Foreign Aid Effectiveness - Public Opinion Approach

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Abstract

The empirical literature on aid effectiveness produces mixed and inconclusive results. This may be because it lacks a clear theoretical framework. Inspired by the inconclusive results of aid effectiveness literature, this paper departs from the main stream and seeks to establish a new path of exploring the issue of aid effectiveness. The experiences, perceptions, and beliefs of public opinion leaders in the recipient country regarding aid effectiveness and the actors involved, are the main input for the analysis. The Palestinian economy is taken as a case for this purpose. The main argument of this study is that foreign aid effectiveness as seen by the citizens is determined by three factors: the quality of governance, aid conditionality and donors' policies, and the Israeli policies. For the purpose of exploring this argument, data from a survey of 275 public opinion leaders were used to test the relationship. A stepwise multiple regression analysis was performed. The findings revealed that the quality of governance is the most important factor influencing the respondents' perception of aid effectiveness. The most shocking finding was the tendency of respondents to prefer projects implemented by donors rather than the PA.

Keywords: Foreign Aid, Aid Effectiveness, Governance, Donors' policies, Public opinion. **JEL classification:** O19, F35

1. Introduction

Aid effectiveness research has used all available methodologies in research literature, including cross country, time series and meta-analytical approaches, but so far no conclusive results have been obtained. Many authors have tested aid effectiveness using almost similar samples and in many cases similar time spans, but reaching different results and conclusions. The variation in their findings is mainly due to the variation in the approaches they use to assess the effectiveness of foreign aid, from using a single equation (Papanek, 1973; Dowling and Hiemenz, 1983) to simultaneous equations (Mosley, 1980; Burnside and Dollar, 2000; Hadjimichael et. al., 1995). Moreover the model specification and the use of different types of variables and growth or development indicators by the different authors contribute to wide variations.

Burnside and Dollar (2000) found that countries following "good policies" are helped by foreign assistance, but the probability that a country adopts "good" policies is not influenced by the amount of foreign aid received. Since the Burnside and Dollar (2000) paper, many authors have reacted to their results, including Hansen and Tarp (2001), Collier and Dehn (2001), Lensink and White (2001), Guillaumont and Chauvet (2001), Easterly et. al. (2003), and Dalgaard et. Al. (2004). Most of these conducted variations on the Burnside and Dollar (2000) specification introducing variables such as aid squared, terms of trade shocks, variation of agricultural output and exports, and in some cases an interactive term combining aid with terms of trade shocks.

Easterly et. al. (2003) used the exact specification of Burnside and Dollar (2000) and found that their results are not robust to an expansion of the data set and countries. Hansen and Tarp (2001) pointed out that the nonlinear effect of aid may just be due to misspecification and failure to account for endogeneity. Finally, Dalgaard et. al. (2004) argued that poor government economic management may render foreign aid ineffective. At the same time, however, deep determinants of productivity turn out to matter as well. Hence "strong" fundamental structural characteristics (like institutions and/or climate related circumstances) may compensate for a bad policy environment. Most recently, Rajan and Subramanian (2008) concludes that there is no robust positive relationship between aid and growth in the cross-section.

The above analysis clearly shows that the empirical literature on aid effectiveness produces mixed and inconclusive results. This may be because it lacks a clear theoretical framework by which aid would influence growth which could pin down the empirical specification of the aid-growth relationship. In the view of Easterly (2003) the beneficiaries are supposed to be the poor of the world, who have little voice in their own governments, much less in the high-income country government who controls the aid agencies. One has little or no feedback from the intended beneficiaries in terms of whether aid in fact raises productive capacity. In the same line of argument, Bauer (1991) argues that official aid is liable not to go to poor people, but rather to their rulers whose spending policies are determined by their own personal political interest with little concern for long term development.

Inspired by the inconclusive results of aid effectiveness literature and on the light of Easterly's view and Bauer's argument, this paper departs from the main stream of literature and seeks to establish a new path of exploring the issue of aid effectiveness. The experiences, perceptions, and beliefs of people in the recipient country regarding the effectiveness of foreign aid, its management and the actors involved is the main input for the analysis in this paper. The Palestinian economy is taken as a case for the analysis.

This study will shed light on the experiences and understanding of people rather than the interpretation of economic figures and indicators by exploring the attitudes towards foreign aid, the quality of governance available in the Palestinian environment, and how it is correlated with their perception of aid effectiveness and economic development. The main argument of this study is that foreign aid effectiveness as seen by the citizens in Palestine is determined by three factors: the economic policy and governance of the Palestinian Authority (PA), aid conditionality including donors' policies and interest, and the interference of Israel in shaping the Palestinian policies.

The structure of this paper is as follows: Section 2 discusses the relationship between aid and governance, Section 3 introduces the public opinion on foreign aid effectiveness, Section 4 explains the research methodology, Section 5 presents and discusses the results, and Section 6 concludes.

2. Governance and Foreign Aid

Reference to governance in relation to economic development was first made in the World Bank's report: 'Sub-Saharan Africa: From Crisis to Sustainable Growth' published by the World Bank in 1989. In that publication, the Bank observed that inefficient public sector management was a critical factor in the rapid economic decline of Sub-Saharan Africa in the 1970s and the 1980s (World Bank, 1989).

The introduction of the concept of governance in the development agenda reflects growing concerns over the effectiveness of aid whose ultimate aim is to reduce poverty and human suffering. This growing concern is apparent in the large number of studies devoted to examine the links between different governance aspects and the effectiveness of foreign aid. The common result of these studies is aid may work positively in an environment of good governance (Kaufmann et. al., 1999b; Ahrens and Meurers, 2002; Harms and Lutz, 2003; Knack, 2001; Weder, 2000; Isham et. al., 1997; etc).

Proponents of the good governance agenda see it as a worthy goal not only in and of itself, but also as a means through which to impact a variety of other outcomes, particularly economic growth and development. In poorly governed countries, it is argued, corrupt bureaucrats and politicians baldly hinder development efforts by stealing aid contributions or misdirecting them into unproductive activities. Less obvious but equally pernicious, governments that are not accountable to their citizens and with inefficient bureaucracies and weak institutions are unwilling or unable to formulate and implement pro-growth and pro-poor policies (Gisselquist, 2012).

Kaufmann and Kraay (2002) show that there is a quantitative evidence that a positive correlation exists between measures of the quality of governance broadly defined and various measures of economic development, such as per capita income.

In contrast to this literature, Khan (2002) argues that the World Bank's approach to corruption and governance failures is fundamentally deficient. This is because it is still based on a perception of economic development where success is driven by efficient markets supported by non-interventionist states. This theoretical perception is not based on the historical evidence of late-developers and as a result the prescriptions it offers regarding the desired features of a state which can best carry out developmental functions is not necessarily appropriate for most developing countries. Moreover, the empirical data showing a strong relationship between corruption and poor development is flawed.

Finally, Kaufmann et. al. (1999a; 1999b) distinguished six main dimensions of good governance:

- i. Voice and accountability, which includes civil liberties and political stability.
- ii. Government effectiveness, which includes the quality of policy making and public services delivery.
- iii. The lack of regulatory burden.
- iv. The rule of law, which includes protection of property rights.
- v. Independence of the judiciary system
- vi. Control of corruption.

Gisselquist (2012) argues that future research and analysis should focus more on the disaggregated components of good governance, rather than on the *ad hoc* macro concept. Disaggregation of the concept will allow for more precision in the formulation and testing of hypotheses, building on large related literatures from political science in particular (see also Keefer 2009).

3. Public Opinion and Foreign Aid

There is very little research on attitudes toward aid in recipient countries and only limited research work on public opinion toward aid in donors (Milner, 2006; Paxton and Knack, 2012; Stern, 1998; In'airat, 2012). When we discuss public opinion regarding foreign aid, we continually hear that the public knows almost nothing about it, and what they do know is wrong: for instance, that the US foreign aid budget is a large percentage of the total US budget. A second common refrain is that public opinion about foreign aid does not matter (Milner and Tingley, 2013).

How recipients view foreign aid is important because it likely influences aid effectiveness. Here public perceptions and attitudes are important for evaluating aid. We do not think that leaders in many developing countries know what their citizens think of aid, and surely this is even more true of governments in donor countries. Learning about these opinions may help improve how aid is delivered and thus improve development prospects for poor countries (Milner and Tingley, 2013).

Although public behavior and perceptions cannot tell us directly if aid works, they can provide a view of how recipients think about aid. Presumably, some of their preferences are shaped by the success or failure of aid. To answer the question "why do citizens have these preferences?", Milner et al (2013) conducted a public opinion study in Nigeria and asked a series of follow up questions about the reasons for the citizens' preferences. Their data suggests that they believe their government is more politicized and corrupt than foreign aid agencies, and that bilateral agencies are somewhat more politicized than multilateral ones. Somehow, this result was also confirmed by In'airat (2012), which concludes: that the PA's 'culture of corruption' had escalated the severity of Israeli occupation and allowed donors to impose harsh political conditions that serve their strategic interests. In'airat (2012) argues that aid politicization is found at two levels; donors' as well as recipient.

This study tries to provide evidence reflecting on aid effectiveness as seen by the citizens of Palestine. We analyze and report citizens' perceptions of foreign aid effectiveness and the expected factors reported in aid effectiveness literature (quality of governance, aid conditionality and donors policies, and a specific factor to the Palestinian case; the Israeli policies) that influence these perceptions. These perceptions are relevant to the debate because factors like governance and donors' policies are argued to shape citizens' views on the effectiveness of aid.

4. Research Methodology

Reviewing aid effectiveness literature, I found that the level of aid effectiveness is determined by a number of factors. These factors include the quality of governance, donors' policies and conditionality, along with some country specific factors. In this paper we will test how the citizens' perceptions of these influential factors shape their opinion on aid effectiveness.

The target population of this study is Palestinian "public opinion leaders". The selection of this population is based on the view that it represents the most active, influential and well-informed stratum of the entire Palestinian population. The attitudes of these elites are important insofar as they influence both domestic as well as the international views of the development effort in Palestine- thus shaping both policy choices and political support for the aid effort (Japan and World Bank, 1999).

The term 'opinion leader' has been developed by Lazarsfeld et. al. (1944) in their study titled 'The People's Choice'. Opinion leaders are termed as people who are more influential within their social networks than others and are usually asked for advice. "They consider themselves experts in a specific area of interest and are asked for advice in that area" (Katz & Lazarsfeld, 1955, cited in Trepte, and Scherer, 2004, p.3).

For the purpose of this study, I follow the categories of public opinion leaders as identified by Japan and World Bank (1999). The Japan and World Bank (1999) used the data of a sample of 160 participants who were described as "Public opinion leaders". The sample comprised members of the Palestinian Legislative Council, medium-to-senior level officials in the PA's institutions, NGOs staff, university researchers and academics, Palestinian media, private sector, and political and social activists.

In gathering information pertaining to the study, a questionnaire was designed and used as the main instrument for data collection. The questionnaire design followed likert scale of five points. The first section of the questionnaire includes questions on the demographic and personal characteristics of the respondents. The second section includes statements on different foreign aid issues like foreign aid effectiveness, aid conditionality, donors' policies and interest, the role of Israeli policies on economic development, etc. The third section includes statements- addressing Palestinian governance issues and how the respondents perceive the quality of the PA's management and performance.

A pre-test of the questionnaire to assess the content validity of the measurement scales was conducted. The Data was collected with the help of Public Health Research Centre at Al Quds University, Palestine. 300 questionnaire copies were distributed to a selected convenient sample. The sample was designed to include respondents from all the governorates. 281 (94 percent) filled questionnaire copies were returned; six of them were incomplete and have been excluded. A response rate above 85% to self-administered questionnaire surveys is classified as excellent (Mangione, 1995).

Data from the 275 useable questionnaires were coded into an SPSS for Windows data sheet. The questionnaire was tested for reliability using Cronbach's alpha coefficient. The test result showed that the questionnaire is satisfactorily reliable as the reliability coefficient α was more than 70% for the entire questionnaire's sections.

5. Results and discussion

The mean and standard deviation for the dependent variable and the three predictor variables are presented in Table 1. The mean values of all the variables are relatively low, indicating that the respondents are not satisfied with the level of foreign aid effectiveness, the PA's governance and the donors' policies and conditionality. The response to the "Israeli policies are conducive to economic development" shows a clear disagreement.

A stepwise multiple regression analysis was performed. Two dummy variables were introduced in the regression; the respondents organizations' sources of finance (internal sources vs dependence on foreign aid, and whether respondents prefer donors or PA to implement projects. It is expected that these two dummies will influence the respondents' perception of foreign aid effectiveness level. The results of the stepwise multiple regression analysis are reported in table 2.

As expected, all the predictors have significantly influenced respondents' evaluation of foreign aid effectiveness. The best predictor as shown in table 2 is the quality of PA's governance. The higher the quality of governance is perceived, the higher the evaluation of foreign aid effectiveness. There is also a strong belief among the respondents, as indicated by the minus signs of the coefficients, that the Israeli policies and aid conditionality and donors' policies adversely impact on aid effectiveness. Respondents' perceptions of these two predictors influence their evaluation of foreign aid effectiveness.

The most significant and shocking result in the above regression analysis is the significantly high coefficient value of the dummy variable 'implementation of projects by donors' which indicates that the evaluation of aid effectiveness is higher if projects are implemented by donors not by the PA. This result reflects the respondents' mistrust of the PA's efficiency and capability to implement foreign aid projects. They prefer the direct implementation by donors rather than the PA in spite of their perception that conditionality and donors' policies hinder aid effectiveness.

This tendency maybe attributed to the poor quality of the PA's governance as seen by the respondents. It seems that the quality of governance is much more significant to the respondents. It is also notable that respondents' evaluation of aid effectiveness is influenced by the sources of finance for their organizations. Those whose organizations are internally financed perceive lower level of aid effectiveness than those depending either totally or partially on foreign aid.

To have more insight about governance, a multiple regression was conducted for the disaggregated components of governance. Results are demonstrated in table 3. Five components of governance were entered as predictors in the multiple regression analysis. These are: voice and accountability, government effectiveness, rule of law, independence of judiciary system, and control of corruption.

Government effectiveness is highly significant with P-value < 0.01 while the control of corruption is significant at 0.05 level. The other three components (voice and accountability, rule of law, and independence of judiciary system) have relatively low insignificant coefficients with low t values. In a stepwise regression these three insignificant components were excluded from the model. This result indicates that the most important components of governance, as seen by the respondents, for foreign aid effectiveness are the government effectiveness in delivering the public services and the control of corruption measures.

6. Conclusion

Following the empirical investigation, we discovered that all three of the independent variables and the two dummy variables had a significant influence on the respondents' perception of foreign aid effectiveness. This implies that foreign aid effectiveness in Palestine can be improved by improving the quality of PA's governance, reducing conditionality, improving donors' policies, and reducing the interference of Israel in controlling the Palestinian economy. Among the governance components, special attention should be given to government effectiveness and corruption controlling measures.

The findings of this article, although limited in scope, contribute to improving foreign aid effectiveness by responding to the perceptions of people in the recipient country. A future research study could continue with this investigation and examine the factors surveyed, especially the quality of governance and conditionality and donors policy among other country specific factors in more depth (and on a larger scale) to further assist policy makers at both ends donors as well as recipients to take necessary actions towards making foreign aid more effective. It would also be interesting to determine whether the same set of variables would influence aid effectiveness in other recipient countries in the same way.

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Table 1: Descriptive statistics of variables

Variable	Mean	Standard Deviation
Foreign aid effectiveness	2.98	0.461
PA's Governance	2.39	0.577
Donors' policies and conditionality	2.37	0.363
Israeli Policies	1.84	0869

Table 2: Stepwise regression analysis results

	Unstandardized Coefficients		Standardized Coefficients		
Model	В	S. E	Beta	t	Sig.
(Constant)	2.881	.196		14.668	.000
PA's Governance	.264	.043	.330	6.185	.000
Implementation of Projects by Donors (Dummy variable)	.306	.059	.269	5.195	.000
Israeli policies are conducive to economic development	109	.028	205	-3.899	.000
Conditionality and donors policy	222	.067	175	-3.309	.001
Internal Finance of respondents' organization (Dummy variable)	131	.050	137	-2.615	.009

Dependent Variable: Aid effectiveness (F= 22.141, $p \le 0.000$, R= 54.0, R² = 29.2, Adjusted R² = 27.8), Best predictor is PA's Governance (Beta 0.33, p ≤ 0.000 , R² = 10.8).

Table 3: Regression analysis results for the disaggregated components of governance

	Unstandardized Coefficients		Standardized Coefficients		
Model	В	S. E	Beta	t	Sig.
(Constant)	2.759	.203		13.611	.000
conditionality and donors policy	224	.068	176	-3.274	.001
Israeli policies are conducive to economic development	107	.028	203	-3.860	.000
Donors	.316	.059	.278	5.357	.000
Internal Finance	126	.050	132	-2.519	.012
Voice and Accountability	043	.050	074	874	.383
Government Effectiveness	.176	.051	.259	3.437	.001
Rule of Law	.029	.040	.049	.727	.468
Independence of Judiciary System	.016	.041	.029	.401	.688
Control of Corruption	.113	.056	.146	2.006	.046

Dependent Variable: Aid effectiveness (F= 13.06, $p \le 0.000$, R= 55.4, R² = 30.7, Adjusted R² = 28.4).

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