

Foreign Aid to Countries in Conflict

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The Paradox of Aid (from PT Bauer, and more recently Angus Deaton)

- Where aid is needed, it is not effective
- Where aid is effective, it is not needed

Governance and the paradox

- The lowest income countries are where aid is most needed, but they also have the worst governance. Bad governance makes aid likely to be ineffective
- If aid to countries with bad governance tends to perpetuate bad governance, then aid is not just ineffective but making things worse (Deaton)
- Good governance like respecting the rights of poor is also an end in itself and thus itself a development objective

Conflict and the paradox

- Conflict makes aid likely to be ineffective
- Conflict usually associated with bad governance on other dimensions like corruption or autocracy
- Aid to countries in conflict sometimes makes conflict worse (Nunn and Qian on food aid).
- A survey of recent research concludes that aid to conflict zones (including humanitarian aid) increases rather than decreases violence.

Examples of ineffective aid in conflict

- Capture of aid by warlords to finance arms and soldiers (Nunn and Qian)
- In Afghanistan, aid organizations in the province of Uruzgan gave over one-third of their food aid and agricultural support to the Taliban
- Somalia in the early 1990s ...between twenty and eighty percent of food aid shipments were either looted, stolen or confiscated The stolen aid was then traded for arms in neighboring Ethiopia.

Determining the terms of the paradox trading off need and aid effectiveness

- Donors could try to mitigate the paradox by choosing recipients with the best governance and least conflict for a given amount of need
- **But recent trends in aid have done the opposite, and hence made the paradox worse.**

US Foreign Policy and Aid Shifts

- US aid policy shifted after September 11, 2001
- Set higher priority on aid to countries in conflict (failed states/fragile states) and to allies in the War on Terror, all of which usually had bad governance.

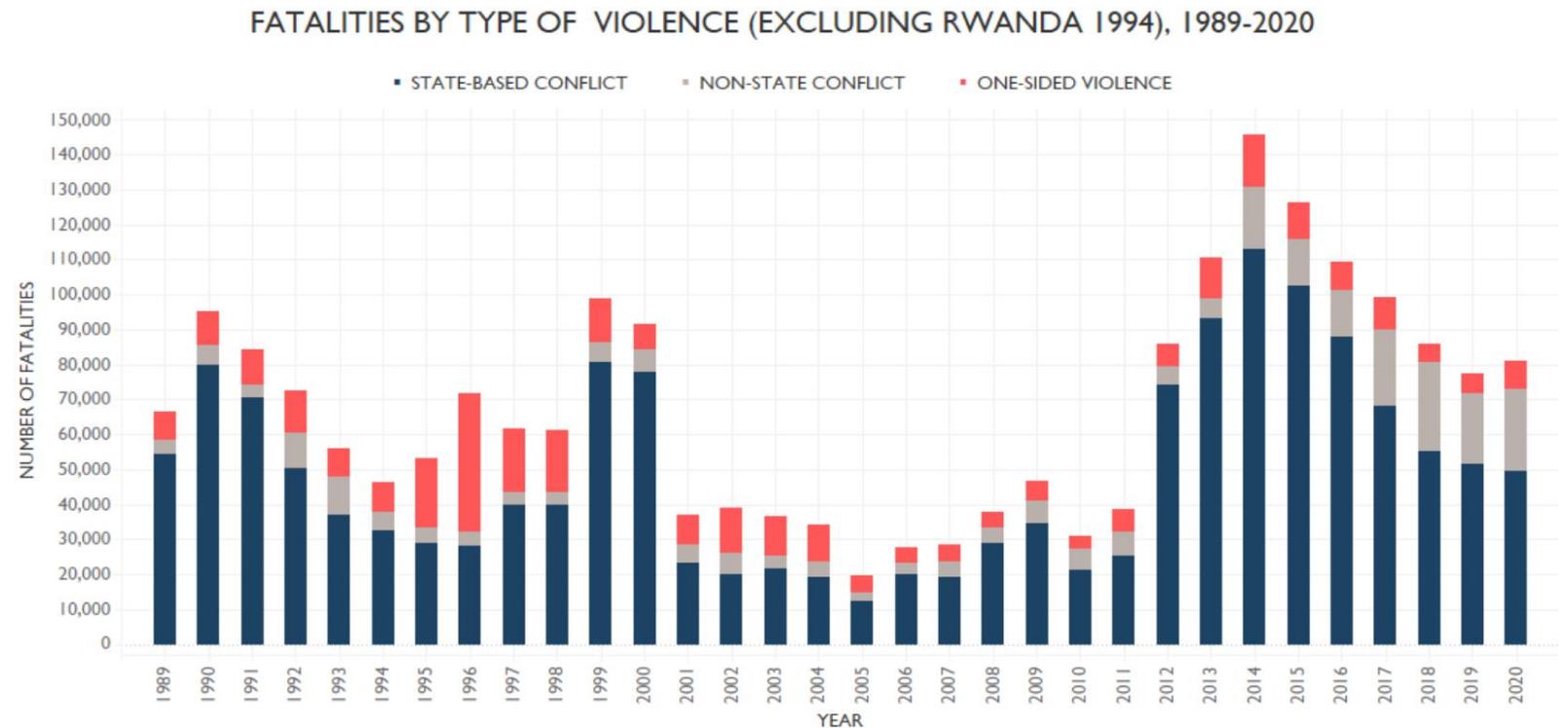
US aid policy shifts

- President George W. Bush gave a speech to an international aid conference in Monterrey, Mexico, on March 22, 2002. He said, “We fight against poverty because hope is an answer to terror.”
- Bush said aid would help fix “failed governments.” Terrorists flourished amidst such poverty and government failure. Bush announced an increase in the US foreign aid budget by 50 percent that same month
- World Bank created a new category “**Low Income Countries Under Stress**” in 2006. Today Bank calls it “**Fragile and conflict affected situations**”

Aid shifts

- Average annual aid to countries in World Bank category “Fragile and conflict affected situations” increased **267 percent** from pre 9/11 period 1996-2000 to post 9/11 period 2002-2019.
- After 9/11, the US military formed an Africa command (AFRICOM). The AFRICOM website lists governments who were cooperating with the United States against terrorism (usually countries with high conflict also). Together the African allies received a **157 percent** increase in annual development aid.

The increased aid to countries in conflict after 2001 did not reflect any increase in conflict



Based on UCDP 21.1 data

More systematic evidence of shifting aid priorities

- Average annual aid in two periods before and after 9/11: 1996-2000 and 2002-2019
- Regress log of aid on governance (from Worldwide Governance Indicators) across aid recipients – how much did donors select on governance?
- Test for a shift on how donors select on governance in 2002-2019 compared to 1996-2000
- Do with and without controlling for per capita income to see how donors select on governance for a given income.

More systematic evidence of shifting aid priorities

- The Governance Indicator “Political Stability and Absence of Violence/Terrorism” is also a measure of conflict/fragile state
- Test for a shift on how donors select on “Political Stability and Absence of Violence/Terrorism” in 2002-2019 compared to 1996-2000
- Do with and without controlling for per capita income to see how donors select on violence for a given income.

Table 1: Average Annual Aid and Governance pooled across countries in two periods, 1996-2000 and 2002-2019

Dependent variable: Log Average Annual Aid by Recipient

VARIABLES

Political Stability and Absence of Violence

Regressions	
1	2

-0.785*** (0.118)	
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Political Stability and Absence of Violence*
Dummy for 2002-2019

-0.583*** (0.168)	
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Average Governance

-0.795*** (0.161)

Average Governance* Dummy for 2002-2019

-0.630** (0.244)

Observations

326	325
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R-squared

0.376	0.261
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Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Governance from World Bank Governance Indicators

Table 2: Average Annual Aid and Governance pooled across countries in two periods, 1996-2000 and 2002-2019, controlling for income and population

Dependent variable: Log Average Annual Aid
by Recipient

VARIABLES

Political Stability and Absence of Violence

Regressions

1

2

0.0358

(0.124)

Political Stability and Absence of Violence*

Dummy for 2002-2019

-0.387***

(0.139)

Average Governance

0.408***

(0.156)

Average Governance* Dummy for 2002-2019

-0.489**

(0.193)

Observations

310

310

R-squared

0.665

0.664

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.2

Governance from World Bank Governance Indicators

Note

- Results are robust to excluding Afghanistan and Iraq

Findings

- Donors unconditionally selected on violence and bad governance before 9/11 (probably because of selection on low income), but the selection got worse after 9/11
- For a given level of income, donors did not select on violence before 9/11. They began to select on violence conditional on income after 9/11
- For a given level of income, donors positively selected on governance before 9/11. This positive selection on governance conditional on income disappeared after 9/11
- **Conclusion: Aid shifts likely associated with changing US foreign policy made the paradox of aid worse after 9/11**

Extensions

- Suppose aid to conflict countries is accepted as a priority based on need of conflict victims, and not just politically driven (although it will still lower aid effectiveness)
- Could try to improve aid effectiveness by positively selecting on other aspects of governance such as democracy or freedom from corruption
- In the period 2002-2019, some evidence that donors were positively selecting on democracy for a given amount of conflict, but not on freedom from corruption (controlling also for per capita income and population)

Is US Foreign Policy now shifting in the opposite direction?

- US Foreign policy has now shifted after the end of the War on Terror to support of democracies (like Ukraine and Taiwan) in conflict with Russia and China.
- Aid more likely to select on good governance, lessening paradox
- Aid to democratic countries with high domestic legitimacy who are resisting external invaders (e.g. Ukraine) is very different from aid in the middle of civil wars like Afghanistan or Somalia
- This more recent shift could lessen the aid paradox
 - although this is speculative until we have enough data.