

DETERMINANTS OF GOOD GOVERNANCE:

DOES EUROPEAN UNION FOREIGN AID MATTER?

INTRODUCTION

Many observers, politicians, and political analysts present the invasion of Iraq by the coalition forces as a first step and struggle towards the introduction of democracy in the Middle East and Central Asia. Indeed, many so-called Western nations have attempted to promote and expand their own political systems and culture to non-democracies. As illustrated in the above-mentioned case, states may use force in order to promote these values and principles – though, arguably, the original intent of the invasion of Iraq had little to do with democratization and good governance. This example remains rare in international politics since democracies would rather utilize soft politics to promote their own values as a means to lead by example and to prevent the loss of lives in the process. Here, I focus on international political economic tools and mechanisms used by democracies with the aim of improving good governance principles in targeted countries.

Good governance principles refer to political corruption reduction, improvement of economic, social, and physical human rights practices, the promotion of democratization, the establishment of the rule of law, and the respect of civil liberties and political rights (Tomaševski 1993, Zanger 2000, Neumayer 2003). In order to promote these values, members of the Organization of Economic Cooperation and Development (OECD) follow foreign aid disbursement guidelines under which countries with good governance records receive more aid than others. In order to assess the actual impact of foreign aid allocation on these purported principles, scholars need to identify whether there exist a significant relationship between aid disbursements and recipients' good governance records. Hence, in this paper, I propose to

answer the following questions: does foreign aid help improve recipients' good governance records? Other things equal, does foreign aid have a significant impact on recipients' good governance?

There exists an extensive literature on the rationale behind foreign aid allocation, however, scientific inquiry has significantly disregarded the effects of foreign aid on recipients' political behavior. Arguably, donors allocate aid for several reasons: they may want to strengthen economic partnerships by giving precedence to trading partners; alternatively, as usually underlined in the literature in the case of US aid to Egypt and Israel, foreign aid sometimes aims at reinforcing the donor's security concerns; finally, aid can serve as an instrument that promotes good governance. Since, theoretically, OECD aid allocation is conditional on policy changes within the recipients' polities, I can intuitively reverse causality to focus on the effects of aid on recipients' domestic politics. As an emerging all democratic Inter-Governmental Organization (IGO), the European Union (EU) presents itself as one of the largest actors in terms of aid in the international arena. I thus propose to study the effects of EU aid on recipients rather than that of the US (for studies on US aid, see Cohen 1982, Cingranelli and Pasquarello 1985, Carleton and Stohl 1987, McCormick and Mitchell 1988, Poe 1991, Poe 1992, Hofrenning 1991, Regan 1995, Apodaca and Stohl 1999)

In the first section of this paper, I review the existing literature on determinants of democratization and good human rights practices and underline their strengths and weaknesses so as to underline my contributions to the existing body of knowledge. Based on this literature and on official documents from both the EU and the OECD, I sketch my theoretical framework and derive hypotheses from it. The third section explains the operationalization of the variables as well as their respective sources. Fourth, I conduct a statistical analysis on the gathered data to

then, in the fifth section, discuss the implications of the findings. Finally, I provide some concluding statements and propose avenues for future research to expand on the existing body of knowledge.

LITERATURE REVIEW

The current literature on good governance remains strongly blurry as to how to define, conceptualize, and operationalize good governance. Scholars associate good governance with democratic values and respect for human rights (Zanger 2000) – they thus give little attention to corruption and non-political factors. As such, in order to delineate a theory over the determinants of good governance and the expected effects of foreign aid thereupon, I need to identify the key independent variables in the existing literature on good governance, democratization, and human rights, as well as the political effects of foreign aid.

Good Governance

As mentioned earlier, most scholars of foreign aid allocation use proxies of good governance (such as levels of democracy or respect for human rights) to measure this concept. However, researchers have managed to derive a “good governance” variable from the International Country Risk Guide (ICRG) covering the 1982-1997 period (Knack and Keefer 1995. Keefer and Knack 1998). Knack (1999) uses this variable in order to account for the effects of aid dependence, change in population, and change in GDP per capita on the level of change in recipients’ good governance between 1982 and 1995. Here, the author concludes that aid dependence actually decreases the level of good governance of governments over time while other potential explanatory variables do not have any significant effect at all. Yet, rather than looking at the effects of aid allocation on good governance, the author limits itself to identifying the impacts of dependency and other factors on governance. He does not find any significant relationship

between high levels of dependency and good governance. Since very little literature exists over the determinants of good governance *per se*, I need to rely upon existing literature on the determinants of democracy and human rights in order to derive my theory, concepts often used as proxies for good governance.

Democratization

The achievement of good governance principles usually occurs in congruence with the establishment of democracies (Tomaševski 1993, Zanger 2000). Consequently, in order to assess which factors may affect good governance, one needs to include the literature on determinants of democratization and on characteristics of established democracies. There exist three main approaches to determinants of democracies: process theories, cultural theories, and structural theories of democratization. I will approach each of these in turn and explain which one will best account for the topic under study here.

Process theorists to democratization focus on the dynamics of democratization; they look at the coming about of democracies as a step-by-step process. One of the main scholar of this school of thought has analyzed democratization as a trend that comes in waves (Huntington 1993). According to Huntington, certain international and domestic characteristics need be present for democracies to emerge. These include poor economic performance from an authoritarian government, defeat in war, or international influences that promote the development of democracies. Arguably, Huntington posits that democratization, in those instances, needs to be put forward as an alternative by the elite (whether it is part of the opposition to the authoritarian regime or part of the regime itself), because the masses are unable to adequately promote democratization without the support of powerful and influential elites. Rustow (1970) also provides a process-oriented approach to democratization. However, he

focuses on the effect of economics on regime type. He argues that economic development promotes education and a reduction of income inequality, which in turn brings about democratization. Finally, Wantchekon (2004) proposes that democratization can come in a vacuum, especially in the aftermath of a tragic war. To support his argument, he gives the examples of post-World War Two Italy, Germany, and Japan. The main premise of the process approach to democratization is that different dynamics are conducive to democratization and that those dynamics are often times exploited by the local elite to bring about democratization.

The cultural approach posits that specific cultural facets are more conducive to democratization than others. Amongst those are British heritage and Protestantism; cultural aspects that inhibit democracy are Islam and Catholicism amongst others. Culturalist scholars argue that economic development has an effect on democracy through its effect on political culture; thus, the direct source of democratization is not economic development per se but political culture (Diamond 1999). In essence, economic development helps promote democratic norms and values and also increases the general level of education of a given population, which leads to democratization. Inglehart (1988) looks at the effects of economic development on the basic needs of a population and how this affects the political system that governs it. He contends that undeveloped nations are characterized by materialist cultures whereby the citizens' main priority is to meet basic needs such as shelter and food. In such societies, the level of interpersonal trust and life satisfaction remain so low that citizens feel a strong and frightening regime type is ideal. Conversely, post-materialist cultures (which occur as a result of political development) worry themselves with needs for leisure and privacy, which make them want a democratic government. In short, culturalist theories emphasize the fact that a given society

needs to deem democracy to be the best type of political system for them in order for democratization to occur and/or democracy to be consolidated.

Structural theories of democratization underline the importance of socioeconomic structures and the role they play on regime change. Rueschemeyer *et al.* (1992) argue that economic development empowers the working class and leads them to pressure undemocratic government for more rights and more participation on the making of the rules that govern them, leading to democratization. In a similar manner, Lipset (1959) contends that economic development empowers the middle-class at the expense of the aristocracy, which leads the former, as the main contributor of national income (through taxation), to demand representation in politics. Basing his argument on the previous two, Muller (1997) underlines that these two authors, though correctly accounting for the positive effects of economic development on democratization, fail to account for potentially negative effects. Muller proposes that, insofar as it promotes income equality, economic development promotes democratization. If economic development occurs along with increased levels of income inequality, the ensuing political regime will be undemocratic in nature. Other authors have tried to utilize structural theories in their study of smaller political units (Ember 1997) and have concluded that complex and hierarchical economic systems in highly developed societies tend to have undemocratic regime types; conversely, systems with a horizontal chain of command have democratic features. A pioneer in the field, Olson (1993) adds social components to the economic determinants of democratization. As such, he posits that higher levels of education (literacy rates) and better health practices (life expectancy and infant mortality) also contribute to the empowerment of the masses and hence to the development of democratic institutions. Thus, the structural

explanations to democratization analyze the effects of the socioeconomic structures and the level of development of a given society on this society's political regime.

The obvious element in all three approaches to democratization emanates from the importance given by all scholars to the determinant role played by economic and social development. Indirectly, both cultural and process theories state that economic development and social change bring about democracies – they differ from the structuralists in the sense that they claim that economic and social changes are consequences of either historical dynamics or cultural shifts. In order to account for good governance principles, I need to incorporate the potential impact of the level of economic development of aid recipients as well as social indicators to account for the impact of education and health standards on good governance. I know review the determinants of good human rights literature..

Human Rights

The literature on determinants of good human rights practices identifies variables that approach those utilized by democratization scholars. This emanates from the fact that countries' level of democracy represents the most significant indicator of human rights practices (Poe and Tate 1994, Hoffenberg and Cingranelli 1996). However, other scholars argue that there exist a curvilinear relationship between human rights practices and political openness (Fein 1995) – as such, countries in democratic transition are more likely to systematically abuse the human rights of their citizens. In spite of the controversy over the actual effects of regime time on countries' human rights records, determinants of respect for the latter resemble those outlined in the section on levels of democracy.

In one of their prominent piece, Poe and Tate (1994) attempt to identify all elements that contribute to violation/respect for human rights. The result of the time-series cross sectional

statistical analysis demonstrates that (besides the point made earlier about levels of democratization) countries undergoing a civil or international war are more likely to fair poorly on respect for their citizens' human rights; the same is the case with regards to the impact a country's population on the independent variable. On the other hand, they demonstrate that countries' levels of development (operationalized as Gross Domestic Product per Capita – GDP/capita) positively affect their level of respect for their citizens' human rights. More closely related to the question under study here, some scholars directly focus on the impact of foreign aid and other types of foreign assistance on recipients' human rights records.

Though most studies that aim at identifying patterns and relationships between foreign aid and human rights use the latter as an independent variables, some scholars do study the effects of some forms of foreign assistance on human rights. Thus, Regan (1995) underlines the lack of research on the reverted causality and undertakes the task to test the effects of US aid on recipients' human rights records. His findings inconclusively demonstrate that not substantial relationship exists between US aid and recipients' human rights records. However, one must remain cautious of these insofar as his data may be skewed due to the disproportionately large amount of aid received by Egypt and Israel. No other scholar (to my knowledge) has attempted to identify the effects of foreign aid on recipients' human rights. I will now identify the political effects of foreign aid on recipients.

Impacts of Foreign Aid

In his comprehensive research, Boone (1995) attempts to isolate effects of foreign aid (Official Development Assistance) emanating from all OECD members on different political and economic phenomena. He argues that foreign aid has not significant effect on poverty reduction because poverty for does not result from political shortage and politicians benefit from aid and

do not want to reallocate it to reduce poverty. Furthermore, Boone contends that aid does not increase investment or the level of human development of recipients. Finally, he concludes that such inconclusive findings may emanate from the lack of efficacy of the political elite.

More directly related to this study, Tavares (2003) studies the impact of foreign aid on government corruption. He utilizes the aggregate amount of aid donated by the largest 11 OECD members on recipients' corruption levels (using the International Country Risk Guide). Contrarily to Boone, he finds that foreign aid does indeed reduce the level of corruption of the political elite. Another closely related study originates from Knack with the World Bank. As a matter of fact, Knack (2004) focuses on the effects of aggregated ODA received on recipients' levels of democratization (using both the Freedom House and Polity indexes). He concludes that foreign aid does promote democratization. All the above-mentioned studies, with the exception of Boone (1995), support the proposition that foreign aid has a positive effect on some attributes of good governance – either democracy or corruption.

However, rather than looking at the impact of a specific group of donors' aid on recipients, most of the foreign aid literature (under the rubric of "Human Rights" and that of "Foreign Aid") either look at the impact of a single donor's aid or that of multilateral aid flows. Actually, because the EU posits itself as a main promoter of good governance practices (Tomaševski 1993, Zanger 2000), one needs to decipher between different patterns across groups of countries and between individual countries as well (though the latter is out of the scope of the present research). As mentioned earlier, Neumayer (2003) attempts to decipher between aid patterns of different individual donors and demonstrates that small EU donors put a stronger emphasis on good governance attributes than larger EU donors and especially than the US. Furthermore, much of the literature identified above underlines the altruistic attitude of the

United States, a phenomenon brought to light by Alesina and Dollard (2000) as well. Conversely to the EU, the US is much more concerned with security purposes and tends to allocate a disproportionate part of its budget to Israel and Egypt without regard to their political behavior (Neumayer 2003, Alesina and Dollard 2000). As such, because security supersedes other considerations, one should not expect to necessarily see a correlation between US aid and recipients' good governance records. On the other hand, the EU represents a political institution which currently lacks a security rhetoric and tends to concern itself with humanitarian purposes to a greater extent than the US (Zanger 2000, Neumayer 2003). For these reasons, I aim at deciphering whether the EU manages to have a significant impact on recipients' polities.

The literature on determinants of democratization, respect for human rights, good governance, provide insightful guidelines as to which mechanism promote the improvement of these concepts. However, the former two do not really measure the concept of good governance per se; I thus propose to directly address determinants of good governance with a special focus on the potential impact of European foreign aid. Though Knack's (1999) study further relates to this one since he tries to decipher the impact of foreign aid on good governance, he uses the aggregate level of aid disbursed the OECD, which does not tell much about the behavior of EU states in isolation. Because there may exist contradictory rhetorical discourses across OECD members, it is important to see whether recipients do indeed abide by the principles set forth by the European Union. Has demonstrated by much of the human rights literature, the US tends to focus mainly on security concerns when allocating aid (for example, Cohen 1982, Cingranelli and Pasquarello 1985, Carleton and Stohl 1987, McCormick and Mitchell 1988, Poe 1989, Poe 1991, Poe 1992, Blanton 1994, Poe and Sirirangsi 1994, Regan 1995), European Union members tend to promote good governance principles more consistently than their American counterpart

(see Zanger 2000 and Neumayer 2003). Consequently, it might prove useful to disaggregate the data used by Knack (1999) to figure out whether EU members' aid actually has a positive effect on recipients' good governance levels. Finally, I will use a time-series analysis to account for the changes of the different variables over time while Knack simply looks at the differences of levels of the several indicators between 1982 and 1995. In the next section, I sketch my theoretical framework and derive hypotheses.

THEORY

EU members must follow guidelines provided by both its institutions and the OECD when allocating foreign aid (Tomaševski 1993, Gillies 1996). These guidelines, as exemplified by the OECD, emphasize the need to promote good governance principles through aid allocation:

The statements vary in the way they are phrased and in the emphasis given to various components. Most, however, make reference to democracy, transparency, and acceptance of the rule of law principles, respect for human rights, accountability and an effective non-corrupt administration. They are subsumed under the concept of "good government." (Stokke 1995, p 24)

According to the above-mentioned statement, then, one would expect aid from European donors to have a positive effect on the level of good governance of recipients; therefore, I propose the following:

H₁: The more aid a country receives from the EU, the better its level of good governance.

In essence, when allocating aid, EU members must emphasize to individual recipients that they would either receive less aid or no aid if their good governance record decreases over the next time period (or the reverse if their good governance record improves), which, in turn, leads recipients to take the necessary measures to achieve higher levels of good governance. As I

explain below, other factors (drawn from the democracy and the human rights literatures) also influence countries' propensity to adopt specific levels of good governance.

The above-mentioned hypothesis represents the main point that this project attempts to illustrate. However, as delineated in the literature review, many mechanisms affect the level of good governance of countries – which, itself, emanates from countries' levels of democratization and of respect for human rights. Rather than looking at the effects of democracy and human rights on good governance (since those represent components and causes of good governance). Therefore, in order to account for other aspects impacting good governance, I need to include determinants of democracies and good human rights in the model.

Strong consensus exists within the democratization literature on the positive effects of economic development on countries' levels of democracy (Lipset 1959, Inglehart 1988, Rueschemeyer 1992, and Muller 1997). Arguably, as citizens become more economically powerful, they press charges on their government for more accountability, transparency, and an opening of civil liberties and political rights. The phenomenon occurs because economic well-being entails that citizens pay higher taxes and would therefore like to have some sort of control over the government and policy-making in general. Consequently, I expect the following to hold:

H₂: The more economically developed a country is, the higher its level of good governance.

Besides having a positive effect on levels of democracy (hence on good governance), levels of economic development also have a positive effect on a several social indicators which also impact good governance as demonstrated below.

Oslon (1993) contends that economic development has an effect on democratization through its impact on social indicators. He contends that as citizens and countries become

wealthier, countries can provide better social services to their citizens, considerably enhancing their life expectancy, level of education, and reducing infant mortality. These characteristics, especially the fact that the population became considerably educated overall (in the long run), creates a sense of awareness about the political system, which makes citizens put more scrutiny on the political elites and the government in general. Consequently, the government feels more under threat of losing political power to the opposition if, subjected to the constant oversight of the populace, it creates acts of corruption, it lacks transparency, it randomly arrests citizens, or it engages in other abusive actions. I propose the following three hypotheses:

H_{3a}: The more educated a country's population is, the higher the level of good governance of that country.

H_{3b}: The longer the life expectancy of a country's population is, the higher the level of good governance of that country

H_{3c}: The lower the level of infant mortality of a country's population is, the higher the level of good governance of that country.

Though it may appear obvious that a country's population's literacy rates may have positive effects on popular demands on the governments (due to higher levels of education), the linkages between infant mortality and life expectancy and democracy remain dubious. As a matter of fact, it makes more sense to stipulate that democracy enhances citizens' level of life expectancy and reduces infant mortality. Because the direction of causation for hypotheses 3b and 3c remains blurry and somewhat undetermined, I will not include these two variables in my model though I account for their operationalization (as can be seen in Appendix A, they do indeed have an impact in all three proposed models). The human rights literature also underlines the positive effects of the above-mentioned characteristics, and it adds other components to the equation.

In their famous piece, Poe and Tate (1994) propose a model of determinants of human rights violations. They do find that economic development and a set of social indicators have a positive effect on respect for human rights. Furthermore, they also conclude that a country's engagement in either a civil or an international war has negative effects on good governance. The presence of a war in a country (whether international or civil) often leads governments to install a state of emergency if not martial law. As such, the government does no longer respond to its citizens and acts as a totally independent actor. Often times, in the name of internal security and coherence, countries engaged in a war pass emergency laws (without using due process), randomly arrest people (without utilizing the rule of law), and the list could go on. Good governance thus becomes an abstraction, which leads to the last two hypotheses:

H_{4a}: A country engaged in a civil war will have lower levels of good governance than countries not engaged in civil wars.

H_{4b}: A country engaged in an international war will have lower levels of good governance than countries not engaged in international wars.

I need to note, however, that civil wars should have a stronger effect on decreased levels of good governance. In this instance, the government struggles to remain in power and the lines between foes and allies remain really blurry, leading the government to systematically violate the rule of law. International wars may, if the war is popular especially, create a rally-around-the-flag effect, in which case the government may not need to utilize drastic measures. To sum up, the model looks as follow:

$$\text{Good Governance} = \beta_0 + \beta_1 \text{ODA}_{t-1} + \beta_2 \text{GDP/capita}_{t-1} + \beta_3 \text{Education}_{t-1} + \beta_4 \text{Life Expectancy}_{t-1} + \beta_5 \text{Infant Mortality}_{t-1} + \beta_6 \text{Civil War}_{t-1} + \beta_7 \text{International War}_{t-1} + \varepsilon$$

OPERATIONALIZATION

Dependent Variable

I am trying to identify the effect of European Union foreign aid on recipient countries' good governance. This concept refers to a country's application of the rule of law, its lack of corruption, and smooth bureaucratic procedures (Tomaševski, 1993). Additionally, the concept also entails established democratic institutions, the provision of civil liberties and political rights, and respect for citizens' human rights. Thus, I need to decompose this variable into three different ones and run an analysis on each for comparison purposes.

To measure the bureaucratic and corruption aspects of good governance, I utilize the data gathered by the ICRG. The data include indicators of government corruption, rule of law, quality of bureaucracy, ethnic tensions, risk of repudiation of contracts by government, and risk of expropriation of private investment. Knack (1999) devised a measure of good governance using an 18-point scale index of "quality of governance" by adding corruption, rule of law, and bureaucratic quality. Each of the three components takes values from 0 to 6 with lower scores denoting high levels of corruption, low level of popular acceptance of the institutions, and client systems of recruiting in the bureaucracy. The data cover the 1982-1997 period. Knack (1999) provided me the data for this variable. Most scholars identify the concept of good governance as related to a country's application of the rule of law, the lack of government corruption, the efficacy of the government, as well as respect for citizens' human rights, civil liberties, and political rights. Though the latter two aspects of good governance exist and are easily accessible, creating an index of the five remains out of my statistical reach. Furthermore, the first three (rule of law, government corruption, and bureaucratic efficacy) seem more related to one another than the last two (human rights and civil rights and political liberties) because they all measure good

governance at the level the government (its actual functioning) rather than at the level of the existing institutions. For the sake of robustness, I need to also include the other two components of good governance in my statistical analysis.

To capture the level of democratization of recipients, I use the “Polity” measure of Polity IV (Gurr, 1974). This variable ranges from “-10” to “10” with lower values identifying cases where no election exist and the regime is fully autocratic. On the other end of the spectrum, free and fair elections occur, universal suffrage exists, and all characteristics of established democracies appear. The data cover the 1960-2004 period. I obtained the data from the Polity IV website (<http://www.cidcm.umd.edu/inscr/polity/>)

Finally, to encompass the human rights dimension of good governance, I propose to use the Political Terror Scale (PTS) obtained from Gibney and Dalton (1996). Based on Amnesty International and the State Department’s country reports, this indicator assigns scores ranging from “1” to “5” to countries with lower values depicting strongest levels of respect for citizens’ human rights. As noted by some scholars, the State Department’s reports may be biased against “enemies of the US” and are therefore less reliable than Amnesty’s (McCamant 1981, Poe 1989). Thus, I use Amnesty International’s PTS values with missing values replaced by State Department’s values. I obtained the data from Poe.

Independent Variables

The main independent variable measures aid from EU members (aggregated from all countries) to all recipients. I use the OECD data on Official Development Assistance (ODA) disbursements provided by Zanger (2000). The data depict the actual ODA allocated to Third World countries with the sole and underlying goal of being used for the promotion of good governance practices (Stokke 1995). The data cover the 1960-1998. Official Development Aid represents aid given by

OECD members to Third World countries to promote political development including the building of democratic institutions, and the improvement of human rights conditions, and freedoms. Here, I need to emphasize that the main priority of the OECD is poverty reduction (OECD 2001) because poverty reduction is seen as a necessary step towards the establishment of good governance practices. Official Development Assistance includes loans and a minimum of 25% in grants (OECD 2001). Since repayments of loans are also included in the ODA, the data contain negative numbers. The data used by the above-mentioned scholar is expressed in constant 1995 US dollars. However, using these raw numbers poses a problem for comparison purposes across recipients. Since the impact of aid received depends on the population of a country, I divide the raw amount of aid by the total population of the country and multiply that number by one million – thus, aid is expressed by one million citizens.

Economic development refers to the wealth of a nation and, more specifically, to the average wealth of its citizens. To measure economic development, scholars have utilized energy consumption, various structural factor, and GDP per capita. Energy consumption may create some outlier problems due to the fact that certain countries consume much more than they should and vice versa. I propose to use GDP per capita in constant 1995 US dollars accounting for Purchasing Power Parity (PPP). I borrowed the data from Fearon and Laitin's (2003) dataset, which covers the 1945-1999 period. Rather than using the raw numbers, the authors modified it so as to expressed amounts in thousands (for a country with a GDP per capita of 1,000, this variable takes a value of 1). I use these numbers in order to gather larger coefficients.

The next three independent variables, education, life expectancy, and infant mortality came from the World Bank. Development Indicators (The World Bank Group 2004). To capture a country's population, I use its rate of literacy. One could also use the proportion of the

population that has completed primary, secondary, or tertiary education (or all), but I contend that literacy rates indirectly measures the level of education of a country's population. Literacy rates reflects the proportion of countries' adult population (above the age of 15) who can read – the problem with this variable emanates from the fact each country define “literacy” in different manners; however, this probably best account for the extent to which a country's level of education affects its population's expectations in terms of good governance. Life expectancy measures the average life lengths new born citizens should expect to live. Finally, infant mortality accounts for the number of infant deaths (people dying before reaching the age of 1) per one thousand new-born babies.

Countries in which the government overtly fights another group within its own societies undergo civil unrest, if not a civil war. I create a dichotomous variable that takes a value of “1” if a country experiences a civil war in a specific year and a value of “0” otherwise. I utilize the Correlates of War (COW) dataset to create this variable (Singer and Small 1972, Small and Singer 1982, Sarkees 2000). COW defines a civil war as engendering more than 1,000 deaths per year within the country's population. Additionally, the COW project also provides data on countries engaged in international wars. The definition remains similar though it depicts instances in which two countries are engaged in a war that leads to at least 1,000 battle deaths a year. Similarly to the previous variable, I create a dichotomous variable when that takes a value of “1” when a country partakes in an international war and “0” otherwise. Table 1 presents the descriptive statistics for all variables. Now that I have explained the operationalization of the variables included in the models, in the next section, I outline the methods I use to test my hypotheses.

[Table 1 right about here]

METHODS

The unit of analysis of this study is the *country year*; the data cover the 1983-1998 period for the “Good Governance” model, and the 1970-1998 period for the “Polity” model, and the 1979-1998 period for the “PTS” model. I led the dependent variable in all models. Arguably, aid allocated in year t will not be utilized by a recipient the same year it receives it. Instead, budget allocation within the recipient country over how to use ODA funds occurs during the year in which it receives the aid in order to include it in the next year’s budget. The same applies to all other variables; governments and citizens do not respond immediately to structural, cultural, economic, and social changes. Therefore, by using the lead of the dependent variable, I aim at accounting for the lag that occurs between social, economic, and political events and governments and citizens’ reaction to them.

I set the data with a cross-sectional time-series format in order to account for variations across time and across national boundaries. I do not include the lagged independent variables in the models in order to account for the effects of other characteristics. The lagged dependent variable would account for so much of the variation that most of current levels’ of good governance would be accounted for by previous levels so that the independent variables would appear obsolete (refer to Appendix B to see the results with the inclusion of the lagged dependent variables). In order to avoid tautology, i.e., to avoid merely saying that good governance leads to good governance, I do not include the lagged dependent variable in my models. I run a time-series a Prais-Winsten regression (PCSE) which controls for heteroskedasticity across panels and for auto-correlation within panels. This statistical tool allows me to control for the potentially negative effects of these two “plagues” of time-series data. I use Stata, version 8, to run the

analysis (StataCorp. 2003). I now turn to the presentation of the findings of the statistical analysis.

ANALYSIS

The results of the statistical analyses appear in Table 2 (for the model excluding the lagged dependent variable) and in Table 3 (for the model that includes the lagged dependent variable). First, I review the results of the analyses on the good governance indicator, then, I explain the findings using Polity IV as a dependent variable, finally, I analyze the PTS model.

Good Governance

In both models (excluding and including the lagged dependent variable), foreign aid seems to have very little impact on recipients' levels of good governance. This may occur for several reasons: first, as underlined in the methods section, the measure of good governance remains strongly dubious and has barely been used by international political economy scholars. Second, the dependent variable seems to barely vary over the years though the main independent variable undergoes a lot of variation (see Table 1 for descriptive statistics). Finally, depending on the nature of their political systems, countries may decide to effectively use the funds in the event their government already abides the rule of law or the leadership may corruptly utilize the aid in order to benefit their own interests. However, though ODA fail to meet statistical significance in both models (.338 in the first model and .848 in the second, it still is in the predicted direction).

[Table 2 about here]

Though control variables fare pretty well in the model that excludes the lagged dependent variable, most of them fail to meet statistical significance when the lagged dependent variable appears in the model. As a matter of fact, the only consistently significant variable across models is literacy rates of the population. This phenomenon emphasizes the fact that an educated

population scrutinizes the actions of its government to a greater extent than poorly educated ones, so that the government somehow feels obligated to follow the conditions put forth by the donor countries. However, the main findings of this specific model underlines the fact that previous levels of good governance represent the strongest predictor of current levels insofar as a one unit change in a country's previous good governance level accounts for a .959 level of current levels. Though higher levels of GDP per capita tend to engender better good governance when not controlling for the latter, the effect disappear when one takes into account previous levels of good governance. Along the same lines, civil wars appear to have a negative effect on good governance, but this effect disappears once I control for previous levels of good governance. Therefore, as mentioned in the methods section, previous good governance remains the main predictor of current levels of good governance. I now turn to the analysis of the model that utilizes Polity IV (levels of democratization) as a proxy of good governance.

Level of Democracy

I use Polity IV as a proxy of good governance because higher levels of democracy are usually accompanied with better respect for good governance principles (Zanger 2000). Furthermore, the Polity IV variable contains more variation than the good governance variable utilized in the previous section.

As can be noticed in the model that includes the lagged dependent variable, former levels of democratization do not predict current levels of democratization to the same extent that former good governance predicted current good governance (.878 as opposed to .959). Consequently, ODA per capita has a significant effect and positive effect on levels of democracy in both models. A one unit change in a country's ODA per capita received leads to a .0179 change in its level of democracy without accounting for previous levels of democracy (significant at the .01

level) and to a .009 change in its level of democracy when accounting for the previous level of democracy (significant at the .05 level). This provides support for the proposition that ODA has a positive effect on the polity of the recipient countries. Thus, one may postulate that developing countries, to some extent, do apply the principles and conditions set forth by donors with regards to political rights and liberties.

Similar to the previous model, literacy rates remain the strongest predictor of countries' level of democratization in both models. Again, this reinforces the idea that educated populations scrutinize the action of their government to a larger extent than poorly educated ones. Conversely to expectations, the presence of a civil war in a country appears to have a positive effect on that country's level of democracy. This apparently contradictory finding may occur because countries undergoing civil wars tend to either be transitioning to democracy or from democracy and hence have medium-range levels of democracy. In essence, consolidated democracies and authoritarian regimes are the least likely to undergo civil wars. Though levels of GDP per capita increase countries' levels of democracy when previous levels thereof do not appear in the model, this effect disappears when one controls for previous levels of democratization of countries. Now that I have analyzed both the effects of the independent variables on my good governance measure and on countries' levels of democratization, I turn to the impact thereof on violations to personal integrity (or physical terror scale – PTS).

[Table 3 about here]

Physical Terror Scale

The model on the effects of the specified independent variables on levels of violations to citizens' physical integrity fares about as well as those reviewed in the previous section. Again, because PTS represents a more accepted measure of good governance (Zanger 2000), I utilize it

as a proxy of good governance in this model. Similarly to the previous two models, previous levels of PTS predict current levels of PTS to a large extent, but there exist more variation since it only accounts for 79% of the change (as opposed to 96% for good governance and 88% for levels for democracy).

In both models, the level of ODA per capita received by a recipient has a positive and significant effect on that country's respect for the physical integrity of its citizens. Conversely to the other dependent variables, PTS takes high values when countries systematically physically repress their citizens, hence, the hypothesis predicts negative relationship. An extra \$100 per citizen allocated to a country leads to a 1.1 decrease in this country's PTS score when not accounting for previous the previous PTS level and to a .4 change when accounting for it (both at the .01 level). This support the proposition that the amount of ODA per capita received by a country, along with the effects of conditionality, should have a positive effect on their levels of respect for the most basic form of human rights, which represents, in a way, a proxy for good governance.

Across models, with the exception of the presence of an international war (which fails to meet statistical significance though it is in the predicted direction), all control variables react in the predicted manner. Thus, higher levels of GDP per capita and of literacy rates leads to stronger respect for the physical integrity of countries' citizens as illustrated in previous studies (Poe and Tate 1994, Fein 1995). Furthermore, though the occurrence of civil wars was associated with higher levels of democratization, civil wars obviously systematically lead government to undermine the physical integrity of their citizens. This phenomenon is not new since governments engaged in civil wars often cannot differentiate between allies and foes and tend to

arrest, torture, and kill allies, by-passers, and enemies alike (Mason and Krane 1989, Poe and Tate 1994).

CONCLUSION

In this paper I attempted to identify whether foreign aid from the European Union members at the aggregate level had any effect on recipients' levels of good governance, their level of democratization, and their level of respect from their citizens' human rights. Additionally, I identified other potentially important variables (with regards to good governance) borrowed from the literatures on determinants of democratization and determinants of human rights. Based on these literatures and on the rhetorical premises of the OECD and the EU, I proposed a set of hypotheses that I tested through a Prais-Winston regression. Furthermore, since there exist no consensus on how to measure good governance, I ran analyses on proxies of good governance, mainly levels of democratization of recipients and on their respect for human rights.

Unfortunately, when utilizing the available measure for good governance, it appears that ODA per capita received does not have any impact on the former. Furthermore, and contrary to expectation too, levels of economic development do not appear to have an effect either. Indeed, the only significant variable is the level of literacy rate of the population, which illustrates that more educated populations more systematically scrutinize their government and that the latter also better respect international norms. When utilizing proxies to measure good governance (levels of democratization and respect for human rights), ODA per capita has a strong and significant effect on these variables. Additionally, literacy rates and GDP per capita consistently behave in the expected manner in these two models. However, the occurrence of a civil war shows contradicting results.

Turning back to the main proposition of this study, the capacity of foreign aid in improving the political settings of recipient countries provides scholars and practitioners alike with rhetorical and practical devices to promote good governance principles throughout the world. As a matter of fact, because EU ODA does have a positive impact on good governance, policy-makers could rationalize increasing their country's foreign aid budget in order to "democratize" other nations. This appears as a strongly preferable (and potentially incredibly less costly) alternative to the use of force or even military assistance to specific nations. Yet, it still appears that the main method through which to increase good governance is education. As this study proposes, the higher the level of education of a specific country, the better the country behaves in all three models. Thus, rather than promoting drastic economic reforms and adjustments, donors may want to put the emphasis on education.

However, this research represents one of the few to date to actually demonstrate any positive effect of foreign aid on recipients' political behavior. As such, it begs the scholar community to conduct further research in this realm (potentially with a comparative perspective such as looking at the impact of ODA from major donors on recipients' characteristics) in order to draw more conclusive findings (or, were it the case, to disprove the findings of this study). Furthermore, we need to gather more data on good governance and particularly to devise a well-accepted means of measuring this concept. Here, I simply borrowed data from the ICRG (a well-trusted organization) and had to drop several observations (a lot of African nations especially) due to a lack of data.

Another avenue for future research underlines the needs to focus on the differences (or similarities) between the effects of aids allocated by different large donors on the good governance levels of recipients. For instance, comparing between the effects of EU ODA to that

of US ODA could yield interesting results. Arguably, because most members of the EU and the US belong to the OECD, they have to abide by the same guidelines and their ODA should therefore have comparable impacts on recipients. Though many studies have shown biases with regards to US aid allocation patterns (giving preference to security purposes), more systematic research remains to be done in the domain of the different components of good governance. Finally, for further comparativeness, one could also attempt to identify the impact of ODA from each individual donor in order to assess the political impact of these on recipients. For instance, when demanding reforms from recipients, donors may have diverging levels of leverage on recipients for reasons to be determined in these future research projects.

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Table 1: Descriptive Statistics

<i>Variable</i>	<i>Governance Model</i>				<i>Polity Model</i>				<i>PTS Model</i>			
	Mean	St. Dev.	Min.	Max.	Mean	St. Dev.	Min.	Max.	Mean	St. Dev.	Min.	Max.
<i>Dependent Variable</i>	8.43	2.99	0	18	-1.84	7.01	-10	10	2.90	1.09	1	5
<i>ODA</i>	11.03	15.07	-9.97	144.82	10.22	13.94	-9.97	144.82	11.77	15.11	-9.97	144.82
<i>GDP/Capita</i>	3.38	3.37	.27	21.50	3.10	3.92	.20	38.87	3.02	3.37	.20	31.97
<i>Literacy</i>	68.77	22.02	9.94	98.33	61.819	24.74	6.14	99.29	64.	23.65	7.7	99.29
<i>Life Expectancy</i>	62.37	9.43	40.69	77.95	58.74	10.05	34.78	77.95	59.76	10.08	31.22	77.95
<i>Infant Mortality</i>	64.78	40.57	3.6	191	81.93	45.12	3.6	225	74.45	42.49	3.6	225
<i>Civil War</i>	.28	.45	0	1	.22	.41	0	1	.25	.43	0	1
<i>Internat. War</i>	.02	.12	0	1	.02	.13	0	1	.02	.13	0	1
<i>N</i>	1051				2230				1617			

Table 2: Time Series Regression on the Effects of ODA on Recipients' Good Governance

	Good Governance Model		Polity Model		PTS Model	
	Coefficient	P>z	Coefficient	P>z	Coefficient	P>z
ODA	.003	0.338	.0179	0.004	-.011	0.001
GDP/cap.	.105	0.019	-.146	0.009	-.071	0.001
Literacy	.055	0.001	.129	0.001	.004	0.023
Civil War	-.620	0.001	.856	0.027	.851	0.001
Inter. War	-.100	0.680	.215	0.481	.023	0.877
Constant	4.424	0.001	.018	0.004	2.790	0.001
Wald χ^2	118.12	0.001	75.07	0.001	267.14	0.001
R ²	.33		.06		.21	
N	1041		1605		1617	

One-tail test.

Table 3: Time Series Regression on the Effects of ODA on Recipients' Good Governance including the Lagged Dependent Variable.

	Good Governance Model		Polity Model		PTS Model	
	Coefficient	P>z	Coefficient	P>z	Coefficient	P>z
ODA	.001	0.848	.009	0.048	-.004	0.001
GDP/cap.	-.004	0.723	.004	0.765	-.025	0.001
Literacy	.003	0.095	.016	0.001	.002	0.006
Civil War	-.070	0.412	.407	0.039	.267	0.001
Inter. War	.226	0.330	.485	0.226	.136	0.294
Lagged DV	.959	0.001	.878	0.001	.734	0.001
Constant	-.018	0.911	-1.672	0.001	.697	0.001
Wald χ^2	6038.27	0.001	6110.89	0.001	3441.99	0.001
R ²	.88		.82		.69	
N	970		1512		1525	

One-tail test.

APPENDIX A

Table 4: Time Series Regression on the Effects of ODA on Recipients' Good Governance – Full Model with Lagged Dependent Variable

	Good Governance Model		Polity Model		PTS Model	
	Coefficient	P>z	Coefficient	P>z	Coefficient	P>z
ODA	.003	0.359	.0164	0.007	-.011	0.001
GDP/cap.	.087	0.068	-.217	0.001	-.082	0.001
Literacy	.046	0.001	.085	0.000	-.001	0.938
Expectancy	-.007	0.763	.018	0.640	.006	0.458
Mortality	-.008	0.078	-.027	0.001	-.002	0.313
Civil War	-.631	0.001	.880	0.023	.867	0.001
Internat. War	-.114	0.641	.271	0.384	.023	0.874
Constant	6.086	0.001	-5.431	0.020	2.870	0.001
Wald χ^2	124.72	0.001	91.58	0.001	282.21	0.001
R ²	.339		.067		.213	
N	1041		1605		1617	

One-tail test.

APPENDIX B

Table 3: Time Series Regression on the Effects of ODA on Recipients' Good Governance including Lagged Dependent Variables.

	Good Governance Model		Polity Model		PTS Model	
	Coefficient	P>z	Coefficient	P>z	Coefficient	P>z
ODA	.001	0.871	.009	0.070	-.004	0.001
GDP/cap.	.004	0.760	-.040	0.038	-.028	0.001
Literacy	.006	0.040	.002	0.745	.001	0.404
Expectancy	-.005	0.600	.007	0.722	-.001	0.948
Mortality	.001	0.644	-.010	0.053	-.001	0.459
Civil War	-.073	0.390	.446	0.028	.269	0.001
Inter. War	.236	0.309	.464	0.246	.132	0.309
Lagged DV	.962	0.001	.869	0.001	.732	0.001
Constant	-.013	0.986	-.279	0.857	.842	0.008
Wald χ^2	6139.66	0.001	6105.37	0.001	3455.44	0.001
R ²	.88		.81		0.69	
N	970		1512		1525	

One-tail test.