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Unintended poverty effects of aid on national staff of aid agencies

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Abstract

Volumes have been written on whether or not development assistance contributes to poverty reduction. This article explores a gap in the aid effectiveness literature; the poverty effects of employment of national staff in foreign aid funded agencies. This exploratory article estimates that international donors have unknowingly impacted positively millions of individuals in developing countries. Firstly, it provides an analytic overview of various effects of the employment of national staff in foreign aid funded agencies. Secondly, it zooms in on the structure of foreign aid funded employment sector for national staff, with a focus on remuneration. Thirdly, it focuses on the size of this foreign aid funded labour market for nationals. This is done by means of a quantitative analysis of annual statements of international aid agencies. The paper concludes with some potential policy implications for development planners, notably a shift away from the notion that national staff expenses are nothing but costs that need to be reduced.

Key words: aid effectiveness; national staff; poverty; unintended effect; foreign aid agencies

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Introduction

Volumes of thick books have been written on whether aid works (e.g., contributes to poverty reduction), yet the jury is still out (Riddell, 2008; Easterley, 2007; 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.

The article focuses on the often overlooked wage (remuneration) effect of international aid. Certainly in a period where aid agencies increasingly employ national staff¹, this is a timely subject to investigate. Naturally, aid agencies have different reasons for employing national staff, ranging from the idea that their local knowledge is crucial for the programmes they implement and the fact that national staff are more readily available due to increasing education levels to the fact that national staff is generally cheaper than expatriates.

Hundreds of thousands of national staff of foreign funded agencies depend for their living on this remuneration. By employing these individuals, international donors have unknowingly impacted millions of individuals and their kin. This research focuses on whether this part of aid is actually contributing to poverty reduction by looking at the effects of employment of local staff in foreign aid funded agencies on these staff members and on their dependents. If this is better understood, a new dimension on measuring effects is opened up, which at its turn can effect on how development interventions are planned.

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 theorised nor analysed systematically (Leenstra, 2017) (Kamanzi, 2017). This articles attempts to fill this gap by (1) providing an analytic overview of various (potential) effects of the employment provided by foreign funded agencies; (2) analysing the structure of foreign aid funded employment sector for national staff, with a focus on remuneration; (3) exploring the size of this labour market national staff; and (4) debating potential policy recommendations and ends (5) with a conclusion.

The paper use two methodologies to map these unintended poverty effects. Firstly, a thorough review of existing academic literature has been undertaken to understand potential poverty effects. Secondly, an analysis of financial and narrative statements of international aid agencies was done to provide more detailed information (henceforth referred to as the ‘desk research’).

In the fourth section it is debated what the potential policy implications of the findings could be. It is argued that employees ought not to be only seen as an ‘overhead expense’, but can be considered as an

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.

additional opportunity to contribute to the social mission of these organisations. The section proposes to open possibilities for national staff to accumulate assets. In addition, it suggests to invest more in human resource development of national staff as to stimulate upward-labour mobility. Lastly, it advises to invest more in the education of offspring of national staff, as to enhance the spill-over effects.

1. Potential effects of working for foreign (funded) agencies

Notwithstanding the fact that national employees are generally paid less than their foreign counterparts (but often more than their colleagues in local employment), such employment might have substantial positive effects at the individual level. However, there might also be more distorting effect at the macro-level. To categorize the various potential effects we developed a typology for the various effects: individual level-, spill-over, and macro-level effects.

In this typology the explicit focus is on the poverty effects. There are a host of effects of this foreign funded employment that fall hence outside this typology. Individual level effects that are for instance not directly affecting poverty could be values and behaviour that local aid workers are exposed to and that they may internalize. These are the socialisation and homogenisation effects of western norms and education on local organisations and their national employees. Because of various pressures (e.g., funding), local organisations and their employees increasingly imitate their funding agencies and their employees (Kamstra & Schulpen, 2015). Uniform HQ-driven trainings do not only influence the language used by national staff, but also their perception of the world, its problems, and the kind of solutions available to these problems (ibid: 346). To illustrate this effect on values and behaviour, the degree to which national staff is politically active can be assessed. International NGOs are often ‘de-politicized, and staff members are not expected to be politically active (Banks, Hulme, & Edwards, 2015). Regularly strong leaders of civil society movements are integrated as staff members in international NGOs, and cannot longer 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 poverty level effects.

1.1 Individual level effects

Poverty effects at the individual level can be subdivided into various forms of capital: financial, social and human capital. Financial capital refers to both the income and the economic assets of individuals. Social capital we take here as referring to the links, shared values and understandings in society that enable individuals and groups to trust each other and to work together (Organization for Economic Cooperation and Development, n.d.). Human capital are the skills, knowledge, and experience possessed by an individual or population, viewed in terms of their value or cost to an organisation or country. Employment

in foreign aid funded agencies might then impact these various forms of capital at the individual level as follows:

1.1.1 Financial Capital

The financial effects are mostly positive, as the remuneration in the aid-sector are generally higher than in other sectors (Carnahan, Gilmore, & Rahman, 2005). These direct remuneration effects can occur for national staff in local NGOs which are funded by external aid funding, in international NGOs, 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 play a role. Besides: another more informal financial effect of being an employee of an aid-funded agency is possible: illicit financial payments extorted from amongst others suppliers.

1.1.2 Social capital

In the social capital literature, two main types of the concept are often mentioned: bonding social capital and bridging social capital. Bonding refers to the value assigned to social networks between homogeneous groups of people and bridging refers to that of social networks between socially heterogeneous groups (Woolcock & Naraya, 2000). Foreign funded agencies can have – through their employment – a positive impact on bridging capital, as it often brings together staff from different continents and different cultural backgrounds. This increase in bridging social capital might enable individuals and groups to trust each other and so work together.

A particular manifestation of this bridging social capital are the long-term friendships and relationships that emerge between expatriate and local workers. 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, remittances). The long-term welfare effects of these intermarriages are another interesting unintended effect of international cooperation that merits to be investigated further.

1.1.3 Human capital

Just as in the case of financial capital and bridging social capital, also an increase in human capital is a likely effect of employment in a foreign (funded) agency which can have an effect on the poverty levels. Besides the abovementioned trainings, there is the accumulation of experience of being employed in the formal sector. This experience and trainings are consequently used to gain rewarding employment when the organization leaves (Carnahan, Gilmore, & Rahman, 2005).

1.2 Spill-over effects

Next to these direct individual level financial, social and human capital effects, there are also effects that go beyond the national staff and flow over to his or her surroundings (Carnahan, Gilmore, & Rahman, 2005). These spill-overs are often referred to as secondary effects. Kamanzi (2007) has identified how local district officials in Tanzania received aid-funded stipends, which were invested in a highly relevant way in incoming generating activities for their retirement: investment in their housing, their plots and livestock. These positive effects had a trickledown effect on their family: hence, the aid had most definitely had effects on financial capital accumulation, but not only as anticipated or intended. The financial spill-over effects can accrue both to children, family and other relations of the national staff.

In addition to financial spill-over effects there are also social-capital spill-over effects. Studies that researched the hiring practices of national staff of international NGOs have highlighted how nepotism are a serious risk in recruitment process (O'Sullivan, 2010). Often, if a family member is working for an aid-funded project, there is a pressure on him or her, to arrange an internship at this or connected organizations, which is often the crucial entry into this foreign-funded aid pyramid explained in section 2.

Besides financial capital and social capital spill-over effects, there are also human capital spill-over effects. Often these unintended effects don't occur simultaneously with the intervention, but occur afterwards and are hence diachronic (Jabeen, 2017). In follow-up research Kamanzi (2017) 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 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 social-economic status in one generation due to human capital accumulation.

1.3 Macro-level effects

Various effects of this 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 labour market in the long run (3) inflationary pressures on amongst other wages (Ammitzboell, 2007). Unfortunately, most of those unintended macro-level effects are negative, and they tend to offset at least partially the unintended positive effects at the individual level

One of the most often cited effects is the reduction of state capacity in the short run (ibid; 76). This situation arises when a high paying international agencies enters into a depressed labour-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 organisation could earn three times as much as a Minister. The effect may be that transitory organisations reduce the capacity of more permanent local institutions (Hariss, 2006). The latter

then falls under what Archarya et al. (2006: 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 run effect, but has long-term repercussions. Once national staff has worked in the environment of an international organization, with its airconditioned offices, 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, p. 36).

A last macro level effect are related to the inflationary pressures on wages and other domains of life. The inflationary effects on wages of international aid funding is particularly pronounced when a UN mission is involved. 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 Management Office, 2016). Other aid agencies often peg their salaries to the UN salaries, leading to a large increase of wages. This at its turn leads to inflationary pressure on amongst others rent in the cities with a high prevalence of UN agencies (especially since this also implies often many expatriates). In some instances, this forces the local middle class to leave the city (Büscher & Vlassenroot, 2010).

All the above (potential) effects are relevant to study. This research, however, focuses on the effects on financial capital both for the individual staff member and his or her dependents (i.e., individual financial capital effects and spill-over effects). These remuneration effects are most directly related to the overarching aim of development aid: poverty reduction. However, in the final discussion and conclusion we will return to these negative unintended macro-level effects as to put our findings into perspective.

2. The structure of the foreign aid funded labour market for developing country nationals

2.1 The pyramid of the foreign aid funded labour market for developing country nationals

To understand the unexpected escape out of poverty the structure of the aid funded labour market for developing-country citizens needs to be understood. While analysing both the relevant literature and the financial and narrative statements of the aid agencies an employment pattern emerged. Time and again the structure of the aid-funded labour market for national staff manifested itself in the form of a pyramid. Therefore we argue that the foreign funded labour market for national staff could be represented by this figure.

Figure 1 Foreign aid funded labour market for developing country nationals



Source: own data (estimates)

Quite some 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 gaps 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 differences between national staff, depending on the type of organisation they work for. The foreign funded labour market for national staff can be explained by a financial analysis of an aid chain in a developing country, in this case the Democratic Republic of Congo. The data in this example are based on real figures of 2012, but not necessarily representative for all foreign funded agencies in the DRC or beyond.

At the top of the pyramid is a national of a developing country who is working as an expatriate in another country. In this example a Togolese national is working on a P-4 UN contract, e.g. as a Head of Unit of UNICEF, in the provincial capital of Bukavu (DRC). If he/she has one dependent and a couple of years of experience he/she will receive tax-free about 13,000 USD per month (excluding schooling and rental allowances).²

² United Nations Common System Of Salaries, Allowances And Benefits (2012) shows a base salary of approx. 80,000 USD for a P4 with some experience (<http://icsc.un.org/resources/pdfs/sal/sabeng12.pdf>). The multiplier for the DRC was approximately 60% according to the Consolidated Post Adjustment Circular 20120 (<http://icsc.un.org/resources/cold/par/class/archived/jan2012b.pdf>), hence 48,000 USD. Hardship allowance and mobility allowance are approximately 28,000 USD. Making the total salary 156,000 USD (13,000 USD per month)

At a second layer of the pyramid are the national staff working for UN agencies. For instance, the local senior policy officer to the abovementioned Head of Office will receive approximately 3000 USD per month tax-free (excluding schooling, rental and transport allowances), still a formidable salary by local standards.³ There are more national staff of the UN than international staff in a country such as the DRC, hence the pyramid is already somewhat broader.

The third layer in the pyramid are those national staff members working for international NGOs to which UN-agencies provide funds to implement projects. The salaries in these organisations are not standardised, but in 2012 a typical head of program in European or American NGOs would receive a net earning of anything between 1000 and 2000 USD per month (excluding schooling, rental and transport allowances)⁴. There are over a hundred of these NGOs active in the DRC, with thousands of local staff.

The last layer of the pyramid are local staff members working for local NGOs and CBOs (Community Based Organisations). An international partner of UNICEF often works with local structures to implement the project. There are hundreds of those local structures in the DRC, some of which are depending on contributions of their members alone (hence hardly offering a salary for their staff), but most of them with more diversified funding from aid agencies. For instance, in a UNICEF funded project, which is implemented through the international NGO, the local manager of the local NGO could typically expect a salary between 250 and 500 USD.

Looking at the number of people that can be lifted out of poverty through the direct remuneration effects, this final layer of the pyramid is the most relevant category. National staff working for local NGOs and CBOs often live close to or around the poverty line in countries such as the DRC. If they receive a steady allowance from the local NGO or CBO, they could be lifted out of poverty. The spill-over poverty effects would – assuming that the staff member would share his or her wealth with kin - however be much higher for the top-end of the pyramid: with a UN take-home salary of 13,000 USD a month many more family members can be sustained and lifted out of poverty than with the local NGO salary of between 250 USD and 500 USD. Most poverty effects can be achieved if a local staff succeeds in entering the aid pyramid at the bottom and during his/her career moves up the aid pyramid. In that case he/she first succeeds in overcoming his/her own poverty and while reaching towards the top of the pyramid he/she can now start spreading the wealth to his/her kin.

This pyramid structure of the foreign aid funded labour market indicates that there are potential significant differences in direct remuneration effects. Between the Togolese expatriate in Bukavu (13,000 USD a month) and the manager of the local NGO (between 250 and 500 USD) there is a remuneration differential between a factor of 26 and 52. The foreign funded labour market for developing country

³ http://www.un.org/Depts/OHRM/salaries_allowances/salaries/demrepco.htm

⁴ Estimation based on internal pay scale of international NGO, partner from UNICEF. Available on request

nationals is highly stratified, and the remuneration 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 poverty effects are enormous, and comparable to the economics effects of successful migration (Collier, 2014).

2.2 Getting into the pyramid – the local NGO as an entry point

Understanding better the local NGOs (and CBOs and other donor funded organisations) is key to understand to poverty effect that might exist. The direct poverty effects are less for those who work for UN- and donor agencies and international NGOs. Those organisations recruit mostly university educated citizens that are (no longer) poor. However, local NGOs often recruit people with a high-school degree only. Despite their degree, they are still living close to or on the poverty line. Swindler and Watkins (2009) dub this the group of people from whom those local NGOs recruit the ‘aspiring elites’. Those ‘aspiring elites’ are most likely to be those who benefit from the increased opportunities of work in foreign funded local initiatives and see it as a way out of poverty and an entry to the formal labour market.

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. The aspiring elites are secondary school graduates in a country where only a minority achieve this status; almost all can speak and write English, which also distinguishes them from most in the rural areas. Understandably, they—and their relatives, and neighbours—expect them to have a “bright future.” But the defining feature of these interstitial elites is that despite their education and their aspiration to fulfil their families’ hopes their lives are precarious. 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. (Swindler and Watkins; 2009; p.7)

These aspiring elites have various strategies to enter this formal economy in one of the field offices of the international NGO or a local NGO, such as following workshops and trainings provided by international NGOs where they can learn the terminology used by international actors (and get certificates), or become a volunteer for the international NGO in the hope to establish the right network, or set up a local structure that might receive a cash grant.

2.3 Foreign aid funded remuneration effects outside the pyramid

There are also foreign aid funded direct remuneration 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 countries (hence, outside this pyramid). They did this either rather directly through sectoral programming in for instance the health and education sector, or indirectly, through general budget support (e.g. (IOB Operations and Evaluations Department, 2011). In the health sector, donors were active for instance in health worker retention schemes. These foreign funded schemes (for instance in Zambia and Ghana) provided a top-up in salary and other benefits for doctors to work in rural areas (Gow, George, Mwamba, Ingombe, & Mutinta, 2013;1).

Leenstra (2012, p.301) highlights the direct remuneration effects of these types of programs in Zambia and he noted 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 policies and investments in questions, but these achievements are not dead-weight losses *per se* [...], in fact this has contributed to the further formation of a Zambian middle-class’ (Leenstra, 2012).

It is not easy to determine if most direct remuneration 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 of this pyramid). However, this commitment to make more use of the government systems of developing countries and reduce parallel systems has not really materialized (Organisation for Economic Cooperation and Development, 2011). It could be assumed that the pyramid is still very much a reality.

3. The size of the foreign aid funded labour market for national staff

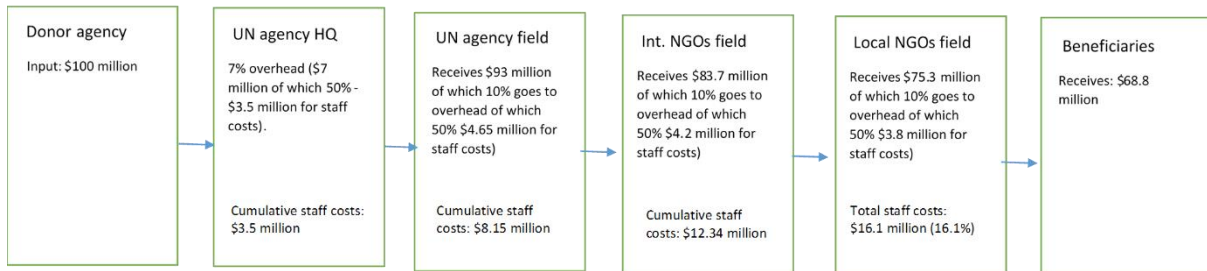
3.1 What is the size of the foreign funded labour market for national staff?

More than 130 billion of USD is spent on development assistance annually according to OECD/DAC Statistics. It is a challenge to determine how much of this funding is spent on salaries of developing country nationals. Yet, we know that in a typical aid chain there are four steps between the donor and the beneficiary: (1) the donor-agency or UN-agency at HQ level (2) the international donor agency at the developing country level; (3) the international NGO (or developing country government) in the

developing country and (4) the local NGOs. Sometimes one of those steps is cut out, leaving only three steps (e.g. in bilateral programming). An overview of such an aid-chain be found in Figure 2, and the calculation is based on a fictitious aid program of 100 million USD.

Figure 2 Size of the foreign aid funded labour market for national staff – stylized aid chain

Source: own data



Whereas the first step (at HQ) mostly involves staff that is not from developing countries, the desk research indicates that steps two to four (in the field) are dominated by national staff (see annex 1). As a rule of thumb in every of those steps, except for the HQ step, agencies are entitled to use approximately 10% for their own costs. It is safe to assume that about half of this 10% goes to salary costs (5%). In this stylized example, about \$16.1 million of the \$100 million is paid on staffing costs, of which the majority on national staff. To be conservative, we could argue that only half of the staffing costs, goes to national staff: \$ 8 million of the \$ 100 million (8%).

Assuming, that of the \$130 billion of aid funding, actually \$65 billion is actually spent in development programming (the rest being spent in developed countries on asylum seekers reception, debt reduction etc.). Of this \$65 billion, this research suggests that 8% is spent on national staff costs: \$5.2 billion. As a comparison, all donors in the world spent 5 billion USD on water and sanitation in 2014 (Organisation for Economic Cooperation and Development, 2016). This suggest that actually more aid is spent worldwide on national staff remuneration than on one of the key sector of development aid, water and sanitation. This is not necessarily bad, but it highlights the importance of understanding better what the impact of this remuneration of national staff is. While volumes are written on the effectiveness of water & sanitation aid, very little is known of the effects of the remuneration of national staff.

Another method to determine the size of the effect of national staff remuneration 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 labour market pyramid shown above, as detailed financial and employment information are readily available. At the top end of the labour market are the donor agencies and the UN agencies (and within that strata the expatriate jobs were the premium jobs). The middle of the pyramid consists of the international

NGOs, and the bottom of the pyramid the local NGOs/CBOs. In the following paragraphs the size of the various layers of the pyramid will be analysed, from the top down.

3.2 UN- donor agencies and international NGOs

Our 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 a 1000 national staff are included; which leads to 9 organizations being included

The peacekeeping missions are a special case: the soldiers that are part of the mission can only take home a part of the extra earnings of participation in a peacekeeping mission. E.g. a Ghanaian soldier on a mission in Sudan will receive a deployment bonus from his government (in this case 20 USD a day in 2005), but the UN will pay 32 USD (2005) per day to the government of Ghana. The remuneration effect for the Ghanaian soldier is still significant and bribes sometimes need to be paid to send on such missions.⁵

The International NGO's (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 show 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 organisations, notably organisations from Bangladesh that were successful domestically, and have now branched out globally, such as BRAC and Grameen. Also an organisation such as the Aga Khan Development Network which might be less known, but still employs around 70,000 national staff as nurses and teachers. A total of 27 international NGOs were included in the sample; only those with more than 1000 national staff.

⁵ 'Those who have managed to invest their peacekeeping funds profitably have subsequently purchased plots of land, built houses, purchased household goods and generally sent their children to better schools and improved their standard of living. Being chosen to participate in peace operations has become synonymous with an improvement in one's standard of living. This leaves no doubt that the process of getting selected is competitive [...] it is not surprising that the officers of the Ghana Police Service (GPS) who serve under the United Nations equate their service and its remuneration as a "goldmine" [...] But such opportunities for improved earning power also open the potential for corruption in the selection of officers for such UN peace operations. Allegations of favoritism, nepotism and lack of transparency in the selection processes have already started to emerge (Aning, 2007, p.140)

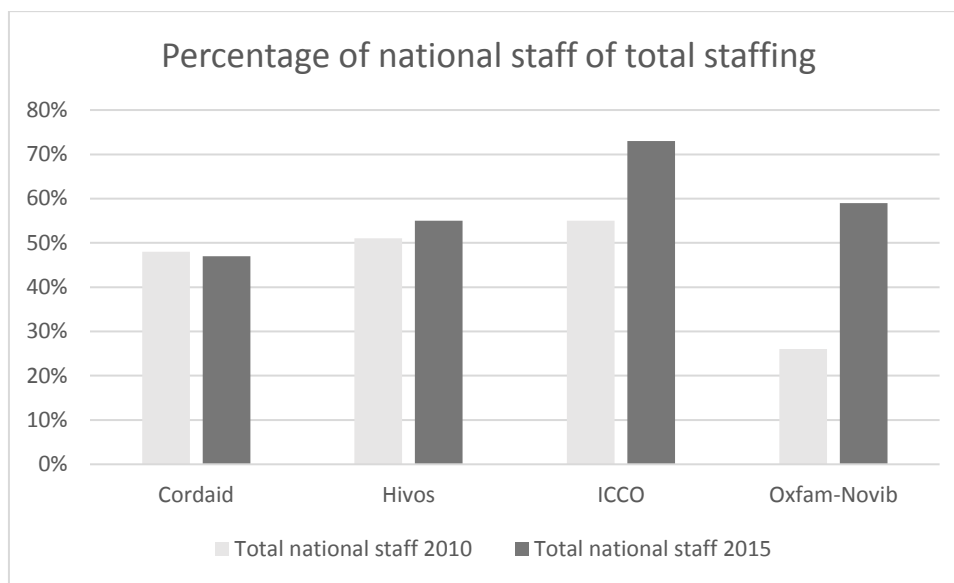
Table 1 Foreign aid funded agencies and national staff (2014)

Type of organisation	Total number of staff	Number of national staff
Subtotal donor agencies	202,258	118,541
Subtotal international NGOs	457,455	419,107
TOTALS	665,713	537,648

Source: own data full details can be found in Annex 1

It is interesting to note that the relative share of national staff in international NGOs appears on the rise. A numerical analysis of the distribution of staffing of the four largest international NGOs from the Netherlands in figure 3 indicates for instance that the share of national staff based has increased significantly in two out of the four cases.

Figure 3: Localisation of composition of international NGO staff



(Adapted from Schulpen (2016))

These staff changes reflect not only the changing financial position but also (and more importantly) changes in the organisational structure: some of the international NGOs have chosen to opt for a systemic decentralisation strategy. Hivos, for instance, has continued and speeded up its decentralisation to regional and country offices as did Oxfam Novib and ICCO. Staff at HQ is laid off and in the regional offices, mostly national staff takes over these functions. This is important in the context of this study as it indicates that national staff are playing an increasingly important role in development cooperation, and consequently that the unintended effects of their remuneration are a relevant topic to study.

3.3 Local NGOs

Yet, the largest group of foreign funded organisations and initiatives are the national NGOs and local CBOs. While it is already hard to determine the number of these organisations that exist and are (partially) foreign funded, finding out how many employees they have and what they are paid is an even more hazardous task. Yet, in the section on the structure of the labour market, at the bottom of this international funded system, most direct poverty effects could be expected.

The number of these (partially) foreign funded organisations in developing countries is quite staggering. The example of Tanzania is quite interesting, as it is one of the few countries where a dozen of donors have set up a joint fund for their work with local NGOs and CBOs, the Foundation for Civil Society. This enables to get a clearer picture of at least the partners of these donor countries. In 2013 they received 3307 requests from distinct local organisations for funding (of which 549 were approved) (Foundation for Civil Society, 2015). In a decade, the foundation provided local structures with over 4000 grants. Even though some organisations might have received two or more grants, it is clear that in a country such as Tanzania, it is safe to state that thousands, and not hundreds, of local NGOs are receiving foreign funding, a part of which is used for salaries.

Since Tanzania is, or at least used to be, a (NGO) donor darling (Koch, 2009), the data can't be extrapolated to all developing countries. Having said that, since there are multiple of those (erstwhile) donors darlings, such as Kenya, Ghana, Uganda, Mozambique and Nicaragua, a conservative estimate would be that there are tens of thousands of those local structures worldwide that receive external funding. The number of national staff of these local structures ranges from 0 to up to over 10,000 employees, as the example of Bandhan (a donor-funded micro-finance institution in India shows).⁶ Especially micro-finance institutions provide significant numbers of jobs, as organisations such as Proshika and ASA in Bangladesh indicate. The central tenet of this paper is that if one researches the poverty effects of for instance micro-finance institutions such Bandhan, it is also important to determine how it has affected the 13,372 employees of Bandhan and their dependents.

With such a lack of clarity on the number of local (foreign aid funded) organisations and their average number of national staff, it is impossible to determine the number of staff affected with certainty. However, an estimated guess – with a wide margin of error – would suggest that the ballpark figure would be at least a million of national staff. If in the case of Tanzania already thousands of distinct organizations have received funding, it is safe to assume that this would be in the tens of thousands worldwide. Even if these organisations would on average only have 25 staff members (which is possible with large micro-

⁶ Bandhan has 13.372 employees according its website www.bandhanmf.com/bn_default.aspx accessed on December 4,

finance institutions being among them) this could add up to 1 million national staff members (25 staff members * 40.000 organisations).

3.4 The counterfactual scenario – the remuneration gap

While it is important to understand the size of the foreign aid funded labour 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 research (Carnahan et al; 2007) has taken as a starting point that the counterfactual ought to be employment in the public sector. They compared the second layer of the pyramid to remuneration at an equivalent level in the public sector. In all cases the remuneration paid by the United Nations mission are considerably higher than those paid by the national government. In addition, UN missions generally pay their salaries regularly and provide a significant benefits package — often including access to health care — both of which make them a more preferred employer to the public sector.

Table 2 Comparison between Government and United Nations Monthly Remuneration

Comparison between Government and United Nations Monthly Wages		
	UN mid-level	Government (equivalent)
Timor-Leste	\$ 210	\$ 123
Kosovo (2004)	€ 790	€ 145
DRC (2005)	\$ 763	\$ 25
Liberia	\$ 578	\$ 25
Burundi	\$ 558	\$ 40
Sierra Leone	\$ 363	\$ 40
Haiti	\$ 626	\$ 238

Source: Adapted from Carnahan, Gilmore, & Rahman, 2005; p. 32

4. Potential policy implications

Until now, staff expenditures are often seen as an expense that needs to be cut (Brandt, 2013). This paper however suggests that national staff costs can also be seen in a different light and could also be seen as contribution to the overarching objective of the development intervention.

The literature review and desk research highlight a clear trade-off between individual level effects and their spill-over on one hand, and macro-level effects at the other hand. Whereas the unintended effects with respect to poverty are largely positive at the individual level, the contrary is the case with the macro-level effects. Inflationary pressures, a distortion of the labour market and weakening of state structures

dominate at the macro-level. When aiming to develop policy recommendations it would be important to find a ways that would increase the positive individual level effects, while avoiding the negative macro-level effects.

Since poverty effects are highest at the bottom of the pyramid, employment policies of national staff ought to focus on those, especially in sectors that are not in competition with the public sector, such as micro-finance. This will minimalize the negative ‘vacuum cleaning’ macro-level effects. In addition, it is argued that the wages offered ought to be market-driven and not too high, to avoid inflationary pressures (Carnahan et al.; 2005).

Large-scale semi-skilled national staff employers, e.g. micro-finance institutions, can do more to strengthen the access to financial and human capital of their national staff, and stimulate more spill-over effects. Firstly, it might be interesting to financially stimulate employees to take mortgages, life- and other insurances. Secondly, it might be important to offer these national staff the chance to accumulate their human capital. This extra human capital might allow them to grow within the organization. This would enable them to –after having overcome their own poverty – contribution to poverty reduction of their kin. Lastly, employers could do more to stimulate the spill-over effects of their employment. For instance it would also be advisable to create ample opportunities for children of national staff to complete at least secondary education, through for instance education allowances. These potential extra efforts to strengthen the poverty effects of employment don’t necessarily have to cost the employers significant financial investments.

This paper has highlighted the large number of national staff of aid agencies. This indicates a lacklustre implementation of the Paris Agenda for aid effectiveness in which donors committed to make more use of country systems. This pledge has been reiterated at the High Level Forum of Aid Effectiveness II in Nairobi in 2016 (Global Partnership for Effective Development Cooperation, 2016). Parallel systems are still temporarily necessary in fragile environments and in situations with weak local capacities, but more effectiveness can be achieved by incorporating these national staffers progressively in national systems. Hence this paper doesn’t only argue that large-scale semi-skilled national staff employers should do more for their employees, it also argues that those designing the aid architecture should continue to progressively mould the aid-pyramid to more cost-efficient national solutions.

5. Conclusion

The paper has argued that there is a multi-billion sector within the aid-sector that has escaped attention of virtually all researchers and evaluators: very few have analysed the effects of all this funding on the

national staff of all these foreign funded agencies. It has demonstrated that this is an omission as there are effects on financial, social and human capital.

The paper provides an overview of the structure of the foreign funded labour market for national staff and shows it is pyramid shaped. Focusing on financial capital, this paper argues that most poverty effects can be found at the bottom of the foreign funded labour market of national staff: the staff working for local NGOs and CBOs. It also highlights that while direct remuneration effects are highest at the bottom of the pyramid, the spill-over effects are higher when national staff succeed in climbing the steps of this pyramid.

When analysing the size of the foreign aid funded labour market, the paper has to contend with various estimations as it concerns a preliminary inventory. It shows that more than 500,000 national staff are employed by UN-agencies and international NGOs. While data become scarcer when moving down to the bottom of the pyramid, the number of foreign aid funded employees is probably exceeding 1 million in local NGOs and CBOs. It is noteworthy that their remuneration also spills over to family, friends and children over time. The amount of remuneration that these national staff receive could surpass 5 billion dollars annually, as figure 2 indicates. This funding is potentially positively impacting millions of people in developing countries, but there are also negative macro-level effects that merit attention. These effects are unintended and often overlooked by regular evaluations and needs to be incorporated when analysing the effects of aid.

What does this mean for agencies employing these hundreds of thousands of national staff? This article argues that national staff ought not to be seen as a mere expense that needs to be reduced. These organisations need to be very mindful how they can minimize negative macro-level effects, and what they can do more to enhance the positive poverty effects of their national staffing policies.

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

Type of	Name organization	Total number of staff	Number of national
UN- and donor agencies	UN peacekeeping missions	116,490	63,600
	UN-agencies	44,000	26,400
	GIZ	16,410	11,260
	Worldbank	11,933	7,279
	USAID	9,782	4,498
	Asian Development Bank	3,105	1,698
	DFID	2,852	1,484
	JICA	1,845	1,107
	African Development Bank	1,841	1,215
	Subtotal donor agencies	202,258	118,541
International NGOs	BRAC	111,252	111,252
	Aga Khan Development Network	80,000	69,600
	World Vision	45,000	42,750
	MSF	35,000	29,400
	Save the Children	27,000	21,600
	Association for Social	20,259	20,259
	Partners in Health	18,000	17,640
	Grameen Foundation	13,000	13,000
	ICRC	14,506	11,000
	Oxfam	10,000	8,700
	FINCA	10,000	8,700
	CARE	9,000	7,830
	IRC	8,000	7,520
	Plan	8,000	6,960
	Action Against Hunger	7,133	6,113
	Danish Refugee Council	6,000	5,262
	World Wildlife Foundation	5,000	4,850
	One Acre Fund	4,300	3,741
	Medecins du Monde	4,121	3,585
	Mercy Corps	4,000	3,400
	FHI360	4,000	3,800
	Concern Worldwide	3,513	3,181
	Handicap International	3,146	2,462
	IRD	2,090	1,818
	Food for the Hungry	2,000	1,800
	Islamic Aid	1,759	1,686
	Gates Foundation	1,376	1,197
Subtotal international NGOs	457,455	419,107	
TOTALS		665,713	537,647

Source: annual reports and annual financial statements of organisations, full referencing available