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Understanding Donor Pursuit of Foreign Aid Effectiveness

1.1 Introduction

Powerful nations use wealth to intervene in the affairs of weaker nations. This practice has ancient roots. Yet, the notion of the use of foreign aid to advance development in poorer countries only appeared in the post–World War II era. Since then, industrialised countries have built up extensive foreign aid programmes that reflect, in part, a commitment to an internationalist agenda that seeks to address developmental inequalities through international efforts. One indication of the consensus in favour of such efforts is that taxpayer-funded global aid budgets have surpassed USD 100 billion in every year since 2007. In a post–Cold War context, donor governments have raised the stakes of this agenda by promising to help even in countries where there is a high risk of foreign aid vanishing because of high levels of corruption or weak state institutions.

While there has been sustained support and financing for foreign aid for over half a century, the process by which donors go about promoting prosperity in developing countries, especially in poorly governed countries, remains poorly understood. During my own field visits to donor countries, I was confronted, time and time again, by representatives of donor nations who agree on promoting prosperity but diverge on the tactics they use to deliver aid. For example, while an aid official from the United States might circumvent or ‘bypass’ corrupt recipient governments to ensure that aid gets delivered to the people, in the same set of circumstances, a German official opts for channelling aid through the recipient government, citing capacity-building as the central motive. Such divergent tactics for delivering aid under similar international economic and recipient country conditions are puzzling. Questions about why and how donors decide to bypass recipient governments or, in contrast, work with them, and under what conditions this is done, remain largely unanswered by
existing theories that study donor behaviour. In fact, the systematic study of aid delivery is in its infancy.¹

This lack of understanding of why and how donors go about promoting prosperity abroad is surprising given how long and intensely scholars have debated the topic of foreign aid in recent decades. Prominent aid supporters, such as Jeffrey Sachs, advocate for more aid and cite aid initiatives such as the Global Fund to Fight AIDS, TB, and Malaria or the Global Alliance on Vaccines and Immunizations as global aid successes, which have saved lives by the millions at remarkably low cost.² Prominent aid critiques such as Peter Bauer,³ William Easterly,⁴ and Nobel Prize winner Angus Deaton,⁵ on the other hand, claim that aid not only falls short of helping developing countries develop but that it also perpetuates countries’ struggles to promote economic growth. Over the years, this debate has developed in a more or less binary fashion,⁶ attracting scholars, practitioners, and celebrities to join either camp. What has largely been missing in this debate, however, is a more nuanced treatment of the varied ways through which foreign aid can influence development abroad. Directly building up recipient capacity or incentivising governments to promote macro-economic reform is one channel where international development runs through and engages with the recipient government. Delivering vaccines through international organisations (IOs) or building drinking wells through non-governmental organisations (NGOs) or building roads through private contracting firms are other possible channels that bypass recipient structures and implement development through non-state actors. While both tactics can promote development abroad, they are built on fundamentally different models of donor–recipient interaction. I define ‘bypass’ as aid that does not directly engage government authorities and goes to non-state actors for implementation. These non-state or bypass actors include, for example, IOs, NGOs, or private development firms. I define engagement with the recipient government as any activity that involves the recipient government as an implementing partner.

¹ Political scientists and economists have increasingly turned towards studying aid delivery mechanisms, including Dietrich and Wright (2015); Dietrich and Murdie (2017); Swedlund (2017); Bermeo (2018); among others.
² Sachs (2005).
³ Bauer (1976).
⁴ Easterly (2007).
⁵ Deaton (2015).
⁶ Tsopanakis (2016).
In this book, I seek to accomplish two objectives. My first goal is to shed light on the different tactics by which donor governments intervene in recipient countries. Until recently, research on donor motivations in political science and economics has paid too little attention to the different tactics that donors employ when delivering aid abroad. Instead, it has focused on donor decisions about whether or how much aid to give. This focus has masked important and unexplored variation in how donors pursue development abroad. As a French official suggests during an author interview, ‘Fifty percent, if not more of total annual ODA-aid effort, meaning more than half of the hundred billion Euros, is about delivering the aid to the beneficiary in the recipient country. It is all about selecting the right interface, the right channels of delivery to ensure that aid is effective. And, this estimate is a conservative one.’

My second goal is to provide a political economy explanation of foreign aid delivery. By shedding light on why donors deliver aid in the way that they do, and why some bypass more than others, this book contributes to long-standing questions about the origins of donor motivations. I also contribute to the debate on foreign aid effectiveness by clarifying what goals donors pursue with their development efforts.

I locate the origin of bypass or government-to-government tactics inside aid organisations. The argument of this book originates in the intuition that aid decision-makers, who are the central actors in foreign aid decision-making, need to be understood in the context of the national aid organisations for which they work. Aid organisations, like other state organisations, function on the basis of institutional guidelines, standard operating procedures, or rulebooks that prescribe how aid officials deal with risk in aid implementation at any given time. These rules and practices act as constraints on aid officials insofar as they justify particular aid delivery tactics, while precluding others. In developing the argument, I derive aid officials’ preferences for bypass or engagement from formal rules of the game that become manifest in particular bureaucratic structures and administrative practices that prescribe particular aid delivery tactics.

Examples for recent research that explain different ways of giving aid include Molenaers et al. (2015); Bush (2016); Swedlund (2017); Allen and Flynn (2018); Bermeo (2018); Adhikari (2019).

Author interview with Senior French Official AFD, Paris 2009.
Institutions alone, however, are insufficient for explaining why donor officials diverge in their preferences for aid delivery tactics, or for answering the more fundamental question about the origin of bypass or engagement. They merely explain an ordered regularity in aid delivery of any given aid organisation. They tell us why rational, incentive-oriented aid officials behave the way they do given their institutional environment. Institutions, in their functions as constraints, however, do not shed light on why donor governments, or more specifically their aid officials, deliver aid differently. Neither can they tell us much about the substance of aid politics: why it is that, today, aid officials in the United States and Germany are constrained differently. The questions of ‘why bypass?’ or ‘why engage?’ require me to think, as Robert Lieberman reminds us, about the substance of aid politics. It requires me to think about the ideas that motivated and gave rise to the rules that aid officials follow inside their organisations. After all, aid organisations, alongside other state institutions, are created and reformed over time, and their organisation and rules thus need to be understood in a national, historical context. By integrating insights from historical institutionalism, I claim that, at different times in different donor countries, national orientations about the appropriate role of the state in public sector governance have shaped the organisation and character of state institutions. In the United States and the United Kingdom, for example, during moments of critical juncture, when the welfare state was in crisis and opportune political circumstances presented themselves, neoliberal reformers significantly reshaped rules and administrative practices across state organisations, including national aid organisations. They locked in neoliberal ideas to generate stable patterns of aid delivery in the future. In other words, how aid organisations are structured has little to do with the specific challenge of delivering aid to countries with poor governance today. Rather, the aid organisation’s structure reflects an institutional legacy that expresses how political actors many decades ago sought to deal with broader societal challenges, how they sought to reorder the relationship between the state and markets in the economy.

My theory thus endogenises institutions insofar as they lock in a particular ideological view. Neoliberal doctrine is consequential for aid delivery in the United Kingdom and the United States because these

9 Lieberman (2002).
countries create rules that prescribe and incentivise aid officials to select bypass under conditions of poor recipient governance. More traditional public sector ideas are consequential for aid delivery in Germany and France because their national aid organisations were set up to promote government-to-government aid delivery. These organisational rules create different types of political games and shape donor-recipient interactions differently. Marked cross-donor variations in organisational incentives are not yet accounted for in empirical academic research on donor motivations. The decision to interlock ideas with institutions enables me to provide a political economy explanation that accounts for this marked variation in aid delivery across donor governments.

The argument developed throughout the book focuses on the micro-institution and its character. It puts the aid official front and centre in decision-making. It looks at what happens in the institution. I show that aid officials are constrained by institutional rulebooks that authorise, enable, and justify a particular aid delivery tactic, while precluding others. A direct analysis of agents in their respective national institutional environments allows me to flesh out the causal mechanism and isolate it from alternative explanations. It allows me to make more direct claims about aid officials that go beyond Williamson’s classic description of agents as ‘self-interest seeking with guile’.

At this point, readers might wonder which of these tactics is more effective? Both bypass and engagement with recipient governments can promote development but each does so in a very different way. A key virtue of government-to-government aid is that it involves the recipient government and thus has the potential of increasing recipient country ownership over the development process. In collaboration with governments, donors can pursue potentially transformational projects that contribute to the capacity of local structures, making development more sustainable in the long run. Yet, critics may be quick to point out its limitations: working together with recipient governments can be costly insofar as engagement requires extensive dialogue and effective due diligence systems to ensure that recipient governments stay true to their word. Compared to bypass, government-to-government delivery thus requires more patience and longer time horizons for assessing its success. Finally, government-to-government aid may be more

vulnerable to corruption or serve to prop up dictators insofar as it can be used to buy political support.11

A key virtue of bypass, on the other hand, is that donors can circumvent recipient structures when they pose an obstacle to aid implementation. By working around the government, donors can bring aid directly to the people who need it. Yet, critics may be quick to argue that bypass may be no panacea either insofar as it can have deleterious effects on development. Bypass may divert attention from riskier and potentially transformational projects that include recipient governments as partners but that may be difficult to measure and may require longer time horizons to become successful.12 By delegating aid delivery to non-state actors, donors set up parallel structures whose design is largely shaped by technocrats in donor or implementing organisations and thus may not reflect developmental needs or priorities of recipient authorities.13 Or, bypass can be complicit in the stagnation of indigenous development. It can, for example, undermine local capacity to formulate and implement their own development policies.14

To illustrate the difficult trade-offs associated with bypass in development, I turn to the global effort to contain the spread of HIV/AIDS. In setting up one of the largest vertical health programmes in the history of foreign aid, the Global Fund and its partners delivered treatment through their own systems and structures, saving millions of lives in the world’s poorest countries. Simultaneously, however, these targeted efforts create pathologies that work to undermine the development of broader healthcare structures in recipient countries. For example, a singular focus on HIV/AIDS leads to a decline in spending in other important health services,15 making it difficult for local structures to provide adequate treatment of other illnesses such as diabetes or chronic respiratory diseases, among many others. Or, the generously funded HIV/AIDS programmes attract doctors and nurses from other health services, thus compounding existing and often chronic shortages in other areas of health. Finally, the implementation of a programme that relies on external systems and structures does not encourage the kind of knowledge transfer that would be

11 Kono and Montinola (2009); Ahmed (2012).
12 E.g. Muller (2018).
14 E.g. Chasukwa and Banik (2019).
required to continue the programme in the absence of parallel structures. Such pathologies contribute to what Pritchett, Woolcock, and Andrews have called ‘capability traps’, in which states’ ability to develop themselves in the long run is severely constrained and limited.\textsuperscript{16}

Aside from their adverse effects on development, bypass tactics can affect politics in recipient countries. For example, service provision by external, non-elected actors may undermine citizen confidence in elected leaders and raise questions about their legitimacy.\textsuperscript{17} Or, bypass aid may mute popular resistance in dictatorships by subsidising government spending, thus rendering citizens less willing to openly challenge the incumbent through protests.\textsuperscript{18} Or, bypass may cause repressive governments to lash out against implementing actors and potentially weaken civil society in the country.\textsuperscript{19} These are all outcomes that donors care about and that present aid officials with difficult trade-offs. My argument about institutional path dependency in foreign aid delivery suggests not only that neoliberal doctrine has lasting consequences for which tactics donors choose to promote development but also that these locked-in tactics may have transformative consequences for developmental or political trajectories of recipient countries.

In this book, I do not examine the effectiveness of bypass or engagement tactics in aid delivery. Nor do I explore the effects of bypass on recipient country politics. Nor do I wish to make normative claims about which I believe is better suited to promote prosperity. Instead, I approach the question of effectiveness indirectly. I argue that the way that aid officials look at the success of their aid projects and programmes is endogenous to the spirit of the institutional rulebook by which they operate, and which structures donor–recipient interaction: while aid officials whose work environment is organised by neoliberal principles prioritise cost-effectiveness and direct delivery to the poor, their counterparts in more statist organisational environments prioritise capacity-building and government ownership.

\textsuperscript{16} Pritchett et al. (2010).

\textsuperscript{17} For research on external goods and service provision and state institutions see Sacks (2012); Dietrich and Winters (2015); Winters et al. (2017); Dietrich et al. (2018, 2019); Baldwin and Winters (2020).

\textsuperscript{18} DiLorenzo (2018).

\textsuperscript{19} Dupuy et al. (2015, 2016).
In other words, aid success means different things to aid officials from different political economies.

More broadly, I suggest that the core mission or mandate of the aid organisation is not objectively defined. Rather, it reflects the ideological context in which the institution was created many decades earlier to deal with societal problems at the time. Historically, approaches to solving societal challenges promoted a particular blend of roles between states and markets in public sector governance. The aid organisation’s mandate is thus endogenous to the ideological orientation of the organisation at the time it was created: whether it embraces a larger role of the state or promotes a greater role for markets in public sector governance. Institutional rules and practices that lock in these views then steer aid officials towards goals that either promote state-strengthening or direct provision to the poor. Even if aid officials were committed to employing what they may consider an optimal solution to aid delivery at any given moment in time, organizational incentives would steer them towards institutionally prescribed solutions. The orientation of the institutional rulebook also dictates where aid officials come down on the difficult trade-offs associated with bypass or government-to-government tactics in development.

My argument rejects the claim that aid officials can easily optimise aid delivery following whatever tactic appears to be most promising at any given time. For innovative ideas to be consequential they need to be compatible with the underlying institutional rulebook. Ultimately, the choice for bypass is somewhat disconnected from what works best in international development insofar as neoliberal donors will gravitate towards it even in the absence of concrete empirical evidence that doing so is more effective.

My argument establishes that, in the world of foreign aid, there are not just tensions between donors and recipient governments. There are tensions among donor governments of different political economy types in how they think about aid effectiveness and, consequently, about how to pursue aid delivery abroad. These tensions reflect a broader struggle for authority in the aid discourse, where donors compete over which conception of aid effectiveness is better. By pursuing bypass or engagement tactics to varying degrees, each donor brings to bear its domestic experience, expertise, and resources to accomplish

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the goals it has set out in foreign aid. For public policy, my argument has a few implications: first, it suggests that lasting and robust changes in aid delivery tactics require institutional reforms that change institutional rulebooks. Neoliberal doctrine and the organisational changes that have accompanied it have altered aid priorities and delivery modalities of Anglo-Saxon and Scandinavian donors at different points in time over the last four decades. For example, a focus on measurable outcomes crowds out aid activities that are difficult to measure but that some consider central to foreign aid.21 It makes it more difficult to maintain aid projects where results are not readily measurable or that take time to bear fruit, such as efforts to strengthen recipient capacity.

Because traditional public sector donors do not share these same priorities, my argument also implies that political economy differences may explain the lack of donor coordination in the field. For years, scholars and practitioners have bemoaned that too many cooks in the kitchen undermine aid effectiveness.22 To decrease transaction costs of too many national aid programmes and projects that are implemented following a donor country’s national structures, the Organisation for Economic Co-operation and Development’s Development Assistance Committee (OECD DAC) recommends that donors coordinate their activities in the field.23 Yet, despite all the lip service offered in support of more coordination, little progress has been made on this front and scholars continue to document fragmented aid delivery in the field.24 My argument implies two things for this particular debate. On the one hand, institutional differences may remain fundamental obstacles for donor coordination across different political economy types unless donor political economies converge on the same type, or recipient countries converge on a good quality of governance. On the other hand, it may be that donor coordination efforts may vary in success across political economy types insofar as ‘like-minded’ donors who share aid objectives and delivery preferences find more common ground for coordination.

To test my argument, I employ a mixed-methods approach. I present quantitative analysis of aid delivery patterns across twenty-three OECD donor countries. I present quantitative and qualitative evidence from

22 For research that has studied the problem of uncoordinated aid-giving for recipient governments see Ross (1990); Ashoff (2004); Balogun (2005); Rogerson (2005); Acharya et al. (2006).
extensive field research with donor officials across different OECD donor countries, the United States, United Kingdom, Sweden, Germany, France, and Japan. I selected these countries because they represent key donors in the international development community and because they exhibit variation in their political economy type. As will be discussed in subsequent chapters, decision-makers were remarkably candid about the goals that matter for their national aid organisations as well as the constraints imposed on them when fulfilling their duties as aid officials. These interviews provide invaluable insights about foreign aid cross-nationally.

The predictions of my argument are supported by the tests that I conduct in the empirical sections of the book, both at the cross-country level and the level of aid decision-makers. This book is about the institutions that shape donor officials in their decisions on how to deliver foreign aid. My empirical strategy reflects this insofar as a substantial part of the evidence is collected through open- and closed-ended surveys of officials in their aid organisations. Then I show that the individual-level decisions map onto aggregate country differences in bypass.

In what remains of this introductory chapter, I first establish my dependent variable and make a case for why the study of aid delivery is important for understanding donor motivations. In a next step, I establish the empirical and theoretical puzzle motivating this book. I then provide an overview of the existing literature. Subsequently, I provide a synopsis of the theoretical framework and summarise the central empirical findings of this book. I then highlight the book’s primary theoretical contributions, its implications for policy and foreign aid effectiveness. I conclude with a road map for the subsequent chapters.

1.2 A Focus on Foreign Aid Delivery

One plausible reason for why so many of the questions about donor motives raised in the previous section remain unanswered may be that, despite the tremendous knowledge generated by economists or political scientists over the years, we still know relatively little about the different channels through which foreign aid works. Although scholars have recently turned to studying variation in aid sectors, aid tying, or budget support,\(^\text{25}\) the bulk of research has studied donor motives by focusing

\(^{25}\) Radelet (2004); Faust et al. (2017); Bermeo (2018); Ganga and Girod (2019).