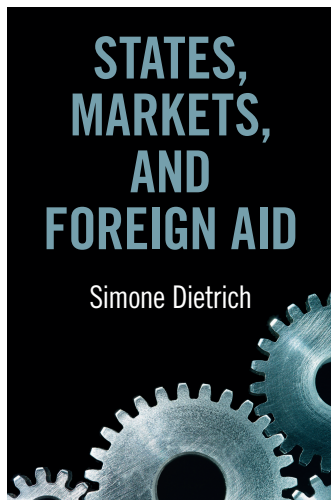


States, Markets, and Foreign Aid

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Donors pursue international development in markedly different ways. Why?



Engagement versus bypass

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The GAVI Alliance

Both approaches come with trade-offs



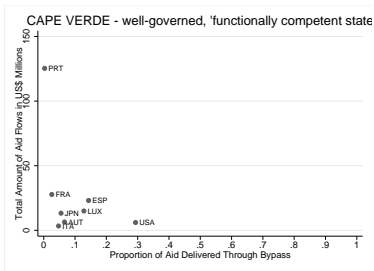
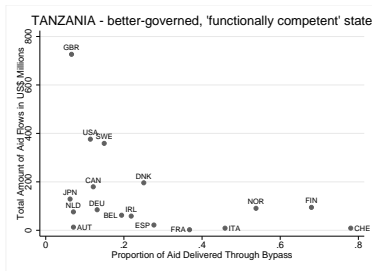
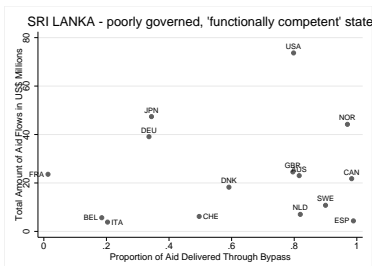
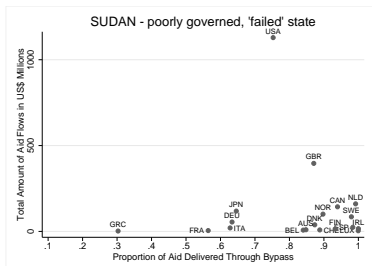
Bypass gets aid to the poor but creates parallel structures, affects politics (DiLorenzo 2018, Dietrich et al 2018)

Both approaches come with trade-offs



Government-to-government aid engages with recipient authorities but might be captured (e.g. Andersen et al 2020), worsen governance (e.g. Knack 200), prop up dictators (e.g. Kono and Montinola 2009).

Cross-country variation in how donor countries deliver aid

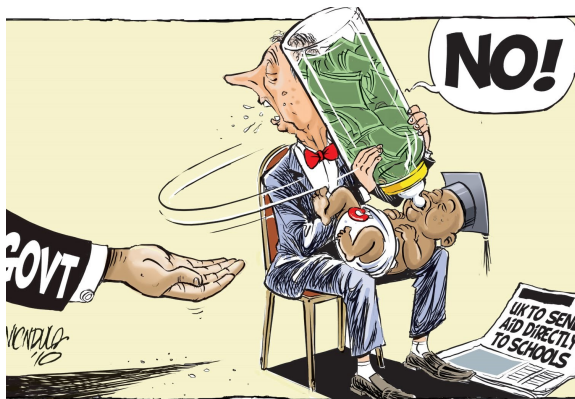


Countries vary in how much risk they pose to donors.

What explains marked delivery tactics across donor countries

- National structures shape the pursuit of development across donors and across time.
- Since 1980s we have neoliberal or traditional public sector structures that dictate more bypass or engage, while precluding the other.
- When risks of aid capture is high, I expect neoliberal donors to opt more for bypass than their peers in traditional public sector bureaucracies.

The managerial moment



Sweden



Dietrich. States, Markets and Foreign Aid

Empirical strategy: mixed methods

- Cross-country statistical analyses of foreign aid delivery tactics of 23 OECD donors and their aid recipients.
- Individual-level open- and closed-ended survey analyses with aid officials across donor countries.
- Comparative research on the organization of aid bureaucracies across countries and across time.
- Direct comparison between aid officials' preferences and the public's view on aid delivery in the US and Germany to rule out a leading alternative explanation

Digging into individual-level evidence of chapter 5

Aid officials from different donor types

- Traditional public sector: France, Japan, Germany
- Neoliberal: United States, United Kingdom, Sweden

Recruitment strategy of aid officials

- Organizational charts
- Referrals through development/professional network, heads of policy planning or chiefs of staff
- Respondents suggest further candidates

Closed- and open-ended interviews

In-person or telephone

Survey respondents by agency and country

No. of Respondents	Agency	Country
4	State Department	U.S.
5	USAID	U.S.
2	MCC	U.S.
1	Treasury	U.S.
1	Office of Budget and Management	U.S.
7	Department for International Development	U.K.
6	Ministry of Foreign Affairs	Sweden
8	Sida	Sweden
6	Ministry of Foreign Affairs	France
4	French Agency for Development	France
3	Ministry of Finance	France
9	Ministry of Development Cooperation	Germany
4	Kreditanstalt fuer Wiederaufbau (KfW)	Germany
3	Ministry for Foreign Affairs	Japan
2	Japanese International Cooperation Agency	Japan

Within-Subject Survey Design: Instrument

Scenario

Imagine that your country allocates bilateral aid for development in Country A, which is an average low-income country. The country's economic growth has been modest, yet consistently positive. More children are enrolled in schools and infant mortality has declined. However, poverty remains widespread.

Country A

Corruption is relatively low and state capacity is relatively strong.

Within-Subject Survey Design: Instrument

Scenario

Imagine that your country allocates bilateral aid for development in Country A, which is an average low-income country. The country's economic growth has been modest, yet consistently positive. More children are enrolled in schools and infant mortality has declined. However, poverty remains widespread.

Country B

The country lacks state/absorptive capacity. The state institutions are weak and the national government is not capable of doing a good job in managing the country's economic and social resources in a way that improves the conditions for the average people. There is not much evidence of large-scale corruption, however.

Within-Subject Survey Design: Instrument

Scenario

Imagine that your country allocates bilateral aid for development in Country A, which is an average low-income country. The country's economic growth has been modest, yet consistently positive. More children are enrolled in schools and infant mortality has declined. However, poverty remains widespread.

Country C

The country's state institutions exhibit indigenous development capacity. Recently, however, an independent international audit revealed that senior government officials were involved in a large-scale corruption scandal whereby government funds of more than US\$ 20 million were used to pay foreign and local companies for services that were never delivered.

Survey instrument - outcome question

Share of aid through gov't-to-gov't channel

Given what you know about how things have been going in Country A/B/C, please tell me **how much of the bilateral aid you would prefer to channel through the recipient government (compared to other non-state development actors)**.

- (1) None
- (2) Some
- (3) Quite a Bit
- (4) A Large Amount
- (5) All

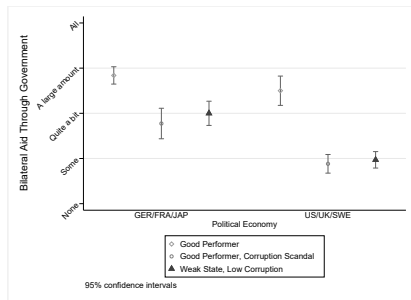
Survey instrument - Rank-order of delivery channels

Given what you know about the country, please tell me what foreign aid channel best meets your country's objective in delivering aid effectively in Country A. **Please rank-order the subsequent five delivery channels, starting from “works best for my country” at 5 and ending with “works worst for my country” at 1.**

- International/[respondent country's] not-for-profit organizations who operate independently from the recipient government the ground
- For-profit development contractors
- The recipient government
- Local not-for-profit organizations in the recipient country
- International organizations that oversee and manage how the recipient authorities use foreign aid.

Survey Results

Simple Differences: Point Estimates and Confidence Intervals

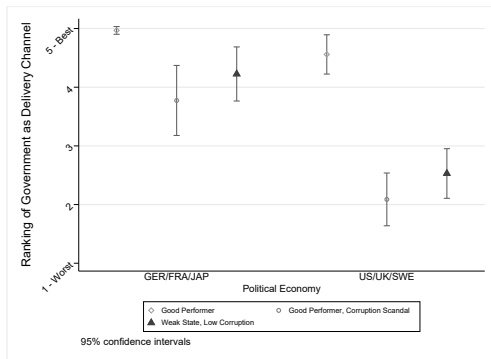


Difference in Differences

	Country A to B Diff-in-Diff	Country A to C Diff-in-Diff
<i>No Bypass -Proportion</i>	-0.691***	-0.553***
Std. Error	0.19	0.21
R square	0.52	0.50

Survey Results I

Simple Differences: Point Estimates and Confidence Intervals



Difference in Differences

	Country A to B Diff-in-Diff	Country A to C Diff-in-Diff
<i>No Bypass -Ranking</i>	-1.29***	-1.28***
Std. Error	0.29	0.36
R square	0.47	0.49

Testing individual-level implications I

Time Horizons for Aid Effectiveness

Now I would like to ask you about your thoughts about the appropriate time horizon for showing results for your country's bilateral aid efforts. Considering your experience as an aid official for your country: **Do you think that, on average, foreign aid should be evaluated for its effectiveness after:**

1yr 2yrs 3yrs 4yrs 5yrs 6yrs 7yrs 8yrs 9yrs 10yrs 10 or more years

Simple differences

Time Horizon	N	Mean	Diff.	t-stat	p-value
FRA/JAP/GER	31	6.35			
USA/UK/SWE	32	4.59	1.76	3.09	0.01

Testing individual-level implications II

Basic Needs versus State-Building

Aid experts disagree over whether to prioritize short- or long-term development goals. For instance, aid that provides sick people with life-saving drugs does not directly contribute to strengthening indigenous health care systems and to making health care systems sustainable: **how much of the overall aid should your government direct at state-building?**

- (1) None
- (2) Some
- (3) Quite a Bit
- (4) A Large Amount
- (5) All

Simple differences

State-building effort	N	Mean	Diff.	t-stat	p-value
FRA/JAP/GER	31	3.74			
USA/UK/SWE	32	3.09	0.65	4.42	0.01

Leveraging Open-Ended Interviews to Probe Causal Mechanism I

US official

If we want our food security program to lift 15 million people out of poverty in five years in a given country, then it is hard to turn the money over to the recipient government and expect them to reach the targets, especially when the government is corrupt and lacks absorptive capacity. [...] When we learn of severe corruption in government we turn to our NGOs to deliver our assistance. Or, alternatively, we work with multilateral organizations.

Institutions constrain

Although we have our rules and processes of managing aid, I think that the government, even if it is corrupt, remains an important partner and we need to work with them more, like we used to in the 1980s and 1990s. My official role today requires me to work around the state more often than I would like.

Leveraging Open-Ended Interviews to Probe Causal Mechanism II

French official

But the goal of French aid is not to put up money to set up 1000 water taps in a given region. The way we think about development cooperation is linked to our national model about the role of the state in the economy and development more generally. [...] We believe that, in development, there has to be a collective solution, one that involves a state that is able to connect their citizens with functioning water taps.

Institutions constrain

Sometimes when our partner countries fail to cooperate it might be better to stop working together and ask our civil society to step in. We have made very small adjustments in this regard but our budget processes and institutional rules just do not allow us to make big changes in how we do development cooperation.

Implications For Aid Effectiveness

- Ideological beliefs that were locked-in many decades ago shape donor decisions about how to deliver aid today.
- They shape the mandate, objectives, and metrics used to document aid success.
- Aid officials cannot easily optimise or change tactics, or adjust development approaches.

Future of Aid

- For new delivery ideas/innovation to be practical and implementable, foreign aid strategies must align with the underlying ideological orientation of the donor government and its institution.
- Paradigmatic, stable changes in aid delivery require comprehensive institutional reforms.
- Not all national aid organizations are set up to expertly promote capacity-building or long-term development efforts.

Implications For Donor Coordination/Multilateralism

- Like-minded donors, who share the same orientation and whose aid agencies are structured in similar ways, are more likely to coordinate successfully.
- Varied structures promote diversification of multilateralism.
- Varied rulebooks complicate agreements about what constitutes best development practices.