

# DEPARTMENT OF ECONOMICS

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SOFT CRITERIA IN  
DANISH DEVELOPMENT AID.  
AN ESSAY ON POST-MATERIALIST  
VALUES IN PRACTICE

Martin Paldam

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# Soft Criteria in Danish Development Aid

## An essay on post-materialist values in practice

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*Abstract: The largest and most altruistic development aid programs are the ones of a group of countries known as the Like-Minded Countries. The LMCs are the small rich NW-European countries and Canada. The LMCs have developed a distinct »soft« aid ideology that differs from the »hard« ideology of other donors. We shall use the Danish program as an example. The explanation starts from a dual markets hypothesis, (a) aid policies are formed at the LMC markets, where the voters demand post-material altruism, and (b) projects are made on a market between the LMC-bureaucracy and the LDCs demanding development. In addition, the softness is a consequence of the normal behavior of a bureaucracy demanding power and slack.*

Keywords: Danish development aid, post-materialism, bureaucracy. Jel.: H43, H59, O19

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### I. Introduction

The development aid community knows Canada, the Netherlands and the three Nordic countries as the »like-minded countries« - from now **LMCs**. Their aid programs share the four characteristics listed in table 1, as they are based on roughly the same »aid ideology«.

Table 1. The four characteristics of the aid programs of the LMCs

No	Characteristic
1.	The expenditures are relatively large (around 0.8-1% of GNI).
2.	They proclaim an idealistic multi-goal aid policy.
3.	The gift-element is 100% for the projects.
4.	Projects are chosen on the basis of soft, holistic judgement. »Textbook« methods of project analysis are little used.

Note: The »soft«, »post-materialist« ideology on which the aid policy builds, is often contrasted with the »hard«, »materialist« ideology of the IBRD, USAID, etc.

Item 4 means that if titles are retrieved from a library database using such search-words as »projects«, »analysis« and »development«, one finds books as Squire & van der Tak (1975), Curry & Weiss (1993), Dixon et al (1994) or manuals as Ward & Daren (1991). They deal with cost-benefit analysis, shadow

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1. The article is reflections and generalization of material, presented in much more detail in the 444 pages of Paldam (1997a), written for the *Rockwool Foundation*. The book contains chapters on Norwegian and Swedish aid. I also know a little about the Canadian aid program, but very little about Dutch aid. All illustrations will be made using Danish examples. Paldam (1997b) is a survey of my study of 37 Danida projects. The address of the author is: MP, Department of Economics, Aarhus University, 8000 Aarhus C, Denmark. Phone: +45-8942-1607 (or 1608), fax: +45-86-136334 and e-mail <mpaldam@eco.aau.dk>

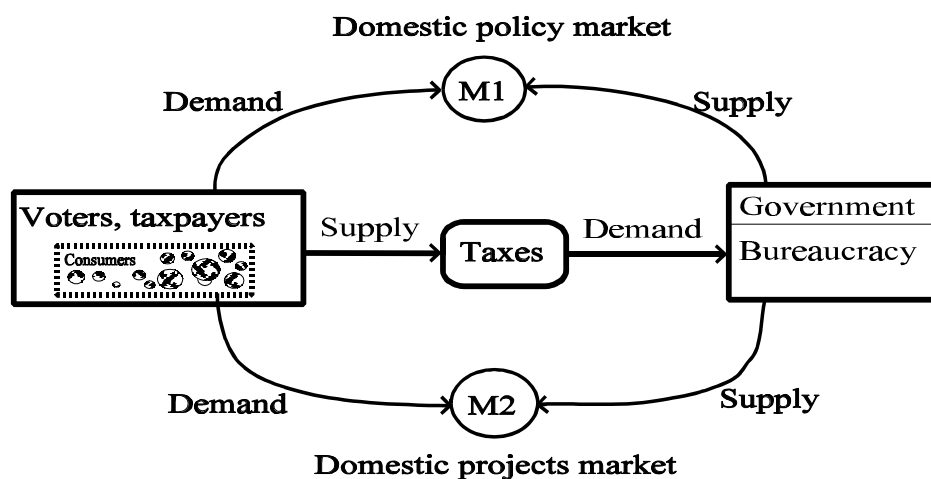
prices, rates of return, etc. These techniques and methods are little used - often even frowned upon<sup>2)</sup> - in the aid programs of the LMCs.

The purpose of this essay is to present a theory - or at least something that might become a theory - explaining that profile. The explanation will be illustrated using examples from Denmark, where the aid agency is known as **Danida** (see IV.4 on the institutional setup). The discussion starts with two simple observations.

### *1.1 The dual markets hypothesis for public goods: the policy market and the project market*

Economists normally say that people demand public goods for their taxes, so the tax is the price paid for the good. Taxes are determined jointly and will be disregarded at present, but there are still two markets as shown on Figures 1 & 2: (a) A *policy market* deciding the policy and budget, leading to its tax component. Often the policy does not specify exactly what should be produced and delivered to whom, so (b) a secondary *project market* comes to exist, where the bureaucracy provides »projects« of service to the recipients, that is, the actual schools, hospitals, roads, etc. Often the two markets are hard to separate. In other cases they are quite different - the Parliament and Ministry of Education decide the education policy, while the municipalities are responsible for the schools. Normally the recipients are a subset of the voters/taxpayers, as shown on Figure 1.

Figure 1. Normal case: Public good consumed by subset of voters and paid by voters



Note: The figure covers a specific public good. Taxes are paid into a general tax fund, so taxes are supplied separately from the public good in question.

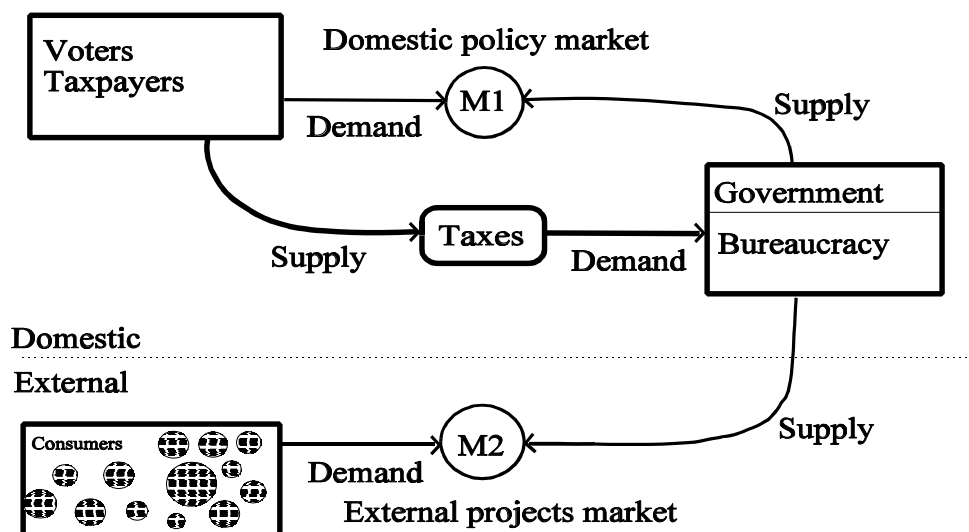
2. When I have mentioned the very word of *cost-benefit* to Danida staff I have met strong and contradictory reactions: on the one hand many has hotly claimed to use these methods, while others have strongly argued that these methods are useless - being narrow technical methods only for economists. I have a strong personal impression that the use of standard project analysis is a very controversial issue in Danida. Anyhow, in my study of 37 projects I encountered 1 (one) full cost-benefit analysis.

In most public goods situations the two markets are thus intertwined as showed on Figure 1, where the consumers are a subset of the voters. In most cases it is a widely scattered subset. That is, the public policy towards the blind is affected by the fact that, even when there are few blind people, they are scattered in the population, and all of us know that we might become blind. Development aid is a public good where both markets are obvious and very separate as shown on Figure 2:

A: The *domestic political market*, between politicians, voter/taxpayers, parties and NGOs, bureaucrats and firms involved in the production. The *general aid policy* is determined at this market. Note that the only agent not present here is the final consumer, so the final demand is - at most - represented by the NGOs, who have their own interests. For aid to continue, there must be enough support for the aid by the voters. This market determines a price and a quantity: That is, a budget/tax on the one side and the principles of the policy on the other side.<sup>3)</sup>

B: The *donor-recipient project market* between Danida and its counterparts in the LDCs, determine the actual *projects*. As the direct price to which the projects are supplied is zero,<sup>4)</sup> the market is supply-constrained. Essentially the LDCs want as much of the free good as they can get. They are thus willing to »bend« their preferences to get these projects. Here the quantity is the (number of) projects and the price is the amount of preference bending done by the two parts.

Figure 2. The dual market situation existing for development aid



A key characteristic of development aid is thus that the two demand sides are separate. The poor recipients of the end-product are far away, and their demand is little known and understood by the wealthy LMC-voters who are the final »deciders« as regards the aid-policy.

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3. It is, as always on political markets, difficult to say what is the price and what is the quantity; but I think that the closest parallel is to say that the policy is the »quantity« demanded, and that the budget becomes the tax-price, at least as seen from the voters/taxpayers side.
  4. The gift element in Danida projects is 100%. However, there are some indirect costs in the form of an informal tying to Danish products and some administrative costs for the donor country.

The separateness of the two markets is important when trying to understand how the policy has emerged. Two sets of explanations are available explaining the policies as consequences of the separateness. (i) Section II looks at the big divide in *values* at the two markets. (ii) Section IV discusses the likely *behavior* of the agents: the bureaucrats, politicians and voters. In between Section III looks at the project decision criteria in a more practical light. Given the goal outcome of the LMCs, what can be done technically. However, before we leave the introduction, there is a paradox to be mentioned. While the LMCs have the largest aid programs, they have the least »interests« in the LDCs.

### *I.2 The lack of concrete interests of the LMCs in development aid*

When one studies the determinants of the development aid programs of the large DCs, it appears that the pattern is strongly influenced by hard interests.<sup>5</sup> It is said very clearly by Samuel P. Huntington in a famous article (Huntington, 1974) that the US aid is an integral part of the foreign policy of the USA. His point is that it is inevitable - even if the US tried, it could not escape from that role.

However, the LMCs have few genuine foreign policy »interests« apart from peace and quiet in their neighborhood and good trade relations. Most of the LMC-countries are reluctant NATO members (basically doing rational free riding on the organization) or neutral. They are small countries, which can have only a marginal influence on the big foreign policy issues - even on their own future in the world. The LMCs are far from the LDCs and they hardly trade. Also, the LMCs concentrate their aid on the poorest countries where the possible future trade interests are small.<sup>6</sup> Finally, the LMCs have no colonial past in the LDCs they help.<sup>7</sup> The LMCs thus have *no real interests in the LDC*.

Sometimes arguments are made that (eg.) the Danish assistance is given for »selfish« reasons.<sup>8</sup> By generating economic growth and good governance, assistance promotes peace and political stability in the world. This makes peace and quiet in our end of the world more likely too. It is further argued that it decreases the inflow of political and economic refugees into Denmark, etc. The numbers involved make such claims seem farfetched: Imagine Denmark spends \$ 300 mil to promote womens' liberation, sustainability and development in Central Africa. Imagine further that it has very positive effect on these goals, and that this reduces political tensions in that region. Is this likely to have a measurable effect on peace in Northern Europe and the number of immigrants into the EU? Actually, economic growth might be politically destabilizing in the shorter run (see Paldam, 1997b).

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5. See eg, the classical articles of McKinley & Little (1978, 1979) or Frey & Schneider (1986).
  6. About 55% of Danish bilateral aid goes to a group of African countries who, when added together, has a GDP, that is approximately as the Danish. Further, they are far away and growing slowly, so the trade interests are small. The Organization of Danish Industry has repeatedly - but in vain - pressed to try to let some of the assistance go to countries which are more promising from a commercial point of view. However, recently an environmental assistance program for middle income countries has been created in the Ministry of Environment.
  7. Norway, Sweden and Canada have had no colonies. Denmark has had Greenland, but Greenland was decolonized in 1953, and now has full home rule plus receives a subsidy of \$ 10'000 per capita per year. This is possible as there are only 55'000 Greenlanders. It is not included in Denmark's development aid. The only ex colonial power among the LMCs is thus Holland.
  8. The nature of the »selfishness claims« of donors is interesting to consider. Are they made in order to convince the voters that it is in their »interests« to support aid? Are they made to make it easier for the recipients to receive the aid? Or do we need more complex psychological explanations?

*The development aid of the LMCs is unusually pure altruism.* It is a most adequate - even a morally compelling - reason for development aid that the world would be a better place if poverty is reduced. However, it is difficult to give and to receive - there are all kinds of feelings, national pride, etc., involved in giving as well as in receiving, so plenty of confusing euphemisms exist in the field. The aid relationship is often termed international co-operation, etc.<sup>9)</sup>

Once an aid program is going on, it creates *stakeholders*. They have all the usual interests, are engaged in rent-seeking and capture, etc., but this is not different from all other public spending programs, except in one way: those benefitting from the product speak with so distant voices that they are very hard to hear. We thus conclude: Between the altruism of the donors and the actual recipients is surely a production process, full of a life of its own. However, that will not be our subject at present.

To introduce the discussion of Section II, the reader may (re-)read the good old story of Table 2 - everybody in the aid business knows it in one version or another, but very often the political process manages to suppress the basic insight.<sup>10)</sup>

Table 2. The »Old Aid Story«

Once upon a time a rich man met a poor one. They talked for a bit. Then the poor man looked a bit uneasy and shyly asked the rich man for advice and help in becoming rich too. The rich man answered: »Oh, you don't want that, all the stress and all these cumbersome material goods, you do not really need. But, I will help you to get a nicer environment. Also, I very much want to change your gender-related behavior. Well, I also have a code of behavior for you. Finally, I will give you a dime each time you invoke the mysterious and wonderful word *sustainability*«.

## II. The big value-divide

The concept of post-materialist values was introduced by Ronald Inglehart (1977). His theory claims that there was a highly significant shift from *materialist values* in the rich Western World during the 1960s and 70s. Economists do not need Inglehart's theory to recognize that the marginal utility of material consumption will fall with income. However, Inglehart's theory was that the shift did not occur gradually, but in a more stepwise fashion. The shift is sometimes seen as a »value revolution«, where the proponents of the new values fought against »traditional« values. And, indeed there was a »youth revolution« from the late 1960s and for more than a decade in most DCs.

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9. Christian theology has given much thought to examining the nature of altruism, how motives can be pure, and the many tortuous ways they can be polluted by moral arrogance, etc. I can make no claims to expertise in this matter; but I wonder if it is a strong argument for moral behavior to falsely pretend that it is selfish?
10. The value divide is now re-appearing parodically in the new Nordic aid programs to the Baltic countries where the key document from the Nordic Prime Ministers endlessly repeat the mantra-word »sustainable«, while very little is said about the wish of the Balts to obtain a Nordic standard of living.

A large literature on political science and sociology deals with Inglehart's theory. Many polls made in most DC have produced a great deal of evidence, giving credibility to the theory - as regard Danish results Barre & Gaul Andersen (1997). Also, claims have been made that a shift back towards »economic« values has happened from the mid 1980s.

Table 3. The five official goals of Danida. (1) has priority, the others are equal

Goal:	Explanation
1. Poverty	Help the poorest in the poorest countries
2. Women	Help women rather than men
3. Sustainability	Improve the environment
4. Humans rights	Further good governance, democracy
5. Economic growth	The »traditional« development goal

Danish aid policy started with the idea that the goal of development aid is to help generate economic growth in the poor countries, so that they become so rich that they can help themselves. The value revolution made this goal old fashioned. During the late 1970s and the 1980s it was supplemented with four additional goals, as listed in Table 3. The last four goals have no priority, though the »growth goal« is often termed the »traditional« one and put at the end. It seems that it is now being pushed upward by some decision makers, but basically it has dropped from being *the* goal to being one goal in a group with four other goals. The change of goals for Danida corresponds neatly to Inglehart's prediction. The five goals are not weighted, but it is said that the goal of poverty reduction is »superior«.

No formal decision-procedure exists in Danida as regards: (1) the way the five goals should be used, (2) how the frequent conflicts between the goals should be handled, or (3) how the superiority of poverty goal should be implemented. It is assumed that the goals enter into the *holistic judgement* on which the decision is based and in the annual country-programming done with the recipient countries.<sup>11)</sup> Section III discuss if a formal decision process could be made that builds upon the five goals.

### II.1 Values in DC and LDCs

The key argument in the DCs for a change of values runs something like this: Our materialism has now made us (DC-people) rich, but we are now rich and enough is enough. We do not need go on pursuing *growth and efficiency* to such an extent as we used to do. It makes increasingly less sense to add more material goods to the pile we already sit on. There are higher values than adding another inch to the TV-screen. Why not go for higher, more *altruistic goals*: upgrade equality, make women and men more equal, make nature cleaner and more beautiful, etc. Inglehart claims that this appeal worked. We all know that it did to a certain extent in the rich countries.<sup>12)</sup>

11. I have been assured from Danida insiders that they do think about these matters, when projects are decided. I have not, however, managed to find much evidence that this is the case, as discussed in Paldam (1997a & b).

12. We working at a university like to believe that we are not working for material goods only. We think that most of us (surely!) could make more money »outside«, but we have more fun and liberty in our present jobs, and - our



This is *not* an argument appealing to the masses in the LDCs. They do not sit on a pile of material goods. They react, as poor people do, when the rich explain how they are much more happy without the stress and the troublesome paraphernalia of wealth, such as too big houses, too much furniture, too many cars, and too rich food, etc. For some reasons the poor tend to treat these arguments as a tasteless and even cruel joke at their expense. This is our big divide. It surely is a problem for development aid.

## II.2 *A problematic theory and the window hypothesis*

Inglehart's theory is not without problems. We all know that a lot of the activities in the DCs are unaffected by the post-materialist values. In fact, a main critique of Inglehart is that most activities in the DCs are very efficient, and fully void of post-materialism. And, efficiency does increase steadily by 2% a year in the DC world. Most human endeavors are surely shaped by hard materialistic interests, and post-materialism does not play much of a role.

However, somehow man needs idealism. When Danes acquire (heavily subsidized) windmills, they do it for the sake of mankind. We all like to be altruistic to some (little) extent. Even hardheaded business people give money to good causes, as do all of us.<sup>13)</sup> The way to see it is probably as an altruistic »window« in the »rational« preference structure.<sup>14)</sup> This is the window through which post-materialist values blow. The rest of the preference structure is materialist, representing efficiency, consistency, etc. One may even speculate that it is precisely because the DC are increasingly materialistic and efficient that the window opens to more and more post-materialism.

How big is the window? That is, how much will people voluntarily give to charity? It appears that it is only a few percent of their income. The Catholic Church used to have the rule of the tithe, and the Koran states that it is a religious duty for the Muslim to give one tenth as well. 10% must consequently be well in excess of what most people will give voluntarily - Gordon Tullock has ventured a guess:<sup>15)</sup> average man would give only 5%.

In the LMCs, public redistribution and free provision of »social« public goods are well above 40% (of GDP); but most is public schemes replacing insurance arrangements and user fees. That is, the redistribution - replacing redistribution within the family. Net redistribution is hardly above 10%. As the public sector takes care of most of the need to be altruistic, there is little private charity in the LMCs, but people demand some altruism for their taxes. Development aid is the most altruistic activity of the Danish state, and as few material interests enter at the policy level, this is the place where all the »normal« materialistic and hard-headed calculations are given a rest. There is little but altruism here! This is the place where, for once, post-materialism can run its course.

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salaries such as they are - do not make us seriously deprived.

13. Phelps (1975) is a conference volume - with some of the stars of the economic profession - discussing »Altruism, Morality and Economic Theory«. See also the classical article by Sen (1976).
14. There is a parallel in the theory of risk bearing. The financial and insurance sectors make a lot of money on that fact most people are risk adverse, but many people have a small »risk-window« in their preferences. They like to gamble a little. Denmark has a football lottery, and a lotto lottery. Both are very negative-sum games, but lots of people play a little. Some of the public sector proceeds is used to subsidize the developmental NGOs discussed in Section IV.5. The risk-window has been elegantly rationalized in the theory of portfolio selection.
15. I think he never presented a detailed argument; but »the Tullock« 5% is as good an guesstimate as any!

### II.3 Fighting value sets - and the big value divide

The post-materialist value »revolution« in the DCs was first a *critique and a rejection* of the old values. The revolution sometimes looked like the real thing, eg., in May 1968 in Paris, but it turned out more like a feast. Young people dancing in the streets to obtain a change of values. Basically society changed very little on the outside. However, since then big waves of »altruism« has swept the developed world. There has been a womens' liberation movement and a wave of environmental concerns. These movements are all based in real problems that has been neglected. They exaggerate the problem wildly out of proportion, and in the end they cause a shift in the direction desired. Not perhaps such a big shift, but a shift nevertheless.

Table 4. Materialist and post-materialist values as relevant for aid programs

A:	<b>Materialistic</b> goals are »economic« ones pertaining to growth and efficiency, such as cost-benefit methods, cost-efficiency analysis, etc.
B:	<b>Post-materialist</b> goals are »altruistic« ones of distributional, social and cultural improvements, womens' liberation and environmental sustainability.
PS:	These values are often seen as a <i>reaction</i> against growth and efficiency.

Note: Altruism is defined as: »regard for others as a principle of action« in the Concise Oxford Dictionary, and as »the principle or practice of unselfish concern for or devotion to the welfare of others (opposed to egoism)« in Webster's Encyclopedic Dictionary.

A critique and rejection of the old values are important parts of the post-materialist condition. »Economic growth« and »efficiency« are almost swearwords. It is against the post-materialist ideology to value things in money. The true believer is against »narrow« economic thinking, and for broader, softer holistic assessments. Cost-benefit/cost-efficiency analysis is precisely what post-materialism abhor, as it is a technique, converting everything into a money metric, so that projects can be compared, using the principle of »willingness to pay«, consumers and producer surpluses, and - oh horror - putting a price on the environment!

Economists can explain that the very nature of decisions is to *choose* between projects. In order to do so, they have to be compared! To close the eyes make no sense. And, why not make decisions as systematic and well as possible? That it is better to get more environmental improvement for the taxpayers money than little, etc. However, such arguments all rest on efficiency. They do not count with a true post-materialist, *who is against efficiency as such*

### II.4 Muddling through the value divide - the problem: project sustainability

The value divide may cause the LMCs to »sell« projects which are designed in the LMCs according to *our* values, and not in the LDCs in accordance with *their* values. In short, we make projects which they do not value. It is well known that development aid has a problem that is variously termed »project ownership«, »project sustainability« or simply the »maintenance« problem:

The project is completed, the personnel has been trained, and now it is handled over to the relevant authority in the recipient country. Will they keep it running if something happens? And, will

they maintain it? Often they will, but too many projects falter and fail. They are the projects where for various reasons there is no local »will« to maintain the project.

The main problem with the value divide is that it generates projects which the recipients do not really want, and such projects have a high likelihood for failing. *To the extent the LMCs manage to build in their values in the projects it increases the project failure rate.* Projects made in the post-materialist spirit are thus likely to fail to obtain *sustainability*. Recipient countries are not likely to feel much project *ownership* to such projects.

We may think that the women in Afriland ought to be liberated. We may even point to many fine UN declarations in this matter and succeed in selling a big project to Afriland, which include a lot of such liberation. However, if the (all-male) decision makers in Afriland - in their heart of hearts - do not agree that this goal should have such a high priority, the project might easily fail after a few years.<sup>16)</sup>

The logical solution for the aid bureaucracy and the politicians in the field - where everybody knows there is a big value divide - is to opt for softness and cover everything in a fat gravy of pious words. If it is sufficiently unclear what we are doing, we can say one thing to the Danes and something else to the recipients, without really lying! Section IV will argue that softness allows everybody wiggle room also in other ways.

### III. What can be done in practice?

If for a moment we forget ideological idiosyncracies and simply ask: Imagine that the Danish voters demand that project decisions take the five goals of Table 3 into consideration. Can it be done in a systematic way?

The first observation is that the human rights goal is mainly relevant for country selection, not for project selection, except as regards a few »democratization« projects. We are thus left with 4 project goals: (1) The goal of poverty alleviation, (2) the women's goal, (3) the environmental goal and (4) the growth goal. In principle, all these four goals can be handled by existing cost-benefit techniques; but once everything is tossed in - at the same time - things become too cumbersome and expensive to handle except for very large projects.

#### III.1 *The administrative purpose of cost-benefit analysis is transparency and controllability*

The heart of decision making is to make choices. To choose, alternatives have to be made as comparable as possible. Cost-benefit/cost-efficiency analysis has the purpose of making decisions transparent and controllable, simply by putting numbers on everything to make projects as comparable as possible.

An organization has to make many decisions. Decisions made by one group of decision makers should not be unacceptable by another group. That is, projects should be similarly ranked by everybody

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16. They accepted the project as they could not say that they were against women's liberation, and as Denmark has an aid program in the country. Also, it did not cost anything. However, after a couple of years something necessitates some costs, and then things are allowed to slide. Maybe the administration appoints a manager who is less dynamic than the average, etc.

in the organization, and the *cutoff point* between acceptable and unacceptable decisions should be the same throughout the organization. To get as near as possible to this ideal,<sup>17)</sup> decision criteria should be made as explicit and quantitative as possible.

If decisions have to be *improved*, it is important that one can go back to old decisions and see what assessments were right and what were bad - that is, experiences always accumulate in the minds of the decision makers. They teach others, so organizations accumulate experience, but they also accumulate biases and idiosyncracies. The more things are quantified and written down explicitly, the easier it is to control if an experience is not, in fact, a bias.

These arguments must surely appear trivial to the reader. They are supported by a literature on project analysis. The standard technique has been developed to handle poverty, women and the environment, as will be discussed in the next section.

### III.2 *Cost-benefit: the environment, poverty and women*

Cost-benefit analysis basically builds upon the growth goal, but it is used in a very broad way. The method has been developed to take account of additional goals, such as the environment, poverty and women. Some of the extensions have been more successful than others.

**Environment.** The most successful field is the environment. Here great progress has been made, and textbooks and manuals have been written, see Dixon et al (1994). Often projects have small environmental effects, so all that is needed is a brief comment in the project appraisal report that this has been checked and found irrelevant. In other cases the effects might be large, and there might be difficult pricing problems, but the methods are actually used, eg., by the World Bank - though even here there are complaints that these corrections are often forgotten.

**Poverty.** The method of *social cost-benefit* was developed for exactly that purpose. The key idea is to use specific welfare weights for different income-groups - incomes accruing to poor people should be given a higher weight than incomes to rich people. The weights should be chosen so that a poverty-neutral project has the same benefit/cost ratio in the weighted and the un-weighted calculations, while projects that affect poverty give different results in the direction desired. The weights will by necessity be a bit arbitrary; but with experience it should be possible to reach a workable and reasonable calibration.

The method was taken to hold high promise at a time; but it is not considered a promising method in most textbooks anymore. It appears that a (British) consultant once tried to use that method on a Danida project, but that has been the extent of its use. Several other aid agencies did try more systematically, but it appears that they gave it up for two reasons:

1. Its use demands a great deal of data.
2. It looks on the *short run direct effects* only, and they are not - by far - as important as the total

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17. Strictly speaking, all that is necessary is that everybody in the organization uses the same cut-off point, so that they agree if an arbitrary project is accepted and rejected. However, for this criteria to be fulfilled for different cut-off points it translates into the criterion mentioned in the text.

longer run effects, which are often quite different, as discussed in III.3.

**Women.** The method of social cost-benefit is relatively easy to use for a *gender cost-benefit* analysis. One simply weights primary project income accruing to women higher than income accruing to (their) men. It makes less demands on data as it is much easier to tell people's gender than their income. Also, while projects affect income, gender is exogenous. However, there is the problem (suggested) that women and men tend to form families, with a joint economy, but perhaps power relations within the family depend upon the external income of the family members. To my knowledge nobody has tried to apply gender cost-benefit analysis.

Sometimes it is argued that the womens' goal is a simple *efficiency devise* to make sure that women are considered in projects. That is, women are half the labor-force, and that half is typically underutilized and undereducated. It must consequently have higher marginal productivity, and so must investment in its human capital. In an agricultural project one may compare two educational packages that has different gender weights. It would appear likely that the package with the highest weight on educating women is the more efficient package. These effects are all caught by *standard* cost-benefit analysis if the alternatives are analyzed.

There might be a problem remembering including such alternatives among the ones covered, but it is not a methodological problem. A methodological problem only occurs if the purpose of the womens' goal is to chose projects helping women *contrary to* efficiency. Then one needs different welfare weights for women and men. I cannot help feeling that one should start doing what can be done within standard methods before opting for more fancy techniques.

### *III.3 From social cost-benefit to the income distribution*

Social cost-benefit analysis may, then, be used to analyze the short-run direct effects of the project on poverty. This does not, however, make it an adequate instrument to study the effects of projects - or sector programs - on the income distribution. Unfortunately, the income distribution is a poorly understood complex, multi-dimensional and dynamic phenomenon. Here neither of the social sciences have much to boast about. That is, we are rarely able to predict - or even ex post assess - the effect on the income distribution of a project. If a project remains an isolated »island« in the economy till it closes, the direct effects tell most of the story, but if a project starts some development, there are dynamic effects on the income distribution. These effects are hard to trace and much harder to predict.

The most successful aid project ever is probably the Rice Research Institute (in the Philippines) which developed the hybrid »miracle« rice. That breakthrough generated a »green revolution« in a number of countries. In India it caused a large upward jump in food production - probably no less than a doubling over only 25 years! In the beginning several studies showed that the green revolution made the income distribution skewer in the agricultural sectors of the countries, where it spread most rapidly. However, the poor in the towns benefitted. When we take a broader and longer perspective, the distributional consequences becomes very uncertain. I doubt anybody really knows. When we look at the long and seemingly reasonably good time series of Gini-coefficients for India, it is hard to find any sign that there has been a Green Revolution.

I know of no Danida project where a thorough analysis of the total longer-run distribution effects has been made - the largest Danish attempt is Danida (1996). The main result of that exercise was negative in the sense that it showed very unclear distributional effects of the aid programs in 3 countries. Also, I think that no study exists to show that a link exist between the total aid streams and the distribution at the macro level. So, basically, it is a futile exercise to try to include distributional goals in our project decision criteria. One of the most experienced development economists Arnold Harberger (1984) once proposed that we do not even try, given the present level of knowledge.

#### *III.4 Simplification: can rules of thumb be developed?*

It appears (see Kirckpatric & Weiss, 1996) that there is a movement away from the more advanced towards the more simple in cost-benefit analysis. In particular, it appears that shadow prices are on the way out. There are probably two reasons why simplification is the order of the day: (1) The LDC-economies are becoming more market-oriented, so fewer corrections for distortions are necessary. (2) Experience has shown that transparency has a premium - each correction also allows manipulation and with a set of shadow-prices included transparency vanishes.

Assume that the LMCs want to develop a technique that takes their ideals into consideration - and at the same time is so simple that it can be used in practice. Is it possible? In my opinion the answer is no! However, it would probably be possible to develop a technique that is based upon standard cost-benefit and adjust for one of the additional goals at a time. I think that the realistic course would be to start trying to correct for the most important goal first: that is poverty alleviation.

If a serious attempt is done for a decade that would also allow us a powerful test of the age old question: Is there a difference - at the project level - between alleviating poverty and increasing growth? That is, a difference that will eventually shown at the macro-level.

#### *III.5 The limits of cost-benefit*

Three points have often been made against cost-benefit analysis:

- cb1 The method has not been developed to cover all projects.
- cb2 The method can be misused.
- cb3 It gives a false impression of science.

It appears that cost-benefit methods can be used for about half the projects done by Danida, but not meaningfully to the rest. But then, cost-efficiency calculations can be applied to the rest. That is, one cannot calculate a benefit/cost ratio to an individual school, but one can study the return to human capital in a country to find out if the school system should be a priority area, and how priorities should be allocated within the school system. Then one can apply cost-efficiency methods to the individual school decisions.

As regards misuse, it is obvious that the method can be misused: One can *manipulate* a cost-benefit analysis simply by predicting too large benefits and too small costs. However, the key point is that it is much easier to manipulate without, where one does not even have to distort numbers! And,

afterwards it is much easier to see where manipulation has occurred. So presumably manipulation will decrease. This argument is further discussed in Section IV.1.

The (cb3) argument is that cost-benefit methods have a jujitsu-quality, like the white coat of the modern medicine man. Only the well-trained insiders understand the technique, and the common man and even politicians do not understand. Hence, it is the technique of the technocrat. It is like the big impersonal apparatus and the modern medicine versus the village sage, who can cure (almost) everything with her hands, and wise words, at least for a time.

In fact, the modern techniques of project analysis are not very modern and neither are they very technical (though they can be made to look so). Therefore, they are not terribly difficult to master - three-four weeks of study of an app 200 page textbook should suffice.

#### **IV. Bureaucrats, politicians and voters: Softness is power and wiggle room**

The average LMC is small relative to the problems of the countries it helps. That is, Denmark has chosen a group of 20 LDCs to co-operate with. In average they receive perhaps 0.5% of their GDP in assistance from Denmark and perhaps 2% from all LMCs - in total they probably receive 5% in development aid. Total aid is thus considerable, but seen from the point of view of a LMC aid agency, they are financing a small drop of projects among the many possible. Essentially, it is fairly arbitrary which of many possible projects each agency ends up choosing.

Above we have already discussed one theory that explains criteria softness. This is the value divide theory, softness is at the same time an outcome of the post-materialist critique of efficiency from LMC-voters, and at the same time a necessary device for the bureaucracy confronted with the value divide. However, we have two more explanations for the softness: the general interests of the bureaucracy - to be discussed in IV.2 - and the interest of the politicians:

For the LMC-politicians directing the aid programs it is obvious that softness is equal to power, in the sense that power is the ability to make discretionary decisions. The more everything is founded in transparent technical analysis, the less space is left for discretionary decisions - cost-benefit does constrain the decisions of politicians and bureaucrats.

When a LMC-minister visits a LDC, it becomes painfully clear what is implied. He wants to be able to take some decisions, so that the visit is a success, and he is treated with the respect becoming for a visiting dignitary. The result is always some projects - often projects not negotiated in advance. Many LDCs know this, and are thus keen on inviting DC ministers.

##### *IV.1 The factor of project manipulation*

Given that choices are somewhat arbitrary, it is likely that they are made in many ways. I have often been told stories about concrete choices. Maybe there has been an official visit, and the ministers have agreed. Maybe there are pressures by firms wanting deliver certain goods, and a political compromise was made. So, there is always informal process of decision making at a higher level, full of pressures and politics, trying to influence the project decisions.

One may argue that the informal decisions produce one set of projects, **D**, while the optimal set is, **W**. There is perhaps some overlapping of the sets, but they are surely different. It is a very time consuming and difficult process to find **W**, and maybe it is impossible. There are always two processes at work in the decision generating bureaucracy:

- (+) A process pushing **D** → **W**, by cutting away bad decisions and improving the rest. This is the process of *rational project analysis*.
- ( ) A process where the bureaucrats rationalize the de facto decisions of the **D**-set, so that they can be formally approved - this is a process of *project manipulation*.

Manipulation occurs for three reasons: (a) The decision makers behind the informal decisions are often higher up in the system, and it furthers the careers of the lower bureaucrats to rationalize. (b) It reduces trouble if everybody agrees. (c) For corrupt reasons - this is rare in the LMC aid administrations.

By making the decision process more formal and transparent project manipulation is reduced. This is especially likely, if everybody knows that somebody goes back to old project analysis and looks at the most glaring differences between expected and actual outcomes. Such differences are often innocent - project analysis is difficult - but sometimes they point to manipulation.

By making the decision process softer, manipulation becomes easier. If the process is sufficiently soft, nothing can be checked afterwards. After the lapse of some time, nobody can see why decisions were made.

#### *IV.2 Bureaucratic interests: The Niskanen view*

Aid programs are administrated by bureaucracies, and a great deal is known about bureaucratic behavior. The theory has recently been summarized by Wintroppe (1997) and Moe (1997). The main line of thought goes back to Niskanen (1968, as recently republished in 1994). His theory, as it has developed ascribe three sets of motives to a bureaucracy:

- m1 The professional motive of doing the job at hand as well as possible.
- m2 The growth motive: to increase the size of the bureaucracy at all levels.
- m3 The slack motive: to increase the benefits accruing to the bureaucrats.

In order to maximize in all directions, the bureaucracy wants to:

- a Maximize the budget.
- b Make its activity so uncontrollable as possible - this can be done by making information to outsiders as scarce and unclear as possible.

The bureaucracy obtains its funding from a funding agency, ie, the parliament/government. They demand information, and slash budgets when they discover slack, so a complex game occurs, with a whole spectrum of outcomes are possible. Niskanen's own »favorite case« is one where all functions are linear, and the bureau manages to obtain a budget that is twice as large as necessary. However, in his example motive m1 is not included, as it serves to keep the car on the road. We all know cases where something like that has occurred. However, in other cases motive m1 has proved strong.



It is obvious that the theory explains a great deal of what we observe: (a) Danida does have a large and growing budget, and (b) the softness of the criteria does help to exclude outside control. It is hard to tell why projects are approved - in my own study I had great problems defining a scale for project success. However, there are one main problem relative to Niskanens theory. Danida is a remarkably small organization. Even if it is far from »mean«, it is certainly »lean«.

#### *IV.3 Bureaucratic interests: Spending the budget*

Danida only employs about 300 civil servants administrating an aid program of 10 bil DKr (1.4 bil US \$) of which half is the bilateral program. They do use a rapidly growing group of expensive consultants, so the story is complex, and it would be a very large job to calculate all costs and estimate the amount of slack. However, we can make two conclusions:

1. The smallness of the staff makes soft project criteria highly desirable.
2. The soft criteria are in accordance with Niskanen's and all of the later theories of bureaucratic behavior as per item b above.

Hence, a dual decision situation occurs, where one set of values dominates the Danish political decision process, and an altogether different set dominates the LDCs demand for aid. A big divide has emerged. To maneuver the (small) semiprofessional bureaucracy of Danida has on the one hand developed big altruistic goals for the Danes, and on the other hand a soft, shifting, qualitative decision process aiming at the LDCs, thus trying to make everybody happy.

#### *IV.4 Professionalism and deprofessionalism*

Not only is the Danida staff small, but it is *partly integrated* into the *Danish Foreign Service*. Formally, Danida is the »South Group« of the MoFA (Ministry of Foreign Affairs). However, Danida has always employed technical professionals: engineers, agriculturalists, anthropologists, etc, who are of little use in the diplomatic service, which employs mainly law graduates. As everybody works in the MoFA, there is long history of bureaucratic infighting between the *professionals* and the *integrationalists*. It has been going on within the MoFA/Danida, in the embassies and in the civil service as such. In 1991 the integrationalists finally won, and it was decided to go for a full formal integration. There is also an increasingly vigorous policy of staff circulation between diplomatic and project positions.

It is difficult to find measures for the amount of circulation done. The assessments vary. There is no full integration, but the integration is real and it is increasing. Also, MoAF employs few economists. The ministry is dominated by people with no project expertise, and those having such expertise have to communicate all they are doing to people who are basically diplomats. This also demands softness of all key project documents.

#### *IV.5 The NGOs and the aid coalition*

In the end the budget of Danida can only be sustained if the voters and a sizable pressure group support the policy. We have seen that many donors have experienced a lack of support for the aid programs and during the last 10 years the aid programs of many donor countries have been cut. This even applies to the programs of more than half of the LMCs: Canada, The Netherlands and Sweden. They have been hit by the wave of »aid fatigue«. We shall now look at the political economy of domestic support.

No exact numbers exist, but it appears that there are about 15'000 Danes organized in about 250 NGOs, that is unions and clubs organized to co-operate with LDCs, discussing their problems, etc. There are probably 2-4 times as many Danes interested in LDCs and Aid. The four largest NGOs are MS, IBIS, Danish Red Cross and Danish Church Aid. The first two switched to development after their original purpose faded away. They would have died, if they had not managed to develop a new *raison d etre*. The last two came into development aid from emergency aid - though, of course, the Church has run overseas mission for a long time. One may term these 15'000-50'000 people the Danish »development grassroots«. Together with the (other) stakeholders they constitute the »pressure group« for development aid in the country.

The NGOs have two main jobs: (i) About 10% of the Danida bilateral budget - almost \$ 100 mil - is reserved to NGO-projects. The four NGOs mentioned are by far the largest here. (ii) They receive about \$ 3.5 mil from Danida for informing the Danes about LDCs. This sum plus a couple of extra millions from other public funds, constitute 80-90% of all domestic costs of running these NGOs. There are also some exchange of personnel. Notably from the NGOs to Danida. Finally, Danida has appointed representatives of all the main NGOs to sit in a special Danida Council advising the organization on the policies pursued. Everybody is thus opted in as one big family.

It is common to see that firms and pressure groups capture regulatory agencies and other public bureaucracies. In the field of aid policy the situation is different - almost the reverse. Organizations

created for other purposes have somehow (been) turned into an almost fully publicly financed pressure group »behind« the Danish development aid. The term NGO is surely a misnomer for these organizations. However, the capture is complex. For Danida does not really control the organizations, and they do perform an essential service for Danida in organizing support, so there is an element of mutual capture involved.

The reader will note that the story can be told in two radically different ways. The *good version* is the story of an administration working democratically with the grassroots for the benefit of the poor in poorest countries. The *bad version* is the story of a bureaucracy creating and lavishly financing its own pressure group fighting to sustain its budget. There is a great deal of truth in both versions. When a representative of one of the big-four NGOs speaks, one often has to listen very carefully to discover that is »a grassroots and not a loyal staff member of Danida defending the company line.

The broader policies are reached as a consensus. If group A wants goal A and group B wants goal B, a compromise is reached: Danida should have both goal A and B, and - not to create disagreement - it is resolved that the two goals are equally important. In the process the five goals of Table 3 have been reached, and it is job for Danida somehow to pursue all goals at the same time. So, perhaps it is as well that Danida is an organization of diplomats!

#### IV.6 *Danida and the voters*

During the last 35 years where the aid has grown steadily from a very modest start till 1% of GNI, a total of 42 polls have been made, trying to analyze the support of the voters for development aid.<sup>18)</sup>

The most well known data is the series of 21 polls from Gallup. They show a high - and rising - support for aid. Roughly 75% of the Danes support aid, when asked if they »Think that Denmark should help the poor countries«. However, the question posed has been reformulated three to four times, and if the series is adjusted for these changes, it is void of any trend. We hence know that if the Danes are asked in broad, general terms there is a 75% support for aid. However, once the question is made more concrete the support falls dramatically, and it even appears that there is a downward trend. A question as »Should Denmark increase aid from the present 6'500 DKr (about \$ 1'000) per family?« would probably meet with approval by less than 10% of the voters.

When small changes in the question causes polling results to change dramatically, we know that the subject examined has low *saliency* to the voters. This is also confirmed by the polls frequently asked: What is the problems you worry most about? Here unemployment (when high), inflation (when high), crime, environmental deterioration, etc. are fighting for the top position, but the poverty in the poor countries seems never to reach a prominent place on the lists.

Under these circumstances it is not perhaps so strange that Danida does all it can to build up coalitions with such groups as are representing the main post materialistic goals. This is done simply by adding their goals to Danida's goals. We have hereby reached the list of Table 3, and at the same

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18. The polls are discussed in Chpt II.2. of my book. It is based on a more comprehensive background paper by Peter Nannestad.

time we have reached a general policy that is largely irrelevant when it comes to actual project selection.

## **VI. Conclusion**

The above analysis explains the »soft idealism« of the LMC development aid ideology, using the Danish policy as an example. The explanation is complex:

One explanation is the big value divide: on the one hand it is the necessity to build a coalition in the LMCs behind the aid. The voters demand altruism of their aid program and altruism is expressed as post-materialism. On the other hand, post-materialism is irrelevant in the LDCs. The answer to this dilemma is softness and plenty of pious words.

Into this comes the usual explanations provided by the Niskanen type of theory of bureaucratic behavior. Softness is unclearness and uncontrollability. And, there are many political and other pressures demanding project manipulation. Some of these pressures have to be accommodated. Here also some softness is needed. There is the problem that Danida is a small bureaucracy handling a large budget, subject to a deliberate process of deprofessionalization.

It all adds up to a policy that is both very idealistic and so unclear that everything can be accommodated - here the standard methods of project analysis becomes a problem.

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