

# **Ambivalent Answers to Important Questions: The Relationship between Foreign Aid and Democracy<sup>†</sup>**

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## Abstract:

The notion of “democracy promotion” has found its way into many different facets of international relations and foreign policymaking since the early 1990s. Increasingly, foreign aid has become a tool used by democracies in attempts to promote the emergence or consolidation of democracy in other countries. But what is the relationship between foreign aid and democracy? Does foreign aid promote democracy? If so, how? Conversely, does the relationship flow in the opposite direction? Do higher levels of democracy attract foreign aid as a reward? This article attempts to organize the literature on these and other important questions in order to establish what is known about the relationship between foreign aid and democracy along with what still needs to be determined. It argues that despite the high stakes in terms of policy implications, the study of the relationship between foreign aid and democracy continues to be plagued by a number of conceptual and methodological ambiguities, leaving us with ambivalent answers to important questions. Moving forward, we need more nuanced understandings of both the processes and mechanisms which drive democratization as well as the nature of the domestic political economies in donor countries that often guide the provision of foreign aid.

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The promotion of democracy in other countries, particularly those deemed strategically important to the promoter, has long been a goal of foreign policy. Democracy promotion in Latin America, for example, has been an explicit goal of United States' foreign policy going back to the Carter administration (Lowenthal 1991, vii). However, the "third wave" of democratization (Huntington 1991) coupled with end of the Cold War ushered in a new and seemingly larger opportunity to restructure world politics, an opportunity which had not been seen since the end of World War II. From the first Bush administration's emphasis on a "new world order," to the emphasis on a "unipolar moment" espoused by budding neo-conservatives, the debate raged as to the grand strategy that would underpin the foreign policies of the United States and the rest of the developed world. One vision that steadily took hold was that the world was amidst a "democratic moment," a moment in which encouraging the transition to and development of democracy would need to be key strategic goals (Diamond 1992). Indeed, during the last ten years, democracy has more increasingly been touted as a universal value (Sen 1999).

Particularly since the early 1990s, this notion of "democracy promotion" has taken off in many respects and found its way into a number of different facets of international relations and foreign policymaking (McFaul 2004). It is argued, for example, that the role of democracy in international law has changed, particularly since the end of the Cold War, and a new norm of democracy is being injected into the bylaws and operating procedures of particular instruments of regional and international governance (Rich 2001). This norm has also found its way into individual countries' foreign policies, particularly the United States, which since 9/11 has tied the promotion of democracy to its own security imperatives (McFaul 2004; The White House 2002, 4).

In a worldwide attempt to meet this goal, the provision of foreign aid has become a particularly important foreign policy tool. Indeed, the Office of Democracy and Governance has become an increasingly important department within USAID, the government agency through

which the United States provides foreign aid. Outside of the U.S., many members of the OECD Development Assistance Committee (DAC) have explicitly stated the promotion of “good governance” as a main goal of their development assistance programs (e.g., Federal Ministry for Economic Cooperation and Development 2002). On a multilateral level, EuropeAid, the Office of Development Cooperation for the European Union, has the “European Initiative for Democracy and Human Rights” as one of its major development assistance themes. In addition, the World Bank (WB) has stated the promotion of democratic values and good governance as a major aim of its aid program (Adams 2001; World Bank 1998).

But despite the fact that foreign aid is being used as a tool to promote democracy, we know surprisingly little about aid’s actual ability to accomplish this task. In fact, there has been relatively little progress in coming to a consensus on the nature of the relationship between aid and democracy more generally. There are a number of important questions which the literature should be able to answer: Does foreign aid actually promote democracy? If so, what are the mechanisms through which this is best accomplished? Conversely, does the relationship flow in the opposite direction? Does the existence of democracy in a recipient country lead to its receipt of more foreign aid? If so, how much more aid are countries that are relatively more democratic likely to receive from international aid donors compared with other potential aid recipients? Finally, what can be said about the relationship between democracy and aid, where democracy might act as either a positive or negative intervening variable, affecting foreign aid’s ability to accomplish other goals? For example, does democracy foster or inhibit foreign aid’s ability to promote economic growth and development? What are the mechanisms behind this relationship? These are important questions, and while a large amount of research has been conducted in an attempt to answer them, there are very few findings that cannot be contradicted by the findings of others. In the end, the number of widely accepted conclusions that can be drawn from this research is very small.

This article reviews the literature on these and other important questions. Its goal is to establish what is known about the relationship between foreign aid and democracy as well as what still needs to be determined. I argue that despite the high stakes in terms of important policy implications, the study of this relationship continues to be mired in a number of conceptual and methodological ambiguities, leaving us with ambivalent answers to important questions. Moving forward, we need more nuanced understandings of both the processes and mechanisms that drive democratization as well as the nature of the domestic political economies that often guide the provision of foreign aid in donor countries and the receipt of foreign aid in developing ones.

The article proceeds as follows: In the first section, I establish the importance of the topic through a brief examination of the OECD data on foreign aid, specifically focusing on the increasing importance that is being placed on aid or development assistance as a means of promoting democratization in recipient countries. Second, I examine the historical and continued difficulty in establishing conceptual specificity for both the terms *democracy* and *aid*, and argue that these conceptual issues continue to be the main obstacle to achieving some intellectual consensus about any relationship that might (or might not) exist between the two. The third and the fourth sections, respectively, break the literature examining the relationship between democracy and aid into two sub-questions. The first question generally focuses on the effects of foreign aid, asking “How does foreign aid effect democracy?” The second focuses on the on the determinants of foreign aid and asks, “Does the presence or absence of democracy in recipient countries have any affect on the amount of aid donors are willing (or not willing) to provide?” The fifth section examines the other ways that aid and democracy have been tied together in the literature. And by way of conclusion, the final section reexamines the questions posed above and posits constructive ways to move the research agenda forward.

*What's at stake in our ability to understand democracy and foreign aid?*

During the past fifteen years, the promotion of democracy has become an important part of development assistance and cooperation (Carothers 1996; McFaul 2004; Santiso 2001; Stokke 1995; Sørensen 1993; Woods 2005). The notion of *good governance*, for example, has become particularly salient within the lexicon of development practitioners as well as within foreign policy rhetoric more generally. It is a term that has taken on a wide variety of meanings. Traditionally it referred to sound administration and management and more specifically, the recipient country's ability to make expedient and efficient use of the foreign assistance which it received. However, as a policy metaphor, *good governance* has more recently come to be equated with a broader focus on the how the process of politics is enmeshed in larger political structures, namely regime type (Doornbos 2001, 95). Armed with a way to discuss these issues without directly interfering in the business of sovereign nations, many developing countries have begun to stipulate that good governance be a key criterion on which potential recipient countries are judged.

This overall focus on what were, if not in name, then in practice, democratic principles led to a number of new policies. The goal is to link development assistance with good governance as a vehicle for promoting democratization. In the United States, for example, a number of specific agencies, not just USAID, have been involved in providing assistance to countries in the name of democracy. Carothers (2000) identifies the National Endowment for Democracy (NED), the Department of State, the Department of Defense, the Asia Foundation and the Eurasia Foundation to name a few.

In the few years after 9/11 in particular, as the promotion of democracy has been more intricately linked to U.S. security policy, the United States has created even more institutions linking development assistance with good governance. For example, in March 2002 President Bush laid out plans for a new Millennium Challenge Account (MCA). Viewing the promotion of democracy as

part and parcel of the larger war on terror, the administration pledged to direct a portion of U.S. development assistance toward poor countries that could show evidence of sensible economic policies and good governance. This aid would be in the form of grants, and would be given as a reward for the demonstration of good governance *ex-post*, not as an *ex-ante* incentive toward achieving such policies (Woods 2005, 398). Despite the fact that three years into the process of establishing the MCA only compacts have been established and no disbursements have been made, the mere creation of the MCA – which stands separate from the processes that affect the general USAID account – signals the importance that the United States is placing on the promotion of democracy and on the use of foreign assistance as a powerful tool toward the achievement of that end.

The United States is not alone in its pursuit of democratic objectives nor its use of development assistance as a primary means (Carothers 2000). Recent “Peer Reviews” conducted by the OECD DAC for both Germany and France, two of the world’s largest aid donors in terms of total money spent, point out that good governance is an important goal for both countries. Germany, for example, is noted as “one of the strongest promoters of good governance among the DAC members” (Development Assistance Committee 2001, 42). Germany was one of the strongest supporters of the policy of tying debt relief to good governance when the topic of debt relief was discussed at the G8 Summit in Cologne (43). With respect to France, the peer review notes a similar emphasis. One of the country’s main development goals is the promotion of a “more equitable and peaceful world integration,” and one of the main vehicles through which it hopes to accomplish this goal is by putting issues of democratic governance “at the heart of poverty reduction strategies in every country” (Development Assistance Committee 2004, 24).

On the whole, the DAC donor countries seem to echo this emphasis on good governance and democratic principles. As shown in Figure 1, the official development assistance (ODA) that

has been allocated to “Government and Civil Society” has steadily increased throughout the 1980s and 1990s. In real terms (adjusted to 2003 dollars), the amount given to government and civil society programs was \$151.66 million in 1980. By 2003 that figure had increased over thirty-one times the 1980 amount to \$4.712 billion.

INSERT FIGURE 1 HERE

Figure 2 displays this trend in a more telling way, in terms of total ODA given. In 1980, the amount of ODA designated for government and civil society represented a little over 0.5 percent of total ODA given by DAC donor countries to the developing world. However, by the early 2000s, this percentage increased to almost 9 percent.

INSERT FIGURE 2 HERE

Throughout the last two decades, government and civil society programs have become an increasingly important part of donors’ foreign aid allocations.

A resounding theme in all of the aforementioned is that donor nations have been, and continue to be, explicit in their hopes to promote democracy throughout the developing world. A large amount of money has been poured into non- or fledgling-democracies over the past twenty years, and it appears that this trend will continue well into the future. It is in both the interests of the donor and recipient countries to make sure that this form of development assistance is being well spent. Citizens in donor countries need to know that their tax dollars are being utilized effectively, and citizens in recipient countries – among the most vulnerable people in the world – deserve to have the development resources donated to them put to their best possible uses. An

adequate understanding of the relationship between foreign aid and democracy (in any number of different aspects) and the various mechanisms underlying it would allow donor countries to target their aid more efficiently. It would enable recipient countries to know what programs might be most effective. As the discussion in the next few sections demonstrates, the academic community is still a long way from having this adequate understanding.

### *Democracy and Foreign Aid – Conceptual Issues and Implications*

The task of coming to a commonly-accepted definition of the word *democracy* has proven to be quite difficult for those who study it. In an early approach, Schumpeter (1942) argues for a conceptualization of democracy as a decision-making process. He argues that the essence of democracy can be found in a political competition among elites for votes. He is not as concerned about the outcome – that is, what the government looks like in form or how it behaves in practice – but instead, is only concerned about the electoral process. In doing so, Schumpeter attempts to ground the concept empirically, at the very least setting a minimum standard below which no country can be considered a democracy.

At the other end of the spectrum, many have argued (e.g., Dahl 1989) that a Schumpeterian notion of democracy leaves out important ideas such as equality, information, and citizenship. For Dahl, the fundamental notion that needs to underpin any conceptualization of democracy is equality. He argues that both the formation of government as well as post-formation, political decision-making processes must be based on a fundamental equality that reflects itself in electoral rules and the number of voices heard within any given public debate, to take just two examples. Also important, is the notion that information must flow freely for a country to be considered a democracy, as it is a key element in creating equal competition both in the electoral process and the decision-making process. Finally, for Dahl, citizens, not elites (cf. Schumpeter 1942) are the driving



force behind democracies. Citizens should have a certain amount of political autonomy that allows them the freedom to spell out their own interests.

Throughout the history of the study of democracy, scholars have continued to engage in this debate either explicitly or implicitly, and it has had a large effect on the study of democracy more generally. For example, some recent studies have argued that a more minimalist definition, one that is closer to the Schumpeterian model, is the best empirical measure and also has a positive value associated with it (Przeworski 1999). However, the increasing trend toward a broader conception of what democracy should include has moved some scholars away from a minimalist definition, more towards Dahl's conception. In addition, there is the question of whether one is talking about the transition to democracy or about its consolidation. The key question from both a conceptual and methodological standpoint is where one draws the line separating democracies from non-democracies.

Unfortunately, without a larger consensus on where some of these conceptual lines are drawn, the literature on democracy remains open to greater scrutiny than it might otherwise be. The consumer of this research must always ask the question of how the author's particular conception of democracy is affecting the outcome of the study. While these types of critical questions are certainly not unique to the study of democracy, they do make it difficult to assess the cumulative knowledge gains made within the field. As the definition of democracy is either broadened or narrowed with each successive study, the field of democracy studies in general seems to take one step forward but two steps backward.

The study of foreign aid has also suffered from similar conceptual difficulties. Although most scholars have been able to settle on the OECD definition of foreign aid as relatively universal, there are some that continue to insist that the OECD definition defines the concept too broadly and others who insist that it defines it too narrowly (Thérien 2002). The commonly accepted definition

of foreign aid or official development assistance as outlined by the OECD includes three components. First, the loans and grants must come from the public sector. Second, loans and grants must be given with a specific aim of fostering economic development. Third, the loans and grants must be concessional and contain a grant element of at least 25 percent (Organization for Economic Co-operation and Development 1985). Thérien demonstrates that this definition emerged as a compromise between parties on both ends of the ideological spectrum (2002, 451). Despite the fact that the definition has been agreed upon, there are still some who continue to insist that foreign aid is either defined too narrowly or too broadly. This criticism opens up a series of questions.

Those on the right insist that the accepted definition reflect the widest possible range of assistance activities within a country. They view the definition as too narrow and ask: Why not count any element of grant or loan concession as ODA (not just 25 percent and higher) so long as it has positive effects on the economic development of the recipient country? Why not count military aid in ODA calculations? What about the aid from the private sector? Thus, the argument from the right is that the OECD ODA figure is not a truly accurate representation of the generosity of specific countries. A more accurate representation would take into account the above concerns.

Those on the left insist that the definition be narrowed even further so that governments cannot “over-inflate” and therefore misrepresent their own generosity. They counter the criticisms of the right with the following arguments: Why is the concession threshold so low? True foreign assistance should not have any loan component at all. Military aid should not count toward ODA because it is not given with the aim of fostering economic development. Finally, official assistance should only measure that which is officially given by governments. Privately granted aid should remain a separate and distinct category. Thus, many continue to view the study of foreign aid skeptically, arguing that some of the true effects of aid are not being captured (Thérien 2002).

Given the conceptual debates associated with the studies of both democracy and foreign aid and the fact that both have important implications for the individual study of these subjects, it is not surprising to find that they have similarly large implications for the study of the relationship between the two concepts. In the one most recent quantitative studies on whether and how foreign aid promotes democracy Finkel, Pérez-Liñán, and Seligson lament the fact that it is very difficult to specify their dependent variable – in this case, democracy – because there is no universally agreed-upon definition and therefore, no universally agreed-upon measure of the concept (Finkel, Pérez-Liñán, and Seligson 2005, 6-7). To get around these issues, they employ the use of a wide variety of indices that are typically used to measure democracy, such as the Freedom House index and the POLITY IV index. This is a strategy employed by a number of scholars working on aid and democracy that have encountered this problem (Knack 2004; Kosack 2003). Yet many scholars continue to use only one measure of democracy (Dunning 2004; Goldsmith 2001b). The literature on aid also faces these issues as scholars are constantly exploring the use of data sets that give them “a truer estimate of foreign aid” (Burnside and Dollar 2000, 847). The resulting conclusions drawn about the relationship between democracy and foreign aid in these cases are only as good as the initial measurements of either democracy or foreign aid on which they are based.

The distinction in the literature on democracy between democratic transition and democratic consolidation also has consequences for this research. Many of the studies on aid and democracy conflate the different aspects of the democratization process, making it difficult to generalize on how best to promote democracy. As a point of fact, the promotion of democracy where none exists, where an oppressive dictator exists, is something very different from the promotion of further or deeper democratization in a fledgling democracy. Regardless of the fact that a divided society might be present in both situations, thus affecting the overall strategy one might take in promoting democracy, there are also important dynamics that make these situations distinctive enough from

one another. The literature on democracy and foreign aid generally ignores these distinctions and the consequences they might have for general recommendations regarding the promotion of democracy.

Mindful of the fact that these conceptual issues continue to plague scholars' ability to effectively study democracy and foreign aid respectively, let alone together, this essay turns its focus toward the specific literature on the relationship between democracy and foreign aid. Alesina and Dollar (2000, 34) argue that this literature can be divided up into the study of the effects of foreign aid on the receiving countries on the one hand – that is, in this case, whether foreign aid has any effect on the transition to democracy or the processes associated with democratization in the recipient country. And on the other hand, one can study the determinants of foreign aid and the motivations behind where a donor places its resources – in this case, asking the questions whether the current level of or prospects for democratization in the recipient country dictate the level of aid allotted to it. The next two sections examine the literature on these questions with an eye toward assessing the overarching question of how much knowledge the scholarly community has been able to amass on these subjects.

#### *Does aid have any impact on democratization?*

The question of whether foreign aid has any impact on democratization has been widely studied over the past fifteen years. And despite the fact that many people are asking the question, there is very little consensus around a particular answer. For one, scholars continue to argue over whether there is any statistical relationship between foreign aid and democratic outcomes. There is some evidence to indicate that foreign aid does improve democratization; however, there is other evidence that it does not. Much of the ambiguity rests on the conceptual issues which have already been discussed. But beyond the many who have asked *whether* foreign aid positively impacts

democratization, very few have attempted to specify *how* it might do so. Better theorizing about the mechanisms through which foreign aid might impact democratization (either positively or negatively) might lead scholars to ask more pointed questions rather than merely explore statistical relationships.

Earlier studies on whether there is any statistical relationship between foreign aid and various levels of democratic outcomes produced ambivalent results, and most were geographically focused. Goldsmith (2001a), for example, analyzes the relationship between the level of development assistance given to sub-Saharan African countries in the 1990s and changes in their political systems. He finds that aid appears to have a small but positive effect on democratization. Carapico (2002), on the other hand, makes an argument for the “perversity thesis,” examining the case of the Arab world, where foreign aid appears to have a limited ability to affect democratization projects and might actually be making matters worse. Much of the aid flowing to that region has been directed at supporting non-governmental entities involved in democratization projects. Carapico points out that this only serves to exacerbate the state-society tensions within countries, as governments object to the aid on the grounds that it violates their sovereignty. Finally, Bräutigam and Knack (2004) argue that with respect to sub-Saharan Africa both perspectives are probably true. Aid has the potential to (and often does) positively affect governance and democracy, but it also has the potential to (and often does) negatively affect governance and democracy (260).

Attempts to resolve this debate have mostly focused on shifting the contextual elements of the study. For example, Dunning (2004) shifts the qualifier from a regional one to a geo-strategic one. In a response to Goldsmith’s (2001a) article, Dunning argues that foreign aid’s ability to encourage democratization may be contingent on systemic factors. He separates the results into two periods – Cold War and post-Cold War – and finds “the likelihood that aid may effectively promote democracy will in fact increase when the role of strategic or geopolitical factors in allocating aid diminishes” (Dunning 2004, 422).

Despite the many contextually bound studies, several scholars have attempted to make more general claims. Knack (2004) conducts a multivariate analysis on the impact of aid on democratization over a large sample of recipient nations and across a fairly significant time span, 1975-2000. As previously discussed, he utilizes two different democracy indices and two different measures of aid intensity to account for various conceptual differences. In addition, he accounts for Dunning's (2004) systemic qualifications by running separate tests for both the Cold War and post-Cold War periods. In the end, he finds no specific evidence that statistically supports the thesis that foreign aid promotes democracy.

The most recent – and the most comprehensive – attempt to establish a general claim regarding the nature of the relationship between aid and democracy is the aforementioned study by Finkel et al. (2005). Operating with a grant provided by the Democracy and Governance program at USAID, the authors explore the hypothesis that Democracy and Governance programming makes a positive contribution to democratization throughout the world. The study employs a wide variety of conceptualizations of its main variables and controls for a wide variety of other factors such as time and location. The authors even conduct a number of other statistical tests in order to challenge their initial finding, but in the end, the finding is statistically robust: “USAID Democracy and Governance obligations have a significant positive impact on democracy, while all other U.S. and non-U.S. assistance variables are statistically insignificant” (1). Thus, while seemingly comprehensive, this tells us a great deal about USAID's attempts to promote democracy in the developing world but very little about the relationship between the two variables in general.

Within all of these studies, the actual mechanisms that might lead foreign aid to either promote (or perversely, to diminish) democracy remain relatively under-explored. A number of authors make suggestions, but few explore them in depth. For example, Goldsmith (2001a) suggests that aid may shape domestic politics in sub-Saharan Africa in four ways: First, donor-dictated

structural adjustments may produce pressure for government reforms as a by product. Second, aid may be given directly in the name of political reform either as an incentive or reward for doing so. Third, as foreign aid is directed toward NGOs, a strengthened civil society may produce democratic reforms. Finally, aid may be given with specific political conditions attached that could lead to reform.

Bräutigam and Knack (2004) add to this discussion by suggesting specific institutional impacts. They argue that aid might be used, for example, for the improvement of civil services in the recipient country, in the strengthening of the country's policy and planning capacity, or in the establishment of strong, central institutions – all of which might result in an improvement of governance. Knack (2004) suggests that aid can positively affect electoral processes in the form of technical assistance. It can also have a positive impact on the promotion of civil society and the strengthening of the judiciary and legislative branches of government which can serve as checks on the executive power. Finally, he suggests that foreign aid might make a positive impact on education in the recipient country, thereby increasing the prospects for democratization.

Despite the mention of all of these factors as potential mechanisms, none of them is specifically tested by its respective author. Each author has a larger goal of determining whether there is any relationship between aid and democracy, and as mentioned, the studies produce different findings. The possible mechanisms at work either for or against aid's ability to promote democracy remain underspecified. Readers are left to speculate as to which mechanism (and to what extent) either promoted or hindered foreign aid's ability to positively affect democratization.

In the end, there is very little that can be said definitively with respect to foreign aid's ability to lead to democratization. There seems to be a good amount of evidence on both sides of the debate, given various geographical and geo-strategic contexts. The specific mechanisms underlying the relationship between the two variables have been under-theorized and virtually untested, giving

the consumer few tools with which to sort through the ambiguity. The answers to several important questions remain largely unanswered.

*Determinants of foreign aid: How does democracy affect aid flows?*

The literature on the determinants of foreign aid has explored a number of ways that issues of governance might enter into the decision-making processes of donor countries. To start, a variety of scholars have studied the extent to which the human rights record of recipient countries matters in terms of whether or not donor countries give and if they do, the extent (Abrams and Lewis 1993; Cingranelli and Pasquarello 1985; Neumayer 2003a; Neumayer 2003b; Watson and McCluskie 1997). Cingranelli and Pasquarello (1985) argue that human rights considerations did appear to factor into the U.S. decision to provide foreign aid to Latin America. This is a controversial result which is debated back and forth during the following years (Abrams and Lewis 1993; McCormick and Mitchell 1988; Poe 1992). Watson and McCluskie (1997) point out that the variety of studies done on this subject suffer from various methodological weaknesses including the fact that many are single-nation case studies, encompass only one year of analysis, or use aid as the only measure of U.S. assistance or U.S. foreign policy more generally. To move beyond this criticism, they employ a three-year analysis and a variety of different aspects of foreign policy including foreign aid. They find that human rights considerations were not a significant concern regarding foreign aid distributions in Latin American in the 1980s.

Neumayer (2003a) extends these studies beyond Latin America and the 1980s. He argues that between 1985 and 1987, respect for human rights plays a significant role at the selection stage of foreign aid – that is, the point at which the donor country decides whether or not the recipient country will receive any aid. However, at the second stage – where the donor decides on the amount of aid to be received – human rights considerations play very little role. In later studies, he



separates multilateral aid from bilateral aid, but finds similar results (2003b). Important in these findings, is the fact that human rights are defined specifically as civil and political rights. This definition moves us more toward the broader question at hand: namely, how do issues of political rights, specifically of democracy and good governance, factor into the decision-making process of donor countries?

Svensson (1999) offers a preliminary take on this question using partial correlations. He finds that, in general, the “donor community has not systematically allocated aid to more democratic countries during the 1990s, when controlling for population” (293). Alesina and Dollar (2000) largely confirm this result with more stringent statistical testing. They argue that the decision on where to give foreign aid by a donor country is driven more by political and strategic concerns than by either the economic or policy performances of the potential recipient countries. Whether or not the recipient is a former colony of the donor and the extent to which the two countries have political alliances seem to matter most. However, the two authors are careful to note that the data does suggest that, at the margin, countries that democratize tend to receive more aid, all else being equal. In addition, they note that aid tends to flow in the direction of countries that have recently undergone democratic transition (“democratization episodes”) but not necessarily in the direction of a gradual process of policy reform (34). These particular findings have been supported with both qualitative and quantitative evidence in other studies (Hearn 2000; Houngnikpo 2003).

A number of authors argue that even where “good governance” is explicitly set forth as a criterion for the receipt of foreign assistance, the term is merely being used as a means of promoting the donor country’s own strategic interest. Hearn (2000), for example, is critical of the motives behind U.S. foreign aid to South Africa. She argues that despite the fact that the U.S. gives in the name of supporting democracy, its true goal for South Africa is economic stability. In this respect, many of the civil society organizations supported by the United States tend to be focused on

“promoting the values, procedures, and overall framework of liberal democracy” (818). Hout (2004) extends this argument beyond the United States, looking at two additional donors – the International Development Association and the Netherlands – and arguing that donors’ preferences for pro-market and trade-oriented policies are embedded within their insistence on democracy and good governance. This leads donors to overlook the structural causes of bad governance, favoring instead the instrumental value in good governance (607). Hounnikpo (2003) agrees, noting that “democracy is an elastic concept...it seems, at least at this point, that the new gospel of democracy is but a convenient tool used by different players for their own selfish reasons” (197).

Thus, overall, the literature on the relationship between governance and foreign aid tends to view the subject cynically. Although some have argued that decisions on foreign aid allocations have increasingly been influenced by the level of democratization or good governance in the recipient country, others have refuted these claims. Others even claim that strategic interests are embedded within stated preferences for good governance and democracy expressed by donor countries. Yet despite the large number of studies conducted on the issue, it seems that the criticisms of Watson and McCluskie (1997) – namely that too many of the studies are single-country, focused on a brief time-span, and fail to account for the various conceptual difficulties associated with the terms *governance*, *democracy*, and *aid* – have yet to be fully addressed. More large-n studies, covering a broader time span, need to be conducted.

However these large-n studies should not completely replace case studies exploring the motives behind particular donor country decisions. While the United States has been covered quite well in this regard, little has been done on the other OECD DAC members. The treatment of all international aid donors as relatively similar actors ignores the often differing domestic political dynamics within these states. Often – particularly in the United States – there is a repetitive political economy associated with the budgetary allocation process. This undoubtedly has an effect on the

specific strategies undertaken in the promotion of democracy. Given all of the literature on the effect of domestic politics on foreign policy, these dynamics must be taken into account. As it stands now, the literature fails to capture the domestic politics associated with decision-making and particularly foreign aid policymaking.

*How else might the relationship between aid and democracy be important?*

Finally, it is important to explore another critical way in which the literature has tried to relate the concepts of foreign aid and democracy. Most of the literature on foreign aid has been an attempt to explore whether or not it meets its principle goal – namely, an increase in the development of the recipient country. More recently, however, the question of whether democracy or good governance has a positive or negative impact on foreign aid's ability to promote development has received significant attention. Much of this literature is closely tied with that of the previous section on the determinants of aid, as many use the fact that democracy may allow aid to be more successful in promoting development as a foundation on which to make the argument that aid should be targeting good governance (World Bank 1998).

Boone (1996) is one of the early works which takes the key step of linking aid effectiveness to political regimes. He finds that whether the recipient government is a liberal democracy or highly repressive autocracy, aid has the similar effect of increasing the size of the government without increasing investment or significantly benefiting the poor. However, he does concede that at the margin, liberal democracies tend to have lower infant mortality rates, which may reflect a willingness to provide more services to the poor (323). Boone argues that an implication of this finding could be that aid should be retargeted toward the support of newly liberal regimes.

In a well-cited study on foreign aid Burnside and Dollar (initially 1997, but 2000 version cited here) contradict Boone's findings. Although their primary concern is the extent to which aid

affects growth, one of the particularly robust findings of their study is that aid tends to be more effective in promoting growth if it is used in good policy environments. The authors employ a new World Bank database and panel data from fifty-six countries spanning the years 1970 to 1993 (847). The findings as presented in the initial World Bank paper in 1997 became the basis for a much larger study conducted by the Bank on foreign aid (World Bank 1998). In *Assessing Aid*, the Bank essentially reaches the same conclusions as Burnside and Dollar – that aid does help increase growth, but only in countries with good governance and/or sound economic management. The authors use this finding to argue that foreign aid should be allocated between the potential recipient countries according to their respective policy environments, and that conditionality (the use of aid as an incentive) should be replaced by selectivity (the use of aid as a reward).

Much of the literature coming after *Assessing Aid* has been produced as a specific reaction to it. For example, in a special issue of the *Journal of Development Studies*, Hermes and Lensink (2001) critique the World Bank study on two broad fronts. First, they argue that although the Bank offers evidence on the macroeconomic effectiveness of aid, it is actually less convincing than it seems. Other evidence exists which could lead one to different policy conclusions (13-14). Second, they take issue with the Bank's suggestion that donors move from using conditionality toward using selectivity in aid allocations. Selectivity is merely conditionality in disguise – the principle of using specific conditions to make aid decisions is essentially the same in both (14). They argue that normatively aid should be used as a form of support with which countries can achieve good policies, not as a reward for countries that already have them. The work of several other authors in the same special issue is offered in support of this contention (e.g., Dalgaard and Hansen 2001).

Kosack (2003) reviews this literature and posits that the question of whether democracy allows aid to positively impact growth is not necessarily the correct one. He argues that the quality of life should be the measure of effectiveness. Using this measure, he finds that aid is most effective

when combined with democracy, though it does not seem to affect the quality of life in aggregate absent these conditions. He suggests that aid might be more effective if it were given in combination with efforts that encourage democratization.

### *Conclusion*

This essay began by asking series of questions that one might expect the literature on democracy and foreign aid be able to answer. These questions can essentially be divided into three main sets: 1) Does foreign aid actually promote democracy? If so, what are the mechanisms through which this is best accomplished? 2) Conversely, is democracy a determinant of foreign aid? Does the existence of democracy in a recipient country lead to its receipt of more foreign aid? If so, how much more are countries that are relatively more democratic than other potential aid recipients likely to receive from international aid donors? 3) Finally, what can be said about the relationship between democracy and aid, where democracy might act as either a positive or negative intervening variable that might affect foreign aid's impact on other goals? For example, does democracy foster or inhibit foreign aid's ability to promote economic development? What are the mechanisms behind this relationship? Unfortunately a review of the literature does not offer solid answers – at least ones generating wide consensus – on any of these questions.

On the question of whether aid promotes democracy, several studies have produced alternate conclusions. Many of these studies are contextually specific, their scope bound by either geography or systemic context. While these distinctions are undoubtedly important, they do limit one's ability to draw broader conclusions. On the second set of questions, there seems to be a greater consensus about democracy as a determinant of foreign aid. Most argue that democracy and governance have little to do with the provision of foreign aid and that strategic interests of the donor are more important. However, there are a number of key studies where the authors seem to

demonstrate otherwise. Finally, on the third set of questions question regarding whether or not democracy allows foreign aid to achieve some of its other goals of promoting growth and increasing the quality of life, the debate continues. Important studies demonstrate robust findings that democracy is an important intervening factor; just as other important studies with similarly robust findings show that it is not.

With respect to all three sets of questions, a similar critique emerges. There is still not enough known about the specific mechanisms through which democracy and foreign aid might interact. If foreign aid has particular institutional impacts that affect democracy in a particular way, then this needs to be more adequately theorized and tested empirically. If aid interacts with the civil service in a particular country and this impacts democracy in a particular way, then this needs to be studied. Similarly – but by no means exhaustively – if aid has a particular impact on education that might impact democratization in a country, then this linkage should be more fully specified.

In order to get at these particular effects, scholars studying all three aspects of the relationship between democracy and foreign aid must begin to pay more attention to the domestic political economies and more general political contexts that are associated with the provision and receipt of foreign aid. Only by comparatively examining the various and competing sectoral interests associated with the foreign aid's provision and receipt can we begin to understand why aid is directed to particular sectors in recipient countries. This step allows us a clearer explanation as to why aid from some donors is more or less effective in assisting the process of democratization in particular recipient countries.

Finally, the conceptual issues surrounding the study of democracy and foreign aid respectively need to be resolved. The problems these disagreements present for the study of these issues individually are only multiplied when thinking about how concepts might interact with one another. In the end, these questions are too important to not have adequate answers or

understandings. Both donors and recipients have a large stake in scholars' ability to better understand this relationship.

**FIGURE 1**  
**ODA ALLOCATION FOR SELECTED YEARS (1980-2003)**

	1980	1983	1986	1989	1992	1995	1998	2001	2003
I.5 Government & Civil Society	151.66	307.31	498.23	851.77	1139.23	2502.44	1731.72	3522.95	4712.89
I.SOCIAL INFRASTRUCTURE & SERVICES	2322.13	3434.68	4177.91	5363.46	6638.28	8379.66	9226.88	13192.06	17792.37
II.ECONOMIC INFRASTRUCTURE	7135.72	6770.48	6041.39	9279.58	7236.01	8914.87	7829.49	6254.67	6000.91
III.PRODUCTION SECTORS	5091.91	5497.01	5080.72	6630.12	6222.22	2507.11	2976.94	3405.11	3585.91
IV. MULTISECTOR	793.46	1113.44	936.94	1860.5	2372.44	2999.5	2240.47	2866.89	5430.15
V.TOTAL SECTOR ALLOCABLE (I+II+III+IV)	15343.22	16815.6	16236.96	23133.67	22468.95	22801.13	22273.78	25718.73	32809.33
VI. COMMODITY AID / GENERAL PROG. ASS.	7931.16	7025.01	10033.62	8133.94	6140.09	3556.79	3033.25	3228.44	4452.08
VII. ACTION RELATING TO DEBT	2040.26	467.71	890.2	1050.47	3044.09	2216.04	3531.37	4230.42	14417.71
VIII. EMERGENCY ASSISTANCE AND RECONSTRUCTION	367.5	378.87	760.98	432.32	867.04	1205.6	2466.35	3203.65	6835.85
IX. ADMINISTRATIVE COSTS OF DONORS	n/a	n/a	n/a	n/a	n/a	2.52	161.95	1240.08	1339.51
X. SUPPORT TO NGO'S	3.93	5.4	43.66	9.9	33.37	324.24	309.96	879.2	385.29
XI. UNALLOCATED/UNSPECIFIED	833.25	415.63	420.35	677.2	322.07	434.98	947.97	1036.38	907.31
XII.TOTAL	26519.33	25108.23	28385.77	33437.5	32875.6	30541.31	32724.62	39536.9	61147.06

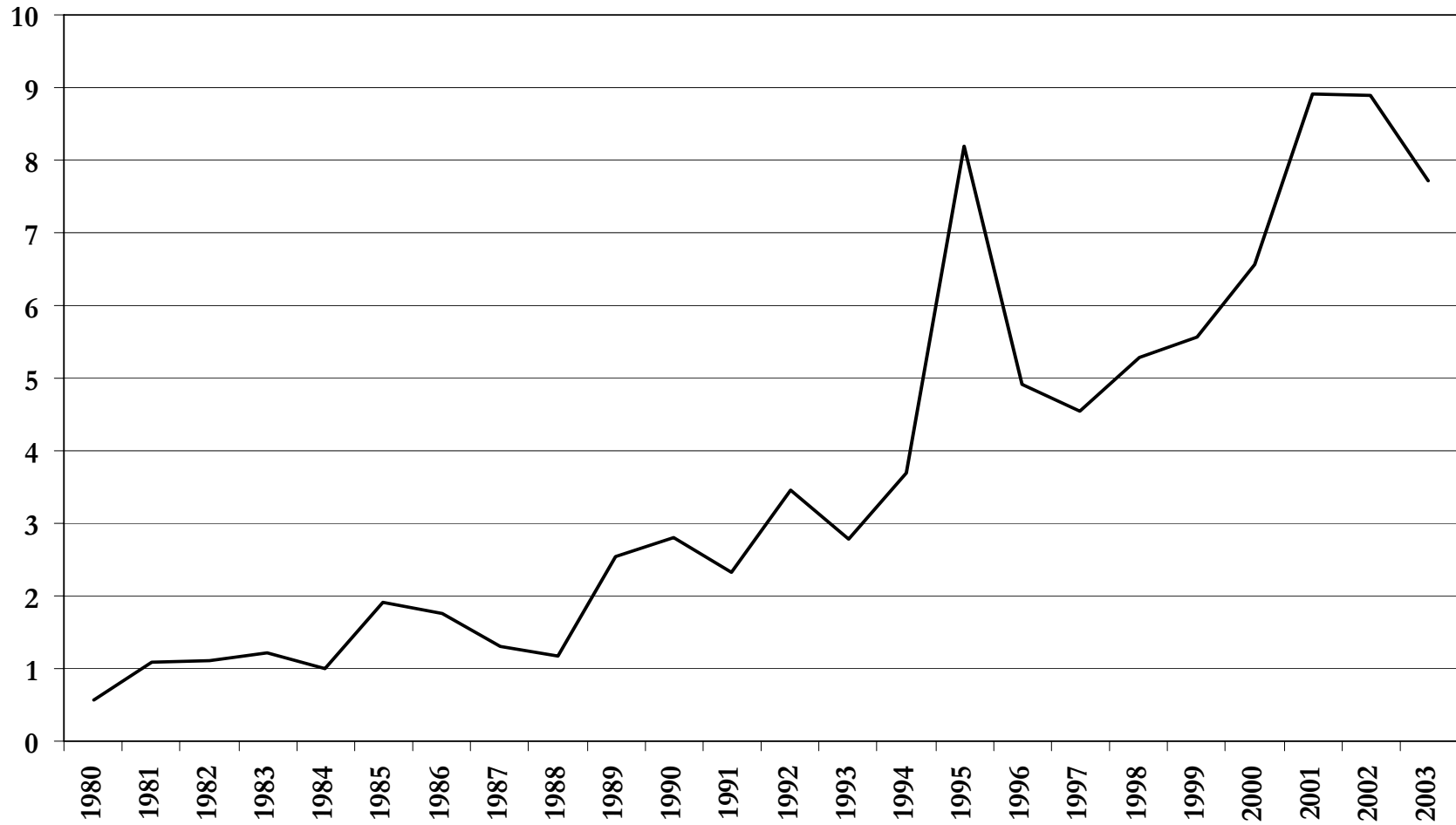
Source: (Organization for Economic Co-operation and Development 2005).

\* All amounts are \$ million - 2003 Prices; amounts represent the total OA/ODA from all DAC donor countries to all developing countries, as defined by OECD.

\*\* I.5 ("Government & Civil Society") is a component of I. ("SOCIAL INFRASTRUCTURE & SERVICES")



**FIGURE 2**  
**ODA TO GOVERNMENT & CIVIL SOCIETY AS % OF TOTAL ODA (1980-2003)**



Source: (Organization for Economic Co-operation and Development 2005).

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