Foreign Aid, Democratization, and Civil Conflict: How Does Democracy Aid Affect Civil Conflict?

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It has been suggested that democratizing states are prone to civil wars. However, not all democratizing states experience domestic political violence. We argue that one of the key factors that "shelters" some democratizing states from domestic political violence is the receipt of democracy aid. Democratizing states that receive high levels of democracy assistance are less likely to experience civil conflict than countries that receive little or no external democracy assistance. During democratic transitions, the central authority weakens and uncertainty about future political commitments and promises among domestic groups increases. Democracy aid decreases the risk of conflict by reducing commitment problems and uncertainty. Using an instrumental variables approach that accounts for potential endogeneity problems in aid allocation, we find empirical support for our argument. We conclude that there is a potential path to democracy that ameliorates the perils of democratization, and democracy assistance programs can play a significant positive role in this process.

The recent scholarly debate over the "dark side of democratization" has generated substantial attention over the last decade (Enterline 1996; Gleditsch and Ward 2000; Goldsmith 2010; Mann 1999, 2005; Mansfield and Snyder 1995, 2007, 2009; Narang and Nelson 2009). Mansfield and Snyder (1995) advance the argument that the transition to democracy can be violent, i.e., democratizing states are prone to interstate as well as civil wars. The authors contend that transitioning to democracy creates an environment permissive to the outbreak of a conflict by inducing exclusionary nationalism and polarization in the society. If democratization increases the risk of conflict, it creates a dilemma for external democracy promoters as well as for the countries that consider undertaking democratization. Is there a way to move towards democracy without facing the perils of democratization? How significant is

the risk of violence during democratization? These are the questions that motivate this research.

Interestingly, important exceptions to the democratization-conflict trend emerge: countries such as Burkina Faso, Tanzania, Malawi, and Kenya have all experienced a move towards democracy in the last 20 years without experiencing much civil conflict.[1] Are these cases exceptions, or is there a systematic pattern that explains the lack of violence in these countries during their democratization process? We argue that one of the key factors that "shelters" democratizing states from domestic political violence is the receipt of external democratization aid.

Scholars of intrastate conflict have shown that credible commitment problems facilitate the outbreak of civil conflict (e.g., Fearon 1998; Lake and Rothchild 1996). Building upon this literature, we propose that

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[1] These countries experienced at least a three-point increase in their net democracy score (democracy-autocracy) according to the Polity IV dataset and did not experience any domestic political conflict with at least 25 battle deaths during or up to four years after their democratization period (Gleditsch et al. 2002; Marshall and Jaggers 2002).

democracy aid can decrease the risk of conflict by mitigating the severity of commitment problems prevalent during the early phases of democratization. Democracy assistance programs help transitioning states not only strengthen their key political institutions such as the legislature and judiciary but also empower nonstate actors such as civil society organizations. Functioning political institutions increase the central government's ability to credibly signal its intentions to opposition groups and make future promises to the society. Similarly, using external electoral assistance programs to support democratic transitions provides additional credibility to the promises made by the state to the newly enfranchised domestic groups. Finally, the empowered civil society organizations can monitor the state's actions and thereby reduce the centralization of power and fears about state's intentions.

Although it does not constitute as large a portion of the foreign aid budget of Western democracies as development aid, democracy aid is gaining in importance. For example, the amount the U.S. Agency for International Development (USAID) has spent on democracy promotion programs has increased from $121 million to $722 million per year from 1990 to 2003 in constant 1995 U.S. dollars (Scott and Steele 2011). In this article, we investigate whether higher levels of external democracy aid can partially compensate for the instability created by democratic transition. The goal of this research is not to establish whether democracy aid is effective in increasing democratic governance. Recent work on democratization shows a mostly positive relationship between democracy aid and democratization (Finkel, Pérez-Liñán, and Seligson 2007; Kalyvitis and Vlachaki 2010; Scott and Steele 2011; Wright 2009). We are instead interested in whether the civil war propensity of democratizing countries that receive democracy aid is lower than that of countries that receive little or no aid. In other words, our goal is to assess whether democracy aid can provide political stability in a fragile environment.

The article proceeds as follows. In the next section, we review the existing literature on democratization and civil conflict and develop an argument about how democracy aid can help democratizing countries reduce the risk of civil conflict. In the following section, we test our argument using the OECD's governance and civil society promotion data between 1990 and 2003, including considerations for potential endogeneity problems in aid allocation. The findings provide strong and robust empirical support for our theoretical argument. Then, we briefly address some of the existing arguments against aid effectiveness and discuss how our research fits into this debate. We conclude by discussing our key argument, findings, and projecting avenues for future research.

Democratization, Civil Conflict, and Democracy Aid

The fact that democracies do not fight each other is one of the most well-established findings in international relations (e.g., Maoz and Abdoladi 1989; Maoz and Russett 1993; Oneal and Russett 1997; Ray 1998; Russett 1993; Russett and Oneal 2001). It is safe to argue that no other empirical regularity identified by international relations scholars has found as much resonance within the policy community as the "democratic peace" proposition. The rise in democracy promotion efforts by the international community since the 1990s is a testament to this argument (Carothers 1999; Diamond 1995).

Within this context, when Mansfield and Snyder (1995, 1997) proposed that democratization can be a violent process, it inevitably initiated a controversial debate in the literature. While several scholars lent support to Mansfield and Snyder's thesis (Hegre et al. 2001), a number of others have been more critical of its validity, particularly on methodological grounds (e.g., Enterline 1996; Gleditsch and Ward 2000; Goldsmith 2010; Narang and Nelson 2009; Vreeland 2008; Ward and Gleditsch 1998). Given the two competing positions, there is still no scholarly consensus on the subject.

How does democratization increase the risk of conflict? Snyder (2000) proposes that during the early phases of the democratization process, two conditions favorable to the initiation of civil conflict emerge: (a) political elites exploit rising nationalism for their own ends to create divisions in the society, and (b) the central government is too weak to prevent elites' polarizing tactics. More generally, democratization increases the risk of civil conflict by creating several credible commitment problems. First, the political elites have difficulty in trusting each other's intentions and promises. During regime transitions, political actors "find it difficult to know what their interests are, who their supporters will be, and which groups will be their allies or opponents" (Karl 1990, 6). The new and old political elites are wary of each other's intentions and hence are unlikely to believe that any promises made or concessions given during the transition period will be honored once central authority is consolidated. The key problem is that the elites perceive each other as "conditional in their support for democracy and equivocal in their commitment to democratic rules of the game" (Burton, Gunther, and Higley 1992, 31). The "equivocal commitment to democratic rules" increases the level of distrust and suspicion among the elites and thereby increases the risk of collapse of political rule.

If a state includes multiple ethnic groups, another credible commitment problem is likely to arise between the elites and domestic ethnic groups during early phases of democratization.[2] The weakening of state authority, combined with uncertainty in the environment, increases the sense of insecurity that comes with democratization (Pridham 2000). This insecurity is particularly acute among minority groups who feel unprotected in an environment of nascent institutions, opportunistic elites, weak state authority, and rising nationalism. Weingast (1998) demonstrates that during fundamental political changes in a society, institutions are typically weak and everything is at stake. This implies two things. First, the mechanisms limiting one ethnic group from using the state apparatus to take advantage of another are not effective. Institutions cannot credibly commit to protect the state apparatus from being captured by any group to exploit the other. Second, since the stakes are high during regime change, the critical threshold probability that breeds violence based on fears of victimization is particularly low (Weingast 1998, 191). That is, it does not take much for the minority group to resort to violence out of fear during regime change. The extant literature on civil wars shows that minority groups are more likely to resort to violence if they fear that there is a risk of annihilation in the future and the commitments made by the state are not credible (Fearon 1998).

We propose that democracy assistance programs can provide a potential constraining force on the risk of domestic political violence. That is, even if a state does not have strong institutions to manage the democratization process, democracy aid can provide an exogenous source of state strength, stability, and institutional credibility to smoothen the transition.

Before discussing how democracy assistance programs can help reduce the risk of civil conflict in democratizing countries, we need to define democracy assistance and differentiate it from development aid. Our focus is on foreign aid given primarily for *democracy promotion.* According to Carothers, democracy promotion programs consist of "aid that is specifically designed to foster a democratic opening in a non-democratic country or to further a democratic transition in a country that has experienced a democratic opening" (1999, 6).[3] For

analytical purposes, we divide democracy assistance programs into three categories: (a) state institutions, (b) civil society, NGOs, and the media, and (c) electoral assistance. We discuss how by bolstering both state institutions and civil society, which supports both top-down and bottom-up democratization, democracy aid can lower the risk of domestic political violence during the early phases of regime transition.

One of the central goals of democracy aid is to help transitioning states establish democratic governance. Aid programs are designed to assist democratizing states adopt key principles such as the decentralization of political power and increased transparency and accountability as they develop democratic institutions. By training state officials and providing necessary financial resources, democracy assistance programs can increase the legislature's capacity to shape and monitor policy and strengthen its oversight capacity in recipient countries.

The U.S. Agency for International Development's (USAID) role during the Indonesian transition from Suharto's regime to democracy in 1999 is a case in point. The end of Suharto's regime unleashed religious, economic, and ethnic tensions in Indonesia with a potential to lead to a full-scale civil war. The Office of Transition Initiative (OTI), operated by the USAID, was influential in assisting the Indonesian government with the implementation of a series of democratic reforms. For example, as a part of decentralization of political power, the new Indonesian government enacted a series of laws that gave strong powers to local administrations across the country. This was an important step for reducing the concentration of power in the center and thereby alleviating minorities' fear of exploitation in the future. In return for decentralization, local public officials were expected to be fully accountable to their constituents. Yet, being the first popularly elected local officials in Indonesia, these officials' ability to run a transparent and efficient local government was of great concern for the public. The USAID's assistance in training local officials and setting up procedures to improve accountability and efficiency at the local level was an important step in alleviating some of the concerns and distrust held by the Indonesian public about the new regime's ability to govern fairly.[4]

Democracy aid can also contribute to democratic governance by strengthening a country's judicial institutions and the rule of law. In authoritarian regimes, courts are usually treated as adjuncts to the regime in

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[2] The same argument can be applied to class divisions as well. However, the extent of commitment problems is likely to be weaker between different classes as class divisions tend to be more fluid and hence less threatening than ethnic divisions (Kauffmann 1996).

[3] This definition excludes, inter alia, the imposition of democracy by covert or overt means (such as Germany after WWII) and indirect support for democracy (such as aid for education and economic growth).

[4] More information on this incident can be found at http://www.usaid.gov/our_work/cross-cutting_programs/transition_initiatives/country/indones/progdesc.html. Accessed on January 6, 2010.

power. Therefore, in most democratizing states, judicial independence is limited and institutions have not yet developed the capacity to implement the existing law. Aid money can be used for legal reforms, administration of justice, training judges, helping write detailed constitutions, and providing resources to improve citizens' access to justice. Strengthening the judiciary is important for political stability as a strong judiciary implies the rule of law and increased legitimacy of the state. Increased legitimacy in turn improves a state's credibility in the eyes of the society.

Support for political parties is another essential component of democracy assistance programs. Strengthening political parties has been a major component of the aid programs extended by the Western European countries (Carothers 1999). Political parties, especially the inclusive ones, impose a structure to the chaotic political process during the transition period by aggregating interests into broader governing coalitions and bridging social cleavages. By doing so, they help decrease uncertainty about intentions and actions of key political actors. Political parties also help with commitment problems as it is easier to negotiate and strike successful bargains among well-defined parties than individuals.

In sum, by contributing to the establishment of democratic governance in transitioning states, democracy aid can improve a state's legitimacy and credibility in the eyes of the political opposition and public and bolster a state's capacity to deal with the elites' potential divisive tactics. Admittedly, strengthening the legislature, judiciary, or political parties of a democratizing state is not a guarantee that the rules of the game will be respected or the fears of the minority about the state's intentions will be eliminated.

Democracy aid potentially can help bolster state institutions; however, it may not always be the case that new "democrats" will not be prone to "undemocratic" tendencies. In addition, it would be harder for democracy assistance to improve the public trust in the legitimacy of the state if aid is perceived as a tool used by foreign powers to further their interests. This is where the importance of empowering civil society and providing electoral assistance comes into play.

Civil society refers to the "multitude of non-state associations around which society organizes itself in accordance with their specific needs and agenda of interests" (Hansen 1996, 12). It includes associations that organize around functional interests (business, labor, and professional associations), sectoral concerns (education and the environment), and matters of general public interest (human rights and civic education associations) (13). Not all elements of civil society have necessarily prodemocracy

inclinations. However, most of these organizations have the potential to champion democratic reform.

Supporting proreform civil society organizations is an important component of democracy promotion programs. For example, between 1990 and 1997, more than 56% of the U.S. National Endowment for Democracy (NED) disbursements went to civic and labor organizations (Scott and Steele 2005, 448). One important function of civil society organizations is to limit state power and subject the government's actions to close public scrutiny. They do so by monitoring public institutions and disseminating information about the government's actions. However, most civil society organizations in states coming out of authoritarian rule have weak foundations. Democracy assistance programs can increase the watchdog capabilities of civil society organizations and NGOs by providing technical and financial assistance. Democracy aid given to civil society organizations can also empower moderate "prodemocracy" actors in the society vis-à-vis the extreme groups and/or the ones with authoritarian tendencies (Finkel, Pérez-Liñán, and Seligson 2007; Scott and Steele 2011).

Electoral assistance programs are another critical channel through which external actors can help domestic actors monitor state actions. Electoral support can provide some degree of legitimacy and credibility to the promises made during the elections, validate fairness of elections, and impose constraints on the free reign of the elites. To ensure free and fair elections, aid agencies can become involved in a variety of activities from designing electoral systems, supporting voter education, training domestic observers, to actually providing election monitoring. External support during the election process may be critical in dampening domestic political violence as it may contribute to increasing public confidence that the outcome of the election is not the result of manipulation or fraud.[5]

For example, the United States, Canada, the European Union, and the Netherlands extended around $12 million to the National Electoral Commission of Ghana to enhance its capacity to facilitate free and fair elections in 1996 (Devarajan, Dollar, and Holmgren 2001; Jeffries 1998). In addition to the financial aid, the donors were actively involved in voter education programs on registrations, elections rights, and responsibilities in Ghana

[5] We do not ignore the possibility that election monitoring is not always effective in gaining the trust of the public and hence reducing ethnic tensions. One instance where this may happen is when the monitors believe that endorsing the incumbent will decrease already mounting ethnic tensions (Kelley 2009). Although we believe that future work on democracy assistance will benefit from a more nuanced treatment of the credibility of monitors, this is outside the scope of our research.

(Jeffries 1998). The presence of external actors during the 1996 elections signaled to the Ghanaian public that it was unlikely that the outcome of the election was manipulated by the government. That is, the external validation of the 1996 elections in Ghana through democracy assistance programs kept the uncertainty and potential undemocratic tendencies of the elites at a minimum level (Gyimah-Boadi 1999).

In sum, external democracy aid can strengthen newly established political institutions, bolster state legitimacy, and act as a "validation" of promises that the new government makes, and thereby decrease the risk of domestic political violence. Carothers (1996) argues that even if democracy assistance programs fail to produce the desired effects in some countries, they still can be important in boosting the morale and commitment of the public in the early stages of the democratization process. Improving the public's morale and commitment to the democratic principles during the democratization period may be critical for maintenance of domestic political stability as improved commitment to democracy is likely to decrease attacks on the new regime. Therefore, we hypothesize that:

Hypothesis: Democratizing states that receive high levels of external democracy aid are less prone to civil wars than democratizing states that receive no or low levels of democracy aid, holding everything else constant.

Research Design, Empirical Models, and Findings

The sample for our study is composed of Official Development Aid (ODA) eligible countries between 1990 and 2003.[6] There has been a steady increase in the number of democracy aid recipient countries over the years. While only 30 countries received OECD democracy aid in 1990, this number increased to 76 in 1995, and 134 countries received democracy aid in 2003. The unit of analysis is country-year.[7]

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[6] Since the OECD democracy aid measure is a subset of Official Development Assistance (ODA), we consider countries that are eligible for ODA (Part I) or Official Assistance (Part II) to also be eligible for democracy aid. Classification in either of these categories is determined by the recipient's level of development. The classifications are taken from Annex 1 of the DAC Statistical Directives (2000). We begin our empirical analysis in 1990 as the bulk of disbursements began in that year and later.

[7] Descriptive statistics for the key variables are provided in Supporting Information (SI).

The main theoretical variable of interest is the level of democracy aid. The data for this variable come from the OECD's categorization of aid as intended for "Government and Civil Society." The OECD defines aid aimed at good governance as aid intended to enhance "the accountability, efficiency, and effectiveness of the official sector," while aid for democratization "integrates participation and pluralism, including the right of opposition, into the political life of the country and provides a basis for legitimacy of the government" (OECD 2007, 118).[8] Democracy aid also includes aid intended to increase the respect of human rights, gender equity, and participatory development, among other elements. *Democracy Aid* is measured as bilateral aid disbursements per 1,000 citizens from OECD members to recipients in constant 2005 USD.[9]

The dependent variable is *Conflict Initiation*, a dummy variable assuming a value of 1 for a given year if a domestic conflict with at least 25 battle deaths begins after at least two years without an initiation. We use the UCDP/PRIO Armed Conflict dataset for this variable (Gleditsch et al. 2002).[10]

We measure democratization as the change from year *t-2* to year *t* in the 21-point Polity score from the Polity IV data (Marshall and Jaggers 2002). *Democratization* is coded 1 if a country experiences a 3-point or more positive change in its Polity score during the previous two years, and 0 otherwise. This measure of democratization is similar to one used in other studies assessing effects of democratization (Morrison 2009; Smith 2004; Wright 2009). Given the conditional nature of our hypothesis, we construct an interaction of *Democracy Aid* and *Democratization*.

Also included in the models are a set of factors shown to be robust predictors of civil war initiation (see Collier and Hoeffler 2004; Fearon and Laitin 2003). *Growth Real GDP per capita* is a measure of per capita GDP growth, expressed as the percentage change in 2000 constant prices, while *Real GDP per capita* measures the real GDP per

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[8] Due to the fact that the aid purpose coding is done by the OECD donor countries themselves, it is possible that some coding errors, intentional or unintentional, may be present within the data. However, in the absence of independently verifiable alternatives for data on democracy aid disbursements, we believe that the OECD data are the best available for our purposes.

[9] We deflate our aid measure by population to account for differences in country size.

[10] To determine whether the effect of democracy aid holds for the initiation of larger-scale conflicts, we ran an additional model where the dependent variable is the onset of a 1,000 – battle death conflict. The results, presented in SI Table 7, Model 16, show that democracy aid reduces the risk of major civil wars during the democratization process.

capita in constant 2000 U.S. dollars. *Population* is the natural log of the recipient's population (in thousands). Each of these variables is taken from the Penn World Tables (Heston, Summers, and Aten 2006). *Democracy* is the recipient country's Polity score from the 21-point scale as a measure of the existing regime type. Larger values of *Democracy* indicate increased levels of democracy while smaller values show higher levels of autocracy.

It is also important to account for temporal dynamics in grouped duration data (Beck, Katz, and Tucker 1998). In order to capture temporal dynamics within our models, we utilize three cubic splines and a time-counter, *Peace Years,* which measures the period since the last conflict initiation. We also include a dummy measure, *Conflict, Prior Year,* indicating whether there was an active conflict in the prior year. The data for this measure are taken from the UCDP/PRIO Armed Conflict dataset (Gleditsch et al. 2002).[11]

Model 1 in Table 1 presents the result of our base logit estimation.[12] In line with our expectations, the interaction of *Democracy Aid * Democratization* is negative, and the conditional coefficient of *Democracy Aid* and the interaction term is statistically significant.[13] This suggests that democratizing states that receive higher levels of aid are less likely to experience conflict than those that receive less aid. Substantively, the conflict-dampening effect of every dollar of aid per thousand citizens is around 4%.[14] This finding supports our hypothesis. We also find that democratization is conflict enhancing: democratizing states which do not receive democratization aid are over four times more likely to experience civil wars than nonaid recipients. *Democracy Aid* is itself statistically insignificant, indicating that democracy aid has no effect upon the likelihood of experiencing a conflict outside of democratization. Since our expectation of the effect of aid on conflict pertains to the democratization period, this is not a surprising finding. Of the controls, higher levels of economic development reduce the probability of

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[11] All variables are lagged one period unless otherwise noted.

[12] We also ran a base model using only the primary variables of interest, *Democracy Aid, Democratization,* and *Democracy Aid * Democratization.* The results of the base model are largely similar to those of Model 1, suggesting that our findings are not an artifact of model specification.

[13] The calculated marginal effect is −0.042 with a standard error of 0.0238, which is statistically significant at the 90% confidence level.

[14] Since we use a logit estimator, the magnitude of the coefficient can be obtained by exponentiating the coefficient, in this case $e^{-0.042}$, which yields 0.96. This suggests that a country receiving a dollar of *Democracy Aid* for every 1,000 citizens during democratization has a relative risk of experiencing a conflict of 0.96, which, compared to the baseline of 1.00, is a 4 percentage point reduction.

TABLE 1   Logit Estimates of Civil War Onset, 1990–2003

	Model 1
Democracy Aid	0.00009
	(0.0001)
*Democracy Aid * Democratization*	−0.042*
	(0.024)
Democratization	1.48***
	(0.55)
Democracy	−0.026
	(0.028)
Growth Real GDP per capita	0.0065
	(0.011)
Real GDP per capita	−0.0002***
	(0.00007)
Population (logged)	0.312***
	−0.112
Conflict, Prior Year	−0.356
	(0.33)
Peace Years	0.033
	(0.115)
Constant	−4.75***
	(1.06)
N	1600
Pseudo Log-Likelihood	−196.56
Akaike Information Criterion	419.11

Clustered robust standard errors in parentheses.
*p < 0.1, **p < 0.05, ***p < 0.01 (one-tailed).
Estimated with three cubic splines (not reported).

an initiation, while countries with larger populations are more likely to experience conflict.

One important issue researchers need to address when they estimate the effect of aid on conflict is the possibly *endogenous* process of aid allocation. If the presence or immediate threat of a conflict influences donors' decision-making calculus regarding whom to give aid and how much to allocate, the model would be nonrecursive and potentially biased. This is of particular concern if donors anticipate the outbreak of conflict and adjust the aid allocation accordingly.[15] If donors decrease aid

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[15] The endogenous nature of aid described above is a short-term phenomenon. There may also be a form of long-term endogeneity, however, if donors systematically avoid countries which are generally perceived to be more conflict prone. To determine whether donors systematically condition their aid on more general perceptions of the likelihood of conflict, we ran models of aid allocation including whether a country experienced a civil conflict in the prior five years. The results, available from the authors, show that prior civil conflict has no statistically significant effect upon aid allocations.

to countries in which a conflict is thought to be imminent, aid would then go predominantly to countries at peace, and a pacifying effect of democratization aid may be a reflection of this selection. A priori, however, we cannot exclude the possibility that donors might actually increase the amount of aid flows to war-prone countries due to strategic considerations.[16]

Lagging aid flows may be a potential way to deal with such endogeneity concerns. However, as de Ree and Nillesen argue, lagging aid may take care of reverse causality bias but may be insufficient to deal with omitted variable bias as donors may adjust the level of aid they are willing to extend in *anticipation* of conflict in recipient countries (2009, 305). A more systematic way to deal with the endogenous process of aid allocation is the use of instrumental variables (IV) analysis. The basic intuition behind the IV approach is to estimate the endogenous variable, in our case the level of aid allocation, using an exogenous variable(s) that is (are) correlated with the endogenous variable but uncorrelated with the dependent variable, in our case civil conflict onset, beyond its effect on the endogenous variable (Angrist and Krueger 2001; Angrist and Pischke 2009).

For our IV analysis, we base our models on those adopted by other studies which analyze the effect of endogenous regressors (economic growth and aid allocations, respectively) on conflict.[17] In line with these studies, we estimate the effect of democracy aid on conflict initiation using the Instrumental Variables Two-Stage Least Squares method (IV-2SLS).[18]

The validity and reliability of IV estimation depend crucially upon the selection of the instruments. A good instrument needs to satisfy two important criteria: (a) it must be correlated with the endogenous variable; and (b) it must not have a direct causal effect upon the dependent variable (or by extension the error component of the estimation). These criteria imply that any changes in the dependent variable that may result from changes in the values of an instrument must be attributable to the endogenous variable and must be unrelated to the reciprocal relationship between the dependent variable and the endogenous variable.

We use two instruments for *Democracy Aid*. First, following de Ree and Nillesen (2009), we use *Donor GDP* as an instrument of aid flows. *Donor GDP* measures a logged average of the annual GDP in millions of constant 2000 USD of three major OECD aid donors: the United States, France, and Sweden. These donors are selected given their representative nature of three different types of aid donors.[19] The data for this measure are taken from the World Bank World Development Indicators. *Donor GDP* is lagged two periods prior to the observations for *Democracy Aid.* We select this measure on the understanding that aid allocations should be related to the economic health of the donor; when the donors are experiencing economic growth, aid allocations should increase. However, when donor economies are slumping, aid allocations may diminish if more funds are diverted towards the domestic economy. The second desirable property of *Donor GDP* is that it is a priori exogenous to conflict initiation in the recipient country; it is difficult to identify a mechanism by which the economic performance of the donor countries could have a direct effect upon conflict initiation in the recipients, so any effect should be indirect and through donor aid allocations.

Although *Donor GDP* is enough to identify the equation (that is, providing as many instruments as there are endogenous regressors), using it as the sole instrument may be insufficient. Since *Donor GDP* will be the same for each recipient country in a given year, it will help explain differences in aid allocations between years but it will not explain variation within years and between recipients. Therefore, we also select a second instrument which varies according to the characteristics of the recipient to account for within-panel heterogeneity.

For our second instrument we use *Affinity with U.S.,* which measures the change in the annual *Affinity* measure generated by Gartzke and Jo (2002).[20] *Affinity* calculates the similarity in two countries' votes in the United Nations General Assembly (UNGA) in a given year on a scale from −1 to 1, with higher values indicating greater similarities in member votes. We interpret *Affinity* as a measure of the similarity (or divergence) in the interests of the recipient state with the United States.[21] Therefore, positive changes in *Affinity with U.S.* represent convergence in the states'

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[16] Balla and Reinhardt (2008) find heterogeneity among donors of ODA, with some increasing aid to countries in conflict (or bordering conflict), while others decrease aid to these countries.

[17] Specifically, we follow Miguel, Satyanath, and Sergenti (2004) and de Ree and Nillesen (2009).

[18] Given the issues regarding estimation of endogenous variables in a maximum-likelihood framework, IV-2SLS is a more consistent estimator than alternatives which utilize maximum-likelihood frameworks. For further discussion of these issues, see Miguel, Satyanath, and Sergenti (2004) and Angrist and Krueger (2001).

[19] See Alesina and Dollar (2000) for a discussion of different types of aid donors.

[20] Of the four available *Affinity* scores, we utilize the variant that trichotomizes the potential voting outcome and interpolates missing observations. We use the fifth lag of the changed in *Affinity* to reduce the likelihood of endogeneity.

[21] Bearce and Bondanella (2007) also use this interpretation of *Affinity*.

interests, while negative changes indicate movement towards −1, or increasing dissimilarity in the interests of the two states.

We use the recipient's affinity with the United States for a number of reasons.[22] The first is that the United States is one of the largest donors of democracy aid. Additionally, the United States has traditionally had a strategic interest in promoting and protecting democracy abroad. We therefore expect that a state's *Affinity* with the United States should be related to democratization aid allocations, satisfying the first criterion for instruments described above. Since it is also a measure of external policy orientation, it should be sufficiently exogenous from domestic conflict initiation to satisfy the second criterion.[23]

Having identified our instruments, we implement IV-2SLS analysis in the following manner. First, we regress *Democracy Aid* on our instruments to ensure that instruments are indeed related to democracy aid. Model 2 in Table 2 presents the first-stage results of the IV-2SLS estimation.[24] The results show that both instruments are significant predictors of the endogenous variable-democracy aid. To further assess whether the instruments satisfy the first criterion, we need to consider the F-test and the partial R^2. For an instrument to be relevant, the F-statistic needs to be at least 10 and the partial R^2 should be at least 0.10 (Shea 1997; Staiger and Stock 1997). In our model, the F-statistic is 25.62 ($p < 0.01$) and R^2 is 0.13. Based on this F-statistic we can also reject the null hypothesis of weak instruments proposed by Stock and Yogo (2002). Overall, the results indicate that the instruments satisfy the first criterion by showing covariation between the instruments and the endogenous variable.[25]

Second, we need to show that the instruments can be omitted from the second-stage equation without in-

ducing bias: i.e., the instrument should only affect the dependent variable (conflict) operating through the endogenous variable (democracy aid) as the key "channel" or "mechanism."[26] This is an intrinsically untestable assumption. It is often very hard to identify the exact mechanism through which the instrument is associated with the dependent variable (Miguel, Satyanath, and Sergenti 2004). However, as stated above, we have theoretical grounds to believe that our instruments comply with the exclusion restriction, and the empirical results are also favorable. The Sargan-Hansen statistic, which adopts a null hypothesis that the instruments are uncorrelated with the error term, is statistically insignificant at conventional levels.[27] By failing to reject the null assumption of the test, we find evidence in support of our second criterion for instrumental variables. Taking the results of all three empirical tests of our criteria, we have joint evidence that our instruments perform adequately on each criterion and are satisfactory for our purposes.

Model 3 presents the second-stage estimation of the impact of democracy aid on conflict. The second-stage regression uses instrumented values of *Democracy Aid* estimated in the first-stage model as a substitute for observed values of *Democracy Aid* in the second stage. The results indicate that *Democracy Aid* has a dampening effect on the likelihood of conflict initiation.

The results of the above analysis suggest that the instrumented *Democracy Aid* satisfies the criteria for a good instrument. However, as our hypothesis directly addresses the conditional nature of the relationship between democracy aid and democratization, we also present an instrumented interaction term.

Since our endogeneity concerns extend only to our measure of democracy aid, and we have already determined that we have a valid measure of this concept, we use this instrument to generate the interaction. We do this by estimating the first-stage equation as in Model 2, and then capturing the predicted value of *Democracy Aid* and interacting it with *Democratization*. We then use these values in a second-stage estimation using fixed-effects ordinary least squares with bootstrapped standard errors.[28]

The second-stage results of this procedure are presented in Model 4. As in Model 1, the sign on the

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[22] Using affinity with the United States only also reduces the possible number of channels through which *Affinity* and conflict could be related. Were we to include more donor countries in the *Affinity* measure, we would be increasing the risk of possibly violating the exclusion restriction while gaining little information from the variable (as the affinity measures for France, Norway, Switzerland, Sweden, and the United Kingdom are all highly correlated with each other, at 0.93 or above).

[23] Although we cannot test the exclusion principle directly, we ran an alternative estimation of the IV model that includes alliance ties between the United States and the recipient country, which could be related to *Affinity* and hence potentially affect the risk of conflict onset. The results of the model, presented in SI Table 4, show that our conclusion remains valid.

[24] We used the *ivreg2* routine for STATA to estimate IV-SLS models, written by Baum, Schaffer, and Stillman (2007).

[25] The constant in Model 2 may seem large, but is in fact only approximately $112 in aid per capita.

[26] The results of our reduced form regression, in which the excluded instruments are regressed on the second-stage dependent variable, show that each instrument is statistically related to conflict initiation when democratization aid is omitted from the model. The results are available from the authors.

[27] We also reject the null hypothesis that the model is underidentified (results not reported).

[28] This is similar to the procedure used by Bearce, Flanagan, and Floros (2006) and Wright (2009).

TABLE 2 Instrumental Variables Analysis Results

Dependent Variable	Model 2 IV-2SLS First Stage Democratization Aid	Model 3 IV-2SLS Second Stage Conflict Initiation	Model 4 IV-2SLS Instrumented Interaction Conflict Initiation
Democracy Aid		−0.00002**	−0.00004***
		(0.00001)	(0.00002)
Democracy Aid ∗ Democratization			−0.00008**
			(0.00004)
Excluded Instruments			
Donor GDP	3990.7***		
	(564.22)		
Affinity with U.S.	−326.08***		
	(113.86)		
Democratization	−145.05	−0.001	0.013
	(160.89)	(0.018)	(0.035)
Democracy	20.78**	−0.0004	0.002
	(10.21)	(0.0009)	(0.003)
Growth Real GDP per capita	2.05	0.0002	−0.0002
	(3.69)	(0.0005)	(0.0006)
Real GDP per capita	−0.059***	−0.000003***	0.000002
	(0.009)	(0.0000008)	(0.000003)
Population (logged)	−225.48***	0.004	0.026
	(37.05)***	(0.006)	(0.08)
Conflict, Prior Year	−163.83*	0.003	−0.15***
	(90.56)	(0.017)	(0.04)
Constant	−111965.2***	0.029	−0.156
	(16033.32)	(0.053)	(0.713)
N	1478		1478
Number of Clusters	129		129

All variables lagged one year unless otherwise noted.
Robust standard errors clustered by country in parentheses.
Bootstrapped standard errors in parentheses in Model 4.
*p < 0.10, **p < 0.05, ***p < 0.01 (one-tailed).

interaction term is negative and statistically significant, in line with our hypothesis. That this result holds even controlling for potential endogeneity provides a stringent test of the hypothesis. The other advantage of our approach is that the second stage is estimated using fixed effects, controlling for unobserved qualities of the recipient countries which may also affect conflict propensity.

We ran a series of additional tests to assess the robustness of the main results presented in Table 1.[29] First, we excluded the U.S. portion of democracy aid to examine whether the United States may be unduly affecting our results. It does not. The results are also robust to the inclusion of Official Development Assistance (ODA), a potential alternative source of revenue to the government during democratization. Then, we ran models with ethnic fractionalization, a series of regional dummies, and a population-averaged logit to alleviate concerns about omitted country variable bias. In each model the effect of democracy aid on civil war onset during democratization remains negative and statistically significant. The results also remain the same using a logged measure of democratization aid to ensure that potential skewness in the aid measure is not influencing the results.

Finally, some have questioned the use of the Polity democracy scale in predicting the onset of civil conflict given that particular subcomponents of the Polity

[29] Due to space considerations, we briefly discuss the results of selected robustness tests here. The model estimates and expanded discussion of the full set of robustness tests are presented in SI.

FIGURE 1   Predicted Probability of a Conflict Onset During Democratization
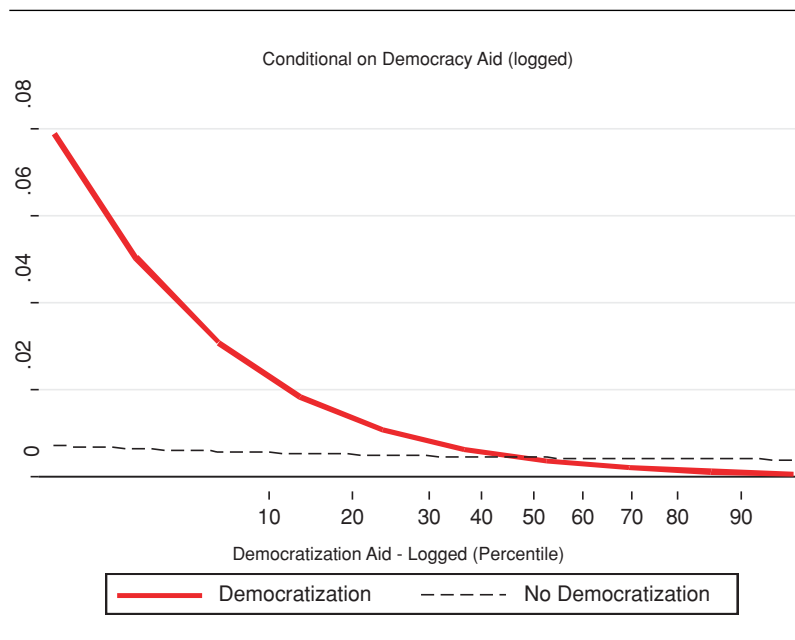
measure reflect domestic violence (Vreeland 2008).[30] We address these concerns by estimating two new models using additional indicators of democracy: the Freedom House index of political rights and Vreeland's (2008) measure of Polity, "xpolity," which omits the subcomponents linked with domestic conflict. The results of the estimates using these alternative democracy measures are supportive of our original findings. The robustness of the estimated effect to various measures of democracy gives us confidence that our results are not an artifact of Polity IV coding rules.

What is the substantive effect of democracy aid on the risk of civil war? Figure 1 presents a graph of the predicted probability of a conflict initiation during democratization, conditional on the receipt of democratization aid.[31] In line with Mansfield and Snyder's democratization thesis, we see that democratizing states, on average, face a higher risk of civil conflict than nontransitioning states. However, the probability of conflict onset during democratization decreases as the amount of aid received

increases. For example, countries at or above the 40th percentile of democratization aid within the sample have a risk of conflict initiation during democratization which is similar to that of a nondemocratizing country. Figure 1, therefore, suggests that the aid effect is substantively as well as statistically significant.

The Debate on Aid Effectiveness

One potential criticism against our article might come from scholars who contend that foreign aid has no or a negative effect on the democratization process in the recipient country (e.g., Djankov, Montalvo, and Reynal-Querol 2008; Knack 2001, 2004). The common argument against the effectiveness of aid is that aid reduces the government's accountability by reducing its need for taxes. The assumption is that aid goes to the central government and decreases the government's incentives to collect taxes (similar to oil-producing countries) and thereby reduces the government's accountability to the public.

However, this argument is not very applicable to our study for two reasons. First, most existing studies of foreign aid utilize the Official Development Assistance (ODA) as a measure of aid. We argue that this is not a proper practice as it conflates the effect of democracy assistance programs with the effect of aid given for purposes other than democratization. Although the promotion of democracy may be a by-product of aid allocated for

[30] Treier and Jackman (2008) show that the Polity democracy scale also suffers from measurement error.

[31] The figure was created using the STATA code for multiplicative interaction models with binary dependent variables provided by Matthew Golder. The figure is estimated using a probit version of Model 1, which generates the estimated probability of conflict initiation using a Monte Carlo process with 10,000 repetitions. For presentation purposes we also use the log of democracy aid in the estimation.

economic development, it is unfair to expect such aid to have a significant effect on democratization of the recipient country.

Indeed, the recent revisionist work on aid efficacy shows that when democracy promotion aid is isolated from development aid, democracy aid increases democratization. Finkel, Pérez-Liñán, and Seligson (2007), using democracy promotion assistance programs extended by the U.S. Agency for International Development (US-AID) between 1990 and 2003, show that democracy assistance is a significant predictor of democratization in recipient countries. More recent empirical studies by Kalyvitis and Vlachaki (2010) and Scott and Steele (2011) give additional credence to Finkel, Pérez-Liñán, and Seligson's (2007) finding: democratic aid flows are positively associated with a move towards democracy in recipient countries.

The critics of foreign aid efficacy also assume that foreign aid always goes to the government of the recipient country. Although most of the development aid goes to the governments of the recipient countries, democracy assistance aid is usually disbursed to a variety of sectors in the recipient country (Crawford 2001; Scott and Steele 2005). For example, Crawford (2001) shows that in 1994 and 1995 an average of 54% of the European Union's political aid programs were implemented by the recipient governments, and this percentage was only 5.1% for Swedish political aid (124). Similarly, Crawford reports that between 1992 and 1995, central and local governments were the main beneficiaries of 54% of the EU political aid. This number was 35.4% for Sweden and 55.7% for the United States, and 92.9% for the United Kingdom. On the other hand, civil society organizations, such as prodemocracy groups and human right groups, were the main beneficiaries of 46% of the EU political aid, 64.6% of the Swedish aid, 44.3% of the U.S. aid, and 7.1% of the U.K. democracy aid programs (138). These figures indicate that, unlike development aid, the majority of democracy aid goes to nonstate actors.

In sum, our research can be considered as a part of the recent revisionist literature that challenges the dominant pessimistic view of aid efficacy. Recent cross-sectional studies have demonstrated that democracy aid can be effective in achieving its goal of democratization. This article complements this new line of research by identifying an additional positive role that democracy aid can play in democratizing countries. We show that there is an additional benefit of democracy promotion programs—democracy aid decreases the risk of conflict. Therefore, aid effectiveness should be assessed with these important second-order effects of aid in mind.

Conclusion

The virtues of democratic regimes have been long praised in academic and policy circles alike. However, the path to democracy may not be an easy one. Democratization is likely to increase the uncertainty domestic actors have regarding the intentions of others and thereby weaken the credibility of commitments made. In such environments, the risk of domestic political violence increases. We argue that democracy assistance programs can help democratizing countries cushion this risk by improving democratic governance and providing external validation of commitments and promises made during the transition. The empirical evidence is consistent with our argument: democratizing countries that receive high levels of democracy aid are less likely to experience civil conflict than those that receive little or no democracy aid.

Unfortunately, the existing literature fails to consider such potential positive roles of democracy assistance programs. The main focus of the literature has been on the direct involvement of international and regional organizations in democratic transitions (e.g., Hawkins 2008; Mansfield and Pevehouse 2006; Pevehouse 2005). For example, Pevehouse (2005) suggests that external reassurances by regional organizations provide a crucial inducement during early phases of the regime transition (22). However, he acknowledges that it is not costless for regional organizations to undertake this task, and there are certain conditions under which regional organizations can make a difference. We argue that although democracy assistance programs may not be a perfect substitute for regional organizations, they can act as a complement or a less expensive alternative to the legitimization and validation functions of regional organizations in their efforts to smoothen the thorny aspects of the democratization process.

Our findings also shed some light on the debate on the "dark side of democratization." Mansfield and Snyder's thesis has been rebutted on methodological grounds. However, there may also be theoretical reasons as to why democratization does not sometimes lead to war. For example, some democratizing countries receive external assistance while others do not. In this article, we provide evidence that the former group is less vulnerable to conflict than the latter as democracy aid helps these countries better address commitment problems during the early phases of democratization.

There is, however, also significant variance in the internal dynamics of democratization that may be relevant for the conflict propensity of democratizing states. As most theorists of comparative politics would argue,

not all paths to democracy are alike. Depending on the level of cooperation between the central government and the opposition groups (i.e., pacted, reformist, revolutionary, or imposed) and the kind of institutions adopted (i.e., power-sharing or power-concentrating) during democratization, a transition may be more or less turbulent (Karl 1990; Norris 2008). Future work should assess whether democracy aid might be more effective in maintaining peace under certain types of democratization scenarios than others. In this study, which is a first, broad attempt to understand the stabilizing effects of democracy assistance programs, we focus on factors that are common to most instances of democratization: weak central authority, persistent uncertainty, and commitment problems. While the success of democracy aid might be affected by the type of transition and the institutions adopted during the transition, our findings suggest that aid can still be an important conflict prevention tool in most cases.

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Supporting Information

Additional Supporting Information may be found in the online version of this article:

Appendix S1 Descriptive Statistics

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