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LOST IN TRANSLATION
An Examination of Foreign Aid Using Agency Theory

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Abstract

In discussions on development economics and the ways in which to promote growth in countries that have fallen behind the curve, the merits of aid donated to those less well-off countries are carefully examined and measured to determine whether these transactions yield the intended results. In this paper, we begin by introducing some of the basic varieties of donations and services that fall under the umbrella of aid so as to provide a better understanding of the scope of topics discussed in this paper. Furthermore, an examination of the current arguments for and against foreign aid promoting growth in developing nations will shed light on the present environment of the aid discussion in development economics.

Moving forward, the paper will shift its focus toward the core of its research. Foreign aid in developing nations will be analyzed through the lens of the principal-agent model more commonly used to examine standard labor contracts as well as the current market for insurance. This model will first be introduced based on its theoretical foundations to provide a sound basis for later practical applications. With this groundwork laid, the discussion will then shift toward how the donors and recipient nations of the foreign aid market fit within the parameters of this particular model, and how instances of market failure within the model can carry over into substantial inefficiencies in the pursuit of growth. More specifically, the practice of donor conditionality, or the tying of aid to certain benchmarks, will be examined as it results from principal-agent failures and leads to further inefficiencies in this particular market. Finally, a number of other remedies to the incentive-based problems in foreign aid will be examined and analyzed to determine their merit in improving the current aid landscape.

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The Millennium Development Goals: Shortcomings in the Market for Foreign Aid

In the year 2000, 192 United Nation's member countries met at what was later named the Millennium Summit to discuss the best way to permanently improve the political, economic, and health conditions of those poorest countries around the world. After many days of heated discussion and debate, those world leaders present at the summit adopted the United Nations Millennium Declaration which outlined 8 target goals, outlined by American economist Jeffery Sachs, across a number of political, economic, and humanitarian spectrums which would be set as the main focuses of this global effort to improve the lives of the poorest of the poor. Some of the goals included in this declaration are the assurance of environmental sustainability, universal primary education, the eradication of extreme poverty and hunger, and the reduction of child mortality rates. Within each of these goal areas are a variety of more quantifiable metrics which serve as a more tangible foundation for measuring whether these UN members actually achieve all that they have set out to accomplish. In an attempt to ensure that this Millennium Declaration does not become just another meaningless gesture by those few nations in the seats of power globally, those who agreed to the declaration decided upon an expiration year of 2015 as the point by which they should have reached their altruistic aspirations.

Eleven years have passed since the United Nations Millennium Declaration was created and agreed to by the entirety of the United Nations General Assembly, and yet what progress towards the declarations target goals has been made?

In relation to the Millennium Declaration goal for eradicating extreme poverty and hunger, the UN set the target of halving the proportion of people living on less than

$1.25 U.S. dollars a day from its global level of 46 % in 1990 (World Bank 2011). Now while the global level in 2010 has fallen to roughly 27% suggesting that the UN is well on its way to meeting this particular target, a regional break down of data pertaining to this particular target suggests that all is not as it seems (World Bank 2011). Sub-Saharan African has seen its proportion of people living on under a dollar a day drop from 58% to only 51% in the ten years since this instillation of the Millennium Declaration and is nowhere near its target level of 29% with less than 5 years left in the program (World Bank 2011). Additionally, the region of Western Africa as well as the Commonwealth of Independent States in Asia have seen their percentage of people living on less than $1.25 a day triple in this very same time period (World Bank 2011). All in all only 3 out of the 11 geographical areas designated by the UN for the purposes of monitoring the progress of their program have reached this targets goal 10 years in, and few others look as if they will reach it by the deadline (World Bank 2011). Furthermore, if you expand this metric to look at the percentage of the population living on under $2.00 U.S. dollars a day you see that a staggering 75% of both Sub-Saharan Africa and South East Asia live below this modified poverty line suggesting that the UN's goals are not really tackling the entirety of the global poverty problem (World Bank 2011).

Equally as astounding as the proportion of persons living on less than $1.25 or $2.00 a day is the stagnation so many of these least developed countries have had to endure. Countries in Sub-Saharan Africa like Gabon, Botswana, and Equatorial Guinea are all currently suffering from dramatically negative annual GDP growth rates while the rest of the Sub-Saharan region does not appear to be fairing much better (World Bank 2011).

Another target that appears to confirm the idea that the UN member states will not reach the goals they set for themselves in the Millennium Declaration, is the under 5 year's old mortality rate per 1,000 births. Used as a way to measure the millennium goal related to reducing child mortality rates, data today suggests that while under 5 mortality rates are dropping slightly, they are not decreasing at the rate necessary to reach the targets set by the UN. Sub-Saharan Africa's under 5 mortality rate sits at a staggering 144 deaths per 1,000 births, well above the level of 92 that needs to be reached by the year 2015 and roughly double any other geographical regions rate (World Bank 2011).

Unrelated to the targets set by the Millennium Declaration but nonetheless important in understanding the entirety of the global poverty and health problem, is life expectancy at birth which for those nations the UN designates as the least developed stands at an extremely low level of 57 years. As if this were not bad enough, Sub-Saharan Africa currently has a life expectancy of birth even lower than that of the UN's least developed countries, 53 years (World Bank 2011).

Since 2000, nearly 927.1 trillion in U.S. dollars has been doled out as aid in varying forms to those countries designated as the most impoverished or the least developed (World Bank 2011). Despite this outpouring of fiduciary assistants and substantial promises by international organization, the fact of the matter is that all of the money being given is not quite getting the job done. As a result of these shortcomings, too many countries are falling through the cracks and drowning in a pool of useless aid. If the UN and other world leaders really want the promises they have made to come to fruition, some serious thought needs to go into how they might revamp the aid process in order to make sure that they are squeezing every ounce of assistance out of every dollar given.

The Basics of Foreign Aid

The world is by no means perfect. Brand new wars and armed conflicts appear break out every time we turn on the television; plagues and disease cripple entire cultures and peoples; millions of peoples from all walks of life struggle to survive in the most devastating levels of poverty. Sometimes those people most affected by these tragedies are able to pull themselves out from beneath that which is trying to bring them down, but more often than not these victims are left stranded, without any sort of hope to lift them up out of the dire straits of their situation. It is in times like these that other parties are asked to step in or do so voluntarily to help their fallen comrades in the form of foreign aid. Whether it is monetary, military, or medical, more affluent countries have been trying to help their less fortunate peers for years, attempting to implement all varieties of schemes and programs in order to give those weaker countries a leg up in the developmental process. However, does the influx of foreign aid into those countries that require help actually yield the results intended by the donors? Does simply throwing money at a problem in various ways, shapes, and forms actually produce a solution, or does it simply sweep the issue under the carpet allowing it to grow unchecked by the crippled institutions of the country in need? Similarly, one must also consider whether there are any observable externalities, either positive or negative, that serve as an unintended result from the procurement of foreign aid. While these considerations all bring to light valid concerns about the issue of foreign aid, all they really do is merely swim around the crux of the problem that needs to be discussed in order to truly understand the relationship between aid and overall economic and political development. The true question that needs to be researched and resolved in order to help those countries in their time of greatest need is how effective is foreign aid?

Before exploring whether foreign aid has either a positive or negative effect on the development of a country, if indeed it has any at all, it is important to understand what exactly constitutes foreign aid as well as identifying the many different forms that aid can take. First and foremost, to be categorized as aid, a donation or gesture needs to have noncommercial motivations, that is to say, a donor should not assist a country or group of people in need in order to further its own fiscal agenda such as getting certain economic or trade considerations from the country receiving the aids government. Secondly, often there are certain terms and conditions that come along with accepting foreign aid such that the donor providing the aid is sufficiently satisfied that their money is going to where it can do the most good. A final caveat as to the designation of aid is that providing military support and only military support for another country does not qualify as providing aid for another country. The military support must come accompanied by some sort of financial, agricultural, or medical assistance for the receiving country.

To summarize,

> The standard definition of foreign aid comes from the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), which defines foreign aid (or the equivalent term, foreign assistance) as financial flows, technical assistance, and commodities that are (1) designed to promote economic development and welfare as their main objective (thus excluding aid for military or other non-development purposes); and (2) are provided as either grants or subsidized loans. (Radelet 2006 p.1)

Having established the general classification of what can be called foreign aid, it is important to understand the many different forms that aid can take. The first form that foreign aid can take is that of funding or supplies intended to complete a specifically set project or goal such as providing the brick and concrete for the creation of a new hospital. A second type of aid that can be provided is more programs oriented and as a result tends to be used more so for assisting particular sectors of a given country like, the education or manufacturing sectors. A subset of program-based aid is budgetary support, which consists of directly funneling aid and assistance into a country's financial system. In addition, food aid can also be provided for those countries desperately in need of bolstered food supplies, many times those countries in need have recently fallen victim to some sort of terrible natural disaster. Moving forward from those types of aid that supply a country with more material goods-based assistance, other more affluent countries can also provide more service-based or technical assistance by providing a downtrodden country with experts from certain fields that must be stabilized in order for the country in question to grow and develop. Whether it is doctors, teachers, or engineers, the provision of these sorts of professionals to impoverished countries all falls under the umbrella of service-based aid, which helps by showing the poor country how to go about setting up strong social institutions for development so that they will not have to rely on foreign aid forever.

Furthermore, within these various subsets of foreign aid, there are specific types of loans that qualify as foreign aid.

> The Development Assistance Committee classifies aid flows into three broad categories. Official development assistance (ODA) is the largest, consisting of aid provided by donor governments to low- and middle-income countries. Official assistance (OA) is aid provided by governments to richer countries with per capita incomes higher than approximately $9,000 (e.g., Bahamas, Cyprus, Israel and Singapore) and to countries that were formerly part of the Soviet Union or its satellites. Private voluntary assistance includes grants from non-government organizations, religious groups, charities, foundations, and private companies.

(Radelet 2006 p.1)

Having established and explored the many guises under which aid can be provided, it is now time to examine the conflicting views as to whether foreign aid actually works towards making third world nations better off, or if it simply serves as a false crutch, further crippling those people and cultures it set out to save.

The most optimistic of viewpoints on the matter of the effectiveness of foreign aid is that on average, aid promotes growth in developing nations, but at diminishing returns as the scale of assistance supplied increases. The logic behind this line of thinking comes from three general points concerning how the aid provided stimulates the receiving country's economy.

> First, the classic view is that aid augments saving, finances investment, and adds to the capital stock. In this view, poor countries are unable to generate sufficient amounts of saving to finance the investment necessary to initiate growth, or at best only, enough for very slow growth. In the strongest version of this view, the poorest countries may be stuck in a poverty trap in which their income is too low to generate the saving necessary to initiate the process of sustained growth. A related argument is that aid might help relax a foreign exchange constraint in countries that earn relatively little foreign exchange, a view that was popularized through the early "two-gap" models of economic growth. Second, aid might increase worker productivity through investments in health or education. Third, aid could provide a conduit for the transfer of technology or knowledge from rich countries to poor countries by paying for capital goods imports, through technical assistance, or through direct transfer of technologies such as the introduction of new seeds and fertilizers in the Green Revolution. (Radelet 2006 p.3)

Thus, as one can clearly see, there are a number of ways in which foreign aid can contribute to development.

> Aid also could have a positive impact on development outcomes other than growth, such as health, education, or the environment. Perhaps the best documented area is health, where aid-supported programs have contributed to the eradication of smallpox, the near-eradication of polio, control of river blindness and other diseases, the spread of oral rehydration tablets to combat diarrhea, and the dramatic increase in immunization rates in developing countries since 1970. Undoubtedly, much aid aimed at health has also been squandered. But beyond specific case

> studies, there is little systematic evidence on the relationship between aid and health, education, income distribution, or other outcomes. (Radelet 2006 p.3)

Overall, it appears as though under certain circumstances foreign aid does in fact have an impact on the overall development and institutional health of a nation. A prime example in which foreign aid has assisted in promoting the stability of a major institution within a country comes from work done by the Abdul Latif Jameel Poverty Action Lab working out of the Massachusetts Institute of Technology. In research conducted from 1997 to 2001, Michael Kremer and Edward Miguel examined the effects of deworming medication and health instruction provided by the International Child Support group on school attendance for students in the Busia District of Kenya (Kremer and Miguel 2011 p.1). Before this study was conducted, symptoms related to intestinal helminth infections, worms, were believed to account for one quarter of Kenyan student absenteeism. After the study and evaluation of medication and health tutorials in 75 primary schools with 30,000 students, the study found that the incidents of infection were cut in half for those children who were placed on regular deworming medication (Kremer and Miguel 2011 p.1). Furthermore, deworming increased school participation by roughly 7% and dropped overall absenteeism by 25% (Kremer and Miguel 2011 p.1). Younger students were also seen to attend school 15 more days during the year whereas older students who were treated attended 10 more days during the school year (Kremer and Miguel 2011 p.1). In this specific case it is safe to say that a thoroughly planned and well executed aid program did in fact greatly improve the quality of a major institution within Kenya by allowing more of the Kenyan people to take advantage of those services provided by their educational system.

While there is some evidence and theory to suggest that foreign aid in various forms can assist in growth and development, there is an equal amount of theory to suggest that all of the donations and contributions to less developed countries can in fact undermine and pervert the natural growth of a nation.

> First, aid simply could be wasted, such as on limousines or presidential palaces, or it could encourage corruption, not just in aid programs but more broadly. Second, it can help keep bad governments in power, thus helping to perpetuate poor economic policies and postpone reform. Some argue that aid provided to countries in the midst of war might inadvertently help finance and perpetuate the conflict, and add to instability. Third, countries may have limited absorptive capacity to use aid flows effectively if they have relatively few skilled workers, weak infrastructure or constrained delivery systems. (Aid could help redress these weaknesses, but it may not be aimed to do so). Fourth, aid flows can reduce domestic saving, both private saving (through its impact on interest rates) and government saving (though its impact on government revenue). Fifth, aid flows could undermine private sector incentives for investment or to improve productivity. Aid can cause the currency to appreciate, undermining the profitability of the production of all tradable goods (known as the Dutch disease). Food aid, if not managed appropriately, can reduce farm prices and hurt farmer income. (Radelet 2006 p.4)

This decrease in the domestic levels of personal savings follows logically from the fact that even with a government with strong economic and fiscal programs a certain amount of the aid allotted to increase savings will inevitably leak into consumption. Thus, along with any allotment of aid already designated for domestic consumption, (e.g. school supplies, building materials, health services), varying levels of aid assigned to other sectors like improving personal savings will instead flow into the market for consumer goods . This creates less of a net increase to a nation's savings than was initially anticipated. Similarly, the negative impact to the private sector is demonstrated through a series of events brought on by the influx of new foreign aid into a nation. As foreign aid promotes nationally sponsored programs within a country as well as other government-run projects, the nation receiving the aid will begin to see its residents leave their positions and responsibilities in the private sector in exchange for the currently more lucrative government paid positions. This transition leads to a severe dilapidation of much of the receiving country's private sector businesses and industries, inevitably resulting in the nation in question becoming worse off institutionally than they were before receiving the aid. Thus, as the evidence suggests, there are a number of different yet important factors which can result in the implementation of foreign aid having no effect on the growth of a less developed nation.

Agency Theory and Its Drawbacks

In the market for all things, both tangible and intangible, any number of variables governs the direction that transactions can take. Supply, demand, price, quantity, all of these individual characteristics play a role in any given market setting. More generally, however, what these variables and many others all have in common is that they serve as information nodes for any firms or agents within this market, allowing the participants to make better-informed decisions in an attempt to maximize their utility from their interactions.

The market for foreign aid falls within these very same parameters, with information leading the way as the number one necessity for successful partnerships between donors and recipients. In order to evaluate the impact of the flow of accurate information between any and all parties involved in an aid agreement, it proves ineffective to simply examine individual cases in which the provision of foreign aid fell short of actually helping the intended recipients and determine where the program went wrong. Recently however, many experts in the field of economic development have tried to provide a more concrete explanation of the various shortcomings of foreign aid transactions by applying an economic theory previously utilized in the analysis of the creation and implementation of contracts known as principal-agent or agency theory. Before we examine the problems of the donor-recipient relationship within the context of this model, however, it is important to first understand the major players and variables within the framework of agency theory, so that we can more easily apply the various characteristics of the model once we begin our examination of the foreign aid market.

At its most basic level, and as stated previously, the model behind agency theory is based upon the contractual interaction between two main players, the principal and the agent. Over the course of this relationship, the principal and the agent enter into a contract, which according to Ray Rees in his work on agency theory is a term, “to be interpreted very broadly. It may refer to a formal document, such as an insurance policy or sharecropping agreement, or to an implicit contract, such as may characterize an employment relationship, or to some penalty-reward system which may not formally be a contract at all – for example, the rules under which liability for damages following escape of dangerous chemicals is assessed” (Rees 1985 p.3). Thus, it is easy to see how the principal agent relationship can be applied to any sort of arrangement or dynamic interaction, through which one party essentially hires another to execute a given task. Because of this interaction, the principal receives some level of utility from the task performed by the agent, and the agent is paid some amount by the principal for fulfilling their agreement. While these transactions might appear easy enough to follow with all sides coming out of the relationship with an optimal amount of utility gained, there are in fact a number of underlying factors which impact the decisions of both of the parties involved in a problematic fashion.

One of the first major problems that arises within these parameters is that while there is a certain amount of understanding about what task the agent is supposed to perform for the designated principal, there is generally no discussion of the means by which the task should be accomplished. This lack of constrictive rules regarding the means of performing the assigned task allows the rational agent to choose a means of accomplishing their set goals that maximizes their utility. At this point, it is important to note that the utility achieved by the agent is based on the payment they receive from the principal as well as whatever costs they might incur, whether they are financial, personal, or social, while completing their task. Just like most other problems in economics, the agent must balance the benefits of their task with its costs, thus maximizing their own utility based on their allocations of effort and other costs. The fact that the agent bases their production decisions on their own levels of effort and benefit does little to help the situation of the principal. Given the model's current setup, the agent could very easily choose to perform their given task with a level of their own inputs that maximizes their own utility while producing an end result that provides a less than optimal level of utility for the principal.

Think of it this way, your father gives you ten dollars and asks you to pick up a greeting card for your mother's birthday. When you go to the card store, you see that there are a number of different kinds of cards all with differing levels of quality. Thinking about this situation from a purely dollars and cents perspective, would you choose to buy a card that was very nice and cost your entire ten dollars? On the other hand, would you choose to buy a card that was not quite as nice and a little less expensive so you could pocket the extra change for yourself? From the standpoint of agency theory, more often than not the agent will choose to buy the least expensive card that satisfies dad's limited requirements, thus keeping as much of the original payment as possible and maximizing what they gain from the transaction. From the dad or principal's point of view, this transaction is not optimal for them, as they do not receive the level of return that they were expecting, as the lower amount of effort the agent put in to the task has resulted in an inferior end product and less overall utility for the principal.

Additionally, situations can arise in which the payment the principal provides for a particular deed provides a level of benefit for the agent that is less than the level of costs incurred by the agent in performing the desired task. Because of the particular cost benefit discrepancy, the agent could very well choose to simply take the principal's payment and never act on the agreement made between the two parties. In this scenario, again the agent acts in a manner that minimizes the cost to himself so as to keep as much of his reimbursement as possible to maximize his utility while the principal achieves only the disutility of compensating the agent for something that was never done.

In order to combat each of these hazardous situations, the principal must come to the realization that a strong, direct, and positive correlation exists between the amount of compensation he decides to give the agent for completing a task and the actual amount of effort that the agent will put forth in working towards the principal's goal. Keeping this relationship in mind, it now becomes prudent for the principal to take certain precautions in determining their payment schedule for the agent. First and foremost, they need to make sure they take some account of the cost or disutility the task at hand gives the agent and choose a pricing point above that so as to clear the agent's net reservation level of utility, or the level of utility the agent needs in order to even enter into the task, a kind of minimum wage. Moving forward from the point at which the agent will actually perform the principal's desired task, it is then important for the principal to examine how much he should continue to raise the level of compensation given to the agent to ensure that the agent performs at a level which provides the maximum amount of benefit for the principal given his chosen pay schedule. Given this alteration of the initial contract's dynamics, a shift occurs, away from what might have initially served as the first best distribution of payments and its resulting output, and towards a combination of compensation and returns that much more reflects that which is utility maximizing for the agent with little regard for the principal and thus not the best net result for both parties on the whole.

As was mentioned before, the actual information available to those who choose to interact within a given market is one of the most important dynamics that should be monitored. This holds true for situations in the principal agent model as well. According to Rees, "The main purpose of principal-agent theory is to characterize the optimal forms of such contracts under various assumptions about the information [the principal] and [the agent] possess or can acquire and thereby, hopefully, to explain the characteristics of such contracts which are actually observed." (Rees 1985 p.3) Rees identifies that when looking at certain decisions and outcomes through the principal agent lens, it is extremely important to look at how much information each party has at its disposal relative to the choices they make as it helps for a better understanding of the final outcome of the particular contract or agreement being examined. While it cleans up the model nicely to assume that both the principal and the agent will be privy to all the relevant data and information that might affect their transaction, the fact of the matter is that this is rarely the case.

More often than not, the reality of the situation is such that the principal lacks information as to the amount of effort or cost the agent has put into holding up their end of the agreement. Additionally, other variables such as the state of the world, or economic atmosphere, surrounding a given principal agent transaction are often less well known to the principal than to the agent. Because of the presence of this asymmetric allocation of information, the agent proves much more knowledgeable about the best way to achieve the desired goal for the principal let alone if the job is even feasible. Moreover, because of this lack of information available to the principal, specifically concerning the quality of effort put in by the agent, he is no longer able to appropriately assess the level at which to set his compensation for the agent. Thus the principal falls into one of the traps discussed earlier in that he will have no idea whether the compensation he chooses will provide the agent with utility above his reservation level as well as at a level that motivates the agent to act at a level that produces output that maximizes utility for the principal. This lack of an ability to observe key variables in the success of the principal agent transaction further hinders the ability of the principal to motivate the agent to put forth maximum effort by ill equipping the principal to reward the agent for any effort actually demonstrated. This problem enters the equation by providing the principal with only a single variable by which to evaluate the work of the agent and determine his level of compensation, the final utility the task provides the principal. While this variable does encompass the bottom line for the principal, it greatly overshadows other equally important variables like the environment surrounding the transaction as well as the effort of the agent in completing the transaction. By only focusing on the end result, the principal fails to take into account situations whereby the agent puts forth maximum effort but ends up with a minimum amount of utility produced for the principal. This less than optimal situation could arise due to the negative influence of certain environmental factors, but because the principal does not take heed of these outside influences the agent is compensated at a level less than is befitting their actual effort. Similarly, the agent could produce a maximum level of utility for the principal at a minimum cost of effort to the agent. In both of these situations, the agent is not accurately reimbursed for his efforts. On the one hand, the agent is underpaid; on the other, he is overpaid. Either way, the failure of agent compensation to be accurately based on agent effort causes a loss of motivation for the agent to continue to put forth maximum effort in completing tasks. This leads to a drop off from the original optimal level of effort on the part of the agent, payment on the part of the principal and overall utility for all those involved.

In this section of the paper, we have laid the groundwork for the model that will drive our subsequent examination of the shortcomings of current practices within the world of foreign aid and development. At its core, agency theory and the principal agent relationship is an interaction based both on individual wants and on information related to the attainment of those wants. On the principal's side you have someone who needs to determine a method to appropriately motivate "the hired help" so as to achieve the greatest amount of utility for them. However, how does the principal appropriately motivate or compensate the agent when the principal faces imperfect or no information regarding the effort the agent puts towards the principal's goal as well as the economic and social environment in which the agent will be operating? Moreover, how can an agent effectively operate on behalf of the principal when he has his own unique costs and benefits to weigh and consider? In short, not very well. Unfortunately, because of the natural state of asymmetric information inherent in the principal agent relationship, numerous problems spring up resulting in the necessity of the principal to reach in his hand and meddle with the natural state of the task at hand, resulting more often than not in a conclusion that is optimal for neither party.

While much of the discussion so far has focused on the abstract and theoretical foundations of agency theory, the principal agent relationship, and the problems that come about from these interactions, this model also lends itself to any number of practical applications. In specific regard to the current nature of foreign aid, the principal agent model has become a new and unique way of examining a problem that has been discussed, examined, and publicized to death, and yet no concrete and sustainable solutions have come of it. By looking at the problems of foreign aid through the lens of agency theory, however, we are able to look past the unique nature of each particular foreign aid failure, and instead deduce more general relationships that exist between the donor as principal and the recipient as the agent. Similarly, in looking at the institutions of these recipient nations as parts of the environmental information available asymmetrically between the principal and the agent, we are able to piece together a much better informed picture of the intrinsic problems within the foreign aid dynamic and as a result more adequate solutions can be devised to solve these problems. All of which are issues that will be discussed subsequently in this paper.

Principals and Agents in the Foreign Aid Market

While a direct correlation between agency theory and the current condition globally of foreign aid might not seem feasible, the two areas of economic study and analysis actually marry quite well together and allow for a clearer understanding of the problems at hand. Just like in the initial introduction and exploration of principal-agent theory, the ever-present economic factors of incentives and information availability plague this particular market. More, "concisely, an agency problem emerges when there is both a divergence of interests between those who perform tasks (agents) and those on whose behalf the tasks are performed (principals), and there is asymmetric information between the two parties." (Paul 2006 p.5) Now, some might assert that these inconsistencies within the market for foreign aid are something that has developed recently as a result of some sort of time specific-criteria than only proves impactful in this day and age. This, however, is not the case since much of what causes the breakdown or failure of the market for foreign aid is intertwined into the foundations of this system.

> Many agency problems are inherent to the aid delivery process, notably as a result of: (a) the existence of multiple principals and objectives, with no clearly defined trade-offs between these alternatives, (b) the existence of a "broken information feedback loop" (that is, the people for whose benefit aid agencies work are not those from whom their revenues are obtained, which leads to stronger incentive biases), and (c) the trend towards more institutional reform aid (which increases agency problem as less tangible outputs are more easily subject to post contractual uncertainties).(Paul 2006 p.5)

So as Paul clearly states, the inability of donors (the principal) and recipients (the agent) to determine which members of each party are the most dedicated to the production of poverty reduction as a social good results in less than optimal aid agreements with neither side gaining a firm grasp on how the relationship will play out.

Additionally, Paul, and many other development economists, recognizes the broken information feedback loop unique to the foreign aid market and the problems is causes for both members of an aid transaction. In a paper outlining the current problems with development assistance, William Easterly also outlines how broken feedback loops can bar the way for effective aid programs, citing that:

> Unlike most market transactions, the recipient of the aid goods has no ability to signal their dissatisfaction by discontinuing the trade of money for goods. Unlike the provision of domestic public goods in democracies, the recipient of aid-financed public services has no ability to register dissatisfaction through voting. With little or no feedback from the poor, there is little information as to which aid programs are working. Nor is there much incentive for the aid agency to find out what works when there is little accountability. (Easterly 2007 p. 330)

Thus, unlike other more localized markets for consumer goods whereby the consumer is able to voice their displeasure with certain goods and services, the recipient of any sort of aid based good or service is forced to live with what they are given with no voice to shed light on which of the donor's programs are futile and which are flourishing.

As a result of these inherent deficiencies within the foundations of foreign aid, a number of economists have seen fit to examine the donor recipient relationship within the agency framework and as a result have discovered some interesting connections that were not previously apparent. At their most basic level, the models that will be discussed all examine the interaction between the donor and the recipient with one or two basic assumptions in common. In all literature on foreign aid and agency theory, it is common practice to assume:

> That the donor is fully altruistic, that is, only cares about developmental investments or the consumption of the poor. On the contrary, the recipient government is always assumed to be only partly altruistic, that is, to apply some non-zero value to the welfare of the poor (which represents the common objective of the donors and the recipient government, and is thus an international public

> good), but also to place some non-zero value on non-developmental consumption or transfers. As the donor is viewed as more concerned about the poor than the recipient government, the donor is typically assumed to rely on conditionality to enforce compliance with its poverty reduction objectives. (Paul 2006 p.5)

From the get go, it is clear to see that a number of incentive-based issues will arise as the decisions each party in the relationship makes involve different criteria. One party acts solely out of the kindness of their heart while the other is believed to have additional ulterior motivations that might take precedent over the production of any poverty reduction. While most if not all discussion of these ever-changing relationships always keeps these basic assumptions in mind, where they differ greatly is in the complexity of the dynamics they model as well as the consequences they foresee from their findings.

One of the most basic and easily understandable models that tries to tackle the various moving parts of foreign aid was published by Azam and Laffont in 2003. Unique to this particular model, the two economists use as the foundation of their analysis the idea that aid allocation is decided upon based entirely on a distaste for poverty and a desire for its relief. Beyond this individual characteristic, the Azam and Laffont model provides one of the most conventional applications of agency theory to the foreign aid discussion and as such, serves as an excellent starting point for an analysis of this particular economic market. In this model, the economists' model includes two nations or parties, the wealthier North, and the much less developed South.

> The principal is the representative citizen in the North who wishes to obtain a high level of international public good, "consumption of the poor in the South", and the agent is the government (the rich) in the South. The latter controls the level of the international public good through its redistribution policy.... The model assumes complete contracts. Given this specification, unconditional aid has no impact on the poor. The principal can thus only affect the poor through a contract conditioning aid on their consumption. (Paul 2006 p.6)

In this way Azam and Laffont attempt to appropriately solidify the manner in which both the donor and the recipient could possibly interact with each other and some of the probable moral hazard, or hidden action, implications of this particular interaction. These moral hazard issues arise as a result of the fact that the Southern government holds complete control over the distribution of the aid received and inevitably the level of poverty reduction achieved through this transaction. Essentially, the South could choose to distribute little to none of the aid they receive to help their citizens thus keeping most of the assistance for themselves and limiting the level of poverty reduction reached. This scenario is somewhat accounted for by Azam and Laffont since they assume that only complete contracts and conditionality can affect the poor's welfare, but despite this control a certain amount of moral hazard still exists within this model.

Later, the two economists move towards discussion of information asymmetries and some problems that can arise such as, "conditionality in an adverse selection setting, where the recipient government's degree of altruism is known only to that government." (Paul 2006 p.6) In this particular circumstance, a hidden type situation arises where the donor nation, the North, has no idea how committed the South is to poverty reduction. As a result of this looming question the authors feel that, "The optimal aid contract must take account of the strategic behavior off the government." (Paul 2006 p.6) That is to say, the optimal aid agreement for this particular situation must try and anticipate the actions of the recipient nation to make sure the donated assistance is not poorly utilized. In this way, Azam and Laffont have identified basic but nonetheless important aspects of the donor-recipient relationship that play in to many of the same traps identified in our previous discussion of agency theory.

Moving forward from the work done by Azam and Laffont, additional modeling of the foreign aid market using agency theory has been compiled by Cordella and Dell'Ariccia (2002) focusing more on the incompleteness of specific foreign aid contracts in which only a marginal portion of an aid recipient's actions are observable by the donors themselves. This model differs in particular from the work done by Azam and Laffont in that Cordella and Dell'Ariccia's model focuses on the time inconsistencies that can sometimes arise in aid agreements. Due to any number of communication breakdowns, it sometimes happens that additional aid will be allocated for a given developing nation before any creation or consumption of the public good, poverty reduction, from previously donated funds.

Additionally, Cordella and Dell'Ariccia also tackle the issue of conditionality within aid agreements and similar to the work previously completed by Azam and Laffont:

> They show that when donors and recipients have different preferences over budgetary allocations, conditionality helps the implementation of aid programs. However, if donors cannot perfectly monitor all recipients' actions, conditionality is necessarily incomplete and thus entails an inefficient allocation of resources. In their model, donors are concerned only with the effective implementation of social programs, while the government also obtains utility from non-socially oriented expenses. Under such conditions, the optimal amount of conditionality varies and aid policies should be tailored according to the recipient's preferences and social commitment. (Paul 2006 p.6)

Here again we see some of the same conclusions reached by the previously reviewed model in that the materialistic motivations of the recipient country must be taken into account when trying to formulate the most efficient and effective aid package for a particular country.

Additionally, Cordella and Dell'Ariccia try to address the problem of completely asymmetrical information within the framework of the foreign aid market and whether a particular donor can observe the actions of the aid recipient. Through their analysis, Cordella and Dell'Ariccia come to the conclusion that, "when the recipient government's characteristics are not clear or when the donor cannot discriminate between recipient types, conditionality can also be used to screen countries and select those with the strongest social commitment." (Paul 2006 p.6) Thus they propose that conditionality can be used as a sort of signaling tool allowing the donor to set conditions that force the aid-receiving country to signal that they are a good or bad country to provide aid for and as a result provide the donors with better choices for how to allocate their aid balance.

One point of caution that the authors mention however, is that in the same way that conditionality can help various aid-receiving countries signal their dedication to progress it can also eliminate governments that would actually promote growth from the foreign aid market. Referred to as aid rationing in the literature, the prevalence of asymmetric information within the market for foreign aid can sometimes cause donor nations to set levels of conditionality on their aid packages that are simply too steep to benefit any of the "good" governments seeking support for their countries. As a result of this process these committed nations are rationed out of the pool of countries seeking foreign aid. This examination of the incentive-based problems in the market for foreign aid clearly demonstrates that one of the most popular solutions to these problems, conditionality, might actually hinder aid transactions as much as it helps in the development process and as such forces further analysis of new solutions to the problem.

While the previously discussed models constructed by both Azam and Laffont and Cordella and Dell'Ariccia are certainly some of the most heavily publicized models used in discussions of agency theory and foreign aid, there are still a number of smaller-scale economic models that nonetheless lend interesting conclusions to our discussion as a whole. For instance, in 2002, Murrel chose to study the moral hazard implications of the interaction between donors, any middlemen they might use to enact their aid goals, and the end recipients of the aid. Furthermore,

> Some researchers highlight the double-principal (common agency) nature of the aid relationship. In these cases, the recipient government may be viewed as the agent of the donor or the political principal, on the one hand, and the agent of the citizen on the other hand. If the donor's preferences do not reflect those deriving from and inclusive domestic political process, conditionality may help overcome the time inconsistency of aid, and external agencies and domestic restraints may work to lock in the commitment to reforms. (Paul 2006 p.7)

Additionally, Murshed and Sen in 1995 analyzed the problems that come about when donors try to attach non-economic forms of conditionality to the aid that they provide to other countries. In their study the authors adopt two separate models to try and capture the varying conditions surrounding different kinds of aid agreements (i.e. multilateral, bilateral).

> The first model is an application of the adverse-selection problem where there is more than one type of principal (donor), each of which has differing objectives. The implications of private information on the donor type suggest a benefit can be found in cooperation between the donors at the initial stage of multilateral aid negotiations. The second model studies double moral hazard, where neither the principal nor the agent can fully observe or verify the other's strategies. This situation could create serious problems of inequity, in addition to the usual efficiency problems. (Paul 2006 p.7)

Flowing from this examination, Murshed and Sen essentially come to the conclusion that all forms of communication between the parties involved in a given aid agreement or negotiation are the most crucial factors in ensuring that a beneficial agreement is reached as this is the only way to ensure that the asymmetrical information problems with in the foreign aid market are appropriately addressed.

Moving forward from the discussion on how foreign aid relationships fit within the confines of various agency theory models, it is now important to look at the largest of the incentive-based problems that comes from examining aid in this manner.
Known colloquially as the Samaritan's Dilemma, a major issue that arises when examining foreign aid with agency theory is what happens when an aid-receiving government knows that a donor cannot afford to turn a blind eye and withhold help to the poor, and chooses its governing policies accordingly. In the same way that the U.S. government saw certain financial institutions as too big to fail in the most recent financial crisis, some donors could have the mindset that certain countries or peoples are too poor to not to give provide them with aid. Knowing this, certain governments might choose to keep their people poor and hungry in order to ensure they lock up aid from wealthy donors for the foreseeable future. "Indeed, when donors announce that they will allocate aid on the basis of poverty criteria, aid may be counterproductive if the recipient governments can adjust in order to qualify for aid (and thus exploit donor's altruism)." (Paul 2006 p.7) One economist in particular has taken the time to examine this question.

In 2000, Svensson chose to take a look at the moral hazard problems that influence whether an aid-receiving country chooses to undertake poverty reducing governing policies.

> The author considers two institutional designs to mitigate the time inconsistency problem: part of the aid budget can be delegated to an agency with less aversion to poverty, and aid can be tied to projects (which establishes a commitment and thus induces effort on the part of the recipient government). Donor cooperation may contribute to increasing the provision of the public good, 'poverty alleviation', if they can employ conditional aid contracts to influence domestic

> policy in the recipient country, but, without contracts, the crowding out problem may be aggravated. (Paul 2006 p.7)

While Svennson's model looks to have a number of complicated moving parts, the conclusion he inevitably reaches regarding recipient incentive problems is not as complex. What all of his research essentially boils down to is, "if donors will in the future disburse aid partly according to the needs of the poor, potential recipients have less incentive to introduce policies now that would reduce poverty." (Paul 2006 p.7)

Some might find it hard to believe that a market believed to be based on the altruistic desire to help others could be so completely analyzed by an economic framework initially introduced to explain the economics of contracts or agreements to provide a service. And yet the previously discussed models clearly demonstrate how agency theory can be used to highlight some of the reasons that aid is not impacting the regions it is sent to with more force and efficiency. As a result of this kind of analysis, development economists have made numerous policy prescriptions in an attempt to try and thwart these incentive and information based problems. But while these solutions might work out on paper, do they actually solve problems in practice?

Conditionality: Foreign Aid's Savior or Saboteur?

Having established that a number of the issues within the foreign aid framework are in fact incentive-based in nature, the scope of this paper now shifts to examining one of the most popular policy prescriptions for the resolution of the problems in these models, and determining whether or not this policy holds water in application.

If you examine the models discussed in the previous section, you can see that a number of references are made to the ability of conditionality to rectify the issues hampering the ability of foreign aid to promote progress in the more beleaguered areas of the world. In a purely academic sense, this sort of remedy makes perfect sense when dealing with misaligned incentives in any market. When any sort of manager or boss desires an employee to improve their output or effort, or even to get them to start working in the first place, basic economic thought suggests a bonus or some restructuring of the workers wage contract is needed in order to align the incentives of the laborer with the goals of whomever is in charge. In this way, the boss is able to exert a certain amount of control over his employees and is able to have them perform both in the manner the boss expects and desires by shifting what the employee thinks is best for them.

In a similar fashion, donors are able to influence the actions of those to whom they choose to allocate aid by tying certain conditions to their help to ensure that the recipients act in the manner the donors see fit. This can be done in many ways; by contractually obligating the recipient to utilize the given aid in a manner the donor sees fit, or by promising to withhold future funds if certain targets are not met by the recipient country. But while most of the models discussed heavily advertise this method of manipulating the recipient's incentives in order to align them with the donor's for the greatest output of "social good," does this desired result actually come out in the wash?

Thinking abstractly, it is not hard to imagine any number of ways in which the process of attaching certain strings to a bundle of aid can adversely affect the power of foreign aid. Governments and organizations both can frame the allocation of aid in a manner so that for every dollar they donate, they receive either a financial dollar or a goodwill dollar back in return. In one particular study, Axel Dreher, Peter Nunnenkamp, and Rainer Thiele used disaggregated panel data for 143 UN member nations to examine their hypothesis that the United States was in fact buying vote compliance with their pattern of aid allotment (Dreher et al 2008 p.139). The end result of their research showed that enough statistical significance existed in their regression to suggest that general budget support and grant aid types are in fact used by the United States to "purchase" voting cooperation from less well-off UN member states (Dreher et al 2008 p.157). While evidence of this type is currently very limited in the world of economic development, the date compiled by Dreher, Nunnenkamp, and Thiele suggests that some governments and organizations involved in the foreign aid market might have less than the best intentions motivating their aid practices.

While there is some evidence to suggest the presence of some ethically questionable practices tied to aid conditionality, this is not the biggest problem facing donors who try to have certain economic conditions accompany the aid the give. In reality, the most substantial problem hampering conditionality from working in the manner proposed by so many development economists is that it is rarely enforced.

All over the globe, donor countries and organizations have fallen into the trap of promising and procuring aid for worse off nations with goals for certain economic targets attached but then have gone through with doling out lots of aid without actually ensuring that all the conditional targets are met. For both the International Monetary Fund and the World Bank, two international financial institutions heavily involved in global development, the championing of the practice of tying in various conditions to a given aid allotment has backfired substantially as both organizations have seen the compliance rates with the conditions they set for their aid and loans drop to roughly 50% while both organizations give out almost 100% of the funds that they make promises or agreements on. If this were not bad enough, rarely are those recipients who do not follow through on the conditions given to them sanctioned, reprimanded, or punished in any way shape or form.

> Past experience has also shown that the World Bank and the IMF often disburse funds with little regard to conditionality. The World Bank almost never cancels programs. Program interruptions are more frequent at the IMF, but many of them occur because the recipient no longer needs IMF funding, not because of slippages on conditionality. When funds are suspended for noncompliance, new agreements are often signed with the recipient and funds are finally paid out later. (Berlinschi 2010 p.434)

While it seems that enforcing the conditions they set on their own investments is not a priority for these major international financial institutions, it actually turns out that the few circumstances in which these organizations do choose to enforce their contracts with developing countries is when, "the recipient country is not a strategically important country." (Berlinschi 2010 p.434) Therefore, it turns out that these organizations really are just choosing which contracts to enforce based solely on how the recipient country might play into the future dealings of that organization. An example of such a case of relaxed enforcement of aid conditionality comes from Ravi Kanbur who served as the World Bank's representative to Ghana in 1992.

> At that time, the Ghanaian government had refused to implement the conditions set by the World Bank for granting a loan, and the bank had to decide whether or not to disburse this loan. In this situation, private companies that had contracts with the Ghanaian government put pressure on the World Bank to release the loan because they were afraid of not getting paid. Eventually, the loan was disbursed without the implementation of the conditions, and Kanbur concludes that the pressure surrounding conditionality is important in explaining its failure. Thus, strategic recipients may refuse to implement the conditions and then threaten to cancel contracts with companies in order to put pressure on the donor to disburse aid. (Villanger 2004 p.2)

While much of this behavior seems fairly inconsistent and unprofessional for two institutions with such global economic impacts to act in this particular manner, a number of economists have asserted that this kind of behavior is completely rational. If you look at the decision to cut a countries funding for noncompliance as a simple weighing of the costs and benefits of actually enforcing the terms set forth in a particular aid agreement, the decisions that these international economic institutions are making start to make more sense.

> Several factors make aid withholding costly. Cutting external funds to a developing country may increase poverty rates, undermining altruistic donors' objectives. It may lead to an impossibility of debt servicing by the recipient, and thus to revenue losses for the donor. International finance institutions may face disbursement pressure from politicians with commercial and geopolitical interests in the recipient country. They may also have to resist lobbying from firms that have activities depending on the release of aid. Reduced aid disbursements may undermine donor's image and prestige, since the quantity of money disbursed is often used as a measure of success by the donors. Suspending a program may hurt donor's reputation as a program designer. Finally, in bureaucracies such as the IMF and the World Bank, failure to spend the entire budget is likely to decrease the department's future budgets, undermining its power and prestige. (Berlinschi 2010 p.435)

Inevitably, because the social pressures of and organizations public image prove much stronger than any obligations to responsible financial practices and the rules and conditions they set for themselves, the largest global monetary organizations are forced into a position where they serve no greater purpose than a broken ATM on the corner that any and all developing nations can come and take out funds from whenever they like.

Although it had appeared in the discussion of the agency theory models that conditionality would work well in curbing the inefficiencies of foreign aid allotment with little to no blowback, recent economic research has shown how some of the indirect costs of providing or not providing aid to less developed countries has created a culture in which it is more beneficial to simply lend or give money with the hope of assisting in poverty reduction without caring about whether or not any good actually comes from it.

Thus, what seemed like a great remedy in the classroom has turned out to only further cripple the market for foreign aid.

Other Solutions

Implementing any of a variety of contractual conditions in a foreign aid relationship has shown a tendency to perpetuate the ineffectiveness of foreign aid once it is given to a developing country. While this well liked policy prescription has been shown to have some deficiencies, it is by no means the only option in the war on improving the impact on foreign aid. For as many journal articles, books, and empirical studies are published on the subject of how to improve the foreign aid market, there are just as many proposals for policy and process changes that try to solve many of the same issues that academics believed could be addressed by aid conditionality.`

> One influential idea is that donors should be more selective about the countries to which they provide aid, based on the view that aid works best in countries with good policies and institutions. In the strongest version, aid should be provided only to countries that meet these criteria. A more moderate view is that more aid should be allocated to countries with stronger policies and institutions, but some aid should be targeted to countries with weaker policies, especially post-conflict countries. This proposal turns the conditionality debate: instead of providing aid to encourage reforms, give it to countries that have already demonstrated a desire to implement key reforms. In the language of the principal agent problem, donors should spend less time trying to write contracts that force an alignment of incentives and instead give more aid to countries that on their own demonstrate similar motivations and objectives. Some donors have begun to be more "selective," including the World Bank in the allocation of its concessional IDA funds, some European donors in terms of providing budget support, and the U.S. with its new Millennium Challenge Account. But since so much aid is allocated for political, security, and other foreign policy reasons, there are limits to how far donors are likely to go in this direction. (Radelet 2006 p.10)

Following in the same light as being more selective about the countries chosen to receive aid is the idea of allowing the recipient country to be integral in the process of implementing the aid in their own homeland.

> Many analysts argue that aid has been weakened by donor domination in setting priorities, designing programs and implementing projects, and push for either a more "country led" approach in which recipient governments take a stronger role, or a "participatory" approach in which various groups in recipient countries (government, NGOs, charities, the private sector) play a more active role. Note that country ownership and a broad participatory process is not the same thing: the former implies that recipient countries take the lead in setting priorities and programs; the latter implies that broad participation by the public (and not just the government) is required. (Radelet 2006 p.10)

This particular policy recommendation has far reaching benefits. By enabling those in the aid receiving country to take an active role in the kind of assistance programs they pursue and enact, donors and recipients would both be taking enormous steps towards fixing the information feedback loops previously discussed. In the end all the parties involved would have a much better grasp of what sort of aid programs work, and which ones need to be abandoned.

Continuing with the idea of the home country being more centrally involved in situations where it is receiving foreign aid, another popular suggestion by today's experts on foreign aid suggests that there needs to be some sort of unifying coordination between the many varieties of firms and government branches handling foreign aid within a country.

> Managing aid flows from many different donors is a huge challenge for recipient countries, since different donors usually insist on using their own unique processes for initiating, implementing and monitoring projects. Recipients can be overwhelmed by requirements for multiple project audits, environmental assessments, procurement reports, financial statements, and project updates. According to the World Bank, developing countries typically work with 30 or more aid agencies across a wide variety of sectors, with each sending an average of five missions a year to oversee their projects. The donors all want to meet with the same top government officials, leaving them with much less time to deal with pressing matters. These concerns have led to numerous suggestions for donors to more closely coordinate their activities; harmonize their systems; or "pool" their funds. (Kanbur and Sandler, 1999 p.6)

Moving forward from the structural changes each party involved with the foreign aid process need to make, a final alteration that many feel must be made in order to insure that foreign aid reaches its intended goals is to change the ways in which foreign aid is both managed and evaluated.

> The emphasis on demonstrating the effectiveness of aid has led to calls for improved monitoring and evaluation and results-based management. In this view, aid programs should aim to achieve very specific quantitative targets, and decisions about renewing or re-allocating aid going forward should be based on those results. There are three basic objectives: (1) helping donors allocate funds towards programs that are working; (2) detecting problems at an early stage to help modify and strengthen existing programs; and (3) improving the design of future programs. Stronger monitoring and evaluation would help improve principal-agent relationships so that aid agencies have clearer incentives and taxpayers have better information about the impact of aid on its intended beneficiaries. (Radelet 2006 p.12)

Rather than simply doling out millions upon billions of dollars and simply using the amount of money given as the measuring stick for how much foreign aid is helping, changes need to be made to the evaluation process such that whether a program accomplishes its intended goal is actually accounted for, making parties on both sides of the foreign aid equation equally responsible for bringing about further growth and development in less developed countries.

Conclusion

Throughout the course of history, people have been called, both by altruistic and material motivations, to give assistance of all varieties to those less fortunate than themselves domestically and abroad. As a result billions of dollars and euros have gone to places like Africa, Central and South America, and South East Asia, all in the name of helping the impoverished grow enough so that they can one day stand on their own two feet. In today's world, however, many have now come to question how effective foreign aid is in accomplishing its established targets. Some still feel that the current foreign aid model does in fact stimulate growth in less developed countries while others believe that foreign aid only works under a particular set of rigorous conditions. Overall, there is a concrete consensus that something needs to be done to change to current status quo so that donors can get "more bang for their buck," so to speak. Proposals that include requiring donors to be more selective in choosing whom they provide aid to, promoting the inclusion of the home country in implementing the aid it receives, requiring more fluid coordination on the part of the home country between all the local firms that handle the country's aid, and a realignment of foreign aid evaluation have all been purposed as feasible and worthwhile solutions to the major fundamental problems with the current foreign aid model and hope to in the near future put a dent in major flaws like the conditionality and principle-agent problems. Only time will tell if these propositions will be adopted by those parties most directly involved with trying to stimulate growth in less developed countries, leaving us only to wait and see if the money we continuously throw at the problems of the world finally becomes money well spent.

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Education:

The Pennsylvania State University-University Park, PA

- Schreyer Honors College
- Economics Department Honors Program
- Major: B.S. Economics Graduation: May 2011
- Dean's List: Fall 2007, Spring 2008, Spring 2009, Fall 2009, Fall 2010
- Relevant Coursework: Microeconomics/Macroeconomics, International Trade, Game Theory, Econometrics/Business Statistics, Labor Economics, Money and Banking, Accounting, Spreadsheets/Databases

Work Experience:

<u>June 2010 to August 2010</u>

Summer Intern: Verizon VSO Cust. Fin. Svcs., Phila, PA

- I developed expense models to track and forecast department budget before and after group merger
- I created critical customer behavior reports for analysis by high level executives
- I established models to track and forecast expenses related to consumer and business credit screening and bankruptcy procedures

<u>May 2009 to August 2009</u>

Summer Intern: Verizon VSO Cust. Fin. Svcs., Phila, PA

- I created forecasting models to predict financial impact of delinquent customer treatment
- I analyzed predictiveness of scorecards for current Verizon customer behavior models
- I investigated inefficiencies and poor customer experience in current Verizon Automated Voice Response Unit

<u>May 2007 to August 2009</u>

Supervisor: Sook Hee's Produce, Inc.

- I managed 4 employees, accountable for hiring, training & scheduling
- I was accountable for inventory management & equipment maintenance
- I was an integral member of the transition team in opening new store location in the Comcast Tower

Activities

- I studied at Trinity College in Dublin Ireland (January 2010-June 2010)
- I played on the Penn State Club Lacrosse team
- I served as an Undergraduate Grader for Penn State Economics Department