

Foreign Aid, Electoral Politics, and Subnational Development: Analyzing the Conditional Efficacy of World Bank Projects in India

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*Abstract*¹

In spite of the large amounts of money, time, and effort spent on improving the condition of people in developing countries, most studies on the impact of foreign aid have only found modest effects in addition to significant variation between as well as within developing countries. This paper focuses on the understudied causes of variation in domestic aid efficacy. While allocation and implementation of aid projects are affected by donor governments, multilateral aid agencies, non-governmental organizations (NGOs), and a wide variety of private actors, the domestic political leaders of recipient countries play a particularly important role. Based on work by Dreher et al. (2016) and others, we develop a theoretical claim for how electoral incentives make office-seeking leaders engineer higher levels of aid effectiveness for the specific constituencies they rely on for political survival. We empirically test this argument using a mixed-methods approach. Combining a statistical analysis of geocoded subnational development World Bank and Global Data Lab data (1991-2016) with evidence from comparative case studies of the two Indian states of Jharkhand and Kerala, we find the effects of aid on development, as measured by states' ability to attain a variety of United Nations (UN) Millennium Development Goals (MDGs), to be conditioned by local-national partisan alignment in Lok Sabha elections as well as the quality of local institutions. When the incentives of the national government and development projects align, foreign aid can effectively promote economic and human development.

Keywords: aid efficacy, subnational development, electoral politics, office-seeking politicians, partisan alignment, institutional quality, geocoded data, World Bank, India

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The West spent \$2.3 trillion on foreign aid over the last five decades and still had not managed to get twelve-cent medicines to children to prevent half of all malaria deaths.

William Easterly, *The White Man's Burden* (2006)

Despite enormous amounts of money and effort spent on assisting developing countries, all we have seen are small and seemingly insignificant changes at the macro- or country-level (Hansen & Tarp, 2000; Doucouliagos & Paldam, 2008). While the 'aid industry' has grown substantially in recent decades and a myriad of actors and institutions have been involved in development assistance, it remains unclear whether these efforts have been contributing more to the solution or the problem. Nonetheless, it is essential for us to discuss, analyze, and understand the causes and consequences of the gap between rich and poor as well as the social issues that this gap creates at global, national, and local levels.

Attempts to identify the ideal aid recipient or donor-qualities that make for a conducive environment for development have been plentiful, yet very few have been fruitful. Recent studies have considered the conditions under which aid is provided and received as well as 'getting the incentives right' to realize official development assistance's (ODA) full potential (Molenaers et al., 2015). However, what many in the 'aid industry' still fail to understand is that development does not work in a cookie-cutter fashion. We must turn our attention to why and how governments choose or fail to address the challenges they face. These are exactly the type of questions this paper focuses on by analyzing national governments' political incentives to favor

the successful implementation of some aid projects over others. Our research opens the ‘black box’ of country-level research and has a subnational focus, analyzing why some regions develop faster than others and whether domestic political interests associated with ODA work to speed up or slow down development.

Following a brief review of recent research on aid allocation and effectiveness, we develop our theoretical argument on the interaction between domestic electoral politics, ODA, and development. In the empirical section of the paper, we first test our argument’s empirical implications with the help of newly compiled data on general vs. state-level election results for the 36 states and union territories (UTs) of India, geocoded flows of World Bank project aid, as well as various subnational indicators of economic and social development that are modeled on the eight UN Millennium Development Goals over a period of 25 years. In the second part of the empirical analysis, we complement our statistical results with a closer look at two subnational regions within India. In line with our theoretical predictions and quantitative evidence, the case studies of the two most-similar states of Kerala and Jharkhand demonstrate how electoral politics drives aid effectiveness at the local level. In addition, the qualitative evidence reveals an additional interaction of local-national partisan alignment and good governance that results from strong local institutions, finding that weaker or absent Panchayati Raj institutions create a hotbed for corruption that undermines development even where the Indian government has incentives to promote the success of aid projects and development. Our paper concludes with a roadmap for future experimental and survey-experimental research that aims to ‘unmask’ the causal mechanisms underlying our theoretical claims about politician’s electoral incentives to manipulate foreign aid efficacy at the subnational level.

Interests, Institutions, and Aid Effectiveness

A growing section of the aid literature has been turning towards analyzing the dynamics of political leadership and favoritism as a means of distorting the allocation of aid and development projects among the subnational regions of countries – a trend that is essential to the study of the effectiveness of aid as well. Aid allocation is often driven by colonial ties or to curry favor with the leaders of recipient countries, serving the strategic interests of donor governments (Alesina & Dollar, 2000; Watson, 2013; Bearce & Tirone, 2010). This line of research also explains why aid has consistently been found to be mostly ineffective or has even had negative effects on growth (Pritchett & Woolcock, 2004). As a consequence, this has led to some changes of how donors work with recipient governments or around them by directly financing NGOs in order to avoid issues related to aid fungibility, aid capture, and the recipients' institutional environment (Collier & Dollar, 2004; Dietrich, 2016; Dalgaard & Erikson, 2009).

We know that the allocation of aid projects is affected by donor governments, multilateral aid agencies, NGOs, and a wide variety of private actors, and political leaders tend to have the ability to funnel some foreign aid to their supporters. Research on the politics of foreign aid in Africa has established a clear link between ethnic favoritism and subnational aid allocation (Dreher et al., 2016). In Malawi, areas with greater proportions of major ethnic groups have a higher chance of receiving aid, and President Mutharika's term was characterized by the appointment of leaders from his ethnic group to all branches and levels of the government (Marty et al., 2017). Infrastructure development projects in Nigeria were implemented in committee members' own constituencies, receiving funds earlier in the project cycle than those

in other constituencies.² Further highlighting the domestic politics of aid, a World Bank study on mass bed-net distribution in Tanzania found that politicians calculated the timing and frequency of programs to maximize their vote-buying effects.³

Of course, this type of favoritism is not confined to Africa. De Luca et al. (2017) find evidence in Bolivia, Pakistan, and Ukraine that certain ethnographic regions have higher amounts of nighttime light intensity and higher GDPs, and development policies have been known to drive subnational conflict in Myanmar, where government-supported leaders of ethnic armed groups are given the freedom to determine project locations.⁴ Just as the leaders of country X decide to allocate a strategically-significant amount of aid to country Y in an effort to curry-favor, political leaders within countries utilize this same logic when it comes to aid policies and allocation. When given the freedom to freely allocate aid, observational research suggests that the political leaders of recipient countries partake in favoritism of regions that they have personal ties to or use aid to buy votes or reward government supporters (De Matteis, 2013).

Taking these insights a step further, we not only analyze allocation, but consider how aid effectiveness is also subject to manipulation by means of government support. Even when they

² Rogger, D. The Consequences of Political Interference in Bureaucratic Decision Making. Evidence from Nigeria. August 2018. World Bank. <http://documents.worldbank.org/curated/en/655741534339259848/pdf/WPS8554.pdf>

³ Croke, K. The Impact of Mass Bed Net Distribution Programs on Politics. Evidence from Tanzania. February 2017. World Bank. <http://documents.worldbank.org/curated/en/266691486496858047/pdf/WPS7963.pdf>

⁴ The Asia Foundation: *The Contested Areas of Myanmar: Key Findings in New Asia Foundation Story*. October 18, 2017. <https://asiafoundation.org/2017/10/18/contested-areas-myanmar-key-findings-new-asia-foundation-study/>

are not able to affect aid's allocation, politicians still have incentives to manipulate its effectiveness for political gain. Specifically, we argue that office-seeking leaders have electoral incentives to engineer higher levels of aid effectiveness for the specific constituencies they rely on for political survival (Bueno de Mesquita et al., 2005). Political leaders have incentives to affect subnational aid effectiveness via administrative project support, matching funds, etc., to 'buy' the ongoing support of their electoral winning coalition. As a result, aid – controlling for the initial level of development – leads to faster development in districts aligned with the national government, and we expect to observe:

Hypothesis 1a: If there is local-national partisan alignment, foreign aid leads to more development.

While this argument contributes to the aid literature, it is also in line with classic theoretical and more recent empirical work on federalism, regional integration, and distributive politics in both political science and economics (cf. among others Cox & McCubbins, 1986; Grossman, 1994; Levitt & Snyder, 1995; Brollo & Nannicini, 2012; Migueis, 2013; Dellmuth & Stoffel, 2012; Kramon & Posner, 2013). In short, reelection-seeking, survival-maximizing, risk-averse incumbents at the national level support their core supporters, i.e., those subnational regions or states that align with their own political party. As developmental success in non-aligned states can be used by opposition parties to advance their national-level prospects, the electoral incentives are stacked in favor of making foreign aid work in aligned states and undermining the effectiveness of development projects where the opposition has the electoral upper hand.

However, work on path dependence also shows that strong institutions can restrict how far actors are able to exert their influence, while weak institutions open the doors for politicians

to manipulate policies within a state (Huber & Stephens, 2001; Pierson, 2004). As a result, we also hypothesize that aid leads to faster development not just in any region that has government support, but specifically in states where there are strong institutions, good governance, and the capacity to constrain the self-serving interests of local actors.

Hypothesis 1b: The aid effectiveness increasing effects of local-national partisan alignment are mediated by the quality of local institutions and governance.

Even with partisan alignment, the success of government-supported development projects can be undermined by weak institutions and corruption. Likewise, strong institutions may still produce better development even where and when regions are unaligned with the central government as good institutions can make political processes less susceptible to undue influence by local political actors and prevent inequalities in development (Brady et al, 2016).

Testing Interest and Institutions

To empirically test whether local-national partisan alignment (in combination with local institutions) can explain subnational variation in foreign aid effectiveness, we combine a large-n statistical analysis with case study evidence from two Indian states. The quantitative analysis provides the big picture and outlines the effects of domestic politics on subnational aid efficacy, the case studies provide a narrower perspective and might fill in some of the gaps that a broad statistical brush leaves behind.

Both the quantitative and qualitative parts of our study analyze India as the country presents a near-ideal case for a number of reasons. Based on the World Bank's income level classification, which ranks countries on their GNI per capita, India falls into the lower middle-

income country (LMIC) group. With a GNI per capita range of \$996-3,895, LMICs are not the poorest countries and have experienced some level of development. Among them, India is currently one of the fastest-growing economies in the world. However, this success has been coupled with (not only regionally) uneven development (World Bank, 2019). Furthermore, India is a democracy and Indian data are more widely and readily available than those of other LMICs with similar political, economic, and developmental profiles. In particular, these data include geocoded data on state-level politics, such as general election results by region and control of local governments and legislatures, aid projects, as well as sub-national data on a wide variety of economic and human development indicators that allow us to adequately examine aid effectiveness with an eye on the achievement of UN MDGs within and across Indian states and UTs.

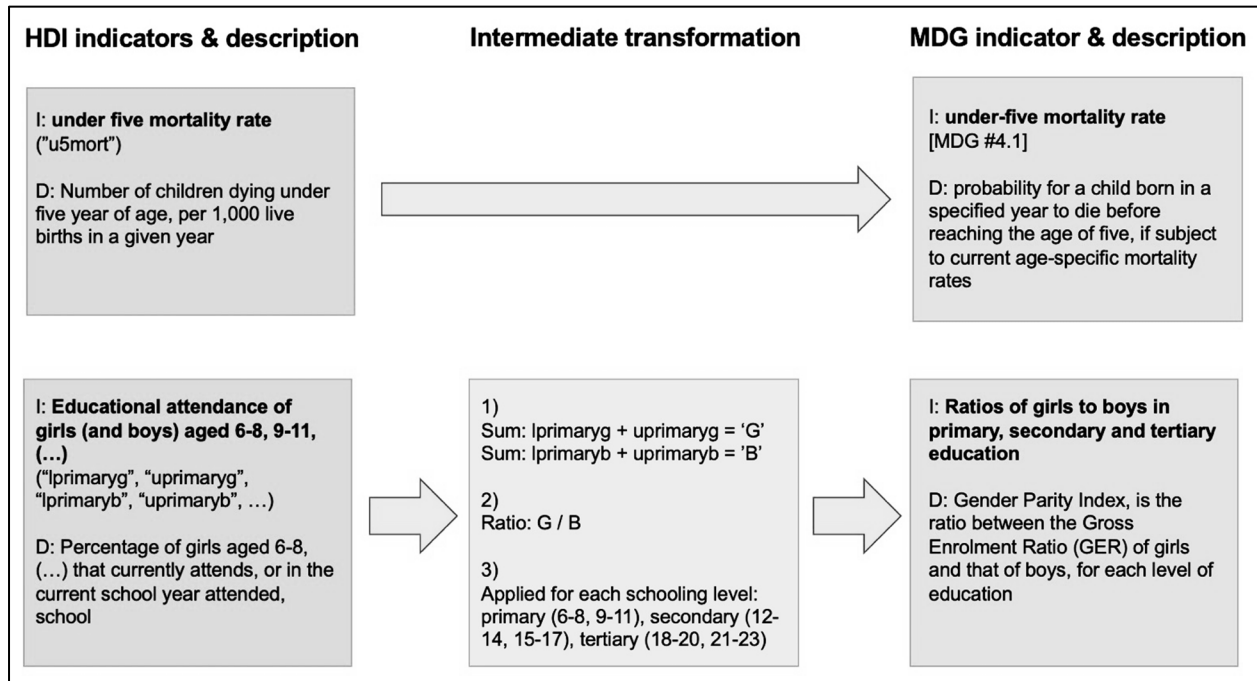
In addition to data availability and variation on the relevant variables for our analysis, India features some of the ‘background conditions’ that may facilitate the causal story that we outlined in the theoretical section above. There is not just uneven development and political fractionalization, but India has at least two major ethnic groups, five major religions, and 15 official languages. India is among the most diverse countries in terms of the number of ethnic, religious, and linguistic groups, and Alesina et al. (2003) note that greater diversity is associated with higher levels of corruption. Overall, it has been theorized that democracy faces difficulties in highly diverse and divided settings (Dahl, 1973; Rabushka & Shepsle, 1972), potentially leading to the type of pathologies we hypothesize, e.g., the strategic manipulation of aid effectiveness for political gain.

Statistical Analysis

Subnational data are scarce. While most developmental indicators are available at the country level, this is not the case for regions or states. This at least partially explains the limited amount of research and publication on aid efficacy and variation in development between regions within countries.

While the focus of our study is subnational variation in the achievement of the UN's MDGs, there is currently no large-scale UN data on the MDGs at the regional level. Therefore, we have to rely on indicators from the Human Development Index (HDI), an initiative of the Global Data Lab at Radboud University's Nijmegen Center for Economics (NiCE). The HDI dataset includes a wide variety of indicators measured at both national and subnational levels for a large number of LMICs through the aggregation of household survey data in combination with World Bank World Development Indicators data on population size. The surveys include the Demographic and Health Surveys (DHS), UNICEF Multiple Indicator Cluster Surveys (MICS), Integrated Public Use Microdata Series (IPUMS) International, Afrobarometer Surveys, and Pan Arab Project for Family Health (PAPFAM) among others.

Figure 1: HDI to MDG Transformation



Using the HDI database, we were able to generate our own MDG indicators modeled on seven out of the eight MDGs. Figure 1 illustrates how we used HDI data to create regional development indicators that closely match the UN's MDGs. While various indicators from the HDI (e.g., under-five child mortality rate, percentage of children with at least one dose of measles vaccination, and adolescent fertility rate 15-19) directly matched up with the indicators specified for the UN MDGs, others required transformations. For instance, the HDI dataset contains indicators on the school enrollment of both girls and boys from the ages of 6-8 and 9-11. These needed to be combined to line up with the corresponding MDG of gender parity for each level of schooling (i.e., primary, secondary, and tertiary). Similarly, we created the

following developmental covariates or measures of aid effectiveness that correspond closely to the UN MDGs⁵ (MDG: indicator or indicators):

1. Eradicate extreme poverty and hunger: % of underweight children; % households with IWI < 35
2. Universal primary education: % of children aged 6-8 attending school
3. Gender equality and empowerment of women: male - female % of children attending school
4. Reduction of child mortality: infant and child mortality rates; % of immunized children
5. Improvement of maternal health: fertility rate of adolescent women
6. Combating HIV/AIDS, malaria, and other diseases: not available
7. Ensuring environmental sustainability: % of households with piped water and flushed toilet
8. Developing a global partnership for development: % of households with phone, cellphone, and internet access

Of course, all these indicators and data need to be taken with a grain of salt. Development data are already problematic at the country level (e.g., there are significant differences between the under 5 infant mortality rate reported by the UN Statistics Division and the U.S. Agency for International Development funded Demographic and Health Surveys program), and subnational data and their sources deserve an even higher degree of scrutiny.

Geocoded data on all IBRD and IDA World Bank project disbursements come from AidData (2017), which provides information about project name, location(s), start and end dates, administrative sector names, project status, and commitment and disbursement amounts per

⁵ The statistical analysis in this paper only uses our MDG #1, #2, #4, and #5 indicators % of underweight children, % of children aged 6-8 attending school, infant and child mortality rates, and fertility rate of adolescent women.

project. Using these data, we created new ‘even split’ indicators that, respectively, measure the overall amount of commitments and disbursement per Indian state or UT and year. Total project amounts were evenly split among the states that were part of a project and the years of multi-year projects.

Finally, national and state-level election results were obtained from the Election Commission of India (2018) to create our intervening partisan alignment variable. Based on the results from the 10th-16th Lok Sabha elections, we were able to gauge the level of alignment of Indian states and UT had with the national government during the MDG era. Any of the 36 states and UTs aligned with the government in a given year were coded as 1, non-aligned states and UTs were coded as 0. In the few instances where a state had a ‘split allegiance’ due to a tie between the two major parties, i.e., the Bharatiya Janata Party (BJP) or National Democratic Alliance and the Indian National Congress (INC) or United Progressive Alliance, we coded them as 0.5. The 10th-16th Lok Sabha elections cover the entire 1991-2016 period for all states and UTs. Of course, some exceptions exist. Namely, Chhattisgarh, Jharkhand, and Uttarakhand did not exist pre-2000 and were newly formed in November 2000. Similarly, Telangana was formed in June 2014, and elections did not take place in both Jammu and Kashmir state and Punjab in 1991.

Table 1: The Politics of Aid Effectiveness

MDG:	#1	#2	#4	#5
Aid	-0.001* (0.001)	0.002** (0.001)	-0.005* (0.002)	0.000 (0.001)
Alignment	-1.607** (0.696)	2.323** (1.185)	-4.515** (1.873)	0.205 (1.262)
Aid * Alignment	-0.001** (0.000)	0.001** (0.001)	-0.002* (0.002)	0.000 (0.001)
MDG _{t-1}	0.965*** (0.020)	0.946*** (0.020)	0.872*** (0.055)	0.968*** (0.023)
Controls	yes	yes	yes	yes
Fixed-effects	yes	yes	yes	yes
Constant	0.246 (0.873)	-1.250 (0.986)	1.626 (2.309)	-5.283*** (0.916)
Observations	525	525	525	525
R ²	0.952	0.926	0.947	0.980

Robust standard errors in parentheses. * p < 0.1. ** p < .05. *** p < .01.

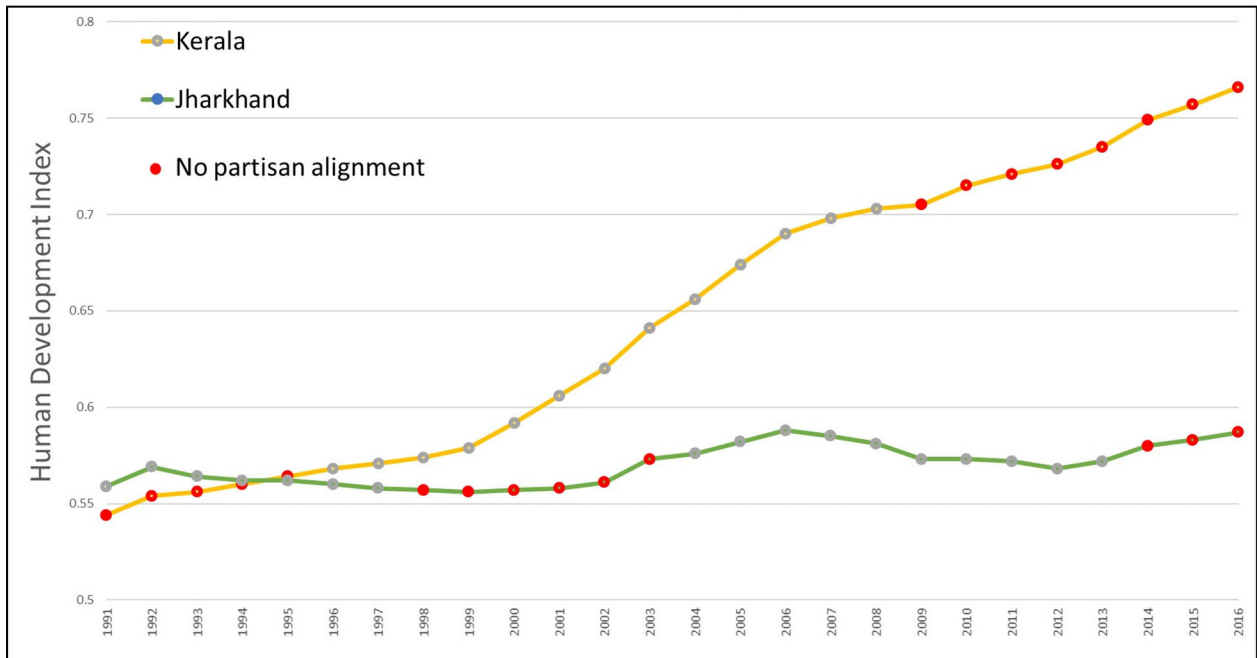
Using the variables discussed above and instrumental variable regression, where we used population size as an instrument for aid, we analyzed the effects of development projects, partisan alignment, and – most importantly – the interaction between aid and alignment on the four MDG outcomes % of underweight children, % of children aged 6-8 attending school, infant and child mortality rates, and fertility rate of adolescent women. All of the models in table 1 included a number of control variables, incl. an election counter and the % of poorest households with an International Wealth Index value under 35, a lagged dependent variable, and fixed state-effects.

While the interpretation of the regression results based on table 1 alone is tricky, all of the coefficients point in the right direction, and (not only) the interaction term between annual aid distributions and local-national partisan alignment in Lok Sabha elections is statistically significant for the eradication of extreme poverty and hunger, universal primary education, and reduction of child mortality. In other words, the data support our hypothesis for three of the four MDGs we tested. While electoral politics significantly affects most indicators of aid effectiveness, this is not the case for improvements in maternal health. Overall, this gives us confidence that the hypothesized relation exists and partisan and electoral politics plays a role in determining subnational variation in MDG attainment, i.e., where and when foreign aid has a positive and significant effect on development – and where and when it does not.

Case Studies

We complement our quantitative analysis with a comparative case study of two ‘most similar’ Indian states. Our selection of Kerala and Jharkhand is based on their human development ranking among all Indian states at the beginning of the time period of 1991-2016, their diverging development over that period, as well as the variation in institutional quality and partisan alignment during years dominated by the Indian National Congress (INC) and the Bharatiya Janata Party (BJP) at the national level. Following a quick introduction to India’s socio-economic development and politics, we take a closer look at each of these two states that provides substantial anecdotal evidence in support of our statistical findings and theoretical claims about partisan alignment, institutional capacity, aid, and development.

Figure 2: Development of Kerala and Jharkhand, 1991-2016



Sources: Global Data Lab; Election Commission of India

A simple glance at figure 2 raises the question: why the difference? Starting shoulder-to-shoulder at nearly the same level of human development (0.55 and 0.54, respectively) in 1991, the Indian states of Jharkhand and Kerala ended up at opposite ends of the development spectrum by 2016 (0.59 and 0.77, respectively). While Jharkhand experienced a rather stagnant growth pattern (average annual growth of 0.0024) during virtually the entire 25-year period, Kerala's average rate of growth was over five times higher (0.0132). This rapid development has made Kerala the flagship of development in India, and today it is ranked the #1 best-governed state in India according to the Public Affairs Centre think tank's Public Affairs Index (2018). On top of this, Kerala was declared as the first state with 100% mobile density in 2016, and in the

following year, the state declared the internet as a basic human right for its citizens.⁶ On the flip side, Jharkhand seems to have missed the boat to development and was ranked near the bottom (33 out of 36) in 2017.

While the figure clearly displays the difference in development and partisan alignment that we statistically tested above, it also hints at how institutional capacity can play a role in ‘setting-the-bounds’ for development potential in line with our hypothesis 1b. By taking a closer look and treating the development paths of Kerala and Jharkhand, we can see that although partisan alignment may be rewarded with better development outcomes, like Kerala’s particularly high growth rates during the years of alignment in the late 1990s and early 2000s, there are instances of changes in alignment, but little change to development. Jharkhand did not experience a boost to its development during the first decade of the 21st century, and Kerala saw continued growth in the 2010s. These discrepancies from a purely electoral politics-based explanation can be traced back to state-level variation in the institutional environment, which the individual case studies explore below.

India

Prior to delving into the two regions, it is essential to touch upon the current status of development and politics in the country as a whole. Despite its bustling businesses in recent years, India faces various challenges for development and the quality of life of its citizens. Nearly 70% of its residents live in rural areas where access to the nation’s recent developmental

⁶ Press Trust of India: *Kerala best governed state in India, Bihar the worst: Report*. July 23, 2018. <https://www.moneycontrol.com/news/india/kerala-best-governed-state-in-india-bihar-the-worst-report-2744871.html>

accomplishments and resources remains limited. The country's goals are to reach high-middle income status by 2030, but critical indicators in social and human development remain jaded, and it is unclear whether recent economic growth rates can be sustained.

There are two main political parties in India, the United Progressive Alliance (UPA), led by center-left Indian National Congress and the National Democratic Alliance (NDA) government, led by the right-wing Bharatiya Janata Party. Narendra Modi, current Prime Minister and BJP leader, has been characterized for harnessing particularly 'polarizing topics' to control voter support (Freedom House, 2019), turning a blind eye to common harassment and violence against the media in spite of the Indian constitution's guarantees of freedom of expression, and his inadequate response to the country's level of corruption. Transparency International's (2018) Corruptions Perceptions Index (CPI) places India 78th out of 180 countries, and corruption can be found at every level of India's political system. As the country is a *de facto* federal, parliamentary republic with relatively high levels of decentralization, where power has been devolved to its states and UTs, country-level indicators, like the CPI or the World Bank's Governance Indicators on rule of law, government effectiveness, regulatory quality, and control of corruption, do not provide the complete picture. These indicators do well at outlining the country's governance as a whole, but subnational data on these parameters do not exist. Therefore, we delve into a qualitative comparison of Jharkhand and Kerala, two states that used to be very similar in their level of development, but could not be more different today (cf. table 2). These two regions provide the opportunity to assess how the interplay of politicians and good governance institutions affect aid effectiveness at the local level in developing countries.

Table 2: Development indicators, 2015-2016

	India	Kerala	Jharkhand	
GDP (USD), 2018	2.6 tr	107 bn	43 bn	IBEF
GDP per capita (USD), 2018	2,015	3,089	910	IBEF
Rural population (%), 2011	69	52	76	WB
Poverty rate (%), 2012	22	8	37	WB
Life expectancy (years), 2014	67.9	74.9	66.6	Gov
Adult literacy (%), 2012	70	94	62	WB
Secondary education (%), 2012	32	43	28	WB
Fertility rate, 2016	2.2	1.8	2.6	Gov
Infant mortality rate (per 1000), 2013	40	12	37	WB
Clean drinking water (%), 2012	56	76	29	WB
Open defecation (%), 2012	45	2	74	WB

Sources: India Brand Equity Foundation (IBEF); World Bank (WB); Government of India (Gov)

Kerala

Located on the southwest tip on the Malabar Coast of India, Kerala is bordered by fellow states Karnataka and Tamil Nadu as well as the Lakshadweep and Arabian seas. By population, it is the 13th largest and experiences an extremely high population density of 869 people per square kilometer, nearly 14 times higher than the world average. Established on November 1, 1956, the state now comprises a total of 14 districts with the Keralan capital in Thiruvananthapuram. Kerala's \$110 billion gross state domestic product (GSDP) is mainly comprised of tourism, information technology, manufacturing, and mining. Its location also makes it ideal for international trade, and its simple and transparent business regulation makes it a major hub for investment in its major sectors (India Brand Equity Foundation, 2019).

Known as India's Human Development Index (HDI) leader, its consumption-based HDI was already comparable or even above that of many developed nations during the 2007-2008 period. Its literacy rate skyrocketed from 47% in 1951 to 89.8% in 1991 and 94% today. While India's national life expectancy at birth is 68 years, Keralans can expect to live up to 10 years longer. There is a particular tradition of matrilineal inheritance in Kerala, where opportunities for women in education and employment have translated into lower birthrates. The World Health Organization (WHO) and United Nations Children's Fund (UNICEF) have designated Kerala as the world's first 'baby-friendly' state because of its effective promotion of breast-feeding over formula. In 2014, it became the first state to offer free cancer treatment for the poor via its Sukrutham program. These are just some of the numerous benefits of development Kerala has seen, largely alien and absent in India's other states. Kerala's model of development has come to be known and characterized by achievements in education, healthcare, high life expectancy, low infant mortality, and low birthrate through the creation of *social* infrastructure rather than just *productive* infrastructure. Additionally, Kerala has a set of wealth and resource redistribution programs that have thoroughly boasted its high quality of life indicators across the state. The state also has comparatively higher government spending on primary education, healthcare, and poverty elimination.

With such indicators as higher literacy, educational attainment, political participation, and activism among ordinary people, Kerala has an advantage in combatting corruption. Rishiraj Singh, State Excise Commissioner, noted that the state is based on the service sector and is not subject to reliance on big industry like other states, and Chief Minister Pinarayi Vijayan announced the regular publication of an anti-corruption index in order to bolster Kerala's reputation as the least corrupt state and the further elimination of corruption (Times of India,

2019). The Government of Kerala has also made efforts to ensure the quality implementation and sustainability of development projects in its state. For instance, the government conducted several economic and design studies prior to the early stages of project appraisal for the World Bank-funded Kerala State Transport World Bank Project, 2002-2010.⁷ Similarly, the state actively led the scaling-up of community-based schemes as part of the Rural Water Supply and Sanitation Project, 2011-2017.⁸

Jharkhand

In spite of its very similar level of human development in the 1990s, Jharkhand could not be more different than Kerala today. The state borders Bihar, Uttar Pradesh, Chhattisgarh, Odisha, and West Bengal and is the 16th largest Indian state by area. Located in the eastern portion of India, its climate varies – humid and subtropical in the north, tropical wet and dry in the southeast. Much younger than the state of Kerala, Jharkhand was officially formed on November 15, 2000, by the Bihar Reorganisation Act, and while younger states tend to face initial ‘teething’ issues, a 2005 study revealed that Jharkhand had performance lower on development indicators than other newly created states, namely, Chhattisgarh and Uttaranchal.

⁷ World Bank. 2011. India - Kerala State Transport Project (English). Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/838011468257965263/India-Kerala-State-Transport-Project>

⁸ World Bank. 2019. India - Second Kerala Rural Water Supply and Sanitation Project (Jalanidhi II) (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/133041577206413825/India-Second-Kerala-Rural-Water-Supply-and-Sanitation-Project-Jalanidhi-II>

Jharkhand was created as a ‘tribal state’ when it was carved out of the southern part of Bihar. With 24 districts and its capital in Ranchi, 61% of the population speaks Hindi. According to the 2011 census, 68% of the population practices Hinduism, while 14.5% are Muslims. As the 14th largest state by population, with a density of 414 people per square kilometer, its population is mostly rural, with only 24% living in cities, and its birthrate is high.

Jharkhand’s GSDP averaged a 4.8% growth over the period of 1993-2003, however, almost all sectors in the state revealed high volatility in growth throughout those years. Jharkhand suffers from what scholars often term the ‘resource curse’ with mineral exports making up more than 40% of its economy. Residents of Jharkhand have a low GSDP per capita (\$910 in 2018) and a medium HDI score. The literacy rate is low at 67.6% and was ranked 31st among the 36 Indian states in 2011. Life expectancy is also low (63.5 years), and people experience a variety of endemic health issues, such as tuberculosis and those resulting from poor infrastructure and fluoride in the groundwater. On top of those numbers, Jharkhand saw various lynching incidents, a baby-selling scandal, and the gang rape of activists involved in raising awareness against human trafficking in recent years (India Today; DW; BBC).

While some of its problems stem from the national government, the state also has internal issues with its own state government. The INC and other opposition parties have targeted Raghubar Das’ BJP government of Jharkhand for corruption in the context of land acquisition and mining leases.⁹ Major challenges towards the development and implementation of effective programs stem from a lack of political stability due to the state’s disparate parties and factions as

⁹ Manoj, C G.: *Decision 2019: What is at stake in Jharkhand? A look at the complex equations at play*. February 13, 2019.

<http://ct.moreover.com/?a=38519929072&p=2a4&v=1&x=nMSn9hnJwG6gbFltxrZ1zg>

well as an ineffective administrative system, and while the World Bank assessed some of the state government's policies to be creating an environment conducive for the implementation of rural growth projects,¹⁰ they were also found to lack concrete plans for action and to be hampered by weak institutions and lacking capacity to make adequate use of project funds.¹¹

Political decentralization, lack of transparency and accountability, and inconsistent application of the rule of law represent some major areas of concern. While governance and development in Jharkhand are influenced by natural disadvantages of geographical isolation in some areas, they are further impeded by its 'bandh' culture of strikes that result from a highly fragmented ethnopolitical situation that leads to an estimated 3-6% GSDP economic loss each year (World Bank, 2007).

Interests and Institutions in Practice

While some of the differences in culture and corruption may be to blame for the stark difference that Jharkhand and Kerala have experienced in recent decades, they are just as much a symptom of the differences in economic and human development. As argued above, development and aid effectiveness can be traced back to the electoral incentives of government politicians and regional variation in institutional quality.

¹⁰ World Bank. 2017. India - Jharkhand Opportunities for Harnessing Rural Growth (JOHAR) Project (English). Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/303211498576866109/India-Jharkhand-Opportunities-for-Harnessing-Rural-Growth-JOHAR-Project>

¹¹ World Bank. 2006. India - Third District Primary Education Project (English). Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/536151468050036739/India-Third-District-Primary-Education-Project>

Amit Shah, President of the BJP, outlined very explicitly how electoral politics is key to why Kerala and Jharkhand ended up on opposite ends of the development spectrum. With the BJP leading the NDA coalition government, he proclaimed that “if Kerala sends BJP MPs to Lok Sabha and if the NDA retained power, we will make Kerala the number one state in India” (Times of India, 2019), tying the national government’s support for development in Kerala to partisan alignment. He also admitted that since the NDA came to power, the “NDA government has carried out various pro-poor schemes, uplifting the living standard of the needy” (Asian News International, 2019) in NDA aligned states. That left the non-aligned Jharkhand in the cold, but Shah explicitly made it clear that a reversal of fortune was possible if voters were to elect BJP majorities at the national and local levels:

“Development of Jharkhand is only possible when there is a BJP government in the state. Jharkhand is blessed with natural resources, this land has abundant coal and iron ore, but still the people here are poor. The reason is because Jharkhand has never had a full majority government. So I urge you to vote the BJP and give us two-thirds majority in the state.” (Asian News International, 2014).

Comments and language that states can only expect development when majorities align frequent and common from Shah. While they can be seen as tactical and ‘coercive’ campaign statements, they showcase the electoral incentives behind development policies and highlight how the NDA government explicitly protects and favors states with majorities of its own supporters. Prabhir De, Head of the ASEAN-India Center Research and Information Systems for Developing Countries, also highlights that pre-election talk is followed by post-election action: “the BJP’s win in these states means that there will be greater collaboration between the center

and states in terms of formulating and implementing policies for development” (MINT, 2018). The fact that the INC accuses the BJP of “renaming, repackaging and relaunching” development projects and schemes originally initiated by their opposition in the interest of “reaping political mileage” (Times of India, 2017) further strengthens the case for our argument and hypothesis 1a about the electoral politics of aid efficacy and local development.

If Indian states can expect a boost in support for development projects and aid effectiveness as a result of partisan alignment, why has Jharkhand not seen higher levels of economic and human development when it was aligned with the UPA government in 2004-2014? The answer lies in what a World Bank (2007) report on Jharkhand deemed to be an important ‘missing institution’ crucial for inclusive development in the state – Panchayati Raj institutions (PRIs), i.e., a system of local self-government. First adopted in Rajasthan in 1959, PRIs were formally introduced in 1992 with the 73rd amendment to India’s constitution, and they are now present in almost all Indian states, besides Nagaland, Meghalaya, Mizoram, and the UTs (except Delhi). PRIs have marked an important point in the decentralization of the highly centralized Indian governmental administration. In 2009, the national government approved reserving 50% of the spots in PRIs for women, and today many states, including both Kerala and Jharkhand, have implemented similar quotas. (Kodassery, a village in the Thrissur district of Kerala, even boasts a PRI with 100% female elected members.) Notably and perhaps unsurprisingly, Kerala is one of the top-ranked states in terms of devolution by the Ministry of Panchayati Raj’s 2015-2016 report, and it is known for its innovations in PRI capacity building and training as well as streamlined e-governance processes.¹² The success of PRIs (not only) in

¹² Panchayati Raj: Some Facts/Good Practices in Kerala. Local Self Government Department, Government of Kerala.

Kerala have shown them to lend a critical opportunity for locals to implement quality controls and accountability for regional services and programs. Without this institution, several development programs and schemes have fallen to the hands of powerful locals, instead of their intended destinations.

After holding off for years, Jharkhand held its first Panchayati Raj elections in 2010. However, PRIs still lacks capacity and political strength. Despite fairly well-developed facilities, much of the capacity building is lacking in the state due to such issues as improper usage of facilities, acute shortage of regular staff, power cuts, ineffective training, as well as failing to consider difficulties for rural participants, such as illiteracy and the difficulties of commuting to PRI offices from far away districts (Sinha, 2018). Jharkhand's government has not only delayed efforts of devolving power to its PRIs, but taken steps that went against the provisions of the Jharkhand Panchayat Raj Act of 2001 and Panchayat Extension to Scheduled Areas (PESA) Act of 1996. In addition to keeping funds meant for the implementation of development schemes, the state has also attempted to influence PRI composition, including giving power to local elites and BJP officials.¹³

Explicitly excluding locals from participation in PRIs and undermining empowerment through local self-government has had clear implications for the quality of governance and how development projects have panned out. Development aid that would otherwise have been geared towards benefitting locals and increasing their quality of life has fallen prey to political elites and been fashioned to serve their purposes. There is some hope for Jharkhand as the intentionally-

<https://www.panchayat.gov.in/documents/20126/0/panchayati+raj+system.pdf/642bb96a-fb1f-210c-6509-a2d60e5b90b2?t=1554984229612>

¹³ Nandy, D. An attack on grassroots democracy? 22 May 2018. Down To Earth.

weak adherence to these potentially strong and empowering laws has been met with local resistance. For instance, the Pathalgadi movement has raised awareness by installing stone slabs with inscriptions of the PESA Act on streets in various areas of Jharkhand.¹⁴ However, Jharkhand's PRIs compare poorly to those of Kerala for now and are part of the answer for why Jharkhand has experienced a long history of significant setbacks in its economic and human development. Jharkhand's weak institutions create opportunities for corrupt elites to shift power away from the grassroots, to advance their own political agendas, and stifle aid effectiveness and development – with or without partisan alignment.

Conclusion and Outlook

Motivated by questions surrounding ineffective aid, this paper has developed a theoretical argument and presented mixed-methods evidence in favor of a domestic politics explanation for institutionally-constrained, 'manufactured' variation in subnational aid effectiveness. Analyzing statistical data for 36 Indian states and UTs and a period of 25 years, we found strong support for our hypothesis 1a. Local-national partisan alignment mediates the effects of World Bank projects on the attainment of MDGs. We complemented these findings with anecdotal evidence from a comparative study of partisan alignment, PRIs, and economic and human development in Jharkhand and Kerala, which supports our hypothesis 1b that weak institutions that facilitate corruption mediate the effects of politicians' electoral incentives on the effectiveness of aid projects.

¹⁴ Paliath, S. Politicians and Bureaucrats Don't Want to Devolve Powers to Local Governments. 6 Nov 2018. India Spend.

While our empirical results point at electoral politics as a major cause of ineffective aid, and the case studies also point at local institutions and corruption as possibly facilitating the link between partisan alignment and aid effectiveness, the interactions between actors and institutions are dynamic and complex and warrant further inquiry. These relationships call for studies that consider more institutions and actors than the few explored in this paper, and while this paper shows that subnational aid efficacy is conditioned by partisan alignment and local institutions, there are several opportunities for additional research into the politics of aid effectiveness within developing countries.

Collecting and analyzing more and better data is an obvious starting point. Taking a closer look at the interaction between voters and political leaders in the context of local aid projects and regional development is another route worth exploring (cf. Findley et al., 2017). We are currently in the process of expanding (the methodological focus of) our research into the domestic politics of aid effectiveness to lab and survey experiments. These experiments will deepen our understanding of the dynamics at work and allow us to move beyond correlations and observational evidence by testing the causal mechanisms behind our quantitative results and the findings of our case study research. In the lab, we closely analyze the incentives of political leaders to provide differentiated development policies under different electoral institutions as well as the responses of voters to informational treatments about government behavior. The online survey experiment will provide some external validity by studying the responsiveness of Indian voters to information about government support for local aid projects.

These ‘expansions’ of our work are very much in line with recent experimental research that has attempted to better understand donor-recipient interactions and their effects on aid efficacy, substantially improving on traditional, observational research. For instance,

experimental work by Bauhr (2016) shows that citizens are more likely to accept aid-related corruption when projects are successful and recipient-led. Heinrich and Kobayashi (2018) conducted survey experiments on the general public's moral concerns about aid and corruption, highlighting the costs and benefits to donors of giving aid to different types of governmental and non-governmental recipients. Similarly, experiments by Milner et al. (2016) analyzed how government officials and citizens perceive donor control of aid in the context of aid capture. Using a similar methodological approach, we aim to contribute to this thriving experimental research by studying the dynamics between voters and politicians and their effects on aid efficacy within a randomized control trial-framework, analyzing the incentives of political leaders to distort aid efficacy based on the electoral rewards or punishment they receive from voters in different and shifting institutional, informational, and partisan settings.

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