

# Commitment Problems and the Audience Costs of Free Aid

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30 September 2019

## Abstract

How does the commitment problem of aid affect recipient countries' domestic politics? This paper identifies correlations between recipient country regime types and levels of aid commitment discrepancies by donors. Autocratic countries are more likely to have large differences between the amount of aid committed by a donor than amount ultimately received. I advance a potential mechanism through which autocratic countries are less vulnerable to the aid commitment problem than democratic countries. Applying audience cost theories to the domestic politics of aid recipients, I build a simple pandering model in which polities with high potential audience costs may be forced to take costly actions in response to aid commitments falling through. These potential costs to aid may prevent democratic recipient countries from accepting promises of aid from less reliable aid agencies. Descriptive statistics show correlative evidence in support of this hypothesis. I illustrate this dynamic with a case study of the World Bank's commitments in Kosovo.

## 1 Introduction

Foreign aid is a commitment problem. Like all international contracts, difficulties in international enforcement of aid commitments and conditions cause problems for both donors and recipients.[Swedlund, 2017, Dunning, 2004] Aid contracts must be upheld by both parties (donors and recipients); without third-party enforcement, either party may renege on their end of the bargain. The literature focuses on donors' attempts to mitigate the moral hazard of recipient countries with no interest in adhering to the conditions laid out by the aid contract accepting the contract anyways.[Swedlund, 2017, Burnside and Dollar, 2000, Dollar and Levin, 2006] The other side of the commitment problem, the potential of aid agencies to rescind their promises of aid, has received less attention. I argue that the potential presence of aid can change the political dynamics of the recipient country, leaving the state worse off if the donor reneges on its promise. The potential of aid can change individuals' internal reference points for the status quo in a community, raising the stakes for a recipient state's governing party to not acquire the aid project. Upon seeing an aid organization rescind their support for a project, a citizen may update negatively about their government, either because they see the aid agency's reneging as a signal of their government's incapacity or because

they have adapted the presence of the aid project to their expectation of the future goods provided by the government.

I argue that the potential presence of aid can change the political dynamics of the recipient country, leaving the state worse off if the donor reneges on its promise. If an aid agency rescinds their promise of aid to a recipient, the recipient faces three choices. First, the recipient can look for alternative sources of funding from the international community. This entails an immediate administrative cost and likely will yield less favorable terms for the recipient as the new donors will care less about the success of the project (a reasonable assumption given that they were not the first sponsors of a given project) and therefore are likely to give less or ask for greater policy concessions in order to justify their donation. Second, the recipient can self-fund the project. I collapse the first and second choices into a single, costly decision for the recipient.<sup>1</sup> Third, the recipient can choose not to move forward with the project. This, I argue, is costly in and of itself. The recipient bears an audience cost of not following through with the project if their constituents expect the project to materialize.

If, as I posit, the audience costs of aid commitments leads to potential costly behavior by recipient governments, upstream consequences of this commitment problem should be apparent in aid commitment data. For example, USAID had a 2 billion dollar gap in its aid commitments versus disbursements from 2001 to 2019. (See Figure 1)

I identify correlations between recipient country regime types and discrepancies between committed and disbursed aid. These correlations are consistent with several existing theories in the literature: primarily that conditionality works and donors are willing to rescind their offers of aid to countries that are unable to meet their conditions.<sup>2</sup> However, the selection into contracts with aid donors is less often addressed. Vreeland (2003) notes that countries that would most benefit from IMF loans may not enter into a loan agreement because of the conditions attached. I argue that some countries may be reticent to enter into agreements with unreliable donors because of the potential audience costs associated with a donor's reneging on an aid agreement. The correlative data shows a relationship between less reliable donors and autocratic countries,

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<sup>1</sup>The policy concession can be considered a negative cost, so the net cost of an aid project funded by a donor country that demands high policy concessions will be lower than the same project funded by a donor country with low policy concession demands.

<sup>2</sup>I assume here that most of these conditions are in regards to good governance and democratic norms, which would favor democratic countries receiving aid.

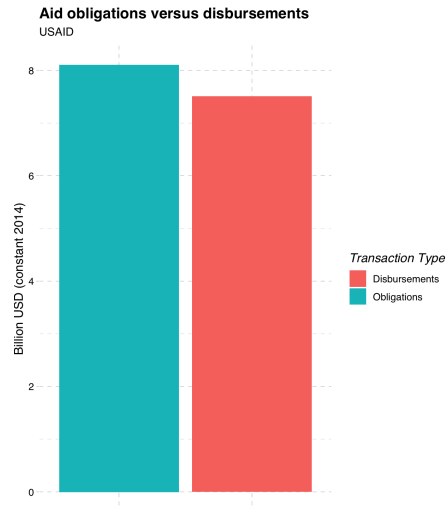


Figure 1: USAID Commitment Problem

who face lower audience costs.

Because the potential aid contracts are difficult to observe, I develop a theory of audience costs for recipients inherent in accepting an aid contract from a donor. Incumbent politicians facing audience costs may be willing to take suboptimal, costly actions to stay in office after a donor has reneged on their contract. I model this dynamic with a simple pandering game. These audience costs may indicate when different recipient country types will enter into aid contracts. Descriptive statistics support this typology of states and aid contracts. Using qualitative interview data and primary sources from Kosovo, I describe how the audience cost of aid manifests in a democratic nation. I conclude by offering further tests of the mechanism and note how this dynamic may affect aid provision in different contexts.

## 2 Aid, Commitment Problems, and Policy Concessions

The commitment problem of aid has changed the dominant forms of aid over time. The consensus in the literature is that the strategic concerns of donors during the Cold War dominated their humanitarian or economic goals.[Dunning, 2004, Bermeo, 2016] With credible alternatives to aid from democratic countries, aid recipients could threaten to align themselves with other powers and could thereby extract more and less conditional aid.[Dunning, 2004] In the post-Cold War, recipients have fewer outside options and are less likely to make credible threats to find new allies. Strategic considerations have not disappeared in the wake

of the Cold War; potential recipient nations that are geographically, politically, or strategically salient to donors are given more aid.[Bermeo and Leblang, 2015, Kuziemko and Werker, 2006, Dreher et al., 2009]

The abuse of aid by recipient nations is well-documented and has led to a debate as to whether aid is in fact beneficial for recipients.[Easterly et al., 2004, Rajan and Subramanian, 2005, Burnside and Dollar, 2000, Easterly, 2007] Aid may keep dictators in power, support paramilitary units, increase corruption and decrease participation in local labor unions (in the case of Chinese aid), reduce government revenue collection, reify political and ethnic divides, and may not positively affect GDP growth. [Licht, 2010, Dube and Naidu, 2015, Isaksson and Kotsadam, 2018a,b, Remmer, 2004, Jablonski, 2014, Easterly et al., 2004] There may be benefits to aid, including democratization under certain circumstances, improved educational outcomes, trade liberalization, reduces democratic transition costs, and improved governance.[Licht, 2010, Christensen et al., 2011, Yuichi Kono and Montinola, 2009, Savun and Tirone, 2011, Jones and Tarp, 2016] The effects of aid are not predetermined by the aid itself but are a function of how local recipients interact with the donors and donations.

Donors are not homogeneous and have different priorities for their aid and its effect on recipient countries.[Dreher et al., 2011, Dietrich and Murdie, 2017, Isaksson and Kotsadam, 2018a, Shushan and Marcoux, 2011, Wright and Winters, 2010, Easterly and Williamson, 2011, Acht et al., 2015] Dietrich [2016, 2013] notes that donor political economies predict the type of aid they are willing to commit; donors that internally value state institutions are less likely to give aid that bypasses recipient state institutions compared to donors that place less value on strong state institutions. Importantly, bilateral aid is more effectively conditioned than multilateral aid.[Christensen et al., 2011] Because bilateral aid contracts involve fewer players, there are fewer veto points; in other words, fewer parties have to agree to the contents of a bilateral contract than a multilateral contract.[Tsebelis, 1995] The contract, therefore, is a clearer reflection of the preferences of the two players (closer to their ideal points) than a multilateral contract might be. Swedlund [2017] describes how donors' inability to commit to the actual dispersal of funds and recipients' inability or unwillingness to effectively respond to donor demands creates a commitment problem. She argues that the rise and fall of budget support as a primary aid delivery mechanism was an attempt by donors and recipients to alleviate the commitment problems associated with aid. [Swedlund, 2017] In order to secure guaranteed funding,

recipient states are willing to make more substantial policy concessions.

Aid conditions set for recipients by donors attempt to correct for the moral hazard problem of using aid for corrupt purposes or projects not in line with donor priorities. In order to be eligible for certain types of aid, recipients have to improve on metrics including good governance, rule of law, and human rights. Bracic (2016) demonstrates that the carrot of EU membership and future EU funding can improve minority rights in pre-accession states. However, conditionality too becomes a function of a recipient states' strategic value to donors. Donors are willing to offer fewer conditions on aid to strategically important recipients.[Bermeo and Leblang, 2015, Dreher et al., 2009] If donors are too invested in the outcome of their donation, they cannot credibly commit to rescinding their aid offer.[Bearce and Tirone, 2010]<sup>3</sup> When concessions are a precondition for aid, recipients must decide whether the cost of concessions is worth the benefits from aid. de Mesquita and Smith [2007] posit that the aid for policy concessions trade-off is made most easily when recipient country leaders are able to mollify their selectorate by "reimbursing" them for their concession. Minimizing the risk of accepting policy concessions can maximize the benefit of the aid received. Some potential recipients refuse aid based on the conditions offered.[Dreher et al., 2009]

Local recipients may not use donations for the purposes preferred by the donors because of lack of capacity, misaligned preferences, local corruption, or strong social norms against the intended goals of the project.[Hanna et al., 2013, Cloward, 2014, Djankov et al., 2008, Paler et al., 2019, Dietrich, 2011] Elite capture may benefit local power players instead of the groups targeted by aid. Briggs [2019] finds that aid does not, in fact, reach the poorest members of society despite aid donors' intentions.<sup>4</sup> The groups or sectors targeted by aid may not be the most relevant to recipient society, as Dionne (2017) notes in the case of AIDS programming in Africa. Local actors may benefit from aid in both intentional and unintentional ways: aid improves citizens' opinions of incumbent politicians.[Winters, 2014, Winters and Martinez, 2015, Winters et al., 2017, Guiteras and Mobarak, 2015, Dietrich and Winters, 2015] Credit-claiming allows local politicians to benefit from citizens' positive perceptions of aid programs even though politicians may not have had a hand in bringing aid to their constituencies.[Guiteras and Mobarak, 2015] Dolan (2017) makes the case that in lower-income countries, citizens may believe it is a responsibility of their governments to attract aid. Indeed,

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<sup>3</sup>The same dynamic holds for state-building and democracy assistance. See Bush (2017) and Lake (2017).

<sup>4</sup>This may be due to a combination of donor strategic targeting and local aid mismanagement.

citizens often prefer aid implementation of projects as opposed to government implementation and update positively about the quality of their government when they see foreign aid in their community.[Winters et al., 2017, 2018] Local governments, then, have an incentive to attract foreign aid both because it loosens their budget constrain (which they can then use for corrupt or beneficial purposes) and because aid is a positive signal of their quality to their constituents.

### 3 Model

I model how the cost of aid rescission by donors affects the political decisions of recipient incumbent politicians using a simple state-dependent pandering model based on Gehlbach (2016).

The model has three players: an incumbent politician, a challenger, and a voting audience. For sake of simplicity, the voting audience is homogeneous. The incumbent politician can be diligent ( $d$ ) or lazy ( $l$ ). The politician knows her own type but the voters are unsure. The challenger is drawn from the general population, which is diligent with probability  $\pi$ . The model has two periods. In the first period, the politician's type is realized and they choose a level  $e_t$  of effort to expend, where  $e_t \in \{0, \infty\}$  (the  $t$  subset stands in for the period). A diligent politician pays no cost for expending effort equal to 1, while a lazy politician pays a cost  $c_l$ . For the sake of simplicity, I will not go in to the choices of the lazy politician and will focus on the diligent politician. The state of nature  $s_t$ , known only by the incumbent politician, will be 1 with probability  $\eta$  and 0 with probability  $(1 - \eta)$ . This corresponds to aid being a priority for the community ( $s_t = 1$ ) and aid not being a priority for the community ( $s_t = 0$ ). This is a simplification; aid does not have to be a priority for the community to be beneficial for the community and voters may know that aid would or would not be a priority. However, I posit that given an incumbent politician's greater knowledge of the workings of the local government, the incumbent politician is in a better position to know whether aid would be the most beneficial issue for a community in comparison to all other local priorities.

The incumbent politician gets a wage  $w$  for holding office and gets a payoff equal to the utility from her effort expended and the state-dependent utility of that effort.

$$u(e_t, s_t) = e_t(s_t b - e_t c) \tag{1}$$

The variables  $b$  and  $c$  correspond to the benefits and costs of the aid project. Both  $b$  and  $c > 0$ . Intuitively, if the aid project is beneficial ( $s_t = 1$ ), the politician may get a utility boost by expending effort ( $e_t$ ) on the project. If the aid project is not beneficial ( $s_t = 0$ ), the politician will not get any additional utility from expending effort on the project. To maximize utility, the politician maximizes:

$$\max_{e_t} e_t(s_t b - e_t c)$$

The politician should solve:

$$\frac{s_t b}{2c} = e_t$$

For  $s_t = 1$ ,  $e_t = \frac{b}{2c}$  while for  $s_t = 0$ ,  $e_t = 0$ .

Importantly, voters only reelect an incumbent politician if they see  $e_t = 1$ , as they know a lazy politician is less likely to choose  $e_t$  than a diligent politician because of the cost of effort  $c_l$  for lazy politicians. Otherwise, they take their chances on a challenger who with probability  $\pi$  is diligent. The politician gets a discounted payoff from the second round ( $\delta$ ), where a new state is decided upon which is 1 with probability  $\eta$ .

This leads to a pandering dynamic, in which a diligent politician may choose to expend unnecessary effort in order to be re-elected, which could result in negative utility for the community.

A diligent politician can choose one of three points 0,  $\frac{b}{2c}$ , or 1. I highlight the comparative statics below. By definition,  $\frac{b}{2c} > 0$ .

**Case 1:** If  $0 < \frac{b}{2c} < 1$  and  $s_t = 0$ , the politician will choose 0 if:

$$w + 0 + \delta(\pi\eta\frac{b^2}{4c}) \geq w + \frac{-b^2}{4c} + \delta(\pi\eta\frac{b^2}{4c})$$

The politician will always choose to expend 0 effort instead of  $\frac{b}{2c}$ . Comparing 0 to 1, politician will choose  $e_t = 0$  if:

$$w + 0 + \delta(\pi\eta\frac{b^2}{4c}) \geq w - c + \delta(w + \eta\frac{b^2}{4c})$$

This simplifies to:

$$(\delta - 1)\eta \frac{b^2}{4c} \geq w\delta - c$$

Because the discount term  $\delta$  is less than one, the left side of the equation is negative. Therefore, if  $w\delta > c$ , the politician will choose to expend  $e_t = 1$ . This indicates that there are cases in which a politician will expend additional effort, at a utility cost of  $-c$  to her community, in order to be re-elected if the wage is large enough.

**Case 2:** If  $\frac{b}{2c} > 1$  and  $s_t = 0$ , the politician will choose  $\frac{b}{2c}$  over 0 if:

$$w + \frac{-b^2}{4c} + \delta(\eta \frac{b^2}{4c}) \geq w + 0 + \delta(\pi \eta \frac{b^2}{4c})$$

Simplifying:

$$\frac{-b^2}{4c} + w\delta \geq \delta \eta \frac{b^2}{4c} (\pi - 1)$$

As before, because the discount term  $\delta$  is less than one, the right side of the equation is negative. If  $w\delta \geq \frac{b^2}{4c}$ , the politician will choose to expend  $\frac{b}{2c}$  instead of 0 effort.

Comparing  $\frac{b}{2c}$  to 1, politician will choose  $e_t = 0$  if:

$$w + \frac{-b^2}{4c} + \delta(w + \eta \frac{b^2}{4c}) \geq w - c + \delta(\eta \frac{b^2}{4c})$$

The politician will choose to expend  $e_t = \frac{b}{2c}$  under these conditions if  $b \leq 2c$ .

**Case 3:** If  $0 < \frac{b}{2c} < 1$  and  $s_t = 1$ , the politician will choose 0  $\frac{b}{2c}$  over if:

$$w + 0 + \delta(\pi \eta \frac{b}{2c}) \geq w + \frac{b^2}{4c} + \delta(\eta \frac{b}{2c})$$

Solving for  $0 \geq \frac{b^2}{4c}$  is impossible by definition, as both  $b$  and  $c$  are positive, so the politician will never choose to expend  $e_t = 0$ .

Comparing  $\frac{b}{2c}$  to 1, politician will choose  $e_t = \frac{b}{2c}$  if:



$$w + \frac{b^2}{4c} + \delta\pi\eta\frac{b^2}{4c} \geq w + b - c + \delta(w + \eta\frac{b^2}{4c})$$

This simplifies to:

$$\frac{b^2}{4c}(1 + \delta\pi\eta - \delta\pi) \geq b - c - w\delta$$

By definition,  $\frac{b^2}{4c}$  is non-negative, and the second term on the left side is non-negative because  $\delta$ ,  $\pi$ , and  $\eta$  are all less than one. Therefore, if  $w\delta + b \leq c$  (in other words, if the right side of the equation is negative), the politician will choose  $\frac{b}{2c}$  over 1 for her effort. This choice maximizes utility for the community.

**Case 4:** If  $\frac{b}{2c} > 1$  and  $s_t = 1$ , the politician will choose  $\frac{b}{2c}$  if:

$$w + \frac{b^2}{4c} + \delta(w + \eta\frac{b}{2c}) \geq w + b - c + \delta(\eta\frac{b}{2c})$$

Simplifying,

$$\frac{b^2}{4c} \geq b - c$$

If  $c$  is greater than  $b$ , the politician will choose to expend effort equal to  $\frac{b}{2c}$ , maximizing her utility. The politician will never expend 0 effort under these circumstances.

The comparative statics demonstrate that diligent politicians have an incentive to pander to citizens by proceeding with an aid project after its funding has been withdrawn by the donor in order to stay in office even when the aid project produces a negative utility.

Logically, the politician would prefer to expend zero effort when the aid project is not necessary and  $\frac{b}{2c}$  effort when the aid project is necessary, but electoral incentives warp these choices. Without the absence of aid, a diligent politician would always be able to expend  $e_t = 1$  and focus on the priorities of their community, which may or may not align with a donor's priorities. It follows that politicians would be more selective about the contracts they enter into as there is a chance they lose utility from having to compensate for the loss of aid. Politicians with higher audience costs are less likely to enter into contracts that are likely to fall

through and are more likely to attempt to keep their contracts from failing.

Fearon [1994] demonstrates how states can demonstrate resolve by accruing audience costs for escalating crises in international disputes. Both Fearon [1994] and Tomz 2007 note that authoritarian states are less vulnerable to audience costs (and therefore more likely to back down from disputes) than democracies. However, Weiss [2013] describes how authoritarian states generate audience costs and shows that authoritarian states are not less likely to back down from threats issues than democratic states. However, in the case of foreign aid, the audience costs are not generated by issuing a threat that cannot be followed through; rather, the audience costs of foreign aid are more akin to those described in Acharya and Grillo (2019), who describe how the threat changes the reference point of the status quo for citizens. If citizens incorporate the expectation of aid into their evaluation of the incumbent's behavior's effect on the status quo, the subsequent absence of aid, or, as in the model above, the absence of effort regarding aid which is generated by the sudden loss of aid, may have negative electoral effects. Politicians held accountable to their constituents may take suboptimal, costly actions to correct for the appearance of their ineffectiveness vis a vis aid. Crucially, the audience costs in this situation are generated in part because citizens do not know the true state of the world with regard to aid; they do not know if the aid is a greater priority for their community than an alternative priority. I assume that in authoritarian states, when the government is beholden to a small, elite selectorate, this selectorate is more informed about the utility of aid. Therefore, politicians are less likely to pay a cost for following the utility-maximizing strategy for a given state.

The observable implications of this audience cost are not immediate because there are selection effects for aid contracts. If a politician does not have to worry about losing re-election by failing to expend effort on an aid project that is not useful for their community, they may sign aid contracts that are more likely to fail. Conversely, politicians that may have to take costly actions to ensure re-election in the face of rescinded aid may be more reticent to enter into less secure aid contracts.

Drawing on the aid literature, I posit that bilateral donors have fewer reasons to renege on their contracts because the initial contract is closer to their preferences. This follows the work of Tsebelis [1995] and Christensen et al. [2011] in noting that fewer veto players/negotiators leads to contracts closer to the ideal points for the parties involved. Christensen et al. [2011] also note that bilateral aid is more flexible and

easily conditioned for recipients. This leads me to my first testable hypothesis.

**H1:** Bilateral donors should have less difference between their commitments and disbursements of aid to recipients compared to multilateral donors.

This association does not indicate *why* bilateral donors face smaller commitment problems. Bilateral donors have fewer reasons to renege on their contracts because the initial contract is closer to their preferences and the same applies to recipients. Because bilateral donors are more able to aptly condition their aid, their contracts are a more accurate description of when aid fails to appear. I posit that autocracies are more likely to enter into unfavorable contracts and/or more likely to not fulfill their end of the bargain, giving me my second and third hypotheses.

**H2:** For bilateral donors, the difference between their commitments and disbursements of aid will be smaller for democratic recipients than for autocratic recipients.

**H3:** Autocrats will be more likely to participate in contracts with donors that are less reliable (have larger average discrepancies between aid commitments and disbursements in a given year).

I will use observational data to test the correlative hypothesis espoused above.

## 4 Descriptive Statistics

In this section, I examine correlations between regime type, donor type, and aid disbursements. These descriptive statistics can adjudicate whether my two hypotheses withstand scrutiny. I make no causal claims as to why bilateral and multilateral donors have different interactions with autocratic and democratic regimes. Rather, this section sets up an empirical finding to be modeled with comparative statics and a case study in the following two sections.

For data on aid commitments and disbursements, I use the full publicly-available AidData dataset on aid transactions, which contains recorded aid projects worldwide from 1947 to 2013. Polity IV is used to describe regime type. Unfortunately AidData does not contain information on the date of aid commitment or disbursement; the unit of analysis is the year of disbursement, which does not allow us to test whether the recipient country's initial type (democratic or autocratic) affects commitment/disbursement rates.

The first two models I estimate are the correlation between regime type, donor type, and magnitude

of difference between aid commitments and disbursements, with and without country-year fixed effects. I introduce whether or not the aid is bilateral, as both a control and as an interaction term.

Models three and four describe how, conditional on aid given bilaterally, democratic countries see a smaller discrepancy between committed and received aid than autocratic countries. Importantly, this does not hold for multilateral agencies. Conditional on aid given by a multilateral organization, democratic countries do not see a smaller difference in committed and disbursed aid and, with fixed effects, see an *increase* in the discrepancy.

Table 1: Regime Type, Donor Type, and Aid Commitments-Disbursals

<i>Dependent variable:</i>				
Difference between Aid Commitments and Disbursals				
Million USD				
	(1)	(2)	(3)	(4)
autoc	0.155*** (0.012)	0.118*** (0.029)	0.052** (0.024)	-0.054 (0.035)
democ	-0.131*** (0.012)	-0.109*** (0.029)	0.024 (0.024)	0.109*** (0.034)
autoc:bilateral			0.141*** (0.028)	0.250*** (0.029)
bilateral:democ			-0.205*** (0.027)	-0.308*** (0.027)
bilateral	-6.471*** (0.158)	-6.461*** (0.159)	-6.031*** (0.173)	-5.751*** (0.174)
Constant	9.219*** (0.140)	1,674.946*** (21.268)	8.905*** (0.148)	1,676.031*** (21.266)
Country FE	N	Y	N	Y
Year FE	N	Y	N	Y
Observations	821,986	821,986	821,986	821,986
R <sup>2</sup>	0.002	0.021	0.002	0.021
Adjusted R <sup>2</sup>	0.002	0.021	0.002	0.021

*Note:*

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Models 1 and 2 show a significant relationship between democracy and less difference between commitments and disbursements. The bilateral variable indicates that bilateral aid, to any type of country, is more consistent. Conditional on not being bilateral aid (in other words, multilateral aid), autocracies receive

less consistent aid than democracies. These results hold for fixed effects. This is suggestive evidence for hypotheses H1 and H2.

When bilateral donors are introduced as an interaction term for recipient country status, the results for multilateral aid change in models 3 and 4. Both autocracies and democracies receive less consistent aid from multilaterals (relative to non-democracies and non-autocracies receiving aid from multilaterals). Bilateral aid, however, continues to give more consistent aid to democracies than republicans.

The fifth through eighth models build on the initial findings of associations between regime type and commitment-disbursal differences by adding in two additional specifications. Models seven and eight rerun the specifications of models six and seven conditional on the aid agencies committing any funds to a recipient country. This is justified by the fact that many aid agencies do not commit funds for projects *ex ante* and may simply disburse funds. Almost 3/4 of the projects in the dataset have no commitment data.<sup>5</sup> Restricting the sample to just those for whom it is possible to have a distinction between commitments and disbursements is a reasonable assumption given that the phenomenon under examination is the discrepancy between commitments and disbursements. Eliminating the 0 commitment data projects makes this a harder test for the correlation of regime type and commitment/disbursal discrepancies by removing projects for which commitments were not present.

The ninth and tenth model subset the data to post-Cold War projects. Aid behaved differently during the Cold War than the post-Cold War era. Scholars have described aid as more strategic and less responsive to regime types. Dunning (2004) notes that aid donors could not credibly commit to renege on their promises of support given the ability of recipient countries to strategically threaten to align themselves with ideologically opposed donors. By subsetting the data to post-1990, I restrict the data to the era in which aid is more likely to respond to regime type.

The fifth and sixth model specifications replicate the results from models 3 and 4 with a smaller sample, subsetted to projects for which an initial commitment was made. The results also replicate in the seventh and eighth models, which limit the data to the post-Cold War period.

The next four models I examine estimate the difference in the types of donors that work with democracies

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<sup>5</sup>Any project with missing commitment data was recoded as 0; the 3/4 number then encompasses projects for which there was no commitment data with those for which the commitment amount was listed as 0.

Table 2: Regime Type, Donor Type, and Aid Commitments-Disbursals: Additional Specifications

<i>Dependent variable:</i>				
Difference between Aid Commitments and Disbursals				
Million USD				
	(5)	(6)	(7)	(8)
	Non-Zero	Non-Zero	Post-	Post-
	Commitments	Commitments	Cold War	Cold War
autoc	-0.572*** (0.091)	-0.788*** (0.116)	-0.281*** (0.025)	-0.214*** (0.040)
bilateral	-29.323*** (0.661)	-23.652*** (0.674)	-3.120*** (0.171)	-3.660*** (0.174)
democ	0.868*** (0.089)	0.964*** (0.115)	0.310*** (0.024)	0.241*** (0.038)
autoc:bilateral	1.061*** (0.104)	1.340*** (0.105)	0.327*** (0.028)	0.332*** (0.029)
bilateral:democ	-1.334*** (0.101)	-1.571*** (0.102)	-0.358*** (0.027)	-0.365*** (0.028)
Constant	38.940*** (0.583)	2,542.669*** (75.956)	4.626*** (0.148)	748.532*** (25.884)
Country FE	N	Y	N	Y
Year FE	N	Y	N	Y
Observations	214,439	214,439	785,137	785,137
R <sup>2</sup>	0.013	0.035	0.001	0.006
Adjusted R <sup>2</sup>	0.013	0.035	0.001	0.005

*Note:*

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01

and autocracies. Are autocracies more likely to work with donors that have a larger average discrepancy between commitments and disbursements? The dependent variable in these models is the average discrepancy in a given year between donor commitments and donor disbursements for a given donor. Model 9 uses the full sample, model 10 non-zero commitments, model 11 post-Cold War, and model 12 post-Cold War with non-zero commitment subset.

Models 9-12 demonstrate that aid contracts for autocracies are more likely to be signed with donors who have a greater average gap between commitments and disbursals in a given year.

The various model specifications suggest that contracts between autocracies and aid donors are less likely to be fully fulfilled than those between aid donors and democracies. Donors giving aid to autocracies

Table 3: Donor-Year-Specific Average Difference between Aid Commitments and Disbursals

<i>Dependent variable:</i>				
Average Yearly Donor Difference between Aid Commitments and Disbursals				
Million USD				
	Full	Non-Zero	Post-	Post-Cold War &
		Commitments	Cold War	Non-Zero Commitments
	(9)	(10)	(11)	(12)
autoc	0.259*** (0.011)	0.488*** (0.048)	0.060*** (0.012)	0.213*** (0.066)
democ	-0.242*** (0.011)	-0.454*** (0.048)	-0.060*** (0.012)	-0.220*** (0.065)
Constant	1,703.164*** (8.025)	2,818.251*** (41.590)	770.034*** (9.606)	-116.990* (62.320)
Country FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Observations	821,986	214,439	785,137	189,896
R <sup>2</sup>	0.092	0.047	0.028	0.004
Adjusted R <sup>2</sup>	0.091	0.046	0.027	0.003

*Note:*

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01

have larger average differences between their commitments and disbursals to autocracies; or, conversely, autocracies receive aid from donors that are less reliable.

These correlative data confirm all three hypotheses. This suggests that one potential mechanism that might explain the discrepancies between aid towards autocracies and democracies may be selection into contracts and/or willingness to renege on a contract. Additional model specifications are available upon request.

## 5 Case Study: The World Bank and the "New Kosovo" Coal Power Plant

Kosovo is a case of extreme dependence on the international community for both economic support and security. Kosovo was released from Serbian rule in 1999 after an unsuccessful Albanian insurgency, a Serbian attempt at ethnic cleansing, and several months of NATO bombings of Belgrade. The nascent state declared

independence in 2008 after almost a decade of provisional rule by the United Nations Mission in Kosovo. In the years since the NATO bombings, Kosovo has been one of the biggest beneficiaries of international aid per capita. Aid composes roughly 40%<sup>[CHECK THIS]</sup> of Kosovo's GDP. Given Kosovo's proximity to the EU, Western donors have a vested interest in ensuring the stability and growth of the country.<sup>[Bermeo and Leblang, 2015]</sup> The power asymmetry between Kosovo and its international donors and creditors makes it a convenient case study for the potential domestic political consequences of donor commitment problems.

The energy sector in Kosovo faced challenges after the war because it lacked safe, existing energy infrastructure and political disagreements with its neighbors, primarily Serbia, prevented easy import of energy. Blackouts and shortages were common in the decade leading up to independence and continue to this day. Two central power plants, Kosovo A and Kosovo B, continue to provide the majority of electricity to citizens despite running on coal and serving as "the biggest air polluters in Prisitna[the capital city]". KOHA [2018] The idea of building a new power plant in lieu of or in addition to the renovation of the existing power plants was supported by the Government of Kosovo (before 2008 known as the Provisional Institutions of Self-Government, or PISG) and all of its international partners due to the economic and social costs of irregular power supplies.<sup>6</sup>

In 2006, the World Bank officially partnered with the PISG<sup>7</sup> to address the demands on Kosovo's electric grid.<sup>noa</sup> [2009] The \$8.5 million grant for the Lignite Power Technical Assistance Project (LPTAP) was given in response to Kosovo's request for support for their development agenda "by facilitating investments in key sectors of the economy with high growth potential." <sup>noa</sup> The World Bank was not asking for policy concessions from the PISG; the goals of the investors and grant recipient were in line.

In proposing the power plant, dubbed "Kosovo e Re" ["New Kosovo"]<sup>8</sup>, the World Bank had to balance concerns about funding coal power in the 21st century and providing a stable source of electricity for Kosovars. From 2006 to 2017, the World Bank argued that coal was the most viable source of energy for Kosovo and therefore an exception to its own ban on funding coal power. World Bank president Dr. Jim Jong Kim stated in 2014, "Climate change and the coal problem is one thing, but the humanitarian issue is another, and we

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<sup>6</sup>One American ambassador estimated the lost production equal to "\$415 million a year, or roughly 6 percent of GDP." <sup>noa</sup> [2018]

<sup>7</sup>specifically the Ministry of Energy and Mining

<sup>8</sup>Originally the plant was called "Kosovo C" in reference to the existing Kosovo A and B plants but was re-branded to increase the distance between the unpopular and pollutant-generating plants and the new, "cleaner" plant. <https://www.gazetaexpress.com/lajme-pas-11-vitesh-plane-fillon-ndertimi-i-termocentralit-kosova-e-re-149883/>



cannot turn our backs on the people of Kosovo who face freezing to death if we do not move.”<sup>9</sup> The cost of developing renewables exceeded that of coal, even when environmental and health spillover effects were included.<sup>10</sup> The Government of Kosovo (GOK) frequently cited the World Bank’s, and other international actors’, support for the use of coal as justification for the project; Minister of Economic Development Valdrin Lluka noted in early 2018 that “the ‘New Kosovo’ TPP is one of the few exceptions in the world that the World Bank has made to finance it, which will generate electricity from lignite.”<sup>11</sup>

Though all parties were in agreement as to the need for a stable energy supply, the US and the World Bank disagreed on how the GOK should allocate funds and time between renovating existing power plants and developing a new source of energy. The US was concerned that the transition period between relying on old coal power plants and developing the ‘Kosovo e Re’ plant, noting in 2006 that the US government would need to “provide technical assistance... until the transaction advisor is on board and will continue to work with UNMIK[the United Nations Mission in Kosovo], the PISG and the rest of the international community to ensure that Kosovo is well-prepared for the short-term that could complicate public acceptance of the necessarily medium-to-long-term perspective of the PISG-WB agreement.” However, by 2009 the US was frustrated by the World Bank’s insistence on pursuing the ‘Kosovo e Re’ project despite the short term costs to the GOK.<sup>12</sup> The US government estimated that going forward with the new plant without ensuring “that a new energy sector transaction structure will succeed in attracting investors by the end of 2010” could result in up to 40% of Kosovo’s budget being diverted to energy imports and interim equipment costs with serious consequences for Kosovo’s stability. The disagreements between international actors almost led to the World Bank’s withdrawal from the project in 2009, which the US government stated “would be highly unfortunate, not least because the Bank will ultimately be instrumental in providing risk guarantees for the project, one

<sup>9</sup><https://zeri.info/ekonomia/71994/kosova-c-a-eshte-ndonjehere-thengjilli-investim-i-paster/> <https://www.power-technology.com/features/featurekosovo-c-is-coal-ever-a-clean-investment-4767022/>

<sup>10</sup>“It is undisputed that the World Bank is no great proponent of coal energy, but it is also correct that Kosovo is an exception. Even though it is not a large country, it has the world’s fifth-largest lignite reserves. It is estimated that at least 10.9 billion tons are exploitable, which means that, with current consumption, there is enough coal for the next 1,500 years. At the same time, the preconditions for generating electricity from wind and hydro sources are unfavorable.” Olters, <https://www.worldbank.org/en/news/opinion/2014/08/07/example-how-things-should-not-be-done>

<sup>11</sup><https://www.koha.net/arberi/88769/lluka-flet-per-rendesine-e-termocentralit-kosova-e-re/>; Kosovo authorities say they have strong World Bank support for the construction of the “New Kosovo” power plant, and have warned that the project is in the final stages of finalization. The statements followed the World Bank’s letter sent to Economic Development Minister Blerand Stavileci, confirming that ‘support in principle is conditional on meeting all the necessary technical, economic, environmental, social, legal and financial criteria of the World Bank Group’. <https://www.evropaelire.org/a/28325140.html>

<sup>12</sup>“[The World Bank] acknowledge[s] the problems inherent in providing interim power for Kosovo, but believe[s] that the budgetary and political risks are manageable, particularly if Kosovo improves KEK[Korporata Energjetike e Kosovës, Energy Corporation of Kosovo] collections, eliminates the backlog of payment cases from the courts, and maintains upkeep on the existing plants.”

of the issues highlighted by bidders in the recent round of discussions with the transaction adviser." From early on in the project, the Bank's involvement was considered vital for its ability to minimize the risk of the project to the GOK.

The GOK also considered withdrawing from the project several years earlier, in 2007, after a national election led to a change in power. The US spent months "trying to convince this government that adoption of the old government's energy policy on Kosovo C (New Kosovo) was a necessity. They are now not only convinced, but desperate to move ahead." The new government, once behind the old government's plan, "acknowledged that failure to ensure a successful outcome to this transaction in 2010 is politically unacceptable." Successive governments and ministers of Economic Development<sup>13</sup> had announced imminent selection of companies for the contract and the beginning of construction on the plant. The involvement of the World Bank was a crucial selling point of the success of the project to the Kosovar media. One Minister of Economic Development in 2011 noted the frequent visits of World Bank vice-presidents as an indicator of the dedication of the organization to the project and "was convinced that the winning company the construction of the power plant would start the project in 2012 with the support of the World Bank."<sup>14</sup>

The support of the World Bank extended not only to frequent contact with the GOK, but the Bank defended its project from scrutiny of both Kosovar media and civil society organizations (CSOs). In response to a report by CSOs titled "The Pathology of a Delay" which lampooned the Bank for its failure to implement the power plant a decade after the project was first proposed, the World Bank's country manager for Kosovo, Jan-Peter Olters, described one of the central concerns of the CSOs as a "not particularly constructive coal-only vs. renewable-only confrontation, which was never at the core of the debate but made for nice newspaper headlines in Kosovo and elsewhere."<sup>15</sup> Olters commented later in a 2013 opinion piece that the KOSID[Kosovo Civil Society Consortium for Sustainable Development or Konsociumi Kosovar i Shoqerise Civil per Zhvillim te Qendrushem] and allied civil society organizations were attempting to "win" the energy debate and prevent 'Kosovo e Re' from being built, directly positioning the CSOs as opponents to the

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<sup>13</sup>By 2009, the Ministry of Economic Development had subsumed the Ministry of Energy and Mining. <https://www.gazetaexpress.com/lajme-pas-11-vitesh-plane-fillon-ndertimi-i-termocentralit-kosova-e-re-149883/>

<sup>14</sup>"During this week, unlike many other countries, we have had the visit of three World Bank Group Vice-Presidents, who have in principle supported the construction of the New Kosovo Power Plant," Beqaj said. <https://www.gazetaexpress.com/lajme-pas-11-vitesh-plane-fillon-ndertimi-i-termocentralit-kosova-e-re-149883>

<sup>15</sup><https://www.worldbank.org/en/news/opinion/2012/12/17/panel-discussion-forum-2015-pathology-of-a-delay>

World Bank and the GOK.<sup>16</sup> The CSOs had questioned whether the World Bank's expert reviews has taken into account local conditions: "numerous environmental and social-impact studies were conducted solely to conform to World Bank procedures but not with the intention to use the studies' findings to better design and develop the package for the new plant. However, no studies were ever undertaken to examine how such a mega investment would impact Kosovo's economic interests."<sup>17</sup> Indeed, the World Bank's own expert review noted that "the members of the Panel have a relatively limited knowledge of the situation in Kosovo," though all experts in coal's use in Europe and elsewhere.<sup>18</sup> KOSID took aim at both the World Bank and the GOK in its advocacy efforts. "We think, if the Government had been seriously committed to solving (the problems) in the energy sector, it could have been achieved with a much better combination of using energy efficiency and using alternative energy sources," said Kushtrim Puka of KOSID in 2014.<sup>19</sup> A growing opposition party in Kosovo politics, Levisa Vetevendosja (Movement for Self-Determination, or LV) also allied itself against the project. LV branded itself as an anti-imperialist party whose main platform involved reducing international influence in Kosovo's institutions. LV released a statement affirming the importance of developing a power source within Kosovo but questioning the international community's involvement by insinuating that the US and other international actors had prevented a joint Kosovo-Albania power plant in fear of fomenting pan-Albanianism.<sup>20</sup> The two sides of the debate about the power plant became the World Bank and the GOK versus CSOs and the opposition party.

In March 2017, the GOK signed a contract for the plant with ContourGlobal, a US-based company. A month before, in February 2017, the Minister of Economic Development stated:

"[the] long negotiating process with US company ContourGlobal and the World Bank has resulted in Bank support for the construction of the' New Kosovo 'power plant... Now we have no obstacles. On the contrary, the top leaders of the World Bank are in favor of power plant construction and in support of the energy strategy with almost no backup at the moment when

<sup>16</sup><https://www.worldbank.org/en/news/opinion/2013/03/01/unnoticed-energy-consensus-jan-peter-olters>

<sup>17</sup><http://kfos.org/wp-content/uploads/2012/12/Pathology-of-a-Delay.pdf>

<sup>18</sup><http://pubdocs.worldbank.org/en/361181487182982989/Kosovo-Power-Project-Expert-Panel-Report.pdf>

<sup>19</sup><https://www.gazetaexpress.com/lajme-kosid-jo-ndertimit-te-termocentralit-kosova-e-re-7949/>

<sup>20</sup>"Immediately after Kosovo's declaration of independence, the Government of Albania expressed an interest in co-financing the Kosovo e Re Power Plant (then Kosovo C) project." <https://www.vetevendosje.org/energjia-eshte-politike/>. I am unable to confirm the validity of this statement. There is evidence that the US at this time was worried about pan-Albanianism (<https://wikileaks.org/plusd/cables/09PRISTINA344.a.html>) but both the World Bank and the US emphasize the importance of energy cooperation between Kosovo and Albania in both internal documents and news publications.

we adhere to everything we have agreed to, but also to the environmental and social segment related to the project.”<sup>21</sup>

The contract requires a publicly-owned intermediary company to purchase all electricity generated by the ContourGlobal-funded plant at a higher-than-market price. However, in April 2018, the new Minister of Economic Development, Valdrin Llluka emphasized that “the Government of Kosovo will not spend a cent for this project from its budget. The private investor ContourGlobal will invest in the entire project, where 30% of its capital will be invested, while the rest will be provided by international financial institutions such as the World Bank, our key partner in this project.”<sup>22</sup> The price paid by Kosovars in electricity, which the Kosovo government had committed to buying, would depend on the loan rate given to ContourGlobal.<sup>23</sup> The World Bank, throughout the development of the project, had assured Kosovo and foreign investors of a “risk guarantee” that would allow access to low interest loans.<sup>24</sup> In ContourGlobal’s announcement of a search process for construction companies for its newly-acquired power plant investment, it stated “The process of selection is a two-stage international competitive tender following applicable World Bank Procurement Guidelines.” <https://www.contourglobal.com/press-release/kosovo-epc-procurement-release> Despite the heavy involvement of the World Bank in the project from its inception, the World Bank had not officially guaranteed its support for the power plant before the contract with ContourGlobal was signed. The Minister of Economic Development explained that they “signed the contract without a response from the World Bank because they have been waiting for it for ten years.”<sup>25</sup>

The World Bank officially withdrew its support for the power plant in October 2018, twelve years after it had first agreed to work with the GOK to develop the Lignite Protection Technical Assistance Project (LPTAP).<sup>26</sup> The least-cost option for energy in Kosovo, when factoring in environmental and health costs, had become renewable sources, whose price had plummeted since the plant had first been proposed.<sup>27</sup> Importantly, the World Bank did not withdraw its support from the ‘Kosovo e Re’ project because of the

<sup>21</sup><https://www.evropaelire.org/a/28325140.html>

<sup>22</sup><https://zeri.info/ekonomia/195929/qeveria-e-kosoves-sdo-te-shpenzoje-nga-buxheti-i-saj-per-kosoven-e-re/>

<sup>23</sup><https://www.koha.net/arberi/70234/kredia-per-kosoven-e-re-mund-te-rrite-cmimin-e-rrymes-per-qytetaret/>

<sup>24</sup><https://www.evropaelire.org/a/termocentrali-kosova-e-re/29937934.html>

<sup>25</sup><https://www.koha.net/arberi/122303/shoqeria-civile-i-rekomandon-qeverise-te-paguaje-penalltine-dhe-te-terhiqet-nga-kosova-e-re/>

<sup>26</sup><https://uk.reuters.com/article/worldbank-kosovo/world-bank-pulls-out-of-kosovo-coal-power-plant-project-idUKL8N1WQ518>

<sup>27</sup><https://www.worldbank.org/en/country/kosovo/brief/energy-in-kosovo>

GOK's failure to make policy concessions to the Bank. The World Bank did require specific political acts from the GOK, including improvements in rule of law, stabilization, and governance. These and similar policy concessions were also required by other donors, including the EU and USAID. However, ultimately the World Bank did not support the 'Kosovo e Re' project because of the rising cost of coal with respect to renewables. The CSOs declared that they had "won the battle with the World Bank" and anticipated that other financial institutions would follow suit and withdraw support as well in the wake of the announcement.<sup>28</sup> The EBRD, which had previously refused to support the project, immediately reiterated its stance against the use of coal.<sup>29</sup> The Ministry of Economic Development claimed to be talking to "several banks from Japan, America and China to guarantee the investment of one of the four companies competing for the construction of 'Kosovo e Re'."<sup>30</sup> The 'Kosovo e Re' plant is estimated to be the largest foreign investment in Kosovo. Without the World Bank's promise of low-interest loans, some of this cost will likely be passed on to consumers.<sup>31</sup> The outgoing Minister of Trade and Industry, Bajram Hasani, predicted that the withdrawal of the World Bank would be disastrous for Kosovo "because it is not only said because of alternative energy, but also shows uncertainty, that Kosovo is an unsafe place for investment and fear or now the real possibility is that this investment will fail completely because the moment the World Bank has withdrawn, and I expect other institutions to withdraw."<sup>32</sup> The costs of the World Bank's withdrawal were both immediate in investor confidence and long-term in consumer energy prices.

The GOK refused to cancel its contract with ContourGlobal. The Acting Minister of Economic Development Valdrin Lluka estimated a loss of 20 million euros in penalties from breach of contract if the GOK were to withdraw.<sup>33</sup> The Prime Minister, Ramush Haradinaj, insisted that the plant be built "in order to produce energy in the local market," as importing electricity from Kosovo's neighbors is still prohibitive both politically and economically.<sup>34</sup> Civil society activists estimate that the losses from the contract's cancellation would be more than offset by the gains in health and environmental standards as well as the chance to find

<sup>28</sup><https://www.evropaelire.org/a/kosova-e-re-ndertohet-pa-mbeshtetjen-e-bankes-boterore/29538226.html>

<sup>29</sup><https://www.evropaelire.org/a/kosova-e-re-ndertohet-pa-mbeshtetjen-e-bankes-boterore/29538226.html>

<sup>30</sup><https://www.koha.net/arberi/122303/shoqeria-civile-i-rekomandon-qeverise-te-paguaje-penalltine-dhe-te-terhiqet-nga-kosova-e-re/>

<sup>31</sup>"The World Bank said last year that it would not support the construction of a new coal-fired power plant, even though years ago the bank had promised to issue some kind of risk guarantee, which would allow the investor to obtain low interest loans." <https://www.evropaelire.org/a/termocentrali-kosova-e-re/29937934.html>

<sup>32</sup><https://zeri.info/ekonomia/220569/ende-e-paqarte-e-ardhmja-e-termocentralit-kosova-e-re/>

<sup>33</sup><https://www.koha.net/arberi/183031/kosova-e-re-deshton-nese-ne-pushtet-vijne-kundershtaret-e-ketij-projekti/>

<sup>34</sup><https://kossev.info/svetska-banka-nece-finansirati-novu-elektranu-na-ugalj-na-kosovu>

cheaper electricity from alternative sources.<sup>35</sup> In congruence with the CSOs, opposition leaders have made the ContourGlobal contract central to their campaign in the 2019 parliamentary elections. The official LV website demands that a new government take steps on its first day towards "the cessation of any activity associated with the new power plant in Kosovo."<sup>36</sup> LV claims that their microphones were shut off during a government meeting when presenting "damaging information" about the ContourGlobal contract.<sup>37</sup> The outgoing government has warned that the project would fail and Kosovo would pay the penalty for renegeing on its contract without reaping any of the benefits of the deal if the opposition comes into power in the October 2019 elections.<sup>38</sup> CSO activists have urged all parties in the election to clarify their stances on the power plant.<sup>39</sup> The two camps, pro and anti, have been defined by the stances of the outgoing government (pro) and the opposition (anti). The 2019 elections will determine the fate of the power plant and all political parties now must make their stances apparent.

The World Bank's initial support of the 'Kosovo e Re' coal plant and its subsequent withdrawal of support offers the opportunity to examine how even aid in line with a country's priorities can alter the political landscape of the recipient country. Ultimately, the World Bank rescinded its support because of an exogenous drop in alternative energy pricing, not because of actions or lack thereof on the part of the Government of Kosovo. In line with my theory, the offer of aid for the coal power plant changed the reference point for success for the Kosovo government by tying a specific policy to international financing and legitimacy as well as isolating civil society. The World Bank's support of the policy and efforts to push back against CSOs created a relevant political cleavage for Kosovo elections that allowed the government and opposition parties to make the coal plant into a wedge issue. The initial issue of the need for domestic energy generation has never been in dispute in Kosovo politics, but the World Bank's agenda changed the political calculus for the governing party. With the absence of World Bank support, the governing party would bear an additional cost of backing down from the proposal because of both the contractual penalties and the audience cost to its supporters, as the party has taken support for the plant as part of its reelection

<sup>35</sup><https://www.gazetaexpress.com/lluka-paralajmeron-deshtimin-e-kosoves-se-re/>

<sup>36</sup><https://www.vetevendosje.org/zgjedhje-te-reja-menjehere-qeveria-e-dorehequr-te-nderprese-veprimtarite-e-demshme/>

<sup>37</sup><https://www.koha.net/arberi/153068/levizja-vetevendosje-publikon-8-arsye-pse-duhet-te-ndalet-marreshja-me-contourglobal/>

<sup>38</sup><https://www.koha.net/arberi/183031/kosova-e-re-deshton-nese-ne-pushtet-vijne-kundershtaret-e-ketij-projekti/>

<sup>39</sup><https://www.koha.net/arberi/182318/shoqeria-civile-kerkon-nga-partite-politike-ne-gare-per-zgjedhjet-e-6-tetorit-te-paraqesin-qendrimet-per-projektin-kosova-e-re/>

platform.

## 6 Conclusion

Free aid is not free. I develop a theory of how the aid commitment problem generates audience costs of aid even in the absence of policy concessions. The commitment problem of aid leaves recipients vulnerable to domestic political backlash if aid is not procured. With a simple signaling model, I demonstrate how, in these situations, recipients may be forced to take costly actions in order to stay in office. The potential for costly actions may lead to selection into specific types of aid contracts. I find correlative evidence that authoritarian states, who are less likely to pay an audience cost for failed aid contracts, are more likely to participate in contracts that result in less disbursements than the initial aid committed. In Kosovo, I outline how the promised contract for a coal power plant between the World Bank and the Kosovo government generated audience costs for the incumbent party in Kosovo such that, when the World Bank withdrew its support, the party was unwilling and unable to back down from the project. The party was willing to take the costly and likely suboptimal act of continuing to build a coal plant instead of investing in renewables because the World Bank had generated not only administrative but audience costs that prevented the parties in power from backing down.

Future research into this mechanism of aid audience costs could include a survey experiment in which participants are experimentally manipulated to read articles describing the success or failure of an aid project.<sup>40</sup> Then, a sample of these participants could be fed additional information about the subsequent actions of a local politician to use government funds to fulfill the aid project. Participants could then state whether they view the incumbent more positively or negatively. This experiment would give us leverage on the questions 1) does the absence of aid reflect negatively on an incumbent? and 2) can the costly actions of an incumbent reduce this negative updating? More descriptive evidence about sector-level differences in aid projects, gestation time between commitments and disbursements, and aid delivery mechanisms and their relationships with the commitment-disbursement discrepancy would also help identify the causal effect of audience costs on aid.

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<sup>40</sup>This could be an exogenous shock to aid or endogenous to recipient government performance.

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