	15315	15315	13495
R^2	0.001	0.004	0.019	0.008

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- For welfare
- For empirical work on aid effectiveness

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- Counterfactual: constrain donors to election-blind aid policies
 - Direct effects hinge on whether aid is differentially more effective in election years for aligned incumbents (hard to believe)
 - Indirect effects: leader selection
 - Clearly important
 - No compelling evidence that aid cycles select leaders with good traits

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If aid can be used for political ends as well as development, what do political instruments estimate?

- Two outcomes, “welfare” w and “politics” p
- Two kinds of aid a_p, a_w

$$w = w(a_w, a_p; \theta)$$

$$p = p(a_w, a_p; \gamma)$$

- Could be perfect substitutes
- Could be entirely distinct
- θ, γ exogenous shocks that preclude OLS

Defining “Effectiveness”

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- Two outcomes so two notions of a “return” to aggregate aid a
- Define problems

$$w(a; \theta) \equiv \max_{a_w + a_p \leq a} w(a_w, a_p; \theta)$$

$$p(a; \gamma) \equiv \max_{a_w + a_p \leq a} p(a_w, a_p; \gamma)$$

- Then can define returns

$$r_w(a) \equiv E \left[\frac{d}{da} w(a; \theta) \right]$$

$$r_p(a) \equiv E \left[\frac{d}{da} p(a; \gamma) \right]$$

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- Donors maximize

$$u(a_w, a_p; \theta, \gamma) = \pi_w w(a_w, a_p; \theta) + \pi_p p(a_w, a_p; \gamma) - (a_w + a_p)$$

- π_w, π_p are taste shocks; $\sigma_x^2 = V(\pi_x)$

- A typical “political” instrument might capture part of π_p

- UN voting
- Former colony status

- Solutions

$$a_w^* = a_w(\theta, \pi_w, \gamma, \pi_p)$$
$$a_p^* = a_p(\theta, \pi_w, \gamma, \pi_p)$$

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- Distrusts OLS of w on $a = a_w + a_p$ since unobserved θ, γ will introduce bias (e.g. more aid during famine)
- Observes an instrument $z = g(\pi_w, \pi_p)$
- To a first-order approximation

$$\hat{\beta}_z \rightarrow \left(\frac{\lambda_w}{\lambda_w + \lambda_p} \right) w_1(\bar{a}_w, \bar{a}_p, \bar{\theta}) + \left(\frac{\lambda_p}{\lambda_w + \lambda_p} \right) w_2(\bar{a}_w, \bar{a}_p, \bar{\theta})$$

$$\lambda_w \equiv \sigma_w^2 g_1 \frac{\partial a_w}{\partial \pi_w} + \sigma_p^2 g_2 \frac{\partial a_w}{\partial \pi_p}$$

$$\lambda_p \equiv \sigma_w^2 g_1 \frac{\partial a_p}{\partial \pi_w} + \sigma_p^2 g_2 \frac{\partial a_p}{\partial \pi_p}$$

- If the instrument g responds mainly to π_p and $\frac{\partial a_w}{\partial \pi_p}$ is small we pick up mainly w_2
- Note $\frac{\partial a_w}{\partial \pi_p}$ could even be negative!

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Donors use ODA to influence election outcomes

- Effects are large relative to typical aid flows and election expenditures
- Effects are concentrated in close elections
- Weakly opposite patterns in aid to NGOs
- Results driven more by idiosyncratic donor preferences than common recipient attributes

Implications

- Aid “effectiveness” should be conceptualized in this dimension as well
- Measuring effectiveness for development is subtle
- Political IVs unlikely to estimate an interesting policy parameter