

The Double Edged of IDA Aid on Conflict and Governance: Policy Insights for Smarter Development Assistance

How Concessional Assistance Reduces Protests but Fuels Political Aggression and Institutional Change

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Investing for Stability. But At What Cost?

In the world's poorest countries, international development aid is more than a financial transaction, it is a lifeline that can help millions of individuals. The World Bank's International Development Association (IDA), with its mission to boost growth and reduce poverty, is often at the center of these efforts. Policymakers and development agencies have long hoped that such support would help foster peace and stability. Yet new research reveals a more complicated picture: while IDA aid may indeed reduce public protest and mass mobilization, it can also intensify more violent events aiming for political power at the top. Furthermore, it even undermines the quality of institutions in the recipient countries at least in the critical early years of its disbursement.

The paradox at the heart of this story raises uncomfortable questions for anyone who wants aid to be a catalyst for positive institutional and economic change. Can outside resources really lead to social peace? Or do they risk fueling the very conflicts they are meant to resolve? And what happens in the period after the receipt of the external revenues? Does IDA aid promote institutional quality? The answers are both more encouraging and more troubling than expected.

Some facts about IDA aid

The purpose of IDA aid is to reduce poverty and foster growth in the world's poorest countries. This can be done by financing investments in health, education, infrastructure, and institutional development. As the World Bank's concessional arm, it



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provides long-term loans and grants on highly favorable terms to countries that otherwise have little or no access to global credit markets. Beyond promoting growth, IDA also plays a stabilizing role by supporting fragile states and helping countries build resilience against crises.

Aid at the Threshold: A Natural Experiment in Development Policy

Unlike many forms of assistance, IDA aid is allocated on the basis of a clear rule: countries become eligible if their Gross National Income falls below a certain threshold, and if they lack creditworthiness for standard loans (e.g., borrowing from the International Bank for Reconstruction and Development (IBRD)). This threshold creates an opportunity for researchers. Because the difference between countries just above and just below the cutoff is often a matter of small, almost random economic fluctuations, it becomes possible to study the true effect of aid, free from many of the usual confounding factors.

How is the threshold determined?

Each year, the World Bank sets an operational cutoff for GNI per capita, calculated using the Atlas method to smooth exchange rate fluctuations. Countries below this threshold are generally eligible, while those above it for three consecutive years “graduate” from IDA. However, eligibility is not automatic: countries may be excluded if the Bank deems them creditworthy for borrowing on regular IBRD terms, and special exemptions exist for small and vulnerable states. Donor governments replenish IDA’s resources on a three-year cycle, ensuring continued support for countries that meet the criteria.

In our study (Adam and Tsarsitalidou, 2021), we use data from 1989 onward, comparing countries who cross the eligibility line with those who do not, using a fuzzy regression discontinuity design. We are interested in how IDA aid recipient countries’ internal conflicts evolve: from mass protests and strikes to purges, coups, and political assassinations. We focus on conflict because it shapes both economic performance and the evolution of political institutions, making it a crucial channel through which aid can exert its long-term effects. Then, as a next step, we take a more direct approach (Tsarsitalidou and Chletsos, 2025) and examine the dynamic effects of IDA aid on the quality of institutions.

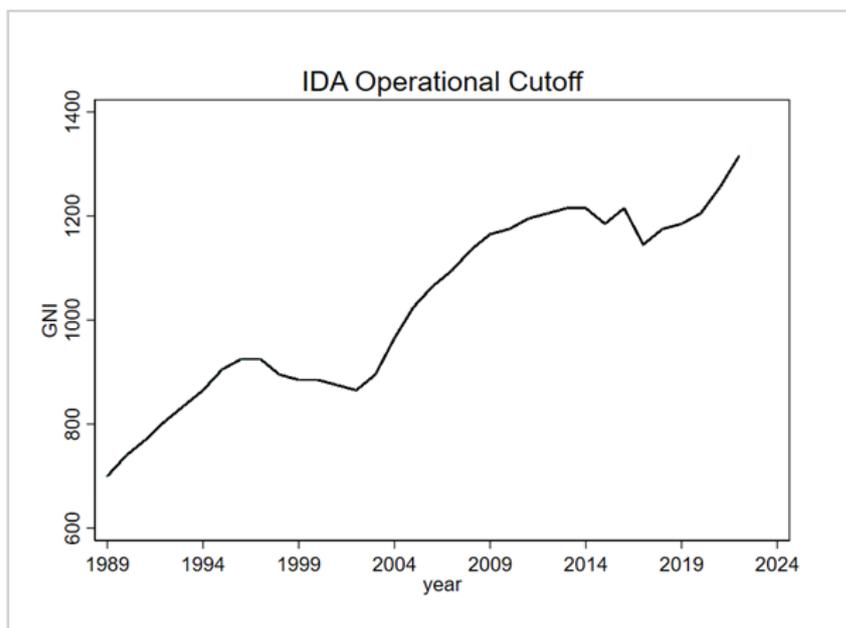
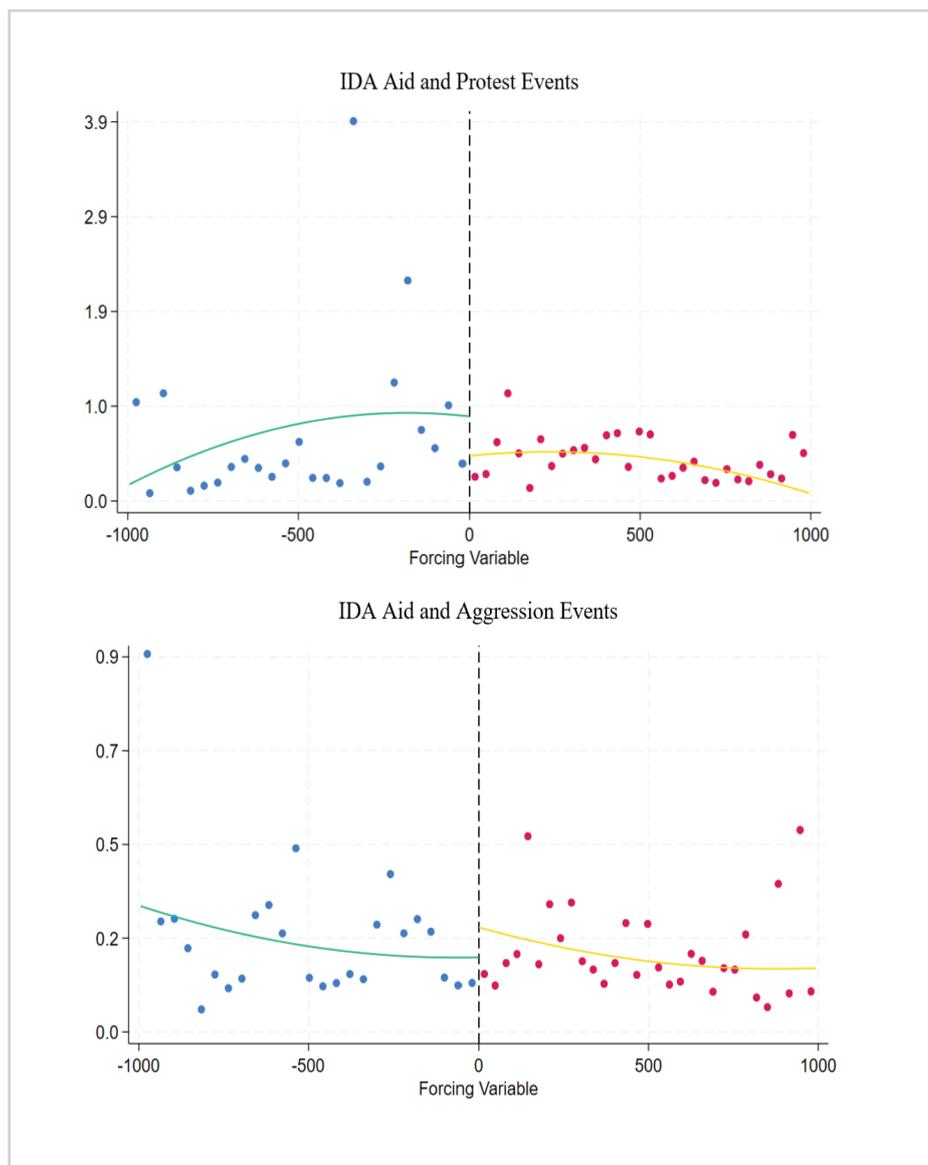


Figure 1: Evolution of IDA aid Threshold

Figure 2: IDA aid allocation rule and protest and aggression events

Notes: Each panel plots the average value of the two indices of conflict, protest and aggression events against the running variable, defined as the difference between a country's GNI per capita and the World Bank's IDA operational cutoff two years prior to aid allocation. The vertical line at zero marks the eligibility threshold for IDA aid; countries to the right (below the threshold) are eligible. The protest and aggression indices were derived through dynamic factor analysis of eight conflict indicators from Banks and Wilson (2021) (Cross-National Time-Series Data Archive). The protest dimension aggregates anti-government demonstrations, strikes, riots, and terrorism, while the aggression dimension combines revolutions, purges, and assassinations, using squared factor loadings as weights. Local quadratic fits with triangular kernel weights are estimated within $\pm 1,000$ USD around the threshold.

The figure illustrates a discontinuous decline in protest events and a rise in aggression events at the eligibility cutoff, consistent with the hypothesis that IDA aid reduces low-intensity unrest but increases high-intensity political violence. Data on IDA thresholds and allocations come from World Bank operational reports (1989–2016).



A Tale of Two Conflicts: What Changes When Aid Arrives.

The evidence we provide is clear and striking. When countries receive IDA aid, the streets become quieter. Demonstrations, riots, strikes, and other forms of public unrest fall noticeably. This is the outcome many donors hope for: an aid-induced peace, as improved welfare “wins hearts and minds” and reduces the motivation for popular protest. By raising living standards and supporting public services, governments can secure popular support and avert mass unrest, paving the way for better economic outcomes.

Yet beneath this surface calm, a different dynamic emerges. As external resources flow in, the stakes of controlling the state rise. The incidence of political assassinations, purges, and revolutions increases, revealing a surge in violent elite competition. Rather than buying peace for all, aid seems to buy off the masses while intensifying struggles among elites. The very money meant to support development can become a prize worth fighting for, with sometimes deadly results.

This asymmetry becomes clear when we distinguish between protest and aggression events:

Protest events, such as strikes, riots, demonstrations, and even terrorism, are low-cost forms of opposition that usually emerge from widespread discontent. Because IDA aid improves material wellbeing and expands access to public goods, grievances diminish, and so does the willingness of citizens to mobilize.

Aggression events, including assassinations, purges, coups, and revolutions are high-stakes confrontations over political power. Unlike street protests, these events

are not driven by grievances but by competition for rents. Large aid inflows expand the resources available to those in power, creating strong incentives for rival elites to seize control of the state.

Quantitatively, these differences are substantial: terrorism and other protest-related events decline by about 8 per year, while assassinations rise by roughly 2.5 events on average. In short, IDA aid reduces popular unrest but simultaneously heightens violent competition at the top.

Behind the Numbers: Why Does Aid Reduce Protests but Fuel Violence?

At first glance, the reduction in protest events fits the “hearts and minds” theory of development assistance. When governments can spend more on services, infrastructure, or simply show that help is coming, it is easier to calm public grievances and build support.

Yet economic aid is not a neutral resource but instead a “lootable rent.” In fragile political environments, it can tempt those in power (and those seeking it) to take greater risks. Elites may fight harder for control, knowing that victory not only brings power but also access to substantial external funding. The result is an increase in elite-driven, high-stakes conflict: purges, coups, and violent regime changes.

This double-edged impact, peace at the ordinary citizens, polarization at the top, underscores why international donors and recipient governments must pay attention not just to the economics of aid, but also its political and social side effects.

Figure 3: Dynamic Effects of IDA aid on the Quality of Governance

Notes: The figure plots the dynamic treatment effects of IDA aid eligibility on the ICRG index of quality of institutions estimated through a Regression Discontinuity Design. The horizontal axis denotes years relative to the first year of IDA aid receipt (year 0); the vertical axis measures deviations from the pre-treatment mean. Solid lines represent point estimates, and dashed lines show 95 percent confidence intervals based on robust standard errors clustered by country.

The quality of institutions index is taken from the International Country Risk Guide (ICRG) and combines indicators of bureaucratic quality, corruption, and law and order. The estimates are based on an unbalanced panel of around 125 countries from 1989 – 2022. The dashed vertical line marks the onset of IDA aid eligibility.

Institutions Under Pressure: Why the First Years After Aid Are the Most Crucial?

The spike in elite competition that follows aid inflows can also affect other aspects inside the country, like the quality of governance. As serious conflict increases, law and order weakens, and bureaucratic effectiveness declines. But over time, the very pressures that make political office more contested can also push governments to strengthen institutions, leading to gradual improvements. In this sense, the conflict results and the governance dynamics are two sides of the same coin: aid quells mass protest, fuels elite competition, and in doing so produces a temporary deterioration, but eventual strengthening, of state institutions.

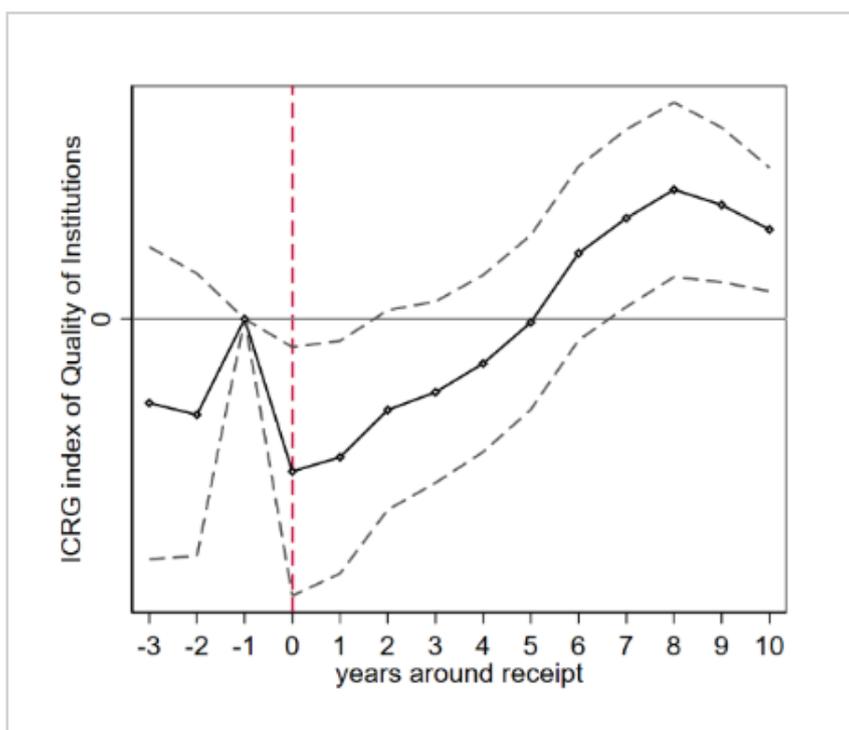
Related to this discussion, a central new finding from our research (Tsarsitalidou

and Chletsos, 2025) is that the impact of aid on the quality of institutions is not static but evolves over time. The term quality of institutions includes the ability of the state to govern effectively, measured by indicators such as control of corruption, law and order, and bureaucratic effectiveness. These dimensions capture the fair rule enforcement by governments, the effective delivery of public services, and the prevention from diverting resources for private gain.

Why is this important? Because the quality of institutions is associated with long-term development. Strong institutions encourage investment, sustain growth, and make societies more resilient to shocks. Conversely, weak institutions trap countries in cycles of poor governance, low trust, and underdevelopment.

We find that in the first years after aid arrives, “expropriation effects” dominate. The promise of external rents incentivizes both elites and political actors to capture resources, which can mean more corruption, weaker enforcement of laws, and bureaucratic inefficiency. Across our sample, the overall quality of institutions drops during the early years.

Importantly, this negative effect is not permanent. By the seventh to tenth year after aid receipt, the data show a marked turnaround. As the returns to contesting aid rents diminish and the development benefits of completed projects accumulate, the quality of institutions rebounds. Long-run measures of governance, including anti-corruption, accountability, and bureaucratic quality, all improve, with statistical significance, reversing the short-run harm.



A Dynamic Aid Cycle: From Lootable Rent to Engine of Growth

This pattern is not unique to one measure of governance or one set of countries. Across various proxies, including the ICRG indices and the World Bank's Worldwide Governance Indicators, the story repeats. Robustness checks confirm that neither blend-country status nor alternative forms of aid drive these results.

Notably, coups spike in the years immediately following aid receipt, but decline thereafter, in parallel with rising GDP per capita and growth rates linking institutional recovery to economic development.

When Good Intentions Backfire: Lessons for Policy and Practice

For international donors and policymakers, the message is clear: more money alone is not the answer. In fact, if poorly designed, aid can make fragile situations worse. The real challenge is to build programs that deliver stability now while also strengthening institutions for the long run.

The first step is to recognize how aid changes political dynamics. When large inflows enter countries with weak institutions, they raise the stakes of holding power. Political elites may see aid as a prize worth fighting for, rather than as a resource to serve the public. This can fuel corruption, rent-seeking, and even violent competition between rival groups. Instead of helping governments deliver better services, aid can then end up reinforcing bad practices and delaying progress.

The second step is to broaden what gets monitored. Tracking GDP growth or the number of protests is not enough. Donors and governments need to watch

for subtler but equally important risks – political violence, corruption, and threats to democratic governance.

Finally, timing is critical. The first years after aid arrives are the riskiest, when incentives to misuse funds or fight over them are strongest. This is when vigilance must be highest. Transparency, strong oversight, and targeted anti-corruption measures in this early phase are essential – both to protect resources and to safeguard the longer-term benefits of aid.

Box: Key Lessons for Policymakers

- Aid design should be informed by deep understanding of local political dynamics
- Disbursement must be linked to transparency, anti-corruption, and inclusion benchmarks.
- Monitoring systems should track not only economic progress but also changes in patterns of political violence.
- Civil society and marginalized groups need a voice in how aid is used.

Policy in Action: What Works in Fragile States

International experience shows that building strong, transparent institutions is the best safeguard against the perverse effects of “lootable” aid. Where governments engage with opposition parties, invest in rule of law, and share information openly, the risks of violent elite competition are much reduced.

Partnerships with local NGOs and independent oversight agencies can provide early signs of rising conflict and help channel grievances into peaceful, constructive dialogue. Donors should prioritize these elements in their programming, even when short-term pressures to “just get money out the door” are strong.

The results in this brief are robust across specifications. However, they also come with important caveats. Not all low-income countries are the same, and external shocks, such as wars, pandemics, or global economic crises, can interact with aid flows in unpredictable ways.

There are also ethical dilemmas: withholding aid because of fears of elite violence can mean real suffering for the most vulnerable, while unrestricted aid risks empowering dangerous actors. The best path is to keep watch, stay flexible, and adjust course whenever the evidence changes.

Conclusion: Beyond the Paradox – A Roadmap for Smarter Development Assistance

The story of IDA aid is not a simple one of success or failure. It is a dynamic process, marked by early pitfalls and later promise. By understanding the time profile of aid's effects – its initial risks and eventual rewards – donors and recipient governments alike can better navigate the difficult path from turbulence to progress.

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