6

The Effects of Aid on Politician Spending Behavior

> Sometimes I feel that the government officials are very busy. They are managing different donors, so it is like they run from one meeting to another . . . So maybe that is their job, but it feels too stretched. They cannot think, they do not have time.
>
> – Portfolio coordinator for a bilateral donor in Malawi[1]

> [Influence] goes the other way around. We present the things that we think are important and we hope to steer MPs to go in that direction.
>
> – Portfolio coordinator for a multilateral donor when asked about the government's influence over donors.[2]

Much of this book has focused on ways in which politicians influence donor decisions; however, as the above quotes illustrate, donors also influence politicians' decisions. To better understand these effects, this chapter looks at the case of education spending decisions in Malawi. In a series of experimental interventions, I examine how foreign aid information and donor oversight change the way in which MPs and councilors in Malawi allocate resources to primary schools in their constituencies. I also examine survey data on what politicians know about donor activities in their constituencies.[3]

[1] Interview A3, see Appendix B.

[2] Interview A4, see Appendix B.

[3] Much of the research described in this chapter was conducted in collaboration with Brigitte Seim and Johan Ahlbäck. Figures 6.1 and 6.2 are reprinted from *Journal of Development Economics*, vol. 146, Ryan Jablonski, Brigitte Seim, and Johan Ahlbäck, "How information about foreign aid affects public spending decisions: Evidence from a field experiment in Malawi", Copyright (2025), with permission from Elsevier. Versions

https://doi.org/10.1017/9781009789127.006 Published online by Cambridge University Press

The results illustrate important ways in which donors change politicians' policy decisions. First, I demonstrate that politicians often lack policy-relevant information about what donors are doing in their constituencies. While most politicians meet donors and almost all claim to consider what they do, the scale, complexity, and opacity of donor activities make it hard for politicians to stay abreast of what donors are doing in their communities. Politicians especially struggle to identify funds from major donors and often know more about donor activities in more proximate and populous areas. Second, I show that what donors do affects policy incentives. When politicians are experimentally assigned more accurate information about donor activities, they alter their spending decisions. Politicians in this study reallocated resources away from those communities where donors have existing projects. I provide evidence that this displacement, is motivated by concerns about equity and efficiency.

I begin by describing three mechanisms by which donors might impact spending policy: through oversight, displacement, and information. I will then test each of these mechanisms in the empirical tests.

6.1 HOW DOES FOREIGN AID AFFECT SPENDING POLICY?

6.1.1 Donor Oversight

If you are a government minister in an aid-dependent democracy, you are probably very worried about what donors think. Your ability to get things done, or distribute resources to your supporters, is highly dependent on donors' willingness to provide resources. Knowing this, donors often condition the delivery of aid – particularly budget support – on governments' implementation of particular policies. Famously, this conditioning of aid has played a role in incentivizing several governments (including Hastings Banda's government in Malawi) to hold elections, and several scholars have argued for a general effect of aid conditionality or donor oversight on democratization.[4]

of figures 6.3, 6.5, 6.6, 6.7, 6.8, and 6.9 were originally published by Cambridge University Press in Jablonski and Seim (2023). They are republished here under Creative Commons License CC BY 4.0. A preanalysis plan (PAP) for the experiments described here is available at https://osf.io/kazfp.

[4] Resnick and Van de Walle 2013; Dietrich and Wright 2015; Gibson, Hoffman, and Jablonski 2015.

https://doi.org/10.1017/9781009789127.006 Published online by Cambridge University Press

But donor oversight also plays a role in more prosaic policy decisions. For instance, in 2014, most donors cut off budget support to Malawi due to the "Cashgate" scandal which involved the siphoning of millions of dollars from public budgets through fraudulent and hidden financial transactions. Since budget support had funded between 30 and 50 percent of government activities, this action was a severe blow to the government and likely contributed to the downfall of then incumbent Joyce Banda.[5] Since Cashgate, donors have used the promise of budget support as a way to coerce the government to make certain policy reforms, especially around public procurement.

Controversially, some of these proposed reforms have been contrary to the interests of the government. In 2016, for instance, President Peter Mutharika was purportedly planning to veto a freedom of information bill (the "Access to Information Bill") after it had been passed by Parliament out of concerns about the scope of its provisions. At this point, according to several reports, representatives of the European Union renewed threats to not resume budget support if the bill was not allowed to proceed. While denying that his decision had anything to do with donors, President Mutharika changed his opposition to the bill and signed it into law. In recent years, donors have also conditioned aid on reforms to Malawi's Farm Input Subsidy Program and various reforms to Malawi's financial management systems.[6]

It is often the case that these conditions do not have to be explicit. As I show earlier in this book, politicians' ability to deliver for their constituents depends a lot on the cooperation (and possibly friendship) of donors and NGOs. As a more senior official, having a good relationship with donors means that you have a seat at the table in a lot of important donor decisions that might affect your constituents. It also may mean that you can call on donors when you need support for a particular development initiative. This may mean that politicians are much less likely to act opportunistically when they know that donors are watching.

Politicians in Malawi often told us about their worries about offending donors. On the positive side, politicians sometimes talked about how donors put a check on mismanagement. One councilor told us: "If the donor is involved all the way, the greedy politicians become afraid to intervene in the project affairs, afraid of the donor and worried that can be exposed."[7]

[5] Seim 2015.
[6] Khamula 2016; Chilunga 2016.
[7] Appendix B, interview B5.

https://doi.org/10.1017/9781009789127.006 Published online by Cambridge University Press

However, there is also a dark side to this oversight. In interviews, politicians sometimes discussed their reticence to question decisions that donors had made about development, even when those decisions were poorly made. One councilor said: "We cannot question or refuse development that comes into your area even if the type of development that the NGO is bringing is not what you are looking for."[8]

As these quotes illustrate, it is possible that donor oversight could be good or bad for development. On one hand, if donors use their influence to deter corruption and motivate more effective spending behavior, then this could incentivize more effective government performance, and indeed some evidence suggests that donor oversight reduces corruption and patronage.[9]

On the other hand, some have argued that these reputational concerns might cause politicians to be more interested and concerned about what donors want than what their constituents want.[10] As I noted in Chapter 2, it seems likely that politicians sometimes trade-off legislative or citizen-focused activity for investment in donor relations. As the anecdote above illustrates, it is also possible that politicians start to abrogate the responsibility to monitor development activities out of a concern about offending donors.

If indeed there is a trade-off between top-down (donor) accountability and (bottom up) citizen accountability, then it is quite possible that donor efforts to monitor and coerce politicians – even with the best of motivations – could undermine democratic accountability. Additionally, as I argued in Chapter 3, constraining politicians' decision-making is often bad for accountability. If voters believe politicians have very little agency vis-à-vis donors, this will make it harder for politicians to build a reputation for effective accountability. If so, donors may inadvertently fuel the very corruption and poor performance they try to deter.

6.1.2 Displacement and Fungibility

One of the more long-standing criticisms of foreign aid is that it has the potential to displace government spending, or be "fungible."[11] To

[8] Appendix B, interview B6.

[9] Gibson, Hoffman, and Jablonski 2015; Resnick and Van de Walle 2013; Wright and Winters 2010.

[10] For example, Mkandawire (2010).

[11] Fungibility refers more generally to the potential for revenue to be exchangeable. The displacement effects I study in the experiment are one manifestation of fungibility.

https://doi.org/10.1017/9781009789127.006 Published online by Cambridge University Press

illustrate, consider what might happen if a donor invested in refurbishing school buildings in some politician's constituency. The politician might reason that at least some of the existing government budget for school refurbishment would be better spent on some other priority like teacher salaries and adjust the budget accordingly.

If so, the net effect of the donor's investment in school refurbishment might actually be a reduction in school quality. Once the displacement of the government's spending is taken into account, it is possible that the donor's project will have very little effect on the outcome the donor intends.[12] Consistent with this displacement effect, many empirical studies have shown that governments appear to shift their spending behavior away from sectors or areas that benefit from foreign aid.[13]

Politicians in Malawi indeed seem to consider what donors are doing when they make spending decisions. As noted in Chapter 2, more than 90 percent of surveyed politicians said they "consider what donors and NGOs have done for an area" when making decisions about development. In interviews, some officials note specific ways in which they adjust their policies. As one District Commissioner explained:

> [I]f a donor just says we want to come to village A or B and maintain teacher houses. The question would be to see if it falls under the District strategic plan .... The tricky bit about it is that we have needs but amongst the needs there are priority needs. The challenge now comes that we can't deny a project from a donor because it's not number one on our list .... if UNICEF say want to construct a toilet, we wouldn't say don't come because you will disturb our development plan. We would still let them come, say this was number 4 on the priority list then we knock it off the list and still seek to address 1, 2 and 3. In this way, they are not influencing for us to change but rather helping us address the problems that we have.[14]

The reason why many development scholars and practitioners worry about displacement and fungibility is that it might cause funds to be used ineffectively. To illustrate the problem: Suppose that this official instead of investing more in priorities 1, 2 and 3 instead decided to reallocate the government funds from toilets toward political patronage or corruption

[12] Alternatively, fungibility could go the other way: Some argue politicians may choose to spend in line with donors, either because they view donor spending as a kind of endorsement, or because of there are complementarities in government and donor investments (Hines and Thaler, 1995). These are sometimes called "flypaper" effects.

[13] Feyzioglu, Swaroop, and Zhu 1998; Walle and Mu 2007; Werker, Ahmed, and Cohen 2009; McGillivray and Morrissey 2000; Remmer 2004; Walle and Mu 2007; Seim, Jablonski, and Ahlbäck 2020.

[14] Appendix B, Interview D3.

https://doi.org/10.1017/9781009789127.006 Published online by Cambridge University Press

– say building a new school in his home town. The official might rationalize this decision by saying that – with the help of donors – he does not need the toilet funds to deliver on his development plan. He might therefore decide that a politically or personally motivated spending decision is the best remaining option. If the official makes such a decision, then we might say that UNICEF, by funding a toilet, has actually funded corruption or political patronage.

If donors make it easier for politicians to spend in a politically motivated fashion, fungibility might also be bad for democracy. As discussed in Chapter 3, one of the main reasons why aid might lead to a political curse is the aid can allow ineffective or unaccountable leaders to redistribute more resources to their supporters without forcing them to raise taxes. A core assumption of these aid curse arguments is that governments can effectively do what they want with aid. Even if donors attempt to channel aid through NGOs, the fungibility effects mean that much of that aid can effectively be spent where and how politicians wish.[15]

Indeed, the predominant view of most economists and political scientists has been that fungibility is bad for development and democracy.[16] As the economist Dambisa Moyo put it in her popular book *Dead Aid*, "[Aid] monies set aside for one purpose are easily diverted toward another; not just any other purpose, but agendas that can be worthless, if not detrimental, to growth."[17]

However, as I will demonstrate further, the argument that the displacement of public spending is bad for development and democracy relies on assumptions that do not necessarily hold in practice. Because politicians often have better information than donors about the needs of their communities, they can also choose to adjust government spending in ways that result in a net improvement in welfare.

6.1.3 Information and Learning

Politicians face many barriers to learning about donor activities. One barrier is complexity. As the quote introducing this chapter illustrates,

[15] For instance, Mesquita and Smith (2009) assume in their model that "bilateral aid is largely fungible such that the recipient leader can spend the resources as she sees fit." Similarly, Morrison (2007) argues that "foreign aid is a highly fungible resource and acts similarly to oil in that it provides extra resources the government can use to distribute to its key constituencies without taxation."

[16] Easterly 2009; Gibson, Ostrom, and Shivakumar 2005; Remmer 2004; Morrison 2007; Moyo 2009; Feyzioglu, Swaroop, and Zhu 1998.

[17] Moyo 2009.

https://doi.org/10.1017/9781009789127.006 Published online by Cambridge University Press

it can be quite taxing for politicians to stay abreast of all that donors are doing in a highly aid-dependent area. According to Malawi's Aid Management Platform, there are only about twenty-seven major donors working in Malawi (as of 2013).[18] However since most projects are channeled outside the government, and are implemented by NGOs and donor affiliates, this vastly underestimates the complexity most politicians face in tracking development. In our survey of teachers, for instance, we identify seventy-six separate organizations that have delivered projects to primary schools over a five-year period, and we estimate that at least 44 percent of primary schools have active donor-funded development projects (encompassing over 3,000 schools).[19] In total, there are over 1,200 registered NGOs doing development work in Malawi.[20] And even that does not encompass the many private contractors doing work on the behalf of donors and NGOs. The complexity in Malawi is not particularly unique: In Kenya, there are over 8,000 NGOs.[21] In Bangladesh, one study estimates over 90 percent of villages were home to at least one NGO.[22]

A second major barrier is a lack of transparency. While many governments require consultation between donors or NGOs and political bodies, compliance with these consultation rules are often mixed in practice. In Malawi, for instance, donors working in an area are required to consult with politicians sitting on Area Development Councils (ADCs) and District Commissioners (DCs); however in almost every interview, members of these bodies pointed out ways in which donors and NGOs had failed to comply with these rules or limited the flow of information.[23] As one Area Development Committee member pointed out:

> We don't have a productive relationship because the donors and NGOs just go straight to the schools and start the project without consulting the ADC who the main player in community development. This is a big a problem to us as because sometime we don't know which area they have donated and what they have donated and how much the donation is. If they asked we could have been

[18] Peratsakis, Christian, Joshua Powell, Michael Findley, Justin Baker, and Catherine Weaver 2012.

[19] See Appendix A Section A.3 for survey details and Chapter 5 for details on the coding of projects.

[20] NGORA Malawi 2022.

[21] Brass 2016.

[22] Brass et al. 2018.

[23] We also see this lack of compliance in formal statistics. For instance, as of 2016, less than 5 percent of NGOs in Malawi reported on their activities to the government. See discussion on page 54.

https://doi.org/10.1017/9781009789127.006 Published online by Cambridge University Press

telling them which areas are the needy ones and what is needed within a particular area.[24]

The result is a situation where most politicians desire a lot more information and consultation from donors than they receive. To illustrate, I asked all interviewed officials to describe the "barriers to fulfilling their goals" as a politician or bureaucrat. After funding challenges, almost all officials mentioned some challenge in coordinating with donors and NGOs. One councilor said: "Even the NGOs' projects are projects which are decided somewhere in the office and they just brought the plans to [us] . . . and [we] are told just to participate but all the decisions are made on paper somewhere."[25] A District Commissioner made a similar point, "[Donors] don't consult; they come with already framed projects. They come when they have already made a decision. In actual sense the District Executive Committee is there just to endorse what they have already planned."[26]

There are a number of ways in which these information gaps could alter public spending decisions in a detrimental way. Especially, we might observe more duplication and overinvestment in some areas relative to others.[27] The duplication of government and donor efforts may also overburden administrative systems and staff. Indeed, many scholars have noted such inefficiencies when donors fail to coordinate.[28] Less studied is how these coordination and information challenges might affect government policymaking.

When politicians struggle to make informed spending decisions, this can also have negative consequences for democracy. When politicians and donors coordinate effectively with one another, then politicians can accurately claim credit for changes in their constituent's welfare. However when spending is uncoordinated, voters may attribute a lot of politicians' effort to the work of donors. Indeed, as I showed in Chapter 5, the complex nature of development spending in Malawi has caused many voters to underestimate what their government does, and to attribute a lot of the development that does happen to donors. As I showed in Chapter 3, this

[24] ADC Interview C6, see Appendix B.
[25] Appendix B, Interview B5.
[26] Appendix B.
[27] Bourguignon and Platteau 2015.
[28] Gehring et al. 2017; Acharya, De Lima, and Moore 2006; Easterly and Pfutze 2008; Knack and Rahman 2007.

https://doi.org/10.1017/9781009789127.006 Published online by Cambridge University Press

voter uncertainty about the activities of politicians can be bad for democracy and public spending because it helps poorly performing and corrupt politicians to remain in power despite doing little for their constituents.

6.2 THEORIZING THE EFFECTS OF AID ON SPENDING POLICY

To be more specific about these effects and their consequences, consider a simple extension of the theory discussed in Chapter 3. A donor plans to make an aid investment of size $a > 0$ to one out of N communities. After observing the investment, the incumbent independently makes an investment $b > 0$ to one of these communities.

First consider the politician's decision: As discussed in Chapters 3 and 4, incumbents have to weigh a number of factors in making decisions about the distribution of resources. Two important factors will likely be the effects of the decision on citizen welfare and on votes. We can define the politicians returns in welfare and votes from spending in community i as $d(a_i)$ and $v(a_i)$. For simplicity, we can define $d_i > d_{i+1}$ and $v_j > v_{j+1}$ for all i and j. This implies that a vote maximizing politician will always invest in community $i = 1$, and a development maximizing incumbent will always invest in community $j = 1$.

If these voting and welfare effects are highly correlated across communities, the incumbent's decision is straightforward: She will simply spend on the community with the highest return in welfare and votes. But more often the spending decision requires a trade-off. Communities that are very pivotal in an election are very often not the same as those communities that are most deserving of funds. One reason for this trade-off is that impoverished or needy communities are often that way *because* they are not pivotal in the government's calculus.

I define the weight the politician places on v_i versus d_i in her decision as λ. So a politician is simply going to choose the community that maximizes the weighted sum of development and voting returns. That is,

$$\max_a \lambda(d_1 + d_2 \ldots d_N) + (1 - \lambda)(v_1 + v_2 \ldots v_N) \tag{6.1}$$

How will this problem change in the presence of donor spending? If donors prioritize welfare, we might predict that they are always going to invest in the community with the highest return on development. So the donor should usually prefer to invest in community $i = 1$.

But this decision creates a problem for the incumbent. If a donor invested in community $i = 1$, the incumbent could reasonably infer that

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any investment in community $i = 1$ is going to have a smaller effect than an investment in a community $i = 2$ that has not benefited much from donor attention.[29] Additionally, the incumbent might worry that she will be criticized by voters or community leaders for investing additional funds in a community that has already seen investment when there are so many communities that have not seen any investment. A welfare maximizing incumbent might therefore rationalize spending on community $i = 2$ rather than community $i = 1$.[30]

Development economists, especially, have worried a lot about this kind of displacement. If politicians reallocate funds in response to their actions – regardless of how or why they do so – then this is often going to undermine the effectiveness of foreign aid. Note, for instance, that community $i = 1$ might even have been better off if donors had never got involved since donors have caused them to miss out on a substantial *government* investment. Moreover, even if foreign aid is quite effective at improving welfare, it may be hard for donors to identify any effect of aid on welfare outcomes since the direct effect of increasing aid may be outweighed by the secondary effect of decreasing government spending.

However, from the standpoint of citizens' welfare, the consequences of these displacement effects depend a lot on what we think about the incumbent's motivations. If the incumbent weighs welfare highly (λ is large) she might deviate to the next neediest community ($i = 2$). While this will be worse for community $i = 1$, this will be better for the total welfare of the constituency than if she had invested in $i = 1$.

It is also possible that these displacement effects could decrease total welfare. If donors primarily target based on the welfare returns to spending (d), then foreign aid can increase the value to the incumbent of targeting based on nonwelfare-based considerations such as votes (v). If the incumbent knows that the donor has addressed the major needs in her constituency – even if she cares a lot about welfare – she might instead reason that spending on politically pivotal communities, or diverting funds to political supporters, makes more sense. If this political effect predominates, then foreign aid could crowd out public investment and

[29] For instance because of decreasing marginal returns to investment: $\frac{\partial d_i}{\partial b_i}(a_i>0) < \frac{\partial d_i}{\partial b_i}(a_i=0)$

[30] An incumbent might also rationalize that community $i = 1$ should receive more investment since teachers are going to make more effective use of resources when basic facilities are in place. This assumption of complementarity between donor and politician spending is sometimes called a "flypaper" effect (Hines and Thaler 1995; Remmer 2004; Walle and Mu 2007).

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make public spending less efficient and more politically oriented. It might even encourage higher levels of corruption and negatively affect development.

How will these effect change if politicians lack knowledge of donor activities? Suppose donors invest but the incumbent fails to observe a, what will the consequences be for spending outcomes? In this case, the incumbent will spend the same way they would absent foreign aid. Thus they will invest in community $i = 1$ or $j = 1$.

This spending strategy will most often be a bad one for citizen welfare. In this scenario, both the incumbent and the donor will often invest in high need communities. Since there are often decreasing returns to development spending, this duplicative investment will almost always lower welfare relative a scenario where the incumbent has the option to deviate to another community with high need.[31] Moreover, since incumbents are unaware of the nature of donor spending, the incumbent will also be less able to take advantage of any complementarities that might exist between government and donor investments.

If incumbents are very likely to respond to foreign aid by spending on *less* needy communities, it is also possible that information could harm citizen welfare. However, this will always be a suboptimal scenario since citizens will always be better off if the incumbent can effectively allocate government resources.[32]

How might donor oversight change these outcomes? Suppose, for instance, donors condition their aid spending on the effectiveness of the incumbent (or incumbents worry that donors condition aid). If the incumbent cares about future revenues, donor oversight should therefore manipulate the weight that incumbents place on votes versus development (λ in Equation 6.1). Independent of the donor's decision, donor oversight would therefore cause incumbents to spend more on needy communities.

Additionally, we might expect that donor oversight is going to make displacement less likely. If politicians believe that donors do not like fungibility, then greater donor oversight might cause them to be less likely to reallocate funds in a way suggested by fungibility arguments.[33]

[31] It is suboptimal for welfare whenever $\frac{\partial d_{i=1}}{\partial b_{i=1}}(a_{i=1} > 0) < \frac{\partial d_{i=2}}{\partial b_{i=2}}(a_{i=2} = 0)$.

[32] If the incumbent deviates from $i = 1$ to $j = 1$, then this will be negative for welfare whenever $\frac{\partial d_{i=1}}{\partial b_{i=1}}(a_{i=1} > 0) < \frac{\partial d_{j=1}}{\partial b_{j=1}}(a_{j=1} = 0)$ and positive for welfare otherwise.

[33] For example, as suggested by Bermeo (2016) and Bermeo (2011).

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6.3 HYPOTHESES

I summarize the competing hypotheses about the effects of aid on spending policy in the following list.[34]

Displacement Effects

H1 Foreign aid will cause politicians to spend *less* in areas targeted by donors.

H2 Foreign aid will cause politicians to spend *less* on the neediest communities and *more* on politically pivotal communities.

Oversight Effects

H3 Effective donor oversight will cause politicians to spend more on needy communities and less on politically pivotal communities

H4 Effective donor oversight will make it less likely that politicians adjust their spending in response to foreign aid.

Information Effects

H5 When politicians lack knowledge of donor activities in their constituency, there will be more duplication between politician and donor spending.

6.4 A STUDY OF AID AND POLICYMAKING

To test these hypotheses, my collaborators and I designed an experiment. Our intention with the experiment was to mimic politicians' discretionary development decisions. Specifically, we attempted to recreate a common way in which politicians advise donors and NGOs about development projects. To do this, we partnered with a small donor-funded UK-based NGO (Tearfund). Trained representatives of the NGO met in-person with 460 elected Local Councilors (LCs) and Members of Parliament (MPs) in Malawi and told them (truthfully) about a development project that would deliver supplies to schools in their constituency. The NGO then asked the politician to assist them by recommending schools to receive these goods. Following the experiment, each politicians' constituency was allocated school supplies in accordance with the incumbents' preferences and the outcome of a public lottery.[35]

[34] The hypotheses for this study were preregistered at https://osf.io/kazfp.

[35] The way goods are distributed in this study mirrors in many ways the study described in Chapter 5. They are however different studies. The experiment described in this chapter was fielded after the other experiment. While this study was informed by many of the lessons from the earlier study, this study focuses on different questions and has a broader study sample.

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We use this experiment to test these hypotheses about the displacement effects of foreign aid. To do so, we randomly assigned politicians to receive information about foreign aid projects at the schools in their constituency. We then compared politicians' allocation decisions in an environment where they learned, or not, about foreign aid in their communities. Because the information about aid is randomly assigned and allocation decisions are precisely attributable, we can identify how learning about foreign aid changes politicians' spending decisions.

We also use this experiment to assess whether donor oversight shapes public spending. We informed half of the incumbents (accurately) that their names and the decisions that they made would be shared in a report to all major donors in Malawi. We informed others that their decisions would remain private. If politicians indeed worry about their reputation among donors, we would expect that this report would cause politicians to be more circumspect in their decisions and avoid spending on close family members or political supporters. We also predicted that this treatment would cause more spending on objective measures of need.

Finally, we also use survey and interview data to assess politicians' gaps in knowledge about donor activities in their constituencies. We asked each official to complete a quiz assessing their knowledge of activities in a random sampling of schools. As discussed further, we document sizeable gaps in politicians' knowledge of donor activities, particularly in the far reaches of their constituencies.

The use of experiments to study the effects of foreign aid on policy is rare. Most commonly, scholars have studied the effect of aid on spending by looking at observational data on foreign aid and public budgets at the national and cross-national levels. However, the findings from such analysis have been heterogeneous across contexts. Most studies conclude that governments indeed respond to foreign aid by changing the composition of public spending.[36] Yet, estimates from these studies are surprisingly disparate. Some studies document a large *negative* effect of aid on public spending.[37]. Other studies find "flypaper" effects in which foreign aid *increases* public spending.[38] Still others find no evidence of fungibility.[39]

[36] World Bank 1998; Chatterjee, Giuliano, and Kaya 2012; Marć 2017; Feyzioglu, Swaroop, and Zhu 1998; Werker, Ahmed, and Cohen 2009.

[37] Marć 2017; Feyzioglu, Swaroop, and Zhu 1998; Werker, Ahmed, and Cohen 2009; World Bank 1998.

[38] Walle and Mu 2007; Morrissey 2015; Remmer 2004.

[39] Pack and Pack 1990.

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Estimates of the scale of fungibility similarly vary from nearly the entirety of the aid budget to more marginal effects.[40]

This analysis has failed to resolve a lot of the debates about aid and spending policy. For one, it is quite difficult to determine causal precedence: We don't know whether foreign aid is affecting spending or whether spending is affecting foreign aid. After all, we know donors often tailor aid conditionality provisions in anticipation of fungibility. Additionally, demand for foreign aid is related to shocks in public spending and income, making it challenging to show that one causes the other.[41] There are also a number of measurement challenges in existing studies of aid and public spending.[42]

Additionally, existing studies have also been largely unable to disentangle who benefits from the displacement of public spending, or what motivates politicians' decisions to reallocate development. As discussed earlier, many arguments imply more public spending among political supporters or in less deserving communities. Yet, there have been few attempts to validate these assumptions.[43] The research in this chapter addresses many of these challenges, and I believe that it provides a more credible and detailed explanation for the effects of aid on spending policy.

6.4.1 Context of the Study

We began this research project by reaching out to all the MPs and LCs in Malawi, the majority of whom (70 percent) agreed to meet with us. In total, we recruited 125 in-office Members of Parliament (MPs) and 335 in-office Local Councilors (LCs).[44] We show a map of sampled constituencies in Figure 6.1. The officials were elected in 2014 and the study took place in 2016 and 2017.

[40] Werker, Ahmed, and Cohen 2009; Chatterjee, Giuliano, and Kaya 2012; Sijpe 2013; Walle and Mu 2007.

[41] For instance, aid may target a budget shortfall. See Werker, Ahmed, and Cohen 2009 for discussion and evidence of bias.

[42] Among other problems, there is no easy way to determine how much donors intended to be spent in a particular sector in most cases, and distinguishing between on-budget and off-budget aid is not trivial (Sijpe 2013). Also, public spending data in aid-dependent states is often unreliable or potentially even strategically biased (Morrissey 2015).

[43] Morrissey 2015; Wagstaff 2011.

[44] The sample is broadly representative of the larger population of politicians in Malawi. See further details on recruitment and sample statistics in Appendix A and Appendix E.

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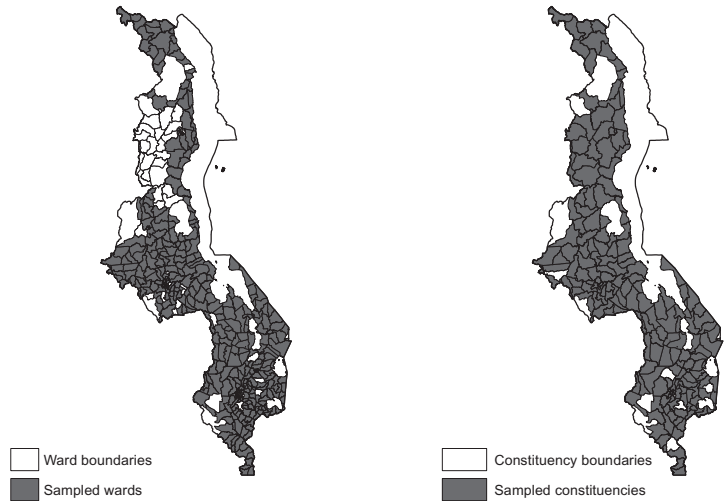


FIGURE 6.1 Sampled constituencies
Note: This figure shows the constituencies of politicians in the sample.

6.5 POLITICIAN KNOWLEDGE OF DONOR ACTIVITIES

I will begin with an examination of what politicians in the study know about donor activities in their constituencies. To answer this question, we designed a quiz for all interviewed officials. During our meetings, we gave each a list of three randomly selected primary schools in their constituencies. We then asked the politicians to tell us which of the three schools "received the most projects sponsored large donors" in the past five years. We also asked each politician to name the major international donor(s) that had invested in that school. Since district governments (and to a lesser extent MPs) have statutory authority over the funding and management of primary schools, this is a question that should not have been particularly difficult.[45]

To assess the accuracy of these responses, we also need an objective measure of donor activities in each school. To this end, we approached all major donors active in Malawi's education sector and asked them for details on the schools they had invested in over the last five years (from 2011 to 2016). In total, 3,151 primary schools received 4,566 foreign aid projects from this set of donors between 2011 and 2016. This constitutes

[45] Most primary education resources are managed by Local Councils (LCs) and Area Development Committees (ADCs) in Malawi. MPs often sit as observers on both LC and ADC meetings, and often have substantial informal authority, partly due to their control over Constituency Development Funds (CDFs).

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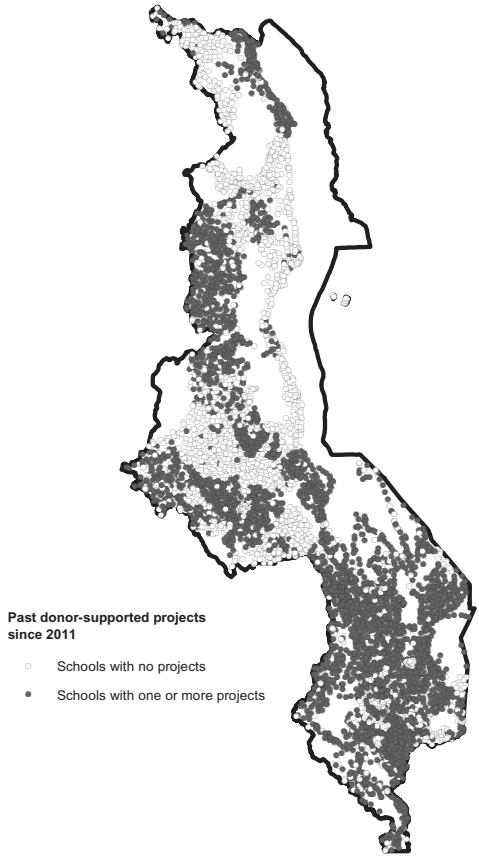


FIGURE 6.2 Primary schools and foreign aid projects

about 57 percent of the primary schools in Malawi. The number of foreign aid projects in each school varied from 0 to 4. Figure 6.2 displays the total sample of primary schools in Malawi with no projects supported by donors (in white) versus those with at least one project (in gray).[46] While this dataset does not encompass smaller donors or NGOs, it represents the vast majority of donor funding going to the Malawi education sector.

I summarize responses to the quiz in Figure 6.3. The results present a mixed picture of donor knowledge. Responding politicians did not do particularly well in describing the geography of education aid in their constituency: Only 24 percent of MPs and 21 percent of local councilors (LCs) were able to provide a correct answer about the number of projects

[46] For further details on the data collection and coding, see Appendix E.

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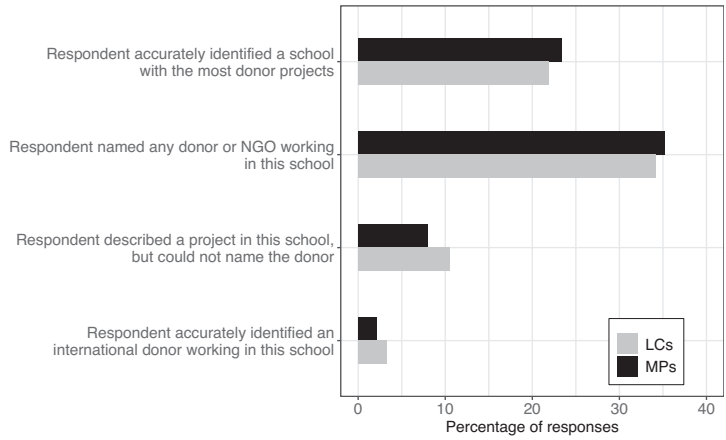


FIGURE 6.3 Donor knowledge quiz
Note: The x-axis shows the percentage of responses out of the 335 councilors and 125 MPs participating in the survey.

in each school: a rate which is only slightly better than random chance.[47] That said, politicians do often know about some donor activities. When asked to describe a specific donor working in a school: 35 percent of MPs and 34 percent of councilors were able to name a specific donor working in a school. An additional 8 percent and 10 percent could describe a project but not a donor.[48] However, even when politicians knew about a specific project, that knowledge was often incomplete. It was quite rare for politicians to name the main international donor providing funding to a school. Less than 3 percent of politicians were able to do so. Most often politicians would instead provide the name of an NGO or implementing partner.

The results from this quiz imply that politician knowledge is incomplete and heterogeneous: While politicians are often familiar with some donor activities in their area, the knowledge is incomplete. Politicians are especially less knowledgeable about international donors and the formal funding arrangements for particular projects. This pattern of responses is consistent with the observation in Chapter 2 that politicians outside the

[47] Respondents had the choice of selecting school A, B, or C, all schools, or no schools. Additionally, they could say they didn't know.
[48] Often in this case, politicians would describe a project but say they could not remember the donor.

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central government are more likely to meet with NGOs rather than the direct representatives of major donors.

To more thoroughly explore the causes of heterogeneous knowledge, I look at the characteristics of those schools where politicians provide more accurate answers.[49] The results of this regression in Table 6.1 suggest that the complexity of monitoring donor activities indeed may play a role in these knowledge gaps. Politicians especially struggle to answer questions about more remote communities. A one standard deviation increase in the distance between a councilor's home town and a school decreases the probability of a correct quiz answer by about 4 percent. The effects of school size and population density are more mixed. A one standard deviation increase in a school's enrolment decreases the probability of a correct quiz answer by about 5 percent, perhaps reflecting the more complex funding arrangements at larger schools. MPs are also unlikely to know about donor activities in less populous areas of their constituency.[50]

6.5.1 Politician Spending Decisions

During each meeting, politicians were also asked to make decisions about which schools in their constituency should receive development goods from the NGO. Specifically, they were presented with several maps of their constituency, each showing three primary schools. The three schools that appeared on each map were randomly selected from the government's list of primary schools in the constituency. The politician was then asked to decide which of the three schools should be allocated school supplies from the NGO donor. Specifically, the decision prompt was: "When you are ready, please tell me which school you would like to choose to receive a set of [*school supply*]. Please take your time in making this decision." The maps, examples of which are shown in Figures 6.4 and 6.5, were shown to the politician on portable tablets and could be studied in detail before the spending decision was made.

[49] That is, for each politician, I created a variable indicating whether the politician correctly answered at least one of the quiz questions. I then regress the characteristics of the school with the most donor projects (i.e. the correct answer) on that variable. Since the schools that get the most attention from donors are representative of all the schools in Malawi, these estimates are likely a biased measure of politicians' true knowledge of all schools.

[50] For discussion of how politicians in Malawi learn about their constituencies and the role of geographic distance in shaping knowledge, see Jablonski and Seim (2023).

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TABLE 6.1 *Correlates of donor knowledge*

Variable Name	All Politicians (1)	Councilors (2)	MPs (3)
Log Distance from Hometown	−0.042**	−0.049***	−0.023
	(0.017)	(0.018)	(0.067)
Incumbent Percent	−0.005	−0.002	−0.022
	(0.019)	(0.025)	(0.032)
Pop Density at School	0.019	−0.005	0.153**
	(0.024)	(0.026)	(0.060)
School Enrollment	−0.061**	−0.078**	−0.065
	(0.027)	(0.031)	(0.057)
Poverty at School	−0.001	−0.046*	0.017
	(0.013)	(0.026)	(0.016)
Constant	0.206***	0.204***	0.269***
	(0.025)	(0.027)	(0.071)
Observations	349	309	40
R^2	0.027	0.044	0.181

Note: *p<0.1; **p<0.05; ***p<0.01.
This table shows the results of a linear regression of normalized school covariates on the proportion of correct answers about donor-funded education projects in each school. The outcome variable is the share of correct questions about each school.

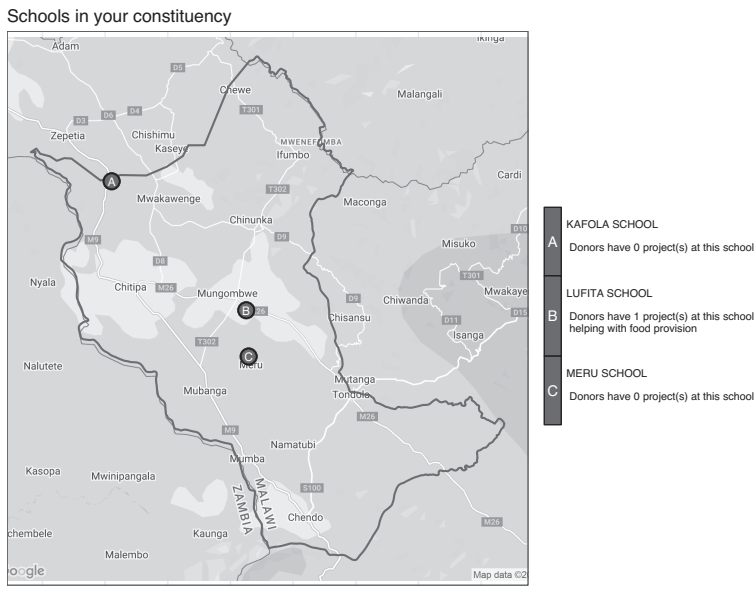


FIGURE 6.4 Example treatment map with aid information

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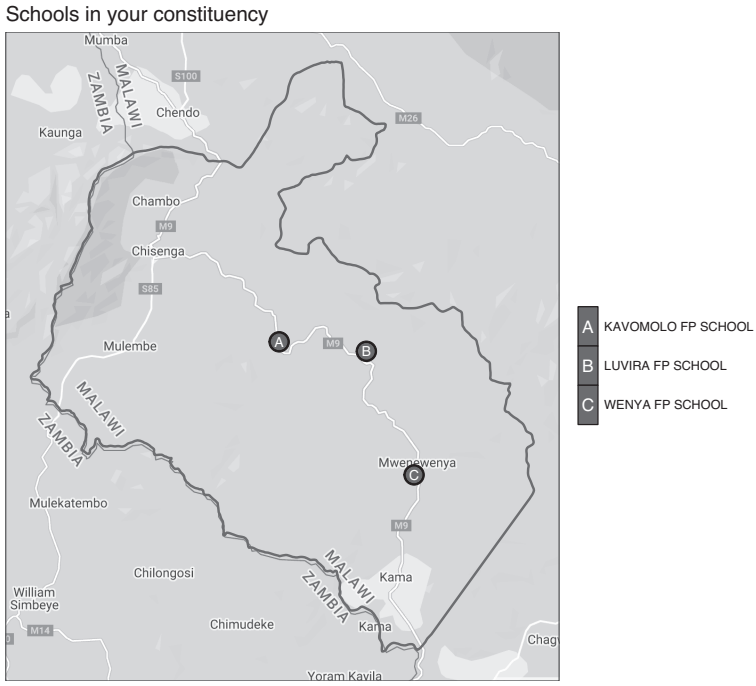


FIGURE 6.5 Example control map with no information

Each politician repeated the decision process three times, so they each saw three maps and selected three schools out of nine to receive school supplies.[51] Each decision involved the allocation of a different type of school supplies – either a set of ten solar lamps, ten teacher supply kits, or ten English dictionaries. Our focus group discussions with project stakeholders suggest that these school supplies are valued by politicians and schools. The portable, stand-alone solar lamps are useful in allowing students and teachers to work after dark. The dictionaries are helpful in lesson planning and studying. The teacher supply kits consisted of a box of chalk, rubbers, pens, notebooks, and a tote bag – basic supplies considered necessary for teachers to carry out their work. The ordering of maps, supplies, and schools was random.

[51] Because of the small number of schools in some constituencies, some politicians (21 percent) received fewer than three maps.

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These were not hypothetical decisions. Following the experiment, the selected schools were entered into a public lottery. Approximately 20 percent of the selected schools were chosen in this lottery to receive supplies. The details of the lottery were provided to politicians before they made their decisions. Politicians appeared to value the school supplies and make the decisions about allocation carefully. About a third of our sample either participated in the lottery or called to inquire about the results. Many also showed up at schools to participate in delivery. The funds for school supplies were provided by research grants.

6.5.2 Experimental Treatments

A primary goal in the experiment was to test the displacement, oversight, and information hypotheses discussed above. Below I describe how we attempted to test these mechanisms.

First, we test for displacement effects. The displacement argument suggests that when donors invest, we should see politicians shift their spending away from places or sectors with more foreign aid. To test this claim, we experimentally assigned each politician information about donor activities prior to asking them to make their spending decisions.

On a randomly assigned half of the maps shown to politicians, we included information from donors about foreign aid at schools in their constituency over the last five years (using the data described in Section 6.5).[52] Specifically, the information detailed how many donor-supported projects had been carried out at each individual school and the type of donor support provided at that school. An example map for the treatment group is shown in Figure 6.4. It contains a side panel with information about foreign aid projects. An example control map is shown in Figure 6.5. It contains no information about foreign aid projects.

Our expectation was that the aid information treatment would cause politicians to update their beliefs about the number and type of foreign aid projects in the mapped schools. As a consequence, by comparing politicians' decisions when they receive treatment versus control maps,

[52] Since we're looking at within respondent treatment effects, the maps were randomized within respondent-level blocks. In addition to the aid information treatment, politicians also received information about school needs and voting in a cross-factorial treatment design. For details on the additional treatments and their effects, see Jablonski and Seim (2023).

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we can isolate the causal effect of learning about foreign aid projects on the allocation decisions of politicians.[53]

We create two variables to measure aid at the school level: *Aid Project Count* equalling the log(+1) of the number of projects in each school and *Aid Good Types* equalling the log(+1) of the number types of project. Aid project types include capacity building, construction, health services, food provision, community support, gender issues, and teacher training. Some aid projects encapsulate several project types. Since politicians might care both about the number of foreign aid projects and the scale of donors' involvement in a school, and since both types of information were provided in the aid information treatment, we predicted that both variables would have similar effects on spending outcomes. Seventy-three (73 percent) of our treatment maps contained variation across schools in the number of foreign aid projects.

To test for oversight effects, we attempted to increase the perceived risk that donors would observe (and potentially sanction) politicians' spending decisions. Specifically, we told a random half of the politicians in the study (truthfully) that their decisions would be compiled in a report to major donors. Prior to making any spending decisions, the interviewer told the politician the following:

> Please note that Tearfund will distribute a report about your choices today. This report will be provided to major donors in Malawi, and will include your name and a description of the schools you have selected today. The report will also explain the lottery. I have brought with me a copy of the letter that donors will receive.

The politicians were then provided with an example of the report that would be shared with donors (see the example in Appendix E). As promised in the survey, we sent a report to all major donors working in the Malawi education sector at the conclusion of this study. The report contained information about the decisions that politicians made about where to allocate funding.

If politicians believe that donors have strong preferences and condition aid on politician performance, then it should be the case that politicians spend differently when they know that this report will be shared with donors.[54]

[53] We cannot identify updating directly, so our estimand is an intention to treat (ITT) effect in which we assume that politicians update their priors about foreign aid projects in the expected direction in response to information.

[54] Additionally, some politicians received information telling them that their choices would be announced on community radio. We see little evidence that this radio treatment had an effect on politician spending decisions. See discussion in Jablonski and Seim (2023).

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6.5.3 Identifying School Characteristics

I hypothesized that displacement and oversight might also change the way in which politicians weigh need and politics in their spending decisions. To test whether this is the case, we need a way to measure how needy and politically pivotal a particular school is.

To identify how needy a school is, I rely on official school-level statistics from the Education Management Information System (EMIS) at the Malawi Ministry of Education Science and Technology.[55] Though not an exhaustive assessment of school need, these data allow me to identify three highly visible characteristics of need. First, I measure structural overcrowding using the ratio of students per classroom. Structural overcrowding is among the more severe problems facing schools in Malawi: On average, primary school classrooms have 138 students each, though some have more than 300. Second, I measure teacher overcrowding using the number of students per teacher. Due to chronic problems of low or unpaid salaries, teachers in Malawi are often heavily overcommitted and underpaid. Primary school teachers are expected to teach 75 students on average, though some have more than 200. (The global average is twenty-three students per teacher.[56]) Third, I measure the quality of existing classrooms by looking at the ratio of temporary classrooms to permanent classrooms. The quality of temporary classrooms varies in Malawi, but they are often of extremely poor quality–sometimes a lean-to or a borrowed residence.

These measures generally align with the priorities of teachers themselves. In our survey of teachers,[57] we asked head teachers to name, in order of priority, the important needs of the school. The highest priority issues by far (named by over 60 percent of head teachers and citizens) were overcrowding in classrooms or teachers' houses. Teachers also frequently mentioned needing more staff, various facility improvements including electricity, and learning materials. Additionally, in our interviews with politicians about their development decisions in the education sector, they most frequently mentioned enrollment levels, the number of classrooms, and the number of teachers houses. That said, there are some

[55] These data are from 2014 and encompass over 99 percent of all schools in Malawi. They are collected approximately biannually by district education offices through the support of local headmasters. These data have been collected and refined over multiple years and independent assessment exercises on these data suggest a high level of reliability (Bernbaum and Moses 2011).

[56] World Bank 2024.

[57] See Appendix A.

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need-based characteristics that these data do not capture: For instance, several politicians also mentioned that they use measures of school quality and achievement, such as the passing rate, or that they simply examine the "look of the infrastructure," or "just see the nature of the school."

To simplify the analysis, I used these data to create an overall index of school need, *School Need*, which is equal to the sum of the z-scores of the three measures of school need.[58]

In order to measure the political characteristics of communities, I collected polling station-level data from the Malawi Electoral Commission on the votes received by all candidates for council and MP seats. A large proportion (68 percent) of the schools in our sample were also polling stations, allowing us to directly measure political support in those communities. For those schools in our sample (32 percent) which were not used as polling stations, measure political support by using the geographically nearest polling station to the school.

As discussed in Chapter 4, there are good reasons to believe that politicians in Malawi bias spending in favor of communities where they have a large number of supporters.[59] To measure the targeting of core supporters, I create a variable *Incumbent Percent*, which equals the percentage of votes received by the incumbent politician in the nearest polling station to a school.

In addition to changing the probability that politicians target political supporters, displacement and oversight might change the extent to which politicians attempt to gain personally from foreign aid. As one measure of such corruption, I identify whether a politician's family member attended a particular school, since these schools might be particularly likely to benefit from networks of patronage. I coded this by asking the politicians to indicate which schools their children or their family's children attend.

6.5.4 Spending Behavior in the Control Group

I begin by considering spending patterns in the control group: when politicians did not receive information about the schools in their constituency. In Figure 6.6, I show the coefficients from eight different

[58] *School Need* $= \frac{x-\mu_1}{\sigma_1} + \frac{x-\mu_2}{\sigma_2} + \frac{x-\mu_3}{\sigma_3}$ where μ_i and σ_i indicate the within ward/constituency means and standard deviations of students per teacher, students per classroom, and proportion of temporary classrooms for all available primary schools in Malawi.

[59] Jablonski and Seim 2023; Dionne, Kramon, and Roberts 2013; Brazys, Heaney, and Walsh 2015.

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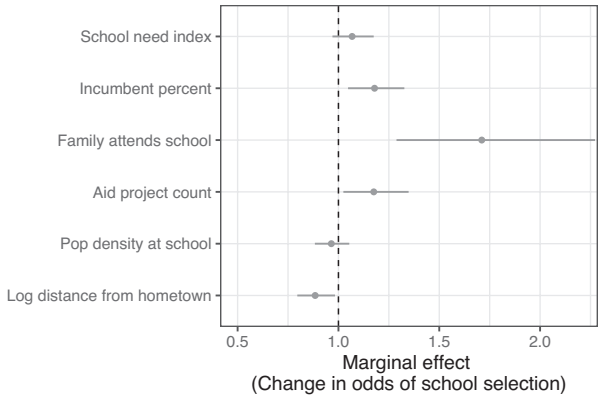


FIGURE 6.6 Effects of school characteristics on the school selection
Note: This figure shows the coefficients of separate conditional logistic regressions of school selection on baseline variables. The sample is limited to maps that do not contain treatment information related to the school characteristic. Ninety-five percent confidence intervals are shown in the horizontal lines. Standard errors are clustered on politician. Continuous variables are normalized for comparison purposes. Control variables include *Log Permanent Classrooms, Log Temporary Classrooms, Log Teacher Houses Permanent, Log Teacher Houses Temporary, Opposition Percent Votes (for MP and LC), Log Enrollment, Number of Aid Projects, Family Attends School, Incumbent Percent at Polling Station, and School Need Index*.

conditional logit regressions of school selection on school characteristics.[60]

The results suggest that politicians do take need *and* politics into account when making spending decisions. A one standard deviation increase in a school's need index increases the odds that a school is selected by 1.07. Likewise, schools in electorally supportive communities are also more likely to be selected–as we would expect if politicians weigh the electoral consequences of their actions. A standard deviation increase in percent votes for a politician (21 percentage points) is associated with a 1.18 increase in the odds of a school being selected. Politicians also appear to prefer to spend on close family networks: The odds that a school with a family member is selected are nearly double (1.7 times) the odds that a school without a family member is selected.

[60] Regressions are conditioned on each choice set (map). In each regression, we subset the data to include only maps in the relevant control group: Those maps without information about that school characteristic (e.g., the regression of school selection on Aid Project Count excludes maps with the Aid Information Treatment).

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It is worth noting that this strong effect of electoral returns is consistent with the theoretical expectations and observations in Chapters 3 and 4, and implies that politicians indeed seek to lobby donors to achieve electoral gains.

Schools in the control group are *more* likely to be selected when they have received more projects or types of projects from donors. Given the weak preexisting knowledge surrounding foreign aid projects, I do not interpret this to mean that politicians in the control group target schools with more aid spending: rather, I see this as evidence that donors and politicians often have overlapping spending priorities. This is also suggestive evidence that the challenges that politicians face in coordinating with donors and learning about donor activities indeed result in a more inefficient allocation of resources.

6.5.5 Displacement Effects

I argued that foreign aid would cause politicians to invest less in areas targeted by donors (Hypothesis 1). The results of the aid information experiment suggest that this is indeed the case. In Figure 6.7, I show estimates of how providing aid information changed the odds that a school with aid projects would receive funding from a politician.[61]

The results suggest that foreign aid indeed crowds out a significant share of public spending. On average, Aid Information decreases the odds of a school with one foreign aid project being selected by 0.21 ($p = 0.05$).[62] Within our sample, these estimates suggest that each aid project reduces the probability of additional funds being allocated to a school by about 8 percent. While this is certainly a meaningful effect, it is also worth noting that this effect is much smaller than what many have assumed. Several influential studies based on more correlational data have suggested that upward of 50–70 percent of public spending is displaced by foreign aid.[63] Our data suggest that these extreme scenarios are unlikely.

In addition to the number of aid projects, we consider the effect of information about the number of donor-provided goods types (*Aid Good*

[61] Specifically, I regress school choice on the interaction between the *Aid Information Treatment* and *Aid Project Count* or *Aid Good Types*. I use a conditional logit estimator conditioned on each choice set (map). Errors are clustered on politician. See further discussion of estimation in Appendix E.

[62] On average, schools have 0.9 aid projects.

[63] Marć 2017; Feyzioglu, Swaroop, and Zhu 1998; Chatterjee, Giuliano, and Kaya 2012.

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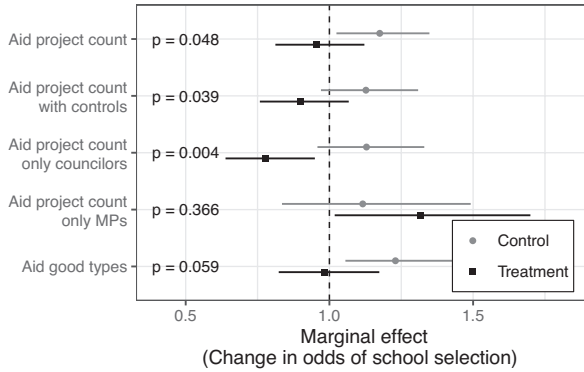


FIGURE 6.7 Effects of aid information on the school selection
Note: Circles indicate estimated effects of *Aid Project Count* or *Aid Good Types* on the odds of a school being selected in the control group (those appearing on maps without the Aid Information Treatment). Triangles indicate estimated effects in the treatment group (those appearing on maps with the Aid Information Treatment). Horizontal lines indicate 95 percent confidence intervals. The p-values on the left indicate the probability our treatment estimate is consistent with a null effect.

Types). We find that when a politician learns from the Aid Information Treatment that there are three types of goods being delivered by donors at a school (the average is 2.6), the odds of the politician allocating to that school decrease by 0.91 ($p = 0.05$).

We also see that the fungibility effect is much larger among councilors than MPs. This was unexpected. One possible explanation may be that councilors were less confident that they knew what was going on in their constituency. We find, for instance, that 81 percent of LCs claim that they find the information useful compared to 64 percent of MPs. However, these differences should be interpreted with caution due to the small sample of MPs.

6.5.6 Consequences of Displacement

I next consider how the aid information treatment changes the way in which politicians chose to distribute funds. As I discussed earlier, many worry that the displacement of spending will increase the tendency for politicians to spend money on corruption or patronage, or that politicians will spend more on richer areas, making the poor increasingly dependent upon donors for their welfare. To test these claims, I interact the aid information treatment with school-level variables intended to

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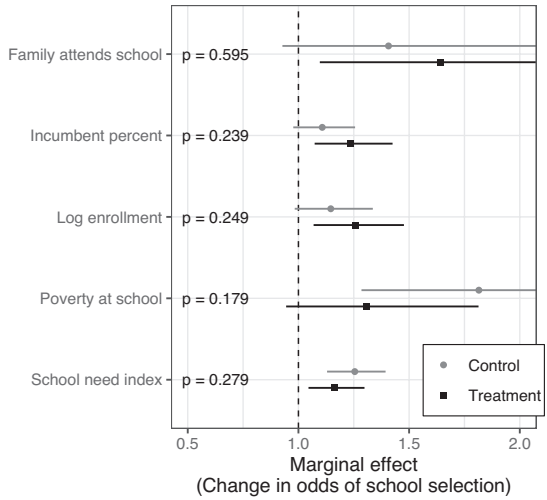


FIGURE 6.8 Effects of school characteristics on the school selection for politicians in the aid information treatment
Note: This figure shows the coefficients of separate conditional logit regressions of school selection on baseline variables by treatment status with 95 percent confidence intervals. Standard errors are clustered on politician. Continuous variables are normalized for comparison purposes. On the left side we include p-values for whether the observed difference between treatment and control is consistent with the null hypothesis.

measure corruption, patronage, and need. By comparing the effects of these variables on spending between treatment and control groups, we can determine whether the aid information treatment caused politicians to make significantly different spending decisions.

In Figure 6.8, we see that spending decisions in treatment and control groups are similar. Aid information appears to result in slightly fewer goods being allocated to overcrowded schools, as well as to schools where politicians' family members attend. However, these differences are small and mostly not statistically significant.[64]

To gain more insight into why foreign aid changes politicians' spending decisions, we also asked the politicians in our study for a brief explanation regarding the choices they made. These explanations suggest causal mechanisms to explain the displacement effects we observe.

[64] There may also be small differences which cannot be identified with our sample. This is particularly true for identifying treatment effects on the selection of family members' schools since this represents only a small proportion of schools in our sample (5 percent).

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In their responses, politicians pointed to two main motivations. First, politicians talked about the poor development decisions that donors were making, and how they were failing certain areas. For instance, one said, "This school is located far away from other schools and there is no support from donors." Another said "[t]he road is far away... and no access and some development organizations are reluctant to support those schools due to [the] road [being] impassable." A third said "the school is in far end from the district. Donors do not consider this when they come into the district."

Additionally, politicians talked about the welfare advantages of investing in areas excluded by donors or the disadvantages of spending in overlapping areas. One explained "the school [does] not receive any support from donors and this can be the first one and help the school." Another said "Because there are no donors in some areas, it has given me influence to do more." In total, 17 percent of politicians specifically discussed concerns about overlapping with donor projects and 16 percent specifically mentioned concerns about fairness or need.

This qualitative and quantitative evidence presents a challenge to aid critics who argue that the displacement of public spending has large negative effects on welfare, development, and democracy. While we might challenge whether the effects in this study are true universally, the data here suggests that politicians are mostly responding to foreign aid in a way that they think improves public welfare. We don't see any evidence that politicians weigh personal or political considerations more highly as a result of donor investments.

6.5.7 Consequences of Oversight

Finally, consider whether politicians who learned about the donor report made different decisions during the experiment. As I discussed earlier, donors often pressure politicians to put in place particular policies, and politicians often act as if they are worried about displeasing donors. What is less clear is whether such oversight shapes local politicians' decisions about the distribution of public spending.

The results in Figure 6.9 are not consistent with Hypotheses 3. Politicians who knew about the report were no more likely to spend on needy

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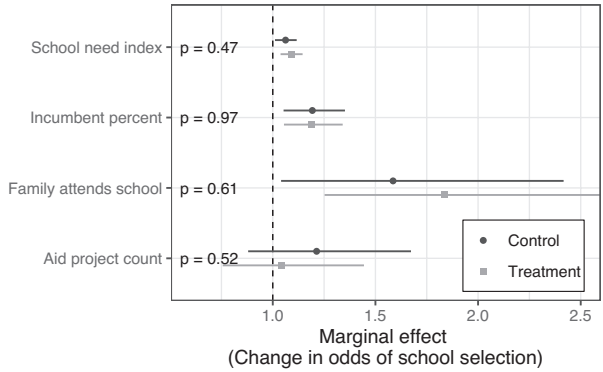


FIGURE 6.9 Effects of school characteristics on the school selection for politicians in the donor report treatment
Note: This figure shows the coefficients of separate conditional logit regressions of school selection on baseline variables by treatment status with 95 percent confidence intervals. Standard errors are clustered on politician. Continuous variables are normalized for comparison purposes. On the left side, I include p-values for whether the observed difference between treatment and control is consistent with the null hypothesis.

schools, or to refrain from spending on political supporters or family members.[65]

Why were politicians in our study not more worried about donor oversight? It is possible that this was a weak treatment. Politicians may not have believed that we would indeed share this information with donors. However, our research team recorded that politicians almost universally read the example report carefully. Alternatively, there might be something unique about the decision environments, and it's possible that politicians would have been more susceptible to this treatment if they were making a decision in a legislative context.

However, I think the most likely explanation is that donors lack the information – and perhaps the interest – to sanction distributional decisions which are not entirely focused on need. To assess whether this is the case, I later asked representatives of five major education donors in Malawi the following question: "When working with donors, government officials sometimes prioritize political or personal interest over the development needs of a community. When this is the case, how do

[65] Some politicians also received a parallel treatment telling them that their decisions would be announced on local radio. This treatment also had null effects.

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you balance the competing interests of the government and the community?"[66] One interviewee denied that there was ever space for political influence in their development work. Two interviewees said they observed that political targeting often harms development in Malawi, but said there was nothing they can do. One explained: "[W]e can't do anything, otherwise we start being political. Us, development partners, we just go by what they decide."

Only two of the five discussed any action they might take. Both mentioned that they refer to objective criteria in order to validate the politicians' decisions. One said, "[At district meetings] everybody wants to take the programme to their area. But when we do the objective analysis of the data, we defeat their decision." Another said, "To manage risk: we make the process as transparent as possible. We develop criteria with them with objective indicators. For example, we want to identify schools with specific characteristics (as example, school should have a pass rate of X%, be in sufficiently hard-to-reach area, etc." Neither mentioned any specific action they would take to sanction officials who failed to make effective development decisions. In contrast, every donor was able to name specific actions they would take to sanction an official who stole from a donor-funded project.

These interviews suggest that donors do care about the politicization and misuse of development, but often feel they have little capacity to do much about it.

6.6 CONCLUSIONS

In order to deliver effective policies, politicians in aid-dependent democracies have to coordinate with a range of donors, NGOs, and their agents. The challenges and costs of effective coordination potentially have a number of distortionary effects on policymaking. In this chapter I discuss the only large scale field experiment yet to study these effects. From this Malawi evidence, I make several arguments about how foreign aid–and aid dependence generally–can shape policy.

First, politicians in Malawi demand more information and consultation than they in fact receive. Despite saying they consider what donors are doing, almost all interviewed officials complain about the frequency and form of their consultations with donors and NGOs. This lack of consultation, combined with a high level of complexity and fragmentation,

[66] See Appendix B.

https://doi.org/10.1017/9781009789127.006 Published online by Cambridge University Press

leads to systemic gaps in what politicians know about donor activities in their constituencies. Data from a quiz I administered to politicians suggests that politicians especially struggle to learn about the activities and funding arrangements of major international donors, especially in more remote areas of their constituency. These findings are consistent with the observation in Chapter 2 that international donors are less likely to consult with politicians than are NGOs.

I also establish that these gaps in information can meaningfully change spending policy. When politicians in Malawi know more about the activities of international donors, they are more likely to spend in areas that are neglected by donors. This finding suggests that politicians' information gaps also contribute to *distortions* in public spending. If politicians were better informed, it is plausible that we would see less duplication and a more equal allocation of spending.

These findings also provide nuance to debates over the political and economic consequences of displacement and fungibility. Consistent with evidence from other contexts, we find that foreign aid indeed crowds out other forms of spending. However, the study challenges those who claim that these displacement effects will make it easier for politicians to spend in ways that might be distortionary or politically biased. While we find strong evidence that politicians consider politics and family connections in their spending decisions, we mostly fail to reject the null hypothesis that the kinds of schools that benefit from politician spending are systemically different in treatment versus control. If anything, qualitative evidence from politicians appears to suggest that displacement is motivated by concerns about donor neglect and citizen welfare.

Finally, the study informs debates about the role of donor oversight. On one hand, it is clear from donor and politician interviews that politicians in Malawi are sensitive to the opinions of donors. Further, we have many accounts in Malawi and elsewhere of donors successfully pressuring for meaningful policy reforms. Given this, we were surprised to find no evidence that informing major donors about politician spending decisions had any effect on what politicians did.

However, these null effects are less surprising in light of two facts. The first is that politicians are quite dismissive of donors' ability to assess community needs, and frequently complain in interviews about the way donors fail to consider development plans or idiosyncratic school characteristics. Given this, politicians were likely skeptical (probably rightly so) that donors would be capable of assessing their decisions. Second, from interviews, it is clear that donor staff find it very difficult to intervene

https://doi.org/10.1017/9781009789127.006 Published online by Cambridge University Press

in response to policy decisions that are politically motivated but not obviously corrupt (see also the discussion in Chapter 4 on this point).[67] Together these findings suggest that donor oversight is unlikely to have much of an effect on the misallocation or politicization of development funds where there is no explicit corruption involved.

It is also worth noting some parallels between the findings in this chapter and my argument about voter behavior in Chapter 3. Like with voter behavior, one of the main ways in which donors distort decisions is by changing politicians' information environment, and making it harder for politicians to make accurate inferences about what development activities are happening in their areas. Likewise, these adverse outcomes are not inherent to aid, and instead have more to do with the ways in which the complexity of development decisions in Malawi raise politicians' costs of information and policy coordination. As discuss in Chapter 7, some of these adverse effects might be avoided by changing modes of aid delivery.

[67] This conclusion is also consistent with Swedlund (2017a). In a survey experiment with 114 donor officials, Swedlund notes that political transgressions only increase support for aid suspension if the transgression directly affects the donor aid portfolio.

https://doi.org/10.1017/9781009789127.006 Published online by Cambridge University Press