Greening Aid? Understanding the Environmental Impact of Development Assistance

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Edited Transcript – Michael Tierney

Good afternoon. My name is Mike Tierney. I'll start us off today and then I'm going to turn it over to Timmons Roberts and then to Brad Parks.

First I'd like to thank all of you for coming today and I give a special thanks to the Wilson Center for sponsoring this event and for the World Resources Institute for co-sponsoring it. We really appreciate the opportunity of this sort of public type of forum to share our research with you. I'd also like to thank our discussants, Manish and Robert; I really appreciate your thoughts on this.

Today what we'd like to do is talk to you about our new book and talk about the project-level aid database. The book is really the first major piece of research that has come, that has been published, that uses the database. There have been a few articles that have come out before that. What we do in the book is something a little bit different than what most people have done who study environmental aid allocation or environmental aid effectiveness.

We take a bird's eye view, really I suppose it's more of a satellite view. It's very, very far away from the projects on the ground. And there's an enormous amount of very good work that needs to be done doing case study analysis and process tracing that's right down there in the trenches. Either if you're looking at the allocation side or the effectiveness side. What we do is use very, very large number of observations to give you sort of a satellite view of these patterns over a long period of time. What we try and do in the book is to describe and then explain these patterns.

So Manish has already done this a little bit for me so I'll be quite brief. Why does this topic matter? First, there's a lack of reliable information that's out there on who's given what to whom and how much and for what? And if we want to hold donor's accountable or recipient governments accountable for the promises and the commitments that they make, the first

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thing we need to do is know who has made what commitments and then who has given what money. We need a clear descriptive picture in order to make political judgments or in order to make moral judgments. I think we've taken one small step in that direction.

So when we looked at the history of development and the environment we noticed that the promises from the donor community, whether we're looking at Stockholm or Rio, Johannesburg, Gleneagles, they're actually quite similar, and I think Timmons is going to talk a little bit about the degree to which those promises have been kept and how that varies by donor.

Second, it looks like I have lots of number ones up there.

Another important point, another number one, environmental aid is key to securing developing country participation in environmental agreements. This was certainly true with the Montreal Protocol Agreement. If you want to reduce CFC emissions, you had to get developing countries on board. And in order to get them on board you needed to help compensate, you needed to help pay some of the costs of making that transition.

Any post-2010 global climate accord is going to be much more expensive and it's certain, a component of that as Manish suggested, is going to be using official assistance to provide the lubrication, the grease to do a deal, to come to a cooperative agreement to address these global problems. And the amounts being discussed for that kind of cooperation dwarf the amounts of aid that are discussed in our book.

Third, allocation patterns shape expected effectiveness of environmental aid. This book is not about aid effectiveness. It's about the allocation of aid; however, we think it has real important implications for aid effectiveness. First, there's a growing consensus in the political economy literature, people who study development. There's a growing consensus that recipient countries with particular types of domestic institutions and domestic policies are more able and are willing to use aid effectively so it achieves the results that were intended by the donor and possibly even the recipient. If you give to countries with sound policies and sound institutions, it's more likely you're going to get more environmental bang for your aid buck.

Another way of looking at aid effectiveness is to think about, well, if we're giving aid in order to protect the environment or fix environmental damage that's already been done, you

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want to make sure the aid is flowing to countries that need it. Does aid flow to countries of highest environmental need? If you compare countries in terms of their natural resource endowments, giving environmental aid to Chad and giving environmental aid to Brazil might give you very different payoffs, just in terms if you think about the global stock of environment, environmental goods.

There's been a lot of previous research that's been done on environmental aid, but whether you are a government agency or an international organization or a private researchers, there is a consensus that the type of data that we've had to date has not been adequate for analyzing aid allocation. I won't read all these quotes for you, but from the IPCC all the way down to some of the leading scholars of international political economy, I think there's a real consensus that the type of data that we have presently is not adequate for the kind of analysis that we need to do.

So the Project-Level Aid (PLAID) project was launched in 2003. It actually started like many research projects at William and Mary start, as an undergraduate honors thesis. Brad Parks was a student of mine. He was a student of Timmons Roberts and he was a student of Rob Hicks and after the honors thesis defense we all agreed that this was one of the best theses we'd ever read and we told Brad that he needed to turn this research into a book. And he agreed to do that on the condition: that we write the book with him.

And so we went to a bar, and we got out a napkin, and we jotted out what the book would look like and decided we could write this book in the summer of 2003. We would use the data that everyone else used. We used the OECD DAC data. Brad's research was on Bilateral Aid Allocation, my research was on Multilateral Aid Allocation, put a few theories together, dress it up and we'd have a book five or six months. Well, that was five years ago and now we have a book.

What we discovered in that summer, we discovered it quite early was the data that Brad had used in his thesis and the data that many of the rest of us had used to analyze aid effectiveness or aid allocation had some serious problems. And I'm seeing nodding heads out in the audience so I know some of you have used these data in the past.

So the project started as a, we had an empirical question that we wanted to answer and we didn't have the right kind of evidence that would allow us to answer our questions. That's what drove us at the beginning. Over the last three or four years we've discovered that

building a resource like the PLAID Database has many other applications. So people in the real world at USAID, the World Bank, the MCC, the NGO community have been interested in the PLAID Database for other reasons. And I think we can exploit that for a variety of purposes, not just for academic research.

Very briefly, we collect bilateral and multilateral aid data at the project level. We try to do it from 1970 till 2000. The data in the early part of the time series is not quite as good as that in the end. We only collect data from official sources, that is governments or their multilateral agents, multilateral organizations whose members are governments. We do not collect data on FDI; we do not collect data on private donations. And I would agree with Manish, this is an area that we need to look at, and especially since an increasing amount of development flows from private foundations and non-governmental organizations.

We have 21 major bilateral donors in our database now and more than 40 multilateral donors, 428,000 projects and 2.3 trillion dollars. This summer many of the students that are in the audience here, they're smiling up at me. They're helping us to do PLAID 2.0 so we are updating the database through 2006 and we are adding emerging donors and a variety of different fields in the database. Again, based on mostly our research interests and the interests of our collaborators in the NGO community.

All the projects in the Project-Level Aid database are systematically coded based on their expected environmental impact. So what this mean is that without getting too deeply into the weeds, there are two trained coders that code every individual project for its expected impact on the environment. And I want to tell you a very brief story from the summer of 2003 about how we decided that we couldn't write a book on the effect of development assistance on the environment using the existing data.

So the OECD DAC data uses these things called OECD Sector Codes and so does about either 180 or 230, there's a whole bunch of different sectors. And you might think that agricultural sectors going to have one impact on the environment, probably negative, and you know, biodiversity projects are going to have a positive impact. And so if every individual sector was either good or bad or neutral for the environment you could just use the sector codes that are already out there and the data and you could proceed with an analysis.

What this slide up here shows you is that if you look within an individual sector you get dramatic variation. So this is just an example, this is the forestry sector and you could, some

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people would say, "Forestry loans are bad for the environment" and other people would say, "Forestry loans are good for the environment." And they'd both be right because some forestry loans are good and some are bad. It depends on what you get money to do in the forest.

So what we try to show you here is by using our own coding scheme, which I'll go through in just a minute, in any individual year, some proportion of the forestry loans are environmentally friendly and some are environmentally damaging. So within this sector you might have, and have the exact same code, one project will be for clear cutting and another project will be for roping off the rain forest. So what we need to do in that case is look at each individual project, look at the descriptions and the project documents to try to figure out what they're actually doing in that particular project.

So we code every project on five different, along a five-point scale. I've simplified it here so I just have three points. We have Environmental Strictly Defined projects, Environmental and Broadly Defined, Neutral -- they're not likely necessarily on average to have a positive or negative effect -- Dirty Broadly Defined and Dirty Strictly Defined, and if you're interested in the details about how we do this, it's all in the book. But I'll just say very briefly, Environmentally Strictly Defined projects are those that will likely have an immediate and direct positive impact on the environment. Dirty Strictly Defined has immediate and negative impact on the natural environment. And Neutral on average were all likely to have no particular effect.

We use this term "dirty" not to make a normative judgment about what's good and bad we just couldn't think of another word. We're trying to use scientific, what we know about scientific evidence about the likely effects of particular types of activities to categorize these different projects. The other thing we don't do, when we code a project as dirty for example, we are not looking at any of the other positive or negative effects. We're not looking at you know, the humanitarian effects which may be good or bad, we're not looking at the economic effects which may be good or bad, only thing we look at is the likely environmental impact.

Okay, let me just talk about the organization of the book and then I'll turn it over to my colleagues. We have four research questions in the book. First, has aid been greened, and if so, by how much? I'm going to let Timmons Roberts talk about that in just a minute.

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This is a fairly, this is the mapping that I talked about earlier to descriptive chapter that's fairly easy to consume and I think it has some pretty interesting, interesting results.

We organize the book in the next six chapters so that it could be read either by a stat head, you know a real quantitatively orientated economist or political scientist and the other complementary chapter on the same question is qualitative with case studies and descriptive statistics.

So the next question we ask is, which donor governments spend the most on foreign assistance for the environment and why do they do so? In this chapter we look at five cases of important donors. The United States, Britain, Germany, Denmark, and Japan, and we use qualitative evidence and descriptive statistics to try to explain which ones are the most green and why that might be. The following chapter uses econometric analysis to try to explain why you have this variation between these different donor countries.

The third question asked, why do some donor governments delegate responsibility to allocate their own aid, their own taxpayers' dollars, to a multilateral organization rather than just doing it themselves? Why would anyone delegate this type of authority? We look at case studies of four different multilateral donors, some of them quite interesting that haven't been well studied before. We look at the World Bank, the Asian Development Bank, the GEF and OPEC, which I didn't know until I started this project, has a multilateral finance arm. After we do the case studies in one chapter then we follow that again with econometric analysis.

The fourth question asked, and I really think this is the heart of the book frankly. I think this is the biggest academic contribution in the book. Which countries receive the most environmental and why? This is the inter-recipient model for the book. The cases we study in detail are China, India, Brazil, Indonesia and Kenya and then we use econometric analysis to try to answer this particular question.

So right now I'm going to turn the microphone over to Timmons Roberts. Thanks.

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