

Her Majesty's Aid:
A Principal–Agent Analysis of Development
Assistance in the Late British Empire

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IPES 2024

Motivation

Can the international community help build states?

- ▶ Post-conflict reconstruction.

Blair (2021); Doyle and Sambanis (2000); Fearon and Laitin (2003); Fearon and Laitin (2004); Fortna (2008); Krasner (2004); Lake (2016); Lee (2022); Sexton (2016)

- ▶ After financial crisis

Fishlow (1985); Maurer (2013); Queralt (2022)

- ▶ In normal times?

↳ This paper \Rightarrow Can Official Development Assistance (ODA) support state building efforts?

Contribution

- ▶ Existing evidence suggests that aid leads to

1. Fiscal relaxation
2. Corruption

Bräutigam and Knack (2004); Combes, Ouedraogo and Tapsoba (2016); Devarajan, Azam and OConnell (1999); Ghura (1998); Gupta, Pivovarsky, Clements and Tiongson (2003); Heller (1975); Marineau (2020); Moss, Pettersson Gelandar and van de Walle (2006); Remmer (2004); and Svensson (2000)

- ▶ I reexamine the effect of aid drawing from **principal–agent theory** and show conditions under which *aid makes states*.

Why aid fails?

Two-tiered principal agent problem:

1. Donor and **recipient's leadership** do not share preferences over the mission's goal
 - ▶ Donor seeks to build local capacity
 - ▶ Local leadership do not (e.g., distributive politics)
Berman, Lake, Padró i Miquel and Yared 2019; Chiovelli, Fergusson, Martinez, Torres and Valencia Caicedo 2024; Gailmard 2024; Spenkuch, Teso and Xu 2023
2. **Local bureaucrats** responsible for aid administration do not advance the mission's goal
 - ▶ Poor incentives to apply for impactful projects
[Ghani and Lockhart 2009; van de Walle 2001]
 - ▶ Once funds are disbursed, weak incentives to exert effort to implement the project
[Khan, Khwaja and Olken 2019; Wane 2004]

Design

How do we test agency issues?

- ▶ Recipient's "type" (committed vs. not) cannot be randomized
- ▶ Local bureaucracies cannot be easily manipulated to set the incentives right.

Use history

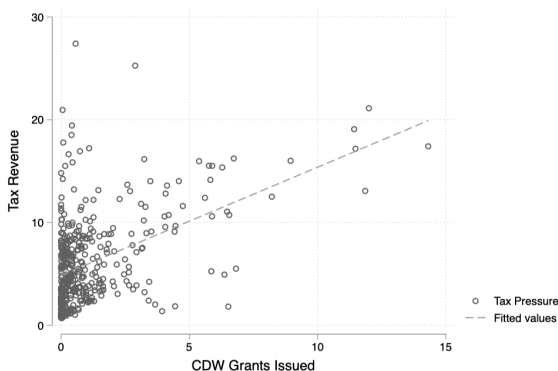
- ▶ British imperial aid initiative launched in 1929, the *Colonial Development & Welfare* (CD&W) fund.
 - Recipients: 54 colonies without self-rule
 - Top-down program run by Colonial Service
- ▶ I leverage reforms in Colonial Service starting in interwar years that:
 1. Recruited mission-committed bureaucrats (agency issue #1), and
 2. Offered performance-based incentives to promote within colonial bureaucracies (agency issue #2)

The CD&W Program

- ▶ About 0.7 of British GDP.
- ▶ Funds represented 11% of colonial budgets
- ▶ **Fiscal Mandate:** projects were co-funded between colony and metropole
- ▶ Sample (this paper):
 - ▶ 12 African colonies
 - ▶ 1929 until independence
- ▶ Address two questions:
 1. Was the fiscal mandate met?
 2. And why?

Evidence #1: Aid expanded Tax Proceeds

Figure 2: Tax Pressure vs. CD&W Grants in British African Colonies, 1929–69.



Note: Tax pressure and CD&W Issues are expressed in per capita, constant value.

- ▶ Holds under multivariate regression
- ▶ **Identification strategy:** shocks in British Balance of Payments
 - ↳ A one-standard deviation increase in imperial aid expanded colonial taxation by 5 percentage points.

Mechanism

- ▶ Why Did Imperial Aid Work?
- ▶ Two-tiered principal–agent issues:

Part 1: Recruitment Reforms

- ▶ **Reforms:**

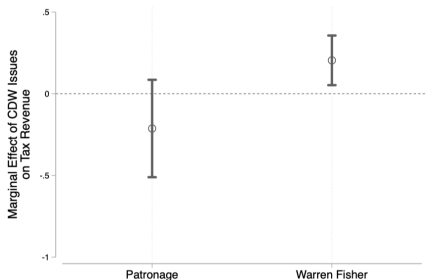
1. End of patronage into colonial governorship in 1930 (Warren Fisher Committee)
2. New recruitment into the Colonial Service followed by specific training starting in late 1920s.

- ▶ **Design:** Leverage recruitment reforms into colonial governorship to see whether non-patronage and career governors, assumed to share the mission's goal, were better at meeting the fiscal mandate.

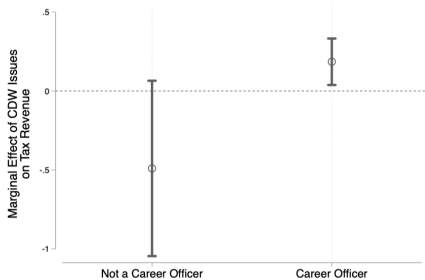
- ▶ **Data:** professional trajectory of 80 African governors:

- ▶ Did they assume their first governorship before/after 1930?
- ▶ Were they career officials (vs. military, private sector, connected)

Figure 4: Recruitment and Fiscal Performance



(a) Appointment



(b) Background

Aid expands local taxation under non-patronage governors (left) and career governors (right)

Part 2: Promotion incentives within the Service

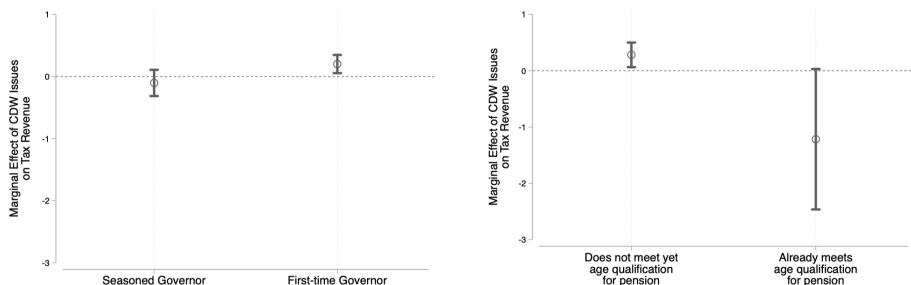
Context: Civil Service reforms made salary and promotion contingent on **performance** at every rank, including colonial governors.

Design: Leverage two critical stages in the life of a governor:

1. First reappointment
2. Qualifying for (golden) governor's pension
 - ▶ Two requirements for latter:
 - i. Serving a minimum # of years as governor
 - ii. Meeting minimum age
 - ▶ **Strategy:** I focus on governors who already meet requirement (i), and observe whether effort changes once they meet requirement (ii), using governor FE.

Promotion

Figure 5: Career Incentives and Performance



Aid expands local taxation when governors postulate for their first-reappointment (left) and while they do not qualify for retirement pension (right).

Summary

Main Finding: Development aid can help build capacity provided that the two-tiered agency issues are addressed.

Design: The historical setting provides an opportunity to study the performance of development aid before/after agency issues are tackled.

Lessons for modern-day foreign aid:

1. Give aid only to “reformist” [Collier 2007; Killick 1998]
2. Reform local aid bureaucracy *before* development funds are disbursed [Ghani and Lockhart 2009]
3. Co-funding helps align incentives.