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EFFECTS OF US FOREIGN ASSISTANCE ON DEMOCRACY BUILDING: RESULTS OF A CROSS-NATIONAL QUANTITATIVE STUDY: 1990-2005

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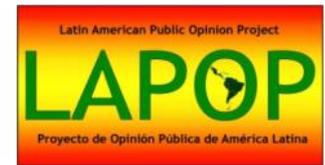
Neal Tate, Vanderbilt University



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Goals of Project

Phase I:

- Does USAID Democracy Assistance (DG) Matter for Recipient Countries' Democratic Trajectories Over Time?
- What Are the Impacts of Specific (Sub-) Sectoral (e.g. Civil Society) and Sub-Sub-Sectoral (e.g. Human Rights) Assistance?

Phase II:

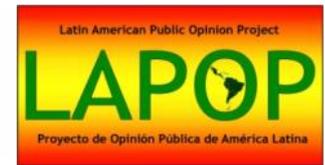
- Confirm Phase I Findings with 1990-2004 data (15 years, including Iraq war)
- Explore Conditions Under Which USAID DG Assistance Matters More or Less
- Explore Cumulative or Longer-Range Impacts of USAID DG Assistance
- Conduct More Intensive Analyses to Rule out “Endogeneity,” i.e., that USAID Funds “Democratic Winners”
- Impact of culture on the effectiveness of DG Assistance
- Explore Negative Finding Concerning Human Rights Assistance



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Results can be found at:

- Finkel, Steven E, Aníbal Pérez-Liñán, and Mitchell A. Seligson. "The Effects of U.S. Foreign Assistance on Democracy Building, 1990-2003." *World Politics* 59 (2007): 404-39.
- Azpuru + above: "American Democracy Assistance: Patterns and Priorities," *Journal of Democracy* 19 (April 2008), pp. 150-159.
- Seligson, Finkel and Aníbal Pérez-Liñán, "Exporting Democracy: Does it Work? In Z. Barany and R. Moser, eds., *Exporting Democracy*, Cambridge University Press, forthcoming.
- www.LapopSurveys.org



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I. The Data Base

Independent Variables: USAID Democracy Assistance

- 195 countries, excluding 30 advanced industrial democracies, N = 165
- World-Wide USAID Activities Data Base (Andrew Green), over 40,000 Activities Aggregated into:
- Democracy and Governance (DG) Assistance
- (millions 2000 \$, 2-year rolling average)

Indicators of USAID Presence

Obligations Aggregated by Sector:

Total USAID Democracy and Governance

- Elections and Political Processes
- Rule of Law
 - **Human Rights**
- Civil Society
 - **Mass Media**
- Governance

Eight Indicators of Democratic Development: Key Dependent Variables

General DG: *Freedom House (FH); Polity IV*

Elections: *Free and Fair Elections*

Rule of Law: *Human Rights Index*

Civil Society: *Civil Society Index*



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Eight Indicators of Democratic Development: Key Dependent Variables

Hierarchical Data Base Variables

- Level 1 (vary across time): Country-year control variables (more than 40), e.g.:
 - Average Democracy in the Region
 - Non-US Official Development Assistance (OECD)
 - Annual GDP growth
 - Inflation
 - Literacy, infant mortality, economic dependence, coup experience
- Level 2 (relatively fixed attributes of a country): Country-level variables (36 in total), e.g.:
 - Pre-1990 Level of democracy
 - Former British Colony
 - Ethnic and Religious Fractionalization (1960-2005)
 - Income Inequality
 - Years under foreign intervention



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II. Trends: Democracy and Assistance



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The Dependent Variable: The Dynamics of Democracy in the World



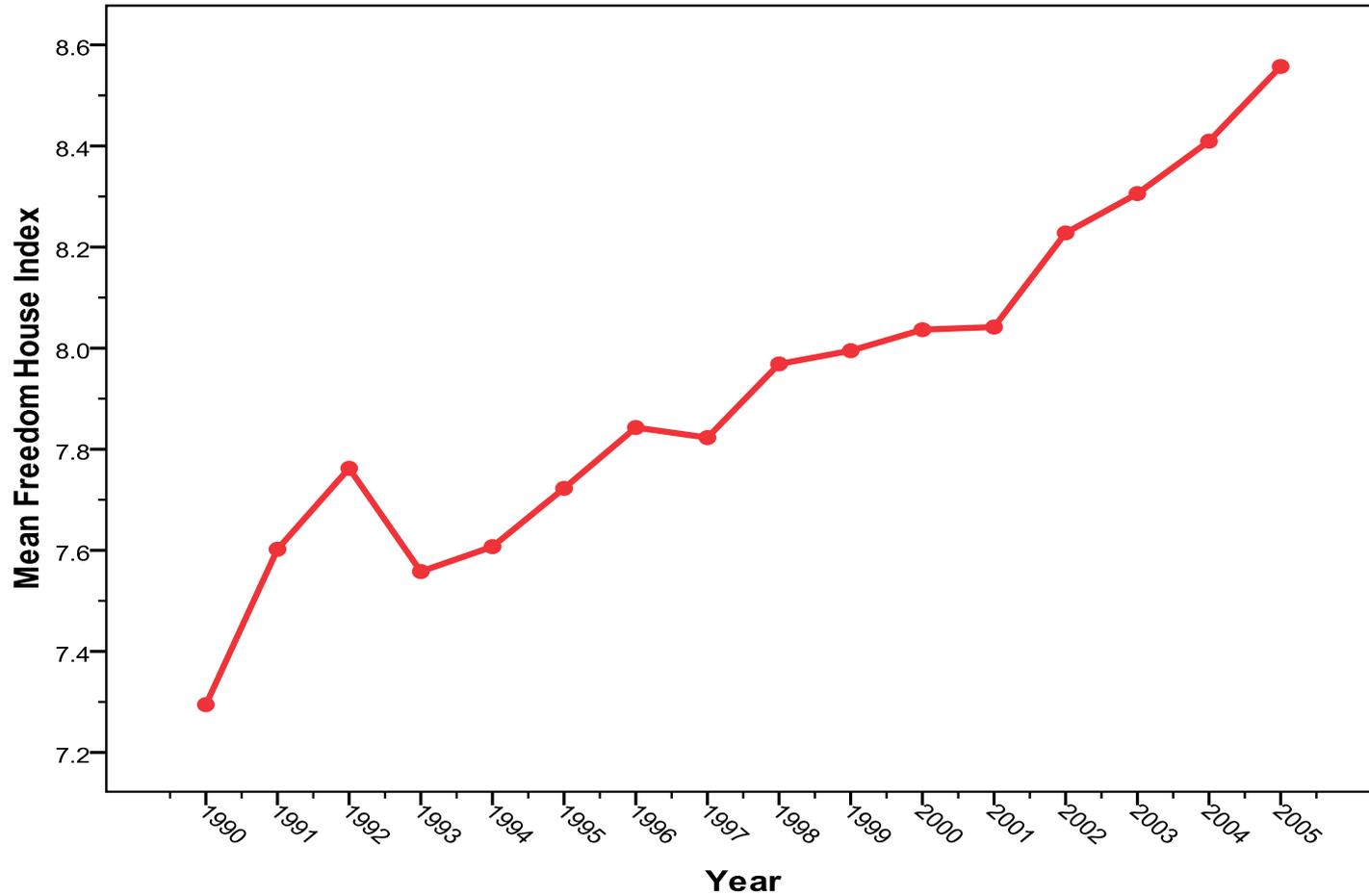
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THE GROWTH OF DEMOCRACY IN THE WORLD: ALL COUNTRIES IN SAMPLE (ELIGIBLE AND NON-ELIGIBLE)



Eligibility Criteria

- Countries were included if they met ANY of these criteria:
 - (1) they were recipients of USAID funds at any point during 1990-2004;
 - (2) they were classified by the World Bank as low or middle-income countries;
 - (3) historically they were rated by Freedom House as a “partially free” or “not free” (i.e., had an average combined score equal to or greater than 3 over the period 1972-2004);
 - (4) they were newly independent countries (i.e., states created after 1990, typically in Eastern Europe or the former Soviet Union).
- Countries that failed to meet any of these criteria (i.e., those that never received funds and were high-income, “free” by Freedom House standards and independent prior to 1991) were excluded from the analysis. We considered them virtually “ineligible” for USAID Democracy and Governance programs because they were too wealthy, too democratic, and too stable.



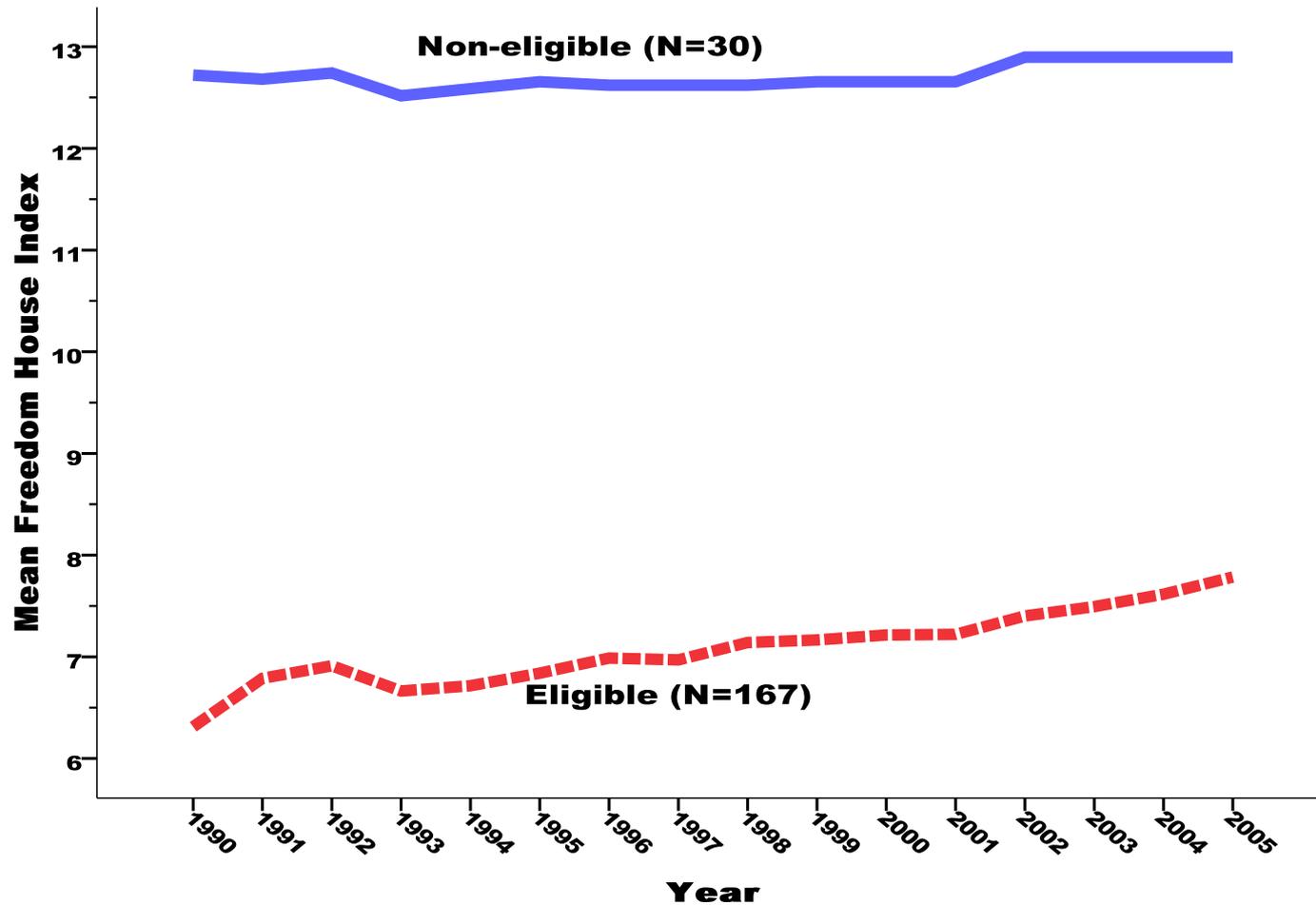
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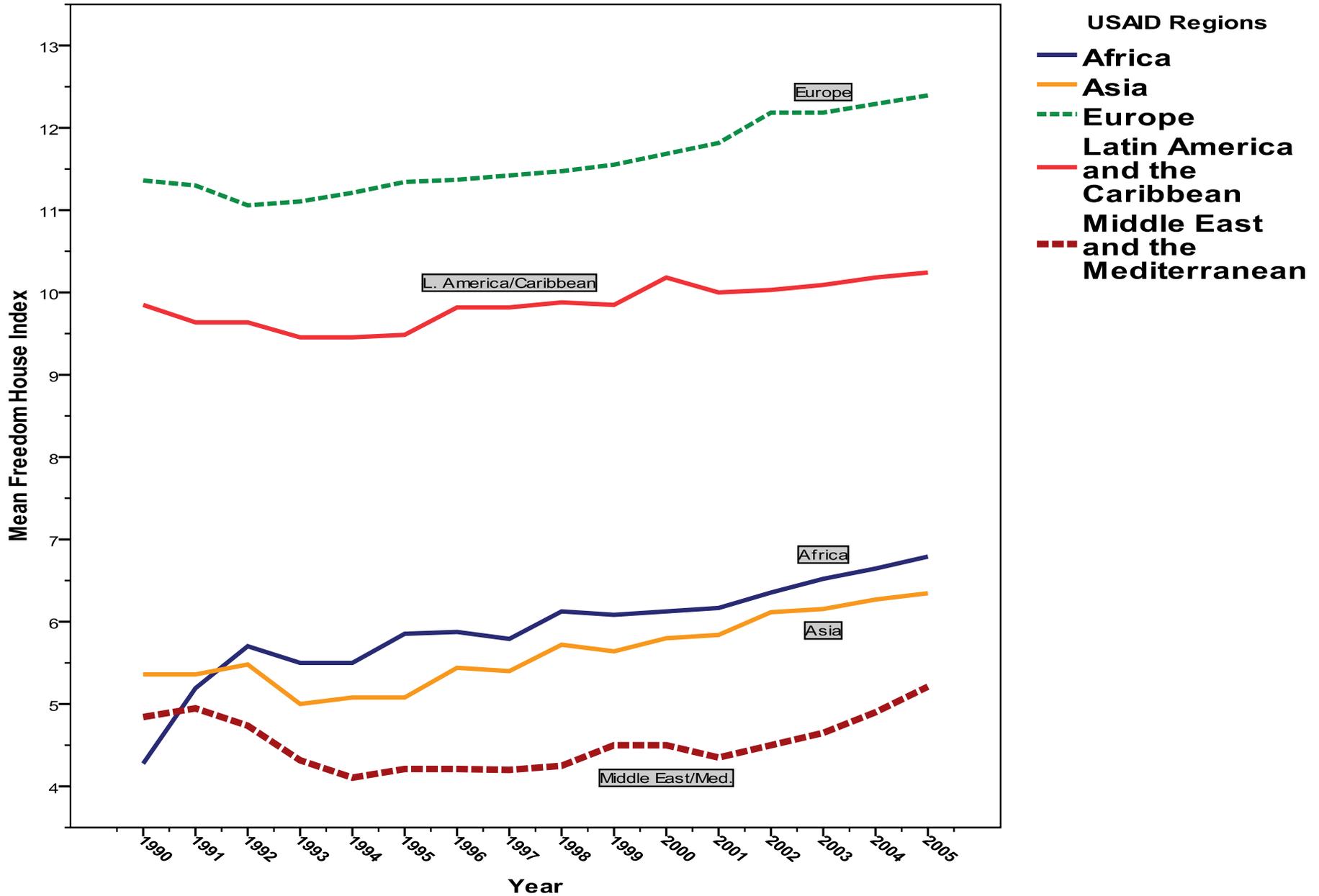
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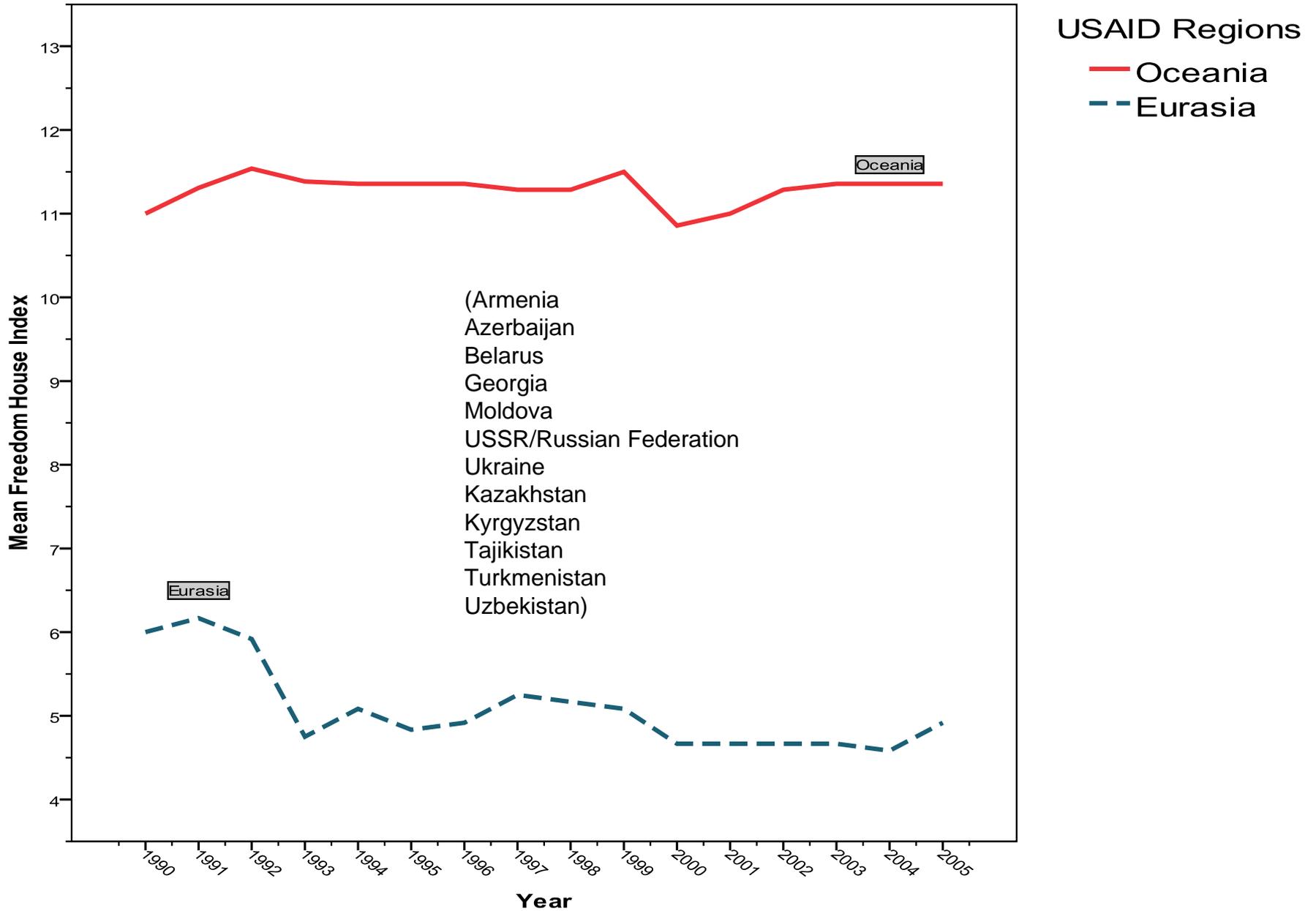
The Growth of Democracy in the World: Eligible vs. Non-Eligible Countries



THE GROWTH OF DEMOCRACY IN ELIGIBLE COUNTRIES (BY USAID REGIONS)



LACK OF GROWTH OF DEMOCRACY IN ELIGIBLE COUNTRIES (BY USAID REGIONS)





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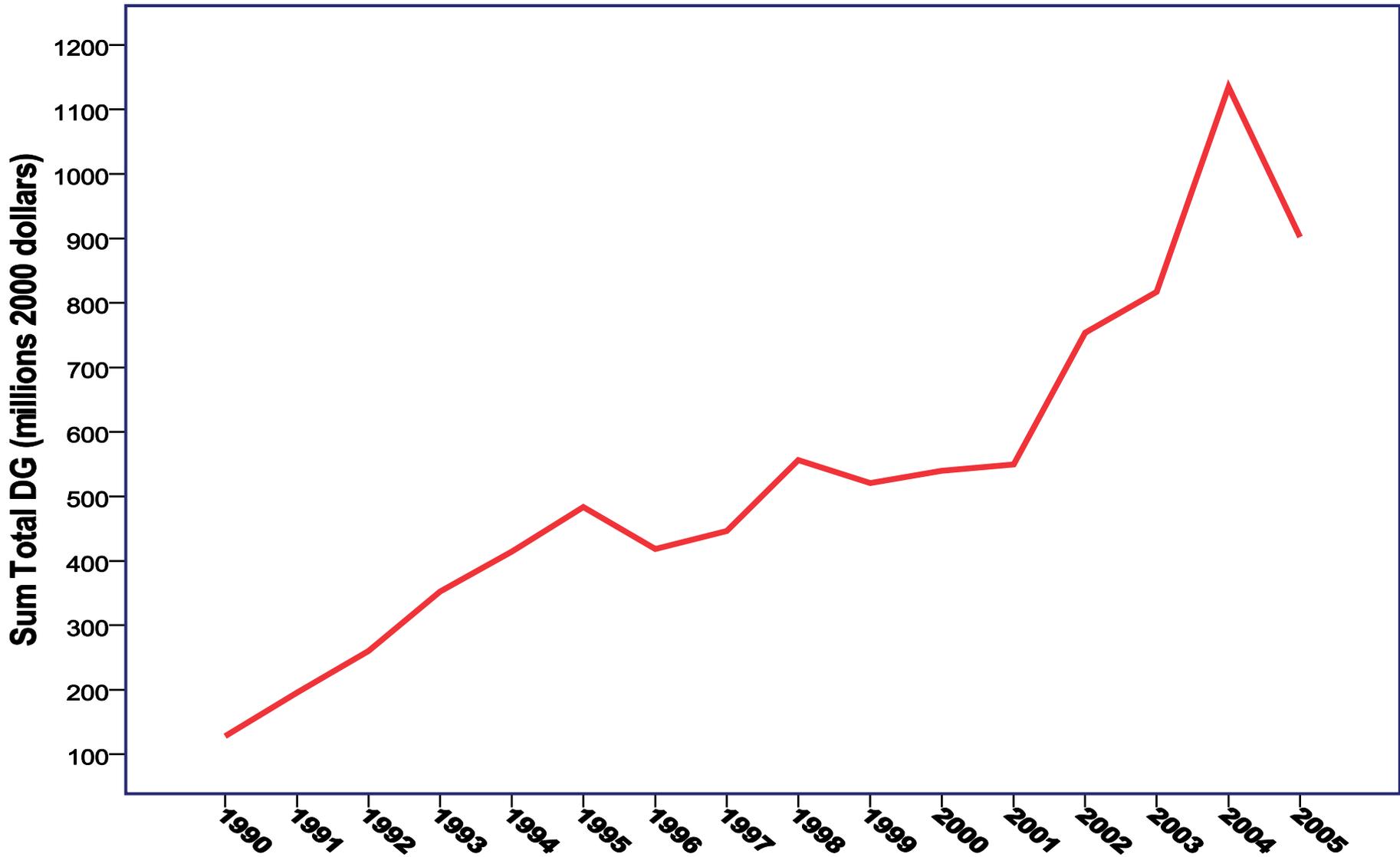
The Primary Independent Variable: USAID's Democracy Assistance

Independent Variables: USAID's Democracy Assistance

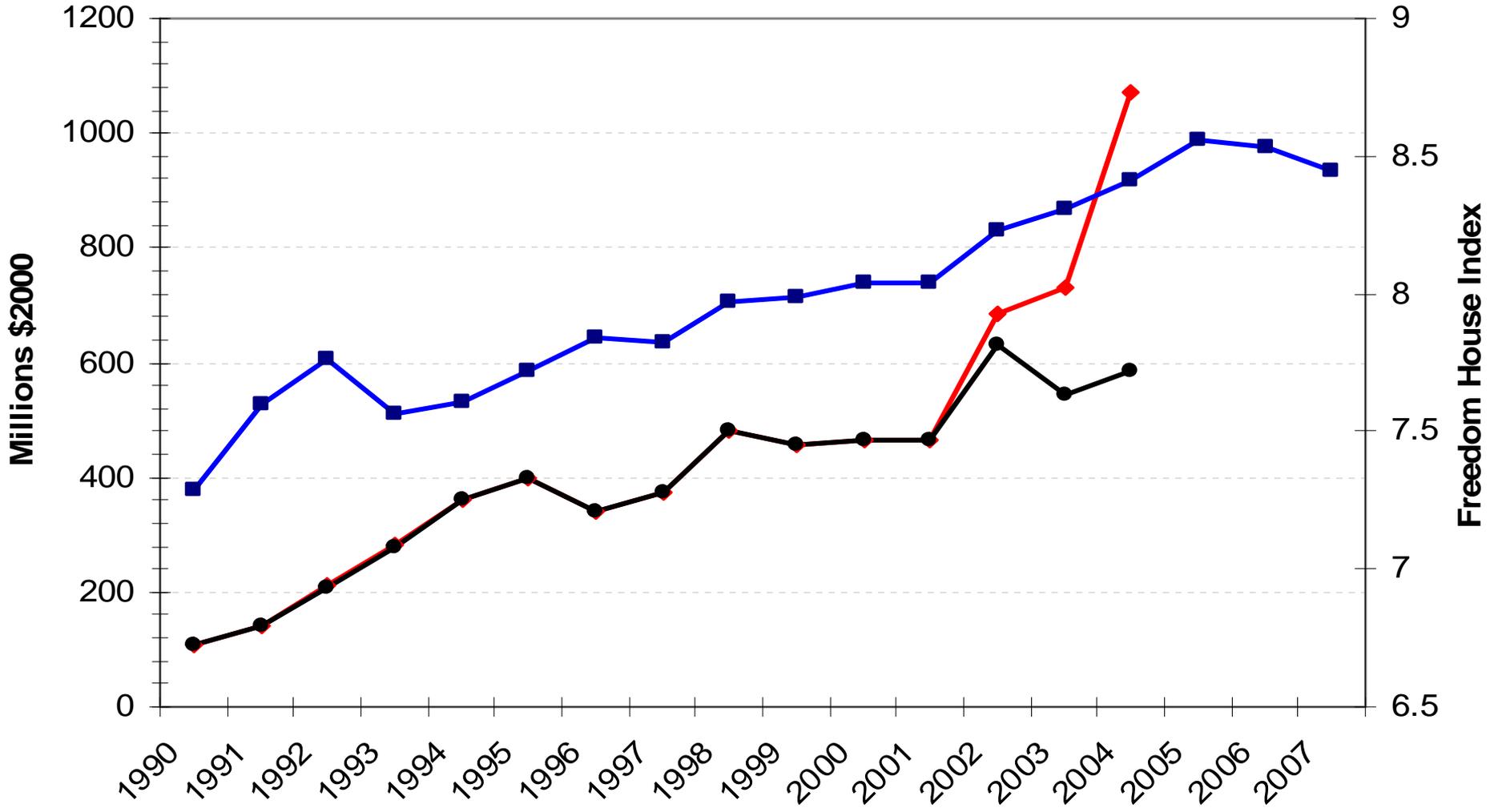
Based on World-Wide USAID Activities Database, over 40,000 Activities Aggregated into:

- **Democracy and Governance (DG) Assistance**
(millions 2000 \$, 2-year “Actual Appropriations”)
- **Sub-Sector and Sub-Sub-Sector Assistance:**
 - **Elections and Political Processes** (elections, parties)
 - **Rule of Law** (human rights, legal and judicial development)
 - *Human Rights Programs*
 - **Civil Society** (media, civic education, labor unions)
 - *Free Media Programs*
 - **Governance Programs** (transparency, decentralization)

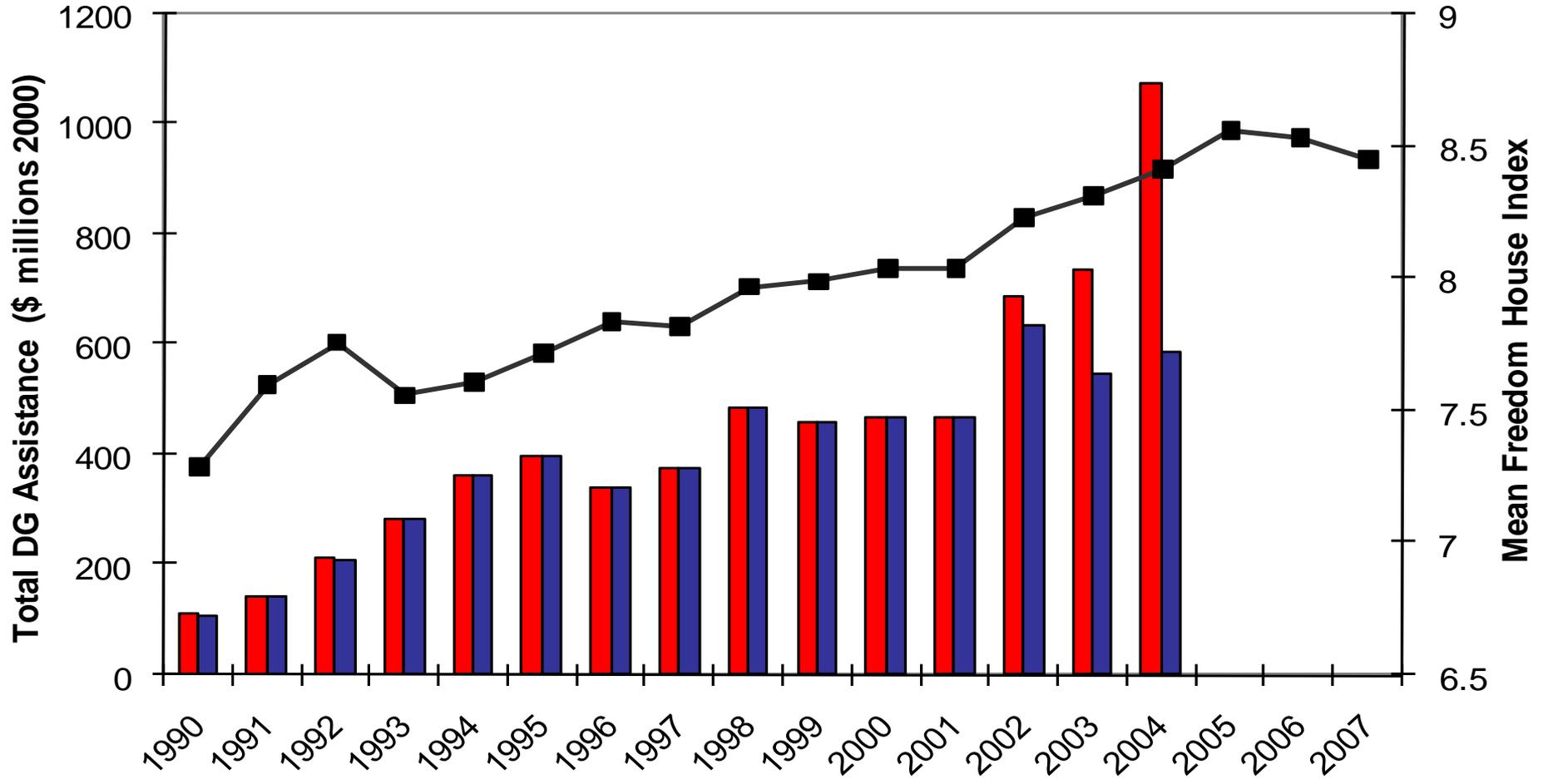
WORLD-WIDE DEMOCRACY ASSISTANCE, 1990-2005 (\$ MILLIONS, 2000)



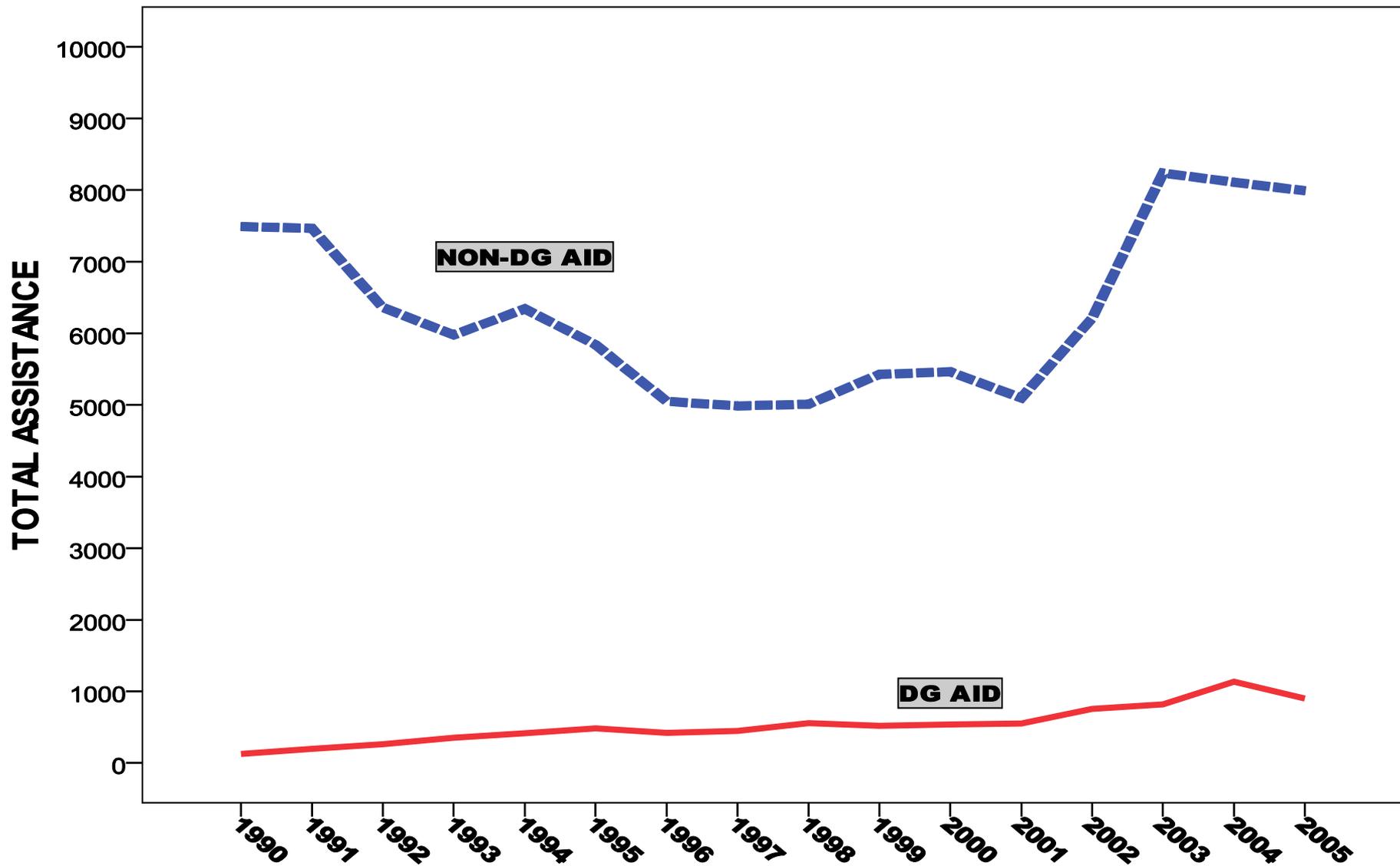
Evolution of Democracy, DG Spending: Focus on Iraq and Afghanistan



WORLD-WIDE USAID DEMOCRACY ASSISTANCE VS. THE GROWTH OF DEMOCRACY IN THE WORLD



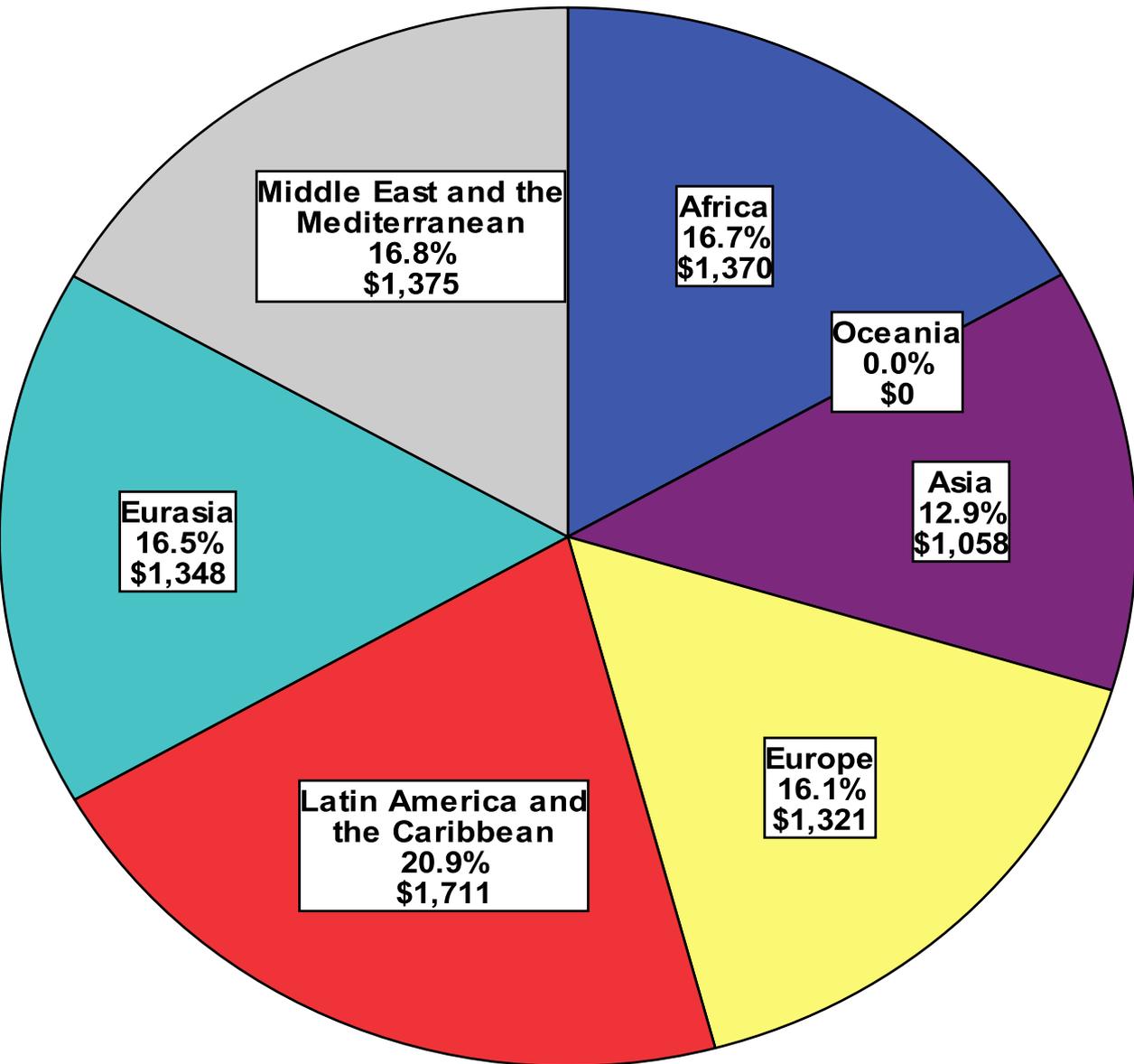
GENERAL USAID (NON-DG) ASSISTANCE AND DEMOCRACY ASSISTANCE 1990-2005 (IN MILLIONS \$ 2000)



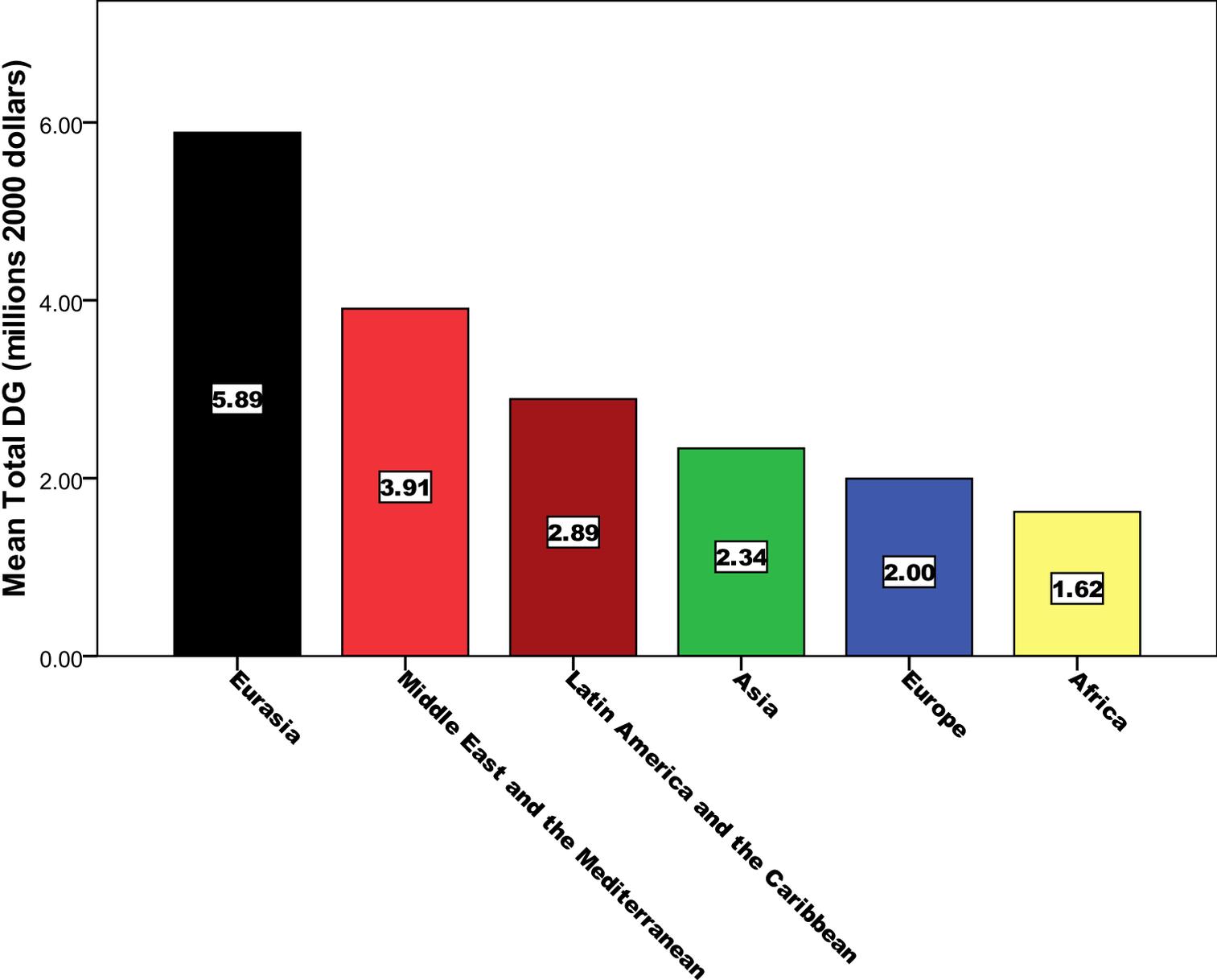
DISTRIBUTION OF TOTAL USAID DEMOCRACY ASSISTANCE BY REGION, 1900-2005 (IN MILLIONS \$ 2000)

USAID Regions

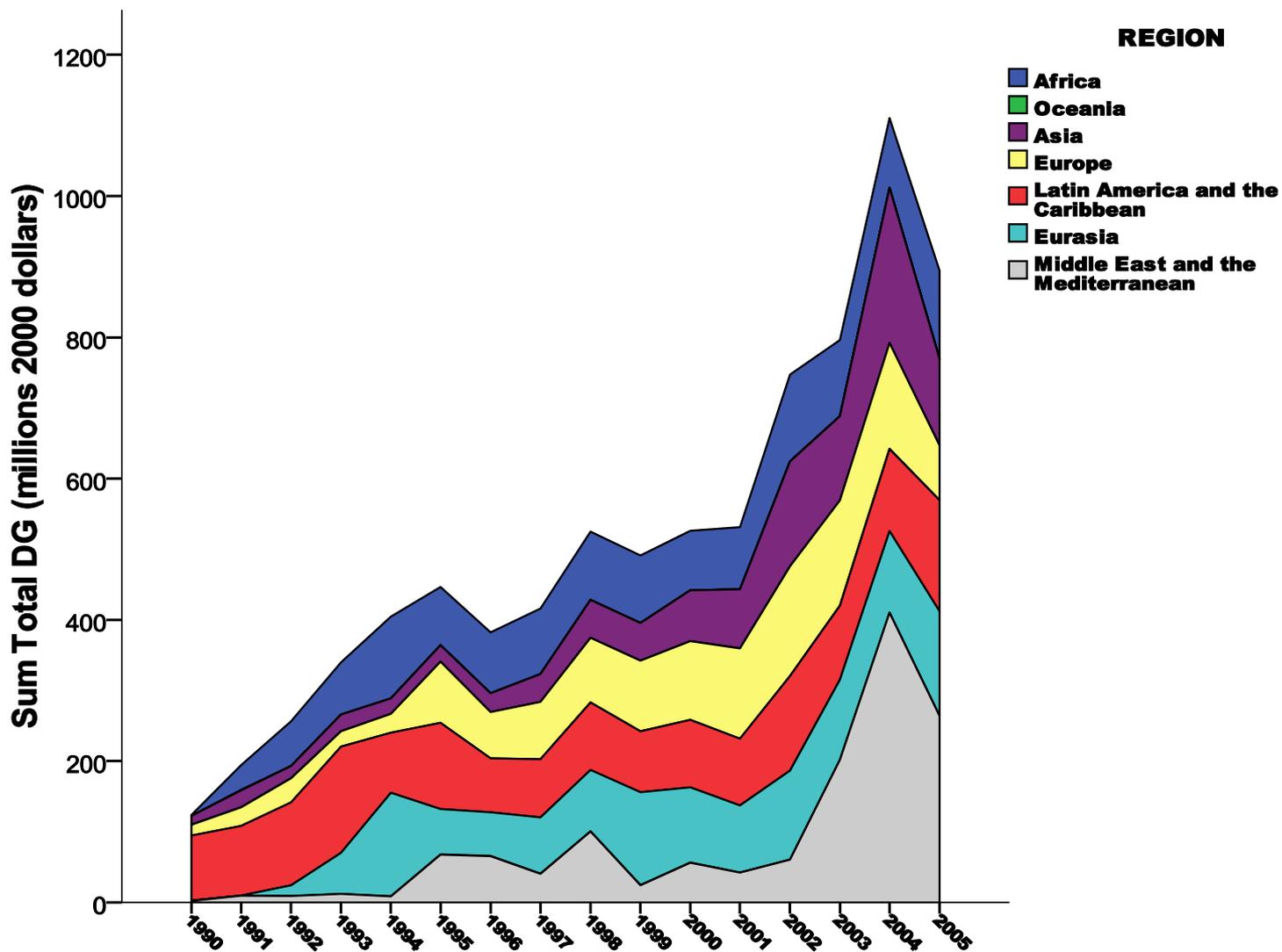
- Africa
- Oceania
- Asia
- Europe
- Latin America and the Caribbean
- Eurasia
- Middle East and the Mediterranean



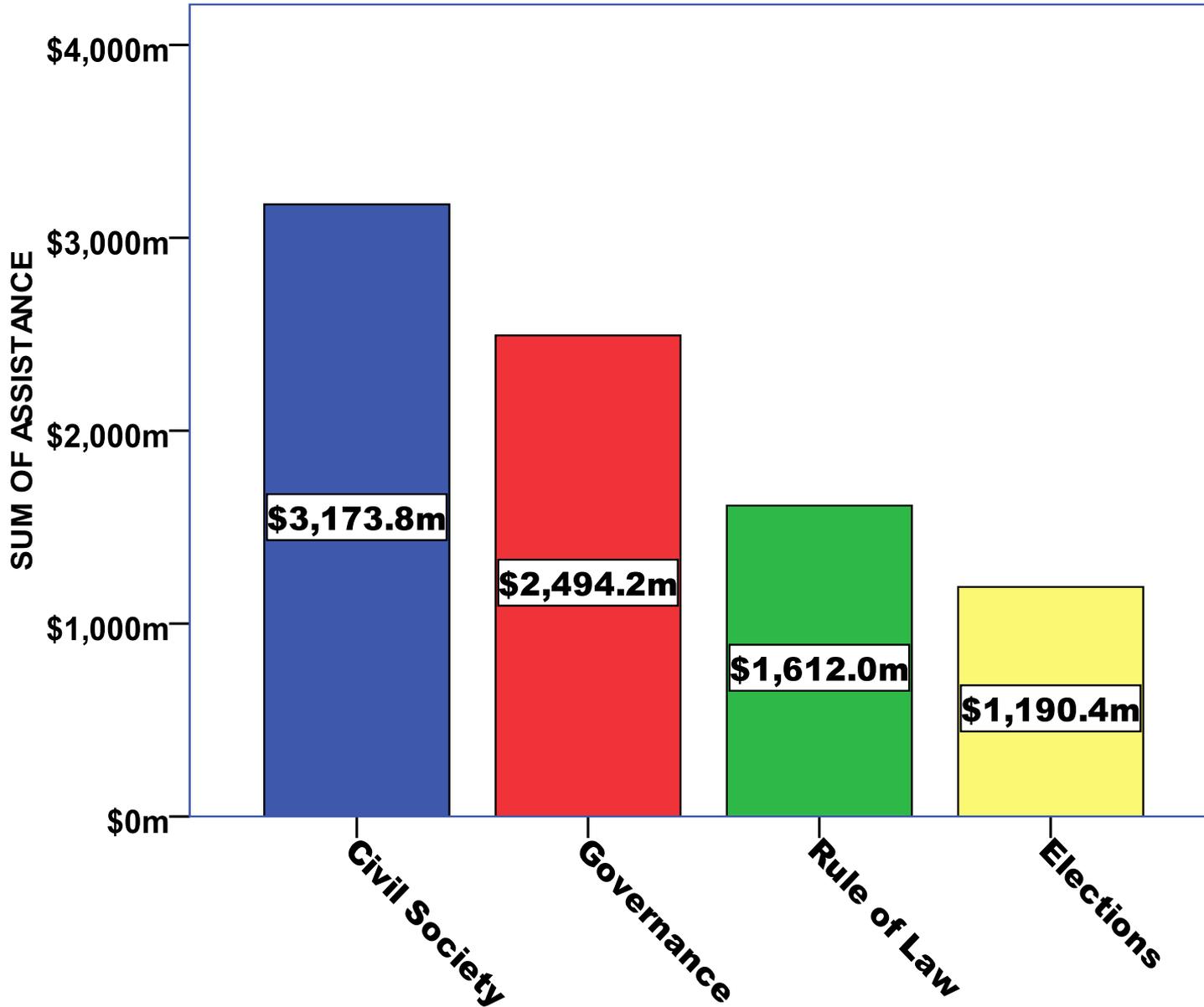
AVERAGE ANNUAL PER COUNTRY DEMOCRACY ASSISTANCE, BY REGION 1990-2005 (IN \$ MILLIONS 2000)



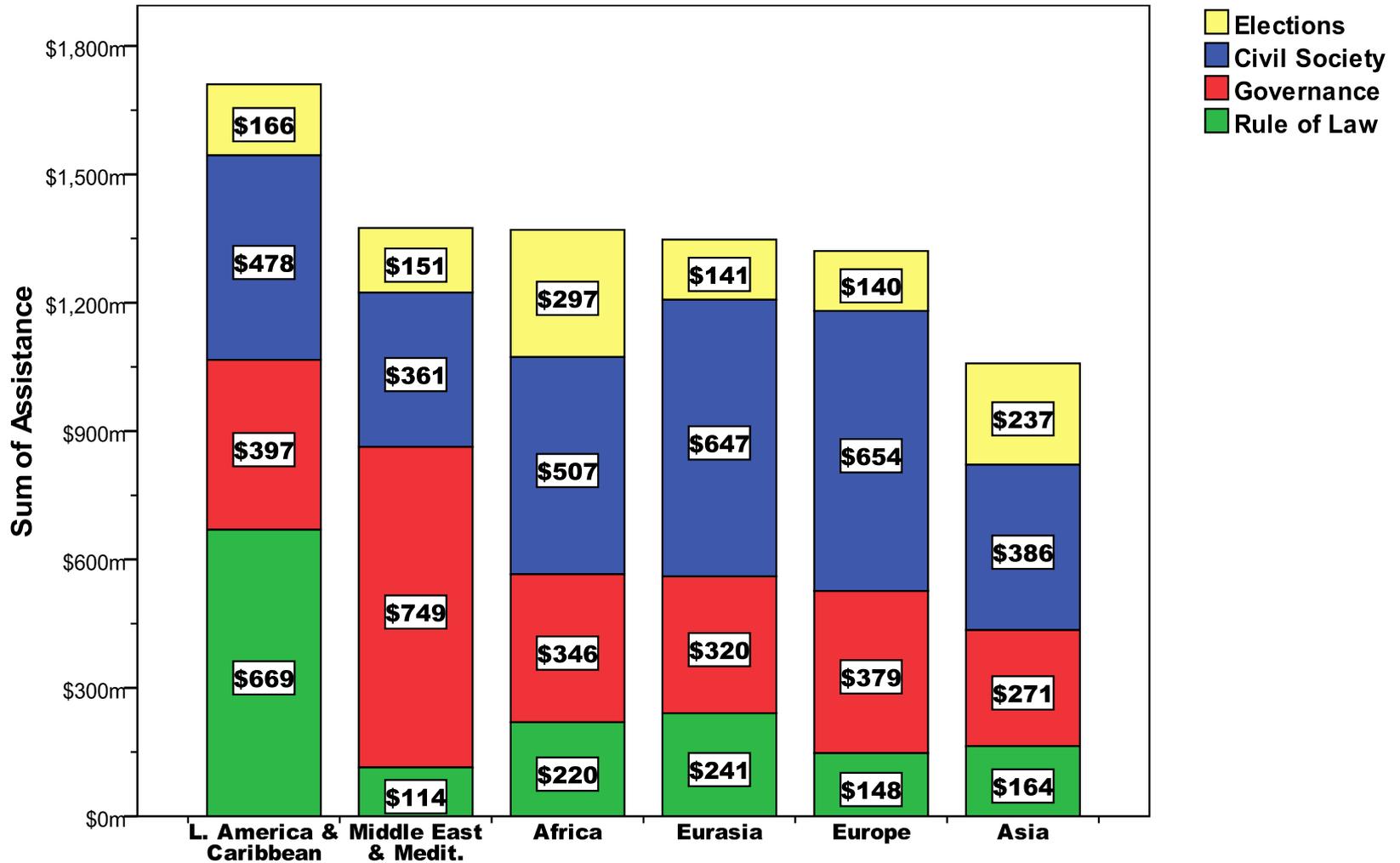
DISTRIBUTION OF DG ASSISTANCE BY YEAR AND REGION, 1990-2005 (\$ MILLIONS 2000)



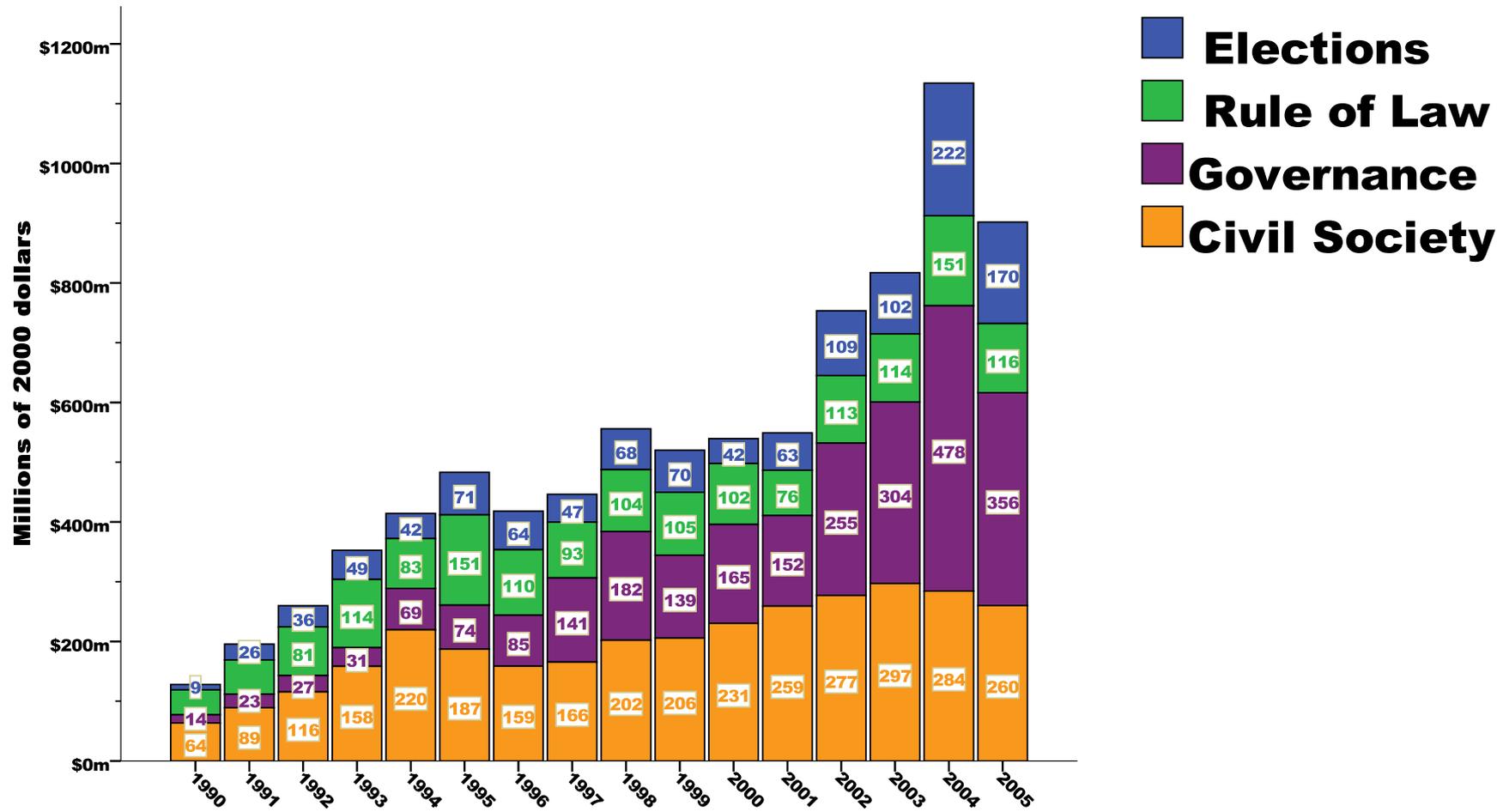
Total Democracy Assistance by Sector, 1990-2005 (\$ 2000)



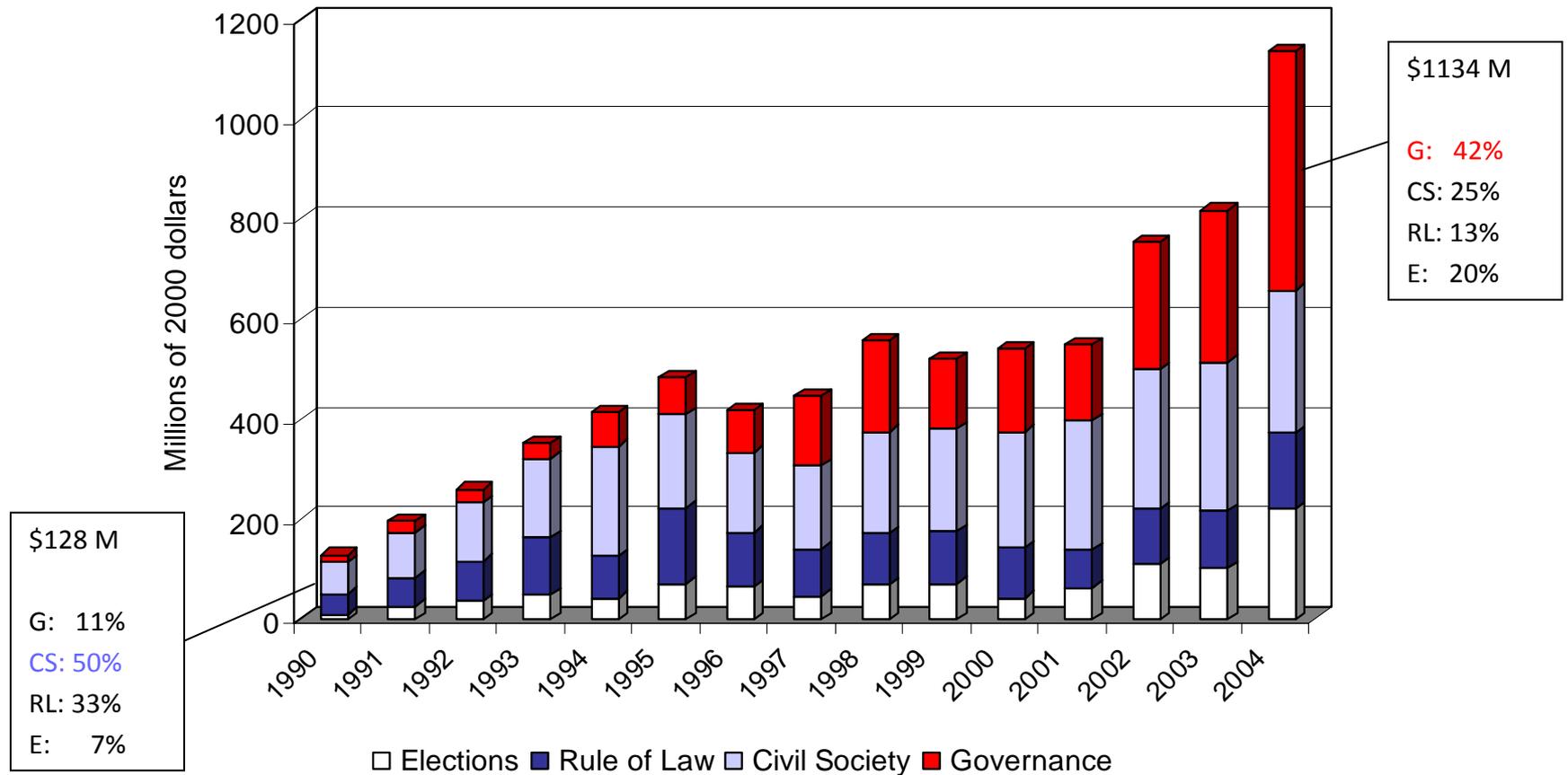
DG ASSISTANCE BY REGION AND SECTOR



Evolution of USAID DG Funding (by Sub-Sectors)



Evolution of USAID DG Funding (by Sub-Sectors)





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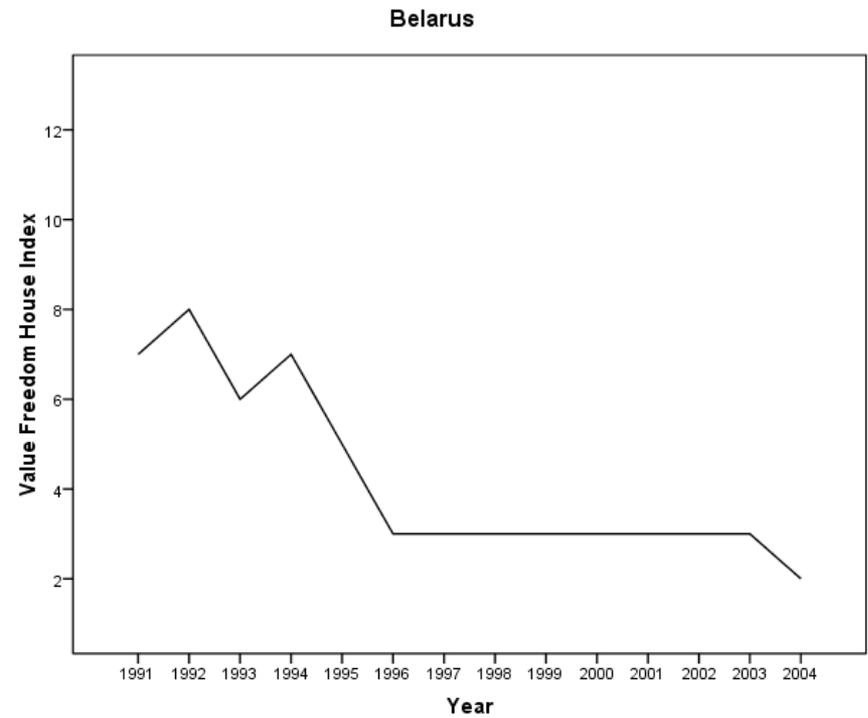
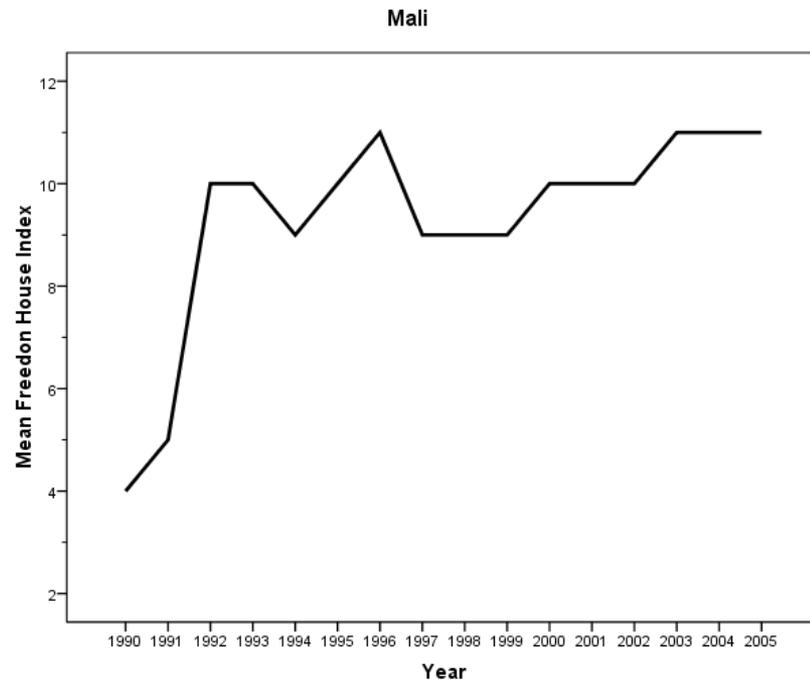


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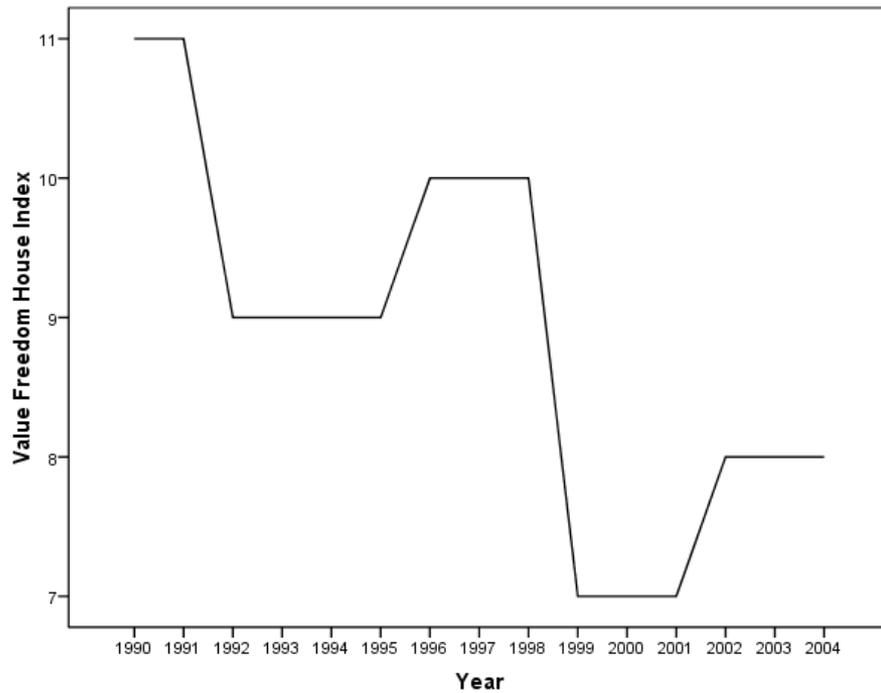
Analysis

Examples of Democratic Growth Trajectories

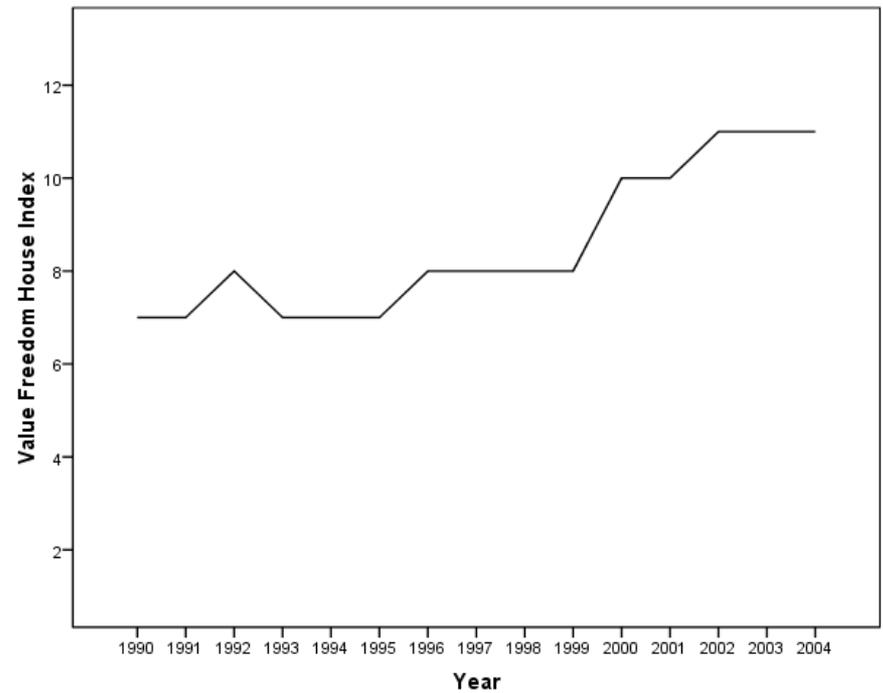


Examples of Democratic Growth Trajectories

Venezuela



Mexico



The " Baseline Model"

- **Level 1 Growth Curve: Freedom House Index (Scale 1-13), Polity IV Index (Scale -10, +10)**
- **Covariates: Democracy And Other Foreign Assistance**
 - USAID DG Obligations (in Millions, Current and Previous FY, Constant 2000 \$)
 - USAID Non-DG Obligations
 - National Endowment for Democracy (NED)
 - US Assistance other than USAID and NED Obligations
 - Regional/Sub-Regional USAID DG & Non-DG Obligations
 - Other Donor DG and Other Donor Non-DG Assistance

The " Baseline Model"

- **Covariates: Economic and Political Factors**
 - Annual Percent Growth in Gross Domestic Product Per Capita (World Bank Data)
 - Democratic Diffusion (average of democracy in other countries lagged by one year, weighted by distance to recipient nation)
 - Annual Percent Change in Inflation Rate/ Percent Unemployed (WB)
 - Export Dependence (in Millions, WB)
 - Regional Democracy (Freedom House Average in Previous Year)
 - US Military Assistance Priority (Percent of US Security Assistance)
 - Political and Social Conflict
 - Current (annual) state failure

The " Baseline Model"

- **Level 2: Control Variables**

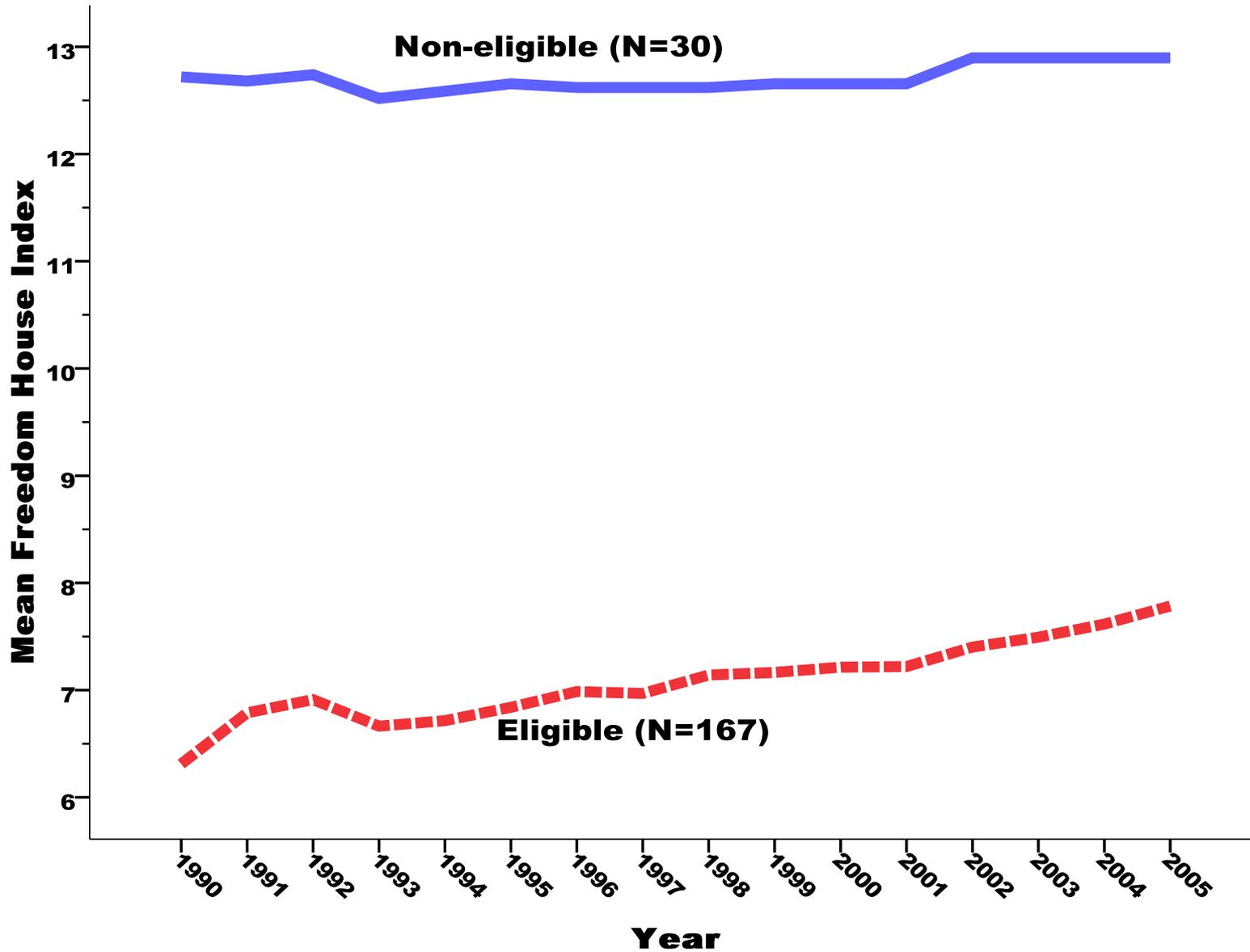
- Years Rated “Free,” 1972-1989 (Freedom House)
- Pre-1990 USAID Presence (0/1)
- UNDP Human Development Index
- Population (in Thousands, 1990-2003 Average, WB)
- Size (Thousands of Squared KM)
- Income Per Capita (Thousands of Dollars, PPP, CIA World Factbook)
- Urban Population (Percent living in Urban Areas, WB)
- Ethno-Linguistic Fractionalization (0-1, Annett and Fearon Data)
- Income Inequality (Percent Share of Income, Top 20%, WB Data)
- British Colonial Experience (0/1, Bernhard, Reenock and Nordstrom 2004)
- Years of State Failure, 1960-1989 (Polity Data)

Key Findings on Foreign Assistance

- *AID Democracy and Governance obligations have a significant impact on democracy scores, while all other U.S. and non-U.S. assistance variables are statistically insignificant.*
- No other assistance variable is shown to have a direct statistically significant impact. The amount of USAID non-democracy obligations are irrelevant, as are regional and subregional pools of democracy and non-democracy assistance, as are the amounts of U.S. aid that flow through non-USAID sources. Finally, the aggregate level of non-U.S. foreign assistance is statistically insignificant as well.

Thus, the only **AID** effect that matters for a country's level of democracy, as measured by the Freedom House index, is the amount of U.S. funding specifically targeted for democracy assistance.

The Growth of Democracy in the World: Eligible vs. Non-Eligible Countries



Summary of Baseline Results

1. Significant Effect of US DG Assistance

- \$10 Million “Buys” 1/4 of a point on Freedom House Index (1-13), 4/10 of a point on Polity Index (-10 to + 10)
- **Ten million dollars would produce -- by itself -- about a five-fold increase in the amount of democratic change that the average country would be expected to achieve, *ceteris paribus*, in any given year.**
- No Effect of Non-DG Assistance (But Possibility of Indirect Effects)
- No Effect of Non-US Assistance (Measurement Issues)

2. Significant Positive Effect of Good Short-Term Economic Performance, Regional Democracy and but Negative Effect of Political Conflict

3. Significant Predictors of Country-Level Intercepts

- Prior Democracy (+)
- Prior Level of Economic Development (+)
- Income Inequality (+, Anomalous)

4. Significant Predictors of Country-Level Growth Rates

- Prior Democracy (-) (higher starting level means lower growth)

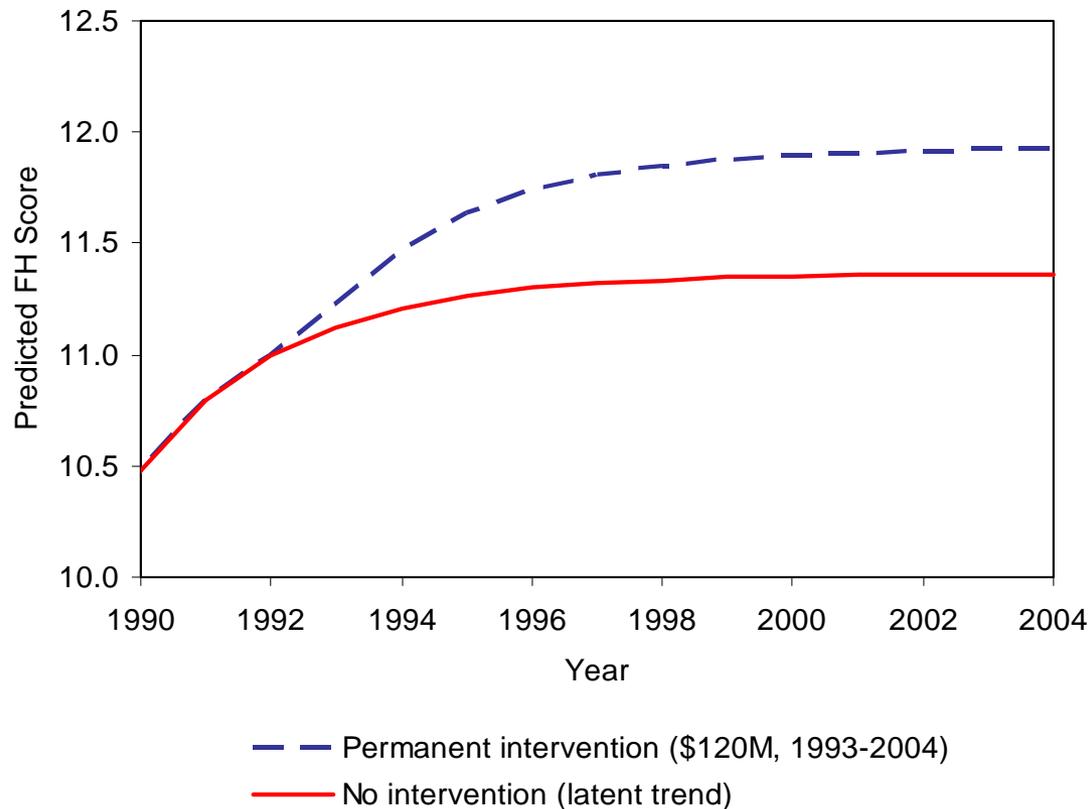
Summary of Baseline Model Results

- USAID-DG Appropriations Affect Overall Level of Democracy
- Effects Nearly Identical for Freedom House and Polity IV Dependent Variables
- Effects Modest in Absolute and Relative Magnitude
- No Other Aid Variable is Statistically Significant (though measurement deficiencies and possible indirect effects)
- Confirms Phase I (1990-2003) Findings, but Iraq 2004 Exerts Extreme “Leverage,” Necessitating A Separate Control For This Case

But...limited DG spending = limited impact

- Even stronger impacts are predicted if average AID DG obligations were raised to levels such as those seen for the most heavily funded countries in the sample:
 - Serbia and Montenegro's 2003 value of \$79.8 million
 - The Russian Federation's 1995 value of \$51.0 million or Egypt's 1998 value of \$52.6 million.
 - These *potential* impacts must be viewed in the context of the *actual* current outlays for democracy assistance. **The average eligible country received only \$2.07 million per year during the time period, and this figure reached only \$3.66 million in 2003.**

Additional Analyses 1: Cumulative Effects



\$10 million each year

Additional Analysis II: The “Endogeneity” Challenge

- **Endogeneity: A Country’s Level of Democracy May Cause USAID Appropriations and Not the Reverse.**
 - Countries (e.g., North Korea) May Receive no Funding *Because* They Score at the Lowest Level of Democracy.
 - Other Countries May Receive Funding Because They are Already Making Democratic Progress
 - Knack (2004, 259) claims: “AID currently has an explicit policy of directing more aid to countries that appear to be making greater progress towards democratization.”
 - If True, This Would Produce the *Illusion* of a Positive Effect from USAID DG to Democracy.

Descriptive Refutation Endogeneity Challenge

- Ample evidence to suggest that, at times, AID provides assistance to the especially “tough cases” regarding democracy:
- Haiti, for example, received some \$25-30 million more than the average country in the mid-90s.
- Egypt consistently receives democracy assistance in the range of \$30-50 million dollars despite Freedom House ratings that hover around 3.
- The Russian Federation has received similar amounts in recent years despite consistently declining Freedom House scores.
- Countries that reach a certain level of democracy often “graduate” from AID DG assistance or have their AID missions closed altogether:
 - Botswana, Costa Rica, Poland and others in Eastern Europe
 - In these cases there is a *negative* relationship between democracy and DG assistance
 - If this is generally the case, then the potential effect of DG assistance on subsequent levels of democracy may have been *underestimated* in the models thus far.

Under What Conditions Does DG Assistance Matter Most?

- Region
- Socioeconomic Conditions
 - **Human Development**
 - **Ethnic and Linguistic Fractionalization**
 - GDP Growth
 - Income Inequality
 - Land Area
- Domestic Political Conditions
 - Social and Political Conflict
 - **State Failure**
 - Prior Democracy

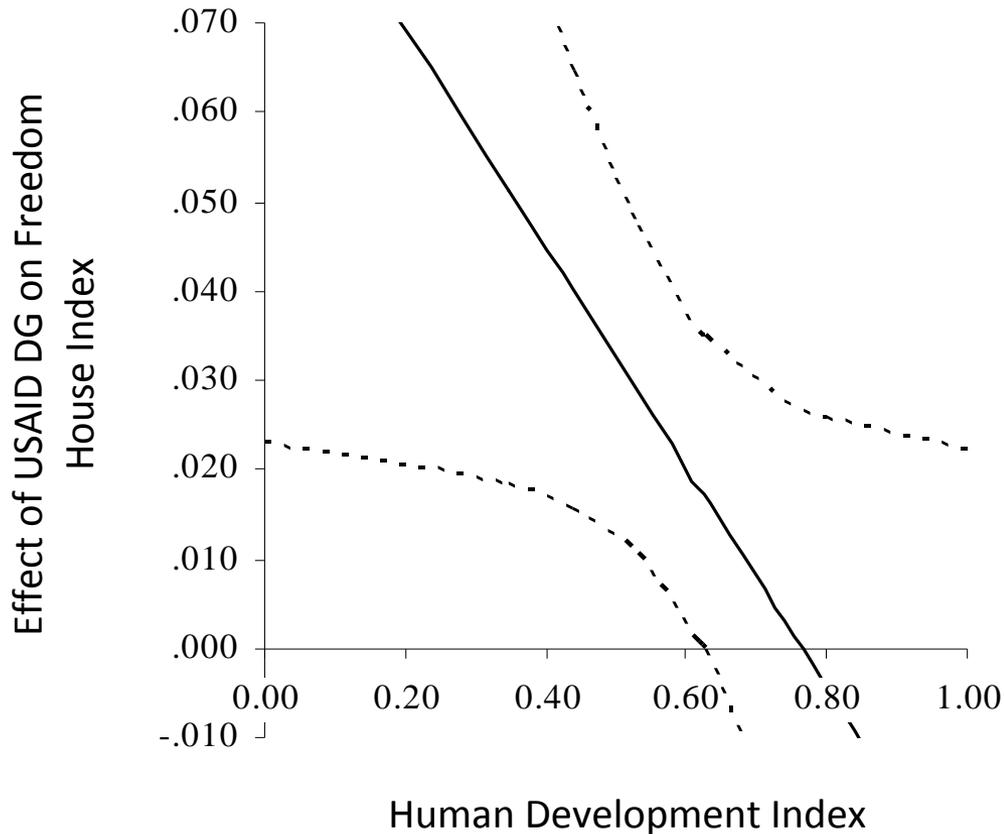
(Note: variables in **red** statistically significant)

Conditional Effects

Under What Conditions Does DG Assistance Matter Most?

- Under what conditions does DG assistance work better?
- Under what conditions does DG assistance not work as well?

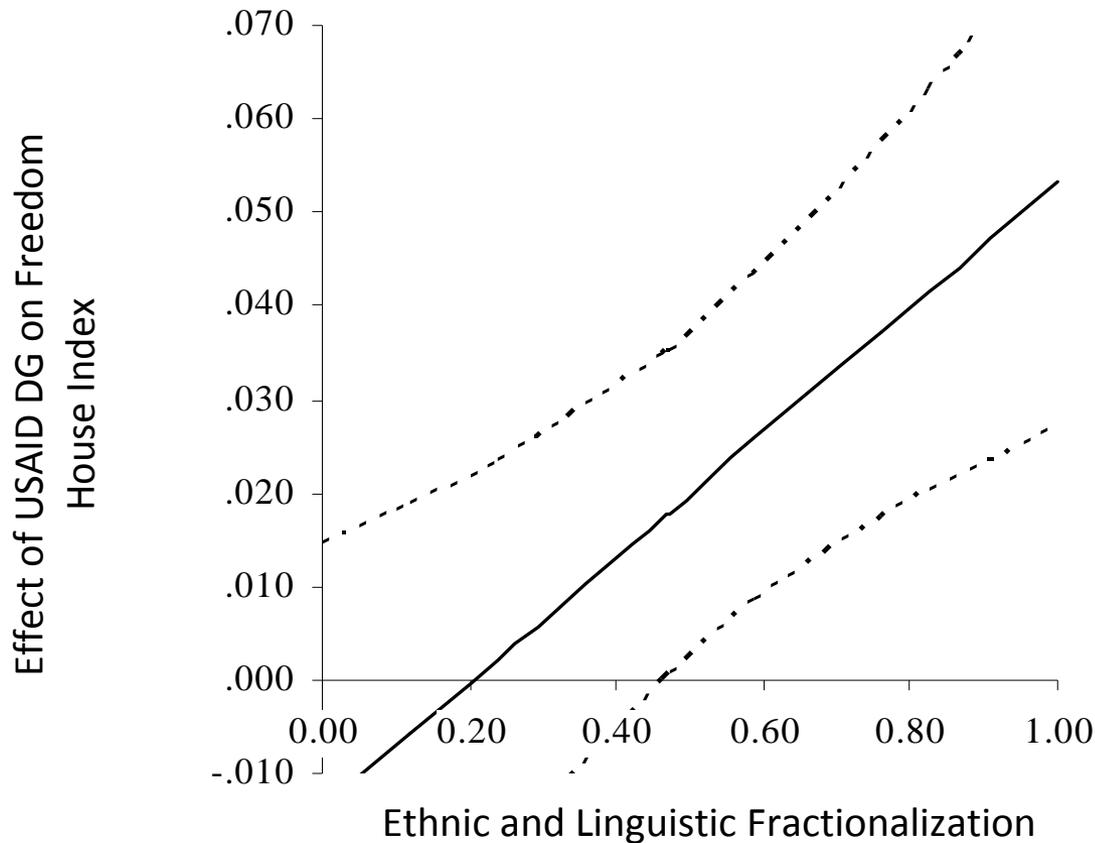
USAID DG Effect at Different Levels Human Development



As human development increases, impact of DG declines

USAID DG Effect at Different Levels of Ethnic and Linguistic Fractionalization

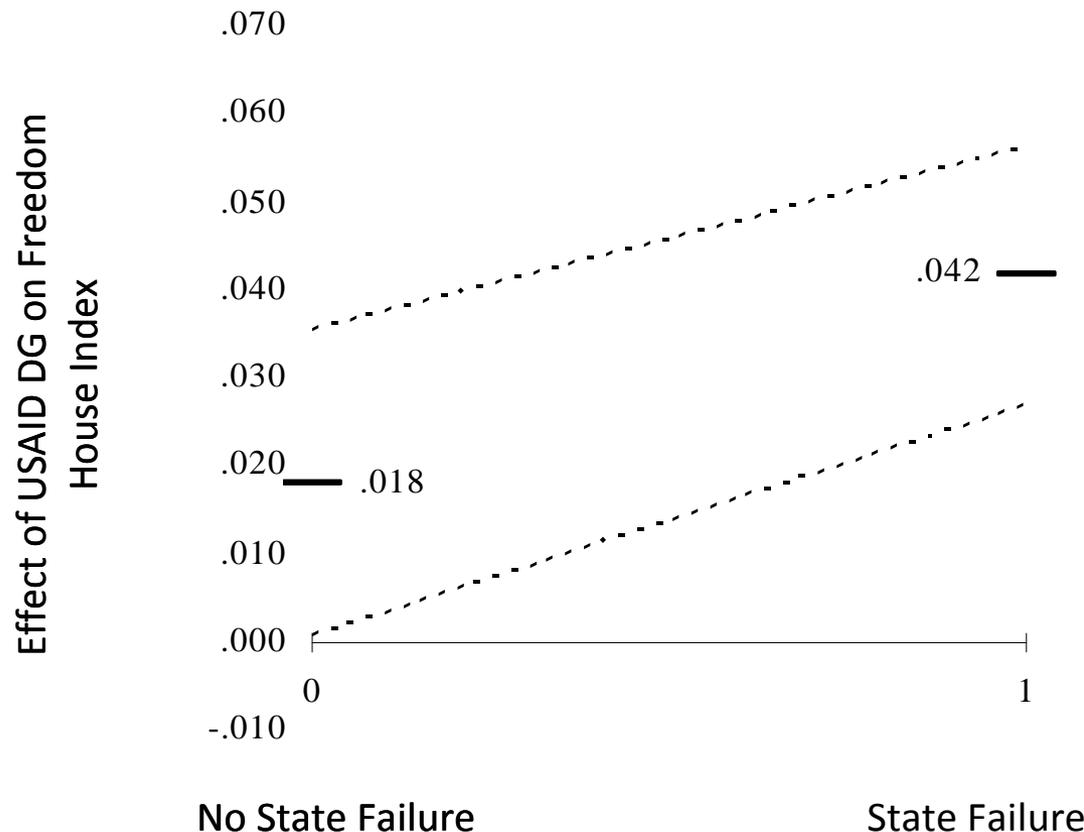
As fractionalization increases, impact of DG increases



Based on Table 11, a model including all interactive terms that were significant in Tables 8, 9, and 10 (plus the few terms that approached the .1 level of significance)

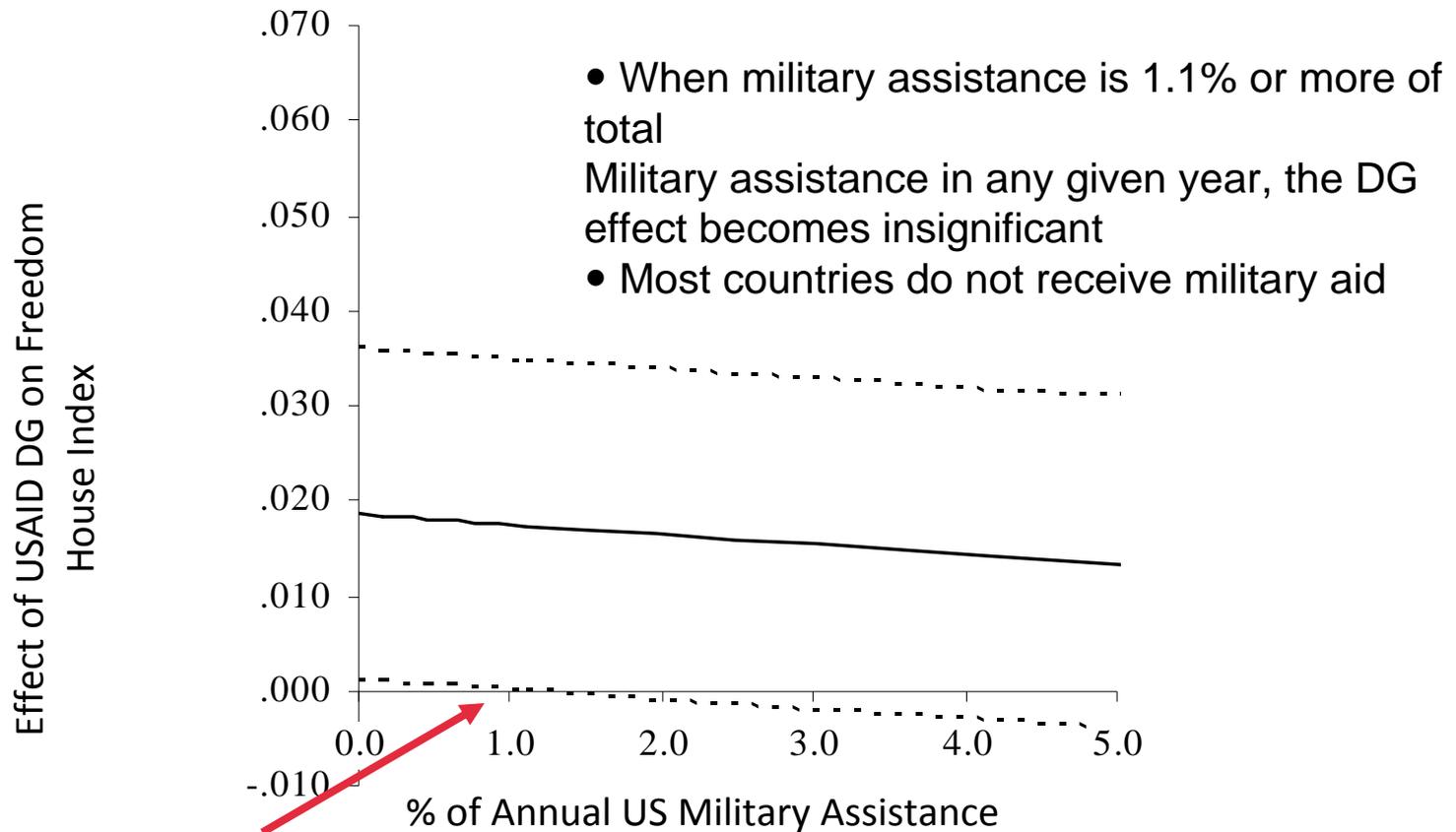
USAID DG Effect at Different Levels of State Failure

DG more effective under conditions of state failure



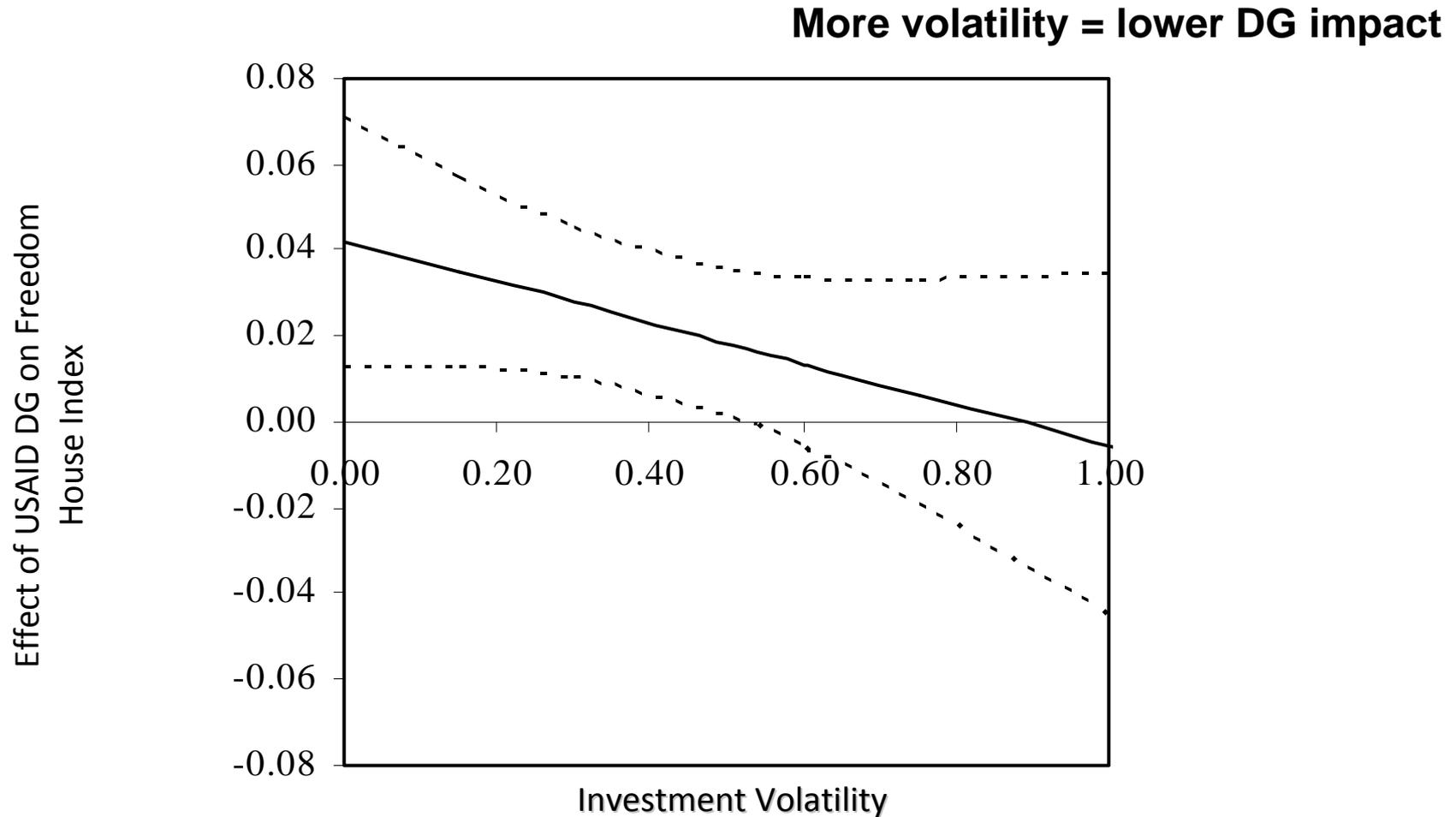
Based on Table 11, a model including all interactive terms that were significant in Tables 8, 9, and 10 (plus the few terms that approached the .1 level of significance)

USAID DG Effect at Different Levels of US Military Assistance Priority



Based on Table 11, a model including all interactive terms that were significant in Tables 8, 9, and 10 (plus the few terms that approached the .1 level of significance)

USAID DG Effect at Different Levels of DG Investment Volatility



Based on Table 11, a model including all interactive terms that were significant in Tables 8, 9, and 10 (plus the few terms that approached the .1 level of significance)

Summary: Conditional Effects of USAID Democracy Assistance

- USAID DG Effects are **Greater** When Countries:
 - Have Lower Levels of Human Development
 - Are More Ethnically Divided
 - Face Major Instances of Political Instability
 - Are Not Recipients of Large Amounts of US Military Assistance
- US Military Assistance “Explains” the Iraq 2004 Effect (i.e., Iraq 2004 No Longer Significant Once US Military Assistance Priority is Taken into Account)
- USAID DG Effects are **Greater** for Countries with Less Volatility in DG Investment

Understanding the Impact of Human Rights (HRI Assistance)

- First phase of project found human rights assistance – human rights abuse conundrum
- Negative impact of human rights obligations on sub-sectoral human rights outcomes
- Clearly counterintuitive and disturbing
- Especially given other positive findings for effect of DG assistance on democracy growth
- Why does it occur? Second phase research could not “wash out” the effect

Can We Explain the HR Assistance – HR Abuse Conundrum?

- Our plan: investigate alternative explanations to demonstrate spuriousness of relationship
- Analytical strategy?
 - Reexamine "reverse causality" explanation
 - Reexamine "measurement/reporting error" explanation
 - Investigate the effects of potential omitted variables
 - Explore theory/analysis to explain a "genuine relationship"

Testing Reverse Causality Explanation

- *Aid goes to countries with records of abuse*
 - tested reciprocal causation models
 - models gave no support for reverse causality

Testing Measurement/Reporting Error Explanation

- *HR aid yields higher reporting of abuse, not higher actual abuse*
- Proxies for increased reporting of HR abuses:
 - Data on press freedom
 - Data on within country presence IGOs/INGOs (weak data)
- Findings
 - Press freedom increases respect for HR (encouraging finding)
 - does not support reporting error hypothesis.
 - IGO/NGO associates with increased abuse (a discouraging finding?)
 - does support reporting error hypothesis.

Testing Omitted Variables Explanation

- *Relationship between HR aid & abuse due to omission of key variables*
- Worthy omitted variables to consider:
 - Formal constitutional structures to protect/promote HR
 - Formal and actual judicial independence
- Findings
 - No formal constitutional provisions predicted respect for HR
 - Actual judicial independence strongly associated with respect for HR
 - a most encouraging finding, given AID rule of law concerns

Testing Genuine Relationship Explanation

- *Leaders under pressure to improve their HR performance respond by becoming more repressive*
- They feel their grip on power is threatened
- Measure “threat” with indicators of events perceived as threatening by potentially repressive leaders
 - *Organized Nonviolent Protest*
 - *Organized Nonviolent Rebellion*
 - *Organized Violent Rebellion, and*
 - *Civil War*
- *Findings: Increased threat strongly associated with HR abuse*
 - supports proposition that at least some human rights abuse may be the result of perceptions of threat by political leaders

Understanding the Impact of Human Rights Assistance Redux: Conclusions

- Despite important findings such as:
 - Rejection of reverse causality hypothesis
 - Positive effect of Press Freedom on HR respect
 - (Tentative) negative impact of IGO/NGO growth on HR respect (support for reporting error hypothesis)
 - Strong positive effect of actual judicial independence on HR
 - Strong negative effects of “threat” on HR
- Negative relationship between DG Rule of Law HR assistance and HR respect persists

Political Culture: Does it play a facilitative role?

- First phase of project: made no attempt to investigate if political culture mediates the impact of DG assistance
- Second phase: extensive effort to identify useful cross-national opinion data on culture variables
- Survey data in usable form exists on 60-80 countries for a list of eight cultural variables
- Data drawn from multiple survey sources (see text) including the surveys that USAID helps fund (the LAPOP AmericasBarometer, AfroBarometer).

Working hypothesis:

- Countries with cultures that promote trust and social engagement are ones in which democracy assistance will have a stronger impact.
- Conversely, in countries with less trusting and engaged political cultures, the impact of DG assistance will be attenuated.

Political Culture Variables Chosen

- Interpersonal trust
- Support for democracy as form of government
- Institutional trust (government, parliament, justice system)
- Satisfaction with democracy
- Happiness
- Life satisfaction
- Interest in politics
- Nationalism

Institutional Trust

- Average scores for Trust in the Government, trust in the Justice System, and trust in Parliament.
- The survey questions read: “I am going to name a number of organizations. For each one, could you tell me how much confidence you have in them: Is it a great deal of confidence, quite a lot of confidence, not very much confidence or none at all?”

Personal Satisfaction

- **Satisfaction with democracy:** “On the whole are you very satisfied, rather satisfied, not very satisfied or not at all satisfied with the way democracy is developing in our country?”
- **Life satisfaction,** measured through the question: “All things considered, how satisfied are you with your life as a whole these days?”
- **Happiness,** measured through the question: “Taking all things together, would you say you are: very happy, quite happy, not very happy, or not at all happy?”

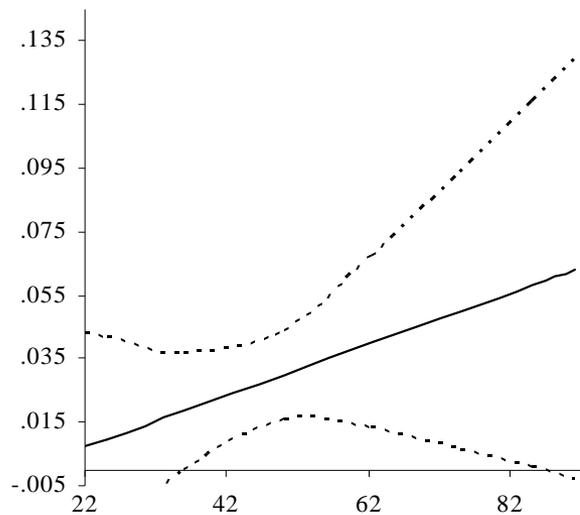
Social Engagement

- **Interpersonal trust:** “Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?” Scores range between 0 (need to be very careful) and 100 (most people can be trusted).
- **Interest in politics:** “How interested would you say you are in politics?”
- **National pride,** “How proud are you to be [Nationality]?” The factor analysis reported in Appendix 3 suggested that this item was inversely related to the underlying construct (social engagement), therefore we inverted the scores to range between 0 (very proud) and 100 (not at all proud).

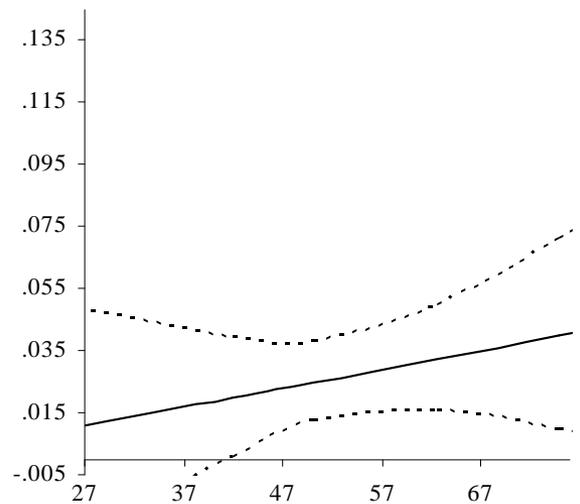
Analyses and Results

- Separate analyses of role of each dimension of culture in mediating the impact of U.S. democracy assistance on Freedom House democracy scores over time
- All three showed that culture has *positive facilitative* effect on DG assistance:
 - The more democratic a country's political culture, the stronger the effects of democracy assistance on democracy scores
 - DG assistance is most effective when citizens trust one another, are engaged with politics, and less strongly nationalistic

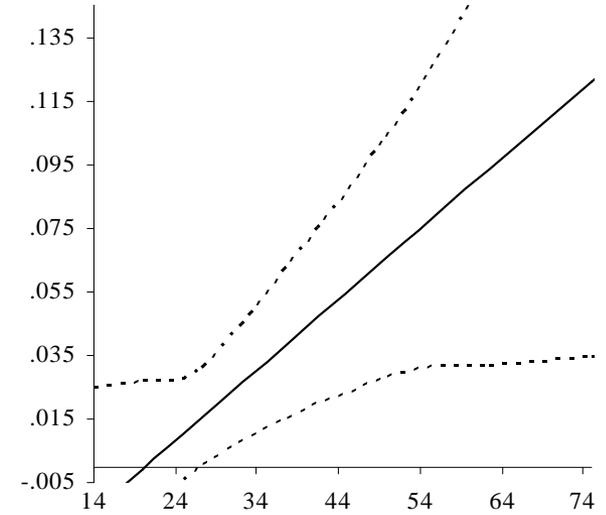
Coefficient for DG AID, Conditional on Cultural Characteristics



Institutional Trust



Satisfaction



Social Engagement

More trust, more satisfaction, more engagement = greater DG impact

Conclusions

- USAID's bold risk in commissioning study: could have found no impact or *negative* impact of Democracy assistance
- First report: U.S. democracy assistance had a positive impact on national levels of democracy
- This study: added one (important) year of data and many new indicators, enriching analysis
- New effort found results similar to those in first study, controlling for impact of 2004 spending in Iraq, i.e.,
- When USAID expends funds to promote democracy, the effort has the same degree of impact as in first study

Conclusions (continued)

- The positive impact of DG AID:
 - \$10 million of USAID DG funding would produce an increase of more than one-quarter of a point (.29 units) on the 13-point Freedom House democracy index in a given year
 - This is about a five-fold increase in the amount of democratic change that the average country would be expected to achieve, *ceteris paribus*, in any given year.

Conclusions (continued)

- **New or enhanced findings:**
 - No evidence of “endogeneity” (reverse causation)
 - Regional effects are similar except for Africa (larger impact)
 - Countries with greatest need benefit most from given amount of USAID DG assistance. Greatest impact in countries with:
 - Lower levels of human development
 - Greater levels of ethnic fractionalization
 - Experiencing contemporaneous failure of state institutions
 - Democracy assistance is *less* effective when the U.S. provides larger amounts of military assistance (when more than 1.1% of total, DG =0)
 - Warrants further investigation
 - Helps explain the “Iraq 2004 Effect” (31% of all DG funds in 2004 and 23% of security assistance)
 - Limited evidence suggests that USAID-DG is less effective if investment is more volatile

Conclusions (continued -2)

- **New or enhanced findings (continued)**
 - The more democratic a country's political culture, especially interpersonal trust, the stronger the effect of U.S. DG aid on democracy scores: Culture exerts a positive facilitative effect for USAID DG assistance
 - New study unable to “wash out” the only important negative effect of aid on democracy, the impact in human rights area
 - This counter-intuitive finding remains a puzzle
- **Positive impact of USAID on democracy clear:**
 - The 15 years of data we have analyzed here provide a robust basis for drawing the conclusion that DG assistance in the post-Cold War period has worked.

<http://www.pitt.edu/~politics/democracy/democracy.html>

Or

<http://www.LapopSurveys.org>



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