



A Paradox of Redistribution in International Aid? The Determinants of Poverty-Oriented Development Assistance

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Summary. — Donors differ in the amount of official development assistance dedicated to poverty reduction. We investigate the causes of variation over time and donors by employing both a regression approach with aggregate data on bilateral aid and two short country studies on Germany and the United Kingdom. We find that there is a trade-off between the total amount of money given, and the amount of money given to poor countries. The trade-off is similar to the paradox of redistribution of targeting *vs.* redistribution in rich welfare states. Case-study evidence illustrates how countries have managed this tradeoff.
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1. INTRODUCTION: POVERTY ORIENTATION IN AID

“There are, of course, many grounds for development assistance: among others, the expansion of trade, the strengthening of international stability, and the reduction of social tensions. But in my view the fundamental case for development assistance is the moral one. The whole of human history has recognized the principle—at least in the abstract—that the rich and the powerful have a moral obligation to assist the poor and the weak.”

[Robert McNamara, Address to the Board of Governance, World Bank Group, Nairobi, September 24, 1973]

In recent years, the focus on poverty reduction has returned to the center stage of donor rhetoric. The World Bank revived poverty eradication in the 1990s (Birdsall & Lonondo, 1997; Finnemore, 1997). OECD’s Development Co-operation Directorate (OECD, 2007) re-shifted its focus toward pro-poor growth and poverty reduction. And the United Nations launched the Millennium Development Goals (MDG) in which poverty eradication reaches top priority. Bilateral donors have followed this trend (DFID, 2012). However, the focus on poverty shows cycles over time (Easterly, 2007). Until the 1970s, when Robert McNamara, president of the World Bank, declared poverty alleviation a key priority for the Bank’s activities, poverty orientation was much less of an issue than development (Finnemore, 1997; Riddell, 2007). In the 1980s the poverty focus eclipsed again, as structural adjustment took its toll on poverty orientation. Only since the 1990s has poverty eradication made a comeback.

The poverty focus in aid has generated intense policy debate. Paul Collier (2007), for instance, has suggested to concentrate on the “bottom billion” countries. Among others, Andy Sumner (2010) argues that rather than focusing on the poorest countries, one should focus on the poor people themselves. There is much less debate about why donors differ in the degree to which they concentrate their official development assistance (ODA) on the poorest countries. Most of the literature on the politico-economic determinants of donor motives investigates the overall level of aid (but see Hoeffler & Outram, 2011; Neumayer, 2005; Tingley 2010). We are more interested in why this money is sometimes targeted to the poor and why sometimes it is not. There is also enormous variation between donors’ implementation of the poverty focus. Countries such as Sweden have focused on the poorest countries all along,

others such as the UK have increased their focus over time, while others such as Japan barely seem to be concerned at all (Riddell, 2007).

Our major suspicion is that there is a trade-off between the total amount of aid and the focus on the poor. We base this idea on the literature about welfare states in rich countries. In this literature, the paradox of redistribution figures prominently (Korpi & Palme, 1998; Mkandawire, 2005). The trade-off implies that higher levels of targeting effectively lead to less overall spending on the poor. The reason is that targeting leads to political and social stigmatization and a decline in the interest of supporting poor people. The flipside of this argument is that targeting can be retrenchment “by stealth”.

We compare this explanation with approaches that were developed for explaining bilateral donors’ total amount of aid: the importance of domestic (partisan) politics and institutions (Noel & Therien, 1995; Therien & Noel, 2000; Tingley, 2010); the role of domestic economics and foreign economic policy (e.g., Lundsgaarde, Breunig, & Prakash, 2007; Maizels & Nissanke, 1984); and considerations of foreign and security policy (Bueno de Mesquita & Smith, 2009; Dreher, Sturm, & Vreeland, 2009). We test these claims for 23 donor countries in the period 1960–2010. We find evidence for a trade-off between total aid and the aid given to poorest countries. This trade-off affects the relevance of other determinants such as partisan politics. To show whether this trade-off can be avoided we present two brief case vignettes on British and German development policy. The countries differ in the domestic politics of the welfare state, and these differences are mirrored in the way how they deal with the trade-off in international aid.

The paper makes three contributions to the political economy of bilateral aid. First, we directly focus on the poverty orientation of aid, whereas most of the literature investigates the determinants of total Official Development Assistance

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(ODA). Second, we suggest a measurement that is different from the standard OECD and World Bank measures and is rather based on health than wealth. We argue that this measure is a better proxy for poverty-related aid than measures based on income. Third, we use quantitative and qualitative evidence to show the causal complexity between determinants such as partisan ideology, welfare states, and the nature of ODA. We start with measurement in the next, second section. The third section provides for a discussion of the literature. The fourth section develops our main argument. The fifth section includes our econometric results and the two small case studies. The conclusions follow in the final section.

2. HOW TO MEASURE POVERTY-ORIENTATION IN DEVELOPMENT AID

Measuring poverty orientation of development aid is a complex issue. Three different sets of approaches have mainly been used in research and by donor organizations: project-level, sector-level, and country-level measures (White, 1996). None of the three approaches is free of serious shortcomings. Consequently, the choice of a particular measurement of poverty orientation is always a trade-off between validity of the instrument and availability of data. In this section we provide for a brief discussion of the existing, and present our preferred means of measurement for the poverty orientation of development aid.

The project approach identifies those aid projects that are targeted toward the poor and presents the amount of these projects as a ratio of total spending on development. The question, however, is how to define the poverty orientation of a project and how to disentangle multi-component projects (White, 1996). Mosley (1981) defines a project as poverty oriented if it raises the living standards of the poor. His definition requires precise data on the income distribution of the target population and a standardized threshold above which the living standard of the poor may be qualified as having been increased by the projects. To overcome these problems, the World Bank (1988) defined pro-poor projects as those which are targeted to rural areas, as they cover a higher share of poor people. Introducing sector criteria to the project level, however, increases the risk of leakage, because even projects strictly targeted toward rural areas may disproportionately benefit higher income groups in the rural area (Coady, Grosh, & Hoddinott, 2003; Mosley & Dahal, 1985).

A sector approach does not require detailed information about the poor. Instead, it defines specific sectors which are assumed to benefit the poor more than other sectors. In this vein, the leading donors such as the OECD or the World Bank define projects in agriculture and rural development, water supply and sanitation and health and education as “pro-poor” aid. Although intuitively appealing, the sectoral approach runs into similar problems as the project approach. First, leakage of aid money toward higher income groups may occur in the sectors. Second, sector classification may be arbitrary and may also differ between countries. For instance, the construction of a road in the countryside could be classified as transport, agriculture or trade and finance.

The country approach measures how much aid goes to poor countries. Here the assumption is that most poor live in the poorest countries and that higher shares of development aid to poor countries will also benefit the poor. As White (1996:9) put it, “[...] in a very poor country anything you do helps the poor whereas in a comparatively rich one you must make more strenuous efforts at targeting in order to

reach the poor.” The problem of misspecification is less prevalent in the country approach, and data are better documented than for projects or sectors. However, the country approach still risks problems of leakage and undercoverage (Nunnenkamp & Thiele, 2006). Sumner (2012) shows that undercoverage can be a serious problem: by now the majority of the global poor live in Middle-Income Countries (MIC). Upgrading China, India, Indonesia, and Nigeria alone, shifted over 700 million poor people into this category.

By far the best-known country approach measures the share of development aid that goes to less or least developed countries as defined by the DAC. Similarly, the World Bank defines income per capita thresholds and allocates countries to income groups. In the following analysis, however, we abstain from this version. One reason is that the DAC revises the country list every three years and eliminates countries that exceed the UN poverty threshold from the list. Since 1970, 55 countries have left the list and only 17 were added.¹ This shrinkage of the list is caused by increasing global prosperity, which implies that some two-thirds of the global poor risk being delisted from ODA (Sumner, 2012). The drift automatically decreases donors’ aid share toward the poorest countries over time, and implicitly based on an absolute rather than relative notion of poverty.

More important, however, is the question how governments understand “poverty”. This question is tricky, as governments and aid agencies may vary in their definitions and approaches toward poverty (Wood, 2008). Donors sometimes use arbitrary thresholds such as the poverty line set at 1.25 USD per day or the definitions of the DAC list. Often, however, governments and donor agencies have a more multifaceted or different approach to measure poverty. The German Federal Ministry for Economic Cooperation and Development (BMZ), for instance, mentions in its strategy paper that the poverty line is “reductionist” and that poverty has many more facets (see also DFID, 2012). The strategy paper argues that a large part of the global poor live in middle-income countries (BMZ, 2012). The BMZ also refers to growing inequality within developing countries as a future challenge for foreign aid. This rules out a per-capita income-based approach toward poverty.

The BMZ’s eligibility criteria do not have to be indicative for all donors. Yet we believe that a measure based on health captures the donors’ approach toward poverty more accurately, even if no single indicator will be able to capture all types of approaches. For these reasons, we opt for a modified country approach in which poverty-orientation is the share of a donor’s development aid that goes to the poorest quartile of countries as percentage of the total budget for development aid. We use the lowest quartile because bilateral and multilateral donors increasingly use such thresholds to select recipient countries. For instance, DFID gives 90% of its aid to Low-Income Countries, which corresponds to the lowest quartile (Sumner, 2012).

Whereas the DAC list uses GDP/income per capita as criterion of poverty, we use health instead of wealth as indicator of poverty. Income measures do not adequately take into account the distribution of wealth within a country and thus give an inaccurate estimate of the number of poor people. Instead, we follow Sen (1998), who argues that mortality rates are a better variable to measure economic success for poor people, because it is sensitive to problems of income inequality, has essential intrinsic importance of survival and capabilities, and serves as a proxy variable for failure and achievements. Also, for very poor countries health statistics has higher validity and better availability across countries and time (Jerven, 2013).

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