

The Effects of Aid on Recipients' Reputations: Evidence from Natural Disaster Responses

Allison Carnegie and Lindsay Dolan

Columbia University

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The Puzzle: Aid Rejections

Question: Why do governments reject foreign aid?

- India rejected aid in every natural disaster since 2004
- Iran frequently rejects assistance: 2012 and 2004 earthquakes
- Chile initially rejected aid after 2010 earthquake
- Japan rejected assistance after the 1995 earthquake
- And many more!

Answer: To Signal Competence Even When They're Not

- Competent, fully prepared governments have no need for aid
- Incompetent governments reject aid to fool domestic and international actors into thinking they are competent
- However, governments only reject aid when:
 - They have the ability to send a credible signal
 - They care less about citizen welfare relative to retaining support
 - Rejecting aid is crucial for maintaining a good reputation

- Formalize this argument
- Generate hypotheses about when governments reject aid
- Test these hypotheses empirically
- Discuss implications and extensions

A Focus on Natural Disasters

- Ideal area to test our claims:
 - Tough case for theory as humanitarian aid may seem more necessary
 - Prominent, important event- citizen and intl awareness high
 - Mitigates some endogeneity concerns
- However, logic applies to many types of assistance

Signaling Model: Set-up and Utility

- Two actors: government G , observer O (domestic or international)
- G comes in two types
 - Prepared: ready for potential disasters
 - Unprepared: not ready for disasters
- G 's utility: foreign aid receipt cost and benefit, support of observer
- O 's utility: G 's valence advantage, prepared government in power, citizens receiving public services

- Nature draws a type for G ; G is prepared with probability r
 - O does not observe G 's type, but G does
- A natural disaster hits. G chooses whether to accept aid
- O chooses whether to support G
- Payoffs accrue

When G Rejects Aid

Four potential cases: Both types reject, both accept, prepared rejects and unprepared accepts, unprepared rejects and prepared accepts.

Equilibria:

- **Prepared rejects and unprepared accepts**
- **Both types reject**; O supports if reject and not if accept.
- Rejection by the unprepared type occurs when: G cares about support more than aid, is somewhat supported, r is high so signal is credible

Table : Choice of Aid Acceptance versus Rejection

	Gov Not Prepared (Not Able to be)	Gov Not Prepared (But Able to be)	Gov Prepared
Values Aid Most	Accept Aid	Accept Aid	Reject Aid
Values Support Most	Accept Aid	Reject Aid	Reject Aid

Empirical Strategy: Case Selection

- Examine all immediate natural disasters since 2004 with over 50 deaths
- Natural disasters include: earthquakes, tsunamis, hurricanes, floods
- Data collection ongoing (Disaster data from EM-DAT)

Variables Coded

- Dependent variable: Whether the government rejected aid
- Key independent var 1: Competence. Coded using news reports. Potential for adequate response: GDP, strength of institutions
- Key independent var 2: Reputation. Popularity-polls; investment climate-ease of doing business index; middle power status-military spending
- Key independent var 3: Concern for citizen welfare: Human rights record, political power of victims

Examples from each category:

- Gov not able to be prepared: Haiti 2004 earthquake
- Gov prepared: Thailand 2004 tsunami
- Gov almost prepared and values citizens most: Chile 2010 earthquake
- Gov almost prepared and values support most: India post 2003

Example of Aid Rejection: India

- Always accepted aid until 2004: 2004 Bihar floods, 2002 Bengal cyclone, 2001 Gujarat earthquake...
- But rejected aid after 2004 tsunami– killed 12,000, displaced 600,000
- 2005 Kashmir floods– destroyed 2,500 villages, displaced 5 million
- 2005 earthquake– killed 1,300, displaced 30,000
- In each case, prominently claimed not to need aid
- “We feel that we can cope with the situation on our own;” “We ourselves are taking care of our victims”

But Experts Disagreed

- After 2004 tsunami, relief efforts called “chaotic” and “pathetic” by NGOs and UN
- 2005 flooding: “There was simply no disaster management”
- Audits found the government unprepared and ineffectual
- Lack of “deployment or suitable manpower, equipment, and training”

So Why Reject Aid?

- Growing aspiration to become a global power
- Coincided with military build-up, bid for permanent seat on UNSC
- NYT: Rejection “says a great deal...about India’s own ambitions to assert itself as a world power”
- Also did not want to look weak domestically - new gov in 2004
- “By receiving outside assistance, the logic went, India could look weak to its domestic population” (Werker 2010)
- Low human rights scores at this time; rejection “seems to show the government does not care enough for the people” (US official)

Conclusion

- Foreign aid can undermine recipients' reputations by revealing that governments can't provide for their citizens
- In response, recipients strategically reject foreign aid when doing so sends a credible signal, is crucial for a good reputation, and they care about support over aid
- Our findings make a strong case for further investigating the consequences of aid for reputation
- Makes sense of puzzling cases in which recipients reject foreign aid
- Implications for policy: aid branding, method of aid provision, etc.
- Next steps: More data collection, survey experiment?