

Voting for Foreign Aid: How international donors
impact voting, accountability and public services in
democracies

Chapters for IPES 2023

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Chapter 1

A Theory of Foreign Aid and Elections

Political scientists and policymakers have long worried that foreign aid helps leaders stay in power and undermines accountability between citizens and their government. Certainly we have reason to be concerned about this. Famously corrupt dictators like Mobutu Sese Seko in Zaire and Daniel arap Moi in Kenya benefited from the largess of western aid. Some argue this aid enabled Mobutu and Moi to maintain public services to a sufficient degree as to limit citizen and opposition demands for greater political openness and accountability.¹ In Uganda, foreign aid has helped to maintain the parastatal organizations that the NRM uses to distribute patronage and lock-in support for the regime.² Further, as I showed in Chapter ??, politicians are often successful at distributing foreign aid to political supporters. This ability to distribute aid strategically might advantage incumbents.

If it is true that foreign aid prolongs the tenure of unaccountable or authoritarian leaders, then foreign aid has the potential to considerably harm democracy. Most scholars publishing on this question have made exactly this claim. However, there are a couple reasons we should be sceptical of a universal claim that aid helps incumbents and harms democracy. For one, international donors, particularly in the post-Cold War era, are less willing to turn a blind eye to abuses of political power or the misuse of foreign aid.³ If donors can leverage foreign aid for political reform, then foreign aid might also have beneficial effects on accountability and democracy.⁴

But perhaps more importantly, this argument assumes that citizens will tend to credit and reward politicians rather than donors for foreign aid (and the resulting public services). This might be true in the case of budget support where the role of donors is largely opaque, or in autocracies where politicians are more able to claim credit for the work of donors. However this does not describe most aid today. As I argued in ??, most aid delivery today is better conceptualized as a bargaining process between politicians and donors. Further, most foreign aid today is given to democratic or semi-democratic countries and is given in

¹Brown 2001; Heckelman and Knack 2008.

²Tangri and Mwenda 2006.

³Bermeo 2016.

⁴Dietrich and Wright 2015.

the form of discrete projects and where the role of donors in delivery is more transparent.

How might foreign aid matter in an environment where aid is co-produced with donors and where politicians compete through elections? To make this problem more concrete, suppose the World Bank helped to fund a school in your community, would this make you more or less likely to support your government in an election? If the project was successful and you believed that your government lobbied hard to get funding for the project, or if you knew that local officials co-funded or managed the project, then you might be positively inclined towards the government. However the fact that the World Bank funded the project rather than the government might also make you doubt that your government has the capacity or willingness to provide the services that your community needs. You might also wonder whether an opposition party might have done an equally good or better job.

Now consider the case where you observed that a *neighboring* community benefited from a World Bank project. If you believe that the government played a role in the negotiation with the World Bank, you might be annoyed that the government did not do more to make sure that some of the funds went to your community. Such inequities might even be reinforced by opposition politicians who could use the project to argue that the government does not care about you, or doesn't have a good enough relationship with the World Bank to make sure that funds are distributed equitably. Likewise, if the project was not particularly effective or if you felt like officials misused funds, then you might lose trust in the government.

As this illustrates, the net effects of foreign aid on elections are far from clear. Foreign aid might cause some voters to be more likely support the government, but this is not likely to be an unconditional effect. In some circumstances, governments might even be blamed for the decisions made by foreign donors. Foreign aid might even cause voters to lose their trust in the government.

This example also illustrates the fact that the effects of foreign aid on political outcomes will be highly dependent upon what voters *believe* about the process of foreign aid delivery. Where voters believe that incumbents played a significant role in negotiating for or delivering foreign aid (correctly or not), we might expect very different outcomes from circumstances where voters believe that incumbents played a more limited role.

My goal in this chapter is to outline a more complete and formal theory about when and why foreign aid might help (or hurt) incumbents in environments where the primary means of maintaining power is electoral. Unlike existing theory, I will show how voter beliefs and government negotiating power plays a key role in explaining whether foreign aid will help or not incumbents.

I will also discuss some implications of this argument for the functioning of democracy and electoral accountability. I push back on the common assumption that foreign aid is a curse for democracy. Rather I show that foreign aid can either be a curse *or* a blessing. Further, the outcome we observe will depend a lot on donors themselves. Where voters are able to make correct inferences about the manner in which foreign aid is delivered and the role of donors versus governments, foreign aid can provide useful information to voters about

the preferences, capacity and effort of incumbent politicians. In such circumstances, foreign aid can improve electoral accountability and encourage higher government performance. Conversely, when voters are poorly informed, foreign aid can harm accountability and help keep poorly performing leaders in power.

In the next Chapter (Chapter 2), I will also provide a more complete test some of these arguments using experimental data from Malawi.

1.1 How aid helps leaders stay in power

Before getting into my argument, it is worth briefly reviewing why so many scholars have been convinced that foreign aid harms democracy and helps politicians stay in power.

One influential body of theory points to the fact that foreign aid does not depend upon taxing citizens, building on insights by influential scholars like Douglas North and Margret Levi about the role of taxation in explaining state formation. While there are various versions of this argument, all point to the fact that foreign aid allows governments to raise revenue without raising taxes. Because taxation requires the extractive redistribution of income, governments that are funded by taxation require some level of compliance by tax payers. In exchange for this compliance with taxation demands, the payers of tax might demand more political power and demand that political leaders use budgetary revenue more responsibly. For this reason, many political historians have pointed to taxation as one of the drivers of democracy and modern state formation.

Such arguments have been particularly influential in explaining the resilience of aid-dependent authoritarian regimes. If authoritarian regimes can maintain a low income tax, this may reduce citizens' incentives to engage with politics or protest a poorly performing regime. If so, aid-dependent authoritarian governments might have an easier time remaining in power and feel less need to provide reform or development to their citizens.⁵ Because of this purported link between demand for political rights and taxation, many influential scholars have argued that aid is a "curse" for politics and democracy.⁶

These aid curse arguments might also have relevance for voting behavior in democracies. If voters care more about what happens to tax revenue than other forms of revenue, this logic might suggest that citizens will be more willing to invest more in political accountability and transparency when taxes are high.⁷ Since foreign aid can allow governments to spend money without raising taxes, foreign aid may therefore lower accountability relative to the counter-factual case where governments are forced to raise tax revenue. This may in turn lead to lower levels of political mobilization against a poor performing regime.⁸ We may therefore observe higher levels of corruption and lower levels of political responsiveness in aid-dependent regimes.

⁵Morrison 2014; Bräutigam and Knack 2004.

⁶Djankov, Montalvo, and Reynal-Querol 2008; Moyo 2017.

⁷North and Weingast 1989; Dynes and Martin 2021; Brautigam, Fjeldstad, and Moore 2008; Martin 2023; Ross 2012b.

⁸Bräutigam and Knack 2004.

We cannot easily dismiss these arguments. Indeed, governments who rely on tax revenue seem to spend more effectively and engage in less corruption.⁹ Additionally, several well-designed studies suggest citizens who pay taxes are more engaged in politics, and are more willing to monitor public spending.¹⁰

Yet there are reasons to question whether this is a completely adequate explanation of how foreign aid affects political engagement and accountability. For one, the effects of foreign aid on taxation appears quite weak. While some empirical studies have shown a small negative correlation between taxation and foreign aid dependence,¹¹ more recent work has raised credible questions about whether these effects are causal or generalizable across all aid-dependent countries.¹²

But, more fundamentally, we should question whether aid actually causes citizens to disengage from politics. A key assumption of these arguments is that citizens care less about responsible governance when funds come from donors rather than from taxation. But is this really true? If, as an engaged and responsible citizen, you learn that the government is misusing or stealing from money that should have gone to your community, why should you care whether that money came from taxation or from donors? Both scenarios will equally harm your community. And indeed, if we look at the evidence, we find substantial evidence that voters do care about the responsible use of foreign aid, and often engage in effective actions against the misuse of such funds.¹³

In one of the more thorough tests of the links between aid and accountability, Cuesta et al. (2019) provide citizens in Uganda and Ghana with experimentally assigned information about development projects funded by taxation and foreign aid. They show that changing the sources of funding has no impact on citizens' willingness to support or petition for greater accountability. In a related study, Cuesta et al. (2022) find that in a lab-like setting, citizens are more likely to punish leaders who misuse funds in a treatment meant to mimic taxation. However once citizens are reminded of their ownership over foreign aid, there is no identifiable difference in citizens' willingness to sanction leaders who misuse tax versus non-tax budgets. Consistent with my argument below, findings such as these suggest that citizen beliefs and knowledge about the budget *process* matter a lot more for accountability than the *composition* of the budget.

Another set of experiments also raises doubt about whether *politicians* prefer to raise revenue through aid versus taxation. In a survey experiment,¹⁴ manipulate Ugandan MPs' information about a co-financed development project and show that politicians supported projects more when they believed they were government funded versus donor funded. The authors argue that these results are driven by politicians' perception of weak government

⁹Brollo et al. 2013; Gadenne 2017.

¹⁰Martin 2023; Weigel 2020; Paler 2013.

¹¹Eubank 2012; Thornton 2014.

¹²Prichard 2016.

¹³Reinikka and Svensson (2005) for instance describes a highly successful newspaper campaign against corruption in (mostly) aid-funded education grants in Uganda. In Malawi, likewise, protests against donor-funded medicine theft have been widespread in recent years.

¹⁴Findley et al. 2018.

control over donor versus government projects, and belief that there were more opportunities for corruption and patronage in government projects. At the least, results such as these should make us question whether politicians value foreign aid as much as these theories would have us assume.

A final reason why we might question the relevance and validity of these aid curse theories is that they do not adequately explain political decision-making in multi-candidate settings like during democratic or semi-democratic elections. Suppose citizens in an aid-dependent country are choosing whether to support an incumbent or a challenger. The aid-curse logic above suggests that these citizens might invest less in political participation or protest as a consequence of foreign aid or lower taxation; however it's far from clear why citizens' preferences for one politician or another should depend on the composition of the budget or level of taxation, particularly if revenue is mostly fixed across election cycles.¹⁵

Moreover, even in the most transparent of political systems, untangling the fiscal composition of government spending is not an easy task. In environments with hundreds of donor organizations and complex government-donor spending arrangements, it is challenging even for experts to untangle the composition of public spending – and indeed I show in ?? that even politicians struggle to understand donor spending!

Indeed substantial evidence suggests that the reverse is often the case: citizens are frequently confused about whether spending is funded by donors or tax dollars, and often attribute more spending to the government or donors than is in fact the case.¹⁷ Consistent with this, in Chapter 2, I show that Malawian citizens often misattribute government spending to donors and vice versa.

An alternative version of the aid curse argument claims that what drives the perverse effects of aid on politics is not so much the composition, but rather the *size* of the budget..¹⁸ In perhaps the most influential version of this argument, Mesquita and Smith (2009a) argue that larger budgets help incumbents by making it more costly for the beneficiaries of regime largess to switch allegiances. Because a challenger is unlikely to share resources in an equivalent manner to the incumbent, regime change is risky for an incumbent's winning coalition. As the share of revenue controlled by the government increases, we might therefore observe that political elites become more loyal and less willing to defect to challengers.

This logic might help explain elite defection in autocratic settings; however its relevance is less clear in democratic contexts where spending is more focused on public goods and winning coalitions are quite large. Models such as Mesquita and Smith (2009a) suggest that aid will have few political consequences in governments with large winning coalitions (like democracies).

There are some substantial empirical challenges to existing theory, particularly with respect to the political aid curse. It is not true that foreign aid always helps incumbents

¹⁵In order for citizen preferences to depend upon the budget, it would have to be the case that a politician could commit to providing more foreign aid than a challenger. While we could name some rare cases where donors have conditioned aid on election outcomes,¹⁶ this is the exception rather than the rule.

¹⁷Cruz and Schneider 2017; Dietrich, Mahmud, and Winters 2018; Baldwin and Winters 2023.

¹⁸Brollo et al. 2013; Mesquita and Smith 2009a; Svensson 2000.

remain in power. Particularly for democratic countries or for aid after the post-Cold War era, the relationship between incumbent tenure and foreign aid appears quite weak.¹⁹ Further, attempts to estimate the effect of foreign aid on election outcomes have been inconclusive. In some cases, foreign aid appears to help incumbents win elections and in other cases foreign aid appears to hurt incumbents.²⁰ I elaborate further on this evidence in Chapter 2.

We might also question the fiscal assumptions of existing theory. Much of this theory assumes that foreign aid expands the government's discretionary budget. That is, government can effectively spend the money where and how they wish. However, as I explained in chapter ??, this is not a fully satisfactory way to look at foreign aid. While governments often have influence over foreign aid, very little aid is given in the form of a grant. Even when it is, governments often have limitations in how they spend the money. Likewise, governments' ability to reallocate existing expenditure in response to foreign aid is often quite limited (as discussed in Chapter ??)..²¹ Instead I have argued in this book that foreign aid is best thought of as a bargaining process between foreign donors and politicians. The role that politicians play in the allocation of foreign aid will be highly dependent upon the outcome of that bargaining process.

A final branch of argument is worth mentioning: some have argued that foreign aid is a mixed blessing for governments because aid erodes trust and state legitimacy. The claim is that if citizens start to see donors, rather than the government, as being the main source of public services, then citizens might no longer seek to hold the government to account for poor services. If so, citizens might start to disengage from politics; or, alternatively, they might seek to punish a government that they see as abrogating their responsibility to citizens.²² While there is evidence of such effects in rare cases or at the macro-level,²³ recent work has called into question whether there is a general pattern of delegitimization. Several well-powered experimental studies have examined whether informing citizens about aid, or being exposed to aid, causes disengagement, lower trust or less tax compliance.²⁴ Almost all suggest little or no effect of foreign aid on these outcomes.²⁵

Below I suggest an alternative way to think about the effects of foreign aid on leader survival and democratic accountability.

1.1.1 Theory

As a starting point for the analysis, I draw on models of retrospective accountability (e.g, Ashworth (2012) and Fearon (1999)), which are perhaps the most widely accepted "workhorse" political science model of how government performance affects voting. Such models suggest that citizens do not respond to spending because of the material benefits *per se*, but rather

¹⁹Bermeo 2016; Licht 2010; Yuichi Kono and Montinola 2009.

²⁰Briggs 2019; Knutsen and Kotsadam 2020; Cruz and Schneider 2017.

²¹McGillivray and Morrissey 2000; Seim, Jablonski, and Ahlbäck 2020.

²²Djankov, Montalvo, and Reynal-Querol 2008; Moyo 2017; Bräutigam and Knack 2004.

²³For instance, O'Brien-Udry (2021) shows that an unpopular aid program benefiting minorities in Kosovo eroded trust in the government.

²⁴Blair and Roessler 2021; Cuesta et al. 2019.

²⁵See Blair and Winters (2020) and Dietrich and Winters (2021) for good discussions of these debates.

because the provision of material benefits gives citizens information about the preferences and performance of incumbents. This information in turn will affect citizens' beliefs about the future performance of the incumbent. I adapt this class of models to consider how citizens might likewise respond to foreign aid. One advantage of this approach is that models of retrospective accountability provide clear predictions about when the effects of foreign aid might be positive, negative or neutral.

Consider a problem of the following sort: A donor announces a foreign aid project which will benefit $N > 2$ communities. Each community has an equally sized population of citizens and likely voters. The donor plans to allocate $x_i = x/N$ of a budget of size x to each community. In this model, the size of the aid budget is irrelevant, so, to make the analysis easier, I set $x = 1$.

In response to this donor announcement, an incumbent politician can propose to the donor an alternative allocation of funding. Specifically, the incumbent can propose that the donor redistribute $\frac{a}{x}$ of the budget towards $n < N$ communities that the incumbent prefers (e.g., for partisan, electoral or ethnic reasons).

The donor can reject this proposal, accept it in whole, or accept in part. If the donor rejects the proposal, the donor's allocation decision remains constant. If the donor accepts the proposal, then $\frac{a}{x} < x$ is distributed equally to the incumbent's preferred communities. Aid in the remaining communities is reduced by $\frac{1-a}{x}$. If the donor accepts the proposal in part then $\frac{\lambda a}{x} < x$ is distributed equally to the incumbent's preferred communities. Note that since the aid budget is fixed, the incumbent can never make a proposal to redistribute more than $\lambda a \leq (N - n)/N$.

We can think of λ as a measure of how effective the incumbent is at bargaining for her or his preferred set of voters. λ also gives us a way to conceptualize different modalities of aid. If $\lambda = 1$ then the incumbent has full control over the allocation of aid, as we would expect if the donor were delivering budget support. If $\lambda = 0$ then the incumbent has no control, as in the case of aid channelled through NGOs. If $0 < \lambda < 1$ then the incumbent shares control with the donor.²⁶

For now, it will be helpful to assume that voters know the nature of the aid bargain λ . However, there are a number of reasons to question that voters know how aid was allocated in any particular instance. I will relax this assumption later and show the consequences of aid for elections and accountability depend a lot on what voters believe about λ and I will discuss several equilibria in which voters lack well-informed priors about λ .

Each aid-eligible community observes the donor's announcement and their own welfare. However communities do not know for sure whether the incumbent has recommended them to the donor, or the final allocation of aid funds. Incumbents, of course, might prefer to tell communities about their lobbying efforts, but such claims would not usually be credible as all politicians have incentives to make such claims regardless of whether they have actually

²⁶We could also model λ as an endogenous feature of the model: for instance donors might accept more political influence when a politician shares their preferences. To keep the model simple and to focus on the political (rather than development) consequences of aid, it is helpful to keep λ as an exogenous feature.

lobbied on a community's behalf.

To operationalize communities' uncertainty over incumbent behavior, we can think of politicians as coming in two types. Politicians of type $\theta_i = 1$ are those that prefer to lobby for community i . Politicians of type $\theta_i = 0$ are those that would prefer funds to go communities other than i . Politicians know their own types, but those preferences are unknown to communities. Each community has a prior about whether a politician is of their preferred type: $p(\theta)_i = Pr(\theta_i = 1)$. Incumbents will only lobby the donor on behalf of their own type.

Communities expect that their welfare increases in proportion to the aid which they receive. So, if the incumbent does not lobby, then each community i will expect welfare in proportion to what the donor originally allocated:

$$u(x_i) = x_i + \epsilon \quad (1.1)$$

In order for politicians to have an incentive to lobby the donor, the incumbent must have advantages at persuading her own type versus other types. To operationalize this advantage (and following other similar models.²⁷) I assume that the gains from lobbying accrue to the incumbent's type by a factor of $d > 1$. So if the incumbent lobbies for community i , then communities receive the following utilities:

$$u(x_i, a|\theta) \begin{cases} = x_i + \lambda \frac{da}{n} + \epsilon, & \text{if } \theta_i = 1 \\ = x_i - [1 - \lambda] \frac{a}{N-n} + \epsilon, & \text{if } \theta_i = 0 \end{cases} \quad (1.2)$$

As I show later, these utility functions imply that lobbying is always an electorally optimal strategy for the incumbent. There are a number of reasons why we might expect incumbents to have an advantage at influencing the welfare of some communities over others. It could be that some communities are more likely to credit politicians for their effort, e.g., due to motivated reasoning. Or alternatively politicians might have better knowledge about some communities, and so be able to more effectively allocate additional resources to those communities. Or politicians might have heterogeneous capacity to mobilize community resources to assist in aid delivery.

In these utility functions, I assume that ϵ is symmetric and unimodal with mean equal to zero. This means that welfare outcomes are uncertain; however each community will expect welfare in proportion to the aid allocation they receive.

The game proceeds as follows: After observing welfare $u(x_i, a)$, each community independently decides whether to support the incumbent or a challenger in an election. Unlike in the models of aid politics discussed earlier, the effects of aid on this decision do not depend directly on the amount of aid delivered or the budget composition, but rather what foreign aid reveals about the incumbent's type, θ .

²⁷This approach is most similar to Dixit and Londregan (1996). They propose that politicians' distributional commitments are "leaky" in the sense that only a proportion end up benefited intended recipients. Politicians in their model have less leakage in commitments to their core group.

Why might communities prefer to elect their own type? The idea behind this decision rule is that voters are trying to maximize the future benefits they get from the government. If a community learns that an incumbent is more likely than the challenger to prefer their community over another, then that community might reasonably infer that the incumbent will continue to deliver services to their community after the election, and to lobby for their preferences in future policy deals.

Note that we don't have to make any assumptions about the donor in order for voters to prefer politicians of their own type. An incumbent that shares a community's preferences in negotiations over aid, is also like to share it's preferences in negotiations with fellow legislators or other actors. This also means that even small aid projects can potentially have substantial electoral consequences when they reveal new information about politician preferences.

If the incumbent loses the election, then a challenger will enter into office. I assume that challengers and incumbents come from a common pool of candidates; so, if a challenger enters office, then with probability $p(\theta)_i$ the new incumbent will be of type $\theta = i$ and with probability $1 - p(\theta)_i$ she will be of type $\theta \neq i$.

To summarize, the sequence of the game is as follows:

1. A donor proposes to allocate an aid budget, x , across a set of N communities. The proposal includes an allocation of aid $x_i = x/N$ to each community i . This proposal is known to voters and politicians.
2. Incumbents can make a counter-proposal to the donor to divert a share of the budget, $a_i = a/x$, to $n < N$ communities that share their type ($\theta = 1$).
3. The donor decides how much of this diversion (λ) to allow. The donor will then redistribute λa_i to communities of type $\theta = 1$ and away from communities of type $\theta = 0$.
4. Communities observe their welfare and the aid budget, but do not know the actual share of aid that they have received (Their utilities are defined by Equations 1.1, 1.2).
5. After observing their welfare, communities update their prior $p(\theta)$ over whether they believe they share the incumbent's type.
6. Communities independently decide whether to vote for the incumbent politician or a challenger. Their voting decision is based on whether they expect to receive more welfare from the challenger or the incumbent in the second period.
7. If the incumbent politician loses, the challenger comes to power. With probability $p(\theta)_i$ the new incumbent will prefer community i .
8. In the second period, the incumbent and donor again decide how to allocate a new aid budget across the communities.

How do communities decide between voting for the incumbent and the challenger? To solve this problem, each community calculates the probability that an incumbent is of their own type conditional on having observed their welfare in period one. A community can calculate the odds that a politician is of type $\theta = i$ using Bayes' Rule (in odds form):

$$\frac{Pr(\theta = 1|u(a, x))}{Pr(\theta = 0|u(a, x))} = \frac{p(\theta)_i}{1 - p(\theta)_i} \frac{f(x_i + \lambda \frac{da}{n})}{f(x_i - [1 - \lambda] \frac{a}{N-n})} \quad (1.3)$$

Since we've assumed $p(\theta)$ is constant across elections, each community will prefer the incumbent on instrumental grounds whenever their observed utility is more consistent with lobbying than not:

$$\frac{f(x_i + \lambda \frac{da}{n})}{f(x_i - [1 - \lambda] \frac{a}{N-n})} > 0 \quad (1.4)$$

From this equation, we can define the decision rule that each community will use in their voting decision: community i will vote to re-elect the incumbent whenever they observe $u(x_i, a) > u(x_i, a)^*$. If they observe $u(x_i, a) < u(x_i, a)^*$, they will vote for the challenger. In the case that a community is indifference ($u(x_i, a) = u(x_i, a)^*$) I assume that the election is a coin toss with the incumbent winning with probability $\frac{1}{2}$.

Simplifying from Equation 1.4 it follows that communities will use the following value for $u(x_i, a)^*$ (see proof in section 1.6):

$$u(x_i, a)^* = x_i + \frac{1}{2} \left(\lambda \frac{da}{n} - [1 - \lambda] \frac{a}{N-n} \right) \quad (1.5)$$

Given this voting strategy, how is the politician likely to respond? The incumbent in this model is only interested in re-election. From Equation 1.4, it follows that each community prefers an incumbent who lobbies to one who does not. An incumbent likewise always benefits from lobbying for redistribution as long as they have a winning coalition of voters who share their type ($n > \frac{N}{2}$). Further, the probability of voting for the incumbent is strictly increasing in a . It follows therefore that the incumbent will always propose to the donor to redistribute the maximum amount allowed by the budget $a = \frac{a}{N-n}$.

The following propositions define the equilibrium of this game (see proof in section 1.6).

Proposition 1: *The incumbent will lobby the donor whenever $n > \frac{N}{2}$. The incumbent will always propose to redistribute the maximum amount of aid allowed by the budget ($a = \frac{a}{N-n}$). This strategy will maximize the incumbent's chances of re-election.*

By substituting the incumbent's dominant strategy into Equation 1.5 and simplifying, it follows that each community will use the following decision rule:

Proposition 2: *Each community will vote for the incumbent if they observe $u(x_i, a) > u(x_i, a)^* = \frac{\lambda d}{2n} + \frac{2-\lambda d-\lambda}{2N}$. They will vote for the challenger otherwise.*

From this basic framework, I am now going to consider the effects of aid on elections under three scenarios: one where donors have full control over the allocation of aid ($\lambda = 0$),

one where the politician has full control ($\lambda = 1$) and one where donors and politicians bargain over aid ($0 < \lambda < 1$).

1.2 Donor aid allocation

Suppose first that donors have complete control over the allocation of foreign aid, for instance, because they have delegated complete control to a third party NGO. In the simple cases where $\lambda = 0$ and communities know that $\lambda = 0$ then, we would expect no effect of aid on election outcomes.²⁸ While this is a somewhat trivial conclusion, it's worth noting that this conclusion contrasts sharply with many existing models of aid politics which instead imply that such aid will nonetheless benefit incumbents by reducing citizen dependence on government taxation, or by expanding the government's budget constraint.

However even in this restrictive scenario it's likely that aid is not always going to be apolitical. The problem is that citizens are often unaware of whether politicians are involved or not in the allocation of foreign aid (see discussion in ??).

Suppose communities believe that $\lambda > 0$ even though incumbents have no ability to lobby: $\lambda = 0$. In this scenario, foreign aid could either be beneficial *or* harmful for the incumbent's electoral chances, depending upon what communities expect to receive.

The problem arises in that donor spending will often be more consistent with the behavior of an incumbent of type $\theta = 0$ even if the incumbent is actually of type $\theta = 1$. If so, the incumbent will be blamed for the spending decision of the donor.

Perversely, what happens in this scenario is that the incumbent is punished in proportion to her or his perceived effectiveness d . When incumbents are seen as highly effective, then it will be unlikely that the donor's allocation will persuade enough voters (since they expect a lot of welfare from incumbents that share their type). However, voters expect less of ineffective incumbents, and the donor's allocation will often be sufficiently persuasive. Formally, I prove in section 1.6 that the incumbent will benefit whenever $d < \frac{n}{N-n}$.

The following propositions follow:

Proposition 3: *When incumbents have no control over aid allocation and voters are fully informed ($\lambda = \hat{\lambda} = 0$), incumbents will win fewer votes compared to a scenario where they have more control ($\lambda > 0$).*

Proposition 4: *When incumbents have no control over aid allocation and voters are not fully informed ($\lambda = 0 > \hat{\lambda}$), then the incumbent will electorally benefit from the aid whenever $d < \frac{n}{N-n}$. The incumbent will be electorally harmed whenever $d > \frac{n}{N-n}$.*

From these propositions, it also follows that incumbent will often be better off without receiving any aid. Recall that if donors do not deliver any aid, both communities are indifferent between the incumbent and the challenger and the incumbent wins with proba-

²⁸Since $Pr(\theta = 1|u(x)) = Pr(\theta = 0|u(x))$.

bility $\frac{1}{2}$. If communities believe that the incumbent is capable of lobbying, however, then, in expectation, the incumbent will often do worse than this.

To give some intuition for these results, think about the voting problem from each community's perspective. Suppose as a resident of some community i you hear about an project that is likely to bring health supplies worth \$500 to a number of communities in your district. If you believe that the incumbent is not influential in the donor's decision process, this allocation of aid will have no effect on your voting decision and you should expect to receive welfare equivalent to \$500 in expenditure.

However suppose instead you believe that the incumbent is very influential and will have some influence over the donor's decision making ($\lambda > 0$). Now suppose your community received about this same \$500 in welfare. How will this change your views of the incumbent? If the incumbent had lobbied for your community ($\theta = 1$), you know that you should receive a welfare premium well above what you would get from \$500; whereas if the politician did not lobby for your community, you would get a welfare premium a bit lower than you would get from \$500. Given that you only observed \$500 worth of welfare from the aid project, you should therefore infer that the politician did not work for your community and vote for the opposition candidate.

I will return to these point empirically in Chapter 2 and show that voters do seem to make exactly this kind of calculation when looking at a foreign aid project. Using experimental data, I show that politicians who are seen as mediators in aid delivery are sometimes punished by voters who fail to receive a sufficient share of aid. I observe no punishment effect when voters learn that a politician was uninvolved.

Another implication of this logic is that it will often be difficult to estimate the effect of aid on election outcomes. If voters are poorly informed about the aid distribution process (which they usually are), then will be quite difficult to predict *ex ante* whether the incumbent will electorally benefit from foreign aid. This might help explain some of the mixed findings we see in the empirical literature.

1.3 Government aid allocation

Now consider the consequences of donors delegating full authority to the incumbent: $\lambda = 1$. In this scenario, the incumbent will propose to redistribute all aid away from communities that do not share their type and towards communities that do share their type.

Compared to scenarios in which incumbents have less control, here there is a large difference between types in what communities expect to receive. This means that each community will be better able to identify the incumbents type and this will translate into a greater electoral benefit for the incumbent.

It is possible in this scenario for voters to misperceive incumbent control ($\hat{\lambda} < 1$). The consequence of this will be the reverse of what happens under government allocation. High performing incumbents (those with large d) will tend to benefit from this misperception and

low performing incumbents (those with small d) will tend to be harmed.

To see this, note that if voters underestimate their incumbent's bargaining power, then communities of type $\theta = 1$ will, on average, receive more aid than they expected given their type by an amount increasing in $d(\lambda - \hat{\lambda})$. Communities of type $\theta = 0$ will receive less aid than they expected given their type by an amount increasing in $(\lambda - \hat{\lambda})$. Since $d > 1$, it follows that this misperception will be asymmetric by type in a way that favors the incumbent.

Proposition 5: *When incumbents have full control over aid allocation and voters are fully informed ($\lambda = \hat{\lambda} = 1$), incumbents will win more votes compared to a scenario where they have less control ($\lambda < 1$).*

Proposition 6: *When incumbents have full control over aid allocation and voters are not fully informed ($\lambda = 1 < \hat{\lambda} > 0$), then the incumbent will win votes whenever $d > \frac{n}{N-n}$ and will lose votes whenever $d < \frac{n}{N-n}$.*

Note that these propositions imply that incumbents might prefer that voters believe that they do less lobbying than they actually do. The reason for this is that politicians are better off over-delivering than under-delivering relative to voter expectations.

It's also worth noting the different effects of uncertainty in this case compared to the case in which incumbents have no control. If politicians have no control over aid, they value transparency because they do not want to be blamed for donor decisions that do not align with their own preferences. However if politicians have a significant degree of control, they may instead prefer that voters retain a degree of ignorance so that they can benefit from voter misperceptions. As I will discuss later, this implies quite different effects on democracy and electoral accountability.

1.4 Bargained aid allocation

Most aid does not fit within these existing scenarios. As I showed in ??, most aid is best conceptualized as a kind of bargained outcome in which both incumbents and donors have a say in aid distribution.

When aid allocation is bargained ($\lambda > 0 < 1$), incumbents will benefit from aid in proportion to their bargaining power λ . The reason for this is that bargaining power increases the difference in welfare between types $\theta = 1$ and $\theta = 0$. All else equal, this will help incumbents who are able to lobby on behalf of a winning share of voters.

The effects of uncertainty mirror the consequences of uncertainty above. When voters over-estimate the lobbying power of incumbents ($\hat{\lambda} > \lambda$), then foreign aid will harm incumbents relative to a scenario with no misperception. The net effect of aid on election outcomes can be either positive *or* negative depending upon the scale of the misperception and the perceived effectiveness of the incumbent d .

When voters under-estimate the lobbying power of incumbents ($\hat{\lambda} < \lambda$), then foreign aid will most often benefit incumbents relative to a scenario with no misperception. Like in the

government allocation case, incumbents benefit from voters' underestimating their expected welfare and receive an electoral boost greater than that which their performance deserves.

1.5 Discussion

Most scholars of foreign aid have argued or assumed that foreign aid helps incumbents and harms accountability. In this chapter, I propose an alternative (and more realistic) way to think about these effects in democratic contexts, focusing on way in which foreign aid can provide information to voters about incumbent performance and preferences.

I show that the effects of aid on election and accountability are more nuanced than often recognized. Foreign aid will often help incumbents win elections; however these effects will not be consistent across aid-eligible communities. When incumbents are seen as mediators in the aid distribution process, many voters will blame incumbents for failing to deliver aid to their communities. The net effect of an aid project on election outcomes may therefore be quite small and heterogeneous across a constituency.

This backlash effect implies that aid can also be a curse for incumbents: when voters over-estimate incumbents' role in aid distribution, incumbents will often be blamed for what are in fact the distributional decisions of donors. This is not a hypothetical worry: as I discussed in ??, voters often over-estimate the role the politicians have in aid distribution.

Paradoxically, this logic suggests that donors, by trying to limit corruption and maximize transparency, might do particular harm to incumbent governments and democratic accountability. In such cases, voters might especially over-estimate the role of the government and punish otherwise effective incumbents for their failure to divert aid to supporters.

This model does provide some fuel to arguments that aid can be a curse for democracy. When voters are poorly informed about the aid distribution process (as they often are) then voters might make flawed inferences about incumbent performance. In particular, when voters over-estimate the role of politicians in aid distribution, we should expect that aid will undermine voters' ability to distinguish between incumbents that do and do not work for their community. When voters under-estimate the role of politicians in aid distribution, poor performing politicians might benefit undeservedly from foreign aid.

It is important to note however that these aid curse effects are not inherent to aid, and will often occur with the tacit complicity of *donors*. These curse effects occur—not because aid is fungible or untaxed, as often argued – but rather because governments and donors fail to sufficiently inform voters about development decisions, and because of the fragmentation and complexity of development decisions in aid-dependent contexts.

In the next chapter, I will provide some empirical evidence to support these assertions.

1.6 Proofs

Proposition 1: *The incumbent will lobby the donor whenever $n > \frac{N}{2}$. The incumbent will always propose to redistribute the maximum amount of aid allowed by the budget ($a = \frac{a}{N-n}$). This strategy will maximize the incumbent's chances of re-election.*

Proof:

Consider first communities that share the incumbent's type. From Equation 1.3, it follows that the odds that any such a community votes for the incumbent is strictly increasing in a (since a higher a makes the community more confident that the politician is of type $\theta = 1$). Note also that the maximum amount of aid that the incumbent can propose without exhausting the budget is $a = \frac{a}{N-n}$. It follows that $a = \frac{a}{N-n}$ will be the strategy likely to maximize votes for this group.

Consider now communities that do not share the incumbent's type. As a increases, they become more certain that the incumbent is of type $\theta = 0$ and become *less* likely to vote for the incumbent.

As long as both types of communities have common beliefs about d and λ , these effects are symmetric: a marginal increase in votes for communities of the incumbent's type will cost an identical share of votes in communities that do not share the incumbent's type. Thus if $n < \frac{N}{2}$, the incumbent will always prefer not to lobby and will prefer the victory probability of $\frac{1}{2}$ they get from doing nothing. However if $n > \frac{N}{2}$, then the gains from the politicians' preferred communities will always exceed the losses from other communities. To maximize these gains, the incumbent will set the budget to $a = \frac{a}{N-n}$.

Proposition 2: *Each community will vote for the incumbent if they observe $u(x_i, a) > u(x_i, a)^* = \frac{\lambda d}{2n} + \frac{2-\lambda d-\lambda}{2N}$. They will vote for the challenger otherwise.*

Proof:

From Equation 1.3 and substituting in the equilibrium values for a , it follows that communities positively update their prior ($p(\theta)$) whenever $f(\frac{1}{N} + \frac{\lambda d}{n} - \frac{\lambda d}{N}) > f(\frac{[1-\lambda]}{N})$ and are indifferent between electing and not whenever $f(\frac{1}{N} + \frac{\lambda d}{n} - \frac{\lambda d}{N}) = f(\frac{[1-\lambda]}{N})$ where $f(\cdot)$ is the pdf of ϵ .

By assumption, $f(\frac{1}{N} + \frac{\lambda d}{n} - \frac{\lambda d}{N})$ and $f(\frac{[1-\lambda]}{N})$ are symmetric and unimodal with unique maxima at $\frac{1}{N} + \frac{\lambda d}{n} - \frac{\lambda d}{N}$ and $\frac{[1-\lambda]}{N}$. From this, it follows that there is a unique solution which satisfies this equality at $u(x_i, a)^* = \frac{1}{2}[\frac{1}{N} + \frac{\lambda d}{n} - \frac{\lambda d}{N} + \frac{[1-\lambda]}{N}]$. After simplifying, it follows that $u(x_i, a)^* = \frac{\lambda d}{2n} + \frac{2-\lambda d-\lambda}{2N}$.

Proposition 3: *When incumbents have no control over aid allocation and voters are fully informed ($\lambda = \hat{\lambda} = 0$), incumbents will win fewer votes compared to a scenario where they have more control ($\lambda > 0$).*

Proof:

This follows trivially from Proposition 1. When $\lambda = 0$ and incumbent will win the election with probability $\frac{1}{2}$. In the proof for Proposition 1, I showed that incumbents can always do better than this when $\lambda > 0$ and $n > \frac{N}{2}$.

Proposition 4: *When incumbents have no control over aid allocation and voters are not fully informed ($\lambda = 0 > \hat{\lambda}$), then the incumbent will electorally benefit from the aid whenever $d < \frac{n}{N-n}$. The incumbent will be electorally harmed whenever $d > \frac{n}{N-n}$.*

Proof:

To see this, first define a community i 's beliefs about λ as $\hat{\lambda}_i$. Note that in order for a community to prefer the incumbent over the challenger given that $\hat{\lambda}_i > \lambda > 0$, it must be the case that the community receives at least its reservation utility from Equation 1.5. So it must be the case that $u(a, x|\hat{\lambda}_i > 0)* = \frac{\lambda d}{2n} + \frac{2-\lambda d-\lambda}{2N} > \frac{1}{N}$ (where $\frac{1}{N}$ is the expected utility from the donor's allocation). After simplifying, it follows that this can only be true when $d > \frac{n}{N-n}$.

Chapter 2

Testing the Effects of Foreign Aid on Voting

Does foreign aid help democratic leaders stay in power?¹ Over the last several decades, the dominant answer given by scholars is that foreign aid is good for incumbents and bad for challengers.² However there is good reason to contest this consensus.

As I argue in Chapter 1, foreign aid can often be a mixed blessing for governments. Drawing on political science models of retrospective voting, I argue that an important way in which foreign aid changes voting is by providing information about incumbent preferences and performance. In this framework, the effects of aid on voting do not depend on how much aid a government receives; or how depended a government is on tax revenue. Rather the effects of foreign aid depend upon what (if anything) voters learn or believe about the government from observing foreign aid spending. In some cases, what voters learn might cause them to be more likely to vote for the incumbent. In other cases, what voters learn might cause them to be more likely to vote for a challenger. Or aid might have no effect.

In this chapter, I test some of the implications of this model. Drawing on research co-produced with Johan Ahlback and Brigitte Seim, I examine the effects of a foreign aid project which was allocated via a collaboration between an international development NGO and local incumbent councillors in Malawi. Specifically, the NGO (in partnership with our research team) asked 333 councillors to recommend schools in their constituencies to receive development goods from the NGO. Each councillor was then entered into a random lottery. About 1/4 of the councillors were successful in the lottery and the NGO provided goods to the schools which the councillor selected.

This setup is particularly illuminating for the purposes of understanding the effects of foreign aid on voting. Unlike most development projects, the allocation of aid occurred through a quasi-random process, making it possible to separate the effects of aid from other

¹The content of this chapter draws on research conducted with Brigitte Seim at University of North Carolina, Chapel Hill and Johan Ahlback at the London School of Economics and Political Science. See especially Jablonski, Seim, and Ahlback (2023), Jablonski and Seim (2023), and Jablonski and Seim (2017). Invaluable research assistance was provided by Diane Jung, Inbok Rhee, Petra Matsi, Nonne Engelbrecht, Jimmy Mkandawire and many friends and colleagues in Malawi. This study was pre-registered at <https://osf.io/zuxw6>.

²Morrison 2014; Mesquita and Smith 2009a; Qian 2015; Ahmed 2012; Brown 2001; Heckelman and Knack 2008; Tangri and Mwenda 2006; Yuichi Kono and Montinola 2009.

variables that might affect incumbent support. To identify these effects, before and after the delivery of goods to schools, my collaborators and I conducted a survey of 2,331 citizens and teachers around 180 schools that were eligible to receive these development goods. In this survey, we specifically queried citizen's perceptions of local politician performance and voting intentions, allowing us a precise and individualized way to measuring the political effects of aid delivery. Because of the panel nature of the survey and the quasi-random allocation of goods, we can precisely estimate how receiving aid affected citizens' views of incumbents and beliefs about incumbent performance.

Additionally, this setup is useful because there is real variation in the extent to which incumbents influenced the allocation of foreign aid. Some schools receive aid because they were recommended by the incumbent. Other schools do not receive aid because they were *not* recommended by the incumbent. A final group do not receive aid because they were not selected by the *donor*, despite being recommended by the incumbent. If—as I argue in Chapter 1—respondents condition their vote on beliefs about incumbent preferences and performance, we should see different effects of foreign aid across these three groups.

To gain further leverage on mechanism, my collaborators and I also conducted an information experiment in tandem with this study. Specifically, between the baseline and endline surveys, we sent SMS messages to a random sample of communities informing them about the aid project and the role of the incumbent and donor in making the allocation decision. This information experiment allows us to assess how variation in citizen beliefs about the aid delivery process shapes the political effects of aid.

To preview the results: the data confirm that aid can be a mixed blessing for incumbents. Those who benefited from aid in this study became more supportive of the incumbent and became more likely to vote for the incumbent. However those who failed to benefit from aid, often blamed the incumbent for failing to deliver for their community, particularly when they were more informed about the politician's role in negotiating for aid. It follows that foreign aid will most often affect election outcomes, but can do so in a way that costs her or him support in some areas.

The results are also consistent with the retrospective model of aid I proposed in Chapter 1. I show that aid recipients update their views of incumbent performance and become more likely to believe that the incumbent works hard for their community. Further, I show that incumbents tend to gain more votes among those with lower expectations of incumbent performance and tends to lose more votes among those with higher expectations of performance.

As I discuss in the conclusion, the study also implies some harsh news for donors. It suggests it may be very hard to depoliticize aid. Further, foreign aid may be *particularly* bad for incumbents (and bad for accountability) when donors try to do more to prevent the politicization of aid. The reason for this is that – when donors try to depoliticize aid by limiting incumbent control – donors will make it harder for voters to identify high performing incumbents, and may cause politicians to be blamed for (what is in fact) donors' failure to

deliver to the incumbent's supporters.

There are also important take-aways for understanding the links between foreign aid and democratic accountability. If foreign aid helps politicians stay in power even when politicians do not perform well for their constituents then foreign aid is truly a curse for democracy. A number of influential articles have made precisely this claim, arguing that foreign aid causes voters to be disengaged from politics and undermines incentives for governments to be responsive to citizens.³ If, on the other hand, foreign aid helps voters remove poorly performing politicians and retain highly performing ones, then foreign aid may instead be a blessing for democracy.

The results in this study are consistent with the more nuanced story proposed in Chapter 2. I show that voters can be quite sophisticated in how they update their beliefs about politician performance. They support politicians that they believe worked hard for them and sanction politicians they believe failed to work on their behalf. When voters have accurate information about the process of aid delivery, foreign aid should therefore make it possible for voters to more accurately distinguish between high performing and low performing politicians. If so, foreign aid should make politicians *more* not less accountable. This information role of foreign aid may be particularly valuable in aid-dependent contexts where most development spending is collaborative with donors and where politicians have very limited opportunities for discretionary spending and credit claiming.

However when voters have *inaccurate* information about aid, foreign aid can indeed be a curse for democracy (as I discuss formally in Chapter 1). When voters incorrectly attribute donor actions to incumbents or vice versa, then voters will often make incorrect inferences about the quality of their elected officials. Further, when voters are uninformed, this creates opportunities for poorly performing incumbents to manipulate the information environment in their favor, for instance, by claiming credit for the work of donors.

2.1 What does the evidence say about aid and voting?

Does foreign aid affect election outcomes? If so, why? Most evidence suggests that leaders who receive foreign aid stay in power for longer; however the conditions under which this is the case remain contested.⁴ Some studies suggest these effects primarily hold for autocratic leaders, or for leader who were in power during the Cold War.⁵ Other studies suggest that effects hold for both autocratic and democratic regimes, but to a different extent.⁶

There have been a few attempts to look directly at the effect of aid on election outcomes. Briggs 2015 estimates the effect of aid shocks on elections in African states and shows a positive correlation between aid in the year proceeding an election and incumbent victory at the cross-national level. Jablonski (2013) also shows effects of election shocks on a cross-

³Djankov, Montalvo, and Reynal-Querol 2008; Bräutigam and Knack 2004; Morrison 2007.

⁴Mesquita and Smith 2009a; Bermeo 2016; Ahmed 2012; Morrison 2014.

⁵Bermeo 2016; Dunning 2004.

⁶Licht 2010; Yuichi Kono and Montinola 2009; Morrison 2014.

national sample of elections; however he find these effects are heterogenous: aid only affects elections in contexts where donors invest little in monitoring aid investments; or where donors have strategic interests.

More recent work has tried to use sub-national aid as a way to better identify these effects. Using a spatial difference-in-difference approach in three countries, Briggs 2019 shows that citizens near to foreign aid projects were *less* likely to support incumbents on average. Knutsen and Kotsadam 2020 conduct a similar analysis in a larger panel and estimates a 5 percentage point increase in support for incumbents as a result of being near aid projects. Cruz and Schneider 2017 looks specifically at one World Bank project in the Philippines and estimate that mayors who benefited from the project received a 12 percentage point jump in their vote share, despite the fact that mayors had no direct control over the allocation of the project. O'Brien-Udry 2021 looks at aid to minorities in Kosovo and concludes that such aid reduced trust in local and national governments.

In one of the only other experimental studies, Baldwin and Winters (2023) study the effects of randomly informing citizens in Uganda about the funding of a Japanese aid project. Respondents who learned about donor funding became less likely to vote for the incumbent in a survey; however this negative effect dissipated when the government played more of a role in oversight. This study supports our contention that foreign aid can indeed be a mixed blessing for incumbents and that the consequences of aid on elections depend on voter beliefs.

One reason for divergent empirical findings is that it is quite difficult to identify the effect of foreign aid on voting. For one, and as discussed in ??, the ways in which politicians influence aid allocation and take credit for donor spending differs by context and donor. In some countries, like Kenya, Sierra Leone, Nepal and Ghana, it appears governments have had the ability to substantially influence aid distribution in favor of pivotal voters.⁷ However in other contexts we see only small or insignificant biases in aid distribution, suggesting a more equitable, or at least less politicized, process of aid distribution.⁸ As argued in Chapter 1, this ability or not to influence aid distribution has important consequences for whether the effect of aid on elections is positive, negative or immaterial.

Additionally, most attempts to estimate the effect of aid on elections assume implicitly that the geographical distribution and timing of aid is independent of variables which affect election outcomes. I am skeptical of this assumption. For one, when governments distribute aid strategically, they will likely try to target based upon anticipated voting behaviour. But, even when this is not the case, aid is likely to be correlated with things like income shocks which are also going to be highly correlated with electoral behaviour. Likewise, the timing of aid delivery appears endogenous to election dates and electoral competitiveness, raising questions about what we can learn by regressing one on the other.⁹

⁷Jablonski 2014; Briggs 2014; Briggs 2012; Bommer, Dreher, and Perez-Alvarez 2019.

⁸Nunnenkamp, Öhler, and Sosa Andrés 2017; Anaxagorou, Efthyvoulou, and Sarantides 2020; Dreher et al. 2019.

⁹Faye and Niehaus 2012.

A final challenge is that the most credible evidence has focused on the effect of aid projects on localized voting behavior. While still informative, existing work provides inconclusive evidence about the net effect of aid on election outcomes. To see this, consider an aid project that goes to a school in a small rural town. The residents of that town may choose to credit a politician for that aid and reward her at the polls. However residents of another village may blame that same politician for rewarding the first village rather than another. If we compare voting in the first village to the second, we might conclude that aid benefited the incumbent; however in actuality the evidence is also consistent with positive, negative or null effects of aid on election outcomes depending on scale of direct and indirect effects of aid and the way in which these effects are aggregated and compared in a particular analysis. This study was specifically designed to address some of these measurement and identification challenges.

2.2 Theorizing the effects of aid on voting

In Chapter 1 I develop a retrospective voting model of foreign aid and voting behavior. I assume that voters want to elect a politician that works hard for the their own community, for instance, by lobbying on their behalf with donors. However – as is most often the case – voters do not observe what incumbents actually do. They only observe the welfare effects of the incumbent’s actions. Voters use this welfare to make inferences about incumbent preferences and expected future behavior.

When incumbents have influence over donors’ allocation of resources, I show that voters can make accurate inferences about incumbents’ effort and preferences from the distribution of foreign aid. To give some intuition for this conclusion, suppose you know that an incumbent can lobby a donor on your behalf. If you then benefit from the donor’s aid, you might infer that the incumbent actually did lobby on your behalf and that he or she prefers your community over others. Likewise, if you did not benefit, then you might infer the incumbent prefers other communities to yours, or that he or she simply failed to work on your behalf. Likewise, if you know that an incumbent has little influence over donors, you might be able to infer little about politician preferences from observing patterns of aid spending.

Unlike more traditional models of aid politics, foreign aid only affects voting behavior through changing voter beliefs. The size and direction of these voting effects depend upon both the share of aid received by each voter and voters’ beliefs about the incumbent’s role in delivering the aid (and these beliefs could be accurate or inaccurate). When voters believe that the incumbent is influential, then foreign aid will tend to increase support for the incumbent among those voters who benefit from aid. However foreign aid will tend to decrease support for the incumbent among those voters who fail to benefit from aid.

One of the novel and testable implications of this model is that foreign aid will have heterogenous effects depending upon voter beliefs and the distribution of aid. When voters believe that the incumbent lobbies donors on their behalf, aid spending will cause aid re-

ipients to have more positive perceptions of incumbent effort. Aid will also shift in voting intention in the incumbent's favor. I predict the opposite however for non-aid recipients. These voters will have worse perceptions of incumbent effort and will respond to aid by being *less* likely to vote for the incumbent.

H1 When incumbents are believed to be mediators in aid distribution, foreign aid will cause beneficiaries of that aid to (a) *positively* update their beliefs about incumbent effort; and to (b) become *more* likely to vote for the incumbent.

H2 When incumbents are believed to be mediators in aid distribution, foreign aid will cause those who do not benefit from aid to (a) *negatively* update their beliefs about incumbent effort; and to (b) become *less* likely to vote for the incumbent.

The scale of these effects (both positive and negative) will depend not on the amount of aid, but on the *difference* between voter expectations about incumbent influence and the actual amount of aid received. When voters believe that an incumbent is influential, then voters will expect more aid than when they believe that an incumbent is less influential. Somewhat paradoxically, this means that aid will tend to benefit incumbents the most when voters expect the least of the incumbent.

H3 The effects of aid on aid recipients' voting intentions will be greater among those recipients who have *lower* expectation of incumbent performance.

H4 The effects of aid on non-recipients' voting intentions will be greater among those recipients who have *higher* expectation of incumbent performance.

The direction and scale of these effects also depend upon the accuracy of voter beliefs about the role of incumbents in mediating aid distribution. If voters overestimate the role of politicians, then aid will often harm incumbent's electoral chances. Whereas if voters underestimate the role of politicians, then aid can provide an undeserved boost to an incumbent's electoral chances. When voters lack accurate information about the nature of the aid allocation process, it can be quite difficult (if not impossible) to predict how aid will change voting behavior. As I discuss in Chapter 1, this uncertainty might also create openings for politicians to manipulate the information environment in their favor. And indeed this appears to have occurred in this study as I discuss below.

I formally assess the effects of belief accuracy by conducting a parallel information experiment. My collaborators and I randomly assigned aid-eligible communities to receive SMS messages telling them (1) whether their community was selected to receive a foreign aid projects, and (2) whether their receipt or not) was due to incumbent action or the results of a random lottery.

On average, by increasing the accuracy and precision of voter priors, these treatments should reinforce the effects of aid on beliefs and voting.¹⁰

¹⁰A key assumption underlying this hypothesis is that voters do not usually update adversely to the

H5 Aid recipients with more accurate beliefs about politician involvement in aid distribution will be more likely to update their beliefs about politician performance and change their voting intention.

These conclusions rely on assumptions that politicians work closely with donors, and see themselves as mediators of donor-funded development. Additionally, I assume that voters care about aid distribution and expect incumbents to lobby donors on their behalf. Below I discuss these assumptions in the context of Malawi.

2.3 Aid and local politics in Malawi

Foreign aid is intertwined with local politics in Malawi. Malawi is among the most aid dependent countries in the world, with aid representing over 37% of the government’s budget and an even larger proportion of overall development allocations.¹¹ In addition to providing budget support to local government, between 2011 and 2016, donors directly funded projects in approximately 34% of primary schools, which is roughly comparable to the percent of schools (38%) who received projects funded by the local government.¹² Donor branding is heavily visible to local communities, and more than 25% of schools are prominently branded with the names of one or more donors.¹³

Among citizens, knowledge of both donor and politician activities was low. However citizens especially under-estimate the role of the local government relative to donors. Only 10% of citizens in our sample could describe anything that councillors had done for schools in their community, despite the fact that education is one of the council’s main institutional responsibilities and the second largest council budget item (after health).¹⁴ In contrast, respondents in 83% of communities (43% of respondents) could describe a specific foreign aid project that donors had delivered to their schools. Many respondents also struggled to distinguish between projects delivered by the council and projects delivered by a donor.¹⁵

Within Malawi, the incumbents under scrutiny in our study are elected local councillors. These councillors serve as voting members on the decision-making body within the local government, the District Council.¹⁶ Councils have an average budget of approximately US\$5

information. For instance, voters who are informed that the politicians are not involved in aid distribution should not become *more* likely to believe that politicians are involved in aid distribution. Since the treatment is binary (informing voters that politicians are or are not involved in aid distribution) this assumption is almost certainly true.

¹¹World Bank 2017a.

¹²These statistics are based on the survey of teachers in 311 schools across Malawi. See ???. Project-level data we collected from a subset of donors suggests that 57% of primary schools had at least one donor-funded project in 2011-2016. The discrepancy in these figures is likely due to information gaps among teachers regarding project funding sources.

¹³Author survey. See ??? for discussion.

¹⁴Based on local council budget data collected by our research team.

¹⁵For example, our survey of teachers indicate that councillors built 19 blocks (classrooms) at 19 schools. In the communities surrounding those 19 schools, we surveyed 126 citizens. Only 38 were aware of the construction. 25 of these attributed the blocks to the councillor and 13 attributed the blocks to a donor or NGO. 2 attributed the blocks to a donor and the councillor. See ??? and ??? for discussion of these data.

¹⁶Within urban areas, these are called “town councils” or “city councils.”

million, 11% of which is dedicated to education.¹⁷ Councillors are elected in single member constituencies (called “wards”) every five years.¹⁸

The councillors in our study were elected in 2014. This was the first time local councils had been elected in Malawi in many years, so expectations of these incumbents was initially very high. However, by the time of our survey voters had become very disillusioned. At baseline, over 70% of respondents to our survey said they would be unlikely to vote again for the incumbent and 66% said that their councillor was ineffective at getting things their village needs. This low support was reflected in the 2019 election: Out of 462 council seats, only 82 (18%) were won by incumbents in 2019. The fact that voters had low expectations and little information imply that was an environment in which voters were highly likely to respond to positive information about incumbent performance.

Our survey and interview data also confirm the ways in which aid and politics are intertwined in Malawian local government. In interviews, incumbent councillors often mentioned how development spending is co-produced with donors. For instance, when asked to defined their role, several discussed the way they interact with donors. One councillor said his primary responsibility is to, “[take] the development from the District [Council] to the ward when there is money from local development funds and other donors from different organizations.” Another, when asked what his primary responsibilities are, stated, “To advise the community how they can get their prioritized development project.” Yet another said, in response to the same question, “To serve the people on small development projects in the area.”¹⁹

Councillors also mentioned specific ways in which they co-produce development with donors. In fact, when asked to cite an example of a development project they brought to his or her constituency, most councillors mentioned a project that was implemented (and funded) in partnership with an NGO, rather than one implemented directly by the government. As one councillor stated, “I interact with donors on monthly basis and they consult when they want to come up with a project.” Another said, “Almost [all] NGOs, when they want to introduce a project in my area, these NGOs they do approach me first.”²⁰ Local councillors have few discretionary funds at their disposal; so, for many, aid is one of the few opportunities to claim credit for development work.

In focus groups, citizens likewise acknowledged the role that councillors play in distributing development. They also acknowledge the importance of electoral incentives in shaping development decisions. One focus group participant said, “Most politicians choose development to where they get more votes, in order to punish those who didn’t vote for him.” In a more positive spin on this same phenomenon, a participant in another focus group discussion said, “Most politicians want to appreciate the people who voted for him.” Another facet of

¹⁷These statistics are based on 2011-2012 budgets, the most recent data available. An exchange rate of MK700=US\$1 was used.

¹⁸There are 462 wards in Malawi. On average, they are about 180 square kilometers in size and have about 15 primary schools.

¹⁹??

²⁰??

development decision-making in Malawi is less about rewarding (or punishing) voters and more about channeling resources to one's own area. As one focus group participant put it, "In Malawi it's a syndrome. [Elected officials] always bring development to where they stay." Another stated, "They always think of where they come from first."²¹

2.4 Examining aid and voting behavior in Malawi

To study the effects of foreign aid on incumbent support, we conducted a panel survey with 2,019 citizens in Malawi before and after the delivery of foreign aid to 83 schools by a small UK NGO donor (Tearfund NGO).²² By comparing survey responses before and after the delivery of the foreign aid, we can assess how this aid changed preferences and beliefs.

We designed this survey to allow us to compare changes in political beliefs and preferences between three groups of citizens: (1) those citizens who benefited from foreign aid in their community; (2) those citizens who were eligible to benefit from aid, but did not; (3) those citizens who were not eligible to receive aid. Within each community, we measured perceptions of the councillor, perceptions of the allocation process, and anticipated voting behavior.

The way in which the aid in this project was allocated also provides us with a unique opportunity to study how voting effects are conditioned by politicians' interactions with donors. In cooperation with the authors of this study, the NGO consulted local councillors prior to choosing which of the schools in Malawi should receive foreign aid. This consultative process means that politicians were explicitly involved in the aid allocation process and were (honestly) able to take credit for the spending decisions made by the donor. Such consultation between politicians and donors is common in Malawi. As discussed below, we provided information to citizens about this consultative process in a parallel SMS information experiment.

2.4.1 The allocation of foreign aid

In this aid project, 83 primary schools in Malawi received one of three kinds of development goods. One good was a set of iron roofing sheets (N=7 schools). Few schools in Malawi have adequate classrooms, and the rainy season often means that classes are cancelled, so roofing sheets are a valuable good. The second development good was solar lamps (N=19 schools). As few schools in Malawi have electricity, solar lamps can provide light for teacher preparation and student studying in the evenings. The third development good was a set of teacher supply kits (N=32 schools) containing chalk, an eraser, pens, notepads, and a tote bag. While these were relatively inexpensive goods, most of these communities were extremely poor, and these goods appear to have been highly valued by both politicians and

²¹??

²²The aid being allocated in this study was allocated by and branded by Tearfund; however it was funded by a USAID research grant which also funded this study.

recipients.²³ Further, as I showed in Chapter 2, voting decisions should depend more on how informative an aid project is about the politician, rather than the size of the aid budget.

To select the recipients of these goods the donor (in cooperation with our research team) consulted with 333 out of the 462 local councillors in Malawi.²⁴ In meetings with donor-affiliated researchers, each of these councillors selected one school in their ward to be eligible to receive *each* of these goods; so each councillor selected a total of three schools to be eligible to receive aid, one for each good.

Following the consultation process, the participating councillors' wards were entered into a public lottery.²⁵ Out of the 333 councillors that recommended schools, the lottery randomly selected 83 councillors, for a selection rate of 25%.

For each incumbent chosen in the lottery, the NGO delivered goods to one of the schools the incumbent had selected. The decision regarding which of the incumbent's selected schools would receive goods was not random, but was made largely based on goods availability and delivery logistics.²⁶ Only schools that had been recommended by the councillor in the foreign aid recommendation experiment were eligible to receive development goods.

This allocation process creates three categories of schools in each of these 83 wards: (1) schools who were eligible to receive foreign aid (by virtue of being selected by a councillor) and did receive foreign aid; (2) those schools who were eligible to receive foreign aid, but did not receive foreign aid; and (3) those schools which were ineligible to receive foreign aid because they were not selected by a councillor. We summarize these groups in Table 2.4.1, along with the number of schools sampled in the survey.

Table 2.1: Groups of Schools in Field Experiment and Subsequent Lottery

Group	Treatment	Sampled schools	Description
A	School Recommended by Councillor + Aid Receipt	60	School was recommended by the councillor to receive aid. School received aid.
B	School Recommended by Councillor	49	School was recommended by the councillor to receive aid. School did not receive aid.
C	School Not Recommended by Councillor	60	School was not recommended by the councillor to receive aid.

It is important to note that the schools in each of these groups are not necessarily representative of the full population of schools in Malawi, and in ways that potentially

²³At endline, a number of teachers and citizens specifically mention these goods as something they remember that their councillor or a donor delivered to their school. Likewise a number of politicians participated in the lottery and the goods delivery process.

²⁴Councillors were excluded largely for data availability reasons. The sample of eligible schools is broadly representative of the population of schools. One exception is that we tended to under-sample less populated areas, largely due to data availability challenges in these areas.

²⁵Approximately one dozen government, NGO, and community representatives attended the lottery, held in the capital city of Lilongwe. The paper drawing-based random selection of constituencies (councillors) was prefaced by a brief speech read by the Research Manager explaining the study, the criteria for including schools in the study, and the reasons not all schools could receive development goods.

²⁶For instance, constituencies that were in southern Malawi were more likely to receive iron roofing sheets due to the higher delivery costs in northern Malawi. Politicians were not aware of these logistical constraints and we see no evidence that they conditioned decisions on logistical constraints.

matter for our interpretation of these results. Groups A and B were intentionally selected by the councillor and differ from Group C especially in their proximity to the councillor and their level of political support at baseline. Likewise Groups A and B differ from one another because of the nature of the aid delivery process. Because of limited budgets, schools that were eligible to receive some types of goods were more likely to be selected by the donor to receive these goods. Because politicians were likely to select different kinds of schools to receive different kinds of goods, this creates imbalance between groups A and B.²⁷

The main identifying assumption of this study is not that these groups are equivalent, but rather that *trends* in political preferences and beliefs are equivalent across each of these groups. I elaborate on this assumption later and discuss evidence for why this is a plausible assumption.

2.4.2 Survey Sampling

Our goal with the survey was to obtain a representative sample of aid eligible schools in each of the groups in Table 2.4.1. To accomplish this, we first randomly sampled 60 of the 83 councillors who won the lottery discussed above. Within each of these 60 wards, we sampled one school in Groups A, B and C. That is, one school that received aid, one school that was selected but did not receive aid, and one school that was not recommended to receive aid. Our effective sample in Groups A, B and C is 60, 49 and 60 schools.²⁸ Additionally, we visited three additional schools per constituency and conducted interviews with teachers only.

This survey was conducted in two waves – baseline, in October 2016, and endline, in December 2016. The deliveries of development goods at the schools occurred in the intervening period.

The survey respondents were drawn from the catchment areas of each of the sampled schools. There were two groups of respondents. The first respondent at each school was always the head teacher (effectively the school principal). If the head teacher was not available, we asked a senior teacher to participate.

Then, within the community surrounding each school, we used a random walk procedure to sample eligible voters in the area, alternating female and male heads of household. There were almost no instances of participants refusing to participate, but where this occurred or where the head of household was not home, the house was skipped and the sampling procedure simply ignored this house in the random walk pattern.

This process resulted in a total intended sample of 13 people per school at three schools in 60 wards, or 2340 people. Because of logistical issues such as particularly small communities or communities attending a funeral, the we have 2,019 eligible voters and 314 teachers at baseline.

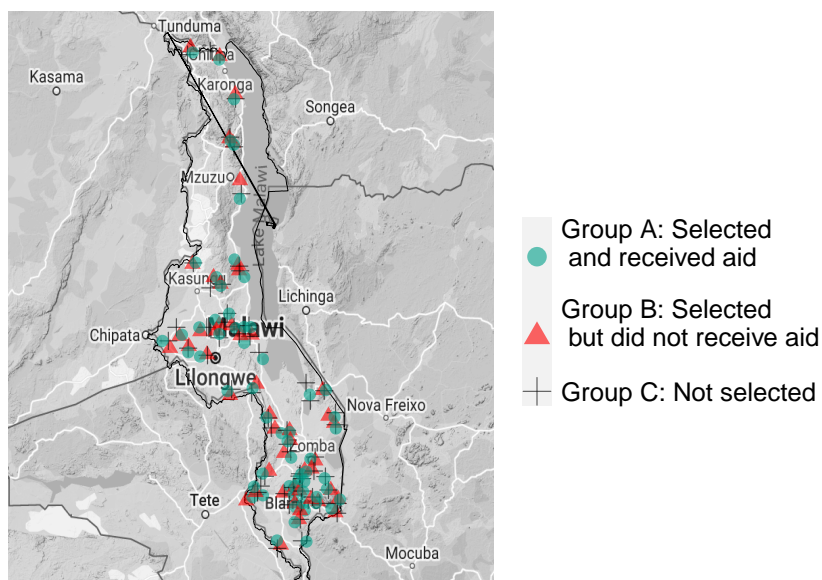
²⁷For details on the sample difference between these groups see Appendix A.

²⁸Because all recommended schools in 11 constituencies received aid, our sample in Group B is 49 instead of 60. The reason for this is that in some small constituencies, there were not enough eligible schools for politicians to select more than one school to receive aid.

Our goal was to contact the same respondents at baseline and endline. To this end, we used the same enumeration teams across waves and paid respondents for participating in both waves. Despite this, our re-contact rate was not perfect. We were able to recontact 1,656 respondents from baseline (82%). This sample is reasonably balanced across each group in Table 2.4.1: 586 were in Group A, 467 were in Group B and 603 were in Group C. Within school catchment areas, our baseline and endline samples do not differ to a significant degree on views of the incumbent or demographic variables. However we do observe higher contact rates at communities with higher support for the incumbent. This means that our final sample is not wholly representative.²⁹

We provide a map of the sample in Figure 2.1.

Figure 2.1: Map of surveys and groups



Note: This plot shows the location of all surveys by group.

2.4.3 SMS-Based Information Experiment

Within Groups B and C in Table 2.4.1, we randomly assigned half of the schools to receive reinforcement messages providing details of the school selection and aid receipt and the other half to receive placebo messages thanking citizens for participating in the survey.³⁰ Respondents with phones in Group A also received reinforcing messages; however the messages were not randomized in this group.³¹ These messages are shown in Table 2.3. Each participant received two sets of messages. The first set of messages occurred after the lottery. The second set of messages occurred shortly after the aid was delivered.

For each school, all baseline survey participants who provided a phone number to our enumeration team were sent the set of messages randomly assigned to their school. In total, we sent messages to 671 phone numbers. However we expect that the total number of recipients of this message is potentially much larger. Many phones are shared in rural Malawi, and we encouraged SMS recipients to share the messages (see Table 2.3). In a

²⁹See balance tables in Appendix A.

³⁰Politicians were made aware that their decisions would be shared in advance of their decisions.

³¹We made this decision to maximize the power of the study to identify the effects of aid receipt.

follow-up survey, almost all (73%) of recipients said they shared the message with at least one person.

In order to confirm receipt, we conducted a follow-up phone survey with a random sample of 62 SMS recipients 3-4 weeks after the aid delivery.³² 53% of these (33) recall seeing a message from the NGO. Almost all found the information useful (n=27) and could accurately describe the content of the message (n=29). We also asked respondents to comment on anything they discussed with others. Consistent with the assumptions of my argument, 36% discussed the frequency or form of spending by the NGO. 23% also discussed their disappointment that they were not chosen (sometimes mentioning the councillor specifically).³³

Table 2.2: Treatment Groups and Messages

Group	N	Pre-Aid Message	Post-Aid Message
A	378 Phones 60 Schools	Hello from Tearfund NGO. Thank you for telling us about education services in your community. Your ward councillor recommended [school name] in your area to receive school materials from our NGO. We will deliver these materials shortly. Please share this message with your neighbours.	Hello from Tearfund NGO. Your ward councillor recommended [school name] in your area to receive school materials from our NGO. We delivered these materials.
B	166 Phones 26 Schools	Hello from Tearfund NGO. Thank you for telling us about education services in your community. Your ward councillor recommended [school name] in your area to receive school materials from our NGO. However, your school was not among those selected for funding by Tearfund in this round. Please share this message with your neighbours.	Hello from Tearfund NGO. Your ward councillor recommended [school name] in your area to receive school materials from our NGO. It did not receive funding.
C	266 Phones 30 Schools	Hello from Tearfund NGO. Thank you for telling us about education services in your community. Your ward councillor did not recommend [school name] in your area to receive school materials from our NGO. It will not be receiving school materials. Please share this message with your neighbours.	Hello from Tearfund NGO. Your ward councillor did not recommend [school name] in your area to receive school materials from our NGO.
Placebo (all groups)	328 Phones 53 Schools	Hello from Tearfund NGO. Thank you for telling us about education services in your community.	Hello from Tearfund NGO. Thank you for telling us about education services in your community.

³²We sampled 80, but 13 could not be reached by phone.

³³Out of the 22 respondents who claimed to hold discussions with others in their community.

2.4.4 Analytical Strategy

We are interested in how perceptions of the incumbent changed from baseline in each group. For our primary specification, we rely on a difference-in-difference estimator, comparing trends in each group to each other. In the SI, we also consider estimates under alternative assumptions.

We estimate difference-in-differences effects via a two-way fixed effects estimator. In our setting with two groups and two periods, this estimation is equivalent to a standard difference-in-difference estimator.³⁴

Specifically, let y_{ijt} be a respondent i 's assessment of their local council incumbent at time t in school j . Let a_j equal one if school j received aid at time t and zero otherwise. We estimate the following linear model:

$$y_{ijt} = \beta a_{jt} + \chi_t + \gamma_j + \epsilon_i \quad (2.1)$$

Where χ_t and γ_j are period and school fixed effects.

We are also interested in how effects differ among respondents that received the reinforcing SMS message. To estimate the effect of SMS messages, we modify the equation as follows:

$$y_{ijt} = \beta a_{jt} m_i + \chi_t + \gamma_j + \epsilon_i \quad (2.2)$$

where m_i equals one if a respondent was eligible to receive a reinforcing message. Per H5, we expect this reinforcement message to magnify the effect of a_{jt} .

In all equations, we cluster errors at the level of treatment (the school catchment area). The same includes only respondents that were contacted at both baseline and endline.

2.4.5 Measuring Voting Intention and Beliefs

I theorized that foreign aid would affect voting intention and beliefs about incumbent effort. Below I summarize the measurement of respondent beliefs and voting intentions.³⁵

In addition to measuring voting intentions and beliefs, I attempt to measure whether respondent attribute aid to the incumbent. I also try to measure incumbent credit claiming. To measure attribution, I use a question about whether the respondent believes the incumbent did something for the community. This variable allows me to confirm that respondents are attributing the aid delivery to the action of the incumbent as I assumed in the theory. To measure credit claiming, I measure whether respondents observed the incumbent visiting the community. If incumbents expect to gain votes from aid, they have incentives to claim credit for the work of donors by visiting the school.³⁶

³⁴Imai and Kim 2021.

³⁵I provided question wording in English, however respondents had a choice of whether to fill out the survey in English, Chichewa or Tumbuka.

³⁶Incumbents occasionally chose to join with the NGO in handing over the aid (and often claimed credit and campaigned at the same time). The increase in incumbent visits at endline is at least partly explained

Table 2.3: Outcome Variables

Variable	Survey Question	Baseline Mean & S.D.	Endline Mean & S.D.
Vote for councillor	If an election were held today, how likely would you be to vote for your current councillor? 3=Very Likely; 2=Somewhat Likely; 1=Unlikely	1.33 (0.61)	1.33 (0.59)
Councillor effective	How effective is your councillor at getting things that your village needs? 3=Highly Effective; 2=Somewhat effective; 1=Not Effective	1.40 (0.60)	1.40 (0.59)
Councillor works hard	Do you think your councillor works harder for your village or for other villages? 3=Works harder for my village; 2=Works about the same for my village and other villages; 1=Works harder for other villages	1.50 (0.50)	1.33 (0.58)
Satisfied with coun- cillor	How satisfied are you with the work that your councillor has done since he or she was elected? 5=Very satisfied; 4=Somewhat satisfied; 3=Neither satisfied nor dissatisfied; 2=Somewhat dissatisfied; 1=Very dissatisfied	2.04 (1.32)	2.10 (1.08)
Councillor done	Are you aware of anything your councillor has done for [school name]? 1=Yes; 0=No	0.09 (0.30)	0.10 (0.29)
Councillor visited	How often has your councillor visited this village in the last six months? 5=More than 5 times; 4=3 to 5 times; 3=1 to 3 times; 2=1 time; 1=Never	1.55 (1.06)	1.48 (0.83)

2.5 Results

2.5.1 Effects of Foreign Aid Receipt

First, I examine the effects of receiving foreign aid. In Figure A.1 I show how support for the incumbent councillor changed in communities that received aid compared to those who

by these handover ceremonies.

did not receive aid (Group A versus Group B and C).³⁷

The estimates provide evidence in favor of H1 and H2. We estimate an increase of about 10 percentage points in the voting index among those who received aid. This corresponds to about 7 percentage point increase in votes for the incumbent (those who are "somewhat" or "very likely" to vote for the incumbent). Since respondents had quite low support for the incumbent at baseline, this corresponds to quite a large effect in relative terms: nearly a 23% shift in votes. Consistent with H5, these results are largest when voters receive SMS messages informing them about the aid project and the incumbent's role in selecting their community.

I also examine the effects of aid on voter beliefs. Consistent with H4, we schools that received foreign aid became more likely to believe the councillor is effective and works hard for their community. They were also more satisfied with the councillor's work overall.

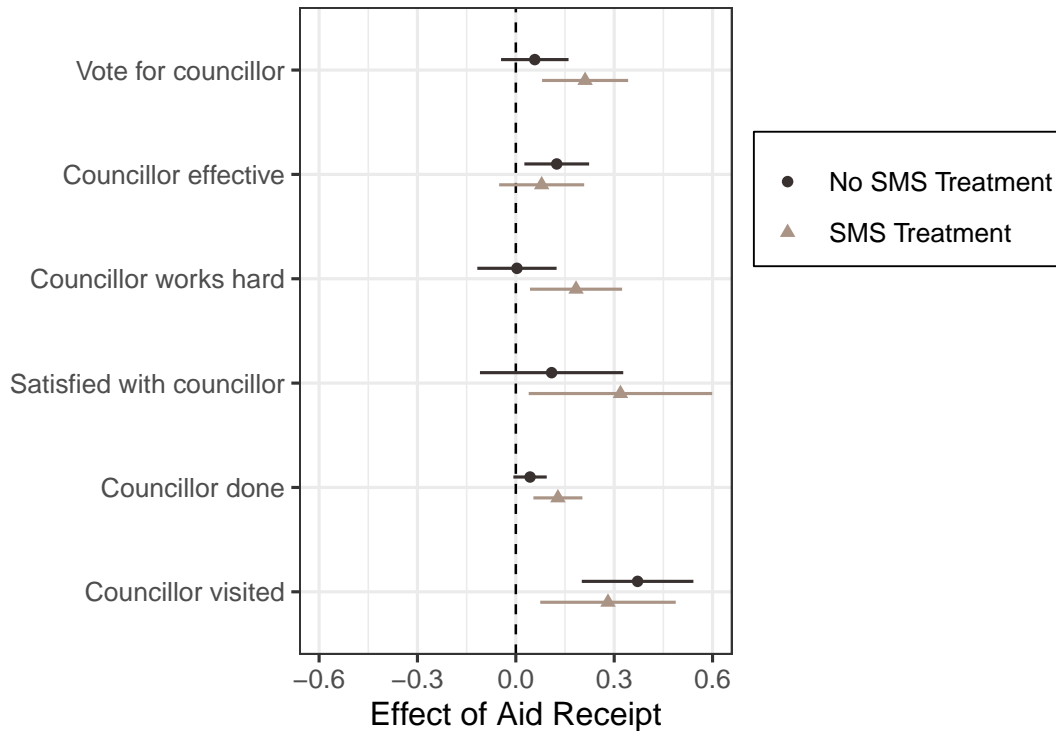
Consistent with H5, these effects are substantially larger when respondents are well informed about the aid delivery and the role of the incumbent in the allocation of the project. Among recipients of the SMS, we estimate nearly twice the treatment effect in most outcomes: effects on voting intention increases to 19 percentage points and satisfaction increases by 23 percentage points.

We also see evidence that respondents saw aid as evidence that the incumbent had done something for their community. Aid delivery was associated with visits from the incumbent. Respondents that benefited from aid saw a 15 percentage points increase in incumbent visits. This evidence of incumbent visits is consistent with politicians attempting to claim credit for their role in aid delivery (in fact, many of these visits occurred during the delivery).

We sometimes observe this credit claiming activity directly. When politicians that showed up during the aid delivery, we asked the delivery team to make a record of what politicians did. Councillors often claimed credit for the foreign aid. In the words of one of the delivery staff: "Councillors [use] the presentation ceremony as a political tool, talking too much about themselves." Consistent with my argument about retrospective voting, councillors frequently used this as an opportunity to talk – not about the project itself – but about what the project implies about their qualifications and their relationships with donors. For example, one councillor (stretching the truth) said that "[the NGO] conducted a competition," and that "the [elected officials] who did well" would receive development materials. He said he won the competition and that is why the school is receiving development materials. He added that he is the "right candidate in [the] coming elections," and he asked people to vote for him. He also added that he will "continue to work with [the NGO] in the future" and that he has a "strong relationship with [the NGO]" and he promised the community that he will "bring more development in the area through [the NGO]."

³⁷The results are also consistent if we exclude Group C (since trends in Group C are likely related to treatment, the estimand is differs across these specifications). We prefer this specification since the treatment estimate corresponds to an incumbent's net increase in votes. In Appendix A, I also show estimates of the average treatment effect (excluding an interaction with the SMS message).

Figure 2.2: Effect of aid receipt on outcome variables (95% CI)



Note: This plot shows the change in survey responses from baseline among aid recipients compared to non-aid recipients (Group A versus Group B and C). Reinforcement messages were not randomized in aid receiving communities: all respondents who provided a valid phone number were sent reinforcement messages.

2.5.2 Effects of Not Receiving Aid

We next consider how citizens respond when they failed to benefit from foreign aid. First, in Figure 2.3, we compare respondents who were eligible and not to receive foreign aid from the incumbent (Group C versus Group B).

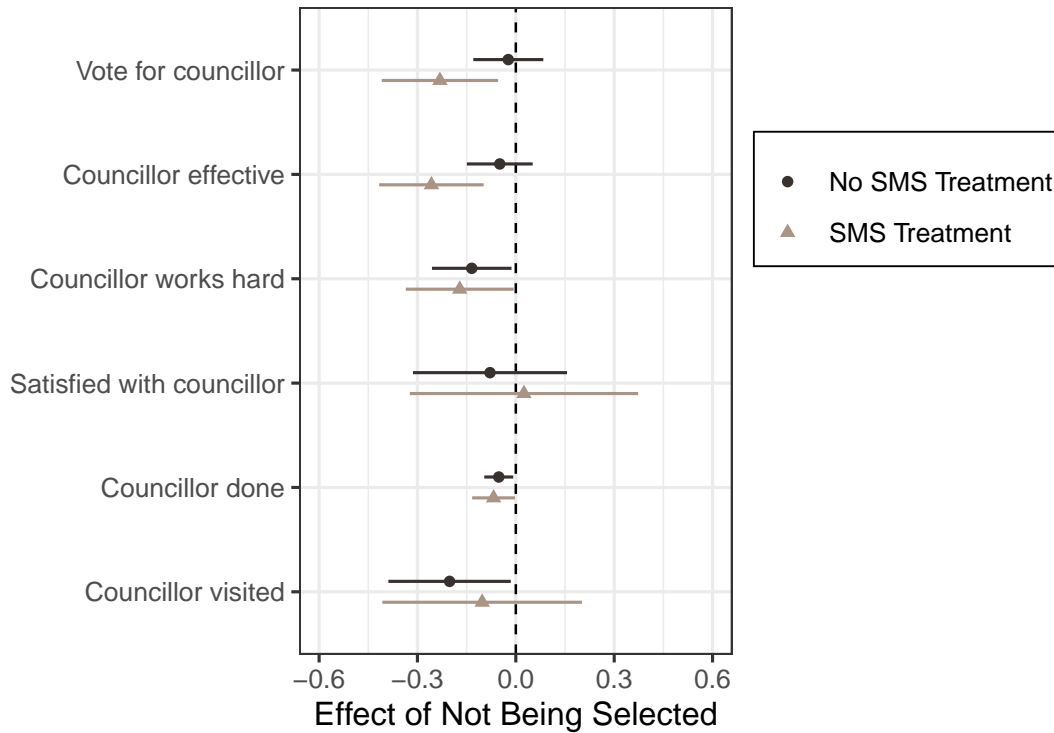
Recall, I hypothesized in H2 that communities which failed to benefit from aid would punish the incumbent when the incumbent was known to be involved in aid distribution (Group C), but not when the incumbent was not involved in the decision (Group B). The results are largely consistent with this hypothesis. On average, we see a mixed (but generally negative) trend in support for the councillor in Group C. This mixed effect is not particularly surprising given that respondents had little visibility into the aid delivery process and were unlikely to know that they were selected by the incumbent to receive aid.

The results change substantially when respondents received messages letting them know that they were not selected by the incumbent. Among these respondents we observe a sizable backlash. In Group C, we observe a 16 percentage point drop in intention to vote and a 20 percentage point drop in perceptions of incumbent effectiveness.

Finally, we consider how respondents behave who were selected by the incumbent but did not receive aid. In Figure 2.4 we show a comparison of Group B versus Group C. Here we observe no backlash against the incumbent. If anything, when respondents are informed about the fact that they were selected by the incumbent, they are more likely to have positive perceptions of the incumbent, even though they did not in fact benefit.

The contrast with the results in Figure 2.4 are stark. Even though both groups B and

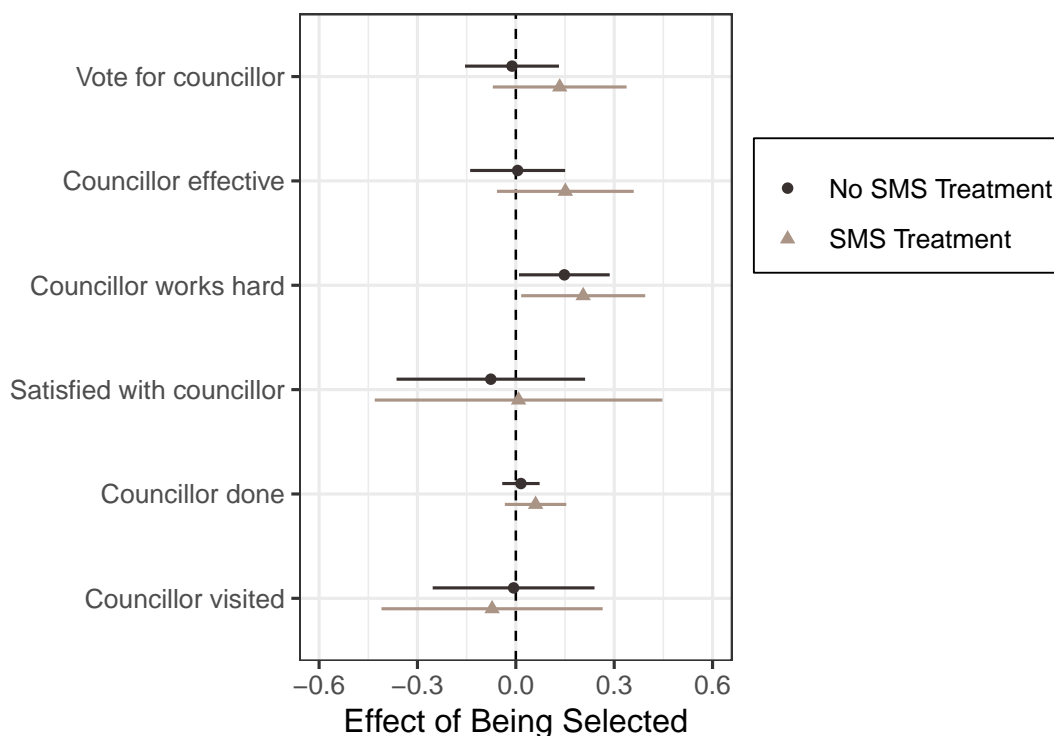
Figure 2.3: Effect of not being eligible for aid on outcome variables (95% CI)



Note: This plot shows the change in survey responses from baseline among those communities who were not selected by the incumbent to receive aid. Sample only includes respondents who were not in communities receiving foreign aid. Reinforcement messages was randomized among respondents who provided a valid phone number at baseline.

C failed to benefit from aid delivery, respondents only punished those incumbents who were responsible for the aid delivery decisions. In fact, politicians may have even benefited slightly from their attempts to locate aid in Group B, even when these attempts were not successful. This suggests that voters are quite sophisticated in how they interpret aid delivery and supports my argument that the electoral effect of aid works primarily by shifting perceptions of incumbent performance.

Figure 2.4: Effect of being selected (but not receiving) aid on outcome variables (95% CI)

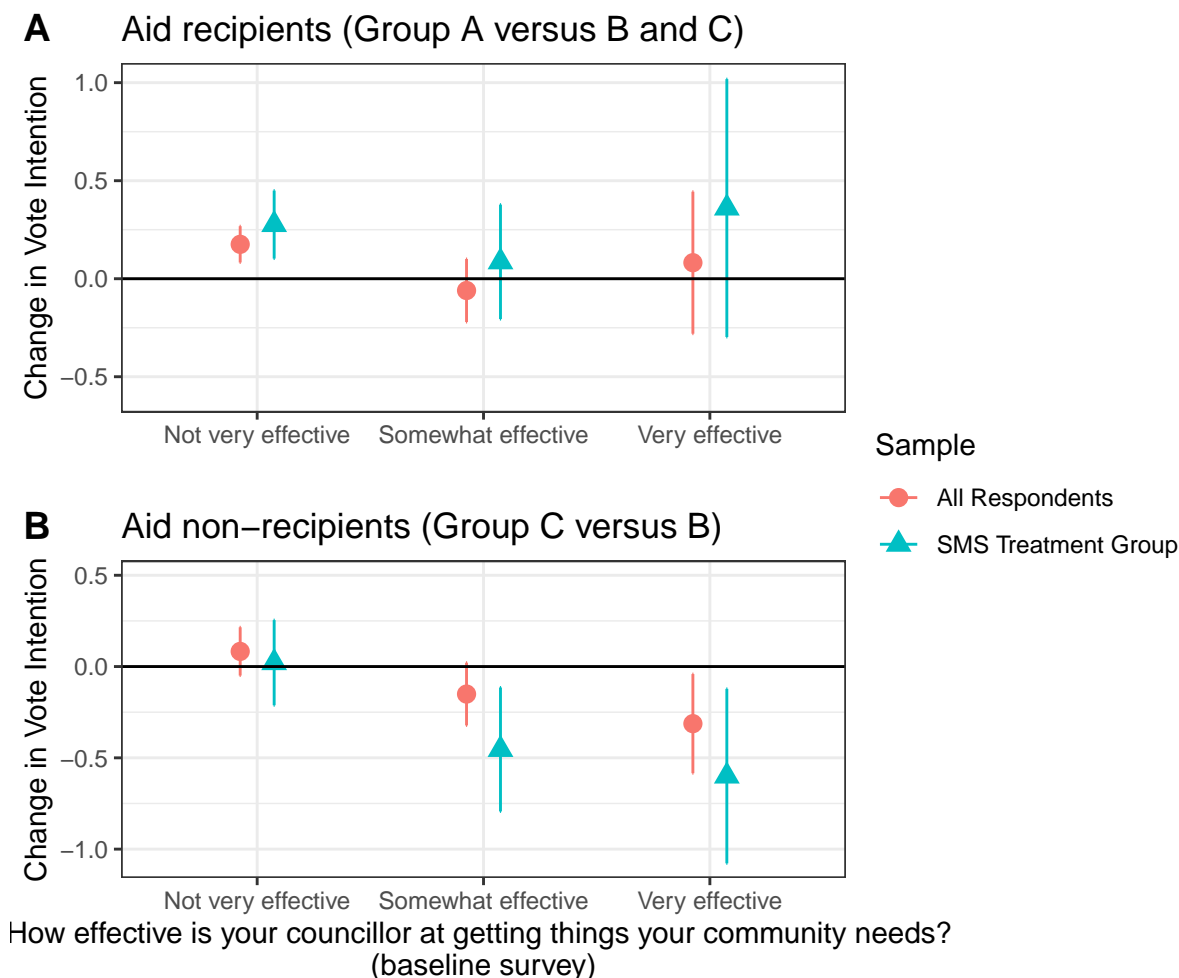


Note: This plot shows the change in survey responses from baseline among those communities who were selected by the incumbent to receive aid. Sample only includes respondents who were not in communities receiving foreign aid. Reinforcement messages was randomized among respondents who provided a valid phone number at baseline.

2.5.3 Effects of Respondent Priors

In Figure 2.5 I show how the effects of aid on vote intention vary by respondent priors on councillor effectiveness. Consistent with H4, the effects of aid on voter behavior appear to be conditional on respondent beliefs about councillor effectiveness. Respondents who believed the councillor was ineffective at baseline were particularly likely to respond to aid by changing their vote intention. Respondents who believed the councillor was very effective at baseline were particularly likely to sanction the incumbent for failing to deliver aid.

Figure 2.5: How respondent priors condition the effects of aid (95% CI)



Note: This plot shows the conditional effect of foreign aid among aid recipients (panel A) and among those who were not selected by the councillor (panel B). The effects are conditioned on baseline respondent beliefs about councillor effectiveness.

2.6 Conclusion

Scholars of foreign aid have traditionally argued that foreign aid benefits incumbents by allowing them to claim credit, build undeserved reputations for public performance, and limit reliance on tax revenue. While I do not deny that these mechanisms are part of the story, I contest the assumption that foreign aid is always beneficial for incumbents or harmful for democratic accountability.

Building on a framework of retrospective voting, I show that the effects of aid can be negative or positive for incumbents and for electoral accountability. Which effect dominates depends on the transparency of aid delivery, the distribution of benefits and the role of incumbents in the aid delivery process.

I evaluate this argument with a panel survey and SMS experiment. I show that recipients of aid are more likely to vote for incumbents and perceive incumbent performance as high. Further, we document that politicians often attempt to claim credit for foreign aid delivery, and that voters often attribute aid delivery to government action. Finally, I document through an SMS experiment that these effects are strongest among those that can clearly

attribute foreign aid to the actions of the incumbent.

However—and somewhat uniquely in the literature on aid—we also examine how perceptions of incumbent performance change among those who failed to benefit from foreign aid. The results among these respondents depend upon the involvement of politicians in aid delivery. Where politicians are responsible for not selecting a school, we document a sizable backlash against the incumbent. However when the NGO was responsible for not selecting a school, we see no backlash effect.

These findings help explain the heterogeneous effects of foreign aid on election outcomes. In contrast to what is often assumed, we estimate that the net effect of the project we study on incumbent votes would have been quite substantially negative if all respondents were well informed about aid delivery. We assert such negative effects are likely under-estimated in existing studies due to their inability to parse out geographical heterogeneity in aid benefits.

These results contest several tropes in the aid politics literature. For one, they suggest the citizens are much more sophisticated in their voting decisions and understanding of aid than scholars often given them credit for. Voters neither always attribute aid to incumbents, nor do they always attribute aid to NGOs. Instead, they appear to correctly update their perceptions in response to information about the role of incumbents in aid delivery.

I also contest arguments that foreign aid is bad for electoral accountability. When respondents in our study were well-informed, they acted in ways that should enhance accountability. Respondents who learned that they were favored by the incumbent, were more likely to support the incumbent. Respondents who learned that they did not receive aid were less likely to support the incumbent; however this effect dissipated when respondents learn that this was due to the actions of the NGO rather than the politician.

In summary, the results suggest that when voters are well-informed about the role of their government in aid delivery, foreign aid can enhance accountability. Scholars and policymakers worried about the erosion of accountability might be better off lobbying for more transparency rather than less aid.

Appendices

Appendix A

Further Details, Chapter 2

A.1 SMS Average Treatment Effects

In the main text, I show difference-in-differences estimates comparing the effects of foreign aid on changes in incumbent support. This estimate does not necessarily identify the effect of providing the SMS treatment since (1) not all respondents were eligible to receive SMS messages, and (2) the treatment effect on the treated could have plausibly spilled over onto untreated individuals.

To estimate the effect of the SMS message directly and independent of the effect of aid, we use the following estimation approach:

$$y_{ijt} = \beta_1 m_j + \beta_2 y_{ijt-1} + \epsilon_{ij} \quad (\text{A.1})$$

Here $m_j = 1$ if a respondent was sent an SMS treatment message and zero if a respondent was sent an SMS placebo message. Standard errors are clustered at the school level (the level of treatment assignment).

Since m_j was randomly assigned, β_1 should identify the causal effect of receiving an SMS message within each aid-eligible group in Table 2.4.1.

One important thing to note is that, for power reasons, we did not randomize the SMS treatment within the aid recipient group (Group A). So for this group, we estimate the following equation:

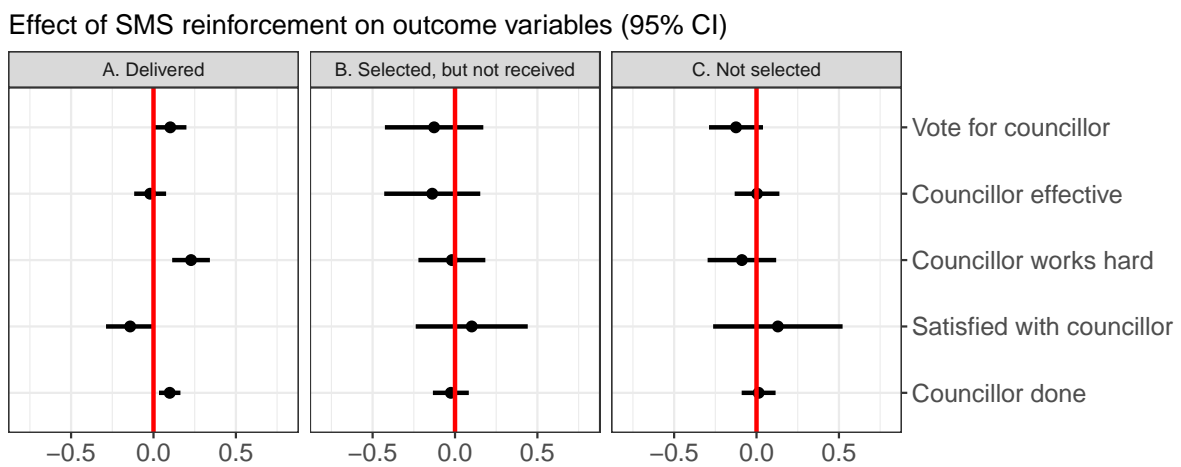
$$y_{ijt} = \beta_1 m_i^* + \beta_2 y_{ijt-1} + \epsilon_{ij} \quad (\text{A.2})$$

Unlike above, m_i^* equals one if a respondent was eligible to receive an SMS message (i.e. provided a valid phone numbers). It equals zero if a respondent was ineligible. Since there was no random assignment and respondents with phone numbers differ in important ways from those without, there are reasons to doubt that this is a causal estimate. For one, the SMS treatment effect is only identified under the assumption of parallel trends in outcomes across eligible and non-eligible respondents. As I discuss in the main text, this is likely a plausible assumption, however it cannot be confirmed directly. Additionally, since SMS recipients often communicated with others in their community, it is likely that estimates for

this group violate the stable unit treatment value (SUTVA) assumption. This spillover likely biases downward the treatment effect estimate.

The results in Figure A.1 are consistent with the predictions in the main text. We have comparatively weak statistical power in these tests ($N_s=575, 155$ and 255 for Groups A, B and C); so the 95% confidence intervals overlap with the null for some outcomes. However in Group A we can reject the null that the messages had no effect on voting intention or beliefs about incumbent work. In Group C we observe a negative effect on voting intention, though the estimate does not reach standard levels of statistical significance ($p = 0.13$). Consistent with predictions, the results in Group B are consistent with the null.

Figure A.1: Effect of SMS messages on outcome variables (95% CI)



Note: This plot shows the change in survey responses from baseline among those receiving an SMS treatment message compared to those receiving an SMS placebo message (except in the delivery group as described above).

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