

Bachelor Thesis.

European Studies

The effectiveness of political
conditionality in Latin America



Abstract

When the European Union changed its development assistance policy towards Latin America in 1992, it aimed at increasing its impact on the democratization process. The introduced concept of Political Conditionality has the stated intention of applying pressure on the target governments to implement reforms which improved the democratic situation. Consequently, the question emerges if the application of conditionality has provided an effective strategy to promote the democratic development. This study will figure out that the democratic level of Latin America has improved in general since conditionality has been applied. The effect of conditionality was rather modest. This can predominantly be explained by the inconsistent application of conditionality. There is a huge gap among the Latin American states in terms of their democratic development within the observed time. Moreover, there is a huge gap concerning the EU assistance. Contradictory to its own approach, a positive democratic development is not always rewarded with higher ODA and vice versa.

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LIST OF ABBREVIATIONS

CSP	Country Strategy Paper
DLP1	Democratic Level Period One (1987- 1991)
DLP2	Democratic Level Period Two (1993- 2008)
DLP3	Democratic Level Period Three (2004- 2008)
EIM	External Incentive Model
EU	European Union
EU-15	Belgium, France, Germany, Italy, Luxembourg, Netherlands, Denmark, Ireland, UK, Greece, Portugal, Spain, Austria, Finland, Sweden
FDI	Foreign Direct Investment
HR	Human Rights
LA	Latin American
ODA	Official Development Assistance
P1	Period One (1987- 1991)
P2	Period Two (1993- 2008)
P3	Period Three (2004- 2008)
PC	Political Conditionality
Vienna Convention	Vienna Convention on the Law of Treaties

1. INTRODUCTION

“Europe, Latin-America and the Caribbean are knit together by a lot more than just a powerful trade relationship. We are tied by culture, history, language, democratic values. [...] However, in itself this is nothing more than potential. Our relationship is not automatic, it will remain under its potential without conscious political investment from both sides. We should actively seize opportunities to become truly strategic partners in a globalised world. [...] The world is changing, each of us is changing, and our relationship must adapt. [...] It is in this context that we decide to work together to promote our interests and values, to contribute to peace and security, to protect and promote human rights, and to strengthen democracy” (Herman van Rompuy, address to the 6th EU- LA Summit in Madrid, 18/05/2010).

As emphasized by the President of the European Council, Europe and Latin America (LA) share a common heritage which bases on culture, language, religion and history. The landing of Christopher Columbus in 1492 and the subsequent invasion of the Americas by Spaniards and Portuguese was the foundation for the European influence in Latin America. Although it is already more than 80 years ago since the region was under European authority during the colonial times (in 1926, all Latin American states were independent), the European influence is still predominant.

Although there has been a positive development in the bi-regional relations, the democratic development in Latin America still differs. The European Union (EU), having the promotion of democracy and human rights as its primary goal in the external relations, became active on these matters in LA decades ago. In order to do so, they have made use of the conditional conclusion of treaties and the provision of technical and financial assistance. By concluding the Council Regulation No 443/92 on “financial and technical assistance to, and economic cooperation with, the developing countries in Asia and Latin America” in 1992, the European Union introduced what is known now as the concept of political conditionality.

In short, political conditionality gives the EU the possibility to reward third states that comply with certain conditions such as the commitment to democracy and human rights (HR). The European Union did not only introduce political conditionality in Latin America, but in all third countries relations since 1995. When the twelve Central and Eastern European Countries applied for EU membership, the EU-15 decided to make their accession bound to several economic and political conditions. Much research has been done on that field (Epstein & Sedelmeier, 2008; Haughton, 2007; Schimmelfennig, 2007, 2008;

Schimmelfennig & Scholtz, 2008) whereas the majority of the studies observed that political conditionality is only efficient under certain circumstances. Based on the Schimmelfennig's external inventive model (EIM) the focus in the study is on the effectiveness of political conditionality in Latin America.

Therefore, this paper starts with some important theoretical background knowledge before introducing what has been researched on this field with an emphasis on basic concepts of political conditionality. Based on the existing literature, the overall research question asks if the application of political conditionality by the European Union provide an effective strategy to promote democratic development in Latin America. Explicitly, the research aims to answer two questions. If the introduction of political conditionality has been successful, then one could expect an improvement of the democratic situation. Therefore, hypothesis A tests whether the democracy in Latin American has improved after 1992. However, this does not answer to which extent the European Union's political conditionality has contributed to that development. Proposition B tests the claim that higher financial assistance has bigger effects on the change of democratic level of the target states. At the same time, it is analysed if there has been an impact of the EU on the political development in Latin America and which factors might have limited the influence of political conditionality.

2. THE EUROPEAN UNION AND POLITICAL CONDITIONALITY

2.1. THE RISE OF POLITICAL CONDITIONALITY

The concept of political conditionality (PC) has already been used for more than 20 years and is no new phenomenon. However, PC has changed over time. Academics talk about the third generation of PC which is used by the European Union right now. The first generation agreements basically focused on cooperation in form of development aid. In the 1980s, the second generation emerged. They tended to deal with economic reform and trade provisions only (Smith, 1997; Stokke, 1995). Due to the revolutionary changes in Eastern and Central Europe, and the disintegration of the Soviet block and the USSR towards the end of the 1980s, the second generation of conditionality was triggered off. The next generation of political conditionality put an emphasis on political reform, relating in particular to governmental system (rule of law, democracy) and human rights and replaced security consideration as the primary concern. Since the end of the Cold War, the European Union has started to apply the third

generation of PC in their relations to third countries which would allow them to promote democracy and the protection of HR. The reform of the Community's (later the European Union) relations towards third countries has been a consequence of the consistent violations of democracy and HR, in particular, with a few countries covered under the Lomé framework. Following the lasting atrocities of the Ugandan military dictator Idi Amin in the mid-1970s, the Community agreed to implement the possibility to take measures in the third Lomé agreement if an ACP country systematically violates fundamental rights. Another theory suggests that the introduction of the principle of conditionality helped to compensate for the fact that the European Union could not sign the UN Declaration on HR (which is not possible due to the fact that the EU is not a sovereign state) (Szymanski & Smith, 2005).

Already in 1990, the European Union started to include a clause stating that relations of cooperation are founded on respect for democratic principles and HR. However, the concluded agreements did not refer to these principles as "essential elements", nor did they include any kind of suspension mechanism (Smith, 1997). Following the European Council "Declaration on Human Rights" (June 1991) and the Council decision, the Unions external relations would be based on the respect for democracy and HR. Starting in 1992, all agreements with third countries contain the essential element clause and additionally, a suspension mechanism. So the third generation of PC which is currently used by the European Union is basically a powerful tool for the EU to promote democracy and HR in their external relations. By including certain legal concepts ("essential element", "article of non-fulfilment", "appropriate measures", see 2.3. legal framework) into all types of external relations (trade/cooperation/ association agreements, aid, diplomatic recognition and even EU membership), the EU has made their assistance to third states conditional on the respect for HR and democratic principles. This gives the EU the possibility to suspend/ terminate their assistance or bilateral relations in case of non-compliance to treaty provisions.

2.2. POLITICAL CONDITIONALITY IN LATIN AMERICA

The Council Regulation (EEC) No 443/92 "on financial and technical assistance to, and economic cooperation with, the developing countries in Asia and Latin America" has been the starting point of the use of political conditionality into agreements with Latin America. The European approach to prefer the usage of positive measures is stated in the treaty (*"The Community shall give increased support to the countries most committed to those principles, particularly for positive initiatives to put them into*

practice) as well as the framework for suspensions (*"In the case of fundamental and persistent violations of human rights and democratic principles, the Community could amend or even suspend the implementation of cooperation with the States concerned"*). *"Those principles"* as they were referred to in the article comprise *"respect for, and the exercise of, human rights and fundamental freedoms and democratic principles"* (European Economic Community, 1992). The Commission Report reiterates this by highlighting that *"the community approach [...] must focus on especially positive measures providing incentives for the promotion of democracy and human rights; the use of sanctions should be considered only if other means have failed"* (European Economic Community, 1994). The main bargaining strategy to provide recipient countries with external incentive for compliance, but not engaging in the coercion of non-compliant states has been called *reinforcement by reward* (Epstein & Sedelmeier, 2008; Schimmelfennig, Engert, & Knobel, 2003; Schimmelfennig & Sedelmeier, 2004). The European Union offers two kinds of reward to non-member countries: institutional ties and financial/ technical assistance. If countries fail to fulfil the political conditions, they are theoretically withheld assistance or the upgrade of institutional ties. There have been only four cases in Latin America where negative measures were used. As response to the presidential *autogolpes* in Peru (1992) and Guatemala (1993) aid has been suspended. Moreover, the budget support to the government of Nicaragua was suspended at the end of 2008 since *"cooperation run into difficulties"* (European Commission, 2009) and to Honduras in 2009 due to the coup d'état of former President Zelaya. Normally, the European Union suspends or terminates the disbursement of budget aid since that the money is given directly to the government and often misused. The money given to concrete projects that help to overcome the problems of the countries (e.g. projects against poverty) are mostly not affected by those EU decision. Nonetheless, the financial assistance at stake cannot be ignored. When the EU made use of its negative measures against Peru in 1993, almost one third of the committed Official Development Aid (ODA) has not been disbursed (committed: US\$ 45.5m, disbursed: US\$ 31.9m) (OECD, 2010b).

When talking about Latin America, this study does not include all countries belonging to the Americas south to the United States. In the appendix, there is a list of all 17 countries that fall under the scope of Latin America as defined in this paper. The excluded countries are covered by other instruments than the Regulation establishing a Development Cooperation Instrument (DCI) of financial assistance to LA. The relations to those states fall under the European Development Funds and other regional programmes. Political conditionality has been applied in a different manner and time in these states and

hence an inclusion would decrease the reliability of the research. Furthermore, the majority of the excluded states belongs to the Caribbean, or more accurately the Caribbean Community (CARICOM). Although these states belong geographically to South America, their cultural heritage is different. They were influenced and colonized by the United Kingdom and, to a lesser extent, France and the Netherlands. Therefore, their political system is predominantly parliamentary while Latin Americas democracies base on a presidential system and has a past “plagued with episodes of electoral fraud and manipulation, dictatorship and authoritarian regimes” (IDEA, 2009).

2.3. LEGAL FRAMEWORK

The *Vienna Convention on the Law of Treaties* allowed the EU to terminate agreements in case that the target state was in civil war or other internal conflicts based on article 61 (“impossibility of performance”) and article 62 (“fundamental change of circumstances”). The Vienna Convention did not explicitly provide any concrete measures for countries violating human rights or democracy. However, article 60 of the Convention guaranteed that treaties can be suspended/ terminated in case of “material breaches” of the treaty. Furthermore, article 60(3)(b) states that “the violation of a provision essential to the accomplishment of the object or purpose of the treaty” allows to suspend or terminate agreements. Therefore, the EU decided to include human rights as an “essential element” for relations with third countries. However, as the Commission Communication of 2001 emphasized, the inclusion of human rights as an essential element did not aim to introduce negative measures, but was rather meant to promote dialogue and positive measures. Following the Commission Communication of 2004, the EU started to implement the *article of non-fulfilment* which described the procedure and measures in case of treaty violations and allowed both parties to withdraw from the agreement. However, the withdrawal of an agreement is likely to be an ultimate step. Before, the EU will make use of *appropriate measures* in case of violations. The concept of appropriate measures is defined very broadly and includes sanctions like embargoes, change of aid or postponement of assistance (Miller, 2004).

3. THEORETICAL FRAMWORK

The theoretical framework chapter comes up with two distinct hypotheses which base on theories about the effect of conditionality. First of all, a model that explains the mechanism of rule-adoption and the conditions under which states adopt EU-rules is introduced. The used model called external

incentive model (EIM) aims to demonstrate why countries adopt external rules. Much research has been done on the limitations of political conditionality. Since it is important to consider them as well during the analysis, the most relevant literature is reviewed.

3.1. THE EXTERNAL INCENTIVE MODEL

When talking about PC, the elementary question is whether the target states comply with the rules and due to which reasons do they comply with or violate the conditions. There are three different models that explain the mechanism of rule adoption.

Table 3.1.1 Models of Rule Adoption

Principal actor in rule adoption	Logic of rule adoption	
	Logic of consequences	Logic of appropriateness
EU-driven	External incentives model	Social learning model
Domestically-driven	Lesson-drawing model	Lesson-drawing model

The models are not necessarily competing, but differentiate on two dimensions as shown in table 3.1 above: The principal actor of rule adoption and the logic of rule adoption. This research aims to test the external incentive model in the case of the EU and LA. The external incentive model (EIM) argues that rule adoption is caused by the EU and not by the recipient state (LA countries). The reforms made would not have been adopted without the impetus of the EU. The EU sets the compliance to their rules as condition and reward target states that fulfill the conditions with technical/ financial assistance or institutional ties (Schimmelfennig & Sedelmeier, 2005). Many researchers claim that the EU conditionality mainly follows the reinforcement by reward strategy (Epstein & Sedelmeier, 2008; Schimmelfennig & Sedelmeier, 2004, 2005). Here, the target state is rewarded for compliance and the reward is withheld in case of non-compliance. According to the EIM, the EU follows a logic of consequences on the second dimension. Based on a rationalist theory of International Relations it argues that decisions are made strategically by rational actors “who seek to maximize their own power and welfare” (Schimmelfennig & Sedelmeier, 2005). Following, the overall proposition of the EIM says that “A state adopts EU rules if the benefits of EU rewards exceed the domestic adoption costs”.

3.2. LITERATURE REVIEW ON THE LIMITATIONS TO POLITICAL CONDITIONALITY

In line with the EIM, the likelihood of rule-adoption is dependent on the political and economic environment. The studies on the political and economical reasons why political conditionality can have a limited effect are extensive. Therefore, only the most relevant literature is reviewed here.

Crawford argues that the impact of conditionality is dependent on the strength of the recipient government to resist aid conditionality (Crawford, 1997). Similarly, Uvin states that constraints against “any perceived attempt to impose reform from abroad, regardless of the policy area” are particularly high in states with strong nationalism (Uvin, 1993). Contrary, Brown claims that authoritarian regimes are more likely to accept unpopular reforms since they do not have to care about re-election (Brown, 2009). Often, states do not comply to conditions due to the “weak and partial measures imposed” (Crawford, 1997) and hence states do not feel forced to change as demanded. Smith (1997) has further developed this argument and comes to the conclusion that donors behave partial and biased, based on the commercial interests. Moreover, weak and economically uninteresting target states are more often confronted with negative measures than important partners. Uvin (1993), Crawford (1997) and Smith (1997) stated similarly that priority might not be on the implementation of conditionality, but strategic, geopolitical or commercial interests.

Another argument brought forward by Crawford (1997) and later affirmed by Knack (2004) is that aid dependency on its own is not a sufficient condition to achieve donor objectives and the target government to comply to conditions. Another characteristic of the target states that is relevant for the effective application of conditionality is the initial level of democracy. Undemocratic target countries are less likely to receive assistance at all due to the fact that reforms need much more effort to be realised than in countries that have already an established democratic system (Knack, 2004; Schimmelfennig, et al., 2003). However, regardless of their democratic development, governments can easily evade any political conditionality by “pretending to democratise some areas which may look like being willing to reform” (Uvin, 1993). And the monitoring of progress in the fields of HR and democracy is very difficult.

Moreover, the economic situation of target states is important to consider when analysing the reasons why the level of the effectiveness of PC differs among the target states. Brown (2009) concluded from his research on the conditionality of the IMF loans that financial assistance on its own has no effect on democracy. On the basis of neoliberal theory, he argues that structural adjustment is necessary to

improve the democratic level. Donor states should promote structural reforms with their technical and financial assistance which leads to an improved economic situation. Once people flourish in a well-developed economic system, they start being interested in political participation and democracy. Talking about conditionality in itself, he asserts that the number of conditions have an impact on the effectiveness as well. Too many conditions have a deleterious effect. Schimmelfennig and Sedelmeier (2004) have extended Browns claim, saying that also the explicitness and directness of conditions have a significant relevance. By linking conditions directly to a reward and stating clear conditions, the donor states can improve the effectiveness. Conditionality cannot only be linked towards rewards, but also to negative measures. Smith (1997) has summarised the dilemma between the two options as “asphyxiation” (blocking economic flows inhibits bad behaviour) and “oxygen” (economic activity leads to positive political consequences). However, academics share the opinion that negative measures like termination or suspension of assistance often do not hurt the government whose violations of conditions is intended to sanction. Rather, the poor people (Uvin, 1993) and the entrepreneurial class (Youngs, 2003) who are often the dominant agents of political change are hurt.

3.3. THEORETICAL FRAMEWORK

Having introduced the external incentive model and the limitations to effective conditionality, two hypotheses have been developed.

Both hypotheses follow the idea of the external incentive models’ general hypothesis that a state only complies with the conditions if the rewards exceed the costs for adoption. Both propositions have different sources of variation in order to measure if conditionality has really been successful and if this has been caused by the EU’s ODA.

3.3.1. EFFECT OF POLITICAL CONDITIONALITY

The first variation that is measured is the impact of political conditionality on the democratic level of Latin America. The imposition of conditionality by donor states has the stated intention of applying pressure on the target governments to implement reforms. The third generation of conditionality which is currently used by the European Union sets conditions which are of a political nature. Those required reforms are along the lines of democratisation, and greater respect for human rights.

In line with Schimmelfennig et al.'s rationalist external incentive model, one can argue that states are likely to comply with conditionality if rewards are high enough. Consequently, conditionality gives the target states an incentive to comply with the goals stated by the European Union which they would not necessarily do without the application of appropriate measures by the Union. Furthermore, Schimmelfennig argues that the likelihood of rule adoption increases if the donor is in a superior position. The EU is quite powerful as the biggest investor and one of the top level donors to Latin America. Since the incentives as well as the relevance of the relations towards the European Union are quite high for Latin American countries, the introduction of conditionality is expected to have a positive impact on the democratic level. The proposition tests the democratic level of Latin America in total and does not take the country-level into consideration. Therefore, the corresponding hypothesis is:

Hypothesis A: The introduction of Political Conditionality had a positive effect on the democratic level of Latin America.

3.3.2. EFFECT OF THE SIZE OF REWARDS

Another source of variation among the target states is the size of rewards. According to the external incentive model, the European Union follows a reinforcement by reward strategy. Here the EU sets the adoption of its rules as conditions that the target states have to accomplish in order to receive the rewards from the EU. With other words, the EU gives target states incentives to receive financial rewards on the basis of compliance with political conditions. The offered incentive measured here is the financial assistance in terms of Official Development Assistance.

From a recipient state perspective, the external incentive model claims that target states are more likely to adopt rules if domestic adoption costs are lower than the potential financial rewards by the EU (ODA). In case that the promised ODA is higher than the costs for adoption of EU rules, the target states would comply. Therefore, it makes sense that challenging conditions are related to high adoption cost for the recipient country. Consequently, the EU would have to promise high amounts of ODA to increase the likeliness of compliance. This means that higher ODA leads to higher rates of compliance. The conditions generally aim to improve the democratic and HR situation. In order to adopt the generalised proposition that higher rewards increase the likeliness of compliance with conditions, the used hypothesis includes ODA as the incentive for compliance and the improvement of the democratic level

as the condition for the target state to receive the reward. In sum, the hypothesis B is formulated as following:

Hypothesis B: The higher the level of Official Development Assistance, the more positive is the effect on the democratic level of Latin American states.

4. RESEARCH METHODOLOGY

The research aims to measure to what extent political conditionality works in terms of producing the intended goal. As mentioned earlier, generally these goals refer to the overall goal of respect for democracy and HR. All legal documents include clauses like “Respect for democratic principles and fundamental human rights as set out in the Universal Declaration of Human Rights is at the heart of both Parties' domestic and external policies and constitutes an essential element of this Agreement” (European Community, 1996). However, the targets set by the European Union are predominantly of qualitative nature. Therefore, this study analyses the overall goal, the improvement of the democratic and HR situation (measured by Freedom House' political and civil liberty index). The democratic level will be used as the dependent variable. Resulting from the two hypotheses, the introduction of political conditionality (hypothesis A) and the level of Official Development Assistance (hypothesis B) will be used as independent variables. Consequently, the overall research question of the explanatory research is formulated as following:

RESEARCH QUESTION

- Does the application of political conditionality by the European Union provide an effective strategy to promote democratic development in Latin America?

SUB- QUESTIONS

The main research questions leads to two sub-questions:

- How effectively and consistently does the EU use political conditionality in Latin America?
- What factors influence the effectiveness of political conditionality?

4.1. CONCEPTUALIZATION

DEPENDENT VARIABLE: DEMOCRATIC LEVEL

The dependent variable “democratic level” is defined as the quality of the democratic institutions and democratic culture. The development towards a high democratic level or “full democracy” is a long-lasting process. There has never been a consensus about a clear definition for democratic development on a European level. The European Consensus on Development (2005) defines the commitment to respect, and the promotion and protection of democracy and its principles as the essential element of the Communities agreements with third countries. The Lisbon Treaty (Art. 10A) extends the scope stating that it also includes the rule of law, the universality, and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity”. Therefore, the scope of what is defined as the democratic level shall include both streams: political and civil liberties. This paper employs Freedom House index of political freedom and civil liberties which has been used as measures of democracy by many academics of political science and economics. The scores for both sets are published annually for all countries. The extent of political freedom approximates the standard definition of democracy and the civil liberty index “captures many of the civil society dimensions of democracy building that are focus of the EUs aid projects” (Brown, 2009). In this study, the combined average of the civil liberty and the political freedom score is used. Countries are rated on a one to seven scale where higher values correspond to less freedom and lower scores to higher freedom. According to Freedom House, countries with a democratic level of a combined average rating of 1.0 to 2.5 are considered “free”, 3.0 to 5.0 “partly free” and 5.5 to 7.0 “not free” (Freedom House, 2009).

In order to strengthen the validity and to check if the combined Freedom House score represents a general perspective on democracy, an additional democracy indicator is tested. The democracy index based on the Polity IV data set of Marshall & Jaggers rates countries on an eleven-point scale (0-10) where ten presents the highest democratic level and zero the lowest one. The Polity IV index includes three fundamental areas of democracy: competitiveness of political participation, openness and competitiveness of executive recruitment and constraints on the chief executive. The appendix (A.1 Polity IV Index) describes the criteria used by Marshalls and Jaggers in detail.

While the Freedom House score rather evaluates on rights given to the population, the Polity IV score reflects the institutional characteristics of a country's government. Despite the different operational approaches to democracy, both indicators are in close (but not perfect) agreement. Table A.2 of the appendix shows the correlation between both variables.

In order to measure the association between both indicators, the correlation coefficient has been calculated. For this analysis, the Pearson's correlation coefficient is used because the data of both variables is interval and normally distributed. A coefficient of +1 (-1) indicates that the two variables are perfectly positively (negative) correlated, so as one variable increases (decreases), the other increases (decreases) by a proportionate amount. The corresponding Pearson correlation is -0.835 (significant at 0.01 level) between both scores (Freedom House and Polity IV scores) for the democratic level for the initial period 1987-1991. A little bit lower, but still significant (at 0.01 level) is the correlation for the examined period after the introduction of PC in LA (1993-2008), which is -0.829. Table A.2 of the appendix displays the changes in both measures for the overall period (1987-2008). Here, the correlation is at -0.848 ($p=0.01$). Because the correlation coefficient is a standardized measure of an observed effect, it is a commonly used measure of the size of an effect. The high correlation coefficient between both variables (-0.848) shows that the effect is large (Field, 2009). Therefore, Freedom House' score can be used as an indicator for the dependent variable without running into the risk of validity problems.

INDEPENDENT VARIABLE

HYPOTHESIS A – POLITICAL CONDITIONALITY

Political conditionality can be described as the linkage of development cooperation to political deliberations such as “the promotion of civil and political rights, democratic government and an accountable and efficient public administration” (Crawford, 2002). Hypothesis A asks if PC has had an impact on the democratic level of Latin America in general. Since political conditionality was introduced in Latin American in 1992, this study compares the level of democracy before and after 1992. The variable is dichotomous since it can either have the value that PC has been applied (after 1992) or that it has not been used (before 1992). It will be measured by help of ODA disbursement. ODA was paid out on the condition of compliance after 1992 while those considerations did not play a role before the

introduction of PC. Consequently, the impact of the introduction of PC in 1992 on the democratic level in Latin America will be analysed.

HYPOTHESIS B – LEVEL OF OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

Official Development Assistance is defined as “Grants or loans to countries and territories on the DAC List of ODA Recipients (developing countries) and to multilateral agencies which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective [...]. In addition to financial flows, technical co-operation is included in aid. Grants, loans and credits for military purposes are excluded. Transfer payments to private individuals (e.g. pensions, reparations or insurance payouts) are in general not counted” (OECD, 2010a). The European Union as a member of the Development Assistance Committee (DAC) has defined their goals of ODA more precise in Regulation No. 1905/2006 “Establishing a financing instrument for development cooperation”. Besides other objectives, the “consolidation and support of democracy, the rule of law, human rights and fundamental freedoms, good governance, gender equality” are explicitly mentioned as the primary goals (European Parliament and European Council, 2006). Therefore, one could expect that the ODA as the main incentive for compliance with conditionality of the target states has an impact on the democratic level of the countries.

In order to see if the financial assistance that was distributed for rule-adopting states have had an impact on conditionality, a regression analysis between the level of ODA and the level of democracy will be used. This analysis will focus on two periods since it has a higher internal validity than comparing two single years. Period One (P1) includes the years from 1987 to 1991. It represents the five years before the introduction of PC in 1992 where the distribution of ODA was not related to their democratic development. The average of five years is a sufficient period to get stable and reliable values for the democratic level and the ODA in Latin American countries. The second period (P2) observed, averages the values for the respective variables after the implementation from 1993 to 2008. P2 includes all 16 years after the introduction in order to increase the reliability of the outcome and to ensure that it also covers the most recent developments in Latin America. Furthermore, a third period (P3) is used and covers the last five years from 2004-08. P3 has been introduced since it takes only the most recent democratic situation into account and does not include the continuous development towards the current situation.

The data for the Official Development Assistance has been retrieved from the Organisation for Economic Co-Operation and Development (OECD). In order to exclude the influence of currency fluctuations and inflation, all financial data used is measured in current US\$.

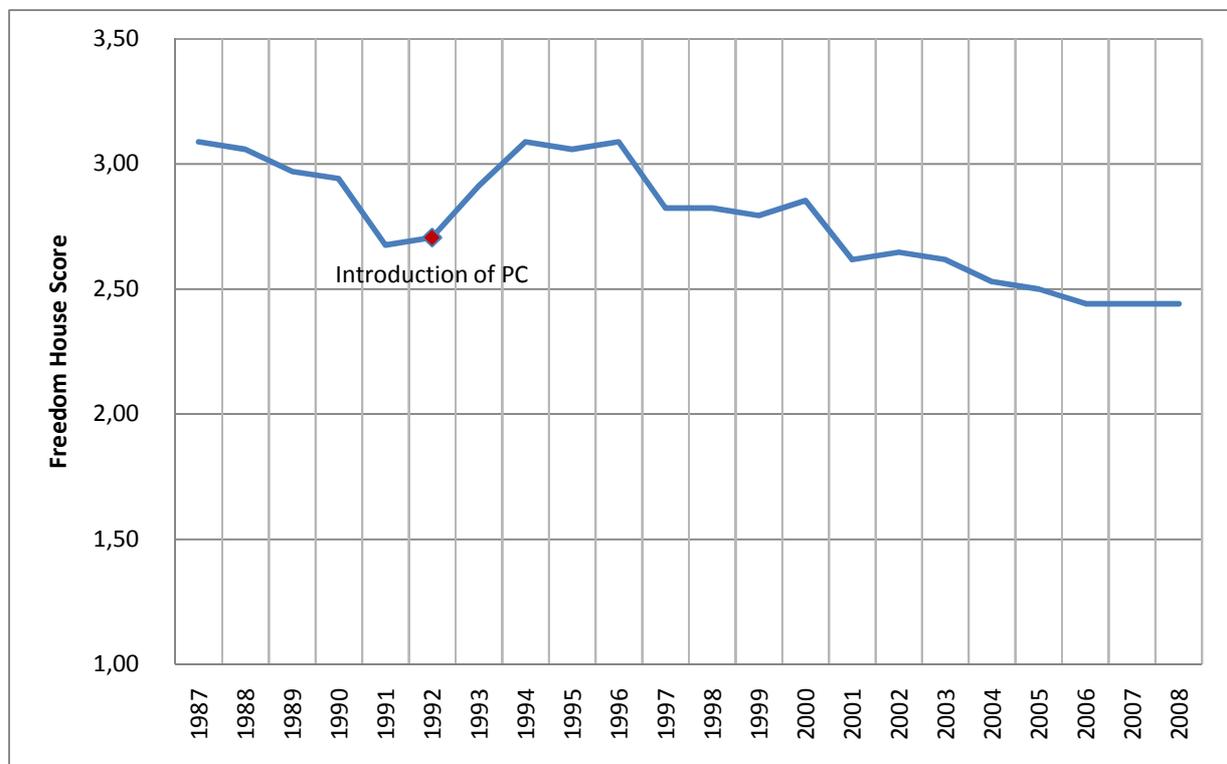
The change in democratic level can be caused by several factors like socioeconomic changes (incl. unemployment rates, illiteracy rates, per capita income, etc.), economic performance, political changes external pressure or the initial level of democracy (Knack, 2004). Still it is almost impossible to include all kind of variables that may impact the democratic change of a country. Although many of the probable, abovementioned factors are measurable, some of them like external pressure or change of societal convictions are not measurable quantitative. Therefore, the underlying assumption to measure the impact of the application of PC of the EUs ODA to LA is that there are not other influences than ODA on the democratic development (*ceteris paribus* assumption). Certainly, this limits the results of my research and makes my analysis quite tentative. However, including more factors that may influence the democratic level could be a good starting-point for a follow-up research.

5. DATA AND ANALYSIS

5.1. EFFECT OF POLITICAL CONDITIONALITY (HYPOTHESIS A)

Despite the large European heritage and influence in Latin America, full democracy has never been achieved in all countries of Latin America. However, the general democratic development of these countries has been quite positive during the last decades. One of the drivers towards democratisation is by definition political conditionality. PC aims to support countries on their road towards better democracy. Figure 6.1.1 shows the time from 1987 to 2008 on the abscissa and the corresponding Freedom House score on the ordinate (actual range from 1-7; 1=highest degree of freedom, 7= least amount of freedom). The Freedom House score has decreased between 1987 and 2008. This indicates an improvement of the democratic level. As the line shows, there have been up and downs but in general the score decreased from 3.1 (1987) towards 2.4 (2008).

FIGURE 6.1.1 AVERAGE FREEDOM HOUSE SCORE BETWEEN 1987-2008

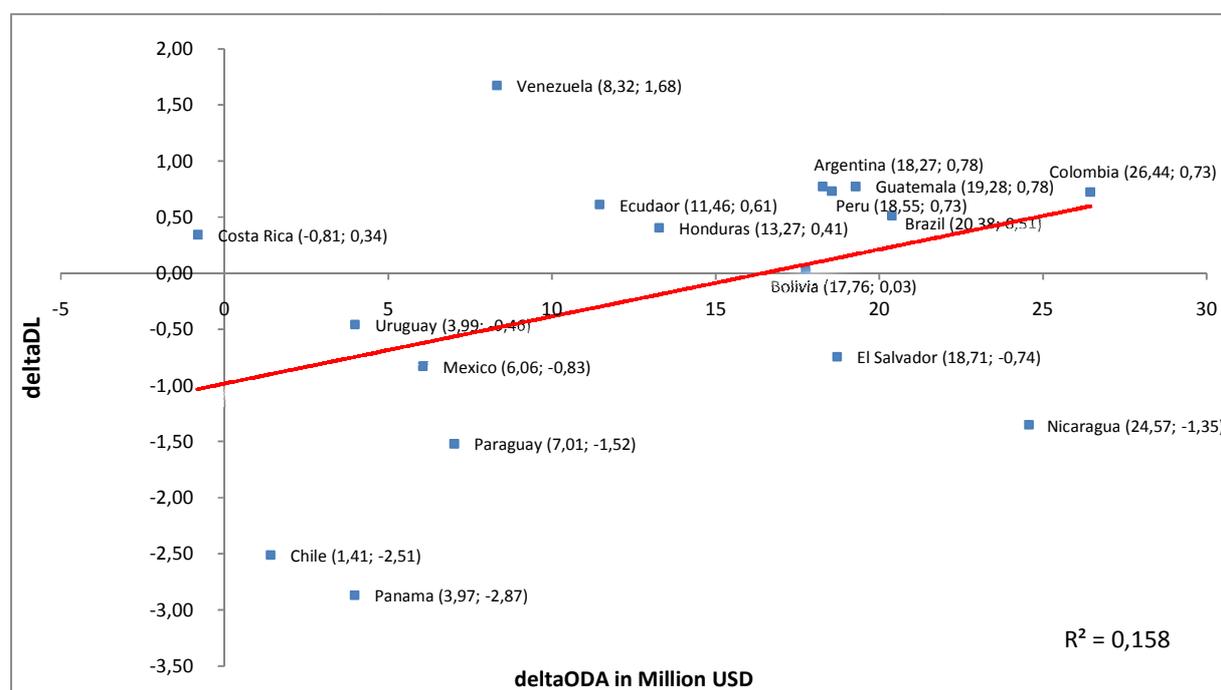


Source: (Freedom House, 2009)

The significant change confirms that democracy has improved. With regard to the development before and after the implementation of conditionality in 1992, one can observe the impact of the European Union. There has been a change of the democratic level from 2.7 (1992) towards 2.4 (2008). This indicates that there has been an improvement of the democratic situation in Latin America. According to Freedom House, LA's democracy changed from being "partly free" towards "free". However, even without the impact of the reinforcement by reward system, democracy has changed from 3.1 towards 2.7 in P1. So there has been a positive development during the time before PC was applied. This indicates that the positive democratic development cannot solely be explained by the application of conditionality which one might think by just taking the change in P2 into account. Although there are effects like the 'demonstration effect' which describes the fact that developments in one place often act as a catalyst for changes in another place and hence take into consideration that a process like democratisation takes some time, it is important to see to which extent the application of PC has improved the democratic level of Latin American.

As explained in the methodology part, a comparable analysis of the values for two periods P1 and P2 is done. Bearing in mind that political conditionality has been introduced to Latin America in 1992, one period represents the situation before and the second summarizes the time afterwards. Period one (P1) determines the values before the implementation of political conditionality (1987-91), while period two (P2) averages the values between 1993-2008. The analysis is done via a regression analysis. Regression analysis is a way of predicting an outcome variable from one predictor variable. In order to analyse the regression, the change of the democratic level has been calculated by subtracting the average values of the Freedom House scores of P2 (DLP2) from P1 (DLP1). This variable is defined as deltaDL in this paper ($\text{deltaDL} = \text{DLP2} - \text{DLP1}$). The same has been done with the disbursed Official Development Aid and is defined as deltaODA ($\text{deltaODA} = \text{ODAP2} - \text{ODAP1}$). It is important to bear in mind that political conditionality was only applied on ODA in P2. By comparing both periods, it is possible to conclude in how far the application of PC (on the ODA disbursement) has impacted the development of the democratic level in LA. For the correlation between the change in democratic level (deltaDL) and change in ODA (deltaODA), the regression coefficient R^2 is 0.158 as displayed by figure 6.1.2. This means that 15.8% of the variance of the change in democratic level can be explained by the application of PC (measured by the level of change in ODA). In other words, there are several factors that can explain the variation of the change in democratic level among the observed states, but this model which includes only the impact of the application of PC, can explain 15.8% of it. This highlights that the impact of the European Union's political conditionality has been modestly positive on the democratic level. Considering the low number of cases (17) one cannot expect a high statistical significance of R^2 . Nonetheless, the regression analysis shows that the EU's ODA partly explains the positive democratic development in LA. Figure 6.1.2 illustrates the relationship between deltaDL (y-axis) and deltaODA (change of disbursed ODA by the EU in US\$m; x-axis). The blue markers on the figure represent the countries and their individual scores. The red line represents the least squares regression line and satisfies the least squares criterion which minimises the variance of the residuals.

FIGURE 6.1.2 REGRESSION BETWEEN DELTADL & DELTAODA



Source: (Freedom House, 2009; OECD, 2010b)

In fact, the separate observations are in strong agreement with each other. Both, the development of the democratic level and the level of ODA have increased strongly in the analysed 21 years. Moreover, the association seems to be even stronger after the introduction of PC, when the ODA as well as the democratic level increased significantly. However, there are two findings that support that political conditionality serves only to a low extent as a reason for positive democratic development. First of all, the positive trends in democratic level as well as ODA are not only observed in P2, but also in P1. Since the positive development towards democracy took place before the introduction of PC in 1992, one cannot conclude that PC is the sole reason for this development. Secondly, the regression analysis that observed to which extent the positive development of the democratic level can be explained by the application of political conditionality on the ODA disbursement is 15.8%. The regression coefficient of 15.8% indicates that the application of conditionality (measured by the comparison of ODA disbursement before and after the application of PC) has not been the main driver for the democratic development of the Latin American states. Nonetheless, the introduction of PC has had a positive effect on the democratic level. Although its impact has been rather modest, hypothesis A can be confirmed.

5.2. EFFECT OF THE SIZE OF REWARDS (HYPOTHESIS B)

Having analysed the democratic development and the influence of political conditionality on Latin America, the impact of the Unions reward in form of Official Development Assistance on the democratic level has been measured on a state-level.

DEMOCRATIC DEVELOPMENT

As the analysis of the democratic level of Latin America (figure 6.1.1) has shown, the overall trend has been positive. However, this development is challenged considering the 17 countries in detail. In order to start the analysis of whether political conditionality has been effective in Latin America, an overview on democratic development and on financial assistance in Latin America is given.

There are huge differences among the states concerning their democratic development and different stages of regional cooperation among the LA countries. The figure below indicates the democratic development of all 17 Latin American countries. They are ordered after their relative change in democratic development. The relative change is calculated by dividing the value of DLP3 (average democratic level as measured by Freedom House of 2004-08) by the value of DLP1 (1987-91). The relative changes values serve as a better indicator since the absolute change neglects the fact that it is hard to improve once the democratic level is already comparably high. Although Mexico and Nicaragua have improved their democratic level by 1.6 points between P1 (1987-91) and P3 (2004-08) Nicaragua's development has been less demanding. Improving from a low democratic level (and hence a high Freedom House score) is not as challenging as improving the situation once a country's democracy is already performing on a high level. Therefore, it makes sense to compare the relative changes of the countries. With regard to table 6.1.2, one can easily divide the 17 countries into three subgroups in accordance with their relative change in democratic level.

TABLE 6.2.1 CHANGE OF DEMOCRATIC LEVEL BY FREEDOM HOUSE

Country	DLP1 (1987-91)	DLP2 (1993-2008)	DLP3 (2004-08)	deltaDL	Relative change
Chile	4.2	1.69	1	-2.51	0.24
Panama	4.9	2.03	1.5	-2.87	0.31
Uruguay	1.8	1.34	1	-0.46	0.56
Mexico	3.8	2.97	2.2	-0.83	0.58
Paraguay	4.8	3.28	3	-1.52	0.63
Nicaragua	4.6	3.25	3	-1.35	0.65
El Salvador	3.4	2.66	2.5	-0.74	0.74
Peru	2.8	3.53	2.5	0.73	0.89
Brazil	2.3	2.81	2.2	0.51	0.96
Costa Rica	1	1.34	1.1	0.34	1.1
Colombia	2.9	3.63	3.4	0.73	1.17
Honduras	2.5	2.91	3	0.41	1.2
Bolivia	2.5	2.53	3	0.03	1.2
Guatemala	3.1	3.88	3.8	0.78	1.23
Argentina	1.6	2.38	2	0.78	1.25
Ecuador	2.2	2.81	3	0.61	1.36
Venezuela	1.7	3.38	3.8	1.68	2.24
average	2.95	2.73	2.47	-0.22	0.96

Source: (Freedom House, 2009)

- **Group One** (relative democratic change from 0.1- 0.9): Chile, Panama, Uruguay, Mexico, Paraguay Nicaragua, El Salvador, Peru
- **Group Two** (relative democratic change from 0.9 to 1.1):Brazil , Costa Rica,
- **Group Three** (relative democratic change from 1.1 and above): Colombia, Honduras, Bolivia, Guatemala, Argentina, Ecuador, Venezuela

The eight democracies from *group one* have developed very successfully. Their combined Freedom House score has decreased significantly during the 17 years of political conditionality in Latin America that have been observed. Their relative change on the democratic level varies from 0.1 (perfect development towards democracy) towards 0.9 (slightly positive development). Chile's democratic development has been the most successful. After Pinochet's defeat in the 1988 plebiscite, many reforms of the institutional system took place, the democracy flourished within 20 years (1987-91: 4.2 towards 2004-08: 1.0) and Chile is nowadays rather a potential source for "cooperation in democracy building than a recipient of programmes designed to strengthen democracy" (IDEA, 2009).

The two countries from *group two* have not changed their democracy significantly. The Freedom House score's of P3 (DLP3) differ only ± 0.1 from the initial level of P1 (DLP1). Therefore, there has almost no development of the democratic level of these two states. This is not necessarily a bad thing since states like Costa Rica have reached a democratic level which fulfils almost all criteria of a well-performing democracy. The average relative change values would also fall into this group with a score of 0.96. It indicates that change in democratic development has not been very strong, but modestly positive between P1 and P3.

More interesting to examine are the seven countries of *group three* where the democratic situation has worsened since P1. Here, the promotion of democracy and human rights has clearly failed to meet its goal. All of them have worsened their democratic level in absolute and relative terms. Venezuela brings up the rear of the 17 countries. They are on a quite promising democratic level in P1 (1.7), but then the democratic situation steadily worsened (P3: 3.8). In sum, there are huge differences among the states' democratic performance. Though Latin America has improved their democratic situation from a macro perspective, an analysis of the individual states shows that there is a big gap concerning the democratic development among the states. More than half of the analysed states (nine states) have improved their democratic situation within the observed time while the situation has deteriorated in seven out of 17 countries.

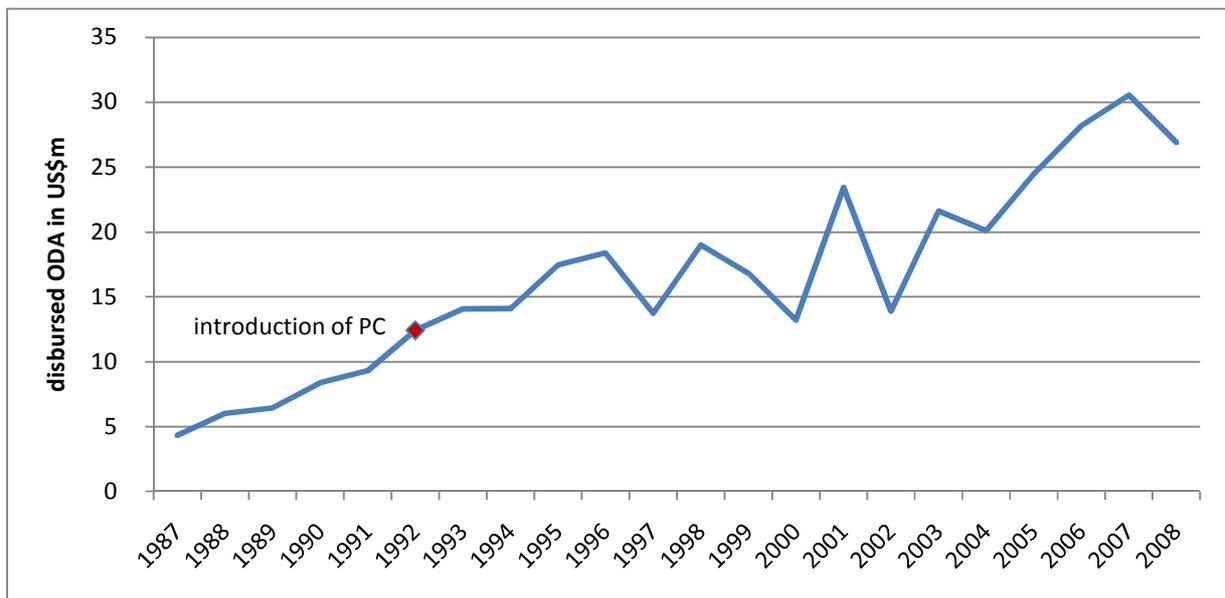
ODA DEVELOPMENT

One might expect now that countries from group one have been rewarded (reinforcement by reward strategy) for their compliance to conditions (positive democratic development since 1992). On the other hand, countries from group three have violated the essential elements and have not improved the situation within the last decade. Following the reinforcement by reward strategy, the European Union would withhold rewards (and hence no additional ODA).

Having a look at the average ODA disbursement to LA, it demonstrates a similar pattern as for the democratic development. The overall amount has clearly increased and there has been some fluctuation. Overall, the amount of ODA has more than sextupled between 1987 (4.31m US\$) and 2008 (26.9m US\$) which reflects the positive trend in democratic development, but also the increasing importance of the bi-regional partnership. Figure 6.2.2 illustrates the development of the average ODA disbursements of the European Union to Latin America over time (1987- 2008). Again, the positive trend

which is shown in figure 6.2.2 between 1993 and 2008 can be observed in P1 and P2. However, the rise in P2 is significantly bigger than in P1. During the last decades the developing countries have increased their financial demands vis-à-vis the developed countries. Furthermore, several NGO's as well as the UN support the striving of the developing countries in receiving more assistance from the developed countries.

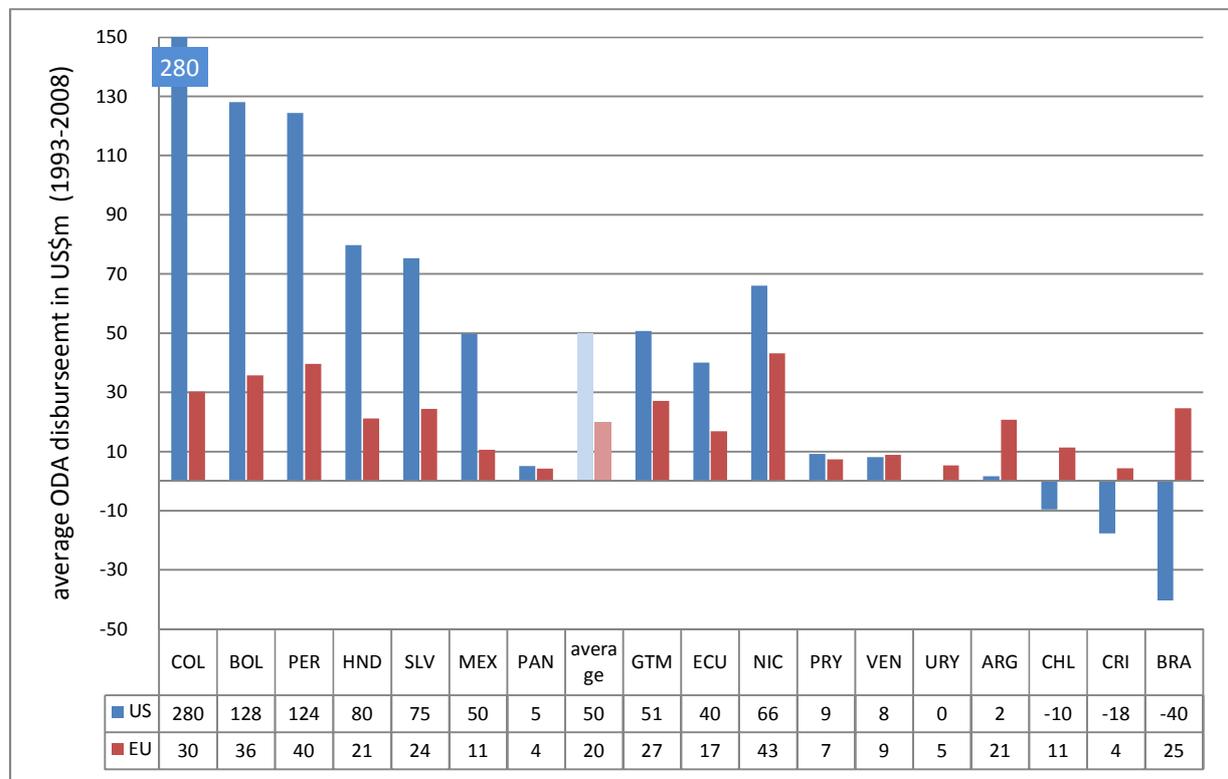
FIGURE 6.2.2 AVERAGE ODA DISBURSEMENT OF THE EU TO ALL 17 LA COUNTRIES IN US\$M BETWEEN 1987-2008



Source: (OECD, 2010b)

As graph 6.2.2 has shown, generally there has been a positive trend towards higher ODA disbursements. Similar to the democratic level patterns, there are again big differences among the 17 countries. Graph 6.2.3 demonstrates the average ODA that was given to Latin American states from 1993 to 2008 by the European Union and the USA. The disbursed ODA by the EU ranges from as low as US\$ 4m in Panama up to US\$ 43m in Nicaragua. This means that Nicaragua has received more than four times as much ODA as Panama, although the latter countries' compliance to conditions has been even better (as was shown in table 6.2.1).

FIGURE 6.2.3 AVERAGE ODA DISBURSEMENT BY THE EU AND THE USA (1993-2008)



Source: (OECD, 2010b)

Another factor that impacts the efficiency of conditionality and in particular the interests for the Unions rewards, is cross-conditionality. Cross-conditionality is present if there are outside options for the target countries. The Unions strategy is unlikely to be effective if other donor states provide similar benefits for lower adjustment costs. Therefore, cross-conditionality must be absent or low to circumvent that the EU's approach is ineffective. The largest donors of ODA to Latin America are the European Union and the United States of America. Figure 6.2.3 shows the amounts of ODA of both donors to the observed Latin American countries. First of all, the chart shows that the overall ODA net disbursement of the USA (US\$ 851,07m) is more than 2.5 higher than the money provided by the EU (US\$ 335,75m). If the Latin American states could receive financial assistance by the USA more easily (where economic performance matters predominantly) than by the European Union, it would reduce the effectiveness of the Unions approach. Certainly, the disbursed assistance of the US has been higher in 13 out of 17 countries which might serve as a reason for the different democratic developments within Latin

America. However, considering the aid expenditures in detail shows some common patterns. The Central American states (besides Panama and Costa Rica) have been among the top aid recipients of both donors. Furthermore, Columbia, Peru and Bolivia are among the top 5 recipients. On the other hand, Panama, Costa Rica, Uruguay and Venezuela belong to the countries receiving the lowest amount of ODA from both donors. Two things may be concluded from this observation. Although the USA (US\$ 13331m) has disbursed almost 2.5 times as much ODA to Latin American than the European Union (US\$ 5372m) from 1993 to 2008, there is no big threat of cross-conditionality. The very similar investment patterns indicate that the USA is not undercutting the EU's approach. This is quite surprising due to the fact that US aid is not bound to explicit and strict political conditions, but prevalent to economic development. Theoretically, there are two explanations for this outcome. Either the US decisions on ODA disbursements are based on a higher degree to political factors than claimed, or the European Union does not follow their own strategy very consistently and invests money in countries based on other interests than compliance to rule-adoption.

One could claim now that the observation of the average ODA disbursement can be a bit misleading since it excludes the fact that countries differ in their population, economic power and demands. Comparing absolute ODA numbers is interesting to determine where the EU sets its priorities, but it does not indicate the relevance of ODA for the recipient countries. Therefore, a mini case study on those indicators has been done.

According to the Institute for Democracy and Electoral Assistance (IDEA) the countries of Venezuela, Bolivia, Ecuador, and to a lesser extent, Honduras and Nicaragua have in common that they "make aggressive attempts to reshape the regional agenda and pushing political reconfiguration through constitutional reform and strong personal leadership. Their priorities and their redefining of basic democratic institutions pose additional challenges to planning democracy building in the region" (IDEA, 2009). The democratic situation has worsened in all before mentioned countries since the introduction of conditionality in 1992. The data used indicates a different trend for Nicaragua. However, the biggest state of Central America is no exception since the challenges of democracy have started only recently after Daniel Ortega became president in 2007 (Rogers, 2010). Despite the fact that the data retrieved from the OECD gives another impression, the democratic culture has developed quite negatively and democratic institutions are challenged. Looking at the data from table 6.2.1 demonstrates that all countries belong to group three where the relative change has been negative (indicating decrease of

democratic level). Honduras (2.5), Bolivia (2.5), Ecuador (2.2) and Venezuela (1.7.) were considered as “free democracy” according to their Freedom House score before the introduction of conditionality in period one (1987-91). However, the four countries belong to the six worst performing countries in terms of relative democratic change. All of them had an average score of three or lower in period three (2004-08) and were no longer listed as free democracies by Freedom House. If the promotion of democracy and the protection of Human Rights is the primary goal of the EU’s external relations or the essential element of relations to third countries, then there should be a similar reaction to all countries. The institutional ties have basically been the same between all five countries and the European Union (Nicaragua and Honduras have concluded the FTA between Central America and the European Union during the last EU-LA summit in May 2010). It is striking how strong the ODA disbursement between the countries differed. Table 6.2.4 shows the average ODA which was disbursed annually between 1993 and 2008. Secondly, it displays the average disbursed ODA per capita which includes the size of population to better understand the ODA’s relevance for the target state.

TABLE 6.2.4 COMPARISON OF AVERAGE EU ODA DISBURSEMENT 1993-2008

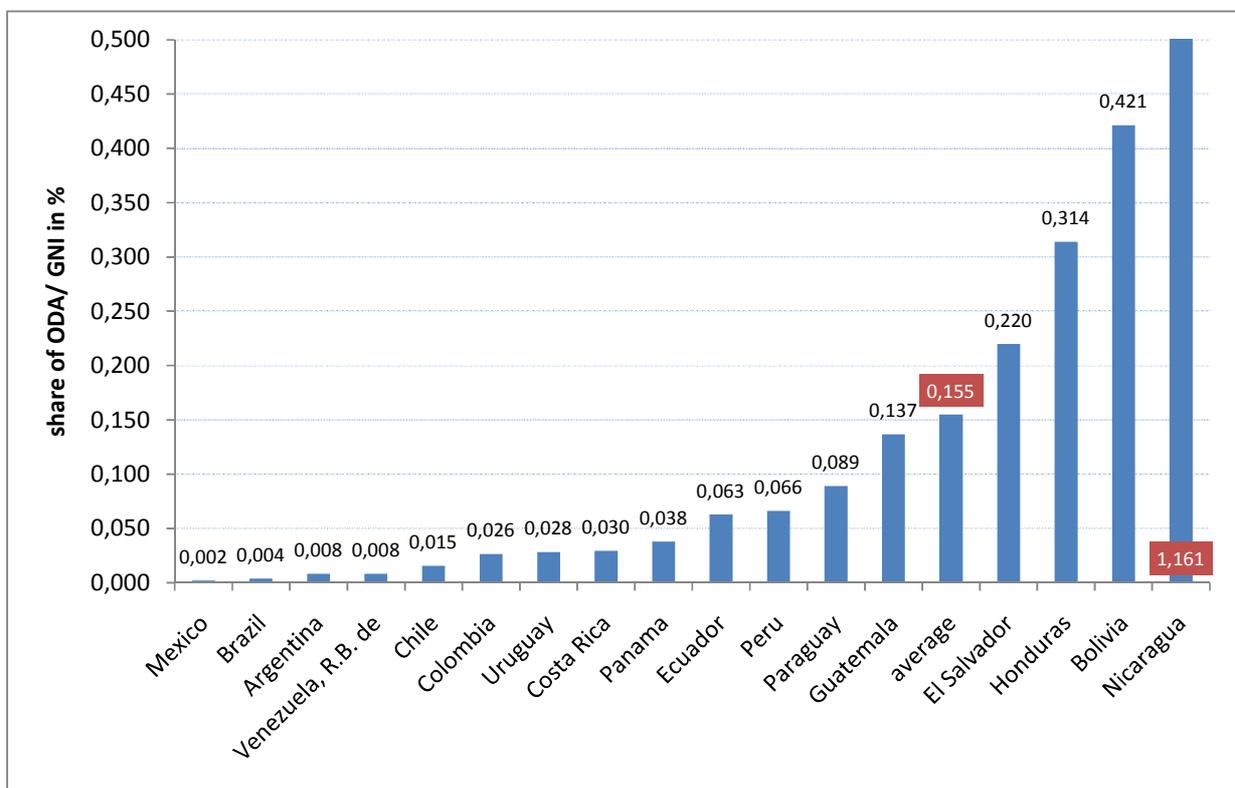
	average ODA 1993-2008 in US\$	average ODA 1993-2008 per capita in US\$	Share of ODA/ GNI in %
Nicaragua	43.113.750	8.37	1.161
Bolivia	35.813.750	4.33	0.421
Honduras	21.224.375	3.04	0.314
Ecuador	16.847.500	1.24	0.063
Venezuela	8.948.750	0.33	0.008

Source: (OECD, 2010b; WorldBank, 2010)

It is quite remarkable that the EU has assisted Nicaragua (US\$ 43m) and Bolivia (US\$35m) with more than twice as much ODA than Venezuela (US\$9m) and Ecuador (US\$17m). Even when looking at the average ODA/ capita it does not make a difference. There has been a significant gap in distribution among a group of countries whose democratic development has been equally bad. This allows the assumption that the distribution of ODA is not solely based on the compliance to conditions, but political reasons play a major role in the decision-making as well. This was confirmed by José Baiges Planas, DG Relex (Latin America Directorate) who said that “Evidently [...] the decision is not a technical one based on indicators. It must be taken at the highest political level Commission in agreement with MS and EP” (J. Baiges Planas, personal communication, June 25, 2010).

Secondly, it can be concluded that the EU is lacking consistency in their application of conditionality. This becomes clear with regard to the share of ODA to GNI which has been calculated in order to see the relevance of the ODA from an economic point of view (see figure 6.2.4 and 6.2.5). Here one can see that the ODA share is comparably low in all 17 countries. According to the external incentive model, target countries comply if the rewards exceed the costs for compliance. Having this quite low importance of ODA compared to the GNI allows for the assumption that this is one of the reasons why states did not always adopt the EU rules. In case that the benefitting rewards do not exceed the costs for compliance, the target states are probably not fulfilling the conditions.

FIGURE 6.2.5 SHARE OF ODA/ GNI IN % (AVERAGE OF 1993- 2008)



Source: (OECD, 2010b; WorldBank, 2010)

However, it is striking that the average share of ODA/GNI differs that strongly among the countries. In particular the values of the abovementioned five countries where the democratic level has continuously decreased is interesting. Three of the five countries (Nicaragua, Bolivia and Honduras) belong to the top

five recipients of ODA in terms of share to their GNI. Considering the fact that these countries did not meet the conditions of the EU but even violated them, it is a surprising result that these countries belong to the top recipients. Although the regression analysis has shown that ODA development has had a positive influence on the democratic level of the Latin American states, the analysis of the last mentioned three states poses the question of efficiency again. If the three top recipients of ODA (measured by share of ODA to GNI) belong to the countries whose democratic level decreased most significantly since the introduction of political conditionality (measured by relative change from P1 to P3) it does not confirm that the EU's conditionality is working effectively. Again, the ineffectiveness can also be based on the inconsistent application of the EU's criteria. Crawford (1997) has put forward the same argument saying that "weak and partial measures lead to non-compliance" of the target states. So the fact that conditionality is not applied very restrictive might also influence other countries not to comply with the conditions in the anticipation of receiving the reward either way.

If compliance to conditionality explains the level of Official Development Assistance only to a small degree, further considerations must play a role for the disbursement by the EU. The analysis of several (socio-)economic indicators by means of a regression analysis has brought interesting results. The regression analysis shows to which extent the variance of the change in ODA can be explained by each of the indicators. The best predictor for the level of ODA for the period after the implementation of conditionality (P2) has been the poverty level ($R^2=46,7\%$), followed by the GNI level ($R^2=37,5\%$). On the contrary, Foreign Direct Investment ($R^2=0,3\%$) does not play an important role. Apparently, there are two strong drivers for the level of the EU's disbursement of ODA. They take the compliance to their political conditions into consideration and they decide about the level of ODA on the basis of the countries' need. The incentives for countries to comply are higher if adoption costs are low and if the country is needy. The need of a country is expressed by its poverty rates. There is a clear positive relationship according to the regression analysis. Therefore, states with higher poverty rates do generally receive more financial aid by the European Union. Moreover, the negative relationship between GNI and ODA demonstrates that the EU predominantly supports countries with weak economies (low GNI). The low regression coefficient R^2 of FDI indicates that the EU is not following a strategy where they predominantly support countries where they benefit from in terms of economic ties. Therefore, one can conclude that the EU is not acting very self-interested. This result clearly rejects

several academics like Smith (1997) that claim that donors are partial and biased in the sense that they predominantly follow their own economic interest.

The second thesis that higher level of ODA leads to an increased level of the democratic level can be rejected. In some countries, the high level of ODA has had very positive influence on the democratic level, while there are countries which received only a small level of ODA and worsened their democratic level (e.g. Venezuela). On the other hand, there are also several states where there is no relation between the disbursed assistance and the democratic development. In these states, democratic reforms have been very successful despite low EU assistance (e.g. Uruguay) or to the contrary, ODA has been high and the democratic achievements low (e.g. Bolivia). The latter group of countries represents the states where conditionality has not been effective at all. Especially the inconsistent application of PC by the European Union has caused this disorder since theoretically; higher rewards should attract countries to comply.

5.3. DISCUSSION

There are several constraints to the research as well as several causes as to why the impact of conditionality on the democratic level in LA has only been limited. Both will be discussed in this section.

Talking about research constraints of the study, the methodological challenges need to be highlighted. First of all, it is logical that an analysis of ODA does not cover the entire scope of rewards granted by the EU. Although financial assistance is a major incentive for the target countries to comply, there are other strong drivers that force countries to comply. However, these have not been included in the setup of the research. Therefore, an analysis of the ODA cannot represent a complete picture of political conditionality. Furthermore, a regression analysis consisting of 17 cases is a weak test to draw conclusions on statistical significance. Therefore, only a higher number of cases could produce more significant outcomes.

The study has basically concentrated on the effectiveness of political conditionality and on the impact of the size of rewards on the compliance of target states. However, there are further points which are relevant in understanding the likeliness of the state's compliance. Schimmelfennig has summarised them as *Speed of Rewards* and *Credibility of Conditionality*.

SPEED OF REWARDS

The European Union does not have any determined quantitative targets. The target states cannot easily meet a certain criteria and receive the reward. Suspension/ termination as well as granting the reward is a question of political decision-making within the European Union and its MS. Basically, the European Union publishes a Country Strategy Paper (CSP) where it sets a fixed amount of financial assistance for a longer period. These CSP are released for all LA countries and include a so-called National Indicative Programme (NIP) that sets out the predominantly qualitative targets which need to be achieved and also the amount of money that is provided by the EU on an annual basis. Normally, the overall amounts committed per country year by year under the NIP tend to be quite closely in line with the original estimates (P. Mc Clay, personal communication, June 28, 2010). Due to political or operational considerations there are sometimes modifications of the allocations within the programme. Following the 2005 elections in Bolivia for example, the domestic policy and in particular the consequences for the private sector development have not been clear. Therefore, the EU modified its allocations as laid out in the NIP and instead disbursed more money in the water and sanitation sector. So those political and operational considerations take place but normally the intention is not to apply negative measures. In general, one can say that the speed of rewards of the European Union has almost no impact on its effectiveness. The CSP gives the target countries predictability and leaves enough leeway for compliance with political conditions. The LA countries know that a development which meets the Unions conditions will be rewarded financially in the next period/ NIP or by other means such as institutional ties. In conclusion, there is no evidence that this the speed of rewards has impacted the inefficiency of political conditionality.

CREDIBILITY OF CONDITIONALITY

There are two requirements for successful conditionality: The donor needs to be in a superior bargaining position because threats would not be seen as otherwise and the target states must feel confident that the rule-setting agency is paying the conditional rewards. Moreover, withholding the rewards must be able at no or little cost for the donor state, and the target country has to be more interested in receiving the reward than the sender in giving it.

The reason for the European Union's lack of efficiency in conditionality is neither in the bargaining power nor the costs of withholding the rewards. The dependence of the EU on most LA states is quite

low. Besides the cultural and historical ties, Latin America does not play a major role in the EU's external relations strategy. With the exception of Brazil, Mexico, and to a lesser extent, Chile and Argentina who are the regional and also emerging world powers, the EU does not benefit strongly from Latin America. The imbalanced relationship between both regions is supported by the FDI flow. The EU accounted for 10% of imports and almost 9% of exports by the LA countries while the Latin American share of EU external trade only accounts for 5% in imports and 5.9% of its exports in 2000 (Eurostats, 2000).

6. CONCLUSION

By introducing political conditionality in all agreements with third countries, the European Union wanted to ensure that financial assistance is given to states that care about their democratic development. The intention behind was to avoid giving assistance to countries that constantly worsened their domestic democratic situation. Since 1992, the EU makes use of the third generation of PC in LA which enables the EU to suspend/ terminate relations or assistance to a partner state in case of violations of what is defined as the essential elements in the treaty. The inclusion of the protection of human rights and the promotion of democracy gives the EU the power to take appropriate measures under international law.

For Latin America, this means that the EU wants to give increased support to the countries most committed to the principles of respect for, and the exercise of human rights, and fundamental and democratic principles. Academics call the European Union's strategy a "reinforcement by reward strategy" since they make use of positive measures and use sanctions only as a final instrument when all other means have failed.

The introduction of political conditionality has had some positive impact on the change in democratic level in Latin America. As the overall development has shown, the Freedom House score has decreased which corresponds to strengthened democracy in terms of political and civil liberties. According to the Freedom House score, Latin America improved their democratic situation from being "partly free" towards "free". However, having a close look to the period before the introduction of PC (1987-92) demonstrated a similar positive effect. This demonstrated that PC cannot explain the change in democratic level on its own. The corresponding regression analysis clarifies the extent of the conditionality's effect. 15.8% of the variance of the change in democratic level can be explained by the application of PC. Therefore, one can conclude that there has been a positive democratic development

in Latin America. However the impact of the Union's political conditionality has been modestly positive on the democratic level.

Hypothesis B discusses the impact of PC in Latin America on a country level and in particular observed if a higher level of ODA has a positive effect on the democratic level of LA states. The first important observation is that there are huge gaps among the observed countries. There are countries which have improved their democratic level quite significantly since conditionality is used (e.g. Chile, Panama and Uruguay). On the other hand, there are several countries that worsened their democratic level and whose democracies have been or still are under challenge (e.g. Venezuela, Ecuador and Bolivia). These huge gaps in terms of development are not only found with regard to the democratic level, but also with regard to the ODA disbursement of the European Union. Following the reinforcement by reward strategy, the European Union would reward countries that comply with conditions. However, the analysis of five Latin American states that have developed similarly negatively during the last decades and were classified as countries whose "redefinition of basic democratic institutions pose additional challenges to planning democracy building in the region". Comparing these countries has demonstrated that the EU did disburse very different amounts of money to a group of people that actually do not differ that strongly in terms of change in democratic level. Even by considering the actual relevance of the absolute amount of disbursed ODA by the EU by taking other variables like the share of ODA to GNI or the size of population into account did not change the conclusion that the EU is not very consistent when it comes to the disbursement of ODA. The impact of cross-conditionality which could have had explained the lack of consistency and varying degree of efficiency was examined as well. Although there is a donator granting higher financial assistance to the majority of states, their policy seems to be in line with the European Union. This is surprising since the USA does not bind target states to political conditions as the EU is doing. Therefore, this allows for two conclusions: Either the US decisions on ODA disbursements are based on a higher degree to political factors than claimed, or the European Union does not follow their own strategy very consistently. This problem of the EU's inconsistency in application of PC also leads to the rejection of the second hypothesis. No evidence could be found that a higher level of ODA had a positive effect on the democratic level.

Obviously, the compliance to political conditions matters only to a low extent for the ODA disbursement. The analysis of indicators that predict the level of Official Development Aid brought the interesting result that the European Union is not acting very self-interested with a predominantly

economic interest. The analysis has shown that the two most important observed predictors for the level of ODA disbursement are the strength of economies (weak GNI > higher ODA) and the poverty level (high poverty level > higher ODA).

In conclusion, the study demonstrates that the European Union has influenced the improvement of the overall democratic level in Latin America. However, the effect has been rather modestly and could be increased by applying the own strategy more consistently.

The findings of this study should be interpreted with caution, however. The results do not necessarily recommend that financial assistance aimed at supporting the democratization process should be curtailed. However, it helps to understand how the efficiency of the European Union's approach to spread democracy in Latin America can be improved.

APPENDICES

A.1 POLITY IV INDEX – INSTITUTIONALIZED DEMOCRACY SCORE

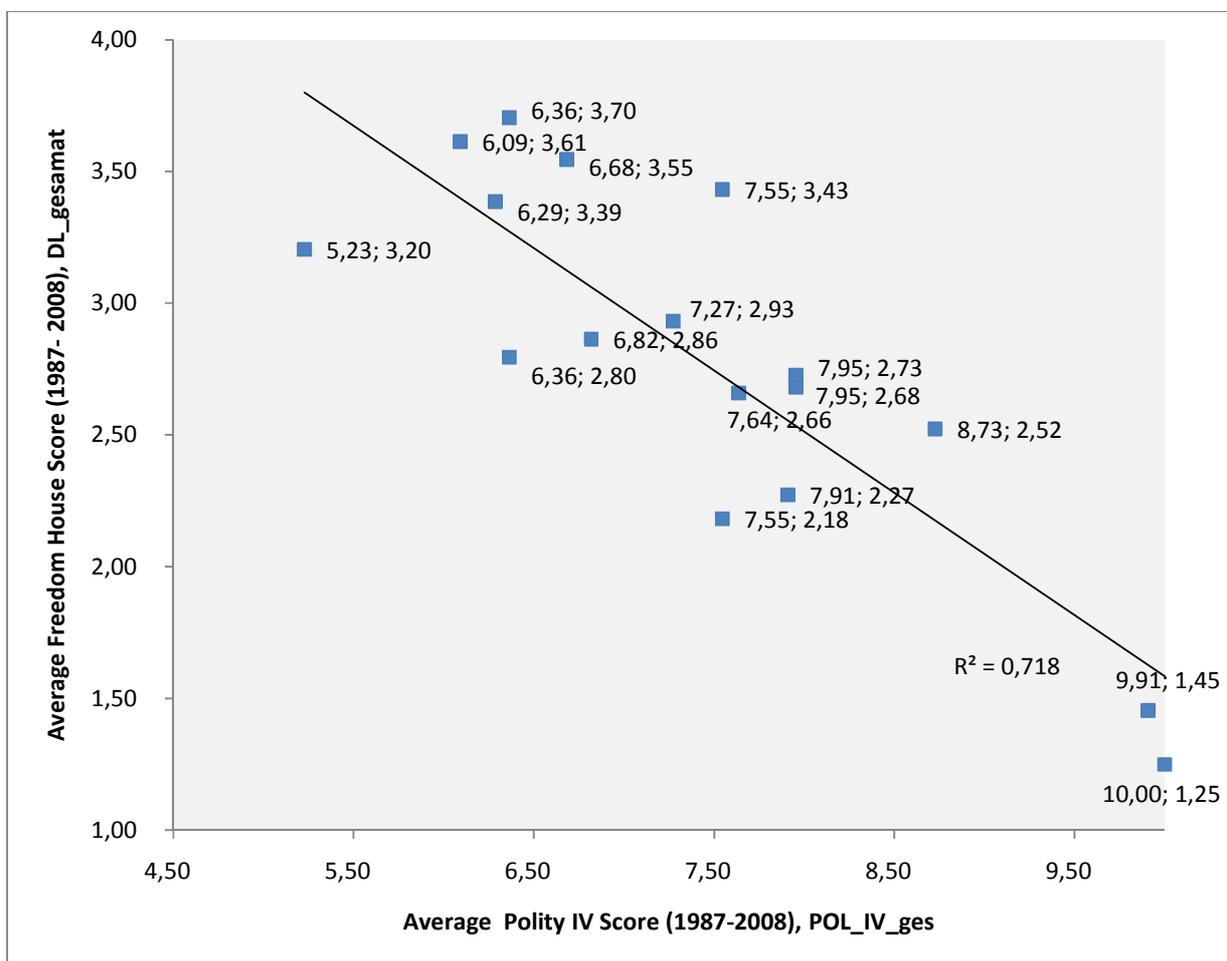
source: *(Marshall & Jaggers, 2009)*

Democracy is conceived as three essential, interdependent elements. One is the presence of institutions and procedures through which citizens can express effective preferences about alternative policies and leaders. Second is the existence of institutionalized constraints on the exercise of power by the executive. Third is the guarantee of civil liberties to all citizens in their daily lives and in acts of political participation. Other aspects of plural democracy, such as the rule of law, systems of checks and balances, freedom of the press, and so on are means to, or specific manifestations of, these general principles. We do not include coded data on civil liberties. The operational indicator of democracy is derived from codings using the following weights:

Authority Coding	Scale Weight
Competitiveness of Executive Recruitment (XRCOMP):	
(3) Election	+2
(2) Transitional	+1
Openness of Executive Recruitment (XROPEN): only if XRCOMP is Election (3) or Transitional (2)	
(3) Dual/election	+1
(4) Election	+1
Constraint on Chief Executive (XCONST):	
(7) Executive parity or subordination	+4
(6) Intermediate category	+3
(5) Substantial limitations	+2
(4) Intermediate category	+1
Competitiveness of Political Participation (PARCOMP):	
(5) Competitive	+3
(4) Transitional	+2
(3) Factional	+1

A.2 Correlation between Freedom House score and Polity IV Score (1987- 2008)

On the x-axis the average Polity IV score of the years 1987-2008 is shown. Theoretically, it varies between 0-10. However due to the average values; the scale is limited from 4.5 to 10 in this diagram. The ordinate shows the corresponding democratic values of Freedom House which in theory could differ from one to seven. Again, the used scale only shows a limited range from one to four since there are no higher average values. The countries that have performed best in terms of their average democratic level can be found on the right (high numbers in Polity IV score represent high democratic level) bottom (low Freedom House score represent high democratic level).



Source: (Freedom House, 2009; Marshall & Jaggers, 2009)

A.4 Latin American Countries included/ excluded in this study

Included

1. Argentina
2. Bolivia
3. Brazil
4. Chile
5. Colombia
6. Costa Rica
7. Ecuador
8. El Salvador
9. Guatemala
10. Honduras
11. Mexico
12. Nicaragua
13. Panama
14. Paraguay
15. Peru
16. Uruguay
17. Venezuela, R.B. de

Excluded

1. Antigua and Barbuda
2. The Bahamas
3. Barbados
4. Belize
5. Cuba
6. Dominica
7. Dominican Republic
8. Grenada
9. Guyana
10. Haiti
11. Jamaica
12. St. Kitts and Nevis
13. St. Lucia
14. St. Vincent and the Grenadines
15. Suriname
16. Trinidad and Tobago

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