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STRATEGIES AND PERFORMANCE OF NEW DONORS: THE POLITICAL ECONOMY OF DEVELOPMENT NONGOVERNMENTAL ORGANIZATIONS.

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This policy brief presents A Game-Theoretical Perspective of how NGOs Interact with Host Developing States and on How to Make Decentralized Aid more Efficient.

INTRODUCTION

Foreign aid has become increasingly decentralized: aid donors delegate tasks and provide funds to Nongovernmental Organizations (NGOs) in order to have these agencies conceive and implement aid projects. This is a complicated transaction. Aid delivered by NGOs has garnered criticism from beneficiary countries themselves. Several of these NGO host countries have suggested that NGOs infringe sovereignty by disrupting the established order, either by means of inciting social agitation, or, at the very least, by acting as surrogates of the State. Such tensions undermine the efficiency of foreign aid because host countries are reluctant to host aid agencies that could have any real political impact. This results in countries opening their borders only to NGOs that have little chance of affecting aid ownership. We find that democratic host countries might impose fewer restrictions on NGO operations; decentralized aid can have an impact on political equilibria, in particular when only a fraction of the population is targeted by particular aid programmes. Such political shifts usually generate winners and losers, causing decentralized aid to have a negative effect on inadvertent non-beneficiaries.

The analysis distinguishes democratic and undemocratic countries when examining the interrelation between the NGO sector and the governments of host states, providing important results that are summarized below:

1. In democracies, apolitical NGOs providing public goods can crowd-out public spending indirectly, via voting mechanisms. Indeed, beneficiaries of aid have fewer incentives to support tax-financed public goods because NGOs provide similar benefits financed by foreign donors. For example, when a foreign NGO builds a school and pays the wages of the teachers, a rational voter has little reason to accept higher taxes to finance a duplicate state school.

When a share of the voters thus changes its political stand toward redistribution, large political shifts can occur, contingent on the size of this share of voters and on their *ex-ante* political stand. Beneficiaries can therefore tilt the political balance in favour of contraction of government spending.

This may adversely impact the poor people who do not directly benefit from decentralized aid, because they suffer from a withdrawal of the state while not benefiting from the external intervention. Even if on aggregate decentralized aid is beneficial, it can aggravate inequality via this mechanism: decentralized aid, in this instance, becomes a negative externality for poor non-beneficiaries. This theoretical result emerges under assumptions of sound state accountability and well-intentioned NGOs, showing that the mechanism can unfold even in the most benign contexts.

A trade-off actually exists between the scale and the scope of NGO projects: by targeting the worse-off members of society (by which we mean those who have the most salient needs), to the detriment of reaching the many with fewer needs, the extent of the externality is reduced. This happens because: (i) fewer voters change their political stand; and (ii) the poorest are unlikely to shift their position. Hence, targeting the poorest means that equality does not suffer as much from the mechanism. However, equality comes at the price of sacrificing efficiency.

2. Most regimes in undemocratic countries will try to prevent any change of the political establishment. Sometimes, political change is the announced objective of decentralized aid; the donor community relies on NGOs to foster new rights, empower end-line beneficiaries, and foster ownership over aid or state resources by the grassroots. This bottom-up approach to improving governance allows higher-level donors to avoid the diplomatic hassle of dealing directly with corrupt officials, side-stepping them and delivering aid more directly to those most in need.

However, it can be argued that this decentralised approach to empowerment may be ineffective: local authorities, fearing a loss of their privileges, can indeed restrict the access of NGOs considered subversive. Corrupt officials have incentives to allow only apolitical NGOs in, as these organisations are unable or unwilling to foster new rights for the beneficiaries.

Moreover, NGOs are likely to fail in promoting good governance because, while good governance itself is a public good, promoting it puts these organizations at odds with local authorities. While some might be willing to take the risk, the public good nature of governance implies that there are incentives to free-ride on the advocacy efforts of others. In that sense, advocacy will typically be underprovided because its benefits - improved governance - have the characteristics of a public good. Autocratic authorities have incentives to let their countries be flooded with small, non-militant, and uncoordinated NGOs to prevent social change while appropriating the rents of inefficient aid, through extortion or theft.

It could be argued that NGOs possibly can mitigate free-riding on advocacy efforts by coordinating their actions, or by devoting more resources to empower the beneficiaries. Yet, if coordination efforts are anticipated by local authorities, the resulting crackdown on the sector is going to be so strong that the costs of confrontation will outweigh the benefits of coordination. As a result, the emergence of new political rights seems compromised when the task is entirely entrusted to a bottom-up approach.

POLICY IMPLICATIONS

Results of this project provide two sets of recommendations that are especially important for international organizations, such as the European Union, that channels large chunks of aid money through NGOs:

1. In democratic countries, decentralized aid delivered by operational NGOs is expected to shift the political balance towards less state-driven redistribution. An immediate recommendation is that there is a role for advocacy activities in the NGO sector to avoid state retrenchment. Additionally, by targeting the poorest, neediest sectors of the population, this political shift can be minimized, providing an additional argument to target the very poor. It is advisable to be cautious when delivering aid to very politically polarized and unequal societies, since already existing inequalities can thereby be greatly exacerbated.
2. In undemocratic regimes, advocacy activities are unlikely to succeed, as evidenced by the crackdown of activist NGOs in many developing countries in recent years. It is advised that improvements in governance are not left to the bottom-up approach only. Major players in the donor community should undertake more efforts to foster an enabling environment for NGOs in host countries and, if this is not possible, to bargain more directly with the autocratic governments, using any bargaining arguments that they have at their disposal.

RESEARCH PARAMETERS

The project evaluates the political economy of Nongovernmental Organizations using formal game theory and political economics. The advantage of such an approach is that it rests on the assumption that intervening agents, whether aid donors or recipients, act strategically, that is, they take into account the actions and reactions of the other actors when deciding which course to follow. Its findings are of a theoretical nature due to the unavailability of reliable data. The project aims to describe the interrelation between international development NGOs and host states in developing countries. The objective of the project is to shed light on the strategies of both types of actors, and to gain insights regarding the efficiency of decentralized aid, which cannot be reached based on intuition and data only.

FURTHER READINGS

- Bourguignon, F., and J.P. Platteau, “The Paradox of Optimal Disciplining: Better Governance May Lead to Greater Fraud”, 2017, *Journal of Public Economics* (forthcoming).
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- Morales Belpaire, J. “Decentralized Aid and Democracy”, CRED and UPB, Nopoor working paper, 2015.
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PROJECT IDENTITY

PROJECT NAME	NOPOOR – Enhancing Knowledge for Renewed Policies against Poverty
COORDINATOR	Institut de Recherche pour le Développement, Marseille, France
CONSORTIUM	CDD The Ghana Center for Democratic Development – Accra, Ghana CDE Centre for Development Economics – Delhi, India CNRS (India Unit) Centre de Sciences Humaines – New Delhi, India CRES Consortium pour la Recherche Économique et Sociale – Dakar, Senegal GIGA German Institute of Global and Area Studies – Hamburg, Germany GRADE Grupo de Análisis para el Desarrollo – Lima, Peru IfW Kiel Institute for the World Economy – Kiel, Germany IRD Institut de Recherche pour le Développement – Paris, France ITESM Instituto Tecnológico y de Estudios Superiores de Monterrey – Monterrey, Mexico LISER Luxemburg Institute of Socio-Economic Research – Esch-sur-Alzette, Luxemburg OIKODROM - The Vienna Institute for Urban Sustainability – Vienna, Austria UA-CEE Université d’Antananarivo – Antananarivo, Madagascar UAM Universidad Autónoma de Madrid – Madrid, Spain UCHILE Universidad de Chile – Santiago de Chile, Chile UCT–SALDRU University of Cape Town – Cape Town, South Africa UFRJ Universidade Federal do Rio de Janeiro – Rio de Janeiro, Brazil UNAMUR Université de Namur – Namur, Belgium UOXF-CSAE University of Oxford, Centre for the Study of African Economies – Oxford, United Kingdom VASS Vietnamese Academy of Social Sciences – Hanoi, Vietnam
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