FOREIGN AID, DOMESTIC POLITICS, AND TIME-TO-DEVELOPMENT: AN ANALYSIS OF SUB-NATIONAL AID EFFICACY[*][†]

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> *When given the freedom to freely allocate aid, political leaders*
> *of recipient countries may partake in favoritism of certain regions […]*
> *or use aid to buy votes or reward government supporters*
> Dreher et al., 2016

In spite of the large amounts of money, time, and effort spent on improving the condition of people in developing countries, most studies on the impact of foreign aid have only found modest effects in addition to significant variation between as well as within developing countries. Analyzing the causes of variation in domestic aid efficacy, this study specifically addresses the questions of why some subnational regions develop faster than other with a focus on the electoral incentives of democratic political leaders to interfere with development and the efficacy of aid.

While allocation and implementation of aid projects is affected by donor governments, multilateral aid agencies, NGOs, and a wide variety of private actors, the domestic political leaders of recipient countries play a particularly important role. Based on work by Dreher et al. (2016) on aid allocation, Bueno de Mesquita et al. (2003), and others, we develop a theoretical argument for why and how electoral incentives make office-seeking leaders engineer higher levels of aid effectiveness for the specific constituencies they rely on for political survival. We claim that political leaders have incentives to affect sub-national aid effectiveness via administrative project support, matching funds, etc., to 'buy' the ongoing support of their electoral winning coalition. As a result, aid – controlling for initial level of development – leads to faster development in districts aligned with the national government.

To test the theoretical argument's empirical implications, we use a mixed-methods research design that combines statistical analyses with a comparative case study of Indian states. We test whether partisan alignment between the national government and state-level representatives improve the effectiveness of regional World Bank projects and attainment of the United Nations' Millennium Development Goals (MDG), incl. the eradication of extreme poverty and hunger, achievement of universal primary education, reduction of child mortality,

and improvement of maternal health. In other words, we check whether regional aid efficacy is mediated by partisan alignment with the help of a qualitative study of the Indian states of Kerala and Jharkhand as well as a statistical analysis of geocoded World Bank, Global Data Lab, and election data for all 36 states and union territories over a 25-year period (1991-2016).

Combining the evidence from our quantitative and case study analyzes, we find strong evidence that the effects of aid on development, e.g., in terms of the time it took Indian states to attain specific MDG, are conditioned by the partisan alignment of national and state-level results in the 10th-16th Lok Sabha elections. Table 1 summarizes some of the statistical results that highlight the domestic politics of aid efficacy. The fixed-effects instrumental variable regressions provide robust evidence that World Bank projects are more effective at improving development when a state's representatives are politically aligned with the national government.

Table 1: Aid, partisan alignment, and MDG attainment

| MDG:	#1	#2	#4	#5
Aid	-0.001*	0.002**	-0.005*	0.000
	(0.001)	(0.001)	(0.002)	(0.001)
Alignment	-1.607**	2.323**	-4.515**	0.205
	(0.696)	(1.185)	(1.873)	(1.262)
Aid * Alignment	-0.001**	0.001**	-0.002*	0.000
	(0.000)	(0.001)	(0.002)	(0.001)
MDG_{t-1}	0.965***	0.946***	0.872***	0.968***
	(0.020)	(0.020)	(0.055)	(0.023)
Controls	yes	yes	yes	yes
State fixed-effects	yes	yes	yes	yes
Constant	0.246	-1.250	1.626	-5.283***
	(0.873)	(0.986)	(2.309)	(0.916)
Observations	525	525	525	525
R^2	0.952	0.926	0.947	0.980

Response variables (MDG): #1: % of underweight children, #2: % of children aged 6-8 attending school, #4: % of immunized children, #5: fertility rate of adolescent women.
Robust standard errors in parentheses. *$p < .1$. **$p < .05$. ***$p < .01$.

Qualitative and anecdotal evidence from Kerala and Jharkhand support our statistical findings. As Figure 1 clearly shows, both states started out shoulder-to-shoulder in terms of their level of human development in the early 1990s, but had staggeringly different experiences during the MDG period. While Kerala became a posterchild of development, Jharkhand remained an example of stagnation despite receiving similar World Bank projects. Two quotes from Amit Shah, President of the Bharatiya Janata Party (BJP), hint at partisan alignment being key to why the two states ended up at opposite ends of the development spectrum. With the BJP leading the National Democratic Alliance (NDA) coalition government, he proclaimed that "if Kerala sends BJP MPs to Lok Sabha and if the NDA retained power, we will make Kerala the number one state in India" (Times of India, 2019). He also pointed out that since the BJP/NDA came to power, the "NDA government has carried out various pro-poor schemes, uplifting the living standard of the needy" (Asian News International, 2019) in the BJP/NDA aligned state. On the other hand, he made it clear that "Development of Jharkhand is only possible when there is a BJP

government in the state. Jharkhand is blessed with natural resources, this land has abundant coal and iron ore, but still the people here are poor. The reason is because Jharkhand has never had a full majority government. So I urge you to vote the BJP and give us two-thirds majority in the state" (Asian News International, 2014). Only with an aligned majority would Jharkhand have development prospects.

Figure 1: Human Development in Jharkhand and Kerala, 1991-2016
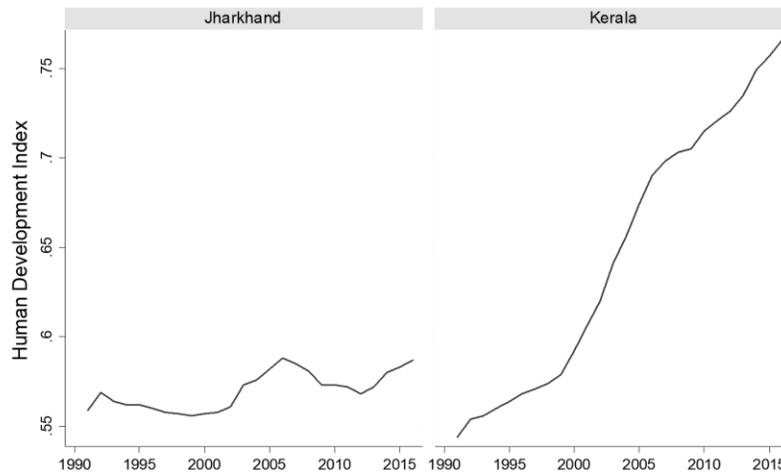
While this study clearly shows that subnational aid efficacy is mediated by partisan alignment, there are several opportunities for additional research into the politics of aid effectiveness within developing countries. Collecting and analyzing more and better data is an obvious starting point. Taking a closer look at the interaction between voters and political leaders in the context of local aid projects and regional development is another route worth exploring (cf. Findley et al., 2017). We plan on continuing our research into the domestic politics of aid effectiveness with lab and survey experiments that will deepen our understanding of the dynamics at work. In the lab, we intend to closely analyze the incentives of political leaders to provide differentiated development policies under different electoral institutions as well as the responses of voters to informational treatments about government behavior. The online survey experiment will provide some external validity by studying the responsiveness of Indian voters to information about government support for local aid projects.

Literature

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