

Fostering civil society to build institutions

*Why and when*¹

Peter Grajzl* and Peter Murrell**

*Department of Economics, Central European University, Nador, Budapest, Hungary. E-mail: grajzlp@ceu.hu

**Department of Economics, IRIS Center, University of Maryland, College Park, Maryland, USA. E-mail: murrell@econ.umd.edu

Abstract

We revisit the ubiquitous claim that aiding civil society improves institutional outcomes. In our model, a vibrant civil society initiates public debate in a reform process otherwise dominated by partisan interest groups and politicians. Civil society involvement can alleviate or aggravate adverse selection problems that arise because interest groups are better informed about reform consequences than politicians. Since aid increases the cost to the politician of excluding civil society, it affects institution building. We show analytically, and illustrate empirically, that the welfare implications of fostering civil society critically depend on the specifics of local politics, thereby casting new light on the experience of civil society aid in transition and developing countries.

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1. Introduction

Civil society – ‘the realm of organized social life that is voluntary, self-generating (largely), self-supporting [and] autonomous from the State’ (Diamond, 1994, p. 5) – has received much emphasis in development circles. Greater involvement of civil society is frequently viewed as crucial in attaining development goals. Advocates see civil society organizations as bringing citizens’ concerns to broader public attention, thereby counteracting narrow interests, which can be especially problematic when institutions function poorly (Edwards, 2004; Rosenblum and Post, 2001).² Accordingly, fostering civil society through foreign aid is seen as a means of promoting institutional development, with the hope that the improved institutions will later enhance the effectiveness of aid where past efforts have been disappointing (Dollar and Pritchett, 1998, p. 58; Frisch and Hofnung, 1997; Howell and Pearce, 2001; Knack, 2001, p. 327; Ottaway and Carothers, 2000b; Van Rooy, 1998).³ Yet in practice, this quest has proven elusive, raising doubts about whether fostering civil society is worth the money (Carothers, 2004; Robinson and Friedman, 2005) and calling for ‘contextualized political and social analyses that can properly inform donor interventions’ (Howell and Pearce, 2001, p. 235).

The general agreement on the practical importance of civil society has not led to sustained formal analysis within economics. There is no clear analytical understanding of what role civil society plays in the process of institutional construction. Our aim therefore is to provide an exploratory formal analysis. We embed core features widely attributed to civil society in a framework that captures the essence of the politics of institution-building. Of course, any suggestion about what features are logically inherent in the nature of civil society is bound to be

² In this article, we emphasize the role of civil society as it interacts directly with the political sphere. This is the role that is most likely to have an immediate effect on institution building in market economies. Other aspects of civil society commonly identified in the literature are its capacity to substitute for poorly functioning states in service provision (World Bank, 2003) and its relationship to social capital (Putnam, 1993). See for example, Azam (2003), Besley and Ghatak (2001), Gibbons and Rutton (2004), Jack (2001), and Khwaja (2004) for theoretical analyses of the service-provision aspect of civil society organizations. See for example, Knack and Keefer (1997), Temple and Johnson (1998), Glaeser, Laibson and Sacerdote (2002), Guiso, Sapienza and Zingales (2004), Sobel (2002), and Huang (2003) for empirical and theoretical analyses of social capital.

³ Of course, much foreign aid that results in promoting civil society is channelled through rather than to civil society organizations as in the case of NGOs providing services in the areas of health, population control, agriculture, poverty reduction etc. Importantly, ‘[s]uch programs clearly have effects on the development of civil society . . . even though the programs are not designed explicitly with civil society development as an objective’ (Carothers and Ottaway, 2000, p. 13).

debatable. The phenomenon is so amorphous in many existing discussions that any formal approach would seem narrow (see, for example, Hall, 1995). Nonetheless, since even the most basic and preliminary questions about civil society remain unanswered, an exploratory analysis can be highly informative. By making explicit one apparent channel through which civil society influences the politics of reform, we characterize conditions determining the desirability of civil society aid. To date, such conditions have not been derived analytically, meaning that our results extend far beyond existing illustrative and informal discussions.

In characterizing civil society, we focus on a common aspect of many existing definitions of civil society that are relevant to institutional reform (Edwards, 2004; Howell and Pearce, 2001; Orenstein, 2000; Ottaway and Carothers, 2000b; Robinson and Friedman, 2005; Van Rooy, 1998). In our framework, civil society affects the institutional reform process but stands above the realm of policies for sale: it holds no direct stake in the outcome of reforms. Civil society is the element of society that seeks to open and expand public debate within a reform process that would otherwise be dominated by aggressive lobbies and self-interested politicians.⁴ Civil society participation thus inevitably prevents hasty, *ad hoc* implementation of reform proposals.

When interest groups are better informed than politicians about the reforms that the groups propose, there can be adverse selection problems, which the presence of civil society can either solve or exacerbate. If the objectives of the groups proposing reforms and those in the rest of the economy are not aligned, civil society solves some adverse selection problems. In contrast, when objectives are aligned because reforms proposed by special interests have widespread benefits, the intervention of civil society decreases the likelihood of a successful reform. Then, civil society's involvement is undesirable.

The welfare impact of civil society thus critically depends on the intricacies of local politics – the degree to which the objectives of empowered interest groups are aligned with those of the rest of society, the level of democracy, and the amount of political stability. Our findings thus caution against the very common portrayals of civil society in development circles as indisputably a 'good thing' (Van Rooy, 1998, p. 30). The results qualify the nearly universal assumption of a link between the presence of civil society and successful economic development (see, for example, Beck and Laeven, 2006, Sec. 2.1; Buiter, 2000, pp. 617–619; Carothers and Ottaway, 2000, p. 4; Hoff and Stiglitz, 2004, pp. 759–760; Howell and Pearce, 2001, p. 235; Robinson, 1996, p. 3).

⁴ Civil society groups will, according to the classification by Salomon *et al.* (2004), perform expressive (rather than service-provision) functions such as freedom of political expression, community organizing, protection of human rights and religion. They will include organized (although possibly informal), private (although they may receive government support), self-governing non-profit organizations such as policy think-tanks and universities, professional organizations, grass-root development organizations, community associations, and human rights organizations.

The effect of aid that strengthens civil society is to make it more costly for a politician to exclude civil society from reform processes. Exclusion can be optimal for the politician even when inclusion would be welfare enhancing because the politician also wants to please powerful interests whose favoured alternatives might not pass when the reform process includes civil society. Hence, aid affects institutional outcomes by changing the politician's decision on whether to involve civil society in reform processes. By comparing the welfare implications of the reforms undertaken with and without civil society, we can characterize the conditions determining the desirability and effectiveness of civil society aid.

Because the exclusion of civil society from reform processes is sometimes socially optimal, using aid to strengthen civil society is beneficial only under specific political conditions. *Ceteris paribus*, the benefits from aid decline as the objectives of special interests and those of the rest of society become more closely aligned. For a given degree of alignment, however, the welfare effects of aid to civil society also vary with levels of political stability and democracy. These results provide context for the frequent reports of the disappointing effects of civil society aid targeted at promoting good governance (Carothers, 2004; Ottaway and Carothers, 2000b; Robinson and Friedman, 2005).

The contingent effect of civil society aid results in a particularly pernicious paradox. Civil society aid for institution building is likely to be harmful in those circumstances where optimism about its effects would normally be highest – when institutions are poor and the country is very open to reform. Hence, in contrast to many advocates (Dollar and Pritchett, 1998; Howell and Pearce, 2001), we find little reason to view aid to civil society as a panacea when poor institutions reduce the effectiveness of foreign aid. Our analysis suggests that it is mistaken to suppose that aid to civil society can jump-start the development process when existing institutions are ineffective.

At a more general level, our results contribute to the ongoing debate about the effectiveness of foreign aid (see, for example, Burnside and Dollar, 2004; Easterly, 2003; Moss, Pettersson and van de Walle, 2006; Rajan and Subramanian, 2005; Shirley, 2005). We highlight the impact of a particular segment of foreign aid, that to civil society, and derive the efficiency implications of such aid. Our main conclusion – that different political conditions lead to drastically different welfare consequences of a given amount of aid – thereby bolsters the selectivity argument for aid disbursement (Burnside and Dollar, 2004; Dollar and Svensson, 2000; Drazen, 1999; Kosack, 2003; Shirley, 2005).

Moreover, recent empirical findings suggest that aid can worsen the quality of institutions in recipient countries (Bräutigam, 2000; Bräutigam and Knack, 2004; Djankov, Montalvo and Reynal-Querol, 2007; Knack, 2001). Various reasons have been suggested for why this might be the case: aid perpetuates soft budgets, creates moral hazard for both recipients and donors, weakens local pressures for reform, and can be a resource curse (Bräutigam and Knack, 2004; Djankov, Montalvo and Reynal-Querol, 2007). However, the empirical literature does not identify the precise channel through which aid adversely affects

institutions.⁵ These empirical findings are consistent with our results. Our analysis provides a precise model of a previously overlooked channel for the effects of aid on institutions – a strengthening of civil society exacerbates or reduces adverse selection problems in the reform-implementation process.

The rest of the article is organized as follows. The next section examines the literature on civil society that has arisen in development circles, arguing that there has been almost universal agreement that civil society has a beneficial role in institution building. Sections 3–6 revisit this ubiquitous premise by presenting our model, deriving its results, and interpreting them. Section 7 draws some conclusions and suggests further research.

2. Civil society and institution building: The ubiquitous argument

According to Carothers and Ottaway (2000, p. 4): ‘In the eyes of many donors and recipients . . . the idea that civil society is always a positive force . . . is unassailable. An active . . . civil society is both the force that can hold the governments accountable and the base upon which a truly democratic political culture can be built. There follows from this assumption the related idea that promoting civil society development is key to democracy-building.’ Similarly, it is frequently claimed that civil society influences the process of institution-building and that fostering civil society *per se* should promote adoption of institutional best-practice (Carothers, 2004; Frisch and Hofnung, 1997; Howell and Pearce, 2001; and Van Rooy, 1998). ‘In the political domain, civil-society development is deemed crucial to stimulating the public pressure and participation necessary to force poorly functioning state institutions to become more responsive and accountable’ (Carothers, 2004).

In the context of post-communist transition, a vibrant civil society was seen as a means of facilitating the creation of many of the components necessary for a market economy (Buiter, 2000, pp. 617–619; Carothers, 2004). In Africa, civil society’s involvement is expected to improve governance by ‘challenging the power of the state to dominate political affairs and decision-making’ (Robinson and Friedman, 2005, p. 2). A strong civil society has been expected to ‘broaden participation in public life and influence state policy’ (Robinson and Friedman, 2005, p. 1) and favourably ‘[steer] the direction of debates and policy around economic reforms and democratic consolidation’ (Hearn, 1999, p. 22). Overall, therefore, ‘[the] enthusiasts hold out civil society as a guarantee not only of political virtue but also of economic success. An active, strong civil society, they say, can . . . help ensure that the state does not suffocate the economy’ (Carothers, 1999–2000, p. 24).

Roland (2004, p. 127) argues that civil society’s participation is particularly desirable when institutional construction occurs through transplantation. Those

⁵ Tornell and Lane (1998, 1999) and Svensson (2000) do provide theoretical arguments on how ‘resource windfalls’ retard development by encouraging rent-seeking.

who endeavour to transplant institutions will probably find that dialogue with governments is not fruitful, because governments are susceptible to capture by elites with vested interests. Civil society's involvement in assessing the appropriate institutional mix is therefore crucial, especially as it compensates for deficiencies in outsiders' knowledge of local conditions. In Hoff and Stiglitz (2004), a weak civil society decreases the likelihood of the emergence of the rule of law. In Beck and Laeven (2006), civil society counterbalances political elites and therefore helps in the process of building better institutions.

Systematic empirical evidence is scarce. Campos (2000) shows that civil society's participation in public affairs increases transparency in policy making.⁶ Civil society involvement may thus substitute for institutions of good governance such as the publicness of policy-making and accountability of the executive. Likewise, Dethier, Ghanem and Zoli (1999) argue that the presence of a vibrant civil society helps to explain the success of economic liberalization.⁷ One of the reasons for the lack of empirical work is the difficulty of measuring civil society. Bruszt *et al.* (2007) take a novel approach in the face of this difficulty – they proxy civil society with the extent of pre-transition dissident activity. Their preliminary results relate the strength of civil society to paths of institutional development in transition.

When it comes to effectiveness of civil society assistance (as opposed to civil society *per se*), the emerging anecdotal evidence reveals at best meagre success in promoting good governance. In the bulk of the post-communist region and the developing world, aid to civil society seems to have had little impact on institutional development (Carothers, 2004; Ottaway and Carothers, 2000b; Quigley, 2000; Robinson and Friedman, 2005).

We are not the first to question the very common conjecture that civil society is beneficial for institution-building. That civil society can also have a dark side, and that civil society's effect may be context-dependent, has been pointed out before (see, for example, Berman, 1997; Carothers, 1999–2000; Ndegwa, 1996). Once these points are acknowledged, however, it is important to ask what factors determine whether civil society's participation is beneficial or not.⁸ And under what conditions does the fostering of civil society for institution-building represent an obstacle to reform? These aspects of civil society's involvement in reform processes have, to the best of our knowledge, not been addressed within the disciplining framework of an analytical model.

⁶ To measure the strength of civil society, Campos combines the Freedom House measures of civil liberties and political rights with the 'civil society' indicator from Karatnycky, Motly and Shor (1998).

⁷ Dethier, Ghanem and Zoli (1999) measure the strength of civil society with the Freedom House index of civil and political liberties.

⁸ In an illuminating historical case study, Berman (1997) argues that a strong civil society in the presence of weak state institutions may have contributed to the Nazis' rise to power in Germany in the 1920s. Based on her historical research, Berman conjectures that '[p]erhaps, therefore, associationism [i.e. civil society] should be considered a politically neutral multiplier – neither inherently good nor inherently bad, but rather dependent for its effects on the wider political context' (p. 427).

3. Revisiting the ubiquitous argument: A model

3.1 Overview

Our objective is to present a tractable model capturing a realistic scenario of civil society participation in an institutional reform process. Then, analytical results bear directly on the many very general claims about the effects of civil society on institutional reforms, reviewed above. We believe that this is the first analytical article to meet this objective.

A society is contemplating a fundamental institutional reform. Since the model takes the basic structure of the political system as given, it is best to interpret our model as relevant to the reform of economic or legal institutions or of lower-level political structures. The reform process occurs once and the outcome is not reversible in the time period covered by the model, making our analysis applicable to institutional reform but not to standard policies. Interest groups initiate reform programs and devote resources to influence a politician's, that is, the government's, decision. Separate from the sphere of interest groups and politicians, civil society can shape the institutional reform process by opening up debate and expanding deliberation. The government can exclude civil society from that process, but only at some cost, which increases with levels of democracy and the strength of civil society. By strengthening civil society, aid can affect institutional outcomes.

A timeline of reform is depicted in Figure 1. The following subsections describe the various elements of the timeline, not in chronological order but in a sequence that develops the logical structure of the reform process.

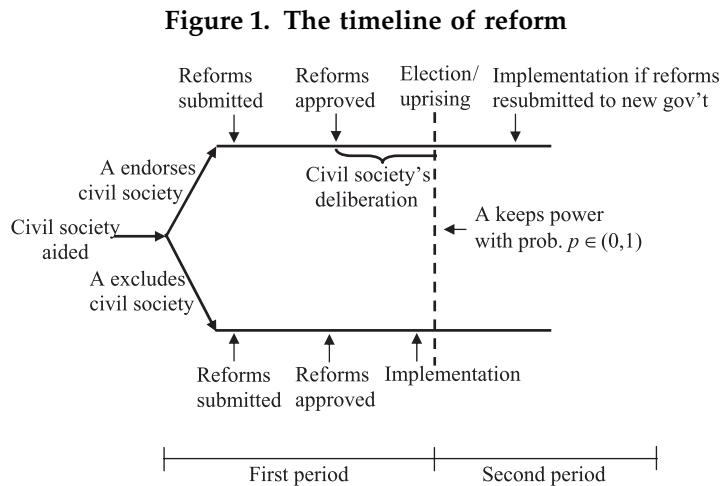


Table 1. The structure of reforms

	Interest group α	Interest group β	Aggregate
Reform 1	$B_{\alpha 1} > 0$	$B_{\beta 1} > 0$	$B_{\alpha 1} + B_{\beta 1} > 0$
Reform 2	$B_{\alpha 2} > 0$	$B_{\beta 2} < 0$	$B_{\alpha 2} + B_{\beta 2} < 0$
Reform 3	$B_{\alpha 3} > 0$	$B_{\beta 3} < 0$	$B_{\alpha 3} + B_{\beta 3} > 0$
Reform 4	$B_{\alpha 4} < 0$	$B_{\beta 4} > 0$	$B_{\alpha 4} + B_{\beta 4} < 0$
Reform 5	$B_{\alpha 5} < 0$	$B_{\beta 5} > 0$	$B_{\alpha 5} + B_{\beta 5} > 0$
Reform 6	$B_{\alpha 6} < 0$	$B_{\beta 6} < 0$	$B_{\alpha 6} + B_{\beta 6} < 0$

3.2 Reform programs

Reform programs are combinations of individual reforms. Reform of type j (reform j , in short) is completely characterized by the benefits to interest groups α and β , $B_{\alpha j}$ and $B_{\beta j}$ respectively. Classifying reforms according to whether α or β win or lose and whether the sum of payoffs is positive or negative, there are only six possible generic reform types. Table 1 defines them. Given that all possible types of reforms are included in these six, any reform program can be characterized by a combination of at most one reform of each type.

Reforms 2–5 are redistributive (gains for one group come at the expense of losses for the other) but with different consequences for aggregate welfare. Reforms 2 and 4 redistribute with a deadweight loss. Reforms 3 and 5 redistribute with a net aggregate welfare gain. Pareto-improving reform 1 is of interest to both α and β . Reform 6 is Pareto inferior to the status quo and can be dropped from the analysis since neither α nor β ever proposes it.

This structure of possible reforms captures a fundamental aspect of institutional change. Programs proposed by interest groups contain various sub-components, some contributing to general welfare, some reducing it. The central problem of institutional reform is to foster adoption of efficiency-enhancing components and limit rent-seeking redistributions.

3.3 Interest groups and politicians

A and B are the two rival politicians. The one forming the government has the power to implement reforms, which are proposed by interest groups. The government accepts a submission only if the interest group pays a lobbying fee, which can be interpreted very generally as a campaign contribution or a bribe or some other favour. For reputational or procedural reasons, the government's acceptance of reform submission implies commitment to carry on with reform implementation if the same politicians stay in office.

Interest groups are much more knowledgeable than the politician about the effects of reforms. The politician is at an informational disadvantage and cannot recognize reform types. Both interest groups can recognize reforms, but their statements characterizing proposed reforms would hardly be credible.

To set the relative scales of variables, assume the fee does not vary with reform type: Ψ_{ik} is the payment when the government of politician $k \in \{A, B\}$ accepts a submission of any reform j from interest group $i \in \{\alpha, \beta\}$. (Submission of a reform program with n reforms thus costs $n\Psi_{ik}$.) The fee is a *quid pro quo* for the cost incurred by the politician in placing a submitted reform proposal onto the political agenda. The assumption that the fee does not vary with reform type implies that redistributive reforms 2 and 3 (or 4 and 5) should entail a similar cost for the politician, which makes the following assumption natural:

$$B_{\beta 2} = B_{\beta 3} \text{ and } B_{\alpha 4} = B_{\alpha 5}.$$

The structure of payoffs in Table 1 naturally pits α and β against each other. Hence, enactment of reforms 2 or 3 is inconsistent with enactment of reforms 4 or 5.⁹ No politician could credibly implement proposals from both groups. Accordingly, each politician is willing to consider reform proposals only from the interest group associated with that politician. This is the politics of fundamental institutional reform. Interest groups oppose each other in a manner that correlates with political ideologies and the characteristics of politicians. The politician in office thereby effectively blocks one interest group from influencing the reform process, while simultaneously welcoming proposals from the other. The interest group associated with the current government is thus referred to as *empowered*. In the model, α is associated with A and β with B.¹⁰

3.4 Social welfare and the politician's objectives

The lobbying fee (Ψ_{ik}) is a pure transfer. Hence, the (*ex post*) aggregate impact from implementing reform j , W_j , is the sum of the payoffs to the two interest groups: $W_j = B_{\alpha j} + B_{\beta j}$. The *ex ante* expected social welfare (*social welfare* in short) from a reform program is then a weighted sum of the appropriate W_j 's, where the weights are the

⁹ The assumption of direct conflict is common in the analysis of the effect of interest groups on policy. For examples, see Grossman and Helpman (2001, sections 4.2.2, 8.4, and 9.3), Drazen (2000, sections 3.7, 13.5) and Mueller (1989, pp. 108, 230, 245, 247, 279, and 453).

¹⁰ This is equivalent to assuming (a) that for all j such that $B_{\alpha j} > 0$, $\Psi_{\alpha A} < B_{\alpha j} < \Psi_{\alpha B}$, and for all j such that $B_{\beta j} > 0$, $\Psi_{\beta B} < B_{\beta j} < \Psi_{\beta A}$, or, it can be shown, even (b) that for all j such that $B_{\alpha j} > 0$, $\Psi_{\alpha A} < \Psi_{\alpha B} < B_{\alpha j} < \Psi_{\alpha B} + \varepsilon$, and for all j such that $B_{\beta j} > 0$, $\Psi_{\beta B} < \Psi_{\beta A} < B_{\beta j} < \Psi_{\beta A} + \varepsilon$, where $\varepsilon > 0$ is arbitrarily small. The resultant structure of lobbying (α lobbies only A and β only B) is consistent with empirical work on campaign contributions, which shows alignment between the objectives of special interests and politicians (Poole and Romer, 1985; Poole, Romer and Rosenthal, 1987).

probabilities of implementation of respective reforms. (We clarify the calculation of expected values in Sections 4.1. and 4.2. below.) We follow the recent literature on lobbying and special-interest politics (see, for example, Grossman and Helpman, 2001, ch. 7–8; Persson and Tabellini, 2000, ch. 7) in positing that the politician's payoff from a proposed reform program is a weighted average of social welfare and lobbying fees:

$$\lambda \times \{\text{social welfare}\} + (1 - \lambda) \times \{\text{lobbying fees}\},$$

where $\lambda \in (0,1)$. The parameter λ will tend to be smaller in autocracies but increases with levels of democracy. As in Glaeser and Shleifer (2002), we refer to λ as a measure of democracy.¹¹ For analytical tractability, we treat λ as exogenous. Yet the existence of a vibrant civil society is probably necessary for a truly democratic polity. Thus, in future analyses it would prove desirable to endogenize the link between civil society and λ , an avenue that we leave unexplored here.

The common-agency models of lobbying that assume complete information derive the policy (or reform) choices of politicians by endogenizing lobbying contributions (Grossman and Helpman, 1994; Persson, 1998). In contrast, we fix the size of the lobbying fee Ψ_{ik} and focus instead on the consequences of informational asymmetries between politicians and interest groups. Interest groups, as direct stake holders in the outcome of reform, are assumed to possess an informational advantage vis-à-vis the politicians (see, for example, Austen-Smith, 1990; Grossman and Helpman, 2001, ch. 4–5; Krishna and Morgan, 2000). Moreover, this informational advantage is likely to be greatest in developing and transition countries, where routinized processes of information gathering and analysis by the government are less institutionalized.

3.5 *Politicians and civil society*

Before interest groups submit proposals, the incumbent government can choose whether to involve civil society in the reform process. This immediately leads to the important question of how to model that involvement, which entails addressing the vexing issue of what civil society actually is. Every time this issue is addressed in the current literature the discussion is prefaced with comments on how many different definitions of civil society there are. Our approach is to seek a common element in those existing definitions that are relevant to civil society involvement in institutional reform processes. We follow Edwards (2004) in viewing civil society participation as creating the 'public sphere', that is, 'the arena for argument

¹¹ Glaeser and Shleifer's (2002) parameter captures the degree to which the preferences of the sovereign differ from those of the society. Their interpretation of that parameter exactly corresponds with our interpretation of λ as a measure of democracy.

and deliberation . . . in which . . . public policy, government action and matters of community . . . are developed and debated' (Edwards, 2004, p. 55).¹² Thus, in including civil society in reform processes a government facilitates open debate and the active participation of non-partisan individuals and organizations that have the capacity to stimulate more general deliberations on reform. Edwards (2004, p. 91) argues that a functioning public sphere is a necessary element of civil society's involvement, whatever other features may be ascribed to civil society.

A vibrant civil society is therefore sand in the wheels of the political process, opening up debate and preventing quick, *ad hoc* adoption of reforms in a process dominated by politicians and interest groups. The delay changes reform outcomes, which is how civil society affects welfare in our model. (Time preference effects are not included.) In characterizing civil society in this way, we use the irreducible core of the many definitions of civil society in the literature that are relevant to institutional reform (Edwards, 2004, pp. 55–63; Howell and Pearce, 2001, pp. 2–3; Ottoway and Carothers, 2000b, pp. 11–12; Van Rooy, 1998, pp. 20, 49).

The notion of civil society used here, although narrower than that of many commentators, would certainly be a prime ingredient in any generally acceptable definition. This characterization was a central element of the definition of civil society used by aid donors in the 1990s (Shifter, 2000, p. 56). It reflects the common conceptual distinction between NGOs and civil society, where the former are often instrumental in promoting the latter, but civil society can be strengthened by means other than through NGOs (Edwards, 2004; Quigley, 2000). It squares with the widespread view that civil society groups do not have partisan connections and do not promote special interests, but rather influence politics by promoting democratic discussion and debate (Ottoway and Carothers, 2000a).¹³ It is also consistent with Campos' (2000) empirical results showing that civil-society participation increases transparency.¹⁴

A compelling example of a characterization of civil society congruent with ours is provided by Orenstein (2000) who presents case studies of design and implementation of pension reform programs in Hungary, Poland and Kazakhstan. In Kazakhstan, pension reform deliberations were conducted in secret by a single governmental commission under the direct authority of the prime minister, with full approval of the president. Orenstein argues that this was because in Kazakhstan, civil society organizations 'face[d] greater sanctions for voicing opposition' and had 'fewer opportunities to access the policy process' than in Poland and Hungary. In fact, '[c]ivil society groups did not even know about the progress of governmental pension reform proposals' (Orenstein, 2000, p. 18).

¹² Edwards (2004) quotes McClain and Fleming (2000).

¹³ Consistent with our view of civil society, Quadir (2003) argues that civil society was ineffective in Bangladesh exactly because NGOs took on a partisan role, not the more neutral perspective of civil society.

¹⁴ Mungiu-Pippidi (2005) provides an interesting example of a non-partisan effort to increase transparency, deliberation, and debate on corruption in Romania, an effort strongly promoted by aid donors.

Consequently, the deliberative process was significantly shorter in Kazakhstan than in the more democratic Hungary and Poland, where civil society participated actively in the reform process.

Similarly, Robinson and Friedman (2005, p. 11) report that in South Africa's first post-apartheid administration 'at various stages of the legislative process there was . . . extensive public consultation on proposed bills through formal and informal processes in which civil-society groups played a significant role.' On occasions, debate promoted by civil society delayed the progress of reforms – for example the privatization of state industries. In light of civil society's effect on the reform process, the government even 'declared that . . . excessive negotiation on policy would delay delivery of the fruits of democracy to citizens' (Robinson and Friedman, 2005, p. 11). This negative view of civil society came at a juncture when it would be usually assumed that civil society was an unalloyed good. In fact, the comment is fully interpretable in the framework of the comparative statics that we develop in Sections 4 and 5.

We assume that the benefits or costs of civil society arise solely from changes in reform outcomes. In our framework, the active participation of civil society and the deliberations it facilitates are not valued *per se*. This instrumental view follows our focus on civil society involvement in one specific reform: we do not view our results as reflecting on broader issues of the place of civil society in the polity as a whole.¹⁵

In our model, the effect of delay is that the incumbent, *A*, might lose an election or be usurped in a non-democratic fashion and replaced by the contender, *B*, before being able to implement a submitted reform program. Following Persson and Tabellini (2000, Section 13.3), the probability of *A* continuing in power is interpreted as a measure of political stability. In our model, this exogenous probability is denoted by $p \in (0,1)$. The use of the term stability is apposite in the present context because when *A* is replaced there is a fundamental change in politics. Since the interest groups associated with each of the politicians have opposing views on institutional reforms, *A*'s loss of power takes the country on a different institutional path. In the model, the direct consequence of a change in government is that the interest groups have to incur lobbying costs again if they still want their reforms to be considered.

Of course, a slowing of reform processes can occur for many reasons, some of which have been a focus of the literature on reform.¹⁶ We are not interested in the process of delay *per se*. Instead, we argue that a slowdown in the reform-implementation

¹⁵ Quite plausibly the existence of a vibrant civil society *per se* elevates the level of democracy, λ . We leave to future research an explicit exploration of the interrelation between civil society's engagement and democracy. We do, however, acknowledge that civil society may feed on democracy: the power of civil society will increase with the level of democracy. See the discussion on political costs of excluding civil society at the end of this section.

¹⁶ See Drazen (2000, chapter 10) for literature review and discussion about sources of delay in reform processes.

process is merely an inevitable by-product of a vibrant civil society stimulating deliberations on the proposed reform agenda. Civil society's proverbial autonomy adds political legitimacy and credibility to the government's decision to accept delay, thwarting powerful interest groups pressing for fast reforms. Clearly, other institutional mechanisms, such as formal procedural rules, could also slow the pace of reform. However, for a politician facing major pressure from powerful interest groups, the involvement of an independent civil society provides a productive, politically valuable mechanism for changing the pace of reform processes.

Civil society naturally increases the amount of deliberation within the political process. To those advocating deliberative democracy, this is a positive, but it is clear that the effect of deliberation is ambiguous in general (Drazen and Isard, 2004; Przeworski, 1998; Stokes, 1998). We abstract from the effects of deliberation itself, choosing to undertake a *ceteris paribus* analysis of the effect of delay. A fuller analysis would incorporate the effects of delay and deliberation into a single analytical model, but this is beyond the scope of this article.

Importantly, in our characterization, civil society does not hold a direct stake in the outcome of reform (Edwards, 2004, p. 25). Instead, civil society's interest in the reform process arises from the elevation in its prestige or from the ideological pursuit of the 'pluralism that allows individual groups to exist' (Ndegwa, 1996, p. 6). This assumption follows common practice in allowing us to draw a clear analytical separation between two associational realms, the political (dominated by aggressive lobbying interests and self-interested politicians) and civil society (consisting of grassroots movements, public interest organizations, producers of information, policy researchers, and professional groups comparatively less entangled in the web of active politics).¹⁷ The assumption is necessary in understanding the specific effect on institutional outcomes of these non-partisan organizations and groups, which are central in all characterizations of civil society.

Suppressing civil society is feasible but costly for the politician. Exclusion of civil society from the political process will be more difficult when the level of democracy is higher and civil society's political strength is greater. We thus posit that the politician can exclude civil society at a cost of $c\lambda$, where $c \geq 0$ reflects the political strength of civil society.¹⁸ This strength depends on the amount of foreign aid purposefully aimed at relevant groups, as well as many other factors (Hadenius

¹⁷ While the question of boundaries between 'political society' and 'civil society' is much discussed in the literature, separation between the two for analytical purposes is common (see e.g. Arato, 1994, p. 6). Carothers and Ottaway (2000, p. 10) argue that '[the] donors have chosen to consider civil and political society as separate realms . . . because doing so helps defend the claim that it is possible to support democracy without becoming involved in partisan politics or otherwise interfering unduly in the domestic politics of another country.'

¹⁸ This simple functional form is chosen for ease of exposition. All of the qualitative features of results carry over when, for example, the costs of excluding civil society are constant, independent of democracy, or when they are an increasing function of λ and the first derivative with respect to λ increases with civil society's entrenchment.

and Ugglá, 1996; Robinson and Friedman, 2005). Aid, then, makes it costlier for a politician to exclude civil society from reform processes.

3.6 *The timeline*

There is a single reform process beginning when A takes office. The reform process can last two periods, A 's initial incumbency and the following time interval when either A or B forms the government. Note, however, that there is no role in our model for time preference: the effects of delay are through changes in reform outcomes not a trivial result of impatience. In both periods, interest groups decide on submission of reform proposals. The strength of civil society is exogenously determined at the outset. The decision on whether to allow civil society's participation is made at the beginning of A 's incumbency and holds for the entire reform process. With no civil society involvement, there is immediate implementation of any proposed measure passed by the government and then the reform process ends. If civil society participates, the reform program is debated until the second period. Then, if A remains in office, the reforms submitted in the first period are implemented. If B takes over, α is no longer empowered and drops out of the lobbying game, but the lobbying arena opens for β . However, any of β 's proposals submitted in the second period that differ from the ones submitted by α in the first are subject to public debate and delayed beyond the end of the reform process. Figure 1 summarizes the timeline.

4. Civil society and institutional outcomes: Basic results

This section summarizes the logic of how civil society involvement affects institution-building. It thus establishes a framework for analyzing the issue of primary concern – how fostering civil society affects institutional outcomes, which we analyze in Sections 5 and 6. The results appear in Figures 2–4, showing how the effect of civil society depends on the level of democracy, the degree of political stability, and, crucially, whether the empowered interest group is aligned with society. (We relegate to Appendix A many details of the proofs of statements made in the text.)

In the first period, the incumbent, A , considers reform proposals only from α , the empowered interest group. The politician cannot recognize reform types when they are submitted: there is the possibility of adverse selection. We make assumptions that are standard in adverse selection models, implying a focus on a scenario where some reforms always take place unless there is a screening mechanism, with the possible effect of civil society being a change in the quality of reforms.¹⁹ Without civil society, reforms occur if and only if:

¹⁹ Dewatripont and Maskin (1995) and Qian (1994), for example, restrict their analysis to an analogous subset of equilibria.

$$\frac{1}{3}\{\lambda W_1 + (1 - \lambda)\Psi_{\alpha A}\} + \frac{1}{3}\{\lambda W_2 + (1 - \lambda)\Psi_{\alpha A}\} + \frac{1}{3}\{\lambda W_3 + (1 - \lambda)\Psi_{\alpha A}\} > 0,$$

which is the condition that ensures that A implements any reform proposed by α .²⁰

4.1 *Equilibrium without civil society*

Without civil society and with A in power, β never lobbies, while α lobbies for reforms 1, 2 and 3. A implements the entire proposed reform program in the first period, ending the reform process. Thus, without civil society involvement, the proposed reforms 1, 2 and 3 are all implemented immediately and with certainty. We denote W^- social welfare when there is no civil society involvement. Hence,

$$W^- = W_1 + W_2 + W_3.$$

Similarly, let V^- be politician A 's payoff when there is no civil society. Then,

$$V^- = \lambda(W_1 + W_2 + W_3) + (1 - \lambda)3\Psi_{\alpha A} > 0.$$

4.2 *Equilibrium with civil society*

Denote by W^+ expected social welfare when civil society is involved in the reform process. With the presence of civil society, Pareto-improving reform 1 is implemented with certainty if α lobbies for it in the first period, which α does. (See Appendix A for proof of all such statements.) In contrast, the redistributive reforms 2 and 3 are implemented only if A stays in power throughout a reform process prolonged by civil society's deliberation. Consequently, redistributive reform $j \in \{2,3\}$ is placed on the agenda only when α 's expected benefit from doing so ($pB_{\alpha j}$) outweighs the cost ($\Psi_{\alpha A}$). Thus, in the first period α lobbies for reforms 2 and 3 if $p > \Psi_{\alpha A}/B_{\alpha 2}$ and $p > \Psi_{\alpha A}/B_{\alpha 3}$, respectively. β does not lobby for any of the reforms in the first period. In the second period, β lobbies for reform 1 if politician B is in power. α does not lobby for any reform in the second period, regardless of which politician is in power. A implements all of α 's proposals.

Then, expected social welfare (social welfare, in short) with civil society involvement is:

²⁰ Rearranging, observe, first, that $\lambda(W_1 + W_2 + W_3) + (1 - \lambda)3\Psi_{\alpha A} > 0$ with symmetry between reforms 2 and 4, and 3 and 5, implies that any politician in power accepts any reform. Second, note that we impose no assumption about the sign of $W_1 + W_2 + W_3$. Clearly, if $W_1 + W_2 + W_3 > 0$, then A approves all reforms for any $\lambda \in (0,1)$. If in contrast $W_1 + W_2 + W_3 < 0$, A approves all reforms if and only if $\lambda < \Psi_{\alpha A}/[\Psi_{\alpha A} - 1/3(W_1 + W_2 + W_3)] < 1$. The results of the model do not depend on the sign of $W_1 + W_2 + W_3$ as long as $\lambda(W_1 + W_2 + W_3) + (1 - \lambda)3\Psi_{\alpha A} > 0$ holds. All diagrams summarizing the results are thus without any loss of generality drawn for the case when $W_1 + W_2 + W_3 > 0$.

$$W^+ = \begin{cases} W_1 & \text{when } p < \Psi_{\alpha A}/B_{\alpha 3}, \\ W_1 + pW_3 & \text{when } \Psi_{\alpha A}/B_{\alpha 3} < p < \Psi_{\alpha A}/B_{\alpha 2}, \\ W_1 + p(W_2 + W_3) & \text{when } p > \Psi_{\alpha A}/B_{\alpha 2}. \end{cases}$$

Figures 2–4 summarize the effect of civil society on social welfare by depicting the relationship between W^- and W^+ under three different scenarios. These scenarios differ in the size and sign of $W_2 + W_3$, the aggregate welfare impact of a redistributive package comprising reforms 2 and 3. Variations in $W_2 + W_3$ naturally capture different degrees of alignment between the objectives of the empowered interest group (α) and the welfare of society.

The first scenario is when $W_2 + W_3 < 0$, which we refer to as *misalignment*, in which society's adverse selection problems are clear. The second is when $W_2 + W_3$ is positive but small. For these values, there is *weak alignment* between the empowered interests and society, but there is still an adverse selection problem that civil society can solve: $(-W_2)$ and W_3 are sufficiently close in magnitude that it is worth risking the loss of reform 3 to be sure of avoiding the negative effects of reform 2.²¹ In the third scenario, covering the largest values of $W_2 + W_3$, there is *strong alignment*. The benefits from reform 3 clearly dominate the losses from reform 2 and therefore the risk of losing reform 3 is not worth taking: there is no adverse selection problem that civil society can solve.

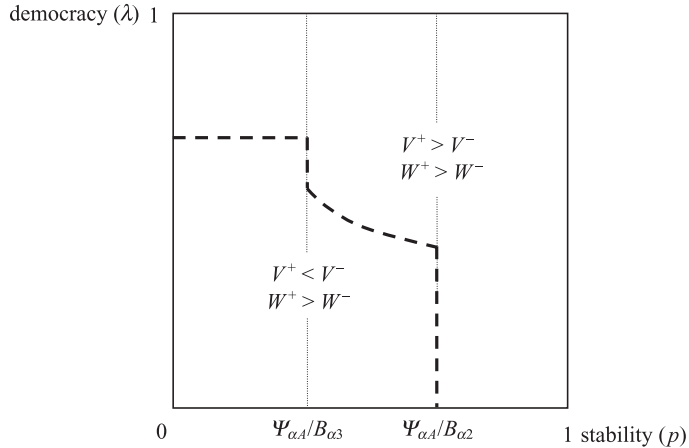
The effect of civil society depends crucially on the types of interest groups present in the polity. When the empowered interest group is misaligned with society ($W_2 + W_3 < 0$), civil society's participation always raises expected social welfare (see Figure 2). In contrast, with alignment ($W_2 + W_3 > 0$) civil society's participation often reduces expected social welfare. This is always the case for strong alignment (see Figure 4), but also holds under weak alignment for all but intermediate levels of political instability (see Figure 3).

Contrary to many claims in the literature, therefore, civil society's participation can sometimes be disadvantageous to society. When the agenda of the empowered interests is aligned with social objectives, civil society participation is usually detrimental. The redistributive package proposed by α , although not first-best, improves upon the status quo. When there is strong alignment, any mechanism that decreases the chances of implementing the empowered group's favourite package is undesirable.

From the social welfare perspective, the advisability of including civil society in the reform process depends on the configuration of interest groups – that is, the degree of alignment – and levels of democracy and political stability. This is hardly surprising: a simple change in the structure of the political process, such as the inclusion of civil society, is unlikely to be Pareto improving under all circumstances. However, this observation is a crucial one, since it exhibits the importance of using

²¹ The exact statement of these three scenarios is given in Appendix A.

Figure 2. Social welfare and politician’s payoff with and without civil society when the empowered interests are *misaligned* ($W_2 + W_3 < 0$)



W^+ = social welfare with involvement of civil society
 W^- = social welfare without involvement of civil society
 V^+ = politician’s welfare with involvement of civil society
 V^- = politician’s welfare without involvement of civil society

Figure 3. Social welfare and politician’s payoff with and without civil society when the empowered interests are *weakly aligned* ($W_2 + W_3 > 0$ small)

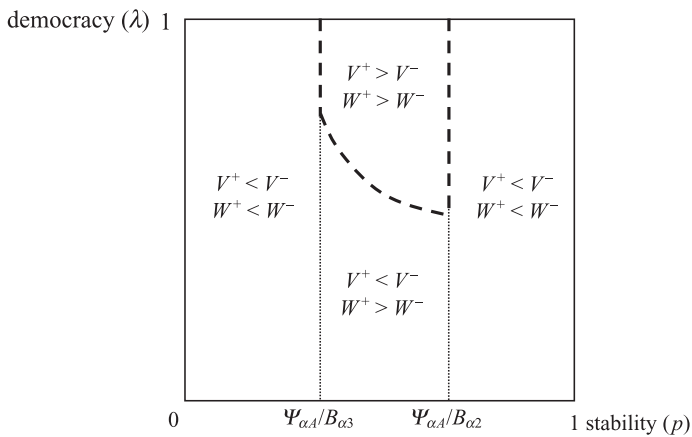
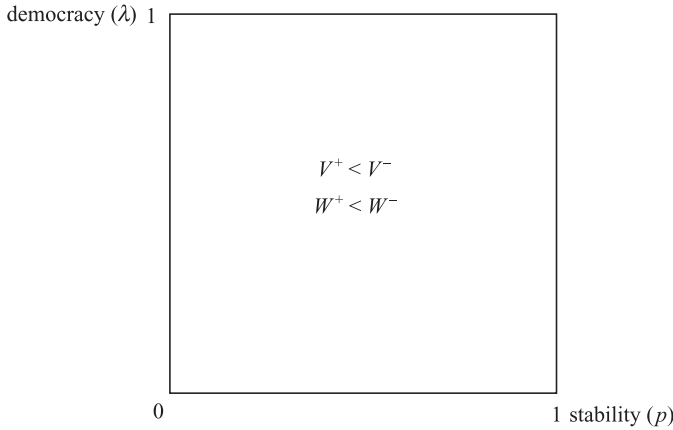


Figure 4. Social welfare and politician’s payoff with and without civil society when the empowered interests are *strongly aligned* with society ($W_2 + W_3 > 0$ large)



a clear conceptual framework to interpret the effects of civil society. Without a clear conceptual framework, a general result on the importance of alignment of interest groups and society would not suggest itself. Without a systematic analysis that gives civil society a precise role, there is little to suggest that levels of democracy and stability affect the conditions under which civil society involvement is desirable or not.

4.3 Endorsing or excluding civil society

The possible contribution of civil society identified above is only a potential one, contingent on whether the politician decides to allow civil society to participate. V^+ , politician A ’s expected payoff with civil society’s involvement, is:

$$V^+ = \begin{cases} \lambda W_1 + (1 - \lambda)\Psi_{\alpha A} & \text{when } p < \Psi_{\alpha A}/B_{\alpha 3}, \\ \lambda(W_1 + pW_3) + (1 - \lambda)2\Psi_{\alpha A} & \text{when } \Psi_{\alpha A}/B_{\alpha 3} < p < \Psi_{\alpha A}/B_{\alpha 2}, \\ \lambda(W_1 + p(W_2 + W_3)) + (1 - \lambda)3\Psi_{\alpha A} & \text{when } p > \Psi_{\alpha A}/B_{\alpha 2}. \end{cases}$$

Recall that the cost to the politician of excluding civil society is $c\lambda$, $c \geq 0$. Then, the politician chooses to exclude civil society when $V^+ > V^- - c\lambda$. In the remainder of this section, we set c to zero to simplify the exposition and highlight how alignment, democracy (λ), and political stability (p) affect the politician’s incentives to endorse or suppress civil society’s involvement. We examine how the size of c matters when we analyze the effect of civil society aid in Section 5. The politician’s decisions on whether to exclude or to endorse civil society are summarized in Figures 2–4.

With the empowered interests misaligned (Figure 2), the politician endorses civil society at high levels of either democracy or stability or both. At lower levels, democracy and stability effectively become substitutes. The politician endorses civil society's involvement in an unstable environment only at high levels of democracy. When there is political stability, however, civil society's involvement is attractive to the politician even at lower levels of democracy.

When there is misalignment, political objectives and social welfare considerations are often at odds: there is a considerable range of the parameters where the politician will not choose the optimal arrangement for society. When either democracy or stability is low the benefits of lobbying fees outweigh the politician's gain from any improvement in the quality of reforms induced by the inclusion of civil society. When there is misalignment civil society can always positively contribute to the reform process by solving adverse selection problems, but this contribution is only valued by the politician in stable, democratic regimes.

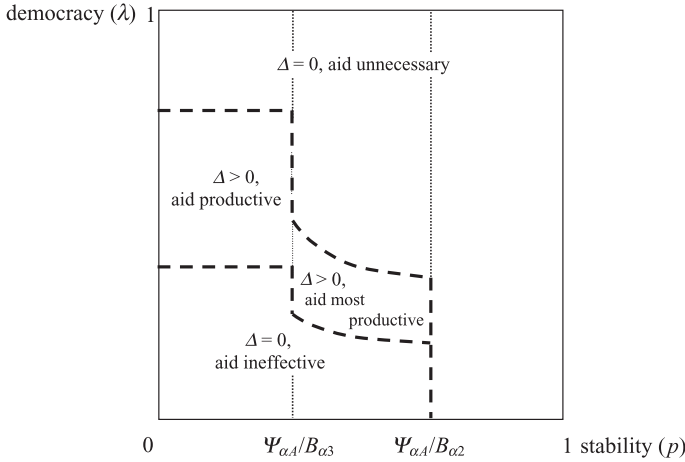
With empowered groups aligned, there is a larger set of parameters in which the politician chooses the optimal arrangement for society. Because the reforms proposed by interest groups are better for society than the status quo for many levels of democracy and stability, civil society has little to contribute to reform processes. There is a socially inefficient political decision only when civil society can solve the adverse selection problem – in the middle ranges of stability when there is weak alignment (Figure 3) – and then only if democracy is low. When there is strong alignment between interest groups and society (Figure 4), there is also alignment between the political decision and the socially optimal choice on civil society, which entails excluding civil society from the deliberative process because its presence aggravates adverse selection problems.

5. Fostering civil society: The impact of civil society aid on institutional outcomes

Aid matters when it induces the politician to endorse civil society in a situation where exclusion would otherwise occur. Such aid is now a crucial part of donor activity, with foreign aid creating and sustaining thousands of civil society organizations (Ottaway and Carothers, 2000a, p. 298). For example, Campos and Syquia (2006) examine how foreign aid promoted those Philippine civil-society organizations concerned with corruption legislation and as a result these groups ensured that reform debates were widespread. Ottaway (2000) details a similar dependence of civil society on aid in Zambia, with less successful results. Shifter (2000) documents how important aid was to the development of civil society in Latin America, while Basombrío (2000, p. 282) argues that one effect of such aid was to foster democratic deliberation in Peru.

Recall that the cost to the politician of excluding civil society equals $c\lambda$, $c \geq 0$. We assume aid increases this cost by increasing c , say from 0 to some $c_{\text{AID}} > 0$. This

Figure 5. Welfare effect (Δ) of civil society aid when the empowered interests are *misaligned* with society ($W_2 + W_3 < 0$)



simple assumption means that we sidestep consideration of how aid affects civil society’s political power.²² But this is without loss of generality, since our principal concern lies in understanding how the strengthening of civil society facilitates institution-building.

Let Δ denote the change in social welfare following the change in c . Without civil society aid, social welfare equals W^+ if $V^+ > V^-$ and W^- if $V^+ < V^-$. Social welfare with civil society aid equals W^+ if $V^+ > V^- - c_{AID}\lambda$ and W^- if $V^+ < V^- - c_{AID}\lambda$. The resulting values of Δ are depicted in Figures 5–7.²³ Δ varies greatly with democracy, stability, and alignment.

A first observation is that civil society aid can indeed be a means of promoting productive institutional change. Even given our very limited conception of what civil society does, there are many circumstances where aid has a strongly positive effect. However, civil society participation can also reduce social welfare: then

²² Exactly how the donors’ involvement affects the strength of civil society and what organizational structures are most conducive for civil society to contribute to good governance are in themselves immensely important questions. See, for example, Hadenius and Ugglä (1996) and Edwards and Hulme (1996) for illuminating discussion. Furthermore, we do not elaborate on how a certain amount of monetary aid translates into an increase in c . Studies show that foreign aid exhibits non-linear and possibly decreasing returns. See Harms and Lutz (2004) for references.

²³ For a given degree of alignment of the empowered groups and the society, different amounts of aid are needed at different combinations of democracy and stability to change the politician’s decision on civil society (and hence affect social welfare). However, in all configurations of alignment, for any $c_{AID} > 0$ there is at least one combination of democracy and stability where aid does change the politician’s decision. Similarly, in all configurations of alignment, c_{AID} at low levels will be ineffective in at least one combination of democracy and stability. See Appendix A for proof of these statements.

Figure 6. Welfare effect (Δ) of civil society aid when the empowered interests are weakly aligned with society ($W_2 + W_3 > 0$ small)

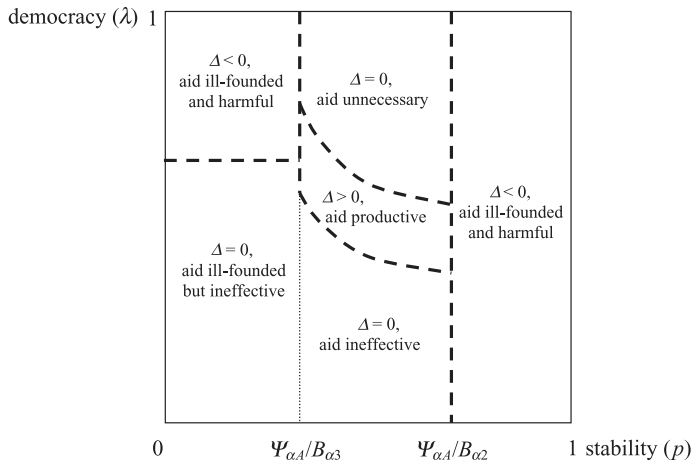
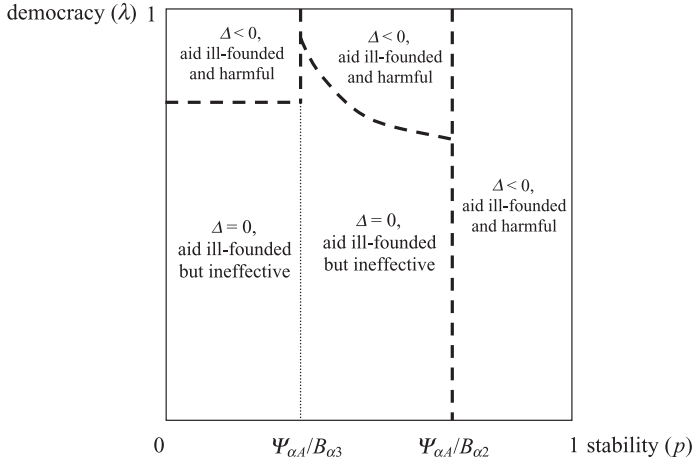


Figure 7. Welfare effect (Δ) of civil society aid when the empowered interests are strongly aligned with society ($W_2 + W_3 > 0$ large)



using aid to encourage a politician to include civil society worsens institutional outcomes. This negative effect is possible only when empowered interests are aligned. When alignment is weak, the negative effects of aid arise when there are high levels of democracy combined with instability, or when there is great stability

(Figure 6). When alignment is strong, aiding civil society is always ill-founded and often harmful (Figure 7). In great contrast, when there is misalignment, aiding civil society is at worst ineffective and often productive (Figure 5).

One of the virtues of an explicit comparative statics is that it can be used to build analytical interpretations of historical episodes. The previous literature on civil society is devoid of explicit models that admit such possibilities. The early Hungarian transition experience provides an example that can be interpreted with our comparative statics.²⁴

In the early 1990s, the Hungarian government was not at all supportive of a political role for civil society. The government was subject to much criticism for this stance, including from international donors who were promoting civil society. Despite the criticism, the Hungarian government passed restrictive legislation that steered civil society activities away from politics, arguing that competition between political parties provided sufficient scope for public debate.

These facts can be interpreted using the model's predictions. In the more developed ex-socialist countries on the borders of the European Union early transition was surely a time of alignment, probably strong alignment. Important institutional reforms awaited, which could produce large returns in aggregate social welfare. With strong alignment, the Hungarian government's decision to resist the further involvement of civil society in political debate was thoroughly consistent with welfare maximization (Figure 4). Even in the case of weak alignment, the government's resistance was understandable since high levels of democracy were combined with instability (Figure 3). Contrary to existing interpretations (Miszlivetz and Ertsey, 1998), our model suggests that it was the aid to civil society that was misplaced, not the stance of the government of Hungary (Figures 6 and 7). More generally, the disappointing experience of civil society aid to the more advanced transition countries (Quigley, 2000, p. 192) can be explained by the fact that it was given when it was less needed (Figure 7) (in the early 1990s) and withdrawn when it might have been more useful (Figure 5) (in the later 1990s).

Our comparative statics can be used to interpret changes in the locus of foreign aid in South Africa in the years surrounding the end of apartheid. Before the change of regime, civil society organizations were aided strongly. On the advent of the first post-apartheid administration, these organizations were surprised that aid tilted toward the government and away from civil society (Landsberg, 2000, p. 118). However this apparent paradox dissolves when cast in the perspective of the model's results. The fall of the apartheid regime was surely a swift turn from misalignment to strong alignment, that is, from a situation where civil society can have considerable benefits to where its effects are largely deleterious.

These observations make it clear that the effects of aid are deeply dependent on the circumstances of a country. When aid would be productive in a society with

²⁴ See Miszlivetz and Ertsey (1998) for a discussion of the relevant facts.

misalignment, it could be harmful when there is weak or strong alignment. Under some circumstances aid is beneficial at higher levels of democracy and under others aid becomes harmful. Thus, to be sure of success, aid would have to be administered selectively with an understanding of the intricacies of local politics.

6. Implications for policies on aid to civil society

We have shown that alignment is a particularly critical factor in determining the effectiveness of civil society aid, since when misalignment turns to alignment, civil society involvement changes from a mechanism to solve adverse selection problems to one that exacerbates these problems. Hence, by identifying the characteristics of economies with strong alignment and relating those characteristics to the model's structure, useful extensions of the above results are obtained.

Strong alignment exists when the empowered interest group proposes reforms that confer large benefits on the group itself while imposing little harm on others. This is most likely when a society is far from the institutional possibility frontier (Djankov *et al.*, 2003), when interest groups have license to propose alternatives to existing arrangements, and when the society has the capacity to design feasible effective reforms. Such circumstances provide the opportunity for Naim's (1994) Stage-I reforms, ones that are not technically difficult to design, have immediate widespread benefits, and share costs broadly. These include reform of the tax system, deregulation, and reform of arrangements for foreign investment.

Stage-I reforms, and hence strong alignment, arise in new democracies established after a civil war, or repressive occupation by another power, or a period of poorly functioning autocracy (Naim, 1994). The old regime bestows the inefficient arrangements and the new regime gives an opportunity to question them. Strong alignment is therefore more likely when institutions are weak, that is, when there are many Stage-I reforms that can be pursued.

By the same reasoning, misalignment is more likely where institutional reforms have advanced beyond Stage-I, when arrangements have reached a level of maturity after a period of comparatively easy reform. Interest group politics then becomes a zero-sum game, or worse. Thus, misalignment is more likely the stronger are existing institutions. Then the society must confront Naim's Stage-II reforms, where benefits are longer term and harder to discern, while the costs are narrowly confined to specific groups. Examples are reform of the judiciary, complex privatizations, and labour laws.

The above observations, together with the results of our model, suggest a disturbing paradox. Civil society aid aimed at improving institutions will be most effective where institutions are already well functioning. Civil society aid is ineffective, and sometimes counter-productive, when a society has poorly functioning institutions. Indeed, the negative effect of aid under strong alignment is most likely to be severe when democracy or stability is high. That is, aid will be particularly

counter-productive in exactly those situations that would, at first glance, seem most hopeful – a society exhibiting benign political preconditions with much scope for improving institutions.

The paradox becomes even more acute given the role that advocates bestow on civil society. An institutional development strategy based on by-passing an inept or corrupt government and strengthening civil society is often seen as a first step in making aid more effective by helping to generate better institutions (Dollar and Pritchett, 1998, p. 58; Howell and Pearce, 2001, p. 92). But our analysis suggests that such logic is faulty: where institutions are poor, civil society aid has a detrimental effect. Aiding civil society in the hope of building better institutions entails exactly the same Gordian knot as elsewhere: it does not offer any escape from the tragedy that aid is often least effective where it is most needed.

More generally, our results lend support to the view that foreign aid works only if channelled selectively. The selectivity argument has been put forward on the relationship between foreign aid and economic growth (Burnside and Dollar, 2000, 2004), the quality of life (Kosack, 2003), and the success or failure of adjustment programs (Dollar and Svensson, 2000). It has been enormously influential despite criticism (see, for example, Easterly, 2003; Easterly, Levine and Roodman, 2004; Rajan and Subramanian, 2005). We have shown that the selectivity argument also applies to the much less studied relationship between aid and institutions (see, for example, Moss, Pettersson and van de Walle, 2006; Shirley, 2005). But this particular relationship is crucially important given the large role now attributed to institutions in development and given that well functioning institutions are thought to be crucial to the effectiveness of foreign aid in general.²⁵

Given the need for selectivity, there is no surprise in finding that there has been disappointing experience from past widespread civil society assistance to developing and transition countries (Carothers, 2004; Ottaway and Carothers, 2000b; Quigley, 2000; Robinson and Friedman, 2005). Our findings suggest that aid will work only under a limited set of political conditions: searching for widespread success inevitably results in disappointment.

Our results go well beyond simply showing the need for selectivity. There are enough regularities to indicate some rules of thumb. For example, when the empowered interest groups are misaligned, civil society aid is often productive and never harmful. That is, civil society aid is likely to work better where interests are highly divergent. If the degree of alignment is unknown then aid is most likely to be productive in the mid-ranges of democracy.

Indeed, we now use this last prediction to show the potential of our model to sow the seeds for future empirical work. We provide an illustrative example only, since empirics is not the purpose of this article and data on civil society aid currently have such large gaps that it is not possible to trace such aid to specific

²⁵ Drazen (1999) provides a theoretical argument on this latter point.

countries and specific activities (Fowler, 2008, p. 61; Howell and Pearce, 2001, p. 91). The data on civil society resources and civil society's impact that we use are more general and not focused specifically on aid. Since the empirical exercise is purely suggestive, we relegate details to Appendix B.

Figures 5–7 collectively provide the prediction that, *ceteris paribus*, the marginal impact of civil society resources on welfare is lowest at low and high levels of democracy and greatest in mid-ranges of democracy. To examine this prediction, we run an OLS regression showing how the impact of civil society varies with the quantity of civil society resources interacted with a quadratic function of the level of democracy:

$$\text{impact}_i = \delta_1 + \delta_2 \text{resource}_i + \delta_3 \text{resource}_i \times \text{democracy}_i + \delta_4 \text{resource}_i \times (\text{democracy}_i)^2$$

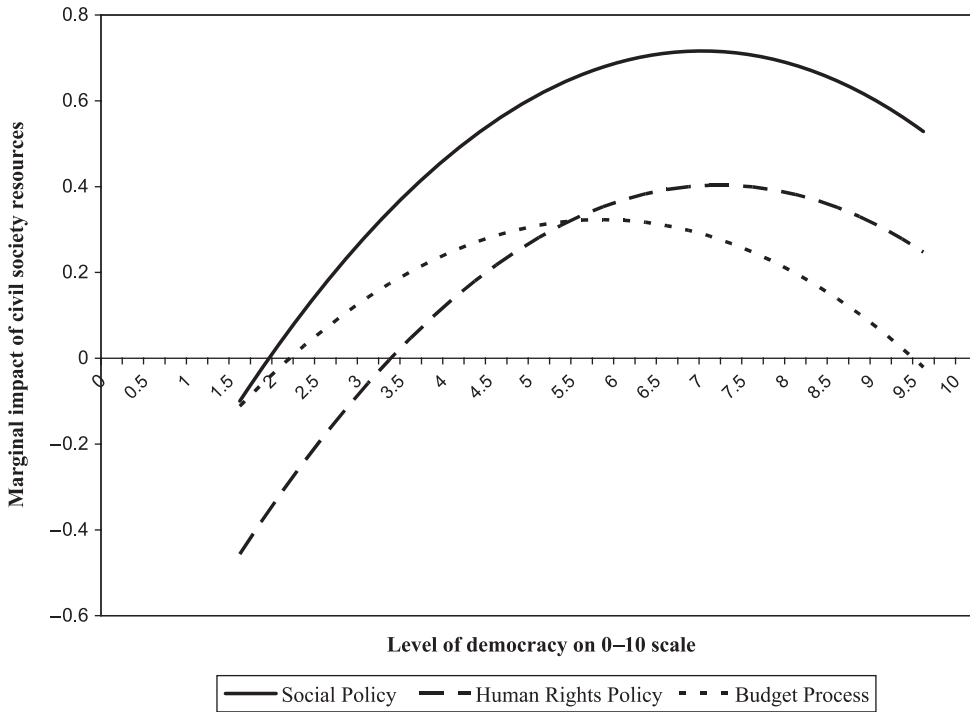
where i indexes countries, 'impact $_i$ ' measures the impact of civil society in some particular domain, 'resource $_i$ ' is a measure of the resources available to civil society, and 'democracy $_i$ ' is a measure of the level of democracy.

Data on civil society are taken from the Civil Society Index (CSI, Civicus, 2008). Civil society resources are measured by an index of the level of financial resources available for civil society. Since foreign aid has its most direct effect on financial resources, increases in foreign aid would translate into increases in this variable. The CSI measures the impact of civil society in three separate areas: social policy, human rights policy, and budgetary process. (Hence, there are three separate measures of 'impact $_i$ '.) These three areas do not capture institutional change as closely as would be ideal given the perspective of this article, but data on civil society are scarce. The CSI impact variable measures how active and successful civil society is in influencing policy at the national level. It is clear from the detailed country studies that this variable is intended to capture the extent to which civil society has a positive effect on outcomes (Civicus, 2008). Therefore, we use it as an imperfect proxy for the welfare impact of civil society, failing the availability of better data. Democracy is measured by voice and accountability (Kaufmann, Kraay and Mastruzzi, 2007). Given that the units of measurement of each of the variables are essentially arbitrary, we convert scales to 0–10. The data and regressions are described more fully in Appendix B.

The hypothesis is that the function summarizing the marginal impact of resources, $\delta_2 + \delta_3 \text{democracy}_i + \delta_4 (\text{democracy}_i)^2$, has an inverted U-shape, with the possibility of negative values at low or high levels of democracy. Figure 8 depicts the estimated functions for each of the three measures of civil society impact: marginal impacts are as predicted.²⁶ To provide context, Vietnam is in the range where all three marginal impacts are negative while the Netherlands lies where the

²⁶ Estimated relationships are shown only for the range of democracy that countries in our sample fall within.

Figure 8. The mediating effect of democracy on the marginal impact of civil society resources.



marginal impact on budgets is negative. Bolivia is closest to the level of democracy where the marginal effect of resources on budgetary process is a maximum. At Bolivia's level of democracy, a one standard-deviation change in resources produces a 0.35 standard deviation change in civil society's impact on budgetary process. Similarly, Croatia is the country closest to the level of democracy where the marginal impact of resources is at a maximum for the other two measures, with the predicted maximum impact of a one-standard deviation change in resources being 0.47 standard deviations on the index of social policy and 0.30 on human rights.

Of course, this empirical exercise is rudimentary, simply illustrating the potential of our analysis to stimulate interesting empirical investigations rather than providing any verification of our analysis. The data are weak, the sample sizes are small, the equation explaining impact is underspecified, and reverse causality is ignored. Nevertheless, this exercise underscores our basic premise – that it is necessary to develop analytical models of civil society to increase the precision of debates about its effects. In doing so, unexpected conclusions are possible, such as

the inverse U-shape of Figure 8. Policy conclusions obtain more substance. For example, nothing in the literature prepares us for the lessons of Figure 8 nor is anything comparable to the level of specificity of those lessons, which show that civil society aid is counter-productive when given to countries at the lowest levels of democracy and that civil society aid to countries below the median level of democracy should be concentrated on social policy or budgetary process, not human rights.

7. Conclusion

The immediately preceding comments, and all the results in this article, are conditional on how we have modelled civil society. We highlighted a core feature of civil society's interaction with the political system that is always present when institutional building is the concern. We did not assume that civil society has superior knowledge of citizens' circumstances, which would be tendentious. We did not assume that civil society acts in the public interest, because there is no practical mechanism that makes this reliably so. We did not assume that civil society has superior powers in lobbying politicians, since partisan interest groups have comparative advantage in this respect. Rather, we simply assumed that the single, direct effect of civil society is to open up political debate. The status of civil society, possibly enhanced by foreign aid, is what allows it to achieve this aim, in particular when politicians would have excluded civil society had it been weak.

In casting our analysis in this way, we claim only to offer one acceptable model that captures a core aspect of how civil society affects institutional development. We do not contend that our approach is definitive. Different approaches to modelling civil society could certainly be justified although we do not see any dominating ours when using the criterion of relevance to the largest number of descriptive characterizations of civil society in the literature. One alternative approach would be to view civil society as generating information solely through its existence. This is the perspective of Lohmann (1994) who characterizes the protests during the fall of East Germany as informational cascades. Lohmann's approach is probably most relevant for a very closed society in which a vibrant civil society has the potential to generate or disseminate information.

Another alternative would be to view civil society as increasing the influence of the non-empowered interest group, by reducing the costs of coordination for groups that find it more difficult to organize. This is certainly an interpretation of civil society that is consistent with elements of the descriptive literature. However, this approach would be inconsistent with the perspective of those who view civil society as having no partisan connections and as separate from groups representing special interests. In our model, the use of this approach would mean that civil society participation increases λ , which we have viewed as a measure of democracy. Our approach has the benefit of keeping civil society and democracy as two distinct notions in our model. Nevertheless, as noted in Section 3.4, there surely is a link

between a vibrant civil society and a truly democratic polity. Future analyses need to examine the consequences of endogenizing the link between civil society and λ .

Thus, we have chosen one approach to civil society among many that are possible. Nevertheless choosing one specific approach and building a tractable model constitutes a significant step because there has been no previous purposeful analytical attempt to address the questions of why and when fostering civil society improves institution building. Hence, this article contrasts greatly with the existing literature in providing a transparent analysis of the relationships between core variables discussed in that literature. Such analysis is crucial in addressing the questions of when and how to aid civil society, as our empirical example shows.

Given the limitations of our model, there remains much to accomplish in the analysis of how civil society affects political and economic outcomes. For example, the question of who should be aided in the plethora of heterogeneous civil society organizations is an important one that we leave for further research. Future research would also seek ways to conduct empirical tests of the validity of our prescriptions on when to foster civil society.

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Appendix A

Derivation of results

The presentation in the text whenever possible avoids resorting to algebraic description of results or including any detailed derivation of them. This Appendix, in contrast, provides all the details necessary for a reader to understand all statements made in the text and all relationships depicted in the Figures. The presentation of the logic and algebra follows the presentation in the text.

The reform programs proposed and implemented with and without civil society

Recall that A is in power in the first period, hence only α is eligible for lobbying in the first period. Note also that $1/3\{\lambda W_1 + (1 + \lambda)\Psi_{\alpha A}\} + 1/3\{\lambda W_2 + (1 - \lambda)\Psi_{\alpha A}\} + 1/3\{\lambda W_3 + (1 - \lambda)\Psi_{\alpha A}\} > 0 \Leftrightarrow \lambda(W_1 + W_2 + W_3) + (1 - \lambda)3\Psi_{\alpha A} > 0$ implies A accepts any reform proposals. Therefore, without civil society involved in the reform process, α lobbies for reforms 1, 2 and 3 and A implements them immediately, closing the reform process.

Now assume that civil society is included in the reform process. Consider first Reform 1 which is of interest to both α and β . The following scenarios are possible in the second period:

1. If α lobbied for reform 1 in the first period and A is in power in the second period, then α does not have to lobby A again since reform 1 has already been subject to public debate and will be implemented anyway.
2. If α lobbied for reform 1 in the first period and B is in power in the second period then it pays for β to lobby B for reform 1 since reform 1 was already under civil society's scrutiny in the first period. Another submission, albeit

by a different interest group and to a different politician, will not result in further delay but rather in immediate implementation, since the process of civil society deliberation has already occurred.

3. If α did not lobby for reform 1 in the first period and politician A is in power in the second period, then α will not lobby A in the second period since any attempt of implementation would be delayed beyond the second period.
4. If α did not lobby in the first period and politician B is in power in the second period, then β will not lobby since the reform will be under scrutiny of civil society and hence the implementation will be delayed beyond the second period.

In the first period, A is in power. If α lobbies A for reform 1, α 's terminal payoff from reform 1 $= pB_{\alpha 1} + (1-p)B_{\alpha 1} - \Psi_{\alpha A} = B_{\alpha 1} - \Psi_{\alpha A} > 0$. If α does not lobby A in the first period, its expected payoff is zero. Therefore, in the equilibrium, α lobbies in the first period (and β of course does not). In the second period, neither β nor α lobby if A stays in power; if B comes to power, α does not lobby and β does. Thus, regardless of who is in power in the second period, reform 1 is always implemented.

Consider now reforms 2 and 3. β never wants to lobby for $j \in \{2,3\}$, since $B_{\beta j} < 0$ for $j \in \{2,3\}$. The following scenarios are possible at the beginning of the second period, depending on whether α chose to lobby for reform $j \in \{2,3\}$ in the first period or not and whether A or B is in power in the second period:

1. If α lobbied for $j \in \{2,3\}$ in the first period and A is in power in the second period, then lobbying A again is not needed anymore. Reform $j \in \{2,3\}$ has already been subject to public debate initiated by the civil society and is thus implemented.
2. If α lobbied for $j \in \{2,3\}$ in the first period and B is in power in the second period, then α clearly does not lobby and reform $j \in \{2,3\}$ is not implemented.
3. If α did not lobby for $j \in \{2,3\}$ in the first period and politician A is in power in the second period, α does not lobby: civil society's deliberation would delay implementation beyond the second period.
4. If α did not lobby for $j \in \{2,3\}$ in the first period and politician B is in power in the second period, then α clearly does not lobby and reform $j \in \{2,3\}$ is not implemented.

Thus, if α chooses to lobby for $j \in \{2,3\}$ in the first period, its terminal payoff is $pB_{\alpha j} + (1-p)0 - \Psi_{\alpha A} = pB_{\alpha j} - \Psi_{\alpha A}$. If α chooses not to lobby for $j \in \{2,3\}$ in the first period, its terminal payoff is 0. Therefore, α chooses to lobby for $j \in \{2,3\}$ in period 1 if $p > \Psi_{\alpha A} / B_{\alpha j}$.

Finally, consider reforms 4 and 5. α will never lobby for $j \in \{4,5\}$, since $B_{\alpha j} < 0$ for $j \in \{4,5\}$. Because A is in power in the first period, β could potentially lobby for $j \in \{4,5\}$ only in the second period if B came to power. Yet even in the latter scenario implementation of $j \in \{4,5\}$ would be delayed beyond the second period since it would have to be subject to civil society's scrutiny. Thus, neither α nor β will ever lobby for $j \in \{4,5\}$.

The effects of civil society on social welfare

Recall that $W^- = W_1 + W_2 + W_3$ and that A implements all reform programs. The comparison of social welfare with civil society (W^+) to social welfare without civil society (W^-) then proceeds as follows (Figures 2–4):

If $p < \Psi_{\alpha A}/B_{\alpha 3}$, α lobbies A for reform 1 in the first period, so $W^+ = W_1$.

- When $W_2 + W_3 < 0$, $W^+ > W^-$.
- When $W_2 + W_3 > 0$, in contrast, $W^+ < W^-$.

If $\Psi_{\alpha A}/B_{\alpha 3} < p < \Psi_{\alpha A}/B_{\alpha 2}$, α lobbies A for reforms 1 and 3 in the first period, so $W^+ = W_1 + pW_3$.

- When $W_2 + W_3 < 0$, $W^+ > W^-$.
- When $W_2 + W_3 > 0$, $W^+ > W^-$ if and only if $[-W_2 - (1-p)W_3] > 0$. The benefit of solving the adverse selection problem lies in preventing the passage of reform 2, the value of which is $-W_2$. The cost of solving the adverse selection problem using civil society is delaying reform 3, an expected value equals $(1-p)W_3$. Therefore when $[-W_2 - (1-p)W_3] > 0$ for all $p \in (\Psi_{\alpha A}/B_{\alpha 3}, \Psi_{\alpha A}/B_{\alpha 2})$, there is an adverse selection problem that civil society can solve for all p in this range. Figure 3 is drawn for this case. Note, however, that $[-W_2 - (1-p)W_3]$ may be positive only for some subset of $\{p : p \in (\Psi_{\alpha A}/B_{\alpha 3}, \Psi_{\alpha A}/B_{\alpha 2})\}$. Then, the region in Figure 3 in which $W^+ > W^-$ would shrink accordingly, without any changes in the central conclusions of our analysis. In contrast, when $W_2 + W_3 > 0$ and $[-W_2 - (1-p)W_3] < 0$ for all $p \in (\Psi_{\alpha A}/B_{\alpha 3}, \Psi_{\alpha A}/B_{\alpha 2})$, $W^+ < W^-$ for all $p \in (\Psi_{\alpha A}/B_{\alpha 3}, \Psi_{\alpha A}/B_{\alpha 2})$. In the text, the figures, and the remainder of the analysis in this Appendix, we refer to the case when $W_2 + W_3 > 0$ and $[-W_2 - (1-p)W_3] > 0$ for $p > \Psi_{\alpha A}/B_{\alpha 3}$ in shorthand as ‘ $W_2 + W_3 > 0$ small’, which we interpret as *weak alignment* between the empowered interests and the society. Analogously, we refer to the case when $W_2 + W_3 > 0$ and $[-W_2 - (1-p)W_3] < 0$ for $p < \Psi_{\alpha A}/B_{\alpha 2}$ as ‘ $W_2 + W_3 > 0$ large’, which we interpret as *strong alignment* between the empowered interests and the society.

If $p > \Psi_{\alpha A}/B_{\alpha 2}$, α lobbies A for reforms 1, 2 and 3 in the first period, so $W^+ = W_1 + p(W_2 + W_3)$.

- When $W_2 + W_3 < 0$, $W^+ > W^-$.
- When $W_2 + W_3 > 0$, in contrast, $W^+ < W^-$.

The effects of civil society on the politician’s welfare

Recall first that without civil society $V^- = \lambda(W_1 + W_2 + W_3) + (1-\lambda)3\Psi_{\alpha A}$, which is positive because $1/3\{\lambda W_1 + (1-\lambda)\Psi_{\alpha A}\} + 1/3\{\lambda W_2 + (1-\lambda)\Psi_{\alpha A}\} + 1/3\{\lambda W_3 + (1-\lambda)\Psi_{\alpha A}\} > 0$.

The comparison of the politician’s payoff with civil society (V^+) to the payoff when civil society is excluded (V^-) proceeds by examining different values of $p \in (0,1)$ (Figures 2–4).

(1) Suppose $p < \Psi_{\alpha A}/B_{\alpha 3}$. Then α lobbies A for reform 1 in the first period and $V^+ = \lambda W_1 + (1 - \lambda)\Psi_{\alpha A} > 0$. Defining λ^* such that $V^+(\lambda^*) = V^-(\lambda^*)$. Then, $\lambda^* = 2\Psi_{\alpha A}/(2\Psi_{\alpha A} - (W_2 + W_3))$.

- When $W_2 + W_3 < 0$, $\lambda^* \in (0,1)$ and thus $V^+ > (<)V^-$ iff $\lambda > (<)\lambda^*$.
- When $W_2 + W_3 > 0$, $\lambda^* \notin (0,1)$ and thus $V^+ < V^-$ for all $\lambda \in (0,1)$.

(2) Suppose $\Psi_{\alpha A}/B_{\alpha 3} < p < \Psi_{\alpha A}/B_{\alpha 2}$. Then, α lobbies A for reforms 1 and 3 in the first period and $V^+ = \lambda(W_1 + pW_3) + (1 - \lambda)2\Psi_{\alpha A} > 0$.

Then $V^+ > (<)V^-$ iff $\lambda(pW_3 - (W_2 + W_3) + \Psi_{\alpha A}) > (<)\Psi_{\alpha A}$.

For a given p , there exists a $\lambda^{**} = \Psi_{\alpha A}/(pW_3 - (W_2 + W_3) + \Psi_{\alpha A} + c)$ so that $V^+(\lambda^{**}) = V^-(\lambda^{**})$ with the following characteristics:

- When $W_2 + W_3 < 0$, $\lambda^{**} \in (0,1)$ and $V^+ > (<)V^-$ iff $\lambda > (<)\lambda^{**}$.
- When $W_2 + W_3 > 0$, however, whether λ^{**} lies in the interval $(0,1)$ or not depends on the size of $W_2 + W_3$. When $W_2 + W_3 > 0$ is small (i.e. $[-W_2 - (1 - p)W_3] > 0$ for $\Psi_{\alpha A}/B_{\alpha 3} < p$), $\lambda^{**} \in (0,1)$ and $V^+ > (<)V^-$ iff $\lambda > (<)\lambda^{**}$.
- When $W_2 + W_3 > 0$ is large (i.e. $[-W_2 - (1 - p)W_3] < 0$ for $p < \Psi_{\alpha A}/B_{\alpha 2}$), $\lambda^{**} > 1$ and $V^+ < V^-$ for all $p \in (\Psi_{\alpha A}/B_{\alpha 3}, \Psi_{\alpha A}/B_{\alpha 2})$.

(3) Suppose $p > \Psi_{\alpha A}/B_{\alpha 2}$. Then α lobbies A for reforms 1, 2 and 3 in the first period and $V^+ = \lambda[W_1 + p(W_2 + W_3)] + (1 - \lambda)3\Psi_{\alpha A} > 0$.

Then, $V^+ > (<)V^-$ iff $p(W_2 + W_3) > (<)(W_2 + W_3)$.

- When $W_2 + W_3 < 0$, $V^+ > V^-$ always.
- When $W_2 + W_3 > 0$, $V^+ < V^-$ always.

Finally, to draw Figures 2 and 3 note that λ^* and λ^{**} may be interpreted as borders that separate the relevant segments of the (λ, p) space into regions where the politician prefers to endorse civil society ($V^+ > V^-$) and regions where the politician chooses to exclude civil society ($V^+ < V^-$).

The following easily verifiable features explain the shapes and positions of λ^* and λ^{**} :

- (1) λ^* does not depend on p ,
- (2) when $W_2 + W_3 > 0$, $\lambda^* > 1$ and thus $V^+ < V^-$ for all $\lambda \in (0,1)$ when $p < \Psi_{\alpha A}/B_{\alpha 3}$,
- (3) λ^{**} is decreasing and convex in p , and increasing in $W_2 + W_3$,
- (4) when $W_2 + W_3 < 0$, λ^{**} intersects the $p = \Psi_{\alpha A}/B_{\alpha 3}$ locus at $\lambda_H = \Psi_{\alpha A}/[(\Psi_{\alpha A}/B_{\alpha 3} - 1)W_3 + |W_2| + \Psi_{\alpha A}]$ and the $p = \Psi_{\alpha A}/B_{\alpha 2}$ locus at $\lambda_L = \Psi_{\alpha A}/[(\Psi_{\alpha A}/B_{\alpha 2} - 1)W_3 + |W_2| + \Psi_{\alpha A}]$, where $0 < \lambda_L < \lambda_H < 1$,
- (5) when $W_2 + W_3 > 0$, $\lambda^{**} \in (0,1)$ when $W_2 + W_3 > 0$ is small (i.e. $[-W_2 - (1 - p)W_3] > 0$ for $p > \Psi_{\alpha A}/B_{\alpha 3}$) and $\lambda^{**} > 1$ when $W_2 + W_3 > 0$ is large (i.e. $[-W_2 - (1 - p)W_3] < 0$ for $p < \Psi_{\alpha A}/B_{\alpha 2}$).

Establishing the boundaries between regions in Figures 5–7

λ^* , λ^{**} and p^{***} are now redefined to include the possibility that $c > 0$:

$\lambda^* = 2\Psi_{\alpha A}/(2\Psi_{\alpha A} - (W_2 + W_3) + c)$, which is defined on $p < \Psi_{\alpha A}/B_{\alpha 3}$,

$\lambda^{**} = \Psi_{\alpha A}/(pW_3 - (W_2 + W_3) + \Psi_{\alpha A} + c)$, which is defined on $p \in (\Psi_{\alpha A}/B_{\alpha 3}, \Psi_{\alpha A}/B_{\alpha 2})$,

$p^{***} = 1 - c/(W_2 + W_3)$, which is defined on $p > \Psi_{\alpha A}/B_{\alpha 2}$.

λ^* , λ^{**} and p^{***} form the boundaries separating the (p, λ) diagram into regions where the politician chooses to endorse civil society from the regions where the politician chooses to exclude civil society and appear in Figures 5–7.

- (1) Suppose $p < \Psi_{\alpha A}/B_{\alpha 3}$. Then, there exists a λ^* , as defined above, for which $V^+(\lambda^*) = V^-(\lambda^*) - c\lambda^*$.
 - When $W_2 + W_3 < 0$, $\lambda^* \in (0,1)$ for any $c \geq 0$ and thus $V^+ > (<)V^- - c\lambda$ iff $\lambda > (<)\lambda^*$.
 - When $W_2 + W_3 > 0$, however, whether $\lambda^* \in (0,1)$ or not depends on the size of c . In principle for any $W_2 + W_3 > 0$, there always exists a $c > 0$ such that $\lambda^* \in (0,1)$ and $V^+ > (<)V^- - c\lambda$ iff $\lambda > (<)\lambda^*$. A necessary and sufficient condition for $\lambda^* \in (0,1)$ is that $W_2 + W_3 < c$. If $W_2 + W_3 > c$, then $V^+ < V^- - c\lambda$ for all λ .
- (2) Suppose $\Psi_{\alpha A}/B_{\alpha 3} < p < \Psi_{\alpha A}/B_{\alpha 2}$. Then, for a given (p, c) , there exists a λ^{**} as defined above such that $V^+(\lambda^{**}) = V^-(\lambda^{**}) - c\lambda^{**}$:
 - When $W_2 + W_3 < 0$, $\lambda^{**} \in (0,1)$ and $V^+ > (<)V^- - c\lambda$ iff $\lambda > (<)\lambda^{**}$ for any $c \geq 0$.
 - When $W_2 + W_3 > 0$, whether λ^{**} lies in the interval $(0,1)$ or not depends on the relative sizes of p , c and $W_2 + W_3 > 0$. In principle for any p and $W_2 + W_3 > 0$ there always exists a $c > 0$ such that $\lambda^{**} \in (0,1)$, and hence $V^+ > (<)V^- - c\lambda$ iff $\lambda > (<)\lambda^{**}$. For an arbitrary $c > 0$, a sufficient condition for $\lambda^{**} \in (0,1)$ for $\{p : p \in (\Psi_{\alpha A}/B_{\alpha 3}, \Psi_{\alpha A}/B_{\alpha 2})\}$ is that $W_2 + W_3 > 0$ is small (i.e. $[-W_2 - (1-p)W_3] > 0$ for $p > \Psi_{\alpha A}/B_{\alpha 3}$) in which case $V^+ > (<)V^-$ iff $\lambda > (<)\lambda^{**}$.
 - When $W_2 + W_3 > 0$ is large (i.e. $[-W_2 - (1-p)W_3] < 0$ for all $p < \Psi_{\alpha A}/B_{\alpha 2}$), $\lambda^{**} \in (0,1)$ for large c . For small c , $\lambda^{**} > 1$ in which case $V^+ < V^- - c\lambda$ for all $\lambda \in (0,1)$.
- (3) Suppose $p > \Psi_{\alpha A}/B_{\alpha 2}$. For a given $c \geq 0$, there exists a $p^{***} = 1 - c/(W_2 + W_3)$ such that $V^+(p^{***}) = V^- - c\lambda$.
 - When $W_2 + W_3 < 0$ and $c \geq 0$, $p^{***} \geq 1$ and thus $V^+ > V^- - c\lambda$ always.
 - When $W_2 + W_3 > 0$ and $c > 0$, $p^{***} < 1$ and thus $V^+(p) > (<)V^- - c\lambda$ iff $p > (<)p^{***}$. $p^{***} > \Psi_{\alpha A}/B_{\alpha 2}$ if and only if $(1 - \Psi_{\alpha A}/B_{\alpha 2})(W_2 + W_3) > c$.

The regions of Figure 5

Let U^{noaid} denote social welfare without civil society aid ($c = 0$). Then $U^{\text{noaid}} = W^+$ if $V^+ > V^-$ and $U^{\text{noaid}} = W^-$ if $V^+ < V^-$. Let U^{aid} be the social welfare when the civil society has been aided: $c = c_{\text{AID}} > 0$. Then, $U^{\text{aid}} = W^+$ if $V^+ > V^- - c_{\text{AID}}\lambda$ and $U^{\text{aid}} = W^-$ if $V^+ < V^- - c_{\text{AID}}\lambda$. Define $\Delta = U^{\text{aid}} - U^{\text{noaid}}$. Civil society aid – an increase in c from $c = 0$ to $c = c_{\text{AID}} > 0$ – thus affects social welfare for those combinations of (λ, p) where it alters the politician's choice from excluding to endorsing civil society.

Define the following sets for some $c_{\text{AID}} > 0$, $p \in (0,1)$ and $\lambda \in (0,1)$:

$$P = \{(p, \lambda) : p < \Psi_{\alpha A}/B_{\alpha 3} \text{ and } V^- - c_{\text{AID}}\lambda < V^+ < V^-\}$$

$$Q = \{(p, \lambda) : p \in [\Psi_{\alpha A}/B_{\alpha 3}, \Psi_{\alpha A}/B_{\alpha 2}) \text{ and } V^- - c_{\text{AID}}\lambda < V^+ < V^-\}$$

$$R = \{(p, \lambda) : p < \Psi_{\alpha A}/B_{\alpha 2} \text{ and } V^+ < V^- - c_{\text{AID}}\lambda < V^-\}$$

$$S = \{(p, \lambda) : V^+ > V^-\}.$$

The sets P , Q , R and S are pair-wise mutually exclusive and their union is $\{(p, \lambda) : (p, \lambda) \in (0,1) \times (0,1)\}$. P , Q , R and S are always non-empty. The following

characteristics follow immediately from the definitions of the sets, the observation that λ^* and λ^{**} form the boundaries of the sets, and the characteristics of λ^* and λ^{**} derived above:

- (i) $\Delta = 0$ for all $(p, \lambda) \in R \cup S$,
- (ii) $\Delta = -(W_2 + W_3) > 0$ for all $(p, \lambda) \in P$,
- (iii) $\Delta = pW_3 - (W_2 + W_3) > -(W_2 + W_3) > 0$ for all $(p, \lambda) \in Q$.

Given these characteristics and the relationships between V^+ and V^- when $c_{AID} = 0$, the adjectives in Table A1 describe the characteristics of the sets.

The regions of Figure 6

Now consider the case when $W_2 + W_3 > 0$ but small so that $[-W_2 - (1 - p)W_3] > 0$ for $\Psi_{\alpha A}/B_{\alpha 3} < p$. Define the following sets:

- $A = \{(p, \lambda) : p < \Psi_{\alpha A}/B_{\alpha 3} \text{ and } V^- - c_{AID}\lambda < V^+ < V^-\}$
- $B = \{(p, \lambda) : p < \Psi_{\alpha A}/B_{\alpha 3} \text{ and } V^+ < V^- - c_{AID}\lambda < V^-\}$
- $C = \{(p, \lambda) : p \in (\Psi_{\alpha A}/B_{\alpha 3}, \Psi_{\alpha A}/B_{\alpha 2}) \text{ and } V^+ < V^- - c_{AID}\lambda < V^-\}$
- $D = \{(p, \lambda) : p \in (\Psi_{\alpha A}/B_{\alpha 3}, \Psi_{\alpha A}/B_{\alpha 2}) \text{ and } V^- - c_{AID}\lambda < V^+ < V^-\}$
- $E = \{(p, \lambda) : p \in (\Psi_{\alpha A}/B_{\alpha 3}, \Psi_{\alpha A}/B_{\alpha 2}) \text{ and } V^- - c_{AID}\lambda < V^- < V^+\}$
- $F = \{(p, \lambda) : p > \Psi_{\alpha A}/B_{\alpha 2} \text{ and } V^+ < V^- - c_{AID}\lambda < V^-\}$
- $G = \{(p, \lambda) : p > \Psi_{\alpha A}/B_{\alpha 2} \text{ and } V^- - c_{AID}\lambda < V^+ < V^-\}$.

The sets A to G are pair-wise mutually exclusive and their union is $\{(p, \lambda) : (p, \lambda) \in (0, 1) \times (0, 1)\}$. B , C , D , E and G are always non-empty. A is non-empty for $c_{AID} > W_2 + W_3$. F is non-empty for $c_{AID} < (1 - \Psi_{\alpha A}/B_{\alpha 2})(W_2 + W_3)$. Thus, for a given $c_{AID} > 0$, at least one of A and F is the null set. Note that we chose to draw Figure 6 for $c_{AID} > W_2 + W_3$. The following characteristics follow immediately from the definitions of the sets, the observation that λ^* , λ^{**} and p^{***} form the boundaries of the sets, and the characteristics of λ^* , λ^{**} and p^{***} derived above:

- (i) $\Delta = 0$ for all $(p, \lambda) \in B \cup C \cup E \cup F$,
- (ii) $\Delta = pW_3 - (W_2 + W_3) > 0$ for all $(p, \lambda) \in D$.
- (iii) $\Delta = -(W_2 + W_3) < 0$ for all $(p, \lambda) \in A$,
- (iv) $\Delta = (p - 1)(W_2 + W_3) < 0$ for all $(p, \lambda) \in G$.

Given these characteristics and the relationships between V^+ and V^- when $c_{AID} = 0$, the adjectives in Table A2 describe the characteristics of the sets.

The regions of Figure 7

The definitions of A , B , C , D , F and G are the same as in the analysis for Figure 6. Note that, as in the case of Figure 6, we drew Figure 7 for $c_{AID} > W_2 + W_3$, implying that while set A is non-empty, F is empty. Because λ^* is increasing in $W_2 + W_3 > 0$, we drew region A in Figure 7 smaller than in Figure 6. In Figure 7, there is no analogue to set E of Figure 6. Moreover, the analyses for set C and D are different from that in Figure 6, because, in contrast to before, now $W^+ < W^-$ in these sets and for D , in contrast to before, $V^+ < V^-$. D is the region where aid changes a decision

to exclude civil society to a decision to involve it in the reform process. Given the assumptions applied to Figure 7 – strong alignment – that change causes a social loss:

$$\Delta = pW_3 - (W_2 + W_3) < 0 \text{ for all } (p, \lambda) \in D.$$

C is the region where aid is not large enough to change the decision to exclude civil society, which is fortunate since inclusion would be socially costly. Therefore, the adjectives in Table A3 describe the characteristics of the sets.

Table A1. The Regions of Figure 5

Set	Aiding civil society is ...
P	Productive
Q	Most productive
R	Ineffective
S	Unnecessary

Table A2. The Regions of Figure 6

Set	Aiding civil society is ...
A	Ill-founded and harmful
B	Ill-founded, but ineffective
C	Ineffective
D	Productive
E	Unnecessary
F	Ill-founded, but ineffective
G	Ill-founded and harmful

Table A3. The Regions of Figure 7

Set	Aiding civil society is ...
A	Ill-founded and harmful
B	Ill-founded, but ineffective
C	Ill-founded, but ineffective
D	Ill-founded and harmful
F	Ill-founded, but ineffective
G	Ill-founded and harmful

Appendix B

Regressions examining the effect of resources on civil society impacts

This Appendix details the empirical analysis leading to the results depicted in Figure 8. The equation estimated is:

$$\text{impact}_i = \delta_1 + \delta_2 \text{resource}_i + \delta_3 \text{resource}_i \times \text{democracy}_i + \delta_4 \text{resource}_i \times (\text{democracy}_i)^2,$$

where i indexes countries, 'impact $_i$ ' measures the impact of civil society in some particular domain, 'resource $_i$ ' is a measure of the resources available to civil society, and 'democracy $_i$ ' is a measure of the level of democracy. The data on civil society are taken from the Civil Society Index (CSI, Civicus 2008) and measure conditions during 2003–2005. Democracy is measured by voice and accountability in 2002, that is before the civil society variables are measured (Kaufmann, Kraay and Mastruzzi, 2007). Table B1 contains definitions of the variables and summary statistics. Note that 'impact $_i$ ', the dependent variable, is measured in three independent ways. All variables are rescaled so that their values span the range from 0 to 10. For voice and accountability, this entailed transforming the country scores so that the observed domain of the data was equal to 0 to 10, since the raw data for that variable have a domain of $(-\infty, +\infty)$. In contrast, for the civil society variables, the transformation was based on the domain defined by the process of data construction.

Table B2 contains the results. Nine coefficients are estimated (apart from constants) and all have signs consistent with a U-shaped marginal impact function. Significance is not strong, which is not surprising given weak data and few observations. Nevertheless, seven of the nine coefficients are significant at the 20 percent level and three of the nine are significant at the 10 percent level. (A similar regression using the sum of the three impact variables as a dependent variable has higher levels of significance. This indicates that errors of measurement are important in the data.) Figure 8 reflects the marginal impact function, $\delta_2 + \delta_3 \text{democracy}_i + \delta_4 (\text{democracy}_i)^2$, calculated using the values of coefficients presented in Table B2.

Table B1. Definitions and summary statistics of variables used in the regressions

Variable name	Definition	Mean	Standard deviation
Social policy impact	How active and successful is civil society in influencing social policy at the national level?	5.92	2.43
Human rights policy impact	How active and successful is civil society in influencing human rights policy and practice at the national level?	6.46	2.14
Budgetary process impact	How active and successful is civil society in influencing the overall national budgeting process?	3.38	1.80
Resources	How adequate is the level of financial resources for civil-society organizations?	3.75	1.62
Democracy	Voice and accountability	5.64	2.20
Democracy ²	(Voice and accountability) ²	36.49	24.63

Table B2. Regressions showing how democracy mediates the impact of civil society resources

	Dependent variable		
	Social policy impact	Human rights policy impact	Budgetary process impact
Resources (δ_2)	-0.615 (0.267)	-0.978** (0.054)	-0.475 (0.325)
Resources \times Democracy (δ_3)	0.386** (0.089)	0.388** (0.056)	0.278* (0.156)
Resources \times Democracy ² (δ_4)	-0.028* (0.165)	-0.027* (0.129)	-0.024* (0.161)
Constant (δ_1)	3.893*** (0.000)	5.635*** (0.000)	2.585*** (0.003)
Observations	37	37	36
R ²	0.252	0.231	0.075

Note: P values in parentheses: ***P < 0.05, **P < 0.1, * P < 0.2.