

Foreign Aid, Human Rights, and Democracy Promotion: Evidence from a Natural Experiment

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Abstract: Does foreign aid improve human rights and democracy? We help arbitrate the debate over this question by leveraging a novel source of exogeneity: the rotating presidency of the Council of the European Union. We find that when a country's former colonizer holds the presidency of the Council of the European Union during the budget-making process, the country is allocated considerably more foreign aid than are countries whose former colonizer does not hold the presidency. Using instrumental variables estimation, we demonstrate that this aid has positive effects on human rights and democracy, although the effects are short-lived after the shock to aid dissipates. We adduce the timing of events, qualitative evidence, and theoretical insights to argue that the conditionality associated with an increased aid commitment is responsible for the positive effects in the domains of human rights and democracy.

Replication Materials: The data, code, and any additional materials required to replicate all analyses in this article are available on the *American Journal of Political Science* Dataverse within the Harvard Dataverse Network, at: <http://dx.doi.org/10.7910/DVN/PLLBQJ>.

The view that good governance is primarily a domestic affair has lost ground to an alternative view—that of an international community actively shaping rights and freedoms in states around the world.¹ A growing body of research points to systems of governance that are not *sui generis* but are substantially affected by international processes, yet the role of one of the international community's primary tools of influence, foreign aid, is a subject of considerable controversy. A central issue is that aid allocations are not

randomly assigned; donors give aid for reasons that are not independent of rights and democracy in recipient countries. Many motivations associated with foreign aid provision are likely unobservable, which can lead to bias in estimating the efficacy of aid in the absence of a clearly defined source of identification.²

We develop a novel approach to deal with the hitherto intractable problem of endogenous aid allocation, helping to unpack how aid works as part of a complex interaction between international institutions and recipient

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¹Election observers and peacekeepers have challenged state sovereignty (Donno 2010; Hyde 2011), and coups against elected leaders are now less legitimate (Goemans and Marinov 2014; Levitsky and Way 2010). International organizations, too, often push states toward better governance and freer societies (Carnegie and Samii 2017; Simmons 2009), as do many domestic tools (Carnegie 2015; Hafner-Burton 2013; Pevehouse 2005).

²Field experiments tend to remain small-scale, though this may be changing (Prather 2014). Our approach is distinguished from other instrumental variables strategies for the causal effects of aid, as without exact knowledge of the assignment process for instruments such as price shocks and legislative composition, these instruments may suffer from unobserved heterogeneity. See Sekhon and Titiunik (2012).

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countries. By focusing on a theoretically relevant institutional provider of large amounts of development assistance, we leverage features of the policymaking procedure to recover quasi-experimental variation in aid allocation. We identify an as-if random process that drives aid allocation but is otherwise unrelated to rights and democracy in recipient countries: the rotating presidency of the Council of the European Union. Since the country holding the presidency is determined by a known and essentially random rotation principle, so too is the set of countries that happens to include the country holding the presidency's former colonies. We show that when a country's former colonizer holds the presidency during the budget-making period, that country is allocated considerably more European Union (EU) aid. The EU's aid allocation system is highly bureaucratic; while the Council budgets the aid, a separate entity—the EU Commission—is responsible for its disbursement. We find that when the Commission is given more aid designated for particular countries, recipient countries then respond to these incentives by immediately undergoing visible reforms, but not necessarily altering institutions. Instead, much as the increase in aid is short-lived, so too are its effects.

Our study speaks to theoretical questions about the efficacy of conditionality in promoting human rights and democracy. The timing of the observed effects (i.e., nearly immediate and short-lived) suggests that positive conditionality is operative in promoting these reforms. Taken together with qualitative evidence on the nature of the interaction between the Commission and recipient countries, our results indicate that the Commission is able to use the increase in aid commitments as leverage to incentivize reforms in the areas of human rights and democracy. Recipient countries then respond to these incentives by rapidly altering their behavior. Their reforms are short-lived because the aid boost only provides the Commission with greater leverage temporarily, and once the increased ability to incentivize reforms with disbursements is removed, countries revert to prior behavior. Our findings point to important conditions for the efficacy of multilateral aid, informing the debate on the impact of the international community's promotion of democracy and human rights in recipient countries.

The European Union and Positive Conditionality

Our study reconsiders a fundamental question in the foreign aid literature: Does aid serve as an effective incentive for democratization and respect for human rights

in recipient countries?³ The efficacy of foreign aid, in general, is widely contested. While some work suggests a positive relationship between aid and political liberalization, particularly in the post-Cold War period (Bermeo 2016; Dunning 2004; Fearon, Humphreys, and Weinstein 2009),⁴ other scholars argue that foreign aid has either no effect (Knack 2004) or a negative effect on rights and democracy (Alesina and Dollar 2000; Burnside and Dollar 2000; Dreher et al. 2013; Schraeder, Hook, and Taylor 1998). Still others suggest that aid has a conditional effect, which depends on the incentives of external and domestic actors (Krasner and Weinstein 2014, 126).

This article focuses on EU aid, asking whether countries receiving more of this aid are more likely to democratize and to respect the rights of their citizens.⁵ As a multilateral institution dedicated to the promotion of democracy and human rights by virtue of its founding and subsequent treaties, the EU sits at the intersection of debates on democratization, democratic conditionality, and delegation. Further, as an important actor in world affairs, the EU provides large amounts of aid to a wide array of countries, which is often conditioned on a recipient's respect for human rights and level of democracy (Dunning 2004).

Indeed, since the end of the Cold War, the EU has emphasized positive conditionality in its foreign relations, demanding respect for human rights and democracy in return for foreign aid and other benefits. The idea is that a bigger pot of money can provide ruling elites with a greater incentive to accommodate at least some of the Commission's demands for reform as the price of receiving it. Governments often rely on aid to maintain patronage and services, and thus additional aid can help them to stay in office. Or, governments may desire aid simply because they value having more money to spend. Offering greater amounts of aid as a reward for liberalization might thus allow the Commission to better extract

³We deliberately focus on political liberalization defined broadly: inclusive of progress on human rights and democratization. We follow a Dahlian definition of democracy, where greater participation in structures of power and contestation of executive office indicate a more democratic society. We also follow Del Sarto and Schumacher (2011) and others who argue that human rights should be conceived of most importantly as "civil and political rights," which include legal standards, freedom of speech, freedom of movement, freedom of religion, freedom of assembly and association, the sanctity of the private home, and nondiscrimination (Del Sarto et al. 2007).

⁴However, aid may have become more "tame," failing to achieve regime change (Bush 2012).

⁵Here, EU aid refers to European Community aid only, which is the assistance that comes out of the pooled money at the EU level and is under the EU's administration.

changes, or can even permit it to request additional reforms; states may be willing to pay a greater cost to reap a greater benefit. Further, even if recipient governments do not implement reforms sincerely, making policy changes can alter domestic expectations, creating pressure to open up further (Dai 2007). Alternatively, the public may not favor reforms, but might tolerate them in order to receive the services that the aid can bring. Thus, just as the EU successfully used the large prize of EU membership as a carrot to induce democratic changes (Pop-Eleches 2007), it may be able to hold out aid to a similar effect.

While such pressure aims to alter behavior, target countries may respond either by adjusting their actions or by changing the institutions producing such behavior. The latter would yield more durable changes, but it would be costlier to implement than the former. Hence, larger bribes, and greater tenacity in outside cajoling and monitoring, are often required to facilitate institutional change, without which such behavioral changes may be short-lived. It remains an open question whether EU aid is able to spark any changes, and, if so, whether it represents a large enough incentive to alter institutions.

Of course, recipients may differ in their propensity to make such changes, along with the types of reforms they undergo. Put differently, increased available aid may not impact all potential recipients equally. While there exist a variety of potential ways in which aid could impact states differentially, we highlight the impact of alternative revenue sources as a particularly interesting factor. When states have funding outside of EU aid, they may value aid from the EU less and thus be less willing to respond to EU pressure. Instead, states may simply rely on other donors or revenue streams if the EU does not provide the promised aid as a result. Knowing that these states have such an option, the EU may impose less stringent conditions in the first place.⁶

Generally speaking, however, EU aid may be more effective at inducing reforms than aid from other Western donors. Indeed, the EU's multilateral nature and delegation of nontrivial powers to a network of supranational institutions may make its conditional commitments more credible, as delegating aid provision to international organizations can result in aid flows that are relatively free of short-term domestic political pressures (Milner 2006; Rodrik 1995). Further, the EU designates much of its aid for specific projects designed to strengthen political

reforms in recipient countries, which can affect rights and democracy directly by building civil society or strengthening institutions.

However, the EU's efforts to promote democracy and human rights through its aid giving face well-known problems. For instance, while the EU spends the largest amount of aid in its neighborhood—where positive conditionality has been the key approach (Del Sarto and Schumacher 2011)—qualitative accounts have argued that this strategy has not led to many noticeable improvements (Holden 2005). These accounts attribute the purported lack of progress to two main factors: First, authoritarian resilience to reforms stands in the way of EU attempts to promote political liberalization (Teti, Thompson, and Noble 2013). Highly restrictive atmospheres that work against change and other adverse domestic conditions may thus represent inopportune conditions for EU funds (Çelenk 2009). Second, policy ambiguity and inconsistency complicate efforts to promote clear objectives. In particular, the EU does not clearly define *democracy* or *human rights*, due to the contested nature of these concepts (Del Sarto and Schumacher 2011). The long chain of command subverts the EU's goals as the numerous agents involved in the policy process carry differing interpretations of these objectives (Bicchi 2010). Moreover, the EU's prioritization of its security interests, which often contradict its aid priorities, contributes to policy ambiguity as well (Youngs 2010). Thus, while a large literature traces the success of liberalization in Eastern Europe to the powerful forces of European integration (Kelley 2004; Levitz and Pop-Eleches 2010), the question remains whether the EU can foster liberalization even when the prize at stake falls well short of the substantial benefits of full EU membership.

Our research design allows us to adjudicate this important debate using a novel approach. Moreover, our concentration on multilateral EU aid also permits us to follow a particular aid-giving procedure in detail, facilitating a nuanced interpretation of the role of international institutions in promoting human rights through the incentives provided by foreign aid. In particular, we show that the rotation principle of the Council produces short-term increases in aid commitments directed toward countries favored by the state holding the presidency. Importantly, the Commission is then given great discretion in disbursing these commitments. Our results are consistent with a mechanism under which the Commission is able to leverage these short-term increases to aid allocations to promote reforms in recipient countries. To flesh out this process, we consider the role of each of these bodies in turn.

⁶Scholars have investigated this idea, asking, for example, whether increased aid from relatively new donors such as China undermines the goals of traditional donors. See Walz and Ramachandran (2011) for a review.

The Council and Former Colonies

In principle, policies such as foreign aid are delegated to the EU because, as a multilateral institution, the EU is perceived as providing aid in a more objective, nonpartisan manner (Milner and Tingley 2013). However, the EU is composed of individual member states whose policy preferences may differ from those of the EU as a whole. As a result, we expect individual EU member states to attempt to move policies closer toward their own preferred positions.

The Council is often best positioned to do so. It is composed of high-level political representatives of the member governments, and because the ministers represent individual member states, they have national, in addition to European, interests. One particularly salient national interest with respect to foreign policy is their preference to assist countries they favor. In particular, we expect that the ministers seek to reward their respective nations' former colonies, since former colonizers tend to have political, cultural, and economic ties to these states that stem from shared history, duty, economic benefits for their companies, political legitimacy, symbolic representations of international power, and familial connections (Arts and Dickson 2004).

One primary means through which the states may assist their former colonies is through EU aid. In fact, although the literature investigating donor motivations for providing aid disagrees on many points, a consistent, large, and uncontroversial finding is that former colonizers give disproportionate amounts of aid to their former colonies (Alesina and Dollar 2000; Holland 2002). This may be especially true within the EU, since EU aid represents a considerable supplement to members' own bilateral aid giving and allows them to share the costs associated with aid provision.

This favoritism can be readily observed in the Council ministers' actions. France, for example, shaped the construction of a special aid mechanism, the Yaoundé convention, which was composed primarily of its former colonies, to allocate them more aid. Similarly, the UK joined the European Community under the condition that EU aid be expanded dramatically to benefit former British dominions. When Spain and Portugal then entered in 1986, they demanded that Latin American and Mediterranean states, particularly their former colonies, receive increased development assistance (Arts and Dickson 2004). Indeed, opinions within the EU are still divided over which states to focus assistance on, with former colonial powers seeking to direct more aid to their former colonies, and other states such as Germany, the Netherlands, Finland, and Sweden

advocating broader aid policies (Arts and Dickson 2004).

The Presidency and the Foreign Aid Budget

The power to affect aid policy is not distributed equally among the ministers, however. Instead, the Council aims to avoid some of the difficulties associated with decision making through the institution of the Council presidency, which rotates every 6 months among the governments of the member states. When a particular state holds the presidency, the associated Council ministers adopt a leadership role. Given the ministers' favoritism toward their respective nations' former colonies, we expect that when former colonizers hold the presidency, they use this leadership position to support these states. Further, because the presidency's role is circumscribed in many respects, one particularly salient remaining means through which the presidency can provide such support is through increased foreign aid.⁷

Indeed, while the presidency exerts influence over the foreign aid budget, its influence in other areas is often severely limited for several reasons. Outside of the budget preparation, the presidency primarily performs administrative tasks that do not confer much influence, leaving little time for other activities. The presidency is also responsible for agenda items that are inherited or that arise for external reasons, curbing its discretion. Additionally, the short period of time that a particular country holds the presidency limits that country's potential impact. Further, as described previously, the presidency possesses few formal powers and operates under a "culture of consensus," such that it must obtain agreement from the other Council ministers on most issues (Westlake 1995).⁸

Due to these constraints on its influence, Council presidencies thus turn to aid allocation to favor their former colonies, as exemplified by many anecdotal accounts. For example, the Belgian presidency in the second half of 2001 placed former colonies in Africa high on the European Community's aid agenda and channeled additional aid to one of its own former territories, the Democratic Republic of the Congo.⁹ Similarly, the 2002 Spanish

⁷This expectation builds on prior work documenting increases in foreign aid correlated with participation in international committees, (e.g., Dreher, Sturm, and Vreeland 2009; Kuziemko and Werker 2006).

⁸In the supporting information, we describe the presidency's circumscribed influence over trade and security policies more specifically. We also further examine the presidency's powers over non-aid foreign policy areas in the empirical section of the article.

⁹The Democratic Republic of the Congo received new development aid in 2002 (which would have been budgeted the previous

presidency made a point of aiding its former colonies in Latin America (Bengtsson 2003; Manners 2003).¹⁰ Below, we demonstrate that this association holds systematically both across colonizers and over time.

How does the presidency direct this aid to its former colonies? Though the presidency is tasked with many jobs, of particular interest here is the presidency's influence over the adoption of the EU budget. The Council has the last word on compulsory expenditures, which include aid, and the presidency can control budgetary meetings (Tallberg 2003b), shape the agenda (Tallberg 2003a), mediate disputes that arise, and use its budgetary veto power to force concessions (Manners 2003). For instance, during the Finnish presidency in the second half of 1999, a budgetary dispute arose regarding the appropriate amount of funds to allocate to Kosovo. Finland mediated the dispute and negotiated a compromise that it favored. Additionally, the British presidency of 1998 presided over and mediated a number of budgetary reforms, including shifting regional boundaries and regional aid. It also lobbied to maintain regional aid to its preferred locations (Manners 2003).

Increasing the funds allocated to specific countries and programs therefore allows the presidency to boost the aid budgeted to its former colonies. We thus expect that holding the Council presidency causes former colonizers to budget extra aid for their former colonies.

The Commission, Aid Disbursement, and Human Rights

After the budget is agreed upon, it is then administered by the Commission, which is the executive body of the EU. While the Council is run by member states that often have explicitly nationalist goals, the Commission is staffed by economists, civil servants, and other professionals who tend to be less susceptible to national interests (Garrett and Tsebelis 1996). Thus, while former colonial powers have a variety of motivations in pushing for the allocation of more money to their former colonies, the Commission

year)—in part due to intense lobbying by the Belgian presidency (Loisel 2004). This aid was then given by the Commission, which attached many conditions to it. One of the key objectives was to set up democratic institutions. See "DRC: European Commission Resumes Development Aid," UN Office for the Coordination of Humanitarian Affairs, February 8, 2002. While the effects of the aid are difficult to disentangle from the effects of the peace agreement, the EU believes that the aid may have helped to establish legitimate institutions (European Court of Auditors 2013).

¹⁰This aid went to numerous human rights and democracy initiatives in Latin America. Examples include rehabilitating torture victims, strengthening democratic public institutions, and promoting prisoners' rights (EIDHR 2010).

develops common programmatic objectives for all countries receiving aid. In effect, even if a country is budgeted more aid, the Commission will follow the agreed-upon guidelines for its disbursements. Because the Commission allocates aid after the presidency responsible for the aid shock has left office, that presidency is unable to control the manner in which the aid is disbursed.

What factors affect the Commission's decisions about how to disburse the aid? The Commission uses a variety of political and economic criteria, but the factors particularly relevant to our study are those regarding democracy and human rights. Securing improvements in these areas has become an increasingly important goal for the Commission, particularly in the post-Cold War period (Portela 2012). While the Commission employs many tactics to try to elicit rights improvements, we highlight a particularly salient one: the use of conditionality. The Commission typically requires recipients to either enact or agree to enact reforms in order to receive the committed foreign aid (Arts and Dickson 2004), and it has progressively strengthened the conditions it attaches to aid over time.¹¹ These reforms are then undertaken, and their effects likely become observable after a brief delay. The length of the delay likely depends on whether reforms occur in the area of human rights or democracy, as these indicators are impacted differently by aid shocks. In particular, human rights reforms are often more amenable to quick changes since a government's policies can be altered with the passage of a new law or the implementation of a particular policy. For example, allowing freer speech and association or releasing political prisoners can occur right away and are relatively easy changes to observe. Democratic reforms tend to take longer to perceive, as holding a free and fair election—the central feature of a democracy—would only be ascertained at a specific point during an electoral cycle. Accordingly, we expect to witness human rights reforms within the first year following the aid disbursement, whereas we should detect democratic reforms within the first couple of years.

In sum, in the second 6 months of a given year, the aid is committed for the following year, which is influenced in part by the Council presidency. This budget is formed as the result of a largely nontransparent, bureaucratic process, in which the presidency exerts influence in a behind-the-scenes manner. Beginning in the year following the aid commitment, the Commission then disburses this aid. In other words, the presidency impacts the amount of aid for which a recipient is eligible, whereas the Commission determines how much aid the recipient actually receives. Finally, we begin to observe political

¹¹For an overview, see Börzel and Risse (2004).

reforms undertaken by recipient countries as they enact the policies demanded by the Commission in exchange for the committed aid.¹²

Identification and Theoretical Implications

To test our theory, we use a novel identification strategy based on the manner in which the position of the Council presidency is filled. While international institutions typically allocate leadership roles by nonrandomly selecting members for terms in office, the Council presidency operates with a previously agreed-upon rotation principle governing succession. In 1965, the EU stipulated that countries would hold the presidency for 6 months at a time, either from January to June or from July to December, and would rotate alphabetically according to each member state's name as spelled in its own language (Germany-Deutschland, Greece-Ellas, etc.). The remarkable aspect of this system is that it produces variation in who commands power in a manner that is not associated with nor dictated by power or politics. This creates an opportunity to exploit the mechanistic, as-if random assignment of countries to the office. In what follows, we use this observation as the basis of our empirical strategy.

Data and Model Specification

We measure overall respect for human rights using the human empowerment index from the Cingranelli-Richards (CIRI) Human Rights Dataset (Cingranelli and Pasquarello 1985). We choose to use the CIRI index because the data cover a large span of time and sample of countries.¹³ This variable is an additive index constructed

¹²Conditionality is not the only tool the Commission has to promote rights; rather, scholars also point to capacity building (Börzel and Risse 2004; Youngs 2001). However, EU policy papers and interviews with aid officials suggest that aid's ability to promote capacity building often takes years to appear, if it can be observed at all. The Commission explicitly recognizes this, as its 2008 guide cautions aid workers not to expect rapid changes in these indicators in response to their capacity building efforts, and provides examples illustrating the gradual nature of reforms. Thus, we highlight conditionality as a particularly plausible driver of reform.

¹³This variable is drawn from U.S. State Department Country Reports on Human Rights Practices, which often reflect the extent to which there were resources allocated to measuring abuses or programs in a given country, and thus rely on subjective expert analysis. We therefore also conduct robustness checks using alternative measures from Freedom House, as shown in the supporting information.

from the following indicators: Foreign Movement, Domestic Movement, Freedom of Speech, Freedom of Assembly and Association, Workers' Rights, Electoral Self-Determination, and Freedom of Religion. Because each of the constituent parts ranges from 0 to 2, the index ranges from 0, indicating no government respect for rights, to 14, indicating full government respect for rights. We focus on progress in human rights and democratization because, in practice, the EU demands both, making the exclusion of one or the other potentially arbitrary.

We follow a Dahlian definition of democracy, where greater participation in structures of power and contestation of executive office indicate a more democratic society. As is standard in the literature on democratization, we use the Polity IV combined score (Marshall and Jaggers 2014) as an empirical measure of this variable. Unlike binary measures of democracy, the Polity index provides considerable variation in recipient levels of democracy, which allows us to capture more subtle changes rendered by foreign aid. Though recent conceptual, methodological, and empirical innovation in the study of democracy has produced a wide variety of new measures of the concept (Coppedge et al. 2011), and we report results using alternative measures (such as the V-Dem indexes of democracy) in the robustness checks, our principal focus is on Polity both for tractability and best fit with existing studies. We trust that our approach to identification will prove useful to others to explore the promise and reach of the many new measures available.¹⁴ Polity scores are computed from measures of regulation and competitiveness of participation, openness and competitiveness of executive recruitment, and constraints on the chief executive and range from -10 to 10 from least to most democratic.¹⁵

We are interested in estimating the following model:

$$DV_{it'} = \beta_0 + \beta_1 \log(ODA)_{i(t-1)} + \sum_{k \in K} \beta_k I(i = k) + \sum_{j \in J} \beta_j I(t = j) + u_{it}, \quad (1)$$

where $DV_{it'}$ is a measure of rights and democracy for country i in year(s) $t' \geq t$, $\log(ODA)_{i(t-1)}$ is the

¹⁴This decision is also in keeping with our working definition of democracy, defined previously, which is broad and inclusive and goes beyond merely holding elections.

¹⁵The Polity score is calculated by subtracting a country's Autocracy score from its Democracy score. These latter scores each range from 0 to 10, and are constructed additively using the following variables, which are weighted: competitiveness of political participation, openness and competitiveness of executive recruitment, and constraints on the chief executive. The Autocracy score also incorporates the regulation of participation.

logged net EU official development assistance (ODA; in millions of 1995 constant U.S. dollars + 1) in year $t - 1$,¹⁶ $I(\cdot)$ is the indicator function (so that the two summations represent fixed effects for country and year, respectively), and u_{it} is an unobserved error term. If $\log(\text{ODA})_{i(t-1)}$ were randomly assigned—or randomly assigned conditional on the fixed effects—we could estimate β_1 , the marginal effect of a one log-unit increase in ODA, consistently with ordinary least squares (OLS) since $\text{plim} \frac{1}{N} \sum \log(\text{ODA})_{i(t-1)} u_{it} = 0$. This requirement is violated, however, since $\log(\text{ODA})_i$ is endogenous—aid disbursements are made in ways that are systematically related to the recipient countries' human rights, even conditional on fixed effects for country and year.

To solve this endogeneity problem, we use a two-equation instrumental variables model. As described above, EU Council presidencies have considerable influence over aid allocation and use this influence to funnel aid toward former colonies of their home countries. Since the country holding the presidency is random, so too is the set of countries that happen to be former colonies of the current EU Council presidency (conditional on being a former colony of one of the Council members). Before estimating Equation (1), we can use this source of randomness to first purge ODA of endogeneity by generating predicted values from the following “first-stage” regression:

$$\log(\text{ODA})_{i(t-1)} = \gamma_0 + \gamma_1 \text{Colony}_{i(t-2)2} + \sum_{k \in K} \gamma_k I(i = k) + \sum_{j \in J} \gamma_j I(t = j) + e_{it}, \quad (2)$$

where $\text{Colony}_{i(t-2)2}$ is an indicator variable for whether or not the country is a former colony of the EU Council presidency in the second 6 months of year $t - 2$, when the budget was determined.¹⁷

The coefficients from this first-stage regression generate predicted values of $\log(\text{ODA})_{i(t-1)}$, purging $\log(\text{ODA})_{i(t-1)}$ of endogeneity. For the two-stage least squares estimate of β_1 , we then regress DV_{it} on the predicted values of $\log(\text{ODA})_{i(t-1)}$ as well as the fixed effects. Importantly, $\text{Colony}_{i(t-2)}$ is excluded from the model for DV_{it} : $\text{Colony}_{i(t-2)}$ cannot affect DV_{it} except through its effect on $\log(\text{ODA})_{i(t-1)}$. This modeling assumption is known as the exclusion restriction, and it is necessary for statistical identification. We discuss this further below.¹⁸

Given the proposed model, we require two statistical assumptions for consistency. First, colony status must be randomly assigned (conditional on the fixed effects; Sekhon and Titunik 2012). The source of randomness is the exogenously determined rotation principle of the EU Council, as discussed previously. Second, γ_1 must be nonzero. This assumption is testable by looking at the significance of the estimated coefficients.

The specific nature of our identification strategy introduces several complications with which we must contend. First, the composition of the Council has changed due to EU membership expansion. The more countries that are eligible to hold the presidency, the less frequently that the presidency will be held by each country. We statistically correct for membership expansion by using year fixed effects.¹⁹ Second, some recipient countries are not former colonies of any of the countries that are eligible to hold the presidency. To address this, we restrict our attention to recipient countries that were former colonies of current Council members. Third, the rules governing rotation have been amended three times since 1965. Beginning in 1993, the rotation alternated between a clockwise and a counterclockwise direction.²⁰ In 1995, Austria, Finland, and Sweden joined the EU, at which point the members decided to adopt a so-called “balanced rotation,” which ensured that at least one out of every three presidencies was held by a large state. Then, beginning in 2007, the rotation principle changed such that three countries hold the presidency at a time (called a “troika”; Hayes-Renshaw and Wallace 1997). The first two changes are not a problem for our analysis since they occurred at the end of a full rotation cycle. Since one prearranged rotation principle was simply substituted for another, the manner in which the presidency was filled can still be considered random (i.e., all countries in the rotation had equal probability of holding the presidency in a given year) and need not alter our analysis. The 2007 changes do affect our analysis, however. Because the effects of a troika may be substantively different from those of a single presidency holder, we omit presidencies held after 2006. Further, following the literature indicating that geopolitical concerns predominated aid giving during the Cold War era (Dunning 2004), we restrict our analysis to the post-Cold War period (starting with aid allocated in

¹⁶The Organization for Economic Cooperation and Development (OECD) defines ODA as nonmilitary grants and net disbursements of loans of which at least 25% is composed of a grant. See OECD (2011).

¹⁷Colony data come from Hadenius and Teorell (2005).

¹⁸ See Sovey and Green (2011).

¹⁹See Angrist and Lavy (1995) for discussion of the asymptotic properties of fixed effects in the least squares setting.

²⁰In 1986, Spain and Portugal joined the EU. To ensure that the same state would not hold the presidency twice in the same half of the year, as different responsibilities are conferred to the presidency depending on the period in which the presidency is held, members agreed to alter the rule governing rotation.

1986), although we later demonstrate the robustness of our results to the inclusion of the full sample.

Finally, we note that the assumptions of linearity and constant effects in our model are not necessary for the consistent estimation of causal effects, but they ease exposition. Indeed, we have chosen this estimation strategy because it has a clear causal interpretation without making strong parametric assumptions. Angrist and Imbens (1995) demonstrate that the two-stage least squares (2SLS) estimator is consistent for a weighted local average treatment effect (LATE) under much weaker regularity and monotonicity conditions. Without making an assumption of constant effects, this implies that we are estimating the effect of EU aid that is disbursed if and only if a former colonizer holds the EU Council presidency.

Results

We now present the results of our empirical investigation. We proceed by detailing the results from the first-stage regression, which estimates the effect of the rotating Council presidency on foreign aid. We then estimate the effects of aid on human rights and democracy, and finally consider the timing of aid's effects.

First-Stage Results

We begin by considering the first-stage regression of $\log(ODA)_{i(t-1)}$ on $Colony_{i(t-2)2}$ and fixed effects in order to show that former colonies of the current Council presidency receive more foreign aid than states that were not former colonies. Since our empirical strategy relies on our contention that the human rights of former colonies of the current presidency are affected through increased foreign aid, we must first ensure that this first-stage relationship holds. We find a strong and statistically significant effect of $\log(ODA)_{i(t-1)}$, as γ_1 is estimated to be 0.160 (SE = 0.049, $p < .01$).²¹ As far as we are aware, this is the first article to find a statistical correlation between holding the Council presidency and increased foreign aid to former colonies. To give a sense of the substantive effect of $Colony_{i(t-2)2}$ on aid, we estimate that, for a country otherwise receiving \$20 million in aid from the EU (approximately the sample mean), colonial status during

the budgetary period increases the amount of aid received by \$3.64 million, or 18%, with a 95% CI of [1.36, 6.13]. Importantly, the F -statistic associated with the excluded instrument is 10.85, thus alleviating concerns about a weak instrument and giving us greater confidence that the estimated effect is not due to chance.

We expect former colony status to affect aid allocation only during the second half of the year, since this is when the foreign aid budget-setting process occurs. In an alternative specification, reported in Table A3 in the supporting information, we perform our analyses including $Colony_{i(t-2)1}$ (colony status in the first 6 months of year $t - 2$) as a separate instrument. Our results are substantively unchanged under this specification, and, as expected, $Colony_{i(t-2)1}$ fails to have a statistically significant estimated effect on aid, as first-term presidencies have little weight in the budgetary decision-making process.

Main Results

Having demonstrated the strong, positive effects of colonial status on foreign aid, we are now able to estimate the impact of foreign aid on human rights and democracy. Since improvements in human rights and democracy may take time to appear, we average our dependent variables over 4 years, from year t through year $t + 3$.²²

Column 1 of Table 1 shows a strong and significant effect of $\log(ODA)_{i(t-1)}$ on the combined CIRI index, such that a one log-unit increase in foreign aid improves human rights by 1.885 (SE = 0.946, $p < .05$). Representing this effect substantively, we estimate that, for a country receiving \$20 million in aid from the EU, a \$5 million increase causes a 0.40 increase on the CIRI Human Empowerment Index, with a 95% CI of [0.01, 0.80]. Column 3 of Table 1 also indicates a strong and significant shift in the Polity score. We see that a one log-unit increase in foreign aid increases the Polity score by 2.031 (SE = 0.708, $p < .01$). For a country receiving \$20 million in aid, a \$5 million increase causes the Polity score to rise by 0.43, with a 95% CI of [0.14, 0.73].

Columns 2 and 4 of Table 1 display covariate adjusted estimates of the effects of $\log(ODA)_{i(t-1)}$. We include the following recipient characteristics, which prior analyses have shown to be related to human rights and democratization: logged exports, logged imports, foreign direct investment (FDI), religiosity, petroleum imports (percent GDP), average education attainment, number of democracies in the region, logged GDP, logged GDP per capita,

²¹These results refer to the regression in which the CIRI index is included as the dependent variable. Results for other dependent variables are reported in the associated table captions. All standard errors estimated are robust and account for multi-way clustering at the levels of country and year (Cameron, Gelbach, and Miller 2011).

²²In Table A10, we present results showing that our findings are robust to averaging over other lengths of time.

TABLE 1 Two-Stage Least Squares Estimates of Effects of Logged Foreign Aid (in Year $t - 1$) from the European Community on Dependent Variables Averaged over Years t through $t + 3$

Dependent Variable (4-Year Average)	CIRI Human Empowerment Index		Polity IV Combined Score	
Effect of Aid	1.885	1.705	2.031	1.337
(Standard Error)	(0.946)	(0.811)	(0.708)	(0.500)
Countries	115	115	95	95
Years	20	20	20	20
Covariates	No	Yes	No	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Country Fixed Effects	Yes	Yes	Yes	Yes
N	1,792	1,792	1,818	1,818

Note: In column 2, the following covariates are not shown: Average Years Education, Log Exports, FDI, Log Imports, Religiosity, Petroleum Revenues, Democracies in Region, Log GDP, and Log GDP per Capita. Dummies indicating missing values are also not shown. Fixed effects held for country and year. Robust standard errors (accounting for multi-way clustering at the levels of country and year) are shown in parentheses. First-stage coefficient on $Colony_{i(t-2)}$ for CIRI regression is 0.160 (SE = 0.049, $p = .004$, $F = 10.85$). First-stage coefficient on $Colony_{i(t-2)}$ for Polity IV Combined Score regression is 0.170 (SE = 0.054, $p = .005$, $F = 9.87$).

and logged population. All covariates are twice lagged to avoid posttreatment bias (Rosenbaum 1984).²³ It is important to note that due to the conditional random assignment of $Colony_{i(t-2)}$, we do not require covariate controls to ensure estimator consistency, though such controls may reduce sampling variability (Lin 2013). In addition, because fixed effects for country are held in all specifications, all between-country variation is already partialled out. Indeed, Table 1 shows that the estimates are substantively unchanged by the inclusion of covariates.

We now turn to the year-by-year effects of foreign aid, using the unaveraged scores in years t through $t + 5$. We find that the effects of foreign aid on human rights and democracy decline sharply over time, dissipating by year $t + 5$. In Figure 1, we display the estimated effects of $\log(ODA)_{i(t-1)}$ on the CIRI Human Empowerment and Polity scores in years t through $t + 5$. The effect on CIRI Human Empowerment occurs immediately, and then (nearly monotonically) declines each year, demonstrating the short-lived nature of the effect of the exogenous shock to foreign aid. Similarly, the effect of Polity peaks in year $t + 3$ and then rapidly declines. Importantly, we note that our results are clearly distinguished from OLS estimates that fail to instrument for aid. These naive estimates would falsely suggest no effects of aid (at the .05 significance level)—in fact, the point estimate for the effect on the Polity score is even slightly negative.²⁴

Further, we investigate whether our effects are smaller when the recipient has alternative funding sources, as discussed previously. First, we examine whether our results are stronger for recipients that receive more EU aid relative to other sources of aid, and then whether our results are weaker among recipients that receive more FDI. We find support for our hypotheses, though due to space constraints, these results are shown in the supporting information, in Tables A21 and A22. We also consider several alternative explanations and conduct a variety of robustness checks, including controlling for non-EU aid, examining the effects in other time periods, using different measures of our dependent and key independent variables, and using alternative estimators. These are discussed and presented in the supporting information due to space constraints.

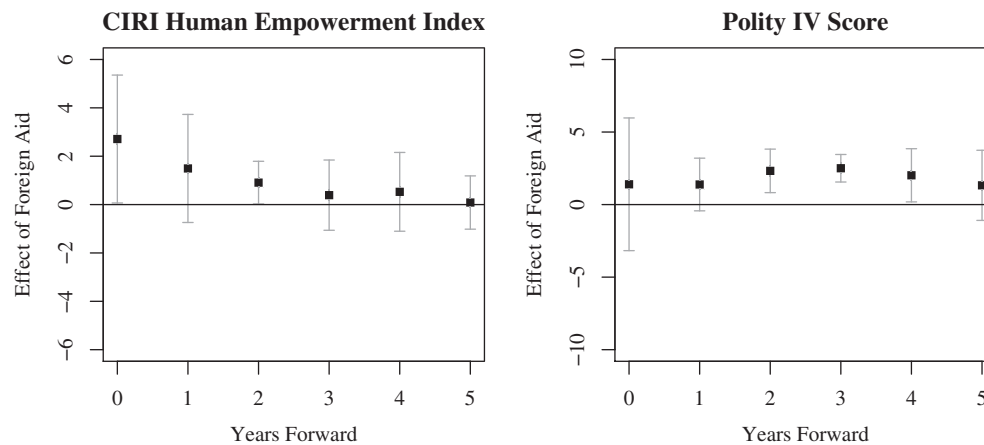
Finally, we consider the sequence of events associated with foreign aid allocation, to ensure it comports with the logic of our story. In Table A4, we show that colonial status in year $t - 2$ has a statistically significant effect on aid disbursements (logged net ODA) only in time $t - 1$, but not in time $t - 2$ or in later periods. We also show that colonial status in year $t - 2$ has a statistically significant effect on logged aid commitments in year $t - 2$, but not in later periods. Commitments are only significantly increased while a former colonizer holds the presidency, after which disbursements are affected for one year.

Taken in sum, the effects all point to the same conclusion: The increase in foreign aid induced by the rotating presidency yields nontrivial, but relatively short-term improvements in human rights and democracy. By year $t + 5$, human rights and democracy scores are the same as those that would be expected if states had never received

²³We calculated the number of democracies in the region using data from Marshall and Jaggers (2014) and drew the educational attainment from Gakidou et al. (2010), and religiosity from Teorell et al. (2013). All other variables are from the World Bank.

²⁴See Table A13.

FIGURE 1 Estimated Effects of Logged Foreign Aid in Year $t - 1$ on CIRI Human Empowerment Index and Polity IV Combined Score in years t through $t + 5$



Note: Two-stage least squares point estimates presented with 95% confidence intervals as black error bars.

extra aid at time $t - 1$. Notably, our findings also imply that countries are no worse off at time $t + 5$ than they were before they received extra aid.

Conclusion

The question of whether foreign aid can promote human rights and democracy has received considerable interest, and for good reasons. The relatively large volume of foreign aid flowing toward the developing world and its potential to foster political freedoms make this an issue of prime importance. However, scholars, practitioners, and policy makers often hold dismal views regarding foreign aid's net effects, which is, in part, a consequence of attempting to estimate aid's effects in the presence of difficult inference problems. Since donors provide aid strategically, previous attempts to identify the effect of observed aid on rights and democracy have encountered endogeneity problems, which can lead to biased results.

We addressed this issue by identifying and employing a natural experiment that yields a shock to aid flows in order to estimate aid's impact on rights and democracy. Our empirical strategy is unique, as it provides well-identified effects over a 28-year time span in 115 countries. We have supplied evidence that when a colony's former colonizer holds the Council presidency, a statistically significant increase in aid is committed to the former colony beginning in year $t - 2$, and a statistically significant increase in aid is disbursed to the former colony beginning in year $t - 1$. Furthermore, reforms are observed in recipient

countries beginning after period t and dissipating by year $t + 5$. Human rights reforms begin immediately, whereas democracy reforms occur after a slight delay. Taken together, these results suggest that conditionality is at work; recipients likely make rapid adjustments in order to receive the aid, but due to the temporary and modest nature of the aid increase, the effects do not persist.²⁵

As with any experimental or quasi-experimental study, questions of external validity may arise. However, our results suggest general principles that may be applied to other settings. While future research may productively ask whether aid programs in other institutions and for different countries improve rights, our theory suggests that when states are given the incentive to reform in order to receive more aid, they are likely to do so. Although our sample is restricted to former colonies, our findings likely hold in states outside of this sample since our theory does not hinge on the relationships between these former colonies and their former colonizers; rather, it relies on the interactions between former colonies and the Commission. Thus, although former colonies and their former colonizers often have unique ties, they only enter into our story insofar as they lead former colonizers to budget more aid toward these colonies. Since the Commission actually disburses the aid, we expect similar aid shocks to non-colonies to elicit similar results.

Our findings are likely particularly applicable to settings in which aid is delivered in short-term bursts, such

²⁵This finding is consistent with the literature on aid volatility, which claims that governments often hesitate to undertake durable reforms when aid is impermanent (Agénor and Aizenman 2010).

as one-time loans and grants. This type of aid giving is widespread, as many scholars have documented donors' limited attention spans and the resulting volatility in aid flows.²⁶ As in the EU setting, where recipients receive small, short-lived increases in aid when their former colonizer holds the presidency, other modest, temporary aid shocks are also likely to induce short-term reforms, as states have few incentives to make lasting modifications to their behavior. However, if the Commission could guarantee that aid levels would not drop as long as recipient changes did not roll back, or if enough aid were provided to motivate durable institutional changes, more persistent reforms could result. Lasting improvements in respect for human rights and democracy thus may require a sustained commitment from the donor community, which could potentially solidify otherwise reversible gains.

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²⁶See Agénor and Aizenman (2010) for an overview.

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Supporting Information

Additional Supporting Information may be found in the online version of this article at the publisher's website:

The supporting information includes a discussion of potential threats to inference and the results of additional robustness checks.

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