Sponsoring Democracy: The United States and Democracy Aid to the Developing World, 1988–2001[1]

JAMES M. SCOTT

Oklahoma State University

AND

CARIE A. STEELE

University of Illinois

As democratization has advanced in the developing world, developed countries such as the United States have implemented explicit strategies of democracy promotion by providing assistance to governments, political parties, and other non-governmental groups and organizations through a variety of channels. This analysis examines the relationship between democracy support by the US Agency for International Development and democratization in the developing world between 1988 and 2001. In a model that examines the simultaneous processes linking democratization and democracy aid, we argue that carefully targeted democracy assistance has greater impact on democratization than more generic economic aid packages. We test the relationship in a simultaneous equation model, supplemented by several time-series cross-sectional regressions. Our data reveal a positive relationship between specific democracy aid packages and progress toward democracy. We conclude by weighing the implications of these findings for democratization and democracy promotion policies.

In the last quarter of the twentieth century, ''democratic sponsor states'' such as the United States and others in Western Europe publicly committed themselves to support and expand democratic governance in the developing world. Unfortunately, such enthusiasm for democracy promotion and its expected impact on target states remains relatively disconnected from investigations of the processes and prospects of democratization. Little conclusive evidence links democratic sponsor states to the success of democratization in target states. Studies of democratization typically stress internal, path-dependent, and/or situation-specific factors. Studies of foreign aid rarely produce clear evidence of its

contribution to economic progress, much less democratization. The acceleration of the commitment by democratic sponsor states to democracy promotion therefore raises an important question: does such assistance contribute to progress in democratization?

This article examines democracy assistance from one powerful ''democratic sponsor state''—the United States, through the US Agency for International Development (USAID)—to investigate the impact of democracy aid on democratization in Latin America, the Middle East, Africa, and Asia, between 1988 and 2001. The central hypothesis is that, unlike more general economic aid, such targeted democracy assistance packages will have a positive impact on democratization in recipient countries. To advance this argument, after a brief review of democracy assistance and USAID democracy support initiatives, we develop a model articulating the parallel linkages between democracy aid and recipient state democratization. Unlike previous research, this model not only stresses the relative advantages of targeted democracy aid strategies when compared to general foreign or economic assistance, but also acknowledges the strategic nature of aid decisions and the impact of democratization itself on such allocations.

Empirical tests of our hypothesis follow using a large sample of developing countries in the post-Cold War context. While the evidence supports findings of previous examinations of the (poor) relationship between foreign aid and democratization, it also indicates that, even when controlling for the parallel or simultaneous impact of democratization on aid allocations, carefully tailored democracy assistance packages can positively affect democratization independent of factors that influence the decision to provide aid. Targeted democracy aid thus appears to provide ''more bang for the buck'' than other forms of assistance.

Democratization, Democracy Promotion, and Democratic Sponsor States

The premise of democracy promotion as a foreign policy strategy is not new to the post-Cold War era (see Smith 1994), nor is it exclusive to the United States (see Burnell 2000; Youngs 2002; Collins 2009). However, in the last two decades, democracy promotion has become an increasingly prominent component of US foreign policy (Carothers 1999; Ikenberry 2000). The aftermath of the Vietnam War and the advance of ''the third wave'' of democratization (Huntington 1991) since 1975 have led to greater attention to the kind of regimes the United States promotes and supports, with issues of human rights and democracy becoming increasingly important political factors (see Meernik, Krueger, and Poe 1998). Democratic sponsor states such as the United States have compelling reasons for promoting democracy abroad, including the implications of the democratic peace research program and democracy's better outcomes in terms of human rights and economic performance (Art 2003).[2] Building on such rationales, post-Cold War American presidents from Bill Clinton to Barack Obama have all embraced the goal in one way or another.

One of the most salient democracy promotion strategies has been USAID initiatives to provide foreign aid of a variety of kinds designed to foster democratic progress and consolidation. USAID manages billions of dollars of economic assistance annually. From these funds, individual USAID projects have often been geared toward what is now termed democracy promotion (strengthening independent judiciaries, etc.). However, since the end of the Cold War, aid has been explicitly provided to promote and support democratic transitions in recipient

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[2] For entries to democratic peace literature, see Doyle (1986), Russett (1993), Ray (1995), Weart (1998), Russett and Oneal (2001), and Lipson (2003). See also Layne (1994), Gowa (1999), and Rosato (2003) for skeptical views.

countries through such programs as the Support for Eastern European Democracy Act, the Freedom Support Act (Former Soviet Republics), and the "Democracy and Governance" initiative. In these programs, USAID has stressed four goals: the rule of law and human rights, competitive elections and political processes, civil society, and accountable governance. As Finkel, Perez-Linan, Seligson, and Azpuru (2006:26) detail, USAID has allocated increasingly larger amounts to its "Democracy and Governance" initiatives around the world. In constant 1995 dollars, such allocations grew from \$121 million to \$722 million per year from 1990 to 2003. In 2003, democracy aid amounted to about 9% of USAID assistance. Such aid typically bypasses the more official top-down aid channels to assist groups and implement projects directly or through third parties, including an increasingly broad and active set of international private voluntary organizations (Collins 2009).

Naturally, USAID claims success in its democracy promotion efforts. According to Knack (2004:252), USAID proudly notes that 36 of the 57 states that successfully democratized between 1980 and 1995 were recipients of USAID assistance. For example, while USAID has sponsored programs in Guatemala off and on for decades, that state gained increased attention following the end of its civil war in 1996. From 1996 to 2000, USAID provided more than \$18 million in aid for programs to train civil service officers, strengthen civilian control of government (in particular the military), rebuild the justice system, train an electoral tribunal, develop anti-corruption measures, and promote citizen advocacy and increased electoral participation. During this same time period, Guatemala's Polity Regime Score steadily improved from −8 in 1997 to +9 in 2000. Similarly, Malawi's Polity Regime Score of −5 in 1997 improved dramatically by 1999, coinciding with more than \$11 million of USAID funding for transparency programs, judiciary training, election administration, parliament development, and participation programs. Although undoubtedly the result of many factors, these and other apparent successes lend anecdotal support to USAID's claims.[3]

In general, the democratization literature is skeptical of such claims. Scholars have long studied a wide range of variables that might contribute to democratization and the spread of democracy. In general, studies of democratization and democratic transitions have emphasized internal factors in political transformations (Geddes 1999; Bunce 2000). Among these internal factors, social and economic developments have been considered crucial to democratization and consolidation. Analysts often stress wealth, economic growth, and education as key correlates of democracy (see Lipset 1959; Hadenius 1992; Rowen 1995; Przeworski, Alvarez, Cheibub, and Limongi 2000).

Although studies of the internal dynamics of democratization tend to downplay external sources of democratization, such factors do receive attention. Aid from other states (see Knack 2004; Finkel, Perez-Linan, and Seligson 2007) and international organizations (see Pevehouse 2002a,b; Gleditsch and Ward 2006) may impact democratization and consolidation by supporting domestic forces and creating incentives for reform in, or to gain membership in, an organization. Additionally, some scholars argue that transnational networks may promote democratic reforms in authoritarian societies (see Keck and Sikkink 1998). For instance, according to Schmitz (2004:408), "transnational activist networks diffuse democratic principles, support domestic allies, and exert pressure on authoritarian regimes." Moreover, the literature on "democratic diffusion" suggests that democracies tend to "cluster" within regions and across time (see Starr 1991; Gleditsch and Hegre 1997; Starr and Lindborg 2003; Cederman and

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[3] These examples are drawn from the Guatemala and Malawi sections of USAID's FY 1999 Congressional Presentation, accessible at http://www.usaid.gov/pubs/cp99/.

Gleditsch 2004; Gleditsch and Ward 2006).[4] The diffusion argument implies that the borders of states are permeable to outside influences—specifically the influence of neighbors—and that democracy is a relatively powerful contagion.

Emphasis on either internal or external sources of democratization should not obscure the significance of the other. Linking these two strands of explanation is important both in terms of explaining the process of democratization and because of the fundamental premise of democracy assistance to which the United States and other democratic sponsor states have increasingly committed themselves: that such aid can promote democratization.

The Foreign Aid-Democratization Link

We conceptualize a ''democratic sponsor state'' as one providing specific foreign assistance packages targeted at democratization projects. Many Western democracies provide foreign aid with the implicit premise that external assistance can contribute to democratization. Such external sponsors are one component of many that potentially contribute to political and societal change toward democracy. Although there is considerable disagreement in existing literature examining this connection, we argue that conceptual and theoretical clarity helps to resolve that disagreement and supports the expectation that targeted democracy aid from democratic sponsor states should be expected to contribute to progress toward democracy.

Previous research examining the influence of external assistance on democratization has produced mixed conclusions. Although the connection between general foreign aid and democratization (or, potentially, other political reform) has been underdeveloped theoretically, scholars have argued that general development assistance should promote democracy in numerous ways, which include enhancing civil society (Goldsmith 2001); constraining recipient behavior through conditionality (Goldsmith 2001; Brautigam and Knack 2004; Knack 2004); and ''transforming some of the structural conditions that serve as prerequisites for regime transition or survival'' (see Finkel et al. 2007:410), a connection frequently noted in the foreign aid literature (see Goldsmith 2001; Brautigam and Knack 2004).[5] Yet, most studies of broad foreign aid or official development assistance (ODA) conclude that such assistance does not affect democratization (see Collins 2009). For example, while Goldsmith (2001) found a positive but small relationship between aid and democratization in Africa, Carapico (2002) concludes that aid did not have such an effect in the Arab world, and may have even had the opposite impact. Burnell (2000) and Sogge (2002) are also skeptical of a relationship between development assistance and democratization. Likewise, studies of the impact of aid conditionality on recipient country political reform are mostly skeptical (see Collier 1997; Crawford 1997). For example, Knack's (2004) extensive study of aid and democratization from 1975 to 2000 concluded that foreign aid was not a significant factor in democratic change.[6]

Conversely, some studies find links between political reforms (especially involving human rights) and the *subsequent* provision of aid (for example, Cingranelli and Pasquarello 1985; Poe 1991, 1992; Poe and Meernik 1995; Meernik et al. 1998; Apodaca and Stohl 1999). This association suggests that aid follows, rather

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[4] Another external explanation for democratization is the development of peaceful regions, which may be ''hot zones'' for democratization. See Thompson (1996) and Gleditsch and Hegre (1997).

[5] The literature on the impact of aid on such structural conditions—especially economic growth and development—includes Cassen (1994), Burnside and Dollar (2000), Collier and Dollar (2001, 2002), Easterly (2001, 2006), and Sachs (2005).

[6] In addition to aid, others have studied military aid and intervention as an external source of democratization, with mixed conclusions: Meernik (1996) and Blanton (2000, 2005) find little evidence that such factors are linked to democratization, while Peceny (1995, 1999), Von Hippel (1999), Pickering and Kisangani (2006), and—in the case of UN military intervention—Pickering and Peceny (2006) conclude the opposite.

than causes, political reforms such as democratization and human rights improvement. However, the evidence on this relationship is mixed (for example, McCormick and Mitchell 1988; Poe 1990; Collier 1997; Crawford 1997; Blanton 2000, 2005), and some argue that there is little evidence that US aid simply follows progress toward *democracy* (for example, Hook, Kegley, and Hermann 1995; Regan 1995; Hook 1998; Finkel et al. 2007). Nevertheless, it is possible that the same factors that affect democratization may also affect decisions to provide aid. We return to this point later in the analysis.

Most examinations of the impact of external aid have focused primarily upon general foreign assistance, often aggregating different types of foreign assistance and/or aggregating across donors. This ''lumping'' ignores considerable variation in the purposes of different foreign aid packages and different donors. For instance, by examining aggregate Organization for Economic Cooperation and Development (OECD) foreign assistance, Knack (2004) does not distinguish between different goals and aid programs despite the fact that not all foreign aid is allocated toward democratization. We argue that if one wishes to know whether foreign aid influences a particular element of a recipient's society, one should examine the foreign aid packages and programs specifically targeted toward that purpose. Democracy assistance (as a subset of general foreign aid) should be distinguished from overall development assistance (for example, Scott and Steele 2005; Finkel et al. 2007).

While studies examining specific democracy aid instead of general foreign aid still offer mixed results, they are, in general, more supportive of the fundamental aid-democratization linkage. For example, Muravchik (1991) and Smith (1994) provide optimistic assessments of the impact of democracy promotion over the post-World War II period. Finkel (2003) examined democracy promotion emphasizing civic education in the Dominican Republic, Poland, and South Africa, concluding that such assistance had a meaningful impact on local-level political participation. However, two recent collections of studies contain mixed assessments of the purposes and efficacy of democracy promotion (Cox, Ikenberry, and Inoguchi 2000; Schraeder 2002). Carothers (1999) recent assessment of US democracy assistance policy highlights the sometimes inappropriate adherence to a preconceived ''democracy template'' that often renders the democracy assistance ineffective. Likewise, Burnell (2000) and Youngs (2002) also raise questions about the planning and impact of such assistance. Many such evaluations of US democracy promotion conclude that the United States tends to emphasize elections and related procedures to the exclusion of other substantive elements of democracy, often to the detriment of effective support for democratization (for example, Robinson 1995; Ottaway and Chung 1999).

Although relatively few in number, broader large-n quantitative studies of democracy assistance provide more positive results. For example, some research on the National Endowment for Democracy (NED) suggests that its grants, while ostensibly intended to promote democratization, may be more significant in resisting backsliding or softening up autocratic regimes prior to democratic development (Scott and Steele 2005). Furthermore, Finkel et al. (2006, 2007), and Finkel, Perez-Linan, Seligson, and Tate (2008) conclude that democracy assistance packages are significantly and positively linked to democratization. The distinguishing feature of both of these analyses is their disaggregation of foreign assistance into more precise measures of democracy aid. While Scott and Steele (2005) focus on NED democracy grants, Finkel et al. (2006, 2007) examine US democracy assistance packages.

Hence, these previous results lead back to our fundamental question: can democracy be promoted and supported through foreign assistance? We argue that it can, but we also contend that specific democracy assistance packages are considerably more likely to do so than general foreign aid. However, we also argue

that the impact of democracy aid cannot be considered apart from the effect of democratization on the aid allocation decisions themselves. Allocations are strategic decisions informed by cues for donors about the prospects for the impact of democracy aid, of which democratization itself may be among the most important.

The foundations of our argument rest on a cluster of reciprocal causal mechanisms between targeted aid and democratization. As previously noted, much of the literature argues that general development assistance may result in structural changes within a recipient state, with democratization (or other government reform) as a byproduct of those structural changes or a consequence of the incentives generated by top-down aid conditionality (Collins 2009). However, this explanation of the impact of foreign assistance focuses solely on the largely indirect and institutional effects of general foreign aid, while failing to account for the different mechanisms through which targeted aid may promote democracy. In contrast, we argue that sponsor states consider cues—democratization among them—to help identify states with the greatest potential for democratization. These donors then devise targeted democracy aid packages to best assist individual states' democratization.

The mechanisms linking targeted aid by a democratic sponsor state to progress toward democracy are both indirect and direct. The first mechanism is indirect and involves strategic forecasting by both donors and recipients. Borrowing from other literature (for example, Nagel 1975), we term this linkage *Anticipated Reactions*. In effect, this causal mechanism recognizes that both donors and recipients are strategic actors. Donor states calculate the likely effect of aid in given situations (for example, Svensson 1999; Burnell 2005). That is not to say that democratic sponsor states only aid countries that are already democratizing. Instead, it suggests that donor states consider cues to help them identify situations where movements toward democracy are at least possible, if not probable (for example, Burnell 2005). Specifically, USAID identifies states that seem particularly ripe for democratization. In some cases, this is done by identifying institutions that can be enhanced or need strengthening. In other cases, states may be selected using the Millenium Challenge Account threshold. For recipient states in sub-Saharan Africa, USAID explains that ''threshold countries….have nonetheless demonstrated steady good performance, worthy of assistance in transformational development under the principles of aid effectiveness'' (U.S. Agency for International Development (USAID) 2009). Thus, part of the allocation decision turns strategic calculations of where aid may do the most good and where democratization is both preferred and possible.

The anticipated reaction mechanism also suggests that democratic sponsor states fashion targeted aid packages designed to meet the needs of specific situations. Sponsor states distinguish between the utility of technical assistance for elections (democracy aid) and general economic aid (or even military aid), and they tailor packages to support different democracy projects—institutional aid supporting legislatures, courts, and political parties, as well as grassroots aid to support elections, civil society organizations, civic education, and the media in particular cases (Collins 2009). Such tailoring is evident in the case of USAID assistance to Cambodia. In the late 1990s, democracy aid projects emphasized developing electoral frameworks and election monitoring and stressed the establishment of the rule of law by supporting training of judges, lawyers and legal professionals, and by supporting the development of accountable legal institutions. After renewed violence in 1997, aid to the political and legal institutions was suspended, and human rights/public policy non-governmental organizations (NGOs), women's rights associations, and private legal aid associations were emphasized.[7]

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[7] These examples are drawn from USAID's FY 2000 Congressional Presentation, accessible at http://www.usaid.gov/pubs/cp2000/.

Moreover, as the Cambodia example suggests, like other forms of foreign assistance, democratization grants frequently include both formal and informal elements of conditionality. Democratic sponsor states expect to see results and often require evidence of progress to renew the assistance. As democracy aid is targeted and the objective of the grants is specific and detailed, there is incentive for recipients to put the money to good use, and monitoring the funded programs is simplified. Sponsor states can therefore strategically shift these funds to more fertile targets, either within the recipient state (to better promote democracy there) or between recipients. The overall consequence of donor-centered anticipated reactions is that such targeting and tailoring results in greater likelihood for these democracy aid packages to contribute to democratization.

At the same time, recipients are also driven by anticipated reactions that, combined with the calculations of sponsor states, heighten the likelihood of impact. Provision of democracy aid by a sponsor state is a clear signal of preference that recipients must consider. States eligible for democracy assistance are also potential recipients of other forms of foreign aid. Recipients recognize that continued receipt of such aid depends in part on progress. Moreover, they also recognize that other forms of assistance (for example, general economic aid) are more likely to be provided by democratic sponsor states if their democracy aid packages are effective. Hence, recipients are more likely to receive other forms of foreign assistance and more likely to retain it for multiple years if the democracy aid packages work. Therefore, recipient states not only have incentive not to hinder democratic progress, they also have reason to encourage, or at the very least accommodate, improvements toward democracy, especially when they are not required to fund the programs themselves.

The second and more direct linkage is the direct impact of targeted aid on actors and institutions. We term this causal link *Agent Empowerment.* While general foreign aid may impact various economic and social factors, which could indirectly produce more conducive conditions or new demands for democracy, targeted democracy aid focuses on agent-centered assistance that empowers individuals, groups, and political institutions in a recipient country and therefore impacts democracy directly (for example, Finkel et al. 2007). According to Finkel et al. (2007:410), ''targeted democracy assistance…works to educate and empower voters, support political parties, labor unions, and women's advocacy networks, strengthen human rights groups, and otherwise build 'constituencies for reform'.'' Through institutional aid packages, donors attempt to cultivate ''capable, professional and independent legislatures and judiciaries,'' while grassroots aid packages offer support to ''non-governmental actors such as democracy activists, civic NGOs, political parties, independent media, labor organizations, and the private economic sector to act as a counterweight against the overweening power of the state'' (Collins 2009:378, 381).

For example, in the cases of Guatemala and Malawi, USAID democracy aid funds projects intended to empower citizens and increase governmental responsiveness. In Guatemala, such aid assisted ex-combatants to attain productive re-entry into society, provided mental health services and counseling for more than 20,000 victims of torture and conflict, and assisted with the registration of more than half a million new voters.[8] Additionally, following demobilization, the USAID mission in Guatemala focused on increasing government capacity and responsiveness by supporting municipal governments, training legal professionals, creating human rights organizations and education programs, and developing a civil society coalition to work with the Guatemalan government to address ethnic discrimination (Ottaway and Carothers 2000). Likewise, USAID

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[8] These examples are drawn from USAID's Guatemala Country Plan, 2004–2009, accessible at http://www. usaid.gov/gt/country_plan.htm.

democracy assistance to Malawi focused primarily on strengthening the national and local judicial institutions. Such efforts included support for local conflict mediation personnel as well as training nearly 2,000 paralegals.[9] In addition, many of these projects sought to empower women, educate public officials, and promote legal reforms. Democracy aid was also targeted at increasing voter registration, civic involvement, and corruption monitoring through the development of NGOs. As progress toward democracy occurred, USAID funds promoted fiscal responsibility through central bank reform and oversight, and further anti-corruption measures including the establishment of a civil society/government cooperative coalition.[10]

Through agent empowerment, assistance targets specific populations and institutions that may be most effective in affecting change and promoting reform. The empowerment and enfranchisement of native populations in Guatemala and efforts for legal recognition of women's rights in Malawi identified large, previously powerless populations that have potential to affect change. In Guatemala, efforts to ameliorate tensions between former combatants and citizens afflicted by conflict and violence serve as a means of directing societal attentions away from past grievances and toward democratic engagement. Similarly, in Malawi, efforts to strengthen the judicial system and decrease corruption provide opportunities for improved citizen/government interactions and confidence. These targeted aid programs empower the previously disenfranchised and help to create structures that institutionalize democratic changes. As these illustrations suggest, sponsor states are capable of creating programs tailored to individual states' needs. When directed to specific programs, foreign assistance has a more direct effect and is more likely than general, untargeted foreign aid packages to result in democratic change.

Thus, despite negative findings on the link between external aid and democratization, conceptual clarification from the disaggregation of aid and the theoretical argument presented above strongly suggest this international factor may be an important element of democratization. We contend that, even after controlling for the impact of other key factors in democratization, targeted democracy assistance (as opposed to general foreign assistance) should have a positive effect. Hence, our guiding hypothesis (the Democracy Promotion Hypothesis) is as follows:

Hypothesis: *Democracy aid from USAID has a positive effect on democratization among recipients in the developing world.*

Research Design and Data

We test this hypothesis in two passes. In the first, and primary, approach, a simultaneous equation model examines the links between democracy aid and democratization as simultaneous processes. Unlike most previous analyses, our use of this technique enables us to gauge the impact of democracy assistance while simultaneously measuring and controlling for the effects of nascent democratization in the strategic selection of aid recipients. For robustness, after employing the simultaneous equation model, we apply a random effects, AR(1) generalized least squares model appropriate to the time-series cross-sectional nature of the data to focus on the impact of aid on democratization. In both the primary

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[9] These examples are drawn from USAID's country page for Malawi, accessible at http://www.usaid.gov/locations/sub-saharan_africa/countries/malawi/.

[10] These examples are drawn from the US Department of State Background Notes on Malawi, accessible at http://www.state.gov/r/pa/ei/bgn/7231.htm.

simultaneous equation model and the supplemental AR(1) model, we include separate sub-tests to gauge the relative impact of economic aid versus democracy assistance.

Clarifying the Aid-Democracy Link

Testing the aid-democratization link requires careful consideration of several critical data and measurement issues. This analysis makes four key innovations that advance the study of the democracy aid-democratization puzzle. First, theoretically, we advance the study of the aid-democracy link by developing and testing a model that explicitly incorporates both the impact of democratization on aid allocation and the effect of aid on democratization. Even while acknowledging their importance to each other, most studies either focus on just one of these processes (for example, Hook 1998), treat the reciprocal links individually (for example, Scott and Steele 2005), or dismiss the first process and focus only on the aid-democratization relationship (for example, Finkel et al. 2007). In contrast, we test these linked, parallel processes with a simultaneous equation model, which incorporates both links and their reciprocal effects on each other. Hence, this technique matches the theoretical model's emphasis on *both* the anticipated reactions mechanism and the agent-empowerment mechanism. Unlike other studies, it neither neglects the first to concentrate on the second, nor does it treat the two processes as if they were separate and independent of one another.

Second, we avoid the problem of *donor aggregation* by restricting our examination to USAID funds. Some studies assess the impact of assistance by aggregating aid packages across many donor countries. For example, Knack (2004) combines ODA from all OECD countries, thereby explicitly aggregating the aid strategies of many countries. As many studies have shown, foreign aid is driven by the strategic, political, and economic calculations of donors. Given that foreign aid is a function of the national interest (Hook 1995), it would be surprising if the varying aid strategies of multiple donor countries had no contradictions and cross-purposes, or if they all pursued the same goals. Hence, the nature of the aggregate data is likely to mask potential relationships between aid and democratization. We avoid this problem by restricting our examination to US assistance.

Third, we avoid the problem of *aid aggregation* as well. It is common for studies of the aid-democracy link to estimate the effect of ODA on democratization (for example, Knack 2004). Although ODA is one of the few available comprehensive measures of aid, its use is problematic because it is an aggregate figure lumping together multiple aid programs offered for a variety of policy objectives. Among OECD countries, for example, foreign aid combines a variety of programs and packages, including developmental assistance, humanitarian aid, food aid, aid for infrastructure, and others, not all of which are explicitly or implicitly intended to affect democracy. Thus, it would be somewhat surprising if aggregate ODA were linked to only one result. Hence, in this study, we disaggregate aid, as discussed below, separating democracy assistance from other forms of assistance to assess more accurately the impact of democracy aid on democratization.

Fourth, we improve the accuracy of our analysis by avoiding the typical practice of *estimating aid.* Most analysis of aid rely on aid authorizations and obligations for their measures of this key variable. For example, while the valuable study by Finkel et al. (2006, 2007) addresses the aggregation issues discussed above, their analysis uses democracy program aid *authorizations and obligations* for a given year and tests them against changes in levels of democracy within recipient states. This approach raises an important measurement validity issue. Specifically, as aid appropriations and obligations often go unspent in the year authorized, and perhaps entirely, they average these appropriations across 2 years to arrive at their measure of aid in a given year. To avoid the problems

implicit in such estimates, we rely on a unique measure of *actual expenditures on democracy assistance*, rather than estimated aid appropriations. These data were gathered through intensive country-by-country, year-by-year examination of USAID's annual *Congressional Presentation* and *Congressional Budget Justification*, as well as its annual reports.[11] We examined each project on which USAID expended funds and summed real expenditures for democracy promotion and support (using USAID criteria to identify and code), by country and year, from 1988 to 2001.

<div align="center">*Method*</div>

As noted, we employ two complementary approaches. First, as our explanatory model presents the aid-democratization and democratization-aid links as integrated processes, our primary approach relies on a simultaneous equation model with two endogenous equations (for example, Reuveny and Li 2003; Keshk, Pollins, and Reuveny 2004). One equation represents the strategic allocation of aid to promising recipients, and the second equation represents the impact of democracy aid on democratization. The first process—aid allocation—is modeled as

$$\text{Democracy aid}_t = a + b_1 \text{Democratization}_{t-2} + [\text{Control variables}]_{t-2} + e$$

Modeling this aid decision, we also build on previous studies of the factors shaping aid allocations and control for the recipient state's wealth (gross domestic product [GDP] per capita), US economic interests (bilateral trade), shared political interests (S-Score of common alliance portfolio), US strategic interests (military aid), the recipient state's human rights performance, whether the recipient is engaged in interstate or civil war, and the recipient's political neighborhood (percent of neighbors who are democracies).

The second process—democratization—is modeled as

$$\text{Democracy score}_t = a + b_1 \text{Aid}_{t-2} + [\text{Control variables}]_{t-2} + e$$

Modeling the democratization process, we also control for the recipient state's wealth (GDP per capita), integration into the global economic (trade as a percent of GDP), the recipient's political neighborhood and engagement in interstate or civil war (as above), and the recipient state's culture/civilization (dummy variables for Islamic, Sinic, African, Hindu, Buddhist, or Latin American). In both of these linked processes, we include a counter for time (year) to help control for general trend in the dependent variable. We discuss our operationalization of the variables in this simultaneous equation model below.

By employing this approach, we substantially increase our confidence in the aid-democracy results, as they represent the relationship when the reciprocal impact of democratization on aid allocations is already accounted for. We accomplish the identification of the simultaneous equation mode through the exclusion condition (Greene 1997), as each equation contains variables not found in the other equation. For the aid allocation equation, these variables are alliance portfolio, military aid, and human rights. For the democratization equation, these variables are the culture/civilization variables.

In the second pass, for robustness, we focus on the impact of aid on democratization and apply a generalized least squares AR(1) model appropriate to the time-series cross-sectional data of our study. The basic statistical

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[11] These reports are available in part online at http://www.usaid.gov, and in the USAID library in Washington DC, where we accessed them.

model parallels the democratization process from the simultaneous equation model:

$$\text{Democracy score}_t = a + b_1 \text{Aid}_{t-2} + [\text{Control variables}]_{t-2} + e$$

As discussed below, our data are time-series cross-sectional, rather than panel data. As Beck and Katz (2004) have noted, panel data are typically characterized by single-digit time points (typically 3), while time-series data commonly involve 20 or more time points. At 14 time points, our data fall between these typical benchmarks, but the series is long enough to include significant variation over time. With these variables, we run random effects, AR(1) models testing the impact of general foreign aid versus more targeted democracy assistance on democratization.[12] Random effects estimators have the advantage of taking into account both the uniqueness of each country and the effect of time. Unlike fixed effects, the random effects technique controls for both effects: those that are unique to country but constant over time, and those that are constant across countries but vary over time (Green, Kim, and Yoon 2001). To account for the autogressive process in the dependent variable (democratization/Polity score), we follow Achen (2000), Rudra (2005), and Drury and Peksen (2010) and apply a standard AR(1) estimator to correct for this temporal process.[13] All results are produced by STATA, Version 10.

Data and Operationalization of Variables

The data for this analysis are constructed with a state-year unit of analysis and consist of 108 developing countries outside Europe and the former Soviet Union for which data were available for the period 1988–2001. Using the Polity IV data set as our starting point, we include all developing countries outside Europe and the former Soviet Union.[14] Sixty-six of the sample countries received some democracy assistance during the period of the study, or better than 60% of the countries examined. The average assistance package (summed for the 14 years of the study) provided to those countries receiving aid was about $27 million. Half of the recipients received an average of at least $1 million per year. Thus, the

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[12] For the AR(1) tests, Hausman specification tests indicated that a random effects estimator was appropriate. It is also worth noting that fixed effects models eliminate cross-sectional effects so that ''the only question at issue is whether temporal variation in x is associated with temporal variation in y'' (Beck 2009:483). This has the effect of erasing much of the variance in the data and, because the central issues we are exploring concern the impact of varying amounts of democracy aid on the democratization of different countries, fixed effects models are a poor choice.

[13] The challenges posed by time-series cross-sectional data have spurred considerable discussion. Beck and Katz (1995) solution involving the use of Panel Corrected Standard Errors (PCSE) with a lagged dependent variable has become a common remedy, but there is considerable debate over its usefulness relative to other manipulations. PCSE attempts to control for the non-independent nature of observation in panel data. However, the inclusion of a lagged dependent variable as an explanatory variable fails to create observational independence (Wilson and Butler 2007) and essentially eliminates the dynamic aspects of our data and the impact of other explanatory variables (for example, Achen 2000), which are precisely what we are attempting to model. Nevertheless, because PCSE has become so common within political science research, we also applied the PCSE technique. We ran each model with PCSE, with PCSE and a lagged dependent variable, and PCSE with AR1 and panel-specific AR1 terms. As expected, including the lagged dependent variable wiped out the results for other explanatory variables. Without the lagged dependent variable, the PCSE technique (with and without the AR1 terms) produced results that were consistent with the models we have elected to employ in this analysis.

[14] Because we are especially interested in the ''Third World'' or developing world, we exclude Eastern European and former Soviet states in this analysis to isolate the aid-democratization relationship in such countries. We do so in part because of the significantly different economic and political histories of the countries in the former Warsaw Pact.

sample includes states receiving various levels and types of assistance, and states receiving no assistance at all.

Measuring Democracy and Democracy Assistance

The critical variables of interest for this analysis are democracy and democracy assistance. As many observers have commented, operationalizing democracy offers a considerable challenge (for example, Griffith, Plamenatz, and Pennock 1956; Lipset 1959; Huber-Rueschmeyer and Stephens 1997; Sartori 2001). We recognize that operationalizing democracy is contentious and that different measures such as Freedom House, Polity IV, or Vanhanen's (2000) have different strengths and weaknesses (see Munck and Verkuilen 2002).

For our tests, we rely on the Polity IV indicators, but we also substituted Freedom House scores in each test for robustness checks. Because the results of each set of tests were consistent, we report only those with the Polity measure in these pages.[15] The Marshall and Jaggers 21-point Polity composite score ranges from −10 (least democratic) to 10 (most democratic). Polity IV also includes a *Polity2* measure that replaces interregnum and transition scores (−77, −88) with scores of 0 and interpolated scores respectively, to reduce missing data. Following Plümper and Neumayer (2007), we calculate an interpolated Polity—or ''*iPolity*''—score that replaces *both* these values with interpolated scores to avoid the artificial improvement (from an otherwise low score) or deterioration (from an otherwise higher score) stemming from the conversion of the −77 value to 0. As the results are consistent across both the *polity2* measure and our *ipolity* measure, we report the interpolated *iPolity* score for consistency. Additionally, we lag our independent variables two years behind these measures (e.g., the democracy score for 2001 is a result of independent variables from 1999). We select a 2-year lag to establish the temporal relationship between independent and dependent variables, to ensure that donors can observe the factors shaping their aid allocations prior to the decision (simultaneous equation model), and that aid is spent and has time to have an effect on democratization [simultaneous equation model and AR(1) model]. The 2-year lag does not constitute a theoretical claim as to the gestation period of democracy.[16]

The USAID democracy assistance figures represent the amount of actual expenditures in a given year for democracy-specific projects in a given country. This measure is a key innovation of this study. Unlike Finkel et al. (2006, 2007), this measure does not estimate aid authorizations or obligations, much of which often goes unspent in the year it is authorized. As noted earlier, the sources for this unique and more precise measure of democracy assistance were USAID's annual reports, along with the annual *USAID Congressional Presentation* and *Congressional Budget Justification*. These were accessed at the USAID library in Washington DC. We also test versions of both the simultaneous equation model and the AR(1) model with *US foreign economic assistance* (developmental assistance) instead of democracy aid to gauge the relative impact of the two types of assistance. Our measure of economic aid is annual USAID loans and grants from 1988 to 2001, as drawn from the USAID Green Book (U.S. Agency for International Development 2008). All aid measures are reported in millions of US dollars. In addition to unweighted aid amounts, to control for aid intensity, a measure of aid amounts weighted by the recipient country's population was also calculated and substituted for the raw aid

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[15] Results using the Freedom House measures are available from the lead author.

[16] We also estimated models with no lag, and a 1-year lag. Our results were consistent with the 2-year lag, with coefficients for our key democracy aid variables ranging from the .01 to the .10 significance levels. Changing the lag did not change our inferences. Hence, we report the 2-year lag results here.

figures. As the results were consistent with those using the unweighted measure, we report only the raw aid results in these pages.[17]

Control Variables

As noted earlier, we control for a variety of other factors that may influence aid allocations and/or progress toward democracy. Our models control for these factors as detailed below.[18]

Socioeconomic development — In both our simultaneous equation models and our AR(1) models, we control for the effects of wealth, or socioeconomic development, with GDP per capita for each country and year according to the World Bank's annual World Development Indicators.

Trade — We use different measures for trade in different models. In the aid allocation process of the simultaneous equation model, bilateral trade between the United States and the potential recipient, as measured in the correlates of war (COW) trade data set, is used to measure US economic interests in a potential aid recipient (Barbieri, Keshk, and Pollins 2008). In the democratization process of the simultaneous equation model and in the AR(1) model, we control for the impact of trade integration on democratization in a given country with trade as a percent of GDP, calculated by summing imports and exports for each country and year and dividing by GDP, according to the World Bank's annual World Development Indicators.[19]

Alliance portfolio — In the aid allocation process, we measure common interests between the United States and a potential recipient state with S-Score, the measure for common alliance portfolios developed by Signorino and Ritter. We obtained the annual s-score from Bennett and Stam (2000)'s EUGene data management program.

Military aid — In the aid allocation process in our simultaneous equation model, we use annual US military aid to a potential recipient of democracy aid as a measure of US military/strategic interests. The USAID Green Book (U.S. Agency for International Development 2008) online is again the source for these data from 1988 to 2001.

Human rights performance — As some studies indicate that US aid decisions are influenced by the human rights behavior of the potential recipient, we include a measure for human rights performance in the aid allocation process of the simultaneous equation model. Human rights performance is measured by the physical integrity index in Cingranelli and Richard's CIRI human rights data (at http://ciri.binghamton.edu/).

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[17] We are prepared to argue that raw aid expenditures are the most appropriate measure. Unlike economic aid, whose impact depends in large measure on the size of the aid package relative to the size of the economy, promoting democracy should be considerably less dependent on such relative factors, in part because democracy assistance is targeted at a different kind of impact. However, as aid intensity is a reasonable factor for which to control, we opt for weighting aid by population rather than gross domestic product. Population figures derive from the World Development Indicators published by the World Bank. To weight each of the three aid variables, we first logged the population figures to reduce the impact of widely dispersed outlying population values (e.g., China and India). We then divided each aid amount by the logged population value to arrive at our weighted figure.

[18] Diagnostics indicated that multicollinearity was not an issue for the independent variables.

[19] We also substituted trade as a percentage of GDP for this measure, and our results were consistent without change to our inferences.

"Neighborhood" diffusion — Following Gleditsch and Ward (2006), we control for the diffusion effect by calculating the proportion of all states within a 500 km radius of the case country scoring 7 or above on the Polity score. We update these data through 2001.[20]

Civil war — We control for the effects of civil conflict on aid allocation and democratization using a dichotomous variable representing the occurrence of civil war during each year between 1988 and 2001, as reported by the Uppsala Conflict Data Program (Gleditsch, Wallensteen, Eriksson, Sollenberg, and Strand 2002; Harbom and Wallensteen 2010; Uppsala Conflict Data Program 2010).

Interstate war — We control for the effects of interstate conflict on aid allocation and democratization using a dichotomous variable representing the involvement of a country in an interstate war in a given year between 1988 and 2003, as reported by the Uppsala Conflict Data Program (Gleditsch et al. 2002; Harbom and Wallensteen 2010; Uppsala Conflict Data Program 2010).

Culture/civilization — In the democratization process of the simultaneous equation model and in the AR(1) model, the impact of different cultures and civilizations on democratization is incorporated by coding a series of dichotomous variables for each of Huntington's (1996) major cultural civilizations, following Russett, Oneal, and Cox (2000) in their assignment of countries into these civilizational groupings. We use the West as the baseline and include variables for Latin American, Islamic, Sinic, Buddhist, Hindu, and African civilizations in the models.

Time — In the simultaneous equation model, we also include a counter for time (year) as a way to control for trending in the data.

Results

Our theory argues that *agent empowerment* and *anticipated reactions* should positively link the provision of targeted democracy assistance by external sponsors to democratization in recipient states, even when the reciprocal effect of democratization on aid allocations is included and controlling for other relevant factors. A closer examination of summary data provides an initial starting point for assessing the hypothesis. Table 1 presents the key figures on democratization and aid.[21] With respect to democracy, the average starting score in 1988 for the Polity Regime Score was −2.95, and the average ending score in 2003 was 1.50. Across the period of our study, the average change in these scores was a 4.31 improvement. However, distinguishing between aid recipients and non-recipients provides initial evidence supporting the Democracy Promotion Hypothesis.

First, the initial summary evidence suggests that democracy aid does not follow democratization. For the data examined in this study, democracy assistance was provided to countries with initial (1988) Polity scores roughly comparable to and statistically indistinguishable from those who did not receive assistance

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[20] We thank Kristian Gleditsch and Michael Ward for sharing their "neighboring democracy" data. We followed their technique and updated "neighboring democracy" proportions through 2001 for our analysis. We also tested models using average Freedom House score in a region (minus the case country) in a given year, following Finkel et al. (2006, 2007) to control for the diffusion effect. Results were generally consistent, and, since the Gleditsch and Ward indicator better reflects the causal mechanisms of the diffusion argument and avoids (unlike the Freedom House regional average) unnecessary overlap with the largely region-based culture/civilization controls in our model, we use and report these results.

[21] Unless otherwise noted, we utilize the interpolated Polity Regime Score described in the data section in these summary tables.

TABLE 1. Average Polity Scores and Change, Aid Recipients vs. Non-Recipients

	Average starting polity score, 1988	Average change in polity score, 1985–1988	Average change in polity score, 1985-start of aid[†]	Average change polity score, 1988–2003
All countries	−2.95	0.52	2.36	4.31
Aid recipients	−2.48*	0.41*	2.42*	5.42**
Non-recipients	−3.69*	0.69*	1.81*	2.56**

*No statistically significant difference between means.
**Difference of means test statistically significant at the .01 level.
[†]For countries not receiving aid, the period is 1985–1993.

(recipients = −2.48; non-recipients = −3.69). Moreover, prior to the provision of aid, the ''democratic trajectories'' of countries receiving democracy assistance were not significantly different from those who did not receive aid. As the table indicates, the trend numbers show no statistically significant difference in democratization between recipients and non-recipients.[22] Hence, there is little initial indication in these data that USAID is funneling aid toward democratizing countries (either those with better democracy scores or those trending toward democracy).

However, as Table 1 shows, countries receiving democracy aid experienced greater improvement in their Polity scores from 1988 to 2003 (5.54 points) than those who did not (2.40 points). This difference is statistically significant at the .01 level. Hence, the descriptive data provide initial—if limited—evidence that democracy aid is associated with progress toward democracy, with recipients outpacing non-recipients by more than twice the rate of improvement. In combination, these two patterns in the data lend support to our theorized link and our guiding hypothesis.

Table 2 presents the results of the simultaneous equation model testing the reciprocal aid-democratization relationship, with democracy aid results in the first two columns, and general economic aid results in next two columns. These results provide evidence in support of the democracy promotion hypothesis: even when controlling for the simultaneous impact of democratization of aid decisions and other relevant factors, democracy aid exerts a significant and positive impact on democratization.

Focusing on the democracy aid processes (columns 1–2), the upper half of the table shows the results of the aid allocation process. As the data show, even after controlling for a general trend (time, or year, which is statistically significant and positively related to democracy aid allocations), democratization is significantly and positively related to the allocation of democracy aid. This is consistent with the cueing effect of the anticipated reactions mechanism of our theory. Countries showing some movement toward democracy are more likely to receive democracy aid. In substantive terms, a change of 1 in the Polity score is related to a small, but statistically significant increment in democracy aid (about $50,000). Political and strategic interests, measured by alliance portfolio (s-score) and military aid, also exert a statistically significant and positive impact on the allocation of democracy aid, as those countries in which the United States has greater interest are more likely to receive assistance. Democracy aid may be provided to such countries because of those interests, and also because those interests provide an indication that the United States may have some leverage over political

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[22] The data on this point are derived in two ways: (i) examining the change in democracy between 1985 and 1988; (ii) examining the change in democracy between 1985 and the start of democracy aid for recipients, and the change between 1985 and 1993 for non-recipients (the vast majority of democracy aid is provided after 1993). In neither case is the mean change score statistically significant.

TABLE 2. Aid and Democratization, 1988–2001—A Simultaneous Equation Model

Democracy aid		*Economic aid*	
Process	*Coefficient (SE)*	*Process*	*Coefficient (SE)*
Aid allocation		Aid allocation	
Dependent variable = USAID democracy aid		Dependent variable = Economic AID	
Constant	−397.20 (74.20)	Constant	1,688.12 (790.99)**
Year	0.20 (0.04)***	Year	−0.83 (0.40)**
Polity/democracy score	0.05 (0.02)***	Polity/democracy score	0.61 (0.26)**
GDP per capita	−0.00007 (0.00005)	GDP per capita	−0.002 (0.0005)***
Bilateral trade with US	−0.00002 (0.000008)**	Bilateral trade with US	−0.0001 (0.00009)
Alliance portfolio	2.12 (0.89)**	Alliance portfolio	3.08 (9.49)
Military aid	0.004 (0.0008)***	Military aid	0.57 (0.009)***
HR/physical integrity score	−0.28 (0.07)***	HR/physical integrity score	−1.89 (0.71)***
Interstate war	−0.57 (1.64)	Interstate war	1.95 (17.44)
Civil war	−0.70 (0.50)	Civil war	−12.29 (5.33)**
Neighborhood	−0.26 (0.52)	Neighborhood	1.99 (5.56)
Observations = 1,041 RMSE = 3.94		Observations = 1,039 RMSE = 42.00	
R^2 = .09 χ^2 = 107.56 (0.00000)		R^2 = .80 χ^2 = 4,077.58 (0.00000)	
Democratization		Democratization	
Dependent variable = Polity score		Dependent variable = Polity score	
Constant	−467.06 (94.03)***	Constant	−504.28 (92.46)***
Year	0.24 (0.05)***	Year	0.26 (0.05)***
USAID democracy aid	0.09 (0.04)**	Economic aid	−0.001 (0.002)
GDP per capita	−0.0002 (0.00006)***	GDP per capita	−0.0002 (0.00006)***
Trade/GDP	−0.003 (0.004)	Trade/GDP	−0.003 (0.004)
Neighborhood	4.53 (0.68)***	Neighborhood	4.48 (0.004)***
Interstate war	−1.41 (2.07)	Interstate war	−1.47 (2.07)
Civil war	0.40 (0.59)	Civil war	0.40 (0.59)
Islam	−9.78 (0.73)***	Islam	−9.85 (0.73)***
Sinic	−14.91 (1.22)***	Sinic	−15.18 (1.22)***
African	−8.36 (0.72)***	African	−8.41 (0.72)***
Hindu	−6.69 (0.98)***	Hindu	−6.79 (0.72)***
Buddhist	−6.98 (0.99)***	Buddhist	−7.10 (0.99)***
Latin American	−3.21 (0.77)***	Latin American	−3.10 (0.77)***
Observations = 1,041 RMSE = 4.96		Observations = 1,039 RMSE = 4.97	
R^2 = .44 χ^2 = 833.03 (0.00000)		R^2 = .44 χ^2 = 831.01 (0.00000)	

(*Notes.* ***.01; **.05; *.10.
USAID, US Agency for International Development.)

reform. Countries with better human rights records, as measured by the CIRI Physical Integrity Index, receive less democracy assistance. Wealth (GDP per capita), war, and neighborhood do not appear to affect democracy aid allocations. Hence, this process of the simultaneous equation model supports one key strand of our argument and suggests that aid allocators are influenced by movement toward democracy as an indicator of the likely impact of democracy assistance.

The lower half of Table 2 provides the results of the democratization process, the more critical strand of the simultaneous equation model for our analysis. As the data show, *even after controlling for other factors, and for the selection effect of democratization on aid allocations themselves, democracy aid exerts a statistically significant, positive, and substantively meaningful impact on democratization.* Consistent with the agent-empowerment mechanism of the theory, in substantive terms, each $10 million in democracy aid is associated with about a one-point increase in democracy score. Hence, aid packages of $40 million would result in a 4-point

increase, a meaningful change. While trade and war are not statistically significant, a more democratic political neighborhood—a measure of the diffusion effect—is significantly and positively related to democratization, while the dummy variables controlling for culture/civilization are all statistically significant and negatively related to democratization. Wealth, as measured by GDP per capita, has a small, negative, but statistically significant relationship to democratization. However, note that even after controlling for economic factors, the effects of culture/civilization and the diffusion effects of neighborhood, democracy aid remains a powerful explanatory factor. Hence, the simultaneous equation model provides strong support for the democracy promotion hypothesis and for the theory from which it is derived.

In contrast, the economic aid models (columns 3–4) show that economic aid does not contribute to democratization. In the allocation process, democracy (Polity score) is significantly and positively related to the allocation of economic assistance. However, as the lower half of the equation showing the democratization process shows, economic aid is not a statistically significant factor in democratization. The other variables are largely in line with the democracy aid results. Hence, the results of our simultaneous equation models indicate that targeted democracy assistance is linked to the desired result (democratization), while general economic aid (in substantially greater amounts) has no significant effect.

For robustness, Table 3 presents the results of the AR(1) tests of the impact of foreign economic aid and USAID democracy aid on Polity scores. Overall, these results again suggest that carefully tailored democracy assistance is significantly, positively, and substantively correlated with democratization in developing states. The same cannot be said for more general economic assistance. Democratic sponsor states can be consequential forces in democratization in the developing world, but they do so only by tailoring specific aid packages to democracy projects.

TABLE 3. Impact of US Aid on Democratization, 1988–2001. Dependent Variable—Polity Score, 2-year lag, Random-effects GLS with AR(1)

Independent variables	USAID loans & grants	Democracy aid
Economic aid	–	–
USAID loans and grants	0.0006 (0.002)	–
USAID democracy aid	–	0.05 (0.026)**
GDP per capita	−0.0002 (0.0001)	−0.0002 (0.0001)
Trade/GDP	0.005 (0.005)	0.006 (0.005)
Interstate war	−0.50 (1.09)	−0.48 (0.80)
Civil war	0.12 (0.36)	0.17 (0.32)
Neighborhood	0.52 (0.65)	0.48 (0.65)
Islamic	−10.53 (1.68)***	−10.53 (1.68)***
Latin American	−0.72 (1.52)	−0.75 (1.52)
Hindu	−6.18 (2.52)***	−6.16 (2.52)***
Sinic	−15.03 (3.25)***	−14.97 (3.25)***
Buddhist	−6.74 (2.52)***	−6.74 (2.52)***
African	−9.09 (1.64)***	−9.10 (1.64)***
Constant	7.78 (1.50)***	7.56 (1.57)***
	Obs = 1,088, Groups = 95	Obs = 1,089, Groups = 95
	R^2 = .39	R^2 = .39
	Wald = 102.57	Wald = 105.99
	χ^2 = 0.000	χ^2 = 0.000

(*Notes.* ***.01; **.05; *.10.
USAID, US Agency for International Development.)

As Table 3 shows, our results in this model are both statistically and substantively interesting and provocative. As the bottom of the table indicates, the models have substantial explanatory power and fit the data reasonably well. The key variables of interest in Table 2 are the two aid measures. Consistent with Knack's (2004) findings, the results indicate that the provision of general economic aid packages is not an effective or efficient strategy for democracy promotion and the measure does not reach either statistical or substantive significance. However, consistent with our democracy aid theory, democracy assistance projects are both statistically and substantively significant. In the Democracy Aid model, funds spent of USAID democracy promotion projects are positively and significantly associated with democratization. The coefficient of 0.05 suggests that for every $10 million of aid allocated to targeted democracy assistance, one would expect to see about a half-point increase in democracy score. Hence, a $40 million aid democracy aid package would result in a Polity score about two points higher; a sustained democracy assistance project of $100 million would generate about five points of improvement. These are meaningful shifts consistent with our hypothesized relationship.

In addition to support for the hypothesis, note that once the other variables, including the largely region-based culture measures, are included, neither GDP per capita nor trade integration is a statistically significant predictor of higher democracy scores in the post-Cold War years in any of the models. Democratization in the developing world since the Cold War would appear to be much less dependent on such economic factors than in previous eras. The controls for culture/civilization are mostly significant: while Latin American culture/civilization is not a meaningful predictor, Buddhist, Hindu, African, Islamic, and Sinic groupings are all significantly and negatively related to democratization.[23] Neither conflict variable (interstate or civil war) has a statistically significant effect on democratization for developing countries in the post-Cold War years, once the other factors in the model are accounted for. Finally, the proportion of neighboring states that are democratic does not have a statistically significant impact on democracy score.[24]

In sum, in both the simultaneous equation model testing the democracy-aid and aid-democracy relationships as parallel processes, and the AR(1) model focusing on the aid-democracy relationship, we find robust results indicating that aid targeted toward specific democracy promotion projects is both more efficacious and more efficient than general economic assistance in supporting democratization. In *all models*, the coefficients for democracy assistance achieve the 95% confidence level. By contrast, general foreign economic assistance does not achieve statistical significance in any model. These results therefore reinforce Knack's (2004) conclusion that aid, or more precisely, general economic aid, does not promote democracy. However, these results provide an important correction to that argument as well. As theorized, while general economic assistance is not likely to promote democracy, democratic sponsor states can contribute to progress toward democracy by providing targeted democracy aid (institutional aid and/or grassroots aid) for democracy projects in developing world countries. Once we disaggregate aid to this level of specificity, we discover that democracy assistance appears to provide more ''bang for the buck.''

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[23] However, as these cultural measures are substantially regional, the meaning of these coefficients must be addressed cautiously; they may, in fact, also be accumulating potential impact from socio-economic and diffusion-related effects.

[24] When population-weighted aid is substituted for raw aid measures, the results mirror those reported in this paper. Additionally, when Freedom House scores are substituted for Polity scores, there are no meaningful differences in the results, either for raw aid or weighted aid models. These results are available from the lead author on request.

Analysis and Conclusions

Can democratic sponsor states such as the United States promote democracy through foreign assistance? Our analysis supports two important conclusions: (i) democracy aid has a positive impact on democratization *even when controlling for the effect of democratization on aid allocation decisions*; (ii) democracy aid has a positive impact on democratization, while general foreign economic aid does not. Not only do we find empirical support for the hypothesized linkage between democracy aid and democratization since the end of the Cold War, but this empirical evidence is consistent with and lends support to a theoretical model articulating the mechanisms connecting such targeted democracy aid to progress in democratization, while differentiating such assistance from other forms of aid. In a suite of empirical tests, targeted, democracy-specific aid projects to the developing world were consistently and systematically related to better democracy scores, while other forms of US aid were statistically and/or substantively insignificant.

These findings have both theoretical and practical implications. Theoretically, these results suggest a consequential role for democratic sponsor states as external sources of democratization. Hence, in addition to such external forces as international institutions and diffusion effects, explicit foreign policy strategies of democracy assistance may also contribute to democratization. Moreover, the democracy aid model explicates two inter-related mechanisms—agent empowerment and anticipated reactions—that link these particular aid strategies from such democratic sponsor states to democratization. Practically, these results suggest that democratic sponsor states seeking to promote democracy should tailor foreign assistance to target institutional and/or grassroots democracy projects. While large amounts of general economic aid appear to have no impact, much smaller amounts of assistance directed at more specific democracy support projects such as election support, democratic institution building, and democratic participation (including strengthening civil society) seem to be more efficaciously and more efficiently linked to democratization.

In the end, our analysis strongly indicates that previous studies may have underestimated the impact of external assistance as a factor in democratization. Understanding the mechanisms of agent empowerment and anticipated reactions provides insights into the manner in which some forms of aid have greater impact on democracy. Disaggregating aid to concentrate on democracy assistance and disaggregating countries to concentrate on the United States reveal a robust and substantively meaningful pattern in the data. Hence, studies of the impact of external aid on democratization should avoid gross aggregation. It is not appropriate to expect aggregate aid, or even aggregate ODA, to affect democratization uniformly, and it is inaccurate to expect that countries with varying interests and perspectives would provide assistance geared to the same purposes. Both the purposes and the mechanisms of aid differ.

As other analyses of the external factors contributing to democratization have concluded, such external forces can play a role in both the spread and consolidation of democracy. Our analysis extends this literature by articulating a theory of democracy aid, indicating that the aid strategies of democratic sponsor states can play a meaningful role in advancing democratization. While democratization and democratic diffusion have many engines such as globalization, trade, and international organizations, as suggested in the literature, one of these can be the explicit democracy promotion efforts of democratic sponsor states. Targeted assistance for democratization support should be expected to, and seems to yield tangible benefits over time in the form of higher democracy levels, as measured by standard democracy indices. This is not true of general economic aid, so

those seeking to support or extend the third wave of democracy would do well to structure assistance accordingly.

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