

**Do Donors Reduce Bilateral Aid to Countries with Restrictive NGO Laws?:
A Panel Study, 1993-2012**

Abstract

Foreign aid contributes to about 10% of gross domestic product of developing countries. To distribute aid in recipient countries, Western donors increasingly rely on non-governmental organizations (NGOs). Yet, since the mid-1990s, 39 developing countries have adopted laws restricting the inflow of foreign aid to NGOs operating in their jurisdictions. In response to these restrictions, have bilateral donors reduced aid, either as a punishment or because they cannot find appropriate NGOs for aid delivery? We explore this question by examining a panel of 134 aid-receiving countries for the years 1993-2012. We find that all else equal, the adoption of a restrictive NGO finance law is associated with a 32% decline in bilateral aid inflows in subsequent years. These findings hold even after controlling for levels of democracy and civil liberties, which suggests that aid reduction responds to the removal of NGOs from aid delivery chains, and not to democracy recession.

Introduction

Foreign aid is a critical component of global public policy and contributes to about 10% of gross domestic product of developing countries. While historically donors (governments or inter-governmental bodies) have distributed aid through recipient governments, they increasingly rely on civil society organizations (nonprofit and advocacy groups, NGOs hereafter), to deliver aid.¹ This is because donors believe that NGOs have the expertise, grassroots knowledge, and incentives to identify appropriate projects and beneficiaries, as well as the infrastructure to deliver aid (Hulme and Edwards, 1996; Van Rooy, 1998; Dietrich, 2013).² By some estimates, about one-fifth of bilateral aid is routed through NGOs: the OECD puts the number at 19% for the UK and 23% for the US. In the late 2000s, as much as 20% of aid for African states was channeled through NGOs, up from an estimated 1% in 1990 (Englebert and Tull, 2008).

Yet, since the mid-1990s, 39 developing countries have adopted laws restricting the inflow of foreign aid to NGOs operating in their jurisdictions (Dupuy et al., 2016). These laws target both domestic NGOs *and* branches of international NGOs. These restrictions pose a problem for donors because they hamper their ability to deliver aid via NGOs, and undermine civil society and democracy. How have donors responded? Have they reduced aid to countries with such laws or have they maintained their aid levels?

Donors face a dilemma in this regard. On the one hand, they may decide to maintain aid levels for multiple reasons. First, they are probably motivated to provide aid to promote economic development, public health or to reduce poverty. Because developing countries continue to face such problems, and given their commitment to Millennium Development (now Sustainable Development) Goals (Sachs, 2006), donors may decide to revert to the previous channel of providing aid through recipient country governments. After all, they want to come

across as respecting the sovereignty of the recipient country, including how the country seeks to regulate foreign resource inflows, lest they are accused of neo-colonialism. Second, donors might fear that aid reductions could lead to state failure, thereby attracting global terrorist groups to establish operations in the territory (and in the contemporary context, lead to out-migration).

On the other hand, donors may decide to reduce their aid because they might believe that without appropriate NGOs for resource delivery, their aid will be ineffective. After all, the decision to deliver foreign aid to NGOs was partially motivated by the belief that developing country governments probably do not have the motivations and capacities to use aid effectively. With “aid fatigue” in donor countries (Bräutigam and Knack, 2004; Lancaster, 2008), donors may fear negative publicity if they continue to provide aid to countries with restrictive civil society laws. . Second, donors may view these laws to be undermining democracy and civil society. In addition to their own commitment to democracy and civil society promotion, they may seek reduce aid lest they face a political backlash for coddling dictators that have cracked down on civil society. The possibility of this backlash is high because NGOs in recipient countries that are disadvantaged by the new laws will have strong incentives to mobilize against these laws through their transnational advocacy networks (Keck and Sikkink, 1998).

To empirically examine donor response to legal restrictions on civil society in recipient countries, we analyze a panel of 134 countries receiving aid from 29 donor countries for the years 1993 to 2012. These donor countries belong to the Organization for Economic Cooperative and Development’s (OECD) Development Assistance Committee (DAC). In our main model, we focus on civilian bilateral aid only. We find that the adoption of a restrictive NGO finance law is associated with a reduction in bilateral aid inflows: on average, bilateral aid inflows reduce by 32% (depending on the model specification) subsequent to the years in which a country enacts a

restrictive law. Our finding holds *even after* we control for levels of democracy and civil liberties, which suggests that aid reductions are motivated not by democracy recession, but by the removal of NGOs from aid delivery chains. Because the tragic events of September 11, 2001 might have altered the security and foreign aid environment, we separately examine our model for the pre- and post-2001 periods as well as for aid to majority-Muslim countries. Our results hold for these specifications.

Theoretically, our paper speaks to the broader subject of the relationship between NGOs and governments (Evans et al., 1985; Zaidi, 1999; Wiktorowicz, 2002; Phillips and Smith, 2011; Bloodgood et al., 2014). The new foreign funding laws reflect an attempt by states to use regulatory mechanisms to restrict economic resources available to NGOs. In recent years, states have typically restricted NGOs in two ways. First, states have sought to control the ability of foreign actors to support NGOs operating in their jurisdictions. We view these as “border control” measures that reassert the external sovereignty of the state. Second, states have restricted political and economic avenues available to NGOs; these are “within the border” actions that reassert internal sovereignty of the state. These can include measures such as new registration laws and restrictions on lobbying.

As “border control” mechanisms, restrictions on foreign funding flows raise analytical issues that differ from the “within the border” mechanisms. If the modern state is characterized by both external and internal sovereignty, “border control” mechanisms can be viewed as an exercise of external sovereignty while “within the border” “measures can be interpreted as an assertion of internal sovereignty. By enacting new funding laws, governments seek to insulate domestic politics from outside influence that is exercised through foreign funds. Thus, restrictions on foreign funding are a reminder of the continued role of the state in shaping rules

of politics, and its ability (and willingness) to assert “border controls” in the era of the Internet, Facebook, free trade, and capital mobility. It also suggests that international efforts to promote civil society in developing countries do not operate in an institutional vacuum; to some degree, these efforts need approval (explicit or implicit) of the state in whose territory NGOs seek to operate (Bratton, 1989; Jalali 2008; Henderson, 2011).

The paper has four sections. In section two, we discuss the literature on drivers of aid disbursement, why donors increasingly rely on NGOs to disburse aid in recipient countries, and develop our key hypothesis on why legal restrictions might lead to cuts in bilateral aid. We present our variables, methods and model and discuss our findings along with extensions to the main model in section three. We conclude in section four.

Foreign Aid and NGOs

Foreign aid actively entered the vocabulary of international development diplomacy after the Second World War. Since the 1960s, aid flows have increased substantially: 4.3 billion dollars of official development aid in 1960, 6.8 billion dollars in 1970, 34.6 billion dollars in 1980, and 58.4 billion dollars in 1990, 50 billion dollars in 2000, and 132 billion dollars in 2010.³ Yet, the effectiveness of aid to promote economic development continues to be a topic of passionate debate (Vernon, 1957; Kaufman, 1982; Easterly, 2006; Sachs, 2006). Some suggest that if aid is provided to the “wrong” countries and for “wrong” reasons, it is likely to be ineffective.⁴ Therefore, how donors disburse aid among recipient countries has attracted considerable scholarly attention. Broadly, the literature identifies two types of donor motivations in aid disbursement: donor interest versus recipient characteristics (McKinlay and Little, 1979; Maizels and Nissanke, 1984; Schraeder et al., 1998; Lewis 2003; Neumayer, 2003), with the former

emphasizing donors' instrumental motivations and the latter highlighting donors' altruistic motives.

Donor interest can reflect the desire to maintain colonial ties, support military alliances, protect spheres of influence, and promote the trade and investment interests of private corporations headquartered in donor countries (Maizels and Nissanke, 1984; Schraeder et al., 1998). Post 9-11, one could also include an additional factor: supporting US-led efforts in the "war on terror" (Howell et al, 2012). Recipient characteristics include development needs, the level of democratization, the character of economic policies, and good governance practices.

Why should motivation for aid disbursement influence aid effectiveness? The donor interest perspective provides a good rationale in this regard: aid is ineffective because donors provide it to serve their aims, not the needs of the recipients (Natsios, 2005). Of course, both motivations can cohere but often they do not. Many donors do not provide it with the goal of lifting recipient countries out of poverty. They do not take into account the appropriateness of the aid, recipient need, the quality of recipient delivery systems and the recipient absorptive capacity. Instead, donors have been (and are) guided by considerations such as slowing the spread of communism, fighting against terror, rewarding military allies, promoting the economic interests of their firms, or rewarding political support in international forums (Miller and Dolsak, 2007). Donors employ aid to sustain their colonial influence with recipient countries: France's foreign aid policies are often cited in this regard (Petiteville, 1996).

While one could make a case for aid failure when it is motivated by donor characteristics, why should aid fail if its disbursement is motivated by recipient characteristics? Arguably, aid creates perverse incentives for developing country leaders; by relaxing their budget constraints, it allows them to delay needed political and economic reforms that can provide the institutional

foundation for sustained economic growth (Collier and Dollar, 2004; Easterly, 2006).

Furthermore, aid promotes rent-seeking among local elites (Gibson, et al., 2005) and undermines democracy because it diminishes the dependence of the governments on their citizens for revenue (Lim et al., 2015). In short, foreign aid weakens the institutional foundations necessary for economic growth and political development.

Some aid critics favor strategies that reduce aid but create incentives for developing countries to engage in international trade and commerce. For instance, Uganda's former Trade Minister, Edward Rugumayo, noted that "economic growth in Africa depends on donor funds and this is like building an economy on a pack of cards or shifting sand. Export trade should be the solid ground on which economies should be built."⁵ In his congressional testimony on the African Growth and Opportunity Act in 1997, Benjamin Kipkorir, the Kenyan Ambassador to the United States noted that: "Africans have come to realize that trade not aid is the way to the future" (Kipkorir, 1997).

Another category of critics believes that aid can have desired results only if is delivered effectively. For them, the problem lies not in terms to which country or with motivation aid is given but how aid is put to use. The culprit in this narrative is the recipient government, the assumption being that governmental bureaucracies have neither the capabilities nor the incentives to deliver aid effectively. Hence, they recommend minimizing the role of recipient governments – perhaps even to cut them out altogether from the delivery of aid.

This is where NGOs enter the aid puzzle. Given the ideological fervor to support the "third sector" along with the disillusionment with "the market" and "the state" to solve societal problems (Salamon, 1994; Putnam, 1995; Etzioni, 1996), donors tend to (or may even want to) believe that NGOs have the expertise, the grassroots knowledge, and the incentives to identify

the appropriate beneficiaries along with the infrastructure to deliver aid. Consequently, donors hope that aid will promote democracy, development and other goals if channeled through NGOs instead of recipient governments (Hulme and Edwards, 1996; Van Rooy, 1998; Mitlin et al., 2007; Banks, Hulme, and Edwards, 2015).

If NGOs are the critical vehicles for effective delivery of aid, the enactment of laws that restrict aid flows to them should pose serious problems for donors. After all, donors confront “aid fatigue” (Bauhr et al, 2013) at home. Aid critics (including a surprisingly large section of population in some countries, especially the US) accuse governments of neglecting domestic needs and spending large budgetary resources abroad. Periodic media exposés about corruption in the “foreign aid industry” and the lavish life styles of rulers of impoverished but aid-supported countries accentuates the domestic backlash against aid.

Yet despite this pro-NGO shift in development politics, from 1993 to 2012, 39 developing countries adopted laws restricting the inflow of foreign monies to NGOs operating in their jurisdictions. These laws restrict both the funds NGOs might receive for advocacy purposes such as promoting human rights or protecting the environment as well as monies they might receive to deliver goods and services. The logic is that with the rise in “rights-based” approaches, the delivery of merit goods and services has now become embroiled in political contestations. Because some NGOs are often critical of domestic governments’ commitment to human rights and service delivery, they are willingly or unwillingly associated with political opposition groups (Dupuy et al., 2015). Of course, this is not to suggest that all NGOs can be placed in the same category; there often remains a significant number of GONGOs (government sponsored NGOs) and along with continued work by non-partisan NGOs. But from the perspective of a developing country government, foreign funds provide resources to their political opponents and allow

foreign governments to interfere in their domestic affairs (Dupuy et al., 2016; Carothers & Brechenmacher, 2014; Tiwana & Belay, 2010; Mendelson, 2015). Given the issue of state sovereignty, a restrictive NGO finance law represents one way to insulate domestic politics from foreign influences.

For donors, these restrictions can be problematic because they undermine their preferred aid delivery model. In addition to the aid effectiveness issues, NGOs are supposed to be the pillars of democracy that donors want to promote abroad. A crackdown on NGOs means that recipient countries are turning their backs on democracy. Given the sort of political problems that the NGO crackdown poses for donors, they can be expected to show their displeasure by reducing aid. Indeed, donors have been vocal in airing their displeasure on this subject. Whether in their annual country reports, or in press briefings, the US State Department is seldom shy about condemning such countries.⁶ International NGOs (such as Amnesty International and Human Rights Watch), prominent think tanks and foundations have also expressed alarm over these developments. The Carnegie Endowment issued a report entitled, “Closing Space” on this subject.⁷ Transparency International has spoken out against new foreign funding laws.⁸ A prominent German NGO, The Heinrich Boll Foundation, publicly and with some fanfare, pulled out of Ethiopia after the country enacted a restrictive NGO funding law⁹. Hence, we hypothesize:

Hypothesis 1: Donors will reduce bilateral aid flows to countries that have enacted restrictive NGO laws

Arguably, other overseas donors might also have these concerns. We examine an alternative overseas resource provider that tends to use local NGOs in their resource delivery methods: multilateral donors. These donors also seek to funnel aid via NGOs to enhance aid efficacy. How

might these donors respond to the new laws? Bilateral donors should be able to influence the decisions of multilateral donors because they tend to exercise direct control over many multilateral organizations; for example, they have the majority of votes in the World Bank.

Therefore,

Hypothesis 2: Multilateral donors will reduce aid flows to countries that have enacted restrictive NGO laws

Data, Variables, and Model

Response Variable

To test the relationship between the onset of restrictive NGO foreign funding laws and bilateral aid inflows, we examine the volume of official development assistance (ODA) provided by 29 donor countries¹⁰ to 134 recipient countries from 1993 to 2012. Data on ODA comes from the OECD's Development Assistance Committee (DAC), and were taken from the OECD's International Development Statistics database.¹¹ The OECD defines ODA as “flows to countries and territories on the DAC list of ODA recipients”; these flows are “provided by official agencies...[and are] administered with the promotion of economic development and welfare of developing countries as its main objective; and is concessional in character and conveys a grant element of at least 25 per cent”.¹² This excludes: (1) aid provided by multilateral agencies such as the World Bank to developing countries, (2) provided by non-DAC countries, and (3) military aid, including aid provided to fight terrorism. Our dependent variable, overseas development aid (ODA), measures flows of financial resources to developing countries from the 29 DAC bilateral donors in a given year. We log this variable to address its skewed distribution.

As previous years' aid flows can influence flows in subsequent years, we include the lagged dependent variable as an independent variable in our models. This also helps us to address the problem of serial correlation in our data (Beck and Katz, 1995). Because aid flows might be responding to time invariant, unobserved recipient country factors, we further include country fixed effects. To address the issue of heteroscedasticity, we include robust standard errors and cluster them by country.¹³ All independent variables are lagged by one year because we expect changes in aid allocations to take place with a lag in response to changes in our independent variables.

Key independent variable of interest

The key independent variable is the enactment of restrictive NGO financing laws. We draw on the Dupuy et al. (2016) dataset to identify countries with laws regulating the flow of foreign funds to locally operating NGOs and that do one or more of the following: limit NGOs' ability to *receive* foreign money; specify the *amounts* of foreign money NGOs may legally receive; determine the *mechanisms* through which NGOs may access foreign aid; prescribe if, and how, NGOs can *use* foreign funds, including the issues on which they can work; and specify foreign aid *reporting and tax requirements*.¹⁴ While some new restriction on foreign funding may seem to have a greater impact on aid flows, enhanced reporting requirements may, in fact, be just as burdensome. Moreover, some countries have combined various of these restrictions together in the same legal framework. Thus we do not differentiate between the types of restrictions contained in restrictive NGO financing laws. We employ a binary variable to represent a government's decision to impose formal restrictions on the inflow of foreign funds to domestically operating NGOs. It is coded "1" for the year (and subsequent years) in which a

given state passed a law restricting the inflow of foreign funds to domestically operating NGOs.¹⁵ Following Dupuy et al. (2016), by *domestically operating NGOs*, we mean foreign NGOs operating in a given country *as well as* domestic NGOs that limit their activities to one country only. For example, if a country enacted the law in 1998, it is coded as “0” for the period 1993-1997 and “1” for the period 1998-2012.¹⁶

We define laws as “restrictive” when they limit foreign funding to locally operating NGOs – either international or locally based.¹⁷ We identify 39 aid-receiving countries as having adopted more restrictive NGO foreign funding laws for the time period of our study, 1993-2012. We expect that *ceteris paribus*, the adoption of restrictive NGO foreign funding law will lead to a reduction in the inflows of bilateral aid in the subsequent year. Since no country other than Turkey has reversed its restrictive laws, our coding scheme captures the reductions in aid flows as long as the new restrictive laws remain in effect.

To isolate how donors respond to laws restricting inflows of foreign monies only, instead of other types of restrictions that the country may have imposed on NGOs (such as on their operations), we control for levels of democracy, freedom of the press, and basic civil liberties. This is an important point because donors have several motivations for cutting back aid: aid effectiveness is potentially compromised because NGOs no longer deliver aid, or because of the crackdown on civil society and rollback of democracy. Scholars evaluating the effectiveness of aid in promoting political reform are quite interested in examining the link between recipients’ political regime and aid inflows (Alesina and Dollar, 2000; Neumayer, 2003; Kono and Montinola, 2009). Yet, donors might be focused on efficacy issues (and not democracy consolidation), given that new laws make it difficult for them to route monies through NGOs. To isolate how donors respond to laws restricting inflows of foreign monies

only, instead of other types of restrictions on NGOs, we control for *levels of democracy* or regime type with the Polity2 measure from the Polity IV dataset, using scores from -10, or “most autocratic,” to +10, or “most democratic.” For ease of interpretation, we add 10 to each measure, creating a 0 to 20 scale. We also test for the effect of *corruption* as an alternative measure of the quality of the domestic political climate using data from Transparency International’s Corruption Perceptions Index (not depicted in Table 1).

Scholars use other measures of democracy as well. Hence, in Model 2, we drop the Polity measure and include three other measures of democratic freedoms: freedom of the press, as well as the CIRI empowerment rights and CIRI physical integrity rights indices. Data on freedom of the press comes from Freedom House’s Freedom of the Press index, which assesses the degree of print, broadcast, and internet freedom in a three-category scale of “free”, “partly free”, and “not free”. The CIRI empowerment rights index is an additive index of the extent to which governments respect their citizens’ right to foreign and domestic movement, freedom of speech, assembly, religion, and association, workers’ rights, and electoral self-determination. It ranges in value from 0, indicating no government respect for these rights, to 14, or full government respect. The CIRI physical integrity rights index is an additive index of government respect for its citizens’ right to be free from torture, extrajudicial killing, political imprisonment, and disappearance. It ranges from 0, no government respect for these rights, to 8, full respect.

Because the holding of competitive elections might also influence donors’ decisions about aid disbursement, we include a measure of *competitive elections* (held in the previous year) from the National Elections across Democracy and Autocracy (NELDA) dataset. NELDA records whether the opposition was allowed to participate, whether more than one political

party was legal, and whether the electoral ballot displayed a choice of candidates. If the answer was “yes” to all three of these questions, we coded this binary variable as “1.” If not, we coded it as “0.”

A number of other factors could influence changes in the volumes of aid flowing to developing countries. On the one hand, international economic linkages such as trade between countries may influence aid-giving decisions. Lundsgaarde et al. (2010) find evidence that imports from developing countries to donor countries correlate with reductions in foreign aid, supporting the argument that donor countries sometimes substitute trade for aid in their relationships with developing states. Yet, on the other hand, donors may want to provide aid to countries with whom they have trading relations, primarily to support the economic interests of their firms. No matter the direction of this trade-aid relationship, we can expect aid flows to correlate with trade volume. Therefore, we control for *trade as a percentage of GDP*; data are from the World Bank’s World Development Indicators dataset.

Aid-receiving countries can signal certain qualities to donors in other ways, for instance by hosting branch offices of international non-governmental organizations (INGOs) and through ideological affinity with leading world powers. Developing countries that demonstrate their political commitment to supporting the politically liberal ideas of DAC donor and the “world polity” (Meyer et al., 1997), may be rewarded with higher flows of aid from these donors. We include a measure of the *logged number of INGO branch offices* with data from the Union of International Association’s *Yearbook of International Organizations*. This variable also captures the possibility that donors might come under pressure from INGOs who claim to have on-the-ground knowledge of the political realities in aid recipient countries. We also

include a measure of the *logged number of intergovernmental (IGO) memberships* a state belongs to in a given year.

All donor countries are not alike. While we do not offer an analysis at the level of the donor-dyad, scholars suggest that US aid policies differ from those of other DAC donors (Alsenia and Dollar, 2000; De Mesquita, and Smith, 2007). Given its super power status, US might continue to reward its allies and overlook their domestic policies as long as they serve US foreign policy interests. In our context, it is possible that the US will not sanction countries with restrictive laws because they closely follow the US agenda in the UN, or are closely allied with US military operations as proxied by US military aid. Hence, we also control for *US aid (logged)* and the *extent to which a country votes in agreement with the United States at the United Nations*. This latter variable is taken from the Affinity of Nations dataset. Countries that vote in tandem with the United States are less likely to be sanctioned by the one of the world's most important foreign aid donors when adopting a restrictive NGO finance law.

Our analysis also controls for a number of recipient characteristics that might influence aid inflows. First, we control for levels of *economic development* and *population size*, given that poorer and more populous countries often receive higher amounts of aid. Data on per capita income and population size come from the World Bank's World Development Indicators dataset; both measures are logged to control for skewness. Second, we test for the effects of religion and terrorism. In the wake of 9-11, donors might have changed their funding allocations to countries either for their help in the "war on terror" or as a punishment for their complicity in hosting terrorist groups. Donors may view Muslim-majority countries as potential hosts for terrorists, while shifted security and foreign aid priorities as a result of 9-11 may mean that the fight against terror is taking precedence over other foreign policy considerations. If so, then it is

plausible that Western donors will not be willing to crackdown on countries that have established stringent NGO laws because they might fear that this will destabilize them and turn them into havens for terrorists. We thus code countries with a majority Muslim population - defined as 50% or more of the population who is Muslim – with a binary variable. Data on Islamic population percentages comes from Correlates of War World Religion Dataset.

We further include data on two types of exogenous shocks that influence humanitarian aid allocations in particular: *armed conflict* and *extreme weather events*. States experiencing armed conflict might receive higher aid flows as donors try to inject financial resources to assist affected populations. We measure *armed conflict* as a dichotomous variable with data from the Uppsala/PRIO conflict dataset (version 4-2012). States that experience extreme weather events such as severe and prolonged droughts, floods, and hurricanes and other storms are also likely to see increased aid allocations. We measure *extreme weather events* as a dichotomous variable with data from the EM-DAT's International Disaster Database.

Results and Findings

As shown in Table 1 below, we find that the adoption of a restrictive NGO foreign funding law shows a negative and statistically significant association with bilateral ODA flows: on average, the onset of restrictive NGO finance law is associated with a 32% decline in ODA flows (logged) in the subsequent year. As long as this law remains in effect, the decline in bilateral aid continues, on average. In real terms, developing countries in the sample receive an average of \$307 million in foreign aid; a 32% (one-third) reduction represents nearly \$100 million less in aid, a substantial cut for many aid-receiving countries. We present the results presented in Model 1 in Figure 1.

Insert Table 1 Here

Insert Figure 1 Here

Of the international and domestic control variables, the lagged dependent variable, allocation of aid in the previous year, achieves statistical significance in the models. This supports the perceptions that aid decisions tend to show some level of path dependencies in that past actions tend to influence future decisions. Donors develop interests in specific countries and projects and tend to support them over a long-term period.

Recall that we are seeking to isolate donor response to restrictive financing laws, *not* their response to restrictions on NGOs or rolling back of democracy per se. We find that the democracy and civil liberty variables are not significant. This suggests that donors are not punishing countries for rolling back democracy or restricting political space for NGOs. Rather donor displeasure is focused on a specific issue: restrictions on their abilities to fund NGOs directly or indirectly to deliver aid.

We test two additional explanations for aid flows (Models 3–4): religion and 9-11. We re-run Model 1 by splitting the sample for majority Muslim countries. Our findings are presented in Model 3; our key result of the negative association of restrictive laws and aid flows holds. We also run our models for the post-2001 period only. As shown in Model 4, we find that our results hold.

To assess whether multilateral aid is affected by restrictive NGO laws, we re-run our models using data from the OECD's International Development Statistics database, denominated in (logged) millions of dollars. We present the results in Model 5 of Table 1; we

find that adoption of restrictions on foreign funding receipt by NGOs does not have an impact on multilateral aid flows. This suggests that multilateral donors do not consider NGOs to be a critical component of their resource delivery efforts. One reason might be that international organizations do not always follow the line dictated by their “principals”; they are able to exercise some level of autonomy (Winters, 2010); sometimes by playing off one principal against the other (Hawkins et al., 2006). Additionally, organizations have their own internal procedures and way of functioning; hence they may not want to penalize countries that have enacted restrictive laws.

Conclusion

Western donors increasingly rely on non-governmental organizations (NGOs) to deliver foreign aid to developing countries. While foreign aid is an important resource for aid-recipient countries, contributing to about 10% of their GDP, since the mid-1990s, 39 developing countries have adopted laws restricting the inflow of foreign aid to NGOs operating in their jurisdictions. In response to these restrictions, these countries have experienced a 32% decline in bilateral aid inflows in subsequent years *even after* controlling for different measures of democracy and civil liberty. Hence, donor response seems to be guided by the concerns about NGOs no longer being available, or have the capacity for effectively delivering foreign aid. While even in the 1990s scholars had warned the perils of NGOs becoming governmental subcontractors (Smith and Lipksi, 1993; Edwards and Hulme, 1996), this message seems to be lost with both donors and NGOs. Perhaps, restrictive laws and the concomitant decline in donor funding will motivate NGOs as well as donors to think about the political problems of the NGO funding model that uses NGOs as critical element of the global aid delivery system. Future work should explore the

consequences of aid reduction. Evidence from several countries suggests that the adoption of restrictive foreign funding laws has reduced aid flows and in turn led to a reduction in NGO numbers. Dupuy et al (2015) provide evidence that Ethiopia's new restrictive NGO law has prohibited most of its independent human rights organizations from accessing foreign funds. As a result, these organizations have nearly completely died out, as citizens are unwilling to financially support such groups. Revamped and enforced legal restrictions in India have also reduced foreign contributions to NGOs operating there, with unknown effects on social welfare and environmental work in the country.¹⁸

One might ask: what if governments enact these laws but not enforce them? After all, developing countries have a poor record of enforcing their own laws. Implementation gaps are an example of symbolic politics: states seek benefits of enacting laws but void the costs of enforcing them. Typically, there is an audience, domestic or international, that is pushing for a specific law and rewards states when such measures are enacted. Of course, in an ideal world, these audiences would like the states to enforce them as well. Implementation gaps arise when these actors do not have the capacity or willingness to monitor if the states enacting these laws are implementing them as well. But these laws allow these actors to claim credit for pushing through important changes. Many human rights treaties have been criticized on these grounds: many autocracies sign these treaties but do not enforce them (Hathway, 2007). Conceptually, this situation does not hold in the context of restrictive NGO funding laws. Powerful international actors do not want developing countries to enact these laws. In fact, governments enacting these laws risk the possibility of substantial reputational and monetary damage (as we show in the paper) with international donors and international media. Hence, it is difficult to imagine why aid recipient countries would enact them but not enforce them. As we suggest in the paper, countries

enact these laws because they sometimes believe that foreign funded NGOs tend to side with the regime's political opponents, a tendency that has been accentuated by the rise of "rights-based" language even in provision of basic public goods such as education and health.

Our paper opens up other new avenues for research about different ways in which donors may respond to restrictive NGO laws. First, donors are not alike and may be guided by different considerations when providing foreign aid. Scholars note that some donors tend to favor aid to countries with whom they have strong trade and investment ties, while other donors are guided by humanitarian considerations (Lundsgaarde et al., 2010). Donors may also seek to reduce or increase foreign aid due to their own domestic political and economic considerations such as economic recession that lead to budgetary cutbacks or the election of a regime that is not favorably disposed towards foreign aid (as in the US). With donor-recipient dyad as the unit of analysis, future work should systematically explore how donor characteristics might shape their response to such restrictive laws. Further, with the emergence of China and India as international donors (Kharas, 2007), it will be instructive to see if these non-DAC donors follow policies that are similar to specific DAC donors in this regard.

Second, donors might seek to circumvent the laws and perhaps seek to route their financial assistance through different channels. On the face of it, this can be challenging. Almost all funding from overseas donors to NGOs in recipient countries is through the official banking system. Once recipient countries enact these laws, these resource flows are subjected to government scrutiny. Yet, might donors seek to offset the reductions in bilateral aid through other channels. We do not find donors offsetting through multilateral aid institutions in whose governance they plan an important role. But bilateral military aid might offer an opportunity in this regard. Military forces are often involved in efforts to win hearts and minds in their efforts at

national building in overseas countries (Dobbins, 2003; Lischer, 2007). Some militaries do so by building hospitals and schools, an activity that NGOs might have undertaken on their own. While this does not replace the funding that donors provided to NGOs, it does allow donors to continue support some types of development program in recipient countries.

Finally, scholars should examine the spillover effects of such restrictions on other types of overseas financial inflows to developing countries. On the one hand, the enactment of such laws can signal political instability and depress, for instance, tourism flows. But on the other hand, if donors want punish countries enacting these laws, they could orchestrate such spillover effects through policy measures. For example, donor governments could actively discourage their firms from undertaking foreign direct investment in these countries. Or, donor governments could discourage their tourists from visiting these countries; the US State department tends to issue travel advisories and there is some work that suggest that such advisories influence tourism in the targeted countries (Löwenheim, 2007). We believe that a study of such spillover effects, whether or not orchestrated by donor governments, will allow an assessment of the full economic and political implications of new NGO laws on aid-recipient countries.

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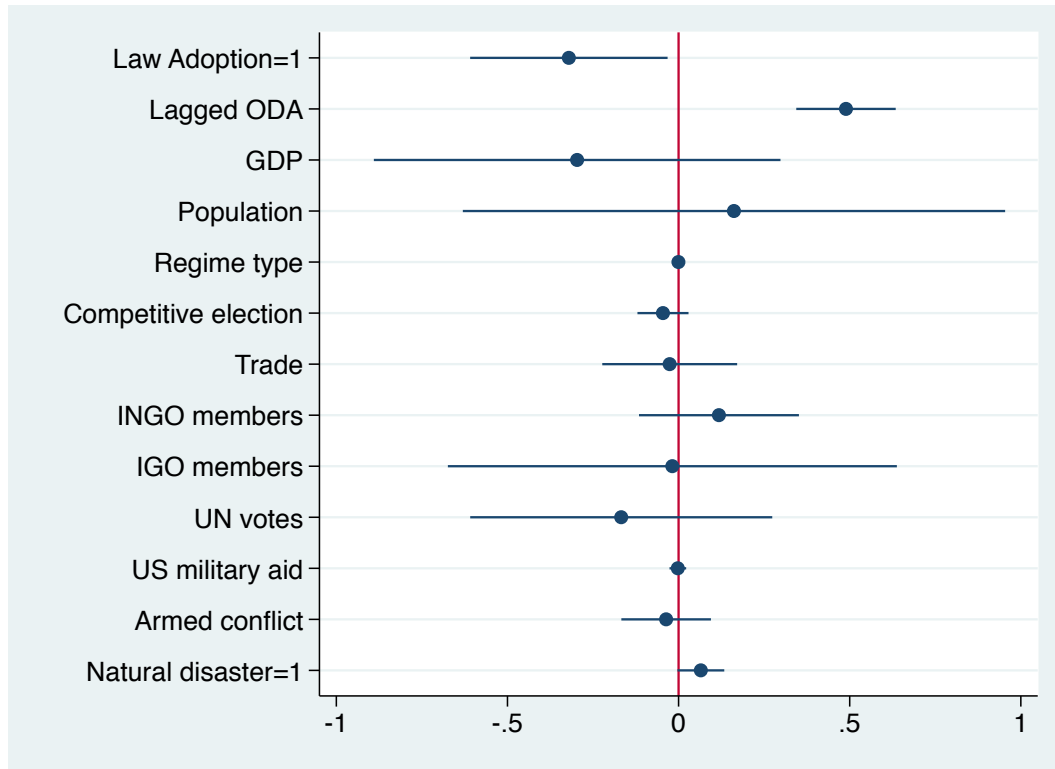
Table 1: Time series models with country and time fixed effects

	Model 1	Model 2	Model 3: Islam subsample	Model 4: Post-2001 subsample	Model 5: Multilateral aid
Key variable of interest					
Onset of restrictive law	-0.320* (0.145)	-0.304* (0.140)	-0.622*** (0.155)	-0.528** (0.182)	-0.025 (0.107)
International controls					
Logged ODA	0.489*** (0.073)	0.365*** (0.077)	0.309* (0.149)	0.215 (0.143)	0.303*** (0.061)
Logged trade	-0.025 (0.099)	-0.118 (0.121)	0.013 (0.218)	0.216 (0.265)	-0.108 (0.145)
Logged INGOs	0.117 (0.117)	0.225 (0.139)	-0.249 (0.304)	-0.468 (0.729)	0.182 (0.179)
Logged IGOs	-0.018 (0.330)	0.092 (0.344)	0.505 (0.722)	-0.307 (0.796)	-0.509 (0.388)
UN votes with the US	-0.167 (0.222)	0.040 (0.339)	-0.470 (0.329)	-0.585 (0.832)	0.102 (0.355)
Logged US military aid	-0.002 (0.012)	-0.007 (0.014)	0.008 (0.026)	-0.030 (0.032)	-0.048* (0.019)
Domestic controls					
Polity	-0.0003 (0.005)		-0.014 (0.010)	0.005 (0.014)	0.027* (0.011)
CIRI empowerment		0.003 (0.010)			
CIRI physical		0.023 (0.014)			
Free press		0.094* (0.037)			
Competitive elections	-0.045 (0.037)	-0.051 (0.037)	-0.125 (0.067)	-0.064 (0.055)	-0.111** (0.040)
Logged GDP	-0.296 (0.299)	-0.031 (0.277)	0.474 (0.485)	-0.419 (0.593)	-0.214 (0.347)
Logged population	0.161 (0.399)	0.334 (0.468)	-1.062 (1.054)	1.188 (1.400)	0.655 (0.534)
Armed conflict	-0.036 (0.065)	-0.031 (0.073)	0.023 (0.090)	-0.022 (0.162)	0.112 (0.093)
Extreme weather	0.065 (0.034)	0.061 (0.040)	0.023 (0.090)	0.062 (0.051)	0.063 (0.042)
<i>Constant</i>	1.5985	-3.4354	4.5425	-8.7317	-4.1596
<i>N</i>	907	891	259	440	891
<i>Within country R²</i>	0.3313	0.2348	0.3732	0.1942	0.2502
<i>Notes: Robust standard errors are clustered by country and are reported in parentheses.</i>					

<i>*p < 0.05</i>	<i>**p < 0.01</i>	<i>***p < 0.001</i>	
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Figure 1

Coefficients from Model 1 (95% confidence band)



Notes

¹ Civil society and voluntary sector organizations undertake different types of activities. Scholars differentiate nonprofits that deliver goods and services from activist organizations that seek to influence policy. Other organizations provide merit goods and undertake advocacy. Because donors fund nonprofits and activist groups, and the government crackdown also targets both types of organizations, we use the generic term “NGO” to reflect governments’ intent in enacting these laws.

² The increased reliance on NGOs to deliver public services is evident in the domestic sphere as well (Smith and Lipsky, 1993).

³ stats.oecd.org

⁴ In recent years, several OECD-led initiatives have addressed the issue of aid effectiveness (<https://www.oecd.org/dac/effectiveness>). These include: the 2005 Paris Declaration on Aid Effectiveness, the 2008 Accra Agenda for Action, and the 2011 Fourth High Level Forum on Aid Effectiveness in Busan, South Korea.

⁵ “Trade not Aid, Says Minister.” The New Vision, <http://www.newvision.co.ug/D/8/220/362360>. Published May 26, 2004

⁶ <http://www.state.gov/r/pa/prs/ps/2011/01/154323.htm>

⁷ http://carnegieendowment.org/files/closing_space.pdf

⁸ http://www.transparency.org/news/pressrelease/transparency_international_condemns_proposed_restrictions_on_civil_society

⁹ <https://www.boell.de/en/intlpolitics/africa-closure-heinrich-boell-foundation-office-ethiopia-background-16060.html>

¹⁰ For a listing of DAC countries, see <http://www.oecd.org/dac/dacmembers.htm>

¹¹ <http://www.oecd.org/development/stats/idsonline.htm>

¹² See <http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm> and <http://stats.oecd.org/qwids/about.html>

¹³ As a robustness check, we also run the models with bootstrapped standard errors. Our results hold.

¹⁴ One way to think of restrictions is that they increase the costs of doing business for NGOs. New reporting requirements, while may seem relatively trivial on paper, may actually impose substantially higher burden on NGOs than the more explicit requirements. Banning inflow of foreign funds is the other end of the continuum. Hence, instead of looking at a subset of restrictions, we look at the full gamut of restrictions

¹⁵ We note two methodological choices here. First, in terms of timing, we do not code the implementation of laws but rather the time at which they are formally adopted. Second, we do not lag the measure for law onset in order to control for a possible lag in implementation time, as there is no existing data or theory to suggest a typical pattern in the time it may take a country to fully implement a law. Instead, we assume that donors react when laws are adopted, and that donors are likely to express displeasure even before this, i.e. when governments announce intent to enact a restrictive NGO finance law.

¹⁶ While these laws differ across countries, donor response is not about the degree of restriction, but whether such restrictive laws have appeared in the first place. From a public policy perspective, the pushback by donors, international NGOs, and the media is aimed at any country that has enacted such laws.

¹⁷ In total, 44 countries changed their laws: 39 made them more restrictive (coded as “1”) and 5 countries made them less restrictive (coded as “0”).

¹⁸ See <https://www.newslaundry.com/2016/05/20/under-modi-government-foreign-funding-of-ngos-has-come-down>