

Articles

# The (un)intended Effects of Regulatory Burden on Policy Effectiveness: The Case of Regulations Targeting NGOs

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Existing studies see foreign donors as (a) brokers between sustainable development goals (SDGs) and aid-recipient countries' needs, or (b) intruders into aid-recipient countries' internal affairs. The intruder view has triggered regulations of NGOs (nongovernmental organizations) in aid-recipient countries. However, little is known, empirically, about how foreign donors respond to regulatory burden. We suggest regulatory burden adds uncertainty and turbulence to the operating context, negatively affecting government effectiveness in securing aid. This negative effect is moderated by the number of foreign donors operating in a jurisdiction. Propositions are tested in a data set derived from the 221 Ecuadorian municipalities during 2007–2018. Findings suggest regulations of NGOs have decreased municipalities' ability to secure international cooperation. This negative effect is larger in municipalities with a higher presence of donor supply. These results encourage policy makers to consider counterproductive costs of overregulating foreign NGOs and other civil society organizations when designing regulatory tools.

## INTRODUCTION

Previous research has offered guidance on how we might conceive of the role of international aid in achieving sustainable development goals (Biermann et al., 2017; Collier & Dollar, 2001; Rogerson et al., 2004). Existing studies see foreign donors as (a) brokers between sustainable development goals (SDGs) and aid-recipient countries' needs (Collier & Dollar, 2001), or (b) intruders into aid-recipient countries' internal affairs (Banks et al., 2015; Jalali, 2013). The intruder view has triggered adoption of regulations in aid-recipient countries as a means to regulate and monitor international nongovernmental organizations' (INGOs) presence and actions on grounds that regulations will advance their aid's effectiveness. However, we know little empirically about how foreign donors respond to the regulatory burden domestic leaders impose on them. Consequently, this study investigates whether adoption of regulations on foreign donors influences their future aid flow.

To examine the effects of regulation, we focus on the domestic context in which INGOs and other civil society organizations operate. Hence, scholars have explored the appropriate levels of environmental/contextual conditions for organizations to outperform (Damanpour & Schneider,

2006; Jun & Weare, 2011; Walker, 2008; Walker et al., 2015). Scholars assessing the performance effects of context (Avellaneda, 2008; Meier et al., 2017; O'Toole & Meier, 2014; Petrovsky & Avellaneda, 2014) find contexts directly affect performance and indirectly mitigate the effect of managerial capacity/quality on performance. Context is multidimensional. In organizational studies literature, Dess and Beard (1984) depict three environmental or contextual dimensions, which provide organizations with pressures and/or opportunities. Specifically, Dess and Beard (1984) focus on environmental capacity (e.g., resources), complexity (e.g., heterogeneity/homogeneity-dispersion/concentration) and dynamism (e.g., instability/stability-turbulence).

In line with these studies, we suggest that overregulation changes organizations' operating context by inserting uncertainty and turbulence, which in turn affects the performance of agencies affected by the regulatory burden. In other words, a country's adoption of regulations targeting INGOs changes their operating context, thus affecting INGOs' future financing of development projects in the country issuing the regulations. The operational context also should be affected by the degree of donor supply in a jurisdiction, as it determines context complexity.

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Changes across these three contextual dimensions—uncertainty, turbulence and complexity—in turn, should have unintentional negative effects on INGOs’ future aid flow. Rather than advancing foreign aid’s achievement of SDGs, regulations dissuade foreign donors from working in the aid-recipient country. We test these propositions with data derived from Ecuadorian municipalities during 2007-2018. Ecuador is a compelling case given the central government’s 2011 decision to decentralize management of international cooperation from the national to subnational governments. Moreover, Ecuador has gradually increased the regulatory burden against civil society organizations (including INGOs) in the last decade. Results show regulatory burden has had a negative effect on municipalities securing of international aid resources. This negative effect is greater in municipalities with more donor supply or higher environmental complexity.

### THE EVOLUTION OF POLICY EXPECTATIONS

When assessing policy effectiveness, scholars have looked at the discrepancies between policy expectations and policy outcomes. The expected-outcome discrepancies have been attributed to policy makers’ limited capacity and knowledge to make accurate decisions and the unintended consequences of these limitations (see Cairney et al., 2016; Cairney & Weible, 2017). These works have mainly relied on bounded rationality, suboptimization and principal-agent approaches as theoretical underpinnings to explain the difference between policy intentions and policy results (Besley, 2006; Blankart & Koester, 2006; Simon, 1997). Here, we build upon previous research to explore the intended or unintended effects of regulatory policies.

Discussions around the drivers of policy effectiveness/in-effectiveness range from lack of information to decision-makers’ diverging incentives from a social optimum (Besley, 2006; Cairney & Weible, 2017; Faguet & Shami, 2015). For instance, policy makers may aim for *satisfying*, instead of maximizing, a social outcome (Simon, 1997), or goals during policy adoption may differ from what is carried out (Faguet & Shami, 2015).

Contextual factors also may explain intended and/or unintended policy outcomes. Within this line of research, comparative studies demonstrated that findings about policy effectiveness are not generalizable across different contexts (see Hantrais, 1999). That result encouraged scholars to focus on contextual, instead of individual, factors to explain variation in policy effectiveness (Cairney & Weible, 2017). To better understand how context affects the policy-outcome relationship, scholars have depicted some of the contextual factors influencing the performance of public policy and presented theoretical propositions (Meier et al., 2017; O’Toole & Meier, 2014). The notion is that contextual factors may have direct and indirect effects on organizational performance. However, the idea that contextual factors vary over time, which in turn has changing performance effects, is less studied. Adoption of regulations, for example, is expected to change contextual factors, thus affecting organizational actions and performance.

O’Toole and Meier (2014) contributed to the debate on context by offering propositions that relate management,

context, and performance. They depict three contextual dimensions: political (unitary vs. federal), internal (clear vs. ambiguous goals) and environmental (heterogeneous vs. homogeneous external environment). For example, public organizations can be part of a federal or unitary political context, with heterogeneous organizations in their external environment and with ambiguous internal goals to pursue. The O’Toole and Meier’s schema allows us to disaggregate the policy effects on one of the three contextual dimensions and their respective relationships with organizational performance over time.

### Regulatory burden in the international aid policy context

The international community has acknowledged the lack of effectiveness of international aid on the development of aid-recipient countries (OECD, 2005). In response, some aid-recipient countries have adopted regulations targeting foreign aid agencies and argued these regulations will foster economic development by aligning foreign aid with the country’s national planning. As a result, international aid agencies have channeled their aid resources toward aid-recipient countries’ defined priorities (OECD, 2005). In doing so, INGOs and other civil society organizations carry out the mission of the international aid system (Frantz, 1987; Ghaus-Pasha, 2004; Mercer, 2002).

On the one hand, aid-recipient countries’ increased adoption of regulations of foreign donors is mainly justified on grounds of their lack of effectiveness in reducing structural poverty (Banks et al., 2015; Banks & Hulme, 2012; Murray & Overton, 2011). On the other hand, regulation-issuing governments also assume INGOs seek to favor donors’ interests, instead of satisfying the needs of aid-recipient countries (Tvedt, 1998). In fact, INGOs perceive these regulations as a burden, especially when INGOs’ actions threaten the political stability of the host country’s political regime (Dupuy et al., 2016). In response, INGOs and other civil society organizations have to comply with new requirements to retain their presence and have legal status in aid-recipient countries. In some cases, regulators even have extended their discretion to approving or disapproving INGOs’ and civil society’s continuation of operations in their jurisdictions (Bloodgood et al., 2014; Dupuy et al., 2016).

The study of regulatory burden also can be tied to scholarship related to administrative burden (e.g., Burden et al., 2012; Heinrich, 2016; Herd & Moynihan, 2019; Moynihan et al., 2015). Although administrative burden literature focuses on the citizen level, it can be extrapolated to the organizational level, such as nongovernmental organizations (e.g., INGOs). The notion is that citizens experience learning, psychological, and compliance costs when interacting with governments. These costs constitute administrative burden (Moynihan et al., 2015, p. 43). A second view of this literature is that the level of administrative burden inflicted on an individual and/or organizations involves “hidden politics,” as additional regulations occur “without broad political consideration” (Moynihan et al., 2015, p. 43). Moynihan and colleagues illustrate these views by analyzing the evolution of Medicaid policies in Wisconsin and

by showing that the level of administrative burden was consistent with the political philosophies of three consecutive governors. Likewise, Hacker (2004) also describes the hidden politics in the social policy retrenchment in the United States.

The notion of regulatory/administrative burden as “hidden politics” also is supported by Lineberry (1977), who contends that administrative burdens are “policymaking by other means” which, in turn, became Herd and Moynihan’s 2019 book title. Likewise, other scholars have generally argued that burdens are imposed deliberately on targeted groups (or organizations) with limited political power (e.g., Brodtkin & Lipsky, 1983; Schneider & Ingram, 1993; Soss et al., 2011), rather than being the result of historical accidents (Moynihan & Herd, 2010). In the case of international donor organizations, which have the power to choose aid recipients, a hosting country still has political and legal power to regulate their actions and activities within its realm.

Moynihan et al. (2015) offer two propositions to link hidden politics to administrative/regulatory burdens. First, administrative burdens serve as a channel to play out politics, regardless of the effectiveness of the outcomes (Moe, 1989). Second, the characteristic features of low profile, opaque and language neutrality that characterize administrative burden make it an attractive policy instrument under certain circumstances. For example, politicians may justify their adoption on the grounds of guaranteeing more transparency and oversight at the expense of effectiveness or successful outcomes.

In this research, however, in order to understand the effect of regulation on the operating context of public organizations, and, in turn, on policy effectiveness, we rely on O’Toole and Meier’s (2014) schema of turbulent, munificent and complex context. According to O’Toole and Meier (2014), turbulence refers to the level of uncertainty in the external environment due to sudden and unpredictable changes that deviate from efforts focused on an organization’s core functions to mitigate the negative effect turbulence has on organizational performance. For instance, regulatory burden adds turbulence to the external environment due to increases in administrative costs to comply with new regulations (Helm, 2006). The administrative costs especially increase when new regulations are unexpected or the regulated agency is uncertain about the fairness of the process (Sax, 2010).

Research on economic performance suggests regulating NGOs is justified when the cost of a regulation is lower than the cost of a market failure (Keyworth, 2006). Market failure here refers to the case in which a NGO’s mission is incompatible with priorities of an aid-recipient country. A market failure becomes a regulatory failure (i.e., government failure) if administrative costs imposed on those regulated are higher than the cost of the market failure (Keyworth, 2006) due to uncertainty about fairness of regulations. Given that regulatory burden against INGOs increases governmental discretion for approving or disapproving INGOs’ activities in some countries (Bloodgood et al., 2014; Dupuy et al., 2016), the first hypothesis for this study posits the following:

*Hypothesis 1:* Regulatory burden against INGOs is negatively associated with governmental effectiveness in obtaining international aid.

The negative effects of regulation on governmental effectiveness in securing international aid should be moderated by the amount of donor supply in a particular jurisdiction. At any level of government, several types of organizations are part of the international aid system. The heterogeneous organizational co-existence is expected to increase the complexity level of the governmental environment by making it either more competitive and/or demanding. That is, high donor supply means different projects at the local level are financed by international aid funds from different donors’ country of origin and different organizations. Additionally, more donor supply implies more chances to find INGOs that will be affected by regulatory burdens. In other words, regulatory burden does not have effect on jurisdictions without regulated organizations (e.g., INGOs). Therefore, in jurisdictions with high amounts of donor supply, the negative effects of regulating INGOs on governmental effectiveness in securing international aid should be exacerbated.

On the contrary, in jurisdictions with low amounts of donor supply, the expected negative effects of regulating INGOs should not be as marked. Therefore, our second hypothesis states the following moderating effect:

*Hypothesis 2:* As environmental complexity increases (e.g., number of donors), so does the negative effects of regulating INGOs on governmental effectiveness in securing international aid.

The two stated hypotheses will be tested against data from the 221 Ecuadorian municipalities. Consequently, the next section provides background on Ecuadorian regulatory framework targeting INGOs and other civil society organizations that are part of the international aid system.

## The regulatory burden of NGOs in Ecuador

Ecuador is a particularly well-suited case for studying overregulation in the international aid policy context. Ecuador has increased regulation against civil society organizations between 2007 and 2017 for: 1) complying with the international mission of aligning international aid with national priorities (OECD, 2005), and 2) monitoring and controlling the influence civil society organizations have on the Ecuadorian society. The last point is relevant because civil society organizations had a key role during social mobilizations that led to overthrowing three Ecuadorian presidents between 1997 and 2005 (see Appe, 2013; Bräutigam & Segarra, 2007, for details).

The most important regulations related to INGOs and other civil society organizations in Ecuador are summarized in [Table 1](#). According to Presidential Decree No. 812, INGOs had to sign new agreements with the Ecuadorian government to operate in Ecuador in 2011. The Ecuadorian government wanted to align INGOs’ resources with the objectives of Ecuador’s national development plan. Appe (2013) considers that this type of regulation aimed to increase ac-

**Table 1. International aid policy regulations in Ecuador between 2007 and 2017.**

Details	Source
The Ecuadorian national government implemented international aid policy according to the guidelines of the Paris Declaration on Aid Effectiveness. The Ecuadorian government created a national system for international cooperation aligned with the national development plan.	Presidential Decree No. 699 (October 2007)
Foreign NGOs must sign an agreement with the national government to operate in Ecuador. Foreign NGOs cannot engage in activities that are not approved by the national government. Foreign NGOs cannot manage international aid from bilateral and multilateral sources.	Presidential Decree No. 812 (July 2011)
The Ecuadorian national government devolved the responsibility to manage international cooperation to subnational governments. The Ecuadorian national government determined that subnational governments have the responsibility to bring non-reimbursable international cooperation to their communities without receiving new resources from the national budget for the fulfillment of this responsibility.	Resolution 009-CNC (September 2011)
The Ecuadorian national government established new regulations to civil society organizations. Civil society organizations need to comply with new requirements to renew or receive legal status until December 2014. Foreign NGOs have among the requirements to receive legal status the fulfillment of Executive Decree 812.	Presidential Decree No. 16 (June 2013)
The Ecuadorian national government abolished Presidential Decree No. 16. The Ecuadorian national government simplified the regulatory burden to civil society organizations.	Presidential Decree No. 193 (October 2017)

countability, transparency, and planning to foster collaboration between public organizations and civil society organizations. For example, the database for this study was available because of this regulation. However, additional regulations increased the regulatory burden on civil society organizations and jeopardized their operations. In fact, INGOs operating in Ecuador had to spend resources to comply with unexpected regulations. For example, Presidential Decree No. 16 increased the discretionary power of the Ecuadorian national government to shut down organizations undermining its political agenda.

Presidential Decree No. 16 introduced unforeseen barriers to civil society organizations. Civil society organizations perceived that the national government had a wide range of discretion to renew the legal status of their organizations after Presidential Decree No.16 was in place. As a result, many civil society organizations ceased operating in Ecuador or refocused priorities on complying with new rules (Appe, 2018). In fact, Dupuy et al. (2016) included Ecuador in the list of countries over which the president had the power to cease civil society organizations for political reasons. The degree and scope of regulations generated uncertainty in the Ecuadorian context in which civil society organizations operate.

Table 2 displays the O'Toole and Meier's (2014) schema of turbulent, munificent, and complex context when applied to the Ecuadorian case. Ecuador dispersed the power to manage international cooperation as part of decentralization policies. Subnational governments acquired the responsibility to complement their budgets with international cooperation in September 2011 (Consejo Nacional

de Competencias, 2011). However, the regulation targeting civil society organizations (e.g., foreign NGOs) increased the level of turbulence in the external environment of Ecuadorian subnational governments.

Ecuadorian municipalities started managing and securing international cooperation in a low munificent context. In fact, scholars started to talk about scenarios for a post-aid world in Latin America, given the constant reduction of international aid in this region (Appe, 2017; Pallas et al., 2018). Moreover, the 2011 ranking of the Ecuadorian economy as upper-middle-income lowered its priority status for international donors. Appe and Pallas (2018) argued that reducing international aid became more prevalent when countries (a) changed development status and (b) adopted regulations restricting the operation of civil society organizations.

In sum, Presidential Decree No. 699 created a national system to align the national objectives with the mission of international cooperation in 2007. In order to link INGOs' mission and national priorities, Presidential Decree No. 812 mandates foreign INGOs to sign an agreement with the national government to operate in Ecuador in 2011. Once the national government devolved the responsibility to manage international cooperation to subnational governments in 2011, subnational governments can only engage with INGOs that have already been approved to operate in Ecuador by the national government. However, Presidential Decree No.16 imposed additional regulations for civil society organizations, including INGOs, with a high discretion from the national government to renew their legal status. As a result, civil society organizations cannot operate in Ecuador if they

**Table 2. Theory of context applied to the Ecuadorian case.**

Components	Status	Detail	Operationalization
Political	Dispersed	Devolution of the responsibility to manage international cooperation distributes power from national to subnational governments.	Devolution policy (control variable)
Complexity	Varies	Each municipality has different supply of donors in its external environment.	Donor supply (independent variable)
Turbulence	High	Regulatory burden increases uncertainty (i.e., Presidential Decree No. 16).	Regulatory policy (independent variable)
Munificence	Low	Ecuador became an upper-middle-income country in 2011, which decreased its priority to received international aid.	Exogenous variation

did not comply with Decree No.16 after December 2014. Interestingly, once a new national government took place in 2017, Decree No. 193 abolished Decree No. 16 to avoid overregulation to civil society organizations in Ecuador.

## DATA AND METHODS

The Ministry of Ecuadorian Foreign Relationships and Human Mobility (MREMH) maintains a database with information about international cooperation. The MREMH database contains the country and type of organization granting international aid to Ecuadorian organizations, according to donors' reports. After an official request, MREMH provided non-reimbursable international cooperation in U.S. dollars at the municipal level between 2007 and 2018 (Ministerio de Relaciones Internacionales y Movilidad Humana, 2019).

Additional data to control for municipal traits came from the Ecuadorian Central Bank (2019), the Ministry of Economy and Finance (2019), and the National Institute of Statistics and Census (2019). Data from the BCE and INEC is publicly available and MEF provided data related to subnational governments' budgets after an official request. This study includes information for all 221 Ecuadorian municipalities between 2007 and 2018. The final database is a balanced panel with 2,431 municipality-year observations.

### Dependent variables

Ecuadorian municipal decentralized autonomous governments (municipal GADs for its acronym in Spanish) acquired the responsibility to manage international cooperation in September 2011. This study uses the amount of international aid that municipal GADs received in a given year. The international aid corresponds to non-reimbursable international cooperation in U.S. dollars.

The national government intended to promote municipal GADs as implementers of international aid projects. Therefore, Presidential Decree No. 812 forbids foreign NGOs to manage and implement projects financed by bilateral and multilateral funds. This study disaggregates the international aid that a municipal GAD received by source to evaluate the regulation effects on bilateral international aid and multilateral international aid. Bilateral international aid represents approximately 70% of the international aid used by municipal GADs and multilateral aid represents approximately 21% of the international aid used by mu-

nicipal GADs. The U.S. Agency for International Development (USAID) is an example of bilateral cooperation between Ecuador and the United States. The European Commission is an example of multilateral cooperation between Ecuador and European countries that are members of the European Union.

### Independent variables

This study includes a policy measure to test civil society organizations' overregulation effects on international aid funds. Regulatory policy illustrates the additional burden INGOs and other civil society organizations have to comply with due to Presidential Decree No. 16. Regulatory policy is operationalized with a dichotomous variable equal to one (1) between 2015 and 2018, and zero (0) otherwise.

In order to test the proposed moderating hypothesis (H2), this study operationalizes *complexity* in the external environment by using the level of donor supply in a municipality. In fact, the number of donors providing international aid varies considerably across municipalities. The MREMH database identifies donors' country of origin, donor organizations, and the organization that implemented projects with international aid funds at the municipal level. For example, the origin of the international aid funds could be the United States, channeled through the USAID, and implemented by a municipal GAD. This study aggregates the number of countries, number of cooperating organizations, and number of implementers to represent donor supply at the municipal level. The models below used a logarithmic transformation (1+donor supply) to remove the skewness of the donor supply variable.

[Figure 1](#) shows the level of donor supply across all 221 Ecuadorian municipalities. Interestingly, there seems to be a negative and statistically significant relationship between the level of donor supply and the international aid growth rate at the municipal level, as shown in [Figure 2](#). The correlation coefficient between donor supply and the international aid growth rate is -0.22 (p-value <0.05). Thus, municipalities with high levels of donor supply fail to increase international aid after the adoption and implementation of Presidential Decree No.16.

### Control variables

The National Council of Competences (CNC) officially

**Table 3. Summary Statistics.**

	Mean	Std. Dev.	Min	Max
<b>Dependent variables</b>				
International aid (U.S. \$ thousand)	42.87	206.66	0.00	3527.80
Bilateral international aid (U.S. \$ thousand)	29.12	178.30	0.00	3527.80
Multilateral international aid (U.S. \$ thousand)	11.62	81.52	0.00	2064.35
<b>Independent variables</b>				
Regulatory policy (yes=1)	0.33	0.47	0	1
Donor supply (logged)	2.17	1.16	0	5.3
<b>Control variables</b>				
Devolution policy (yes=1)	0.58	0.49	0	1
Central government international aid (U.S. \$ thousand)	65.47	342.02	0.00	10257.64
Local fiscal dependence (%)	67.17	14.88	20.38	98.95
Local gross domestic product (U.S. million)	361.71	1771.36	4.02	24426.60
Population (thousand)	70.59	240.49	1.63	2690.15

devolved the responsibility to manage international cooperation from the national to subnational governments in September 2011 (Consejo Nacional de Competencias, 2011). Devolution of autonomy to manage foreign aid is captured with a dichotomous variable, which equals one (1) between 2012 and 2018 and zero (0) otherwise.

The level of financial support from the central government varies across time and between municipalities. For that reason, the analysis includes: 1) central transfereces as a proportion of the total municipal revenue (i.e., fiscal dependence), and 2) the level of international aid the central government redirected to municipalities. Finally, the economy’s size at the municipal level (i.e., GDP) and the municipal population control for local capacity to acquire international aid funds. [Table 3](#) provides descriptive statistics for all the variables.

**Methods**

All models below used two-way fixed effects regression to analyze within-municipality changes and to include over time trends that can affect cross-sectional time-series. This following equation derives this study’s findings:

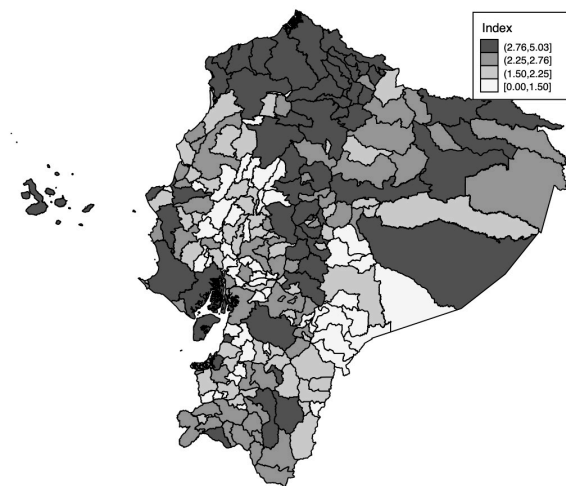
$$Y_{mt} = \beta_0 + \beta_1 Policy_t + \beta_2 Supply_{mt} + \beta_3 (Policy_t X Supply_{mt}) + X'_{mt} + u_m + v_t + \epsilon_{mt}$$

where  $Y_{mt}$  = international aid funds in municipality  $m$  at time  $t$ ,  $Policy_t$  = regulatory policy at time  $t$ ,  $Supply_{mt}$  = donor supply in municipality  $m$  at time  $t$ , and its interaction with  $Policy_t$  captures the moderator effect on the amount of international aid funds available in a municipality,  $X'_{mt}$  is a vector of time variant control variables,  $u_m$  = municipality fixed-effects, and  $v_t$  = a year fixed-effects. Standard errors are clustered at the municipal level and all control variables are lagged one period.

**FINDINGS**

The results in column one of [Table 4](#) represent the effect of overregulation and donor supply on the total amount of

Donor supply (logged) (2007-2018)



**Figure 1. Average donor supply across all 221 Ecuadorian municipalities between 2007 and 2018.**

Note: This figure was created using STATA-16 *spmap* function.

international aid at the municipal level. Regulatory policy is negatively associated with the level of international aid secured at the municipal level. The size of the effect is important on the municipalities with the average level of donor supply because international aid has been reduced by 0.52 standard deviations (SD) since the implementation of Presidential Decree No. 16. Furthermore, models in columns two and three in [Table 4](#) show results for bilateral and multilateral international aid, respectively. The decision to regulate civil society organizations had the highest negative impact on bilateral international aid. This is important because bilateral international aid represented approximately 70% of the total international aid during 2007-2018. In fact, 0.73 SD of bilateral aid were reduced, in comparison to 0.47 SD of multilateral aid, after the implementation of Decree No.

**Table 4. The effects of regulatory burden and donor supply on international aid between 2007 and 2018.**

	International aid (logged)	Bilateral international aid (logged)	Multilateral international aid (logged)
Regulatory policy	-1.0082*** (0.1573)	-0.4947*** (0.1281)	-0.5349*** (0.1138)
Donor supply (logged)	0.7613*** (0.0826)	0.7133*** (0.0783)	0.0213 (0.0429)
Donor supply (logged) X Regulatory policy	-0.4625*** (0.0920)	-0.2030*** (0.0541)	-0.3141** (0.0988)
Devolution policy	0.0374 (0.1915)	-0.3849* (0.1924)	0.6605*** (0.1190)
Donor supply (logged) X Devolution policy	0.0006 (0.0833)	-0.3399*** (0.0849)	0.4038*** (0.0848)
Central government international aid	-0.0497+ (0.0299)	-0.0246 (0.0232)	-0.0400* (0.0180)
Local fiscal dependency	0.0027 (0.0040)	0.0037 (0.0036)	-0.0022 (0.0026)
Local gross domestic product (logged)	-0.0926 (0.2238)	-0.2612+ (0.1546)	0.0593 (0.1543)
Population	-0.0041 (0.0052)	-0.0051 (0.0034)	-0.0118*** (0.0030)
Constant	1.8142+ (0.9778)	2.2404** (0.6949)	0.8305 (0.6491)
Municipality fixed-effects	Yes	Yes	Yes
Year fixed-effects	Yes	Yes	Yes
Observations	2431	2431	2431
Municipalities	221	221	221
R <sup>2</sup> : within	0.1435	0.1685	0.1211

Note: All control variables are lagged one period and donor supply is centered. Cluster standard errors in parentheses: +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

16.

According to the results, donor supply exacerbates the negative effect of regulatory policy on international aid funds. Figure 3 shows the marginal effect of regulatory policy on international aid as the level of donor supply increases. Interestingly, as the value of donor supply increases, the marginal effect of regulatory policy becomes more negative. In sum, the negative effect of regulatory burden against civil society organizations is stronger in municipalities with high levels of complexity in their context, measured by the level of donor supply.

It is worth mentioning that the intention of the national government to stimulate the flow of international aid from donors to municipal GADs was ineffective because devolution policy in column 1 of Table 4 is not statistically significant. Moreover, devolution policy has a considerable negative effect on the level of bilateral aid. In fact, 0.57 SD of bilateral aid were reduced after the implementation of devolution policy. While multilateral aid increased by 0.58 SD, it was not enough to compensate for the reduction of non-reimbursable international cooperation via bilateral aid. The different effects of “devolution policy” across bilateral

and multilateral aid may be explained on the following grounds. First, while only one international donor is involved in a bilateral agreement, several international agents are part of multilateral agreements. This means that devolving the securing of international aid to autonomous municipal governments may have discouraged those jurisdictions with a single donor partner. On the contrary, autonomous municipal governments with more than one donor partner seem to have overcome the logistic, administrative, and motivational challenges created by devolution policy. If one donor partner withdraws, other partners may remain to assist and sustain the multilateral agreement. Another speculation may suggest that existing bilateral agreements involve small municipalities or jurisdictions with less administrative capacity, and, as a result, are more disrupted by the devolution policy. This is an empirical question, of course, as future studies may trace the type of municipalities more likely to be part of bilateral versus multilateral agreements.

The interaction between donor supply and devolution policy on different sources of international aid are available in Figures 4 and 5. On one hand, when international aid

came from a bilateral source, donor supply negatively moderated the effect of devolution policy (Figure 4). On the other hand, Figure 5 shows the marginal effect of devolution policy on multilateral international aid as the level of donor supply changes. Contrary to the case of regulatory policy, the marginal effect of devolution policy became positive as the value of donor supply increases.

### CONCLUSION

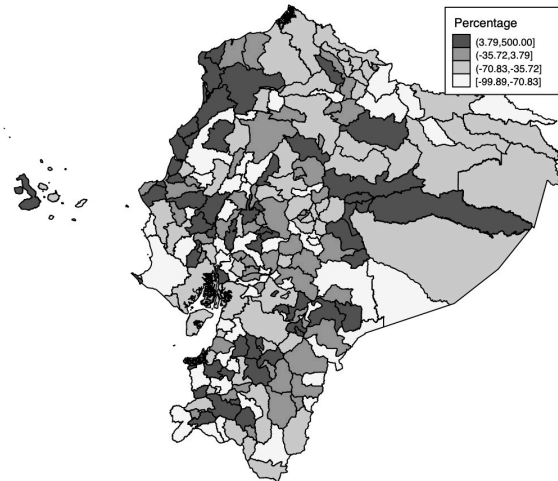
This study contributes to the theoretical understanding of the effects of regulatory burden on policy context and effectiveness. The results suggest regulatory burden affects the policy context, which, in turn, reduces policy effectiveness over time. Specifically, our results show overregulating INGOs has a negative effect on governmental effectiveness in securing international aid because it introduces more turbulence and uncertainty to the context of municipal governments. Results also reveal the number of international aid donors operating in a jurisdiction moderates this negative effect. In other words, high levels of complexity in the external environment of municipal governments, operationalized by the donor supply variable, increase the negative effect of regulatory burden on the flow of international aid in an aid-recipient country. These results should encourage policy makers, who seek to align national planning goals with international community’s mission, to reconsider the counterproductive costs of overregulating INGOs and other civil society organizations.

Given the particular setting in which we test the suggested hypotheses, Ecuadorian municipalities allow us to study aid-securing effects of a devolution policy. Hence, results show that transferring aid-securing autonomy from the national to subnational governments has negative effects. This finding suggests municipalities are acquiring more autonomy but with ineffective organizational outcomes. A simple explanation suggests at least that municipal administrative capacity is unsuited for carrying out new responsibilities. However, the institutional traits of Latin American countries call to consider not only managerial capacity but also political intentions when analyzing the results of administrative reforms (see Polga-Hecimovich, 2021). In the end, municipalities receive less international aid, as our results suggest.

Future research should address whether the decline in international aid is merely due to regulations or whether other characteristics of aid-recipient countries also play a role. For instance, upper-middle-income countries operate in less munificent contexts because international donors prioritize aid-recipient countries with lower income. Additional research also is needed to explore (a) whether local public managers seek to compensate for the decline in foreign aid by adopting innovative strategies that boost international aid over time, or (b) whether localities prefer to adopt a passive role by leaving all the outreach effort to INGOs.

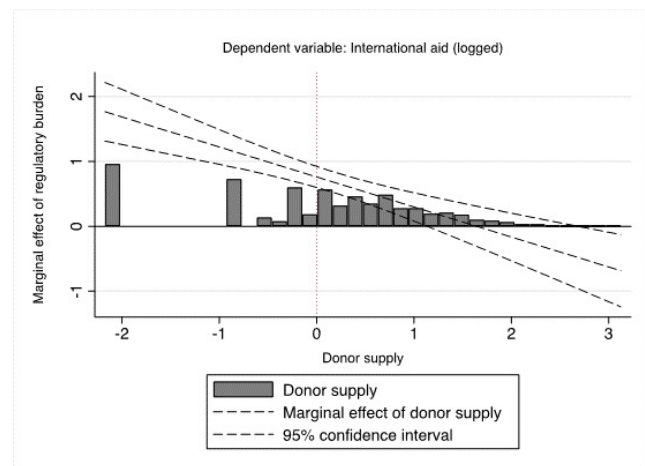
By analyzing the effects of regulatory burden on context and performance, the findings provide additional empirical evidence to existing theoretical underpinnings, corroborating expected direct and indirect effects of context on the management-performance linkage. Specifically, the study

International aid growth rate



**Figure 2. Growth rate between average international aid for the period 2011-2014 and the period 2015-2018.**

Note: This figure was created using STATA-16 *spmap* function.



**Figure 3. Marginal effect of regulatory burden on international aid as donor supply changes between 2007 and 2018.**

Note: donor supply is centered.

contributes to the understanding of foreign aid effects on regulating INGOs and other civil society organizations. However, our study does have limitations. First, this research focuses on securing international aid as the measure of governmental performance, specifically effectiveness. While developing countries supplement budgetary deficiencies with international aid funds, it is worth noting a direct connection does not necessarily exist between high levels of international aid and the improvement of aid-recipient countries’ economic development.

This study tested whether regulatory burden reduces organizational performance by generating uncertainty, turbulence, and complexity in the environmental context, finding a negative relationship between regulations and performance. In doing so, the study has explored whether the ex-



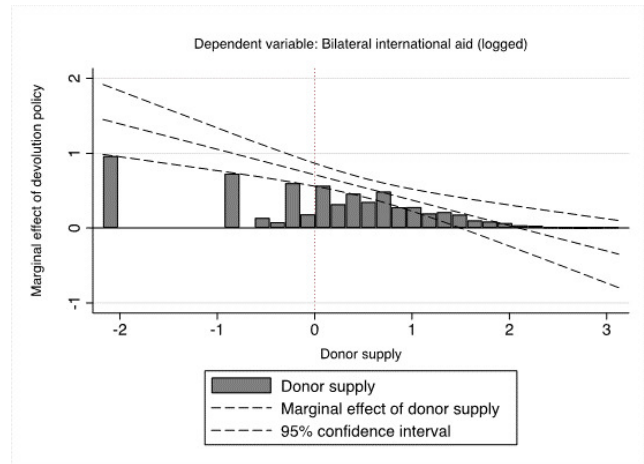
pected goals of the regulation-issuing country align with the outcomes over time. In other words, the study assesses whether policy effectiveness is compromised because of regulatory burden. Whether the negative outcomes are intended or unintended is unclear, but the study points at the importance of considering the unintended effects of regulations. If policy makers' goal is to achieve a social optimum, the unintended effects of regulatory burden should be considered to guarantee policy effectiveness.

Although this study relies on Ecuadorian municipalities, findings should apply to other settings in which decentralization and devolution of responsibilities have become part of governance reforms. In fact, this is true in several Latin American countries where fiscal, political, and administrative decentralization continues to be the trend, despite the countries being unitary centralized systems. Moreover, besides Ecuador, other relatively young democracies in and out of the region also have decided to strengthen regulations against international donors. Whether their motivation comes out of transparency or threat perceptions is outside of the scope of this research. However, as more populist governments come to power, an increase in regulations of international donors may become the trend. Our study calls for additional research as to the type of government ideology more likely to strengthen regulations on international donors, not just in the Latin American region but in other developing settings.

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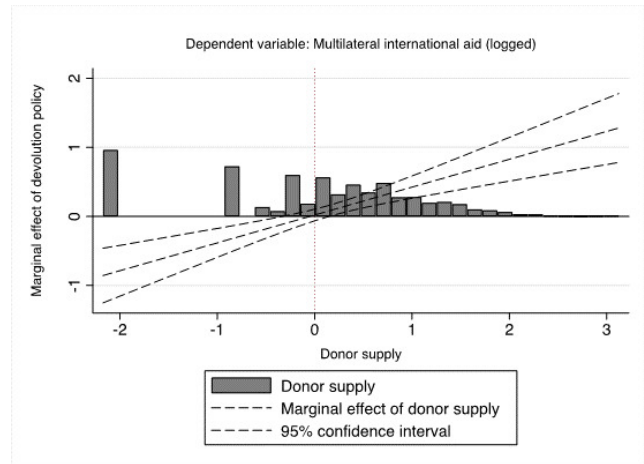
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**Figure 4. Marginal effect of devolution policy on bilateral international aid as donor supply changes between 2007 and 2018.**

Note: donor supply is centered.



**Figure 5. Marginal effect of devolution policy on multilateral international aid as donor supply changes between 2007 and 2018.**

Note: donor supply is centered.



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