

**“How Foreign Aid Hinders Democracy:  
A Multivariate Analysis in Development Studies”**

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## **“How Foreign Aid Hinders Democracy: A Multivariate Analysis in Development Studies”**

### **Abstract:**

Foreign aid has the potential to produce dramatic changes, both economically and politically, in the countries in which it is received. This paper argues that the contemporary foreign aid regime does not always create positive results and is often detrimental to democratization in developing countries. This paper argues that poor foreign aid policy induces, both political and economic, and both direct and indirect effects on lesser developed countries which are unfavorable to democratization. To analyse this assumption, the author uses theory from Jean Grugel, Gordon Crawford and Laurence Whitehead to address democratization and development case studies to demonstrate the negative effects foreign aid can pose to democracy. The author concludes that the current foreign aid regime must change in order to avoid propping up further corrupt governments.

### **1. Introduction:**

Three weeks ago Zimbabwe's president Robert Mugabe cut the ribbon at a Malawi highway named after him. The European Union and the United States have both imposed sanctions on Mugabe's government over allegations of corruption and fraudulent elections. Ironically, the funds for this highway, now honoring an internationally regarded dictator, came from EU foreign aid (BBC News Online Edition, 04-05-2006).

Foreign aid is generally thought of as being a beneficial institution for the economic, social and democratic advancement of developing nations and something that promotes democratic development. Foreign aid is often directed at consolidating democracy. It is used to strengthen democratic institutions such as the electoral process, judiciary, free press and civil society. Conditionality can be a valuable tool for encouraging democracy and has been instrumental to democratization and EU membership of some Eastern European countries. By funding NGO, international and state-run projects foreign aid has the potential to improve education, healthcare, infrastructure and per capita income, all of which are conducive to democracy (Knack, 2004). For example, according to its website, the U.S. agency for international development (USAID) spends \$700 million annually on democracy related programs in the developing world and has been a part of the democratization process in 36 of the 57 countries that have successfully made the transition to democratic government since 1980 (USAID Online - 2006).

This does not prove a cause and effect relationship between aid and “Third Wave” democracies. There are too many other variables present in the democratization process from civil society to individual actors to globalization. It is foolish to present foreign aid as the major catalyst to democratization. Democracy-oriented aid only represents a fraction of the total aid to a recipient nation and can be overshadowed, diluted or neutralized by other aid programs. While it is important to be aware of the potential positives of foreign aid, this paper will show that foreign aid is often detrimental to democratization by looking at recipient cases, democratization theory and the theory of conditionality.

The following analysis first looks at the various periods of foreign aid and the different forms that foreign aid takes in order to differentiate between separate foreign aid regimes and foreign aid policy. The paper then outlines some of the theory regarding democracy promotion from a number of authors, including Jean Grugel, Gordon Crawford and Laurence Whitehead, which will be used to evaluate the effects of foreign aid in democracy promotion and in a multivariate analysis of specific cases. Through the use of these cases, the paper outlines a typology of ways in which foreign aid can hurt democracy and democratic consolidation: (1) through the promotion and prolonging of undemocratic governments by monetary aid; (2) through the domestic use of foreign aid for undemocratic regime consolidation; (3) through poor conditionality policy and economic destabilization; (4) through the destabilization effect of self-interested security and economic aid. Through this exploration, the paper concludes that the current foreign aid regime must change in order to minimize the harmful effects of aid.

## **2. Background:**

This section of the paper begins with a brief outline of the concept and history of foreign aid from which the author creates four major aid regimes with which to compare with democracy promotion. A summary of the four regimes is shown in Table 1.

In general, foreign aid is controlled by the donor and has been since it became a major institution in international relations in the 19<sup>th</sup> century. Recipients are usually “friendly” or ideologically aligned with the donor, as seen most clearly during the Cold War era. Donors are also prone to using aid as a commercial or political tool for their country’s gain. Obvious examples of this type of aid are security aid to fight terrorism in the 21<sup>st</sup> century and U.S. food aid under Public Law 480, which in 1954 ensured the continuation of the U.S. government as a major consumer of American agriculture (Hjertholm and White, 2000). However, in the past decade, recipients have begun to play a larger role in the decision making process giving hope for further progress towards an equal partnership between recipient and donor.

It is also important to point out that there are a number of different types of foreign aid. There is aid directed at democratic advancement; development aid aimed at economic and commercial promotion; humanitarian aid aimed at alleviating affliction caused by short-term emergencies such as famine, war, or natural disaster; and military aid aimed at regional security, terrorism, or regime consolidation.

There is also a difference between bilateral and multilateral aid. Bilateral aid comes from individual countries and is able to concentrate on creating a strong link between recipient and donor. Countries with colonial linkages or a common language are partners in this type of aid. Bilateral aid has the advantage of providing long-term technical assistance through close relationships with recipient governments and citizenry. However, bilateral aid is subject to a number of drawbacks including politically linked aid and tied aid for the purpose of donor export promotion and ideological conditionality. All of which, can be detrimental to the economic and democratic development of the recipient.

Multilateral aid, on the other hand, has the advantage of coming from large institutions such as the World Bank. These institutions have less political motivation than bilateral donors, and more commonly support the poorest countries. They are usually able to maintain a more stable commitment and avoid undermining their goals through tied aid and import quotas. However, multilateral aid can be equally regressive to democracy, in that aid is typically given directly to the government, which increases the government's relative importance in the country's economic apparatus and may increase the legitimacy of an authoritarian government in the eyes of domestic and international observers (United States Congressional Budget Office, 1997). The distinction between different forms of aid is important in understanding the successive foreign aid regimes and how they have changed individually.

### **3. Four Regimes:**

While there have been many changes in how aid has been given, who has given it and for what reasons, for the purposes of this paper, it is more useful to break the history of international aid into four main regimes starting in the 19<sup>th</sup> century. As illustrated in Table 1, the four basic regimes this paper considers are pre-WWII, Marshal Plan, Cold War and contemporary.

The first regime began in the 19<sup>th</sup> century and was based on colonialism, market expansion and resource access. U.S. foreign aid took the form of food aid and was designed to open up new markets for American agriculture and remove excess supply. U.K. foreign aid in this regime was directed at colonial development (almost explicitly infrastructure) in an effort to secure inputs for British manufacturing. For example, the U.K. provided grants and technical assistance to India for the construction of rail roads to open up access to cotton supplies. This aid regime was characterised by low levels of assistance and a focus on donor benefits and priorities rather than development, democratic or otherwise.

The second regime began as World War Two came to a close and multilateral organizations appeared on the aid scene, such as Oxfam, CARE, the World Bank and the United Nations in 1943. The U.S. was a major player, contributing 2/3 of all foreign aid during the 1950's (Hjertholm and White, 2006, p.11). The dominant institution of the regime was the Marshall Plan which was designed to speed the recovery of post-war Europe. The lion's share of this aid went to England, France, West Germany, Italy and the Netherlands. In America, Communism was perceived to be a growing threat and, as such, a major intention of the Marshall plan was to solidify democracy in Western Europe. The plan proved a resounding success as countries such as France, West Germany, Italy and Japan became and remain strong

democracies. It can be argued that assistance from the Marshall Plan represents the greatest achievement for democratically oriented foreign aid. This period of foreign aid history is also unique in that it is characterized by unprecedented recipient participation. Western European countries had a reasonably equal say in how assistance would be used. Outside of Europe, foreign aid continued to expand under the Sri Lanka-based Colombo Plan and in the newly independent African nations of the 1950's. Moreover, multilateral organizations, such as the UN, gave poorer countries more, if limited, power over development assistance.

The third regime begins to take shape in the late 1950's as the Soviet Union expands its foreign aid program and takes over the funding of the Aswan Dam in 1956. Similarly, in 1961 President Kennedy initiated the "Alliance for Progress" in order to secure ties between the United States and South America in an effort to deter the spread of communism. The rise of ideological and strategic aid was a major characteristic of the Cold War regime and, as will be argued below, is inherently hard on democratic consolidation. Other developments during this period include the introduction of the World Bank as the leader of multilateral aid, the establishment of the 0.7 percent of GDP aid threshold by Canadian Prime Minister Pearson in 1969 and the rise of NGO's in the 1980's. Along with this, came a greater emphasis on program aid and poverty alleviation from the World Bank and increased bilateral aid from developed countries as they began to realize the benefits it could offer to recipient nations and their own economies.

Finally, the contemporary regime begins with weakening of the Soviet Union and the Communist threat and a new beginning for foreign aid. As Rubin Patterson (1997) explains, many experts and scholars were divided as to whether the end of the Cold War would signal the decline of foreign aid or its rebirth and revitalization. In some ways, both were correct as cumulative foreign aid has declined through the 1990's after it peaked 1992 and as donor aid is now dependant on the good governance of recipient countries and not simply handed out to ideologically-friendly allies. Conversely, this means that some deserving countries potentially lost aid with their strategic importance. However, with the creation of the millennium goals, debt relief and debt forgiveness programs and the continuing aid to African countries throughout the past decade (in 2004, three of the top ten aid recipient nations were African – OECD Online - 2006 ) it is clear that foreign aid will remain a major international institution. Multilateral and NGO projects continue to gain importance and democratic conditionality has become more common.

Nevertheless, aid continues to be used for security, commercial, political and ideological gains or reasons. It is clear that democracy has not become a condition for foreign aid. For instance, six of the United States top ten aid recipients are regarded as "not free" by Freedom House and three as "partly free." The final recipient is Israel. Aid is not having a positive effect on democracy as some countries have failed to make any gains or even become more undemocratic, such as Russia or Ethiopia. Some aid could be argued to be single handedly propping up an undemocratic regime, as in Egypt, or primarily taking the form of military aid, as in Israel. Bilateral aid from other Development and Co-operation Directorate (DAC) members also tends to flow to projects which garner the greatest benefit to themselves or to the countries which they share the closest ties. For example, Sweden tends to target aid to

developing countries with “progressive” societies and social policy (Riddle, 1995, p.14-15). As with the previous regime, donors have retained an overriding control of foreign aid policy as western dominated institutions such as the World Bank and DAC prevent recipient nations from becoming equal partners.

Table 1. The Four Foreign Aid Regimes.

	Important institutions	Donor focus	Types of aid	Effect on Democracy
Pre-WWII	U.S. and colonial governments	Self interested export promotion and resource acquisition	Food aid and infrastructure assistance	Minimal
Marshall Plan	U.S. and Multilateral orgs. Ie: the UN	Reconstruction and Democracy.	Plan aid. Ie: Marshall, Colombo	Solidified and promoted numerous democracies
Cold War	Super powers and bilateral aid	Ideaology and security	Bilateral military and finacial aid. + programme aid, and debt relief, fall in food aid	Harmful. proxy wars
Contemporary	Conditionality, NGO's, end of Soviet aid	Humanitarian and poverty alleviation, opening of devloping markets	Rise of NGO's. democratic and economic conditionality. Millenium goals	Limited positives with significant negatives.

Throughout the four regimes, democracy has held varying degrees of importance. In the contemporary regime, democracy-oriented foreign aid policy has been given new life. Bilateral and multilateral donors no longer see democratic development as a caveat to or consequence of development policy but as an essential partner to economic and overall development. Democracy promotion is growing in importance to foreign aid programs but is, by no means, the most important goal of foreign aid policy. The following section considers the effects of democracy promotion.

#### 4. Democracy Theory and Democracy Promotion:

This next section of the paper introduces democratization theory and democracy promotion by drawing on recent literature from Jean Grugel, Gordon

Crawford and Laurence Whitehead, among others. The intent is to address the ability of the contemporary foreign aid regime to encourage democratization in the developing world. All three authors recognize the increased importance that democratization has gained in development policy since the Cold War. They also recognize its limitations and failures. A definition of democracy was not included in this section as this paper is not concerned with the ability of foreign aid to create a minimalist or complete democracy but rather its ability to incur negative effects on democratization.

Jean Grugel in her book “Democratization” (2002) concludes that the “hyperglobalizationist” view that democracy can be cultivated and consolidated through external forces is false. Throughout the history of development studies the idea that foreign aid, foreign direct investment, capital diffusion, and even globalization would start and sustain democratic development has persisted (Lipset, 1959; Leftwich, 1996; Parsons, 1951; Rostow, 1960; Roxborough, 1979). All of these scholars believe that economic development and capitalism are precursors to democracy and, consequently, that support for economic development is support for democratic development. For instance, in one of the most recent contributions to modernization theory, Leftwich (1996) states that the West should support regimes promoting economic development whether they are democratic or not because economic development lays the groundwork for lasting democracies. Conversely, Grugel (2002; p.1, 139) argues that, at the very most, global pressures are responsible for the prevalence of democracy as an international concept and subject of debate. She points out that where democracy is successful it is nationally determined and is due to “Strong, dense and vibrant civil societies that work consistently to democratize politics and to hold the state accountable, and the existence of a capable and flexible state.”

With the end of the Cold War, democracy became a crucial goal of most development programs. Since 1990 foreign aid has become a tool for the promotion of democracy for states and international organizations. U.S. and other western governments often support democratization for security, economic and ideological reasons. Government aid programs in the West must continually justify their development programs and the funding they receive. The result of this is that aid is directed at the most high profile cases and not necessarily at the most beneficial ones. International organizations, such as the World Bank, have changed their focus from solely economic development in the 1970’s to include social and democratic development in the contemporary foreign aid regime. Good governance is now seen as fundamentally linked to economic liberalization at the World Bank. As such, democratic conditionality has become a common tool used by the World Bank, IMF and other development institutions. However, as Crawford (1997) argues, conditionality is unlikely to promote democracy for a number of reasons. Firstly, it is often trumped by Western security and economic concerns, meaning that sanctions are not followed through or aid is given regardless of regime behavior. Secondly, where sanctions are carried out it is often on the poorest countries and to the detriment of social networks and social cohesion.

Apart from conditionality, Whitehead (1996) recognizes “Contagion,” “Coercion” and “Consent” as the three main forms of externally influenced democratization. Contagion being reliant on domestic elites to promote democracy

and coercion ignoring the need for democratic grass roots, Whitehead sees consent as the only viable option. The consent transition is a democratic transition promoted from without but with an internal structure conducive to democratic ideals and able to engage in long and arduous process of its consolidation. He believes that democracy programs aimed at countries with embedded authoritarian foundations are fruitless given that modest and short-term aid programs have little ability to influence generation old traditions.

As Grugel (2002) and Ndegwa (1996) argue, support at the local level by NGOs and other organizations may be harmful to states in transition. Their suggestion is that as NGOs become more reliant on foreign funding they become less responsive to local development needs and more responsive to the perception of western fundraisers. According to Grugel (2002, p.137) “It is unlikely that small incremental improvements on the local level will, on their own, achieve a democratization of the state. They could even develop new sets of problems. Social demands might outstrip state capacity to deliver, for example, leading to disillusionment with democracy’s capacity to ‘get things done.’ ” These are legitimate concerns. Therefore, while it is ill-advised to disregard all democracy-oriented aid as ineffective, it is important to realize that it alone is not sufficient for democratization.

Since 1990, there has been a great surge in democracy-oriented aid coupled with a global trend of democratizations. The amount of aid given, the number of programs carried out or the amount of international support supplied to a country seems to have no direct relationship to its democratic consolidation (Grugel, 2002). Nevertheless, democracy promotion continues to gain popularity as a foreign policy tool in the West for a number of reasons. Democracy-oriented aid has the ability to be used as a tool by the West to maintain control over regimes with important economic and security advantages. The change in the international environment has made foreign aid programs to “friendly,” but authoritarian, regimes unfashionable. Democracy promotion may be a means for the proliferation of western democracy, capitalism and ideology; or, it may simply be based on western naivety to the complications of democratic transitions (Carothers, 1991).

Democracy promotion and democracy-oriented aid has a number of drawbacks and flaws associated with it but it is unlikely to be a major reason for democratic failure in a country. Other forms of aid, on the contrary, do have the ability to severely damage the democratization process or strengthen an authoritarian regime. The following section of the paper outlines how foreign aid hinders democratization. Examples are separated into a typology of the four main ways in which foreign aid has deterred or retarded democracy and is then analysed. The typology has been created by the author.

## **5. A Typology of Democratic Hindrance by Foreign Aid:**

### **(5.1) Foreign Aid and Political Legitimacy**

Whether it is humanitarian, developmental, or military aid, the mere presence of foreign aid often supports authoritarian regimes or makes democratic reform less essential. The first type of hindrance caused by foreign aid for democratization is the *political legitimacy* it supplies.

During the Cold War foreign aid regime, authoritarian governments were often propped up by bilateral donors (mainly the United States and Soviet Union) for political and security motives. Friendly regimes, be they democratic or not, were supplied copious amounts of aid in order to maintain their regime domestically and secure their loyalty to the donor. This type of patrimonial aid was an obstacle to democratic development in many countries (Brown, 2005). In the contemporary foreign aid regime, this practice has become less common with the end of the Cold War. Nevertheless, foreign aid continues to be used as a foreign policy tool. Michael Todaro (2006, p.724) explains that, regardless of the level of democracy or relative need of potential recipients, Western donors continue to use foreign aid to prop up or underpin regimes they perceive as being in their national interest. He points out that in many situations “Aid is seen by both the donor and the recipient as providing greater political leverage to the existing leadership to suppress opposition and maintain itself in power” (p.728).

While foreign aid is sometimes used directly and knowingly to support a recipient regime, it is often an indirect effect. Even in cases where donor organizations are unhappy with the undemocratic practices of a regime, foreign aid often still acts as a buttress to its political consolidation. This is because most aid goes to government which strengthens its position relative to the private sector in general economic activity. Democracy and freedom are unlikely to develop or consolidate in an environment where the public sector has control of the majority of economic activity. And, government accountability, and consequently, civil society are undermined by substantial aid flows as governments become more dependant on donors and less responsible to the people (Friedman, 1958).

At different points in their respective histories, regimes in Egypt, Pakistan, The Philippines, Ethiopia, South Africa, Haiti and Uganda, to name a few, have been directly or indirectly supported by foreign aid. The dictatorial Mubarak regime in Egypt has consistently been one of the largest recipients of U.S. foreign aid, accumulating \$50 billion in total since 1975. Through foreign aid, the U.S. has gained stability in Egypt and in the region while to the Mubarak regime “Aid offers an easy way out for Egypt to avoid reform...they use the money to support antiquated programs and resist reforms,” according to Edward Walker, the U.S ambassador to Egypt from 1994 to 1998 (cited from Brown, 2004).

The military regime in Pakistan has gained greater international legitimacy since the U.S. declaration of the War on Terror. In return for its support of the U.S. in the War on Terror, Pakistan has been given amnesty from U.S. aid sanctions. Foreign aid to apartheid South Africa, before sanctions began, were seen as legitimizing that regime. In Kenya, bilateral donors knowingly supported flawed elections in the 1990's and even suppressed domestic efforts to create a new more democratic political system (Brown, 2001). In effect, donors often endorse severely flawed elections if they show some semblance of being free and fair. In nearby Uganda, foreign aid donors have praised the economic successes of the corrupt Museveni regime and lavished it with huge sums of foreign aid. This praise and financial support has been vital to the Ugandan government's consolidation of power. As Mwenda and Tangri (2005, p.453, 463) argue, the financial aid alone has allowed the government in Uganda to increase spending on law and order, healthcare, education

and infrastructure which has been instrumental in boosting the popular legitimacy of this increasingly corrupt and undemocratic government. More importantly, as will be shown later in this paper, a large portion of foreign aid in Uganda has been used to support an increasingly extensive patrimonial system from which the Museveni regime receives the majority of its support.

Aid to Uganda and Haiti has been less political but similarly destructive to democracy. These types of cases are particularly interesting as the program goals are more focused on development and less on donor self interest; however, the result has been the retrenching of authoritarian practices.

Haiti is an excellent example of how foreign aid, even humanitarian aid, has helped to prop up authoritarian rule in the contemporary foreign aid regime. Roger Riddle explored foreign aid under the Duvalier regime in his 1987 book "Foreign Aid Reconsidered." Haiti has remained one of the poorest countries in the world for decades. With a population of 8.3 million, Haiti is 194<sup>th</sup> in GDP per capita at \$1,600, has an infant mortality rate of 71/1000 and an average life expectancy of only 53 years (World Development Indicators – Online). As Haiti does not produce enough of its own, food aid is significant.

Under the Duvalier regime, multilateral aid was provided by the World Bank, FAO, UNDP, UNICEF, and the WHO. Bilateral aid came primarily from the United States, Canada, West Germany and France in the form of official aid. However, these countries often funneled aid through voluntary aid organizations in order to avoid wasteful corruption within the government administration. The need for aid to be directed around the ruling apparatus is due to its sheer malevolent nature. A visiting Canadian parliamentary committee called it a "Kleptocracy in which anything of value is liable to be appropriated by the ruling elite and their officials at every level of the system," (Prince, 1985).

According to Riddle (p.260), providing a bilateral aid program to Haiti is said to have supplied the Duvalier regime with political legitimacy and, indirectly, with approval of its, often violent and repressive, policies. Conversely, Riddle points out that these types of diplomatic relations are complex and not simply a question of supporting or not supporting a regime. Nevertheless, as has been seen since 1987, bilateral western support of outright tyranny in Haiti hasn't helped to foster popular confidence in democratic ideals. This support allowed the Haitian government to maintain its system of oppression and patrimonialism and has left a legacy of power politics that the country continues to struggle with. Humanitarian support should have been directed more precisely around the government. If it could not be used responsibly, direct bilateral aid should have been withdrawn. In one case, half of the money for a \$17.7 million CIDA development program was spent on an administrative payroll. Half of the 700 employees on salary did not actually work on the project (p.255).

Internationally, the United States and Canada were rightfully seen as promoting an autocratic regime through continued funding in the 1980's. Eventually, Canada did remove a number of its connections to the Duvalier government. Later, the United States stopped its aid flows to Haiti and was involved in the 1986 ousting of Duvalier. In 1991, the U.S. again stopped aid flows to Haiti and between 1999 and

2004 no new aid flows were sent to Haiti due to political instability and fears of corruption.

A sustained withdrawal of aid flows to Haiti may have hurried the demise of the Duvalier regime. It is clear that foreign aid supported the regime and the country's elite through international legitimacy and financial support. Democratic reforms are unlikely to have occurred if the regime had retained power and any democratic society remaining would have been smothered. However, according to Riddle (p.261), the domestic civil society and democratic structure were never in place for the birth of a successful democracy after Duvalier and, as such, aid withdrawal would not have fostered a transition to democracy.

Cases such as Haiti, Egypt and Kenya illustrate how easily foreign aid can be transformed, directly or indirectly, from a humanitarian or development tool into a political one. By supplying financial and technical support, donors are often providing political leverage and implicit support to undemocratic regimes and behavior in the third world. The ability of foreign aid to prop up governments and discourage domestic opposition by its mere presence should not be dismissed.

#### (5.2) Recipient Foreign Aid Corruption

As has been shown above, the mere presence of international foreign assistance can consolidate a regime's power. However, a corrupt and undemocratic regime will often be able to expand the benefits of foreign aid by using it to expand its power base and ensure regime longevity. *Recipient foreign aid corruption* is the next way this paper presents in which aid hinders democracy.

It seems logical that foreign aid should be directed to the least corrupt governments to ensure that it is used in the most effective and efficient way possible. During the previous three foreign aid regimes corrupt recipient administrations were a non-issue as they were either colonial, non-corrupt, or political and strategic allies. During the contemporary regime, corruption has been recognized as a serious problem for development, both economically and democratically. Donor rhetoric has emphasized the need to fund the most progressive regimes to prevent waste through corruption. However, as a number of scholars have noticed, there seems to be no correlation between recipient corruption and bilateral and multilateral aid flows (Alesina, and Weder, 2002; Mauro, 1995; Svensson 2000).

In an earlier paper, Svensson (1999, p.293) argues that aid in countries with insufficient political and civil liberties is often used by the government for self-promoting and unproductive projects. In corrupt environments, foreign aid sustains undemocratic practices, wastes resources and generally flows to the powerful at the expense of the poor. In many cases, aid is used for supporting over-extended bureaucracies, over-sized airports, palatial parliamentary buildings and non-essential monuments to the ruling class. In the worst cases, aid is simply sifted into the pockets of government officials and their local cronies (Todaro, 2006). Even if foreign aid is used for development programs, it often ends up producing poorly planned showcase projects. Examples of roads being built and going unused are not unusual in cases where aid is seen as a tool for fostering political support by recipient governments (United States Congressional Budget Office, 1997).

Some critics of foreign aid contest that aid actually promotes corruption and worsens bureaucratic quality, especially in heterogeneous societies (Knack, 2001; Svensson, 2000). Foreign aid provided through centralized, donor-recipient transactions increases the size and importance of the recipient government. With more aid a recipient government can potentially increase government spending and, consequently, its role in the domestic economy. Tanzi (1994, p.68) argues that “The more pervasive the role of the public sector (through regulations, taxes, spending etc.)...the greater will be the scope of corruption.”

For obvious reasons corruption does not foster strong democracies but, more importantly by financing corruption, or even increasing its scope, foreign aid allows corrupt and undemocratic regimes to consolidate their power. With increased funding, authoritarian governments are able to survive by using aid resources to co-opt or repress opposition and reward loyalty through patrimonialism. By handing out state resources such as jobs, loans, contracts and social services political elites are able to purchase and maintain support from those they wish (Sandbrook, 1985). Patrimonialism has been vital to the survival of numerous authoritarian regimes in the past and continues to be a practice supported (indirectly) by the contemporary foreign aid regime. This is especially true in Africa, where patron-client legacies are strong, but is also present in many other developing countries.

Indonesia under the Suharto regime is a good example of how, even food aid, can hinder democracy when corruption is present. Under the democratically ignorant Cold War regime, the United States began supplying Indonesia with rice and cotton through PL480 (a concessionary program aimed at promoting U.S. export commodities). The goal was to deter Communism but a side effect of this policy was increased corruption. The Indonesian ruling class was able to use this food aid to consolidate its domestic power by rationing out rice to all military personnel, government officials and the employees of public corporations (Bennet, 2001). In effect, the Indonesian government was able to buy domestic support with U.S. food aid. The U.S. government stopped PL480 in Indonesia in 2001, citing poor performance.

The “Oil for Food” program in Iraq gives another example of how food aid can be used by an authoritarian regime to consolidate power. While the UN made a concerted effort to control the distribution of food aid, and was mostly successful in the Kurdish and Shi’ite regions, Saddam was still able to control large portions of the distribution. The food aid that Saddam controlled was dispersed as he pleased. It was used to reward loyalist and punish dissenters. The influence he wielded through his control over limited food supplies was quite large. According to Bengio (2000), it was instrumental in his holding onto power and a major reason that sanctions didn’t work to force him out of power as the U.S. had hoped.

In Africa, post-independence rulers have employed diverse means in order to strengthen their grip on power. State patronage systems have been a pillar in this process. Countries such as Ethiopia, Ghana, Kenya, Uganda and Zambia, to name a few, have used foreign aid to subsidize patrimonialism according to Brown (2005). Western donors have begun to recognize some of the faults in African foreign aid policy and have begun to adjust it accordingly. Conditional aid to a number of

recipients is now focusing on curbing corruption and decreasing the role of the state in the economy. The hope is that by minimizing government employment, regulation and spending, patronage will be less likely to occur.

As has been touched on before in this paper, conditionality is a complex and difficult to use policy option. The same countries Brown mentioned above have all managed to provide superficial reform in order to maintain donor sponsorship (p.184-185). In their 2005 paper “Patronage Politics, Donor Reform and Regime Consolidation in Uganda,” Mwenda and Tangri site Uganda as an example of how foreign aid can create a patronage government despite conditionality.

In large part due to its recent economic successes, the Ugandan government has received a considerable amount of multilateral and bilateral aid. Geo-political motives are behind large contributions by the United Kingdom and United States. The scope of this aid is enormous for a country of fewer than 30 million people. In 2000, Uganda was granted nearly \$2 billion in debt relief (World Development Indicators – Online) and in 2003, bilateral aid amounted to approximately 50% of the Ugandan budget (Mwenda and Tangri, 2005).

This aid has been used to prop-up Museveni’s corrupt semi-democracy in a number of ways. Foreign aid has funded the expansion of an extensive government bureaucracy and political system. According to Mwenda and Tangri, this expansion has “Permitted Uganda’s leaders to rely on state patronage and the distribution of public resources to maintain themselves in power” (p.463). Donor sponsored reforms have given public officials in Uganda more control over resources by granting them widespread authority over their implementation. Through their control over reform, state officials have been able to make patrimonial public appointments and allocate public resources in exchange for loyalty and support. In this way, Mwenda and Tangri explain, Uganda’s quasi-authoritarian elites have garnered greater political support for the government and have diminished the potential of democratic reform.

At the local level, increased funding supplied by foreign aid has allowed local officials to hire their supporters into the expanding regional bureaucracy. In addition to securing their own local support, regional officials have been able to use their resources to mobilize support for the government during election time (p.458). Nationally, government has been expanded through the cabinet (from 21-67 members between 1994-2001), through the legislature (from 38-304 members, between 1986-2001), and through the military (from 40,000-56,000 personnel between 1995-2003). As these national organizations expand they, in turn, are given greater public resources to allocate and more positions to hand out. These positions are often filled on the basis of government loyalty and not on merit, further hindering economic and democratic development. As said in an editorial by “The Monitor” (18 May 2001), donor aid programs have created a “vast subsidy” to “an otherwise puny budget” allowing Museveni “to turn government into a long gravy train.”

In summary, while Uganda has been a model for African economic development, its democratic development has been hampered by foreign aid and the corruption it has fuelled. Many developing countries present similar scenarios. It is difficult for donors to keep track of aid as it moves through relatively non-transparent and corrupt regimes. Contemporary financial aid will continue to prop up

authoritarian regimes in the developing world as long as it is directed at expanding or supporting government bureaucracies, agencies and the military.

### (5.3) Foreign Aid, Conditionality and Instability

Foreign aid can bring about economic and political stability in developing countries. It can supplement government budgets, prevent famine, increase literacy and per capita income levels (Lipset, 1959; Knack 2004), all of which are favorable to stability. Conversely, this next section of the paper illustrates how *un-tied and conditional aid can be destabilizing* to transition democracies.

Out of the 25 cases of politically-conditioned aid in Africa, 17 have failed. Out of the eight cases that did show progress, several of them (Central African Republic, Malawi, Madagascar) regressed into states of civil war or ended in military coups (Bratton and van de Wall, 1997). Political, as well as economic, conditionality can have severe and unintended destabilizing effects on developing countries. Conditionality undermines government authority as western donors begin to make economic and political policy. Donor designed SAPs (Structural Adjustment Programs) can actually damage the roots of democracy by hurting health, education and economic growth. According to Brown (2005, p.187), “Many donors...advocate economic measures, such as user fees, that make education and health care even less accessible to poor Africans.” The “Development Gap,” insists that SAPs in Mexico and Nicaragua have led to massive increases in un- and underemployment, wage reductions and the loss of essential public services (Hansen-Kuhn, 1995; Heredia and Purcell, 1994). By exacerbating social conditions and inequalities in this manner, stability and democratic consolidation are jeopardized. These measures and SAP induced economic crisis create popular discontent and political instability. The mere presence of foreign aid may also increase expectations which, when not met, lead to greater democratic frustration. Mexico, Nicaragua and much of Africa represent examples of how structural adjustment programs and political conditionality from bilateral and multilateral donors (most notably the IMF) have resulted in the deterioration of social conditions (Bratton and van de Wall, 1997; Hansen-Kuhn, 1995; Heredia and Purcell, 1994).

Developing countries that possess heterogeneous populations are even more susceptible to the harmful destabilizing effects of conditional aid. The reforms implemented through political conditionality can cause interethnic violence as rival groups compete to maintain or increase political power. Transitional democracies in Burundi, Kenya and Rwanda have been witness to this (Brown, 2005). In 1994, 800,000 Rwandans became victims of a genocide perpetrated by an ethnic power struggle as the country began to democratize. In general, coup attempts and political instability become more likely when aid receipts make government control a more attractive reward. The breakdown in Somalia is an excellent example of this.

Since 1991 and the fall of the Mohamed Siad Barre regime, Somalia has endured a state of virtual anarchy. Ethnic clans continue to struggle for control of territory, which range in size from swaths of farmland to city blocks. In a number of ways, foreign aid and western interference contributed to this situation as Michael Marren, a former relief worker turned journalist, explains in his 1997 book “The Road to Hell.” Relief aid in Somalia helped bring to power and then support Siad Barre’s

dictatorship. It also contributed to the famine in 1991 and 1992. Marren contends that after years of supply-driven dumping of food aid in Somalia, domestic agriculture was not prepared to support the population when food aid began to slow. Political instability ensued and the government collapsed as rival gangs began violent competition over new food aid. While an extreme example, Somalia illustrates how tempting control of aid can be and how quickly it can lead to violence and regime failure. The case shows how, if supplied irresponsibly, foreign aid can destroy any chance for democratization.

Political and economic instability are clearly not conducive to democracy. As this last section has shown, foreign aid can cause instability in a number of ways. Conditional aid can undermine government authority as donors begin to make important decisions. Donor designed SAPs can damage the quality of health care and education. The increased expectations that come with aid projects can lead to popular discontent and disillusionment. And, as in Somalia, foreign aid, and the political conditionality and economic reform that come with it, can exacerbate interethnic violence.

#### (5.4) Donor Interested Aid

During the Cold War foreign aid regime donor interests persistently trumped the humanitarian or development interests of the recipient. It can be argued that, despite donor rhetoric, this trend has continued. Whether it is aimed at maintaining regional security, fighting Communism, the “War on Drugs,” or the “War on Terror,” *donor interested aid* is almost always detrimental to democracy.

Donor self interest has remained a problem of most western countries foreign aid policy. According to Schraeder (1998, p.321-22), commercial interests have become increasingly influential to the foreign aid policy of America, Japan and Sweden. And, in a in another 1998 study, it was found that there was no relationship between American foreign aid and the recipient’s democratic development or humanitarian need. It was instead closely correlated with security and economic interests (Hook, 1998). In Australia, counter-terrorism programs have recently been included in official foreign aid (Randel, 2004, p.5). This type of aid often comes in the form of military aid or internal security reinforcements. To the recipient governments, this aid has been vital to their consolidation of power. Often these are despotic, corrupt, violent and undemocratic regimes and, potentially, their survival and increased coercive power raises regional tensions. It can also be catastrophic to any of the country’s democratic ambitions and even those of its neighbors.

In 2004, the top ten recipient countries of gross bilateral United States ODA (Official Development Assistance) were: Iraq, the DRC, Egypt, Russia, Jordan, Afghanistan, Pakistan, Columbia, Israel and Ethiopia (OECD – Online, 2006). Most of these countries are important economically to the United States and all of them in terms of security. A majority of them are middle income countries and a great deal of the aid comes in the form of security assistance. It is not surprising that these countries top the list. The U.S. is currently carrying out military operations in Iraq and Afghanistan. Ethnic conflict in the DRC represents a major regional security problem in Central Africa. Egypt, Russia, Jordan and Israel are seen as instrumental to regional security. Pakistan and Ethiopia are important partners on the war on terrorism and

against “Islamic Expansionism.” And, Columbia is vital to the U.S. “War on Terror” (Todaro, 2006). However, in most of these cases, aid is hurting domestic and regional democratization.

Two particularly interesting cases of U.S. self-interested aid are Ethiopia (the only sub-Saharan African country) and Pakistan (the most recent recipient of U.S. aid). In Ethiopia, a semi-democratic and increasingly violent, single-party regime has taken over from a socialist but promising multiparty one (Harberson, 1999). Ethiopia remains one of the foremost recipients of U.S. foreign aid for a number of reasons. Firstly, the regime has engaged in an economic liberalization that is congruent with U.S. policy. Ethiopia is also seen as being the cornerstone to stability in the region, an opponent of “expansionist-Islam” and a “counterbalance” to the Sudanese regime (Young, 2004, p.20). The foreign aid that the Ethiopian government is receiving is arguably crushing a once promising democracy by supporting an increasingly repressive regime. The legitimacy and financial support the regime is receiving is potentially offsetting international calls for democratic reform. As Todaro (2006, p.728) explains, the problem with this type of aid is that, even if the Ethiopian government wished to reform it would not be able to because of the political and economic obligations to the donor. In other words, if the government wished to ease off its pro-market or anti-Islamist approach it would not be able to.

In 1990, all United States military aid and all civilian commitments to Pakistan ended because the U.S. congress failed to believe that Pakistan was not pursuing development of a nuclear bomb. In 1999, General Pervez Musharraf took power in a military takeover. After the Al-Qaeda attacks of 11 September 2001, Pakistan became an important ally in the fight against terrorism. The result has been an inappropriate end to the aid embargo against Pakistan’s military dictatorship (Brown, 2004, p.187). To democracy advocates, this can be seen a sad example of how donor interested aid can retard democratic development.

Donor interests will likely continue to be a detriment to democracy promotion in the developing world as long as security and economics continue to be the top interests influencing foreign aid policy. Governments accepting assistance, be it military, financial or humanitarian, will continue to be influenced by the demands of western donors. And, as has been shown above, these interests are not conducive to democracy.

## **6. Conclusion:**

Throughout the four foreign aid regimes presented in this paper, foreign aid has hindered democratization across the developing world. The contemporary regime has seen greater emphasis on democracy-oriented aid and political conditionality. Donor-recipient relations continue to be characterized by their inequality. Whether directly or indirectly, bilateral and multilateral aid programs help authoritarian regimes gain and consolidate power. Foreign aid provides autocratic elites with international legitimacy and can discourage opposition by its mere presence. Corrupt governments are able to use aid flows to subsidize extensive political patronage systems in order to gain and consolidate power. Political conditionality and donor designed economic reforms can create instability, which is detrimental to fledgling democracies. Finally, donor interests may compromise peaceful democratic progress

and restrict beneficial, domestic political and economic reform. As this paper has presented, these effects are not uncommon and have been especially damaging to a number of democratic experiments in Sub-Saharan Africa, Latin America and Asia.

This analysis should be interpreted with caution, however. By no means is it meant to label all foreign aid as negative to development, democratic or otherwise. As with foreign aid horror stories, there are numerous examples of humanitarian aid, development assistance, disaster relief, and donor sponsored economic reforms that create positive development experiences for both donor and recipient.

One of the weaknesses of this paper is its emphasis on sub-Saharan Africa and its relative disregard for South East Asia (an area which has generally witnessed greater development success). A cross country, multivariate analysis such as this provides only a general perspective on the influence of foreign aid on democracy. Identical results can not be expected from future aid projects and policy. A case study approach that more closely examines individual countries would be more effective in predicting future results for those countries. However, the paper does help to expose some of the inherent problems with the contemporary aid regime and some of the potential for democratically-oriented foreign aid.

The problems with contemporary foreign aid could be seen as insurmountable, especially in countries like Haiti. The amount of money spent and the number of projects completed in the name of democracy promotion seem to bear no direct relationship to the success of democracy. However, the evidence against aid and democracy promotion does not rationalize abandoning it. Nevertheless, the contemporary foreign aid regime does need to change if it is to become less of a foreign policy tool for the West and more of a democratic institution. The foreign aid environment needs to change so that donor-recipient relations are characterized by partnership and not inequality. Aid policy needs to become more sensitive to corruption and authoritarianism if conditionality is to become a successful mechanism for democracy promotion. Policy makers must become more aware of the destabilizing effects of foreign aid and adjust accordingly. Finally, if foreign aid is to have a positive impact on transitional democracies it must not be based on donor self-interest.

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Note In Brackets: (Volume, Issue, Page).

