

Keeping a Low Profile: What Determines the Allocation of Aid by Non-Governmental Organizations?

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Summary. — We analyze the targeting of non-governmental organization (NGO) aid across countries in a multivariate regression framework, based on a dataset for 61 important international NGOs. While our results show that NGOs are more active in the neediest countries, we reject the hypothesis that NGOs complement official aid through engaging in difficult institutional environments. Rather, they replicate location choices of official “backdonors.” Moreover, NGOs follow other NGOs so that aid gets clustered. Finally, NGOs select recipient countries with common traits related to religion or colonial history. Our findings suggest that NGOs keep a low profile rather than distinguishing themselves from other donors. It remains open to debate, however, whether these findings also apply to the wide variety of smaller NGOs (not covered by our sample).

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1. INTRODUCTION

It has traditionally been an article of faith (Tendler, 1982) that non-governmental organizations (NGOs) provide better targeted aid as they are closer to the poor than official aid agencies. Furthermore, the allocation of NGO aid should arguably be less distorted by commercial and political interests such as export promotion or the formation of political alliances, as compared to aid given by state agencies. Donor governments appear to share the view that NGOs have an important role to play for aid to reach the poor and render it more effective. The share of bilateral official development assistance (ODA) channeled to or through NGOs exceeded 10% in 2005–06 for various OECD countries, notably the Netherlands (19.5%), Switzerland (17.2), and Spain (15.9).¹ Overall, grants by NGOs based in the member countries of the OECD’s Development Assistance Committee (DAC) amounted to almost US\$15 billion annually in 2005 and 2006,² thus exceeding bilateral ODA from every individual DAC country except for the United States.

The quantitative significance of NGO aid notwithstanding, little is known about where NGO aid is spent and how well targeted it actually is (Section 2). If at all, NGO aid is analyzed in country-specific studies, with Bangladesh having received particular attention (e.g., Fruttero & Gauri, 2005; Gauri & Galef, 2005). The literature is largely confined to ODA when it comes to aid allocation across countries. Data constraints typically prevented performing similar analyses for NGO aid. For instance, OECD/DAC data are seriously deficient with respect to NGO aid at the level of individual recipient countries (OECD, 2007). We contribute to closing this empirical gap by using a new dataset on aid allocation, collected for 61 NGOs based in 13 donor countries (Section

3), and thus unique in its coverage.³ We employ several econometric models, including a Heckman approach, to gain deeper insights into the targeting of NGO aid across a large number of recipient countries. Five major hypotheses on the geographical choices of NGOs are addressed in a multivariate regression framework; three of these hypotheses have not yet been formally tested. We find, first, that poverty plays a role in the geographical choices of NGOs, with poorer countries receiving more aid from NGOs. Second, we reject the view that NGOs prefer working in “difficult” environments as reflected by the governance situation in the developing countries. To the contrary, we even obtain some evidence suggesting that NGOs are more likely to become active in more democratic countries. Third, it appears that NGOs behave less autonomously than widely believed. Rather, the preferences of backdonors permeate in the geographical choices of NGOs, even though the economic interests that often shape the choices of bilateral donors do apparently not affect the NGOs. Fourth, NGO aid is clustered in the sense that NGOs prefer to locate where other NGOs are already present. Lastly, NGOs seem to prefer countries that share certain characteristics with them, such as common religion, when deciding on where to engage. Given that the NGO landscape is highly diverse, the concluding section calls for

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more research to assess in more detail whether specific types of NGOs make different geographical choices.

2. HYPOTHESES

The literature on the determinants of foreign aid mainly focuses on ODA granted by OECD governments. Several studies argue that the targeting of ODA to needy recipient countries with reasonably good local conditions (in terms of basic institutions and economic policies) is far from perfect (Burnside & Dollar, 2000; Collier & Dollar, 2002).⁴ Furthermore, economic and political self-interests of donors appear to have had an important say on the allocation of bilateral ODA across recipient countries (e.g., Alesina & Dollar, 2000; Berthélemy, 2006). The effectiveness of ODA in promoting economic and social development in the recipient countries tends to be compromised in these ways.

On several counts, NGOs may provide more effective aid than official donors. Earlier analytical reasoning and tentative empirical findings suggest five major hypotheses which we will address below for a set of 61 NGOs based in several OECD countries. Especially the first three hypotheses reflect the widely held view that NGO aid may be superior to ODA (e.g., Nancy & Yontcheva, 2006). However, the recent literature also suggests various qualifications or even counter-hypotheses so that expected signs of the determinants of NGO aid often remain ambiguous *a priori*.

The popularity of NGO aid is at least partly due to the widely perceived “failure of official aid programs to reach down and assist the poor” (Riddell & Robinson, 1995, p. 2). NGOs often circumvent governments in the recipient country and deal directly with target groups organized by local NGOs (Riddell, Bebbington, & Peck, 1995, p. 25). This may reduce leakage and result in a better alignment with recipient needs (UN-Millennium Project, 2005, p. 18). This is why we would expect NGO aid to be strongly related to indicators of need such as the *per capita* income of recipient countries or their economic and social development as measured by the Human Development Index. We could also expect that NGOs would spend more of their resources in unequal countries, as indicated by the Gini coefficient, since many NGOs have their roots in the social justice movement, which focuses more on relative than on absolute poverty (Schulpen, 1997).

However, the view that NGOs have a clear focus on the poor has come under attack.⁵ The poverty orientation of NGO aid may be undermined by increasing pressure from co-financing governments to demonstrate project-related poverty impacts. This may appear counter-intuitive at first sight, but there is casual evidence to this effect. According to Bebbington (2004), increased intervention of the Dutch government into co-financed NGO projects in the Andes raised concerns with the NGOs that they might lose funding unless being able to demonstrate immediate project-related poverty impacts. Visible results are easier to achieve when projects address less entrenched forms of poverty, which may induce NGOs to shift attention away from the neediest recipients.

The few studies addressing the allocation of aid across recipient countries come to opposing results with respect to the poverty orientation of NGO aid. Nancy and Yontcheva (2006) present panel regression results on aid allocation by European NGOs (co-financed by the European Union) in the 1990s. Poverty in recipient countries appears to be the major determinant. Koch (2007) reports bivariate correlations between aid from Dutch NGOs and various indicators of need. NGO decisions of whether to engage in a particular country

appear to be correlated with some (absolute) poverty measures, though not with other indicators of need such as *per capita* income, literacy, mortality, and school enrolment. Conversely, the allocation of aid amounts by Dutch NGOs does not seem to be based on need in the recipient countries. In a regression analysis of aid given by Swedish NGOs, Dreher, Mölders, and Nunnenkamp (2007) corroborate Koch’s finding concerning the second stage of the aid allocation process, that is, distributing aid amounts among countries having passed the eligibility stage. Based on simple aid concentration curves, Koch, Westeneng, and Ruben (2007) classify American and Norwegian NGO aid as progressive and German NGO aid as regressive when measuring recipient need by means of the share of people living on less than 1\$ a day. Based on this discussion we derive our first testable hypothesis:

Hypothesis 1. NGO aid is focused on the needy, that is, recipient countries with low *per capita* income.

Concerning governance in recipient countries, it is frequently argued that NGOs have a comparative advantage of working in difficult environments (e.g., Edwards & Hulme, 1996; Fowler & Biekart, 1996). We therefore expect more NGO aid to go where institutional conditions are weak. The view underlying this hypothesis is expressed most prominently in the well-known World Bank study “Assessing Aid.” The study argues that government-to-government transfers do not work when governance is particularly bad in the recipient country and explicitly calls for engaging the civil society in order to render aid more effective in highly distorted environments (World Bank, 1998, p. 104). The UN-Millennium Project (2005) shares this opinion; it states that there are “countries that rank consistently low on civil liberties, political freedoms, and human rights, while rating high on corruption, with little demonstrable will to achieve broad-based poverty reduction. In these cases, the international community can play a role in humanitarian assistance and deliver aid through NGOs.”⁶ However, NGOs may be unwilling to accept the role assigned to them by official donors, arguing against a scenario in which NGOs were to focus on the “left-over” countries of bilateral aid (Borren, 2007), or in which “NGOs are seen as subcontractors who can be hired at will to clean up the institutional mess, after which Big Aid can move in and achieve nice results under conditions of good governance” (Monteiro, 2007).

NGOs may also be reluctant to work in difficult environments for reasons similar to those working against a stronger poverty focus of NGO aid. According to the principal-agent model of Fruttero and Gauri (2005), the dependence of NGOs (the agents) on external funding (from official backdonors as principals) tends to drive a wedge between organizational imperatives related to future funding and charitable objectives in locations where NGOs engage. This is even if principals and agents share altruistic aid motivations. Principals have incomplete information on NGO projects, while future funding of agents depends on perceived success or failure of current projects. To demonstrate success, NGOs are inclined to minimize risk which weakens their incentive to operate in difficult environments where failure may jeopardize future funding.

Likewise, the so-called marketization of aid is supposed to have unfavorable side effects which bias the allocation of NGO aid toward recipient countries offering easier environments (Cooley & Ron, 2002; Fowler, 2000; Lewis & Wallace, 2000). The notion of marketization includes that NGOs increasingly have to compete for government and private funding. According to Adelman (2003), NGOs having to pass this “market test” should become more efficient in delivering

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