

Economic impacts of foreign aid in fragile states

Maho Hatayama

Institute of Development Studies

6 November 2018

Question

- *Identify examples of studies that have evaluated the economic impacts of peacekeeping and humanitarian aid within fragile states.*
- *What methodologies have been used in these studies?*

Contents

1. Summary
2. Key studies – impacts of peacekeeping
3. Key studies – impacts of humanitarian aid
4. Policy implications
5. Methodologies used
6. References

The K4D helpdesk service provides brief summaries of current research, evidence, and lessons learned. Helpdesk reports are not rigorous or systematic reviews; they are intended to provide an introduction to the most important evidence related to a research question. They draw on a rapid desk-based review of published literature and consultation with subject specialists.

Helpdesk reports are commissioned by the UK Department for International Development and other Government departments, but the views and opinions expressed do not necessarily reflect those of DFID, the UK Government, K4D or any other contributing organisation. For further information, please contact helpdesk@k4d.info.

1. Summary

The influx of massive amounts of foreign aid into fragile states has an impact on the local economy. This report reviews available studies that evaluate the effects of international aid on the local economic conditions. It is presented in an annotated bibliography style that describes the key findings and methodology. It includes studies that analyse direct and/or indirect economic effects of local spending or operations within a country, and focus on fragile and conflict-affected countries.¹ Given the time available for this review, it covers relevant studies that have been published since 2010.²

Twelve key studies are examined in this report. Five of the studies primarily focus on local spending of aid agencies and analyse their economic impacts (Koch & Schulpen, 2018; UNDP & UNHCR, 2015; Ramachandran & Walz, 2015; Durch, 2010; Carnahan et al., 2006). Five studies examine indirect economic effects of the presence of aid agencies (Bove & Elia, 2017; Caruso et al., 2017; Beber et al., 2016; Mosel & Henderson, 2015; Mvukiyehe & Samii, 2010). Two studies describe the economic impacts using qualitative case studies through perception surveys (Rolandsen, 2015; Ammitzbøll, & Tychsen, 2010). Only one study, by Ramachandran and Walz (2015), focuses on the overall spending of donors within a country, while other studies examine the spending from one or few interventions and agencies. These studies analyse different levels of economic outcomes: individual, sectoral and macro levels.

Impacts:

- The presence of peacekeepers and humanitarian aid agencies directly influences local economic activities through (1) local procurements (i.e. provision of goods and services to the aid agencies, including accommodation, transportation, and construction); (2) employment of local staff; (3) individual spending of salaries and allowances; and (4) other mandated activities such as infrastructure rehabilitation (Bove & Elia, 2017; Rolandsen, 2015; Carnahan et al., 2006).
- Where international cooperation has contributed to improved security levels and social services, this can indirectly contribute to the economic development of host countries as it creates secure environments for economic activities, and enhances private investment (Bove & Elia, 2017, pp.2–3; Mvukiyehe & Samii, 2010, p.5).
- Of the 12 studies, ten reported **some positive effects of foreign interventions** on the local economy.
- However, **positive economic impacts are short term** (Beber et al., 2016; Ammitzbøll, & Tychsen, 2010). Some studies found that the withdrawal of aid interventions negatively affected economic growth (Carnahan et al., 2006).
- Macro-level impacts:
 - Many studies found **positive multiplier effects of local spending on GDP³ growth in a country** (UNDP & UNHCR, 2015; Durch, 2010; Carnahan et al., 2006).

¹ See the DFID's list of fragile states and regions.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/573890/Bilateral-Development_Review-technical-note-2016.pdf

² Carnahan et al. (2006) is included as it is one of the first studies to examine the economic impacts of UN peacekeeping missions.

³ Gross Domestic Product.

- Cross-country analysis identified both positive and negative impacts of the presence of peacekeeping missions on economic growth (Bove & Elia, 2017; Beber et al., 2016).
- **The impact on price inflation was either negative or positive** depending on the country (Durch, 2010; Carnahan et al., 2006).
- Levels of price inflation may depend on factors other than aid interventions. Studies showed that commodity price increased when the country suffered from limited market supply as a result of natural disasters or conflicts (Carnahan et al., 2006; Zyck et al., 2015).
- Sectoral-level impacts:
 - **The aid injections increased the local demand** particularly for non-traded goods and stimulated local markets (UNDP & UNHCR, 2015; Beber et al., 2016; Ammitzbøll & Tychsen, 2010).
 - Communities hosting the peacekeepers had **more viable labour markets** than others (Mvukiyehe & Samii, 2010).
 - **Price inflation occurred** for specific types of commodities at market level (Mosel & Henderson, 2015). There might be localised inflation in the markets serving the international community, but limited evidence of inflation at macro level (Carnahan et al., 2006).
- Individual-level impacts:
 - **National staff wages in the aid sector are generally higher than local wages**, resulting in significant wage differentials between the aid agencies and local sectors (Koch & Schulpen, 2018; Ammitzbøll & Tychsen, 2010; Carnahan et al., 2006).
 - **The presence of UN missions was positively associated with higher incomes of individuals** (Beber et al., 2016; Mvukiyehe & Samii, 2010).
 - Levels of economic interactions between locals and aid workers depend on the conditions of host countries (Rolandsen, 2015; Mvukiyehe & Samii, 2010).
 - Limited studies considered the individual gendered economic impacts of peacekeeping or humanitarian aid. One study illustrates the presence of an international organisation increased the number of female employees in the labour market (Ammitzbøll & Tychsen, 2010).

The studies recommend that future peacekeeping and humanitarian aid interventions procure locally and fairly; hire national staff and set appropriate wages; distribute economic benefits equally; conduct monitoring and impact assessments; coordinate among stakeholders; and consider sustained economic impacts.

Research methods:

Five types of research methods were used in the studies, namely case studies (qualitative analysis), market analysis, accounting procedures, multiplier effect exercises, and statistical models.

- Accounting analysis (Koch & Schulpen, 2018; Ramachandran & Walz, 2015; Durch, 2010; Carnahan et al., 2006) and case studies based on perception surveys (Rolandsen, 2015; Ammitzbøll & Tychsen, 2010) were used to examine direct effects of local spending.

- Studies looking at indirect effects such as GDP growth and income levels of residents use statistical analysis and multiplier exercises (Caruso et al., 2017; Beber et al., 2016; UNDP & UNHCR, 2015; Durch, 2010; Mvukiyehe & Samii, 2010; Carnahan et al., 2006).
- A combination of accounting analysis, multiplier exercises, and qualitative studies enable the study authors to look at both direct and indirect economic effects of local spending at different levels of economic outcomes (Durch, 2010; Carnahan et al., 2006).
- Studies of humanitarian aid used market analysis to examine the impact of their intervention on local markets (Mosel & Henderson, 2015).

Although many studies focus on the impact of peacekeeping on security and governance dimensions, few studies examine local economic impacts (Ammitzbøll & Tychsen, 2010, p.263; Bove & Elia, 2017, p.14; Caruso et al., 2017, p.5). There is a limited number of quantitative works and most of the evidence emerges from anecdotal studies (Bove & Elia, 2017, p.14; Ammitzboell, 2007, p.70). It is also difficult to generalise about economic outcomes as they can be determined by the size and structure of local economies (Rolandsen et al., 2015, p.357). More advanced economies may have more economic interaction with aid agencies than a weak and undiversified economy. Little literature also addresses what differentiates these outcomes across different contexts (Mvukiyehe & Samii, 2010, p.3). Hence, more research is required to assess the economic impacts of foreign aid.

2. Key studies – impacts of peacekeeping

Economic Impact of Peacekeeping.

Carnahan, M., Durch, W., & Gilmore, S. (2006).

http://buildingmarkets.org/sites/default/files/economic_impact_of_un_peacekeeping_march_2006.pdf

This report is one of the first comprehensive studies on the economic impacts of peacekeeping missions at local, sectoral and macro levels (Durch, 2010, p.157), and was commissioned by the UN Department of Peacekeeping Operations (DPKO) (p.iii). The study analyses the expenditure of 10 UN missions,⁴ focusing on the expenditures that entered into the local economy, and excluded outside spending such as payments for military equipment. Areas of study include the aggregated economic impact of mission spending, the impact of allowance spending, local procurement, and national staff hiring, as well as labour market impacts. The data were collected through accounting documents, surveys and interviews of mission officers in the eight missions (p.31). It uses descriptive analysis of the accounting data, multiplier exercises as well as qualitative analysis.

Key findings: Less than 10% of aggregate spending was used directly for locally produced goods and services in eight of the nine missions studied (p.2). Regarding local procurements, about 80% of the money was spent on imported goods or awarded to foreign firms, while only 20% was spent locally (p.3). The mission budgets spent within the country were small, yet they found a multiplier of 1.5 for all countries studied. This means that each dollar spent locally generated \$1.50 additional GDP (p.15).

⁴ UNMIK (Kosovo), UNMISSET (Timor-Leste), UNAMSIL (Sierra Leone), MONUC (Democratic Republic of the Congo), MINUSTAH (Haiti), ONUCI (Côte d'Ivoire), UNMIL (Liberia), ONUB (Burundi) UNTAC (Cambodia), UNAMA (Afghanistan).

The overall inflation effect associated with the missions was small (p.11). For instance, in the case of Côte d'Ivoire, Sierra Leone and Liberia, the inflation rate was low due to well-functioning supply chains that meet the demands of the missions. Timor-Leste experienced an inflation rate of around 140% as a result of disrupted market supply associated with the conflict. The author argues that there might be localised inflation in the markets serving the international community, but there is limited evidence of inflation at macro level, and the inflation can be attributed to other factors such as levels of market supply (p.12).

There appears to be a geographically concentrated impact of the mission (p.44). For instance, out of the \$82 million injected directly into the local economy in Sierra Leone, more than 90% of the money was spent in Freetown. Specific standards, procedures and requirements of international agencies, such as complicated bidding processes and higher education requirements for national staff positions, would limit distributing economic benefits to the wider population.

The Economic Impact of Peacekeeping: An Update.

Durch, W. (2010).

https://buildingmarkets.org/sites/default/files/economic_impact_of_un_peacekeeping_march_2006.pdf

This study updates the research of Carnahan et al. (2006). It includes the economic impact of other mission activities such as quick impact projects (QIP), updates the expenditure data for the missions, and additionally examines the missions in South Sudan (2005) and Darfur (2007) (p.158). It also uses expenditure data for all missions, while Carnahan et al. (2006) used estimated budget data for some missions (p.161). This study employs a descriptive financial analysis, with data from the International Monetary Fund's World Economic Outlook, the CIA's *World Factbook*, and the missions' financial reports from the UN General Assembly (p.160).

Key findings: Positive economic impacts, averaging 1.2–1.4% of the GDP in the studied countries (p.159), were revealed. For instance, the local spending of MINUSTAH in Haiti contributed to an economic impact of around \$64–\$70 million annually, which is nearly 1% of the GDP (p.173).

The impact on inflation rates was mixed, following the finding of Carnahan's study (p.166). For instance, DRC (Democratic Republic of the Congo) experienced a dramatic increase in inflation rates of between 15% and 20% when the operation increased in size (p.166), while the inflation rates in Sudan were stable between 5% and 10% even after the deployment of UNMIS (p.168). The missions also contributed to local labour markets. The total number of national staff increased by 75% between 2005 and 2008 (p.165).

The Subtle Micro-Effects of Peacekeeping: Evidence from Liberia.

Mvukiyeh, E. N., & Samii, C. (2010).

APSA 2010 Annual Meeting Paper. NY: Social Science Research Network.

<https://ssrn.com/abstract=1642803>

Using regression analysis, this paper examines the causal links between the presence of peacekeeping bases and the economic outcomes of local residents (i.e. livelihood means and monthly income) (p.16). It compares the outcomes of communities that hosted a peacekeeping base with those of non-base host communities (pp.12–14). Data were collected through

household surveys in communities outside Monrovia. In addition to the household surveys, data were complemented by the baseline survey by OCHA and the population census from the Liberia Institute of Statistics and Geo-Information Services (LISGIS).

Key findings: Host communities had viable labour markets. It found a larger share of skilled labour, and 73% higher probability of having such occupations compared to non-host communities. It can be explained by the assumption that hosting peacekeepers stimulates local markets and commercial activities (p.21). In addition, the deployment was positively associated with income levels of local residents (p.22). The regression analysis shows that the average income was double for those in host communities than those in non-host communities.

The Unintended Economic Consequences of Complex Peace Operations on Host Societies.

Ammitzbøll, K., & Tychsen, M. D. (2010).

http://www.bundesheer.at/pdf_pool/publikationen/eco_impacts_10_united_economic_consequences_ammitzboell_tychsen.pdf

This study provides qualitative case studies of Kosovo and Afghanistan. It analyses local economic impacts of UN peacekeeping missions based on interviews and perception surveys with government staff, aid workers, local firms and residents. The research covered interventions by the UN peacekeeping missions, as well as other UN agencies, multilateral and bilateral agencies and NGOs.

Key findings: The presence of international organisations increased salary gaps in Kosovo. Local staff of international organisations earned nearly four to five times more than local average salaries (p.270). In Afghanistan, such wage gaps led to the issue of 'brain drain' of skilled civil servants from the host government (p.271). In addition, both countries experienced a significant rise in the price of goods, services and housing costs (p.276). In Afghanistan, respondents had experienced a commodity price increase of around 50% after the arrival of the mission. However, some positive local perception was that the international presence increased demand for goods and services, particularly in the service industry (p.275).

Small and Far Between: Peacekeeping Economies in South Sudan.

Rolandsen, Ø. H. (2015). *Journal of Intervention and Statebuilding*, 9(3), 353–371.

<https://doi.org/10.1080/17502977.2015.1070024>

This qualitative case study examines economic impacts of peacekeeping missions in South Sudan in the period 2005–2012, focusing on how the UN missions and staff have interacted with the host economy. The information and data were collected through reviews of mission reports, field observations and formal and informal interviews with personnel of the UNMIS and UNMISS (p.368). The reports include audits by the UN Office of Internal Oversight Services (UN OIOS). The study analyses how UN personnel interacted with the local economy, their local spending, local procurement practices and expenditures of the missions.

Key findings: There was limited economic interaction between South Sudanese and the mission and its personnel, which resulted in little local spending (p.367). At the individual level, international staff had little opportunity to spend money locally due to geographical segregation, security requirements, and their preferences for goods and services (p.361). While salaries to local staff can be one of the most significant contributions by the peacekeeping operations, it

appears that most jobs were low-paying occupations such as guards and drivers, and offered lower salaries than the government and private companies (p.364).

At the institutional level, the study identified three forms of economic interaction between the missions and South Sudanese, namely procurement of goods and services, quick impact projects (QIPs), and infrastructure development projects (p.364). It shows that local procurement was limited due to the lack of markets, transportation infrastructure, as well as the specific standards and procedures of the UN (p.365). Member countries also tend to demand that the missions obtain a fair share of contracts, all of which resulted in international procurement, or contract of foreign firms inside the county (p.360).

Economic Development in Peacekeeping Host Countries

Bove, V., & Elia, L. (2017). CESifo Economic Studies, pp.1–17.

<https://doi.org/10.1093/cesifo/ifx009>

This study is one of few cross-country quantitative studies. It examines the impacts of peacekeeping missions on GDP over a 20-year period including pre- and post- peacekeeping (p.9). It uses the synthetic control method,⁵ which allows comparison between fragile countries hosting peacekeeping operations with countries that have had conflicts but not hosted peacekeeping missions (p.3). Eleven case studies (Angola, Cambodia, Central African Republic, Chad, DRC, Ethiopia, Haiti, Ivory Coast, Namibia, Rwanda, Sudan) were analysed.

Key findings: Peacekeeping does not significantly affect economic growth. In most of the sample, the analysis indicates similar levels of per capita GDP that would have been achieved in post-intervention periods without peacekeeping (p.10). It reveals that Angola, Haiti and Sudan gained a positive effect after the deployment while adverse effects were found in the Central African Republic, Chad, DRC, Ethiopia, Ivory Coast, Namibia and Rwanda.

Challenges and Pitfalls of Peacekeeping Economies.

Beber, B., Gilligan, M., Karim, S., & Guardado, J. (2016).

https://www.nyu.edu/projects/beber/files/Beber_Gilligan_Guardado_Karim_PK_Economy.pdf

This paper presents two studies: a macro-level cross-country analysis, and an analysis of micro-level data from Liberia. The macro-level analysis examines links between the presence of peacekeeping missions and GDP per capita growth, with datasets of 16 UN peacekeeping missions between 1960 and 2008. Using regression analysis, the micro-level study specifically examines how the market interactions with peacekeeping missions in Liberia affect economic outcomes of local residents such as earnings, assets and savings (p.20).

Key findings: The cross-country analysis found a statistically significant positive correlation between the presence of peacekeeping missions and GDP growth (p.11). Their presence led to a 1.5% increase in the growth rate (p.10). However, it also found that economic growth rapidly declined when missions ended (p.3).

The study of Liberia found that 84% of the surveyed businesses served UN international staff, showing that they largely relied on mission-generated demand (p.16). It also found positive economic outcomes of those who served UN personnel (p.20). They earned around one-third

⁵ This method constructs artificial control groups that replicate economic conditions of treatment countries before the peacekeeping interventions. Once the control groups have been established, it is interpreted that gaps in the GDP between the real and the control country are attributed to the mission (Bove & Elia, 2017, p.7).

more in wages, and had a 17% higher likelihood of having savings, than those without such market transactions. Households having such transactions were also more resilient against economic shocks (e.g. household death) compared to households that did not serve the UN personnel (p.25). These positive outcomes were not geographically concentrated but dispersed across the metropolitan areas (p.22).

The Economic Impact of Peacekeeping. Evidence from South Sudan.

Caruso, R., Khadka, P., Petrarca, I., & Ricciuti, R. (2017). *Defence and Peace Economics*, 28(2), pp.250–270.

<https://doi.org/10.1080/10242694.2015.1122282>

This study examines whether the UN peacekeeping mission affected cereal production in South Sudan (p.4). Using regression analysis, it assesses the causal links between net cereal production (tonnes) and the number of UN soldiers in all 78 counties (p.11). It also includes other explanatory factors relating to the input of the production, such as the surface of the harvested land, population and rainfall (p.12). The data from 2007–2011 were collected from the National Bureau of Statistics, and international organisations such as OCHA in Juba (p.11).

Key findings: The study found a positive impact of the mission presence on the cereal production, showing that a 10% increase in the number of UN troops led to an additional 600 tonnes of cereal production (pp.16–17). An explanation for this is that the peacekeeping presence increased security levels for the individual farmer, and reduced the fragility, resulting in an environment conducive to production activities (p.17).

3. Key studies – impacts of humanitarian aid

Impact of Humanitarian Aid on the Lebanese Economy.

UNDP & UNHCR. (2015).

<http://reliefweb.int/report/lebanon/impact-humanitarian-aid-lebanese-economy>

This study researched the direct and indirect impacts of humanitarian aid on the Lebanese economy. It analysed aid expenditure of four UN agencies (UNHCR, UNICEF, WFP and UNDP) from 2011 to 2014. It also conducted a multiplier effect analysis to calculate the total effect of the spending on the aggregate demand and GDP per economic sector.

Key findings: Overall, the analysis showed positive effects of aid packages. As for the multiplier effects, it reveals that every \$1 spent on humanitarian aid had a multiplier value of \$1.6 (p.18). As \$800 million was disbursed by the four UN agencies, it means \$1.28 billion was injected into the Lebanese economy (p.7). In addition, demand was boosted as a result of the aid injection. In order to meet this additional demand, the market supply increased through imports and increased local production (p.17). This additional demand and supply led to an additional growth of 1.3% in the GDP.

However, such positive effects could not entirely mitigate the adverse effects of the Syrian crisis. The analysis showed negative GDP growth of -0.3% when taking into account a 23% decrease in tourism volume, and a 7.5% decrease in exports (p.8).

Haiti: Where Has All the Money Gone?

Ramachandran, V., & Walz, J. (2015). *Journal of Haitian Studies*, 21(1), 26–65.

<https://doi.org/10.1353/jhs.2015.0003>

This study provides a systematic evaluation of the \$6 billion of aid money from the top donors spent in Haiti since the 2010 earthquake to 2012. It specifically looks at who received the money at institutional levels, providing descriptive analysis of financial data. The data was mainly gathered through reviews of evaluation reports from the major aid agencies and the Office of the Special Envoy for Haiti⁶ (p.9).

Key findings: The study reveals that NGOs, private contractors, and other non-state service providers received 99% of humanitarian aid while the Haitian Government received only 1% (p.8). Primary recipients of funds were international NGOs and UN agencies, and only two local organisations benefited from the private contracts (p.9). In 2012, \$9.45 million of USAID funds were used to purchase services from Haitian vendors, which is less than 1% of their spending while more than 75% of the funds went to US private contractors (p.13). The author cautioned that there was limited accountability and transparency of the contracted international NGOs and private contractors and highlighted the importance of building local government capacity.

Markets in Crises: South Sudan Case Study (HPG Working Paper).

Mosel, I., & Henderson, E. (2015). London: ODI.

<http://www.odi.org/publications/10000-markets-crises-south-sudan-case-study>

This study looks at how the in-kind food distributions affected the local commodity markets. Data were collected through interviews of 122 traders, government officials, bank officials, aid agencies, and local individuals affected by the crisis in Juba and Bor. It also conducted a market analysis for sorghum and maize markets (p.1).

Key findings: The food distributions had little impact on prices and quantities in the maize market due to the well-functioning competitive markets (p.23). By contrast, the food aid crowded out the local sorghum markets since the distributed sorghum was sold at a very low price in the limited sorghum market (p.23). The author recommended combining market support interventions with in-kind food distributions to support local traders and producers in the markets (p.24).

An Exploration of Individual-Level Wage Effects of Foreign Aid in Developing Countries

Koch, D. J., & Schulpen, L. (2018). *Evaluation and Program Planning*, (68), 233–242.

<https://doi.org/10.1016/j.evalprogplan.2017.09.002>

This research explores wage effects for national staff of international aid organisations and comprises two studies. The first study looks at the financial documents of the Netherlands Ministry of Foreign Affairs and examines the spending used for local staff salaries (p.236). The second study analyses the earnings of individuals employed by different international organisations in DRC.

Key findings: The study begins by describing the number of foreign aid-funded jobs for nationals by combining all the financial and employment statements from eight UN, multilateral and bilateral agencies, and 27 international NGOs. In 2014, eight donor agencies created 118,541 national staff jobs, and the international NGOs created 419,107 national staff across the globe (p.236).

⁶ <http://www.lessonsfromhaiti.org/>

The study of spending by the Netherlands showed that 21% of its budget was spent on local staffing costs, meaning that among the total project budget of 44 million euros, about 9.2 million euros is spent on local wages (p.237).

The study of DRC found significant wage differentials between the public sector and foreign agencies (p.239). The UN and the international NGOs offered around five to seven times higher wages than those of the host government (p.236). Technical experts earn \$100 a month if working for the government, and 22 times more if working for an embassy. The author repeated the importance of further research on the wage effects of foreign aid-funded jobs and their impact on the local economy (p.364).

4. Policy implications

A number of studies addressed the policy implications of peacekeeping and humanitarian aid within fragile states in relation to their economic impacts. The main findings include:

Procure locally and fairly:

Most studies recommended **procuring goods and services locally** to support local businesses and increase job opportunities (Beber et al., 2016, p.28; Ammitzbøll, 2007, p.87; Carnahan et al., 2006, p.52). Local economic impacts are determined by whether goods and services are procured locally or externally. However, studies on peacekeeping missions revealed that most goods were procured internationally, or contracted to foreign companies even when procuring locally (Rolandsen, 2015, p.360; Ammitzbøll & Tychsen, 2010, p.275).

It is also essential to understand what kinds of businesses peacekeeping and aid agencies are supporting. Studies show that only a certain category of vendors benefit (Zyck et al., 2015, p.19; Carnahan et al., 2006, p.26). It requires **analysis of a whole market system**⁷ including market actors, their networks and relationships, as well as the regulatory environment in the design of aid interventions (Bailey & Pongracz, 2015, p.28). The initial market assessments also help determine which goods and services can be procured locally (Carnahan et al., 2006, p.53).

Training, technical assistance, and guidelines to help them understand the specific norms, standards and procurement procedures of international organisations should be provided in order to offer local companies fair opportunities for bidding. The tenders should also be translated into local languages and distributed widely to local companies (Carnahan et al., 2006, p.53). Matchmaking services for local procurement can increase access of procurement officers to market information and opportunities for local vendors to meet with international aid agencies (Carnahan et al., 2006, p.54).

Hire national staff and set appropriate wages:

Most studies recommended hiring more national staff, particularly for low-skilled workers (Carnahan et al. 2006, p.53; Beber et al., 2016, p.28; Ammitzbøll, 2007, p.87). Hiring women and disadvantaged groups can empower them.

⁷. There are market assessment tools or humanitarian interventions such as the Emergency Market Mapping and Analysis (EMMA) Toolkit (<https://www.emma-toolkit.org/>) and Market Analysis Guidance (ICRC, 2014).

It is crucial to **set national staff wages that reflect local wages** (Carnahan et al., 2006, p.52), and this requires **surveys of the local labour market in the design phase** (p.54). Studies show significant wage gaps between the aid workers and local workers, resulting in a reduction of state capacity, distortion of the labour market, and wage inflation (Ammitzbøll & Tychsen, 2010, p.278). **Regular benchmarking exercises** would ensure appropriate wage scale that is in line with other development actors and local companies (Koch & Schulpen, 2017, p.239).

Carnahan et al. (2006, p.53) also recommend **outsourcing national staff positions** via local contractors who can hire multiple individuals at average local wages. This practice can avoid potential wage inflation (Durch, 2010, p.158).

It is also essential to **increase budgets for national staff training and separate these monies from the international staff budget** (Carnahan et al., 2006, p.54). National staff certification programmes can improve staff performance (Carnahan et al., 2006, p.54).

Distribute economic benefits equally:

It is important to understand that **economic benefits are not equally distributed to local populations**. In the case of local procurements, studies illustrate that local businesses or foreign companies which understand specific standards and procurement procedures of aid agencies tend to obtain regular contracts (Zyck et al., 2015, p.19; Carnahan et al., 2006, p.26). In the case of humanitarian aid, large contracted traders for voucher programmes generally received more customers than smaller contracted firms (Bauer et al., 2015, p.7). In such cases, studies suggest adjusting procurement practices and providing business support for disadvantaged companies, such as guidelines and training (Zyck et al., 2015, p.13).

A survey in Kosovo revealed the resentment of local residents as the benefits of the peacekeeping operations did not reach the remote villages (Ammitzbøll & Tychsen, 2010, p.270). In fact, the local spending of UN missions was concentrated in the capital or main operational areas (Carnahan et al., 2006, p.44). Since the trickledown effects to local residents are not readily evident, it is also suggested that an **effective public communication strategy** is crucial to manage local expectations and keep local residents informed about progress and plans (Ammitzbøll, 2007, p.87).

Conduct monitoring and impact assessments:

More effort is required to **assess and monitor the economic impacts** of foreign aid. Studies highlighted the lack of sophisticated monitoring and evaluation systems in the aid agencies (Ammitzbøll & Tychsen, 2010, p.267). Most studies suggested that unintended adverse effects can be avoided if more careful planning and monitoring exists (Koch & Schulpen, 2017, p.13).

Impact assessment components within the project design are required, allocating sufficient resources and staff for monitoring and evaluation, and creating track systems to record their spending from the outset. Collected data and information should be factored into operational decision making (Ammitzbøll & Tychsen, 2010, p.279; Carnahan et al., 2006, p.53).

Ideally, **independent evaluations** commissioned by external agencies would enhance transparency (Ramachandran & Walz, 2015, p.34). If such reliable data and budget information from various organisations are **opened to host governments and the public**, it helps them make better decisions about working with aid agencies (Ramachandran & Walz, 2015, p.34).

It is also essential to **increase awareness of international staff** in the aid agencies about unintended adverse economic effects they might cause during the mission (Carnahan et al., 2006, p.53).

Quality and uniformed **data collection and the database where the collected data is stored** are also crucial to understanding the impacts of the interventions on the local market (Bauer et al., 2014, p.20). The database should be open access to allow aid agencies to share the information.

Coordinate among stakeholders:

Stakeholder coordination helps create **uniform operational practices, including local procurements, local staff wage rates, use of international workers, and fiscal spending** (Ammitzbøll & Tychsen, 2010, p.266).

For local procurements, it is crucial for aid agencies to share vendor lists and assessments, market analysis results, and other information to enhance the use of the local markets (Carnahan et al., 2006, p.54). A uniform local business directory can be useful for aid agencies to facilitate access to the local market (Carnahan et al., 2006, p.54).

For hiring national staff, effective inter-agency coordination is crucial to **agree wage levels, grade systems and occupational classifications** to reduce unnecessary interagency frictions and avoid wage inflation (Carnahan et al., 2006, p.54).

In the impact assessment efforts, host governments and international organisations also need to **use common methodologies and formats of data** in order to monitor intervention outcomes more effectively (Bauer et al., 2014, p.20).

Consider sustained economic impacts:

Aid agencies should consider **potential economic disruptions in the design of exit plans**. Studies suggest that the withdrawal of missions has led to economic disruption and significant negative growth shocks (Beber et al., 2016, p.27). Once a mission has ended, labour and capital that have served the aid sector need to be absorbed by other sectors (Beber et al., 2016, p.27). It is recommended that **a framework and tools for risk assessments are developed to examine potential unintended economic impacts** from the outset (Ammitzbøll, 2007, p.87; Carnahan et al., 2006, p.52; Ammitzbøll & Tychsen, 2010, p.279).

Capacity building of local staff helps develop skilled labour markets, promote private sector development and long-term economic growth (Ammitzbøll & Tychsen, 2010, p.279). In both Afghanistan and Kosovo, the peacekeeping missions governed the country and thereby created dual public systems, which resulted in lowered authority of the governments (Ammitzbøll & Tychsen, 2010, p.274). Accountability, ownership and capacity of host governments need to be strengthened for sustainable growth.

5. Methodologies used

The identified studies used five types of research methods, or a combination of different methods, for examining the economic impacts within a country, namely case studies (qualitative analysis), market analysis, accounting procedures, multiplier effect analysis, and statistical

models (Bove & Elia, 2017, p.3). A summary is also provided where they have evaluated the advantages and limitations of the methods used.

Case studies/qualitative analysis

Many studies combined descriptive analysis in their research (Durch, 2010; Rolandsen, 2015; Ammitzbøll & Tychsen, 2010; Bauer et al., 2014; Hedlund et al., 2013). The data and information are collected based on focus group discussions, and formal and informal interviews with beneficiaries, local and international staff of aid agencies, governments and local contracted companies, as well as reviews of documentation and reports from the aid agencies. It analyses the experiences and perceptions of interviewees (Beber et al., 2016; Rolandsen, 2015; Ammitzbøll & Tychsen, 2010).

Advantages: This method helps establish a better understanding of underlying reasons and provides possible explanations for the economic outcomes in a specific context, which could complement the results from a quantitative analysis (Doyle & Sambanis, 2006, p.27). Qualitative methods can be used both in the preparatory and research phases and to interpret quantitative results (Koch & Schulpen, 2017, p.19).

Limitations: There is potential bias as it mostly relies on perceptions of individuals (Hedlund et al., 2013, p.8). Local beneficiaries view the donor community as one collective organisation and are less likely to distinguish different projects and agencies, which makes it challenging to examine impacts of different interventions and agencies (Ramachandran & Walz, 2015, p.31). It often focuses on lessons learned and failures against mandates and strategic frameworks of the aid agencies (Dorussen, 2014, p.2). This method should be considered as only one aspect of evaluation (Ramachandran & Walz, 2015, p.32).

Market analysis⁸

Market analysis is used for examining how the aid interventions affected the price and quantities of local markets. Many studies on humanitarian aid used market analysis to examine the impact of in-kind and cash interventions on local markets. It also enables analysis of price trends in non-tradable sectors, such as housing, transportation and catering (Carnehan et al., 2006, p.12). However, in a fragile context, limited mobility might make it challenging to collect necessary market information if it is conducted through field surveys (Hedlund et al., 2013, p.8).

Accounting procedures

Accounting procedures analyse the budgets and expenditures of the programmes or aid agencies, and the spending content. The study areas include local procurement, staff salaries, the number of local staff, living allowances for foreign staff, and patterns of their local spending (Koch & Schulpen, 2018; UNDP & UNHCR, 2015; Durch, 2010; Carnahan et al., 2006).

Advantages: This method allows for analysis of direct economic effects at the local level. It provides a clearer picture for what aid agencies actually do within a country, and differentiates impacts of specific interventions from other projects and agencies (Mvukiyehe & Samii, 2010,

⁸ See Emergency Market Mapping and Analysis (EMMA) Toolkit (<https://www.emma-toolkit.org/>) and Market Analysis Guidance (ICRC, 2014) for more details.

p.6). It also offers more objective measurements (i.e. how much was provided, for what cost, the number of people benefiting) than qualitative analysis (Ramachandran & Walz, 2015, p.34).

Limitations: It is difficult to obtain financial data from all the relevant aid agencies within a country, which resulted in limited amounts of data from few agencies. Most studies, as a result, ended up focusing on the impact of one or a few projects and agencies (Koch & Schulpen, 2018, p.239). International aid agencies are also reluctant to disclose their employment and financial statements, including wage scales (Koch & Schulpen, 2018, p.238). It is also difficult to collect reliable statistics and baseline indicators, particularly national accounts of host governments for prices and GDP, in most war-torn and post-conflict countries (Ammitzboell, 2009, p.70).

Multiplier effect analysis⁹

The multiplier effect is an estimate of how many times the expenditures have circulated in the economy. For example, it looks at the extent to which the salaries of national staff have provided others' income in the economy and, in turn, how the second person spent some of that income (Carnahan et al., 2006, p.v). It shows the long-term benefits and helps more informed cost-benefit analysis (Hedlund et al., 2013, p.65).

Statistical models

Several studies use statistical models and regression analysis to examine causal links between international aid and economic impact across and within countries (Caruso et al., 2017; Bove & Smith, 2011; Mvukiyehe & Samii, 2010; Beber et al., 2016). For instance, Mvukiyehe and Samii (2010) examined the link between the presence of peacekeepers and income levels of community households in Liberia, using regression analysis. As it enables control of other unmeasured factors that affect economic outcomes, it could reduce potential bias and establish strong causality (Mvukiyehe & Samii, 2010, p.9).

6. References

Ammitzboell, K. (2007). Unintended consequences of peace operations on the host economy from a people's perspective. In Aoi, C., de Coning, C. & Thakur, R. (Eds), *Unintended consequences of peacekeeping operations*. Tokyo: United Nations University Press.

<https://collections.unu.edu/eserv/UNU:2483/pdf9789280811421.pdf>

Ammitzboell, K., & Tychsen, M. D. (2010). The unintended economic consequences of complex peace operations on host societies. In Feichtinger, W., Gauster, M., & Tanner, F. (Eds), *Economic impacts of crisis response operations: an underestimated factor in external engagement*. Republik Österreich, Bundesminister für Landesverteidigung und Sport.

http://www.bundesheer.at/pdf_pool/publikationen/eco_impacts_10_united_economic_consequences_ammittzboell_tychsen.pdf

Aning, K., & Edu-Afful, F. (2013). Unintended impacts and the gendered consequences of peacekeeping economies in Liberia. *International Peacekeeping*, 20(1), 17–32.

<https://doi.org/10.1080/13533312.2013.761828>

⁹ See UNDP & UNHCR (2015) for the calculation of multiplier effects.

- Bailey, S., & Pongracz, S. (2015). *Humanitarian cash transfers: cost, value for money and economic impact*, 6. London: ODI. <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9731.pdf>
- Bauer, J.-M., Sandström, S., & Audi, H. (2014). *Economic impact study: direct and indirect effects of the WFP Value-Based Food Voucher Programme in Lebanon*. WFP. <http://documents.wfp.org/stellent/groups/public/documents/ena/wfp267746.pdf>
- Beber, B., Gilligan, M., Karim, S., & Guardado, J. (2016). *Challenges and pitfalls of peacekeeping economies*, 32. https://www.nyu.edu/projects/beber/files/Beber_Gilligan_Guardado_Karim_PK_Economy.pdf
- Bove, V., & Elia, L. (2017). Economic development in peacekeeping host countries. *CESifo Economic Studies*. <https://doi.org/10.1093/cesifo/ifx009>
- Carnahan, M., Durch, W., & Gilmore, S. (2006). *Economic impact of peacekeeping*. Peace Dividend Trust. http://buildingmarkets.org/sites/default/files/economic_impact_of_un_peacekeeping_march_2006.pdf
- Caruso, R., Khadka, P., Petrarca, I., & Ricciuti, R. (2017). The economic impact of peacekeeping. Evidence from South Sudan. *Defence and Peace Economics*, 28(2), 250–270. <https://doi.org/10.1080/10242694.2015.1122282>
- Dorussen, H. (2014). Peacekeeping works, or does it? *Peace Economics, Peace Science and Public Policy*, 20, 527–537. <https://ideas.repec.org/a/bpj/pepspp/v20y2014i4p11n11.html>
- Doyle, M. W., & Sambanis, N. (2000). International peacebuilding: a theoretical and quantitative analysis. *The American Political Science Review*, 94(4), 779–801. <https://doi.org/10.2307/2586208>
- Durch, W. (2010). The economic impact of peacekeeping: an update. In Feichtinger, W., Gauster, M., & Tanner, F. (Eds), *Economic impacts of crisis response operations: an underestimated factor in external engagement*. Republik Österreich, Bundesminister für Landesverteidigung und Sport. http://www.bundesheer.at/pdf_pool/publikationen/eco_impacts_04_eco_impact_an_update_durch.pdf
- Hedlund, K., Majid, N., Maxwell, D., & Nicholson, N. (2013). *Final evaluation of the unconditional cash and voucher response to the 2011–12 crisis in Southern and Central Somalia*. UNICEF. https://www.unicef.org/evaldatabase/files/Somalia_2013-002_Humanitarian_Outcomes_Somalia_Cash_and_Voucher_Evaluation_Full_Report.pdf
- ICRC, & International Federation of Red Cross and Red Crescent Societies. (2014). *Market analysis guidance*. ICRC & International Federation of Red Cross and Red Crescent Societies. <https://www.icrc.org/eng/assets/files/publications/icrc-002-4200.pdf>
- Jennings, K. M., & Bøås, M. (2015). Transactions and interactions: everyday life in the peacekeeping economy. *Journal of Intervention and Statebuilding*, 9(3), 281–295. <https://doi.org/10.1080/17502977.2015.1070022>

Koch, D.-J., & Schulpen, L. (2017). *Unintended effects of international cooperation: A preliminary literature review*. Special working paper series on 'unintended effects of international cooperation' (Working Paper No. 2017/12).

https://www.ru.nl/publish/pages/814787/koch_schulpen_literatur_review_2017_12.pdf

Koch, D.-J., & Schulpen, L. (2018). An exploration of individual-level wage effects of foreign aid in developing countries. *Evaluation and Program Planning*, (68), 233–242.

<https://doi.org/10.1016/j.evalprogplan.2017.09.002>

Mosel, I., & Henderson, E. (2015). *Markets in crises: South Sudan case study* (HPG Working Paper). London: ODI. <http://www.odi.org/publications/10000-markets-crises-south-sudan-case-study>

Mvukiyehe, E. N., & Samii, C. (2010). *The subtle micro-effects of peacekeeping: evidence from Liberia* (APSA 2010 Annual Meeting Paper). NY: Social Science Research Network.

<https://ssrn.com/abstract=1642803>

Ramachandran, V., & Walz, J. (2015). Haiti: where has all the money gone?, *Journal of Haitian Studies*, 21(1), 26–65. <https://doi.org/10.1353/jhs.2015.0003>

Rolandsen, Ø. H. (2015). Small and far between peacekeeping economies in South Sudan. *Journal of Intervention and Statebuilding*, 9(3), 353–371.

<https://doi.org/10.1080/17502977.2015.1070024>

UNDP & UNHCR. (2015). *Impact of humanitarian aid on the Lebanese economy*. Beirut, UNDP. <http://reliefweb.int/report/lebanon/impact-humanitarian-aid-lebanese-economy>

Zyck, S. A., Mosel, I., Khan, H. D., & Shabbir, S. (2015). *Markets in crises: the 2010 floods in Sindh, Pakistan* (HPG Working Paper). London: ODI. <https://www.odi.org/publications/10089-markets-crises-2010-floods-sindh-pakistan>

Acknowledgements

We thank the following experts who voluntarily provided suggestions for relevant literature or other advice to the author to support the preparation of this report. The content of the report does not necessarily reflect the opinions of any of the experts consulted.

- Anees Ahmed, Senior Rule of Law Officer, UN Mission in South Sudan
- Han Dorussen, Professor, Essex University
- Megan Carroll, Evaluation Officer/Team Leader, United Nations Office of Internal Oversight Services (OIOS)

Key websites

- The Humanitarian Practice Network: <https://odihpn.org/>
- Ebony Center for Strategic Studies (ECSS): <http://ebonycenter.org/>
- The Sudd Institute: <https://suddinstitute.org/>
- International Aid Transparency Initiative (IATI): <https://iatistandard.org/>

Suggested citation

Hatayama, M. (2018). *Economic impacts of foreign aid in fragile states*. K4D Helpdesk Report 487. Brighton, UK: Institute of Development Studies.

About this report

This report is based on six days of desk-based research. The K4D research helpdesk provides rapid syntheses of a selection of recent relevant literature and international expert thinking in response to specific questions relating to international development. For any enquiries, contact helpdesk@k4d.info.

K4D services are provided by a consortium of leading organisations working in international development, led by the Institute of Development Studies (IDS), with Education Development Trust, Italy, University of Leeds Nuffield Centre for International Health and Development, Liverpool School of Tropical Medicine (LSTM), University of Birmingham International Development Department (IDD) and the University of Manchester Humanitarian and Conflict Response Institute (HCRI).

This report was prepared for the UK Government's Department for International Development (DFID) and its partners in support of pro-poor programmes. It is licensed for non-commercial purposes only. K4D cannot be held responsible for errors or any consequences arising from the use of information contained in this report. Any views and opinions expressed do not necessarily reflect those of DFID, K4D or any other contributing organisation. © DFID - Crown copyright 2018.

