



An exploration of individual-level wage effects of foreign aid in developing countries

Dirk-Jan Koch*, Lau Schulpen

Ministry of Foreign Affairs the Hague, the Netherlands & the Centre of International Development Issues Nijmegen, Radboud University, Nijmegen, The Netherlands

ARTICLE INFO

Keywords:

Local wages
Aid effectiveness
National staff
Poverty
Unintended effect
Foreign aid agencies

ABSTRACT

The key research question that this article aims to respond to is: what are the individual-level effects of wages financed by development assistance? Our hypothesis is that these effects are substantial and overall positive, depending on the level of analysis. This article theorizes about unintended wage effects at the individual level, spillover effects, and those at the macro level, yet focuses its research on individual-level effects. The empirical part consists of two case studies. One takes a sample of grants from a donor agency, the Netherlands Ministry of Foreign Affairs, as a starting point, following these grants through the aid chain to determine local staffing costs. The other case study consists of a comparative wage analysis in a developing country, the Democratic Republic of Congo. As this field of research is rather fresh, instead of answering relevant questions with respect to wage effects, this study merely aims to identify questions that merit further research.

1. Introduction

Unintended effects of international cooperation have been little researched and, if they are included, the emphasis is principally on the negative unintended effects (Ministry of Foreign Affairs and Radoud University, 2017). This article aims to complement this by researching (potentially) positive unintended effects of development aid.

The article focuses on the often-overlooked wage effects of international aid. Wage effects of foreign aid, as defined in this article, are consequences of expenditures on personnel by foreign aid-funded agencies for citizens of developing countries. This means that the article focuses both on the effects on wages of individuals (are they higher than what they would otherwise have been?) and on other aspects (how are these wages being used?). This article identifies three different levels where those wage effects can be observed: at the individual level, the spillover level, and the macro level. The empirical research focuses on the individual-level effects. Certainly, in a period where aid agencies increasingly employ national staff (employees who are nationals of the respective countries being served), this is a timely subject to investigate.

While initial case study research has demonstrated that there are positive and substantial effects for national staff of foreign aid-funded agencies, these have neither been theorized nor analyzed systematically (Kamanzi, 2017a, 2017b; Leenstra, 2017). This article attempts to fill this gap by (1) providing an analytic overview of various (potential) effects of the wages provided to national staff by foreign aid, at the

individual, spillover, and macro levels; (2) providing some preliminary findings with respect to the size and nature of the wage effects at the individual level by means of two case studies; and (3) discussing the findings to propose additional research questions.

This research will indicate that hundreds of thousands of national staff of foreign-funded agencies depend for their living on the wages offered by development assistance. By employing these individuals, international donors have unknowingly impacted millions of individuals and their kin. This exploratory research aims to open this black box and find out how large these effects are and if they are changing over time. The ultimate aim of this research is to determine what can be done to capitalize on the positive unintended effects and what can be done to avert negative unintended effects. However, this article does not reach that stage yet: first, a better understanding of this black box of “wage effects” is needed.

2. Scoping the subject: potential wage effects of foreign aid in developing countries

Volumes of thick books have been written on whether aid works (i.e., contributes to poverty reduction), yet the jury is still out (Easterley, 2007; Riddell, 2008; Sachs, 2006). Most of this literature has looked at the effectiveness of aid on the basis of its (presumed) intended effects. Unintended effects have been little researched, and if they are included the emphasis is principally on the negative unintended effects. This article aims to counterbalance this by researching (potentially)

* Corresponding author.

E-mail addresses: dj.koch@minbuza.nl (D.-J. Koch), l.schulpen@maw.ru.nl (L. Schulpen).

<http://dx.doi.org/10.1016/j.evalprogplan.2017.09.002>

Received 1 September 2017; Accepted 14 September 2017

0149-7189/© 2017 Elsevier Ltd. All rights reserved.

positive unintended effects of development aid, notably the wage effects of foreign aid.

While there is a dearth of literature on the wage effects of foreign aid, there is a wealth of literature on the wage effects of foreign direct investments. Earlier work has shown that the insights and tools of the economic literature, in this case labor economics, can contribute as well to a better understanding of development actors (Koch, 2009). Also, in the case of the wage effects of foreign aid, one can learn from the wage effects of foreign direct investment, as this has been researched for decades already (Feenstra, 1997; Gorg & Greenaway, 2004; Javorcik, 2014). Foreign direct investments come from different sources (mostly private rather than public actors) and go to different targets (also mostly private actors as opposed to public ones). Conversely, there are also many similarities; e.g., both forms of capital require skilled manpower, and with the foreign flows come international standards that need to be adhered to. In our analytical framework, key terms from the management and labor economics literature will be used where appropriate. Studies of wage effects in that literature focus on three levels, which will be dealt with here as well.

2.1. Individual-level effects

It is assumed that the individual-level wage effects are mostly positive if they are analyzed from an income-level perspective, as the wages in the aid sector are generally higher than in other sectors (Carnahan, Gilmore, & Rahman, 2005). These direct remuneration effects can occur for national staff¹ in local NGOs which are funded by external aid funding, in international NGOs, in UN and bilateral donor agencies operating in developing countries, and in UN and bilateral donor headquarters employing national staff. The effects come mostly in the form of salary, but also per diems and other allowances, which compound the wage effect (Vian, Miller, Themba, & Bukuluki, 2013). Besides, another more informal financial effect of being an employee of an aid-funded agency is possible: illicit financial payments extorted from amongst other suppliers (Koch, 2016a). This study, however, will focus only on the official wage effects, as the study uses official documentation from the aid agencies, which do not include records of those illicit financial flows.

The FDI literature also highlights that workers within foreign-funded organizations will increase their productivity because of their exposure to technology and training. They will take this higher productivity with them when one day they move on from the foreign-funded agency and increase the productivity, and hence wages, of the non-foreign-funded sectors of the economy (Javorcik, 2014). While it is important to realize that these are broader effects, this paper doesn't analyze those empirically.

There are various other effects at the individual level for a foreign-funded agency which go beyond the wage effect. Individual-level effects could include, for instance, the values and behavior that local aid workers are exposed to and that they may internalize. These are the socialization and homogenization effects of western norms and education on local organizations and their national employees, such as gender norms. Because of various pressures (e.g., funding), local organizations and their employees increasingly emulate their funding agencies and their employees (Kamstra & Schulpen, 2015). To illustrate this effect on values and behavior, the degree to which national staff is politically active could be a litmus test. International NGOs are often depoliticized, and staff members are not expected to be politically active' (Banks, Hulme, & Edwards, 2015). Regularly strong leaders of civil society movements are integrated as staff members in international NGOs, and cannot still be as vocal as before. While these are all

¹ National staff refers to citizens of developing countries who work for foreign aid-funded projects, programs, and agencies. In this article "national staff" can also be employed outside of the country of origin.

interesting and relevant effects of employment with foreign-funded agencies, they are not the focus of this paper, which focuses on wage effects.

2.2. Meso-level effects

Next to these direct individual-level wage effects, there are also effects that go beyond the national staff and flow over to their surroundings (Carnahan et al., 2005). These meso-level effects are often referred to as secondary effects. Kamanzi (2017a, 2017b) has identified how local district officials in Tanzania received aid-funded stipends, which were invested in a highly relevant way in income-generating activities for their retirement: investment in their housing, their plots, and livestock. These positive effects had a trickle-down effect on their families: hence, the aid most definitely had meso-level effects for both the families and other relations of the national staff.

The meso-level effects are spread not only to contemporaries, but also to succeeding generations. These wage effects do not occur simultaneously with the intervention, but occur afterwards and are thus diachronic (Jabeen, 2017). In follow-up research Kamanzi (2017a, 2017b) returned 10 years after the end of the program to the district officials in Tanzania and found that their children attended good schools and now had a better chance to get jobs. Leenstra (2017) confirms this and shows how children of foreign aid-funded staff were successful in making a large leap in socioeconomic status in one generation due to human capital accumulation.

It is important to take note of these meso-level effects of wages in the analytical framework, as to realize that there are potential multiplier effects of the wages. However, these are not analyzed quantitatively in this paper, as the focus is on individual-level effects.

2.3. Macro-level effects

Various effects of the employment of nationals at foreign aid-funded agencies exist at the macro level. The macro-level effects that have been identified in the literature are: (1) reduction of state capacity in the short run; (2) distortion of labor market in the long run; and (3) inflationary pressures on other wages (Ammitzboell, 2007).

One of the most often-cited effects is the reduction of state capacity in the short run. This situation arises when a high-paying international agency enters into a depressed labor market, as is often the case when aid agencies enter a developing country. The foreign-funded agency will "suck away" the most talented people from the government, or from local NGOs. In the case of Kosovo, a cleaning lady for an international organization could earn three times as much as a minister. The effect may be that transitory organizations reduce the capacity of more permanent local institutions (Hariss, 2006). The latter then falls under what Archarya et al. (2006, p. 7) call indirect transaction costs, with "illpaid public servants...significantly [increasing] their formal salaries by working 'for' aid agencies and projects" with the consequence of "draining the public service of valuable experiences and talents."

It is argued that this reduction in state capacity is not just a short-term effect, but has long-term repercussions. Once national staff have worked in the environment of an international organization, with its airconditioned offices and steady electricity, it is hard for them to move back to the government. While the idea was, for instance in Cambodia, that national staff of the UN would move back to the public sector after the international intervention had ended, the reality was that local staff didn't do that (Carnahan et al., 2005, p. 36).

A last macro-level effect is related to the inflationary pressures on wages and other aspects of life. This, in turn, leads to inflationary pressure on, among other things, rent in the cities with a large number of UN agencies (especially since this often also implies many expatriates). In some instances, this forces the local middle class to leave the city (Büscher & Vlassenroot, 2010).

In addition to the above-mentioned macro-level effects, which have

Download English Version:

<https://daneshyari.com/en/article/6792142>

Download Persian Version:

<https://daneshyari.com/article/6792142>

[Daneshyari.com](https://daneshyari.com)