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Is the Threat of Foreign Aid Withdrawal an Effective Deterrent to Political Oppression? Evidence from 53 African Countries

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AGDI Working Paper

Research Department

**Is the Threat of Foreign Aid Withdrawal an Effective Deterrent to Political Oppression?
Evidence from 53 African Countries**

Simplice A. Asongu & Jacinta C. Nwachukwu

January 2016

Abstract

This study complements existing literature on the aid-institutions nexus by focusing on political rights, aid volatilities and the post-Berlin Wall period. The findings show that while foreign aid does not have a significant effect on political rights, foreign aid volatilities do mitigate democracy in recipient countries. Such volatilities could be used by populist parties to promote a neocolonial agenda, instill nationalistic sentiments and consolidate their grip on power. This is especially the case when donors are asking for standards that majority of the population do not want and political leaders are unwilling to implement them. The empirical evidence is based on 53 African countries for the period 1996-2010. As a main policy implication, creating uncertainties in foreign aid for political rights enhancement in African countries may achieve the opposite results. Other implications are discussed including the need for an ‘After Washington consensus’.

JEL Classification: C53; F35; F47; O11; O55

Keywords: Uncertainty; Foreign aid; Political Rights; Development; Africa

1. Introduction

The need for genuine democracy in Africa is now a subject of substantial consensus (Wantchekon, 2003; Vicente & Wantchekon, 2009). The use of foreign aid as a policy instrument for the promotion of political rights in recipient countries after the fall of the Berlin Wall is also a widely accepted fact in policy making and academic circles (Gibson et al., 2014; Killick, 2003; Crawford, 2001; Carothers, 2000; Stokke, 2013; Hayman, 2011; Faust, 2010). There has also been a recent stream of studies consistent with celebrated aid literatures (*'The Bottom Billion'* (Collier, 2007), *'Dead Aid'* (Moyo, 2009)) in putting to question the effectiveness of development assistance as a policy instrument (Krause, 2013; Banuri, 2013; Marglin, 2013; Wamboye et al., 2013; Ghosh, 2013; Monni & Spaventa, 2013; Titumir & Kamal, 2013). According to the narrative, the possibility of neocolonialism increasingly governing foreign aid has been advocated by Amin (2013). A position earlier shared by Kindiki (2011) on the necessity for African countries to strategically overcome dependence on international regimes/systems and Ndlovu-Gatsheni (2013) on the entrapment of the continent within the matrices of colonial power. Obeng-Odoom (2013) has joined the chorus in asserting that aid policies should be complete process that clearly articulate the needs of African countries. This converges with Amin's position that development models should not be limited to donor thoughts on what is good for the continent.

The policy of making foreign aid uncertain by donors to influence politics in recipient countries is the very essence of the political economy of foreign aid. In fact, foreign aid as an instrument of regime change and the strengthening of democratic political values has prominently featured in Zimbabwe, post Arab Spring conflicts and recently in the adverse criminalization of gays in Uganda. In other words, aid supply is substantially contingent on the willingness of recipient nations to comply with conditions and motivations of donor countries. Donors are

increasingly asking for higher standards of governance in exchange for their money. This is true, at least in theory of the Washington Consensus (WC)¹ that prioritizes political rights over economic rights. In essence, consistent with Moyo (2013), the WC can be defined in three phrases: liberal democracy, private capitalism and priority in political rights. In the same vein after the fall of the Berlin Wall foreign aid became an instrument for the promotion of political rights (Gibson et al., 2014).

The interesting literature on foreign aid and institutions has centered around three main areas: the effect of foreign aid on institutional quality; whether donors grant more aid to countries with higher institutional standards and how aid can be used to improve institutional quality in recipient countries (Easterly, 2005). In line with the discourse, since poverty in African countries is substantially traceable to institutional bad quality, developed countries have to promote credible institutions in the continent (Knack, 2001; Dixit, 2004; Amavilah, 1998; Alesina & Dollar, 2000; Alesina & Weder, 2002; Armah & Carl, 2008; Asongu, 2012a, 2013a; Jellal & Bouzahzah, 2012; Asongu & Jellal, 2013; Djankov et al., 2008). As highlighted in the first paragraph above, foreign aid volatility may be used by donor countries for this purpose. This paper focuses on the third strand of the aid-institutions literature and aims to assess whether such uncertainties in foreign aid flows are means by which political rights could be promoted in African countries. The contribution of the inquiry is original in improving scholarly understanding of the aid-institutions debate in the light of the case Somaliland which does not receive official foreign aid. The corresponding research question is as follows: is the threat of foreign aid withdrawal an effective deterrent to political oppression? The question is addressed

¹ In line with Marangos (2009), while the Washington Consensus has ‘different versions and interpretations’, the definition employed in this study is with respect to Moyo (2013). According to the author while the Washington Consensus can be defined as ‘*private capitalism, liberal democracy & priority in political rights*’, the Beijing Consensus is summarized as ‘*state capitalism, de-emphasized democracy & priority in economic rights*’.

by employing the Generalised Method of Moments on a sample of 53 African countries for the period 1996-2010.

While there has been a substantial literature on the aid-institution nexus, as far as we have reviewed, very few studies have focused on the aid-democracy relationship. The existing literature entails: general discourses or literature reviews (Brown, 2005), positive effects of aid on democratization (Knack, 2004), Kangoye (2011) using the same title as Knack to conclude that aid mitigates the negative impact of external shocks (terms of trade distortions) on democracy and Kano & Montinola (2009) conclude that aid helps autocrats (democrats) more in the long-run (short-term). The present study steers clear of the above literature from two standpoints. *First*, it is focused on the period after the fall of the Berlin wall, essentially because the collapse of the wall was followed by a substantial change in aid-democracy policies (Gibson et al., 2014)². Accordingly: Knack (2004) has used the period 1975-2000; Kangoye (2011), 1980-2003; Kano & Montinola (2009), 1960-1999; Kalyvitis & Vlachaki (2008), 1972-2004. *Second*, in light of stylized facts and recent developments in the aid debate, we focus on aid uncertainty.

The study is organized as follows. Section 2 briefly summarizes the state of the debate on the aid-democracy nexus. Data and methodology are discussed in Section 3. The empirical analysis and discussion of results are covered in Section 4. We conclude with Section 5.

2. Foreign aid, institutions and democracy: connecting the dots of recent debates

The study extends ongoing debates in the aid-institutions literature: one old and two recent. The first is the old strand, the *level* and *time* hypotheses for democratic benefits (Scott, 1972; Lemarchand, 1972; Sayari, 1977; Varsee, 1997; Wade, 1985; Weyland, 1998; Sung, 2004; Back

² “The roots of the Washington consensus that grew in the 1980s and the end of the Cold War quickly changed this status quo: in addition to strong external pressure to liberalize, rulers began to face increasing constraints to using foreign aid to support their followers. While aid continued to flow, it came increasingly in forms far less amenable to patronage politics”. (p. 25)

& Hadenius, 2008; Montinola & Jackman, 2002; Asongu, 2011; Asongu, 2012b). Second, China's spectacular growth has led to a growing stream of debates on the priority of political rights (Washington Consensus) over economic rights (Beijing Consensus) in development models (Moyo, 2013; Ortmann, 2012; Lalountas et al., 2011; Asongu & Aminkeng, 2013; Asongu, 2014a; Anyanwu & Erhijakpor, 2014). Hence, the study improves on the Beijing Model and Washington Consensus debate in a twofold manner: (1) the Moyo's (2013) conjecture on political versus economic rights and (2) the hypothesis that at the advent of globalization, poor countries are more concerned with economic rights in comparison to political rights (Lalountas et al., 2011; Asongu, 2014a). Third, debates on the aid-institutions nexus, amongst others: the aid-corruption relationship (Okada & Samreth, 2012; Asongu & Jellal, 2013; Asongu, 2012a, 2013a), verification of the celebrated Eubank (2012)³ literature (Asongu, 2015) and usage of the Eubank conjecture to extend some findings in the aid-governance literature (Kangoye, 2013 versus Asongu, 2014b).

We further discuss this section in two main strands: debates surrounding the aid-institutions nexus and the aid-democracy relationship. The former is presented in three main streams: the *time* and *level* hypotheses for the benefits of institutional quality, the Washington consensus versus the Chinese model on priority of economic rights versus political rights in the scale of rights preferences and a recent wave of debates on aid and institutions.

The first stream focuses on the *level* and *time* hypotheses of institutional quality rewards. In essence, developing nations need to mature (*time*) and be strong (*level*) to fully reap the rewards of democratic institutions. With regards to the *level* of institutions hypothesis, it has been confirmed with the help of continuous governance measurements that institutional quality is highest in strongly democratic nations, medium in strongly authoritarian countries and least in

³ Eubank (2012) received the best paper Award in 2013 from the Journal of Development Studies.

partially democratic countries. Employing different empirical specifications, non-linearity in the *level* hypothesis has been established as: J-shaped (Back & Hadenius, 2008); S-shaped (Sung, 2004) or U-shaped (Montinola & Jackman, 2002). Asongu (2011) has verified this hypothesis in Africa by concluding that young or partial democratic countries perform worst (worse) relative to older or quasi-full democracies (autocracies). Regarding the *time of exposure* hypothesis, it has been established by Keefer (2007) that young (old) democracies have lower (higher) institutional quality. In accordance with Asongu (2012b), the *level* and *time* hypotheses have been reported in empirical and theoretical studies: Southeast Asia (Scott, 1972), Turkey (Sayari, 1977), India (Wade, 1985), post 1990 nations like Russia (Varsee, 1997), a considerable number of Latin American nations after the streams of democratization processes (Weyland, 1998) and, African nations (Lemarchand, 1972).

The second strand of studies involve the debate between the Beijing Consensus (BC) and Washington Consensus (WC) on the priority of economic over political rights in models of development (Carmody & Owusu, 2007; Anyanwu & Erhijakpor, 2014; Asongu & Aminkeng, 2013; Lalountas et al., 2011; Ortmann, 2012; Asongu, 2014a; Moyo, 2013). The debate has been heightened by China's breath-taking tale of economic transformation. The success of the country has raised concerns over the orthodoxy of institutions preceding economic prosperity in the development process (Wang & Zheng, 2012; Tull, 2006). There is a *thesis* by the WC which postulates that economic rights should follow political rights (Clinton, 2011). On the other hand, an *antithesis* from the BC sustains that political rights should come after economic rights (Akomolafe, 2008; Ortmann, 2012). A third school of thought (or *synthesis*) has reconciled these two axes with a position that both the BC and WC are needed in the short-term and long-run respectively (Lalountas et al., 2011; Moyo, 2013; Asongu, 2014a). According to this third narrative (also known as the Moyo hypothesis (Asongu, 2015)), for the WC to sustainably

prioritize political rights, a middle-class is needed to demand them genuinely. The core argument is that the BC is the model that can deliver the middle-class within the shortest spell of time. The *synthesis* further sustains that the WC should be the preferable long-term development strategy because it is a more inclusive model. The BC versus WC debate has also initiated a growing stream of studies on multi-polar development strategies (Wa Gĩthĩnji & Adesida, 2011; Babatunde, 2012; Fosu, 2010, 2012, 2013a; Nyarko, 2013a)⁴.

We briefly discuss some recent waves of debates on foreign aid and institutional quality. First, the Okada & Samreth (2012) and Asongu (2012a, 2013a) discussion on the ‘effect of foreign aid on corruption’ has been reconciled by Asongu & Jellal (2013) using fiscal behavior channels. They have concluded that the impact depends on the transmission mechanisms of aid, among others, through government spending (tax effort or private investment) improves (mitigates) corruption. In this debate, Asongu (2012a) could not verify the Okada & Samreth results on the negative aid-corruption relationship in Africa. He has further confirmed his position using the methodological framework of Okada & Samreth in Asongu (2013a). The textual literature of the celebrated Eubank (2012) literature on the negative incidence of aid on political governance has been empirically verified by Asongu (2015) using a taxation mechanism. In clarifying Kangoye (2013), Asongu (2014b) has further used the Eubank conjecture. Accordingly, he has established that the Kangoye findings are irrelevant (relevant) for Africa when the concept of governance is extended (restricted) to more concepts of government (corruption).

⁴ Recently, Fosu (2013a) has documented an interesting strand of literature on multi-polar strategies of development. They include, inter alia, lessons from: Latin America & the Caribbean (Trejos, 2013; De Mello, 2013; Solimano, 2013; Pozo et al., 2013; Cardoso, 2013); East Asia & the Pacific (Warr, 2013; Thoburn, 2013; Lee, 2013; Jomo & Wee, 2013; Khan, 2013); the emerging Asian giants of China & India (Singh, 2013; Yao, 2013; Santos-Paulino, 2013); the Middle East & North Africa (Baliamoune-Lutz, 2013; Looney, 2013; Drine, 2013; Nyarko, 2013b) and; sub-Saharan Africa (Fosu, 2013b; Subramanian, 2013; Robinson, 2013; Lundahl & Petersson, 2013; Naudé, 2013).

While there has been a substantial literature on the aid-institution nexus, as far as we have reviewed, very few studies have focused on the aid-democracy relationship. We discuss the literature in terms of literature review (Brown, 2005) as well as positive (Knack, 2004; Kangoye, 2011) and mixed (positive and negative) effects (Kano & Montinola, 2009; Kalyvitis & Vlachaki 2008) of foreign aid on democracy.

Brown (2005) has essentially focused on a review of the literature based on the disappointing results of international efforts of democratization that are for the most part attributed to domestic conditions which substantially hamper the establishment and survival of democracy. The study acknowledges substantial structural setbacks exist and that the democratization process is mainly due to an endogenous scenario or domestic factors. It further argues that international actors who are most often absent from mainstream democratization theories could however play a major role in the prevention (or promotion) of democratization processes in sub-Saharan Africa (SSA). Unfortunately, the mission of donors in the promotion of quick transition to multiparty systems of democracy could hold-back the democratization process.

On the positive effects, Knack (2004) has concluded that aid potentially contributed to processes of democratization in many ways, inter alia: (1) via technical assistance that targets electoral processes, promotes civil society organizations like freedom of the press, consolidates the legislatures and judiciaries and (2) improvements in education and income which are ideal for democratization and via conditionality. Kangoye (2011), using the same title as Knack (2004) has established that aid could mitigate the negative effects of terms of trade volatility on democracy. Kano & Montinola (2009) concluded that aid helps autocrats (democrats) more in the long-run (short-term); there is strong evidence supporting the positive association between

democratic aid flows and the possibility of observing fully- or partly-democratic political regimes (Kalyvitis & Vlachaki, 2008).

The present study steers clear of the above literature from two standpoints. First, it is focused on the period after the fall of the Berlin wall, since the collapse of the wall was followed by a substantial change in aid-democracy policies (Gibson et al., 2014). Accordingly: Knack (2004) has used data for the period 1975-2000; Kangoye (2011), 1980-2003; Kano & Montinola (2009), 1960-1999; Kalyvitis & Vlachaki (2008), 1972-2004. Second, in light of stylized facts and recent developments in the aid debates, we focus on aid uncertainty.

3. Data and Methodology

3.1 Data

We assess a panel of 53 African nations with annual data from World Bank Development Indicators for the period 1996-2010. The periodicity has a twofold justification. First, as documented above, it enables us to capture how aid volatilities have affected political rights after the fall of the Berlin wall. Second, for comparative purposes, the same periodicity has been employed by most of the underlying studies discussed in the debate strands on ‘aid and institutions’ of the literature section also above (for example the Okada, Samreth, Asongu & Jellal debate)⁵.

The dependent variables are institutionalized autocracies and democracies. Net official development assistance (NODA) is the principal independent variable to which we add NODA from the Development Assistance Committee (DAC) countries for robustness purposes. Consistent with Asongu (2014c), foreign aid volatilities are computed in a twofold manner: (1) standard errors or standard deviations of the saved residuals after first-order autoregressive

⁵ Accordingly, Okada & Samreth (2012), Asongu (2012a), Asongu (2013a) and Asongu & Jellal (2013) have respectively used data for the period ‘1995-2009’, ‘1996-2010’, ‘1996-2010’ and ‘1996-2010’.

processes of the NODA indicators and (2) simple standard deviations of three-year intervals. The former approach is in line with Kangoye (2013).

There is a fourfold justification for the choice of three-year averages in terms of non-overlapping intervals (NOI). First, there is a one degree of freedom loss when the residuals are computed with first-order autoregressive processes. Moreover, a minimum of two periods are required to compute the standard deviations of corresponding residuals. Second, using data averages enables the mitigation of short-term disturbances. Third, with three year NOI, the basic conditions for the use of Generalized Methods of Moments (GMM) are fulfilled ($N > T$: $53 > 5$). Fourth, data averages restrict overidentification or limit the proliferation of instruments by ensuring that the instruments are lower than the number of cross-sections in every specification.

Consistent with Asongu (2014c), in the regressions, we control for economic prosperity in terms of GDP growth, trade openness, government expenditure and inflation. The expected sign of government expenditure is ambiguous at best. It could be positive (negative) on political rights if the funds are from taxation (foreign aid). The tax effort and aid channels are consistent with Eubank (2012) and Asongu & Jellal (2013) respectively. Globalization reflected in trade openness has been documented to improve governance standards (Khandelwal & Roitman, 2012), though more in high income countries (Lalountas et al., 2011; Asongu, 2014a). Economic prosperity with respect to income-levels has also been documented to be instrumental in improving government quality (Asongu, 2012, p. 191). The expected sign from inflation to political rights is also ambiguous. Accordingly, it could be appealing if adopted measures in response to consumer price inflation are designed to improve on government quality and mitigate soaring prices. Alternatively, it could also seriously affect social order when the issues are not timely tackled. The latter postulation is consistent with the documented causes of the Arab Spring

(Khandelwal & Roitman, 2012; Asongu, 2015). In the GMM specifications, time-effects are also employed to control for the unobserved heterogeneity.

The variables are defined in Appendix 1, the summary statistics reported in Appendix 2, while Appendix 3 presents the correlation matrix. The latest is employed to mitigate potential issues of multicollinearity and overparameterization in the NODA variables and their corresponding distortions. From the variations observed in Appendix 2, we can be confident that reasonable estimated nexuses would emerge.

3.2 Methodology

Consistent with Asongu (2013b), a dynamic panel GMM estimation approach is adopted for three principal reasons: first, it has some bite on endogeneity as it controls for time invariant omitted variables, second, it does not eliminate cross-country regressions and third, it corrects small sample bias issues from *difference* estimators. Therefore, this third advantage is the main criterion that has guided our preference for *system* GMM (Arellano & Bover, 1995; Blundell & Bond, 1998; Bond et al., 2001, pp. 3-4) in relation to a *difference* GMM estimator (Arellano & Bond, 1991). A heteroscedasticity-consistent *two-step* method is used instead of the *one-step* procedure which is homoscedasticity-consistent. Two main tests are performed to assess the validity of the models, notably: the over-identifying restrictions (OIR) Sargan test for the validity of instruments and; the Arellano & Bond autocorrelation (AR(2)) test for the absence of autocorrelation in the residuals. The interests of using data averages in terms of 3 year NOI have already been discussed in the data section.

The following equations in levels (Eq. 1) and first difference (Eq. 2) represent the GMM approach.

$$PR_{i,t} = \sigma_0 + \sigma_1 Gov_{i,t-1} + \sigma_2 T_{i,t} + \sigma_3 DAC_{i,t} + \sum_{j=1}^4 \partial_j X_{i,t} + \eta_i + \xi_t + \varepsilon_{i,t} \quad (1)$$

$$PR_{i,t} - PR_{i,t-1} = \sigma_1 (PR_{i,t-1} - PR_{i,t-2}) + \sigma_2 (T_{i,t} - T_{i,t-1}) + \sigma_3 (DAC_{i,t} - DAC_{i,t-1}) + \sum_{j=1}^4 \partial_j (X_{i,t} - X_{i,t-1}) + (\xi_t - \xi_{t-1}) + (\varepsilon_{i,t} - \varepsilon_{i,t-1}) \quad (2)$$

Where: ‘t’ denotes the period and ‘i’ stands for a country. *PR* represents political rights in terms of democracy or autocracy; *T*, Total NODA; *DAC*, NODA from DAC countries; *X* is the set of control variables (*Government expenditure, Trade openness, GDP growth, and Inflation*); ξ_t is a time-specific constant; η_i is a country-specific effect and; $\varepsilon_{i,t}$ an error term. The estimation procedure involves jointly estimating the equation in level with that in first-difference, therefore exploiting all the orthogonality or parallel conditions between the lagged endogenous variable and the error term.

4. Empirical results

The section addresses two main issues: the effect of foreign aid on political rights and the impact of aid distortions or uncertainty on political rights. We have taken a minimalist approach by assuming that foreign aid volatilities exclusively are determined by the interest of donor nations to foster political rights in African countries. In other words, it could be said that the distribution of foreign aid is essentially based on the degree of political governance in a given country. This assumption appears somewhat plausible in light of the case of Zimbabwe (discussed in Section 4.3.1).

While Section 1 is based on aid volatilities measured as simple standard deviations (Table 1), in Section 2, foreign aid uncertainty is appreciated as the standard deviations of residuals after first-order autoregressive processes in the NODA variables (Table 2). Based on the information

criteria for the validity of models, the null hypothesis of the OIR Sargan and AR(2) are not overwhelmingly rejected⁶.

4.1 Distortions as standard deviations

Table 1 below uses basic standard deviations as volatilities. While Table A contains specifications with total NODA, Table B reflects those with NODA from DAC countries. Two main findings are established: the effect of foreign aid on political rights is insignificant while the impact of foreign aid volatilities on democracy is negative. The significant control variable has the expected sign: inflation could substantially affect democratic processes.

“Insert Table 1 here”

4.2 Robustness checks with volatilities as standard errors

In Table 2 below, the specifications of Table 1 are replicated with total NODA (Panel A) and NODA from DAC countries (Panel B) for robustness purposes. The results are consistent with those of Table 1 above. Hence, while the effect of aid on political rights is not significant, that of volatilities on democracy is negative. The significant control variable also has the expected sign.

“Insert Table 2 here”

⁶ In essence, we have performed two tests in order to assess the validity of the models, notably: the Arellano & Bond autocorrelation test that examines the null hypothesis of no autocorrelation and the Sargan-test which examines over-identification restrictions. The latter test assesses whether the instruments are uncorrelated with the error term in the main equation. Overwhelmingly for all the models, we have neither been able to reject the AR(2) null hypothesis for the absence of autocorrelation nor the Sargan null for instrument validity.

4.3 Discussion of results and policy implications

4.3.1 Discussion of results

The findings are broadly consistent with the literature on aid conditionality for political objectives in recipient countries (Killick, 2003; Crawford, 2001; Carothers, 2000; Stokke, 2013; Hayman, 2011; Faust, 2010). It is widely believed that foreign aid as a policy instrument for the promotion of political rights in recipient countries could be manipulated by donors to achieve the objective of enhancing democracy. This has been the case of Zimbabwe in recent years where aid manipulations for regime change only further consolidated power by the ZANU PF party. This shows how foreign aid uncertainty could be used by populist parties to promote a Western neocolonial agenda, instill nationalistic sentiments and consolidate their grip on power. Accordingly, since foreign aid benefits even those of the opposition political parties, in the long-term they too could start dancing to these populist tunes. A recent (early 2014) example is Uganda where an anti-gay bill voted by the legislature and signed into law by president Yoweri Museveni has been greeted with a suspension of aid/loans by some donor countries, including multinational institutions like the World Bank. This is against the background that majority of Ugandans approve of such a bill.

In a nutshell, making foreign aid uncertain as a policy instrument to promote political rights in poor countries could instead become a political instrument to prolong stay in power. This is especially true if the 'foreign aid dictated measure' is unpopular and 'recipient country leadership' is unwilling to comply with the dictated measure because it is unpopular. Moreover, this sends a strong signal that African governments are constrained to be accountable to donors instead of any electorate that put them into office. This scenario contradicts the very essence of

political accountability. In essence, democracy that is locally-oriented and consolidates feedbacks from citizens is a more appealing instrument for political governance than outside pressure.

In fact it is important to understand why the findings are the way they are. Accordingly, the political economy perspective of foreign aid is crucial in grasping these findings since the ambitions underlying aid are cocktails of culture, institutions, power distribution and dynamics of competitive interests (Schraeder et al., 1998; Hopkins, 2000). In other words, foreign aid is the product of bargaining of some nature in the political market that involves recipient governments, donor aid bureaucracies and multilateral assistance agencies. Essentially, different goals have motivated donors over time. Whereas Japanese and Chinese aid is motivated predominantly by economic gains, French assistance and Nordic aid are guided by politico-economic gains and global welfare improvement respectively.

With some exceptions of the emerging economies of East Asia, more concessions are increasingly being offered by African recipient nations to donor preferences in exchange for more aid. But most of these concessions are positively sanctioned by the electorate. One might even be tempted to establish that the strength with which foreign aid pressures was resisted by Egypt in the 1960s is not yet over. Accordingly, despite the threat of foreign aid uncertainties which represent a significant percentage of Egyptian budget and military expenditure, the definition of democracy has been revisited and redefined on several occasions over the past months in the country. Indeed there is a wide perception that the revolution was partly foreign-funded. While the manner in which this perception has affected the mechanics by which Morsi was ousted and a former military officer has become president with less than 50% of the population going to polls is unknown. An interesting lesson drawn from this experience is articulately summarized by Elagati (2013, p. 18): *“Changing Egyptians’ mindset about foreign funding is part of the task of moving from an authoritarian culture to a democratic one that understands and values the*

positive role played by civil society, political parties and the media. In order to change this mindset, fears of foreign funding need to be slowly deconstructed via a transparent public debate”.

The above explanation goes a long way to establishing that, whereas African countries have today been substantially transformed into supplicants that come-up with a good number of projects in the hope that more aid would be granted (Lancaster, 1999; Hopkins, 2000), public perception may have the last say on who stays in power whether by real or crony democratic means. It is broadly in accordance with a recent stream of aid literature that has requested the imperative for a more thorough approach to development assistance: one that clearly articulates the needs and wants of citizens in recipients countries (Monni & Spaventa, 2013; Krause, 2013; Marglin, 2013; Wamboye et al., 2013; Titumir & Kamal, 2013; Banuri, 2013; Ghosh, 2013). In essence, the ramifications could be unappealing for donor image if aid distortions are not consistent with the demands of the electorate⁷. Kindiki (2011) has recommended the need for African nations to overcome their dependence on donor countries. A stance that is in line with: Ndilovu-Gatsheni (2013) on Africa’s entrapment within some colonial webs and matrices. The position of Amin (2013) that neocolonialism could be managing development assistance is a perception that could be used by recipient governments in clinging onto power when aid uncertainties from donors are not founded on solid grounds. He has further professed that development is not a process that can be left to the whims and caprices of donors. A stance shared by Obeng-Odoom (2013) on the imperative of foreign aid to be essentially fueled by African needs. For instance, there are narratives in the aid literature sustaining that developing countries appreciate qualitative characteristics like happiness more (Arvin & Lew, 2010ab, 2011, 2012ab).

⁷ We discuss this in some detail in the paragraph on a new Washington consensus below.

4.3.2 Implications for underlying debates

It has been observed from the findings that foreign aid distortions as a policy instrument for the promotion of political rights is a considerable policy reversal because it brings about the opposite effect. This finding contributes to the underlying literature and recent debates in a sixfold manner. First, it is a confirmation of the Moyo conjecture/hypothesis on the short-term inappropriateness of the Washington consensus on the priority of political rights (Moyo, 2013). The short-term inference draws from the fact that GMM estimated coefficients are interpreted as short-term effects, essentially because non-overlapping intervals have been employed to mitigate short-run disturbances that may loom substantially. Second, the Lalountas et al. (2011) conjecture that has been verified in Africa by Asongu (2014a)⁸ is also broadly confirmed. Therefore with globalization, African nations could be more preoccupied by economic rights than political rights. This interpretation is based on an underlying hypothesis that development assistance is an instrument of globalization ('privatize/liberalize and you would receive more aid'). Third, with respect to the Okada & Samreth (2012) and 'Asongu & Jellal (2013) and Asongu (2012a, 2013a)' debate on 'the effect of foreign aid on the quality of institutions', the Okada & Samreth corruption-related results for developing countries may yet be irrelevant for Africa. Fourth, institutions may be more endogenous to productive structures, economic rights or economic prosperity (Asongu & Aminkeng, 2013; Ortmann, 2012; Anyanwu & Erhijakpor, 2014). Fifth, partial confirmation of the *level* and *time* hypotheses for the rewards of liberal democracy (Scott,

⁸ Asongu (2014a) has verified the Lalountas et al. (2011, p. 645) hypothesis in Africa: "Thus, our main conclusion is that globalization could be a powerful means of fighting corruption, only for middle and high income countries. For low income countries however, globalization has no significant impact on corruption. We might therefore conclude that at low levels of per capita income emphasis is given to the economic dimension of international integration and as a result the effect of globalization on corruption is limited. Persistence on globalization as an effective means to reduce corruption in developing countries might lead to inappropriate policies. On the contrary, at high levels of per capita income emphasis is given to the political and social dimensions of globalization and as a result the effects of this phenomenon on corruption control are significant" (page 645).

1972; Lemarchand, 1972; Sayari, 1977; Wade, 1985; Weyland, 1998; Varsee, 1997; Montinola & Jackman, 2002; Back & Hadenius, 2008; Sung, 2004; Asongu, 2012b; Asongu, 2011). Sixth, more light is thrown into: Eubank (2012) versus Asongu (2014b) and Kongoye (2013) versus Asongu (2014b) literature. Essentially because less reliance on foreign aid by partial democracies could oblige governments to improve governance standards in exchange for more tax revenues from the local population who are only willing to consent to paying more taxes if the government improves its economic and institutional dimensions. Notably: the formulation and implementation of policies that deliver public commodities (economic governance) and the improvement of respect by the state and citizens of institutions that govern interactions between them (institutional governance).

4.3.3 Implications for a new Washington Consensus

While donors and past colonial masters are increasingly bargaining for more influence with their money, the task at hand is to request higher standards of governance that are consistent with the demands of the local population. Hence, this would enhance democracy and not be used by populist political parties against aid donors.

In order to fully understand the need for a new Washington consensus, we devote some space to elucidate the recent experience of Uganda. As reported by Aljazeera (February, 2014), in support of the planned freeze or change (uncertainty) of aid programmes in Uganda by Norway, the Netherlands and Denmark, the World Bank promptly froze aid to the country over the anti-gay law. The reason given for the suspension was that the global lender who wanted to ascertain the US\$90 million loan ensured objectives of development that were not adversely affected by the new law. In response, the Ugandan government was quick to ask the World Bank to keep its aid and that the country could develop without Western assistance. The Ugandan government

remained confident because it had the support of the people in the passing of the bill. Indeed qualification of the bill by US Secretary of State John Kerry as ‘flat-out morally wrong’ and ‘atrocious’ and further comparing it with the standards of apartheid in South Africa or ‘anti-Semitic legislation in Nazi Germany’ did not go down well with the Ugandan government.

We have found from our results that using foreign aid uncertainty to achieve democracy may end-up mitigating the democracy that the volatility was initially aimed at enhancing. Hence, as a principal policy recommendation, donors should carefully consider the stakes before using foreign aid uncertainty as a tool to enhance political rights in recipient countries. They should not stake their reputation on issues that are strongly supported by the electorates, else, they simply give those in power more instruments and incentives with which to consolidate their grip on power.

5. Conclusions

Before the collapse of the Berlin wall, the underlying motivations of foreign aid were Cold War strategies. The enhancement of political rights was not an essential item on the development agenda. Developing countries receiving substantial amounts of foreign aid did not improve in political rights or democratic standards because it was not in the interest of donor nations for them to become primarily accountable to their citizens. After the Cold War, the Washington consensus adopted the promotion of political rights as a prime development strategy and used foreign aid to enforce the goal. Hence, a wide consensus that foreign aid as a policy instrument for the promotion of political rights in recipient countries has been made uncertain by donors so as to achieve the objective of enhancing democracy. This study has complemented existing literature on the aid-institutions nexus by focusing on: political rights, aid volatilities and, the post-Berlin Wall period. The findings show that while foreign aid does not have a

significant effect on political rights, foreign aid volatilities do mitigate democracy in recipient countries. Volatilities could be used by populist parties to promote a neocolonial agenda, instill nationalistic sentiments and consolidate their grip on power. This is especially the case when donors are asking for standards that the majority of the population do not want and political leaders are unwilling to implement. This sends a strong signal on political accountability reversal: governments are constrained to be more accountable to donors instead of the electorate that put them into office. The empirical evidence is based on 53 African countries for the period 1996-2010. As a main policy implication, using foreign aid uncertainty as an instrument of political rights enhancement in African countries may achieve the opposite results. Other implications are discussed including the need for a new Washington consensus.

Table 1: Foreign aid uncertainties with standard deviations

Dependent variable: Political Rights								
Panel A: Total Foreign Aid								
	Foreign Aid				Foreign Aid Volatilities			
	Autocracy		Democracy		Autocracy		Democracy	
Gov (-1)	0.911*** (0.000)	0.977*** (0.001)	0.290 (0.239)	0.337 (0.267)	0.936*** (0.000)	0.991*** (0.000)	0.314 (0.251)	0.313 (0.283)
Constant	-0.404 (0.629)	-0.925 (0.385)	1.905 (0.204)	2.021 (0.249)	-0.378 (0.582)	-0.802 (0.393)	2.196* (0.074)	2.120* (0.069)
NODA (Total)	0.003 (0.901)	0.001 (0.952)	-0.040 (0.605)	-0.025 (0.803)	---	---	---	---
NODASD1 (Total)	---	---	---	---	-0.009 (0.840)	0.0008 (0.985)	-0.151** (0.045)	-0.154** (0.038)
Gov. Expenditure	-0.007 (0.513)	-0.004 (0.705)	-0.010 (0.544)	-0.011 (0.627)	-0.007 (0.565)	-0.006 (0.641)	-0.012 (0.377)	-0.015 (0.439)
GDP growth	-0.017 (0.704)	0.004 (0.902)	0.029 (0.673)	0.031 (0.697)	-0.018 (0.590)	-0.003 (0.942)	0.011 (0.857)	0.021 (0.790)
Trade	0.006 (0.229)	0.005 (0.191)	0.004 (0.743)	-0.001 (0.952)	0.006 (0.229)	0.005 (0.289)	0.0004 (0.975)	0.0007 (0.967)
Inflation	0.0003 (0.954)	0.002 (0.743)	-0.009 (0.228)	-0.007 (0.473)	-0.0005 (0.946)	0.001 (0.799)	-0.016* (0.057)	-0.015* (0.064)
Time effects	No	Yes	No	Yes	No	Yes	No	Yes
AR(2)	(0.164)	(0.196)	(0.891)	(0.756)	(0.111)	(0.161)	(0.210)	(0.230)
Sargan OIR	(0.555)	(0.806)	(0.553)	(0.372)	(0.487)	(0.773)	(0.566)	(0.365)
Wald (joint)	216.21*** (0.000)	166.93*** (0.000)	51.665*** (0.000)	22.538*** (0.000)	421.48*** (0.000)	248.65*** (0.000)	18.825*** (0.000)	12.091*** (0.000)
Instruments	15	18	15	18	11	18	15	18
Countries	32	32	32	32	32	32	32	32
Observations	112	112	112	112	112	111	111	111

Panel B: Foreign Aid from the Development Assistance Committee (DAC) Countries

	Foreign Aid				Foreign Aid Volatilities			
	Autocracy		Democracy		Autocracy		Democracy	
Gov (-1)	0.917*** (0.000)	0.976*** (0.002)	0.281 (0.246)	0.328 (0.272)	0.948*** (0.000)	0.989*** (0.000)	0.296 (0.264)	0.314 (0.294)
Constant	-0.189 (0.849)	-0.756 (0.546)	2.193 (0.120)	2.294 (0.141)	-0.398 (0.493)	-0.756 (0.450)	2.071* (0.066)	2.099* (0.062)
NODADAC	-0.020 (0.727)	-0.012 (0.784)	-0.082 (0.442)	-0.064 (0.675)	---	---	---	---
NODADACSD1	---	---	---	---	-0.015 (0.755)	-0.013 (0.790)	-0.138** (0.046)	-0.140** (0.046)
Gov. Expenditure	-0.007 (0.509)	-0.005 (0.669)	-0.014 (0.419)	-0.015 (0.490)	-0.007 (0.527)	-0.007 (0.584)	-0.011 (0.437)	-0.015 (0.425)
GDP growth	-0.020 (0.586)	0.006 (0.884)	0.033 (0.677)	0.034 (0.697)	-0.018 (0.568)	-0.001 (0.981)	0.010 (0.883)	0.017 (0.839)
Trade	0.005 (0.236)	0.005 (0.188)	0.002 (0.842)	-0.002 (0.882)	0.005 (0.195)	0.005 (0.306)	0.001 (0.904)	0.000 (0.996)
Inflation	-0.001 (0.831)	0.001 (0.865)	-0.011 (0.173)	-0.009 (0.420)	-0.0004 (0.952)	0.001 (0.908)	-0.016* (0.061)	-0.015* (0.066)
Time effects	No	Yes	No	Yes	No	Yes	No	Yes
AR(2)	(0.239)	(0.219)	(0.945)	(0.750)	(0.131)	(0.183)	(0.313)	(0.342)
Sargan OIR	(0.476)	(0.756)	(0.566)	(0.358)	(0.488)	(0.742)	(0.572)	(0.373)
Wald (joint)	421.90*** (0.000)	337.54*** (0.000)	58.166*** (0.000)	21.44*** (0.000)	2071.2*** (0.000)	1143.5*** (0.000)	20.67*** (0.002)	14.417** (0.025)
Instruments	15	18	15	18	15	18	15	18
Countries	32	32	32	32	32	32	32	32
Observations	112	112	112	112	111	111	111	111

***, **, and * indicate significance at 1%, 5% and 10% levels respectively. AR(2): Second Order Autocorrelation test. OIR: Overidentifying Restrictions test. The significance of bold values is twofold. 1) The significance of estimated coefficients and the Wald statistics. 2) The failure to reject the null hypotheses of: a) no autocorrelation in the AR(2) tests and; b) the validity of the instruments in the Sargan OIR test. P-values in

bracket. Gov: Government. NODA: Total Net Official Development Assistance. NODASD1(Total): Volatilities by Simple Standard Deviation of Total NODA. NODADAC: Net Official Development Assistance from the Development Assistance Committee. NODADAC SD1: Volatilities by Simple Standard Deviation from NODADAC.

Table 2: Foreign aid uncertainties with standard errors

Dependent variable: Political Rights								
Panel A: Total Foreign Aid								
	Foreign Aid				Foreign Aid Volatilities			
	Autocracy		Democracy		Autocracy		Democracy	
Gov (-1)	0.911*** (0.000)	0.977*** (0.001)	0.290 (0.239)	0.337 (0.267)	0.946*** (0.000)	0.992*** (0.000)	0.309 (0.254)	0.316 (0.273)
Constant	-0.404 (0.629)	-0.925 (0.385)	1.905 (0.204)	2.021 (0.249)	-0.402 (0.475)	-0.796 (0.404)	2.191* (0.074)	2.128* (0.057)
NODA (Total)	0.003 (0.901)	0.001 (0.952)	-0.040 (0.605)	-0.025 (0.803)	---	---	---	---
NODASD2 (Total)	---	---	---	---	-0.006 (0.809)	-0.002 (0.950)	-0.102* (0.066)	-0.105** (0.038)
Gov. Expenditure	-0.007 (0.513)	-0.004 (0.705)	-0.010 (0.544)	-0.011 (0.627)	-0.008 (0.481)	-0.006 (0.636)	-0.010 (0.461)	-0.015 (0.474)
GDP growth	-0.017 (0.704)	0.004 (0.902)	0.029 (0.673)	0.031 (0.697)	-0.018 (0.630)	-0.002 (0.949)	-0.002 (0.976)	0.014 (0.866)
Trade	0.006 (0.229)	0.005 (0.191)	0.004 (0.743)	-0.001 (0.952)	0.006 (0.214)	0.005 (0.292)	0.0008 (0.954)	0.0006 (0.973)
Inflation	0.0003 (0.954)	0.002 (0.743)	-0.009 (0.228)	-0.007 (0.473)	0.0001 (0.978)	0.001 (0.822)	-0.016* (0.069)	-0.016* (0.058)
Time effects	No	Yes	No	Yes	No	Yes	No	Yes
AR(2)	(0.164)	(0.196)	(0.891)	(0.756)	(0.103)	(0.140)	(0.290)	(0.282)
Sargan OIR	(0.555)	(0.806)	(0.553)	(0.372)	(0.505)	(0.762)	(0.563)	(0.350)
Wald (joint)	216.21*** (0.000)	166.93*** (0.000)	51.665*** (0.000)	22.538*** (0.000)	403.54*** (0.000)	321.24*** (0.000)	14.920** (0.020)	14.242** (0.027)
Instruments	15	18	15	18	15	18	15	18
Countries	32	32	32	32	32	32	32	32
Observations	112	112	112	112	111	111	111	111

Panel B: Foreign Aid from the Development Assistance Committee (DAC) Countries								
	Foreign Aid				Foreign Aid Volatilities			
	Autocracy		Democracy		Autocracy		Democracy	
Gov (-1)	0.917*** (0.000)	0.976*** (0.002)	0.281 (0.246)	0.328 (0.272)	0.944*** (0.000)	0.991*** (0.000)	0.286 (0.270)	0.303 (0.295)
Constant	-0.189 (0.849)	-0.756 (0.546)	2.193 (0.120)	2.294 (0.141)	-0.391 (0.505)	-0.780 (0.426)	2.112* (0.065)	1.987* (0.063)
NODADAC	-0.020 (0.727)	-0.012 (0.784)	-0.082 (0.442)	-0.064 (0.675)	---	---	---	---
NODADACSD2	---	---	---	---	-0.010 (0.756)	-0.005 (0.894)	-0.107** (0.022)	-0.109** (0.010)
Gov. Expenditure	-0.007 (0.509)	-0.005 (0.669)	-0.014 (0.419)	-0.015 (0.490)	-0.008 (0.463)	-0.006 (0.610)	-0.010 (0.425)	-0.015 (0.427)
GDP growth	-0.020 (0.586)	0.006 (0.884)	0.033 (0.677)	0.034 (0.697)	-0.017 (0.649)	-0.002 (0.955)	0.005 (0.943)	0.017 (0.832)
Trade	0.005 (0.236)	0.005 (0.188)	0.002 (0.842)	-0.002 (0.882)	0.006 (0.220)	0.005 (0.299)	0.002 (0.879)	0.001 (0.928)
Inflation	-0.001 (0.831)	0.001 (0.865)	-0.011 (0.173)	-0.009 (0.420)	-0.0004 (0.948)	0.001 (0.874)	-0.017** (0.041)	-0.016** (0.024)
Time effects	No	Yes	No	Yes	No	Yes	No	Yes
AR(2)	(0.239)	(0.219)	(0.945)	(0.750)	(0.119)	(0.157)	(0.372)	(0.328)
Sargan OIR	(0.476)	(0.756)	(0.566)	(0.358)	(0.510)	(0.756)	(0.587)	(0.368)
Wald (joint)	421.90*** (0.000)	337.54*** (0.000)	58.166*** (0.000)	21.44*** (0.000)	1737.4*** (0.000)	824.29*** (0.000)	28.284*** (0.000)	51.020*** (0.000)
Instruments	15	18	15	18	15	18	15	18
Countries	32	32	32	32	32	32	32	32

Observations 112 112 112 112 111 111 111 111

***, **, and * indicate significance at 1%, 5% and 10% levels respectively. AR(2): Second Order Autocorrelation test. OIR: Overidentifying Restrictions test. The significance of bold values is twofold. 1) The significance of estimated coefficients and the Wald statistics. 2) The failure to reject the null hypotheses of: a) no autocorrelation in the AR(2) tests and; b) the validity of the instruments in the Sargan OIR test. P-values in bracket. Gov: Government. NODA: Total Net Official Development Assistance. NODASD1(Total): Volatilities by Standard Errors of Total NODA. NODADAC: Net Official Development Assistance from the Development Assistance Committee..NODADAC SD1: Volatilities by Standard Errors from NODADAC.

Appendices

Appendix 1: Definitions of variables

Variable(s)	Definition(s)	Source(s)
NODA (Total)	Total Net Official Development Assistance (NODA) (% of GDP)	World Bank (WDI)
NODADAC	NODA from the Development Assistance Committee Countries (% of GDP)	World Bank (WDI)
NODASD1 (Total)	Distortions of Total NODA by Simple Standard Deviation	Author
NODADACSD1	Distortions of NODADAC by Simple Standard Deviation.	Author
NODASD2 (Total)	Distortions of Total NODA by Standard Deviation of the Residuals after first-order autoregressive process.	Author
NODADACSD2	Distortions of NODADAC by Standard Deviation of the Residuals after first-order autoregressive process.	Author
Democracy	Institutionalized democracy. Democracy is conceived as three essential, interdependent elements. One is the presence of institutions and procedures through which citizens can express effective preferences about alternative policies and leaders. Second is the existence of institutionalized constraints on the exercise of power by the executive. Third is the guarantee of civil liberties to all citizens in their daily lives and in acts of political participation. Other aspects of plural democracy, such as the rule of law, systems of checks and balances, freedom of the press, and so on are means to, or specific manifestations of, these general principles.	World Bank (WDI)
Autocracy	Institutionalized autocracy. The opposite definition of Institutionalized democracy above.	World Bank (WDI)
GDP growth	Gross Domestic Product growth rate (annual %)	World Bank (WDI)
Trade Openness	Exports plus Imports of Commodities (% of GDP)	World Bank (WDI)
Government Expenditure	Government Final Consumption Expenditure(% of GDP)	World Bank (WDI)
Inflation	Consumer Price Index (annual %)	World Bank (WDI)

WDI: World Bank Development Indicators. GDP: Gross Domestic Product. PCA: Principal Component Analysis. NODA: Net Official Development Assistance. NODADAC: NODA from the Development Assistance Committee (DAC) countries. NODAMD: NODA from Multilateral Donors. SD1: Distortions by Simple Standard Deviation. SD2: Distortions by Standard Deviation of the Residuals after first-order autoregressive processes.

Appendix 2: Summary statistics

	Mean	S.D	Min	Max	Obs.
Total NODA	10.889	12.029	0.015	102.97	253
NODADAC	6.278	7.303	-0.003	68.063	253
First Distortions from Total NODA	2.841	6.460	0.001	64.113	250
First Distortions from Total NODADAC	1.868	4.790	0.0005	44.404	250
Second Distortions from Total NODA	3.409	8.106	0.005	91.927	250
Second Distortions from Total NODADAC	2.201	6.333	0.001	68.826	250
Autocracy	1.905	3.401	-8.000	9.000	250
Democracy	2.373	3.871	-8.000	10.000	250
GDP growth	4.755	5.587	-11.272	49.367	254
Trade Openness	78.340	39.979	20.980	250.95	247
Government Expenditure	4.495	8.064	-17.387	49.275	164
Inflation	56.191	575.70	-45.335	8603.3	230

S.D: Standard Deviation. Min: Minimum. Max: Maximum. Obs: Observations. NODA: Net Official Development Assistance. DAC: Development Assistance Committee. SD1: Distortions by Simple Standard Deviation. SD2: Distortions by Standard Deviation of the Residuals after first-order autoregressive processes.

Appendix 3: Correlation Analysis

Foreign Aid		Foreign Aid Uncertainty				Control Variables				Political Rights		
Aid1	Aid2	Aid1SD1	Aid2SD1	Aid1SD2	Aid2SD2	GDPg	Trade	Gov. Exp	Inflation	Autocracy	Democracy	
1.000	0.975	0.770	0.681	0.756	0.685	0.114	-0.083	0.078	-0.023	-0.265	-0.001	Aid1
	1.000	0.805	0.756	0.809	0.767	0.109	-0.061	0.077	-0.011	-0.276	-0.015	Aid2
		1.000	0.921	0.949	0.878	0.219	0.082	0.014	-0.004	-0.242	-0.133	Aid1SD1
			1.000	0.901	0.946	0.193	0.050	0.024	0.011	-0.245	-0.141	Aid2SD1
				1.000	0.945	0.145	0.101	0.028	-0.003	-0.213	-0.078	Aid1SD2
					1.000	0.091	0.091	0.028	-0.0006	-0.217	-0.088	Aid2SD2
						1.000	0.179	0.254	-0.132	0.098	0.014	GDPg
							1.000	-0.070	0.024	0.131	0.005	Trade
								1.000	-0.243	0.073	0.051	Gov. Exp.
									1.000	0.041	-0.058	Inflation
										1.000	0.020	Autocracy
											1.000	Democracy

Aid1: Total Net Official Development Assistance (NODA). Aid2: NODA from the Development Assistance Committee (DAC) Countries (NODADAC). Aid1SD1: NODA Distortions by Simple Standard Deviations. Aid2SD1: NODADAC Distortions by Simple Standard Deviations. Aid1SD2: NODA Distortions by Simple Standard Errors. Aid2SD2: NODADAC Distortions by Simple Standard Errors. GDPg: Gross Domestic Product growth. Trade: Trade Openness. Gov. Exp: Government Expenditure.

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