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IOB Study

Civil society, aid, and development: a cross-country analysis

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Preface

International cooperation for development relies on several aid modalities and - in addition to bilateral and multilateral programs - non-governmental organizations (NGOs) play an important role in channeling development aid towards their Southern partners. The support of the Netherlands Ministry of Foreign Affairs to developmental NGOs perceives several objectives, ranging from direct poverty alleviation to capacity building and lobby and advocacy activities.

Rigorous evaluations of programs and projects executed by non-governmental organizations (NGOs) are generally scarce and tend to be limited to the analysis of perceived effects at local level. Far less attention is usually devoted to the aggregate effect of development aid on global civil society strength and performance. This is, however, considered of utmost importance given the overarching aim of strengthening the role of civil society in the development process.

The recently developed database Indices of Social Development (ISD) hosted by the Institute of Social Studies (ISS) of the Erasmus University Rotterdam offers a unique opportunity to further analyze the relationships between civil society development and development aid (ODA) over a 20-years period, making use of cross-country data of multidimensional indicators related to civic activism, intergroup cohesion and club membership.
The current paper *'Civil Society, Aid and Development'* has been commissioned by the Policy and Operations Evaluation Department (IOB) of the Netherlands Ministry of Foreign Affairs to enable the professional discussions regarding the different pathways for strengthening civil society in developing countries. Such analysis requires a careful appraisal of the direction of causality and needs to give due attention to endogeneity issues, including several control variables to account for other relevant factors.

The study provides an overview of the literature regarding the influence of foreign aid on civil society, drawing extensively on theories of social capital, social inclusion and social norms. Hereafter, the empirical approach used for the operationalization of civil society measurement and development outcomes is outlined. Finally, several estimates for the determinants of civil society development strength are specified and used in subsequent estimates of their effects on poverty reduction, democratization and human rights.

The main findings of the study suggest that aid exhibits an ambivalent relation with civil society development. Most profound positive effects are registered for civic action and club membership. Also clear interactions with the prevailing rule of law conditions are found, pointing at complementarities between formal and informal institutions. Whereas aid contributes to poverty alleviation, direct effects of civil society parameters on poverty reduction are at best modest. Effects on democratization are difficult to trace. Otherwise, quite significant albeit contradictory effects are found for the effects on human rights, with a positive sign for intergroup cohesion (bridging social capital) but a negative sign for club membership (bonding social capital).

We are grateful to the authors Irene van Staveren and Ellen Webbink for their enduring effort to develop the analytical models and to conduct the data analysis that enables us to further the discussion on the effectiveness of aid for civil society development. We look forward to further discussions regarding the empirical evidence for the development impact of NGO aid on civil society performance in developing countries.

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Introduction

This study explores the relationships between development aid, civil society and development outcomes. It hopes to contribute to the debate on aid effectiveness, in particular about the less tangible social dimensions of development. The key asset of this study is a rich, innovative database of multidimensional social development indicators, hosted by the Institute of Social Studies. The Indices of Social Development database (ISD) offers a unique source for development policy research, because it stresses dimensions of development that have hitherto been under-valued and/or were often not measured at all. The six indices in the database are multidimensional measures for civil society and track social development over time for a large number of countries. The indices allow the analysis of relationships between aid and civil society on the one hand and between civil society and development outcomes on the other hand. Both relationships will be tested in this study, for aid receiving countries for the period 1990-2010.

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Civil Society and Development: a Literature Review

2.1 The emergence of civil society in economic development research

The increasing critique on neoliberal development policy and its foundation in mainstream economics has resulted around the turn of the century in a more explicit concern with social dimensions of development, such as poverty reduction, inequality, and governance issues. This has led to the emergence of the Post Washington Consensus in the arena of multilateral development aid, in which more attention to social investment and to governance issues was added to the original policy set of liberalization, privatization, and public expenditure restraint. Structural Adjustment was replaced by Poverty Reduction Strategies; the development of the Asian tiger economies was revisited in analyses recognizing the role of a strong state in market expansion and accumulation; and economists looked for 'the missing link' for poverty reduction in other disciplines of the social sciences.

This had led some development economic researchers to enter interdisciplinary engagements with sociology, anthropology, and political science, resulting in serious attention to two concepts: (1) informal institutions and (2) social capital. Both were recognized as lying outside the state and outside the market, although, of course, the market is an institution itself. The attention to informal institutions and social capital brought a relatively new dimension to development economics, namely attention to a third domain next to the market and the state: civil society (see for a conceptual development of the third domain in economics, van Staveren, 2001). In a recent paper, Fowler and Biekart (2011: 5) characterize the concept of civil society as a "messy empirical category". They list the various understandings of this concept put together by Glasius (2010) as: social capital, citizens active in public affairs, non-violent action, fostering public debate and counter hegemony. Earlier, Fowler and Biekart (2008) pointed at the dynamic and agency dimensions of civil society, which they refer to as civic-driven change. Civic-driven change is in their view a combination of three dimensions: civic agency, collective action, and empowerment. Hence, they understand civil society as normative, reflecting pro-social values and contributing to development. This is similar to the recent view by World Bank economist Michael Woolcock (2011) and by political economists Samuel Bowles and Herbert Gintis (2002) who also regard civil society as pro-social.

Part of the messy empirical categorization of civil society is the related, and equally ambiguous, concept of social cohesion. As Diego Lanzi (2011: 1092) has phrased it recently: "the contemporary debate on social cohesion is a fine mess." The OECD has defined social cohesion in its latest annual report. "The current report calls a society 'cohesive' if it works towards the well-being of all its members, fights exclusion and marginalisation, creates a sense of belonging, promotes trust, and offers its members the opportunity of upward social mobility" (OECD, 2012: 53). Woolcock (2011) defines social cohesion in a similar normative way as the "capacity of societies (not just groups, networks) to peacefully manage collective action problems, in which all are included and treated equally, without discrimination". Easterly et al. (2006: 105), however, have a narrower definition of social

cohesion, namely "as the nature and extent of social and economic divisions in society." Finally, Jenson (2010) defines social cohesion in three dimensions: (1) inequality (2) institutions and (3) belonging. She argues that "social cohesion is a property of a society ... it is not an individual characteristic..." (Jenson, 2010: 15). Social cohesion is taking over the highly contested concept of social capital. It is being recognized as the substance of civil society at the macro level.

In the literature, civil society appears to be an umbrella concept for 'the third sector', characterized normatively as developing pro-social behaviour and as expressing strong social relations and social values. These characteristics have been operationalized in development economics research under the broad labels distinguished above: informal institutions and social capital, to which social cohesion has been added only recently and covering the same variables in empirical research: informal institutions like social and cultural norms, religion, and social inequalities on the one hand, and social capital variables like trust, networks and associations, on the other hand.

The first of the two civil society concepts, informal institutions, is often simply referred to as institutions, not always clearly distinguishing between formal and informal institutions. Institutions have generally been defined as the social norms that shape human behaviour. The distinction between formal and informal institutions, however, is important, and summarized by the World Bank (2011: 8) in its latest World Development Report: "Formal institutions are all aspects pertaining to the functioning of the state, including laws, regulatory frameworks, and mechanisms for the delivery of services that the state provides". In contrast, "Informal social institutions are the mechanisms, rules, and procedures that shape social interactions but do not pertain to the functioning of the state. (...) Social norms refer to patterns of behaviour that flow from socially shared beliefs and are enforced by informal social sanctions." Williamson (2009) makes a similar distinction, though limiting institutions to constraints on behaviour, as is common in the new institutional economics. She clarifies that "formal institutions are defined as political constraints on government behaviour enforced by legal institutions. Formal rules encompass constitutional constraints, statutory rules, and other political constraints." In contrast, "informal institutions are private constraints stemming from norms, culture, and customs that emerge spontaneously. They are not designed or enforced by government" (Williamson, 2009: 372). What is therefore crucial to the understanding of informal institutions is that they are non-state but emerging in social relationships outside government, in what is recognized as civil society.

This distinction has consequences for empirical research. Finding a statistically significant impact of informal institutions may not so much be a sign of a strong independent civil society, but rather signifying a substitution for weak formal institutions, representing a weak state (Beugelsdijk, 2006; Diani, 2004). Studies relying entirely on the generalized trust question as a proxy variable for social capital, may therefore yield erroneous conclusions: they "do not measure (aspects of) culture or social capital of which many scholars assume they have economic effects, but the well-functioning of institutions" (Beugelsdijk, 2006: 383.) Bowles and Gintis (2002: F431) also recognize the relationship between state

institutions and civil society: "The face-to-face local interactions of community are thus not a substitute for effective government but rather a complement." Another critique on the empirical research is that the institutional approach to integrating civil society in development economics has until recently largely ignored the role of asymmetric institutions, that is, institutions that have different effects on different groups in society, often advantaging one group over another as is the case with gendered institutions (Odebode, van Staveren, 2007). A major step forward has been the work by the OECD on gendered institutions, showing how these limit women's access to resources (Morrisson and Jütting, 2005) and constrain their agency (van Staveren, forthcoming).

The research on informal institutions in development economics began to integrate property rights, governance, democracy, entrepreneurship, productivity, and political and social stability in growth analyses (Rodrik, 2003; and for a critical discussion, see Durlauf et al., 2008). Mostly, the institutional variables included in the analyses refer to state institutions that would facilitate free markets, such as the Rule of Law or time to get through a bureaucracy when setting up a business, or expropriation risk. Chang (2011) is quite sceptical of this literature, and argues that strong formal institutions that protect property rights are not a necessary condition for growth, which is for example shown by the case of China. The research on informal institutions focused in the beginning on religion and its behavioural norms that are thought to be supportive of markets (Barro and McCleary, 2003). This focus derived from Max Weber's thesis of the protestant work ethic (Weber, 1992) and was later empirically tested and qualified (Norris and Inglehart, 2009). More recently, development research recognizes a relationship between formal and informal institutions. A special issue of *World Development* on institutions concludes, that "the papers illustrate in a number of different contexts how informal institutions influence the nature and quality of more formal institutions, and how the two together are likely to influence the process of development" (Casson et al., 2010: 140). This insight has informed our empirical analysis by including variables for both formal and informal institutions.

The second of the civil society concepts referred to above is social capital. It was applauded by the World Bank Social Capital Project as 'the missing link' in economic development research (see for a reflection on the project six years later: Bebbington et al., 2004). In this project, social capital was defined as "the institutions, the relationships, the attitudes and values that govern interactions among people and contribute to economic and social development" (World Bank, 1998: 1). It explicitly includes the notion of institutions and was regarded as the link between the determinants of economic growth on the one hand and desirable development outcomes such as poverty reduction, health improvements, or reductions in inequality on the other hand (see, for example, Isham et al., 2002). Hayami (2009: 98) defines social capital "as the structure of informal social relationships conducive to developing cooperation among economic actors aimed at increasing social product, which is expected to accrue to the group of people embedded in those relationships." Bowles and Gintis (2002: F419) provide a more micro-level definition, deriving from their extensive research in experimental economics. "Social capital generally refers to trust, concern for one's associates, a willingness to live by the norms of one's community and to punish those who do not."

The embracement of the concept of social capital by development economists resulted in empirical research in which social capital was integrated as a proxy variable both for analytical purposes as well as for defining possible policy variables (Dasgupta and Serageldin, 1999; Woolcock and Narayan, 2000; Grootaert and van Bastelaer, 2002). Most of this literature measures social capital subjectively through the generalized trust question from the World Value Surveys ('do you, in general, trust other people?') or in micro research, the number and extent of networks or the extent of associational membership by a target group, such as micro-borrowers, medium scale entrepreneurs, or farmers. The integration of social capital as a way to capture civil society has, contrary to its use in sociology by Bourdieu and others, entered economics in a largely instrumentalist way, namely, as market-friendly potential, reducing the need for public policy and social spending.

It has been criticized because of this and because of its individualist understanding of civil society with limited attention to inequality (Fine, 1999 and 2001; Baron et al., 2000; van Staveren, 2003). Bowles and Gintis (2002: F419-420) have formulated the two positions on social capital sharply: "Those to the left of center are attracted to the social capital idea because it affirms the importance of trust, generosity and collective action in social problem solving, thus countering the idea that well-defined property rights and competitive markets could so successfully harness selfish motives to public ends as to make civic virtue unnecessary. Proponents of *laissez faire* are enchanted because it holds the promise that where markets fail – in the provision of local public goods and many types of insurance for example – neighbourhoods, parent teacher associations, bowling leagues, indeed anything but the government, could step in to do the job." These two very different interpretations of social capital are allowed by the widespread use of a singular, subjective proxy variable, namely 'trust'. But trust may actually be more an outcome than a determinant of social capital, as Field has argued, and more so within certain groups than across groups (2003, pp. 65 and 125). Moreover, various micro development economists caution against the use of simple social capital proxies in complex analyses, because that tends to ignore various positive and negative externalities (van Staveren, 2000; van Staveren and Knorringa, 2007; Durlauf and Fafchamps, 2004). The sociological and political science literature has revealed the complexities of social capital, entailing a variety of social values and cultural meanings, as well as a strong role of power, conflict and inequality. In particular, horizontal inequalities – inequalities between groups – matter, as Stewart (2009) has explained. A rather limited and individualistic approach to measuring social capital in economic analyses becomes even more worrying when social capital is regarded as a policy variable. This can easily lead to a position in which poverty is regarded as having a simple cure without any support from the state, simply by the poor themselves through their social bonding, trust, and solidarity. This implicit message has met with strong critique, among others from John Harriss and Paolo de Renzio (1997), Ben Fine (2001) and Frances Cleaver (2005). Moreover, meso-level research, with a disaggregated approach to measuring social capital and its economic effects, has pointed out that social capital is created at the meso-level. In line with this recognition, the distinction between bonding and bridging social capital has been increasingly understood as a crucial differentiation, whereby bonding social capital is limited to the micro level in homogeneous groups, whereas bridging social capital occurs at the meso-level, and sometimes even extends to the

macro level (f.e. through trade, migration, and social activism). It is only the second type of social capital which leads to social cohesion.

The two approaches towards integrating civil society in development economic research – as informal institutions and as social capital – have come together over the past ten years. This has happened probably because researchers realized that the basis for both informal institutions and social capital is shared social norms and values in a society, either pro-social and leading to social cohesion, or serving particular interest groups and leading to inequalities, exclusion, and tensions. This is the case, for example, in studies analysing the causes of slow growth in Africa (Collier and Gunning, 1999); the effects of ethnic group norms and cooperation on trade success (van Staveren and Knorringa, 2007); the effect of ethnic fragmentation on growth (Easterly and Levine, 1997; Okediji, 2011); or the impacts of institutions on both inequality and growth (Davis and Hopkins, 2011).

The strength of integrating civil society through informal institutions and social capital variables is that indeed a missing link was found: the variables often, though not consistently, show statistically significant results with development outcomes. Some studies became quite influential, such as the volumes put together by Dasgupta and Serageldin (1999) and Grootaert and van Bastelaer (2002) on social capital and development; an influential article by Knack and Keefer (1997), followed up by Knack and Zak (2001) on the impact of trust on growth; and the work on formal institutions of development by La Porta et al. (1999) and Acemoglu et al. (2001). An exception to the narrow focus on GDP in these studies is a case study on Bangladesh on the effect of development aid to civil society and its positive impact on development outcomes in terms of poverty, equality, and democratization (Kabeer, Kabir, Huq, 2009). Moreover, the measurement of informal institutions is often narrow, relying on just one social or cultural norm as a proxy variable, which does not do justice to the broad understanding of informal institutions and their constitution of civil society. José Antonio Alonso (2011) has therefore rightly argued that institutions play a role only together with other factors, in which history matters importantly.

2.2   Measurement of civil society and empirical results

The literature on civil society and development does not explicitly measure poverty but uses GDP per capita levels or GDP growth as outcome variables. The implicit assumption is that growth will trickle down to poverty reduction, in particular when it is inclusive growth, presumably associated with a stronger civil society. Some studies include a measure of inequality among its independent variables, which is an important dimension of civil society, as we have discussed above. Unfortunately, the vast majority of growth regressions taking institutions into account only include formal institutions, often those related to the protection of property rights. Social capital is often measured only with the general trust question from the World Values Surveys. Empirical results, nevertheless, all point in the same direction: stronger formal institutions, less inequality and stronger informal institutions and social capital are associated with higher levels of GDP per capita and higher economic growth. Most studies acknowledge that there may be a problem of endogeneity. Some address this by using time lags while others use instrumental variable analysis, such as two-stage least squares, others do not address the issue at all. When instruments are used to address endogeneity, studies only use instruments for formal institutions, often historical measures of state formation or early European settler mortality rates. These instruments, however, are not suitable for informal institutions and social capital variables because instruments for these civil society measures should reflect intangible, social dimensions of development for which no historical data seems to be available. Therefore, unfortunately, it is not possible to use two stage least squares or other instrumental variable analyses for this study. In our methodology section, however, we do come up with a simpler technique that does at least address the issue to some extent, although we acknowledge that this is imperfect. We do hope that suitable instrumental variables will be developed in the near future by data collection on historical values of social development, cultural norms, and other relevant informal institutions.

Davis and Hopkins (2011: 995) conclude that "institutional reforms that increase the security of property rights for the poor, or the quality of property rights enforcement more generally, will tend to increase economic growth while simultaneously reducing income inequality." In a comparison of the effect of geography, trade and formal institutions, Rodrik et al. (2004) find that the effect of institutions is much larger than that of the other two explanatory variables, which even have the wrong sign in a multivariate estimation. But they admit that the policy implication of their finding is "extremely meagre" (p. 157), because they measure institutions only through the formal institutional variable Rule of Law, which is a subjective measure consisting of experts' ratings of the quality of property rights protection in a country. Easterly et al. (2006) do include measures of civil society and try eleven different measures for formal institutions, including Rule of Law. They conclude that "more social cohesion leads to better institutions, and that better institutions in turn lead to higher growth. This is true regardless of how we measure institutions" (p. 113). In one of the very few studies comparing formal and informal institutions, Williamson (2009: 377) finds that "countries that have stronger informal institutions, regardless of the strength

of formal institutions, achieve higher levels of economic development than those countries with lower informal institutional scores." This finding supports Chang's (2011) scepticism about the primacy of formal institutions.

The other development outcome variable in our study is democracy. The development literature distinguishes between different types of democracy (OECD 2012). One such distinction uses an increasing role of civic agency: representative democracy, participatory democracy, and developmental democracy (Boyte, 2008: 121). It is probably this diversity which helps to explain the ambiguous empirical results found in the literature in regression analyses with civil society variables on the one hand and democracy variables on the other hand, and of regressions of ODA on democratization (Charron, 2011; Knack 2001). In this literature, democracy is often measured by the Polity 2 variable of the Polity IV Project, which measures the quality of democracies. Qualitative studies seem to be better able to capture the various relationships between civil society and democracy. A study by Robinson and Friedman (2005) provides three case studies, on Ghana, South Africa and Uganda. "The studies demonstrate that ... the contribution of civil society organisations to democracy extends to their ability to foster participation and deliberation, to build leadership capacity, and to nurture values of tolerance and consensus building, all of which are a function of internal democratic practices. Its capacity to offer citizens a say in decisions and to enhance pluralism may be as important as the ability to influence decision-making and demand accountability from state actors" (Robinson and Friedman, 2005: 40).

Apart from the limited measurement of civil society through the general trust question, there is another problem, which concerns the measurement of the inequality and cohesion dimensions of civil society. The most frequently used measures are ethnic and linguistic diversity, assuming that with more diversity there is more inequality and less cohesion, and hence, a weaker civil society (see, for example, Jenson, 2010). The problem with this measure is that it confuses diversity with conflict: countries with high ethnic, religious, or linguistic diversity may have much less tensions between groups than countries that have only two or three major groups – such as blacks, coloured and whites in the Apartheid era or Hutus and Tutsis in Rwanda. Recognizing this trap, the recent OECD report on social development therefore states that "group polarization, rather than inequality itself" should be regarded "as the principal explanation for inter-group inequalities eventually leading to conflict" (OECD, 2012: 106).

3

Theoretical framework for the cross-country analysis in this study

What we learn from the empirical studies is that (1) estimations with informal institutions need to be complemented by a formal institutional control variable, for which it does not matter much which one is chosen (2) civil society cannot be captured by a single variable but requires multidimensional measurement for capturing the complexity of the phenomenon (3) horizontal inequalities, rather than diversity, needs to be taken into account to capture the dark side of social capital (exclusion, discrimination, conflict between groups) (4) possible endogeneity problems need to be addressed, even when instruments for civil society variables are unavailable.

We propose the following loosely defined theoretical framework for the cross-country empirical analysis in this report. First, we understand civil society as a complex set of informal institutions and social capital with three interrelated dimensions: social bonds, horizontal inequalities, and transformative agency. We will use therefore multidimensional measurement of civil society with composite indices. Second, we see civil society as contributing to development outcomes and in mutual reinforcement with formal institutions. Civil society and formal institutions will often complement each other, rather than being substitutes, whereby we expect that informal institutions are the most foundational ones, on which formal institutions may be built, supported, challenged, and adapted. But a stronger civil society may lead to short run set-backs in development outcomes, or may only deliver when also formal institutions change, as the recent Arab Spring developments indicate. Third, we expect that development aid will positively contribute to civil society, under certain conditions. Due to the heterogeneity of civil society, support to some civil society organizations and networks may have a stronger effect than support to others, while in some instances, donor aid to civil society organizations may even undermine the indigenous dynamics of civic driven change and re-enforce inequalities.

These three elements form our loosely defined theoretical framework, reflecting recent developments in the literature from social capital to social cohesion and from a focus on formal to attention to informal institutions. Our unique contribution to this emerging theoretical framework is to use multidimensional measures of civil society in which we account for all key dimensions emerging from the recent literature: social bonds, horizontal inequalities, and transformative agency. On the basis of this theoretical framework we hypothesize that for a large sample of developing countries over the period 1990-2010, development aid will have a positive effect on civil society, and that a stronger civil society will positively contribute to poverty reduction and to democratization.

4

Methodology: measuring civil society and development outcomes

4.1   Civil Society variables

The database Indices of Social Development (ISD), launched in 2011 by the Institute of Social Studies, is the first database that presents a set of coherent, broad based indices of civil society for a large number of countries. It is broad because it includes around 200 variables covering all the relevant dimensions of civil society developed in our theoretical framework of civil society in development. The data are available for five years, with five years in between, calculated as averages around each of these years (1990-2010).

Emerging research with the ISD points at a wide variety of applications. The ISD Working Paper Series and the research conference in December 2011 provide an overview of studies that make use of the database. First, the studies suggest that the indices, such as the Gender Equality Index, are indeed broad-based as compared to comparable indices like the Gender Inequality Index published in UNDP's Human Development Report (van Staveren, 2011). Second, they confirm that the indices reflect informal institutions, social cohesion, and inequalities, so they are indeed broad-based (Dulal and Foa, 2011). Third, the statistical tests that have been carried out in developing the six indices have shown that they are quite distinct. There is no overlap in the underlying indicators but they are complementary. They are positively correlated to each other, except for Clubs and Associations, which shows negative correlations with most of the other indices (Foa and Tanner, 2011)[1]. Fourth, in a multivariate regression analysis for aid effectiveness, Foa (2011) found that Intergroup Cohesion has a statistically significant negative effect on the percentage of donor aid channelled through a receiving country's public financial management system. Apparently, a stronger civil society in this respect does not parallel stronger governance in the receipt of donor aid.

This study will use three indices from the ISD database, as measures of civil society suitable for testing the hypotheses formulated above: Civic Activism, Intergroup Cohesion, and Clubs and Associations. Annex 3 gives an overview of the countries with the largest positive and negative changes in each of these indices between 2000 and 2010.

1. Civic Activism (34 indicators) covering the transformative agency dimension of civil society:
   Civic activism refers to the social norms, organizations, and practices, which facilitate citizen involvement in public policies and decisions. The index consists of data on, for example, access to the media, participation in demonstrations and petitions, the density of international organizations, and the CIVICUS civil society rating.

2. Intergroup Cohesion (27 indicators) covering the macro level of horizontal inequalities and social cohesion in civil society:
   Intergroup cohesion concerns the relations of cooperation and respect between predominant identity groups in a society. This index includes data on, for example, the incidence of riots and terrorist acts, tension between ethnic or religious groups,

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[1]   Clubs and Associations correlates negatively with Intergroup Cohesion and positively with Civil Activism.

discrimination of particular groups and the extent to which people reject particular others as neighbours[2].

3. Clubs and Associations (36 indicators) covering the micro level of horizontal inequalities and bonding in civil society:
Clubs and Associations refers to bonding ties in communities. Where these ties are strong, individuals are better able to weather the impact of sudden hardship, by relying on the support of their friends, neighbours, and locality. The index consists of data on, for example, membership of community groups, trade unions, development organizations, time spent on unpaid voluntary health work, and view on whether neighbours tend to help each other.

4.2 Development aid and outcome data

First, we will estimate the relationship between Official Development Aid (ODA) on the one hand and civil society on the other hand. For this analysis, we use aggregate ODA data for receiving developing countries, from the OECD (DCD-DAC) database for ODA[3]. The data is in million US dollar at current prices. We take five-year averages in order to parallel the ISD five-year period data. The OECD database does not contain disaggregated ODA data for funds flowing to civil society, by receiving country for the period 1990-2005. This, however, is not fatal, since it is expected that a non-negligible share of ODA will support civil society indirectly, even though direct ODA to civil society related objectives is estimated to be only 2%, according to OECD (2012: 247).

Second, we will estimate the relationship between civil society and development outcomes. For this relationship, we have tried a variety of indicators in order to capture poverty reduction and democratization. Unfortunately, the literature did not provide any guidance on the selection of variables. This is because, as stated above, quantitative studies of civil society effects on development are limited to GDP. The preferred variables for poverty reduction are the recently developed Human Poverty Index or MDG tracking measures, but for these there is insufficient data available for the time period under study. We have therefore selected the widely used poverty headcount of 1.25 dollar a day to measure poverty incidence. For democratization we have selected the Polity-2 variable ('revised democracy score') from the Polity IV project, following the literature (Davis and Hopkins, 2011). This variable represents only one characterization of democracy as mentioned above, namely representative democracy. Polity-2 is measured on a 21-point scale from fully institutionalized autocracies to fully institutionalized democracies. We selected in addition to this variable also a proxy variable for developmental democracy, namely a human rights

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[2]   In March 2012, a sixth index has been added to the ISD database, which uses some of the original indicators, including the one on neighbours from the Intergoup Cohesion index.
[3]   We define ODA as "Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount)… ODA receipts comprise disbursements by bilateral donors and multilateral institutions" (OECD, 2003).

variable. We use the CIRI Physical Integrity Rights Index, which is an additive index constructed from the Torture, Extrajudicial Killing, Political Imprisonment, and Disappearance indicators[4]. It ranges from 0 (no government respect for these four rights) to 8 (full government respect for these four rights).

For control variables, we use controls that are widely used in growth regressions. We use GDP per capita in constant 2000 US dollars for 30 years earlier in order to control for initial level of development, the primary school enrolment rate for 25 years earlier in order to control for human capital, which we multiply by a factor 100 in order to make the parameter values more visible (following Henderson et. al, 2011), and Rule of Law representing formal institutions, which is a widely used variable in the literature reviewed above (following Beugelsdijk, 2006; Henderson et. al, 2011; Rodrik et al., 2004; Easterly et al., 2006; Knack, 2001). Rule of Law is taken from the World Governance Indicators and is measured on a scale between -2.5 and +2.5 in our data, hence a 5 points scale (see Table 1).

The table below shows that the three ISD variables, listed as the first three, all range between 0 and 1, but remaining within these outer limits. The mean values are around 0.5 and standard deviations around 0.1. So, they are not standardized normal distributions, but standardized to a scale between 0 and 1. This is so, because the values for each index represent country rankings, for approx. 150-180 countries.

Table 1 Descriptive statistics					
Variable	Obs	Mean	Std. Dev.	Min	Max
Civic Activism	618	0.459	0.069	0.110	0.763
Intergroup Cohesion	436	0.569	0.094	0.080	0.770
Clubs and Associations	260	0.503	0.111	0.155	0.876
% People living under 1.25$ a day	364	9.875	12.23	0	63.34
Human Rights	641	4.343	2.090	0	8
Democracy	555	1.339	6.417	-10	10
Log ODA	741	4.863	1.736	-4.605	8.876
Primary Gross Enrollment Rate	454	86.39	34.85	7.005	214.6
Rule of Law	551	-0.482	0.698	-2.53	1.710
Log GDP	1041	6.906	1.117	4.291	9.332

[4] For details on the CIRI Physical Integrity Rights Index, see Cingranelli and Richards (1999).

4.3 Estimation method

Because of the availability of data for all variables both at the cross-country level and for the twenty-year period 1990-2010, we have constructed panel data. It is an unbalanced panel, because for some years, there is no data available for every country. Following the literature on panel data analysis with country-year data, we use the unbalanced, larger set of data. This does not affect the reliability of our results, while reducing the panel to a balanced panel would seriously reduce the sample size. With this panel we tested our hypotheses employing multivariate GLS random-effects panel data analysis with regional dummies. We opted for a GLS random effects model because the Breusch-Pagan test has indicated that OLS estimations would suffer from heteroskedasticity. We used random-effects estimations because of few years of observations per country (3 or 4).The Hausman test indicated that for most estimations fixed effects were indeed not suitable. The tables report R square values within countries, between countries and overall.

There are other possible endogeneity problems that need to be addressed, as the theoretical framework already indicates: it is possible that poverty or democracy influence the strength of civil society and that these indicators, as well as civil society, have an effect on the level of ODA that a country receives. The way in which we measure civil society, however, makes it not very likely that the development outcome variables will have a feedback effect on our civil society measures. That is because we measure civil society with indices that consist of over twenty five individual indicators, subjective and objective, slow changing ones and quicker changing ones. It is not likely that such indices will be affected through feedback loups that affect the majority of the underlying indicators in a substantial way[5]. But it may be the case that the strength of civil society influences levels of ODA. We will address the possible endogeneity effects in the methodological section.

We therefore tested the possible remaining endogeneity in our estimations by relying on Granger-inspired causality tests of the ISD variables and several development outcome variables, carried out by Huang and Cameron (2012). This is a test for time-related causality, assessing statistically whether a change in variable Z occurs later in time than a change in variable Y as well as a previous value of variable Z, and with which probability. The development outcome variables tested in that study are GDP per capita, the Human Development Index (HDI), and the Gini coefficient for income inequality. The results for the three ISD indices that we use in our study are as follows. For GDP per capita, Clubs and Associations shows statistically significant causal flows to GDP per capita ($p<0.05$). Intergroup cohesion shows no causal flow in either direction, and Civic Activism shows a

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[5]   Nevertheless, we did try instrumental variable analysis in order to prevent any possible endogeneity in our estimations. We instrumented ODA with colonial origin of countries as was done by Charron (2011) and we instrumented our civil society indices with dummies for religion as in Foa (2011). The Sargan-Hansen test however, indicated that these are not adequate instruments for our estimation. The reason for this is probably, as was indicated in the literature review, that such instruments are generally used for formal institutions and not for informal institutions. Informal institutions are probably too difficult to capture with an instrument, because they are intangible, and in our study, measured in a multidimensional way.

reverse causal flow (p<0.1), namely from GDP per capita to Civic Activism. The results for the estimations with the Civic Activism variable therefore need to be interpreted with caution. For the HDI, Civic Activism shows statistically significant causal flows to HDI (p<0.01). There is no Granger causality established between HDI and Clubs and Associations and Intergroup Cohesion. Finally, the results for the Gini coefficient indicate no Granger causality with Intergroup Cohesion. The test for Civic Activism and Clubs and Associations show statistically significant Granger causality to the Gini coefficient with respectively (p<0.01) and (p<0.1). The results from the Granger-inspired causality tests, hence, do not raise serious concerns for endogeneity effects for our civil society variables. There was only one reverse causality established, of Civic Activism with GDP per capita, but this was not the case for the same variable with the HDI and with the Gini coefficient, where the expected causal relationship from Civic Activism to human development and to income inequality was confirmed.

We did Granger-inspired causality tests for the relationships between ODA and our civil society indices for four years and these show more mixed results. ODA has a statistically significant (negative) effect on Civic Activism in one year, but not for the other three years. For two years, there is a statistically significant reverse (negative) effect. ODA has a statistically significant (negative) effect on Intergoup Cohesion in one year, but not for the other three years. For one year, there is a statistically significant reverse (negative) effect. Finally, ODA has a statistically significant (positive) effect on Clubs and Associations in two of the four years, while for one year there is a statistically significant reverse (positive) effect. These results indicate that there may be serious endogeneity effects in the estimation of the effect of ODA on civil society. We therefore present the results for the first set of models with much caution.

We addressed possible nonlinearities by using the variables that are expressed in money terms in logarithmic form. We did this for ODA and for initial GDP per capita. Finally, we carried out several robustness tests for our estimations. For primary schooling, we substituted this for secondary schooling which gave similar results. Rule of Law was already tested for its robustness in the literature reviewed above (see, in particular, Easterly at al., 2006). Finally, we used two outcome variables for democracy, and report results for both, because they seem to complement each other rather than showing similar results for all three civil society indices.

Annex 3 provides scatter plots for all dependent variables with the key independent variables.

5

Empirical Results

This section will provide the empirical results in three groups of models, presented in three tables. The first set of models concerns poverty, the second set is about democratization and the last set concerns human rights models. Each table shows the model results for each of the three civil society indices: Civic Activism, Intergroup Cohesion, and Clubs and Associations.

Table 2 Determinants of Civil Society, random effects			
	Civic Activism	Intergroup Cohesion	Clubs and Associations
ODA (Log)	0.007***	-0.022***	0.014*
	(0.002)	(0.006)	(0.008)
Primary School Enrollment (*100) (25 years prior)	0.044***	0.032	0.054 *
	(0.009)	(0.023)	(0.028)
Rule of Law	0.020***	0.078***	0.001
	(0.005)	(0.012)	(0.019)
Initial GDP (30 years prior)	0.017***	-0.028***	-0.036**
	(0.004)	(0.001)	(0.016)
South America	0.011	-0.002	-0.046
	(0.013)	(0.027)	(0.053)
Africa	-0.021*	-0.019	-0.073
	(0.012)	(0.026)	(0.055)
Europe	-0.008	-0.001	-0.162**
	(0.018)	(0.035)	(0.066)
Asia	-0.025*	-0.047*	-0.099*
	(0.013)	(0.026)	(0.057)
Oceania	-0.054***	-0.032	
	(0.017)	(0.052)	
Constant	0.310***	0.924***	0.695***
	(0.037)	(0.085)	(0.134)
Observations	405	314	204
Number of id	112	98	63
R Squared (within)	0.1669	0.1093	0.0159
R Squared (between)	0.5400	0.2964	0.2398
R Squared (overall)	0.4414	0.2498	0.2471

*** p<0.01, ** p<0.05, * p<0.1

Table 2 shows the regression results for the civil society models. The results indicate statistically significant correlations between ODA and the strength of civil society. Due to the mixed results of the Granger-inspired causality tests, we cannot interpret these uncritically as uni-directional causal relationships. The model fit is quite good for a panel data model, with overall explanation of the variation in the dependent variable ranging between 25 percent and 44 percent for the three models, while the explained variation between countries is on average higher, as we would expect and indeed test with a random effects model (ranging between 24 percent and 54 percent). The regional dummies in all tables are relative to Mexico and the Caribbean (Northern Latin America).

For the first model, with Civic Activism as the dependent variable, we find that a ten percent increase in the amount of ODA received is associated with a statistically significant 0.07 points increase in the score for Civic Activism (which runs from 0.00 to 1.00), a moderate effect. A one unit increase on the formal institutional variable, Rule of Law, is associated with a statistically significant 0.02 point increase in Civic Activism. This implies that going up one fifth of the five-point scale for Rule of Law is associated with an increase of more than two-thirds of the standard deviation in the Civic Activism score. The dummy variables indicate three statistically significant results, which all have relatively large size effects. For African countries, Civic Activism is 0.02 points lower, for Asia it is 0.03 lower, and for Oceania it is 0.05 points lower as compared to Northern Latin America. If we assume a causal relationship between ODA and Civic Activism, this implies that for Africa and Asia, roughly a 13-14 percent increase in ODA for these countries would have the same effect on Civic Activism as a ten percent ODA increase for countries in the Caribbean. Of the two control variables for initial conditions, primary schooling has a small association (0.04), which is statistically significant. GDP per capita indicates that if initial GDP per capita (30 years earlier) would have been ten percent larger, Civic Activism would be 0.17 points higher, which is a two and a half times bigger effect as compared to the effect of ODA.

The second model, with Intergroup Cohesion as dependent variable, finds a negative sign for development aid. It shows that a ten percent increase in the amount of ODA is associated with a statistically significant 0.22 points decrease in the score for Intergroup Cohesion. This is considerably large, namely three times the standard deviation of Intergroup Cohesion. The association of Rule of Law is positive and statistically significant. Again, it is a rather large effect: a one point increase in Rule of Law is associated with 0.08 point on the Intergroup Cohesion scale - almost one standard deviation increase in Intergroup Cohesion. The dummy variables for geography show only one statistically significant coefficient, negative, for Asia (-0.05). The control variable for education is 0.03 and not statistically significant. For initial GDP per capita, the coefficient is negative and statistically significant (-0.03).

In the third model, with Clubs and Associations as dependent variable, we find that a ten percent increase in the amount of ODA received is associated with a statistically significant 0.14 points increase in the score for Clubs and Associations. This is again a relatively large effect, namely more than one standard deviation in the score for Clubs and Associations. Rule of Law has a coefficient of zero, which is not statistically significant. The regional

dummies show negative statistically significant effects for Europe (0.16 points lower) and Asia (0.10 points lower). This implies that, if we assume causality between ODA and Clubs and Associations, European ODA receiving countries need to receive twice as much ODA (hence, not ten but twenty percent increase) as Caribbean countries in order to see the same increase in Clubs and Associations. Asian countries would need to receive an additional seven percent of ODA to generate the same increase. Education has a small coefficient (0.05), although it is statistically significant. The coefficient for initial GDP per capita is statistically significant and negative (-0.036). The implication is that if initial income would have been ten percent higher, Clubs and Associations would have been 0.36 points lower, which is a third on the entire scale.

The conclusion from the first set of estimations is that if we can assume causality from ODA to civil society, there is a relatively large effect of ODA on civil society, positive for Civic Activism and Clubs and Associations, but negative for Intergroup Cohesion. We also see a large effect of formal institutions measured by Rule of Law, and a small effect of the initial primary schooling rate. The effect of initial GDP per capita is ambiguous while there are considerable negative regional effects, in particular for Asia.

Table 3 Determinants of Poverty, random effects			
	Civic Activism	Intergroup Cohesion	Clubs and Associations
Civic Activism	-42.17***		
	(11.290)		
Intergroup Cohesion		-1.171	
		(5.104)	
Clubs and Associations			-5.872
			(5.240)
ODA (Log)	-1.257**	-1.324**	-1.090**
	(0.563)	(0.592)	(0.523)
Primary School Enrollment (*100) (25 years prior)	-1.260	-3.480	-4.370
	(2.160)	(2.720)	(2.960)
Rule of Law	0.19	-0.417	0.144
	(1.386)	(1.455)	(1.468)
Initial GDP (30 years prior)	-7.004***	-7.422***	-7.403***
	(1.113)	(1.136)	(1.181)
South America	-0.0773	0.168	0.369
	(3.238)	(3.269)	(3.697)
Africa	1.245	3.369	2.475

Table 3 Determinants of Poverty, random effects			
	Civic Activism	**Intergroup Cohesion**	**Clubs and Associations**
	(3.203)	(3.533)	(3.965)
Europe	-6.595	-5.352	-7.721*
	(4.061)	(4.014)	(4.630)
Asia	-6.302*	-4.596	-4.942
	(3.240)	(3.395)	(4.037)
Oceania	-0.641	-0.871	
	(6.659)	(8.240)	
Constant	88.320***	72.310***	74.850***
	(9.832)	(10.910)	(10.740)
Observations	219	186	142
Number of id	92	80	57
R Squared (within)	0.3097	0.2308	0.3372
R Squared (between)	0.6116	0.6558	0.5599
R Squared (overall)	0.6091	0.6217	0.5886

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Table 3 shows the regression results for the three poverty models, one for each civil society index, with the proportion of people living under 1.25 dollar a day as dependent variable. All signs are as expected, namely, more civil society, ODA, or initial income lead to lower levels of poverty.

The first model shows a statistically significant negative effect of Civic Activism on the extent of poverty. When Civic Activism increases 0.10 points, the poverty ratio goes down by 4.2 percentage points – a moderate effect. Development aid also has, as expected, a statistically significant negative effect on poverty. A ten percent increase in ODA leads to a decline of poverty by 12.6 percentage points, which is substantial. Rule of Law and initial primary school enrolment have no statistically significant effects. Initial GDP per capita has a large statistically significant negative effect. If initial GDP per capita would have been ten percent higher, than the proportion of people living in poverty would have been 70 percentage points lower. The regional dummy points out that countries in Asia have a 6.3 percent lower poverty ratio than those in the Caribbean.

The second model shows no statistically significant effect of Intergroup Cohesion on poverty, and the size effect is negligible. ODA has a statistically significant negative effect on poverty, which is similar to the previous model. A ten percent increase in ODA results in a decline of the poverty rate by 13.2 percentage points. Education and Rule of Law have again no statistically significant effect on poverty. Initial GDP per capita has a large statistically significant negative effect. If initial GDP per capita would have been ten percent higher,

than the poverty headcount ratio would have been 74 percentage points lower. There are no statistically significant geographical effects.

The third model shows no statistically significant effect of Clubs and Associations on poverty, and the size effect is negligible. Development aid has a statistically significant negative effect on poverty, which is slightly smaller than that of the previous two models. A ten percent increase in ODA results in a decline of the poverty rate by 11 percentage points. The regional dummy indicates that countries in Europe have a 7.7 percent lower poverty ratio than those in the Caribbean.

The conclusion from the poverty models is that civil society has only a statistically significant effect on poverty through Civic Activism. ODA has a substantial positive and statistically significant effect on poverty reduction. Formal institutions, measured through the Rule of Law, have no statistically significant effect and initial primary education also has not. Initial income has a moderate to large effect on poverty, and there are very few geographical effects.

Table 4 shows the results for the relationships between civil society and democracy. It is important to remember that this variable ranges between -10 and +10 (see Table 1), so changes should be taken relative to a 21-point scale.

The first model shows no statistically significant effect of Civic Activism on democracy, and the size effect is negligible. For ODA we find a positive statistically significant effect that is substantial. A ten percent increase in ODA implies an increase in democracy of 7.9 points, which is more than one standard deviation on the scale of the democracy variable. Rule of Law shows, as expected, a positive and statistically significant effect on democracy. A one point increase in Rule of Law (a fifth on the 5-point scale) results in a 2.5 points increase in democracy, which is more than 10% on the democracy scale, which seems a moderate effect. Initial GDP has no statistically significant effect but initial education has. For a 10 points increase in the initial primary enrolment rate, democracy improves by 0.3 points, which is a small effect. The regional dummies indicate that the level of democracy is 7.2 points lower in Africa and 8.8 points lower in Asia.

Table 4 Determinants of Democracy, random effects			
	Civic Activism	Intergroup Cohesion	Clubs and Associations
Civic Activism	1.666		
	(5.210)		
Intergroup Cohesion		-9.539***	
		(2.542)	
Clubs and Associations			4.763
			(3.128)
ODA (Log)	0.793***	0.516*	0.113
	(0.257)	(0.286)	(0.334)
Primary School Enrollment (*100) (25 years prior)	3.070***	3.590***	2.700**
	(1.090)	(1.310)	(1.260)
Rule of Law	2.503***	3.564***	1.654*
	(0.639)	(0.765)	(0.852)
Initial GDP (30 years prior)	-0.718	-1.197**	-0.524
	(0.525)	(0.591)	(0.688)
South America	-1.936	-1.887	-0.321
	(2.008)	(1.979)	(2.172)
Africa	-7.202***	-7.619***	-6.016***
	(1.868)	(1.920)	(2.302)
Europe	-4.526*	-4.715*	-0.332
	(2.691)	(2.650)	(2.918)
Asia	-8.759***	-9.628***	-6.844***
	(1.923)	(1.907)	(2.356)
Oceania	-2.772	-5.153	
	(3.142)	(3.665)	
Constant	7.024	18.670***	6.958
	(4.862)	(5.729)	(6.260)
Observations	374	303	198
Number of id	102	95	61
R Squared (within)	0.0754	0.1200	0.0295
R Squared (between)	0.3232	0.3355	0.3485
R Squared (overall)	0.3115	0.3350	0.3425

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

The second model shows a statistically significant but negative effect of Intergroup Cohesion on democracy. A 0.10 points increase in Intergroup Cohesion is associated with a 0.95 point decline in democracy, which is almost five percent on the democracy scale. For ODA we see a positive relationship, which is statistically significant. For an increase in ODA by ten percent, democracy rises by 5.6 points. The effect of Rule of Law is again positive and statistically significant. A one point increase in Rule of Law (a fifth on the 5-point scale) results in a 3.6 points increase in democracy, which is more than half of a standard deviation on the democracy scale. The effect of initial GDP is negative, statistically significant and quite big. When initial GDP would have been ten percent higher, democracy would have been 12.0 points lower, which is almost twice the standard deviation of democracy. For a 10 points increase in the initial primary enrolment rate, democracy improves only by 0.4 points. Again, the regional dummies show negative and statistically significant effects for Africa (-7.6) and Asia (-9.6) on democracy.

The third democracy model shows no statistically significant effect of Clubs and Associations on democracy while also development aid and initial level of GDP have no significant impact. Rule of Law shows a positive and statistically significant effect. For a one point increase on the Rule of Law scale, democracy improves by 1.7 points. Initial education has a statistically significant positive effect. A ten percent higher level of initial primary school enrolment would have resulted in a 0.3 points higher level of democracy, which is a small effect. As in the other two democracy models, the regional dummies point out lower levels of democracy in Africa (-6.0) and Asia (-6.8).

The conclusion from the democracy models, is that the only statistically significant effect of civil society on democracy is negative. Initial levels of GDP per capita have no statistically significant effect in two of the three models. Rule of Law clearly matters, in a positive way, just like initial levels of primary schooling. The effect of ODA is positive and statistically significant in two of the three models and of moderate size. The regional effects are very similar in all three models and show substantial negative effects for Africa and Asia on the level of democracy. This implies that for these two regions, extra policy efforts are needed in order to generate substantial improvements in the quality of democracy.

The final set of models is for an alternative measure for democracy namely, human rights. This is measured by the Physical Integrity Rights Index, on an 8 points scale. The first model shows a negative but no statistically significant effect of Civic Activism on human rights. This is a somewhat surprising result. The effect of ODA is significant, negative, and quite substantial. It indicates that a ten percent increase in ODA is associated with a decline in human rights of 1.4, which is 18% on the human rights scale (running between 0 and 8). There are no statistically significant effects of initial education and initial GDP. Formal institutions, measured as Rule of Law, show a positive and statistically significant effect on human rights. A one point increase in Rule of Law (20% of the scale) is associated with 1.6 point increase in human rights, which is also a 20% increase on the human rights scale. The regional dummies only show a statistically significant effect for Asia, which is negative (-1.9).

The second human rights model shows a positive and statistically significant effect of Intergroup Cohesion on human rights. A 0.10 points increase on the scale of Intergroup Cohesion is associated with 0.34 points increase in human rights, which is quite moderate. There are no statistically significant effects of ODA, initial education and initial GDP. Rule of Law does have a statistically significant and positive coefficient. One point increase in Rule of Law leads to a 1.3 points increase in human rights, which is a strong effect. The regional dummy for Asia is -1.9, as in the previous model.

Table 5 Determinants of Human Rights, random effects			
	Civic Activism	**Intergroup Cohesion**	**Clubs and Associations**
Civic Activism	-1.320		
	(1.636)		
Intergroup Cohesion		3.355***	
		(0.786)	
Clubs and Associations			-1.761*
			(1.030)
ODA (Log)	-0.143*	-0.0372	-0.288***
	(0.076)	(0.084)	(0.110)
Primary School Enrollment (*100) (25 years prior)	0.205	0.343	0.501
	(0.306)	(0.371)	(0.420)
Rule of Law	1.607***	1.303***	1.461***
	(0.180)	(0.210)	(0.266)
Initial GDP (30 years prior)	-0.209	-0.146	-0.579***
	(0.151)	(0.159)	(0.213)
South America	-0.370	-0.54	-0.432
	(0.507)	(0.486)	(0.644)
Africa	-0.534	-0.670	-0.928
	(0.466)	(0.471)	(0.679)
Europe	-0.506	-0.680	-0.735
	(0.663)	(0.625)	(0.817)
Asia	-1.897***	-1.964***	-2.470***
	(0.479)	(0.471)	(0.704)
Oceania	1.199*	0.603	
	(0.657)	(0.924)	
Constant	8.440***	4.630***	11.940***

Table 5 Determinants of Human Rights, random effects			
	Civic Activism	**Intergroup Cohesion**	**Clubs and Associations**
	(1.374)	(1.573)	(1.977)
Observations	393	313	204
Number of id	111	98	63
R Squared (within)	0.1159	0.1305	0.0872
R Squared (between)	0.4763	0.4582	0.4739
R Squared (overall)	0.4163	0.4255	0.4287

*** p<0.01, ** p<0.05, * p<0.1*

The third human rights model shows a small statistically significant effect of Clubs and Associations, which, however, is negative. The size is moderate, with a ten percent increase in the score for Clubs and Associations implying a decline in human rights by 0.18 points. ODA also shows a negative statistically significant effect. A ten percent increase in ODA leads to a decline in human rights by 2.9 points, which is more than a standard deviation on the human rights scale. There is no statistically significant effect of initial education. Rule of Law shows a positive and statistically significant effect on human rights. When Rule of Law increases one point, human rights improve by 1.5 points. Initial GDP shows a negative effect, which in this model is statistically significant and quite large. This implies that if initial GDP per capita would have been ten percent higher, human rights would be 5.8 points lower. Finally, the regional dummies show a similar result as the two other human rights models.

The conclusion of the three human rights models is that civil society has an ambiguous effect on human rights. Intergroup Cohesion has a substantial positive effect, whereas Clubs and Associations has a negative effect, which is half the size of that of Intergroup Cohesion. Civic Activism has no statistically significant effect. Development aid has a negative effect on human rights, which is statistically significant in two of the three models. Initial GDP is only in one of the models statistically significant and negative, whereas education is not significant in either of the three models. Rule of Law, however, appears to have a relatively strong positive effect on human rights, in all three models. The regional dummies show that only for Asia there is a statistically significant effect, which is negative.

6

Conclusions and Policy Implications

6.1   Conclusions

The study has two parts: a literature review and an empirical analysis. The literature review has led to several interesting insights about the relationship between civil society and development outcomes, which have formed the backbone of our analytical framework. First, there are no quantitative studies available, to our knowledge, on the relationships between civil society on the one hand and poverty and democracy on the other hand. Studies that look at institutions and development are restricted to formal institutions and a very narrow social capital variable, while their focus of analysis is limited to GDP. Quantitative research on democracy also ignores the role of civil society, except for conceptually problematic variables of ethnic or linguistic fractionalization. Second, Social Capital has increasingly been recognized as a micro-variable for which the general trust question is not adequate. Recently, researchers have identified social cohesion as the more appropriate concept for measurement of cohesion of civil society. Third, recent research begins to include both formal and informal institutions, hence, both state and civil society institutions, in order to capture substitution effects and complementarity effects between these two sectors in society. Fourth, civil society is widely recognized as a normative concept, implying that a stronger civil society is good for development outcomes, such as poverty reduction, democratization, and human rights, except when there are strong horizontal inequalities. Fifth, horizontal inequalities matter for both civil society – in the social capital literature referred to as bonding social capital (in groups) versus bridging social capital (social cohesion) – and for development outcomes.

The empirical analysis started out with a justification and explanation of the variables used, remaining largely in line with the current quantitative and qualitative empirical literature about civil society and development. The methodological explanation and justification of our estimation method included a set of Granger-inspired causality tests, as a substitute for the unavailability of instrumental variables for a two stage least square estimation, also in the literature that we reviewed. These suggested that the first set of models, on the effect of ODA on civil society, need to be taken with much caution. They do not imply causal relationships.

The main statistically significant and substantially meaningful findings of our model estimations are as follows. First, we find two positive and one negative association of ODA with civil society. The effects are quite substantial, but should not be taken as causal, as was mentioned just above. Rule of Law shows a large positive effect in two of the three civil society models. This seems to suggest complementarity between formal institutions and informal institutions for Civic Activism and Clubs and Associations and substitution between these two types of institutions for Intergroup Cohesion. This finding is in line with the principal components analysis and OLS regressions by Williamson (2009: 378). "In some countries, they are complementary and at other times they are substitutes." Hence, we conclude from the first set of models that ODA may have a small positive effect on strengthening civil society but may at the same time undermine intergroup cohesion. Further research is necessary to uncover both the causality of the relationship as well as the unexpected negative sign for one of the civil society indices.

Second, the poverty models are more robust according to the Granger tests performed. They show a moderate positive impact of Civic Activism on poverty reduction but not of the other two civil society indices. ODA has a substantial positive effect on poverty reduction in all three models. Interestingly, formal institutions, measured by Rule of Law, do not have any effect on poverty reduction. Also this finding can be related to Williamson, who concludes that countries with weak formal institutions but strong informal institutions, such as the Netherlands, perform better economically than those with strong formal institutions and weak informal institutions – a category with only developing countries in her analysis, which includes for example Pakistan. Third, the democracy models show a modest negative impact of one of the civil society indices, namely Intergroup Cohesion. ODA and Rule of Law both have positive effects on democracy. Finally, the human rights models show that not only Intergroup Cohesion but also Clubs and Associations have a substantial effect on human rights. However, the sign for Intergroup Cohesion is positive, whereas the sign for Clubs and Associations is negative. This indicates that more cohesion between groups promotes humans rights whereas more memberships of organizations reduces human rights. This can be explained with the distinction between bonding and bridging capital in the social capital literature: people may be member of social-group based organizations along ethnic, religious or gender lines, for example, which will undermine social cohesion. At the same time, in poor societies, clubs and associations are an important source of welfare provisions. So, ODA does seem to have a positive effect on poverty reduction, also when controlled for the strength of civil society.

Development aid appears to have a negative effect on human rights. This, however, may be the case in which high levels of inequality both explain low protection of human rights and high amounts of ODA. So, there may be a selection bias involved with ODA-receiving countries. Rule of Law has a positive and quite strong effect on human rights. This suggests, as expected, that Rule of Law is a necessary condition for improving human rights in a country. It also indicates that formal institutions are complementary to Intergroup Cohesion and have a substitution effect with Clubs and Associations. This may explain what Davis and Hopkins (2011) have found in their analysis of formal institutions, inequality, and growth, namely that the *equality* of formal institutions matters more than the *quality* of formal institutions. "One of our central contentions has been that low quality institutions are inherently associated with unequal economic and political rights" (p. 995). Hence, our finding that the Rule of Law has a positive and strong impact on human rights while at the same time Clubs and Associations have a negative effect may indicate that the quality of formal institutions may be strong, but the institutions are implemented in an unequal society, where people organize themselves along social divisions. And as Williamson (2009) has argued, this tends to lead to lower development outcomes than when civil society institutions are strong (implying low inequality) with weaker formal institutions.

6.2   Policy Implications

It should be borne in mind that the policy implications may be influenced by possible endogeneity effects, which have only been partially addressed in our study. Taking this into account, we identify cautiously a couple of possible implications from the statistically significant results of our empirical analysis.

Civil society contributes positively to poverty reduction and human rights through Civic Activism and Intergroup Cohesion. This implies that development policy targeting poverty and human rights could be made more effective by strengthening these two dimensions of civil society. This concerns in particular strengthening the free press, which is implied in the indicators of Civic Activism, and helping to reduce prejudices and tension between groups in society, which is an important aspect of the Intergroup Cohesion index. ODA has a direct positive effect on Civic Activism, but a direct negative effect on Intergroup Cohesion. This suggests that more of the current type of ODA is likely to increase civic activism but not social cohesion. This result supports the need for donors to move towards an inclusive growth agenda with an important role for social cohesion, as the recent OECD report already recognizes: "A social cohesion agenda seeks to leverage different sector policies so that they promote social inclusion, build trust and civic participation, and foster social mobility. Taking these three dimensions as the pillars of a social cohesion agenda goes beyond the traditional 'pro-poor-growth' approach that has been extensively discussed in the last five years" (OECD, 2012: 249).

The negative coefficient for the direct effect of ODA on Intergroup Cohesion suggests that the current type of ODA may perhaps not help to improve intergroup cohesion in developing countries. This might be because it strengthens some groups and not others, or because it reinforces, unwittingly, existing prejudices and tensions between social groups. This caution is precisely what we find in the policy recommendations by Robinson and Friedman (2005: 43), concluding that donor support should: "ensure that groups in rural or urban low-income areas and those with a mass membership also receive adequate support … this approach would have the advantage of strengthening organisations that represent poorer groups and potentially increase the diversity perspectives under a democratic system." However, they warn that even then, inequality and tensions can still arise: "But this does not mean that increased support to grassroots organizations would necessarily strengthen democracy, since many are exclusive in their membership (by gender and ethnicity), are not transparent in their internal affairs and are not accountable to their members" (ibid.)

Furthermore, Intergroup Cohesion has a negative effect on democracy whereas Clubs and Associations has a negative effect on human rights. Again these effects may indicate that social cohesion and club membership run largely along social divisions in society, reinforcing negative attitudes and tensions between social groups.

The relatively unambiguous effect of civil society on a development outcome, directly and through ODA, is Civic Activism on poverty reduction: ODA seems to strengthen Civic Activism, while Civic Activism seems to contribute to poverty reduction. Here the size effects become relevant. A ten percent increase in ODA would improve Civic Activism by seven percent (Table 2). And a seven points increase in Civic Activism would lead to a reduction in poverty by three percent (Table 3). In addition, there appears to be a direct effect of ODA on poverty reduction: a ten percent increase in ODA reduces poverty by 12.6 percentage points (Table 3). If we would take these two together, ignoring for the moment possible endogeneity effects, the direct and indirect effect of a ten percent increase in ODA on poverty reduction could be around 15-16 percent. This suggests that ODA might become even more poverty reducing when it would actively stimulate Civic Activism, which means in particular by supporting free press, in order to enable people's objective information gathering about politics and what is going on in the world through newspapers, radio, tv and internet (see the Annex 3 for a full list of the indicators in the Civic Activism Index). Access to and use of (independent) news media and participation in demonstrations and petitions will support the accountability of government policy and finances, and allows the building up of public pressure for a more equal distribution of expenditures and more progressive taxation. This helps to reduce relative and absolute levels of poverty.

Even though in our empirical results Civic Activism has a positive but not statistically significant coefficient on democracy and human rights, the literature that we reviewed advises the support of Civic Activism also for these development outcomes (Robinson and Friedman, 2005; OECD, 2012). They advise this precisely because it would "increase the support for strengthening the more qualitative side of democracy: civil society, the free press, union movements, and any counterweight to the constitutional power of the state" (OECD, 2012: 248). Donors should contribute to "building political efficacy for a wider and more representative range of civil society organisations, with positive implications for strengthening democracy through autonomous civic action" (Robinson and Friedman, 2005: 44).

Rule of Law is the other relevant policy variable in our empirical analysis. We find that it tends to improve the democracy scores, even when the civil society indices show no effect or a negative effect, as is the case for Intergroup Cohesion. It also appears to improve human rights, complementary to the positive effect of Intergroup Cohesion and substituting for the negative effect of Clubs and Associations. This suggests that diplomacy to improve the Rule of Law in developing countries seems a useful tool to support democracy and human rights. But for poverty reduction, this variable does not have any effect. This indicates that for development, Rule of Law is probably a necessary condition, but not a sufficient one. That is precisely why the latest OECD annual report recommends that donors should go beyond "focusing simply on putting in place the right institutional mechanisms" (OECD, 2012: 249). Easterly at al. (2006: 117) have made the point even stronger by advising that support for civil society should best go "through the empowerment of domestic constituencies rather than via 'conditionalities' imposed by external donors and development agencies."

The main, tentative, policy conclusions of our study in relation to our hypothesis are that a focus of ODA on Civic Activism might help to strenghten the poverty reducing effect of ODA, that diplomacy focusing on strengthening formal institutions could support both democracy and human rights (but not poverty reduction), and that any direct or indirect ODA to civil society should actively prevent inequalities, prejudices and tensions between social groups. With all the caveats in our empirical study, our tentative results support a conclusion that it is important to move away from a fragmented support of civil society towards a social cohesion agenda for ODA, which involves an integrated approach of fostering civic activism and diverse forms of self-organisation while at the same time actively helping to reduce inequalities and prejudices between social groups, through governments and next to government support.

Annexes

Annex 1   About IOB

Objectives

The remit of the Policy and Operations Evaluation Department (IOB) is to increase insight into the implementation and effects of Dutch foreign policy. IOB meets the need for the independent evaluation of policy and operations in all the policy fields of the Homogenous Budget for International Cooperation (HGIS). IOB also advises on the planning and implementation of evaluations that are the responsibility of policy departments of the Ministry of Foreign Affairs and embassies of the Kingdom of the Netherlands.

Its evaluations enable the Minister of Foreign Affairs and the Minister for Development Cooperation to account to parliament for policy and the allocation of resources. In addition, the evaluations aim to derive lessons for the future. To this end, efforts are made to incorporate the findings of evaluations of the Ministry of Foreign Affairs' policy cycle. Evaluation reports are used to provide targeted feedback, with a view to improving the formulation and implementation of policy. Insight into the outcomes of implemented policies allows policymakers to devise measures that are more effective and focused.

Organisation and quality assurance

IOB has a staff of experienced evaluators and its own budget. When carrying out evaluations it calls on assistance from external experts with specialised knowledge of the topic under investigation. To monitor the quality of its evaluations IOB sets up a reference group for each evaluation, which includes not only external experts but also interested parties from within the ministry and other stakeholders. In addition, an Advisory Panel of four independent experts provides feedback and advice on the usefulness and use made of evaluations. The panel's reports are made publicly available and also address topics requested by the ministry or selected by the panel.

Programming of evaluations

IOB consults with the policy departments to draw up a ministry-wide evaluation programme. This rolling multi-annual programme is adjusted annually and included in the Explanatory Memorandum to the ministry's budget. IOB bears final responsibility for the programming of evaluations in development cooperation and advises on the programming of foreign policy evaluations. The themes for evaluation are arrived at in response to requests from parliament and from the ministry, or are selected because they are issues of societal concern. IOB actively coordinates its evaluation programming with that of other donors and development organisations.

Approach and methodology

Initially IOB's activities took the form of separate project evaluations for the Minister for Development Cooperation. Since 1985, evaluations have become more comprehensive, covering sectors, themes and countries. Moreover, since then, IOB's reports have been submitted to parliament, thus entering the public domain. The review of foreign policy and a reorganisation of the Ministry of Foreign Affairs in 1996 resulted in IOB's remit being extended to cover the entire foreign policy of the Dutch government. In recent years it has extended its partnerships with similar departments in other countries, for instance through joint evaluations and evaluative activities undertaken under the auspices of the OECD-DAC Network on Development Evaluation.

IOB has continuously expanded its methodological repertoire. More emphasis is now given to robust impact evaluations implemented through an approach in which both quantitative and qualitative methods are applied. IOB also undertakes policy reviews as a type of evaluation. Finally, it conducts systematic reviews of available evaluative and research material relating to priority policy areas.

Annex 2   References

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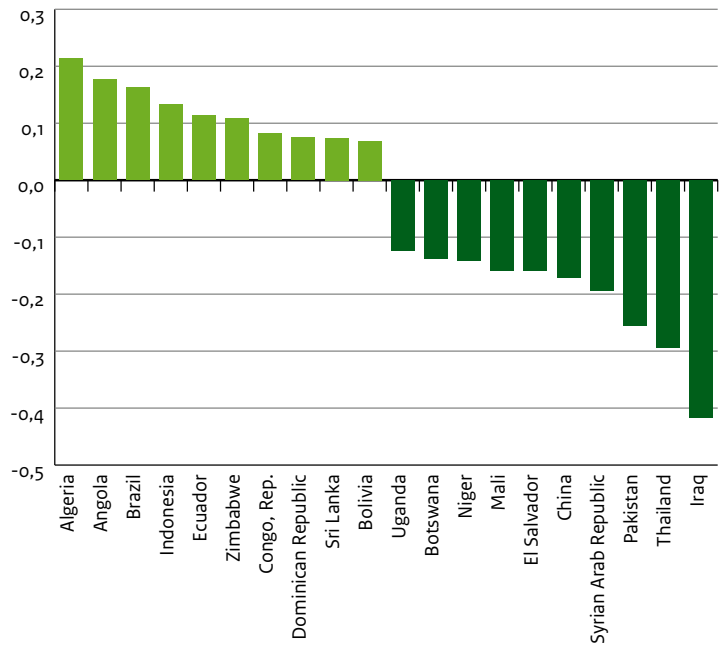World Bank (2011) World Development Report 2012. Gender Equality. Washington D.C.: World Bank.

Annex 3   Diagrams

Diagram A1   *Countries with highest and lowest changes in Civic Activism 2000-2010*
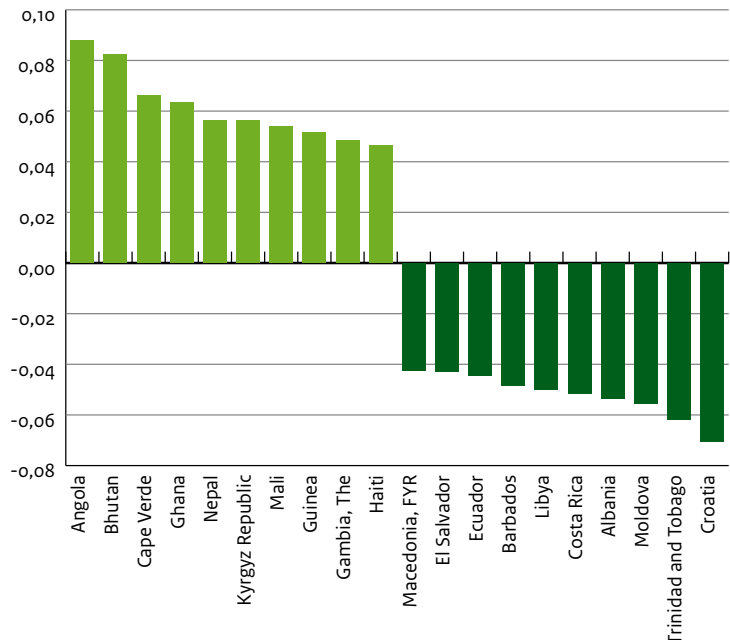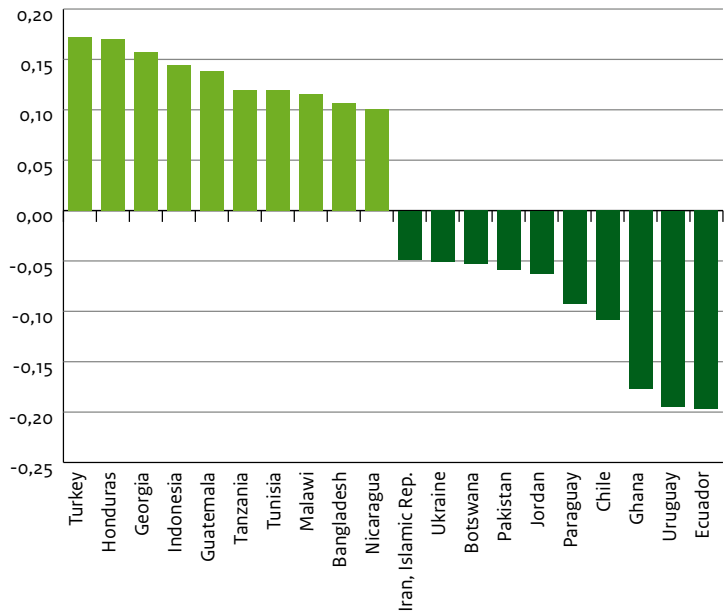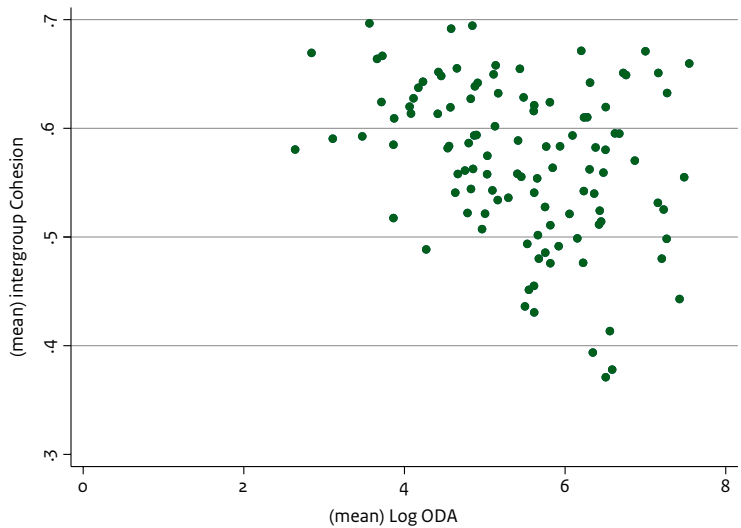

Diagram A2   *Countries with highest and lowest changes in Intergroup Cohesion 2000-2010*
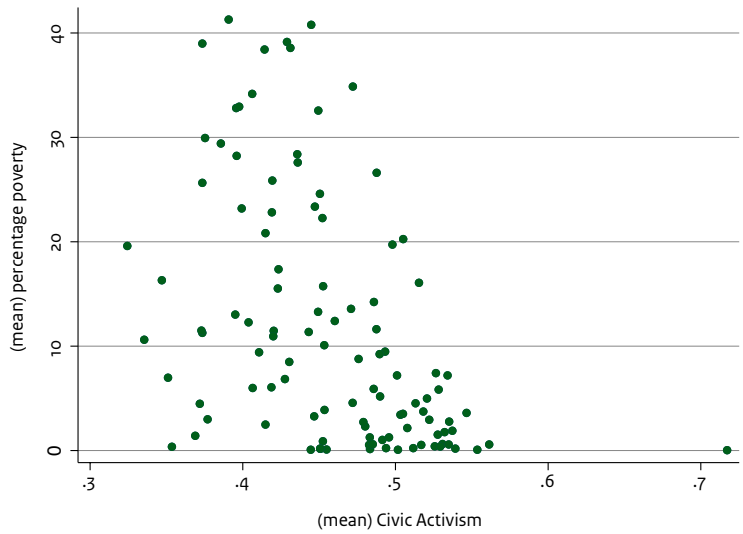
Diagram A3   *Countries with highest and lowest changes in Clubs and Associations 2000-2010*
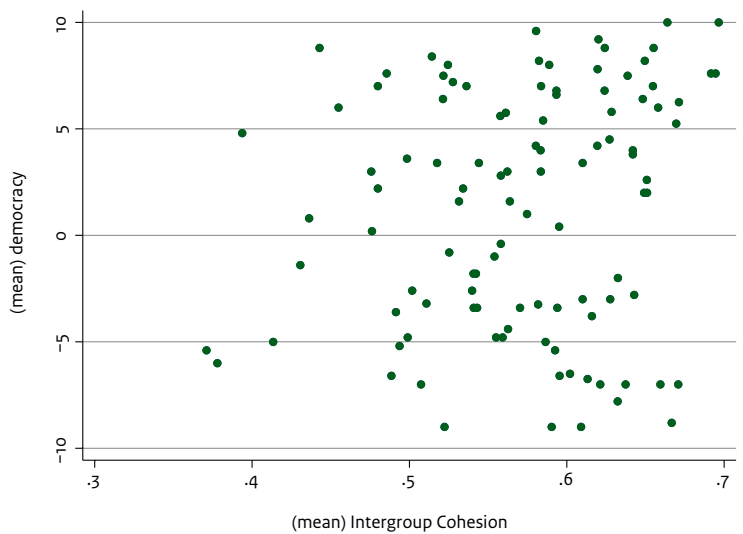
Diagram A4   *Scatter plot for Intergroup Cohesion and log ODA, average for 1995-2010*
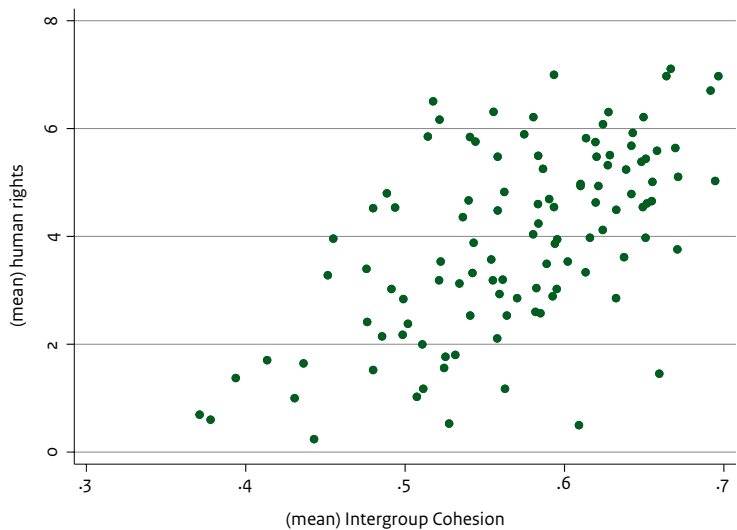
Diagram A5   *Scatter plot for poverty and Civic Activism, average for 1995-2010*

Diagram A6   *Scatter plot for democracy and Intergroup Cohesion, average for 1995-2010*

Diagram A7. *Scatter plot for human rights and Intergroup Cohesion, average for 1995-2010*

Table A1 The Indicators of the Civic Activism Index		
Indicator	**Source**	**Countries**
% of public who have listened to radio news 'in the last day' or 'several times in the last week'	Afrobarometer	16
% of public who have watched TV news 'in the last day' or 'several times in the last week'	Afrobarometer	16
% of public who have read newspaper news 'in the last day' or 'several times in the last week'	Afrobarometer	16
Civicus civil society rating — Structure	Civicus	37
Civicus civil society rating — Environment	Civicus	37
Civicus civil society rating — Values	Civicus	37
Civicus civil society rating — Impact	Civicus	37
Radios per capita	Intern. Telecom. Union	197
Radios per household	Intern. Telecom. Union	197
% of public who 'have' or 'would be prepared' to take part in a peaceful demonstration	Latinobarometer	19
% of public who 'have' or 'would be prepared' to sign a petition	Latinobarometer	18
Respondent says they use radio to inform themselves about politics	Latinobarometer	18
% says they use newspaper to inform themselves about politics	Latinobarometer	18
Respondent says they use TV to inform themselves about politics	Latinobarometer	18
% of respondents who watch TV news a great deal or very much	Latinobarometer	18
% of respondents who read newspaper news a great deal or very much	Latinobarometer	18
% of respondents who listent radio news a great deal or very much	Latinobarometer	18
Average number of days spent watching TV news, per week	Latinobarometer	19
Average number of days spent reading newspaper news, per week	Latinobarometer	19
Average number of days spent listening to radio news, per week	Latinobarometer	19
Density of secretariats of international non-governmental organisations in a country	Global Civil Society Project	175

Table A1 The Indicators of the Civic Activism Index		
Indicator	**Source**	**Countries**
Extent to which organisations and individuals are members of INGOs, number of INGOs with members in that country	Global Civil Society Project	176
% of the workforce employed in the NGO sector	SAIS	36
Newspapers per capita	UNESCO	107
Daily newspaper titles, per capita	UNESCO	107
% of respondents who either 'have done' or 'might' sign a petition	World Values Surveys, Latinobarometer	89
% of respondents who either 'have done' or 'might' join a boycott	World Values Surveys	81
% of respondents who 'have done' or 'might' attend a peaceful demonstration	World Values Surveys, Afrobarometer, Latinobarometer	96
% of respondents who have used a daily newspaper in the last week to find out what is going on in the world	World Values Surveys	22
% of respondents who have used news broadcasts on radio or TV in the last week to find out what is going on in the world	World Values Surveys	22
% of respondents who have used printed magazines in the last week to find out what is going on in the world	World Values Surveys	22
% of respondents who have used in depth reports on radio or TV in the last week to find out what is going on in the world	World Values Surveys	22
% of respondents who have used books in the last week to find out what is going on in the world	World Values Surveys	22
% of respondents who have used internet or email in the last week to find out what is going on in the world	World Values Surveys	22

Evaluation reports of the Policy and Operations Evaluation Department (IOB) published 2008-2012

Evaluation reports published before 2008 can be found on the IOB website: www.minbuza.nl/iob

IOB no.	Year	Title evaluation report	ISBN
367	2012	Energievoorzieningszekerheid en Buitenlandbeleid – Beleidsdoorlichting 2006-2010	979-90-5328-424-7
366	2012	Drinking water and Sanitation – Policy review of the Dutch Development Cooperation 1990-2011	978-90-5328-423-0
366	2012	Drinkwater en sanitaire voorzieningen – Beleids-doorlichting van het OS-beleid 1990-2011	978-90-5328-422-3
365	2012	Tactische diplomatie voor een Strategisch Concept – De Nederlandse inzet voor het NAVO Strategisch Concept 2010	978-90-5328-421-6
364	2012	Effectiviteit van Economische Diplomatie: Methoden en Resultaten van Onderzoek.	978-90-5328-420-9
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362	2011	De Methodische kwaliteit van Programma-evaluaties in het Medefinancieringsstelsel-I 2007-2010	978-90-5328-418-6
361	2011	Evaluatie van de Twinningfaciliteit Suriname-Nederland	978-90-5328-417-9
360	2011	More than Water: Impact evaluation of drinking water supply and sanitation interventions in rural Mozambique	978-90-5328-414-8
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358	2011	Assisting Earthquake victims: Evaluation of Dutch Cooperating aid agencies (SHO) Support to Haiti in 2010	978-90-5328-413-1
357	2011	Le risque d'effets éphémères: Evaluation d'impact des programmes d'approvisionnement en eau potable et d'assainissement au Bénin	978-90-5328-415-5
357	2011	The risk of vanishing effects: Impact Evaluation of drinking water supply and sanitation programmes in rural Benin	978-90-5328-412-4
356	2011	Between High Expectations and Reality: An evaluation of budget support in Zambia	978-90-5328-411-7
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In addition to bilateral and multilateral programs, non-governmental organisations (NGOs) play an important role in channeling development aid towards their Southern partners. Rigorous evaluations of programs and projects are scarce and tend to be limited to the analysis of perceived effects at local level. Far less attention is usually devoted to the aggregate effect of development aid on global civil society strength and performance. This is, however, considered of utmost importance given the overarching aim of strengthening the role of civil society in the development process. The recently developed database Indices of Social Development (ISD) hosted by the Institute of Social Studies (ISS) of the Erasmus University Rotterdam offers a unique opportunity to further analyze the relationships between civil society development and development aid (ODA) over a period of 20 years, making use of cross-country data of multidimensional indicators related to civic activism, intergroup cohesion and club membership. The main findings of the study suggest that aid exhibits an ambivalent relation with civil society development. This study was carried out by Prof. dr. Irene van Staveren and Ellen Webbink of the International Institute for Social Studies, Erasmus University Rotterdam, and commissioned by the Policy and Operations Evaluation Department (IOB) of the Netherlands Ministry of Foreign Affairs.