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An exploration of individual-level wage effects of foreign aid in developing countries

Dirk-Jan Koch*, Lau Schulpen

Ministry of Foreign Affairs the Hague, the Netherlands & the Centre of International Development Issues Nijmegen, Radboud University, Nijmegen, The Netherlands

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ABSTRACT

The key research question that this article aims to respond to is: what are the individual-level effects of wages financed by development assistance? Our hypothesis is that these effects are substantial and overall positive, depending on the level of analysis. This article theorizes about unintended wage effects at the individual level, spillover effects, and those at the macro level, yet focuses its research on individual-level effects. The empirical part consists of two case studies. One takes a sample of grants from a donor agency, the Netherlands Ministry of Foreign Affairs, as a starting point, following these grants through the aid chain to determine local staffing costs. The other case study consists of a comparative wage analysis in a developing country, the Democratic Republic of Congo. As this field of research is rather fresh, instead of answering relevant questions with respect to wage effects, this study merely aims to identify questions that merit further research.

1. Introduction

Unintended effects of international cooperation have been little researched and, if they are included, the emphasis is principally on the negative unintended effects (Ministry of Foreign Affairs and Radoud University, 2017). This article aims to complement this by researching (potentially) positive unintended effects of development aid.

The article focuses on the often-overlooked wage effects of international aid. Wage effects of foreign aid, as defined in this article, are consequences of expenditures on personnel by foreign aid-funded agencies for citizens of developing countries. This means that the article focuses both on the effects on wages of individuals (are they higher than what they would otherwise have been?) and on other aspects (how are these wages being used?). This article identifies three different levels where those wage effects can be observed: at the individual level, the spillover level, and the macro level. The empirical research focuses on the individual-level effects. Certainly, in a period where aid agencies increasingly employ national staff (employees who are nationals of the respective countries being served), this is a timely subject to investigate.

While initial case study research has demonstrated that there are positive and substantial effects for national staff of foreign aid-funded agencies, these have neither been theorized nor analyzed systematically (Kamanzi, 2017a, 2017b; Leenstra, 2017). This article attempts to fill this gap by (1) providing an analytic overview of various (potential) effects of the wages provided to national staff by foreign aid, at the individual, spillover, and macro levels; (2) providing some preliminary findings with respect to the size and nature of the wage effects at the individual level by means of two case studies; and (3) discussing the findings to propose additional research questions.

This research will indicate that hundreds of thousands of national staff of foreign-funded agencies depend for their living on the wages offered by development assistance. By employing these individuals, international donors have unknowingly impacted millions of individuals and their kin. This exploratory research aims to open this black box and find out how large these effects are and if they are changing over time. The ultimate aim of this research is to determine what can be done to capitalize on the positive unintended effects and what can be done to avert negative unintended effects. However, this article does not reach that stage yet: first, a better understanding of this black box of “wage effects” is needed.

2. Scoping the subject: potential wage effects of foreign aid in developing countries

Volumes of thick books have been written on whether aid works (i.e., contributes to poverty reduction), yet the jury is still out (Easterly, 2007; Riddell, 2008; Sachs, 2006). Most of this literature has looked at the effectiveness of aid on the basis of its (presumed) intended effects. Unintended effects have been little researched, and if they are included the emphasis is principally on the negative unintended effects. This article aims to counterbalance this by researching (potentially)
positive unintended effects of development aid, notably the wage effects of foreign aid.

While there is a dearth of literature on the wage effects of foreign aid, there is a wealth of literature on the wage effects of foreign direct investments. Earlier work has shown that the insights and tools of the economic literature, in this case labor economics, can contribute as well to a better understanding of development actors (Koch, 2009). Also, in the case of the wage effects of foreign aid, one can learn from the wage effects of foreign direct investment, as this has been researched for decades already (Feenstra, 1997; Gorg & Greenaway, 2004; Javorcik, 2014). Foreign direct investments come from different sources (mostly private rather than public actors) and go to different targets (also mostly private actors as opposed to public ones). Conversely, there are also many similarities; e.g., both forms of capital require skilled manpower, and with the foreign flows come international standards that need to be adhered to. In our analytical framework, key terms from the management and labor economics literature will be used where appropriate. Studies of wage effects in that literature focus on three levels, which will be dealt with here as well.

2.1. Individual-level effects

It is assumed that the individual-level wage effects are mostly positive if they are analyzed from an income-level perspective, as the wages in the aid sector are generally higher than in other sectors (Carnahan, Gilmore, & Rahman, 2005). These direct remuneration effects can occur for national staff1 in local NGOs which are funded by external aid funding, in international NGOs, in UN and bilateral donor agencies operating in developing countries, and in UN and bilateral donor headquarters employing national staff. The effects come mostly in the form of salary, but also per diems and other allowances, which compound the wage effect (Vian, Miller, Themba, & Bukułuki, 2013). Besides, another more informal financial effect of being an employee of an aid-funded agency is possible: illicit financial payments extorted from amongst other suppliers (Koch, 2016a). This study, however, will focus only on the official wage effects, as the study uses official documentation from the aid agencies, which do not include records of those illicit financial flows.

The FDI literature also highlights that workers within foreign-funded organizations will increase their productivity because of their exposure to technology and training. They will take this higher productivity with them when one day they move on from the foreign-funded agency and increase the productivity, and hence wages, of the non-foreign-funded sectors of the economy (Javorcik, 2014). While it is important to realize that these are broader effects, this paper doesn’t analyze those empirically.

There are various other effects at the individual level for a foreign-funded agency which go beyond the wage effect. Individual-level effects could include, for instance, the values and behavior that local aid workers are exposed to and that they may internalize. These are the socialization and homogenization effects of western norms and education on local organizations and their national employees, such as gender norms. Because of various pressures (e.g., funding), local organizations and their employees increasingly emulate their funding agencies and their employees (Kamstra & Schulpen, 2015). To illustrate this effect on values and behavior, the degree to which national staff is politically active could be a litmus test. International NGOs are often depoliticized, and staff members are not expected to be politically active2 (Banks, Hulme, & Edwards, 2015). Regularly strong leaders of civil society movements are integrated as staff members in international NGOs, and cannot still be as vocal as before. While these are all interesting and relevant effects of employment with foreign-funded agencies, they are not the focus of this paper, which focuses on wage effects.

2.2. Meso-level effects

Next to these direct individual-level wage effects, there are also effects that go beyond the national staff and flow over to their surroundings (Carnahan et al., 2005). These meso-level effects are often referred to as secondary effects. Kamanzi (2017a, 2017b) has identified how local district officials in Tanzania received aid-funded stipends, which were invested in a highly relevant way in income-generating activities for their retirement: investment in their housing, their plots, and livestock. These positive effects had a trickle-down effect on their families: hence, the aid most definitely had meso-level effects for both the families and other relations of the national staff.

The meso-level effects are spread not only to contemporaries, but also to succeeding generations. These wage effects do not occur simultaneously with the intervention, but occur afterwards and are thus diachronic (Jabeen, 2017). In follow-up research Kamanzi (2017a, 2017b) returned 10 years after the end of the program to the district officials in Tanzania and found that their children attended good schools and now had a better chance to get jobs. Leenstra (2017) confirms this and shows how children of foreign aid-funded staff were successful in making a large leap in socioeconomic status in one generation due to human capital accumulation.

It is important to take note of these meso-level effects of wages in the analytical framework, as to realize that there are potential multiplier effects of the wages. However, these are not analyzed quantitatively in this paper, as the focus is on individual-level effects.

2.3. Macro-level effects

Various effects of the employment of nationals at foreign aid-funded agencies exist at the macro level. The macro-level effects that have been identified in the literature are: (1) reduction of state capacity in the short run; (2) distortion of labor market in the long run; and (3) inflationary pressures on other wages (Ammitzboell, 2007).

One of the most often-cited effects is the reduction of state capacity in the short run. This situation arises when a high-paying international agency enters into a depressed labor market, as is often the case when aid agencies enter a developing country. The foreign-funded agency will “suck away” the most talented people from the government, or from local NGOs. In the case of Kosovo, a cleaning lady for an international organization could earn three times as much as a minister. The effect may be that transitory organizations reduce the capacity of more permanent local institutions (Hariss, 2006). The latter then falls under what Archarya et al. (2006, p. 7) call indirect transaction costs, with “illpaid public servants...significantly [increasing] their formal salaries by working ‘for’ aid agencies and projects’ with the consequence of ‘draining the public service of valuable experiences and talents.’

It is argued that this reduction in state capacity is not just a short-term effect, but has long-term repercussions. Once national staff have worked in the environment of an international organization, with its airconditioned offices and steady electricity, it is hard for them to move back to the government. While the idea was, for instance in Cambodia, that national staff of the UN would move back to the public sector after the international intervention had ended, the reality was that local staff didn’t do that (Carnahan et al., 2005, p. 36).

A last macro-level effect is related to the inflationary pressures on wages and other aspects of life. This, in turn, leads to inflationary pressure on, among other things, rent in the cities with a large number of UN agencies (especially since this often also implies many expatriates). In some instances, this forces the local middle class to leave the city (Büscher & Vlassenroot, 2010).

In addition to the above-mentioned macro-level effects, which have

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1 National staff refers to citizens of developing countries who work for foreign aid-funded projects, programs, and agencies. In this article “national staff” can also be employed outside of the country of origin.
been studied with respect to aid inflows, there are also other macro
effects that could be expected on the basis of the foreign direct
investment literature. Firstly, because of backward linkages with the
economy, foreign-funded agencies will also create demand for out-
sourced services, such as auditing or IT services. This increased demand
for services, and will stimulate the labor market (Gorg & Greenaway,
2004; Javorcik, 2014). A final macro-level effect on wages of FDI that
has been identified is an increase in wage inequality at the macro level
(Feenstra, 1997). Unfortunately, quite a number of the unintended
macro-level effects are negative, and they could offset at least partially
the unintended positive effects at the individual level.

2.4. The pyramid structure of the foreign aid-funded labor market

To unpack the black box of wage effects of foreign aid, the structure
of this foreign aid–funded labor market needs to be understood. Often
labor markets are referred to as being pyramid-structured (Blossfeld,
2008), which also appears to be the case for the foreign aid–funded
labor market. While analyzing both the relevant literature and the
financial and narrative statements of the aid agencies, an employment
pattern emerges. Time and again the structure of the aid-funded labor
market for national staff manifests itself in the form of a pyramid.
Therefore, we argue that the foreign-funded labor market for national
staff could be represented by this figure.

Quite a bit of research has been done on the remuneration gap
between expatriate and national staff (Carr, McWha, MacLachlan, & Furnham, 2010; Marai et al., 2010). The conclusion is
often that the wage gap between expatriate and local staff needs to be
reduced as it leads to a demotivation of local staff (Munthali, Matagi, & Tumwebaze, 2010). However, there are also significant dif-
ferences between national staff, depending on the type of organization
they work for.

At the top of the pyramid is a national of a developing country who
is working as an expatriate in another country. His or her wages are
pegged at the international level. For the United Nations this is done
using the Noblemaire principle. This states that the international civil
service should be able to recruit staff from its member states, including
the highest-paid. Therefore, the salaries of professional staff are set with
reference to the highest-paying national civil service (United Nations,
2017).

At a second layer of the pyramid are the national staff working for
UN agencies or bilateral donors. They set their wages through compa-
native annual salary benchmarking studies at the national level. For
instance, in the case of the Netherlands, local embassies need to do an
annual salary review of five other embassies/bilateral aid agencies (the
“markers” are local offices of the United States, United Kingdom,
Canada, Germany, and the European Union). The government of the
Netherlands bases its local wages and conditions on this annual
benchmarking exercise (Ministerie van Buitenlandse Zaken, 2016).

The third layer in the pyramid comprises those national staff
members working for international NGOs to which UN agencies and
other donors provide funds to implement projects. These international
NGOs also engage in salary benchmarking exercises, albeit in a less
formalized way, and for their exercises peer organizations are used.

On the last layer of the pyramid are local staff members working for
local NGOs and CBOs (community-based organizations), some of which
depend on contributions from their members alone (hence hardly of-
fering a salary for their staff), but most of which receive more div-
sified funding from aid agencies. Their salaries often depend more
on the availability of funds than on strict adherence to salary scales
(Swidler & Watkins, 2009).

There are also foreign aid–funded wage effects which fall outside of
this pyramid, notably those effects accruing in the (semi)public sector
in developing countries, and their civil servants. Foreign donors have
often supported jobs in the public administration of developing coun-
tries (hence, outside this pyramid). They did this either directly through
sectoral programming, for instance in the health and education sector,
or indirectly, through general budget support (IOB Operations and
Evaluations Department, 2011). In the health sector, for instance, do-
nors were active in health worker retention schemes. These foreign-
funded schemes provided a topping-up in salary and other benefits for
doctors to work in rural areas (Gow, George, Mwamba, Ingombe, & Mutinta, 2013).

Leenstra (2012, p. 301) highlights the wage effects of these types of
programs and notes the following: “Health workers have been provided
incomes through salaries, allowances and other opportunities, which
have allowed them to accumulate assets and to further invest in their
own human and social capital and that of their kin… The secondary
benefits will not have been the direct aim of the polities and invest-
ments in questions, but these achievements are not dead-weight losses
per se…in fact this has contributed to the further formation of a middle-
class”.

It is not easy to determine if most wage effects occur within or
outside this pyramid system. The Paris Action Agenda for Aid
Effectiveness (2005) aimed to promote the use of country systems for
the disbursement of aid, and for a while the use of sector and general
budget support came relatively more into vogue. There was a clear push
to reduce the number of parallel Project Implementation Units (which
fall outside the government, and inside this pyramid). However, this
commitment to make more use of the government systems of devel-
opping countries and reduce parallel systems has not fully materialized
(Organisation for Economic Cooperation and Development, 2011). The
potential size and impact of this transition in the aid sector will be
considered at greater length in the discussion section.

In sum, while the pyramid figure provides an insight into the gen-
eral structure of the labor market for developing country nationals,
the question that will be researched in the empirical section of the paper is
on the size of the different segments, the width of the base, and the
angles, i.e., the particular shape of the pyramid.

2.5. Exploring the linkages between wage effects and poverty

With regard to the linkages between these foreign-funded wages and
poverty, there are two mechanisms to look at: the direct effects and the
indirect linkages. For the direct effects, the bottom layer of the pyramid
is the most relevant category. Findings from case studies in Malawi
indicate that national staff working for local NGOs and CBOs often live
close to or around the poverty line (Swidler & Watkins, 2009). If they
receive a steady allowance from the local NGO or CBO, they could be
lifted out of poverty.

However, assuming that staff members would share their wealth
with kin, the meso-level effects on poverty would be much higher at the
top end of the pyramid: with an internationally pegged salary based on
the pay rates of Swiss civil servants, many more family members can be
sustained and lifted out of poverty than with the local NGO salary. Most
wide-ranging poverty effects can be achieved if local staff succeed in
entering the aid pyramid at the bottom and, during their careers, move
up the aid pyramid. In that case they first succeed in overcoming their
own poverty (individual level effects) and, while reaching towards the
top of the pyramid, can now start spreading the wealth to their kin
(meso-level effects).

The foreign-funded labor market for developing country nationals is
highly stratified, as will become clearer in the case study, and the re-
muneration effects are highest for those people who succeed in
breaking through these strata. For those who succeed in creating this
upward mobility in the foreign-funded employment market pyramid, the
effects on standards of living are enormous, and comparable to the
economic effects of successful migration (Collier, 2014).

2 There are also ‘pyramids within the pyramid’ as within the organizations the higher
ranking staff are fewer and earn more than the (more abundant) lower-level staff.
3. Methodology

This study uses various methods to explore the size and nature of individual-level wage effects of foreign aid in developing countries. To obtain a general insight into the number of people in developing countries who experience a direct wage effect, a quantitative review of developing country staffing levels of major international-aid-funded agencies has been undertaken. After this more general quantitative overview, two cases are analyzed in more depth so as to shed light on the nature and size of the effects (positive or negative) and their size.

The first case study uses an aid-chain analysis perspective (Martens, Mummert, Murrell, & Seabright, 2002). Starting from the donor files in one donor country, this study analyzes what the size of the wage effects can be. Often, staffing costs are not made very explicit in external financial documents of organizations. However, it was possible to get access to the internal financial documents at the Netherlands Ministry of Foreign Affairs of one thematic department. In 2015, the Netherlands was the seventh-largest donor country among members of the OECD’s Development Assistance Committee (DAC), spending US $5.7 billion on net ODA (in 2015 prices). Lastly, to get a sense of whether there was an increase or decrease over time of wage effects for local staff, changes in the staffing composition of some of the major NGOs in the Netherlands were analyzed in more detail. As the title of the paper indicates, it is merely exploratory and can support the identification of further research questions.

The second case study starts at the other end of the aid chain, in the Democratic Republic of Congo. The aim of this case study was to get more insight into the net wage effects. A comparative wage analysis was performed at the three domestic layers of the labor market pyramid: in-country donor agencies, international NGOs, and local NGOs. The wages in those strata were juxtaposed to wages at the governmental level with similar qualifications. Once again, most of these data are confidential, but it was possible to get access to them on the condition that the name of the organization wouldn’t be disclosed. The full and supporting data are available—in an anonymous format—upon request. The Democratic Republic of Congo received on average US $2.6 billion between 2012 and 2014 (Organization for Economic Cooperation and Development, 2016). It receives most aid in the social sectors, but also significant amounts of humanitarian aid (17%). Also, there is a large peacekeeping mission, and various elements of support to that peacekeeping can also be labeled as Official Development Assistance. Similarly, as with the case study of grants from the government of the Netherlands, the aim of the case study is not to answer all questions with respect to wage effects, but to explore potential effects and identify areas for further research.

4. An exploration of the size and nature of the foreign aid-funded labor market for national staff

4.1. General overview of number of foreign aid-funded jobs for nationals of developing countries

One of the methods to get a sense of the size of the effect of individual-level wage effects in developing countries of foreign-aid funding is to look at the size of aid agencies and the number of staff they employ. This is rather easy to do for the upper part of the labor market pyramid shown, as detailed financial and employment information is readily available. At the top end of the labor market are the donor agencies and the UN agencies (and, within that stratum, the expatriate jobs were the premium jobs). The middle of the pyramid consists of the international NGOs, and, since they provide detailed information in their annual reports and there are not that many of them, the number of their local staff can also be analyzed. For local NGOs and CBOs it was not possible to analyze this information, due to data and time constraints.

Quantitative desk research has shown that there were more than 100,000 jobs for developing country nationals, with agencies such as the GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit), UNICEF, and the peacekeeping missions. Only donor and UN agencies employing more than 1000 national staff are included, which leads to nine organizations being included. The peacekeeping missions are a special case: the soldiers who are part of the mission can only take home a portion of the extra earnings of participation in a peacekeeping mission.

The International NGOs (NGOs operating in more than one country) employ more national staff than the UN and donor agencies; a first online analysis of major NGOs worldwide shows that they employ over 400,000 national staff across the globe. Most of the agencies in the top 10 are household names, yet there are also some lesser-known organizations, notably organizations from Bangladesh that were successful domestically, and have now branched out globally, such as BRAC and Grameen. There is also, for example, the Aga Khan Development Network, which might be less known but still employs around 70,000 national staff as nurses and teachers. All 27 international NGOs that matched the criteria (more than 1000 employees), 27, were included in the sample (Table 1).

It is interesting to note that the relative share of national staff in international NGOs appears to be on the rise. A numerical analysis of the distribution of staffing of the four largest international NGOs from the Netherlands in Fig. 1 indicates, for instance, that the share of national staff has increased significantly in two out of the four cases.

4.2. Case study 1: local wage costs in grants from Netherlands ministry of foreign affairs

The Netherlands Ministry of Foreign Affairs is the first responsible ministry for the disbursement of Official Development Assistance by the Netherlands. Within the Ministry of Foreign Affairs there are various departments, and for the purpose of this study it was possible to gain access to the financial documents of the Inclusive Green Growth department, which deals with climate, water, and nutrition security projects, among other things. To get an insight into the individual-level wage effects, three projects were randomly selected, stratified by the implementation channel; one project was administered by a multilateral agency, one by a civil society agency (NGO), and one by a bilateral implementing agency (through delegated cooperation). To be selected, the grants needed to be ongoing and the agency needed to be willing to cooperate. The projects selected are examples and can illustrate the relative importance of local staffing costs, but cannot be generalized.

For all three of those cases, answers to the following questions were obtained: (1) What was the budget provided by the Netherlands Ministry of Foreign Affairs, and what was the total size of the budget? (2) How many steps were there in this aid chain? (2) How many local staff members did the various actors in the chain employ? (3) What percentage of the staff salary was supported by the Netherlands Ministry of Foreign Affairs? (4) What were the total local staffing costs supported by the Netherlands Ministry of Foreign Affairs at every step in the aid chain? (identified as chain partner 1, chain partner 2, etc.) (5) What percentage of the Netherlands Ministry of Foreign Affairs’ contribution was spent on local staffing costs (Table 2)?

The figures show that there is a wide variety in the relative importance of local staffing costs. For the multilateral program, the total

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Table 1

<table>
<thead>
<tr>
<th>Type of organization</th>
<th>Total number of staff</th>
<th>Number of national staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subtotal donor agencies</td>
<td>202,258</td>
<td>118,541</td>
</tr>
<tr>
<td>Subtotal international NGOs</td>
<td>457,455</td>
<td>419,107</td>
</tr>
<tr>
<td>Totals</td>
<td>665,713</td>
<td>537,648</td>
</tr>
</tbody>
</table>
local staffing costs reached 25% of the subsidy. They have a long aid chain, stretching from the governing body, to the implementing organization, to the prime subsidiary (international NGOs), to the secondary subsidiary (grassroots organizations). Of the total project of 31 million Euro, about 8.5 million Euro is spent on staffing costs; and a total of 221 jobs were (co-)financed. At the other extreme is the bilateral cooperation project, which works through a government agency in a developing country. No local staffing costs are paid, also no governmental salaries, except for one finance assistant in the project implementation unit, representing 2% of the budget. The bilateral project, operating through an international NGO (and its local NGO counterparts), is in the middle between those two extremes. It spends about 15% of the Netherlands-funded budget on local staffing costs and co-finance about 69 local staffing positions. In total about 291 jobs were (co-)financed by these three projects.

To conclude the case study, it is also worth inquiring whether there are trends in wage effects for developing country nationals. Even though it is hard to establish if there has been a trend, it is clear that, from the political level, there has been a push to reduce dependence on expatriate workers (Herfkens, 2000). In general, there has been a push for “localization” (United Nations Secretary General, 2016), which means that local and national actors should get a bigger role in development programs. This appears to be reflected in the general tendency of the traditional four Dutch co-financing NGOs, which have an increasing number of field offices and employ increasingly local staff (Fig. 2).

This is important in the context of this study as it indicates that national staff are playing an increasingly important role in development programs.

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**Table 2**

<table>
<thead>
<tr>
<th>Area</th>
<th>Multilateral aid-chain example project</th>
<th>Civil bilateral aid-chain example project</th>
<th>Delegated-bilateral aid-chain example project</th>
<th>Total NL MFA support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total financing of Netherlands Ministry of Foreign Affairs</td>
<td>3,44,05,287</td>
<td>44,91,582</td>
<td>90,00,000</td>
<td>4,40,31,092</td>
</tr>
<tr>
<td>Total budget of program</td>
<td>3,15,08,700</td>
<td>35,22,392</td>
<td>2,40,00,000</td>
<td></td>
</tr>
<tr>
<td>Number (max) of agencies in the aid-chain</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Chain partner 1</td>
<td>Overhead: 2% (excluding direct staff costs)</td>
<td>Overhead: 21% (excluding direct staff costs)</td>
<td>Overhead 8% (excluding direct staff costs)</td>
<td></td>
</tr>
<tr>
<td>Staff members from developing countries</td>
<td>Chain partner 2</td>
<td>Chain partner 3</td>
<td>Chain partner 4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Overhead: 7% (no direct staff costs)</td>
<td>Staff members from developing countries</td>
<td>Total of staff members of developing countries</td>
<td></td>
</tr>
<tr>
<td></td>
<td>38</td>
<td>177</td>
<td>221</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>51</td>
<td>6</td>
<td>69</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total of staff members of developing countries</td>
<td>0.53</td>
<td>0.34</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage of national staff salary covered by MFA NL</td>
<td>0.25</td>
<td>0.15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total local staffing costs</td>
<td>85,57,653</td>
<td>1,50,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Local staffing costs as share of total</td>
<td>0.25</td>
<td>0.02</td>
</tr>
</tbody>
</table>

**Fig. 1.** Foreign aid-funded labor market for developing country nationals.

**Fig. 2.** Localization of composition of international NGO staff.

**Source:** own data (estimates)
cooperation and consequently that, if there is a trend with respect to individual-level wage effects in developing countries, this trend might be upward.

4.3. Case study 2: comparative wage analysis in the DRC

While it is important to understand the size of the foreign aid–funded labor market, it is not sufficient to determine the net poverty effects. To assess these, it is necessary to determine what the earnings of those individuals would have been otherwise. Once again, unfortunately, little systematic research has been undertaken. One of the obstacles is that many international (aid) agencies are reluctant to share their wage scales. This obstacle has been overcome in this research by guaranteeing anonymity.

One study (Carnahan et al., 2005) has taken as a starting point that the counterfactual ought to be employment in the public sector. That approach has been followed in this study. In the third column of Table 3 (below), it is made clear what the official wage of civil servants in the DRC is, split down by skill level. In the second column, an example is given of a local NGO funded by international development assistance; while this is not necessarily representative, it is illustrative. Consequently, there are four columns reserved for international actors: an American NGO, a European NGO, an embassy, and the United Nations.

The national civil servant salary for low-skilled workers is very close to the official minimum wage (SMIG) in the DRC: $3 ($78 USD per month). The contrast is very stark with the United Nations (UN). The UN applies the “Flemming principle” in setting local wages. This provides that the conditions of service for locally recruited staff should reflect the best prevailing conditions found locally for similar work (United Nations Human Resources Mangement Office, 2016). Looking at the low-skilled laborers at the UN, such as cleaning personnel, they earn about $1164 per month. Interestingly, in many cases the United Nations—hampered by the excessive costs of its own pay scales—has started to outsource the low-skilled work (Carnahan et al., 2005). Yet, the UN drivers aren’t outsourced and earn considerably more than the doctors working in governmental hospitals or judges in the DRC.

Significantly, it is not just the United Nations that is paying much more than the national government; the international NGOs also offer considerably higher wages. A finance assistant earns $87 when working for the government, but $583 working for the American NGO and $709 working for the European NGO in the sample. The embassy in this sample appears to be taking a middle position between the United Nations and the international NGOs. The figures in this picture confirm the pyramid-style representation of the labor market for developing country nationals in the foreign aid–funded sector: the higher on the food chain, the higher the wages; and the closer to the ultimate beneficiaries, the lower the wages.

The local NGO takes a middle position between the international NGOs and the local government: its salaries vary between $80 and $592 per month. The GDP per capita in the DRC is US $720 per year, so with a salary of $960 per year, the local NGO employee is earning about average, and can reach $7104 a year, which is ten times the average of the nation. This might still seem like a lot, but relatively speaking it is not, as the Congolese director of the European NGO earns 50 times the average salary ($36,120 annually).

Lastly, while not in this table (as this table looks only at the wages in the DRC), it is also noteworthy to look at expatriate wages for Congolese. If a Congolese national started working for an UN agency in a neighboring country, such as the Central African Republic, he/she would end up at the top of the pyramid. For example, if a Congolese is working on a P-4 UN contract (e.g., as a Head of Unit of UNICEF, in Bangui), has one dependent and a couple of years of experience, he/she will receive tax-free about US $15,000 per month (excluding schooling and rental allowances).3

In sum, the individual-level effects appear to be substantial: a technical expert working for the government earns $100 a month, and 22 times as much if working for a donor agency, such as an embassy. The question that remains is: what is the relative importance of these foreign aid–funded jobs in the economy? This could provide more insight into the importance of the wage effects.

It is striking how little information can be found on this topic: the "Platorme de Gestion de l’Aide et Investissement of the Congolese Ministry of Planning is offline. The International Aid Transparency Initiative only lists 56 projects in DRC, and the OECD DAC development finance portal doesn’t have a detailed sector code for wage costs. Hence, no estimations can be made of the total wage effect in the DRC. However, from the literature on aid in the DRC, three patterns emerge. One relates to the uneven geographic distribution of wage effects, the second relates to the tendency of increased localization, and the last one to the increased use of national governmental country systems.

Firstly, aid and-funded organizations are very unevenly spread in the DRC (Koch, 2016b). Whereas in some provinces there is hardly any influx of foreign funding, such as in the provinces formally known as the Kasai, there is much more funding in the Kivus. The city of Goma, in North Kivu, is one of those areas where the wage effect is substantial: “The expansion of the humanitarian sector was associated with a

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3 The International Civil Service Commission (2012a) shows a base salary of approximately US $80,000 USD for a P4 with some experience. The base salary is $100,000. The multiplier for the CAR was approximately 53%, according to the International Civil Service Commission (2012b), hence $53,000. Hardship allowance and mobility allowance are approximately $27,000, making the total salary US $180,000 ($15,000 per month).
growing demand for trained personnel, guards, cooks and drivers. Given the lack of state functioning and of employment opportunities, humanitarian agencies acquired a considerable share of the local labour market” (Büscher & Vlassenroot, 2010).

A second development that is observed is the move towards “localization,” which was also observed in the Dutch case study. A revealing indicator for this is the distribution of the United Nations’ Humanitarian Pooled Fund. Whereas in 2007 only 5.5% of the projects went to national NGOs (United Nations Humanitarian Coordinator, 2008), this percentage climbed steadily to 22.5% in 2014 (Common Humanitarian Fund, 2015). This is of importance to the current study, as this implies that the relative importance of local organizations and local staff increases, and hence also the wage effects change. There are two contradictory consequences on the wage effects: on the one hand, there are fewer expatriates working for local NGOs, so there are more leadership positions for local staff. However, the wage levels—are also for local staff—are lower, as seen in Table 3, for staff in local NGOs.

A last development relates to the relative size of the pyramid as compared to total aid funding in a country. As explained in section 2.4, donor countries have committed themselves to use country systems increasingly for their official development assistance, which would entail less parallel funding being granted and the relative size of the pyramid decreasing. In the case of the DRC, with improving levels of governance between 2010 and 2015, more aid was also granted through government systems (United Nations Development Program, 2016). Whereas in 2011, only 12% of the development partners were using government budgetary and public financial management systems, this had risen to 42% in 2015 (as a point of reference, for all developing countries combined this increased from 46% to 51%). It is interesting, or worrying, that this alleged increase of country systems apparently hasn’t translated yet into positive wage effects for the Congolese civil servants.

5. Discussion on further research questions

Before distilling more detailed questions for further research, it is appropriate to pause and determine the extent to which the original research question has been answered: what are the individual-level effects in developing countries of wages funded by development assistance? The two case studies indicate that these effects are likely to be positive and substantial for the individuals concerned. The wage differential between the public sector wages in the DRC and foreign-funded agencies was significant. The Dutch case study showed that, of three selected projects, 21% was spent on local wages.

The first question that merits discussion is both the internal and external validity of the case studies. While there is no reason to assume that there are biases in the selected grants that were analyzed for the Dutch, or the agencies that were analyzed in the DRC, it is clear that it concerns just a handful of observations. Also, the Dutch case study focused on programs from one department only, the Inclusive Green Growth department. Yet, they cannot be discarded as anecdotal. E.g. the agencies that shared the pay scales for this research also explained the process that they used to determine these wage scales. Regularly, they would organize benchmarking exercises to ensure that their pay is in line with peers on their layer of the pyramid; hence, while there are variations between different agencies, they are within certain bandwidths. Still, this article should still be considered exploratory. With respect to external validity, serious concerns can also be raised.

How representative is the Dutch case study with respect to the wage effects of other donors? In 2015 the Dutch spent about 44% of their aid using country systems, such as governmental procurement systems (outside the pyramid scheme), whereas the average for donor countries was 50% (up from 48% in 2010). Conversely, as other donor countries slightly increased their use of local country systems, it declined significantly in the Netherlands (down from 65% in 2010). There is a large variance between donors: while USAID, the largest donor, mostly uses parallel funding mechanisms (less than 21% through the recipient governments’ systems) and hence has large wage effects, this is much less the case for a country such as Denmark (89% through national government systems). Even though the Netherlands scores close to the average with respect to the use of national systems, it would not be prudent to generalize the findings for the Netherlands to other donors.

The representativeness of the DRC with respect to other countries needs to be explored. On a positive note, other studies have indicated that, in countries such as Liberia, Cambodia, and Sierra Leone, equally large wage differentials appeared to exist between government and United Nations salaries (Carnahan et al., 2005). The large wage differential encountered in the DRC doesn’t appear to be an exception. Yet, there are also countries where the relative size of the “pyramid” compared to the wage effects in the public sector appears to be different. In the neighboring country of Rwanda, 80% of the aid is spent using country systems (United Nations Development Program, 2016). Also, the wage differential between public sector salaries and United Nations staff appears much lower in Rwanda, as the salaries of civil servants are higher and national UN staff much lower (Mywage, 2017; United Nations, 2017). The compounded wage differential between the government and the UN (from receptionist to permanent secretary) is a factor of 3.4 in Rwanda and 14.7 in the DRC (see Annex 2). Hence, it is prudent to be modest about the degree to which the findings of the DRC can be generalized, before further research questions can be formulated.

A prime question that merits further research is the link between the wage effects and poverty levels, a link that was already alluded to in section 2.5. It is not clear yet if indeed these wages in foreign-funded agencies reduce poverty. Research in Malawi has indicated that the foreign-funded jobs at local NGOs and CBOs are at least a livelihood strategy for what has been dubbed the “aspiring rural elites” (Swidler & Watkins, 2009). “The aspiring elites struggle to escape the subsistence farming and trading of the village and to reach toward the imagined status and wealth of a job in the formal economy… Since jobs in the formal sector are scarce, many are unemployed or inconsistently employed. By village standards, they are an educated elite; by the standards of the elites who work for NGOs in the capital, they are not sufficiently educated to be hired at a high salary to implement donor projects” (Swidler & Watkins, 2009, p. 7). It is not clear if employment in these local NGOs and CBOs truly serves as a substantial stepping stone out of poverty. If that were the case, it would be an interesting unintended positive effect which contributes to the original aim of development assistance: poverty reduction.

A second question results from the case study in the DRC. It concerns the effects of this transition from parallel funding mechanisms to in-country governmental systems. Whereas this is in principle a desirable aim toward which the development community strives to work, it is relevant to study what this entails for the positive individual-level wage effects for those being employed in the “pyramid.” As the first analysis of the DRC indicated, there has been a rise in the use of country systems, but public sector wages appear still to be abysmal. Are the national experts of UN agencies and international NGOs integrated into the public sector, or do they leave the country and not use their expertise, as was the case in Cambodia when this transition happened (Carnahan et al., 2005)? What can be done to ensure that, in this transition, the right expertise is retained? A number of donors have started topping up public sector salaries in developing countries, but how can that be done without creating other distortions and encouraging nepotism (U4 Anti-corruption resource centre, 2013)?

A final question relates to the different effects of employment and wages that were touched upon in section 2. What are the meso-level effects of those wages? What are the macro-level effects of the wages? Also, while in the present article mostly a labor economics approach is used, focusing on financial effects, there are a myriad of other potential effects of employment in this pyramid. For example, intermarriage between expatriate staff and national staff of foreign-funded agencies has been an unintended effect of international cooperation, and has at its turn had many long-term, often positive, repercussions for the
individuals involved (including migration and remittances). The long-
term welfare effects of these intermarriages of employment are just one part of the non-financial effects that merit further investigation.

6. Conclusion

The key research question that this article aimed to respond to is: what are the individual-level effects in developing countries of wages funded by development assistance? The preliminary finding of this paper is that the effects are substantial, as over half a million jobs were found to depend on them within international agencies and NGOs. This excludes all of the jobs that are created at the level of local NGOs and CBOs.

The two case studies provide telling examples of just how important those local-level effects can be. In the DRC, if a manager from the public sector moved from a job in the public sector to an American NGO, she would earn 10 times as much. If she started to work for the European NGO in the sample, she would 19 times as much. If she worked for the bilateral donor agency, she would multiply it by 27 times, or, if she worked for the United Nations, by 75 times. The individual-level payoffs are enormous and positive; yet in the analytical framework it was also made clear that the ramifications at the macro level are likely to be more negative.

The case study, which started in the Netherlands and analyzed the wage effect by going through the aid chain, showed that local personnel costs ranged between 2% and 25% of the total program costs. It is telling that, despite all these evaluations and the required focus on unintended effects mandated by the OECD evaluation guidelines, so little attention has been paid to the effects of these significant expenditures.

In sum, this article concludes that the exploration into the individual-level wage effects is a relevant endeavor, as the effects are substantial and potentially positive. More interestingly still, these effects have been unintended. Yet, in the end, more questions have been raised than have been answered: What has been the effect of all those wages on poverty levels? What other effects, besides wages, are consequences of employment in these foreign-funded structures? Answering these questions would shed important light on the unintended effects of development assistance.

Annex 1. Detailed overview of national staff of UN- and donor agencies, and international NGOs.

<table>
<thead>
<tr>
<th>Type of organization</th>
<th>Name organization</th>
<th>Total number of staff</th>
<th>Number of national staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>UN- and donor agencies</td>
<td>UN peacekeeping missions</td>
<td>116,490</td>
<td>63,600</td>
</tr>
<tr>
<td></td>
<td>UN-agencies</td>
<td>44,000</td>
<td>26,400</td>
</tr>
<tr>
<td></td>
<td>GIZ</td>
<td>16,410</td>
<td>11,260</td>
</tr>
<tr>
<td></td>
<td>Worldbank</td>
<td>11,933</td>
<td>7279</td>
</tr>
<tr>
<td></td>
<td>USAID</td>
<td>9782</td>
<td>4498</td>
</tr>
<tr>
<td></td>
<td>Asian Development Bank</td>
<td>3105</td>
<td>1698</td>
</tr>
<tr>
<td></td>
<td>DFID</td>
<td>2852</td>
<td>1484</td>
</tr>
<tr>
<td></td>
<td>JICA</td>
<td>1845</td>
<td>1107</td>
</tr>
<tr>
<td></td>
<td>African Development Bank</td>
<td>1841</td>
<td>1215</td>
</tr>
<tr>
<td></td>
<td>Subtotal donor agencies</td>
<td>202,258</td>
<td>118,541</td>
</tr>
<tr>
<td>International NGOs</td>
<td>BRAC</td>
<td>111,252</td>
<td>111,252</td>
</tr>
<tr>
<td></td>
<td>Aga Khan Development Network</td>
<td>80,000</td>
<td>69,600</td>
</tr>
<tr>
<td></td>
<td>World Vision</td>
<td>45,000</td>
<td>42,750</td>
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<td></td>
<td>MSF</td>
<td>35,000</td>
<td>29,400</td>
</tr>
<tr>
<td></td>
<td>Save the Children</td>
<td>27,000</td>
<td>21,600</td>
</tr>
<tr>
<td></td>
<td>Association for Social Advancement</td>
<td>20,259</td>
<td>20,259</td>
</tr>
<tr>
<td></td>
<td>Partners in Health</td>
<td>18,000</td>
<td>17,640</td>
</tr>
<tr>
<td></td>
<td>Grameen Foundation</td>
<td>13,000</td>
<td>13,000</td>
</tr>
<tr>
<td></td>
<td>ICRC</td>
<td>14,506</td>
<td>11,000</td>
</tr>
<tr>
<td></td>
<td>Oxfam</td>
<td>10,000</td>
<td>8700</td>
</tr>
<tr>
<td></td>
<td>FINCA</td>
<td>10,000</td>
<td>8700</td>
</tr>
<tr>
<td></td>
<td>CARE</td>
<td>9000</td>
<td>7830</td>
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<td></td>
<td>IRC</td>
<td>8000</td>
<td>7520</td>
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<tr>
<td></td>
<td>Plan</td>
<td>8000</td>
<td>6960</td>
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<tr>
<td></td>
<td>Action Against Hunger</td>
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<td>6113</td>
</tr>
<tr>
<td></td>
<td>Danish Refugee Council</td>
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<td>5262</td>
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<tr>
<td></td>
<td>World Wildlife Foundation</td>
<td>5000</td>
<td>4850</td>
</tr>
<tr>
<td></td>
<td>One Acre Fund</td>
<td>4300</td>
<td>3741</td>
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<td></td>
<td>Medecins du Monde</td>
<td>4121</td>
<td>3585</td>
</tr>
<tr>
<td></td>
<td>Mercy Corps</td>
<td>4000</td>
<td>3400</td>
</tr>
<tr>
<td></td>
<td>FHI360</td>
<td>4000</td>
<td>3800</td>
</tr>
<tr>
<td></td>
<td>Concern Worldwide</td>
<td>3513</td>
<td>3181</td>
</tr>
<tr>
<td></td>
<td>Handicap International</td>
<td>3146</td>
<td>2462</td>
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<tr>
<td></td>
<td>IRD</td>
<td>2090</td>
<td>1818</td>
</tr>
<tr>
<td></td>
<td>Food for the Hungry</td>
<td>2000</td>
<td>1800</td>
</tr>
<tr>
<td></td>
<td>Islamic Aid</td>
<td>1759</td>
<td>1686</td>
</tr>
<tr>
<td></td>
<td>Gates Foundation</td>
<td>1376</td>
<td>1197</td>
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<tr>
<td></td>
<td>Subtotal international NGOs</td>
<td>457,455</td>
<td>419,107</td>
</tr>
</tbody>
</table>

**TOTALS**                   | 665,713                               | 537,647               |

Source: annual reports and annual financial statements of organizations, full referencing available
Annex 2. Snapshot of wage differential in Rwanda between government and UN salaries (local staff)

<table>
<thead>
<tr>
<th>Category</th>
<th>Example in public sector</th>
<th>Monthly salary in $ (Ministry Education)</th>
<th>United Nations** (monthly salary $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semi-skilled</td>
<td>Receptionist</td>
<td>2016</td>
<td>2015 $ 600</td>
</tr>
<tr>
<td>workers</td>
<td></td>
<td>262</td>
<td></td>
</tr>
<tr>
<td>Skilled workers</td>
<td>Administrative assistant</td>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>ICT officer</td>
<td></td>
<td>340</td>
<td>$1457</td>
</tr>
<tr>
<td>Highly skilled</td>
<td></td>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>workers</td>
<td>Director of planning unit</td>
<td>588</td>
<td>$2137</td>
</tr>
<tr>
<td>Mangement Staff</td>
<td>Permanent secretary</td>
<td>784</td>
<td>$3794</td>
</tr>
<tr>
<td>Director level</td>
<td></td>
<td>1955</td>
<td>$5264</td>
</tr>
<tr>
<td>Average Wage</td>
<td></td>
<td>$786</td>
<td>$2650</td>
</tr>
<tr>
<td>Wage differential</td>
<td></td>
<td></td>
<td>3.4</td>
</tr>
</tbody>
</table>

*source: Mywage (2017).


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humanity: committing to action.


Prof. Dr. Dirk-Jan Koch is Special Envoy Natural Resources of the Dutch Government, and a Professor on International Trade and Development Cooperation at the Radboud University (by special appointment). He is also an international board member of the Extractive Industries Transparency Initiative and chair of the European Partnership of Responsible Minerals.

Dr. Lau Schulpen is Assistant Professor at the Centre for International Development Issues in Nijmegen at the Radboud University. His main research interests are international development assistance as well as private development initiatives.