Aid withdrawal: theory and evidence from international climate politics

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Abstract

The international focus on climate adaptation and mitigation in foreign aid funding represents a shift from prior donor support for fossil fuel industries in developing contexts. Pulling support for projects with high environmental costs seems an ideal strategy to align aid portfolios with current donor priorities. However, the distributive costs of climate transitions in recipient countries may challenge the efficacy of aid withdrawal policies. I argue that withdrawing aid can delegitimize pro-environmental parties and undermine donor reputation in target counties. Using a difference-in-differences design, I test the theory in the case of energy policy in Kosovo. After the World Bank withdrew its support for a coal power plant, voters living close to the proposed plant decreased their support for the environmentally friendly party. Voters living close to renewable energy plants, however, increased their support for this party. The results have implications for international development broadly and climate policy more specifically: aid withdrawal could be a counter-productive strategy for donor influence if losers from the policy punish international allies, but donor commitment to alternative funding in new priority areas may counteract this backlash.

1 Introduction

Foreign aid is often used to induce policy change in recipient countries in line with donor priorities (Morgenthau, 1962). However, donor priorities are not always constant. Political

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shifts in donor countries may alter the composition of power and preferences for aid donations (Dietrich *et al.*, 2020; Greene & Licht, 2018; Thérien & Noel, 2000). Fluctuations in the global economy could generate different demands for aid across sectors (Dolan & Nguyen, 2021; Heinrich *et al.*, 2016; Kobayashi *et al.*, 2021). Technological change can affect the cost-benefit analysis of different forms of interventions (MacLean & Brass, 2015; Reinsberg, 2019). When prior donor funding is at extreme odds from current donor preferences and capacity, withdrawing support for previous projects is one method of advancing these priorities (Molenaers *et al.*, 2015; Swedlund, 2017a,b).

The case of climate aid is both substantively important and analytically useful for understanding shifts in donor priorities leading to aid withdrawal. The threat that climate change poses to the world and to developing countries in particular has changed donor preferences towards aid (Arndt & Tarp, 2017; Kono & Montinola, 2019). While the ratio of environmentally friendly to "dirty" aid has increased over the last several decades (Roberts *et al.*, 2009), donors continue to fund projects that produce negative local and global environmental externalities. In contrast to other priorities, such as human rights or democratization, supporting climate-friendly policies is more likely to require donors to reverse existing aid policies aimed at economic growth. The World Bank, for example, sets a threshold at which the economic growth benefits of an aid project must be greater than the environmental costs of a project in order to proceed with any non-climate-friendly projects. As donors put more weight on the cost of environmental damage against potential project benefits, support for previously tenable projects may reverse entirely. Aid withdrawal seems a particularly effective tool for speeding the shift away from fossil fuels in aid. However, the short-term environmental benefits of aid withdrawal must be weighed against political costs to these actions. First, the removal of donor funding may not ensure that "dirty" projects are discontinued because aid is fungible; recipients can shift funds from other sectors to the project. But perhaps more significantly, donors may lose policy influence both directly and indirectly as a result of aid

withdrawal.

How does aid withdrawal affect donors' ability to influence policy in recipient countries? I argue that the distributional consequences of aid withdrawal affect the long-term ability of donors to influence policy in recipient countries. Domestic political parties in recipient countries respond to aid withdrawal events in line with their party platforms and in response to their constituent bases. Parties may blame the international community for the aid withdrawal, pledge to shift other funding to the project to compensate for withdrawal, or support the international community's decision. Recipient citizens who lose out on the benefits of planned aid projects will blame both the international community and domestic political parties whose policies most align with the international community's updated priorities. In contrast, parties whose actions oppose the international community, either through blame or project continuation, should benefit amongst voters most exposed to aid withdrawal. Donors may lose direct influence through blame dynamics and indirectly as their domestic allies lose political support.

I illustrate this dynamic with a case study of the World Bank's withdrawal of support for a coal power plant in Kosovo. The internationally supported project was the subject of intense international public scrutiny after the World Bank pledged to stop funding coal power in 2013, but continued its support for the Kosovo plant until 2018.[1] The World Bank pulled back from the project after more than ten years of planning due to changes in the organization's environmental standards and falling prices of renewable energy. I show that domestic political cleavages in response to the withdrawal followed party affiliations with the international community. Using a spatial difference-in-differences design, I find that polling stations close to the proposed project disproportionately supported the party that aimed to continue with the coal plant's construction against the will of the international

[1] *Reuters*. "World Bank pulls out of Kosovo coal power plant project." 10 October 2018. https://www.reuters.com/article/worldbank-kosovo/world-bank-pulls-out-of-kosovo-coal-power-plant-project-idUKL8N1WQ518

community. These highly exposed polling stations also substantially decreased their support for the party most allied with the international community. Amongst polling stations in the vicinity of existing renewable energy plants, however, this pattern is reversed: voters likely to be exposed to renewable energy support the international party at higher levels in the wake of aid withdrawal from the coal plant.

Finally, I discuss the implications of these results for the domestic political economy of foreign aid. While international agencies have practical and normative incentives to change aid policies in line with global shifts in priorities and technological advancements, the sunk costs of existing aid projects may cause friction in these transitions for aid recipients. This is particularly salient in the case of climate change mitigation efforts. While international aid organizations have made adding additional climate adaptation and mitigation aid a priority, I demonstrate that failure to consider the consequences of altering or abandoning projects developed in less climate-friendly periods may cost international actors allies in prospective recipient countries. This finding notably unites the foreign aid and climate transition literatures by illustrating the link between lost employment prospects and lower support for climate change mitigation amongst transition "losers"–as well as increased support for the international community amongst those exposed to renewable energy generation (Gaikwad *et al.*, 2020; Scoville-Simonds *et al.*, 2020; Zucker, 2021). This is both substantively and theoretically significant as lower support for the international ally party as a result of potential employment losses associated with their preferred policy suggests significant barriers to international, top-down efforts for policy changes, particularly climate change mitigation. However, I also show that investing in alternative energy sources may boost local economies and reverse this pattern. The spatial and economic distribution of these costs and benefits may alter the domestic balance of power in recipient countries, potentially shifting environmental and energy policy as a result. This paper offers caution and hope for donor-led climate policy by drawing close attention to the distributional consequences of aid withdrawal.

2 Aid withdrawal

Donor countries often use foreign aid to influence policy in recipient countries (De Mesquita & Smith, 2007; Bueno de Mesquita & Smith, 2009). Unlike sanctions, in which target countries are punished by restricting access to certain forms of international transactions (Drezner, 2000, 2003; Mulder, 2022; Pape, 1997), foreign aid is a positive inducement towards preferred donor policies (Dunning, 2004). Aid withdrawal is another tool states can use to affect policy change in target states. Aid withdrawal removes a positive inducement in target states and these funds theoretically can be reallocated elsewhere (Mertens, 2021). Where aid withdrawal differs from sanctions for target states is the active removal of planned projects based on expected aid flows. A large literature notes the negative effects of aid fluctuations on recipient countries' ability to effectively plan long-term policies (Bulíř & Hamann, 2003; Fielding & Mavrotas, 2005; Bulíř & Hamann, 2008; Celasun & Walliser, 2008; Fielding & Mavrotas, 2008; Hudson & Mosley, 2008; Kharas, 2008; Hudson, 2015).[2] Aid withdrawal as international policy induces these costs for recipient countries in order to alter domestic politics.

Donor preferences for climate policy may be especially likely to generate aid withdrawal events as environmental standards are directly weighed against other benefits of aid projects. When climate-based concerns become more salient than other types of concerns, projects that otherwise align with donor priorities may too be costly to fund. The World Bank, for example, developed stronger environmental protections after high-profile incidents of infrastructure projects, particularly large dams and road projects, came under severe criticism from local activists, NGOs, and the US Congress in the late 1980s and early 1990s, leading to a shift in the types of projects sponsored by the Bank from heavy infrastructure to social and environmental projects (Nielson & Tierney, 2003; Wade, 1997, 2002; Weaver, 2008). In

[2]Recipient countries have adapted to the variability of aid flows from donors by internally placing a discount on committed funds to help absorb these shocks (Swedlund, 2017a).

the case of energy projects, it is more possible for support *within a given project* to reverse. Focusing on environmental standards may reverse support for established projects rather than support for aid in a country more generally; a donor may put more weight on democratization one year than another, but is unlikely to have supported a project that is deliberately authoritarian in the past and have to pull funding upon valuing democratization.

Aid withdrawal from specific projects leaves recipients without established funding to complete the projects. What are the distributional effects of this shift in donor priorities? I theorize that people in recipient countries who live close to the proposed projects, particularly infrastructure projects, disproportionately benefit from the projects due to local boosts in employment. When aid is withdrawn, these same communities bear greater costs from the loss of funding compared to communities further from the planned projects. However, some locations may benefit from priority shifts that generate new projects or increase support for existing projects in other communities.

The political effects of the distributional consequences of aid withdrawal will depend on how voters perceive party platforms as in alignment with donor priority shifts or opposed to them. Parties may polarize around donor priorities for various reasons. Incumbent parties that are in power when the aid is withdrawn have clear incentives to move forward with projects in order to avoid breaking promises to their constituents (Schneider & Thomson, 2021; Stokes, 2001). Parties without clear ties to the project should be less inclined to pursue the continuation of the project (or compensate losers) because they do not bear political costs of the project's failure. In line with work on political targeting of aid projects, parties not associated with the project also may not be actively courting the voters who would benefit most from the project. Parties with clear connections to the international community may develop a reputation amongst their constituents for acquiring aid (Dolan, 2020; Ijaz, 2020) or for general affinity with international norms and preferences (Terman, 2019). These parties also are likely to value their relationship with internationals and see

this as a selling point for their voters, reducing incentives to threaten that relationship by publicly blaming internationals for aid project failures. Parties *without* clear ties to the international community are not constrained by their reputation amongst citizens or donors in their ability to shift blame to internationals. In fact, this may be an optimal strategy given that their non-alignment towards, or even alignment against, the international community may be a selling point for voters in the aftermath of aid withdrawals.

Party incentives to shift blame towards the international community may delegitimize donor actions among citizens affected by aid withdrawal (Grossman *et al.*, 2018; Gruffydd-Jones, 2019; Terman, 2019). This, in turn, may pose difficulties for international action in recipient countries if citizens object to the presence of donors. Pro-environmental donors may face additional challenges in promoting this agenda if blame dynamics close off their ability to influence political outcomes in recipient states. The delegitimization of one donor may also open the door to influence from other donors with varying levels of commitment to environmental issues (Blair *et al.*, 2022; Dunning, 2004; Kohno *et al.*, 2021).

If parties have different policy responses to donor priority shifts, voters should respond by rewarding the parties in line with how they expect to benefit, or lose, from the shift in priorities. Individual exposure to aid withdrawal should increase support for parties that oppose the international community's decision to withdraw (Seitz & Zazzaro, 2020). In contrast, exposure to emerging donor priority sectors should increase support for parties that support the international community's shift. Particularly in the case of climate transitions, communities that are in proximity to existing renewable energy or are environmentally well-suited for investments in solar, wind, hydropower, or other renewable energy sources may expect to disproportionately benefit from international disinvestment in fossil fuels. Reversals in international support not only signal a change in donor priorities, but alter the competition between beneficiaries potential policies. If donors discontinue funding for one project, this opens up space for rival projects to capture greater market share.

Geographically, however, some areas are more suited to some types of aid projects than others. The spatial distribution of potential energy generation, in particular, affects which populations can benefit from jobs created by the transition to renewables. Donors may not be able to target renewable energy investments at the populations that lose jobs in fossil fuel extractive industries if the environment in which the original project was planned is unsuitable for other forms of energy production. Depending on the relative size of the winners and losers from policy changes, donors' attempts to shift recipient priorities in line with their own could undermine not only their own influence, but that of their political allies.

3 The World Bank and coal power in Kosovo

Kosovo is a case of extreme dependence on the international community for both economic support and security. Kosovo was released from Serbian rule in 1999 after an unsuccessful Albanian insurgency, a Serbian attempt at ethnic cleansing, and several months of NATO bombings of Belgrade. The nascent state declared independence in 2008 after almost a decade of provisional rule by the United Nations Mission in Kosovo. In the years since the NATO bombings, Kosovo has been one of the biggest beneficiaries of international aid per capita.[3] Given Kosovo's proximity to the EU, Western donors have a vested interest in ensuring the stability and growth of the country (Bermeo & Leblang, 2015; Papadimitriou *et al.*, 2007). The power asymmetry between Kosovo and its international donors and creditors makes it a convenient case study for the domestic political consequences of aid withdrawal.

The energy sector in Kosovo faced challenges after the war because it lacked safe, existing energy infrastructure and political disagreements with its neighbors, primarily Serbia, prevented easy import of energy. Blackouts and shortages were common in the decade leading up to independence and continue to this day. Two central power plants, Kosovo A

[3]The OECD puts Kosovo in the top 25% of aid recipients on a per-capita basis.

and Kosovo B, continue to provide the majority of electricity to citizens despite running on coal. In the words of the *New York Times*, "Coal plants don't come much dirtier than than Kosovo A."[4] The idea of building a new power plant in lieu of or in addition to the renovation of the existing power plants was supported by the Government of Kosovo[5] and all of its international partners due to the economic and social costs of irregular power supplies.[6] While the international community had reservations about the environmental costs of the proposed power plant, these concerns were outweighed by the benefits to economic and security stability offered by a domestic power source.

In 2006, the World Bank partnered with Kosovo to address the demands on the country's electric grid.[7] The World Bank did not require policy concessions from Kosovo; the goals of the investors and grant recipient were in line. In proposing the power plant, dubbed "Kosova e Re" ["New Kosovo"][8], the World Bank had to balance concerns about funding coal power in the 21st century and providing a stable source of electricity for Kosovars. From 2006 to 2017, the World Bank argued that coal was the most viable source of energy for Kosovo and therefore an exception to its own ban on funding coal power. Support for the plant continued even after the World Bank pledged to fund no more coal plants in 2013. World Bank president Dr. Jim Jong Kim stated in 2014, "Climate change and the coal problem is

[4] https://archive.nytimes.com/www.nytimes.com/cwire/2011/07/11/11climatewire-us-on-both-sides-of-new-
html?pagewanted=all

[5] Before 2008, the Government of Kosovo was known as the Provisional Institutions of Self-Government, or PISG.

[6] "Based upon data provided by the KEK [Kosovo Energy Company] Capacity Management Department, the percentage of unserved demand (the ratio of unserved energy to supplied energy plus unserved energy) was 14.03% in 2006."(iv) "Korporata Energjetike e Kosoves (KEK) Network and Supply Project 2007 to 2013 Final Report: USAID Contract Number EPP-I-04-03-00008-00." July 2013. Produced by Tetra Tech ES. https://pdf.usaid.gov/pdf_docs/PBAAA300.pdf

[7] https://projects.worldbank.org/en/projects-operations/project-detail/P097635

[8] Originally the plant was called "Kosovo C" in reference to the existing Kosovo A and B plants but was rebranded to increase the distance between the unpopular and pollutant-generating plants and the new, "cleaner" plant. "Pas 11 vitesh plane, fillon ndërtimi i termocentralit "Kosova e Re." *Telegrafi* 12 June 2015. https://telegrafi.com/pas-11-vitesh-plane-fillon-ndertimi-i-termocentralit-kosova-e-re/

one thing, but the humanitarian issue is another, and we cannot turn our backs on the people of Kosovo who face freezing to death if we do not move."[9] The cost of developing renewables exceeded that of coal, even when environmental and health spillover effects were included.[10] Kosovo frequently cited the World Bank's, and other international actors', support for the use of coal as justification for the project; the Minister of Economic Development noted in early 2018 that "the 'New Kosovo' TPP is one of the few exceptions in the world that the World Bank has made to finance it, which will generate electricity from lignite."[11]

However, the World Bank officially withdrew its support for the power plant in October 2018, twelve years after it had first agreed to work with Kosovo to develop it.[12] The least-costly option for energy in Kosovo, when factoring in environmental and health costs, had become renewable sources, whose price had plummeted since the plant had first been proposed.[13] The Kosovan government pledged to continue with the plant with other international or domestic funding but this decision faced pushback from civil society and

[9] "Kosova C: A është ndonjëherë thëngjilli investim i pastër?" *Zeri*. 15 January 2016. https://zeri.info/ekonomia/71994/kosova-c-a-eshte-ndonjehere-thengjilli-investim-i-paster/

[10] "It is undisputed that the World Bank is no great proponent of coal energy, but it is also correct that Kosovo is an exception. Even though it is not a large country, it has the world's fifth-largest lignite reserves. It is estimated that at least 10.9 billion tons are exploitable, which means that, with current consumption, there is enough coal for the next 1,500 years. At the same time, the preconditions for generating electricity from wind and hydro sources are unfavorable." "An Example of How Things Should Not Be Done." *World Bank News*. 7 August 2014. https://www.worldbank.org/en/news/opinion/2014/08/07/example-how-things-should-not-be-done

[11] "Lluka flet për rëndësinë e termocentralit "Kosova e Re"." *Koha*. 22 April 2018. https://www.koha.net/arberi/88769/lluka-flet-per-rendesine-e-termocentralit-kosova-e-re/. Kosovo authorities say they have strong World Bank support for the construction of the "New Kosovo" power plant, and have warned that the project is in the final stages of finalization. The statements followed the World Bank's letter sent to the Economic Development Minister confirming that 'support in principle is conditional on meeting all the necessary technical, economic, environmental, social, legal and financial criteria of the World Bank Group'. "Termocentrali i ri drejt finalizimit, Banka Botërore kërkon përmbushjen e kushteve." *Radio Evropa e Lire*. 22 June 2017. https://www.evropaelire.org/a/28325140.html

[12] "World Bank pulls out of Kosovo coal power plant project." *Reuters*. 10 October 2018. https://uk.reuters.com/article/worldbank-kosovo/world-bank-pulls-out-of-kosovo-coal-power-plant-project-idUKL8N1WQ518

[13] "Energy in Kosovo." *World Bank*. October 2018. https://www.worldbank.org/en/country/kosovo/brief/energy-in-kosovo

parliamentary opposition parties.

In the wake of the withdrawal, and prior to the 2019 parliamentary elections, political parties in Kosovo coalesced around responses to the withdrawal in line with their relationships to the international community. The incumbent party, PDK (henceforth *incumbent* party), campaigned on promises of moving forward with the project despite lack of international support. LV (henceforth, *populist* party), a populist opposition party known for its anti-elite and anti-international rhetoric, opposed building the plant even before the international community withdrew its support. The international community's favored party, LDK (henceforth, *internationalist* party), did not develop a clear stance on the continuation or discontinuation of the project.

The election primarily focused on issues of corruption and economic development in Kosovo.[14] In the wake of a polarized and highly personal campaign, the opposition defeated the ruling party handily in the October 2019 elections. The populist party made major gains in political power at the expense of the incumbent party and formed a governing coalition with the internationalist party.[15]

Ultimately, the World Bank rescinded its support because of an exogenous drop in alternative energy pricing, not because of actions or lack thereof on the part of Kosovo. The initial issue of the need for domestic energy generation has never been in dispute in Kosovo politics, but the World Bank's initial support for the power plant led the governing party to make the plant a salient issue in its campaign messaging. The visibility and importance of the project for governing party supporters created an opening for the opposition party to take a stance against the project in-line with its anti-imperialist message while the more cen-

[14] "Kosovo Elections: Education, Health, Environment and Rights." *Balkan Insight*. 3 October 2019. https://balkaninsight.com/2019/10/03/kosovo-elections-education-health-environment-and-rights/

[15] "Kosovo Final Election Result Confirms Vetevendosje Victory." *Balkan Insight*. 7 November 2019. https://balkaninsight.com/2019/11/07/kosovo-final-election-result-confirms-vetevendosje-victory/

trist incumbent opted to move forward with the power plant to avoid blame for the project's failure. In contrast, the party with the closest ties to the international community refused to criticize the withdrawal of international support. The 2019 election campaign in Kosovo demonstrates how party platforms evolve to incorporate the events of aid withdrawal in line with international alignment.

4 Empirics

I use a spatial difference-in-differences strategy to identify the effect of aid withdrawal on party vote share amongst individuals close to and farther from the planned project. I put together a novel dataset of geolocated polling stations in Kosovo from 2010-2021.[16] In total, I observe 818 polling stations across five national elections. I calculate the absolute distance from each polling station to the planned Kosovo B power plant. Figure 1 shows the individual polling station locations as well as the location of the planned power plant.

I estimate the difference in the change in vote share for each major political party after the World Bank's 2018 withdrawal of support from the power plant for polling stations close to and further from the proposed plant.[17] A key assumption in the difference-in-differences design is that the control units are not affected by treatment. In the case of the power plant, all units are treated by both the *information content* of the withdrawal and the *national benefits and costs* of access to energy from the power plant. All people in Kosovo received the campaign information from political parties about the power plant and all Kosovans would benefit from the energy stability created by the power plant and pay the associated fiscal and pollution costs of self-funding it. However, only people voting at polling stations close to

[16]Polling station-level electoral results are only available from 2010 onwards from the Kosovo Central Election Commission.

[17]When major parties run in coalitions with other parties, I use the vote share of the coalition as the outcome. This reporting only occurs when coalitions are formed prior to the election, not post-electoral coalitions. In all other circumstances, the party's vote share is reported.

Figure 1: *Locations of polls and 'Kosova e Re':* Geolocated polling stations are represented by black dots. Location of planned 'Kosova e Re' plant depicted with a red triangle.

the power plant benefit from the employment opportunities offered by the plant. Treatment, then, is the access to potential power plant employment, which can be considered excludable from the further control units. Figure 2 shows the main difference-in-difference results for exposure to aid withdrawal by party. The main model specification uses a fifteen kilometer bandwidth around the location of the proposed plant to determine whether a given polling station is considered affected.

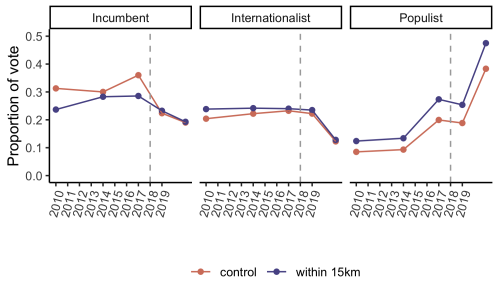

Figure 2: *Difference-in-differences for 'Kosova e Re':* Vote share by party using 15km bandwidth around planned coal plant.

	(1) Intl.	(2) Pop.	(3) Inc.	(4) Intl.	(5) Pop.	(6) Inc.	(7) Intl.	(8) Pop.	(9) Inc.
Close	0.02	0.05	−0.05	0.07**	0.25***	0.06**	−0.61	0.94	0.15
	(0.06)	(0.04)	(0.06)	(0.02)	(0.02)	(0.02)	(0.52)	(0.98)	(1.09)
Post-2019	−0.04***	0.15***	−0.11***	0.03**	0.11***	−0.08***	−0.004	0.15	−0.02
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.05)	(0.10)	(0.10)
Close*	−0.01	0.03	0.06**	−0.04	0.02	0.05*	−0.01	0.01	0.05*
Post-2019	(0.03)	(0.02)	(0.02)	(0.03)	(0.03)	(0.02)	(0.02)	(0.01)	(0.02)
Poll*Year FE	-	-	-	✓	✓	✓	✓	✓	✓
Covs	-	-	-	-	-	-	✓	✓	✓
Adj. R^2	0.03	0.20	0.06	0.84	0.83	0.84	0.86	0.85	0.81
Num. units.	818	818	818	818	818	818	790	792	792
N Clusters	37	37	37	37	37	37	37	37	37

$^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.10$

Table 1: *Proximity to planned coal plant:* Difference-in-differences models estimating effect of proximity to the planned 'Kosova e Re' power plant on vote share for different parties. Dependent variable is percent vote share for a given party. Robust standard errors clustered by municipality.

Table 2 shows difference-in-difference results for proximity to the planned 'Kosova e Re' power plant with a 15 kilometer bandwidth determining "closeness" to the affected plant. Models 1-3 depict results for each main party with no fixed effects or controls. Models 4-6 include municipal fixed effects while models 7-9 include both municipal fixed effects and control variables. The control variables, all at the municipal level, include `Population`, `Population density`, `Nighttime lights`, `Temperature (average)`, `Wind speed (average)`, `Solar exposure (average)`, and `Elevation`. `Population` and `Population density` account for municipal labor characteristics and `Nighttime lights` considers municipal development. The environmental variables control for the suitability of a given municipality for different types of power projects, including renewable sources.

Appendix A reports results for the same models with bandwidths of 5km, 10km, 20km, and continuous distance from the planned power plant. As only eleven polling stations are located within five kilometers of the power plant, the results for the five kilometer bandwidth

are substantively the same but statistically insignificant across all parties. The ten kilometer bandwidth closely mirrors the main results while the twenty kilometer bandwidth holds the same direction at lower levels of significance, consistent with a model of access to highly localized employment. Continuous measures of exposure also substantively replicate, but hold traditional levels of significance only when accounting for spatial autocorrelation.

As parallel trends do not hold for each party, I use a synthetic difference-in-differences model (Arkhangelsky *et al.*, 2019) to fit pre-trends. The synthetic difference-in-differences method is particularly useful given its ability to differentially weight time periods (using time period fixed effects). Three parties incumbent formed a pre-election coalition in the third time period in the study (2017), with the internationalist party and a third incumbent party forming a second pre-election coalition, and therefore the parties individually in this period receive a much higher vote share, as we should expect from a coalition of the top parties. [18] Mechanically, we should expect these coalitions to receive fewer votes due to smaller constituent bases; the drop in the incumbent party's vote share in 2019 and 2021 overall may be related to both their performance and the absence of coalition partners. With synthetic differences-in-differences, we can algorithmically upweight periods in the pre-trends that are more similar to the post-treatment period and down-weight exceptionally different periods. This method dominates the synthetic control method for the study at hand because the synthetic control uses unweighted treatment period averages which are helpful in the case at hand due to the aforementioned changes in electoral coalitions. Figure 3 shows the resulting coefficients for the synthetic difference-in-differences results. The results are substantively similar: The incumbent party's vote share increases by four percentage points ($SE = 0.008$), the internationalist party's decreases by two ($SE = 0.005$), and populist party's decreases by less than one ($SE = 0.006$).

The theory of donor priority shifts predicts a decrease in vote share for parties that

[18] See Appendix Table 7 for a full accounting of pre- and post-electoral coalitions.

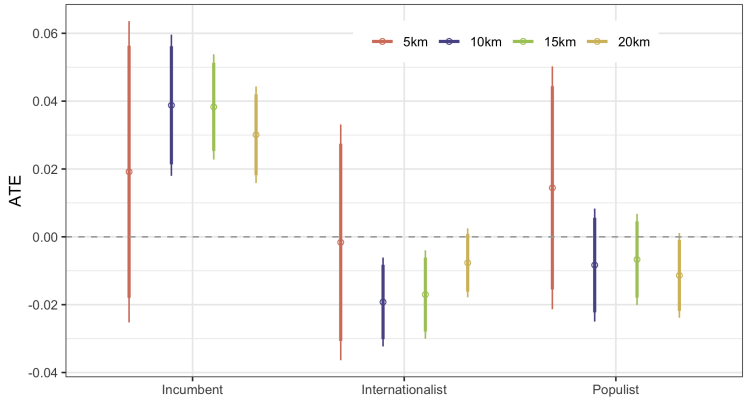

Figure 3: *Coal energy synthetic difference-in-differences*

adhere to donor politics at the expense of local economic concerns. However, if donor priority shifts are in line with local economic concerns, parties affiliated with donor policies should benefit. I examine locations in Kosovo that should benefit from greater donor commitment to renewable energy in the wake of withdrawal from the planned coal power plant. Compared to areas that are not likes to experience investment in renewable energy, people in municipalities with high potential for solar power should be aware of the benefits of renewable energy for both the local workforce and environmental protection. As electricity generated by the specified renewable sources is distributed through the national electric grid,proximity to these potential projects does not ensure greater stability of energy supply but may support the local economy through job provision and increased local demand. As a member of the Energy Community Treaty (EnCT), a commitment between states in southern Europe and European Union member states to expand access to European energy, Kosovo has set up a funsing mechanism to support investment in renewable energy along with international funding [19].

I use a difference-in-differences strategy to estimate the effect of proximity to potential renewable energy sources on vote share for different parties in the wake of the withdrawal

[19]Specifically, renewable projects will be supported by a feed-in tariff funding mechanism which ensures that renewable energy will be purchased before oil and gas in order to maintain steady demand.

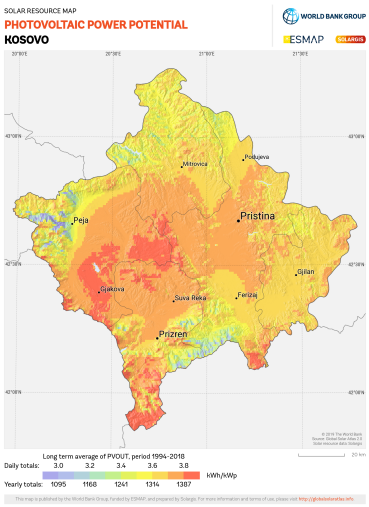

Figure 4: *Locations suitable for renewable energy:* World Bank map of photovoltaic potential in Kosovo.

of international support for the 'Kosova e Re' power plant. Figure 4 depicts the geographic suitability for solar plants in Kosovo.

Figure 5 shows the main difference-in-differences results for exposure to the potential for renewable energy on party support post aid-withdrawal. I initially use the municipality in which a polling station is located to determine exposure. The cutoff is operationalized by the extent to which the municipality is suitable for solar energy: if a municipality is in the top X percentile of municipalities in photovoltaic potential, it is considered exposed to potential renewable energy. My main specification is the 75th percentile, though I use the 60th, 70th, 80th, and 90th percentiles for robustness.

Table 2 depicts full results for the difference-in-differences specifications for different parties. Models 1-3 show the raw results, 4-6 include two-way fixed effects, and 7-9 add in municipal covariates. Across all models, the internationalist party sees a statistically significant increase in vote share equivalent to two to three percentage points. The populist party's vote share decreases by two to three percentage points, but the results are not meaningfully distinct from zero. In contrast, the results for the incumbent party are inconclusive and

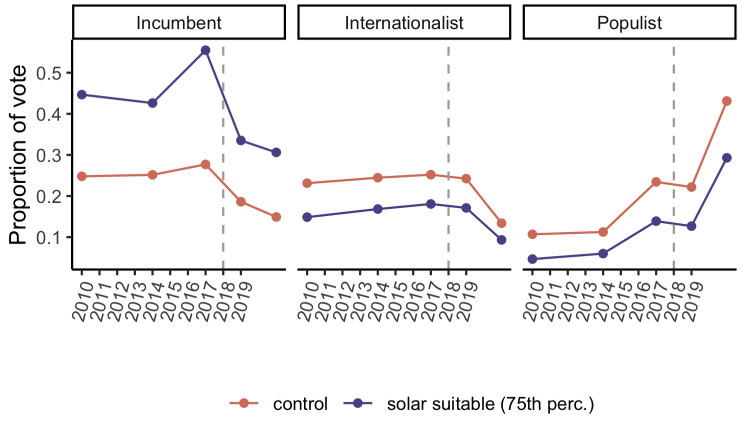

Figure 5: *Difference-in-differences for solar-suitable locations:* Vote share by party in polling stations with high capacity for solar energy.

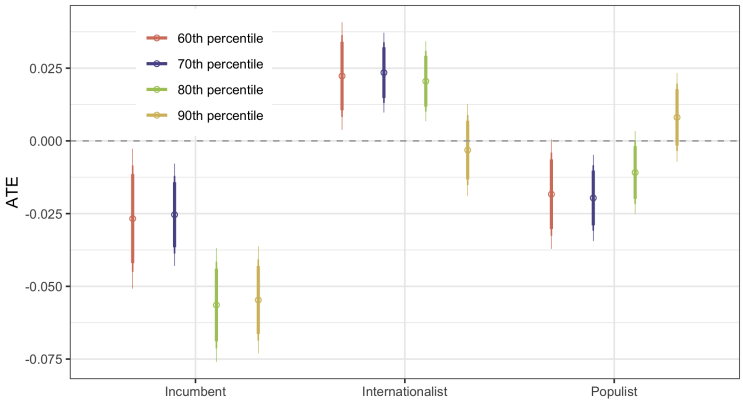

Figure 6: *Potential locations of renewable energy synthetic difference-in-differences*

fluctuate in sign and magnitude between models.

I adjust for the inconsistent parallel trends using the synthetic difference-in-differences model. Under this model, seen in Figure 6, the incumbent party's support drops by five percentage points ($SE = 0.008$) while LV's drops by one percentage point ($SE = 0.006$) in municipalities in the 80th percentile of photovoltaic potential. In contrast, the internationalist party's increases by two percentage points ($SE = 0.005$). These results are largely consistent with the original difference-in-differences specification.

	(10) Intl.	(11) Pop.	(12) Inc.	(13) Intl.	(14) Pop.	(15) Inc.	(16) Intl.	(17) Pop.	(18) Inc.
Solar	−0.08	−0.08**	0.20*	−0.20***	−0.08***	0.15	0.31	0.02	1.11
	(0.04)	(0.02)	(0.08)	(0.01)	(0.01)	(0.02)	(0.55)	(0.96)	(0.79)
Post-2018	−0.06***	0.15***	−0.10***	−0.11***	0.31***	−0.09***	−0.03	0.19	0.06
	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.06)	(0.10)	(0.10)
Solar*	0.02	−0.05*	−0.06	0.02	−0.04*	−0.06	0.03	−0.05*	−0.06
Post-2018	(0.02)	(0.02)	(0.03)	(0.01)	(0.02)	(0.03)	(0.02)	(0.02)	(0.04)
R^2	0.08	0.20	0.19	0.89	0.89	0.88	0.90	0.89	0.88
Num. obs.	3193	3193	3193	3193	3193	3193	3193	3193	3193
N Clusters	38	38	38	38	38	38	38	38	38

$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

Table 2: *Suitability of location for renewable energy:* Difference-in-differences models estimating effect of suitability of location for solar plants on vote share for different parties. Dependent variable is percent vote share for a given party. Robust standard errors clustered by municipality.

5 Discussion and Conclusion

Aid withdrawal events, and recipient country parties' subsequent responses, affect political support for parties in areas exposed to the withdrawal. In the case of Kosovo, localities that expected to benefit from the coal-powered plant subsequently supported the party that aimed to continue the plant despite lack of international support. These areas decreased their support for internationally affiliated parties that would not continue construction of the plant. Parties with countervailing affiliations–both anti-internationalist and anti-proposed project–see no change in vote share in exposed localities. The findings here are consistent with the theoretical claims that party vote share is a function of the expected distributional effect of aid withdrawal on exposed communities.

Evidence from renewable energy plants supports the idea of distributional benefits as well as cots to aid withdrawal. Voters in the vicinity of solar and wind energy production increase their support for the party most tied to the international community when the World Bank withdraws funding for the coal plant. The party that vowed to continue the plant receives a

lower vote share amongst polling stations close to renewable energy plants. In parallel with the results for the anti-internationalist, anti-coal power plant party in the main model, this party sees little to no reduction in vote share. The voting patterns of voters near renewables directly contrast with those of voters close to the proposed power plant.

Together, this evidence suggests that aid withdrawal may be a powerful tool for donors to affect policy in recipient countries, but that its effects may generate political costs for international allies in the donor country. The distributional consequences of aid withdrawal can shape the contours of post-withdrawal politics in ways that may be favorable or unfavorable to donor priorities. Aid withdrawal as a tool of policy change can effectively reverse donor commitments to projects no longer aligned with donor priorities, but may have longer-term costs on donor influence in a given state.

This study also has clear implications for international involvement in mitigating climate change in developing countries. International commitment to climate change mitigation and adaptation is reshaping international institutions, and foreign aid, both bilateral and multilateral, follows these same trends (Kono & Montinola, 2019; Michaelowa & Michaelowa, 2011; Roberts *et al.*, 2009). In the energy sector, donors and recipients balance the humanitarian and development concerns of recipients in coal-, oil-, and natural gas-abundant nations against the environmental costs of burning fossil fuels. Environmental groups have successfully instituted policies for development agencies to evaluate the environmental risks of development projects, requiring implementors to assess the potential pollution or agricultural degradation that may result from implementing projects.

However, the development projects negotiated when the energy-environment balance was skewed towards fossil fuels did not disappear with the emergence of new environmental standards. While projects going forward will start from the premise of renewables being both more cost-effective and climate-friendly than fossil fuels, international aid agencies are faced with the prospect of either moving forward with a number of ongoing or planned

fossil fuel-intensive projects against their internal protocols, altering the projects to be more climate-friendly, or dropping the projects altogether. International aid organizations choose between the direct environmental costs of continuing less-climate-sensitive aid programs and undermining their own bargaining power in recipient contexts in which internationals withdraw or alter the composition of benefits for planned or ongoing aid projects.

This study also demonstrates that the international community was close to not achieving its objective in preventing the construction of the power plant. The incumbent party campaigned on a promise to continue with the project despite the environmental, and now fiscal, costs of the project. In localities close to the proposed project, the incumbents saw an increase in vote share despite being in power when international support for the project was withdrawn. These results are consistent with voters prioritizing employment opportunities over climate costs (Gaikwad *et al.*, 2020; Zucker, 2021).

This dynamic points to the limits of international coercion on climate change mitigation and adaptation in developing contexts. While foreign aid can be a tool for environmental progress, new commitments to climate-friendly policies may fail to take into consideration the costs of transitioning from fossil fuel projects. International aid agencies must decide between poisoning the well literally with continued support for polluting projects and metaphorically by losing domestic political support for themselves and their allies in recipient polities.

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A Bandwidths

	Intl	Pop	Inc	Intl	Pop	Inc	Intl	Pop	Inc
Close (5k)	−0.06	−0.12	−0.12	−0.06*	0.21*	0.11*	−0.29	0.33	−0.06
	(0.02)	(0.06)	(0.06)	(0.00)	(0.01)	(0.01)	(0.11)	(0.20)	(0.20)
Post-2019	−0.05***	−0.11***	−0.11***	0.02*	0.11***	−0.07***	−0.01	0.15	0.02
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.06)	(0.10)	(0.10)
Close (5k) *	−0.00	0.04	0.04	−0.02	0.01	0.02	−0.00	0.01	0.01
Post-2019	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)
Poll & Year FE	-	-	-	✓	✓	✓	✓	✓	✓
Covs	-	-	-	-	-	-	✓	✓	✓
R^2	0.03	0.06	0.06	0.88	0.86	0.87	0.89	0.89	0.86
Num. obs.	3904	3904	3904	3904	3904	3904	3096	3096	3096
N Clusters	38	38	38	38	38	38	37	37	37

$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

Table 3: 5 km bandwidth

	Intl	Pop	Inc	Intl	Pop	Inc	Intl	Pop	Inc
Close (10k)	0.02	−0.10	−0.10	0.27**	0.15**	−0.06	0.31	−0.04	0.27
	(0.08)	(0.05)	(0.05)	(0.03)	(0.02)	(0.02)	(0.24)	(0.41)	(0.28)
Post-2019	−0.05***	−0.11***	−0.11***	0.03*	0.11***	−0.07***	−0.01	0.15	−0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.06)	(0.10)	(0.10)
Close (10k) *	−0.01	0.06*	0.06*	−0.03	0.02	0.05	−0.01	0.00	0.04
Post-2019	(0.04)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.01)	(0.02)
Poll & Year FE	-	-	-	✓	✓	✓	✓	✓	✓
Covs	-	-	-	-	-	-	✓	✓	✓
R^2	0.03	0.07	0.07	0.88	0.86	0.87	0.89	0.89	0.86
Num. obs.	3904	3904	3904	3904	3904	3904	3096	3096	3096
N Clusters	38	38	38	38	38	38	37	37	37

$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

Table 4: 10 km bandwidth

	Intl	Pop	Inc	Intl	Pop	Inc	Intl	Pop	Inc
Close (20k)	0.02	−0.02	−0.02	−0.14***	−0.02	0.53***	0.56	0.10	0.37
	(0.05)	(0.07)	(0.07)	(0.02)	(0.02)	(0.02)	(0.23)	(0.41)	(0.29)
Post-2019	−0.05***	−0.12***	−0.12***	0.03*	0.11***	−0.08***	−0.01	0.15	−0.02
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.06)	(0.10)	(0.11)
Close (20k) *	−0.00	0.06*	0.06*	−0.01	0.01	0.04	−0.01	0.00	0.05*
Post-2019	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)	(0.02)
Poll & Year FE	-	-	-	✓	✓	✓	✓	✓	✓
Covs	-	-	-	-	-	-	✓	✓	✓
R^2	0.03	0.06	0.06	0.88	0.86	0.87	0.89	0.89	0.86
Num. obs.	3904	3904	3904	3904	3904	3904	3096	3096	3096
N Clusters	38	38	38	38	38	38	37	37	37

$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

Table 5: 20 km bandwidth

B Synthetic difference-in-differences

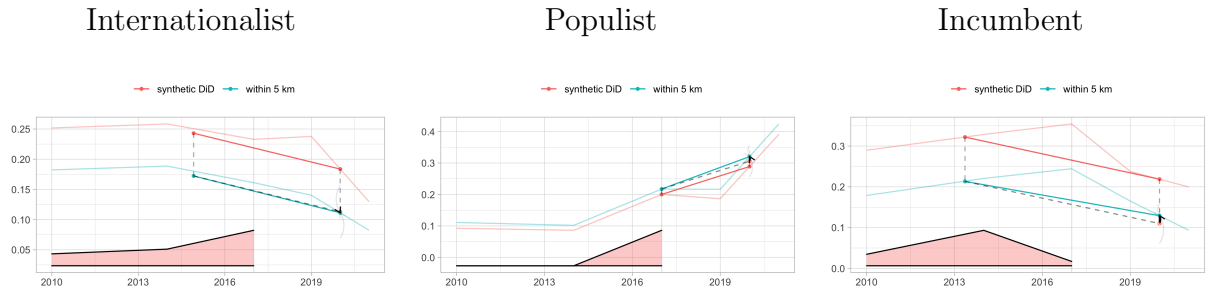

Figure 7: *'Kosova e Re' synthetic difference-in-differences (5k):* Vote share by party using 5km bandwidth. Blue line depicts the treatment group, red the synthetic control. The shaded pink area underneath the trends shows the temporal weighting of different pre-treatment periods. More volume indicates larger weights. The dotted black line depicts the potential outcome of the treatment group if it had not been treated.

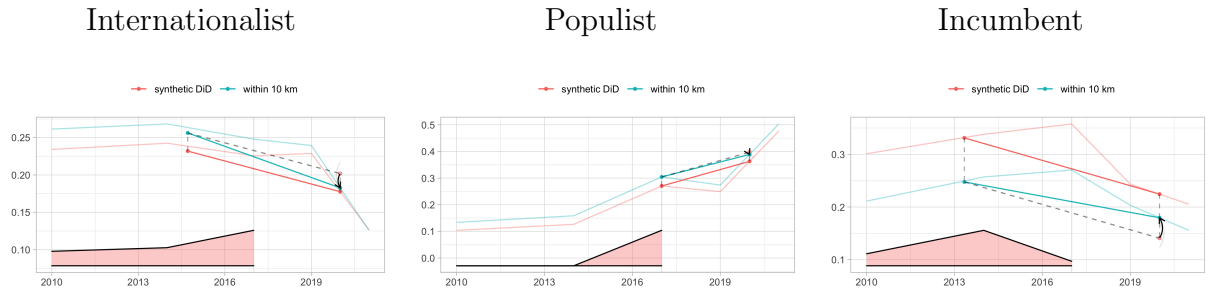

Figure 8: *'Kosova e Re' synthetic difference-in-differences (10k):* Vote share by party using 10km bandwidth. Blue line depicts the treatment group, red the synthetic control. The shaded pink area underneath the trends shows the temporal weighting of different pre-treatment periods. More volume indicates larger weights. The dotted black line depicts the potential outcome of the treatment group if it had not been treated.

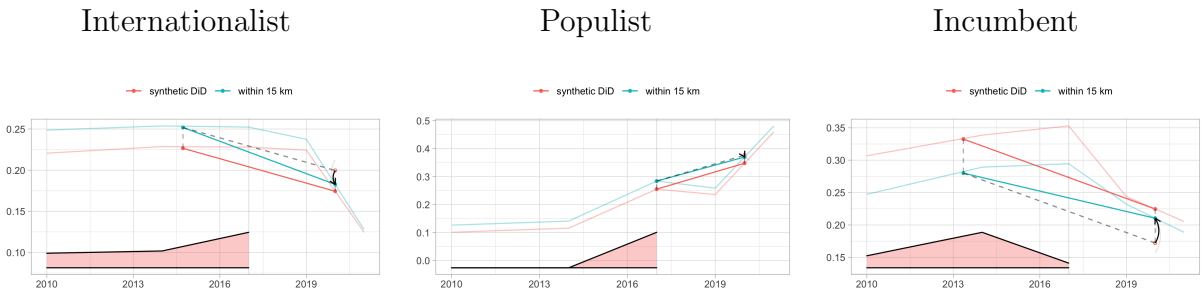

Figure 9: *'Kosova e Re' synthetic difference-in-differences (15k):* Vote share by party using 15km bandwidth. Blue line depicts the treatment group, red the synthetic control. The shaded pink area underneath the trends shows the temporal weighting of different pre-treatment periods. More volume indicates larger weights. The dotted black line depicts the potential outcome of the treatment group if it had not been treated.

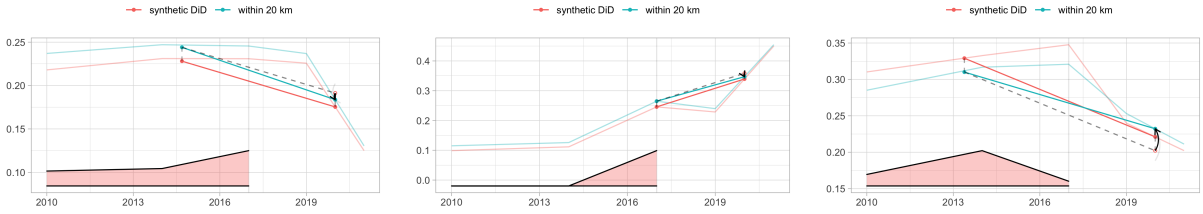

Figure 10: *'Kosova e Re' synthetic difference-in-differences (20k):* Vote share by party using 20km bandwidth. Blue line depicts the treatment group, red the synthetic control. The shaded pink area underneath the trends shows the temporal weighting of different pre-treatment periods. More volume indicates larger weights. The dotted black line depicts the potential outcome of the treatment group if it had not been treated.

B.1 Existing renewable energy

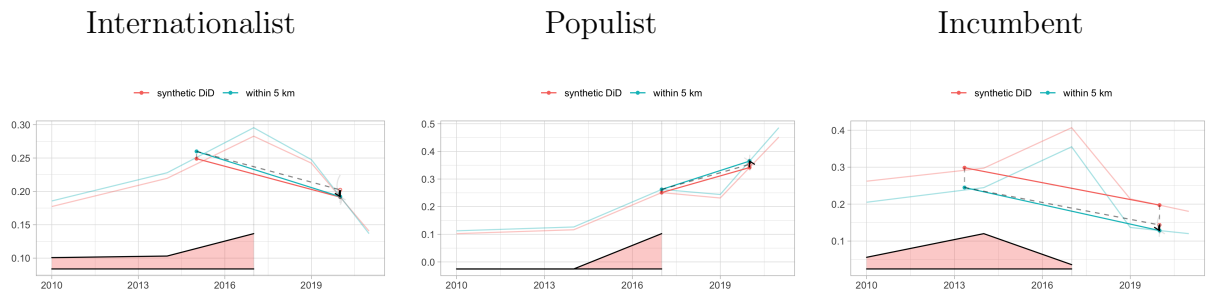

Figure 11: *Renewable synthetic difference-in-differences (5k):* Vote share by party using 5km bandwidth. Blue line depicts the treatment group, red the synthetic control. The shaded pink area underneath the trends shows the temporal weighting of different pre-treatment periods. More volume indicates larger weights. The dotted black line depicts the potential outcome of the treatment group if it had not been treated.

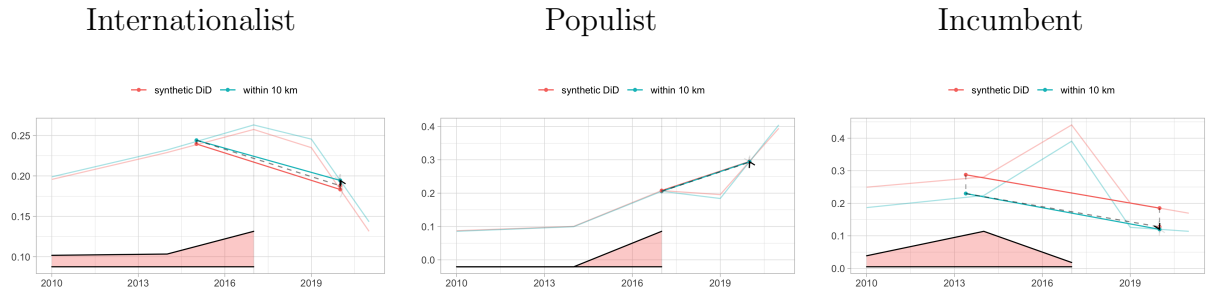

Figure 12: *Renewable synthetic difference-in-differences (10k):* Vote share by party using 10km bandwidth. Blue line depicts the treatment group, red the synthetic control. The shaded pink area underneath the trends shows the temporal weighting of different pre-treatment periods. More volume indicates larger weights. The dotted black line depicts the potential outcome of the treatment group if it had not been treated.

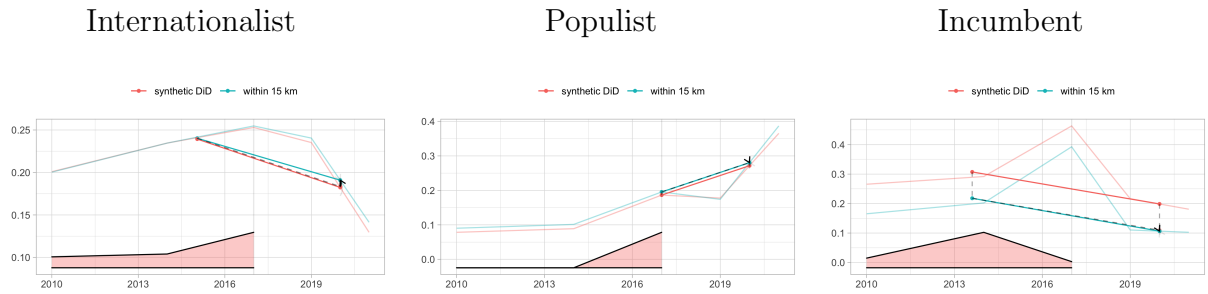

Figure 13: *Renewable synthetic difference-in-differences (15k):* Vote share by party using 15km bandwidth. Blue line depicts the treatment group, red the synthetic control. The shaded pink area underneath the trends shows the temporal weighting of different pre-treatment periods. More volume indicates larger weights. The dotted black line depicts the potential outcome of the treatment group if it had not been treated.

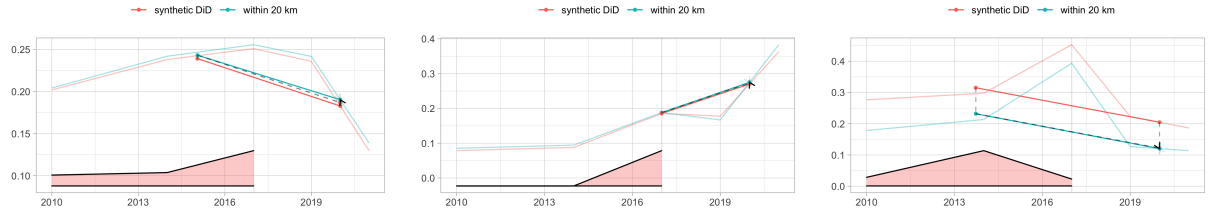

Figure 14: *Renewable synthetic difference-in-differences (20k):* Vote share by party using 20km bandwidth. Blue line depicts the treatment group, red the synthetic control. The shaded pink area underneath the trends shows the temporal weighting of different pre-treatment periods. More volume indicates larger weights. The dotted black line depicts the potential outcome of the treatment group if it had not been treated.

Company	Renewable	Municipality	City	Year implemented	Installed capacity (kilowatts)
LED Light Technology Kosovoa	Solar	Klina	Gjugjevik	2015	102.00
ONIX Spa	Solar	Istog	Banja e Pejes	2016	500.00
Birra Peha	Solar	Gjakova	Madanaj - Rypaj, ZK Kusar	2018	3000.00
Frigo Food Kosova	Solar	Gjakova	Madanaj - Rypaj, ZK Kusar	2018.00	3000.00
Eling	Solar	Peja	Llabjan	2019	480.00
Solar Green Energy	Solar	Kamenica	Novoselle	2019	3000.00
Kitka	Wind	Kamenica	Policka	2019	32,400.00

Table 6: Renewable energy projects in Kosovo (active in 2019)

C Renewable energy by plant

Figures 15 through 21 depict different plants (in reverse chronological order)–the top panel of each figure shows the synthetic difference-in-differences results for the individual plant at different bandwidths while the bottom panel shows the raw difference-in-difference data at the 15km bandwidth. Table 6 reports the information on each plant. Table 7 shows pre- and post-electoral coalitions for each election. PDK is the incumbent in 2019, LDK the internationalist party, and LV the populist party. Table 8 categorizes each party by their international orientation and response to the aid withdrawal event.

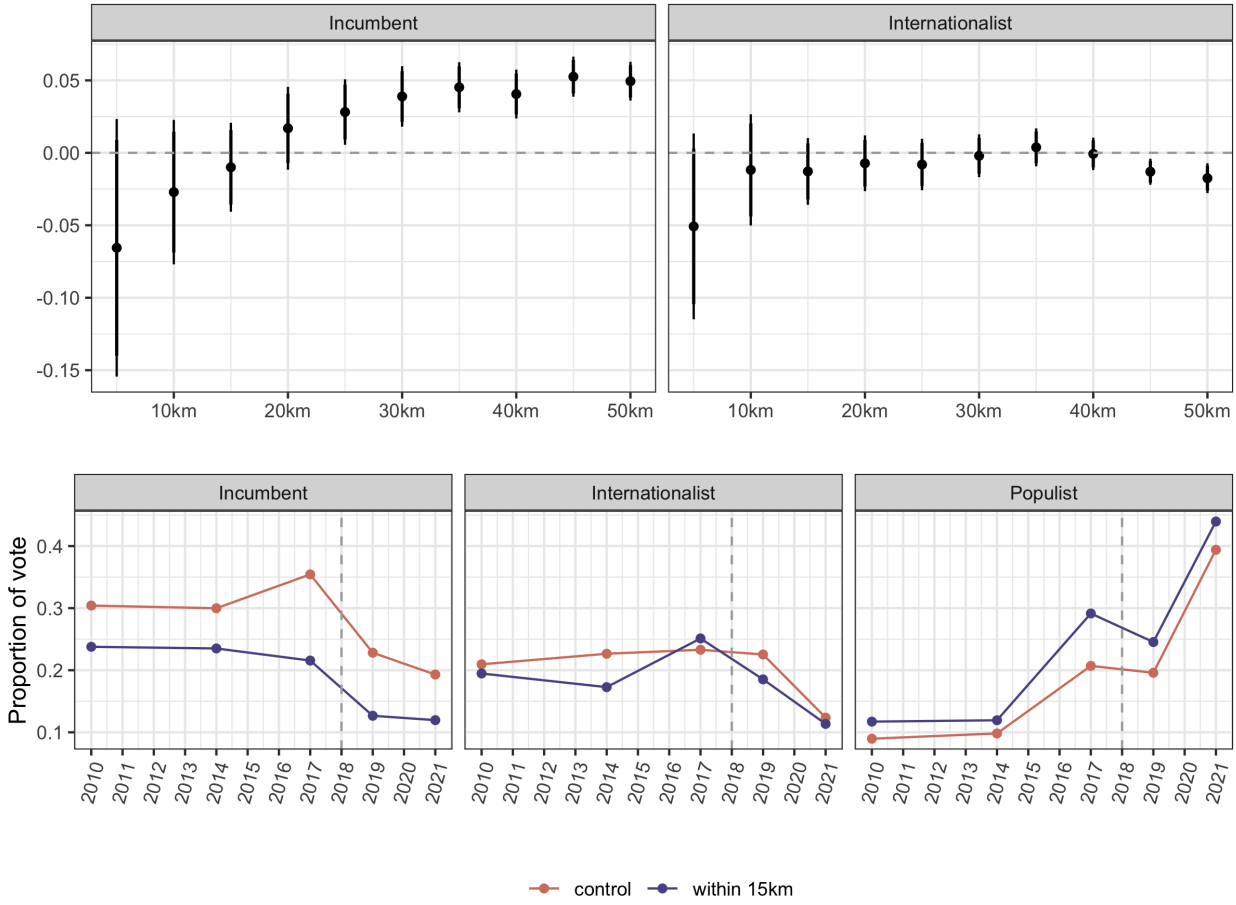

Figure 15: Kitka (2019, wind)
Incumbent: current incumbent
Location: Kamenica
Local incumbent in 2018: populist
Local incumbent in 2019: populist

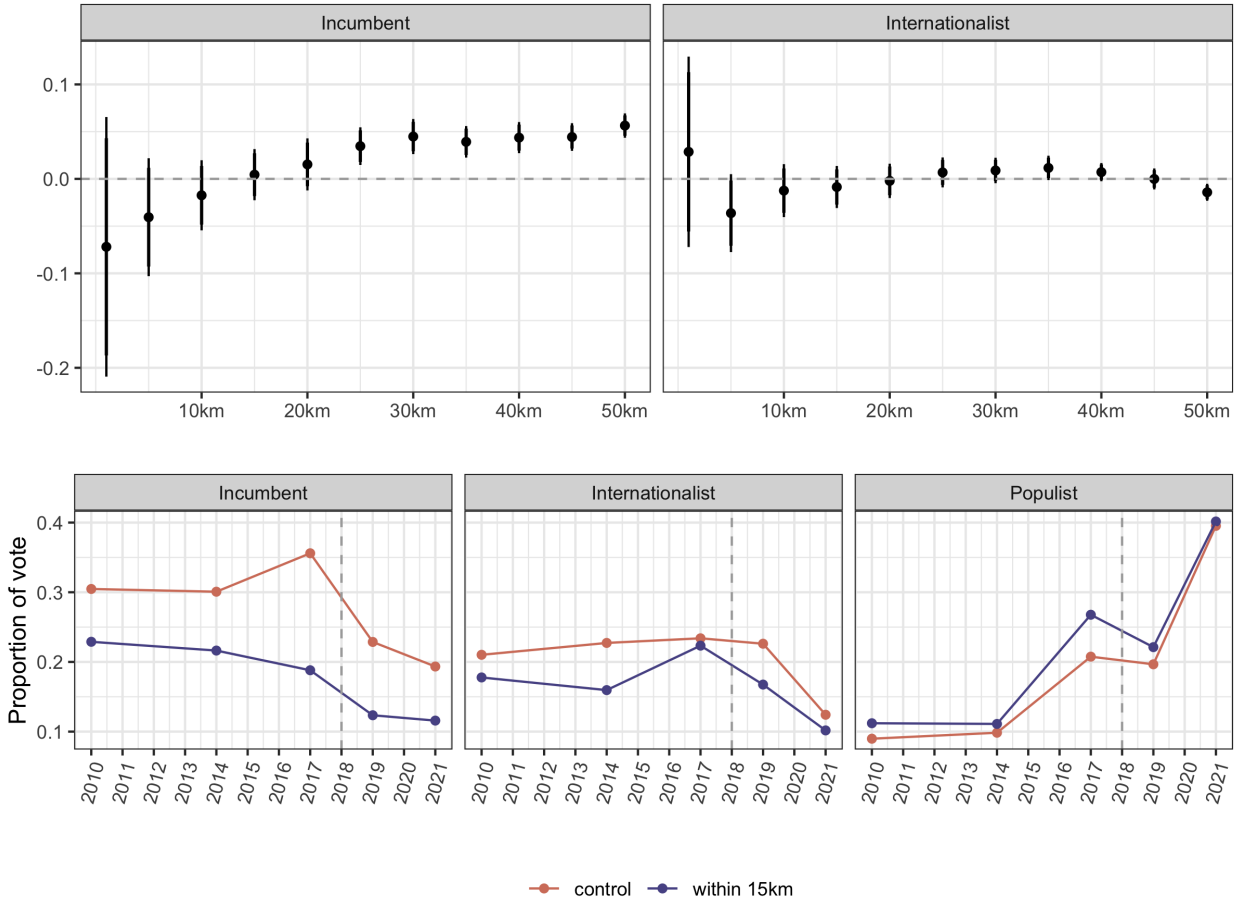

Figure 16: Solar Green Energy (2019, solar)
Incumbent: current incumbent
Location: Kamenica
Local incumbent in 2018: populist
Local incumbent in 2019: populist

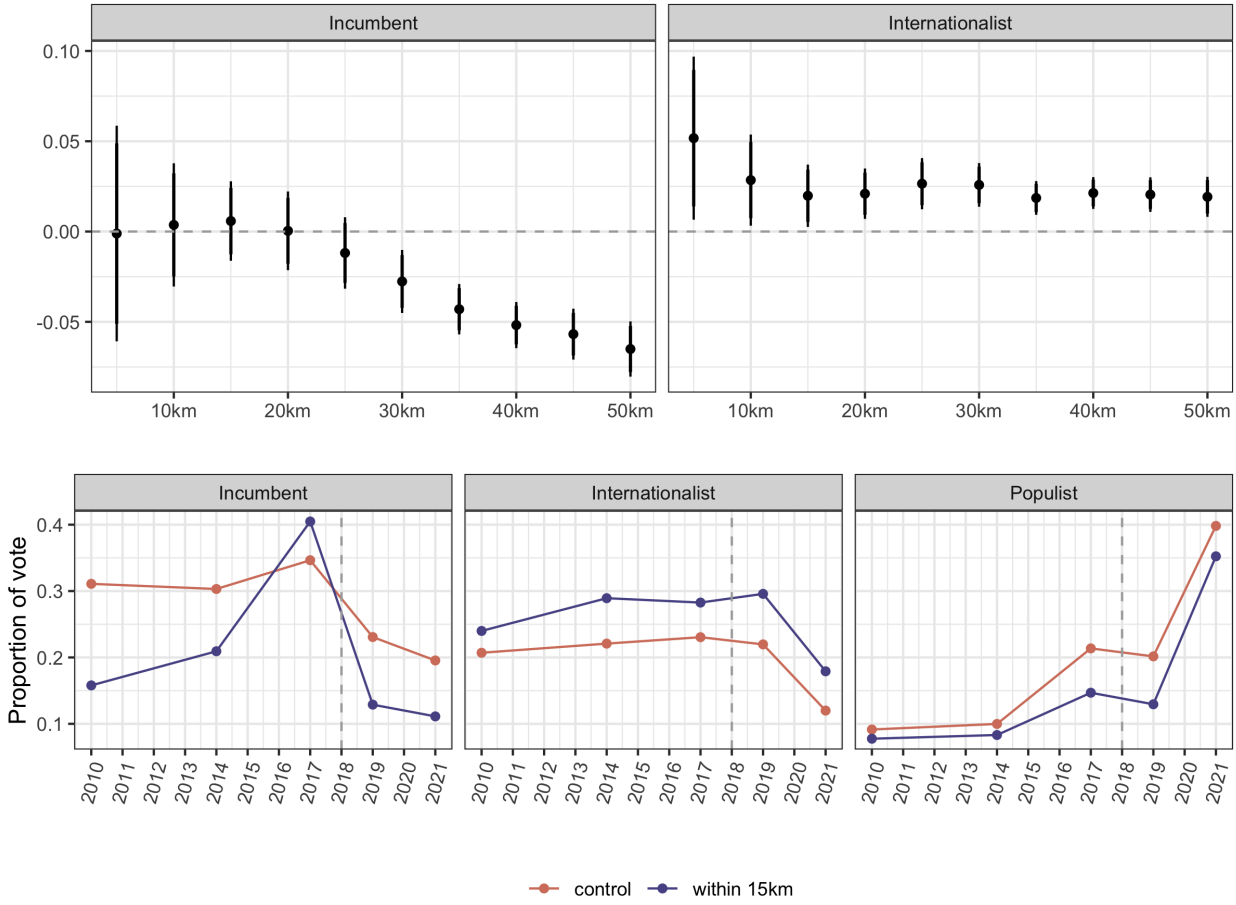

Figure 17: Eling (2019, solar)
Incumbent: current incumbent
Location: Peja
Local incumbent in 2018: internationalist
Local incumbent in 2019: internationalist

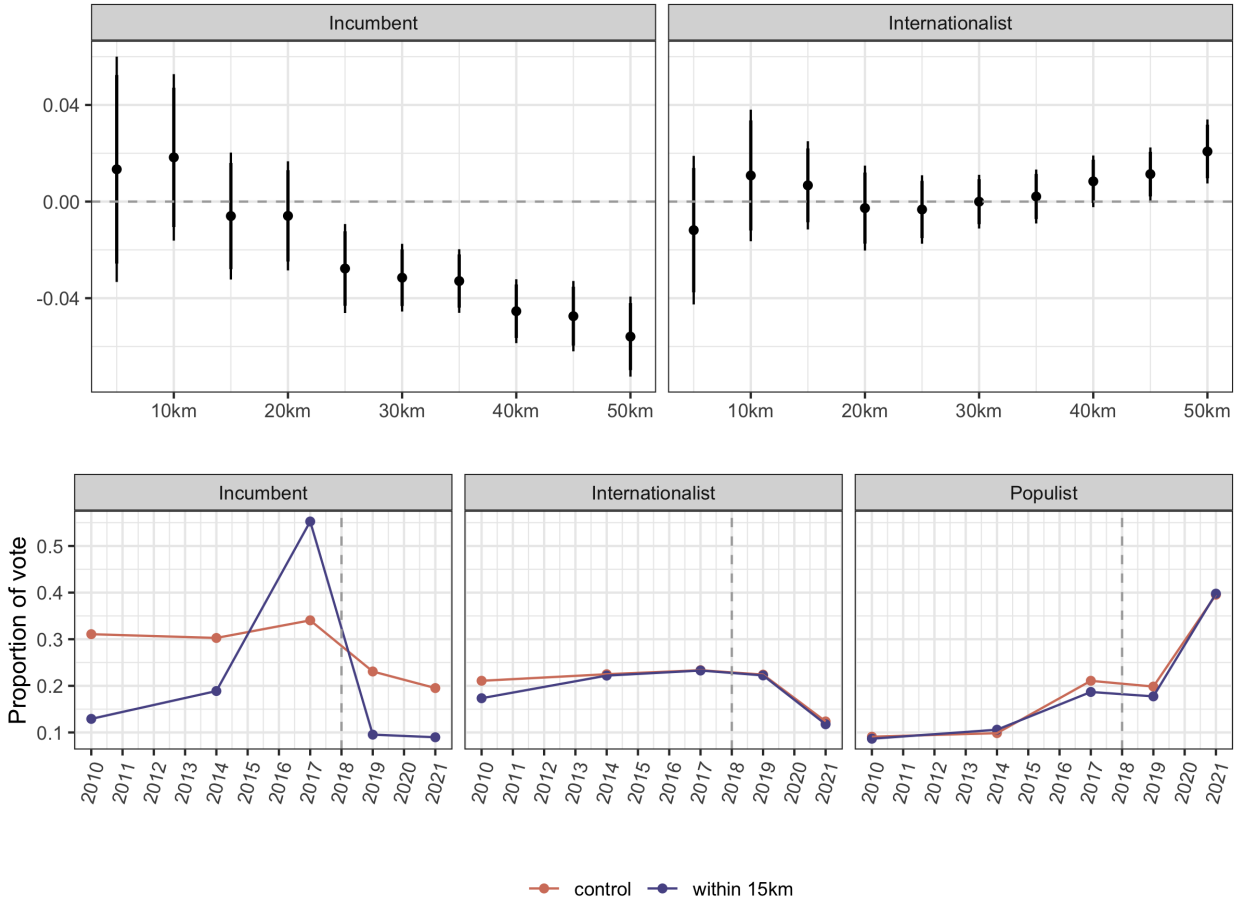

Figure 18: Frigo Food Kosova (2018, solar)
Incumbent: current incumbent
Location: Gjakova
Local incumbent in 2018: party affiliated with current incumbent
Local incumbent in 2019: party affiliated with current incumbent

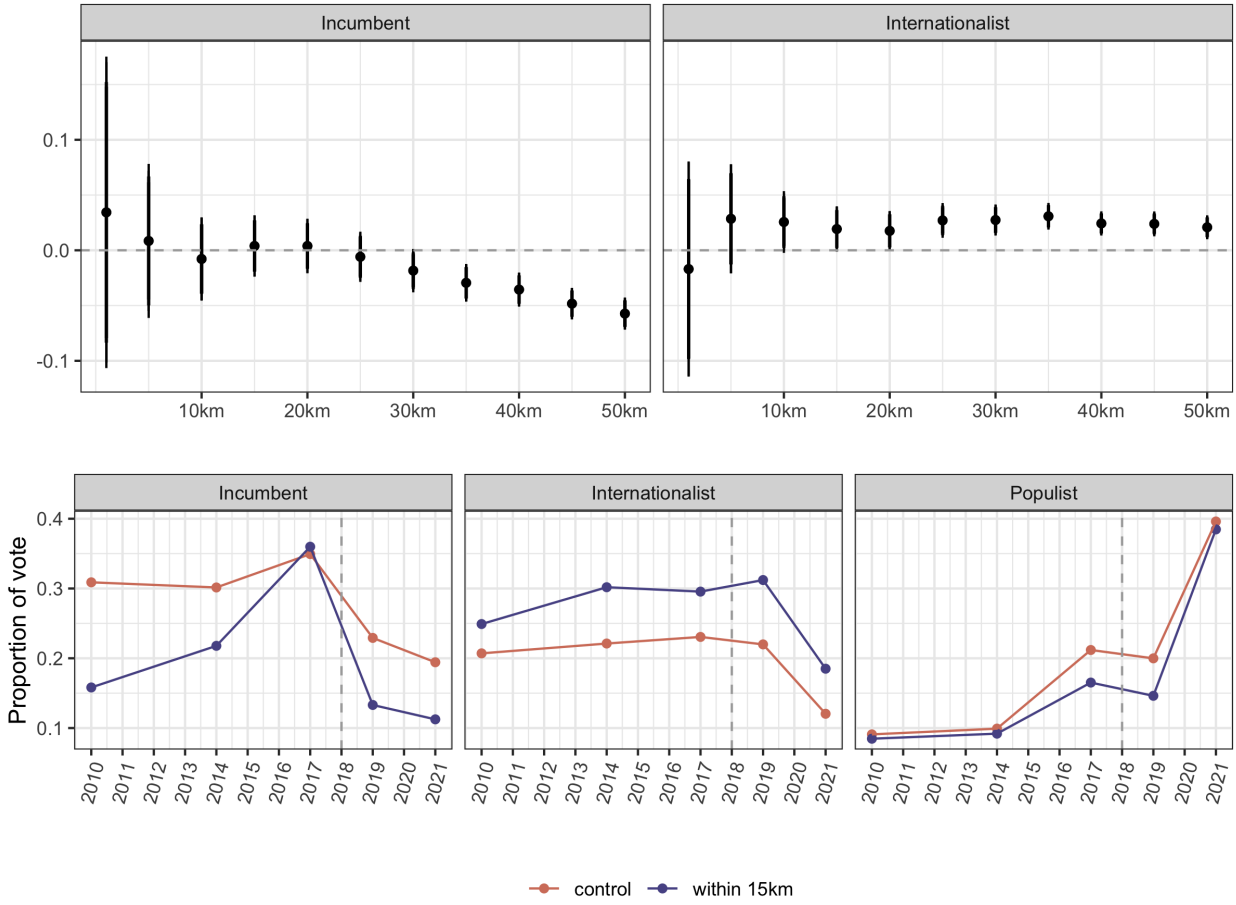

Figure 19: ONIX Spa (2016, solar)
Incumbent in 2016: current incumbent, internationalist
Location: Istog
Local incumbent in 2016: internationalist
Local incumbent in 2019: internationalist

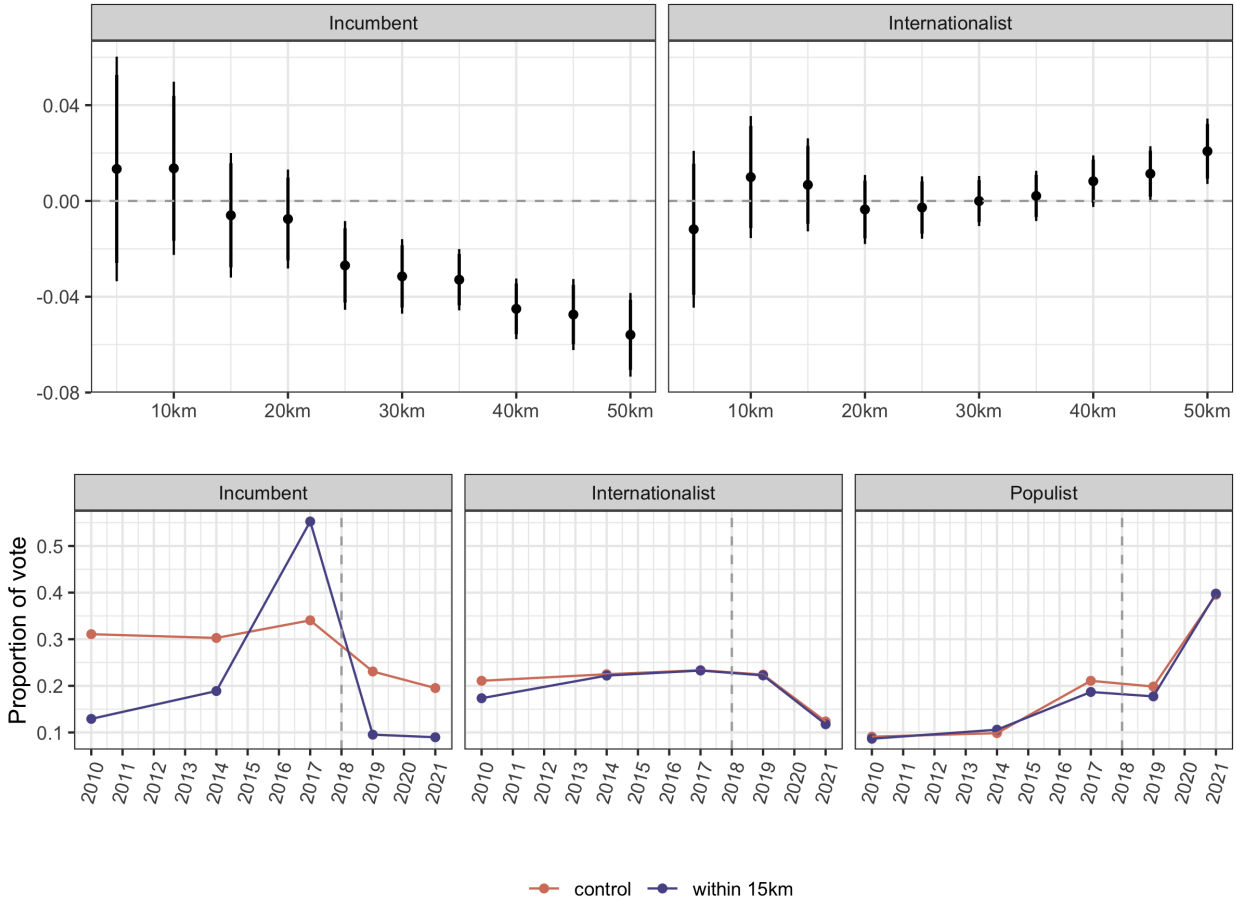

Figure 20: Birra Peja (2016, solar)
Incumbent in 2016: current incumbent, internationalist
Location: Gjakova
Local incumbent in 2016: party affiliated with current incumbent
Local incumbent in 2019: party affiliated with current incumbent

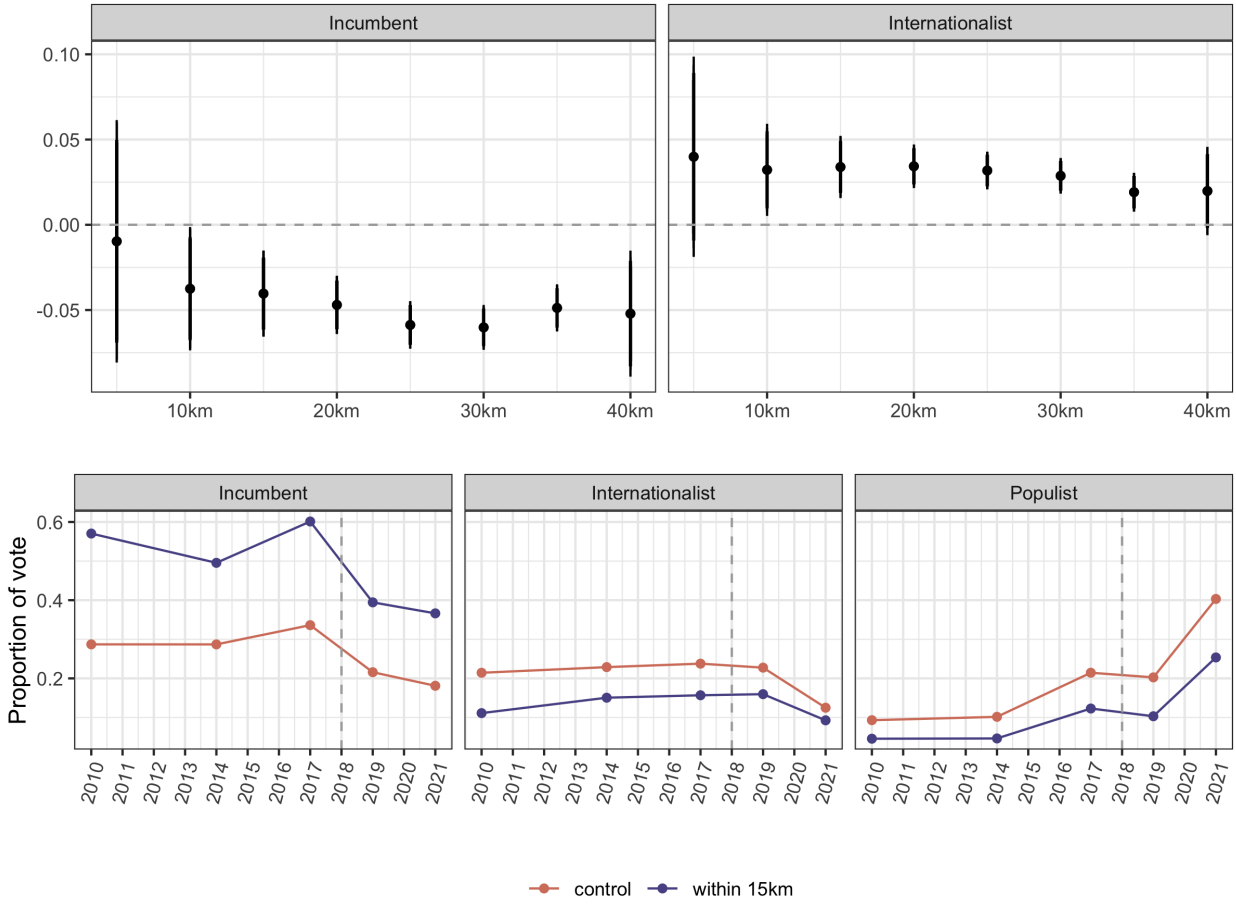

Figure 21: LED Light Technology Kosova (2015, solar)
Incumbent in 2015: current incumbent, internationalist
Location: Klina
Local incumbent in 2015: current incumbent
Local incumbent in 2019: party affiliated with current incumbent

Year	Stance	Pre-electoral coalitions	Post-election coalitions
2010	Government	PDK AAK-LDK	PDK AAK-LDK
	Opposition	New Kosovo Coalition (AKR–PD–PSD) LV	LV New Kosovo Coalition (AKR–PD–PSD) LDK
2014	Government	PDK	PDK LDK
	Opposition	LDK LV	LV
2017	Government	PAN Coalition (PDK-AAK-NISMA) LAA Coalition (LDK-AKR)	PANA Coalition (PDK-AAK-NISMA-AKR)
	Opposition	LV	LDK LV
2019	Government	PDK 100% Kosovo (AAK - PSD Coalition) NISMA - AKR - PD Coalition	LV-LDK
	Opposition	LV LDK	PDK 100% Kosovo (AAK - PSD Coalition) NISMA - AKR - PD Coalition

Table 7: *Electoral coalitions*

Party	International ideology	Stance	Status
PDK	Partner to international community except ACCOUNTABILITY FOR WAR CRIMES, BENEFITS TO NON-VETERANS	Move forward with Kosovo e Re, tax pollution and increase green investment[a]	Incumbent
AAK[b]		Move forward with Kosovo e Re[c]	Incumbent
NISMA-AKR[d]		Move forward with Kosovo e Re, adjusting for health/environmental concerns[e]	Incumbent
LV	Opposes international presence in Kosovo	Oppose building Kosovo e Re[f]	Opposition
LDK	Center/Center-right	Unclear[g]	Opposition

Table 8: *Party stances towards Kosovo e Re:* 2019 electoral platforms related to the Kosova e Re power plant.

[a,c,e] `https://balkaninsight.com/2019/10/03/kosovo-elections-education-health-environment-and-rights/`

[b] With junior partner PSD, Partia Socialdemokrate e Kosovës or the Social Democratic Party of Kosovo, a left-wing social democratic party.

[d] With junior partner PD, Partia e Drejtësisë or the Justice Party, a socially-conservative religious party.

[f] `https://www.vetevendosje.org/zgjedhje-te-reja-menjehere-qeveria-e-dorehequr-te-nderprese-veprimtarite`

[g] "LDK does not have a clear position on [the Kosova e Re plant]." `https://www.lipjaninews.com/lvv-ja-e-ldk-ja-pa-plan-per-kosoven-e-re/`