

More donors, more democracy

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A country's democracy improves when it receives democracy aid from more donor countries. This finding appears surprising from a development perspective, as the presence of a large number of donors, or more generally 'fragmented aid', have been shown to impact negatively on the recipient country. But fragmented aid can be beneficial: Diversity on the donor side provides choice to the local actors involved in the process of democratization. It thus creates a 'marketplace for idea support' which increases the viability of the resulting institutions. In contrast, a highly-concentrated donor community can lead to the imposition of an institutional blueprint, designed in advance and not adapted to the needs of the recipient society. An instrumental variable analysis with panel data for 130 countries from 1994 to 2013, explicit tests of the causal mechanism, and anecdotal evidence from Ghana provide strong support for the benefits of diverse democracy aid.

Keywords: foreign aid, democracy, diversity, liberalization

Supplementary material for this article is available in the appendix the online edition. Replication files are available in the JOP Data Archive on Dataverse (<http://thedata.harvard.edu/dvn/dv/jop>).

Many scholars argue that foreign aid harms democracy. They substantiate their claims building on political economy theory and empirical evidence from time-series cross-country data (e.g., Bueno de Mesquita and Smith 2009). Other scholars dispute the robustness of these findings and even demonstrate positive effects of aid (e.g., Bermeo 2016; Dietrich and Wright 2015; various contributions in Resnick and Van de Walle 2013). Dutta, Leeson, and Williamson (2013) explain this ambiguity with an ‘amplification effect’: foreign aid stabilizes the regime that is currently in place. Aid, however, that focuses specifically on government and civil society issues, commonly referred to as ‘democracy aid’, has been shown to consistently correlate with improvements in democracy (Scott and Steele 2011; Jones and Tarp 2016). Democracy aid made up 13 percent of all official aid flows in 2013, or 8 billion USD. Despite the large sums being spent, the literature is undetermined on why democracy aid seems to work against the odds. Democracy donors themselves are similarly adrift:

Although increasing numbers of governments and people around the world now endorse the norm of democracy promotion, even democratic states disagree about how to do it. [...] Should external actors press first for elections or for the adoption of a constitution? Should they push for presidential or parliamentary systems, federal or unitary states, proportional representation in parliament or majoritarian electoral systems? Should outsiders work with the state or society to press for change? No blueprint is universally recognized as the most effective way to promote democracy, and in fact, many even reject the idea that there can be a blueprint.

(McFaul 2004: 157)

I make a new suggestion on why democracy aid works: it is the very absence of a blueprint that makes it effective. By virtue of diversity, fragmented aid allows different interests and actors in the recipient country to find support. As there is no blueprint for democracy promotion, there is no blueprint for democracy. Supporting different interests from the outside increases the chances that viable democratic institutions are established, and that those cleavages are politicized that best mirror the interests of the relevant social groups. Anecdotal evidence from Ghana suggests that the proposed mechanism remains plausible on closer inspection.

The recommendation to provide fragmented aid contradicts the current development discourse.

Most famously, *The Paris Declaration on Aid Effectiveness* called for an end to aid fragmentation and for better coordinating aid. But an approach to democracy promotion based on the division of labor, I argue, has two fundamental flaws. On the conceptual level, as well-planned as a coordinated intervention could be from a technical point of view, it would create a designed, not a grown democracy. On the political level, any coordinated approach would ultimately constitute a compromise between donors rather than an intervention primarily adapted to local requirements.

The most explicit support towards democratizing recipient countries occurs through democracy aid. Democracy aid is understood as aid explicitly aimed at improving political institutions and supporting different types of interest groups (Carothers 2009: 5). I refer to all other aid collectively as ‘economic aid’ (following Dietrich and Wright 2015: 222), and to the sum of both as ‘general aid’. I study the effects of democracy aid proliferation – i.e., the presence of a large number of democracy donors – on democracy in recipient countries. In a sample of 130 countries over the period 1994 to 2013, I find strong support for my hypothesis with both fixed effects and instrumental variable specifications. The interacted instrumental variable employed here is tested for spurious correlation as recently suggested by Christian and Barrett (2017). The causal mechanism is examined with detailed data on democratic diversity in the recipient country. My findings contribute to three strands of literature. They contribute to the growing literature that disaggregates the effects of aid on democratization (e.g., Bermeo 2016; Birchler, Limpach, and Michaelowa 2016). They constitute the first assessment of the effects of aid fragmentation on democracy, and add to recent findings on benefits of fragmented aid (e.g., Han and Koenig-Archibugi 2015). And finally, they relate to the debate on how much competition young democracies tolerate or require (Bunce 2003; Wright 2008; Kapstein and Converse 2008).

To set the stage for my argument, I first discuss the state of the art on the effects of aid on democracy. Building on a model of ‘mobilized democratization’, I then suggest a mechanism on how fragmented aid alters these effects: Democracy donor proliferation provides a ‘marketplace for idea support’ to a variety of local actors and thus improves democracy. The democratization literature provides a foundation for this mechanism, showing that establishing and consolidating democratic institutions is an iterative and uncertain process which benefits from diversity at early stages.

The ambiguous link between aid and democratization

One major argument linking general aid and democracy asserts that the former may harm the latter because it is ‘fungible’. Fungibility refers to the ability of recipient governments to respond to aid inflows by reducing their own contribution in the respective sector, thus freeing up resources for discretionary use (Feyzioglu, Swaroop, and Zhu 1998). In most theories of political power, ‘discretionary use’ is equivalent to employing these additional funds for whatever helps extending the incumbent’s rule (Bueno de Mesquita and Smith 2009). This rationale has found support in the empirical literature (e.g., Kono and Montinola 2009), although Bermeo (2016) recently presented evidence that these deteriorating effects do not apply anymore after the end of the cold war.

Non-fungible aid may also harm recipients by disrupting the accountability chain between government and citizens (Winters 2010: 223). When a government receives aid, it is subject to expectations by the donor, be they explicit or implicit. Pledges towards donors compromise the ability of a government to serve its people. When a donor’s expectations are articulated, and the future disbursement of aid depends on the compliance of the recipient, the mechanism is referred to as ‘conditionality’. Conditionality, however, was originally supposed to have the positive connotation of nudging recipients towards ‘good governance’. In practice, conditionality has contributed to spreading the norm of democracy across the globe after the end of the cold war (Crawford 2001). But the norm has impacted the labeling of regimes, and not necessarily actual practice, making many nominally democratic regimes today dysfunctional (Brown 2005).

Technical aid explicitly aimed at fostering democracy, i.e., ‘democracy aid’, also has many critics. They argue that democratization is an overwhelmingly domestic process that can hardly be fostered intentionally from the outside (O’Donnell and Schmitter 1986: 18). And if international forces played a role, one might expect economic factors such as trade to dwarf aid efforts. When particular attempts to promote democracy with aid failed despite a strong (including military) engagement, it was often blamed on trying to impose an institutional blueprint – modeled after the western example – onto a society with different expectations and structures (Hill 2011).

Despite these pessimistic expectations, empirical studies have consistently linked democracy aid to positive trends in various aspects of democratic governance (e.g., Jones and Tarp 2016; Scott and Steele 2011). This may be explained by a reduced fungibility of democracy aid, and by the

effectiveness of certain aspects of technical democracy aid. Reduced fungibility is mainly due to the fact that a large part of democracy aid does not go to the government, but to non-state actors (Youngs 2003). Some funds are channeled directly from the donor to non-governmental organizations (NGOs). Bypassing recipient governments in general aid delivery is often justified with bad governance reducing efficiency (Dietrich 2013). In the realm of democracy aid, bypassing fulfills the additional task of building opposition capacity. And official statistics underestimate the level to which this tool is employed: Many funds are officially recorded as going to government ministries, but they are actually spent by NGOs (Crawford 2001).

Building opposition capacity, or empowering local actors, is at the core of extant theories attempting to explain how democracy aid works. Empowerment may be achieved via political education and norm diffusion (Finkel, Pérez-Liñán, and Seligson 2007: 410) or by making information available that educates voters and enables political organizations to more effectively challenge the incumbent (Heinrich and Loftis 2017). But democracy aid also immediately addresses how governments and other political institutions work. For example, external involvement has been shown to make elections more credible (Hyde 2007). External advisers can also help to implement certain rules or practices that have been shown to improve democratic stability, such as proportional electoral systems, term limits, or improvements to the rule of law (Magen and Morlino 2009). These measures can help break the ‘trap of pessimistic expectations’ fueled by the popular belief that all politicians are corrupt (Svolik 2013: 687). The accountability chain is thus actually strengthened, not weakened, by democracy aid: ‘assistance to new democracies that empowers the civil society and independent media may help voters to evaluate candidates’ performance with lesser effort and greater precision’ (Svolik 2013: 698). Gottlieb (2016), for example, shows with a field experiment in Mali that educating the population about democracy increases the accountability of government. Other approaches at democracy aid that have been shown to be effective, on average, are relying on recipient institutions, such as the ruling party in one-party regimes (Cornell 2012), and matching the most pronounced deficits in recipient countries, such as elections in autocracies and civil society in defective democracies (Lührmann, McMan, and Van Ham 2017). It is unclear, however, which approach is suitable in a particular situation to overcome the abundance of obstacles in promoting democracy. I make the novel claim that one of the driving forces behind the effectiveness of

democracy aid is donor proliferation. But before expounding this theory, I present some properties of democratization processes upon which my argument rests.

The uncertainty of democratization processes

Two models of democratization shall help prepare the argument on the benefits of diversity in democracy promotion. An *elite pact transition* model and a *mobilized transition* model. The model of elite pact transitions purports that transitions should be negotiated in small circles of incumbent and opposition actors (Rustow 1970). Pacting among elites and demobilizing the public are considered useful because they help reduce the number items on the bargaining table and the threat of polarization (Linz 1978). This model remains the foundation of many democracy assistance interventions. Trusting in the ability of leaders to manage democratization, donors bond with the in-group of a newly formed government. Bonding also occurs out of concern that a more open process might compromise stability (e.g., Rakner 2012: 17). Bunce (2003), however, has shown that the ability of leaders to steer transitions has often been exaggerated. Leaders are frequently doomed to reacting to developments rather than being able to shape them (Bellin 2000: 204). And even if managed transitions succeeded in the short term, the long-term outlook would be bleak: Democracies ‘born with deeply oligarchic and exclusivist traits’ are more vulnerable to backsliding into autocracy (Slater 2013: 761–2).

Recent empirical research finds that a mobilized transition is a more successful model to follow: Demonstrations, a wider spectrum of political parties, and other forms of participation make young democracies more resilient (Brownlee 2009; Bunce 2003; Kapstein and Converse 2008; Wright 2008). Diversity is particularly crucial in poor, young democracies. During the first couple of elections, party systems consolidate, defining those social cleavages that are politicized (Zielinski 2002). Only interests that are supported financially have good chances of finding a place in the system. There is a *lack of support for alternative ideas on democracy*. In the words of Dahl (1971: 49), scattered resources result in dispersing the ‘nonviolent means of coercion, persuasion and inducement’.

A political system supported by a diverse set of external donors will disperse resources more efficiently and thus contribute to building institutions suitable to the society’s needs. Gibson, Hoff-

man, and Jablonski (2015) argue that donors in the 1990s increasingly employed technical aid and monitored its use, thus reducing the ability of incumbents for patronage, forcing them to concede more rights to opposition actors. Being faced with more donors and more projects, it becomes even more difficult for incumbents to calculate their chances of containing subsequent liberalization (cp. Wright 2009). Extending the franchise also decreases the desire of out-groups to challenge the order that is being created, making them feel less excluded (Wright 2008). This may occur indirectly by empowerment through support for free media, or immediately by fostering organizational structures of discriminated groups such as women, peasants, and ethnic minorities.

But these arguments do not apply exclusively to young democracies. In more mature regimes, external funding and inspiration can help overlooked groups to win the ‘war of attrition’ necessary to invade a frozen party system (Zielinski 2002: 202). Increasing diversity in authoritarian regimes can also be beneficial. Competitive authoritarian regimes are more likely to be followed by democracy than other authoritarian regimes (Brownlee 2009).

A reason for the success of mobilized models is the inherently uncertain nature of democratization processes that favors ‘trial-and-error’ approaches, which have proven successful in many socio-economic fields (Harford 2011). Whenever societies attempt to become more democratic, they face a plethora of challenges (O’Donnell and Schmitter 1986; Casper and Taylor 1996). At any stage of the democratization process – be it the liberalization of autocratic rule, the establishment of democratic institutions or their consolidation – the danger of an autocratic backlash looms. Until democratization succeeds, nobody can reliably predict the institutional setup that turns out to be stable. The uncertainty is due to the iterative process of power struggles among the participating actors. Since the end of the cold war, many transitions occurred as ‘negotiated revolutions’, and not as quick, clean and bloody breaks (Lawson 2005). During the negotiations, many options are tested, many fail, and only the subset that works is finally selected. Finding these can require several attempts.

What mobilized transitions often lack for a successful trial-and-error progression is an approximate equity in resources among the actors competing for power. External pressure to transition to multiparty systems can actually hinder sustainable democratization when opposition parties are too weak to compete with the old elites (Brown 2005: 190). Where a diverse set of domestic phil-

anthropic sponsors is missing, external sources such as diasporas may take on the crucial role of funding pluralistic oppositions (Arriola 2013: 249).

Donor proliferation creates a marketplace for idea support

In the absence of diversified domestic wealth, or a balancing diaspora, a diversified donor landscape can be the crucial ingredient to alleviating the constraints in support for alternative models of democracy, thus making emerging democracies more sustainable. To development scholars and practitioners alike, this claim may come as a surprise. Most would assert that more fragmented aid is less effective, and potentially harmful (Acharya, Fuzzo de Lima, and Moore 2006: 14). Fragmentation has been shown to impact negatively on governance in the recipient country. The presence of a large number of donors puts high transaction costs on the recipient government, forcing officials to cater divergent donor interests at the same time (Morss 1984). The resulting conundrum gives corrupt officials the possibility of directing their individual attention selectively towards projects. This increases their leverage for siphoning rents and reduces bureaucratic quality. Bureaucratic ineffectiveness then leads to reduced economic growth (Djankov, Montalvo, and Reynal-Querol 2009). Donors also compete with the government for the best-qualified personnel. By hiring away the most capable managers, they reduce the administrative capacity in the recipient country (Knack and Rahman 2007).

The positive effects of fragmented aid on democratization stem from a mechanism that alters the aid-and-democratization link: Different donors represent different models of democracy and thus provide support to different actors and ideas in recipient countries. The introductory quote by Michael McFaul alludes to how difficult it is for donors to do the ‘right thing’ in democracy promotion. We know from the literature that some variations of democracy aid have worked in the past in some places; but in a particular situation, it is near impossible to formulate a strategy that will reliably produce the desired results. Not knowing what is best, offering an array of options is more likely to provide useful input for the recipient society.

The present argument on the benefits of democracy aid fragmentation builds on the observation that all donors offer slightly different aid programs, with different political orientations. Divergence has been shown particularly with regard to the European Union and the United States (Magen, Risse,

and McFaul 2009). Some donors focus on the institutions of the state, some on non-governmental organizations and some on free press. These preferences can be explained by differences in the political economies of donors; for example, between those that favor market-based, and those that favor or state-based approaches (Dietrich 2016). Figure A2 in the online appendix provides a detailed breakdown of democracy aid portfolios. It shows that donors actually emphasize support to different sectors. For example, several Nordic donors focus on human rights, Japan focuses on community participation, and Spain focuses on women organizations. Where more donors are present, they are more likely to support diverse stakeholders – both within and beyond government – that are able to hold the executive to account (cp. Rakner 2012). Figure 1 shows that there are no crowding-out effects either: donors providing aid to recipient countries where many democracy donors are active do not have less projects in these countries, but more. Only in such a diverse environment can the multitude of non-governmental actors involved in a democratization process find the best-fitting support. Even with the best of intentions, a single donor could not cater as many political hues as a group of donors can. And while all donors share a basic set of western values, they differ sufficiently in how they intend to preserve these values, making each donor a potentially crucial contribution. Crawford (2001: 35) notes:

The objection to the promotion of a western model [...] does overlook the variety of institutional forms that exist within western nations themselves. Nevertheless, it remains valid to question the extent to which donors will encourage local participation in determining the most appropriate form.

I argue that donor proliferation can encourage local participation much better than donor concentration could. The domestic ‘marketplace of ideas’ (Snyder and Ballentine 1996) is balanced by external intervention that creates a ‘marketplace for idea support’. One may certainly doubt that aid functions as a perfect market, efficiently aligning supply and demand. Easterly (2002) argues that foreign aid rather resembles a cartel. While this may be true on the global level, one does find variation on the project level: Competition between managers whose professional careers depend on making their project visible creates market-like structures (Harford, Hadjimichael, and Klein 2004). But how do these small-scale effects aggregate to impact the overall quality of democracy in the recipient country? Decentralized approaches at problem-solving have been shown to be

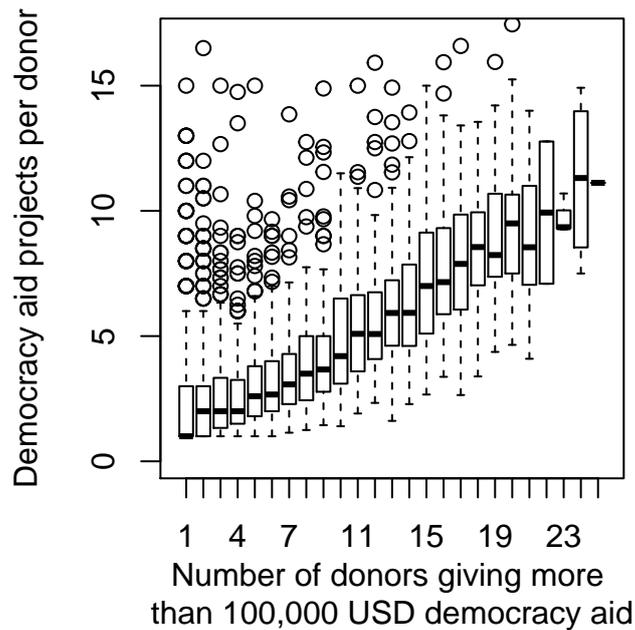


Figure 1: Number of democracy aid projects per donor in a recipient country by the number of democracy donors

very effective in institution building (Ostrom 1990). As practicing participation fosters democratic attitudes (Quintelier and Van Deth 2014), foreign-funded diversity is likely to facilitate the establishment of democratic institutions on the national level, even if donors do not directly administer their establishment.

An example from Ghana shall help elaborate this argument and demonstrate the plausibility of the causal mechanism when being confronted with accounts from actual practice in democracy aid. (Online appendix D contains the full case study with detailed democracy aid statistics.) Ghana is a donor darling and has improved its democracy scores over the past two decades. If the mechanism of improving democracy via diversity in democracy donors is generalizable, Ghana is a likely case where this should be observable (cp. Goertz and Mahoney 2012: 177–191). Gyimah-Boadi and Yakah (2012: 8) report that the diversification of civil society and the transition from a state-owned to a free press in Ghana was almost exclusively funded by external donors in the 1990s. Aid by the United States and by Germany contributed to professionalizing free mass media in Ghana (Gyimah-Boadi and Yakah 2012). More diverse media has a positive impact on democracy. Conroy-Krutz and Moehler (2015) show this for Ghana with a field experiment: Partisan media broadcast to commuters did not lead to increased polarization, but it moderated political attitudes; a finding in line with advocates of deliberation such as John Stuart Mill and Jürgen Habermas. Detailed graphs

on sectoral aid flows provided in the appendix indicate that US and German aid agencies entered Ghana before the positive effects materialized, and that few other donors provided consistent media aid. In a counterfactual world without these donors' engagement in Ghana, it seems unlikely that the free press would have been as capable to contribute to democratic debate.

This leads to an additional benefit of diversified democracy aid: a decreased danger of being left completely without aid when one donor pulls out unexpectedly, an event which has been quite frequent in the past (Youngs 2003; van de Walle 2012). If a particular donor pulls out, the remaining donors may not fully compensate this loss by supporting the very same actors; but at least some agents of change will continue to receive assistance. A similar logic applies to sudden changes in the political orientation of donors, which affect democracy assistance as well (Weissenbach 2015: 347). Only diversity can guarantee the adequate coverage of different ideological positions.

A second example from Ghana shows how the presence of a particular donor helped maintain political diversity. Dutch aid was crucial to funding the *Ghana Political Parties Programme* (GPPP) that was implemented since 2002 (Netherlands Institute for Multiparty Democracy 2002: 11). The GPPP encouraged inter-party exchange and thus helped establish democratic practice in a young democracy. Dijkstra and Kumado (2004: 15) confirm that Dutch support provided a unique contribution: '[...] everyone interviewed by the evaluators stressed the uniqueness of the [Dutch] programme in relation to the interventions of other development partners in Ghana because of the bilateral programme and the cross party activities'. But a more tangible effect of the programme is securing the survival of several small parties, including the Convention People's Party and the People's National Convention (Gyimah-Boadi and Yakah 2012: 14). Thus, the presence of Dutch aid helped maintain diversity in formal political organizations in Ghana, a crucial element for young democracies, as argued above.

I contend that, beyond these positive effects of donor proliferation, the negative effects purported for economic aid are severely mitigated for democracy aid. The number of local partners – such as NGOs and political parties – exceeds the number of donors even in the most fragmented settings, inverting the unfavorable relationship of one host versus dozens of donors, as often encountered in economic aid. Supporting non-state actors is, of course, not a silver bullet. A country's NGO scene may be biased, for example by representing mostly urban interests, such as in Mali

(van de Walle 2012: 11). Critics claim that funding NGOs from the outside leads to clientelistic relationships, causing NGOs to search short-term benefits instead of pursuing their original goals (Henderson 2002). But advocates of democracy promotion insist that supporting NGO activity leads to positive political change (Diamond 1995). This positive effect may even be achieved by simply providing the necessary infrastructure, independent of the goals pursued by the agencies (Brown, Brown, and Desposato 2008). Jamal (2012) adds that the positive effect only materializes when preceding political settlements were sufficiently inclusive. A setting with little diversity in NGOs, political parties, and free press exacerbates problems. This is where the supply of diversity from the outside can make a palpable contribution. The ‘diversity hypothesis’ for democracy aid I thus propose reads:

The presence of a large number of democracy donors has a positive effect on democracy in the recipient country.

While this hypothesis naturally assumes *ceteris paribus*, I will explore in detail how the number of democracy donors interacts with the amount of democracy aid given.

Research design

To assess the generalizability of my hypotheses on donor diversity and democracy, I apply fixed-effects and instrumental variable regression models to panel data for 130 countries over the period 1994 to 2013. If meaningful effects of fragmented aid exist, they should be observable on the macro level and in aggregate democracy indices (cp. Knack and Rahman 2007: 193).

The explained variable is democracy as measured by V-Dem’s *electoral democracy* score (Coppedge et al. 2017). The main explanatory variable is *democracy donor proliferation*, i.e., the number of donors reporting democracy aid in a given year to a given recipient. It is calculated from project-level data on aid commitments provided by the AidData Research Release 3.1 (Tierney et al. 2011). ‘Commitments’ are pledges made by the donors, whereas actual flows are referred to as ‘disbursements’. I employ AidData commitment data because it is much more comprehensive than disbursement data provided by the OECD, in particular with regard to the sector coding. In line with previous research, I consider the aid sector *government and civil society* to reflect democracy aid flows (e.g., Dietrich and Wright 2015). All aid variables employed in this study

exclude debt relief, emergency aid and amounts spent in the donor country, as these contributions are less likely to support actors in the recipient countries. The universe of cases analyzed comprises all countries with more than half a million inhabitants and defined by the OECD to be eligible for receiving official development aid. Democracy aid has been reported since 1973, but a substantial part of the strong time trend in the data is likely to be due to underreporting in early years. Records become more reliable in the mid-1990's. My sample ranges from 1994 to 2013 and makes use of the 20 most recent years of available data.

To examine the relationship between democracy donor proliferation and democracy, I first employ a 'naive' ordinary least squares (OLS) specification with year and country fixed effects and lagged explanatory variables. Clemens et al. (2012) argue that this approach takes care of most endogeneity issues, in particular when longer time windows are employed, i.e., averages over several years as temporal unit. Jones and Tarp (2016), for example, follow their recommendation. Country fixed effects remove alternative explanations that do not vary substantially over time. Year fixed effects capture global fluctuations in democratization. Causality could of course still run in the opposite direction: Donors might prefer countries that are improving their democracy scores. As I lag my explanatory variables by one year and use both country and year fixed effects, one might suspect that donors would have to be good in predicting trends in democratization for this effect to contaminate my estimates. I consider this unlikely, given the bad track-record of predicting events such as the Arab spring (cp. Bermeo 2016 online appendix: 2–3). Bellemare, Masaki, and Pepinsky (2017: 960), however, point out that lagging explanatory variables introduces the assumption that there are no dynamics among unobservables. Even if country fixed effects should take care of all dynamics among unobservables, strong assumptions about reverse causality are required to warrant for unbiased estimates using lagged explanatory variables. I cannot remedy this issue, but I show that a model using contemporaneous effects produces similar results (online appendix table C48). A common cause for both increased donor interest in a recipient country and improvement in the latter's democracy would be another source of bias. Political stability might be conducive to both, so I control for civil conflict (Gleditsch et al. 2002). In order to avoid a garbage can model, I restrict my model to two additional variables on the right-hand side: population and income per capita (Feenstra, Inklaar, and Timmer 2015). The country-fixed effects account for a large range

of competing explanations of democracy with little temporal variation, such as ethnic diversity.

Given a plethora of alternative common causes, and the assumptions introduced by lagging the explanatory variable, an excludable instrumental variable (IV) can bring more certainty with regard to the direction of causality. I thus estimate the level of democracy Y in recipient country i at time t with the following equation:

$$Y_{it} = \beta_1 \hat{D}_{i,t-1} + \beta_2 \mathbf{X}_{i,t-1} + \alpha_i + \tau_t + \vartheta_{it},$$

where \hat{D} is the estimated number of donors, \mathbf{X} a vector of control variables, α country fixed effects, τ year fixed effects and ϑ the error term. This equation constitutes the second stage of a two-stage least-squares (2SLS) model. \hat{D} is estimated in a first stage using the instrument Z and the same set of control variables and country and year fixed effects, as well as an error term κ :

$$D_{i,t-1} = \delta_1 Z_{i,t-1} + \delta_2 \mathbf{X}_{i,t-1} + \alpha_i + \tau_t + \kappa_{ijt}.$$

Z is calculated on the dyadic level, with donor-recipient years as unit of observation, and aggregated by summing over all donors for each recipient year:

$$Z_{it} = \sum_{j=1}^N (Q_{jt} * K_{ij}),$$

where Q is the donor-level instrument, varying by donor j and time t . K is the recipient-level instrument, varying by donor j and recipient i . With this ‘interaction approach’, I follow recent suggestions to interact exogenous variables on the donor side with endogenous recipient properties in order to increase cross-sectional variation (Ahmed and Werker 2015; Dietrich and Wright 2015; Dreher and Langlotz 2017; Galiani et al. 2017; Nunn and Qian 2014).

As instrument Q for fragmented democracy aid, I employ the share of female legislators in the donor country, as suggested by Dietrich and Wright (2015: 223). They argue, building on Breuning (2001), that women are more likely to support social-equity issues, and they show empirically that the share of female legislators is a good predictor of democracy aid (Dietrich and Wright 2015: online appendix C). I use the instrument to predict whether a specific donor provides democracy aid at all. This introduces the additional assumption that female legislators are not only able to realize higher democracy aid budgets, but that they are able to initiate (or revive) democracy aid programmes. I consider this assumption defensible as it follows the same logic as the original rationale. The instrument is plausibly excludable: There is no reason to believe that the gender composition of a donor country’s parliament should affect democracy in a recipient country directly. Dietrich and Wright (2015: 224) also show that alternative paths from women in parliament to

democracy are unlikely, given low bivariate correlations with trade, immigration, membership in international organizations, alliances and NGO presence. One alternative path obviously remains open: the very *amount* of democracy aid. The amount of aid is an *intermediate outcome* on the path from the number of donors to democracy. Such intermediate outcomes constitute ‘bad controls’ that introduce additional selection bias into the comparison of recipient country democracy conditional on the number of donors (cp. Angrist and Pischke 2009: 64–68). I solve this issue by focusing on the interaction between amount and number of donors as main explanatory variable.

On the recipient side, K is the share of years in which a recipient receives aid in the respective sector. Nunn and Qian (2014) suggest this ‘propensity’ instrument, which is also used by Dreher and Langlotz (2017) and Ahmed (2016). It is very powerful in predicting whether a donor provides aid to a particular recipient, and it introduces variation at the recipient level that allows for using country fixed effects.

Note that K_{ij} is time-invariant, whereas Q_{jt} is recipient-invariant. Combined with country and year fixed effects, there is no need to include the constitutive terms of the interaction in the first stage. More importantly, the fixed effects deal with the exogenous component of the interaction: The propensity to receive aid is not independent from the level of democracy in the recipient country. But combining the interaction term with fixed effects reduces the demands on the identifying assumption: I must only assume that the level of democracy in countries with different propensities to receive democracy aid will be equally affected by changes in the share of women in the donor parliament if they have the same number of democracy donors, conditional on the other control variables (Dreher and Langlotz 2017: 6; Ahmed 2016: 196; Nizalova and Murtazashvili 2016). The endogenous component cannot exert an independent effect on democracy.

To measure the share of female legislators, I use data from Paxton, Hughes, and Green (2006), provided and updated by V-Dem. Online appendix A provides summary statistics and more detailed information on all data employed. Online appendix B provides a detailed validation of the instrumental variable approach.

Table 1: Donor proliferation and democracy

	(1)	(2)	(3)	(4)
Dependent variable (panels A and B):	democracy			
Panel A: OLS estimates				
Number of democracy donors	0.90* [0.51; 1.30]	0.65* [0.25; 1.06]		0.06 [-0.47; 0.60]
Democracy aid (m USD; log)		2.33* [0.31; 4.36]	4.85* [2.61; 7.09]	1.51 [-1.23; 4.26]
Number of democracy donors x Dem. aid (m USD; log)				0.30 [-0.03; 0.64]
Number of economic donors		-0.31 [-0.64; 0.03]		
Economic aid (m USD; log)		2.84* [0.68; 5.01]		
R^2	0.90	0.90	0.90	0.90
Panel B: 2SLS estimates				
Number of democracy donors (estimated)	0.92* [0.18; 1.66]	0.87* [0.09; 1.66]		
Democracy aid (m USD; log) (estimated)			10.61* [1.31; 19.92]	
Number of democracy donors x Dem. aid (m USD; log) (est.)				0.34* [0.04; 0.63]
R^2	0.91	0.91	0.90	0.91
Dependent variables (panel C):	Number of democracy donors		Democracy aid	No. of dem. donors x Dem. aid
Panel C: First-stage estimates (for panel B)				
Women in donor parliament x Propensity to receive democracy aid	0.70* [†] [0.60; 0.80]	0.69* [†] [0.59; 0.78]	0.56* [0.33; 0.80]	1.77* [†] [1.46; 2.09]
KP F-statistic	185.27	187.39	22.40	120.90
<i>Model properties (all panels):</i>				
Country fixed effects	yes	yes	yes	yes
Period fixed effects	yes	yes	yes	yes
Covariates	no	yes	yes	yes
# of observations	2,367	2,367	2,367	2,367
# of countries	130	130	130	130

*) 95% confidence interval does not include zero [confidence intervals in brackets; clustered by country].

†) coefficient and confidence interval scaled by factor 10 for presentation purposes.

Observation unit is the country-year. All explanatory variables are lagged by one period. All models include country and year fixed effects. Covariates include population (log), GDP per capita (log), and civil conflict (dummy).

Empirical analysis

Panel A in Table 1 provides OLS estimates for the correlations of the number of democracy donors with democracy levels. All specifications include country and year fixed effects. Standard errors are clustered by country and shown in terms of 95-percent confidence intervals. Model 1 demonstrates that democracy donor proliferation has a positive and significant correlation with democracy scores in the following year. This relationship holds when aid amounts and other controls are introduced (model 2; online appendix C provides full regression tables for all models). Democracy aid amounts are also included in this specification. They reach significance, as do economic aid amounts, whereas the number of economic donors does not. The latter observation is in line with the proposition that ideas on democracy are predominantly conveyed via democracy aid, and not via economic aid. In substantive terms, an additional democracy donor is associated with an increase in democracy of .65 on the 0 to 100 scale for the model with control variables, and of .90 without. The substantive effect of doubling democracy aid is an increase of 2.3 on the democracy scale. Model 3 drops the number of donors from the equation, and the effect increases to 4.9. As the number of donors and aid amounts are – both empirically and conceptually – closely related, they constitute a case of ‘bad controls’ (see discussion above). The results of model 2 should thus be regarded with caution. At the same time, it would be unwise to rely only on only the number of donors or the amount of aid as explanatory variable, given my theoretical expectations. Figure 2 shows that also empirically, few donors can spend as much as many donors do.

Model 4 includes the interaction of both variables to partially circumvent this issue. As coefficients and confidence intervals of interaction models provide little immediate information, I plot the estimated coefficient for the number of democracy donors on democracy conditional on the amount of democracy aid in figure 3. It shows that at higher overall amounts of aid, additional donors have a more positive impact on democracy. The confidence interval for the effect of the number of democracy donors excludes zero from 10 million USD in democracy aid and above. I conclude that the number of democracy donors is significantly correlated to democracy where more than this amount is spent jointly by all donors, and that the effect increases with higher total democracy aid amounts.

Note that the number of donors is conceptually always and only zero when democracy aid is

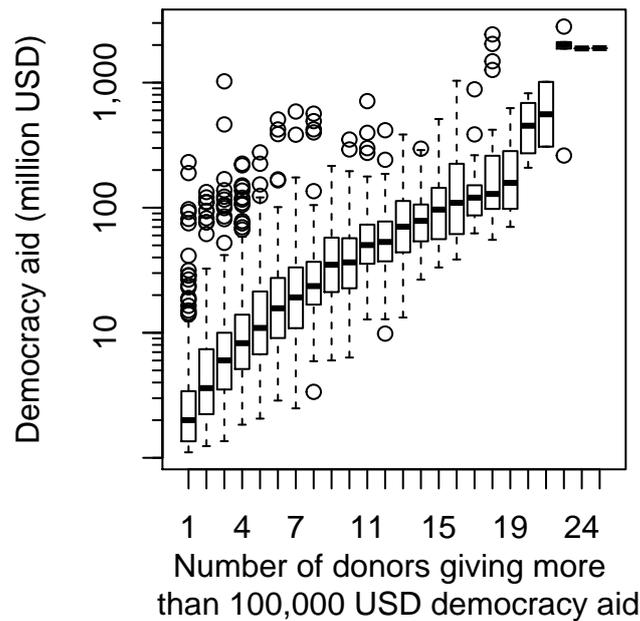


Figure 2: Distribution of democracy aid amounts by democracy donor proliferation over recipient years

zero, and vice versa. This means that it would not be necessary to include the constitutive of the interaction. For a model without constitutive terms, the average country fixed effect increases from 34.2 to 35.8. Such a marginal change in the average intercept leads me to the conclusion that while adding constitutive terms is not harmful to the OLS estimates, they are not necessary. This will turn out useful for the instrumental variable approach.

Panel C provides the estimates for the first stages of the 2SLS models. Model 1, without control variables, shows a significant positive correlation of the interacted instrument with the actual number of democracy donors. The Kleibergen-Paap (KP) F-statistic of 185 suggests that there is little reason to worry about a weak instrument. Not using control variables would be justified with a ‘good’ instrument, as it would effectively randomize the treatment. However, in many applied situations, the quasi-randomization is conditional on other covariates (Angrist and Pischke 2009: 175).¹ In the present case, larger countries may be more likely to attract larger numbers of donors, as may poor countries, and countries at peace. I include these controls in model 2, as in the corresponding OLS model. I do not include other aid controls, as in the OLS specification, since they likely constitute alternative channels from the share of female legislators in donor parliaments to

¹Covariates may also help reduce the variability in the dependent variable and thus enable more precise estimation. Recall, however, the potential bias that ‘bad’ and/or lagged control variables may introduce.

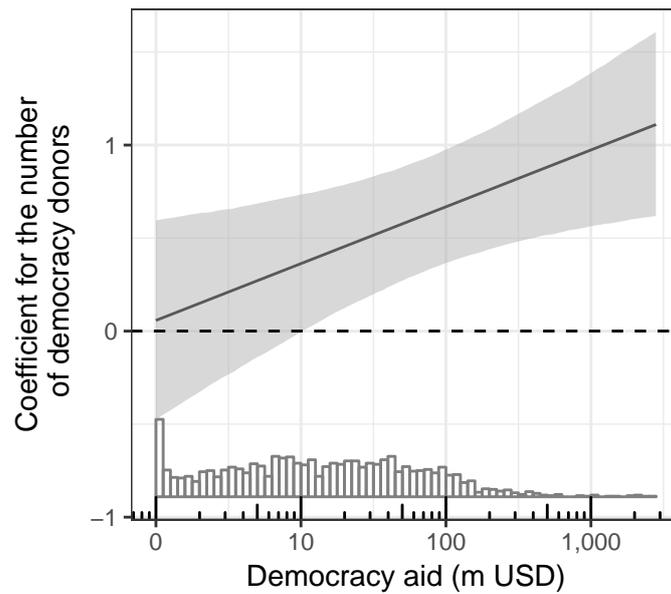


Figure 3: Estimated coefficient of the number of democracy donors on democracy conditional on the amount of democracy aid

democracy in the recipient country. Coefficient and confidence interval remain almost unchanged. Model 3 uses the same instrument to predict logged democracy aid amounts. The F-statistic is much smaller (at 22), but still well above the recommended threshold of 10 (Staiger and Stock 1997). The interaction of the share of female legislators in donor parliaments with the propensity to receive democracy aid over the period 1994–2013 is thus capable of instrumenting both the number of donors and aid amounts, individually. This adds empirical support to the conceptual concern that aid amounts constitute an intermediate outcome. To solve this dilemma, I employ my instrument in model 4 to predict the interaction between the number of democracy donors and democracy aid. Since I only have one (interacted) instrument at my disposal, and both components of my explanatory variable interaction of interest – number of donors and aid amounts – are endogenous, I cannot include the constitutive terms in my equation. But since the number of donors is only and always zero when the amount of aid is zero, and since the OLS interaction models provide empirical support for this conceptual argument, I feel confident in relying on a model that does not include constitutive terms. An F-statistic of 121 suggests that the first stage produces sufficiently strong estimates for the second stage.

Panel B presents the results of the second stage estimates of the 2SLS models. They fully confirm the OLS estimates. Coefficient size for the number of democracy donors almost the same as

for the OLS estimate in model 1 without control variables (.92 vs. .90). For the model with control variables, the difference is larger (.87 vs. .65), but note that the OLS model includes democracy aid, the number of economic aid donors, and economic aid as additional controls; a direct comparison is thus not possible. The coefficient for instrumented democracy aid amounts is twice as large as the OLS estimate, at 10.6. The interaction term of the number of democracy donors and democracy aid amounts in model 4 – now treated as a single variable – reaches significance at the 95-percent level and confirms the impression from OLS model 4 that both components are jointly related to higher levels of democracy. The point estimate of the instrumented interaction is close to the OLS estimate (.34 vs. .30), which increases my confidence that both models are picking up the same data-generating process. Table B2 in the online appendix shows the reduced form estimates; they behave as expected. In a nutshell, both OLS and IV specifications strongly support the hypothesis that the number of democracy donors – possibly independent of but certainly jointly with democracy aid amounts – exerts a positive effect on democracy in the recipient country.

Discussing the IV assumptions

Since a large share of my causal claim rests on the instrumental variables approach, a discussion of whether its assumptions are met is in order (cp. Sovey and Green 2011: 198). Independence assumption and instrument strength have been discussed above. But what if the exogeneity assumption is violated? Do the homogeneity of treatment effects assumption, the monotonicity assumption and the stable unit treatment value assumption (SUTVA) hold?

Conley, Hansen, and Rossi (2012) suggest an empirical test on the degree to which the exogeneity assumption can be relaxed while still obtaining significant estimates for the relationship of interest. Applying a rather conservative estimation procedure suggested by them, I find that there is some limited empirical leeway for relaxing the endogeneity assumption (amounting to about four percent of the size of the point estimate; see online appendix figure B7). The main burden, however, remains on the theoretical argument.

The homogeneity of treatment assumption states that the effect of the treatment on the outcome is independent from how the treatment was incentivized. Do democracy donors that cater a recipient country due to the influence of female legislators in the donor countries have a different effect

than democracy donors present for other reasons? Donor presence induced by female legislators should, following the argument of Dietrich and Wright (2015), imply an honest intention to promote democracy. Democracy donors present for other reasons – such as geo-political interests – may not be that committed. Bouchet (2016) describes how the United States hardly pushed their Middle Eastern and North African allies towards democracy at all. While there were some signs to correct this course during the Arab spring, recent disappointments have led the United States to fall back into their initial laissez-faire position. The effects estimated here are thus probably not generalizable to all democracy donors. This violation of the assumption of homogeneous treatment effects may explain the difference between OLS and IV estimates. The LATE is restricted to honest attempts of democracy promotion. Is there reason to expect that the female-legislators induced LATE differs substantially from the LATE of other honest attempts to promote democracy? This also depends on whether female-legislator induced democracy aid differs from other democracy aid. Figure B8 and table B3 in the online appendix compare civil society aid sub-sector shares by quartiles in terms of share of female legislators in donor parliaments. It shows that donors with high shares of female legislators focus a little less on grassroots organizations, participatory planning, and free flow of information than donors with low shares. Overall, however, there is little difference in civil society aid between donors conditional on their share of female legislators. I neither detect major differences when splitting democracy aid amounts or numbers of donors between donors above and below the mean share of female legislators and regressing these on democracy (see online appendix table B4 ‘Low vs. high female-legislator aid and donors’). While this is not a comprehensive test of whether female-legislator induced aid is actually different, I can state that stark differences do not show at the level of AidData activity codes. An explanation for the lack of a difference may lie in the role of implementing agencies: Female legislators may increase the probability that a country provides democracy aid, but they do not have the power to change established practices of the agents that disburse aid.

The monotonicity assumption states that if any case behaves contrary to what the incentive provided by the instrument implies, one cannot estimate the causal effect of the variable of interest. This assumption is best discussed in potential outcomes terminology (Morgan and Winship 2015: 305–324). Cases that behave contrary to incentives are called ‘defiers’. In this application, defiers

would be recipient countries that have few democracy donors despite being frequent recipients of democracy aid from donors with large shares of female legislators. Recipient countries would also be defiers if they had many democracy donors despite being infrequent recipients of democracy aid or being catered by donors with few female legislators. The dyadic nature of my instrumental variable complicates justifying this argument. I further disaggregate the potential outcomes conceptually in online appendix B. My conclusion is that defiers are possible, but unlikely to exist, not least due to the lack of evidence that democracy aid facilitated by female legislators is different. Female legislators should not stop donors from providing nor recipients from accepting democracy aid. Also, cutting ties in frequent democracy aid relationships (i.e., dyads with high propensity to record democracy aid) is rather rare. The monotonicity assumption is thus met.

The SUTVA assumption implies that a recipient's democracy is not affected by the treatment that another recipient receives, or by the outcome that another recipient experiences. It is not hard to imagine that increased participation induced by democracy donors spreads from one country to the other, as democracy is evidently spatially correlated (Gleditsch and Ward 2006). The Arab spring is a prime example for such a chain reaction (although it is unclear what role democracy aid played here). Considering the possibility of contamination across units, I test in the online appendix whether my results hold when using standard errors that allow for spatial clustering among neighbors. Table C51 'Results with Conley standard errors' suggests that they do.

Robustness checks

While the models presented in table 1 constitute my best shot at modeling the relationship between democracy donor proliferation and democracy, a range of alternative, reasonable modeling decisions exist. Online appendix C verifies whether different choices would change the substantive results of my study. The general conclusion is that they would not. Some specifications, however, only produce robust results when non-electoral regimes are excluded, as defined in the *Regimes of the world* classification by Lührmann, Tannenberg, and Lindberg (2018). Of all observations in my sample, 16 percent have such regimes. Ineffectiveness of the proposed mechanism in non-electoral regimes makes sense, since a minimal degree of political openness is required to enable a 'marketplace for idea support'.

Keeping this (occasional) restriction in mind, the results are robust to using a range of alternative indicators: aid disbursements instead of aid commitments (for both the number of donors and aid amounts); aid including contributions by multilateral donors; aid controls in per capita terms and as a share of GDP instead of in absolute terms; and alternative democracy indicators as dependent variables, including Polity IV and Freedom House. Using alternative indicators for aid fragmentation as suggested by Gehring et al. (2017) yields mixed results: the number of small democracy donors produces the same statistically significant relationship with democracy for the IV models as the number of all democracy donors does. Specifications with an inverted Herfindahl-Hirschman-Index that measures the fragmentation of financial flows produce no significant results. This index, however, does not capture the concept of diversity as the number of donors does; more aid helps donors promote certain actors and ideas, but the share of aid is not the exclusive or best determinant of a donor's impact. A reversed concentration ratio that captures the share of democracy aid that all but the three largest donors provide is not significant at the 95-percent level, but it comes close, with consistently correct signs. When looking at sub-indices of democracy in an attempt to disaggregate the explained variable, the IV specification rejects the null hypothesis of no effect for V-Dem's liberal, participatory, and deliberative principles, but not for the egalitarian principle. This finding makes sense since I expect diversity to foster primarily formal democratic practice, participation, and debate.

The results are also mostly robust to using alternative samples. Data using two-year time periods as temporal unit show approximately the same results as yearly data. Three- and four-year time periods do not produce significant results, but again get close. Temporal sub-samples of ten years each produce statistically significant results for the period 1994 to 2003, but not for IV models in the period 2004 to 2013. The latter may be due to an increasing backlash against democracy promotion. A geographic sub-sample comprising only sub-Saharan African countries produces significant results for the number of donors, and is very close to achieving this threshold for the interaction of donors and amounts. Non-sub-Saharan countries produce consistently significant results when non-electoral regimes are excluded.

The results are also largely robust to alternative modeling choices: lagged dependent variable (LDV) models; models including a squared term for the number of democracy donors; models

including global or regional linear time trends; models with contemporaneous instead of lagged explanatory variables; and models with standard errors clustered by both country and time year. Models including interactions of the number of democracy donors with the level of democracy suggest that donor proliferation is not effective for recipients with very high democracy scores. These models, however, are based on very conservative LDV models and constitute a lower bound for my estimates.

Having tested a large range of alternative variables and specifications, the core empirical strategy employed for the instrumental variable approach requires additional validation. Christian and Barrett (2017) recently showed that the findings of Nunn and Qian (2014) are based on a spurious correlation between instrument, explanatory, and explained variables. I employ three diagnostic tools in online appendix B section ‘Testing for spurious correlation’ to assess whether my application suffers from this issue: A visual inspection of time trends by propensity groups, adding propensity group trends to the first stage, and placebo tests that randomize the propensity of recipients to receive democracy aid. These tests jointly suggest that the correlation examined here could indeed be slightly boosted by spurious correlation. This applies less to the main specification, but more to specifications using three-year time periods instead of yearly data and those that include multilateral donors. Considering all theory and evidence, I remain confident that a causal link between the number of democracy donors and democracy in the recipient country exists.

Table 2: IV estimates with V-Dem indicators of democratic diversity

	Largest party share	Party platforms	Counterarguments	Engaged society	CSO environment
No. of dem. donors (est.)	-7.15 [-19.89; 5.58]	0.24 [-0.16; 0.63]	0.45 [-0.10; 1.01]	0.65* [0.09; 1.21]	0.56* [0.12; 1.01]
Country fixed effects	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>
Period fixed effects	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>
Additional controls	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>
# of observations	498	2367	2367	2367	2367
# of countries	120	130	130	130	130
R ²	0.70	0.94	0.84	0.86	0.87
KP F-statistic	104.36	187.39	187.39	187.39	187.39

*) 95% confidence interval clustered at the country level (in brackets) does not include zero; dependent variables: V-Dem indicators listed in the first row, scaled to a range of [0; 100]; all explanatory variables lagged by one period.

Finally, an additional empirical test shall show whether one can trace the causal mechanism more closely with country-level data. We have seen above that democracy aid proliferation results in large number of projects, and that different donors have different democracy aid portfolios. But does this diversity translate into democratic diversity? Table 2 provides IV results that predict the

level of indicators of democratic diversity provided by the V-Dem project. The first indicator considered here is the share of seats won by the largest party. One might expect that political diversity increases the chances of parties other than the largest party in elections. The coefficient is negative, as expected, but it does not reach significance. Note that the sample size decreases by almost 80 percent for this indicator, as data is only recorded for country years with partisan elections. The ‘number of effective and distinctive party platforms’ and ‘respect for counterarguments’ increase as expected, but not significantly. Only ‘engaged society’ and ‘the involvement of people in civil society organizations’ increase significantly. These results support the notion that donor proliferation improves democracy by increasing the diversity of semi-formal political participation and organization in the recipient country. Electoral results and party platforms do not appear to be affected, at least in the short run. Table C19 ‘Aid sub-sectors and sub-components of democracy’ shows that liberal and participatory components are also consistently significantly affected by democracy aid sub-sectors, i.e., democracy aid excluding peace-building activities, and civil society aid.

Conclusion

Diversity is both justification of and prerequisite for liberal democracy. This paper shows – with a range of quantitative models and anecdotal evidence from Ghana – that diversity provided by a multitude of donors helps improve a recipient country’s democracy. The finding contradicts common wisdom in development studies that donor proliferation and other forms of aid fragmentation have detrimental effects. Insights on democratization processes suggest why this is not the case for democracy aid: diverse and participatory processes are more likely to produce sustainable institutions in young democracies (e.g., Kapstein and Converse 2008; Wright 2008). Different donors provide different ideas and thus improve trial-and-error processes of democratization.

These findings contribute to the democratization literature: They provide empirical support to the surmise that external donors can – to some extent – replace a lack of endogenous funding for various political currents. The findings also contribute to the aid effectiveness literature by providing a first test on how aid fragmentation modifies the effects of democracy aid. My diversity hypothesis also resonates well with other research that disaggregates the effects of democracy promotion efforts. Birchler, Limpach, and Michaelowa (2016), for example, find that aid provided by

the World Bank and the International Monetary Fund has positive effects on democratization, if made conditional on increased participation and accountability.

Immediate implications for development policy arise. My findings caution against uncritically expanding the division of labor in foreign aid. While economic aid may still be well-advised to follow the principle of harmonization, it is recommendable to maintain a sufficiently diverse donor environment in the area of democracy promotion. The practice of some donors such as the United States and Germany to distribute democracy aid via various agencies and political foundations may actually be more effective due to their internal diversity. Local non-government organizations, political parties and independent media providers can be best catered by a group of donors with various backgrounds in a ‘marketplace for idea support’. But is this a realistic scenario? A recent survey of policy makers in recipient countries concludes that it is: recipients frequently and purposefully leverage useful support from different donors (Parks, Rice, and Custer 2015).

Nobody expects democracy aid alone to create democratic regimes, and many countries will suffer setbacks in the future. But democracy aid can help make democracy a little less defective, and the more experience with participatory governance is accumulated, the higher the chances for real democracy in the future (Svolik 2013). This process may take long, but evidence presented here and in other recent publications shows that it may be possible to fast-forward it somewhat with effective modes of implementing democracy aid. And it is crucial that democracy aid is effective, since ineffective measures only help autocrats build facades of democracy and consolidate their grip on power (Bader and Faust 2014).

Increasing the number of democracy donors, however, is not a feasible option for all recipients. The rate of never-takers that reject democracy aid is increasing: Carothers (2016: 361) observes that while the most authoritarian states have always kept out democracy support as much as possible, more recently even democratic and semi-authoritarian regimes such as Ethiopia, India, Russia and Venezuela have begun to follow suit. They consider democracy aid as ‘foreign political meddling’. By using propensity to receive democracy aid as a component of my instrumental variable, I control for this selection bias. It shows that sufficient compliers remain for a positive net effect, despite authoritarian cocooning. In recipient countries that do allow democracy aid, the recommended measures are comparatively easy to implement: Donor and recipient governments have – provided

a certain degree of international cooperation – direct control over the degree of donor proliferation, as opposed to structural variables that influence democratization. McFaul (2004: 157) states that there is no blueprint for democracy promotion, and that ‘many even reject the idea that there can be a blueprint’. I agree with this analysis, but the present study does suggest a ‘meta-blueprint’: keep democracy promotion diverse.

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