

# THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

## The Samaritan Dilemma of the West: An Empirical Review of Past and Future Funding Prospects for Kenya

Dr. Caroline Ayuma Okelo

Senior Lecture, Department of Finance & Accounting, University of Eldoret, Kenya

### **Abstract:**

*Most African countries have a long history of funding from the West. Kenya's diminishing reliance on foreign aid due to increased mobilization of domestic resources and re-organization of the public expenditure policy has been remarkable. The increasing interest by the East, such as China and Japan indicate a shift in funding from West to East; nevertheless, the relationship between Kenya and its American and European bilateral donors remains favourable. The Reform implemented by the West and those by the East has seen a series of changing fortunes for the West culminating in to a donor – aid freeze to Kenya in 1992 and 1997 but the relationship between Kenya and the West still remains steadfast. This study employs an empirical review of core and non – core publications (1990- 2018) relevant to the study to identify the reasons behind the existence of the Samaritan dilemma while exploring its implications and sustainability. Study findings are consistent with the previous research that the Samaritan dilemma will continue due to the Samaritans' goal of self-preservation and self-gratification. More specifically though, is the position of Kenya as the regional economic hub and its strategic position in the fight against terrorism, not to mention though that stability of the surrounding Nations may reduce this preferential treatment with time. The position Kenya finds itself however is at crossroads, between shifting allegiances from the West, which have existed for long to the East, or not.*

**Keywords:** Samaritan dilemma, Program-based funding, Budget-based funding

### **1. Introduction**

Fiott (2010) captures the Collier's and Gunning's question 'why has Africa not grown?' and it remains crucial as Kenya and many other African countries still remain behind in economic development compared to their peers in the East and West at independence. Poor service delivery and under developed infrastructure in terms of transport and electricity leading to a high cost of production leading to a slow growth in industrialization is a major cause of underdevelopment. Hedvallet *al.*, (2010) point to Kenya's benefit from international aid just like many other African countries. James Buchanan described the Samaritan Dilemma forty years ago as a moral hazard existing in the economy (Kirwan & Deryugina, 2014). The period between 1998 and 2013 shows massive aid received from the European Union even as Kenya increasingly finds new partners world over. The reform-based funding applied by the West has seen many African countries being left at the mercies of the Western countries as they are forced to implement European inclined reforms. Budget based financing does not give the African countries much choice either. This therefore leaves the question as to whether the countries belonging to the OECD- DAC; the European countries especially the UK and the other distinct source the USA have economic development and sustainability as the major objective as they assist the African countries. China on the other hand has aggressively increased its aid to the Kenyan Government for instance by 2005 it was second only to EU. It may be fundamental however the notion that these 'Samaritans' actually benefit from the relationship; a case of self-preservation and self-gratification requires further interrogation.

### **2. Background**

The 'Samaritan's dilemma' is a game analyzed by economists which shows how altruistic behaviour could lead to inefficiencies in the economy. Samaritan dilemma can arise in many situations, however in this study it is dealt with in the context of charity. When presented with an act of charity, a person or a group will either use the charity to improve their situation, or end up relying on charity as a means of survival. Samaritan's Dilemma' in this context is explained by Fiott (2010); that if the recipient (Kenya, in this case) implements the goals of the Samaritan (the EU, USA in this case) then both entities benefit and therefore the relationship is sustained. The 'fundamental problem' for the Samaritan in this case the West, is that 'they are better-off helping no matter what the recipient does since foreign aid is crucial part of EU's foreign policy and the West as a whole. Easterly (1999) indicates that the provision of foreign aid based on reduction of the existing financial gap induces recipient countries to reduce savings and therefore leading to an increase in the financial gap even further. Sometimes multiplicity of donors, each with its own program priorities, procurement and disbursement procedures the recipient Governments are overwhelmed. Another view is also echoed by Cashel-Cordo and Craig (1990) and Khan and Hoshino (1992) who provide evidence that international aid might have a negative effect on the public-sector fiscal behavior in the countries that receive foreign aid. Cassenet *al.*, (1994) and Krueger *et al.*, (1989) reveal that aid does not in all cases contribute to reduction of poverty. Samaritan's Dilemma typically arises when the recipient acts as

a Stackelberg leader, thereby capitalizing on the donor's altruism to its full extent (Bruce and Waldman, 1990). Boone (1996), points out that aid to a high extent ends up benefitting relatively wealthy people. On the other hand, developing Countries including Kenya increasingly find themselves dependent on this aid. Despite the assertion by those authorized to acquire and manage the funds that it is used for infrastructural development, in numerous cases the outcome is minimal.

### 3. Literature Review

Data shows that the trend in the amount of foreign aid received by Kenya has continuously increased. For instance, 1970-1999, donor funds received by Kenya averaged about 9% of GDP. There was some aid freeze by the West 1992-1997 but this improved overtime evidenced by increase in aid received in consecutive years. Furthermore, foreign aid generally increased over time due to the influx of refugees as indicated in the figure 1.1 for the period 2000 to 2015. Despite the numerous concerns on corruption in different sectors in the Kenyan Government, Samaritans actions have in most cases indicated that they still have the intention of assisting overcome those challenges evidenced by the regular sectoral coordination meetings comprising of the local donor community, co-chaired by World Bank and the United Nations Development Programme (UNDP). Additionally, meetings between the Government and donor representatives and ambassadors are convened to report on progress on economic progress. The impact of such meetings may not be beneficial to the general population as the beneficiaries of aid are limited. The majority of the population are bogged down with the increasing national debt and high cost of living resulting from increased national borrowing and wastage of available resources through corruption. Despite all this, foreign aid has still been forthcoming "tied" to reforms

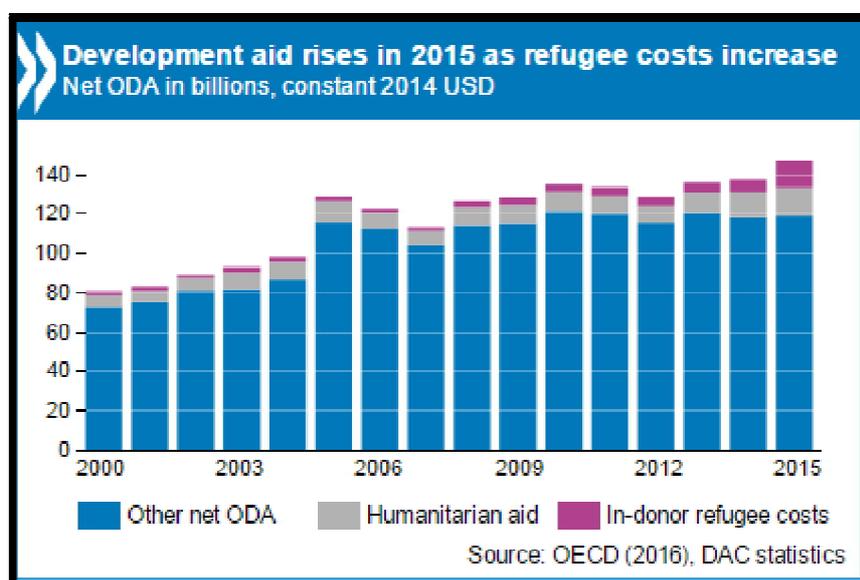


Figure 1: Foreign Aid to Kenya from the Year 2000 to 2015

Donor aid policy is basically motivated by both a concern for recipient economic performance and also as a means for promoting freedom (Faria & Arce, 2018). In Kenya, free primary education, girl child empowerment and affirmative action all indicate some of the reforms implemented despite the many challenges.

Studies increasingly point to doubt whether development aid will have positive effect on economic growth. In Samaritan dilemma, a multilateral aid agency acts as one player, and interacts with an aid dependent recipient government who is the player on the other side. The essential problem with this interaction is that there are no consequences associated with poor efforts from the recipient government side. Originally put by Buchanan in (1979) on the original concept, a Samaritan's compassion, or failure to act strategically can lead to more sub-optimal outcomes. This is further described by Gibson, Andersson, Ostrom and Shivakumar (2005), that much of the failures related to foreign aid are due to the delivery structures since the concerned Institutions which govern the complex relationships existing between the recipients and the delivery system often generate perverse incentives leading to inefficient and unsustainable outcomes.

The effect of the Samaritan Dilemma on Promotion of social development is brought out by the same Authors. Economic development in the recipient Countries as a result of foreign aid is supposed to be evidenced by improvement of the well-being of individuals through optimum production and exchange of private goods, and in provision of public goods coupled by provision of conducive macro-environment for development. In most recipient Countries these are not realized to the full potential (Ostrom, 2010).

There are reservations on the role of foreign aid on alleviating poverty. This however is specific when it comes to the factors determining the level of poverty such as natural calamities, epidemics and so on. Raschky and Shwindt (2009) for instance show evidence that the crowding-out effect of foreign aid outweighs the effect of prevention in storms whereas there is mixed evidence for floods and earthquakes; all these are factors that determine the level of poverty in an economy. More specifically to the Kenyan situation however are floods and droughts. Foreign aid in Kenya mostly is received for emergency and food aid in addition to prevention/ treatment of prevalent diseases such as malaria, for maternal healthcare, immunization, fighting female genital mutilation (FGM), HIV/AIDS programmes and population policy implementation. Other areas include provision of free and accessible education and WASH projects. The effect of

the Samaritan Dilemma on fostering of democratic regimes is captured by Ostrom (2010) who indicates that recipient countries encourage moral hazard for bad policy by preferring distribution within the status quo hence not enlisting a positive sustainable impact. This is evidenced by overlaps and gaps in funds. In the effort to reduce this there is a shift towards bilateral financing mechanisms, with a greater share of resources going to NGOs (Seck, 2007). Inefficiencies have made donors reluctant to provide funding and alternatively prefer to contribute funds after disaster events when contributions are more visible, rather than indirectly through a central fund (House of Commons, 2006).

It is common for individuals and politicians to systematically underestimate the risk of natural hazards, allowing disaster mitigation investments to be postponed indefinitely (Kunreuther, 2000) only to have Countries request for aid when disaster finally strikes. They particularly take advantage of disasters to attract huge cash inflows from donors but unfortunately only a fraction gets to the intended beneficiaries often shifting the responsibility to the civil society. Such was the case where the Kenyan Red Cross Society was able to mobilize resources through an SMS-based campaign long before the UN Famine declaration made international funding available during the famine in Kenya (Maarten van Aalst et al., 2013). Unfortunately, it is the rich (rather than the poor) who choose how much protection to give the poor against loss (Stephen Coate, 1995). The perverse incentives that lead to inefficiencies are evidenced in studies the following table (table 1).

<b>Perverse incentive</b>	<b>Authors</b>
Asymmetric power relationships	Ostrom (2010), Gibson, Andersson, Ostrom and Shivakumar (2005),
Modern Authoritarian regimes	Ostrom (2010), Easterly (1999),
Rent seeking and corruption	Ostrom (2010), Raschky and Shwindt (2009)
Multiple interests leading to bureaucracy	Raschky and Shwindt (2009), Gibson, Andersson, Ostrom and Shivakumar (2005),

Table 1: Perverse Incentives

Despite the prevalence of these perverse incentives most African Countries including Kenya still manage to receive foreign aid without serious consequences for their actions. This is because the more 'enlightened' Samaritan who tries to minimize the effects of perverse incentives may risk being 'driven out of market' by Bad Samaritans (Schmidtchen, 2002), hence rendering commitment mechanisms ineffective unless if adopted by all. Inter-agency determination to coordinate actions more strategically for instance by adopting ex-post allocation programs or allocation to countries taking care of their own development needs as opposed to the ones seeking aid for the 'poor' are faced with uncertainty hence ex-ante recipients are more common (Svensson, 2000). The numerous risks and costs, including transaction costs associated with a strategically sound allocation programme leads to inter-agency collective coordination and corporation problems (Lichbach, 1996). Additionally, just like individuals, Agencies prefer abstaining (free-riding) as opposed to participating hence remain latent and only 'jump in' after another Agency/ Agencies have paid the heavy start-up costs, with the guarantee of support from others, since there is always cooperation amongst themselves in order to sustain their common good.

The recipients on the other side, have no problem jumping from one donor to another, to their own convenience. Kenya for instance can easily oscillate from Western donors if the ex-post allocation is emphasized, to the Eastern where ex-ante is preferred as they try to gain relevance. The Reform - based funding and later Budget - based funding applied by the West as opposed to the commercially skewed Program - based funding applied by the East has seen a series of changing fortunes for the West. The donor - aid freeze to Kenya in 1992 and 1997 was an indication of mounting tensions but the relationship between Kenya and the West remains steadfast. Since developing Countries are most likely to engage in external trade and initiate other economic collaborations with Countries that are willing to offer them foreign aid. At the 2005 Hong Kong WTO Ministerial Conference, Aid for Trade Initiative was launched to deal with trade-related binding constraints and to distribute the benefits equally among developing countries (Lammersen & Roberts, 2015).

The Samaritans often find themselves obliging no matter the situation or occasionally spelling consequences which they do not follow through. Resource mapping indicates that Kenya has massive unexploited resources therefore any foreign Nation would find these prospects attractive for future collaborations. For the recipients, access to many donors offers them with diversification and some steady flow of resources hence a strength (McCormick *et al.*, 2007). Since the endgame is the same for the different agencies, recipients end up getting aid from either region, especially if they are of strategic importance; geographically or economically.

#### 4. Research Methodology

Secondary data was used the study by exploring previous studies done (1990-2017) empirically as shown in Table 2. The Authors of these publications have numerous, varied and enlightening views, however specific literature was highlight for this study.

Author	Title of Publication
Joao Ricardo Faria and Daniel Arce (2018)	On the Samaritan's Dilemma, Foreign Aid, and Freedom. <i>Economies</i> , 2018-6-53
Tatyana Deryugina and Barrett Kirwan (2017)	Does the Samaritan's dilemma matter? Evidence from U.S. Agriculture
Cashel-Cordo & Craig (1990)	'The Public Sector Impact of International Resource Transfers'
Lichbach, (1996)	'The Cooperator's Dilemma'
Easterly (1999)	'The Ghost of Financing Gap: Testing the Growth Model of the International Financial Institutions'
Fiott (2010)	'The EU and China in Africa: The Case of Kenya'
Gibson, Andersson, Ostrom and Shivakumar (2005)	'The Samaritan's Dilemma. The Political Economy of Development Aid'
Khan & Hoshino (1992)	'The impact of foreign aid on the fiscal behavior of Asian LDC governments'
Kirwan & Deryugina, (2014)	'Does the Samaritan's dilemma matter? Evidence from crop insurance'
Schmidtchen, (2002)	'To help or not to help'
Svensson (2000)	'When is Foreign Aid Policy Credible? Aid Dependence and Conditionality.'
Iarossi. G (2009)	An Assessment of the Investment Climate in Kenya
Ostrom (2010)	'Workshop in Political Theory and Policy Analysis Indiana University'
Opondo. M.(2009)	'The Impact of Chinese firms on CSR in Kenya's Garment Sector', BDS Working Paper,
Cohen & Werker (2008)	'Presence of ex-post relief can distort the relation of ex-ante protection to ex-post relief'
Raschky. P, Shwindt. M (2009)	'Aid, Natural Disasters and the Samaritan's Dilemma'
Scarbek et al., (2016)	'Aid, ethics, and the Samaritan's dilemma: strategic courage in constitutional entrepreneurship'
Raschky & Schwindt, (2016)	'Aid, Catastrophes and the Samaritan's Dilemma'
Mwega, M. Francis (2008)	Aid Effectiveness to Infrastructure: A Comparative Study of East Asia and Sub-Saharan Africa: Kenya Case Study,' paper prepared for the Development Research Group, Japanese Bank for International Cooperation (JBIC) Institute
Lammersen, F. and M. Roberts (2015),	'Aid for trade 10 years on: Keeping it effective', OECD Development Policy Papers, No. 1, OECD Publishing, Paris.
Mwega, M. Francis (2009)	'A case of aid effectiveness in Kenya' Volatility and fragmentation of foreign aid, with a focus on health. Wolfensohn Center for Development, Working paper 8.

Table 2: Empirical Review

## 5. Conclusion

The study concluded that there will be persistence of Samaritan Dilemma despite the challenges in implementation and sustainability of foreign aid because of self-preservation and self-gratification. First, the EU (especially the UK) and also the USA legitimately and sometimes non-legitimately consider potential benefits from developing Countries such as: Economic gains that can be accrued from an amicable relationship. Second, the recipients who are in most cases developing Countries are Potential areas to export goods and services not required in their Countries. Third, collaborations with strategically selected African Countries like Kenya are important as a vehicle for conduit of the European Agenda and also for fostering World-wide security for example the fight against terrorism. Last, inter-agency coordination and cooperation mechanism may lock out 'non-collaborating' members to the advantage of the less reform-committed ones, and this will be to the detriment of the West. Since for most Countries aid goes with chances for trade, the Samaritans are obliged despite their dissatisfaction in the way the aid is utilized. This is made even more elaborate with the emergent of alternative fast-growing economies, other than the west that are willing to give aid to attract trade collaborations such as China and Japan.

## 6. Recommendations

The study has the following recommendations. The challenge of aid fragmentation should be given the attention it requires to improve aid coordination; to raise the level of aid and the capacity to utilize it. Volatility of foreign aid should also be put under check in order to reduce deviations from the intended outcomes. The government should ensure

sustainability of donor projects by investing in human capital, develop suitable policies and develop and enforce legal frameworks that can safeguard and sustain the projects. This will keep the projects in operation and provide revenue even after the donors have completed their term. Furthermore, the citizens who are stakeholders should be involved in the whole process in order to provide culture fit, legitimacy and support for the sustainability of the projects. Well-crafted Institutions are necessary and continuous evaluations of the projects should be done and immediate counter measures implemented to avoid grand losses, this is in the effort to maximize the effect of the funding to the citizens, who are the intended recipients. Donor confidence should be revamped by carrying out prior risk assessment, setting clear measures to ensure transparency and accountability for those handling the funds to foster validity instead of the disbursement compounding to the paradox of the Samaritan dilemma.

Although a lot of effort will be required, emphasis should be placed on corporate governance and prudent management of public resources in order to minimize wastage and inefficiencies. This will ensure that resources are made available internally to deal with any eventualities and to support the needs of the Citizens. Wealth inequality should be put to check and using policies that oblige the highly wealthy individuals in the society to give assistance to those who faced with disasters.

Better still, developing Countries should concentrate on creating and implementing strategies aimed at sustainable development (Economical, technological and socio-cultural) in order to minimize reliance on aid. This will ensure that they are better placed in sustaining the needs of their citizens, ensure equity in wealth distribution and minimize conflicts. This will put them in a better position to pursue policies best suited for the citizen's welfare.

## 7. References

- i. Buchanan, J.M. (1972): The Samaritan's Dilemma, reprinted in: Buchanan, J.M. (1977): Freedom in Constitutional Contract, Texas A& M University Press: 169-185
- ii. Boone, P. (1996). 'Politics and the Effectiveness of Foreign Aid.' *European Economic Review* 40, 289-329
- iii. Bruce, Neil, and Michael Waldman. 1990. Rotten-Kid Theorem Meets the Samaritan's Dilemma. *The Quarterly Journal of Economics* 105: 155-65.
- iv. Cassen, R. et al. (1994). Does Aid Work? Oxford: Clarendon Press
- v. Cashel-Cordo, P. and Craig, S. G. (1990), 'The Public Sector Impact of International Resource Transfers', *Journal of Development Economics* 32(1), 17-42.
- vi. Easterly, W. (1999), 'The Ghost of Financing Gap: Testing the Growth Model of the International Financial Institutions', *Journal of Development Economics* 60(2), 423-438.
- vii. Gibson, C. C., Andersson, K., Ostrom, E. and Shivakumar, S. (2005), The Samaritan's Dilemma. The Political Economy of
- viii. Development Aid, Oxford University Press.
- ix. House of Commons. (2006). Reform of the humanitarian sector: financing. International Development: Seventh Report. London.
- x. Khan, H. A. and Hoshino, E. (1992), 'The Impact of Foreign Aid on the Fiscal Behaviour of LDC Governments', *World Development* 20 (10), 1481- 1488.
- xi. Kunreuther, H. (2000). Strategies for Dealing with Large-Scale and Environmental Risks. In H.Folmer, L. Gabel, S. Gerking, & A.Rose, *Frontiers in Environmental Economics* (pp. 293-318). Edward Elgar.
- xii. Krueger, A., C. Michalopoulos, V. Ruttan (eds.). (1989). Aid and Development. Baltimore and London: John Hopkins University Press.
- xiii. Kirwan & Deryugina, (2014), 'Does the Samaritan's dilemma matter? Evidence from crop Insurance?'
- xiv. Lammersen, F. and M. Roberts (2015), 'Aid for trade 10 years on: Keeping it effective', OECD Development Policy Papers, No. 1, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5jrqc6q4xxr5-e> Lichbach, M.I.(1996) 'The Cooperator's Dilemma'. Ann Arbor: University of Michigan Press
- xv. McCormick D., Winnie Mitullah and Erick Manga (2007). 'Extent and Forms of Donor Proliferation and Coordination in Kenya,' available on internet.
- xvi. Maarten van Aalst, Jan Kellett, Florence Pichon and Tom Mitchell (2013), Incentives in Disaster Risk Management and Humanitarian Response, Background note for World Development Report 2014.
- xvii. Mwega, Francis M. (2008). 'Aid Effectiveness to Infrastructure: A Comparative Study of East Asia and Sub-Saharan Africa: Kenya Case Study,' paper prepared for the Development Research Group, Japanese Bank for International Cooperation (JBIC) Institute.
- xviii. Ostrom, E. (2010) 'Beyond Markets and States: Polycentric Governance of Complex Economic Systems', *American Economic Review* 100 (3): 641-72
- xix. Seck, P. (2007). Links between Natural Disasters, Humanitarian Assistance, and Disaster Risk Reduction: A Critical Perspective.
- xx. Human Development Report. 2007: UNDP.
- xxi. Schmidtchen, Dieter (1999): To Help or not to Help: The Samaritan's Dilemma Revisited, CSLE Discussion Paper, No. 99-09
- xxii. Stephen Coate, (1995), Altruism, the Samaritan's Dilemma, and Government Transfer Policy *The American Economic Review* Vol. 85, No. 1 (Mar., 1995), pp. 46-57 (12 pages)
- xxiii. Svensson, J. (2000). 'When is Foreign Aid Policy Credible? Aid Dependence and Conditionality.' *Journal of Development Economics* 61: 61-84

- xxiv. Raschky, P. A. and Weck-Hannemann, H. (2007), 'Charity Hazard - A Real Hazard to Natural Disaster Insurance?', *Environmental Hazards* 7(4), 321-329.
- xxv. Raschky, P, Shwindt, M (2009), 'Aid, Natural Disasters and the Samaritan's Dilemma' Policy World Bank Research Working Paper 4952.