(Unintended) Electoral Effects of Foreign Aid

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Abstract. Can foreign aid projects that are designed to minimize capture by political elites increase the recipient government's chances of reelection? We argue that foreign aid can increase the chances of reelection even if incumbents in recipient countries have little or no control over the allocation of resources. First, governments can use the receipt of these projects as a signal of their competence to extract resources from donors. Second, the receipt of foreign aid projects allows governments to hide a strategic redistribution of their own local budget resources in favor of increased targeted spending. To test our theoretical hypotheses we analyze the reelection of incumbents at the municipal level in the Philippines where the World Bank implemented a community-driven development program. This aid program is an ideal test case because capture of foreign aid resources by the political elite was minimized. Our statistical analysis provides robust support for our theory.

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1 Introduction

It is common wisdom that foreign aid and domestic politics are highly interrelated. On one hand, incumbent governments in donor countries oftentimes give foreign aid to advance their own economic, geo-political, and military goals, rather than to promote sustainable economic development in the poorest countries around the globe.[1] On the other hand, incumbent governments in recipient countries oftentimes divert foreign aid resources for political purposes, rather than using it to promote economic development.[2] For example, they can use foreign aid to buy votes, or to target voters in order to increase electoral support.[3] Given the political incentives on both the donor and the recipient side, it is not surprising that recent studies have found that incumbents may use foreign aid resources to maximize the time they remain in power.[4]

As a response to this, many foreign aid donors – in particular multilateral aid institutions – have sought strategies to minimize opportunities to exploit foreign aid for electoral purposes in recipient countries. They have started to target foreign aid to recipients where political capture of foreign aid through the political elites is least likely.[5] They also have reduced the amount of budget support aid in favor of aid that is conditional on the implementation of particular policies and reforms, or that bypasses political elites completely.[6] For example, over the last decade the World Bank has focused on lending to Community-Driven-Development (CDD) programs in order to reach and empower local communities directly.

If foreign aid donors have made it more difficult for governments to divert foreign aid resources for electoral purposes, can the provision of foreign aid promote the reelection of incumbents in developing countries? According to previous research, electoral effects should be restricted to situations in which incumbents have at least some control over the foreign aid resources, and least likely in situations were incumbents have no control over foreign aid resources. In this paper, we argue that foreign aid can promote the reelection of incumbents in recipient countries *even when the incumbents have little or no control over the allocation of project funds*.[7]

[1] Maizels and Nissanke (1984); Ruttan (1996); Meernik, Krueger and Poe (1998); Schraeder, Hook and Taylor (1998); Thacker (1999); Alesina and Dollar (2000); Burnside and Dollar (2000); Alesina and Weder (2002); Stone (2002); Neumayer (2003*b*,*a*); Vreeland (2005); Berthelemy (2006); Bermeo (2008); Dreher, Nunnenkamp and Thiele (2008); Schneider and Tobin (2013).

[2] Das Gupta, Grandvoinnet and Romani (2003); Platteau (2004); Gugerty and Kremer (2008); Baird, McIntosh and Özler (2009); Hodler and Raschky (2010); Wright and Winters (2010); Jablonski (2012).

[3] Bueno de Mesquita and Smith (2007, 2009) provide a theoretical model for this mechanism.

[4] Brown, Brown and Desposato (2008); Kono and Montinola (2009); Ahmed (2010); Licht (2010).

[5] Dietrich (2010); Winters (2010).

[6] Seelkopf2010

[7] We do not argue that most foreign aid projects prevent the political elite in the recipient country

In particular, we analyze the ability of governments to generate electoral support in cases when donors *actively* design projects as to minimize the influence of the government over the allocation of funds (the worst case scenario for the politicization of foreign aid). We discuss two potential mechanisms through which incumbent governments can generate electoral support after receiving a foreign aid project. First, governments could advertise the receipt of the foreign aid project as a signal of their competence to extract these resources from the foreign aid donor (we may call this *political competence*). Second, they could use the receipt of a foreign aid project to hide a strategic redistribution of their own budgetary resources (other than those provided through the foreign aid project) in favor of more targeted spending.

To test our theory we combine findings of interviews with local and regional government officials as well as World Bank officials with original data on community-driven aid projects in a large number of municipalities in the Philippines. Analyzing electoral effects in the KALAHI-CIDDS project in the Philippines is particularly promising because the World Bank (which funds these projects) explicitly and effectively designed the project as to empower individual beneficiaries, and to prevent the political capture of funds on the local level. Consequently, and as we will demonstrate below, the political elite in the beneficiary communities was not able to capture the resources and use it for electoral purposes directly. Nevertheless, we find that incumbents who received KALAHI projects significantly increased their chances of reelection compared to incumbents (in the same provinces) that did not receive KALAHI projects. The mechanisms underlying this reelection effect support our theoretical argument. Incumbents use the receipt of a KALAHI project to (a) reallocate local budgets in favor of targeted spending, and (b) appear political competent to the electorate. Specifically, we find that governments who received a project were significantly more likely to increase targeted spending and decrease public good provisions. In addition, we find that the reelection effect exists even for municipalities in which the election occurred after the project was publicly announced but *before any of the funds were disbursed*, indicating that voters attributed the receipt of a project to the political competence of the mayor in attracting the funds.

The findings are of interest because they provide evidence that foreign aid projects can influence the reelection of incumbents in recipient countries, even if the political elite has little or no control over the distribution of funds. Our findings demonstrate such electoral effects in a situation where they were not intended and were the donor put much care into designing the projects as to minimize the misuse of funds. Our findings therefore offer a new way of thinking about the electoral effects of foreign

from taking control over the aid resources. Whereas we believe that many foreign aid projects are still open to capture by the political elites, our strategy is to demonstrate an electoral effect when it is, according to previous research, least likely. If we find such an effect, then this would indicate that the electoral effect (a) is much more pervasive than previously thought, and (b) owes to different political strategies by the incumbent in the recipient country.

aid. Theoretically, they show that incumbents can use various strategies to exploit foreign aid resources for electoral gains. Whereas the literature has focused mainly on the capture of foreign aid resources for electoral spending, we show that governments can exploit the existence of a foreign aid project to reallocate their local budgets in order to target voters before elections. In addition, we provide evidence that incumbents can use the receipt of a foreign aid project to signal political competence to their electorate. The existence and use of such strategies in situations where previous research would have expected no electoral competence implies that the politicization of foreign aid is much more pervasive than previously thought. Practically, the findings have implications for the prevention of political capture of foreign aid projects. Whereas direct political capture can be prevented by designing foreign aid projects as to minimize influence by the political elite over the aid resources, indirect political capture – as analyzed in this paper – persists even if the political elite has no control over the resources.

2 The Politicization of Foreign Aid

The politicization of foreign aid has become increasingly relevant to studies of foreign aid. On one hand, the literature that analyzes actual determinants of bilateral and multilateral foreign aid provides strong evidence that donors do not give foreign aid primarily to promote economic growth but in order to advance their own economic, geo-political, and military goals (see FN 1). For example, donors have used foreign aid to stabilize (or de-stabilize) developing regimes that are strategically important to them. The ability to secure the "right" governments in place and to guarantee regime stability provides lucrative benefits for donor governments ranging from political support in multilateral negotiations to the creation of profitable business opportunities for domestic companies abroad. Consequently, governments have used foreign aid to intervene in regime-building of developing countries in various ways.[8]

On the other hand, incumbent governments in developing countries should have very strong incentives to capture foreign aid for electoral purposes. This is particularly true because foreign aid accounts for a very important part of the domestic budget in many recipient countries (Brautigam and Knack, 2004). Figure 1 presents the average amount foreign aid recipients in low income countries received as percentage of their Gross Domestic Product (GDP). The graph shows that foreign aid makes up a significant amount of the domestic budget and it illustrates the increasing aid dependency of developing countries over time. In the early 1990s, aid increased to almost 12% of the developing world's GDP. In fact, for many countries foreign aid accounts for more than 40% of their aid budget. In 2008, Afghanistan received 42% of its GDP in foreign aid and smaller coun-

[8]Higgott and Fuglestad (1975); Hourani (1991); Easterly, Satyanath and Berger (2008).

tries such as the Marshall Islands received foreign aid that mounted to 75% of their GDP. The dependence on foreign aid is also illustrated when analyzing its' share of government expenditure. For example, in 1999 foreign aid constituted 99% of the Rwandan government's government expenditure, and 89% of the Malawian government's expenditure (Brautigam and Knack, 2004). The foreign aid dependence of local communities, where community-driven aid is ultimately spent, is expected to be even higher. For example, the aid projects analyzed in this paper mounted up to 200% of some municipalities' local budgets. Given the importance of foreign aid for income in recipient countries, it is not surprising to find strong evidence that incumbent governments in developing countries exploit foreign aid resources to pursue electoral strategies, and that foreign aid generally increases the incumbent's survival in power (see FNs 2 and 4).

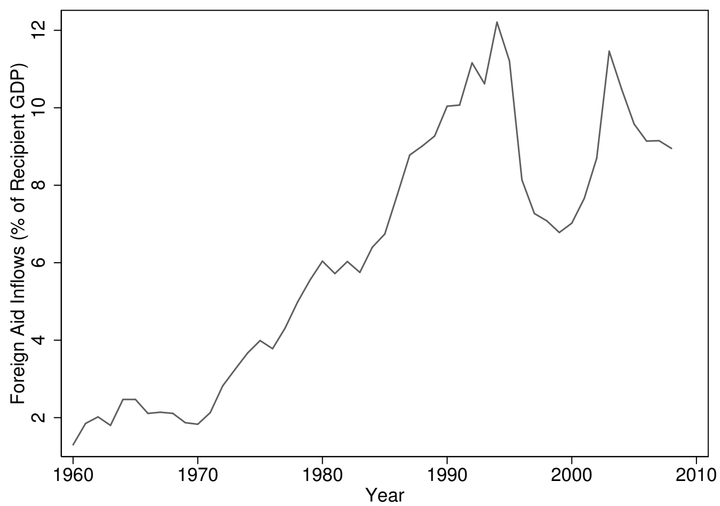

Figure 1: Foreign Aid Dependency (*Source: World Development Indicators*).

Electoral effects should therefore exist at least in situations where the donor government has a strategic interest in the political survival of the incumbent, or when the donor government does not have much control over the allocation of its' aid resources. Bueno de Mesquita and Smith (2007, 2009) argue, for example, that foreign aid increases the likelihood that incumbents in both donor and recipient remain in political power. Donors intendedly give foreign aid to provide the incumbent in the recipient countries with tools to increase her chances of reelection. Jablonski (2012) argues that donors oftentimes delegate the implementation of foreign aid projects to the recipient governments, thereby increasing the control of political elites in the recipient countries over the aid resources and providing opportunities for political capture of foreign aid. The politicization should therefore be particularly strong when foreign aid is provided unconditionally and/or through budget support. Although recipient governments should use unconditional aid to consolidate their budget and to spend the resources to promote economic growth in the most effective way, donors have almost no influence on how the money is spent once it is disbursed to the recipient.[9] The recipients could therefore use foreign aid to expand targeted spending before the election.

Foreign donors that aim to prevent the politicization of foreign aid could design aid projects that minimize the ability of the political elite to take control over the allocation of resources. In fact, as we discussed above, many bilateral and multilateral donors have begun to design foreign aid projects as to minimize the capture of resources by political elites in the recipient countries.

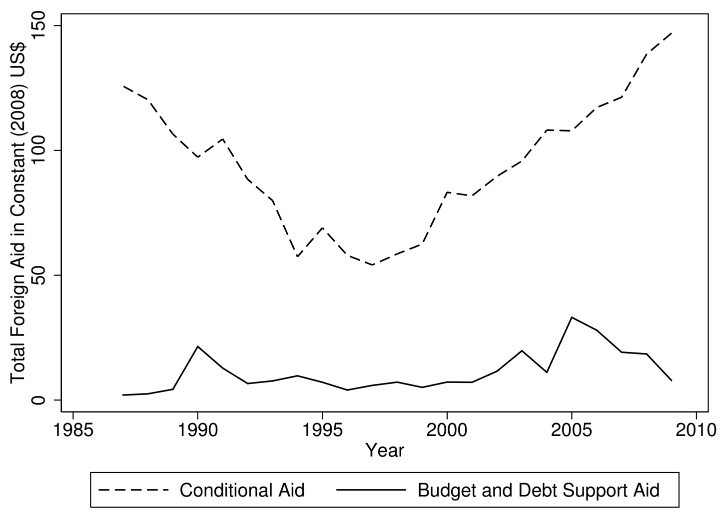

Figure 2: Total Conditional and Unconditional Aid, 1987-2009 (*Source: OECD*).

Figure 2, which graphs the amount of unconditional aid (aid that is given to support the budget or debt relief efforts) and the amount of conditional aid (all other aid that is attributed to a specific sector) separately, shows that the amount of unconditional aid provided is small compared to the amount of aid that is earmarked for specific projects. One can see immediately that the bulk of foreign aid has been given with strings attached and conditional aid has become more important particularly in the last decade. In addition, multilateral donors have been more likely to provide budget support aid to recipient countries with aligned spending preferences (toward the poor) and better quality systems.[10]

Do these developments imply that incumbent governments in recipient countries are less able to capture foreign aid for political purposes? In the next section, we

[9]Seelkopf (2010) shows that donor governments oftentimes use unconditional aid to allow democratic recipient governments to promote their own interests in order to support regime stability.

[10]Winters (2010); Clist, Isopi and Morrissey (2012).

develop a theory that analyzes the conditions under which foreign aid could have electoral effects that are unintended by the foreign aid donor. We argue that foreign aid inflows do not only have electoral effects when they are intended by the donor country, but they can also occur if foreign aid is earmarked for specific development projects and therefore not intended and directly used for strategic political purposes. Even if foreign aid is not fungible in particular situations, incumbents can, under certain conditions, announce these projects as part of their own negotiation process. In addition, the aid projects allows recipient governments in developing countries (sometimes more and sometimes less) to redistribute resources within their own budget in order to provide targeted goods.

3 Unintended Electoral Effects of Foreign Aid

This section develops a theory of the unintended electoral effects of foreign development projects. In a nutshell, we argue that local governments in developing countries can use the influx of foreign aid to exert hidden effort. That is, even if they have little or no influence on the distribution of foreign aid projects themselves, they have more opportunities to hide a re-distribution of their own budgets towards greater targeted spending before the election than local incumbent governments whose constituents do not receive foreign aid projects. In addition, they may use the foreign aid projects to appear politically competent to their voters.

Our theory is build on three simplifying assumptions. First, governments want to maximize their time in power. Second, individuals care about their economic welfare and take this into account when deciding who to vote for in an upcoming election.[11] Consequently, the government has strong incentives to choose monetary and fiscal policies that increase the constituency's welfare in these periods. Finally, we assume that the incumbent in the recipient country has no influence on the allocation of foreign aid resources. It is important to note that many conditional projects allow plenty of opportunities to misuse the funds for clientelistic strategies because they are, for example, not properly monitored. The interesting question for us is whether incumbent governments can use foreign aid projects even if they have no influence over their allocation. If they are able to, then electoral effects should be persistent more generally (that is, when incumbents have some control over the allocation of foreign aid resources). This last assumption is particularly important because any electoral effect from foreign aid cannot be due to the strategies described in the literature.[12] That is, incumbents in recipient countries cannot divert foreign aid towards groups, thereby increasing the incumbent's chances of remaining in political power.

[11] Note, our theory is limited to political strategies in regimes that hold competitive elections. An interesting venue for future research would be to analyze whether incumbents in non-democratic regimes use similar strategies in order to increase their support.

[12] Bueno de Mesquita and Smith (2007, 2009); Jablonski (2012).

Even if the incumbent government has no ability to directly use foreign aid for electoral purposes, she still has strong incentives to use foreign aid to promote her survival in power. Whereas the incumbent in the recipient country does not have any control over the allocation of foreign aid dollars, she does have control over the distribution of the domestic budget.[13] However, incumbents are constraint in exploiting the local budget for electoral purposes. Oftentimes, they either do not have the tax base or the capacity to collect enough resources that would allow them to fulfill more than maintaining basic public sector requirements of a low-income country. Consequently, they have to use most of their budgetary resources to provide basic public goods. At the same time, a large part of foreign aid is provided for projects that address the domestic social and economic infrastructure, education, health, or the environment. In other words, they fund public goods in the recipient countries. The boost in (foreign) resources spent on domestic public good provision grants the government with more freedom on how to spend her local budgetary resources. Specifically, the incumbent can redistribute some of her domestic budget resources that were earmarked for public good provision and redirect them towards fiscal strategies that maximizes her chances of reelection *without having to lower overall public good provision in her community*.

The literature has identified several fiscal strategies that allow governments to affect voter welfare. On one hand, incumbents could decrease taxes or increase the provision of public goods as to increase the overall welfare of voters. On the other hand, incumbents could target the group of voters that are important for the incumbent's remaining in power.[14] Both strategies help to enhance the reelection chances of the incumbent, but targeted spending is more likely in societies where clientelistic practices are very common. Clientelism refers to the contingent exchange of material goods for electoral support,[15] and tends to be the dominant form of political organization in environments where politicians cannot credibly commit to policy platforms and elections do not function as accountability mechanisms.[16] In clientelistic political environments, the provision of targeted goods is a key part of electoral strategies. Targeted spending has a double effect on reelection prospects. One one hand, it increases the welfare of a smaller group of voters, thereby sending a signal of competence. On the other hand, it provides information to voters about who and what types of project the incumbent will likely favor if she is reelected. Targeted voters thus would be more likely to vote for the incumbent because they expect to be favored after the election as well.

Consequently, incumbents who receive a foreign aid project should have strong incentives to re-distribute their budget resources towards targeted spending, at the

[13]We define *domestic budget* as the budgetary resources the incumbent government has without any budget support from foreign aid donors.

[14]Drazen and Eslava (2005, 2006).

[15]Kitschelt and Wilkinson 2007; Stokes 2007.

[16]Keefer and Khemani 2005; Keefer and Vlaicu 2007.

expense of public good spending. This strategy bears several advantages for the incumbent. First, the foreign aid resources are spent as intended by the donor. Consequently, the project remains in good standing with the donor, increasing the likelihood that future projects will be allocated in that community (also increasing the incumbent's ability to politicize future aid). Second, the incumbent can increase targeted spending – and therefore increase her chances of reelection – without having to reduce the provision of public goods in the community. This increases the support of targeted voters, thereby increasing the likelihood of reelection. The redistribution might provide additional electoral benefits to the incumbent, particularly when voters are not well informed about the size of the aid project as well as budgetary expenditures (as is oftentimes the case in recipient countries).[17] Since foreign aid projects are oftentimes larger than the local budgets, the government could increase its support levels among the group of targeted voters and among the group of voters who benefit from the increased provision of public goods. But even if voters were well informed about the size of the projects, at least the targeted voters would increase their support for the government because they use the government's composition of spending to assess who the government would favor after elections.[18]

In sum, we would expect that foreign aid projects have positive electoral effects even if incumbent governments in the recipient country do not have control over how the foreign aid resources are allocated. This leads to our first testable empirical implication:

Hypothesis 1 *Incumbent governments in countries that receive foreign aid projects should be more likely to get reelected even when they have no control over the allocation of foreign aid resources, ceteris paribus.*

In addition, the theory provides some testable implications about the strategies that are pursued when governments have no control over the allocation of foreign aid resources. In particular, we would expect that incumbent governments should redistribute their local budgets as to increase the amount of targeted spending at the expense of public goods spending:

[17]For example, Brender and Drazen (2005) show that political budget cycles only exist in developing countries where fiscal transparency is very low. In the empirical section, we will test for this assumption directly by analyzing the effect of spending on the incumbent's electoral success. If voters had full information and would discount both targeted and non-targeted spending increases then we should observe no relationship between aid projects and government survival in office. If voters have only limited information (e.g. they know that the government received a project but do not know the exact amount of transfers) or if they use targeted spending before elections as a signal of government's spending behavior after the election (which is a common practice in clientelistic systems), then we should observe a relationship between aid projects and government survival.

[18]Drazen and Eslava (2005).

Hypothesis 2 *Incumbent governments in countries that receive foreign aid projects are more likely to redistribute their local budgets as to increase the amount of targeted spending at the expense of public good spending, ceteris paribus.*

So far, we have discussed fiscal strategies that the incumbent can pursue given the inability to control foreign aid budgets. However, if voters are not very well informed about the aid distribution process, incumbents could also increase their support levels through non-fiscal means. In particular, incumbents could advertise the receipt of the foreign aid project as a signal of their ability to extract the resources from donors for the benefit of their constituents (we may call this *political competence*).[19] Individuals in recipient communities are usually well aware that not all communities in a region get a foreign aid project. If they do not know that the incumbent has no influence on where the aid projects are placed, then they attribute the expected increase in economic and social welfare (owing to the expected increase in the amount of resources provided) to the political competence of their government. Thus, they should be more likely to vote for the incumbent.

This leads to an additional empirical implication about electoral effects of foreign aid projects that do not owe to any fiscal strategies:

Hypothesis 3 *Incumbent governments in countries that receive foreign aid projects are more likely to get reelected even if none of the project funds have been disbursed before the election.*

It is important to note that such a strategy is only likely to be successful if voters have no information about the actual inability of the government to influence the allocation of funds to its constituents. If voters are informed, then incumbents cannot use the fund to signal this type of competence. In fact, voters could perceive the receipt of a foreign aid project as a signal of economic incompetence (if the government receives the project because the region is particularly poor this could indicate that the government has done a bad job in promoting economic growth). In this case, we would observe a null effect or even a negative effect of aid on the likelihood of reelection.

In a way of summarizing, our theory indicates that foreign aid projects can increase an incumbent government's chances of reelection through fiscal means (other than diverting the foreign aid resources) as well as non-fiscal means. In the next section, we will use a community-driven development project in the Philippines (sponsored by the World Bank) to test whether electoral effects exist in situations where incumbent governments have little to no influence on the allocation of funds. In addition, we will test the mechanisms through which incumbents aim to increase their chances of reelection.

[19] See Schneider (2012) for a theory of political competence.

4 Empirical Analysis

To empirically analyze electoral effects of foreign aid, we collected original data from the KALAHI-CIDDS community driven development project, a \$182.4 million project co-funded by the World Bank and implemented by the Philippine Department of Social Welfare and Development (DSWD).[20] KALAHI-CIDDS is intended to foster community level governance and develop local capacity for managing development projects. Community grants are given to build low-cost infrastructure (such as roads, water systems, clinics, and schools) using a cost-sharing funding model to encourage local ownership of projects.[21]

The KALAHI funds are intended for community projects in the poorest 25% of municipalities in the poorest 50% of provinces in the Philippines. The selection and management of projects within eligible municipalities is based on a community-driven competition amongst and within villages (or barangays). Whereas the World Bank provides training and support for monitoring, villagers are active participants at the project proposal and design stage, and at the implementation stage through counterparting of resources and involvement in monitoring. There are at least 17 steps in the project cycle to ensure participation, including a requirement that village assemblies be convened. KALAHI-CIDDS also requires elected officials in the municipality to enact ordinances empower all of the stakeholders, including local development councils and civil society organizations, to participate in all stages of the project cycle, ensuring that projects are sustained despite changes in leadership.

KALAHI-CIDDS was implemented in five phases, with the first disbursement of funding beginning in 2003. However, only seven projects (less than 5% of the total 155 projects in our dataset) were funded that year. The bulk of the funding was disbursed between 2004 and 2007: 38 projects in 2004, 31 in 2005, 28 in 2006, and 37 in 2007. The project is ongoing, and our project data goes up until 2009. Funding for each municipality per project cycle amounts to approximately \$6000 for each barangay in the municipality (Labonne and Chase 2009). This is a significant share

[20]Community-driven development (CDD) is an approach to development aid used by the World Bank since the late 1990s to promote increased government responsiveness and accountability. In recent years, CDD has become a cornerstone of international development projects: World Bank funding for CDD projects increased from US\$3 billion in the mid-1990s to \$7 billion in 2003 (Mansuri and Rao 2004). Although individual CDDs can vary, in general, CDDs are intended to foster community-level governance and develop local capacity for managing development projects by giving communities discretion over the funding, planning and decision-making processes for implementing projects. Proponents of CDD consider it to be a mechanism for improving the sustainability and effectiveness of development programs by empowering the poor, fostering social capital, and strengthening governance (World Bank 2004).

[21]Although cost-sharing arrangements vary by project, on average, 70% of project funding come from the KALAHI-CIDDS grant funds and 30% come from community and local government unit (LGU) contributions. This makes local cost-sharing rates for KALAHI-CIDDS one of the highest among ODA-funded projects in the Philippines (DSWD 2008).

of the municipal budget. KALAHI funds account for an average of around 56% of total municipal income and often exceed local tax revenues. Project sizes vary, but on average, total project costs are $23,000 and there are 225 estimated household beneficiaries for each project. To date, over 5300 projects have been selected for funding, amounting to total project funding of over $123 million (DSWD 2010).

We are interested in analyzing whether KALAHI-CIDDS had electoral effects on the municipality level. Are mayors in the municipalities that received KALAHI funds more likely to be reelected than mayors in the municipalities that did not receive the KALAHI funds? Using KALAHI-CIDDS as a test case allows us to analyze whether foreign aid projects can have electoral effects even in a best case scenario. That is, when the development aid projects are not designed to have political or electoral effects, and when the fungibility of the given aid is low. In other words, because it might be easier to see an electoral effect in cases where politicians simply divert aid funds to their own purposes, it is important to choose a case that is designed to prevent this type of misappropriation of funds. The KALAHI-CIDDS fulfills these criteria.

First, KALAHI-CIDDS is funded by the World Bank. Whereas donor governments have the ability to bias the allocation of World Bank aid through the intergovernmental bargaining process in favor of their strategic interests, opportunities to do so are smaller relative to aid that is given bilaterally. Because of the diffusion of interests, multilateral aid giving tends to be more development-driven than bilateral aid.[22] Even if donor governments can bias multilateral aid-giving, these biases are most likely to occur in the selection of recipients (i.e. will the aid be given to Indonesia or to the Philippines) and the selection of a particular program (i.e. will the aid be given as budget support or community driven development program), but not in the selection of municipalities on the domestic level.

Second, mayors at the municipality level have little to no influence over the selection of participating municipalities in the program. Villages are selected for KALAHI-CIDDS participation using a multistage selection process. First, the 40 poorest provinces were selected, or half of the total provinces in the Philippines.[23] Second, all of the municipalities in the 40 poorest provinces are ranked using poverty mapping developed by Balisacan et al. (2002) using data on consumption and inequality. Within each province, the poorest 25% of municipalities identified by the poverty mapping methodology were eligible for participation in KALAHI-CIDDS. Among eligible municipalities, actual project implementation rates are close to 100%, with only seven municipalities declining or unable to participate.[24]

[22] See FN 1.

[23] The provincial selection process excludes the six provinces in the Autonomous Region in Muslim Mindanao (ARMM), because of an existing similar project there.

[24] The municipalities that either declined to participate or dropped out of the program are: Caibiran in Biliran Province (Caibiran was able to complete cycle 1 and was eventually replaced by Naval); Tineg, Danglas, and Lagayan in Abra; Mercedes in Camarines Norte; Siruma in Camarines Sur; and

According to the DSWD (2012), the main reason for dropping out of the program is non-delivery of the local counterpart contribution (the 30% that local communities are supposed to contribute). We compared these poverty estimates to a variety of other income measures and found that they are very highly correlated. This indicates that the selection of provinces and municipalities was in fact based on poverty considerations and not on strategic considerations.

Third, and most importantly, mayors at the municipality level have little influence over the allocation of funds after the project areas are selected. In each of three project cycles, villages in a municipality participate in socially facilitated competition in which communities select projects to receive block grants. The villages that were able to win projects are given the funds for implementing their proposed projects and maintaining the resulting infrastructure or programs. Although village elites and local politicians have some influence in the process, the community chooses the winning projects (Labonne and Chase 2007). In addition, influence over projects is related to social connectedness, and not necessarily political office per se. Labonne and Chase (2007) find that households whose members are involved in community activities are more likely to have their preferences represented in the community's project proposal, suggesting that the more well-connected individuals are disproportionately participating in the project selection process.

The design of KALAHI-CIDDS also benefitted from experience with earlier CDDs in terms of reducing the misuse of funds and problems of corruption that plague many development projects. In KALAHI-CIDDS, funds are released directly to the bank accounts of the villages, and village committees monitor and supervise the implementation of the project at all stages. The increased transparency and community-based monitoring make it very difficult for mayors at the municipality level to divert or otherwise misuse the funds. Indeed, there is some evidence that fungibility of KALAHI-CIDDS is very low. According to DSWD (2010), KALAHI-CIDDS projects tend to be completed faster and cost less than projects funded by other programs or national government agencies. Construction costs for infrastructure projects under KALAHI-CIDDS tends to be between 25%-30% lower than construction costs for similar infrastructure projects through national government agencies. Combined with the stricter auditing and accounting standards, the substantially leaner budgets for KALAHI projects suggest little room for corruption.

There is also evidence that mayors at the municipality level are unable to gain access to KALAHI funds through illegal means. Both the government agencies and the politicians had initially tried to block the release of KALAHI funds directly to the communities. Typically, when development projects are implemented at the local level, the funds would come from the central government and distributed through the local governments, which allows for the possibility of diverting or mis-

Sta. Rita in Western Samar.

using the funds. In fact, a group of mayors had actually petitioned to change the disbursement rules so that the money would be coursed through the municipality before being allocated to the villages. The mayors claimed that giving the municipality control over the funds would better ensure that the projects for KALAHI fit in with municipal development initiatives and that the mayor's office was best suited for the task of allocating and disbursing the funds.[25] As one World Bank staffer pointed out, this was a fairly good indicator that the mayors were not able to steal or divert money under the current system, "otherwise they would not have an incentive to try to change the rules to begin with."[26]

As for the mayors themselves, they express different views of KALAHI depending on whether the interview is formal and public or informal and private, but both views point to the fact that they are unable to steal the money. In private interviews, mayors tend to complain or joke about how they don't have access to the funding. One mayor in Luzon alluded to the fact that corruption was not possible when explaining why it was very important to attempt to take credit for the KALAHI-CIDDS projects (i.e. by putting up posters with the mayor's name next to the project sites): because otherwise mayors "can't get anything out of the program."[27] Similarly, another mayor bemoaned the lack of access to the funds, and joked that his constituents "have to find other things to complain about now that they can no longer accuse me of corruption."[28] In public and formal interviews, the mayors laud the program for eliminating corruption and promoting development. Mayors also express gratitude that the program allows them to pursue development initiatives. For example, speaking during the inauguration of two KALAHI-funded subprojects in his municipality, Mayor Basmayor of Minalabac thanked the KALAHI program for making a difference. According to Mayor Basmayor, because the program encourages transparency and community oversight of finances, "there exists no corruption" in the program.[29] In addition, in the proceedings (2012) of the Regional Conference on Community-Driven Development (CDD) at the Asian Development Bank, the mayors asserted that one advantage of the KALAHI program was that it was widely known that the money did not pass through the municipality, which meant that mayors were able to claim credit for projects without being accused of corruption.[30]

This is also confirmed in interviews with World Bank staff. It is important to note that this cannot be attributed to a more general reticence of the World Bank to acknowledge corruption or an inability to detect it; to the contrary, the World Bank

[25] Author interviews, April 2011.

[26] Author interviews. World Bank Philippines Country Office, Manila, Philippines. April 2011.

[27] Author interviews, April 2011.

[28] Author interviews, April 2011.

[29] 10 March 2009; DSWD

[30] Proceedings of the Regional Conference on Community-Driven Development (CDD). Asian Development Bank. 31 January 2012.

actively investigates and publicizes incidences of fraud and corruption. There is an entire vice presidency that investigates allegations of fraud and corruption, the Integrity (INT) Vice Presidency. In 2009, INT investigations halted the $33 million national road project in the Philippines and led to the debarment of seven firms. In addition to the INT, the Manila office of the World Bank has an active Governance and Anti-Corruption team.

Mayors are also limited in their ability to influence the program in other ways. Even when they take the extreme measures of attempting to withdraw from the program, they aren't always successful. For example, according to Mayor Babalcon of Paranas, Samar, his experience with KALAHI-CIDDS was "not love at first sight."[31] Although he acknowledges the value of the program now, at first it was difficult for him. As a newly-elected mayor in 2007, Mayor Babalcon had proposed a water supply project that ended up getting rejected. In his own words, this was because "a mayor cannot just submit a proposal on his own, and even if this is a priority, the proposal should be chosen by the community members themselves." At the time, however, Mayor Babalcon was upset that his proposal was rejected and attempted to disengage from the KALAHI program by withdrawing the counterpart funding that municipalities are required to provide. The villagers reacted by lobbying their local congressman to provide the requisite counterpart funding, almost 4 million pesos, from their congressional discretionary funds. The congressman granted their request and the project proceeded as proposed. From then on, according to Mayor Babalcon "I committed myself to work double time and make KALAHI-CIDDS successful in my municipality." There are also cases where the local villagers raised the counterpart funding themselves.[32]

Given these constraints, any electoral effect that we find should not be due to the strategic allocation of the development funds itself. Analyzing KALAHI-CIDDS can therefore serve as a hard case to find electoral effects. If our analysis shows that the allocation of KALAHI-CIDDS has electoral effects, then we would expect the electoral effect to exist in a wide range of development aid projects (in which a strategic allocation of project funds is more likely).[33]

4.1 Dependent Variables

KALAHI-CIDDS originally covered the poorest 25 percent of municipalities in 42 of the poorest provinces in the Philippines. Since its inception, the program has

[31] Speech delivered by Mayor Babalcon; Paranas, Samar; 4 October 2010

[32] Author interviews, April 2011

[33] It is important to note that we are not claiming that the KALAHI projects are not fungible at all. Although we could not find any evidence of political capture, there may be individual cases where some of the KALAHI funds have been captured. However, the KALAHI project is still regarded as one of the best in terms of preventing political capture. Thus, the KALAHI funds are much less fungible than other World Bank projects. Consequently, we would expect our results to hold in these other projects as well.

been scaled up to cover 4,583 barangays in 200 municipalities in the 42 provinces, benefiting 1.26 million households.[34] KALAHI-CIDDS funding has been used to fund 5,645 projects, accounting for PHP 5.7 billion of funding. To test our hypotheses, we use a municipal-level dataset of around 600 municipalities, covering all provinces from which municipalities were selected for the project. We compare municipalities within the same province to hold province-level differences in institutions and politics constant. In other words, these municipalities are all in the same geographic area, with similar demographics, and with the same governor, provincial board, and set of congressional representatives.

In a first step, we analyze whether incumbent mayors in municipalities that receive KALAHI projects are more likely to get re-elected than incumbent mayors of municipalities in the poorest 42 provinces that were not eligible for KALAHI funds (Hypothesis 1). Our primary dependent variable is a binary variable that measures whether the incumbent mayor or a family member of the mayor incumbent get reelected during elections.[35] We include the election of relatives because the Philippines has a three term limit, and families tend to carry the "brand name" effect that political parties would have in countries with programmatic politics. For example, it's very common in Philippine municipal politics for the mayor's spouse or child to act as a placeholder after the mayor completes the maximum third term, and then the mayor can run again the following election. However, the findings are robust to excluding relatives as a substitute for mayor incumbents. The variable takes the value 1 if the mayor incumbent or family member was re-elected, and 0 otherwise. We use re-election data for the 2007 elections, because the bulk of the funds were disbursed between 2004 and 2007. Although there were a handful of pilot sites that had funding disbursed prior to the 2004 elections, project implementation and completion were not likely to have taken place before the 2004 elections. As a result, the 2007 election is the first election that we can reasonably expect the KALAHI program to have a fiscal impact on.

Nevertheless, the fact that most KALAHI projects were announced in 2003, but not disbursed until 2005, provides an ideal opportunity to test the non-fiscal microfoundations of our theoretical argument. Recall, we argue that foreign aid projects may allow incumbents to signal political competence to their voters (Hypothesis 3). That is, incumbents have incentives to claim that the receipt of the foreign aid project is a consequence of their ability to extract resources from the foreign donor.

[34] Figures are as of December 2010.

[35] Note, an alternative way to measure the electoral effects of the Kalahi projects would be to use mayors' vote shares during the 2004 or 2007 elections. Unfortunately, the government of the Philippines did not start to publicly release official vote share data until 2010 (when electronic voting was introduced). The World Bank collected some data on vote shares, but it is much less reliable than the reelection variable. We therefore focus our analysis on the reelection of mayor incumbents. This is also the more conservative test, as the hurdle to get reelected is significantly higher than the hurdle to receive larger vote shares.

This mechanism is an alternative to the one specified in Hypothesis 2 where the reelection effect owes to fiscal strategies pursued by the incumbent. Testing this competence argument is difficult because we have to distinguish it from the argument that voter support increases because the mayor uses the existing funds for his advantage. To get around this problem, we need to analyze the effect of KALAHI project participation on reelection in municipalities in which project participation had been announced (most of them were announced in late 2002 or early 2003) but funds had not been disbursed yet. We estimate two different models that fulfill these criteria. First, we analyze the effect of participation on reelection in 2007 for those municipalities that did not receive any funding before 2007. In addition, we analyze the effect of participation on reelection in 2004 for those municipalities that did not receive any funding before 2004. Whereas most of the funds were distributed by 2007 leaving us with 193 municipalities in the first analysis, most of the funds were not distributed until after 2004 which leaves us with about 620 municipalities. Any electoral effect in these two situations cannot be due to fiscal strategies because for this sample, none of the project funds had been disbursed before the election.

In a second step, we analyze whether mayors exploit the project to re-distribute local budgets in favor of targeted spending in order to test our fiscal mechanism hypothesis (Hypothesis 2). Our primary dependent variable is the distribution of municipal expenditures, covering only the municipal budget, thereby excluding the distribution of project funds themselves. The fiscal data is taken from the Bureau of Local Government Finance (BLGF) of the Philippine Department of Finance.[36] Expenditure categories include: 1) general public services, typically public administration and peace and order; 2) education, culture and sports/manpower development; 3) health, nutrition and population control; 4) labor and employment; 4) housing and community development; 5) social security/social services and welfare; 6) economic services, which generally includes agriculture, natural resources, energy, and transport and communication; 7) debt servicing; and 8) other purposes.[37]

According to Hypothesis 2, incumbents may use a KALAHI project to hide a strategic shift of budgetary resources towards targeted spending. Unfortunately, the municipal expenditure data does not explicitly identify the types of projects or spending that characterize each of the categories. In order to identify categories that could be characterized as targeted spending, we use more detailed budget data – which breaks down spending per project and sector – that is available for one province. According to this dataset, the projects that can be targeted (wages, direct

[36]Before 2001, the BLGF reported municipal fiscal accounts using the Budget Operations Statement, or BOS. This was replaced in 2001 with the Statement of Income and Expenditures, or the SIE. As a result, the fiscal data used in this study is taken from the BOS for the years 1998 to 2000, and from the SIE dataset for 2001 onwards.

[37]The pre-2001 categories from the BOS were slightly different: 1) general government expenditures; 2) public welfare and internal safety; 3) economic development; 4) operation of economic enterprise; and 5) Other charges

cash assistance, e.g.) tend to fall under the general public services and labor and employment categories. The projects that are more difficult to target (vaccines, schools, infrastructure, e.g.) tend to fall under the following categories: education, culture and sports/manpower development; health, nutrition and population control; housing and community development; social security/social services and welfare; and economic services.

To calculate the public goods and targeted goods variables, we use the average spending on public goods or targeted goods as a proportion of total expenditure. Average municipal spending figures are calculated from the first year of participation in the program (or if a non-participant, the first year that any municipality in the province participated) to 2006. Using average spending until the election provides us with a good measure of clientelistic practices where incumbents tend to provide their clientele with targeted goods throughout their time in office.[38]

There are some potential pitfalls of this approach. First, there are examples of projects that contradict the general trend. For example, scholarships can be targeted but fall under education spending. Second, there are differences in how municipalities categorize projects, and the rubric used to categorize public goods vs. targeted goods was devised using data from only one province. However, these exceptions tend to account for very small percentages of the broader spending categories. The fact that these categories roughly correspond to targeted and public goods spending was also confirmed in our interviews of mayors and municipal accountants,[39] in addition to the more detailed fiscal study that was done in Isabela province.

4.2 Independent Variables

To account for KALAHI participation, we use a binary variable that takes the value 1 if the municipality participates in KALAHI, and 0 otherwise (*KALAHI*). Of the 701 municipalities in the dataset, 155 are KALAHI participants.[40]

In addition to our main independent variable, we include a number of control variables in our estimations. First, we control for electoral competitiveness in our reelection estimations. One variable that has implications for electoral competitiveness is the mayor's term in office. This is important because the strong incumbency effect in Philippine local politics means that incumbent mayors are much more likely to be re-elected. At the same time, term limit laws limit incumbents to three

[38] This is different from the notion of preelectoral spending where one would expect an increase in targeted goods spending just prior to the election. The results are robust to alternative ways of calculating these variables, such as using the start year values, the 2006 values, or 3 or 5 year moving averages.

[39] Interviews conducted in April and May 2011

[40] As a robustness check, we use the amount of funding received from the KALAHI program as a percentage of municipal income as an alternative independent variable. The percentage of KALAHI funding ranges from zero to more than 200% of municipal income. On average, KALAHI funding accounts for more than half of municipal income for KALAHI participants, at 56%.

terms. Political clans can still get around the term limits either by having a family member take over the seat or act as a placeholder for a single term until the mayor can resume office (Coronel, Chua et al. 2004). In 2004, 264 first termers comprised 40% of our sample of mayors, 219 second term mayors comprised 33%, and 180 third term mayors comprised 27%. One possibility is that 2nd term mayors (looking toward a second re-election) may be the least vulnerable in that they've had two terms to solidify their bases of support. The dummy variable *Third Term Mayor* takes the value 1 if the incumbent was in his third term prior to the 2007 election, and 0 if not. Another variable that has implications for the competitiveness of elections is the number of candidates running for mayor. The variable *Number of Candidates* measures the number of candidates in the 2007 elections. The number ranges from uncontested elections (single candidate) to elections contested by seven candidates. The mean number of candidates in municipal elections in our sample is 2.4.

We also control for demographic characteristics that may affect the chances of re-election, as well as spending behavior. Most importantly, we control for poverty in each municipality.[41] Data are from the National Statistics Coordination Board (NSCB). We also control for differences in population across municipalities in the main estimation. *Population (log)* is the log of population in 2007. Data are from NSCB. In addition, we control for the log of land area and urban/partially urbanized areas, on the rationale that larger areas may be more difficult to administer and that there may be economies of scale in governing urban and urbanized areas. Finally, in our spending estimations we include a measure for the log of an incumbent's overall expenditure during the Kalahi project period.

One potential problem is that the Kalahi participants were selected as the poorest 25% municipalities of the poorest 50% of provinces in the Philippines. Poverty could therefore be a perfect confounding factor in the analysis. To ensure that our two subsamples (the Kalahi municipalities and the municipalities that did not receive Kalahi funds) are balanced on the most important confounding factors, we graphed the subsample mean values as well as one standard deviation below and above the mean in Figure 3. The graph shows that the values of the main independent variables are very balanced across the two subsamples. Most importantly, the mean poverty rating is almost identical for both subsamples. The reason for this surprising balance across subsamples is the large poverty differentials across provinces eligible for Kalahi funds. That is, the poorest 25% of municipalities in the richest provinces eligible would be within the top 25% of the poorest provinces eligible.

[41] The results are robust to alternative measures of poverty, such as the municipality's income classor poverty incidence data from the National Household Targeting System data from the DSWD. Income classifications are a broad categorization of Philippine municipalities by income, where first class municipalities are those that have an average income of 450 million pesos or more, while the sixth class municipalities are those that make below an average of 90 million pesos a year.

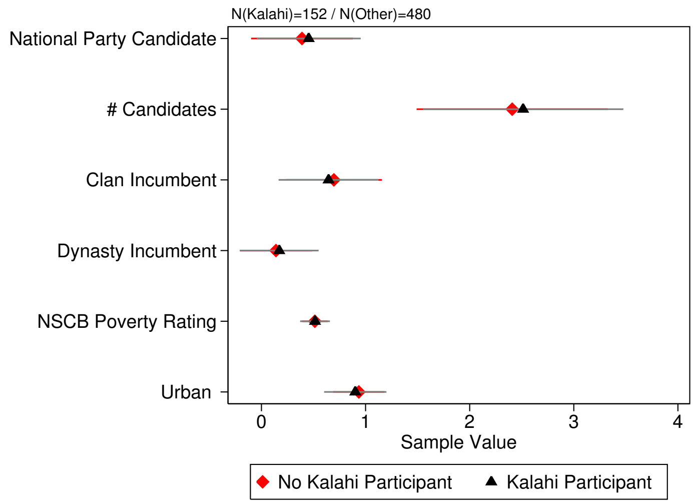

Figure 3: Mean Subsample Values (with one standard deviation below and above the mean)

4.3 Model Specification

We estimate the following equation using logistic regression:

$$Pr(\text{Reelection}_{ij} = 1|X_{ij}) = P(\beta_1(\text{KC Participation}_{ij}) + \beta_2(\text{Controls}_{ij}) + \gamma_j + \epsilon_{ij})$$

where $Reelection_{ij}$ indicates the re-election of a mayor or mayor's relative in municipality i in province j during the 2007 elections, *KC Participation*$_{ij}$ is a dummy variable indicating participation in the KALAHI program. β_2 is the vector of coefficients and $Controls_{ij}$ represents a vector of control variables that are expected to affect reelection, namely number of candidates, whether the mayor is in the third term of office, poverty ranking, and population. The full model also adds log land area and an indicator for urban areas, both taken from the NSCB. Province fixed effects are represented by γ_j and captures province-level characteristics that are shared across municipalities in the same province, and ϵ_{ij} is the error term.

To test the mechanisms for the reelection effect, we use two approaches: examining the effect of the announcement of the program separately from the disbursement of funding, and examining the effect of the program on municipal expenditure patterns. For the first, we re-run the above specification on a restricted sample of municipalities in which the program was announced but the funds were not yet disbursed. For the second, we use a similar set up for our municipal expenditure dependent variables, estimated using OLS with standard errors clustered by province:

$$\text{Expenditure}_{ij} = \beta_0 + \beta_1(\text{KC Participation}_{ij}) + \beta_2(\text{Controls}_{ij}) + \gamma_j + \epsilon_{ij}$$

where $Expenditure_{ij}$ represents two categories of municipal expenditure, public goods spending and targeted goods spending.

4.4 Empirical Results

This section presents the findings of our empirical analysis on the effects of participation in the KALAHI program on reelection of municipality mayors. We first analyze whether there is a reelection effect. Subsequently, we discuss the mechanisms underlying the reelection of mayors. In a nutshell, we find that incumbent mayors who receive a KALAHI project are significantly more likely to get reelected. This reelection effect is due to (a) fiscal re-distributive strategies, and (b) a signal of political competence.

Table 1 presents the first set of results. Model 1 presents the main result showing the relationship between KALAHI participation and the reelection of mayors or their family members. Model 2 includes further control variables, in particular, the logged measure for land area and whether or not the municipality is partially or fully urbanized.

	Model 1 (Main)	Model 2 (Controls)
KALAHI	1.97^{***}	1.82^{**}
	(0.48)	(0.46)
Third Term	0.18^{***}	0.18^{***}
	(0.05)	(0.05)
Candidates in 2007	0.62^{***}	0.62^{***}
	(0.08)	(0.08)
Poverty Rating	0.77	0.76
	(0.72)	(0.71)
Population (log)	1.23	1.17
	(0.18)	(0.21)
Land Area (log)		1.15
		(0.22)
Urban		0.79
		(0.35)
Province Fixed Effects	Yes	Yes
Observations	621	618

Exponentiated Coefficients (odds ratios)

Standard errors in parentheses

Table 1: KALAHI Participation and the Reelection of Municipality Mayors

Turning to the substantive effects, we find that participation in the KALAHI project has a significant positive effect on the likelihood that incumbents on the municipality level get reelected. The odds ratios indicate that participating in the KALAHI project increases the odds of re-election by a factor of 2. In terms of probabilities, participation in the KALAHI project increases the likelihood of re-election by 15% (from 59% to 74%).

In addition to the main electoral effect of KALAHI participation, there is strong evidence that electoral competition in the Philippines is still compromised by patronage. Municipalities in which the mayor is serving her third term have significantly higher rates of incumbent reelection. That is, even though third term mayors cannot be reelected, their relatives have a much greater chance of getting elected. In addition, the number of candidates increases the likelihood that an incumbent is reelected. The reelection of an incumbent is not, however, affected by either the economic well-being in the municipality, the population, the size of the land area, or the urbanization of the community.

To summarize our findings so far, participation in KALAHI-CIDDS significantly increases the chances of mayors to get reelected. These findings are supported by qualitative evidence (see also interview findings above). The KALAHI program is wildly popular in the participating municipalities. KALAHI officials visiting the municipalities are treated like royalty-fiestas, song and dance recitals, and other programs are the norm. Although villagers are aware that the bulk of the funding for the projects does not come from their municipality, they still appear to give their mayor and local government officials credit for the program because "it doesn't matter to us where the money comes from" as long as the KALAHI projects themselves are a success.[42] One villager in a KALAHI barangay with a new school was even more blunt about her view of municipal politics: "I don't care who's sitting [in the mayor's seat], I just care about whether my daughters are able to go to school."[43] Mayors are similarly very happy with the program, to the point that mayors in non-KALAHI provinces have been lobbying the government to expand the program even further. According to the mayor of one newly selected KALAHI municipality, being chosen for the program was "a blessing" and that her "prayer was answered."[44]

But why do voters increase their support for a mayor if their municipality receives one of the KALAHI projects? As discussed above, mayors have no influence in the allocation of projects across municipalities and they have very little say in the distribution of funds on the community level. In the theoretical section, we discussed two potential mechanisms through which mayors could increase their support. First, voters may believe that mayors can in fact influence the allocation of projects across municipalities (Hypothesis 3). Second, mayors can use project funds to hide a strategic reshuffling of their local budgets in favor of targeted spending before elections (Hypothesis 2).

[42] Author interviews, April 2011

[43] Ibid.

[44] Mayor Jocelyn Lelis, Prieto Diaz, Sorsogon

First, we analyze whether voters attribute receiving the KALAHI project to the political competence of the mayor to negotiate for them on the national (or even international) level (Hypothesis 3). Table 3 presents the results. Model 1 shows re-election effect for eligible but yet unfunded municipalities in 2007, Model 2 shows the reelection effect for eligible but yet unfunded municipalities in 2004, and Model 3 show the reelection effect for eligible and funded municipalities between 2004 and 2007. We find that KALAHI participation has a positive effect on re-election in 2004 and 2007 even when excluding all cases in which funding was received before the election. In other words, being named a participant in the project has a positive effect on re-election even before the funds were actually disbursed.

	Model 1 (2007)	Model 2 (2004)	Model 3 (2004-2007)
KALAHI	3.28***	1.85**	1.80**
	(1.27)	(0.45)	(0.46)
Third Term	0.24***	0.18***	0.19***
	(0.12)	(0.05)	(0.05)
Candidates	0.59**	0.60***	0.59***
	(0.13)	(0.08)	(0.08)
Poverty Rating	2.64	0.80	0.76
	(5.44)	(0.74)	(0.70)
Population (log)	1.49	1.22	1.24
	(0.45)	(0.18)	(0.18)
Province FE	Yes	Yes	Yes
Observations	188	615	602

Exponentiated Coefficients (odds ratios)

Standard errors in parentheses

Table 2: Incumbent Competence, KALAHI-CIDDS, and Mayor Reelection

The findings in Models 1 and 2 lend strong support to the argument that voters attribute the receipt of a KALAHI project to the political competence of the mayor to negotiate these projects on the national level. Mayor whose municipalities receive a KALAHI project are significantly more likely to be reelection even if municipalities have not received the funding yet (therefore making it impossible for mayors to use the funds directly or indirectly for targeted spending; in addition, the increase in support cannot be a result of a general increase in economic well-being that might be a consequence of the project). This result implies that voters either do not know that the allocation of funds across provinces are not influenced by the mayor, or that the mayors are successful in conveying to voters that they do have influence even if they do not. The latter possibility is supported by the fact that mayors tend to put up huge billboards that announce the receipt of the KALAHI project accompanied by very large pictures of themselves.

	Public Goods	Targeted Goods
KALAHI	-0.45**	1.50**
	(0.22)	(0.66)
Poverty Rating	-0.73	1.36
	(1.10)	(4.58)
Population (log)	1.06**	0.27
	(0.39)	(0.92)
Land Area (log)	-0.50**	-0.15
	(0.19)	(0.59)
Urban	-0.020	0.95
	(0.51)	(1.01)
Total Expenditures (log)	0.043	-7.04***
	(0.55)	(0.89)
Constant	3.13	173.6***
	(6.12)	(14.19)
Province Fixed Effects	Yes	Yes
Observations	644	595
R^2	0.314	0.364

Ordinary Least Squares

Standard errors in parentheses

Table 3: KALAHI-CIDDS and Local Budgeteering.

Second, we analyze whether incumbents also use the KALAHI funds to hide a redistribution of their own budgetary spending (Hypothesis 2). Table 3 presents the results of estimating the effect of KC participation on public good spending (Model 1) and targeted good spending (Model 2). We find that project participation has a negative effect on public goods spending, but a positive effect on targeted spending. In particular, incumbents that received a KALAHI project have, on average, increased their targeted expenditures by 1.5%, and decreased their public goods expenditures by 0.5%. This suggests that incumbents are able to exploit the influx of project funds to reallocate the local budget in favor of providing more targeted goods. The project funds, which are spent towards public goods, appear to cover this re-distribution in favor of targeted goods (otherwise we would not observe a positive effect of KALAHI participation on reelection). It is important to note here that these funds do not include any of the World Bank projects funds (which are not channeled through local budgets). In other words, World Bank aid had an independent and significant effect on how local incumbents spent their budgetary resources.

5 Robustness Tests

Empirical findings are oftentimes fragile to different model specifications. In order to check the robustness of our results, we provide findings of additional estimations in this section.

In particular, it could be that the significant effect of the KALAHI project is a consequence of a large number of clan-dominated municipalities. Because clans have a variety of legal and illegal means for staying in power, the increase in budget afforded by participation in the KALAHI program is unlikely to make a significant difference in their electoral strategies. Excluding these cases may render the effect of KALAHI insignificant. To test for this, we re-estimate the main model but split the samples for clan dominated and competitive elections.[45] To determine dynastic municipalities, we analyze the dominance of the incumbent and his or her relatives during the elections from 1995 and 2010. Following Labonne (2011), we code a municipality as dynastic if at least 5 of the 6 elections were won by either an incumbent or the incumbent's relative.[46]

In our sample, 50 municipalities had elections that were completely dominated by a single family (i.e. all elections between 1995 and 2010 were won by a single family). About 40 municipalities had different winners each election (no one family was able to win consecutive elections). The rest of municipalities falls in between these two extremes. Overall, using our definition the sample includes 71 clan-dominated municipalities and 476 other municipalities. Table 4 presents the findings of our main model (Table 1, Model 1) when estimating it for the sample of clan-dominated municipalities (Model 1) and for the sample of other municipalities (Model 2).

The results show that the reelection effect is robust to only including municipalities that are not dominated by clans. As expected, the effect is positive, but not significant at conventional levels for dynastic municipalities.

In addition, we estimated the main logistic regression using a number of additional control variables (for space reasons, the results are available from the authors). Most importantly, we controlled for (i) the mayors' partisanship, (ii) whether the mayor was of the same partisanship as the central government, (iii) whether the municipality received any additional grants (and the amount of the grant), (iv) the number of terms in office, (v) a number of other poverty measures (including non-linear effects of poverty), and (vi) a number of different measures for clan-dominance. None of these changes in the model specification rendered the effect of KALAHI participation on electoral success insignificant.

[45] The results are similar when an interaction effect is used instead.

[46] Although there is no single definition for dynastic municipalities in the literature, our coding follows the practice established in Labonne's (2011) study of the electoral effects of a conditional cash transfer program in Philippine municipalities. Results are robust to adjustments in the threshold for determining how many clan elections constitute a dynastic municipality.

	Model 1 (Clan Dominated)	Model 2 (Not Clan Dominated)
KALAHI	0.72	2.11***
	(0.51)	(0.57)
Third Term	0.44	0.069***
	(0.40)	(0.02)
Candidates	0.44	0.64***
	(0.28)	(0.10)
Poverty Rating	1.49	1.34
	(3.93)	(1.75)
Population (log)	1.52	1.34
	(0.82)	(0.24)
Province FE	Yes	Yes
Observations	71	476

Exponentiated Coefficients (odds ratios)

Standard errors in parentheses

Table 4: KALAHI Participation and the Reelection of Municipality Mayors

6 Conclusion

We analyze electoral effects of foreign aid projects that minimize the control local incumbent governments have over the allocation of aid resources. We argue that foreign aid projects increase the likelihood of reelection for incumbent governments even if they have little or no control over the aid budgets themselves. On one hand, they can use the influx of foreign aid to (secretly) redistribute their own budgets in favor of more targeted spending. On the other hand, they can use the receipt of the foreign aid project to signal political competence to their electorate.

To test our theoretical argument, we use data from a World Bank project that (successfully) aims at minimizing political capture by local elites. We find that participating in the World Bank project has a significant electoral effect. Mayors whose municipalities were chosen to participate in the KALAHI project are significantly more likely to be re-elected or to have a family member re-elected. We find support for both the fiscal and the non-fiscal mechanism.

These findings are interesting because we have selected our case in order to minimize the likelihood of electoral effects. Most importantly, we showed that incumbents have almost no influence on the allocation of funds, and they were not able to misuse the funds directly to pursue electoral politics. We would therefore expect electoral effects to persist in a much broader set of cases (particularly, when aid is fungible or when donors allocate aid with the intention to affect domestic politics in developing countries).

Understanding the political impact of development projects is also important for understanding why projects that are largely successful in achieving their project-specific aims can still be ineffective in generating broader economic growth. Even though there is substantial evidence that KALAHI projects tend to cost less, have higher economic rates of return, and are completed faster than similar projects undertaken by the government, the improvement in welfare and economic outcomes in participating municipalities are much more modest and limited. One of the reasons for this could be that the KALAHI projects provide incentives to incumbent governments to redistribute local resources in order to provide more targeted spending.

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