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WHICH POLICIES ARE REWARDED: EXPLAINING THE DISTRIBUTION OF U.S. FOREIGN AID AFTER THE END OF THE COLD WAR

Yury V. Bosin

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BY

YURY V. BOSIN

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DISSERTATION

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ABSTRACT

The goal of this study is to elucidate what drives the distribution of U.S. foreign assistance. Why do some states receive more than others? Does the U.S. use aid to reward certain “good” policies? Can a regime pursue such policies to secure more U.S. funding?

I answer these questions by examining patterns of aid distribution of the U.S. Agency for International Development and the Millennium Challenge Corporation. I find that USAID assistance is driven primarily by strategic interests, while the MCC is more oriented towards the recipient needs. To assess the effects of various democratic policies on the distribution of U.S. foreign aid, I disaggregate democracy into four elements: Quality of Elections, Human Rights Climate, Governance and Rule of Law, and Civil Society. In both USAID and MCC models, Quality of Elections appears to be a strong predictor of aid.

This study opens a new line of research, which builds on closer integration between foreign aid and democracy research. The growing role of recipient regime policies in aid decisions, inclusion of democratization in U.S. strategic interests, and the tendency to reward elections before other democratic practices are all essential characteristics of U.S. foreign aid since the end of the Cold War. During this time, autocratic leaders have become increasingly adept at manipulating democratic forms, especially elections, to maintain their authoritarian regimes while still retaining the support of international sponsors. Therefore, the link between elections and foreign aid decisions is the key to understanding the complex relationships between “elected” autocrats, international donors and democracy promoters.

DEDICATION

To my parents

Acknowledgments

When I came to UNM back in 2005, I already had a Ph.D. I thought it would be easy to do it for the second time. Well, I was wrong. It has been a long journey, which would not have been possible without help and support from many people. First of all, I owe immeasurable gratitude to my dissertation committee and Mark Peceny, my first committee chair. I vividly remember first meeting him at a coffee shop in Moscow. He was pitching a wide range of creative ideas and has never stopped ever since. He made me re-write my field research paper 26 times but I am glad he did it as it finally was published in ISQ.

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Introduction

William Easterly opens his 2006 book *“The White Man’s Burden”* with a dramatic example of the West’s failed foreign assistance efforts over the last fifty years. According to the author, Western states have spent close to \$2.5 trillion but, as yet, have not succeeded in providing a vaccine that could have prevented half of all malaria deaths in poor countries. The cost of a malaria shot is only twelve cents apiece, and yet aid planners have been unable to deliver this simple treatment to those who needed it the most. In contrast, Easterly continues, American and British publishers in one day have supplied nine million copies of a new Harry Potter book to satisfy the demand of eager readers. At the end, Easterly finds it “heartbreaking” that Western society “has evolved a highly efficient way to get entertainment to rich adults and children, while it can’t get a twelve-cent medicine to dying poor children” (Easterly 2006, 4).

Easterly is certainly not naïve or idealistic. The Western entertainment industry and foreign assistance have essentially different objectives. The former is driven by profit while the latter, as Easterly suggests, is driven by compassion and the moral obligation of people in rich countries to help suffering people in poor countries. It is still not clear, however, why the results of foreign assistance have been so disappointing. Easterly argues that West’s foreign aid has been based on a misdirected approach. In other words, he points to problems in the foreign aid mechanism itself (more specifically “utopian planning”) that have affected its ability “to get four-dollar bed nets to children in Africa and Asia” (Ibid. 3). But what if Easterly’s logic is based on a wrong assumption -- that foreign aid is designed to “enrich the poor, to feed the hungry, and to save the dying” (Easterly, 5)? What if Western and U.S. foreign aid in particular has objectives different from the lofty goals professed by the author? What if fighting malaria in Africa has never been a top priority of U.S. foreign assistance? If a result was not planned it does

not have to be achieved, which means that the apparent failure of U.S. foreign assistance may be a product of misconception.

Many would find this idea cynical and even preposterous. There is no doubt that many ordinary citizens in the U.S. feel deep compassion for people in other countries who live in poverty and inhumane conditions. When Americans write a check to an international charity to install solar panels in Kenya or to help an orphanage in El Salvador or rebuild a village in earthquake-stricken Nepal, they hardly think in strategic or political terms. They probably do not know or care much about Kenya's strategic importance, El Salvador's democracy, or Nepal's corruption. But when aid is provided on a state-to-state level it becomes an integral part of foreign policy with its own priorities and goals. I argue that the effects of foreign aid cannot be evaluated and understood in isolation from the motives behind this aid.

The goal of this study is to elucidate what drives the distribution of U.S. foreign assistance. Why do some states receive more than others? Does the U.S. use aid to reward certain "good" policies? Can a regime pursue such policies to secure more U.S. funding?

Over 180 countries in the world receive some form of U.S. assistance. However, the U.S. distributes aid very unevenly. For example, Morocco from 1999-2009 received \$1.09 billion (2009 constant U.S. dollars) of the total economic assistance from the U.S. (approximately \$34 per capita), while Tunisia received only \$4.3 million (about \$0.39 per capita). Over the same period, the U.S. provided \$2.515 billion to Mozambique but only \$690 million for Madagascar, a country with roughly the same size population, area and GDP. The amount of U.S. aid to Georgia was almost four times larger than to neighboring Azerbaijan -- \$2.023 billion (\$44 per capita) versus \$572 million (\$6 per capita). What causes such wide variation?

Despite recent attempts to make the U.S. foreign aid mechanism more structured and transparent, it is essentially still a black box. Official documents do not provide universal rules and procedures under which U.S. aid is allocated. In reality, the aid process is built on a country-by-country basis where budget proposals from USAID field offices are aggregated into a foreign aid appropriation bill to be passed by Congress. Usually, this process can take up to two years. On the way, proposals go through a series of negotiations involving government agencies, legislators, “private groups, foreign governments and international organizations” (Lancaster 2000: 35-36). Multiple domestic and international actors exert varying degrees of influence over foreign aid programs, which may, as some argue, undermine their primary goals. Since the bargaining process behind aid decisions is largely non-transparent, it is almost impossible to say with any degree of certainty how a decision to provide or to cut aid to a regime is motivated. As a result, a model explaining the internal mechanism of U.S. aid decisions would depend on too many unknown variables.

Instead, I focus on recipient regime policies as well as country economic and social conditions as determinants of U.S. foreign aid decisions. For a long time, the scholarship on foreign aid has been developing at the intersection of country and regional studies, international political economy, and foreign policy analysis. Over the years, the mainstream research has been going back and forth between these fields but has failed to create a systematic model of aid. Various scholars explained this failure by excessive emphasis on one particular discipline with a lack of attention to others. McKinlay and Little (1970), for example, claim that the research of foreign aid had been trapped in an analysis of “domestic political structures of low-income countries” largely neglecting the international political economy (McKinlay and Little 1970: 61). In the 1960s, domestic politics did not seem very important as the constraints of the Cold War

world clearly dictated U.S. foreign aid decisions, which followed a simple rule -- direct aid to geostrategic allies. In return, the U.S. would “dictate, to some extent, a number of conditions under which the aid [was] supplied,” mainly maintaining the anti-communist policies in the recipient country (Ibid. 63). Today, this rationale seems outdated. However, I argue that as regimes have a greater capacity to adjust policies in order to win U.S. international approval and receive more aid, domestic policies are coming back into the picture.

Many anticipated that the end of the Cold War would introduce more non-strategic goals into foreign aid and would finally diversify U.S. motives as a donor. The breakup of communist regimes in Eastern Europe and the Soviet Union created unprecedented opportunity for democratization in the region. U.S. foreign aid was to play an important role in this process. This shift coincided with the establishment of the liberal peace theory, which has increasingly emphasized promotion of democracy as one strategic objective of the U.S. No longer was the support of democracy only a matter of U.S. moral obligation, but a part of a larger security policy based on an assumption that the best way to make regimes allies of the U.S. is to make them democratic. Therefore, I argue that U.S. interests have gone through a transformation, which blurred the line between pure security concerns and democratization.

The impact of the end of the Cold War on U.S. foreign aid policy still needs to be examined. The main problem has been a lack of data. Most studies have covered the period until mid-1990s. My research takes an important step in expanding the data through 2014.

The 2000s witnessed a new development in U.S. foreign aid – the creation of the Millennium Challenge Corporation (MCC). The MCC declares a principally new approach to foreign aid, different from that of USAID. The MCC positions itself as an aid model free from strategic goals in a traditional sense. The MCC distributes aid exclusively to low-income

countries and only those “committed to good governance, economic freedom, and investments in their citizens.” The MCC does mention the advancement of American interests as a part of its mission but only “by reducing global poverty through economic growth.” The MCC’s strict selection process prevents the possibility of directing assistance to a (strategically important) regime that does not satisfy certain democratic conditions. However, the U.S. Congress can still rule eligible countries out of the MCC recipient list on security and political grounds. If the MCC was conceived as an attempt to de-strategize U.S. foreign aid to its logical extreme, it does not seem to have fully succeeded. Although MCC funding has been steadily decreasing over the last years and USAID has maintained its dominant position in the U.S. foreign aid business, it is still important to know if the MCC has been successful in living up to its own declarations. This is the first work to provide a quantitative analysis of the motives behind the MCC assistance programs.

This study pursues an essentially new approach to using democracy indicators in foreign aid research. Although composite democracy indices, such as Polity IV and Freedom House, have been widely accepted in political science, I find them problematic. Not only are they based on different concepts of democracy, but also they are difficult to interpret in the practical policy context. As I argue in Chapter 4, aid decision makers tend to place different weights on various democratic policies of the recipient state. More specifically, quality of elections is more important than other democratic elements such as human rights, civil society, and good governance. The U.S. will be more likely to reward regimes that run some elections even though other democratic policies may lag behind, but not vice versa. The focus on elections as a condition for aid gives recipient regimes an incentive to manipulate electoral practices.

Autocratic leaders can “pretend” to play the democratic game to win international support, while establishing illiberal regimes behind a rhetorical acceptance of democracy.

This thesis unfolds in several steps. Chapter 1 opens with a historical overview of U.S. foreign aid from the Monroe doctrine to the present time. Chapter 2 follows with a discussion of previous research on the effects and motives of foreign aid. Chapter 3 presents theoretical arguments explaining the distribution of U.S. aid after the end of the Cold War. Chapter 4 provides a statistical analysis of the distribution of USAID assistance. Chapter 5 presents a quantitative model predicting the allocation of MCC aid. Chapter 6 focuses on Afghanistan as a case study, illustrating the connection between U.S. foreign aid and controversial elections in 2009. The Conclusion summarizes the findings of this study.

Chapter 1 | From the Monroe Doctrine to the Millennium Challenge Corporation: a Brief History of U.S. Foreign Aid

“By its very nature, this is not and never will be a big money enterprise”

-- Dean G. Acheson, U.S. Secretary of State, presenting the president's \$45 million Point Four request in the Congress in 1950.¹

Indeed, 65 years ago it was probably hard to envision U.S. foreign assistance developing into a multi-billion global operation and becoming one of the major elements of the U.S. international affairs budget. In 2014, world's official development assistance reached an unprecedented \$134 billion, of which almost every fourth dollar was coming from the United States. The U.S. has been an unquestionable leader in foreign aid, allocating approximately \$50 billion to more than 150 countries, including \$17 billion in military assistance. While there have been historical ups and downs in U.S. foreign aid spending, overall, since the mid-1990s, the U.S. foreign aid budget has steadily grown and nearly quadrupled by 2014. While some still criticize the U.S. for its falling short of the UN's aid spending target of 0.7% of GDP, in absolute figures the U.S. has been and will likely continue to be the largest contributor of international aid in the years ahead.² For many countries in the world, U.S. foreign aid has been a critical source of development, security, and social reform.

¹ Acheson, D.G. 1950. *Strengthening the Forces of Freedom: Selected Speeches and Statements of Secretary of State Acheson*. February 1949-April 1950. Washington, DC. Department of State, 71.

² Currently, U.S. foreign budget accounts for about 0.2% of the GDP or \$73 on the per capita basis. Only five countries have honored a pledge of 0.7 % of foreign aid target – Norway, Sweden, Luxembourg, Denmark, and the United Kingdom. In absolute figures, however, their combined spending in development assistance in 2013 was almost equal to what the U.S. spent alone.

Early Age of U.S. Foreign Assistance

Over its history, the U.S. foreign aid process has gone through many organizational changes, amendments and strategic re-assessments. Some authors trace the inception of U.S. foreign aid as far back as to the Monroe Doctrine of 1823 and American charitable efforts in response to the Irish famine of 1840s. Some call this period a “golden age,” asserting that U.S. assistance was driven by a noble humanitarian intention, free of any selfish motives. The overarching goal of foreign aid at that time was based on the moral belief of “American statesmen that country’s conduct must benefit even lands untouched by American power or largesse” (Eberstaadt, 2).

Still, for a long time, the concept of international assistance remained alien to U.S. foreign policy and public opinion, dominated by non-interventionism ideas. However, World War II forced the U.S. to re-shape its course to be able to cope with new security challenges. In March 1941, President Roosevelt signed “An Act to Further Promote the Defense of the United States,” which became known as the Lend-Lease policy. Under this policy, the U.S. shipped food, fuel, materials, weapons, and equipment to the countries of the Allied forces battling the Axis powers in Europe and Asia. Lend-Lease lasted until May 1945 and cost more than \$50 billion – an equivalent of approximately \$650 billion in today’s prices. Lend-Lease made a sizable contribution to the victory over Nazi Germany. For example, the U.S. supplied fifteen percent of aircraft, thirty percent of trucks, and ninety-five percent of locomotives which the Soviet Red Army received during World War II.

The Marshall Plan

The beginning of U.S. foreign aid in the modern era is commonly associated with the name of George C. Marshall, the Secretary of State from 1947 to 1949. Marshall proposed massive financial and technical assistance to aid European countries in recuperating after the WWII devastation. Over the period of four years, the United States allocated \$13 billion (close to \$150 billion in today's dollar value) to sixteen European nations, including Germany and Turkey, as well as the nations that remained neutral during the war, namely Sweden, Switzerland, Ireland and Portugal. Initially, participation in the Marshall Plan was offered to the Soviet Union but Joseph Stalin chose to decline it, fearing the increase of American influence in Europe and especially in the Eastern Bloc. Under the Soviet pressure, Czechoslovakia, Poland, Yugoslavia, and other Eastern European countries decided to reject the plan as well.³ Franco's Spain did not join the Marshall Plan as it contradicted Spain's highly restrictive and regulated financial and economic policies. Finland did not participate as its economy had already recovered to the pre-war level and Finland was particularly concerned not to anger the Soviet Union. While the U.S. distributed the Marshall Plan money among recipients on the per capita basis, it tended to give more to the former Allied nations than to the Axis countries, thus addressing the worries of the U.K. and France that Germany would not acquire any threatening level of power.

There is no agreement among historians on the effects and motives of the Marshall Plan. While Europeans economies demonstrated miraculously fast growth in 1948-52, some argue that the recovery had begun before the Marshall Plan due to correct economic policies; thus, the U.S. contribution was a relatively minor catalyst. Motivation behind the plan has also been a subject

³ Following the conflict between Joseph Stalin and Josip Broz Tito in the late 1940s, Yugoslavia did requested U.S. aid, which was provided on a small scale but was not officially a part of the Marshall Pan.

of a debate. In his famous Harvard speech, George Marshall professed the lofty purposes of U.S. aid to Europe as to fight “hunger, poverty, desperation and chaos” and to rebuild “a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist” (Department of State Bulletin 1947: 1160). However, it appears that the Marshall Plan did serve the more immediate economic and strategic interests of the U.S. Most of the funds under the plan were provided in a form of cash transfers, which in turn were spent to purchase American goods, thus significantly boosting the U.S. economy. Secondly, and maybe more importantly, the Marshall Plan was critical for cementing a pro-American alliance in Europe and containing the spread of communism on the continent. Mounting left wing movements in France, Italy, Greece, and particularly the communist coup in Czechoslovakia in 1948 caused the initially hesitant Congress to decisively embrace the Marshall Plan and approve it with strong bipartisan support.

With all its controversy, the Marshall Plan was definitely one of the brightest successes in the history of U.S. foreign aid. It is worth mentioning that the Marshall Plan cost more than 3% of nation’s GDP – a level that has not been reached since. Eighty-five percent of the Marshall Plan aid consisted of grants that did not have to be repaid. In addition to its humanitarian and developmental effect, the Marshall Plan fostered the process of European integration, which would eventually lead to the establishment of the European Union in its current state.

Point Four Program

Building on the philosophy of the Marshall Plan, newly elected President Truman in 1949 announced a new foreign assistance initiative, which became known as Point Four Program. In his inaugural speech, he set the objective of the program as to relieve the suffering of the people

in the underdeveloped areas who live in “conditions approaching misery.” (Department of State Bulletin 1949: 123). To manage the Point Four Program, the State Department established a designated agency – the Technical Cooperation Administration (TCA), which later was reorganized into the Foreign Operations Organization, which in turn became International Cooperation Administration, the immediate precursor of the U.S. Agency for International Development (USAID) of the present day.

The Point Four Program differed significantly from the Marshall Plan. It was not intended to directly fund development projects but rather to provide technical assistance by sharing U.S. “know-how.” The TCA budget was miniscule compared to the Marshall Plan obligations, starting with only \$25 million for a 1950-51 fiscal year. Soon, however, the imperatives of the Cold War pushed TCA to significantly expand its activity towards strategic goals. The global rivalry of the U.S. and U.S.S.R forced both superpowers to seek geopolitical allies and use foreign aid as enticement to draw them into their orbits. This policy became explicit in the mid-1950s. Afghanistan is a good illustration as the U.S. and the Soviet Union were desperately trying to use foreign assistance to win the loyalty of this formally non-aligned country. In 1955, Soviet leaders Nikita Khrushchev and Nikolai Bulganin stopped in Kabul on their way back from India and approved an unparalleled \$100 million line of credit for Afghanistan. Americans felt they were losing Afghanistan to the Soviets and needed to react. The ICA budget was increased several times, indicating a decisive turn from providing technical assistance to promoting industrial development. The Afghans exploited the competition between the Great Powers to their benefit. Muhammad Daud, the prime minister of Afghanistan described this policy as “Soviet matches, American cigarettes” (Bosin 2004: 78). By the end of 1950s, Americans found themselves in almost an anecdotic position when they were bidding against the Soviets for

projects. This strategically driven policy resulted in some ill-conceived and economically unsound projects; for example, the Kandahar airport was designed as an international class facility to provide a short-cut route for the flights from Europe to Asia. However, the introduction of jet-travel made refueling at Kandahar redundant and the airport ended up serving one weekly shuttle flight to Kabul (Ibid. 83).

The 1950s was an important period in the evolution of U.S. foreign aid. The pressures and challenges of the Cold War environment stimulated U.S. policy makers to reassess and reorganize how U.S. foreign aid was allocated, causing it to evolve into a powerful foreign policy tool.

The Foreign Assistance Act and USAID

In his historic speech in 1961, President John F. Kennedy proposed a new vision of U.S. foreign assistance, integrating humanitarian, developmental and strategic dimensions into one policy. Answering the question whether a foreign aid program were really necessary, he pointed to the U.S. moral obligation “as a wise leader and good neighbor in the inter-dependent community of free nations – our economic obligations as the wealthiest people in a world of largely poor people, ... and our political obligations as the single largest counter to the adversaries of freedom” (Kennedy 1961). At the same time, emphasizing the importance of long-term assistance projects, Kennedy noted: “The ability to make long-term commitments has enabled the Soviet Union to use its aid programs to make developing nations economically dependent on Russian support – thus advancing the aims of world communism” (Ibid.). Finally, Kennedy came up with the recipe to reconcile U.S. strategic interests with a benevolent mission of foreign aid: “But the fundamental task of our foreign aid program in the 1960s is not negatively to fight communism: Its fundamental task is to help make a historical demonstration

that in the twentieth century, as in the nineteenth – in the southern half of the globe as in the north – economic growth and political democracy can develop hand in hand” (Ibid).

According to Kennedy’s vision, the U.S. foreign aid mechanism needed to be overhauled to be faster, more efficient, and less bureaucratic. In 1961, the Congress passed the Foreign Assistance Act (FAA), which defined the goals and structure of U.S. foreign assistance. There is a noticeable duality in the FAA – it encompasses a massive, almost 600-page document. On the one hand, this act authorizes the President “to furnish assistance, on such terms and conditions as he may determine.” (FAA 2003: 32)⁴. On the other hand, it details the distribution of funds to such a degree as to give Congress the right to micromanage foreign assistance appropriations on a country-by-country and program-by-program basis.

Reading the FAA, it is somewhat difficult to clearly see the objectives of U.S. foreign aid policy. With all its amendments and additions, the act includes as many as 33 goals, 75 priority areas, and 247 directives (Redelet 2003). The law opens with a statement that:

“... a principal objective of the foreign policy of the United States is the encouragement and sustained support of the people of developing countries in their efforts to acquire the knowledge and resources essential to development and to build the economic, political, and social institutions which will improve the quality of their lives” (FAA 2003: 19).

While the FAA does not specify any strategic goals at this point, it becomes quite evident that fighting international Communism was an underlying rationale. On page 302, the act authorizes the President to “adopt regulations and establish procedures to insure that United States foreign aid is not used in a manner that, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of any country that is a Communist country” (FAA 2003: 302).

⁴ This study uses the 2002 amended edition of the Foreign Assistance Act.

The idea to make the FAA as comprehensive as possible led to the inclusion of numerous amendments reflecting changes in U.S. foreign policy. Basically, when Congress passed an act or ratified an international treaty, which would include any reference to any form of assistance to a country or a region, this assistance had to be authorized by the FAA. For example, the United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003 authorized the President to develop and exercise a global strategy to combat HIV/AIDS, which included aiding AIDS-struck countries with relevant treatment and care. The Act was included in the FAA under the section 104A. Overall, there is an impression that the FAA has been quite reactive to the dynamic of U.S. relations with other countries. For example, Section 602B in 1979 prohibited all assistance to Afghanistan due to the assassination of the American ambassador Adolph Dubs in Kabul in a botched kidnapping event on February 14, 1979 (FAA 2003: 313). As another example, Section 620B cut off assistance and sales to Argentina in 1978 regarding human rights violations in the “dirty war.” In 1981, in the light of Argentina’s transition toward democratic rule, this section was repealed.

The main shortcoming of the FAA is that it has not established clear criteria regarding foreign aid allocations. Other than general guidelines and objectives, it does not specify an assessment and decision-making mechanism that would define country eligibility and the amount of foreign aid. The load of amendments, additions, and technicalities has made the FAA overly contextual without a unified strategic vision of what foreign aid should accomplish.

After signing the FAA, President Kennedy created the United States Agency for International Development (USAID) by executive order. It includes five geographic bureaus, which are responsible for planning and delivering aid to countries, and five functional bureaus, which focus on fundamental issues, and require a cross-border approach; i.e., Food Security and

Global Health. Notably, USAID is not the only government organization that delivers foreign assistance. The Department of Agriculture, the Department of Transportation, the Department of Health and Human Services, and other agencies have been running their own assistance programs in many countries of the world. USAID, however, has been and continues to be the largest distributor of bilateral economic aid worldwide.

The F Process

With many success stories all over the world, USAID has not been free from problems. It has been blamed for lacking strategic focus and inefficiently coordinating assistance programs with U.S. foreign policy priorities. In its planning, USAID has relied heavily on field offices overseas, which are more concerned with country development needs while, as some argue, the State Department agenda was not sufficiently represented. As some skeptics in the Congress have suggested, at times USAID has pursued development for the sake of development, without any clear rationale of how this development would serve U.S. interests. Another big issue concerns poor evaluation regarding the effectiveness of USAID programs, which has caused some critics to claim that USAID has wasted taxpayers' money by generating negligible results.

In 2006, State Secretary Condoleezza Rice launched the so called "F process," – an institutional reform with the purpose of "integrating foreign assistance planning and resource management across State Department and USAID" and "...ensuring the strategic and effective allocation, management, and use of foreign assistance resources" (Office of U.S. Foreign Assistance Resources n.d.). On the conceptual level, the F process signified a stronger emphasis on aligning U.S. aid programs with American strategic priorities. On the organizational level, this process meant bringing USAID under tighter control of the State Department. Consequently,

a new State Department Bureau of Foreign Assistance (the F Bureau) was established in 2006, headed by the Director of Foreign Assistance (DFA) who also serves concurrently as Administrator of the U.S. Agency for International Development. The F Bureau replaced the USAID Policy and Program Coordination Bureau, indicating the relocation of decision-making under the auspices of the Secretary of State. Starting from 2007 fiscal year, the USAID budget was included in the total State Department request for foreign affairs operations, while prior to this it bypassed the State Department and went directly to the Presidential Administration.

On the accountability level, the F Bureau conducted a massive overhaul of the evaluation policy by developing a more comprehensive quantitative approach based on a set of standard foreign assistance indicators. These indicators measure effects of assistance programs and consolidate “certain key results to provide a picture of what is being achieved with foreign assistance resources to Congress and the public.” (Ibid.) The resulting Foreign Assistance Standardized Program Structure and Definitions consists of a 90-page document listing about 500 various indicators in 126 areas. There are two types of indicators. The first is termed outputs – the ones that can be attributed exclusively to the U.S. assistance; the second is termed outcomes – the ones to which “the U.S. Government contributes but are not due solely to U.S. Government-funded interventions” (Ibid). Specifically, outcomes refer to general objectives, for example, the number of terrorism incidents in a given year worldwide. Outputs describe specific results, such as the number of individuals in the security sector trained in counterterrorism knowledge and skills. It is not clear, however, how outputs relate to outcomes, as data analysis is mostly limited to showing frequencies without identifying statistical correlations between them. The new F Bureau policy has also led to a heavy increase in the volume of reporting causing

complaints from the field staff, who bemoan excessive bureaucratization and overreliance on standardized data while neglecting local context and conditions.

Like every significant reorganization attempt in the U.S. government, the F Process can be better understood taking into account power politics and inter-agency rivalry in Washington, DC.⁵ The push by the State Department towards more control over assistance funds has reflected its uneasiness over the increasing number of development projects operated by other actors, particularly by the Department of Defense as a part of its state-building efforts in Iraq and Afghanistan. While the F Process has been indicative of quite an intense power dynamic between the Departments of State and Defense, the bigger question, which remains asks whether assistance channels should be consolidated under the authority of one agency or further diversified among multiple agencies.

The Millennium Challenge Corporation

Partly, this question was answered in 2004, when President Bush proposed and the U.S. Congress approved the creation of a brand new aid organization – the Millennium Challenge Corporation (MCC). The MCC claims to be a “prime example of smart U.S. Government assistance in action” (“About MCC” n.d.). There are two key innovations that distinguish the MCC from other foreign assistance agencies – a highly formalized selection process and an exclusive focus on low-income countries.⁶

The MCC acts in a more proactive manner by using strict selection criteria as a leverage to encourage countries to improve their policies before they receive any funding. This

⁵ A good overview of issues associated with the F-process can be found in the article *What’s Next For the ‘F’ Process?* by Ryan Weddle at <https://www.devex.com/news/what-s-next-for-the-f-process-59510> accessed on 04/21/2015.

⁶ The MCC selection process is discussed in detail in Chapter Three.

philosophy has been somewhat foreign to USAID, which has tended to be rather reactive in responding to strategic concerns, or developmental needs, or any form of humanitarian crisis. State Secretary Colin Powell outlined the difference between MCC and USAID in the following way: The MCC is designed to “reward the spread of freedom of speech and assembly; broader access to credit so that people can start new businesses; adherence to the rule of law to protect private property and enforce the sanctity of contracts. It is an incentive system for countries to provide their people with the basic tools for their own prosperity” (Powell 2005: 31). But when countries fail to meet these expectations USAID steps in “to leave no country behind.” As Powell explains: “... the persistence of bad governance will continue to generate political instability and the humanitarian crises that usually go with it. We will continue to help alleviate those crises when we can. We will not punish people for the actions of bad governments over which they have little or no control. The work of USAID is critical in this regard” (Ibid).

As it can be implied from Powell’s vision, the MCC model is not intended to eventually replace USAID but rather compliment it. The MCC can apply more pressure on recipient regimes in cases when USAID and other aid agencies may restrain their criticism in order to maintain a climate of positive partnership. While on the conceptual level such a duo makes a great deal of sense, on the practical level the relationship between the MCC and USAID, at least initially, has been far from harmonious. The MCC and USAID run aid programs in the same countries; for example, Tanzania, Ghana, and Mozambique, where USAID has historically had an extensive presence. The MCC has been seeking to play the leading role in drafting proposals and setting priorities, but in fact the MCC has had to build directly upon existing USAID programs. Moreover, the MCC has had to rely on USAID’s logistical support and on-the-ground

expertise at the implementation stage. Initially, this MCC lack of capacity and their certain dependence on USAID have obviously been a sensitive issue for MCC officials.

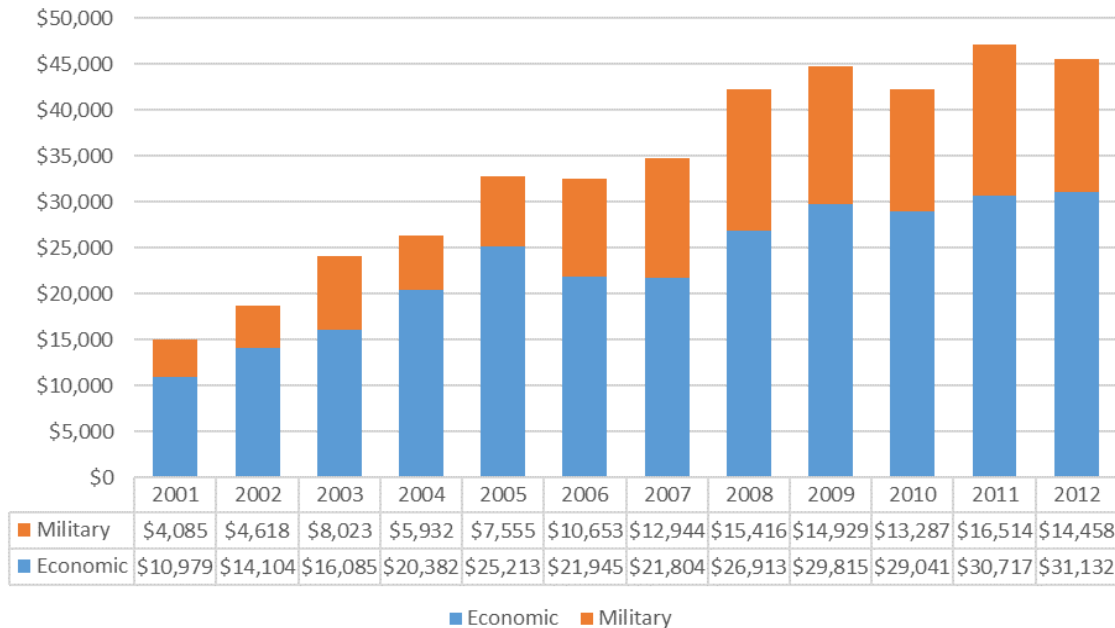
In fact, such a vague relationship between the two agencies has caused certain discord and even animosity (“Emerging Issues” n.d.). After a few years, however, mutual understanding and coordination between the MCC and USAID has significantly improved, but their official relationship still requires formalization.

The Future

The last decade has brought important changes into U.S. foreign aid policy. The MCC was established as a new agency and the F process was initiated to reform the existing agency – the USAID. The transformation, however, is not over. It seems that three major variables will be determining the future of U.S. foreign aid. First is the size of the budget. Many factors influence foreign aid funding, such as domestic economic performance, political priorities fluctuating between isolationism and internationalism, and specific foreign policy concerns. While it is hard to predict the interplay of these factors, a drastic decline of foreign aid is not very likely in the nearest future.

Figure 1 details U.S. foreign aid spending from 2001 to 2012. Despite minor drops in 2006, 2010, and 2012, U.S. foreign aid has experienced substantial overall growth.

Figure 1
U.S. military and economic aid in millions of current USD
(2001-2012)



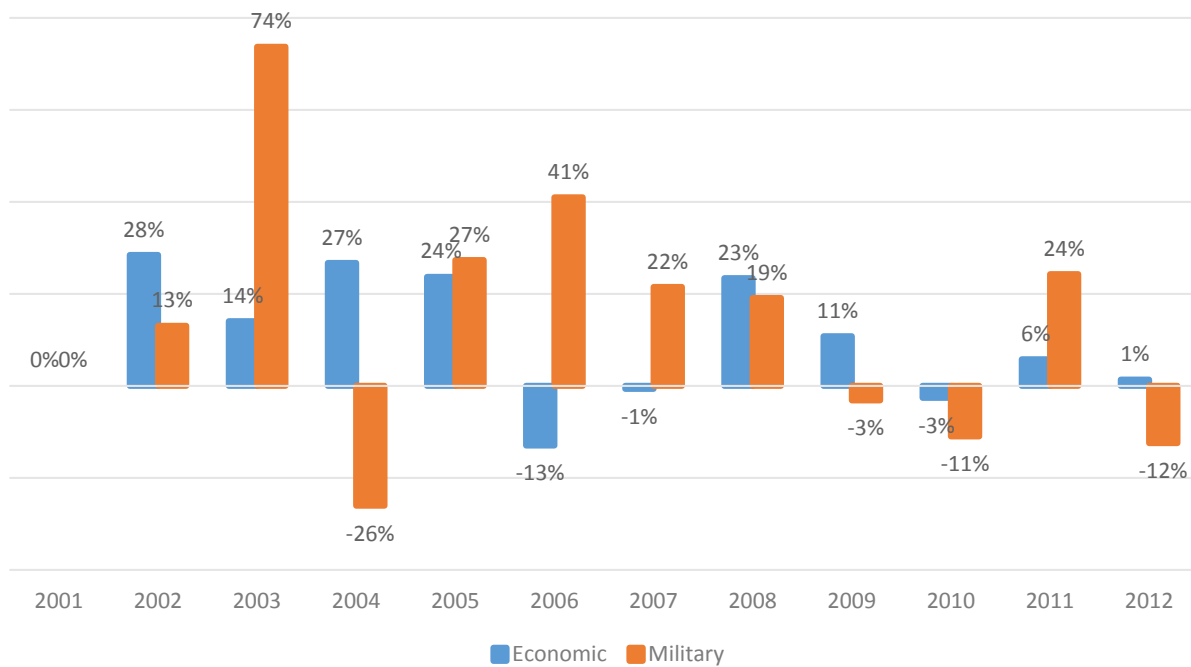
Source: U.S. Overseas Loans and Grants (Greenbook) at <https://eads.usaid.gov/gbk/>. Accessed 05/06/2015.

The dynamic between military and economic aid has been quite interesting. Figure 2 demonstrates that until 2007 variation in the military aid spending has tended to be much greater than that of economic aid. The largest growth of military aid (by 74%) occurred in 2003 and coincided with the beginning of U.S. military operations in Afghanistan and Iraq. The following year it fell by 26%, but then bounced back with a 27% and 41% growth in 2005 and 2006 respectively.

Economic aid spending tended to change in the opposite direction over this period – growing in 2004 and falling in 2006. This dynamic suggests a certain relationship between military and economic aid, which still needs clarification. Decisions concerning military and economic aid are made on a country-by-country basis and then aggregated into a budget

proposal. It would be fair to assume that at some point budget limitations may require a tradeoff between the two types of aid, which ultimately derive from one source of financing – the U.S. national budget. Therefore, the relationship between military and economic aid may be better explained via fiscal constraints rather than by any strategic considerations.

Figure 2
Change in U.S. economic and military aid spending as a percentage to the previous year (2001-2012)



Source: U.S. Overseas Loans and Grants (Greenbook) at <https://eads.usaid.gov/gbk/> accessed 05/06/2015

Economic aid seems to have followed a smoother dynamic. The annual growth of economic aid never exceeded 28% and it has never decreased by more than 13% per year. Overall, the current momentum of U.S. foreign aid seems to be strong enough to continue in the

years ahead, given the increasing role that foreign aid has been playing in U.S. foreign policy strategy during the last three administrations.

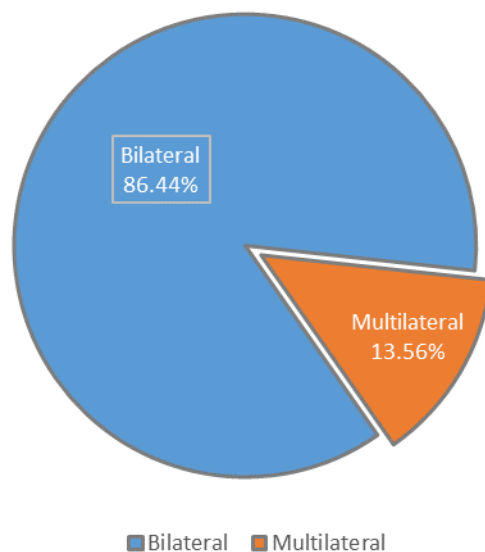
The second important variable is the share of multilateral aid in total U.S. foreign aid allocations. Multilateral aid includes U.S. contributions to international organizations and financial institutions, such as various U.N. agencies, including the United Nations Development Program (UNDP), the United Nations Children's Fund (UNICEF), as well as International Monetary Fund World Bank, World Trade Organization, European Commission, and various regional development banks.

Some scholars estimate the share of multilateral assistance in the U.S. foreign aid as barely reaching 9% (Tarnoff, 6). According to my data, multilateral assistance, on average, over the past decade, has accounted for approximately 13.6% of all U.S. foreign aid spending. Even with this discrepancy in numbers, it is easy to see that the U.S. bilateral aid has dominated over multilateral. Multilateral aid has been a somewhat less attractive U.S. foreign policy tool for a good reason. The U.S. loses much of its control over aid decisions by delegating them to a non-U.S. agency. Although the U.S. has been a major donor to many international organizations, its influence is often not proportional to the size of its contribution. In fact, even organizations where the U.S. has been the largest stakeholder, such as the World Bank, have demonstrated an increasing degree of autonomy from their patrons over the last decade.⁷

Historically, the size of multilateral aid has shown no tendency for growth as it has been mostly defined by U.S. membership in international organizations. It would be fair to predict that bilateral aid will remain the major form of U.S. foreign assistance in the future.

⁷ See, for example, Ngaire Woods, *The United States and the International Financial Institutions: Power and Influence Within the World Bank and the IMF in US Hegemony and International Organizations: The United States and Multilateral Institutions*, ed. By Rosemary Foot, S. Neil MacFarlane, and Michael Mastanduno, Oxford University Press 2003 and Alan Beattie, *World Bank: An exercise of influence*, Financial Times April 2, 2012, at <http://www.ft.com/cms/s/0/15b9d4d8-7ca6-11e1-8a27-00144feab49a.html#axzz3ZbA7J8EM>, accessed 05/08/2015.

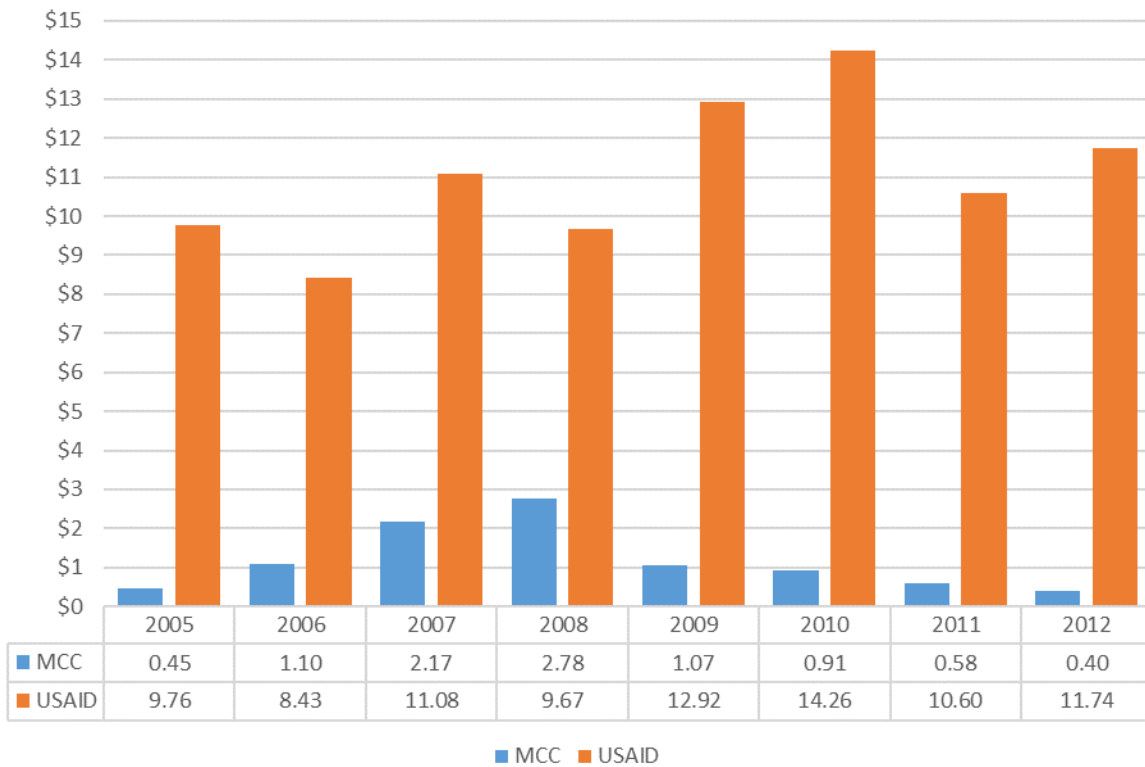
Figure 3
U.S. bilateral vs. multilateral aid as a 12-year average
(2001-2012)



Source: U.S. Overseas Loans and Grants (Greenbook) at <https://eads.usaid.gov/gbk/>. Accessed 05/06/2015.

Finally, the third factor shaping the landscape of U.S. foreign aid is how aid will be administered. The key question is which agency or agencies will be the primary distributors of U.S. aid funds. When the MCC was established in 2004, some assumed that the USAID monopoly for foreign aid was shaken and that the role of USAID would eventually decline. It does not seem to have happened so far. On the contrary, under the F Process, USAID has maintained and even reinforced its status as an aid agency. The MCC started in 2005 with a budget that was a fraction of that of USAID – less than half a billion dollars versus almost ten billion (Figure 4).

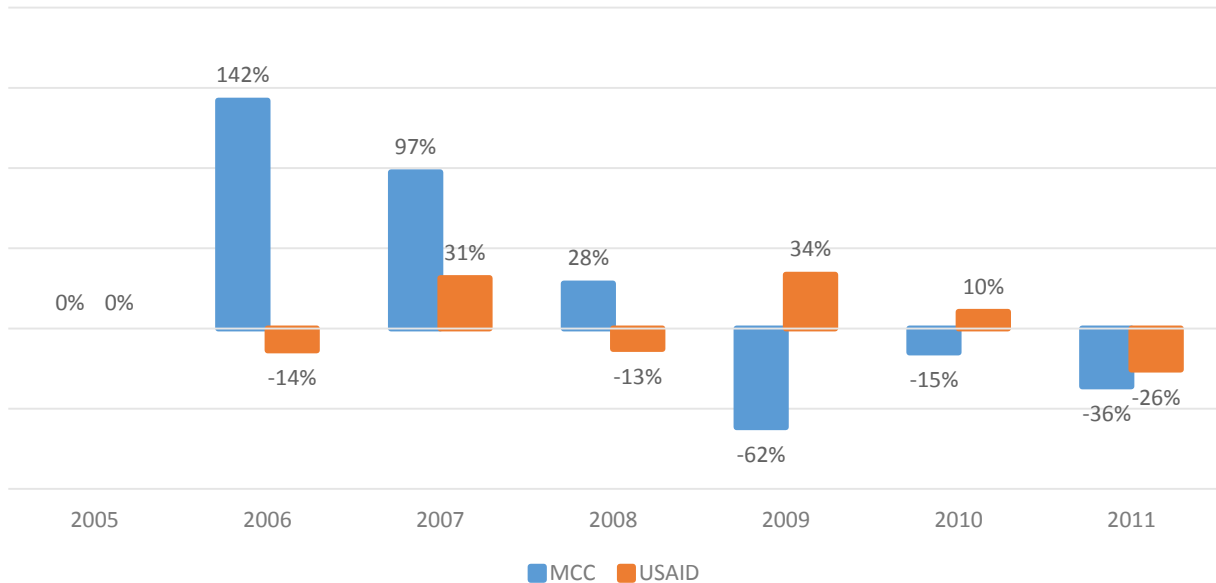
Figure 4
USAID and MCC budgets in billions of current USD (2005-2012)



Source: U.S. Overseas Loans and Grants (Greenbook) at <https://eads.usaid.gov/gbk/>. Accessed 05/06/2015

The MCC financing spiked the next year by 142% and continued growing until its peak in 2008, when it reached almost one third of the USAID budget. Since then, however, the MCC budget has been shrinking, while USAID's has been rising, so that by 2012 the gap between USAID and MCC budgets was 20 fold (Figure 5).

Figure 5
Change in USAID and MCC spending
as a percentage to the previous year (2005-2012)



Source: U.S. Overseas Loans and Grants (Greenbook) at <https://eads.usaid.gov/gbk/>. Accessed 05/06/2015

While USAID remains the principle U.S. aid agency, it faces a need for a comprehensive reform that would go far beyond the F Process. The dimensions of such a reform are quite clear. They include: stronger coordination with U.S. national security agenda, stronger cohesion with other U.S. and non-U.S. development agencies, closer engagement with the Congress, improved accountability, and better professional staff training (Ingram 2014, 13-15). Given the importance of institutional transformation, the time has come for a new, broader vision that can effectively re-assess the U.S. role in international development. According to some authors, such a vision

should shift the focus from donor assistance to the role of the “private sector and countries’ own actions and resources in advancing environmentally sustainable and inclusive growth” (Ingram 2014, 30).

Chapter 2 | Foreign Aid: Research and Debate

The scholarly interest in foreign aid has focused on two main subjects -- the effects of aid and the motives behind foreign aid. For a long time, these two research domains have developed in some isolation from each other.

The Effects of Foreign Aid

The past forty years have produced prolific literature examining the impact of foreign aid on recipients' economic performance. The debate revolves around the principal question: Does foreign aid contribute to growth or not? A group of scholars have found a generally positive effect of aid flows on development (Hansen and Tarp 2000, 2001, Dalgaard, Hansen and Tarp 2002, Dalgaard et al. 2004, Hudson 2004, Karras 2006). Karras, for example, argues that: "the effect of foreign aid on economic growth is positive, permanent, statistically significant, and sizable: raising foreign aid by \$20 per person of the receiving country results in a permanent increase in the growth rate of real GDP per capita by approximately 0.16 per cent" (Karras 15). The causal mechanism is straightforward -- foreign aid provides a supplemental source of investments and fosters transfer of technological advances.

Another group of researchers expresses skepticism regarding foreign aid as a vehicle of growth in poor countries (Mosley 1987, Ferguson 1994, Boone 1996, Kapur 1998, Easterly 2003, 2006). Easterly, one of the most eloquent critics of foreign aid and aid agencies, finds that "the empirical links from aid to economic growth are far more fragile than the drumbeat of media" and that "idea that "aid buys growth" is an integral part of the founding myth and ongoing mission of the aid bureaucracies." (Easterly 2003, 31, 34). Among the reasons that foreign aid is in so many cases unsuccessful are mismanagement, ignoring local conditions, and

the reluctance of aid agencies “to promote honest evaluations that could lead to publicity about failures” (Easterly 2003, 38).

A serious problem associated with measuring the effect of aid flows is that not all allocated funds in fact reach recipients. For example, researchers at the Bristol-based group Development Initiatives estimate that in 2011 at least \$22 billion of the \$100 billion of bilateral aid was never transferred to addressees but instead spent on activities in donor countries (The Guardian 2013). As CNN reports, only a little over 30% of nominal aid “identifiably involves the transfer of actual cash to recipient governments, NGOs operating on the ground or special project funds” (Ntale 2013).

Between aid optimists and pessimists is a group of scholars who argue that aid is conducive to growth only under certain conditions (Papanek 1973, Burnside and Dollar 2000, Collier and Dollar 2001, 2002). Papanek (1973), for example, suggests that aid works if it increases savings instead of consumption. While growing consumption in poor countries is not a bad thing in itself, it diminishes the long-term effect of foreign aid as a tool of development. Burnside and Dollar (2000) argue that aid “would be more effective if it were more systematically conditioned on good policy” (Burnside and Dollar 2000, 1). By good policies, the authors mainly mean the guidelines prescribed by the World Bank and International Monetary Fund. This study has had a long-lasting impact on the field of foreign aid. As some critics point out, these findings encouraged donors to become more discriminating in directing aid to countries with “good” policies, while putting the blame for their own failures on recipients who did not meet such policy expectations (Easterly 2003, Easterly, Levine and Roodman 2003). While economic growth has been the most common dependent variable in the foreign aid research, a number of studies have explored the correlation between aid and democratization.

The impact of aid on human rights has been a particularly popular topic and this debate has produced mixed results. Some researchers believe that foreign aid tends to have a positive and significant effect on human rights climate in recipient country (Gibler 2008). Others find this relationship negligible or even negative (Reagan 1993, Callaway and Matthews 2008, Mitchell 2016).

More recently, research on aid and democratization has taken a new turn. Instead of economic aid as independent variable, scholars have started looking at targeted democratic assistance. Interest in democratic assistance was obviously a result of unfulfilled expectations that foreign aid will be instrumental for improving democratic performance across the board. While no one disputes the mainstream theory that economic development should lead to democracy through a creation of a vigorous middle class, in reality the link from aid to development and to democratization is rather elusive. In fact, formidable structural obstacles in many countries hinder modernization and democratic reform while foreign economic aid still cannot significantly speed up this process. Aid proponents, however, believe that success can be achieved in challenging environments with the right tools and finding the right democracy agents to strengthen and support. For example, Steele and Scott (2005:20) find that although general *economic* aid does have a salutary effect on democratic performance, targeted *democratic* assistance is “more efficacious and more efficient in producing similar results.” They argue that specific democracy promotion programs are 20 times more effective than regular aid in terms of a ratio of financial allocations to the achieved democratic progress. Similarly, Finkel et al. (2007: 424) suggest that the effect of democracy programs is stronger than “the standardized impact of economic performance.” The study argues that \$1 million invested in targeted democracy assistance boosts democratization by 65 per cent, compared to the average country’s democratic

growth. The hypothesis that direct democracy promotion assistance is more cost effective than regular economic aid puts the main emphasis on agency as a driving force of democratization. Most of democracy aid goes to support key actors, such as political parties, NGOs, advocacy and human rights groups, and independent media.

Another group of scholars does not share optimism about the effect of democracy assistance. Knack (2004: 259), for example, argues that U.S. aid has no real effect on democratization but rather the opposite – countries with higher levels of democracy tend to receive more aid. Bosin (2012) shows that despite billions of dollars being spent, U.S. democracy promotion programs failed to assist democratization in the former Soviet Union. The explanation focuses on the incentives that FSU leaders had to misrepresent their commitment to democracy and the U.S.'s misperception of these leaders' actions.

The Motives of Foreign Aid

The debate on the rationale of U.S. foreign aid started almost immediately with Kennedy's speech and the passage of the *Foreign Assistance Act* in 1961. Although studies of that period were predominantly qualitative, they played an important role by introducing the topic and laying the foundation for a dynamic research agenda for the next fifty years. Early works framed the question in a very general sense: "Why Foreign Aid?"

Edward Banfield (1963) answers this question quite skeptically. While talking about aid as a means to defend national security, he analyses two concepts, or doctrines. The first states that aid can serve national defense by "transforming the fundamental character of the culture and institutions of the recipient country" (Banfield 10) and ultimately making this country a U.S. friend. The second doctrine does not seek to alter the culture and institutions of the donor

through aid, but rather only advances the American influence over the recipient government and its public opinion. Banfield argues that the first doctrine can be hardly viable as the link between economic development and the rapid growth of democracy is highly doubtful, especially in the short run. On the contrary, he states that foreign aid and the introduction of new technology are likely to bolster dictatorships by enhancing their capabilities “to rule vast areas by propaganda” (Ibid.16). The author concludes with a statement, which would be hardly acceptable in modern political science research: “Democracy and freedom are too foreign to the experience of backward peoples to make sense to them” (Ibid. 16). Moreover, Banfield argues that peaceful democratic countries might not be reliable U.S. allies, as they would not want to risk war in support of the U.S. A better security comes from nuclear deterrence.” He states: ”...warlike nations are no more dangerous than peaceful ones when the price of aggression is obliteration” (Ibid.18). He concludes with a rather paradoxical assumption the ““Aggressive” countries in other words, might in some circumstances be preferable to peaceful ones from the standpoint of American security interests” (Ibid. 18).

Banfield also argues that democratization and deep institutional change are not justifiable goals of U.S. foreign aid. However, this second doctrine -- of direct influence -- is also severely flawed. “Most of the underdeveloped countries are pathologically sensitive about “honor” and accordingly will not tolerate any suggestion that we should get something for our money. The few governments which will sell favors are reactionary ones which cannot long survive” (Ibid. 20).

Finally, the author discusses (quite convincingly) that shutting down foreign aid completely will not, in fact, damage U.S. national security to any critical degree. “The cultural losses that we would suffer by withdrawal can be easily overestimated. The contribution of

underdeveloped countries to the enrichment of our culture has been small, and will certainly remain so for a long time to come” (Ibid. 22).

Although some parts of this essay would be viewed today as racist and offensive, the author makes an interesting contribution by attacking the “fog of moralizing” surrounding foreign aid. (Ibid. 27). He goes as far as to reject altruism as a basis for foreign aid because “doing good” may have quite different interpretations in different societies and we are not in a position to judge what is best for them.

At the same time, the article fails to incorporate some positive empirical evidence. For example, with all its shortcomings, U.S. foreign aid did play an important role in establishing democratic rule in such countries as South Korea and Taiwan, which then became strong U.S. allies. U.S. foreign aid did help to elevate millions of people out of poverty, to empower disadvantaged populations and to initiate social change in many countries across the globe.

Unlike Banfield, Hollis Chenery, an official from the Agency for International Development, takes a more optimistic position regarding aid as a tool of U.S. foreign policy. Chenery identifies three major objectives of U.S. foreign aid. First – long term – “... we should be concerned to promote rising levels of income, modernization of economies, independent political systems, and other features of societies that satisfy their own citizens as well as the international community” (Chenery 1963: 33). However, he does not really explain why all these things would be in the U.S. interest and worth spending American taxpayers’ dollars. He is more specific when he talks about the second, short-term objective of U.S. foreign aid, which “concerns the immediate future and its internal stability, which is sought by giving financial support in times of economic crisis, by preventing internal disorders, and by other measures that help existing governments to stay in power” (Ibid. 33). Chenery also does not elaborate on what

types of governments deserve such a support, which leads to an assumption that supporting dictatorships would be perfectly acceptable as long they maintain stability. Once again, Chenery avoids discussing why internal stability in a remote country would be of a vital value for the U.S. Finally, the third objective of U.S. foreign aid is defined more clearly – to provide armaments and secure military bases in order to preclude the Soviet-bloc penetration. This is considered as a both short and long-term objective.

John Nuveen (1963) joins the group of optimists and proponents of U.S. foreign aid. He proves his view by referring to success stories where U.S. assistance did produce the desired outcome. Some examples he gives are in Greece and Turkey in 1947 when U.S. funding was critical in defeating pro-Communist insurgencies, and the brightest page in the history of U.S. foreign aid -- the recovery of post-war Europe under the Marshall Plan in 1949-52. When Nuveen discusses failures such as in Laos or Cuba his main argument is that Europe and underdeveloped countries are essentially different and what worked well in Germany or Italy does not work in Africa or Latin America. The critical difference, he states, is that Europe had established democratic social and political tradition that did not exist in post-colonial states. He goes even further by arguing "... economic development is necessarily secondary. If it is undertaken other than in the context of building free institutions, it may strengthen a nation that will soon become Communist" (Nuveen 1963: 56). "Therefore, we can say that foreign aid for the underdeveloped countries, at the outset, must be primarily social and political if it is going to serve the purpose" (Ibid. 57). The article does not explain, however, how to present this idea to the governments, which seek assistance to provide basic human needs in the middle of rampant poverty and economic disarray.

Hans Morgenthau, who worked as a consultant to the Kennedy administration, advocated the point that foreign aid was always politically and strategically motivated. Even humanitarian assistance “can perform a political function” (Morgenthau 1963: 72). For example, agricultural aid can become political as it helps recipient governments make up budget deficits and unsatisfactory public services thus preventing poorly governed regimes from breakdown and keeping them in power. Morgenthau went even further in his “realistic view” by stating that, “much of what goes by the name of foreign aid today is the nature of ... bribes” (Ibid. 73). He argues that foreign aid is the price paid for political services rendered by the recipient to the donor. The practice of giving aid, which is designed as a bribe but disguised as development assistance, distorts reality. Both the donor and recipient “expect results in terms of economic development which in the nature of things could not have been forthcoming” (Ibid. 74). Morgenthau tends to deny the argument that even though foreign aid may be politically motivated it still can be beneficial by contributing to development and social change. He calls it “prestige aid” as it often funds projects that serve as symbols of industrialization and modernity rather than ones that “satisfy the objective economic needs of the country” (Ibid. 76).

From reading authors from the 1960s one can clearly see that they had little doubt that strategic interests were the primary motivation of U.S. foreign aid while other concerns such as development and democratization were only marginal. This point of view remained largely uncontested until the end of the 1970s, when scholars started hypothesizing more actively about other determinants of U.S. foreign aid. About the same time, development of quantitative methods in economics and political science allowed a more systematic and theory-oriented analysis. Emphasis on security concerns (which implied almost exclusively containing the spread of Communism) has continued to be a common thread through research (McKinlay & Little

1977, 1979; Lebovic 1988; Poe 1991, 1992; Poe & Sirirangsi 1994; Blanton 1994; Poe & Meernik 1995; Meernik, Krueger & Poe 1998; Apodaca & Stohl 1999; Lai 2003; Gibler 2008).⁸ However, an increasing number of studies started turning to socio-economic variables to explain what drives U.S. foreign assistance.

One of the most comprehensive works to mark this turn was a study by Robert McKinlay and Richard Little (1977). Within this study, the authors discuss two views of foreign aid: a humanitarian needs view and a foreign policy view. The humanitarian needs view “stipulates that the amount of aid received by each low-income country is proportional to its economic and welfare needs” (McKinlay and Richard Little 1977, 59). This study joins the critics of this view focusing instead on the foreign policy view of aid allocation, which basically is driven by the donor interest. The article attempts to break down donor (U.S.) interests into a number of categories such as development interests, overseas economic interests, security interests, power-political interests, and interest in political stability and democracy. Therefore, McKinlay and Little were among the first researchers of foreign aid to discuss democracy as a U.S. foreign policy priority.

These authors find that U.S. security and power-political interests have had the strongest influence on U.S. aid allocations, while U.S. security interests are conceptualized in terms of the U.S. having a treaty with and military presence in recipient country. This is not a very surprising finding considering the Cold War momentum in the 1970s. What appears more intriguing is the established correlation of recipient’s power (measured as capabilities of population and military resources) to U.S. aid. It remains unclear what exactly a U.S. power-political interest is. The

⁸ A good overview of the field’s main research directions is provided in Demirel-Pegg, Tijen and James Moskowitz. (2009) US Aid Allocation: The Nexus of Human Rights, Democracy, and Development, *Journal of Peace Research*, Vol. 46, No. 2 (march 2009), 183.

study argues that “militarism is the most important influence, indicating that special (U.S.) preference is shown towards countries displaying higher levels of military development” (78). Obviously, military development in the Cold War context implied a higher capability to deflect Communist influence. Finally, the authors find democracy an insignificant predictor of U.S. foreign aid. In fact, the results show that military non-democratic regimes tended to receive more aid.

Maizels and Nissanke (1984) make an important contribution to the field by comparing U.S. multilateral and bilateral assistance. The study finds that multilateral aid and bilateral aid are motivated differently. The authors call the first model “recipient need.” It includes only variables describing recipient’s socio-economic conditions such as population, balance of payments, GNP per capita and physical quality of life index. This model shows that aid is provided to respond to “shortfalls in domestic resources.” (Maizels and Nissanke 1984) The second, “donor interest” model examines bilateral aid and focuses on donor’s security and trade interests. This article ends with a sobering conclusion that “all aid serves only donor interests, defined to cover political/security, investment and trade interests” (Ibid. 879). The authors indicate a wide variation in motives among different donors. For example, French aid seems to be free from strategic interests but strongly correlated with trade. In contrast, German aid shows negligible relationship with trade but strategic motives turn significant. U.S. aid, however, is driven by both strategic and trade interests. (Ibid. 896-899). The authors argue that it was in the 1980s when the recipient-oriented aid model shifted sharply towards donor-centered model. It should be mentioned that the study does not include any discussion of democracy as a predictor of aid.

Democracy in general has been somewhat an overlooked variable in the early research on the determinants of U.S. foreign aid. Only in the 1980s, did scholars turn their interest to the relationship between democratic policies and aid distribution. Among democratic policies, human rights became the central subject of the research. One of the pioneer studies in this field was published in 1985 by David Cingranelli and Thomas Pasquerllo. The authors established a two-stage approach to aid decision-making – the so-called gatekeeper stage and level stage. At the gatekeeper stage, a decision is made to grant or to deny foreign aid to a recipient country. Once the country passes the gatekeeper stage, the actual size of aid is defined at the level stage. The authors find different patterns of aid distribution for economic and military assistance. For economic aid, human rights policies do not matter at the gatekeeper stage but turn significant at the level stage meaning that regimes with cleaner human rights record tend to receive more U.S. aid. For the military aid, the picture is the reverse – “a weak relationship was found between respect for human rights and the decision to give aid” at the gatekeeper stage, while at the level stage it “was not an important consideration” (Cingranelli and Pasquerllo 1985: 561).

Cingranelli and Pasquerllo spurred a chain of research focusing on human rights behavior as aid predictor. Most of studies replicated the concept of two-stage aid decision process. The main point of criticism of Cingranelli and Pasquerllo’s finding is that they excluded some important outliers, notably El Salvador, which was one of the worst human right violators and one of the largest recipients of U.S. aid at the same time (Carleton and Stohl 1987; Mitchell and McCormick 1988). With El Salvador back in the model, the relationship between human rights and aid allocation lost significance.

The end of the Cold War re-ignited interest in the role of human right in U.S. aid policy. The collapse of the USSR raised anticipations that U.S. foreign policy would be shifting from

security concerns towards greater emphasis on civil liberties and human rights as well humanitarian issues. Since the 1990s, a number of the studies found a positive correlation between human rights policies and U.S. aid at either the gatekeeper or level stage or both (Poe 1992; Abrams and Lewis 1993; Meernik, Krueger and Poe 1998; Apodaca and Stohl 1999; Gibler 2008). Some of these studies, however, have suffered on the grounds of selection bias and coding issues. For example, Abrams and Lewis (1993) argue that U.S. foreign aid “rewards nations for furthering human rights” (815). To capture U.S. national interests the authors create two dummy variables. The first one designates Costa Rica, El Salvador, Guatemala, and Honduras, which, the authors assume to be of special strategic importance for the U.S. The second one singles out Egypt and Israel as high strategic priority states, especially after the 1978 Camp David accords. Such a coding implies that no other state or region has been in the focus of U.S. strategic interests. Failure to include a continuous variable for national interests, which would apply across the board weakens the model and casts doubt on the findings.

While human rights have continued to be a popular topic in the foreign aid research, a few studies indicated a new trend by looking at U.S. foreign aid more systematically in a broader comparative context. One of the seminal works of this kind was the 1995 book *National Interest and Foreign Aid* by Steven Hook. This book provides a detailed comparison of four donors Sweden, France, Japan and the U.S. The author finds that “ODA norms continue to reflect widespread presumptions about the humanitarian basis of development aid” (Hook 1995: 144). Of the four donors under study, Sweden and France are the ones driven by humanitarian interests to the highest degree. Japanese aid does not show such a motivation while the U.S. aid is statistically correlated with humanitarian needs when two major strategic recipients – Egypt and Israel are excluded from the analysis.

According to the author, the U.S. shows the strongest relationship between aid distribution and strategic interests. However, this relationship appears to be influenced by the same two outliers in the Middle East. “In none of the other cases were security interests significantly related to bilateral ODA transfers” (Hook 1995: 146). It should be mentioned that Hook’s variables measuring security interests are levels of military spending and conscription rates in recipient states, which are rather remote proxies for capturing strategic importance of these states to the donor.

Another influential comparative work, which examined patterns of allocation of foreign aid was published by Alesina and Dollar in 2000. This article compares aid policies of various donors such as Japan, France, UK, Sweden, and the United States and finds that foreign aid is driven “as much by political and strategic considerations, as by the economic needs and policy performance of the recipients” (Alesina and Dollar 2000, 33). More specifically, the study argues that “colonial past and political alliances were the main determinants of foreign aid” (Ibid 33). There are three important conclusions of donor policies: 1) they are more likely to give aid to their former colonies; 2) they tend to give more aid to their strategic allies; 3) poorer countries receive on average more aid; and 4) democratic regimes are in a better position to get aid from most of the donors (with the exception of France).

Several of this study’s assumptions need more substance. First, the emphasis on the colonial past as a major determinant of foreign aid allocations raises some concerns. As the authors admit, the impact of the colonial connection varied widely as some countries directed almost all their aid to their former colonies (Portugal) while others did not have any colonies at all (Sweden). It would also be interesting to combine this variable with the size of the provided aid by country. This analysis would have revealed the fact that smaller donors (like Portugal) just

do not have an economic capacity to diversify aid flows beyond their former colonies. Second, the study does not explain well why colonial past matters so much. Is it long-standing economic ties, or cultural affinity or something else what drives donors to give more aid to their former colonies? In the case of the U.S., this variable is not very helpful, as the United States did not have any sizable colonial possessions in the 20th Century (except for the Philippines until 1946 and Cuba until 1902). Not surprisingly, this variable turns insignificant for the U.S. when the authors run separate regressions on each donor. Third, the study uses UN voting patterns to capture donors' strategic interests. The authors admit the risk of relying on this variable, as votes in the UN general assembly "are mostly meaningless" but still argue that, "UN votes may still be an accurate signal of alliances and common interests" (Ibid 42). Unfortunately, I could not find this argument very convincing and think that other variables describing strategic interests could have strengthened the study results. However, it is interesting that the study finds democracy a significant predictor for some donors (U.S., UK, Japan, Germany, Austria, Australia, Netherlands, Canada, and Scandinavia) but not for others (France, Italy, and Belgium) (Ibid 43).

Over the last 15 years, research on the motives of U.S. foreign aid seems to have been moving from the field of political science towards international political economy (Svensson 2000, 2003; Bandyopadhyay and Wall 2007; Nath and Sobhee 2007). Works have gravitated towards specific economic issues such as conditionality of aid, recipient's fiscal policies and fungibility of aid. The article by Nath and Sobhee (2007) is a typical example of this approach. These authors find that recipient policies that utilize aid to generate growth are the strongest predictor of foreign aid while "trade interest and international income distribution" also matter. However, their model does not break down aid by donor countries seeking to explain "the behavior of an average donor", which may seem a big stretch as multiple studies have

established that motivations vary significantly from donor to donor. The heavy emphasis on economic aspects discounts security interests, democracy promotion and other political factors, which are crucial for understanding the motives of individual donors.

Chapter 3 | Why Elections Matter: a Theoretical Explanation

My theory focuses on the quality of elections as one of the determinants of U.S. foreign aid decisions.⁹ I argue that there is a link between regime electoral practices and the granting of U.S. aid. There are two integral elements of the causal mechanism that explains this link – U.S. foreign policy decision-making and recipient policies.

Causal Mechanism: U.S. side

My theory builds on the connection between domestic and foreign policies, which has been commonly described as a two-level game. Leaders want to stay in office and cannot ignore domestic demands while making foreign policy decisions. As Robert Putnam explains:

At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments (Putnam 1988:434).

Some examples of the relationship between domestic demands and foreign policy are international trade deals and environmental agreements. Negotiating over such issues, politicians always keep in mind the economic interests of their domestic constituencies. In his classical interpretation of the two-level game, Putnam mostly talks about interests groups, which at Level II can influence ratification of an international agreement negotiated at Level I, and, therefore, increase or damage negotiator's popularity. Putnam talks about ratification in the institutional sense – how legislative bodies approve foreign policy decisions. I argue that although ratification is critical, broader ideological imperatives and public opinion have also been an important part of U.S. foreign policy consensus. U.S. foreign policy has to meet some domestic ideological

⁹ Quality of elections refers to degree of fairness and openness of the electoral process.

demands in order to derive public support and, at the end, secure a higher approval rating for politicians. For example, Bill Clinton's decision to withdraw support from the Taliban regime was in great part a response to the demands of American feminist groups, who rebuked the Taliban for their treatment of women. Politicians cannot ignore public opinion, but at the same time face a need to pursue strategic goals, which often may be far away from what the public would be willing to approve. Decision-makers seek to find a point at which public demands will be satisfied but practical policy objectives will be fulfilled as well.¹⁰ The question of how elections fit into this equation can be answered in two stages. First, it is important to trace how the inclusion of democracy promotion has shaped the U.S. national interest in the recent decades and, second, one needs to understand what has made elections so important, and more important than all other democratic policies.

Democratization and U.S. national interest.

A few factors make *national interest* a particularly difficult concept to define. Hook (1995: 13) believes that leaders "act upon widely shared perceptions of collective identity and conceptions ... about their states' involvement in foreign policy." As Joseph Nye similarly states, "...in a democracy, the national interest is simply the set of shared priorities regarding relations with the rest of the world" (Nye 1999: 1). This simplicity, however, is deceptive. It is hard to trace how a multitude of sub-national interests, often competing each other, are aggregated into a foreign policy consensus. Some scholars go as far as denying the existence of achievable and discernable U.S. national interests (Cook and Moos 1953; Hoffmann 1978; Trubowitz 1998). Others argue that national interests are not in fact *national* due to the widening

¹⁰ For example, George W. Bush would have much harder time to justify invasion in Iraq by the need to control oil resources rather than elimination of Iraq's nuclear weapons replacing dictatorship with a democratic regime – the causes that American public overwhelmingly supported.

gap between public opinion and public policy. Noam Chomsky (2007), for example, talks about the gap between a strong American public support for environmental agenda and poor U.S. international policy in this area. He sees it as a sign of the failing American democracy and the growing representation problem. It would be interesting to analyze how certain actors contribute to the formation of national interest and, more specifically, foreign aid decisions. While in some cases, domestic politics behind aid decision are quite clear (as for example in regard to the aid to Israel), in other cases there are not. For example, the decision to provide massive assistance to Afghanistan in the 2000s would be hard to explain by the influence of some interest groups, not to mention American public opinion.

The dynamic between public opinion and foreign policy is a complex one. Public opinion may be subject to influences by media and information flows. Some priorities may be downplayed, others overinflated or distorted with false and sometimes emotional assessments. For example, since 9/11, U.S. international war on terror has become one of the top and widely agreed upon foreign policy priorities. International terrorism is believed to be a major threat to U.S. security. However, a sober view of the problem questions the validity of this statement. The probability for an average American to be killed by a terrorist attack is about 12000 times less than his or her risk of dying in an accident (for instance, Zenko 2012; Plumer 2013). Out of almost 400 people indicted on the charges of terrorism in 2001-2013 or killed before indictment about a half were identified as “non-jihadists” – rightwing and leftwing radicals, animal rights and environmental activists, black separatists, anarchists, etc. Out of the indicted, 54% of the non-jihadists carried out violent attacks compared to only 6% of the “jihadists.”¹¹ Nevertheless,

¹¹ Interesting that the discussion of priorities in domestic politics is quite different from the foreign policy domain. As an example, the May 2015 train derailment in Philadelphia re-ignited the debate about the benefits of a computerized speed-limiting system, which would be able to prevent such crashes in the future. However, as experts note, the cost of the system is too high in relation to the extremely low probability of fatal train accidents, thus

the emotional impact of 9/11 has propelled global Islamism to become a central issue of U.S. foreign policy with a heavy emphasis on costly overseas military operations.

Another factor complicating the discussion of national interest is that it is very rooted in historical context. Over the last 100 years, U.S. foreign policy has experienced quite sharp turns as, for example, from isolationism of the 1930s to interventionism in the 1940s. While interventionism has steered the course of U.S. foreign policy throughout most of the post-WWII period, isolationism has never been completely dismissed. Dissatisfaction with the outcome of U.S. military campaigns in Iraq and Afghanistan in the 2000s revived isolationism as a foreign policy option.¹² One of the most recent examples of the isolationist rhetoric may be found in the polemic between Texan governor Rick Perry and Senator Rand Paul (Paul 2014).

A few foreign aid scholars have discussed the changing and complex nature of national interest. Among others, Hook points out that “national interest has proven to be an elastic concept with multiple meanings across time and space. State leaders have invoked national interest in pursuit of widely varying strategies of foreign policy including isolationism, neutralism, regional or global hegemony, collective security, and transnational cooperation.” (Hook 1996: 13)

Overall, discussion of the formation of national interests exceeds the limits of this research. Instead, I take the national interest as a given result of balancing various domestic agendas, which translates into the U.S. foreign policy decisions. I also assume that U.S. foreign policy is rational and is designed to answer U.S. national interests.

making it a hardly justifiable option. In contrast, cost versus benefits approach in the international politics is not often so explicit.

¹² One of the most recent examples of the isolationist rhetoric may be found in the polemic between Texan governor Rick Perry and Senator Rand Paul (Paul 2014). They sharply disagree on the proposal to send troops back to Iraq to fight ISIS. While Perry favors this proposal and advocates a more assertive U.S. foreign policy in the region, Paul opposes it. As he explains, “...if refusing to send Americans to die for a country that refuses to defend itself makes one an “isolationist,” then perhaps it's time we finally retire that pejorative.”

Traditionally, scholars have focused on three large categories of motives to explain the distribution of U.S. foreign assistance: strategic concerns, promotion of democracy, and humanitarian efforts. There has been a known juxtaposition of these motives, based on an assumption that they too often contradicted each other and cannot be equally pursued all at the same time. This logic made a great deal of sense during the Cold War. The U.S. faced a dilemma of choosing the lesser of two evils and did not hesitate to support dictators over communists. The end of the Cold War and global decline of communism made this approach harder to justify. Promotion of democracy as well as humanitarian motives started coming out of the shadow of strategic concerns. But did they really cause an erosion of U.S. security interests?

To overcome such a juxtaposition, Carter and Perry (1998) offer a more nuanced vision of U.S. interests. They divide them into three layers or lists. The “A list”, they argue, includes global security challenges such as the one posed by the Soviet Union during the Cold War. The “B list” contains regional threats such as North Korea and Iraq. The “C list” mostly covers humanitarian crises such as in Rwanda, Haiti, or Kosovo. The dissolution of the USSR in 1991 emptied the “A list”. The “B list” problems, although important, have never been critical for U.S. survival. However, it is the “C list that has made the most impressive transition from its marginal to a dominant role in the U.S. foreign policy agenda during the last three presidential administrations. Joseph Nye (1999: 29-31) explains this phenomenon by the effects of the information age and Americans’ long-standing belief in morality and humanitarianism as guiding principles of foreign policy. Nye (1999: 31) mentions, however, that in reality foreign policy often deviates from these lofty principles as it tries “to accomplish varied objectives in a complex and recalcitrant world.” His main idea is that the disappearance of the “A list” has boosted the “C list” and shifted the foci of U.S. foreign policy.

I argue that the changing motivational structure of U.S. foreign assistance should be attributed not to the weakening of the “A list” alone, but rather to the vanishing lines between all three “lists.” In other words, the changing security environment in today’s world has fused political priorities such that, for example, by supporting democracy in Iraq and Syria we pursue the same goals as fighting ISIS and other extremist groups in the region.

In 1999, Joseph Nye, in professing the decline of the “A list” could not have envisioned that the threat of Islamic terrorism would soon replenish it. The Ukrainian crisis of 2014 seems to have brought Russia back into the “A list” as well. The developments in the Middle East in the 2010s and flaring conflicts in Libya, Syria, Iraq and Yemen have re-charged the “B lists” for many years ahead. Still, the “C list” agenda has not lost its importance in light of “bigger” issues. Why is it so? Does it mean the revival of a moral element in U.S. foreign policy?

U.S. foreign aid has been one of the fields that suffered probably the most disappointing deviation from its moral objectives. Nicholas Eberstaadt, for example, argues that U.S. foreign aid has departed from its original idea and turned into a perversion of foreign aid. As an example of a genuine foreign aid effort he points to president Truman’s Point Four program, which was conceived with a lofty objective to help developing countries deal with economic challenges of the world order and reflected “the American preference that other peoples avail themselves of the good things that the twentieth century had to offer” (Eberstaadt 1988: 24). However, the 1950s indicated a disappointing turn in U.S. foreign aid policy. In the author’s view, this turn started with the introduction of the Food for Peace program, under which the government would buy out agricultural surplus from the American farmers and deliver it to needy nations. While seemingly beneficial for all sides, in reality this program subsidized imports, drove down food prices in the local markets and reduced domestic agricultural production. Essentially, as Eberstaadt continues,

the moral element was washing out from U.S. foreign aid, which started looking more like exporting domestic economic problems “and calling the result charity” (Ibid. 30).

The final departure of foreign aid from its principles occurred during the Vietnam War in the 1960s and the subsequent passing of the Foreign Assistance Act. The foreign aid process became highly bureaucratic and meticulously controlled by the U.S. Congress. The focus of U.S. aid increasingly shifted from self-sustaining growth to “basic human needs” (Ibid. 38). As a result, understanding what development assistance was designed for was crucially altered. “No longer was it a transfer of skills and a building of basic infrastructure so that governments of poor societies might better take advantage of the economic opportunities afforded to them by growing international markets. It was now a program to quell domestic discontent in low-income regions – linking aid to stability through a series of complex syllogisms, which ultimately equated rising living standards with diminishing political opposition” (Ibid. 33). As the book pessimistically concludes “... by the 1980s, American development assistance programs could not be said to forward or even in any systematic way to reflect the values and principles of the American political tradition. To some significant degree, in fact, official foreign aid policy had come to finance and promote practices that are inconsistent with the defense of liberty, inimical to the promotion of justice, and injurious to the nominal beneficiaries themselves” (Ibid. 8).

For Eberstaadt, foreign aid should be a way of exporting American values on a purely altruistic basis. He does not see it as a tool of promoting U.S. influence, assuming instead that American values are just good in themselves. Eberstaadt’s views look somewhat unusual and idealistic for the late 1980s – the time when the Cold War had been in full swing. More traditionally, aid scholars would have liked to see a moral element in the U.S. foreign assistance but had to acknowledge the supremacy of security concerns. Most radical ones do not talk about

morality at all. Samuel Huntington, as an example, calls for a cold and sober view of foreign aid objectives by outlining three patterns of aid decisions: 1) to grant economic assistance to a friendly regime, 2) to grant economic assistance to a non-friendly regime in return for some concessions, and 3) to deny economic assistance to regimes which refused to cooperate (Huntington, 1970: 170-171). For a long time such a view dominated the foreign aid debate and practice.

Presidential administrations and the State Department were always somewhat reluctant to make democratization a part of foreign aid missions as it could limit their flexibility in dealing with important but non-democratic allies. The major push to strengthen the relationship between democracy and foreign aid came from the Congress, which was striving to acquire more control over aid decisions. The amendments to the Foreign Assistance Act of 1973 and 1974 contributed to a broader recognition of democracy as a condition of U.S. foreign aid.

The first direct reference to democracy appeared on FAA only in 1975. Section 116, Human Rights. (22 U.S.C. 2151n) specified that:

The President is authorized to use not less than \$3 million in Development Assistance, Development Fund for Africa, and Economic Support Fund appropriations “for studies to identify, and for...carrying out, programs and activities which will encourage or promote increased adherence to civil and political rights, including the right to free religious belief and practice” (FAA 2010: 73-74).

The International Security Assistance and Arms Export Control Act of 1976 specifically banned military assistance to “any country the government of which engages in a consistent pattern of gross violations of internationally recognized human rights, ... including torture or cruel, inhuman, or degrading treatment or punishment, prolonged detention without charges and

trial, and other flagrant denials of the right to life, liberty, or the security of person” (§ 301(a) (amending 22 U.S.C. § 2304 (1976)).

As the next step, the International Financial Institutions Act of 1977 authorized the U.S. government to use its voice and vote in International Financial Organizations to “oppose any loan or extension of financial assistance” to regimes involved in gross human rights violations (Sec.701 and 702). Despite these key initiatives, it still was a slow and gradual process for democracy to become an integral part of practical foreign aid policy decisions.

The next clear mentioning of democratic goals in FAA appeared in 1985 with the addition of sections 461 through 467, which introduced Central America Democracy, Peace, and Development Initiative. They stated that: ”the building of democracy, the restoration of peace, the improvement of living conditions, and the application of equal justice under law in Central America are important to the interests of the United States and the community of American States” (FAA 2010: 191).

All together by the end of the 1980s, all the FAA’s democracy promotion authorizations could be counted on the fingers of one hand. The situation noticeably changed with the end of the Cold War, which spurred an avalanche of democracy promotion initiatives. While some of them were added to FAA, many were passed by the Congress as freestanding acts such as Support for East European Democracy (SEED) Act of 1989, Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992, South African Democratic Transition Support Act of 1993, Cuban Liberty and Democratic Solidarity (LIBERTAD) Act of 1996, International Religious Freedom Act of 1998, Russian Democracy Act of 2002, North Korean Human Rights Act of 2004, Iran Freedom Support Act of 2006, Democratic Republic of the Congo Relief, Security, and Democracy Promotion Act of 2006.

On the budgetary level, both U.S. State Department and USAID experienced unprecedented boost in funding allocated for democracy promotion. The budget of the State Department Bureau of Democracy, Human Rights, and Labor grew from \$7.82 million in FY1998 to over \$207 million in FY2010. In 1994, USAID established the Center for Democracy and Governance, which in 2001 became the Office of Democracy and Governance responsible for advancing U.S. democracy promotion in the world. USAID democracy assistance steadily grew from \$128 million to \$817 million per year between 1990 and 2003 (Finkel, Pérez-Liñán and Seligson 2007: 204).

The end of the Cold War served as a turning point in establishing democracy as a condition and goal of U.S. foreign aid. I argue, however, that the renewed concept of national interest was an equally important factor for placing democratization among national security objectives. The major source of this change has been the influence of democratic peace theory, which linked democracy to international security (Levy 1988; Owen 1994; Bunce 1999; Russett and Oneal 2001; Hegre, Ellingsen, Gates, and Gleditsch 2001; Diamond 2002).

Starting with the George H. Bush administration, the connection from development to democratization and to security has become an increasingly common and widely accepted rationale behind U.S foreign policy. As James Baker optimistically stated in 1992, “the Cold War has ended, and we now have a chance to forge a democratic peace, an enduring peace built on shared values—democracy and political and economic freedom.” President Clinton made an even more explicit declaration saying that “... the best strategy to ensure our security and to build a durable peace is to support the advance of democracy elsewhere. Democracies don't attack each other” (Clinton 1994).

President George W. Bush took the democratic peace theory onto a practical policy level:

And the reason why I'm so strong on democracy is democracies don't go to war with each other. ... I've got great faith in democracies to promote peace. And that's why I'm such a strong believer that the way forward in the Middle East, the broader Middle East, is to promote democracy (Bush 2004).

By the mid-2000s, promotion of democracy became an integral part of U.S. national security strategy. As Secretary Powell wrote in 2005, “we see development, democracy, and security as inextricably linked. ... Development is not a "soft" policy issue, but a core national security issue” (Powell 2005:30). The 2006 U.S. National Security Strategy contains the words “democracy” and “democratic” ninety five times.¹³ On Page 3, it summarizes: “Because democracies are the most responsible members of the international system, promoting democracy is the most effective long-term measure for strengthening international stability; reducing regional conflicts; countering terrorism and terror-supporting extremism; and extending peace and prosperity.”

The most recent U.S. National Security Strategy seems to be more restrained towards democracy promotion but still makes it clear that democracy will continue to be a condition for U.S. international support. “But, even where our strategic interests require us to engage governments that do not share all our values, we will continue to speak out clearly for human rights and human dignity in our public and private diplomacy. Any support we might provide will be balanced with an awareness of the costs of repressive policies for our own security interests and the democratic values by which we live” (USNSS 2015: 19).

The idea that development assistance would make a regime eventually more democratic and in turn would make it align with the U.S. strategic interests has had numerous proponents among scholars and politicians. In reality, this is a certain “chicken and egg” dilemma as it is

¹³ For a comparison, the 2002 edition of U.S. National Security Strategy mentions “democracy” and “democratic” 28 times, the 2010 edition – 46, the 2015 edition – 40.

difficult to identify the causal direction: Are democratic regimes more likely to become American strategic allies or are American allies more likely to democratize? This relationship may be mutually reinforcing. Optimists may argue that U.S. economic assistance has made Iraq, Afghanistan, and Pakistan more democratic over the past decade even though the initial decision to open massive aid to these regimes was dictated by strategic considerations. In reality, however, the statement that U.S. allies are more democratic than U.S. foes lacks any systematic evidence. Some studies find quite the opposite. For instance, according to annual polls of Latin American public opinion for 2008-2011, Venezuela, one of the most unfriendly regimes towards the U.S. is ranked among the more democratic countries by its own citizens, while close U.S. allies, such as Colombia, Mexico, and Honduras rank among the least democratic countries in the region (Young 2011).

Inclusion of democracy in U.S. strategic interests does not necessarily mean that strategic interests in the traditional sense are not important any more. In my theory, democracy is rather complimentary to strategic interests and still cannot be ignored as a determinant of U.S. foreign aid. My hypotheses are framed in the following way:

H1a: States that are U.S. strategic allies are likely to receive more U.S. aid.

H1b: States that have democratic regimes, ceteris paribus, are likely to receive more U.S. aid.

Finally, I am going to control for the common argument that the U.S. provides aid for humanitarian reasons.

H1c: Low-income states are likely to receive more U.S. aid.

The matrix below (Figure 6) illustrates the connection between regime policies and distribution of U.S. aid.

Figure 6

Distribution of U.S. Foreign Aid and
Recipient Policies

	Democratic	Non-democratic
A U.S. ally	Most aid	More aid
Not a U.S. ally	Less aid	Least aid

Disaggregating democracy

While a number of scholars have included democracy as a predictor of U.S. aid, they have most commonly used a composite index (Polity IV or Freedom House) or a human rights indicator. I find this approach insufficient for a few reasons.

There is a known discrepancy between democratic indices. Freedom House, for example, puts the main emphasis on human rights and civil liberties and, therefore, tends to underestimate the extent of democratic institutionalization in young, transitional and post-conflict democracies. In such democracies, the establishment of liberal values lags behind the formation of an electoral system. The pressures of authoritarian legacies make the transition to full-fledged representative democracy slow and rough. (O'Donnell 1994: 56, 57-58). Not surprisingly, young democracies have lower Freedom House ratings than full-fledged democracies.

Polity IV, however, focuses on competitiveness of political participation and executive recruitment, and new regimes with democratically elected central governments can receive a relatively high score close to that of a full-fledged democracy. This is the typical case for the

Former Soviet Union states, all of which had publicly elected presidents by 1993, but their human rights climates remained inchoate. For example, Russia in 2000-2003 received a Freedom House score of 5 out of 13 (about 38% of a perfect democracy) but Polity IV gave Russian democracy a score of 17 out of 20 (about 85% of a perfect democracy).

As changes in civil liberties and human rights usually occur more gradually than institutional reforms, the Freedom House's rating, unlike Polity IV, has a very slow dynamic with rare spikes and dips. For instance, in 1987 the Polity IV index for Taiwan went up from -7 to -1. But the Freedom House rating for Taiwan almost did not change (5 for political rights and 4 for civil liberties compared to 5 and 5 in 1986). Bolivia in 2004 got a nearly perfect democratic score of 8 on the Polity IV scale while Freedom House still placed it in the "partly free" category. While in 2002, Nepal, in Polity IV plummeted from 6 down to -6 Freedom House barely noticed this change assigning Nepal a 4 in political rights against 3 for the previous year (see Bosin 2007).

Polity IV is more reflective of changes across time, but it does not seem to effectively capture the variation of institutional characteristics across countries. For instance, Polity IV does not differentiate between a monarchy and a single-party regime. According to Polity IV, Afghanistan in 1887 had a slightly higher level of democratic development (score of -6) than the USSR a century later (score of -7 in 1987). This comparison seems to lack face validity; Afghanistan in the 1880s was not even a state in the modern sense—it had no common territory, borders or central authority. The question is, if two cases share no common political features then how can one compare their level of democratic development? Discounting liberal characteristics of democracy leads Polity IV to paradoxical findings. For instance, the USA has had a perfect democratic score of 10 since 1871 although the 19th amendment gave women the

right to vote only in 1920 while African-Americans were excluded from voting franchise in some Southern states until the 1960s. Switzerland has been a model democracy (score of 10) for more almost 170 years since 1848, despite the fact that women won the right to vote only in 1971.

Another consequence of the single-minded focus on executive constraint is that Polity IV does not recognize the momentum of a country's social and political development. Polity IV merely reflects institutional change and pays little attention to the social context in which it occurs meaning that democracy can be shut down or brought to life by a state law or a presidential decree. It is reasonable to ask, though, whether a democracy can instantaneously decline as happened in Iran in 2004 when its democratic score dropped from 3 to -6. Conversely, does one election cause a regime to shift dramatically towards democracy, as happened in Mongolia in 1990 when the Polity IV score jumped from -7 to 2?

The discrepancy between Freedom House and Polity IV has certainly grown into a validity problem. Studies found the correlation between Polity IV and Freedom House in the range from 0.3 to 0.91 (Burkhart 2000: 242; McMahon and Kornheiser 2009:7). The existing discrepancy makes statistical results quite sensitive to a choice between these competing indices.

For the purposes of this study, rather than using either of these indices, I disaggregate democracy into four distinctive democratic policies such as quality of elections and electoral processes, human rights climate, civil society, and governance.

Among democratic policies, I argue that the quality of elections is a strong predictor in foreign aid decisions. Aid strategists use elections as a key selling point to Congress and the American public to justify aid to a regime, which otherwise would have been considered non-democratic and non-eligible. Politicians need ratification from interest groups represented by Congress as well as approval from the public. Congressional representatives in their turn need

approval from their constituencies that they are doing the right thing helping democracies and confronting dictatorships. Politicians do not want to be seen as friends of authoritarian regimes as such friendship may cost them their seats.

Such bargaining game resonates well with a general theory of an Iron Triangle explaining the relationship among Lobbyists, Congress and the Bureaucracy in U.S. politics (Adams 1981). The idea behind the Iron Triangle is that these three groups are dependent upon each other's support, creating strong mutually beneficial relationships leading to certain political outcomes. In the classical version of an Iron Triangle, Interest Groups provide electoral support to Congress, which in turn funds the government. In return, Congress and executive agencies adopt legislation and regulatory policies favorable to Interest Groups.

The Iron Triangle framework can be applied to U.S. foreign aid decisions. Advocacy groups and NGOs, such as Freedom House, Amnesty International, and National Endowment for Democracy demand that U.S. foreign policy reflect U.S. values, promotion of democracy being one of them. Through public campaigns, using shaming, framing, and persuasion they shape public opinion, which drives the job approval rating for Congress members and the President, and influence their re-election chances. In return, NGOs and international contractors increase their visibility and receive their share of the foreign policy budget from Congressional committees, and aid agencies (Figure 7). While U.S. Public Opinion is rather an abstract force in the Iron Triangle, it cements the foreign policy consensus, around which the Iron Triangle revolves.¹⁴ U.S. Public wants to believe that the U.S. provides aid to democratic regimes and denies aid to dictatorships. At the same time, foreign policy objectives require having relations with non-democratic regimes and even having them as allies. Free and fair elections serve as a

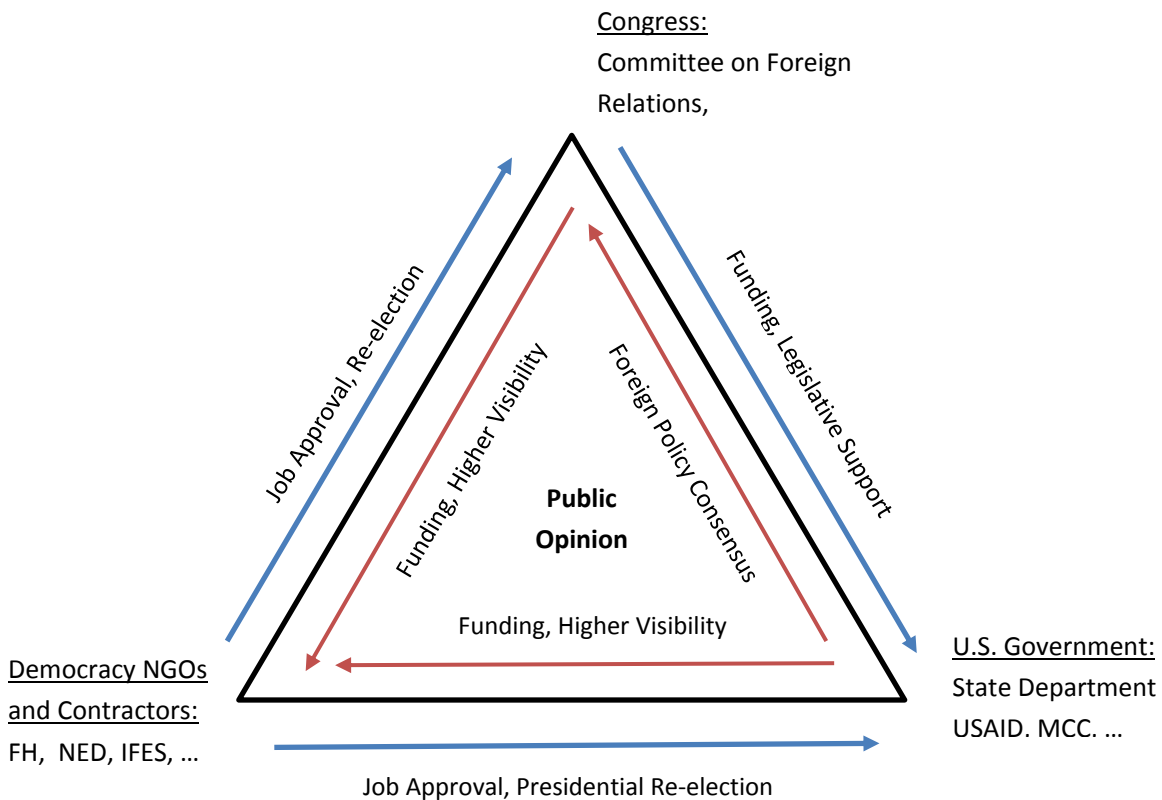
¹⁴ There is a vast literature discussing the effects of public opinion on U.S. foreign policy, for example Cunningham and Moore 1997, Wanta 2004, Knecht 2010, Holyk 2011, Lee and Hong 2012.

convenient divider, which allows drawing a line between democracies and autocracies.

Emphasizing elections as the main indicator of democracy is a somewhat minimalist approach, which allows more flexibility in dealing with the states, which are strategically important but experience a deficit of democracy to the point that they are close to losing their international trust and legitimacy. In such situations, reasonably free and fair elections may be the only way to repair a regime's image and to justify continuation of U.S. support in front of the U.S. Congress, advocacy community, American people and the democratic world in general.

Figure 7

An "Iron Triangle" Explanation of U.S. Foreign Aid Policy



A good illustration is Afghanistan. While this country has become one of the key U.S. allies in the war on terror, Hamid Karzai's regime remained dysfunctional, deeply corrupted, clearly tilting towards personalist rule. The 2009 presidential elections were marred with violence and numerous frauds so that the U.S. questioned publicly its future backing for Hamid Karzai's government. Only after Karzai, under heavy U.S. pressure, accepted UN-led audit results and acquiesced to a runoff, was "the necessity for a legitimate outcome" (Tavernise and Landler 2009) fulfilled and Karzai confirmed in his status as a true U.S. partner.¹⁵

Elections are probably an easier selling point to the American public because elections are a highly valued institution in American society itself. Elections are associated with the foundation of the American republic as it is reflected in the first two articles of the Constitution. Approximately 500,000 public offices in the U.S. are filled through elections. The U.S. holds more elections every year than any other country. Historically, the U.S. was probably the first in the world to elect the head of state in the 1789 presidential elections and this tradition has been uninterrupted for more than 200 years. While the rich and long history of executive elections makes a strong argument in favor of the U.S. claim to be the oldest democracy on Earth, other elements of democracy have lagged behind for quite a long time. Slavery was abolished only in 1865, almost 100 years after the first presidential elections. Women suffrage was established in 1920, racial equality became a law only in 1968. But the idea that elections are equal to democracy and vice versa is deeply ingrained in American political tradition as well as public opinion.¹⁶ This idea is projected internationally leading to a strong belief that elections are a

¹⁵ Detailed case study of Afghanistan elections is provided in Chapter 6.

¹⁶ It does not mean that elections are exempt from criticism in the U.S. On the contrary, there has been a vigorous public debate on various aspects of electoral process in this country. For example, an increasing number of Americans (62%) advocate the idea of a popular vote system versus the existing Electoral College system in the presidential elections (Saad 2011). Another burning issue is the role of money and campaign contributions in electoral results (Frumin 2015). However, the existence of such debates as well their intensity confirm that

necessary and largely sufficient condition for being recognized as a legitimate democratic regime.

Another advantage of elections over other democratic policies is that they are relatively easy to evaluate. There have been a number of well-established methods to help assess the quality of elections including exit polls, voter confidence surveys, electoral forensics, and probably the most reputable method – international observation. Several U.S. and international NGOs, such as the Carter Center in Atlanta, International Institute for Democracy and Electoral Assistance in Stockholm, International Foundation for Electoral Systems in Washington DC and others, focus on monitoring elections worldwide. As a result, it is usually a matter of days after the elections that an international verdict is issued as to whether elections were free and fair.¹⁷ This situation is in stark contrast to the monitoring human rights or civil activities. While election observation takes usually a few weeks, human rights monitoring is a much longer effort. While election observers are mostly interested in visiting polling stations, human rights watchers

Americans are concerned about the improvement of the quality of elections as they see them as a fundamentally important institution of the state and society.

¹⁷ The easiness of the election observation process should not be oversimplified. Authoritarian regimes often run elections and some of them even succeed in making them look acceptable for international observers. The correct way to estimate democratization of a country would be, not to look if elections are held on a regular basis but, to look at the actual quality of elections. The bottom-line is; we need to determine if the purpose of running elections is to express the will of the people or to just to ensure that the incumbent stays in the office. In reality, the line between free and fair elections and “reasonably” free and fair elections, between formally contested and non-contested may be quite thin. None of the election observation strategies has been able to measure the quality of elections across the world along some standardized scale. Some methods, as for example, post-election audit or voter confidence surveys simply cannot be implemented in the countries, where authorities refuse to cooperate or lack necessary technical conditions. Other strategies, such as international observation, may have certain validity problems. As Hartlyn, McCoy and Mustillo (2008:77) put it, observers may “have reasons to distort their public judgments, based on changing standards, bias, or vested interests.” Even looking at electoral laws and statistical indicators as proxies for the quality of elections can be misleading as it ignores the diversity of electoral practices and systems. For example, it is commonly believed that for good elections Electoral Management Body (EMD) has to be independent from the government. However, in such democratic countries as New Zealand or Sweden EMD is, in fact, a governmental agency. In Switzerland, as another example, there is no national EMD at all, while all elections are managed locally at the canton level. At the same time, in many semi-authoritarian states EMDs are formally independent from the government on paper but are often controlled and manipulated in real life. The absence of a reliable instrument to measure the quality of elections results in quite a wide variation of elections that can be internationally recognized as democratic.

are required to travel to places that are often not easily accessible and even dangerous. It is easier for the government and local authorities to obstruct foreign human rights activists who can be accused of interfering with internal affairs, prosecuted, and deported. Finally, human rights violations are in most instances documented post factum and rely on secondary sources, which may be questionable. As a result of all these difficulties, there is always a fairly high probability that human rights accounts can be controversial, arguable and poorly substantiated.¹⁸

Finally, elections are a convenient democracy indicator because of the dynamic of the electoral cycle. Executive elections are a one-time event that normally occurs every four to eight years and the winner receives the mandate for the whole term until the next elections. Changes in human rights environments, however, are rather a gradual process, and even if deterioration has been well verified, it is usually problematic to delegitimize the leader elected by popular vote. In other words, it is difficult to make a case against an elected leader even if his human rights policies leave a lot to be desired. It would be an over-simplification to think that elected leaders can violate human rights without risking their relations with the U.S., but they seem to have had more leeway than authoritarian regimes with similar policies.¹⁹ Generally, the U.S. is more likely to revise bilateral relations with a regime over its fraudulent and rigged elections than a tarnished human rights record.

My theory suggests the following hypotheses:

H2a: States that run free and fair elections or elections that are perceived to be free and fair are likely to receive more U.S. aid.

¹⁸ One of the most recent examples of that kind is a story of a young Syrian woman, Zainab al-Hosni, who was reported by both Amnesty International and Human Rights Watch to have been kidnapped and killed by security forces of the president Bashar Assad but then appeared on Syrian TV alive and unharmed. As Amnesty International announced, its initial statements on Ms. Hosni's death were "based on information provided by sources close to the incident itself, who passed Amnesty International video footage of a dismembered body" (Bakri 2011).

¹⁹ One of the examples is the former Georgian president Mikheil Saakashvili, who was known for suppressing popular protests and shutting down opposition media but still enjoyed overwhelming U.S. support as a legitimate elected leader of the country. See Human Rights Watch (2007 and 2008).

H2b: States that have better human rights policies are more likely to receive more U.S. aid.

H2c: States that have better civil society climate are more likely to receive more U.S. aid.

H2d: States that have better governance and rule of law policies are likely to receive more U.S. aid.

The matrix below (Figure 8) illustrates the relationship between various democratic policies and distribution of U.S. foreign aid.

Figure 8

Hypothesized Distribution of U.S. Foreign Aid and Recipient Democratic Policies

		Democratic							
		<i>Elections</i>		<i>Human rights</i>		<i>Civil society</i>		<i>Good Governance</i>	
		low	high	low	high	low	high	low	high
A U.S. ally		More aid	Most aid	More aid	Most aid	More aid	Most aid	More aid	Most aid
Not a U.S. ally		Least aid	Less aid	Least aid	Less aid	Least aid	Less aid	Least aid	Less aid

Causal Mechanism: Recipient Policies

Essentially, the distribution of U.S. foreign aid is a supply and demand story. While aid resources are limited, regimes strive to receive as much as possible, while implicitly competing

with other regimes.²⁰ The best strategy to secure U.S. support and assistance is to become a U.S. ally. However, democratic allies tend to receive more than non-democratic ones. Need for aid pushes regimes to “adjust” policies to meet U.S. expectations and influence U.S. aid decisions in their favor.

The idea that regimes can act to increase their attractiveness as recipients of U.S. aid is not entirely new. McKinley and Little (1979: 237), for example, note that high demand for foreign aid makes recipients compete by trying to meet donor expectations. The authors define two different donor strategies. The first strategy is to reward states pursuing policies favorable to the donor and deny aid to states pursuing policies detrimental to the donor. They call it a *commitment strategy*. The second strategy is a *leverage strategy* with aid provided in order to change recipient policy towards donor interests. In this case, aid is given as an incentive with a hope that recipient will respond with a desired policy change.²¹

Schraeder, Hook and Taylor (1998: 295), as another example, make an important point that “... growing doubts within the industrialized North about the utility of providing aid in the post-Cold War era sparked a virtual bidding war among developing countries, as new and traditional recipients sought to obtain and maintain their shares of foreign aid in an increasingly competitive environment.”

²⁰ The importance of U.S. assistance for recipient countries varies. In some cases, U.S. aid contributes only a fraction of a percent to country’s GDP, while in others it can reach as much as 1/10 of total country income as for example in Nicaragua in 1990 and Liberia in 2004. For the majority of countries, U.S. aid accounts for 1-2% of the GDP. However, the meaning of U.S. assistance goes far beyond its economic effect. It can bolster country’s international status, increase regime’s legitimacy, and strengthen leaders’ reputation in the domestic political arena.

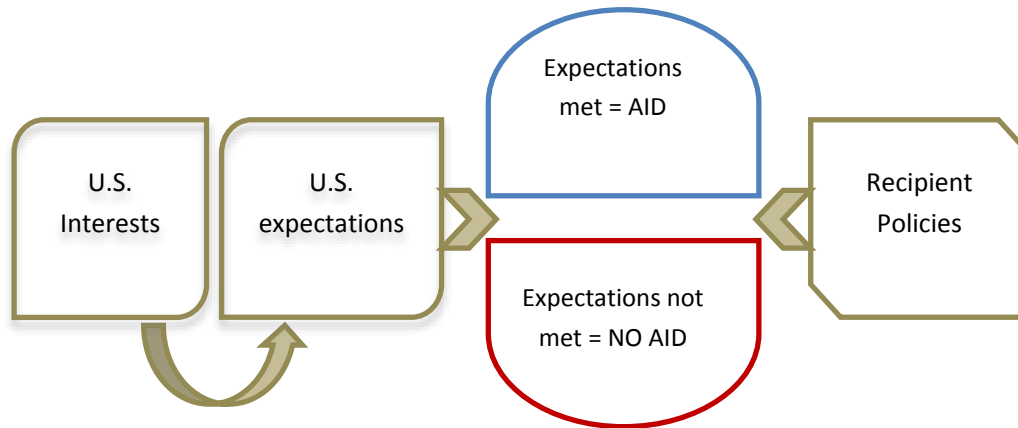
²¹ Interesting that today, the leverage strategy takes a whole new meaning in the modern political environment where U.S. aid has allegedly played a role in regime change, especially in the post-Soviet states. If regime is not receptive to the U.S. demands it is easier to change the regime itself instead of trying to influence regime policies. There has been multiple accusations of U.S. aid as a fifth column, playing a decisive role in so-called color revolutions in Kyrgyzstan, Georgia, and Ukraine. In Russia, criticism of U.S. aid as an engine of color revolutions led to multiple restrictions on foreign-funded organizations, which were labeled as “foreign agents”, the term implying some illegal and adversarial activity.

More recently, Nath and Sobhee (2007: 533) argued in their study that while a donor has a set of expectations of recipient behavior, recipients may work to meet these expectations by improving policies in critical areas. Aid, in fact, is responsive to “recipient countries’ economic and physical needs, civil/political rights, and government effectiveness.” However, as economists, they do not take this argument any further to elucidate how exactly governments may attract more aid by improving (or manipulating domestic policies).

Overall, however, the aid literature has been noticeably lacking in discussion of regime policies. Therefore, I believe that the aid decision process should be re-thought towards recognizing a greater role of recipient countries. In the most traditional view, the U.S. as a donor has the monopoly and the only voice in bilateral aid distribution (Figure 9). U.S. interests project a set of expectations of what the recipient should be or do in order to be eligible for U.S. assistance. For example, if the U.S. pursues security interests the potential recipient is expected to demonstrate the willingness to ally with the U.S. on key strategic issues. If the U.S. is to promote democracy, the recipient country should satisfy certain democratic standards. Finally, if the U.S. allocates aid as a humanitarian effort, the country should be able to demonstrate the material need for such an aid. If expectations are met, aid is provided, if not aid is denied.

Figure 9

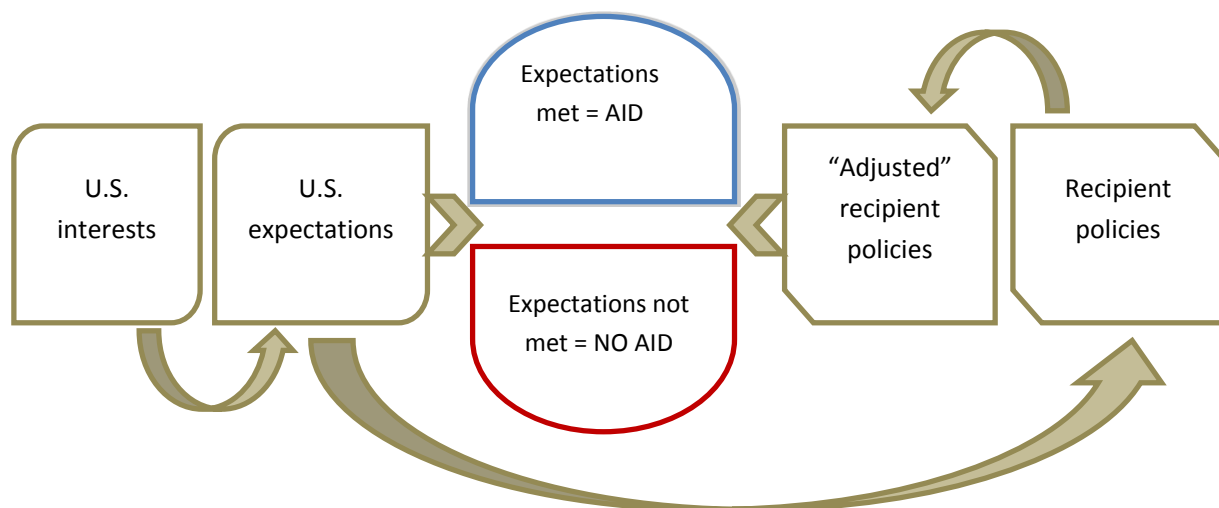
U.S.-centered Aid Decision Process



However, U.S. expectations, at least in a general sense, are not hard to discern, recipient regimes are certainly aware of them. They have a capacity to adjust their policies according to some standard, which would satisfy the donor (Figure 10). Regimes can work to improve and

Figure 10

Recipient-inclusive Aid Decision Process



present their image, thus increasing chances for U.S. assistance. While the U.S. still has formal authority over aid decisions, a regime's ability to influence aid decisions changes the dynamic between the donor and recipient.

The fact that a regime may strive in full faith to correct policy deficiencies and bad practices in order to be approved for the aid gives credence to the idea that aid indeed is an effective and useful leverage tool. However, what if a regime "pretends" to be implementing positive political changes but in reality these changes are only intended to disguise poor policies with no long-term commitment?

In previous research, U.S. aid to the former Soviet states was analyzed in an attempt to explain why the results fell short of expectations (Bosin 2012). In 1992, the U.S. Congress passed the Freedom for Russia and Emerging Eurasian Democracies and Open Market Support Act (FSA). Its goal was to provide assistance to the states of the Former Soviet Union to help with their transitions to democracy and market economies. Since 1992, approximately \$26 billion have been spent in a variety of FSA programs. However, in 2005 the State Department had to admit that, "the post-Soviet transition process in democracy and the social sector has not been as fast as the drafters of the FSA had anticipated" (State Department 2004).

In reality, of the twelve FSU states only Georgia, Moldova, Tajikistan and Ukraine experienced some positive democratic dynamic in the estimates of Freedom House²² (see Table 1). Ukraine was the only one that managed to improve its freedom status from "Partly Free" to "Free". More than fifteen years after the collapse of the Soviet Union, four of the FSU states are "Partly Free" while seven are "Not Free" including the three who made a disappointing transition down from "Partly Free" to "Not Free" – Belarus, Kazakhstan and Russia. The average Freedom

²² Freedom House uses a checklist to rate the presence/absence of political rights and civil liberties for every year in the countries of the world. The score for both PR and CL goes from 1 to 7 with 7 corresponding to the lowest level of freedom. Thus the growing score over time indicates the shrinking democratic space in the country.

in the World rating for the FSU has gone up by 0.5 during the period 1992-2006, therefore indicating a slight strengthening of an authoritarian trend in the region.

Table 1
U.S. aid to the FSU and Freedom House index change (1992-2006)

	U.S. aid per capita total 1992-2006 (constant 2006 \$)	U.S. aid total 1992-2006 (constant 2006 \$)	Change in the Freedom in the World rating (1992-2006)*	Freedom status in 1992**	Freedom Status in 2006
Armenia	504.43	1,793,892,027	1.0	Partly Free	Partly Free
Azerbaijan	66.17	603,085,312	0.5	Not Free	Not Free
Belarus	35.5	445,473,247	3.0	Partly Free	Not Free
Georgia	358.34	1,880,734,913	-1.5	Partly Free	Partly Free
Kazakhstan	62.43	1,109,229,017	0.5	Partly Free	Not Free
Kyrgyzstan	143.03	809,206,888	1.5	Partly Free	Partly Free
Moldova	131.73	637,926,362	-1.5	Partly Free	Partly Free
Russia	79.31	13,318,979,844	2.0	Partly Free	Not Free
Tajikistan	106.95	754,925,702	-0.5	Not Free	Not Free
Turkmenistan	43.4	225,715,498	0.5	Not Free	Not Free
Ukraine	50.5	2,970,090,870	-0.5	Partly Free	Free
Uzbekistan	33.74	945,975,189	1.0	Not Free	Not Free
Total	1615.53	25,495,234,867			
Average	134.63	2,124,602,906	0.5		

* Combined average of the Political Rights and Civil Liberties rating

** 1.0 to 2.5 – Free, 3.0 to 5.0 -- Partly Free, 5.5 to 7.0 -- Not Free

Sources: U.S. overseas loans and grants (Green Book), <<http://quesdb.usaid.gov/gbk/>>
World Bank development indicators, <www.worldbank.org>

My theory explains this failure via a combination of two primary factors: the incentives that FSU leaders had to misrepresent their commitment to democracy, and the U.S.'s understandable misperception of these leaders' actions. It appeared as though democratization was a big priority in the FSU after the fall of Communism and most leaders took it seriously enough. There was a strong public demand for democratic reform that the new presidents could not ignore and, at that time, it was a perfectly rational strategy for them to pursue. It offered two key advantages then; on the one hand, democratic policies allowed them to enjoy vast popular

support, and on the other hand, it opened doors to Western aid, which was extremely important during the first years after the dissolution of the Soviet Union. The failure of the U.S. policy was that it overestimated democratic commitment of post-Soviet leaders and did not recognize the processes that, at some point, made democracy an increasingly inconvenient choice for them.

There was a significant moral element in supporting democratization in the FSU. The collapse of the Soviet Union in 1991 opened an unprecedented window of opportunity to extend liberal values in this part of the world. Democratization in the former Soviet Union not only promised to advance political and economic objectives but also resonated with the beliefs of the American public in the fundamental worth of democracy, U.S. moral obligation and “America’s destiny” (Muravchik 1991) for supporting freedom worldwide. In this sense, the U.S. decision to provide aid to the FSU at the beginning of the 1990s was very symbolic and essentially “inevitable”.

On the FSU leadership side, however, there was significantly less enthusiasm about the prospects of democracy. Democratization threatened the survival of these new ruling elites. Given growing social demands and public dissatisfaction, new leaders had minimal chances to stay in the office through free and fair elections. Understandably, post-Soviet presidents chose to consolidate their power and established semi-authoritarian regimes with limited political competitiveness and tightly controlled civil space. Those leaders who did not follow this path lost or almost lost their offices, such as the Ukrainian and Belorussian presidents Leonid Kravchuk and Stanislav Shushkevich in the 1994 elections and Russian president Boris Yeltsin in the 1996 elections.

Over time, the U.S. assessment of democratic processes in the FSU became more sober and realistic leading to the revision of U.S. aid policy. For example, in 2004-2006 a portion of

FSA funds for Russia and Uzbekistan was withheld as a reaction to the tightening control on foreign funded NGOs. However, the momentum of the first years after the Freedom Support Act made it easier for post-Soviet leaders to continue exploiting the stereotypes of U.S. foreign policy. The Kyrgyz president, Askar Akayev, was probably the most successful in this effort, in large part because he positioned himself as a “liberal physicist”, a new figure outside the Communist elite (Wright 1997). In the early years of his presidency, Akayev embarked on a course of reforms that were aimed at “integrating the country into Western political and economic structures” (Kopstein and Reilly 2000: 32). Thousands of NGOs were established throughout the country. Dozens of foreign NGOs came to the country and began working on the grass-roots level. Media outlets mushroomed at almost a geometric rate. Western diplomats called Askar Akayev the Thomas Jefferson of Central Asia (Talbot 1994).

By the mid-1990s, however, the reforms slowed down and almost stopped. Western media still lauded Kyrgyzstan for being “an island of democracy” (Anderson 1999) while the space for political pluralism was rapidly shrinking and the authoritarian tilt of Akayev’s regime was increasingly obvious. The elections became deeply flawed, the legislature highly manipulated, the independent media shut down, and opposition leaders were imprisoned. The majority of local NGOs turned out to be stillborn (Beisalov 2004). In 2005, wide popular protests followed the elections, in which Akayev’s son and daughter ran for seats in the parliament. After a short period of uncertainty, Akayev resigned and went into exile.

Kyrgyzstan is a typical example of a game over international aid. The Kyrgyz leader needed U.S. assistance to alleviate a harsh economic situation and therefore signaled his commitment to democratization. The U.S. signaled its support of Akayev’s course, which he

accepted as a green light to build his personalist regime. Both sides misinterpreted each other's incentives and intentions and finally came to incorrect conclusions.

The democratic downturn in the FSU at the end of the 1990s led to more pragmatism in U.S. aid policy. Assistance programs started coming with more strings attached. However, "color" revolutions and regime change in some of the FSU states renewed opportunities for local leaders to "pretend" to be democratic and manipulate U.S. promotion efforts to sustain their rule. New elites, which came to power in Ukraine, Kyrgyzstan and Georgia, were fast to declare their commitment to democratization in order to win international recognition and support. However, persisting domestic pressures inevitably moderated this commitment while the course of rapid democratization posed short-term risks that could not be safely ignored. The Freedom House index for Ukraine, Kyrgyzstan and Georgia indicated the changes brought about by the color revolutions²³ by cutting one point off their political rights and civil liberties scores (which indicates democratic improvement) but did not show any democratic progress in the years after the revolutions, while the Georgian score in 2008 even worsened back to the pre-revolution value. The U.S. supported these new regimes and was very slow to recognize the erosion of democracy and the strengthening of authoritarian trends soon after the color revolutions.

²³ The term "Color Revolutions" was coined by Global media to describe protest, pro-democratic, anti-corruption and mostly non-violent movements, which toppled regimes in the states of the former Soviet Union such as The Rose Revolution in Georgia in 2003, The Orange Revolution in Ukraine in 2004, and The Tulip Revolution in Kyrgyzstan in 2005. Later this term has been applied to popular uprisings in the Middle East and the Balkans. See Mitchell 2012.

Chapter 4 | Predicting the Distribution of USAID Aid: a Statistical Analysis

This chapter focuses on USAID, which has been the largest distributor of U.S. foreign aid for over five decades. The fundamental goal of the statistical model is to elucidate the importance and interplay of strategic interests and goals of democratization in USAID aid decisions after the end of the Cold War. I hypothesize that although strategic considerations continue to play the key role, democracy promotion has also been gaining momentum as a driver of U.S. assistance. In fact, the Global Freedom Agenda, as President Bush named it, has itself become a strategic element in U.S. foreign policy, as promoting democratic regimes is a way to make these regimes U.S. allies. At the same time, disaggregating democracy into four components – Quality of Elections, Human Rights Climate, State of Civil Society, and Quality of Governance, will allow for taking a more nuanced look at regime policies. More specifically, I attempt to find which policies are more important in the eyes of USAID decision makers and how the different dimensions of democracy affect aid decisions.

Data

For my statistical research, I begin with the data created by S. Finkel, A. Pérez-Liñán, and M. Seligson for their project “Cross-National Research on USAID’s Democracy and Governance Programs.” Their study explores the effects of U.S. democracy assistance on democratization and uses a world-wide sample of 165 countries covering 1990-2004. The dataset contains 2,866 observations and 540 variables. Two hundred eleven variables measure USAID assistance in different ways. The dataset’s aid figures were compiled by USAID staff members John Richter, Andrew Green, David Black, and Mark Billera. The complete dataset is available at <http://www.pitt.edu/~politics/democracy/democracy.html>.

Selection of cases

Finkel, et al. selected countries based on a set of rules. First, to be included in the dataset, a country had to meet two conditions: to be officially recognized and politically independent. Therefore, such polities as Kosovo, Puerto Rico or Northern Ireland were excluded from the data. According to Finkel, et al, they made only one exception for the West Bank and Gaza due to its high possibility of independence in a relatively near future. For some reason, Taiwan was included. Clearly, Taiwan is not recognized by the U.N. as an independent state, but, as an argument, Finkel, et al. point to Taiwan's numeric code (158) commonly assigned to independent countries by the UN Statistics Division (UNSD). In fact, I found no such code for Taiwan in the UNSD data. Taiwan does have a code assigned by the International Organization for Standardization (ISO), which is a non-UN body. But even ISO classifies Taiwan as a "Province of China."²⁴

Since the authors' objective was to elucidate the relationship between aid and democratization they sorted out countries that logically could not participate in such a relationship – they were either too rich and did not need aid, or they just were fully democratic. To take into account such cases, Finkel, et al. excluded countries that satisfied at least one of the following conditions: they did not receive any USAID funds during 1990-2004 (total 61 states), they were high-income countries as classified by World Bank (total 40), and they were rated by Freedom House as "Free" in 1972-2004 (total 66). On the other hand, states, which emerged after 1990, such as East Timor and new states in Eastern Europe and the Former Soviet Union were included (total 21). Altogether, Finkel et al. dropped 30 states -- mostly developed and historically democratic countries, for example, Malta, Australia, Spain, Barbados, and Germany.

²⁴ More about ISO-3166 country codes at ISO web site http://www.iso.org/iso/home/standards/country_codes.htm, Accessed 01/07/2013.

For the purposes of my research, I chose to exclude only wealthy countries, which have not had a history of receiving U.S. aid. This approach allowed including some high-income democratic states that did receive U.S. aid in the past, such as Cyprus and Israel, which, in fact, has been one of the largest recipient of U.S. aid for decades.²⁵ As I did not employ the democratic criteria, I was able to exclude five more countries, which were not democratic but wealthy enough to be ineligible for U.S. aid: Brunei, Kuwait, Singapore, Taiwan, and United Arab Emirates.

Finkel, et al. ignored democratic regimes as they assumed that they had nothing to improve in terms of democratization and, therefore, did not add any variation to the dependent variable. In my research, democracy is one of the independent variables, but I treat democracy as a function of certain characteristics (elections, civil society, etc.) and I expect to find significant variation in these characteristics even among states with similar cumulative democratic scores. In reality, democratic regimes represent a highly heterogeneous group. Even a quick look at states, such as India, France and Venezuela, reveals how diverse democracies can be. They vary on many dimensions – economy, social institutions, and foreign policy. It is important to go beyond comparing regimes' democratic policies and explore how other factors contribute to their chances for receiving U.S. aid. Not only is including democracies conceptually correct but it also improves the validity of the model by boosting the N and increasing the variation in the independent variables.

²⁵ It is worth mentioning that ongoing economic meltdown has made many developed countries increasingly dependent on foreign aid. Greece, Iceland, Spain are the most recent examples of this trend.

Model

The model uses time series cross sectional regression, which allows comparing across space and over time simultaneously. I believe that this approach is the most relevant to capture the dynamic of USAID aid decisions. While these aid allocation have a certain momentum they may and sometimes do demonstrate quite drastic ups and downs, depending on the change in recipient regime conditions, the emergence of a humanitarian crisis or a shift in U.S. political interests. It may happen, for example, when a revolution, massive insurgency or a civil war leads to the deep revision of U.S. relations with the regime and respectively affects the levels of U.S. aid to the country. For example, the U.S. assistance to Afghanistan dried up almost instantaneously when the Taliban regime came to power in 1996. It was in part because of the U.S. changing geopolitical agenda, in which Afghanistan lost its importance, as well as the radical policies of the Taliban, which made this regime virtually illegitimate in the eyes of the American public and therefore ineligible for foreign aid.

In other cases, however, the connection between regime practices and the U.S. aid may be extended in time. When changes in regime policies occur incrementally, as for example in human rights climates, there may be a significant lag before the U.S. reacts to these changes by expanding or downsizing foreign assistance programs. Regime policies may still have a quick negative impact on U.S. aid decisions in case of dubious or clearly fraudulent elections. But exclusive focus on elections would discount other regime practices (for example proximity to U.S. foreign interests), which may have a prevailing effect on the distribution of U.S. aid in the long run.

The specifics of USAID decision-making mechanism also have to be taken into account. Usually, this cycle can take up to two years. Many U.S.-funded projects run for a few years,

creating long-lasting momentum. As a result, it is difficult for USAID to open or shut down aid to a country overnight. Even if the U.S. would want to reward or punish a regime, it would take time before this intention would translate into an aid decision. It would be an interesting and important question to explore how long the U.S. may need to react to international crises such as revolutions or regime changes and what factors are likely to speed up or slow down this reaction. However, I have to sacrifice this line of research as I attempt to answer a more fundamental question – what policies affect how much U.S. aid a country gets? At the same time, knowing which regime behaviors will win more or less U.S. assistance can help capture the long-term effects of massive social upheavals such as revolutions, coups and civil wars. If, for example, the research finds that the U.S. tends to award democratic and friendly regimes it would be fair to expect that any regime change towards democratization and alliance with the U.S. will likely bring this regime more U.S. aid.

To deal with the complex dynamic of U.S. aid decisions, I develop two models – the baseline and one where I lag the independent variables to adjust for a possible delay in the actual allocation of funds. USAID aid is coded as a two-year running mean to reflect that disbursement “may have occurred the year following the actual appropriation” (Finkel et. al Codebook 2007:2).

Dependent variable

The dependent variable represents the two-year mean of USAID allocations to all sectors in the period from 1990 to 2004. It should be mentioned that Finkel, et al. use USAID obligations instead of actual expenditures. There may be a known gap between the two, but apparently it is the best information systematically available in the USAID database. The amount includes both development and targeted democratic assistance measured in constant 2000 U.S.

dollars. The variable in its original form is noticeably skewed as a large number of states receive relatively small amounts of aid while only a few states receive large amounts of aid. To deal with this problem and to improve the fit of the model I utilize the natural logarithm of the variable.

Independent variables

I group my explanatory variables into three categories: Democracy, U.S. Interests, and Economic and Political Factors. The Democracy group includes four measures: Quality of Elections, Human Rights, Civil Society, and Governance.

Democracy

For the purposes of this research, I disaggregate democracy into separate elements, as I want to elucidate how a regime can manage (or manipulate) democratization through selective policies. Common additive democracy indexes such as Polity IV and Freedom House do not allow for such a level of analysis. As Gleditsch and Ward (1997: 367-368) showed, there are multiple ways of achieving the same democracy score in the Polity III dataset. Polity scores are created by adding up several components: Competitiveness of Political Participation (4 possible values), Competitiveness of Executive Recruitment (3 possible values), Openness of Executive Recruitment (2 possible values), and Constraints on Chief Executive (5 possible values). Given such coding, Gleditsch and Ward (1997) revealed 54 theoretical combinations of democratic characteristics, which lead to the same value on the democracy scale. In the world of real states, they found 10 different ways that polities can receive a score of 6 in the Polity dataset. The Freedom House uses a similar approach to rate regimes' democratic performances:

The ratings process is based on a checklist of 10 political rights questions and 15 civil liberties questions. The political rights questions are grouped into

three subcategories: Electoral Process (3 questions), Political Pluralism and Participation (4), and Functioning of Government (3). The civil liberties questions are grouped into four subcategories: Freedom of Expression and Belief (4 questions), Associational and Organizational Rights (3), Rule of Law (4), and Personal Autonomy and Individual Rights (4). Scores are awarded to each of these questions on a scale of 0 to 4, where a score of 0 represents the smallest degree and 4 the greatest degree of rights or liberties present.²⁶

At the second stage, raw scores in political rights and civil liberties are translated into the final Freedom score in the World rating of 1 through 7. While every raw score may represent quite different combinations of actual democratic characteristics, the translation process adds even more confusion. Collapsing 40-point Political Rights and 60-point Civil Liberties scores into a 7-point scale leads to a situation where every point of the Freedom in the World rating may represent quite a wide variation in real democratic outcomes. Unfortunately, Freedom House never published disaggregated scores for PR and CL checklists so we can only guess how a regime's rating is exactly composed.

On the practical level, it means that very different authority patterns can result in the same level of democracy, according to either measure. In fact, two regimes with identical Polity IV or Freedom House scores may pursue essentially different democratic policies. For example, the above-mentioned Russian Federation and Kyrgyzstan in early 2000s had similar levels of democracy as measured by the Freedom House index. Both received an average rating of 5-5.5 (the mean of Political Rights and Civil Liberties) and balanced on the border between being partly free and not free.²⁷ But in reality, the ways that two regimes handled democratization were quite the opposite. Kyrgyz president Askar Akayev was hailed internationally for boosting

²⁶ Freedom in the World 2012 Report: Methodology. At <http://www.freedomhouse.org/report/freedom-world-2012/methodology>, accessed 10/15/2012.

²⁷ Freedom House uses a checklist to rate the presence/absence of political rights and civil liberties for every year in the countries of the world. The score for both PR and CL goes from 1 to 7 with 7 corresponding to the lowest level of freedom. Thus the growing score over time indicates the shrinking democratic space in the country. States with an average FH rating of 1.0-2.5 are considered Free, 3.0-5.0 – Partly Free, and 5.5-7.0 – Not Free.

civil society, but, at the same time, he increasingly manipulated electoral practices towards establishing his personalist regime. Russian president Vladimir Putin was elected in 2000 and re-elected in 2004 through reasonably free and fair elections but tightened regulations on NGOs (especially foreign funded) and media overall, increasing government control over the civil space. In this research, I am far from making assumptions on which of these two policy examples makes greater progress towards genuine democracy or which policy better reflects democratic ideals. I am certainly even further from arguing what real democracy is and is not. The question that I attempt to answer is which of these multiple types of regimes' democratic behavior would be more (or less) likely to be rewarded by international donors, specifically USAID.

An important issue associated with using desegregated democratic indices as independent variables is that there is a high chance they may be correlated to one another. No doubt, all democratic components are strongly linked together. But the causal direction of influence among them may be difficult to identify. Do improvements in human rights lead to freer elections? Does a vigorous civil society facilitate a better human rights climate? Do democratic electoral institutions provide conditions for human rights and civil society to thrive? Does rule of law determine all of the above? Obviously, there is a mutually reinforcing dynamic among democratic elements and thus the problem of multicollinearity should be taken into account. To address this problem I code the variables from sources that do not overlap. Primarily, I relied on the Finkel et al data.

For Quality of Elections, I use Finkel's composite index based on factor analysis of five indicators, including the Index of Political Participation (Vanhanen 2003), which measures the percentage of vote received by smaller parties, the Legislative Index of Electoral

Competitiveness (Beck, et al. 2005), which focuses on patterns of composition of legislature, Women's Political Rights (Cingranelli and Richards 2006), measuring women's suffrage, the Competitiveness of Participation Indicator from Polity IV (Marshall, Jaggers, and Gurr 2004), assessing the role of opposition in the electoral process, and Democratic Accountability (ICRG 2006), which measures pluralism of the composition of the government.²⁸ The resulting Election score ranges from 0 to 100 where a higher score indicates a higher quality of elections.

Similarly, Human Rights is an aggregate index of five items, four of which were created by Cingranelli and Richards (2006): Political and Extrajudicial Killings, Disappearances, Torture and other Cruel, Inhumane, or Degrading Treatment, and Political Imprisonment. All four indicators are coded as numbers of cases and have three categories: Frequent, Occasional, or Have not Occurred. The fifth item is Political Terror (Gibney 2005), which measures the degree of political repression. The resulting index has a 100-point scale where a higher score correlates to higher degree of observance of human rights.

The variable Civil Society aggregates six indicators, including Restrictions on Organizations of Minorities (Minorities at Risk Project 2004), Freedom of Assembly and Association (Cingranelli and Richards 2006), Religious Freedom (ibid.), Respect for Workers' Rights (ibid.), Freedom of Movement (ibid.), and Respect for Women's Economic Rights (ibid.) The resulting index goes from 0 to 100 where a higher score represents a higher degree of independence of civil society.

Finally, Governance combines 37 sources (Kaufmann, Kraay, and Mastruzzi 2005) and measures the effectiveness of government including the quality of public services, independence

²⁸ Detailed description of Finkel et al data can be found in variables at http://www.pitt.edu/~politics/democracy/downloads/Codebook_Phase_2.pdf

of civil servants, bureaucratic efficiency, etc. The scale of this index is different from the above three. It ranges from -2.5 to 2.5 where higher value reflects better governance.

I checked democracy variables for multicollinearity by constructing a pair-wise correlation matrix (Table 2).

Table 2
Correlation Matrix for Democracy Variables (USAID model)

	Elections	Human Rights	Civil Society	Governance
Elections	1.0000			
Human Rights	0.4795	1.0000		
Civil Society	0.7718	0.5744	1.0000	
Governance	0.5887	0.5946	0.5117	1.0000

All correlation values are at a weak or moderate level – between 0.30 and 0.60, except Elections and Civil Society, which demonstrates a somewhat higher correlation -- 0.77.

U.S. Interests

The group of predictors captures U.S. interests. The goal of these variables is to test if U.S. foreign aid policy is driven by strategic considerations and whether U.S. allies tend to receive more aid than non-allies. It includes two variables: U.S. Military Assistance Priority and U.S. Foreign Policy Priority. U.S. Military Assistance Priority is coded as the percentage of U.S. global military assistance (including counter-narcotics programs) given to a country.²⁹ It varies from 0 % to 42 % (for Israel), which was the largest recipient of U.S. military aid in 1990-2004.

U.S. Foreign Policy Priority measures the activity of U.S. State Department towards a particular country. It counts the number of sentences in The New York Times where U.S.

²⁹ The formula to compute Military Assistance Priority is: $A/T * 100$ where A denotes the size of U.S. military assistance to a country (in current U.S. dollars), and T denotes the total U.S. military assistance to all countries of the world in a given year (also in current U.S. dollars).

Secretary or Assistant Secretary of State is mentioned in relation to this country. In my model, I use the total number of such sentences during 1990-2004. This number ranges from 0 to 1139, with Iraq having the most mentions and Israel coming in second with 968 mentions in the NYT.

Correlation values for U.S. Military Assistance Priority and U.S. Foreign Policy Priority do not exceed 0.35, which indicates a weak relationship between these variables (Table 3).

Table 3
Correlation Matrix for U.S. Interests Variables

	Military Assistance Priority	U.S. Foreign Policy Priority
Military Assistance Priority	1.0000	
U.S. Foreign Policy Priority	0.3471	1.0000

Social and Economic Factors

Finally, the third group of explanatory variables focuses on social and economic factors of the recipient countries. These variables have to elucidate whether a state's domestic or regional conditions may lead to more or less U.S. aid. The first variable in this group is Gross Domestic Product per Capita (GDP per capita). This indicator varies from approximately \$90 for the Democratic Republic of Congo to \$38,640 for Luxembourg. These data come from the World Bank statistics. Data for about a dozen of my countries is missing, including Afghanistan, North Korea and Somalia. GDP per capita plays an important control role in the model. It sets out to test the argument that U.S. foreign assistance is a purely humanitarian act, which is driven by "a moral obligation to help alleviate the sufferings of poor people in poor countries." (Huntington 1971:188). If this were true, it would be fair to expect that GDP per capita would be

the strongest predictor in the model meaning that low-income countries would receive more U.S. aid.³⁰

The second variable in this group is State Failure. In the original Finkel et al dataset, this variable is a dummy based on four indicators, which capture various forms of state failure such as ethnic wars, revolutionary wars, genocide and politicide, and adverse regime change.³¹ If any of these events are present in a country in a certain year, this country is considered to have experienced a state failure.

It should be mentioned that the very term “state failure” might be somewhat misleading. Finkel et al define state failure very broadly. Being a binary variable it does not specify if the internal crisis has in fact devastated the country or whether it was contained at a low-intensity level. As the result, the group of “failed states” encompasses such unfortunate war-torn nations as Nepal, Sudan or Myanmar on the one end and such strong and stable countries as Israel, Turkey and the Russian Federation on the other. Obviously, the reason for coding these regimes as “failing” was that they have experienced ongoing insurgencies – Palestinian in Israel, Kurdish in Turkey and Chechen in Russia. However, placing them in the same category with weak, dysfunctional regimes would probably be a stretch. Another way to approach this situation would be disaggregating State Failure and Political Instability along some intensity scale but the dichotomous nature of PITF variables does not allow it.

The inclusion of state failure will help to answer the question of whether or not failed and failing states can expect more U.S. aid. While many would anticipate finding a positive correlation here, a negative one is also a possibility. Pouring funds into volatile environments

³⁰ GDP per Capita is logged in the model to reduce skew.

³¹ These indicators were developed by the Political Instability Task Force (PITF) project hosted by the Center for Global Policy at George Mason University. More information at <http://globalpolicy.gmu.edu/political-instability-task-force-home/>. The data is available at <http://www.systemicpeace.org/inscr/inscr.htm> Accessed 01.25.2013.

bears significant risks with uncertain results. Even generous assistance may be jeopardized without efforts in conflict mitigation or improvement in state capacity. Finally, state failure may appear insignificant in the model meaning that the U.S. foreign policy does not differentiate between failed and stable regimes when it comes to aid decisions.

The third variable in this group is Population.³² The purpose of this variable is to control for the size of the country. For example, the Russian Federation, with a population of nearly 30-times larger than Kyrgyzstan, received only 17 times more USAID funds -- almost half as much on a per capita basis. The inclusion of this variable is particularly useful for revealing and explaining outliers – countries, which receive “disproportionate” amount of aid.

The fourth variable in this section is one-year lagged USAID aid. It is common in time-series regressions that the dependent variable may correlate to its lag. As was mentioned before, USAID programs have a certain degree of momentum. With an average period of two years to put a program together, a common liquidation term is five years. USAID provides funding for these projects on a recurring basis. It means that the fact that a country received aid in the past year(s), increases its possibility of receiving aid in the current year. Given the nature of the aid process, I expect this variable to be a strong predictor of country aid allocations in the model.

Outlier cases

Initial data analysis reveals three potential outliers -- Iraq, Afghanistan, and Israel. I consider them as deviant cases because strategic motives have clearly dominated U.S. aid to these countries. At the same time, this trio has consumed almost a third of all U.S. foreign aid thus inevitably skewing the results of the OLS regression towards U.S. Interests variables. There are a number of other states, for example Egypt, that have received a “disproportionally” large

³² Population is logged to reduce skew.

U.S. aid package (approximately 15% of all aid) but only Iraq, Afghanistan and Israel have been traditionally the top three recipients of U.S. military assistance indicating their exceptional strategic value. It should be mentioned that logging the dependent variable made the distribution of aid more normal, decreasing the possibility of an outlier effect for these cases. Controlling for these countries with a dummy variable is not empirically feasible because I am using time-series regression with fixed effects, and the dummy is time-invariant.³³ Instead of using a dummy, I run the same model with and without Iraq, Afghanistan, and Israel.

Results

As stated above, I ran two models – the baseline (1) and alternative (2). The alternative model replicates the baseline one but uses lagged independent variables. Each model has two variants: (a) includes all countries in the dataset, and (b) all countries excluding Iraq, Afghanistan and Israel. Thus, the models provide four sets of coefficients to analyze and compare: 1a, 1b, 2a and 2b (Tables 4 & 5).

1a

Model 1a confirms *hypothesis H1a*. It shows that two of the U.S. Interests variables – Military Assistance Priority and Foreign Policy Priority – appear significant and positive at the .01 and .001 levels respectively. It is a somewhat anticipated result as Iraq, Afghanistan and Israel outweigh other cases where U.S. strategic consideration might have played a smaller role. Interestingly, *hypothesis H1c* is rejected as GDP per Capita fails to achieve significance. It leads to quite a cynical conclusion that USAID does not have any priority for poor countries that, in

³³ The model with fixed effects should be used as I am examining the impact of the factors on the same countries over time. The Hausman test confirms the choice of the fixed effects regression.

fact, may need U.S. assistance the most. State Failure is negative and significant at a 0.05 level. Obviously, countries with political violence and lack of internal stability have been less likely to receive U.S. aid. Population appears to be negatively correlated with the size of aid. It means that USAID tends to provide aid on a program-by-program basis and does not standardize allocations on a per capita basis. Finally, Previous Aid, as expected, demonstrates a very strong correlation with current size of funding.

Probably the most important finding is that three democracy variables – Human Rights, Civil Society, and Governance show no significant impact on USAID allocations, failing to support *hypotheses H2b, H2c, and H2d*. This may be a disappointing result for international democracy promoters. It means that the U.S. does not reward democratic achievers and that U.S. foreign policy has virtually pushed democratization to the backburner. Some may try a reverse logic that the U.S. chooses the most challenging environments and keeps funding authoritarian regimes in a hope to speed up their democratization. In this case, however, democracy variables would have to be significant and negative. While overall USAID aid does not seem to be driven by broad goals of democratization, one democracy variable, Quality of Elections, is highly significant but negative. This finding provokes quite a controversial interpretation. The U.S. is significantly more likely to reward regimes with lower quality of elections. As countries that score at the bottom of the quality scale are likely to be running more fraudulent and questionable elections, it appears that countries with lower quality of elections are the ones being rewarded. Elections are important, but the quality of elections is negatively associated with aid. U.S. strategic allies can get away with poor elections and still enjoy U.S. approval, international support and foreign aid.

1b

Empirically it is clear that U.S. packages to Iraq and Afghanistan have had little to do with democratization in these countries, at least at the initial stages. Israel, on the other hand, has been quite democratic³⁴ but received gigantic aid due to its strategic importance. Dropping these outliers, however, did not help any of the democracy variables achieve significance. At the same time, Quality of Elections stayed a strong predictor in the model 1b. It should be noted, however, that a possible effect of the outliers has already been minimized by logging the dependent variable.

³⁴ Polity IV assigns Israel a score of 10 out of 10 on the democracy scale. Freedom House rates Israel as Free with a score of 1.5 (1 is the best, 7 is the worst).

Table 4
 Predicting U.S. Aid (1990-2004).
 (dependent variable – USAID investment in all sectors,
 in constant 2000 U.S. dollars)

<i>Variables</i>	Model 1a all eligible states (N=2250)		Model 1b excluding Israel, Iraq, and Afghanistan (N=2206)	
	<i>Coefficient</i>	<i>Std. Error</i>	<i>Coefficient</i>	<i>Std. Error</i>
Democracy				
Elections	-.133***	.024	-.133***	.023
Human Rights	.020	.018	.015	.018
Civil Society	.004	.020	-.008	.020
Governance	-.051	.029	-.052	.029
U.S. Interests				
U.S. Military Assistance Priority	.207**	.072	.204*	.095
U.S. Foreign Policy Priority	.044***	.009	.045*	.018
Economic and Political Factors				
GDP per Capita (logged)	-.0007	.479	-.005	.00007
State Failure	-.687*	.335	-.743*	.334
Population (logged)	-6.853***	.985	-6.903***	.984
Aid in the Previous Year (logged)	.470***	.015	.470***	.015

* significant at $p < .05$; ** significant at $p < .01$; *** significant at $p < .001$ (two-tailed).

2a

The lagged model 2a demonstrates similar results. Quality of Elections is negative and significant at a .001 level. Other democracy variables do not seem to have any impact on aid. Out of U.S. interests, The Military Priority fails to achieve significance; however, the second indicator, Foreign Policy Priority, shows positive and strong correlation with aid decisions. As expected, the effect of Previous Aid remains very strong. An interesting discrepancy with the baseline model is that population loses significance but GDP per capita turns significant at a .01 level but positive which indicates that poorer are still not likely to receive more UDAID funding.

2b

Excluding Israel, Iraq and Afghanistan from the lagged model brings almost no changes. The only difference is that U.S. Foreign Priority variable loses significance – a predictable outcome, considering the strategic importance of these countries for the U.S.

Table 5
Predicting U.S. Aid, One-Year Lag (1990-2004).
(dependent variable – USAID investment in all sectors,
in constant 2000 U.S. dollars)

<i>Variables</i>	Model 2a all eligible states (N=2148)		Model 2b excluding Israel, Iraq, and Afghanistan (N=2106)	
	<i>Coefficient</i>	<i>Std. Error</i>	<i>Coefficient</i>	<i>Std. Error</i>
Democracy				
Elections	-.105***	.020	-.101***	.020
Human Rights	.024	.016	.023	.016
Civil Society	.004	.018	.001	.018
Governance	-.002	.025	.002	.025
U.S. Interests				
U.S. Military Assistance Priority	.039	.078	.006	.086
U.S. Foreign Policy Priority	.028***	.007	.017	.015
Economic and Political Factors				
GDP per Capita (logged)	.895*	.408	.899*	.407
State Failure	-.470	.288	-.347	.289
Population (logged)	.205	.877	-.025	.875
Aid in the Previous Year (logged)	.688***	.015	.689***	.015

* significant at $p < .05$; ** significant at $p < .01$; *** significant at $p < .001$ (two-tailed).

Chapter 5 | Predicting the Distribution of MCC Aid: a Statistical Analysis

The MCC announced a new approach to the distribution of aid. It claims to be different from USAID in that it focuses on needs and good policies of recipient regimes instead of their strategic importance. The fact that MCC does not have a strong strategic agenda poses an interesting dilemma. While the MCC is still a government agency, established as tool of U.S. foreign policy, it bases its decisions on a broader view of U.S. interests. According to a traditional stereotype of the Cold War era, allying with the U.S. would generate more foreign aid. The MCC rather believes that foreign aid would help to create more U.S. allies via the advancement of democracy, the improvement of governance and the reduction of poverty. This approach is based on the fundamental assumption that free and prosperous countries would seek to be U.S. allies not because they want to capitalize on their geopolitical position, but rather because they shared the same values and identity. It is a deeply constructivist approach and a clear departure from neorealism, which has been dominating U.S. foreign policy for a few decades. The question that arises is whether the MCC's philosophy is indicative of a major turnover in U.S. foreign policy triggered by the end of the Cold war?

There are two types of programs funded by the MCC – Threshold programs and Compacts. Threshold programs are short-term and smaller in size, with an average funding of about \$25 million for a two-year period. These programs are designed for countries that have not yet qualified for a full-scale Compact because they are behind in some assessment indicators. Threshold programs are focused on encouraging countries to work on their problem areas through targeted policy and institutional reforms. As MCC puts it, “threshold programs provide countries with an opportunity to improve performance on MCC's eligibility indicators within a short period of time”. Types of threshold programs varied widely from, for example, improving

the business climate in Albania by lowering the number of days to register a business from 39 to five, to establishing an anti-corruption agency in Uganda that has tried and convicted three high-profile cases.

Overall, threshold programs have not been very successful in representing MCC's new approach to foreign aid. Although the decision to open a Threshold program was made in and funded by the MCC, the program is currently administered by USAID. This is understandable, as USAID has a much more developed network of field staff that can implement the program. Moreover, creating such a field office for only two years would not be cost-effective for the MCC.

In 2010, the MCC concluded an independent review of Threshold programs over almost a 7-year period, creating an impression that the USAID evaluation was not considered sufficient. Obviously, the MCC's interest is not only in assessing the short-term output of the program and its overall efficiency, but more specifically, its effectiveness as a tool that has indeed helped the country to become Compact-eligible. As MCC admits, "Using a country threshold program to improve performance on MCC's eligibility indicators within a narrow time frame, however, has not been effective in most cases." Of the 21 countries that were selected for Threshold programs, only seven have been later able to qualify for a Compact contract. This means that the Threshold program in many cases appeared to be a weak incentive regarding potential Compact eligibility. It does not mean, however, that the Threshold programs have failed, but rather that such small-scale limited targeted programs could not provide a measurable positive impact on MCC's eligibility indicators within a short period of time. Indeed, Uganda's three anti-corruption trials were not satisfactory enough to improve its Control of Corruption indicator. Consequently, the focus of the MCC's Threshold programs seems to have been shifting from targeted short-term

assistance towards building a constructive policy dialogue with non-eligible countries. Such a change in philosophy has brought some vagueness in the objectives of Threshold programs. As the MCC stated: “By employing broad technical expertise from across the U.S. Government, the MCC has been able to bring together the relative strengths of MCC, USAID, and other U.S. Government counterparts in a strong partnership for economic growth in its Threshold Program countries” (MCC Threshold Program Lessons Learned, 2010, 2).

Table 6
Countries selected for MCC Threshold programs (2005-2013)

Country	Selected for Compact
Albania	No
Burkina Faso	Yes
Guyana	No
Indonesia	Yes
Jordan	Yes
Kenya	No
Kyrgyzstan	No
Liberia	No
Malawi	No
Moldova	Yes
Niger	No
Paraguay	No
Peru	No
Philippines	Yes
Philippines	Yes
Rwanda	No
Sao Tome and Principe	No
Tanzania	Yes
Timor-Leste	No
Uganda	No
Ukraine	No
Zambia	Yes

Source: MCC Candidate Country Reports FY2004-2015
Available at <https://www.mcc.gov/pages/selection/reports>

For the above-said reasons, I do not find Threshold programs as relevant as the Compacts for predicting the distribution of MCC aid. Instead, I focus the rest of the chapter on this second type of MCC assistance -- Compacts. They are multi-year (usually five-year) agreements with an average size of funding at about \$370 million. In 2005-2013, the MCC selected 25 countries as eligible for Compacts. The MCC claims its selection process was different from the one used by USAID. Unlike USAID, which has to have its obligations passed by the Congress every year on a program-by-program basis, the MCC gets its annual funding approved by the Congress as a bulk amount and then decides how to distribute it. This mechanism provides more independence in decision-making, as the MCC is supposed to be less pressured by countries' interest groups during the budget hearings in the Congress.

Data

Ideally, to compare USAID and MCC, the model should use the same set of independent variables. For the USAID model, I used the data collected by the Finkel, et al. (2007) for their project investigating the effects of targeted democratic assistance. However, this dataset has not been maintained beyond 2004. The MCC was established in 2004, while the first assistance contract was signed in April 2005. For the purposes of this research, I created a new dataset covering the period from 2005 to 2015. The biggest challenge with the new data has been replicating the four democracy variables: Quality of Elections, Human Rights, Governance, and Civil Society. These variables are coded as composite indices based upon factor analysis employing several indicators from various sources. If one of these indicators were to contain a missing value, the resulting index would turn into a missing value as well. To avoid this, I had to drop a number of indicators while still maintaining the logic and general structure of the additive

indices. For example, the Minorities at Risk current data release only goes as far as 2006 (http://www.cidcm.umd.edu/mar/mar_data.asp#qualitativemar). Therefore, I had to exclude it from the original Civil Society Index, while maintaining its other components.

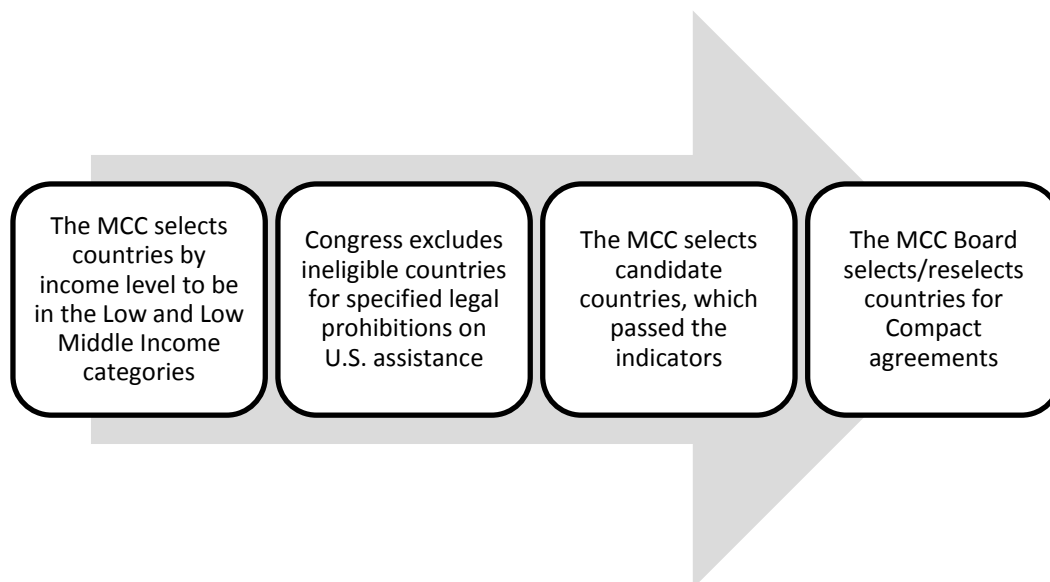
Another important upgrade to the original dataset was adding the MCC data. Overall, the MCC provides information for about 34 countries, which have received MCC funds by 2015 (available at <http://www.mcc.gov/pages/countries>). Since its foundation in 2004, MCC has allocated over \$8 billion through threshold or compact agreements or both. Altogether, I created 22 new variables describing the MCC activity in 2005-2015.

Model

The model utilizes time-series logit regression analysis but, essentially, breaks down into two parts reflecting the stages of the MCC selection process (Figure 11).

Figure 11

The MCC Selection Process



The selection process starts with grouping countries by their income level. There are two groups of countries eligible for compacts. The low-income group (LIC) includes countries with

an annual income per capita less than \$1,985 for FY2015. For 2015, 54 countries were identified as LIC. The lower-middle income group (LMIC) includes countries with a GNI per capita between \$1,985 and \$4,125. For 2015, 24 countries were identified as LMIC. By law, 75% of the MCC assistance goes to the countries in a low-income category, while 25% is directed to LMIC.

After the countries have been selected, the MCC submits the list to Congress for approval. At this stage, Congress drops those countries, which for various reasons are statutorily prohibited from receiving U.S. funding. Specifically, for 2015, eight countries, which had initially satisfied the income criteria, were later excluded from the list: Bolivia, Burma, Cambodia, Eritrea, North Korea, Sudan, Syria, and Zimbabwe.

After the MCC has received the cleared list of candidate countries from the Congress, the MCC has to create a short-list of eligible countries. This process is based upon an assessment of countries' policy performance in three areas, including Ruling Justly, Investing in People, and Encouraging Economic Freedom. On the one hand, these areas are critical to ensure successful implementation of Compacts. On the other hand, such assistance programs are aimed at improving these policies as a result. Such a duality poses a question: Do the MCC's funds go to the most challenging environments or do they just follow a cherry-picking logic, selecting countries, which have already achieved some degree of progress in these areas? For practical purposes, the MCC's focus on corruption and rule of law is important, as it tries to guarantee that such funds will not be misused, mismanaged, or even embezzled, due to a country's high level of corruption and poor attention to Rule of Law.

The assessment process itself is formalized and basically boils down to compiling a number of economic and social indicators from a variety of sources. They include Freedom House, World Bank, International Monetary Fund, International Financial Corporations, as well

as various UN organizations. The set of indicators was revised in 2012; some were dropped or replaced by others (see Table 2). In FY2015, the MCC used a total of 22 indicators.

Table 7
MCC selection criteria indicators for FY2015

Ruling Justly	<ul style="list-style-type: none"> • Civil Liberties (Freedom House) • Political Rights (Freedom House) • Control of Corruption (World Bank/Brookings Institution WGI) • Government Effectiveness (World Bank/Brookings Institution WGI) • Rule of Law (World Bank/Brookings Institution WGI) • Freedom of Information (Freedom House / FRINGE Special/ Open Net Initiative)
	<p style="text-align: center;">Dropped/Revised in 2012:</p> <ul style="list-style-type: none"> • Voice and Accountability
Investing in People	<ul style="list-style-type: none"> • Immunization Rates (World Health Organization and UNICEF) • Public Expenditure on Health (World Health Organization) • Girls' Education (UNESCO) <ul style="list-style-type: none"> ○ Primary Education Completion (Scorecard LICs) ○ Secondary Education Enrolment (Scorecards LMICs) • Public Expenditure on Primary Education (UNESCO) • Child Health (CIESIN and YCELP) • Natural Resource Protection (CIESIN and YCELP)
	<p style="text-align: center;">Dropped/Revised in 2012:</p> <ul style="list-style-type: none"> • Natural Resource Management
Encouraging Economic Freedom	<ul style="list-style-type: none"> • Business Start-Up (IFC) • Land Rights and Access (IFAD and IFC) • Trade Policy (Heritage Foundation) • Regulatory Quality (World Bank/Brookings Institution WGI) • Inflation (IMF WEO) • Fiscal Policy (IMF WEO) • Access to Credit (IFC) • Gender in the Economy (IFC)
	<p style="text-align: center;">Dropped/Revised in 2012:</p> <ul style="list-style-type: none"> • Days to Start a Business • Cost of Starting a Business • 1-year Consumer Price Inflation

Source: MCC Selection Indicators
Available at <<https://www.mcc.gov/pages/selection/indicators>>

In order to be considered for a Compact, countries have to score above the median in their peer group in at least half of the indicators, including the Control of Corruption, and above a certain threshold in either Civil Liberties or Political Freedoms.

The MCC methodology is far from perfect. It suffers on a few counts. First, there is a data problem, as most indicators have a substantial lag. For example, the MCC compiles data for country scorecards for the next year's selection cycle - in September of the current year. At the same time, the Freedom of the World report is only available for the previous year. In other words, the FY2015 scorecards use data from 2013. Consequently, the MCC can theoretically award a country that has failed on important indicators within the last 12 or 18 months, as these indicators would not capture this failure due to the significant time lag.

Second, the MCC statistical model raises some questions. Many of the indicators used in the MCC selection criteria are composite indices. Essentially, they are ordinal variables. However, they are used as interval variables, assuming that the intervals between the values of such variables are equally spaced.³⁵ In the MCC case, this implies that country scores are difficult to interpret systematically. Different aggregation rules applied by different sources make it impossible to recognize the degrees of theoretical impact of different attributes on the resulting scores. Moreover, it is not clear how to estimate country scores in relation to one another, other than comparing them to the median. For example, if a country scored 5% below the median while another country scored 5% above the median, this does not necessarily mean that the second country's indicator is 10% better than that of the first country.

Another common pitfall of overusing composite indices involves the likelihood of encountering a multicollinearity problem. It might be quite possible that a strong relationship

³⁵ This has been a common practice in social sciences over the last three decades. However, the discussion of this problem exceeds the scope of this work.

among many of the MCC indicators exists and that some of them drive the others. That may be especially true about the Freedom House indicators, which measure policies that conceptually overlap such as human rights and civil society or elections and the rule of law. Another group of potentially correlated variables includes Immunization Rates, Public Expenditures on Health, and Child Health.

As a result of multicollinearity, the seemingly high number of estimates used by the MCC for calculating country scores cards may in reality be predicted by just a few variables. Although multicollinearity does not reduce the reliability of the MCC assessment, the model still can be over specified and use disproportionately too much data for its purpose.

Autocorrelation should be mentioned as another risk overlooked in the MCC selection model. The autocorrelation problem stems from the fact that the MCC focuses on country current indicators rather than their temporal variation. In reality, however, current values of the indicators to a great extent are determined by the previous year's values. In other words, they are correlated to themselves. This means that a country with a higher score is more likely to have higher score next year than a country with a lower score. As a consequence, two countries may have similar scores but different amounts of improvement (and effort) behind them. One country may be an overachiever, improving its score by 20% over a year, while another country may only add 2%, but the MCC will essentially treat both the same, which discounts the important dynamic in country policies. On the practical level, the MCC approach does not seem to reward countries that have made significant strides to improve indicators, but are still below the median.

Third, on the theoretical side, assessing countries within their income categories poses a few questions. It is assumed that there is a positive relationship between country income level and social institutional policies such as Rule of Law, Control of Corruption, etc. While such a

relationship seems to have a great deal of sense, it might not necessarily hold in all cases. China and Russia would be examples that would seriously dispute the validity of this proposition. Linking country economic development with its social and political performance creates a selection bias when countries are not compared outside of their income categories, and essentially we do not know if their indicators are *really* good or *just* good enough.

Despite certain shortcomings, the MCC methodology adds clarity and transparency to the selection process. However, some may argue that important explanatory variables are still missing. For example, the MCC's mission focuses on "advancing American values and interests by reducing global poverty through economic growth" (<http://www.mcc.gov/pages/about>). It does not define U.S. interests and does not specify any priorities in case the U.S. government pursues multiple interests in a country or in a region. For example, U.S. strategic interests are not included as an indicator in the MCC decision-making. However, I find a few reasons to add it into my model.

First, when the U.S. Congress approves the MCC candidates' list, political considerations may act as motivations. In other words, the U.S. Congress may disqualify those countries that are not U.S. allies or have problematic relations with the U.S. (verification is difficult). Countries may be ineligible for U.S. foreign assistance for a variety of reasons. Burma, for example, is prohibited due to a poor human rights record, Cambodia due to marred parliamentary elections, Eritrea – due to insufficient enforcement of anti-human trafficking laws. Bolivia is restricted from receiving U.S. funding by the Foreign Relations Authorization Act of 2003, which points to Bolivia's incompliance with international drug control certification procedures. At the same time, the Bolivian government has been one of the most active Latin American critics of the U.S. in the recent years, having accused the US of using its aid programs to support political

opposition; the Bolivian government finally expelled USAID from their country in October 2013. Clearly, tensions concerning U.S.-Bolivian relations stem from far broader issues than just international drug control.

Table 8
Countries excluded from the MCC candidate list due to
statutory provisions that prohibit assistance (FY2004-FY2015)

FY	Non-eligible countries in LIC	Non-eligible countries in LMIC	Number of non-eligible countries	Number of eligible countries	Percentage of non-eligible countries
FY2004	Burma, Burundi, Cambodia, Central African Republic, Cote d'Ivoire, Guinea-Bissau, Liberia, Serbia, Somalia, Sudan, Uzbekistan, Zimbabwe		13	63	17.1%
FY2005	Burma, Burundi, Cambodia, Central African Republic, Cote d'Ivoire, Cuba, Guinea-Bissau, Liberia, Somalia, Sudan, Syria, Uzbekistan, Zimbabwe		13	70	15.7%
FY2006	Bosnia and Herzegovina, Burma, Burundi, Cambodia, Central African Republic, Cote d'Ivoire, Cuba, Iran, North Korea, Serbia and Montenegro, Somalia, Sudan, Syria, Uzbekistan, Zimbabwe		15	98	13.3%
FY2007	Burma, Cambodia, Cote d'Ivoire, Cuba, North Korea, Somalia, Sudan, Syria, Uzbekistan, Zimbabwe	Republika Srpska, China, Iran, Serbia,	14	99	12.4%
FY2008	Burma, Cote d'Ivoire, Cuba, North Korea, Sudan, Syria, Uzbekistan, Zimbabwe	Republika Srpska, China, The Fiji Islands, Iran, Thailand	13	95	12.0%
FY2009	Burma, Iraq, Mauritania, North Korea, Sudan, Syria, Uzbekistan, Zimbabwe	China, Iran	10	93	9.7%
FY2010	Burma, Cote d'Ivoire, Madagascar, North Korea, Sudan, Uzbekistan, Zimbabwe	China, Iran, Iraq	10	87	10.3%
FY2011	Burma, Cote d'Ivoire, Eritrea, Madagascar, North Korea, Sudan, Uzbekistan, Zimbabwe	China, Iraq, Syria	11	84	11.6%

FY2012	Burma, Eritrea, Madagascar, North Korea, Sudan, Syria, Uzbekistan, Zimbabwe	Micronesia, Syria, Turkmenistan	11	81	12.0%
FY2013	Burma, Cameroon, Eritrea, Guinea, Guinea-Bissau, Madagascar, Mali, Nicaragua, North Korea, Sudan, Swaziland	Syria, Zimbabwe, The Fiji Islands	14	75	15.7%
FY2014	Burma, Cameroon, Central African Republic, Eritrea, Gambia, Guinea-Bissau, Madagascar, Mali, Nicaragua, North Korea, Sudan, Swaziland, Syria, Zimbabwe		14	69	16.9%
FY2015	Bolivia, Burma, Cambodia, Eritrea, North Korea, Sudan, Syria, Zimbabwe		8	79	9.2%

Source: MCC Candidate Country Reports FY2004-2015
Available at <https://www.mcc.gov/pages/selection/reports>

Often laws prohibiting countries from U.S. assistance include a clause that the Secretary of State may lift the restriction if the country is making “substantial and continuous” progress to correct the problem area. For example, from 2004 to 2012, Uzbekistan was denied eligibility for MCC Compacts. However, in 2013, its status changed to “eligible” and remained eligible for 2014 and 2015. This change reflects the dynamic of U.S.-Uzbek relations over the last decade. In the wake of American invasion in Afghanistan, Uzbekistan was seen as an important partner in providing logistics of essential supplies to the Coalition forces. In 2001, the U.S. leased the Karshi-Khanabad air force base and one year later, the U.S. signed a comprehensive Declaration on Strategic Partnership and Cooperation with the government of Uzbekistan. However, soon after Uzbekistan’s commitment to the partnership started waning as the result of U.S. criticism of the Uzbek heavy-handed crackdown on the 2005 popular protests in the Fergana valley. Uzbekistan asked the U.S. to vacate the base, closed almost all U.S.-funded NGOs, and clearly indicated its strategic re-alignment with Russia. In 2006, Uzbekistan joined the Collective

Security Treaty Organization (CSTO) and Eurasian Economic Community (EurAsEC), both Russia-led defense and trade alliances of the former Soviet states.

U.S.-Uzbek relations continued to deteriorate rapidly. In 2006, the U.S. State Department designated Uzbekistan as a Country of Special Concern due to rampant human rights violations and alleged forced child labor during the cotton harvest season. In 2006 and 2007, Uzbekistan was ranked as a Tier 3 (the worst) source country of human trafficking. In 2008, Congress passed sanctions against Uzbek officials traveling to the U.S. if they were involved in human rights violations related to the Fergana valley unrests (Nichol 2013: 2).

The situation started to change in 2009 when U.S. transit routes through Pakistan became increasingly threatened by the rising Taliban insurgency. The U.S. needed to find alternative routes supporting the U.S. mission in Afghanistan. Uzbekistan reentered the focus of U.S. strategic interests. In 2009, Uzbekistan agreed to participate in the Northern Distribution Network (NDN) of land, sea, and air transit routes from Europe through Eurasia for U.S. and NATO military supplies entering and exiting Afghanistan. Later that year, Congress permitted some assistance and training programs for Uzbekistan. In December 2010, Secretary Clinton paid a visit to Tashkent and described U.S. relations with this country as “critical” expressing strong U.S. interest in promoting “positive cooperation between our two countries” (U.S. State Department 2010). In March 2012, The U.S. signed an agreement with Uzbekistan on provision of air transit of cargo and personnel from Afghanistan. At the same time, Uzbekistan indicated its tilt away from Russia by suspending its membership in CSTO in 2012.

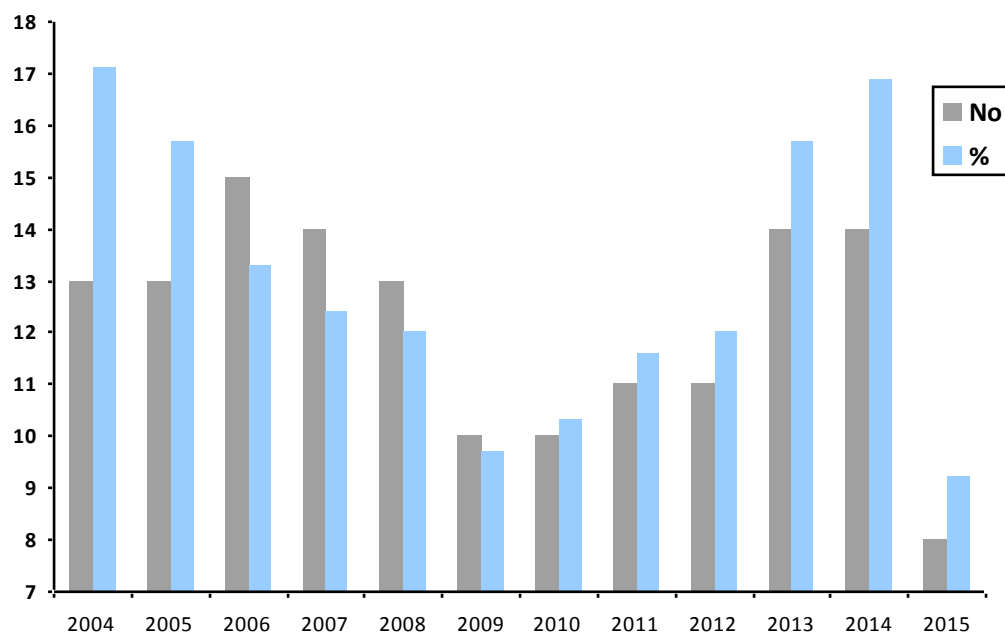
Since 2009, the U.S. has issued waivers preventing Uzbekistan from U.S. sanctions over its “Country of Special Concern” designation. Since 2011, Uzbekistan has received waivers on its ranking as a Tier 3 country in human trafficking. In 2011, Congress authorized the Secretary

of State to lift aid restrictions to Uzbekistan on national security grounds (Nichol, 6). In 2013, such a waiver was provided, and Uzbekistan was back on the list of eligible countries for MCC programs.

The case of Uzbekistan shows how aid decisions may pragmatically follow strategic logic. Obviously, the MCC does not have control over such decisions as they are made in Congress and the State Department. However, there is another aspect of the country selection process inside MCC itself that may question the integrity of MCC quantitative methodology.

Figure 12

Number and Percentage of countries excluded from the MCC candidate list due to statutory provisions that prohibit assistance (FY2004-FY2015)



Source: MCC Candidate Country Reports FY2004-2015
Available at <https://www.mcc.gov/pages/selection/reports>

Every fiscal year, MCC has to choose countries for new compacts and re-confirm those countries preselected and designated to be at the compact development stage. This stage takes about two years when technical details of the compact are put together. The country is required

to maintain its performance along the indicators during this time before the MCC allocates actual funds. However, in fact, far more countries pass indicators and can be approved for Compacts than the MCC has funds to award. The percentage of eligible countries finally chosen for Compacts has never exceeded 25%, while decreasing to 11% in FY2012 and 4-5% in FY2013-2014. It means that at least three of every four countries that have successfully met the scorecards benchmarks have to be eliminated from the final selection pool. This is done through the MCC Board review. The MCC briefly explains: “the Board considered a variety of factors in addition to the country’s performance on the policy indicators in determining whether it was an appropriate candidate for assistance.” The Board relies on supplemental information assessing a country’s investment climate, economic context and capacity, and social policies. In reality, the Board looks at additional indicators from a variety of sources. However, unlike scorecards, the Board review does not follow any formal quantitative model, but rather is based on a qualitative interpretation of indicators and other sources.

Table 9
Countries selected for Compact agreement after scorecards and after the MCC Board review
(FY2011-FY2014)

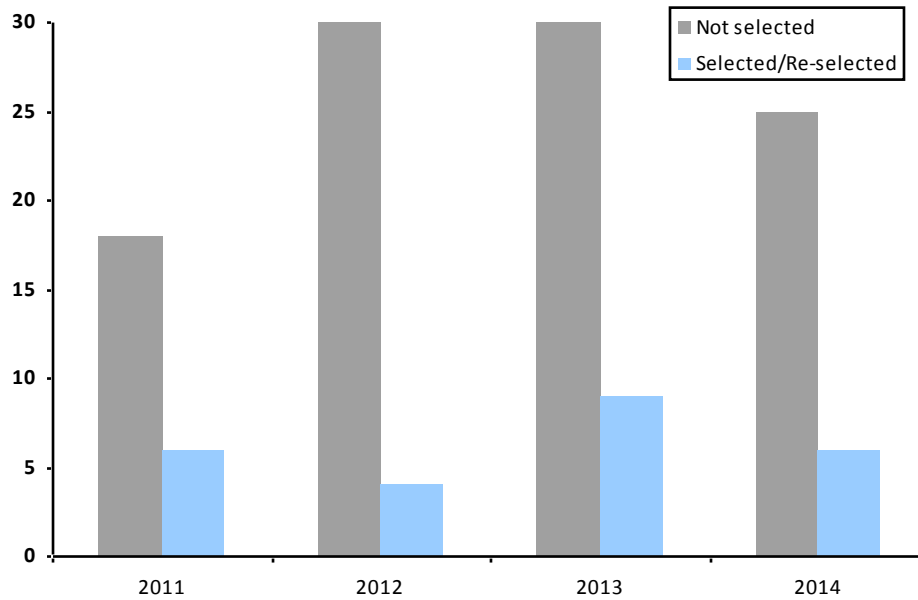
FY	Passed indicator requirements AND cleared by the U.S. Congress	Passed the MCC Board review	
		Selected	Re-selected
FY2011	LIC: Benin, Bolivia, Gambia, Ghana, Guyana, Lesotho, Malawi, Moldova, Nicaragua, Philippines, Rwanda, Senegal, Tanzania, Vietnam, Zambia LMIC: Jordan, Sri Lanka, Thailand	Ghana, Georgia, Malawi, Zambia.	Cape Verde, Indonesia
FY2012	LIC: Benin, Bolivia, Burkina Faso, Ghana, India, Lesotho, Malawi, Mali, Moldova, Mongolia, Mozambique, Nepal, Niger, Sao Tome and Principe, Senegal, Solomon Islands, Tanzania, Zambia LMIC: Belize, Bhutan, Cape Verde, El Salvador, Georgia, Kiribati, Marshall Islands, Morocco, Samoa, Sri Lanka, Tonga, Vanuatu	Benin, El Salvador	Ghana, Zambia

FY2013	<p>LIC: Benin, Burkina Faso, Comoros, Ghana, India, Lesotho, Liberia, Malawi, Mozambique, Nepal, Niger, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Tanzania, Zambia</p> <p>LMIC: Belize, Bhutan, Bolivia, Cape Verde, El Salvador, Georgia, Kiribati, Marshall Islands, Morocco, Samoa, Sri Lanka, Tonga, Vanuatu</p>	Morocco, Liberia, Niger, Sierra Leone, Tanzania	Benin, El Salvador, Georgia, Ghana
FY2014	<p>LIC: Bangladesh, Burkina Faso, Comoros, Ghana, India, Lesotho, Malawi, Mozambique, Nepal, Niger, Sao Tome and Principe, Senegal, Solomon Islands, Tanzania, Zambia</p> <p>LMIC: Armenia, Bhutan, Cape Verde, El Salvador, Georgia, Kiribati, Mongolia, Samoa, Sri Lanka, Vanuatu</p>	Lesotho	Ghana, Liberia, Morocco, Niger, Tanzania

Sources: MCC scorebooks FY2011-2014, MCC eligible country reports FY2011-2014 Available at <<https://www.mcc.gov/pages/selection/reports>>

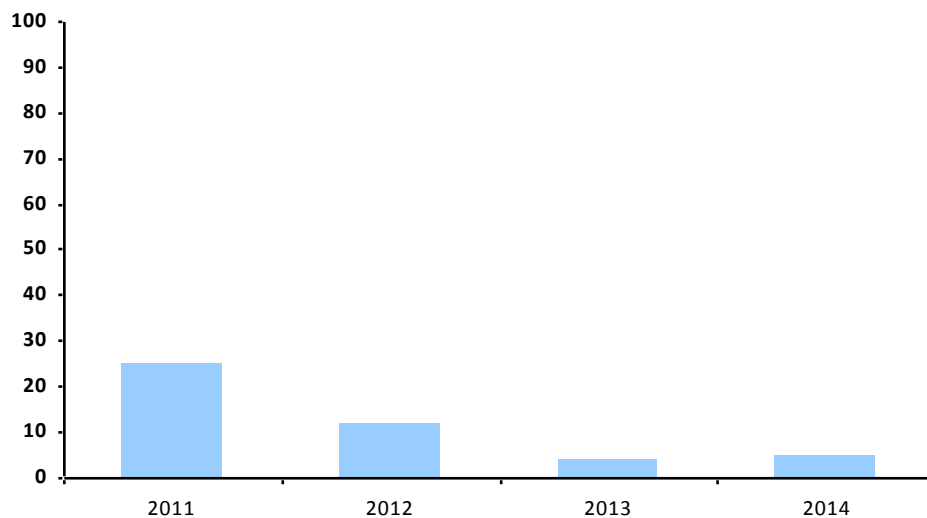
The problem with the MCC Board review process is that it is difficult to capture with quantifiable variables. The Board makes their final selection decisions by voting. Unfortunately, the transcripts of Board meetings that I have been able to access on-line provided only summary data, without any detailed information on discussions and voting. The Board meetings regarding the final selection of countries for Compacts are usually held in December and attended by the Secretary of State, the USAID Administrator, the MCC CEO, and officials from U.S. government, including National Security Staff, private sector and NGO participants. Considering all invited guests there are approximately 40 participants in these Board meetings. It is not clear if and how different interests may be involved and played out into Board's decision-making. The information on voting that I gleaned was minimal. For example, the summary of the December 10, 2013 meeting concluded: "The Board voted to approve Lesotho as eligible for development of a new compact; to approve Ghana, Niger, Tanzania, Liberia and Morocco as eligible to continue compact development" (Summary 2013). The summary did not specify if the votes were unanimous or split or any arguments made by participants in favor or against candidate countries.

Figure 13
The MCC Board selection of countries which met the indicators (FY2011-2014)



Sources: MCC scorebooks FY2011-2014, MCC eligible country reports FY2011-2014
Available at <<https://www.mcc.gov/pages/selection/reports>>

Figure 14
Percent of countries which met indicators selected by the
MCC Board for compact agreements (FY2011-2014)



Sources: MCC scorebooks FY2011-2014, MCC eligible country reports FY2011-2014
Available at <<https://www.mcc.gov/pages/selection/reports>>

To identify if and how the Board selection decisions may be different from the score cards process, I employ two approaches. In the first approach, I analyze two separate models – A and B. Model A sets out to explain which countries in the Low or Low-Middle Income groups are cleared by Congress and passed the score cards stage. Model B predicts which countries are selected or reselected by the Board from the pool of the countries that passed all the eligibility requirements, including the performance indicators.

In the second approach, I use a Heckman selection model, which allows a two-stage estimation to correct for possible selection bias. Such selection bias occurs when the MCC board reviews the candidate countries, which have already been pre-selected through the score cards process. The fundamental problem with modeling the two stages separately is that the errors are potentially correlated, which can result in incorrect standard errors. The Heckman model allows

me to predict whether or not a country is selected for a Compact agreement, taking into account the biased sample that has been preselected by the Congress.

Dependent variables

The dependent variable for Model A is a dummy that is coded as one if a country passed the MCC score cards assessment and was eligible for a Compact conditioned upon the Board review. The dependent variable for Model B is a dummy indicating whether the Board selected or reselected a country to sign an actual Compact agreement. A Compact takes about 2 years to develop after a country is selected. During this multi-stage process, “the eligible country identifies the root causes behind key constraints, and develops the program logic and proposes investment projects to address those issues. The most promising projects are further developed and appraised.” (<http://www.mcc.gov/pages/docs/doc/compact-development-guidance-overview>). While the selected country is supposed to take a lead in putting proposals together, the MCC “reserves the right to reject and refine proposals.” Obviously, there is some bargaining element involved in the Compact development process but details of it are still not clear. In fact, Compacts’ sizes vary by a factor of 10 – from \$66 million (Vanuatu 2006) to \$698 million (Tanzania 2008). Furthermore, this variation widens on a per capita basis ranging from \$.002 (Indonesia 2011) to \$.345. (Cape Verde 2005). Such variation remains unexplained. The MCC does not really clarify how it defines the final size of funding. For this reason, I focus on a decision to fund a country rather than a decision on how much this country will receive.

Table 10
Variation of the MCC Country Compact Funding
(2005-2012) in current US dollar

Country	Year	Compact
Vanuatu	2006	\$65,690
Madagascar	2005	\$109,773
Nicaragua	2005	\$113,500
Cape Verde	2005	\$176,278
Honduras	2005	\$205,000
Armenia	2006	\$235,650
Moldova	2010	\$262,000
Jordan	2010	\$275,100
Mongolia	2007	\$284,911
Namibia	2008	\$304,478
Benin	2006	\$307,298
Zambia	2012	\$354,758
Lesotho	2007	\$362,551
Georgia	2006	\$395,300
Philippines	2010	\$434,000
Mali	2006	\$460,811
El Salvador	2006	\$460,940
Burkina Faso	2008	\$480,945
Mozambique	2007	\$506,924
Senegal	2009	\$540,000
Ghana	2007	\$547,009
Indonesia	2011	\$600,000
Morocco	2007	\$697,500
Tanzania	2008	\$698,136

Source: MCC Countries and Country Tools
Available at: <https://www.mcc.gov/pages/countries>

Table 11
Variation of the MCC Country Compact Funding per
Capita (2005-2012) in current US dollar

Country	Year	Compact
Indonesia	2011	\$0.002
Philippines	2010	\$0.005
Madagascar	2005	\$0.006
Tanzania	2008	\$0.016
Nicaragua	2005	\$0.021
Morocco	2007	\$0.023
Mozambique	2007	\$0.023
Ghana	2007	\$0.024
Zambia	2012	\$0.025
Honduras	2005	\$0.030
Burkina Faso	2008	\$0.033
Benin	2006	\$0.036
Mali	2006	\$0.037
Senegal	2009	\$0.043
Jordan	2010	\$0.045
Moldova	2010	\$0.074
El Salvador	2006	\$0.075
Armenia	2006	\$0.078
Georgia	2006	\$0.090
Mongolia	2007	\$0.110
Namibia	2008	\$0.144
Lesotho	2007	\$0.185
Vanuatu	2006	\$0.306
Cape Verde	2005	\$0.366

Source: MCC Countries and Country Tools
Available at: <https://www.mcc.gov/pages/countries>

Independent variables

Explanatory variables for Models A and B are selected to be as close as possible to the variables of the USAID model. There are four groups of independent variables – Democracy, U.S. Strategic Interests, Socioeconomic Factors, and Other Control Variables. Model A uses democracy variables, which are lagged by two years to reflect the timing of the MCC score card process. Model B uses unlagged democracy variables, as the Board is likely to make decisions based on countries' current democratic performance rather than historical retrospect.

Democracy

Following the USAID model, I broke down democratic policies into four indicators – Quality of Elections, Human Rights, Governance, and Civil Society. All four variables are composite indices created through factor analysis. The Elections index uses such measures as Vanhanen's Political Competition (Vanhanen 2003), Participation of Competition (Marshall et al. 2005), Electoral Competitiveness (Beck et al. 2005), and Women's Political Rights (Cingranelli and Richards 2006). The Human Rights index includes Political Terror Scale (Gibney et al. 2015) and Physical Integrity Index (Cingranelli and Richards 2006). The Governance index is based on three measures: Rule of Law, Government Effectiveness, and Control of Corruption (WDI 2015). The Civil Society index has six elements: Freedom of Domestic Movement, Freedom of Foreign Movement, Freedom of Association, Religious Freedom, Workers' Rights, and Women's Economic Rights (Cingranelli and Richards 2006).

U.S. Interests

I chose U.S. Military Assistance Priority to assess U.S. strategic interests as the data are available through 2015. It is measured as percentage of U.S. global military assistance given to a country.³⁶

Socioeconomic variables.

There are two variables, which measure the basic socioeconomic conditions of recipient countries – GDP per Capita and State Failure. Both variables replicate the ones from the USAID model but cover 2005-2015.

Other control variables.

To check for autocorrelation I created 1-year lags of dependent variables and included them as independent variables in both Models. I also include a dummy variable, which shows if a country has ever signed a Compact agreement before. The inclusion of this variable is useful to test a proposition that countries, which have been awarded in the past are less likely to receive new funding. Finally, I include the MCC annual budget (measured in USD) as an independent variable to check if the MCC financial constraints may have a negative effect on the probability of countries to be selected for assistance programs.

Results

³⁶ U.S. Foreign Policy Priority, which I use in the USAID model is not available due to lack of data beyond 2004.

Model A

The results for Model A are quite different from the USAID model. The first finding is that U.S. Interests do not seem to affect the MCC decisions. U.S. Military Priority is insignificant. This means that U.S. allies do not have any advantage over non-allies when the MCC passes them for the Compact agreement. It should be mentioned that countries, which have been dropped from the eligibility list by Congress were excluded from the model as they were not even considered for the score card process.

Unlike the USAID model, State Failure is negative and significant at a .01 level. This finding is not surprising. The MCC does not want to pour money into regimes, which are too weak and dysfunctional to be able to fulfil a Compact agreement. The MCC, however, does not make subjective decisions on which state is failed or failing. Such states just drop out at the score card stage as they lack government efficiency and cannot meet the indicator requirements. This finding is also sending a signal to failing regimes that they probably would be better off seeking aid from USAID.

GDP per Capita is not a significant predictor of a country's probability of passing. It means that the MCC does not treat countries differently by their income level once they have been selected into LIC and LMIC groups. Any variation in income within these groups does not seem to matter to MCC decisions.

It is also not surprising that the fact that a country passed in the previous year increases its chances to pass in the current year (significant at .001 level). Some countries make rapid progress and pass, while some former passing countries unexpectedly fail, but overall the movement in and out of the group of eligible countries has been quite limited.

Out of the Democracy measures, only Governance is moderately significant (at .05 level). The MCC pays most attention to good governance and rule of law. Three indicators assess governance directly and about ten others do it indirectly. The heavy emphasis on the quality of governance resonates with MCC's philosophy that effective government is critical to being able to successfully accommodate assistance programs.

Table 12

Model A: Predicting MCC Aid (2005-2015). N=650
(dependent variable – a dummy if country passed the MCC
indicators (no=0, yes=1))

<i>Variables</i>	<i>Coefficient</i>	<i>Std. Error</i>
Democracy		
Elections, 2-year lag	.097	.192
Human Rights, 2-year lag	.007	.205
Civil Society, 2-year lag	.148	.231
Governance, 2-year lag	.610*	.253
U.S. Interests		
U.S. Military Assistance Priority	.018	.044
Socio-Economic Factors		
GDP per Capita (logged)	.308	.224
State Failure	-1.191*	.467
Other		
Passed in the Previous Year	1.927***	.258

* significant at p<.05, ** significant at p<.01, *** significant at p<.001 (two-tailed).

Model B

The goal of Model B is to elucidate motives behind the MCC Board decisions to select a country for a Compact. Interestingly, U.S. Interests, similar to Model A, do not have any impact on Board's decisions. While the Board faces a difficult task to reward only a few out of many eligible countries, strategic considerations do not seem to play any role in this selection. This is certainly different from USAID, which seems to be strongly driven by U.S. Military and Foreign Policy priorities.

State Failure stays negative and significant indicating that the Board shares the concern that the MCC funds would be wasted without a capable government in place on the recipient side.

Country income level does not matter meaning that the Board members do not have any bias towards poorer states, which may be in greater need of foreign aid. At the same time, a county that has been selected and completed a Compact in the past, is not treated any differently than countries with no history of receiving assistance from the MCC. It could be expected that the MCC would strive to distribute funds evenly and disqualify former recipients. However, quite a few countries – four out of 22 have been selected for a second new Compact after they completed the first one, including Cape Verde, Ghana, Georgia, and El Salvador.

Previous selection for Compact agreement strongly predicts that the country will be reselected. If a country passes the score card test and the Board reviews, it will likely maintain its eligibility status until it actually receives funding.

The MCC budget is significant at a 0.001 level. Under all other conditions the same, countries are more likely to be selected for a Compact if the MCC has a larger budget. Budget constraints do play a restrictive role in the Board decisions.

The democracy variables show an interesting dynamic in comparison to Model A. Human Rights and Civil Society stay insignificant. Governance loses significance, but Elections turns out to be positive and significant in predicting Board decisions. The Board review involves an assessment of supplemental information. It would be fair to suggest that successful elections stand out among other policies and contribute to the positive image of a candidate country. The fact that a country has recently had “free and fair” elections may be a decisive factor in choosing this country for the Compact agreement. Successful elections can be seen as a stronger guarantee that the country will be capable to re-qualify for the compact for two years before the actual agreement comes into effect. The importance of elections resonates with the results of the USAID model but in a special way. In the USAID model, elections are negative, meaning that U.S. allies can afford manipulating election without jeopardizing U.S. aid. In the MCC model, the picture is different. Elections are positive, which means that the MCC does not close eyes to fraudulent and rigged elections as an excuse to reward aid to strategically important regimes. The quality of elections is an important factor that makes a country a more likely candidate for MCC assistance.

Table 13
 Model B: Predicting MCC Aid (2005-2015). N=182
 (dependent variable – a dummy if the MCC board selected or
 reselected country for compact agreement (no=0, yes=1))

<i>Variables</i>	<i>Coefficient</i>	<i>Std. Error</i>
Democracy		
Elections	2.313**	.788
Human Rights	-.690	.446
Civil Society	-.026	.454
Governance	-.116	.914
U.S. Interests		
U.S. Military Assistance Priority	-.307	.380
Socio-Economic Factors		
GDP per Capita (logged)	-.405	.428
State Failure	-5.755**	1.722
Other		
Selected in the Previous Year	2.332***	.512
Signed Compact Before	.389	.653
MCC Annual Budget	4.280***	1.003

* significant at p<.05, ** significant at p<.01, *** significant at p<.001 (two-tailed).

Heckman two-stage probit model

Controlling for possible selection bias, the Heckman probit model produces results similar to Models A and B. The most notable difference at stage 1 (Score Cards Selection) is that Governance shows a stronger correlation – at a .001 level. At stage 2, Quality of Elections is significant at a .001 level compared to .01 in Model B.

Table 14
Heckman Selection Model Predicting MCC Aid (2005-2015)

<i>Variables</i>	<i>Coefficient</i>	<i>Std. Error</i>
Stage 2: MCC Board Selections N=180		
Democracy		
Elections	1.155***	.318
Human Rights	-.347	.240
Civil Society	.007	.242
Governance	.009	.440
U.S. Interests		
U.S. Military Assistance Priority	-.172	.187
Socio-Economic Factors		
State Failure	-3.326***	.921
Other		
Selected in the Previous Year	1.376***	.280
Signed Compact Before	.177	.304
MCC Annual Budget	2.234***	.445
Stage 1: Score Cards Selection N=650		
Democracy		
Elections, 2-year lag	.051	.092
Human Rights, 2-year lag	-.044	.100
Civil Society, 2-year lag	.089	.113
Governance, 2-year lag	.462***	.119
U.S. Interests		
U.S. Military Assistance Priority	.010	.020
Socio-Economic Factors		
GDP per Capita (logged)	.081	.087
State Failure	-.567**	.213
Other		
Passed in the Previous Year	1.303***	.126

* significant at $p < .05$, ** significant at $p < .01$, *** significant at $p < .001$ (two-tailed).

Chapter 6 | U.S. Aid to Afghanistan: A Case Study

Afghanistan represents an interesting case to illustrate the link between regime behavior and U.S. aid decisions. The case of Afghanistan confirms the theoretical arguments of this study. Not only did the 2009 Afghan presidential elections demonstrate how donors can be sensitive to a regime's democratic policies but also how regimes can adjust (or manipulate) these policies in order to answer donor's concerns. The case study format is particularly instrumental, as quantitative data would not reflect any decline in U.S. aid to Afghanistan during and in the aftermath of the 2009 elections. The U.S. did not have to fulfill its threat to cut aid, as Hamid Karzai finally agreed to the demands of the donors after heated negotiations.

The case study shows the superior and symbolic role of elections as an indicator of democracy. While Karzai had been widely criticized for poor human rights policy, corruption and dysfunctional governance, it was the fraudulent elections, which transformed this critique into a real threat of action. Donors' worries over Karzai's deficient democratic policies did not become an issue until he crossed the line by rigging elections to the point that they were perceived to be illegitimate.

Another important aspect of this case was the interplay of U.S. interests in Afghanistan. While strategic motives have been a primary driver of U.S. aid to this country since 2000, democracy promotion has also remained an important goal. This situation is quite different from the one during the Cold War period, when security considerations clearly prevailed over democratization, giving authoritarian leaders more freedom to get away with poor democratic practices.

A Brief History of Foreign Assistance to Afghanistan

Afghanistan with its long history of international assistance is a convenient case to study as it allows tracing the evolution of the motives of the donors over a period of more than 150 years. Foreign assistance to Afghanistan dates back to the mid-19th Century when Great Britain agreed to pay cash as well to provide military supplies to the Afghan emirs in exchange for their loyalty and cooperation in containing Russian advances in the region. Prior to the 1910s, Afghanistan received an equivalent of an estimated 8-10 million British pounds. However, this aid had a minimal effect on the Afghan economy and society. British subsidies were never intended to pursue developmental or humanitarian goals, but still had something in common with foreign assistance of modern times – using it as a tool to achieve a desirable political outcome.

The Cold War and the rivalry between the U.S. and USSR opened a new era in foreign assistance to Afghanistan. Both superpowers considered Afghanistan to be an important geopolitical partner and started ambitious assistance programs in the country, each trying to deflect the influence of the other. Afghanistan benefited tremendously from this Cold War dynamic. During the ten years between 1956 and 1966, Afghanistan received approximately \$1 billion in foreign aid. Its economy grew by 3-4 percent per year. Production in the state sector increased by 440% (Bosin 80). Highways, airports, power stations, educational facilities and over 300 new industries were created with the help of international donors, mostly the U.S. and the Soviet Union.

While foreign aid boosted Afghanistan's development, it was only partially successful in promoting U.S. and Soviet political interests. Neither of them was able to build an exclusive security arrangement with Afghanistan, which remained a non-aligned state. It was even less successful in fostering democratic change in Afghan society. For the Soviet Union,

democratization was never among the objectives of foreign aid. The Soviets preferred to deal with strong controlling leaders. On the other hand, Americans supported democratization but only to the point where it did not contradict the anti-communist agenda.

King Zahir Shah's attempts to introduce parliamentary rule in Afghanistan in 1964 failed to create a positive democratic momentum. To the contrary, even modest steps towards political pluralism led to radicalization and polarization of the Afghan political arena, decreasing the chances of any constructive coalition. When Muhammad Daud toppled the king in 1973 and announced a republic, in reality he embarked on building his personalized regime, which increasingly started to look like a dictatorship. The autocratic tilt of Afghanistan in the second half of the 1970s did not seem to worry either the Soviet Union or the U.S. The Soviets welcomed Daud, who supposedly had long sympathies towards the Soviets, and were ready to continue funding the Afghan development. However, the Americans were rather unhappy with Daud's overtures with the Soviets and his hard line policy towards Pakistan, which was becoming a U.S. key ally in the region. This policy finally cost Daud American support and assistance. This end had little to do with Daud's authoritarian trend but rather because he ceased to satisfy the Americans as a reliable strategic partner, and in 1974 the U.S. cut all assistance programs to Afghanistan.

The outbreak of civil war soon after the Marxist coup in 1978 and the Soviet intervention thwarted development efforts and virtually disrupted international aid flows to Afghanistan. The Soviet Union spent close to \$400 million annually to maintain 120,000 troops in Afghanistan and a similar amount to sustain the country economically. The only notable development projects in the 1980s were the construction of the Khairaton Bridge over the Amudarya River and the electrical power line from Tajikistan to Northern Afghanistan. Almost immediately following

the Soviet invasion, the United States started supporting the Mujahedin insurgency and supplied approximately \$100 million worth of arms annually to various Mujahedin factions. In 1985, U.S. military aid grew to \$250 million and by 1988 to a record \$1.2 billion. U.S. humanitarian assistance at this time was limited to a few grants to U.N. agencies and NGOs.

After the withdrawal of the Soviet Union in 1989 and the fall of the Najibulla regime in 1992, the Afghan economy went into a further decline. Out of approximately 400 industries (150 of which were created with foreign assistance) only about a dozen remained functioning by the mid-1990s. With the establishment of the Taliban rule in Afghanistan in 1996, foreign aid virtually stopped and development stagnated. The plans to run oil and gas pipelines from Turkmenistan to Pakistan through the Afghan territory were never realized. Because of the increasingly radical policy of the Taliban and especially mistreatment of women, the U.S. decided to pull out its support from this project, and therefore, it never progressed beyond a negotiation stage.

The end of the Cold War brought change in the U.S. motives for providing foreign aid. The Soviet Union was out of the picture as a rival in the Middle East and Afghanistan as a strategic ally lost its attractiveness. The U.S. enthusiasm of the 1990s about democratization in Eastern Europe and the former Soviet Union did not spread out to Afghanistan. The Taliban wanted neither democratization nor modernization and created a difficult, if not impossible, environment for international donors. However, the U.S. did have some hopes for the Taliban (in, for example, curbing the opium production in Afghanistan) but it did not recognize the regime and all bilateral assistance programs to this country were frozen indefinitely. As George W. Bush put it 15 years later, “Free of the communist occupiers, the Afghan people had a chance

to rebuild their country. But the U.S. government no longer saw a national interest in Afghanistan, so it cut off support” (Bush 2010:186).

The U.S. Aid to Afghanistan after the Invasion: in Search for a New Agenda

The 9/11 terrorist attacks on the U.S. pushed Afghanistan back into the limelight of international politics. The U.S. invaded Afghanistan in October 2001 to eradicate the Al Qaeda network and bring Osama bin Laden to justice. Removing the non-cooperative Taliban regime from power took only a little over two months but capturing bin Laden and destroying al Qaeda appeared much harder to achieve. While these objectives were becoming more elusive, the U.S. policy in Afghanistan started shifting towards state building, development assistance and democratization. The motives behind this shift are still not entirely clear.

Initially, the U.S. did not seem to have planned any involvement in Afghanistan other than military. Defense Secretary Donald Rumsfeld wanted the U.S. troops to leave Afghanistan as soon as possible after the mission was accomplished (Auerswald and Saideman 2014:88). President Bush was openly skeptical about any nation building efforts, especially involving the military up until 2001 (Bush 2001).

Later, the 2002 U.S. National Security Strategy decisively endorsed state-building as one of the U.S. interests: “We will actively work to bring the hope of democracy, development, free markets, and free trade to every corner of the world” (NSS 2002:2).

Afghanistan was chosen as an object of this strategy for a few reasons. First, the Taliban were not only pictured as supporting international terrorists but being terrorists themselves. Afghanistan, as a weak, failing state, provided a fertile ground for terrorists. Therefore, converting Afghanistan into a modern and democratic state appeared to be a means to guarantee

that no radical regime would come to power in this country and threaten the U.S. in the future. As George Bush explained it: “Afghanistan was the ultimate nation building mission. We had liberated the country from a primitive dictatorship, and we had a moral obligation to leave behind something better. We also had a strategic interest in helping the Afghan people build a free society,” because “a democratic Afghanistan would be a hopeful alternative to the vision of the extremists” (Bush 2010: 205).

The second reason was to make Afghanistan a part of the “Global Freedom” agenda, which was actively promoted by the Bush administration. “In some places, such as Afghanistan and Iraq, we had a unique responsibility to give the people we liberated a chance to build free societies” (Bush 2010:397). Besides an “idealistic” belief in the universal benefit of freedom, a “realistic” goal was to provide an alternative to repressive regimes hostile to the United States.

The third reason, some analysts argue, was to demonstrate American power as a benevolent hegemon willing to get things done in world politics. Afghanistan was a convenient starting point for this strategy, as after the removal of the Taliban the U.S. could start from a blank page, and be in the driver’s seat of this paramount process. In a sense, Afghanistan was a pilot project. Had Afghanistan proved to be a success, regime change and subsequent nation building would most likely have become the adopted recipe of U.S. foreign policy in the unipolar world.

With the widely announced U.S. commitment to Afghanistan, it was clear that the U.S. would have to bear the main financial burden among international donors. USAID was assigned to fulfill a major mission in this process. The envisioned role of U.S. assistance in rebuilding post-Taliban Afghanistan was certainly unprecedented. While in other countries USAID programs would normally target specific areas and issues, in Afghanistan U.S. assistance had to

take on the modernization of an entire country of 30-million inhabitants, which included promoting liberal democracy and economic development, creating strong centralized state institutions, and fostering education and social reform.

By scale and scope, this effort was comparable to the Marshall Plan. Since 2001, the U.S. spent over \$75 billion in military and economic assistance to Afghanistan, about half of what was allocated for 16 European nations after World War II (in today's dollars). However, the environments in which U.S. assistance operated in Europe at the end of the 1940s and in Afghanistan in the 2000s were essentially different. Afghanistan lacked any previous democratic tradition and political culture, was a fragmented, largely xenophobic country ravaged by a 20-year long internal warfare. U.S. aid strategists definitely saw these challenges in Afghanistan, but optimism created by the easy victory over the Taliban prevailed. With sufficient funding and careful planning, capable and efficient Afghan government modernization seemed an attainable objective.

Choosing Between Modernization and Warlords

From the very beginning, the U.S. plan to re-build Afghanistan suffered from a fundamental contradiction. On the one hand, U.S. policymakers viewed rule of law, vertical accountability, a fair judicial system, and government effectiveness as essential preconditions for Afghanistan's modernization. On the other hand, the U.S. cooperated closely with local warlords to win the campaign against the Taliban from the first days of invasion. As a payoff, warlords were to receive their share of power in the new Afghan government. At the 2001 conference in Bonn, the U.S. and other international sponsors faced a painful task to work out a deal among various Afghan groups taking into account their contribution to the defeat of the Taliban. As a result, the Afghan Interim Administration included a large number of warlords and their

appointees, including such figures as Mohammad Fahim, Andurrashid Dostom, and Mohammad Mohaqqueq.

At first glance, the diverse composition of the interim administration may have appeared to be a step towards a wider inclusion of minorities, which have been historically underrepresented in Afghanistan's politics. Since the 1960s, no Afghan government had more than two non-Pushtuns ministers out of 15-20 members. Mohammad Yusouf's cabinet in 1963, for example, had none. During the PDPA Marxist regime in the 1980s, the situation slightly improved with seven non-Pushtuns serving on the 19-member Cabinet of Ministers but the dominating role of Pushtuns still remained unquestioned. With only nine Pushtuns out of 29 members, the interim administration was certainly unprecedented. However, in reality the inclusion of ethnic leaders and local strongmen did not bolster the unity of the coalition, but rather created an atmosphere of shaky and vulnerable compromise, damaging the capacity of the government. Essentially, Afghanistan became more fragmented than under the Taliban, who had fought non-stop against the warlords as an obstacle to consolidation of their power.

Modernization in this fragmented country was a doomed effort. Building a modern democratic centralized state, on the one hand, and tolerating warlords controlling most of the provinces, on the other, were mutually exclusive conditions impossible to reconcile even with massive U.S. assistance. To achieve long-term success required the elimination of one of these conditions.

However, until mid-2000s the U.S. seemed to be able to ensure the basic liberal norms of the Afghan political process while maintaining the desired outcome. In July of 2002, six months after the Bonn conference, the Loya Jirga, the grand assembly of almost 1300 tribal leaders gathered in Kabul to elect the transitional Afghan administration to replace the interim one. The

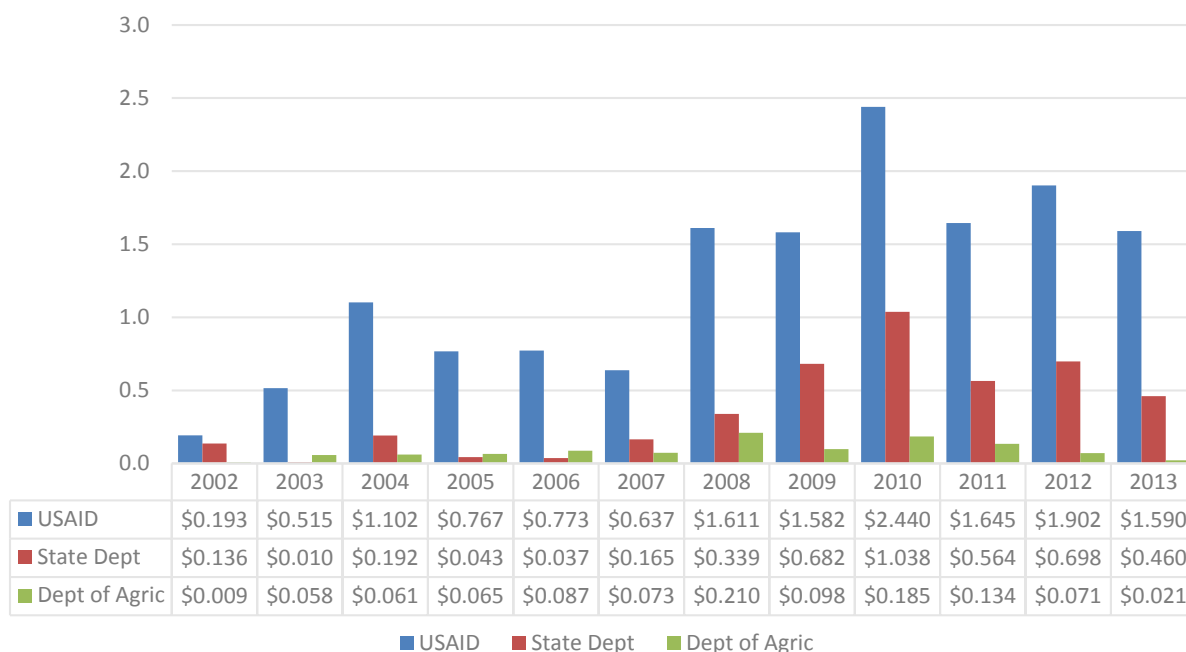
new administration, to a great degree, replicated the interim authority but included a few more Pushtuns – 13 out of 30. The central issue at the Jirga was the election of the head of the state. While the former king of Afghanistan, Zahir Shah, was clearly the strongest candidate, at the end, under U.S. pressure, he chose not to run, and Hamid Karzai was selected with 83% of the vote. To avoid uncontested elections two other candidates were nominated – a woman and an ethnic Uzbek, but the result of the voting could be easily predicted.

The first national elections were conducted in October 2004. Karzai was officially elected the president of Afghanistan by popular vote. The next year, a new parliament was selected. The seemingly rapid establishment of democratic institutions in Afghanistan raised hopes that the modernization plan was gaining positive momentum. However, economic development and social reforms dramatically lagged behind. Looking at the official figures of U.S. assistance in the first few years after the invasion creates an impression that development was not adequately prioritized at the donors' agenda.

Size, Structure, and Organization of U.S. Aid to Afghanistan in 2002-2015

Three agencies were designated to deliver most of U.S. non-military assistance to Afghanistan, including the United States Agency for International Development, U.S. State Department, and U.S. Department of Agriculture (Figure 15).

Figure 15
U.S. Economic Assistance to Afghanistan, 2002-2013, Billions US\$

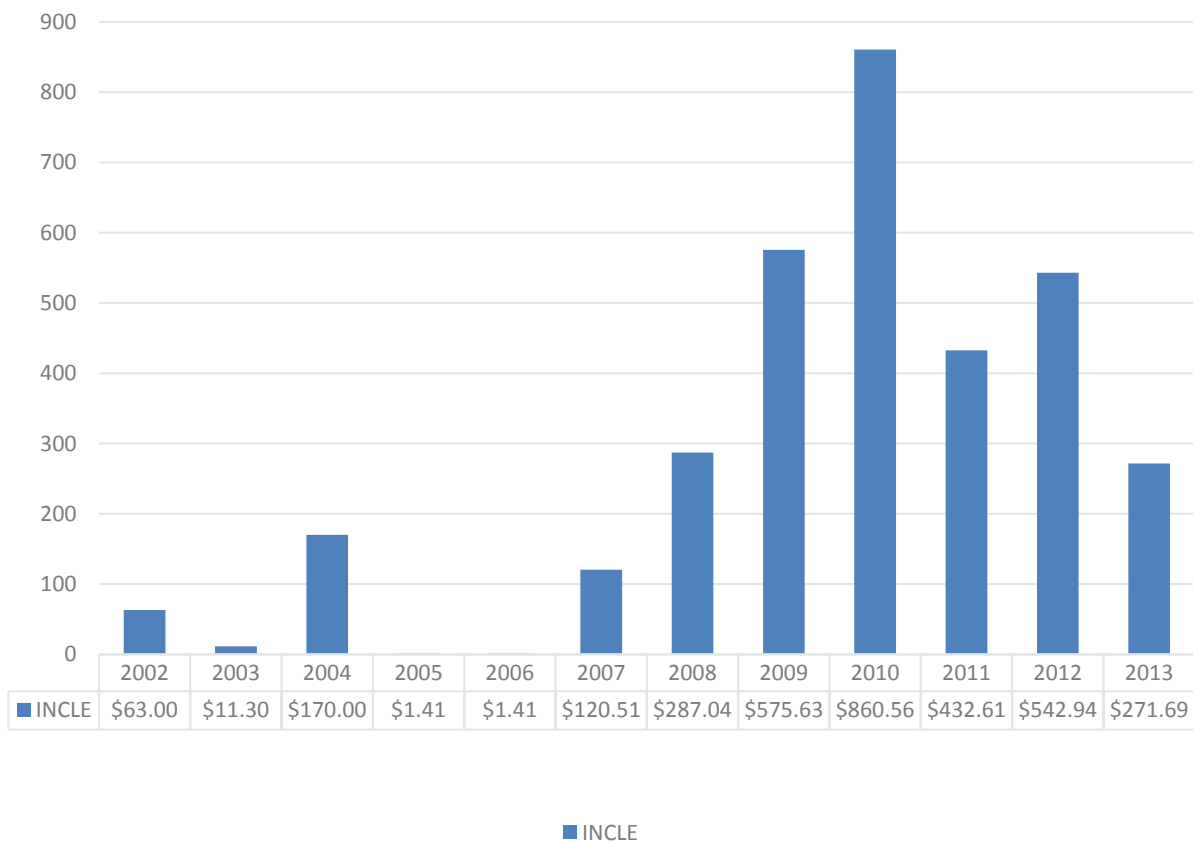


The U.S. Department of Agriculture supplied food assistance to Afghanistan under the Public Law 480, Title II of 1954. According to this law, also known as the “Food for Peace Program,” the U.S. has provided food grants in response to emergencies and disasters around the world, as well as development-oriented resources to help improve long-term food security. With a declining agricultural sector, Afghanistan was critically dependent on U.S. food assistance. Over the years, the size of food grants to Afghanistan has fluctuated from nine to over \$200 million a year, which made up about 20% of all U.S. Food for Peace Program allocations worldwide.

The State Department has managed the second largest channel of U.S. assistance to Afghanistan. This included a variety of programs and focus areas such as Migration and Refugee Assistance, Nonproliferation, Anti-Terrorism, Demining and Related Programs, Educational and Cultural Exchange Programs, and National Endowment for Democracy. The most significant

portion of the State Department funding has been directed to the International Narcotics Control and Law Enforcement Program (Figure 16).

Figure 16
U.S. State Department International Narcotics Control and Law Enforcement
Program Allocations to Afghanistan, 2002-2013, Millions US\$

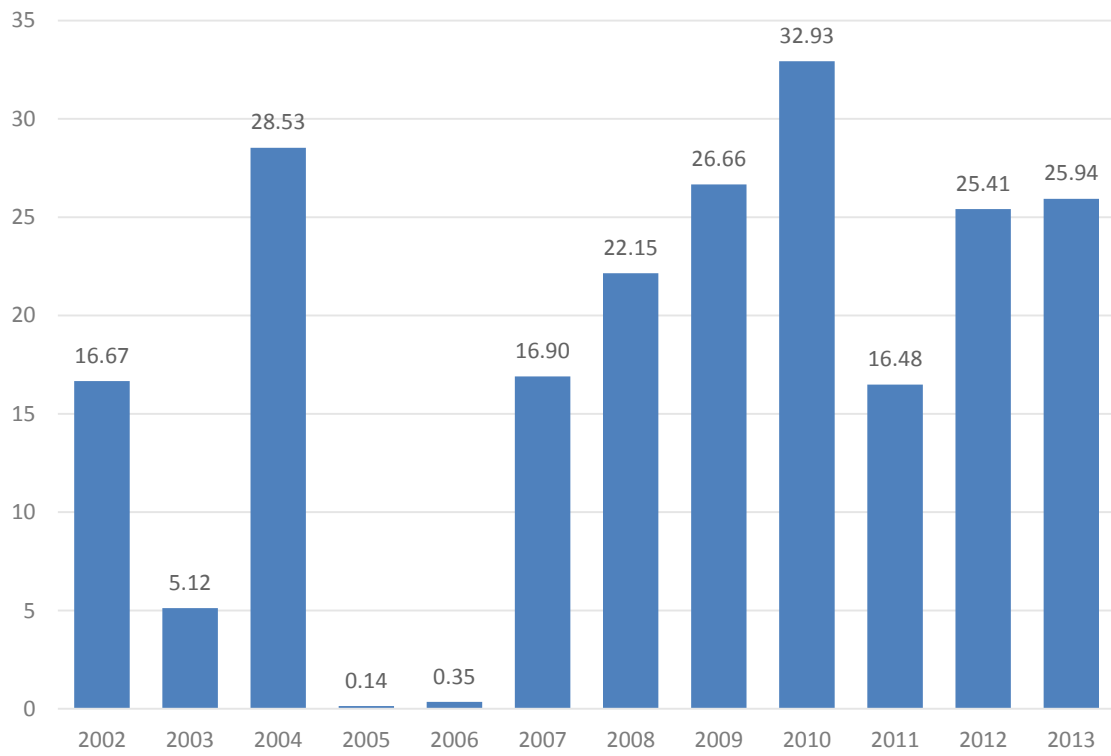


It was not until 2007 that this program started developing into one of the major priorities of U.S. assistance in Afghanistan. There were several reasons that explain this dynamic: At the beginning of 2001, the Taliban declared and enforced a ban on opium-poppy cultivation, which almost entirely wiped out world's largest crop in a matter of a few months. As Afghanistan at

that time was responsible for about three-quarters of the global supply, the U.S. government hailed the Taliban for this policy and even announced a new \$43 million grant to help the Afghans cope with the aftermath of drought (Crossette 2001). Apparently, in the first years after the U.S. invasion in Afghanistan, the ban continued having some lasting effect even though the Taliban had been removed from power. In 2005 and 2006, U.S. spending for INCLE program in Afghanistan dropped to negligible amounts. However, the following years witnessed an unprecedented surge in opium production, especially in the eastern and southern provinces of the country. Lack of economic opportunities, poor government control and corruption, as well as growing worldwide demand made opium cultivation a lucrative industry. Another factor boosting opium production was that the Taliban started increasingly using the profits from the illicit opium trade as a source of insurgency financing, thus virtually reversing their own ban of 2001. As the result, in 2007 Afghanistan produced an estimated 8,000 metric tons of raw opium, or over 90% of world's supply. It was enough to manufacture approximately 800 metric tons of refined heroin that would eventually reach European and U.S. markets. According to modest estimates, from 10 to 15 percent of the Afghan population were involved in opium farming, processing and trade. Profits from narcotics trafficking reached \$3.5 billion, accounting for one-third of country's GDP.

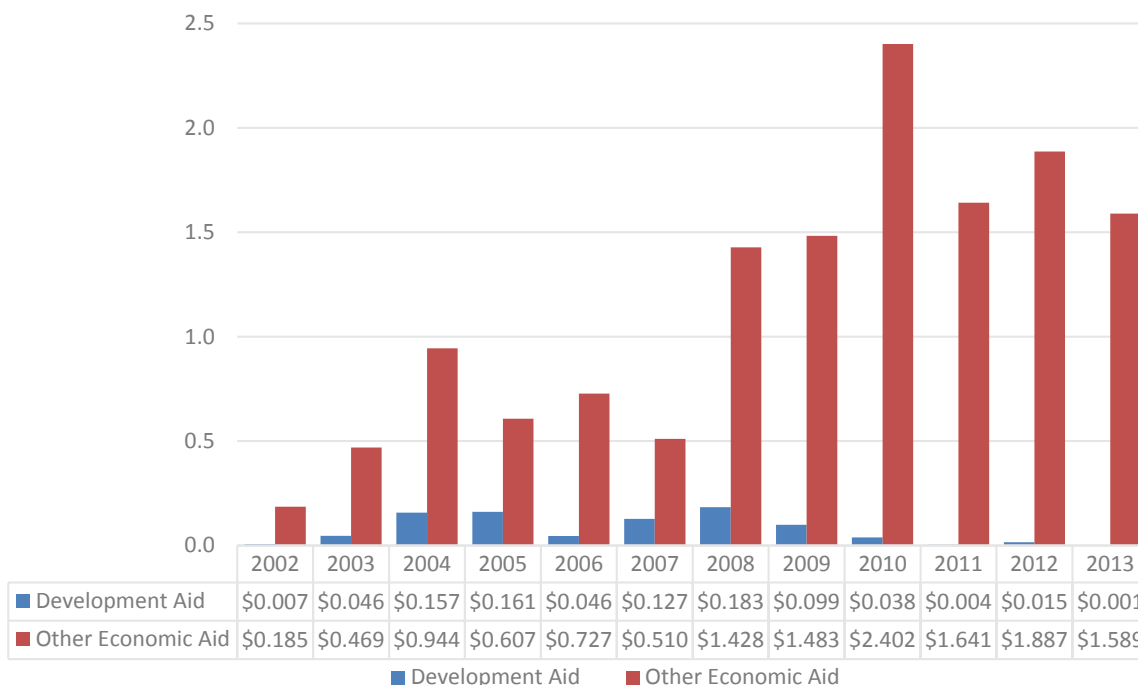
The State Department increased INCLE funding almost exponentially, which by 2010 reached staggering \$860 million and over one-third of what the U.S. spent worldwide to fight illicit drug trade (Figure 17).

Figure 17
Percentage of U.S. State Department INCLE Spending in Afghanistan vs.
Worldwide, 2002-2013



The USAID has been the largest source of economic aid to Afghanistan, which was provided in two major categories: economic aid and development assistance (Figure 18).

Figure 18
USAID Assistance to Afghanistan, 2002-2013, Billions US\$



The largest part of the economic aid was channeled through the Economic Support Fund – ESF³⁷ (Graph 5). Officially, the Economic Support Fund has been designed for a variety of programs, ranging from supporting the private sector and market economy to strengthening democratic institutions and rule of law. In fact, many of the ESF goals sound like and overlap with those of the development assistance. In reality, however, the biggest chunk of the ESF spending in Afghanistan went to support country's balance of payments and finance commodity imports. In other words, USAID has used ESF to provide cash transfer assistance to help keep the Afghan budget from defaulting. Since 2007, the ESF spending started to increase

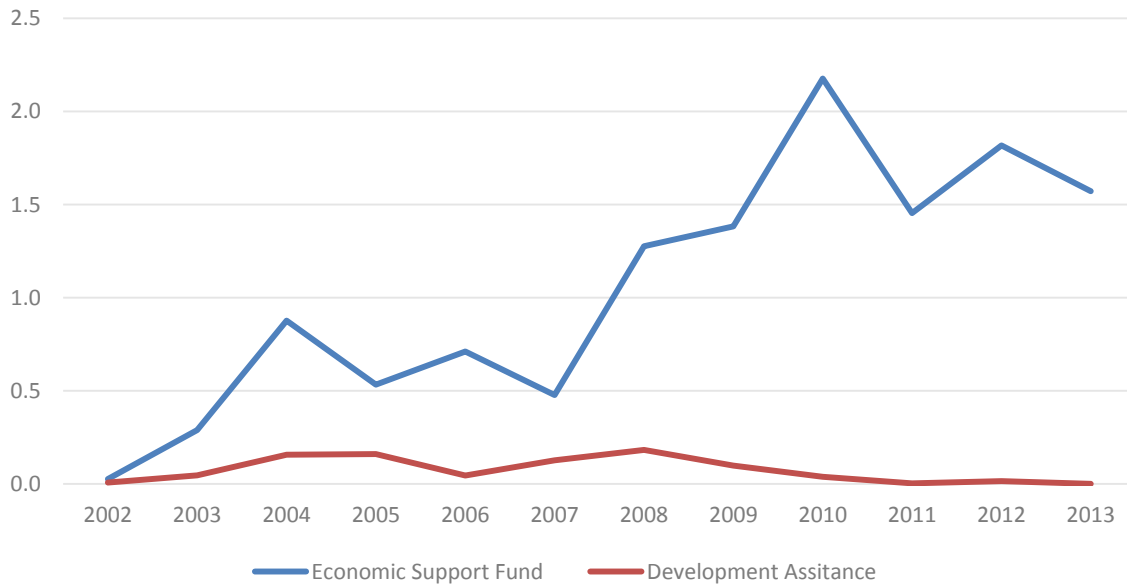
³⁷ Originally, ESF was established under the name of Security Supporting Assistance. It was renamed into Economic Support Fund in 1971 to emphasize its economic focus.

dramatically reflecting the worsening economic situation and growing budget deficit.

Afghanistan has had a chronic budget deficit of about 20%, which reached 37% in 2014 (Afghanistan Government Budget 2015). Although the liquidation term for ESF projects is five years (the same as for development projects), it would be fair to assume that ESF has been mostly focused on short-term objectives of ensuring economic and political stability of the Afghan government. In a sense, the ESF initiatives should go hand in hand with the development efforts as they support government capacity and credibility, which in turn is critical for development. In Afghanistan, however, many of the ESF programs seemed like ad-hoc, reactionary efforts to keep the Afghan economy afloat, rather than promoting long-term development.

Quite disappointingly, Development Assistance from USAID has been unable to fulfill this function either. Development programs have been underfunded, especially in comparison with other forms of U.S. aid. Since 2008, development aid has been drying up to almost nothing in 2015.

Figure 19
 USAID Development Assistance and Economic Support Fund Allocations to
 Afghanistan, 2002-2013, Billions of US\$



The USAID database provides information on approximately 114 development projects completed in Afghanistan over the past decade. These projects targeted various areas with a special focus on infrastructure, energy, and education. Strategically, USAID followed the steps of the development planners of 1950-60s, who considered building surface transportation routes and energy supplying facilities as pre-conditions for successful modernization (Bosin 90). This information shows that some of the development programs did demonstrate rapid growth. For example, USAID provided technical assistance for building a cell phone network in Afghanistan. As the result, the number of mobile phone users exploded from zero to 18 million within a short period of time. Another area of success has been primary education. USAID sponsored multiple programs including school construction, teacher training and textbook supply, which allowed increasing the enrollment from 500,000 to 8 million. This information also shows that it took USAID longer to launch projects aimed at rebuilding physical infrastructure. For example, The

Afghanistan Infrastructure and Rehabilitation Program was started only in 2006, with an objective to construct and repair some 200 kilometers of major inter-city highways and about 1500 km of provincial roads. This infrastructure program has also had a larger economic and social effect, creating thousands of jobs for the Afghans and building the capacity of local contractors. Overall, USAID describes its activities in Afghanistan in 2002-2012 in optimistic terms claiming, for example, the critical role of U.S. assistance in increasing the Afghan life expectancy by 22 years since the fall of the Taliban.³⁸

Despite many undeniable successes, U.S. foreign aid has been floundering to jump-start self-sustained development in Afghanistan. The initial gap between the goals of development and the warlord dominated government kept widening. Behind the façade of political stability and agreement, there were conflicting interests of various warlord groups undermining the integrity of the modernization project. Warlords who derived their support from their ethnic enclaves were never really interested in a strong central administration, which would potentially threaten their turf. This conflict was very typical of the Afghan political system, in which the government in Kabul always had a difficult time spreading its authority over the rest of the country. It was only by force and coercion that the Afghan leaders were able to consolidate their power. Considering the increased military capacity that the warlords had acquired since the fall of the Taliban, implementing such a policy even with American support would have likely jeopardized the fragile peace in the country.

³⁸ USAID does not specify where these figures came from. Statistical service in Afghanistan has been very weak with no census ever conducted in the country. The 1979 survey was partial and covered only major urban centers. The new project to count the Afghan population has started in 2013 with the support from the UN Population Fund and is expected to last at least six years or longer. Even basic vital Afghan statistics vary widely. For example, Afghanistan's population is estimated to be somewhere in between 26 and 32 million with no more precise data available. Many of USAID indicators differ from those from other sources. For example, USAID claims the maternity mortality rate in Afghanistan to have dropped to 327 deaths per 100,000 live births, while the World Bank estimates it at 396, and CIA World Factbook at 460. Similarly, USAID claims life expectancy in Afghanistan in 2012 to be 64 years, while World Bank gives it only 60.5 years. (USAID Afghanistan Country Strategy; World Bank Development Indicators, CIA World Factbook).

Corruption as a Key Obstacle to Modernization

Legitimizing warlords and including them into the government has had a controversial effect on Afghan state building. While it was instrumental in ensuring non-violent and democratic transition from Taliban rule, economically this policy was one of the factors that decreased the productivity of U.S. assistance efforts. A Warlord-based political order created fertile ground for corruption, which plagued Afghanistan at an unprecedented scale.

Over the last decade, bribes, nepotism, and embezzlement have become systemic elements of the Afghan state. For example, the survey conducted by the Asia Foundation in 2014 found that an overwhelming percentage of the Afghan population considered corruption as a major problem in daily life. In 30 out of Afghanistan's 34 provinces, this percentage was above 76% (Asia Foundation 92-93). In the same survey, more than half of the Afghans reported having had to pay a bribe to government officials (Ibid. 95-96). Transparency International has ranked Afghanistan 172nd out of 175 states indicating that it is one of the most corrupt countries in the world (Transparency International 2014).

While low-level corruption was eroding the credibility of the Karzai regime and its foreign supporters, high-level corruption posed a direct threat to U.S. assistance efforts. According to some observers, about a quarter of the Afghan GDP has been annually taken out of the country as cash transfers, largely unmonitored and unregistered. For example, in 2011, estimated \$4.5 billion dollars left Afghanistan (Katzman 42). While the source of this money are unknown, it is suspected that stolen and embezzled U.S. foreign aid funds (which make up to 95% of the Afghan GDP) was a major one.

Since the mid-2000s, the U.S. has increasingly recognized corruption as a key problem to the modernization of Afghanistan. As an illustration, the 2006 Congressional Report on Post-War Governance, Security, and U.S. Policy in Afghanistan (Katzman 2006) mentioned “corruption” three times. In comparison, a similar report in 2015 (Katzman 2015) mentioned “corruption” 93 times. In an attempt to curb corruption and strengthen fiscal accountability, Congress established the Office of Special Inspector General for Afghanistan Reconstruction (SIGAR), which was funded through the National Defense Authorization Act. SIGAR’s mission is defined as “to provide independent and objective oversight of Afghanistan reconstruction projects and activities..., promote efficiency and effectiveness of reconstruction programs and detect and prevent waste, fraud, and abuse” (SIGAR). With headquarters in Arlington, VA and multiple offices in Kabul and other locations in Afghanistan, SIGAR has conducted dozens of audits and investigations of various aspects of Afghanistan reconstruction. The results of SIGAR’s activity are summarized in quarterly reports to the U.S. Congress. Even a cursory look at the reports (about 250 pages each) reveals the magnitude of the corruption and graft in Afghanistan, particularly in relation to U.S. funded programs and projects. For example, the most recent SIGAR’s report (October 2015) mentions “corruption” 125 times, “fraud” -- 36, “abuse” - - 23, and “waste” -- 20 times (SIGAR). SIGAR claims to have saved over \$1 billion in fines, forfeitures, and restitution during the seven years of its operation (SIGAR 2015).

While corruption has affected all spheres of life, some government institutions have demonstrated the most troubling examples. One of them is the Afghan National Police and the Ministry of the Interior. According to some estimates, half of the policemen’s salary fund has been stolen and embezzled through corrupt practices in the ministry (Ibid). Massive corruption and embezzlement schemes have been revealed in the Ministry of Defense, Afghanistan’s

Customs Department, Ministry of Public Health, Kabul Bank, and National Procurement Committee.

PRTs: Winning Hearts and Minds

The high degree of concentration of U.S. aid flows going through the Afghan government created a fertile ground for large-scale corruption in Kabul while little funding would actually reach the provincial level. In a desperate push to spread the assistance effort into Afghan periphery and bypass Kabul bureaucracy, the U.S. initiated Provincial Reconstruction Teams (PRTs). PRTs were designed as relatively small joint civil-military operational units, which were deployed in the Afghan provinces with a mission to improve security, help local governance and promote economic reconstruction. In other words, RPTs were intended to implement and demonstrate the positive effect of foreign assistance on the grass-roots level and ultimately win hearts and minds of the Afghans.³⁹ As President George W. Bush put it, PRT were important “to ensure that our military progress is accompanied by the political and economic gains that are critical to the success of a free Afghanistan” (Fact Sheet 2008).

Overall, PRTs have had mixed results in fighting corruption and facilitating economic reconstruction in the regions. As some critics would argue, PRTs fell far below expectations and in many cases were even counter-productive. Although the very name of the program emphasizes the role of reconstruction, its main goal has clearly been political – to bolster the Afghan government by providing support to its local representatives, namely the governors. However, the scope of this support was limited. PRTs could not play any significant role in improving the security situation, as they were primarily concerned about their own protection.

³⁹ It should also be mentioned that another purpose of PRTs was to share the burden of reconstruction among the coalition partners, who led their PRTs in various Afghan provinces. Altogether 15 nations (besides the U.S.) have participated in the PRT program including Great Britain, New Zealand, Australia, Germany, Canada, Norway, Sweden, Lithuania, Estonia, Italy, Spain, Turkey, Hungary, Netherlands, and Iceland. There have been up to 28 PRTs functioning in Afghanistan at the same time, 12 of which were led by the U.S.

Most of PRTs' staff were military personnel. Out of about 90 staff members of a typical full-size American PRT⁴⁰ only four were civilians -- a representative from State Department, from USAID, from Department of Agriculture, and from the Afghan Ministry of the Interior. Essentially, PRTs have been military units with civilian objectives. Such an ambiguity complicated their mission as promoters of reconstruction and economic development. Often, ordinary Afghans found it difficult to differentiate between PRTs and regular U.S. troops engaged in combat operations. Moreover, development and humanitarian workers from other agencies and organizations complained that PRTs compromised their image as impartial and strictly civilian actors and attracted retaliation from insurgents.

The cost of deployment of one PRT approached \$20 million, which came from Department of Defense. USAID contributed a similar amount to provide air transportation to and from PRTs' locations (U.S. GAO 10). Department of Defense funded PRTs development projects through designated Commander's Emergency Response Program (CERP). CERP capped the cost of one project at \$25,000, while PRT commander had the final authority to decide on which projects were to be funded. In fiscal year 2007, for example, CERP channeled \$109 million to American PRTs for their developmental activities (U.S. GAO 12).

While only a fraction of U.S. assistance to Afghanistan has been allocated through PRTs, the total PRT contribution towards reconstruction in Afghanistan was quite sizable and was estimated at \$900 million⁴¹ (IRA Ministry of Finance). PRTs' assistance efforts focused on quick impact improvement projects at the district and village level. This included building basic physical infrastructure, irrigation systems, provincial roads, bridges, as well educational facilities, and small clinics. However, lack of expertise in foreign assistance, inadequate

⁴⁰ Other states developed different model of PRTs so that, for example, Germany-led PRT teams could include up to 300 staff members.

⁴¹ This amount includes non-U.S. PRTs as well.

knowledge of local conditions, somewhat poor coordination with other development agencies and the Afghan government led to confusing results. “Schools were built without teachers and clinics without doctors. Multiple wells dried up shallow aquifers. With few, if any, technical criteria, some of the construction was substandard” (Perito 9).

The hope that PRTs would be instrumental in defeating corruption was not realized either. In fact, PRTs mission to build the capacity of the local governance led to controversial results.⁴² In many provinces, PRTs supported warlords and local power brokers who officially and unofficially monopolized the local administration and whose “loyalties were questionable and whose interests were divergent from those of the central government. Support from PRTs actually enabled these leaders to further distance themselves from relying on the central government” (Perito 6).

In 2011, Hamid Karzai went as far as saying that PRTs were destructive as they created “competing parallel structures” posing the challenge to the Afghan government and that he would like to see them disbanded within a three-year transition period. By 2014, U.S. PRTs in Afghanistan were shut down following the withdrawal of U.S. troops from the country.

Connection Between Corruption and Warlords

While there are multiple and complex causes of corruption in Afghanistan, the inclusion of warlords into the political system has been one of its major catalysts (Goodman and Sutton 2015: 5). The warlords’ rule is deeply rooted in the ethnic, tribal, sectarian, regional and religious divisions of Afghan society in which patron-client networks and relationships have

⁴² It would be certainly a mistake to describe PRTs activity in Afghanistan as predominantly negative. PRTs did play an important role in spreading U.S. political message into the provinces, mediating among various leaders and groups, increasing popular participation, providing logistics and organization for USAID programs such as for example, Local Governance and Community Development Program and Alternative Development Program offering viable economic substitution to poppy cultivation.

been very strong for centuries. “Once ensconced within ministries and other government posts, the warlords-cum-ministers often used their positions to divert resources to their constituencies... This diversion of resources strengthened the reach and power of extant networks, sometimes transforming them into what came to be known as “criminal patronage networks” (CPNs)” (JCOA 9-10).

By the mid-2000s, it became clear that reconstruction was floundering and that success was impossible to achieve with the warlords remaining in key positions in the central and provincial governments.⁴³ However, the removal of the warlords has become an increasingly daunting task. Since the defeat of the Taliban, their influence and power has grown tremendously. With the Afghan army and police still in the stage of formation, the main military burden of fighting warlords would have been on the coalition forces and the U.S. in first place. Clearly, international donors could not afford a new civil war in Afghanistan thwarting reconstruction and the fragile peace.

As a compromise, in 2006, U.S. Japan, Canada and Great Britain initiated the DDR (Disarmament, Demobilization, and Reintegration) program run by the United Nations Assistance Mission for Afghanistan (UNAMA). This program was aimed at disbanding armed militia groups of about 100,000 fighters, therefore curbing regionalism. From the very beginning, the program faced resistance from within the Afghan Ministry of Defense, where the influence of the Northern Alliance warlords had been particularly strong. The program is reported to have disarmed about 60,000 fighters but had a minimal effect on undermining the power of warlords.

⁴³ Picturing warlords in Afghanistan as an entirely evil force would be a mistake. Warlords and local power brokers have reflected the social fabrics and long traditions of Afghanistan, which for the most part of its history was a fragmented, heterogeneous state with a weak central government. Strongmen, tribal and clan leaders were essential in organizing, mobilizing and representing communities, advocating their political and economic interests. Many warlords are highly revered figures and even heroes who derive broad support from their constituencies.

Significant numbers of demobilized fighters were later re-armed and re-recruited into local militias (Katzman 2015-2:12).⁴⁴

By that time, the on-going war against warlords had become even more problematic. A new security dilemma was facing the U.S. in Afghanistan – the mounting Taliban insurgency. The comeback of the Taliban was made possible in part by a growing dissatisfaction with the policies of the Karzai government and his foreign sponsors. Corruption, inability to provide basic public services, and lack of positive economic change all contributed to the rise of the Taliban. Again, as in 2001, the coalition forces had to ally with warlords to fight the Taliban, making them one of the pillars of the security arrangements. As Congressional investigation confirmed, “security for the U.S. supply chain was principally provided by warlords” (Tierney 2010: 17). In reality, it meant that “the U.S. military was funding a massive protection racket in Afghanistan, indirectly paying tens of millions of dollars to warlords, corrupt public officials and the Taliban to ensure safe passage of its supply convoys throughout the country” (DeYoung 2010). While recruiting warlords was probably, a sound policy for a counter-insurgency strategy, it was disastrous for the modernization project. It fueled corruption and destroyed the prospects for the rule of law, making Afghanistan an almost feudal state with an increasingly dysfunctional government. As a result, more and more Afghans were turning away from the Karzai government while the Taliban capitalized on these grievances to advance throughout the country.

The gap between the goals of modernization and the policy of reliance on warlords was becoming wider, while another vicious cycle was gaining momentum. A worsening security environment did not allow the realization of reconstruction programs, while lack of development

⁴⁴ Another similar program was DIAG (Disarmament of Illegal Armed Groups). It was administered directly by the Afghans through the Disarmament and Reintegration Commission, which operated on a relatively small budget, mostly relying on persuasion. In some provinces the DIAG program was more successful than in others but the overall effect was not strong enough to weaken the warlords to any significant degree.

and positive change further antagonized the population and pushed it towards the insurgents. Trapped in this cycle, the U.S. was losing the battle for hearts and minds.

The motive of U.S. policy in Afghanistan seemed to have been losing clarity. Initially, Afghanistan was seen as one of the key targets in the U.S. war on terror. However, targeting Afghanistan in isolation from Pakistan did not make any strategic sense, as Pakistan remained a safe haven and source of material support for the Taliban. At the same time, U.S. assistance to Afghanistan was infinitely larger than it would have normally been to a strategic ally. The U.S. stakes in Afghanistan extended far beyond strategic interests. Making Afghanistan a stable democratic and developed state was an overarching goal of the U.S. policy, which had never been done before on such a massive scale.

While military and economic dependence of Afghanistan on foreign donors, primarily the U.S., was almost absolute in the first year after the invasion, over time, the Karzai government developed its own increasingly independent political dynamic. The Afghans have been able to build up their bargaining power and become a more assertive side in the aid decision process. The U.S. could not ignore Kabul's policies any more, as some of them seemed problematic and even contradictory to U.S. interests. Steady deterioration of U.S. war and state building efforts in Afghanistan, declining support of the American public, as well as a certain lack of cooperation from the Afghan government finally pushed the newly elected president Obama to announce a months-long review of U.S. policy towards Afghanistan.

Hamid Karzai

The figure of Hamid Karzai is central to understanding the outcome of this review and the dynamic of U.S. aid policy to Afghan. It would be fair to say that U.S. attitude towards

Karzai went from admiration to a certain degree of disappointment. Initially, Karzai seems a convenient partner and representative leader of Afghanistan, expressing full and unconditional support for U.S. intervention and modernization plans. Elegant and charming, he was nominated for the Nobel Peace Prize (in 2002), dubbed as one of the best dressed men in the world and admired by President Bush as an “optimistic man” committed to bringing his country “from days of darkness to days of hope” (Bush 2007). However, starting from 2008-2009 U.S. relations with Karzai experienced growing tensions filled with mutual accusations and complaints. The Afghan leader became increasingly skeptical and even defiant about U.S. policy. The U.S. inability to crack down on the Taliban insurgency, as well as to promote economic development and reconstruction, caused Karzai to be openly critical.

In particular, Karzai criticized the U.S. counter-insurgency operation for excessive harshness and mistreatment of civilians. He demanded stopping night raids and drone strikes (which according to military experts are essential for achieving success against the terrorists) and even ordered U.S. special forces from some of the provinces, as for example Wardak. As Karzai noted, “the casualties from the night raids and the bombardments are the biggest impediments to smooth relations between us and the United States” (Gebauer 2011). At the same time, Karzai was losing confidence in the U.S. as an effective force to defeat the insurgents and was reportedly developing a softer attitude towards the Taliban. Starting from 2009, Karzai repeatedly emphasized the need to negotiate with the Taliban and to integrate them into the peace process through a power-sharing agreement (Boone 2010, Al Jazeera 2009). The U.S. and other international donors obviously had strong reservations against this policy, as the inclusion of the Taliban into the government would likely stall the democratic process and modernization (Wagner and Pasquazzi). When Karzai, after long insistence, finally took control over the

Bagram prison in March 2013, his first order was to free 88 detainees accused of attacks on American troops – a decision which angered the U.S. (USA Today, Al Jazeera 2014).

On a larger scale, however, Hamid Karzai, especially at the end of his term as president, expressed implicit concerns that U.S. military involvement and economic assistance were meant to establish its strategic foothold in Afghanistan and jeopardize the country's independence rather than to help the Afghan people. As he put it:

The American president has said they are not here for Afghanistan. So it's not the American blood shed for the Afghanistan or the American resources spent for Afghanistan. If you go to President Obama's speeches, he repeatedly says that he is here for the sake of American interests, for the safety of America, for the security of America — that they are here in Afghanistan helping Afghanistan in order to help America. Therefore, it is not for us — it is for a cause that America holds dear (The Washington Post 2014).

In some of his remarks, Karzai even went as far as accusing the U.S. of “colluding with the Taliban to keep Afghanistan unstable and, therefore, to prolong US presence” (Azami 2013). In another interview, Karzai said that “If ever there is a war between Pakistan and America, Afghanistan will side with Pakistan” (Anthony 2011).

On the wave of these accusations, Karzai repeatedly refused to endorse the Bilateral Security Agreement, which stipulated the conditions of U.S. military mission after 2014. He was clearly irritated by some of the U.S. proposals, as for example, the immunity of U.S. troops from prosecution under Afghan laws. Karzai wanted stricter rules for U.S. presence to make sure Afghan sovereignty would not be at risk. Among other things, he demanded a ban on American soldiers entering Afghan homes, and the release of all Afghan nationals from the Guantanamo prison (Madhani and Van den Brook 2014). It was Ashraf Ghani, the newly elected president of Afghanistan, who finally authorized the signing of the agreement on September 30, 2014.

Karzai's hostility towards the U.S. has an explanation. Karzai, a brilliant tactician, had to react to domestic public opinion, which was increasingly disillusioned with the U.S. development and counter-insurgency effort. Karzai could not afford to ignore these sentiments; by blaming the U.S. for failures and publicly declaring his opposition to the U.S. policies, he could distance himself from an image of being an American puppet. On the other hand, U.S. support was critical for Karzai, especially in the face of the rising military threat from the Taliban. Karzai's actions were a typical example of the strategies of survival pursued by the rulers at the intersection of international and local demands (Migdal 1988, Reno 1999). The U.S. seemed to be willing to give Karzai some leeway, which was essential to increase his ability to balance and compromise with different forces for the sake of peace and stability. The U.S. did not fundamentally question Karzai's loyalty over his periodic defiance and criticism of the U.S. However, some of Karzai's domestic policies caused much more serious concerns.

Karzai's lackluster effort to curb graft particularly disappointed foreign donors who accused him of covering up some high profile cases of corruption and even alluded to his possible personal involvement. Karzai repeatedly denied any wrongdoing by people from his inner circle tied to the most outrageous corruption scandals, such as Sherkhan Farnood, who ran a gigantic Ponzi scheme in the Kabul Bank, and General Ahmad Zia Yaftali, who allegedly stole tens of millions of dollars worth of drugs from the Dawood military hospital (Rosenberg, Matthew and Graham Bowleymarch 2012).⁴⁵

Another issue that had been a source of discord in the U.S. relations with Karzai was his ways of combating drug trafficking. Upon taking office, Karzai expressed full support to the

⁴⁵ It should be mentioned that the U.S. was in part responsible for encouraging corruption in Afghanistan by secretly paying through the CIA covert channels cash to warlords and senior Afghan officials, including Karzai's relatives and top aides (Filkins et al 2009). Hamid Karzai admitted receiving financial support from the CIA but dismissed that he had personally taken any of this money (Rosenberg 2013 1-2).

counter-narcotics campaign and even declared “Jihad against poppy” (Lancaster 2004). He was instrumental in passing a strict anti-drug law and establishing agencies designated to carry out counter-narcotics operations such the Counter-narcotics Police of Afghanistan (CNPA) within the Ministry of Interior, and the Afghan Special Narcotics Force (ASNF). These efforts, however, had minimal effect, as the Afghan National Drug Control Strategy seemed to be lacking a coercive element, focusing instead on persuasive methods. By 2007, it became clear that the Afghan strategy was not working and the U.S. decided to take the lead by insisting on aerial spraying of the poppy crops – the method that had proved to be a viable solution in the 1980s in Colombia. This plan, however, faced strong resistance from Karzai, who opposed spraying, as a threat to anger millions of farmers and push them towards the Taliban (Sengupta 2007). Karzai was able to directly link this counter-narcotics campaign to the counter-insurgency strategy in a tricky dilemma. The U.S. had to choose between two options, both problematic; Massive eradication of poppy cultivation would undermine one of the sources of Taliban’s financing, but increase their recruiting capabilities. However, backing off from spraying would appease the Afghan farmers but leave the Taliban with tens of millions of dollars. Karzai’s position finally prevailed and aerial spraying was never fully implemented in Afghanistan. Some reports explained Karzai’s reluctance to approve spraying because of his connection through his younger brother Ahmad Wali, who was allegedly running one of the largest drug trafficking networks in the country (Baker 2009). As a result, after almost \$4 billion spent in various counter-narcotics programs over the last decade, Afghanistan remains the largest producer of opium in the world.

Karzai’s mixed human right policy was also a subject of concern for the U.S. and other international donors. After the fall of the Taliban in 2001, Karzai was praised for his strong

support for institutional and legislative reform to improve human rights and women's rights in particular. Afghanistan Independent Human Rights Commission (AIHRC) was established as a major government agency to oversee human rights practices in the country. The government has made some steps to promote religious freedoms and ethnic equality. Representatives of ethnic and religious minorities, such as Hindus, Sikhs, Hazaras, Ismailis minorities, have been elected to the parliament and appointed to high positions in the government. Over time, however, Karzai's commitment to U.S.-inspired human rights policies started losing momentum. With the rise of the Taliban and Karzai's plans to negotiate a deal with the insurgents, he became more responsive to the radical and traditionalist voices, mostly coming from the Ministry of Justice and the National Ulema Council. This Council represented 150 most prominent religious scholars of Afghanistan who have advocated the advancement of the Islamic law and values in all spheres of the Afghan life. Since 2008, the Council's influence has been growing, in part due to Karzai's implicit support. As an indicator of this support, in 2013 Karzai fired the former Human Rights Commissioner Ahmad Nader Nadery, a pro-U.S. figure, and appointed new members with a radical agenda, for example Abdul Rahman Hotak, who served as a minister in the Taliban government (Human Rights Watch 2013). The outcry in the donor community, U.N. Human Rights Commission and Human Rights Watch, did little to change Karzai's decision (Nordland 2013).

Women's rights have been one of the central issues in the U.S.-Afghan relations from the very beginning of the U.S. invasion. Obama's administration further strengthened the focus on the advancement of women in Afghanistan and made it one of the priorities of U.S. assistance. In 2010, the U.S. adopted a special strategy for Assistance to Women in Afghanistan. USAID stepped up the funding for various women-empowerment programs, which grew from \$15

million in 2002 to \$150 in 2009 (Katzman 2015). During the first term of Karzai's presidency, women's rights experienced an unprecedented breakthrough. The Afghan Constitution, adopted in 2006, guaranteed equal rights for men and women as well as declaring a need to promote the education of women. The Ministry of Women's Affairs was established and the Afghan government adopted a National Action Plan for Women of Afghanistan (NAPWA), a policy of promoting gender equality and providing educational and career opportunities for the Afghan women. A quarter of the seats in the National Assembly were reserved for women. The number of female journalists, police officers, judges and NGO activists grew almost exponentially. However, domestic abuse and violence against women have been and continue to be still rampant in Afghanistan. Unfortunately, it took eight years to work out legislation that would lead to the prosecution of abuses against women. In 2009, Karzai issued a decree "Elimination of Violence Against Women" (EVAW) and established the "High Commission for the Elimination of Violence Against Women" to oversee the implementation of the new law (Ibid).⁴⁶

The initial progress with women's rights in Afghanistan started slowing down in the last years of Karzai's presidency, facing mounting pressure from the National Ulema Council. During his second term as the President, Karzai seemed to be less willing to stand up for women rights against the radical Islamic opposition. For example, in 2012, the Council issued a "code of conduct", which, among other things, required women to wear a veil, respect polygamy, and refrain from traveling unchaperoned by a male relative. Despite the critique from foreign governments, NGOs and the U.N., Karzai chose to endorse this statement. Women's representation was also under attack. The quota allocating the seats in provincial councils for women was reduced in the new Election Law in 2009. Female candidates for ministerial

⁴⁶ National Assembly has never been able to pass EVAW. The conservative majority voted it down in 2010 and 2013 (Koofi 2015).

positions had hard time seeking approval in the Parliament.⁴⁷ Emboldened by the weak reaction from the president, conservatives have been able to lobby for the laws, which 10 years earlier would have been out of the question. In 2014, the Ministry of Justice proposed the reinstatement of stoning as a punishment for adultery (Graham-Harrison 2014).⁴⁸ In the same year, the Parliament passed a criminal procedure code, which banned testimonies from family members, thus making it almost impossible to prosecute domestic abuses of women. Although Karzai did not sign the law and sent it back to the Parliament for corrections, it strengthened the impression that women's rights were backsliding and the hard-won gains of the past decades were waning.⁴⁹ Karzai's inconsistency with implementation of women's rights policy has left international donors with a disappointing feeling that his efforts were not up to his promises and their expectations (Lesko 2013).

2009 Presidential Elections and Game over Aid

Overall, Karzai's poor policies in fighting corruption and drug trafficking, as well as promoting human and particularly women's rights, worried the U.S. but not to the point that U.S. aid was under question. Still, Karzai was a loyal leader who proved to be an effective peace broker and an advocate of American presence in the country. Upon taking office in 2008, President Obama announced his determination to continue the operation in Afghanistan calling it a "war of necessity" versus a "war of choice" -- in Iraq (Stolberg 2009). However, at the same time, he signaled that U.S. tolerance towards Karzai's "bad" policies was approaching its limits. The tipping point was Afghanistan's presidential elections of 2009.

⁴⁷ Two out of three female ministers, who were nominated in 2010 were approved by the parliament only at the second attempt in 2012.

⁴⁸ Although stoning for adultery ostensibly applied to both men and women, women receive this punishment much more often than men.

⁴⁹ United Nations Development Programme ranked Afghanistan 152 out of 154 at the 2014 Gender Inequality Index. (Available at <http://hdr.undp.org/en/composite/GII>. Accessed 02/03/2016)

The elections were a big stake, as they had to demonstrate the durability of the Afghan democracy and further strengthen the country's political institutions. However, controversy surrounded the elections from the very beginning. The elections were initially scheduled for April 21, 2009, but in January 2009 it became clear that the preparation for elections had been lagging behind in some critical areas, such as voter registration, ballot printing, and polling station setup. Karzai insisted on keeping the initial date, but the opposition accused him of taking advantage of early election while other candidates did not have enough time to campaign. Karzai finally agreed to a proposal to postpone elections by three months – the decision backed by the U.S. and other Western states. According to the constitution, the elections had to be held before the end of Karzai's term, which was formally extended to match the new election date. This caused a new wave of criticism from the opposition, who then feared that Karzai would use incumbency to secure his reelection.

The controversy was further intensified by the role of the Independent Electoral Commission (IEC), the body authorized to run the elections. All seven members of the commission were appointed by the president, which cast some doubts on its independent status. Attempts by the Lower House of Parliament (Wolesi Jirga) to have IEC members approved by the parliament were vetoed by Karzai further increasing suspicions about a possibility of foul play. A separate body – The Electoral Complaints Commission (ECC) was formed to review all complaints related to the electoral process. Three out of its five seats were filled by internationals appointed by the head of the U.S. Assistance Mission-Afghanistan (UNAMA). Finally, the U.N. Development Program established its own body – ELECT, which managed donor funding, as well as provided technical assistance, consultancy and organizational support to IEC and ECC.⁵⁰

⁵⁰ The 2009 Afghan elections cost approximately \$300 million and were entirely funded by foreign donors, with the largest contribution from the U.S.

Out of 44 candidates who registered to run, only three could potentially challenge Karzai: Abdullah Abdullah, the former Foreign Minister, Ashraf Ghani, the former Minister of Finances, and Ramazan Bashardost, the former Minister of Planning. Bashardost was probably the most unlikely winner, as being an ethnic Hazara he was not a very appealing candidate in the Pushtun and Tajik populated provinces. Ghani, an ethnic Pushtun, had little chance to win Pushtun votes from Karzai and even less chance to win Tajik votes from Abdullah. This left Abdullah, who represented the powerful Northern Alliance, to be the strongest rival to Karzai. Karzai, however, weakened Abdullah's support base by inviting Muhammad Fahim, the leader of the Northern Alliance to run as his vice president.

The voter registration also raised serious concerns. While the estimated population of voting age (over 15) of about 13 million, almost 16 million voter cards were issued. It was 4.7 million cards more than in the previous elections of 2004. As the registration process was poorly controlled, it was believed that about a third of all voter cards were either duplicates or assigned to minors. Surprisingly, in some of the less secure and conservative provinces, such as Logar, Khost and Paktia, the number of registered women exceeded that of men, which was also an alarming sign of massive identity fraud.

It is difficult to say which of the candidates benefited most from the botched voter registration. The campaign, however, was clearly manipulated in favor of Karzai, who was accused of using government resources to his advantage. For example, more than 90% of election coverage on the state-owned RTA radio station was devoted to Karzai, while only 2% to Abdullah and 1% to Bashardost. The RTA television gave Karzai 68 % of the coverage, 10% to Abdullah, and only 3% to Bashardost (NDI 2010:29). To campaign in the provinces, Karzai used his personal connections with local strongmen and warlords. In the south, for example, he

assigned his brother Ahmad Wali Karzai, the governor of Kandahar and Sher Mohammad Akhundzada, the governor of Helmand to run his campaign.

Lack of security became a major issue marring the 2009 elections. A third of the 34 provinces of Afghanistan were out of the government's control, reducing the prospects of election participation to negligible numbers. Approximately 800 out of 7000 polling stations could not even open because of security concerns. The elections triggered an unprecedented rise of violence, with a ten-fold rise of militant attacks – an estimated 400 on the Election Day. This insecure environment provided a fertile ground for fraud, as it prevented observers, particularly internationals, from visiting volatile parts of the country. For example, the National Democratic Institute sent 112 observers (90 Afghans and 22 foreigners), who were only able to visit 472 polling stations in only 19 provinces (NDI 2010:6).

Even with limited geographical coverage, observers identified massive fraud in the presidential elections. Abundant evidence was found that voting cards were offered for sale for approximately \$5-10 a piece in bundles of hundreds and even thousands. There were reports that tribal leaders were bribed to persuade their people to vote for a particular candidate. An overwhelming majority of such bribes seemed to have been offered from Karzai's side. Observers reported widespread coercion and intimidation of voters implicating high-rank military commanders, as for example, General Abdul Raziq, the chief of the border patrol in Kandahar province, who allegedly forced local farmers to vote for Karzai (Boone and Nasaw 2009). Similar incidents were recorded in Bamyan, Nangarhar, and Herat – all committed by Karzai's agents (NDI 2010: 36).⁵¹ Ballot box stuffing was the most common fraud, especially in the southern regions of the country. Unlike during the 2004 elections, ballot boxes were not

⁵¹ Although the majority of coercion cases are associated with Karzai, one report accused Abdullah's supporters of intimidating voters in the northern Balkh province (Boone 2009).

collected to bring to provincial centers for processing, but rather, the ballots were counted at the polling stations. This complicated monitoring and allowed ballot box stuffing to develop into a large-scale operation.

It took the IEC almost one month to count the ballots. The length of this process, as well as the lack of transparency, stirred suspicions of rigging the results. On September 16, the IEC announced Hamid Karzai a winner in the first round with 54.6% of the votes. Abdullah finished the second with 27%, and Bashardost was the third with 9.2%. At the same time, the ECC started receiving an increasing number of complaints, putting together a picture of such massive fraud that it questioned the outcome of the elections. The foreign members of the ECC pushed for a recounting of at least 10% of the votes. The power dynamic between the ECC and IEC then changed in favor of the ECC. The ECC came out with more and more allegation of fraud while the IEC was trying to save face, but was losing credibility. At the peak of the dramatic “standoff,” one of the two Afghan members of the ECC asked for his resignation, blaming foreigners for excessive pressure and interference. Some rumors saw this resignation (which was not accepted) as Karzai’s maneuvered to undermine the ECC’s reputation and impartial character.

As the result of the audit, which was done through statistical sampling, the ECC found almost a third of all votes to be fraudulent with the majority of such votes in favor of Karzai.⁵² His final percentage fell below 50. According to the constitution, it meant that a second round had to be held. At this point, the bargaining game between the U.S. and Karzai entered a heated stage.

⁵² It is not clear why Karzai would be so desperate to rig the elections. As an incumbent and representative Pushtun leader with strong connections in the Northern and the Western parts of the country, he had a clear win over Abdullah whose support was largely limited to the Tajik community. The only factor that probably caused his concern was that Southern Pushtun-populated provinces were virtually excluded from elections due to poor security situation. This affected the total voter turnout, which barely reached 35%. In these conditions, the voters’ ethnic balance could shift towards the Tajiks giving Abdullah an additional edge over Karzai.

The role of the U.S. in the 2009 Afghan elections is still obscure. The U.S. repeatedly announced its neutrality, but, at the same time, it was clear that the outcome of the elections would be enormously important in determining the future U.S. policy in Afghanistan. Obama was in the middle of a painful review of American strategy in Afghanistan, which had to address domestic and international pressures, and, hopefully, turn the situation in Afghanistan around. American public opinion had become increasingly critical of the U.S. operation in Afghanistan, as had the Afghans, who were disappointed with failing reconstruction and counter-insurgency efforts. Karzai was losing credibility as a leader. However, finding a replacement was difficult and could potentially lead to a conflict. Karzai could certainly feel the change in the U.S. attitude and was increasingly nervous about a possible American plan to oust him through manipulated elections. His suspicions grew when the U.S. Ambassador to Afghanistan, Karl Eikenberry, met with Ghani and Abdullah, the gesture, which was considered as a demonstration of U.S. support. According to an Eikenberry's report, Karzai was convinced that the U.S. was funding the opposition candidates, Abdullah in particular – a fact that Eikenberry denied (Eikenberry 2009). In his memoirs, published in 2014, the former U.S. Defense Secretary Robert Gates openly acknowledged that Obama's administration conspired to unseat Karzai. As Gates wrote:

Holbrooke (U.S. special representative for Afghanistan and Pakistan) was doing his best to bring about the defeat of Karzai. What he really wanted was to have enough credible candidates running to deny Karzai a majority in the election, thus forcing a runoff in which he could be defeated... Our future dealings with Karzai, always hugely problematic, and his criticisms of us, are at least more understandable in the context of our clumsy and failed putsch (cited from Graham-Harrison 2010).

Still, it is difficult to believe that the U.S. had seriously pondered the possibility of Karzai's defeat in the second round. Even adjusted for fraud, the results were indicating Karzai's unquestionable lead. Even if Abdullah could have somehow miraculously won the runoff, he

would have been a far less legitimate leader than Karzai and, for this reason, more problematic to deal with. Only twice in the Afghan history did Tajiks rule the country – Bachai Sakkao (Habibulla II) for a few months in 1929 and Burhanuddin Rabbani, the Mujaheddin leader in 1992-1996. Pushtuns considered these rulers as usurpers – the label that would have inevitably stuck to Abdullah, in case of his presidency. It would have greatly strengthened the appeal of the Taliban as a Pushtun nationalist force, the scenario that the U.S. could ignore only at its own peril.

It seems that Obama's administration was ready to accept having Karzai as a partner for the next five years, but they needed solid justification for the U.S. Congress and the American public that the elections were conducted legitimately. One of Obama's close staff members was cited saying: "We feel very strongly about this... We had a big stake in making sure *we* had a legitimate election" (Tavernise, Landler and Cooper 2009). The usage of pronoun "we" is indicative in this context. The Afghan elections had become as big an American domestic issue as it was international. The U.S. could not afford to openly back an authoritarian leader, even though he was probably the best option for the U.S. strategically. In the eyes of the U.S., democratically elected Karzai was essentially different from authoritarian Karzai. In the post-Cold War environment, U.S. strategic interests in Afghanistan (as well as elsewhere in the world) fused with a democratic agenda, of which elections seemed to be the focal point. The U.S. could put up with Karzai's deficient human rights policy, the corruption of his government and even his defiance in some political issues, but fraudulent elections would have crossed the line.

Karzai faced his own dilemma. The runoff would have been insulting and dangerous for him. It would have been equal to acknowledging his weakness and would have undermined his standing, especially among the warlords. He understood that his refusal to go to the second round

would anger the Americans to the point that the U.S. could freeze all assistance to Afghanistan. His personal safety, as well as the safety of his family members, depended on U.S. support. A U.S. diplomatic cable revealed by WikiLeaks cited Karzai's conversation with his Defense Minister, in which he asked if the Afghan army could manage without the American forces. In case of a positive answer, he was apparently considering dismissing Americans' demands for the runoff even if it meant their departure and cutoff of aid (Steele 2010).

The U.S. mounted heavy pressure on Karzai to make him agree to a runoff. In the days before the announcement of the ECC decision, Karzai was bombarded with visits and phone calls from high-profile U.S. officials including: State Secretary Hillary Clinton, Senator John Kerry, the Chairman of the Foreign Relations Committee, Richard Holbrooke, the Special Representative on Afghanistan and Pakistan, Defense Secretary, Robert Gates, as well as, the U.S. Ambassador to Afghanistan, Karl Eikenberry, and the former U.S. ambassador, Zalmi Khalilzad. The common message through these conversations was that the U.S. and allies would withdraw their support and assistance if Karzai refused to accept the ECC verdict. As Rahm Emanuel, the White House chief of staff, diplomatically stated: "It would be reckless to make a decision on U.S. troop levels if, in fact, you haven't done a thorough analysis of whether in fact there is an Afghan partner ready to fill that space the U.S. troops would create" (Farmer 2009). The British Prime Minister, Gordon Brown, expressed the same idea in a more straightforward way saying that by denouncing the ECC findings, Karzai "would no longer be a partner of the West" (Tavernise, Landler and Cooper 2009).

As the result of this arm-twisting campaign, Karzai pragmatically chose to acquiesce to the second round. On October 20, at a press conference, symbolically flanked by Senator John Kerry, he announced the runoff to be held on November 7. At the same time, he made it clear

that his acquiescence was forced and essentially, he had not done anything wrong: “The voters are not to blame. Why their votes were disrespected, should be thoroughly investigated. But it is not the right time to discuss this” (Tavernise, Landler and Cooper 2009).

In reality, however, the runoff created more of a problem than a solution. First, it was to cost an additional \$80 million. Second, the worsening security conditions and upcoming cold season were likely to knock the voter turnout below any reasonable numbers. Third, there was almost an absolute certainty that the outcome of the second round would not be significantly different from the first round. Essentially, the runoff was an expensive ritual to demonstrate the democratic commitment of Karzai to the rest of the world, and the U.S. in particular, with little practical sense. When on November 1, Abdullah announced his decision not to participate, which was apparently met with relief. The next day, the IEC declared Karzai the winner. The U.S. seemed to be satisfied with how the things worked out. Secretary Clinton commented on Abdullah’s decision saying: “I don’t think it has anything to do with the legitimacy of the election... It’s a matter of personal choice” (Sengupta 2009). President Obama congratulated Karzai over the phone referring to his victory as a “new chapter” in the legitimacy of the Afghan government (Cooper and Zelenynov 2009).

The story of the Afghan 2009 election is indicative of a two-sided game over foreign aid. U.S. aid decisions are driven by strategic interests. However, strategic interests include democracy promotion as a means to make allies and achieve strategic goals in the long-run. Regimes are interested in getting more U.S. aid and have to improve or cover up their deficient policies to keep up with the American demands. It is clear for both sides that democratization overnight is not possible, especially in transitional and post-conflict regimes. Under these conditions, a balance between U.S. demands and regime policies has to be found to satisfy

Congress and public opinion on the one hand, and allow for the U.S. dealing with strategically important regimes, on the other. Elections serve as a fulcrum for such a balance. Elections, however, can be a subject of manipulation and fraud. Personalist leaders play a risky game, running competitive elections but making sure that they win. They have to be careful not to cross the line, as “too” fraudulent elections will undermine their credibility, international legitimacy and, ultimately, their prospects to get foreign assistance. In 2009, Karzai came very close to this line but at the last moment was able to compromise and save the elections and his image as a leader committed to democracy. The U.S. chose to accept Karzai’s policy as it satisfied a minimum democratic standard to justify continuing economic and military support for Karzai’s regime for another five years.

Conclusion

The study confirmed that even after the end of the Cold war, strategic interests have been one of the key motives of the distribution of U.S. foreign aid. U.S. allies do tend to receive more U.S. aid – a situation that has not changed much since the times of the rivalry between the Soviet Union and the USA. However, democracy promotion has been increasingly integrated in the U.S. foreign policy agenda. Today, directly supporting authoritarian regimes is essentially more difficult than it used to be in the 1960-1980s. U.S. allies need to be democratic in order to be legitimate for U.S. aid. U.S. public opinion and Congress work as a check mechanism preventing presidential administration from conducting policy with open dictatorships even though these dictatorships may be important for U.S. security arrangements. International negotiators do not want to upset the American public nor antagonize the Congress but sometimes face a need to deal with non-democratic regimes for security and other strategic reasons. What is a way to reconcile domestic demands and the necessity of practical policymaking? My answer is – by putting emphasis on elections as a symbol of democratization. Elections serve as a minimum standard for regimes to pass the U.S. eligibility test. For various reasons, elections are a highly valued concept in the American society. Elections make a regime legitimate to the rest of the world. A democratically deficient regime, which runs elections may still qualify as being “democratic enough” to be approved for U.S. assistance. Regression analysis of USAID aid distribution demonstrates that even fraudulent and shambolic elections make regimes more likely to receive U.S. assistance. Interestingly, quality of elections matter for MCC aid decisions as well but in a different way. Out of the pool of eligible countries, the MCC tends to reward those who have had free and fair elections. However, it does not seem that the MCC has been more particular in assessing the quality of elections. The countries that pass the MCC indicators before

being approved for assistance agreement already tend to meet higher standards for Rule of Law and Governance, which, in turn, drives the quality of electoral practices to a higher level. With USAID, the situation is quite the opposite. The U.S. is fast to acknowledge the fact of elections even if the quality of these elections is questionable. This discrepancy leaves regimes with an incentive and opportunity of manipulation. Regimes may use elections as a cover up of their poor democratic policies in other areas such as human rights, rule of law, and civil society. They eagerly accept foreign assistance for economic and ideological reasons, but in reality have no interest in broad democratization. Such regimes, which cannot be classified as either authoritarian or democratic, are known as *hybrid* regimes.

There has been a growing interest in hybrid regimes in research on democracy (O'Donnell 1994, Zakaria 1997, Diamond 2002, Ottaway 2003, Schedler 2006).⁵³ This type of regime and its persistence over time has been somewhat unexpected for traditional democracy scholars. It has shaken a well-established belief in the “transition paradigm” (Carothers 2007), a once well-defined universal scenario of a positive progression to democracy after authoritarian breakdown. While there is still a significant variation in the actual level of democracy across such regimes, a common feature is that they run minimally competitive elections to convince international observers of their democratic commitment, while at the same time systematically violating democratic principles of freedom and civil liberties to the point that makes them more similar to authoritarian regimes (Schedler 2006:3).

So far, foreign aid and hybrid regimes' literatures have not intersected much. This study suggests that a focus on elections as the determinant of foreign aid can be instrumental in explaining the survival of hybrid regimes in the Middle East, sub-Saharan Africa, South-East

⁵³ Other terms used to describe such regimes are: *delegative democracies*, *illiberal democracies*, *semi-authoritarian regimes*, *electoral authoritarian regimes*.

Asia, and in the Former Soviet Union. There are two broad types of international pressure towards authoritarian regimes - *linkage* and *leverage* (Levitsky and Way 2006). Linkage includes a variety of ties and communications with Western democracies, which are believed to have a salutary effect on democratization in hybrid regimes. Leverage is best described as political, economic and military measures by international actors towards a hybrid regime in response to its autocratic abuses. In a sense, linkage can be called a passive type of international pressure while leverage is an active type. There are different factors that can foster or reduce the effects of linkage and leverage. For linkage, for example, an important factor is geographical proximity to Western democracies (see Kopstein and Reilly 2000, Brinks and Coppedge 2006). Countries located near the United States or E.U. are generally more prone to the democracy diffusion effect; they have a higher level of cross-border economic, political and public contacts than more distant ones. For leverage two important factors are the awareness of the Western governments of autocratic abuses in hybrid states and the vulnerability of these states to Western pressure. Basically, it can be assumed that linkage provides soft-power incentives for democratization, while leverage provides a hard-power punishment for non-democratic practices in a form of sanctions, interventions and diplomatic isolation. In other words, linkage is more like a carrot, while leverage is more like a stick in the policies towards hybrid regimes.

But leverage can also be a “carrot”. While the U.S. has a number of expectations regarding democratizing regimes, these regimes themselves have their own expectations of U.S. policies. Leverage may not only be seen as a punishment, but also as a reward for democratization. Regimes that are economically and politically dependent on U.S. aid, have to show substantial progress in democratization in order to keep enjoying international benefits, but the ruling elite are only willing to do so if democracy is not threatening their dominant status. By

running relatively clean elections, hybrid regimes can sell themselves as democracies to U.S. and other sponsors, but between elections they may remain essentially illiberal, with limited political competitiveness and tightly controlled civil space.⁵⁴

This study opens a new line of research, which builds on closer integration between foreign aid and democracy research. The growing role of recipient regime policies in aid decisions, inclusion of democratization in U.S. strategic interests, and the tendency to reward elections before other democratic practices are all essential characteristics of U.S. foreign aid since the end of the Cold War. During this time, autocratic leaders have become increasingly adept at manipulating democratic forms, especially elections, to maintain their authoritarian regimes while still retaining the support of international sponsors. The link between elections and foreign aid decisions is the key to understanding the complex relationships between “elected” autocrats, international donors and democracy promoters.

⁵⁴ Completely discounting the value of elections in non-democratic regimes would be a mistake. Even if initiated as a farce, repeated holding of elections may under certain conditions produce long-run changes that are favorable to deepening democratization. Latin America provides a number of examples where many of the initial transitions to elected civilian rule were somewhat controlled by military authorities, with many authoritarian elements left in place. However, the institutional effect of regular elections led (often with foreign support) “to an established norm of elected civilian rule, and ... ultimately helped to lay the foundations for demilitarization” (Stanley 2006: 101).

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