Donor Political Economies and the Pursuit of Aid Effectiveness

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Abstract

Foreign aid critics, supporters, donors, and recipients agree on the need for more effective aid policy. Yet, considerable variation exists in how donor governments allocate foreign aid. This paper explores variation in aid policy in response to an important source of aid failure in aid-receiving countries: bad governance. In response to corruption and inefficient state institutions some donors decrease bilateral government-to-government aid flows and increase the share of bilateral aid by outsourcing delivery to non-state development actors. Other donor governments show less responsiveness to the risk of aid capture through the state. What explains this differential response? I argue that these cross-donor differences exist, in part, because aid delivery tactics are conditioned by national orientations about the appropriate role of the state in public goods provision. Countries that place a high premium on market-efficiency (e.g. US, UK, Sweden) will outsource aid delivery in bad governance environments to improve the likelihood that aid reaches the intended beneficiaries of services. However, such tactics are costly for aid officials from political economies that emphasize a strong state in goods provision (e.g. France, Germany, Japan) insofar as government bypass undermines the ability of the state to lead long-term development efforts. I test my argument using OLS on time-series cross-section data and survey experimental evidence on a cross-national sample of senior foreign aid officials and find robust evidence for my argument. These findings shed light on different ways of measuring aid utility and assessing aid effectiveness. The study of bilateral aid outsourcing also suggests that some donors more than others, based on their political economies, are likely to contribute to incumbent survival through their foreign aid.

Introduction

Aid effectiveness has become a central tenet in aid policy-making in the past decade. In the 1990s a perceived lack of progress in poverty reduction and stories of corruption and waste caused aid fatigue among donor publics. Research emerged suggesting that a primary obstacle to efficiency in aid delivery was aid capture[1] through corruption or the lack of absorptive capacity in the aid-receiving country (e.g. Burnside and Dollar 2000, 2004). This has caused donor governments to pursue strategies that increase the effectiveness of aid (Dollar and Levin 2006, Bermeo 2009, Claessens et al. 2009, Knack 2013).

One response to reducing the risk of aid capture in bad governance environments has been to "outsource" the delivery of foreign aid to non-state actors, rather than delivering it through the public sector in the recipient country. In 2007, OECD countries committed a total of US\$ 112 billion in aid and delegated over 30 percent of it, approximately US\$ 41 billion, for implementation through non-state development actors, including local and international NGOs and multilaterals. Dietrich (Forthcoming) shows that, on average, donors are more likely to outsource aid delivery to non-state actors when state institutions are weak or public sector corruption is rampant in order to reduce the probability of aid capture through corrupt authorities or inefficient institutions. Strong institutions, on the other hand, signal greater capacity and willingness of the recipient government to effectively implement aid, encouraging donor governments to implement aid in cooperation with the public sector.

Emerging research on aid effectiveness shows that outsourcing aid delivery to non-state actors in foreign aid can achieve better results and outcomes. In a recent experimental study in Kenya, Bold et al (2013) compares the effectiveness of NGO- and government-administered public services in primary education. They find that teacher programs only have significant effects on student test scores where the program was managed by an international NGO. Similarly, Duflo, Dupas and Kremer (2012) show that in Western Kenya publicly administered school programs were more susceptible to aid capture than programs implemented by international NGOs. Not surprisingly, this evidence is attractive to donors searching for measurable results.

However, not all donors are equally likely to see outsourcing of foreign aid as the best response to aid capture. Rather, considerable variation exists in the degree to which donor governments rely on this tactic. While some countries condition the selection of aid delivery channel on bad

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[1]I define aid capture broadly as resulting from the mismanagement of aid in the recipient, either by intentional diversion of aid through corrupt authorities/bureaucrats or the waste of aid due to a lack of absorptive capacity. This definition differs from Svensson's (2000), Winters (Forthcoming) and Jablonski (Forthcoming) who define aid capture as acts of corruption.

governance, others do so to a lesser degree. For instance, at the country level, the proportion of British government-to-government aid to Sri Lanka- a country with deteriorating governance quality- is low and has declined over time, while overall bilateral aid contributions have remained similar. In contrast, the fraction of French government-to-government aid, out of all bilateral aid, is high and has not exhibited a similar shift towards more outsourcing (OECD 2012). This raises the question of why some OECD donors condition aid on governance quality while others do not.

This study develops and tests a model of endogenous aid delivery that accounts for heterogeneity in donor delivery preferences. I argue that these cross-donor differences exist, in part, because not all donor governments support the neoliberal credo of outsourcing in public goods provision. Advocates of neoliberal policy in foreign aid present outsourcing in aid delivery channels as a solution to the problem of bad governance, emphasizing the goal of aid to directly impact lives of individuals. Critics, on the other hand, see outsourcing in aid delivery as bypass of the recipient government, with detrimental effects on the capacity of the public sector and its ability to provide for a sustainable and democratic solution to underdevelopment. This more "statist" orientation emphasizes the role of aid in strengthening the public sector for long-term development.

I argue that these contrasting views about the delivery of find their origin in national orientations toward the appropriate role of the state in public goods provision. These orientations are manifest in the degree to which public sector officials have moved to replace the state with market-type mechanisms[2] in public goods provision (Metcalfe and Richards 1990). Donor officials from countries where public sector governance emphasizes measurable performance, tangible results, and individual choice, prefer delivery tactics that maximize impact of aid for individuals abroad that is readily measurable: when inefficient state institutions are seen to prevent the delivery of foreign aid to poor beneficiaries, decision-makers are predisposed to outsource the delivery of development assistance to non-state actors. However, when recipient institutions are seen to be well-governed and a low threat to the aid delivery to beneficiaries abroad, the same decision-makers are more likely to engage with the recipient state in aid implementation.

As a former senior U.S. official highlights: "We have a high stated concern for fiduciary- and

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[2]Market-type mechanisms are a broad concept. In the early 1990s, the OECD adopted the very comprehensive definition of encompassing all arrangements where at least one significant characteristic of markets present. In the area of service provision, the prime instruments include outsourcing (contracting out), public-private partnerships and vouchers

results-risks in foreign aid. These concerns translate into why a lot more of U.S. assistance is provided through NGOs or private firms. 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."[3] Another official elaborates further: "Governance is a big issue for us. We always care about it. When we learn of severe corruption in government we turn to our NGOs to deliver our assistance. Or, alternatively, we work with multilateral organizations like the UN Office for Drugs and Crimes [in Central Asia, *added by author*] by funding individual activities because they are well placed and they can deliver for us. We need to make sure that people get our help as quickly as possible; that they get better as quickly as possible. If we continued working with the government we would not get anywhere."[4] I identify the United States, United Kingdom, Australia, and Canada as examples of countries where public goods delivery is increasingly outsourced to non-state actors (OECD National Account Statistics 2011). More recently, Scandinavian governments have significantly increased the outsourcing of domestic public goods delivery to non-state development actors suggesting a radical shift in their governance approach (Sandström and Bergström 2002, Hjertqvist 2001, Gingrich 2011, OECD National Account Statistics).

In contrast, donor officials from statist countries where political economies are organized around a strong state in public goods provision oppose this trend towards the marketization of foreign aid. As they do at home, officials assign a central role to the recipient state in goods provision abroad. I thus expect them to be less inclined to employ outsourcing, or bypass, tactics in aid. Rather, they will continue to provide aid through the government-to-government channel in order to build the capacity of state institutions. They manage aid capture risk through more hands-on aid delivery tactics in the implementation of government-to-government aid. I identify France, Japan, South Korea, and Germany, among others as countries that maintain relatively strong public sectors in public goods delivery, as a low propensity for the outsourcing domestic government functions to non-state development actors documents (OECD National Account Database 2013).[5]

A senior Japanese government official explains the affinity between domestic and foreign policy decision-making, and their implications for objectives in foreign aid: "The philosophy of Japanese aid is, in part, based on our own development after the World War II where we had a

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[3] Author's interview with former senior US government official, Paris, France, September 25, 2013.
[4] Author's interview with senior US government official, State Department, Washington DC, June 09, 2009.
[5] This propensity has not changed much over the last ten years (OECD National Account Database 2011.

very strong state leadership and state capacity. In essence, Japan's growth was led by the state. We were not a socialist country but it was civil servants who planned development and led the country and this was successful to a certain extent. And we believe that in developing countries there should be a capacity on the state-side to be able to plan ahead and manage resources and allocate them adequately and properly. We place a lot of emphasis on working with the recipient state, working with public servants to realize a collective solution to development, just like we do at home."[6] Among OECD donor countries we thus observe different national orientations about the appropriate role of the state in the provision of public services. These orientations represent equilibrium conditions for decision-makers across policy areas, and help explain why donor officials from countries with different national orientations offer differential tactics under condition of bad governance. What is more, aid delivery tactics reflect important underlying differences in the utility that donor governments assign to foreign aid. While statist donor elites view the role of aid as catalytic, contributing to development and growth through capacity development, their counterparts from market-oriented political economies view aid as an effort to directly improve the lives of the poor abroad, if necessary without engagement of the state.

The results of this paper directly reinforce a prominent line of work by Katzenstein (1978), Gourevitch (1986), Simmons (1994), Milner (1997) and others that emphasizes the importance of domestic factors on foreign policy. It shows that the domestic political economies of donors profoundly affect how they provide bilateral foreign aid. This paper also advances our understanding of the importance of interaction effects between domestic political economies in donor countries and recipient characteristics in explaining foreign aid decision-making, which may carry implications for the broader study of foreign policy decision-making.[7]

This study's focus on aid delivery contributes to a growing research agenda that explores important empirical variation in aid tools (e.g. Milner 2006, Brech and Potrafke Forthcoming, Dietrich Forthcoming, Knack 2013). It informs research that explores the effect of foreign aid on government survival. The baseline assumption of this research is that bilateral aid is fully fungible and can be used as the incumbent government sees fit (Kono and Montinola 2009, Ahmed 2012). This paper argues that aid may not always be within reach of the government and that incumbents may control less aid than is commonly assumed: while some donors work

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[6]Interview with senior Japanese Official, Member of the Japanese Permanent Delegation to OECD, Paris, August 12, 2013

[7]For instance, considerable variation exists across OECD countries in the degree to which they outsource government services (e.g. logistics, support for communications and electronic systems) to private contractors in the areas of security and intelligence.

around the government to reach the intended beneficiaries in poorly governed countries others emphasize government-to-government development cooperation.

This study informs the aid effectiveness literature as it establishes a link between political economies and the different kinds of benchmarks that donor officials use to assess aid success. Donor governments that outsource aid delivery in countries with bad governance may achieve greater success in providing immediate relief to the poor through easily implementable health interventions than donor governments that continue to engage in institution-building in collaboration with the state. However, performance-oriented delivery tactics might hamper or even undermine donor efforts to build up a state capable of managing its own development -an objective which ranks high for donor governments that prefer a tactic of greater engagement with the government in the developing country. While donors often offer a combination of short- and long-term approaches the results of this study imply that political economies may shape where donors governments come in on this fundamental dilemma in aid provision.

Previous Literature on Aid Allocation

Many studies explore bilateral aid policy by assessing OECD donors' aid commitments. The majority of these studies explain aid levels on the basis of recipient characteristics and claim that bilateral foreign aid is primarily an instrument of state-craft, used to gain influence over recipient governments to advance donor goals. These donor goals can include policy-concessions (e.g. Bueno de Mesquita and Smith 2009), recipient government stability (e.g. Kono and Montinolla 2009), counter-terrorism (e.g. Bapat 2011, Boutton and Carter Forthcoming), access to natural resources (e.g. Kapfer et al 2007), and democratization (e.g. Bermeo 2011, Wright 2009).

There are significant differences in bilateral aid effort across donors, however. These differences have given rise to the development of a second research agenda, which explores the domestic determinants of foreign aid policy. In this line of inquiry, scholars find a series of factors associated with aid effort among donors, including donor country size (Round and Odedokun 2004, Bertoli et al 2008), socio-political values in the donor country (Stokke 1989, Lumsdaine 1993), the size of welfare state institutions (Noel and Therien 1995, Therien and Noel 2000), the size of the government budget (Chong and Gradstein 2008), the rise of development NGOs (Lancaster 2006, Lundsgaarde 2012), the professionalization of aid agencies (Lancaster 2006, Bush 2013), political party ideology (Tingley 2010, Milner and Tingley 2010, 2011, Brech and Potrafke 2013), decision-makers' perceptions of their states' role in world politics (Breuning

1995), and elites ideas about why aid is valuable (Van der Veen 2011).

While the two research agendas have evolved largely in separation, what they share is a focus on levels of aid. This focus is based the assumption that bilateral ODA activities are fungible government-to-government aid transfers. In reality, however, decision-makers can channel aid through multiple channels, including, for instance, the government, international and local NGOs, international organizations, and private companies, which offer different mechanisms through which foreign aid influences outcomes in the aid-receiving country. Depending on what donors want to achieve they will use different mechanisms. As a senior French government official suggested during an interview: "Fifty percent, if not more, of total annual ODA-aid effort, meaning more than half of one hundred billion Euros, is about delivering the aid to the beneficiary in the recipient country. It's about selecting the right interface, the right channels of delivery. And this estimate is a conservative one." [8]

Recent scholarship acknowledges differences among mechanisms of bilateral aid provision (Bermeo 2009, Dietrich 2013, Knack 2013). Dietrich 2013 shows that OECD donor governments, on average, pursue outcome-oriented aid tactics by channeling funds through non-state development actors when state institutions present a problem for effective aid delivery.[9] However, considerable variation exists across donor countries.

This paper studies this variation in aid delivery across donor governments by exploring the interaction of donor and recipient factors that had previously been studied in isolation. Bad governance abroad poses risks in aid delivery to all donors. Drawing on insights generated by a literature that studies how domestic factors shape foreign policy behavior (Katzenstein 1978, Milner 1997, Gourevitch 1986, Simmons 1995, Lancaster 2006) I argue that domestic factors significantly influence how foreign aid is delivered; and focus on national orientations about the role of the state in public goods provision which shape the organization of domestic political economies. I claim that different national orientations account for differential delivery tactics across donors: but this variation is only fully explained if we factor in international connections in the analysis -the quality of governance in the recipient country.

My arguments draws on research by Katzenstein (1978, 2005) who establishes an explicit link between political economy structure and foreign economic policy. For instance, Katzenstein (1978) shows that structural differences in the political economies of the United States, the

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[8]Author's interview with senior French government official, Ministry of Foreign Affairs, Paris, July 16, 2009.

[9]Within government-to-government aid, Knack (2013) shows that donors, on average, are more likely to use indigenous public financial management and procurement systems when providing government-to-government assistance in recipient countries when the quality of recipient governance is high. When governance quality is low, donors are more likely to use their own systems.

United Kingdom, France, Japan, and Germany explain variation in trade and exchange-rate policy across these countries. In this tradition, Quinn and Inclan (1997) show that differences in political economies influence the degree of financial openness and closure among OECD countries. The importance of political economy structures has also been demonstrated in a series of studies that explain comparative political economy outcomes (e.g. Cameron 1977, Berger and Dore 1996, Hall and Soskice 2001, Franzese 2002).

Donor Political Economy, Aid Capture, and Aid Delivery Tactics

Every year donor governments provide bilateral aid to developing countries, many of which exhibit unproductive situations in which aid goes to waste through corruption or limited capacity on the part of state institutions.[10] During the early Post Cold War years this practice was largely unchallenged and donors continued to finance corrupt governments (Alesina and Weder 2002). A lack of conclusive evidence about the effectiveness of aid led to wide-spread aid fatigue among donor publics and experts, increasing pressure on donor officials to improve aid effectiveness.

With the adoption of the Monterrey Consensus in 2002, donor governments moved aid effectiveness into the center of aid policy, directly linking foreign aid to the Millennium Development Goals (MDGs). Donor commitment to reaching the MDGs represented a paradigmatic shift in development cooperation as donors moved needs-based, individualized advocacy into the center of aid efforts. By setting time-bound targets to measure progress in reducing poverty, hunger, and mortality, donor governments were now in a better position to demand improved performance and use of economic resources from aid-receiving governments. This shift made public goods provision a central objective of foreign aid -at the expense of capacity building.[11]

Although the number of proponents of outsourcing as a solution to the problem of bad governance has increased, marked differences exist in the degree to which donor governments pursue government-bypass tactics. Some donor governments prefer alternative mechanisms of risk mit-

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[10] As analytical and empirical work on donors' aid implementation record shows, aid transfers between donor and recipient governments are at great risk of aid capture through agency problems and bureaucratic inefficiencies in poorly governed countries (Brautigam and Knack 2004; Djankov et al 2008; Gibson et al 2005; Reinikka and Svensson 2004, Svensson 2000).

[11] These mostly individual-level, basic-service goals yielded a major global shift in sectoral aid allocation (Easterly 2009) from production (agriculture, forestry, fishing, industry, mining, construction, trade, and tourism) and economic (transport, communication, energy and banking) aid sectors to social sector aid (health, education, population, water supply, and government), which directly contributes to the achievement of the basic needs targets embodied in the MDGs. The proportion of social sector aid nearly doubled over the course of two decades, from representing 30% in the 1970's and 35% in the early 1990s to more than 60% in 2010 (Frot and Santiso 2010).

igation in aid delivery. For instance, donor governments can choose to work with the public sector in badly governed countries but they do so by using delivery tactics that involve more donor oversight or technical support. Advocates of the latter tactics emphasize the importance of working with and improving local institutions for long-term development.

I argue that the type of response to the risk of aid capture in poorly governed environments is predicated on domestic orientations about the appropriate role of the state in public goods delivery. These national orientations inform how public services are delivered in both foreign *and* domestic contexts. As we observe a trend towards more short-term outcomes in aid policy, so we observe a trend towards more short-term outcomes in public sectors, more broadly. This is manifest in the marketization of public sectors (Lundsgaard 2002) across different political economies and time, even in countries with large welfare states (Sandström and Bergström 2002, Hjertqvist 2001, Gingrich 2011). Similarly, as we observe marked differences in the degree to which donor governments employ performance-oriented selectivity in their aid allocation, so we observe differences in the degree to which OECD governments have applied neoliberal thought to public sector governance (Bloechinger 2008). For instance, countries differ in degree to which governments have replaced the state with market-type mechanisms in public goods delivery (Blondal 2005). Today, the United Kingdom leads the outsourcing ranking where expenditure of government outsourcing to non-state actors for goods and services used by general government are at 14 percent, closely followed by the United States, Canada, and Australia (OECD National Account Database 2013).

Since the early 1990s we also observe a consistent increase in the privatization of public goods delivery in Scandinavian countries. While the state assumed a strong role in public goods delivery in the 1970s and 1980s, severe recessions in the early 1990s led to a crisis of the welfare state, which in turn, led to significant changes in the role and institutional character of the state in the economy and public goods provision (Andersen et al 2007). The introduction of markets in welfare service delivery, including health, child and elderly care, and education (Gingrich 2011), led to a paradigmatic shift in national orientation from big to small state in public goods delivery.[12] Today, Denmark, Sweden, and Finland spend around ten percent of their GDP on government outsourcing to non-state actors for goods and services used by general government (OECD National Account Database 2013). I expect this shift toward market-oriented public goods delivery to be reflected in foreign aid decision-making. A former senior government officials offers anecdotal support for the affinity between domestic and foreign policy: "Swedish

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[12]Thus distinct political economy types have adopted similar pro-market public sector reforms when fiscal crises triggered demand to cut public spending and reform the state (Larbi 1999).

aid policy today stresses results-based management, and therefore resembles British aid policy a lot more than it used to in the 1980s or 1990s. Results-orientation starts under the Social Democrats in the wake of the real estate crisis in the 1990s when the government begins to liberalize the economy to enhance the efficiency of the welfare state. The budget is tight and there is pressure on the government to justify the aid expense. But results-orientation is by no means unique to foreign aid. When you look at other policy areas such as the social transfer system, education, and child care you see similar practices. Today we have an open market in all areas of public goods in Sweden, and the Ministry of Foreign Affairs is developing a so-called "results-based strategy" for foreign aid. They want to make results more visible to the taxpayer. They want results in the short-term."[13]

Donor officials from countries where public sector governance emphasizes measurable performance, tangible results, and individual choice in public goods delivery, are likely to condition aid delivery tactics on the quality of governance in the aid-receiving country: when inefficient state institutions represent obstacles for the delivery of foreign aid to poor beneficiaries, decision-makers prefer to outsource the delivery of development assistance to non-state actors to ensure that aid reaches the intended beneficiaries. When recipient institutions are well-governed the state poses a low threat to the effective delivery of aid to beneficiaries abroad and donor decision-makers will engage with the recipient state in aid delivery.[14] This outsourcing tactic aims to maximize the impact of aid on individuals abroad that is readily measurable. The strengthening of state institutions that contribute to a more long-term, collective solution to underdevelopment, albeit important, is as subordinate goal.

The United States' PEPFAR HIV/AIDS program illustrates this point. The multi-billion dollar PEPFAR program began in 2003, when President Bush asked Congress: "to commit $15 billion over five years to establish a comprehensive plan to prevent 7 million new AIDS infections, treat at least 2 million people with life-extending drugs, and provide humane care for millions of people suffering from AIDS and for children orphaned by AIDS"[15]. According to Andrew Natsios (2010), a former high-ranking USAID administrator, Pepfar's central focus is on saving lives, which is relatively easily measured by mortality or infection rates[16], yet the program does not contribute significantly to the strengthening of indigenous health care systems.

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[13]Author interview with former senior government official, Ministry of Foreign Affairs, Stockholm, June 17, 2013

[14]The positive effects of engaging with recipient governments in situations where they represent trustworthy implementation partners has been discussed in the theoretical literature (e.g. Hefeker and Michaelowa 2005; Svensson 2000)

[15]Bush remarks cited in Natsios (2010: 28)

[16]Similar programs include the Family Planning Program, and the Malaria Initiative.

In its implementation Pepfar also relies on non-state actors such as international organizations (the Global Fund to Fight AIDS, Tuberculosis, and Malaria) or U.S. or international NGOs.

In contrast, donor officials from countries where public sector governance emphasizes a strong state in public goods provision are less likely to condition aid delivery tactics on the quality of governance in the aid-receiving country. While governments in Japan, South Korea, France, and Germany, have also adopted market-type mechanisms in public goods delivery, they have done so to a lower degree (Blondal 2005). Instead the state remains relatively more involved in the regulation and delivery of public goods. According to the National Accounts Database these four countries spend less than 8 percent of GDP on government outsourcing (OECD National Accounts Database 2013). When making foreign aid delivery decisions, aid officials are less inclined to bypass the public sector when the quality of governance is poor. Instead they work with authorities to strengthen capacity but they do so using more hands-on aid delivery tactics.

This orientation about a strong role of the recipient state in aid delivery is illustrated by a senior official of the Agence Française de Développement: "Of course, we care about aid effectiveness and we do make efforts to make aid delivery more efficient, to ensure that people get access to water, to primary education, all goals embodied in the Millennium Development Goals. The Millennium Development Goals are great for advocacy on poverty alleviation targets about needs. 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 think that states need to regulate markets, that all companies need to be taxed. 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. All of my colleagues are fully convinced that it is the purpose of aid to make rise sound sustainable institutions and systems that then can promote economic growth. In that we are very close to the way that multilaterals are working, or the Germans."[17]

An example of multi-sector French-Japanese aid cooperation in Cambodia illustrates this state-centered development model. France and Japan provided significant assistance to help build the capacity the Phnom Penh Water Supply authority (PPWSA),[18] Aid was disbursed in the form of projects and technical assistance, which targeted public servants and local experts, transferring to them the expertise necessary to develop sustainable policy. Similarly, Japanese

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[17]Interview with senior French official, Agence Française de Développement, Paris, July 10, 2013

[18]The PPWSA is commonly reference aid success story. The authority was able to increasey water supply coverage in Phnom Penh from 25% in 1993 to 90% in 2006 (Asian Development Bank 2007).

assistance in the National Maternal and Child Health Center in Phnom Penh focused on capacity development by establishing a network of health professionals that could sustainably provide services to the whole population -rather than supporting grassroots emergency needs (Murotani et al 2010). According to Murotani et al (2010: 16): The examples above "illustrate the importance of long-term institutional and human capacity building at the national level to improve security and service delivery. This is in contrast to the donor tendency to concentrate their aid activities on direct support to civil groups and NGOs."

Decision-making in foreign aid delivery, I posit, is therefore significantly influenced by an underlying national orientation about the role of the state in public service delivery. This affinity between domestic and foreign policy is not surprising given the cross-cutting nature of public sector governance. In offering my thesis about the affinity between domestic and foreign public goods provision it is important to clarify what I am not arguing: I am not arguing that donors only pursue one goal. They assign different objectives to aid. What varies is the importance they assign: in the case of neoliberal donor officials they want aid to directly improve lives of the individuals, rather than contribute to a collective solution that relies on the state.

In order to test my thesis, I create a measure that gauges the propensity among donor governments to outsource foreign aid. Drawing on existing data on bilateral aid delivery channels I construct a measure that distinguishes between government-to-government aid and aid through non-state development actors including NGOs, multilateral organizations, and other non-state actors.

Research Design, Data and Measures

I explain variation in donor outsourcing tactics across 23 OECD donor countries. The universe of recipient countries includes ODA eligible countries as defined by the OECD (including low, lower middle and upper middle income countries). I use cross-national observational *and* survey experimental data to test my argument. First I test my claim at the level of the donor-recipient dyad-year -where temporal domain ranges from 2005 to 2011 because of data availability. Second, I support country-level analyses with survey experimental analysis on a cross-country sample of senior aid officials from statist donor governments (Japan, Germany, France) and market-oriented political economies (United States and Sweden).

Observational Data

The dependent variable: outsourcing in bilateral aid

The outcome of interest is donor decisions to outsource the delivery of foreign aid to. To construct a measure of outsourcing I use data drawn from the OECD CRS aid activity database.[19] Information on the channel of delivery conveys how foreign aid is delivered: it records the amount of bilateral aid flows channeled through five channel categories. These include government-to-government aid as well as aid delivered to non-governmental organizations, multilaterals, public-private partnerships, and other development actors. I distinguish between government-to-government aid and aid channeled through non-state development actors. I define government-to-government aid as any aid activity that involves the recipient government as an implementing partner. In contrast, aid delivered through non-state development channels does not engage government authorities.

I operationalize the decision to outsource with a continuous measure, capturing the proportion of aid delivered through non-state development actors. When donors allocate funds to a particular country, what proportion of the assistance goes to non-state actors? Figure 1 presents the proportion of non-state aid each donor country allocates (y-axis) across the full volume of aid flows in 2009. Among OECD donors, Finland channels the greatest proportion of aid through bypass actors, nearly 70 percent, followed by Norway and Ireland. Italy pursues bypass tactics with nearly half of its bilateral funds, soon followed by the United States, which outsources more than 30 percent of its bilateral funds. At the left side on the bypass axis are Greece and France which send less than eight percent of their aid through bypass channels.

[Figure 1 here]

The explanatory variables: donor political economy and quality of recipient governance

Measuring quality of recipient governance: When determining aid delivery tactics, aid decision-makers assess the likelihood of aid reaching the intended outcome in the recipient country. If state institutions are of poor quality, donors expect a higher probability of aid capture and consequently increase the proportion of aid that bypasses governments. The main

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[19]The OECD began collecting (donor reported) information on the "channel of delivery" in 2004, when it became an optional reporting item on the new CRS++ reporting scheme.

variable of interest, therefore, is governance quality. To capture this variable I draw on data from the Governance Matters project (Kaufman et al 2011).[20]

I construct one indicator, *Governance, Ec. Inst*, that captures a state's economic institutions by including corruption control, government effectiveness, regulatory quality, and rule of law as indicators.[21] The value of the governance measure ranges between 0 to 5, with higher values representing a higher quality of governance. To illustrate recent donor aid delivery decisions in various situations of governance quality, I plot donor development cooperation for aid-receiving countries in 2009, where individual donors contributed at least 2 million US dollars in development assistance.[22] Figure 2 shows the bypass behavior of all active OECD donors in Sudan (an abysmally governed, "failed" state), Sri Lanka (still poorly governed, functionally competent state), Tanzania (a better-governed, functionally competent state), and Cape Verde (a well-governed, functionally competent state) across the full range of possible bypass behavior (as captured along the x-axis).

[Figure 2 here]

In the case of Sudan, which has a governance score of 0.86 (on a scale from 0 (lowest) to 5 (highest)), all donor governments, with the exception of Greece, bypass the Sudanese government with more than 50 percent of their bilateral assistance. In the case of Sri Lanka, which has a governance score of 1.90, a clear majority of donors bypass with more than 50 percent of their bilateral assistance, and some donors outsourcing a somewhat lower proportion. Tanzania, scores a 2.3 on the scale, and, as expected, the majority of donors, with the exception of Norway, Finland, and Switzerland, channel less than half of their aid through non-state channels. In Cape Verde, which scores 2.98 on the governance scale, donors channel only a

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[20]The project offers data for six governance dimensions: voice and accountability, regulatory quality, government effectiveness, rule of law, corruption control, and political stability and violence. I select this particular source of governance measures because author interviews with donor officials suggest that donor government and aid agency representatives consult this publicly available governance source in their assessments. In over half of the author's interviews with donor officials, respondents specifically mentioned World Bank governance data as informing their assessments.

[21]I do not include the existing political stability and violence measure because I include a variable for civil conflict (PRIO) in my multivariate tests. Further, I exclude political institutions from the governance indicator since donors are generally reluctant to associate governance with democracy. Rather they explicitly distinguish between good governance and good government. I therefore include a Freedom House democracy measure as a control in the multivariate tests.

[22]In advancing the argument that donors condition aid delivery on the probability of aid capture, I presume that, across all recipient countries, donors can choose between two equally viable implementing channels: government-to-government aid and bypass aid. In some aid-receiving countries, however, most notably in failed states, donors might not face a true choice between the two channels because recipient governments may be functionally incompetent, potentially making bypass the only aid delivery channel. I therefore present the descriptive data using four different development environments in recipient countries. In the empirical tests I exclude the top 10 fragile states, using data from the "Foreign Policy Failed States Index to determine "fragility."

small proportion through non-state actors.

While this graph provides descriptive evidence that donors, on average, respond to the quality of recipient institutions, differences nonetheless remain across donors. For instance, Japan and France do not outsource foreign aid in Sudanese and Sri Lanka to the same extent as the United States, the United Kingdom and Sweden do. Moving from Sri Lanka to Tanzania the latter three countries exhibit a different delivery tactic in favor of working with the recipient government, now more similar to Japan and France. As my argument suggests I view donor political economies as important explanatory factors for these differences.

Measuring national delivery preferences for public goods: What do the United Kingdom and Sweden share that make them different from France and Japan? As my argument suggests, a national orientation toward greater outcome-orientation in service provision may be the answer. Specifically I measure this orientation using a measure on "Government Outsourcing" of services used by the general government as percent of GDP based on data from the OECD National Accounts Database (2011). It is understood that governments pursue outsourcing as a way of delivering services more efficiently. They may purchase goods and services from the non-government sector in order to use them as inputs into their own supply chain. This happens when governments use private contractors or the third sector to provide support services or perform back-office functions.

In 2009, government outsourcing of goods and services used by general government as percent of GDP represented an average of twelve percent across the OECD donor governments. This represents a nearly two-percent increase from the average outsourcing in 2000. In Figure 3 I plot the level of *Government Outsourcing* across all donor governments. The variation is considerable, ranging between 3.5 percent in Japan and twelve percent in the United Kingdom.[23]

[Figure 3 here]

I also examine non-continuous measures of political economy types, that builds on the tripartite typology used by Katzenstein (1978, 1985), who distinguishes among *statist* (e.g. Japan, France, Germany), *neoliberal* (e.g. United States, United Kingdom, Australia, New Zealand), and *neocorporatist* (e.g. Netherlands, Austria, Switzerland) states. I add a fourth type *Scandinavian* (Sweden, Denmark, Finland, Norway), to account for the Scandinavian economies'

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[23]For robustness, I construct an alternative measure, government outsourcing of goods and services used by general government as percent of government spending, and plot the distribution in Figure A1 in the Appendix. The subsequent results do not change if I include the alternative outsourcing measure.

transition from neocorporatist to market-oriented political economies since the 1990s (Katzen-stein 1978, Lumsdaine 1993). There is an "other" category which subsumes countries with hybrid political economy types include Spain, Portugal, Ireland, and Greece.[24] While not ideal[25] this typology allows me to show significant similarities in aid delivery patterns between Scandinavian and neoliberal economies. The outsourcing measure and the conventional political economy categories (i.e. statist, neoliberal, neocorporatist, Scandinavian economies) are highly correlated as shown in Figure 4: while the Scandinavian type slightly tops the neoliberal one in government outsourcing, the difference between these two (9.1 and 9.8 percent) and statist and neocorporatist types (4.5 and 4.9 percent) is considerable.

[Figure 4 here]

Figure 5 presents descriptive statistics that provide prima facie evidence that differences in aid delivery tactics exist across levels of domestic government outsourcing and types of political economy. The y-axes represents the mean share of bypass. This mean share is separated into aid recipients that have "Bad Governance," depicting countries with governance score of 1.5 and lower, and aid recipients that have "Good Governance," or a governance score of 2.0 and higher. The whisker plots are useful for illustrating the change in outsourcing share across the two types of political economies when moving from environments of high probability of aid capture to low probability ones. The raw data indicate that, regardless of political economy type, donors are responsive to the probability of aid capture in the recipient country. Importantly, however, political economies that have higher levels of government outsourcing, as illustrated in the left panel, appear to be more responsive to aid capture than political economies with a lower outsourcing level, as indicated by the relatively steep drop in bypass share as the quality of governance changes from bad to good. In the right panel, we observe that neoliberal and Scandinavian political economies exhibit the steepest relationship when moving from poorly to better-governed recipient countries.

[Figure 5 here]

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[24]Canada, Italy, and Belgium are excluded due to data limitations. Results for subsequent empirical tests do *not* depend on the exclusion of these three countries.

[25]For instance, Teune and Prezowrski (1970) argue against the use of geographic labels (like North and South) in analyses of electoral systems.

Controls

As the previous literature on aid policy maintains, various other factors shape donor decisions about the allocation of aid resources, including other recipient characteristics and non-developmental donor goals. I include them as controls to provide a fully specified model. All time-varying right-hand side variables are lagged one year. I begin with the confounding effects of *Democracy* based on the understanding that some donors may conceive of democratic institutions as political constraints that limit the ability of recipient governments and bureaucratic officials to capture aid flows. *Democracy* is measured using the combined score of the Freedom House (2009) civil liberty and political rights indicators. To make the scale of the measure more intuitive I invert *Democracy* so that "1" represents the lowest level of democracy, while "7" stands for the highest level of democracy.[26] I control for *Natural Disaster Deaths* based on the understanding that a greater number of deaths caused by natural disasters in the aid recipient, as recorded by the EM-DAT database, may prompt donors to provide a larger share of the pie to non-state development actors that are specialized in post disaster reconstruction efforts. Following a similar logic, low-scale *Civil Conflict*, as recorded by Gleditsch et al's (2002) PRIO database, may create grievances that provide incentives for donors to favor more outcome-orientated aid delivery about ensuring that aid reaches the affected, thus increasing donor propensity to bypass. I further include *Distance* to account for the geographical proximity between donor and the aid-receiving countries. As distance between donors and aid-receiving countries grows, government-to-government relations between donor and recipient governments are expected to weaken, thus increasing donor propensity to channel aid through non-state development actors. The distance data are drawn from Bennett and Stam's (2000) Eugene software and are logged.

Following previous studies, I also include confounders that capture donor non-developmental objectives. *Former Colony* status, as recorded by the CIA World Factbook, allows me to account for long-lasting diplomatic ties between the donor and the aid receiving governments that may bias aid delivery in favor of government-to-government aid. *Trade Intensity*, measured as the logged sum of imports and exports between the recipient and the OECD countries from the IMF-DOT database, is a straightforward indicator of donor efforts to strengthen economic ties with the recipient government. To control for security related donor goals, I include *Security Council*, which is a binary variable indicating whether the aid recipient is a rotating member on

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[26]I also estimate the models using the Polity2 measure of democracy. The findings are qualitatively similar. I opt for Freedom House because of greater country-year coverage.

the UN Security Council. As research by Kuziemko and Werker (2006) finds, donor governments use aid to buy votes from rotating members of the UN Security Council. I incorporate a binary control for *Major Power* status to account for the fact that major donors including the US, UK, Japan, Germany, and France use foreign aid to influence policy abroad. I also include controls for *Total Aid Per Capita*, as well as *Democracy Aid* and *Social Sector Aid* individually. I would expect democracy aid to have a positive effect on bypass insofar as democracy aid maybe more likely to be associated with civil society support. By including *Social Sector Aid*, I control for the possibility that donors channel aid through non-state development actors because NGOs and IOs are in a better position to deliver services. This is distinct from my argument which suggests that donors turn to non-state development actors because they want to decrease the probability of aid capture.

Analysis and Results

I now estimate the model that examines differences in outsourcing behavior across political economies using the continuous government outsourcing measure. I fit a linear OLS model with a log-transformed dependent variable to account for the proportional nature of the bypass share data[27] and calculate clustered standard errors on the recipient country.[28] Since the outcome measure is proportional, I employ compositional data analysis. The following equation (1) delineates the fully specified statistical model:

$$OutsourcinginForeignAid_{it} = \beta_0 + \beta_1 QG + \beta_2 QG * GO + \beta_3 GO + \beta_4 Z + \epsilon_{it}, \quad (1)$$

where *OutsourcinginForeignAid* is the continuous log-transformed (OLS) variable, i represents country and t represents year, β_0 is the intercept, β_1 and β_2 represent the vectors of coefficients to be estimated, QG denotes the quality of recipient governance, GO denotes the continuous government outsourcing measure, and $QG * GO$ denotes the respective interaction, Z denotes the vector of control variables, and ϵ_{it} is the error term of the equation.[29]

[Table 1 here]

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[27] At the end of the Appendix I provide a brief discussion of the statistical implications of using a proportional outcome measure, which requires compositional data analysis.

[28] In order to investigate possible bias from serial correlation, I apply the Wooldrige test for panel data (Wooldridge 2002, p. 282-283). The insignificance of the test-statistic (p = 0.29) indicates that I cannot reject the null hypothesis of "no first-order autocorrelation" and conclude that my findings are not biased by temporal correlation of the errors.

[29] The second specification includes the entire set of (4) political economy types and interaction terms of political economy types and quality of governance in the recipient country.

In Table 1, I present my findings.[30] The first column presents OLS results for the specification (Model 1) that does not include political economy variables. It includes the *Governance, Ec. Inst.* measure and other potentially confounding factors. I also include donor country fixed effects. The results show that donors, on average, condition aid delivery tactics on the quality of recipient governance. The coefficient of *Governance, Ec. Inst.* is negative and highly statistically significant indicating that donors respond to improvements in governance by reducing the share of aid channeled through non-state development actors.

The next two columns offer OLS results for a fully specified model (Models 2 and 3), which focuses on the interaction effect of government outsourcing and the quality of recipient governance, again controlling for potential confounders.[31] Model 2 includes year fixed effects and region dummies. Model 3 includes 2-way year and recipient fixed effects. My theory leads me to expect that the interaction of donor outsourcing and recipient governance significantly contributes to explaining variation in delivery tactics. The results in Model 2 and 3 provide statistical confirmation as they indicate differences in responsiveness to changes in government outsourcing. The coefficients of the interaction term and the *Government Outsourcing* constituent term are statistically significant and negative and positive, respectively.[32]

The results in Model 4 and 5 also provide support for my argument, which leads me to expect that donor countries whose political economies are organized by market principles are statistically different from other economies in how selectively they respond to governance quality in the recipient country. The coefficient of *Governance, Ec. Inst.* expresses the statistical association between governance and bypass for the omitted group of donors (Spain, Portugal, Ireland, and Greece), which is negative, as expected. The neoliberal and Scandinavian political economies have negative interaction terms, which indicate steeper negative slopes, relative to those of the "other" group. Significance tests of the interaction terms reveal that the conditioning tactic of neoliberal and Scandinavian political economies is significantly different from the statist and neocorporatist political economies at the 0.01 level. Neoliberal and Scandinavian allocation patterns are not statistically different from one another, however (p=0.17). This suggests that they have similarly steep negatives slopes, which indicates a high degree of responsiveness to recipient governance.[33] The other predictors of outsourcing in foreign aid that consistently be-

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[30] In the Appendix, I present descriptive statistics for the variables in Table 1 Model 2

[31] Figure A2 in the Appendix presents a histogram of *Governance, Ec. Inst.*

[32] In Table A2 in the Appendix, I examine the robustness of these results using an alternative outsourcing measure, where I divide the amount of government outsourcing by government spending. The results do not change.

[33] One may be concerned that the results of Models 4 and 5 are sensitive to how I group countries into the political economy types. I address this potential criticism by using the jackknife re-sampling technique. The basic idea behind the jackknife variance estimator in this application is that it systematically recomputes the statistic dropping

have as expected in their statistical impact include: *Natural Disaster Deaths*, *Trade Intensity*, *Distance*, *Major Power*, and *Total Aid Per Capita* affect donor decisions to bypass in the predicted directions. *Democracy*, *Former Colony* and *Security Council* lack statistical significance throughout.[34]

Figure 6 presents the marginal effects of government outsourcing on the share of bypass across different values of recipient governance. My argument leads me to expect that, increases in domestic government outsourcing make donor governments more selective in their selection of aid delivery channels. The x-axis captures different levels of governance quality, ranging between 0 and 5. Increasing the level of domestic outsourcing yields a statistically significant decrease in bypass share as the quality of governance increases; and this statistical relationship holds for the large majority of the data points. In other words, donor political economies that emphasize efficiency in aid delivery will cut governments slack as they improve their governance and increase the share of government-to-government aid. The evidence presented in Model 2 of Table 1 presents evidence that recipient governance plays a significant role in donor decisions about how to deliver aid; but that differences exist across donors to the degree in which donor governments subscribe to bypass delivery tactics.[35]

[Figure 6 here]

Figure 7 plots the marginal effects of political economy type on the share of bypass across different values of governance quality. As indicated from the coefficients in Table 1 above, the slopes of the *Neoliberal* and *Scandinavian* political economies are similar and consistently negative. Both slopes are statistically different from the slope of the omitted countries. There are differences in statistical significance, however, which are visualized through 95% confidence intervals captured through stars. Becoming Scandinavian (from the baseline "Other" political economy type) yields a statistically significant increase in bypass share by 0.4 in badly governed

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individual donor countries from the political economy type one at a time from the sample wet. From this new set of replicates of the statistic, an estimate for the bias and an estimate for the variance of the statistic can be calculated. The changes are slight and negligible and increase my confidence in the specification of Models 4 and 5.

[34]In the Appendix, Table A3, I examine the robustness of these results with additional control variables, including both the logged *Number of IGOs* and *Number of INGOs* or the *Number of NGOs and IGOs* in the recipient to account for potential confounding caused by the presence of international non-state actors, which may increase bypass share simply by providing more opportunity to bypass. The data are from the Yearbook of International Organizations. The results do not change.

[35]When disaggregating non-state development actors into NGOs and international organizations the results hold up. Table A4 in the Appendix presents the regression results using government outsourcing as my political economy measure. Figure A2 in the Appendix graphs the marginal effects of outsourcing on the fraction of aid delivered through NGOs and IOs separately. While the direction of the slopes are both negative, the slope for IO bypass is steeper than for NGO bypass. For countries with abysmal governance records, donors appear to have a preference for delivering aid through NGOs.

countries (with a "1" for governance quality) from the baseline "Other" type. In better governed countries (with a "2" for governance quality) the statistically significant increase associated with becoming a Scandinavian political economy type is smaller at 0.38 relative to the baseline "other" political economy type. This responsiveness to improvements in recipient governance is very similar for the classic neoliberal countries. The slope of the *Statist* political economies is flat and statistically different from the slope of the omitted countries. As the quality of governance improves, this group of countries, compared to the omitted category, does not increase the share of government-to-government aid. The slope of the *Neocorporatist* political economy type is positive, suggesting that, compared to the omitted category, Neocorporatist countries condition less on governance as the quality of governance increases.

[Figure 7 here]

Survey Experimental Data

To address potential concerns of sample selection, omitted variables and endogeneity bias,[36] I present evidence from an ongoing survey experiment[37] with 55 senior aid officials from countries that fall into the statist and neoliberal political economy categories, including France, Japan, Germany, the United States, and Sweden.[38] I administered the survey in face-to-face interviews, either in person or on the phone.[39]

Survey Design and Implementation

My argument posits that aid decision-makers react to changes in the quality of governance in the recipient country and that aid officials from different political economies differ in the degree to which they condition aid delivery tactics on governance in the aid-receiving country. Thus, the survey experiment employs a within-subject design which exposed each official to three hypothetical low-income country scenarios,[40] which differ only in the quality of governance. The anchoring scenario, Country A, represents a well-performing low income country with relatively low levels of corruption and strong state institutions.[41] Countries B and C are identical to

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[36] If bypass undermines or strengthens state institutions then the quality of governance is endogenous.

[37] The current survey response rate is 85 percent.

[38] Table A5 in the Appendix lists the number of respondents per ministries and agencies.

[39] A small number of respondents requested to take the survey online.

[40] The three country scenarios are listed as part of the survey instrument in the Appendix.

[41] Country A served the purpose of anchoring the respondents -and was thus not randomized. The large majority of respondents verbally identified Country A as a "Good Performer", which served as an implicit manipulation check.

Country A, with the exception of their governance characteristics. Country B captures weak state institutions -while corruption levels are relatively low. Country C captures a corruption scandal -while state institutions are relatively strong.[42] By differentiating between corruption and weak state institutions I aim to shed further light on the extent to which aid officials' distinguish between different sources of bad governance.

Subsequent to presenting each country scenario I asked respondents to answer questions about their aid delivery preferences in their capacity as aid officials. The first question asked respondents to rank-order five aid delivery channels including the recipient government, international organizations, international NGOs, local NGOs, and private sector actors. The scale ranges from 5-"works best for my country" to 1-"works worst for my country." I focus on the rank-order associated with aid delivered through the recipient government. The second question asked respondents to determine the amount of government-to-government aid out of overall aid flows to the country -with answer categories including "none," "some," "quite a bit," "a large amount," and "all."[43]

I evaluate changes in aid delivery preferences among officials from statist and neoliberal political economies using simple differences in categories. The results confirm my thesis and are consistent with the observational data analysis. Table 2 shows changes in rank-order when the scenario changes from well-governed to poorly governed low-income countries and strongly supports my hypothesis about statistically significant differences in how officials from statist and neoliberal economies evaluate changes in the quality of governance. On average, respondents across both types of political economies felt that government-to-government aid was the preferred channel of delivery for well-governed countries -while respondents from France, Japan, and Germany exhibit a higher mean than their counterparts, the difference is not statistically significant. However, when respondents respond to a the two poorly governed country scenarios the responses differ significantly. While, on average, officials from both political economies moved away from government-to-government aid as their preferred channel, U.S. and Swedish respondents did so to a higher degree, with statistically significant differences in means in the case of a corruption scandal and weak state institutions, respectively.

[Table 2 here]

To closely mimic the dependent variable of the observational data analysis I further asked respondents to indicate their preferences regarding the proportion of government-to-government

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[42]Country scenarios B and C were presented in random order.
[43]See survey instrument in the Appendix.

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aid across the three scenarios. Table 3 shows changes in government-to-government share as respondents move from well-governed to poorly governed low-income country scenarios. A value of 5 indicates that officials prefer all of the bilateral aid to go through the recipient government. Consistent with the rank-order outcome measure, all donor officials, on average preferred the share of government-to-government aid to be higher in the well-governed country scenario. Officials from statist countries had a higher mean than officials from neoliberal countries, yet the differences is not statistically significant. As respondents move from well to poorly governed scenario, however, the differences are more pronounced and statistically significant. This result is consistent with the results from the observational data analysis.

[Table 3 here]

Figure 8 shows the point estimates as well as the associated confidence intervals for changes in quality of governance across statist and neoliberal political economies. The left panel of the Figure provides estimates for the government-to-government rank-order measure. The right panel presents estimates for the government-to-government share outcome measure.

[Figure 8 here]

Why do we see this difference in delivery tactics for officials from different types of political economies? My argument posits that the organization public goods delivery at home influences how officials approach the delivery of foreign aid abroad. Donor officials from countries where public sector governance emphasizes measurable performance, tangible results, and individual choice, prefer delivery tactics that maximize impact of aid for individuals abroad that is readily measurable in the short-run. On the other hand, officials from countries where public sector governance emphasizes a strong state in the delivery of public goods focus on collective long-term solutions that center on state-building efforts and, consequently, focus less on short-run results. The survey instruments includes two post-treatment questions that aim to tease out differences across these two dimensions.[44] The first question asks respondents to identify the appropriate time-horizon for the evaluation of foreign aid success, measured in number of years. I expect respondents from France, Japan, and Germany to indicate preferences for longer time horizons than their counterparts from the United States and Sweden. Subsequently, I ask respondents to identify the appropriate amount of state-strengthening out of all aid, choosing among answers including "none," "some," "quite a bit," "a large amount," and "all."[45] I expect respondents

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[44]They are included in the excerpt of the survey instrument in the Appendix.
[45]See survey instrument in the Appendix.

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from statist countries to exhibit a preference for more state-building versus aid that aims to alleviate individual poverty than their counterparts from neoliberal economies.

[Table 4 here]

Table 4 presents the results of simple differences in categories. Consistent with my expectations, the mean number of years, considered appropriate for showing the success of aid efforts is lower among officials from the United States and Sweden, 4.56 years -indicating that their time horizons are significantly shorter than those among officials from France, Japan, and Germany which exhibit a mean of 6.27. The difference of 1.71 years is statistically significant at the 0.01 level. Further, statistically significant differences exist between political economy types when respondents indicate their preferences for state-building. A value of 5 indicates that 'all" aid should be directed towards capacity building. Officials from the United States and Sweden how a mean of 3, while their French, Japanese, and German counterparts show a higher mean of 3.76. The 0.76 difference is statistically significant at the 0.01 level. These results buttress my claim that the nature of public goods delivery at home shape donor governments aid delivery preferences abroad.

While this paper focuses on explaining donor decisions to outsource foreign aid delivery to non-state actors abroad, this finding does not imply that statist donors do not have other mechanisms by which to address aid capture. While they show limited use of outsourcing in response to bad governance abroad, they systematically employ more "hands-on" delivery tactics within government-to-government in bad governance environments including more project-oriented and technical cooperation aid.[46] As a French aid official suggests during the interview: "In France we respond to and penalize corrupt practices in the public sector but not by cutting aid to the government and shifting it to NGOs. We mitigate corruption through our strong due diligence process within the AFD [Agence Française de Développement, *added by author*]. In fact, France is at the maximum of government-to-government cooperation where we work closely with the institutions of our partners. If they have weak institutions we need to continue working with them, and accompany them with our capacity. We give them frequent advice where needed. We have almost daily dialogue with our partners on sector program choices and on the implementation of the projects. In fact we have offices of the AFD with experts in almost every country in which we work. We consider that it is not a good way to accept project implementation from an

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[46]Empirical results from cross-national and survey data in support for this hypothesis are available from the author upon request.

agency outside their own local structure."[47] This suggests that donors have a range of tactics available to mitigate the risk of aid capture in recipient countries. Consistent with this papers' argument, the choice of delivery mechanism depends on donor countries political economies.

Discussion and Conclusion

This study developed and tested a model of endogenous aid delivery that accounts for heterogeneity in donor delivery preferences. The origins of donor officials' baseline delivery preferences are based on one important feature of the political economy: the role of the state in the public goods delivery. I argue that donor governments whose political economies emphasize government outsourcing to non-state actors are more likely to pursue outsourcing tactics in poorly governed countries to circumvent aid capture by corrupt elites. As expected I find this prediction to hold for classic neoliberal political economies as well as for Scandinavian economies that exhibit significant reliance on market-type mechanisms in public service delivery during the time-frame of this study. More statist political economies are expected to condition much less on the quality of governance in the recipient country. Since their core orientation favors a stronger role of the government in the delivery of public sector goods, information about recipient governance will trigger some but not big movements away from the core orientation. I find statistical support for this prediction. This study thus provides robust evidence for a prominent research tradition in international relations that studies the domestic politics of foreign economic policy.

Beyond the role of donor political economies, contextual factors in the recipient country affect aid delivery tactics. If a donor government has high political interest in a country it may go against what otherwise is its national orientation. For instance, donor officials from market-oriented political economies are more willing to tolerate fiduciary-risks and results-risks in politically important countries -a tactic that they would oppose in other contexts. U.S. sectoral support to the Afghan Ministry of Education serves as a case in point, where it has become clear that problems of development will not disappear through more outsourcing: while non-state actors build schools the secular government is unable to keep religious extremists from shutting them down. Another prominent example of significant U.S. government-to-government aid in politically important countries is development assistance to Pakistan in the framework of the Enhanced Partnership with Pakistan Act. Introduced by Senators Kerry and Lugar in 2009, this bill marks a significant shift in foreign aid delivery tactics to Pakistan, as it

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[47]Interview with senior French government official, Permanent Delegation to the OECD/DAC, Paris, July 3, 2013

increases economic aid given directly to the government to hundreds of millions of dollars per year. In this case, US donor officials suspend reticence to working with the government even if it is very corrupt. This assertion about the conditioning effect of political factors is not unique to the United States, however. In fact, 75 percent of 64 interviewed senior aid officials from Japan, France, Germany, Sweden, the Netherlands, and the United Kingdom support this contention. Swedish officials point to Zambia as an example where a high-level government corruption scandal in in the health sector in 2011 did not lead to significant changes in aid delivery away from the government[48] -which is inconsistent with their national orientation. Rather, the tactic responds to a political imperative since Sweden has a long history of providing aid to Zambia. This interaction between national orientations and political interest clearly merits further systematic investigation across OECD donor countries.

My study sheds light on potential trade-offs between aid effectiveness and policy influence. Results-oriented donor governments may achieve greater success in providing direct relief to the poor in bad governance environments through market-means, setting up parallel structures of development. However, this approach may bring some unintended consequences. By de-emphasizing state-building and increasing focus on results-evaluation, donor governments may surrender the opportunity to develop close relationships with local authorities by directly responding to their needs and preferences. This may undermine donor ability to more directly shape policy and governance processes in aid-receiving countries. This potential dilemma merits further study.

What is more, my political-economy explanation of aid delivery has implications for research that explains donor coordination -a practice encouraged by the OECD, on which little progress has been made (Easterly and Pfütze 2008, Easterly and Williamson 2012, Winters 2012, Steinwand 2013). If differences in national orientations about the role of the state in public goods provision make donor coordination difficult, then we should only expect countries with similar political economies to be able to coordinate successfully.

Finally, this study lays the groundwork for an extension that examines how national orientations evolve over time and, consequently, affect temporal variation in aid policy within donor countries. After all, states are not monolithic and national orientations are not fixed. A national orientation, while "slow to change" (Lancaster 2006: 6), is a product of politics, where political parties negotiate differing views about the appropriate role of the state in public goods provision. If, as commonly done, we associate conservative parties with demands for

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[48]Rather, the funds available to the government were shifted out of the health sector and into the education sector

more market-orientation in service provision, then we should expect a conservative government to push for more performance-oriented aid delivery tactics.

Anecdotal evidence lends support for this initial contention. Recent victories of conservative parties in market-oriented political economies, including Canada (2006), Sweden (2007), and the United Kingdom (2010) have led to reforms in the delivery of foreign aid. These reforms emphasize primarily efficiency criteria. The British conservatives make this case in their party's green paper in 2009: "We [the conservative party, *added by author*] are absolutely clear that, as taxpayers feel the pinch, maintaining public support for our aid programme will require a much greater focus on performance, results and outcomes. Our bargain with taxpayers is this: in return for your contribution of hard-earned money it is our duty to spend every penny of aid effectively. [...] We bring a natural scepticism about government schemes. In many developing countries, supporting the state means supporting a particular group or tribe. Labour sometimes give aid directly to governments without adequate scrutiny" (Tories' Policy Green Paper 2009). In a similar vein, Sweden's conservative government alliance emphasizes performance- and results-orientation, as do conservative parties in Australia, Canada, and their pendants in other OECD countries. If conservative political party ideology amplifies market-oriented tactics in public goods provision then we should expect more outsourcing in aid under conservative governments than governments of the left. Whether exogenous changes in government affect aid delivery tactics therefore demands further inquiry.

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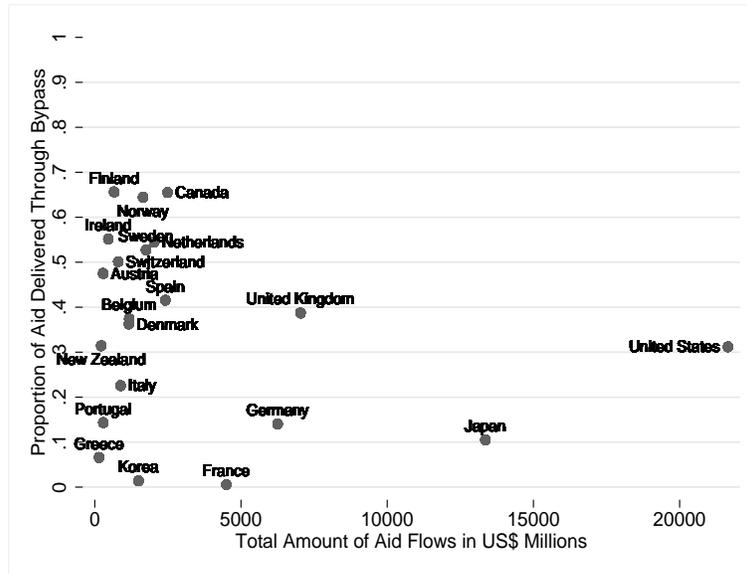
Figure 1: **Proportion of Bypass Aid for 23 OECD Donors, 2009**. *Y-axis is fraction of aid delivered through non-state development actors (e.g. IOs, NGO, for-profit organizations). X-axis is total aid commitments in constant US$ in millions. Source: OECD CRS Database (2013), and authors' calculation.*
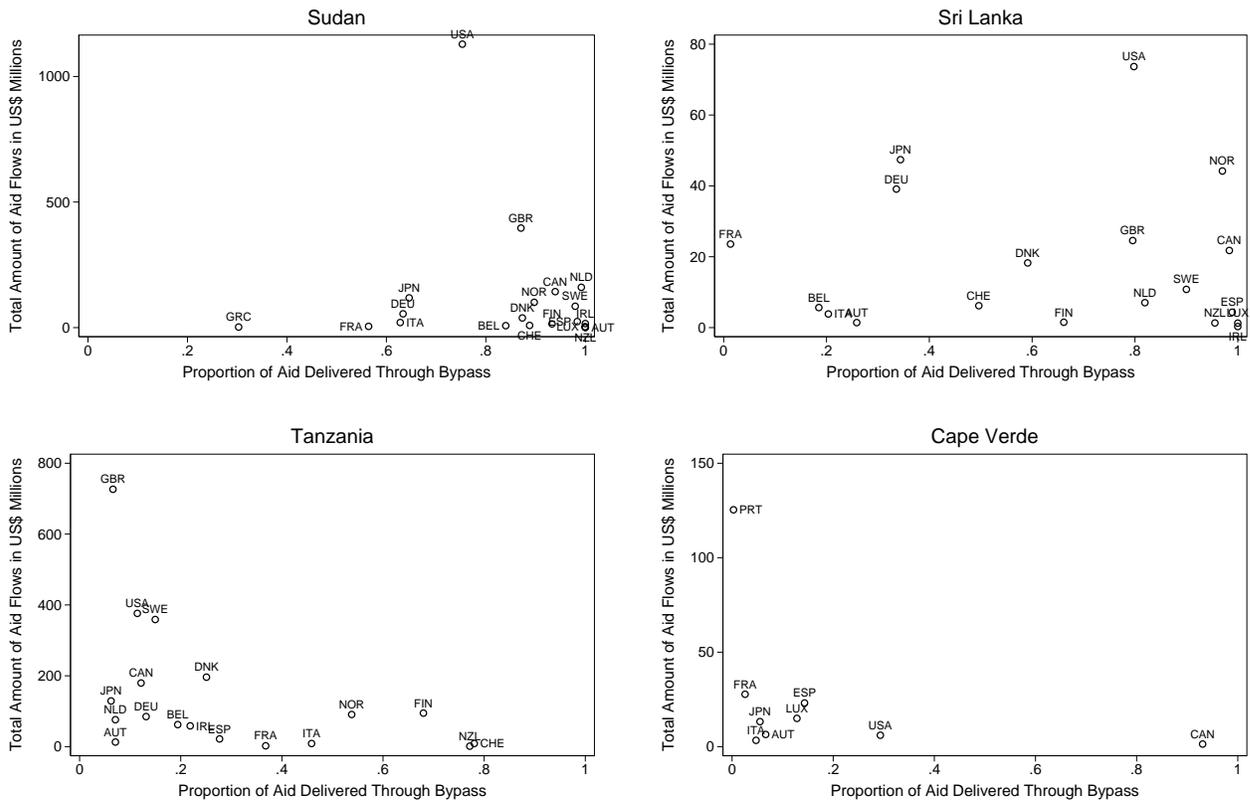
Figure 2: **Proportion of Bypass Aid for OECD Donors in Select Recipient Countries, 2010**. *Y-axis is total aid commitments in constant US$ in millions. X-axis is fraction of aid delivered through non-state development actors. Source: OECD CRS Database (2013), and authors' calculation.*
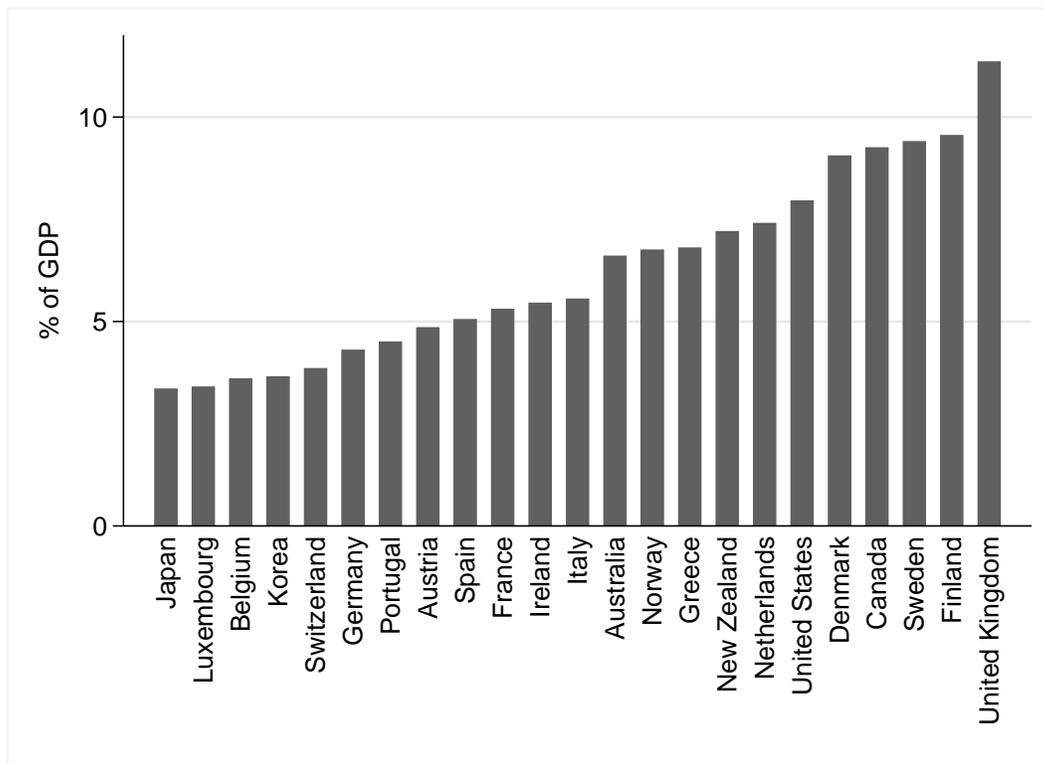
Figure 3: ***Domestic Government Outsourcing Across Individual Donors***. *Expenditures on government outsourcing to non-state actors for goods and services used by the government as percentage of GDP across donor countries in 2009. Source: OECD National Accounts Database (2011), and authors' calculation.*
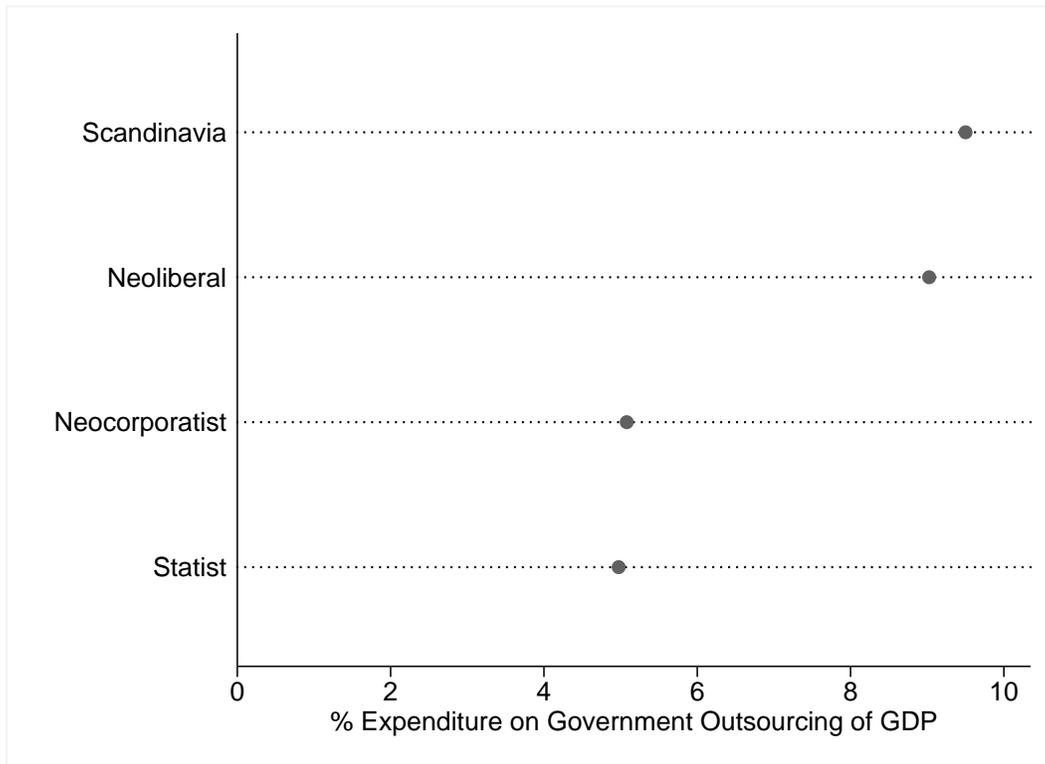
Figure 4: **Domestic Government Outsourcing Across Individual Donors and Political Economies**. *Expenditures on government outsourcing to non-state actors for goods and services used by the government as percentage of GDP across political economy types in 2009. Source: OECD National Accounts Database (2011), and authors' calculation.*
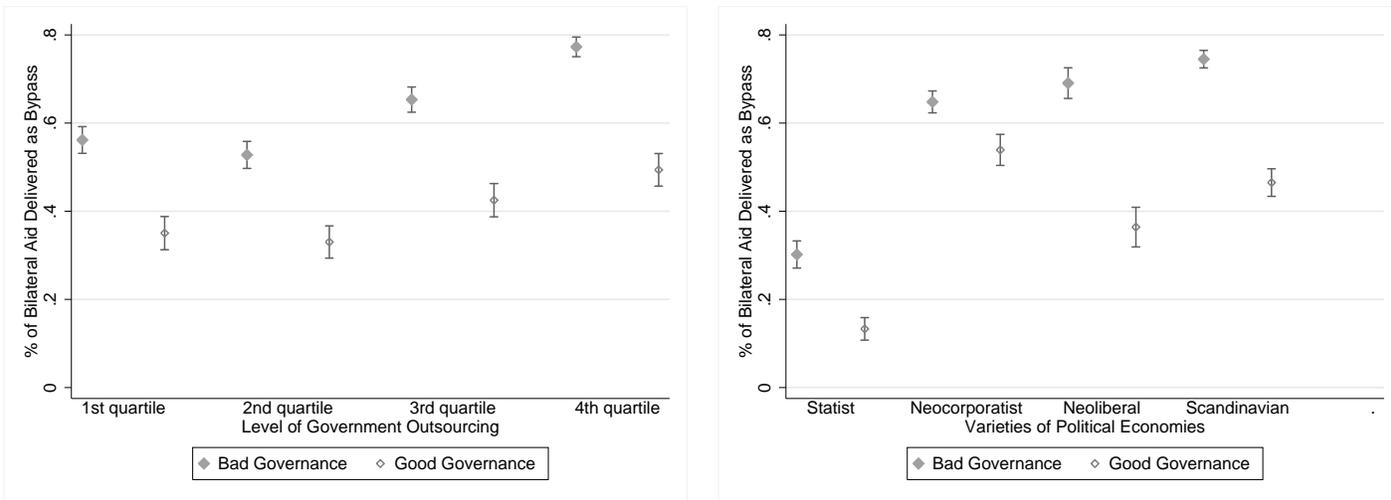
Figure 5: ***Donor Delivery Tactics by Outsourcing Level and Political Economy Types, 2005-2011***. *Y-axis is fraction of aid delivered through non-state development actors. Diamond-symbol plot is average bypass share in badly governed countries, square-symbol plot is average bypass share in well-governed countries. Left panel shows two whisker plots per 1st, 2nd, 3rd, and 4th outsourcing quartile. Right panel shows two whisker plots per statist, neoliberal, neocorporatist, and scandinavian political economies. Source: OECD CRS Database (2013), and authors' calculation.*

	Model 1	Model 2	Model 3	Model 4	Model 5
Governance, Ec. Inst	-1.381**	-0.217	0.654	-1.436**	-0.376
	(0.34)	(0.49)	(1.07)	(0.62)	(0.95)
Govt Outsourcing/GDP		0.564**	0.531**		
		(0.14)	(0.13)		
Govt Outsourcing/GDP*Gov		-0.158**	-0.150**		
		(0.06)	(0.06)		
Neoliberal*Gov				-0.579	-0.489
				(0.54)	(0.41)
Neoliberal				0.253	0.175
				(1.24)	(0.86)
Scandinavian*Gov				-0.495	-0.499
				(0.55)	(0.42)
Scandinavian				2.852**	2.816**
				(1.21)	(0.86)
Statist*Gov				0.897*	0.969**
				(0.53)	(0.41)
Statist				-6.694**	-6.702**
				(1.12)	(0.84)
Neocorporatist*Gov				1.064*	1.016**
				(0.63)	(0.43)
Neocorporatist				0.692	0.741
				(1.34)	(0.90)
Major Power		-2.549**	-2.090**	-0.349	-0.086
		(0.24)	(0.21)	(0.27)	(0.22)
Democracy	-0.129	-0.164	-0.174	-0.135	-0.105
	(0.10)	(0.11)	(0.29)	(0.10)	(0.26)
Natural Disaster Deaths	0.062	0.120**	0.007	0.099**	0.009
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Civil Conflict	0.503**	0.420	-0.052	0.438	-0.169
	(0.25)	(0.27)	(0.48)	(0.27)	(0.43)
Distance	0.117	-0.424*	-0.953**	0.220	-0.186
	(0.24)	(0.24)	(0.20)	(0.23)	(0.19)
Former Colony	0.418	0.274	5.076*	0.394	8.139**
	(0.32)	(0.36)	(3.00)	(0.35)	(3.80)
Trade Intensity	-0.138**	-0.382**	-0.402**	-0.352**	-0.360**
	(0.05)	(0.06)	(0.04)	(0.06)	(0.03)
Security Council	-0.138	-0.011	-0.231	0.066	-0.124
	(0.31)	(0.33)	(0.38)	(0.30)	(0.35)
Total Aid per capita	-0.061**	-0.136**	-0.133**	-0.112**	-0.114**
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Social Sector Aid	-0.020*	-0.030**	-0.036**	-0.006	-0.008
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Democracy Aid	-0.000	0.072**	0.061**	0.028**	0.019**
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Middle East	-0.021	0.336		0.013	-7.062
	(0.60)	(0.67)		(0.65)	(4.64)
Africa	0.716	1.128**		0.314	1.246
	(0.46)	(0.50)		(0.47)	(1.92)
Asia-Pacific	0.466	0.799*		0.108	-5.105
	(0.42)	(0.44)		(0.41)	(4.55)
Latin America	0.109	0.813		-0.155	0.817
	(0.54)	(0.60)		(0.56)	(1.96)
Year	0.500**				
	(0.06)				
Donor FE	Y	N	N	N	N
Recipient FE	N	N	Y	N	Y
Region Dummies	Y	Y	N	Y	N
Year FE	N	Y	Y	Y	Y
N	8631	8373	8373	8631	8631

Table 1: **Donor Political Economy, Aid Capture, and Bypass to Aid-Receiving Countries, 2005-2011.** $+p < 0.10, *p < 0.05, **p < 0.01$. *Constant (all columns) not reported; donor fixed effects (Model 1); year fixed effects (Models 2,3,4,5); recipient fixed effects (Models 3,5); region dummies for Sub-Saharan Africa, Latin America, Middle East, Asia, and Central and Eastern Europe as omitted category (Models 1,2,4) are not reported.*
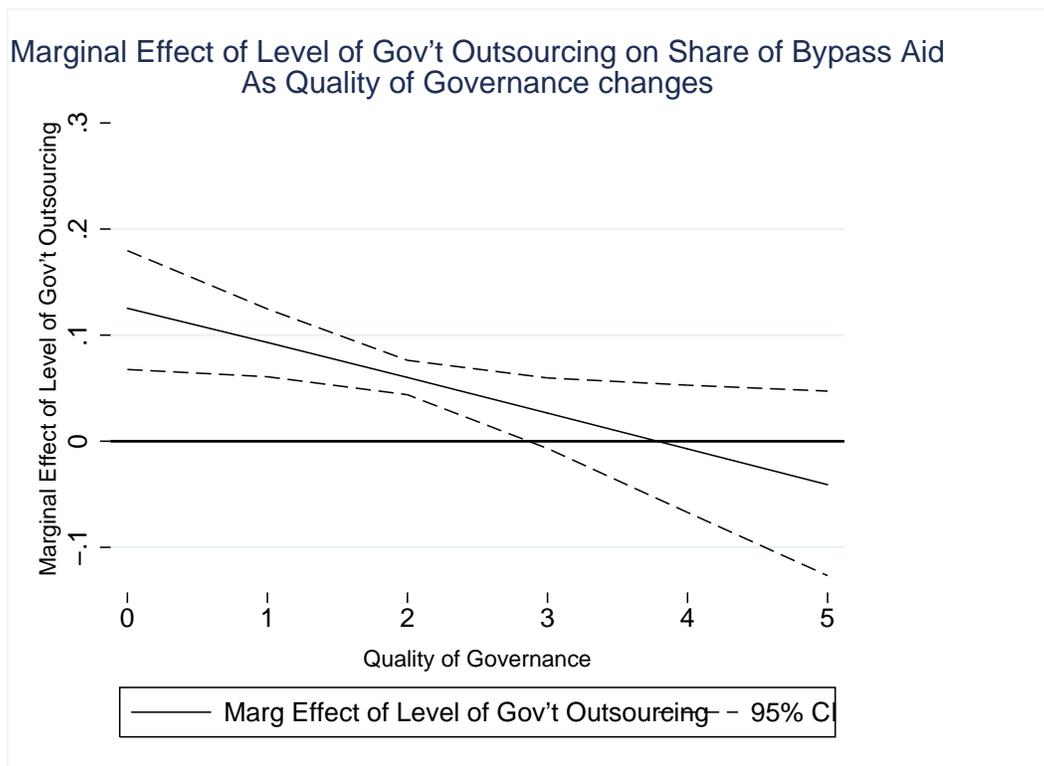
Figure 6: **Marginal Effect of Government Outsourcing on Bypass Share Across Quality of Recipient Governance**. *Sources: OECD CRS Database (2013), OECD National Accounts Database (2011), and authors' calculation.*
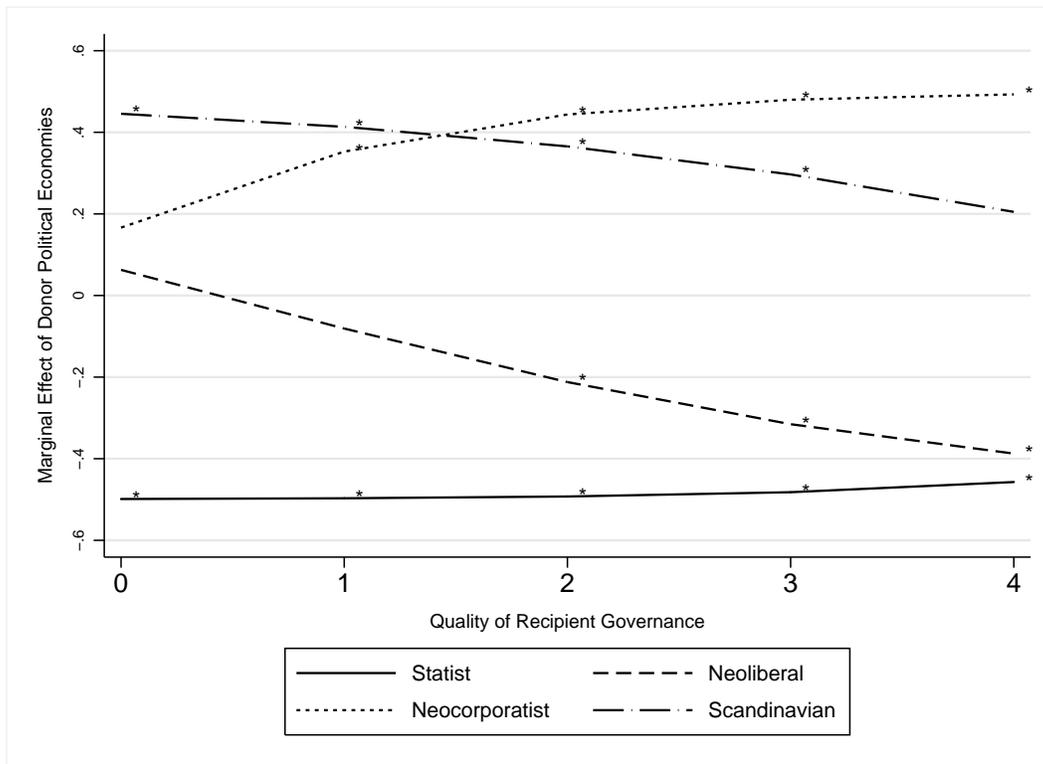
Figure 7: **Marginal Effects of Political Economy Types Across Quality of Recipient Governance**. *Stars signal statistical significance at 0.05 level. Sources: OECD CRS Database (2013), and authors' calculation.*

	N	Mean	Diff.	t-stat	p-value
Country A - FRA/GER/JAP	30	4.96			
Country A - USA/SWE	25	4.76	0.20	1.54	0.12
Country C - FRA/GER/JAP	30	3.83			
Country C - USA/SWE	25	2.2	1.63	3.94	0.00
Country B - FRA/GER/JAP	30	4.23			
Country B - USA/SWE	25	2.32	1.91	5.79	0.00

Table 2: **Simple T-test Results Of Government-to-Government Aid Ranking by Donor Political Economy Across Governance Scenarios**. *Country A: Good Performer, Country B: Weak State Institutions, Low Corruption, Country C: Good Performer, Corruption Scandal. Source: Survey Data of Senior Aid Officials from France, Germany, Japan, United States, and Sweden*

	N	Mean	Diff.	t-stat	
Country A - FRA/GER/JAP	30	3.83			
Country A - USA/SWE	25	3.54	0.29	1.51	0.13
Country C - FRA/GER/JAP	30	2.8			
Country C - USA/SWE	25	1.94	0.86	4.02	0.00
Country B - FRA/GER/JAP	30	3			
Country B - USA/SWE	25	1.96	1.04	6.10	0.00

Table 3: **Simple T-test Results Of Government-to-Government Aid Levels Out of All Aid by Donor Political Economy Across Governance Scenarios**. *Country A: Good Performer, Country B: Weak State Institutions, Low Corruption, Country C: Good Performer, Corruption Scandal. Source: Survey data of senior aid officials from France, Germany, Japan, United States, and Sweden*
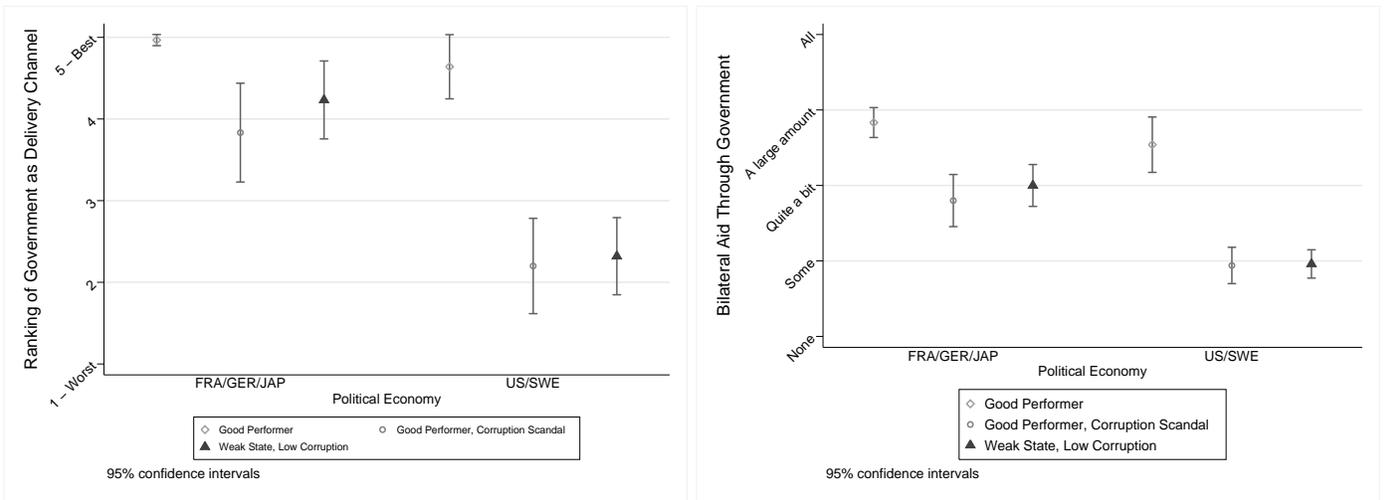
Figure 8: **Point Estimates and Confidence Intervals for Government-to-Government Aid Rank-Order and Share of All Aid by Donor Political Economy Across Governance Scenarios**. *Left Panel: Rank-order measure. Right Panel: Share measure. Country A: Good Performer, Country B: Weak State Institutions, Low Corruption, Country C: Good Performer, Corruption Scandal. Source: Survey data of senior aid officials from France, Germany, Japan, United States, and Sweden.*

	N	Mean	Diff.	t-stat	
Time Horizon for Measuring Aid Success - FRA/GER/JAP	30	6.27			
Time Horizon for Measuring Aid Success - USA/SWE	25	4.56	1.71	2.72	0.01
Importance of State-Building Efforts - FRA/GER/JAP	30	3.76			
Importance of State-Building Efforts - USA/SWE	25	3	0.76	5.03	0.00

Table 4: **Simple T-test Results Of Time Horizon Associated with Aid Success and Importance of State-building Efforts as Share of Overall Efforts**. *Source: Survey data of senior aid officials from France, Germany, Japan, United States, and Sweden*
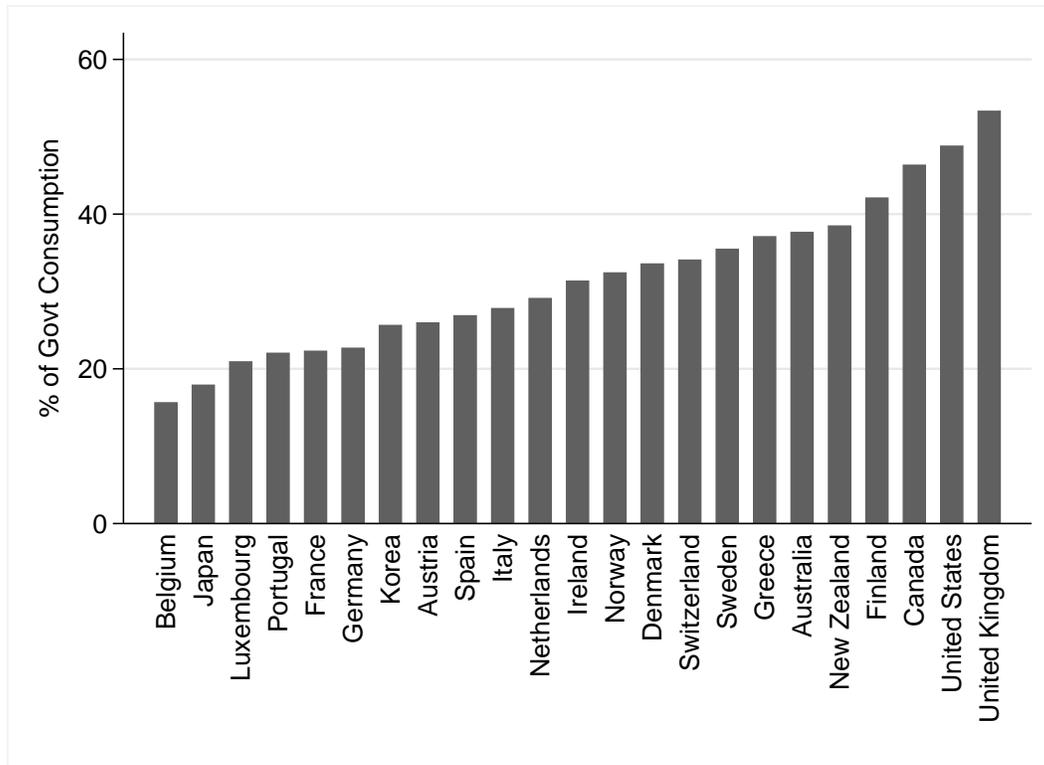
Figure 1: ***Domestic Government Outsourcing Across Individual Donors***. *Expenditures on government outsourcing to non-state actors for goods and services used by the government as percentage of government spending (excluding transfers) across donor countries in 2009. Source: OECD National Accounts Database (2011), and authors' calculation.*

Variable	Observations	Mean	St. Deviation	Minimum	Maximum
Bypass (log-transf)	8373	.53	7.59	-20.00	17.02
Governance	8373	1.99	.54	.64	3.86
Outsourcing	8373	6.31	2.32	3.35	11.35
Democracy	8373	-3.99	1.58	-7	-1
Log(Disaster Deaths)	8373	1.90	3.34	-2.30	11.83
Civil Conflict	8373	.15	.35	0	1
Log(Distance)	8373	8.29	.59	5.72	9.41
Former Colony	8373	.64	.48	0	1
Log(Trade Intensity)	8373	4.00	3.36	-27.63	13.07
Security Council	8373	.06	.24	0	1
Major Power	8373	.30	.45	0	1
Log(Total Aid)	8373	-16.84	4.52	-27.63	-7.68
Log(Democracy Aid)	8373	-9.79	12.97	-27.63	6.33
Log(Social Sector Aid)	8373	-6.73	11.84	-27.63	7.07

Table 1: *Descriptive Statistic of Estimation Sample; Table 1 Model 2*
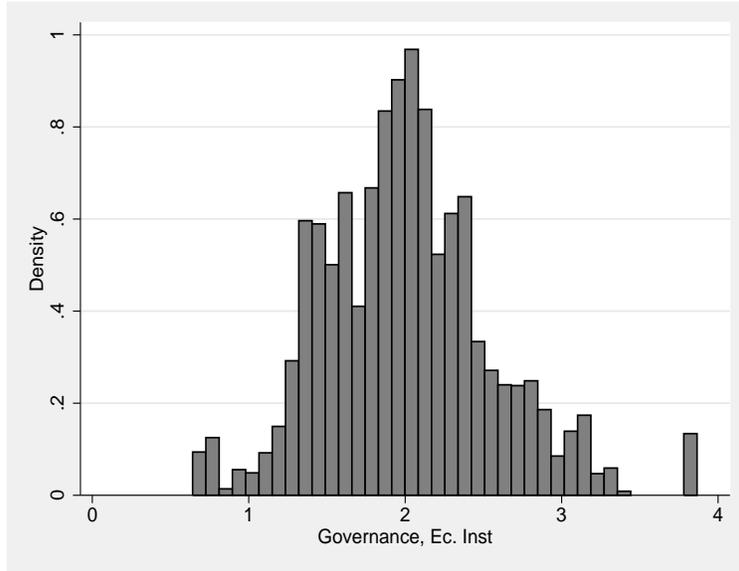
Figure 2: *Histogram, Quality of Recipient Governance*

3
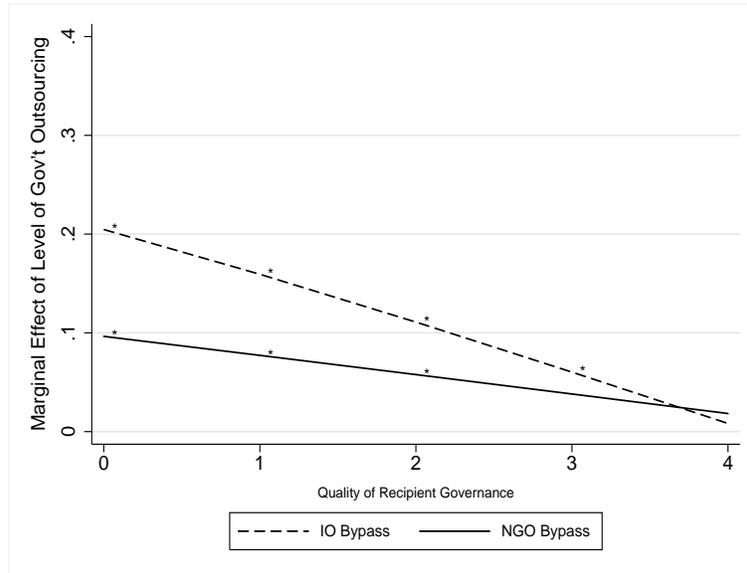
Figure 3: **Marginal Effect of Government Outsourcing on NGO and IO Bypass Shares Across Quality of Recipient Governance**. *Stars signal statistical significance at 0.05 level. Sources: OECD CRS Database (2013), OECD National Accounts Database (2011), and authors' calculation.*

	Model 1	Model 2
Governance, Ec. Inst	0.002	0.833
	(0.69)	(1.10)
Govt Outsourcing/Govt Expenditure	0.135**	0.129**
	(0.04)	(0.03)
Govt Outsourcing/Govt Expenditure*Gov	-0.037**	-0.035**
	(0.02)	(0.01)
Democracy	-0.165	-0.174
	(0.11)	(0.29)
Natural Disaster Deaths	0.124**	0.008
	(0.04)	(0.04)
Civil Conflict	0.418	-0.044
	(0.27)	(0.48)
Distance	-0.482**	-1.020**
	(0.24)	(0.20)
Former Colony	0.262	5.074*
	(0.37)	(3.00)
Trade Intensity	-0.386**	-0.409**
	(0.06)	(0.04)
Security Council	-0.015	-0.233
	(0.33)	(0.38)
Major Power	-2.601**	-2.129**
	(0.24)	(0.21)
Total Aid per capita	-0.139**	-0.134**
	(0.02)	(0.02)
Democracy Aid	0.075**	0.063**
	(0.01)	(0.01)
Social Sector Aid	-0.032**	-0.038**
	(0.01)	(0.01)
Middle East	0.364	
	(0.67)	
Africa	1.181**	
	(0.50)	
Asia-Pacific	0.845*	
	(0.45)	
Latin America	0.874	
	(0.60)	
N	8373	8373

Table 2: **Donor Government Outsourcing as % of Gov't Spending, Aid Capture, and Bypass to Aid-Receiving Countries, 2005-2011**. $+p < 0.10, *p < 0.05, **p < 0.01$. *Constant (all columns) not reported; year fixed effects and region dummies for Sub-Saharan Africa, Latin America, Middle East, Asia, and Central and Eastern Europe as omitted category (Model 1); year and recipient fixed effects (Model 2)*

	Model 1	Model 2	Model 3	Model 4
Governance, Ec. Inst	-0.462	1.721	-0.235	0.770
	(0.54)	(1.29)	(0.49)	(0.95)
Govt Outsourcing/GDP	0.487**	0.466**	0.560**	0.537**
	(0.17)	(0.15)	(0.15)	(0.15)
Govt Outsourcing/GDP*Gov	-0.141*	-0.137*	-0.156**	-0.151**
	(0.08)	(0.07)	(0.07)	(0.06)
Major Power	-2.586**	-2.339**	-2.500**	-2.100**
	(0.25)	(0.24)	(0.24)	(0.29)
Democracy	-0.198*	-0.503	-0.181*	-0.188
	(0.11)	(0.34)	(0.11)	(0.31)
Natural Disaster Deaths	0.090**	0.011	0.113**	0.019
	(0.04)	(0.05)	(0.04)	(0.04)
Civil Conflict	0.286	-0.063	0.409	-0.060
	(0.27)	(0.57)	(0.26)	(0.30)
Distance	-0.292	-0.639**	-0.518**	-0.978**
	(0.25)	(0.23)	(0.23)	(0.26)
Former Colony	0.184	3.890	0.364	5.143**
	(0.37)	(3.33)	(0.37)	(1.52)
Trade Intensity	-0.387**	-0.328**	-0.389**	-0.393**
	(0.07)	(0.04)	(0.06)	(0.09)
Security Council	-0.384	-0.357	0.008	-0.163
	(0.36)	(0.46)	(0.33)	(0.32)
Number of NGOs	0.425	0.698		
	(0.28)	(0.43)		
Number of IGOs	0.111	-0.222		
	(0.12)	(0.30)		
Deep Lag Number of NGOs and IGOs			0.148*	-0.114
			(0.08)	(0.09)
Total Aid per capita	-0.137**	-0.150**	-0.132**	-0.135**
	(0.02)	(0.02)	(0.02)	(0.02)
Democracy Aid	0.087**	0.074**	0.073**	0.061**
	(0.01)	(0.01)	(0.01)	(0.01)
Social Sector Aid	-0.028**	-0.028**	-0.031**	-0.035**
	(0.01)	(0.01)	(0.01)	(0.01)
Middle East	-0.063		-0.009	
	(0.75)		(0.72)	
Africa	1.146**		1.107**	
	(0.51)		(0.49)	
Asia-Pacific	0.609		0.847*	
	(0.47)		(0.43)	
Latin America	0.640		0.770	
	(0.63)		(0.58)	
Recipient FE	N	Y	N	Y
Region Dummies	Y	N	Y	N
Year FE	Y	Y	Y	Y
N	6541	6541	8203	8203

Table 3: ***Donor Government Outsourcing % of GDP, Aid Capture, and Bypass to Aid-Receiving Countries, 2005-2011***. $+p < 0.10$, $*p < 0.05$, $**p < 0.01$. *Constant (all columns) not reported; year fixed effects (Models 1,2,3,4); recipient fixed effects (Models 2,4); region dummies for Sub-Saharan Africa, Latin America, Middle East, Asia, and Central and Eastern Europe as omitted category (Models 1,3) are not reported.*

| | Model 1 | Model 2 |
	NGO Bypass	IO Bypass
Governance, Ec. Inst	-0.213	-0.681*
	(0.45)	(0.41)
Govt Outsourcing/GDP	0.516**	0.857**
	(0.13)	(0.12)
Govt Outsourcing/GDP*Gov	-0.134**	-0.212**
	(0.06)	(0.06)
Democracy	-0.112	-0.048
	(0.08)	(0.07)
Natural Disaster Deaths	0.146**	0.003
	(0.03)	(0.03)
Civil Conflict	0.655**	0.492**
	(0.25)	(0.23)
Distance	-0.450**	-0.578**
	(0.19)	(0.17)
Former Colony	0.603**	0.011
	(0.20)	(0.18)
Trade Intensity	-0.327**	-0.286**
	(0.03)	(0.03)
Security Council	-0.003	0.565*
	(0.35)	(0.32)
Major Power	-3.476**	-3.946**
	(0.21)	(0.19)
Total Aid per capita	-0.198**	-0.107**
	(0.02)	(0.02)
Social Sector Aid	-0.051**	-0.062**
	(0.01)	(0.01)
Democracy Aid	0.136**	0.056**
	(0.01)	(0.01)
Middle East	-0.645	-1.339**
	(0.43)	(0.40)
Africa	1.723**	-0.338
	(0.42)	(0.38)
Asia-Pacific	0.706*	-0.405
	(0.42)	(0.38)
Latin America	1.364**	-0.887**
	(0.45)	(0.41)
N	8373	8373

Table 4: ***Donor Government Outsourcing % of GDP, Aid Capture, and Bypass to Aid-Receiving Countries, 2005-2011***. $+p < 0.10, *p < 0.05, **p < 0.01$. *Constant (all columns) not reported; donor fixed effects (Model 1); year fixed effects (Models 2,3,4,5); recipient fixed effects (Models 3,5); region dummies for Sub-Saharan Africa, Latin America, Middle East, Asia, and Central and Eastern Europe as omitted category (Models 1,2,4) are not reported.*

Compositional Data Analysis

This section provides a brief discussion of the statistical implications of using a proportional outcome measure, which requires compositional data analysis. For any donor-recipient dyad the aid channel share is positive and the sum of the aid channels shares must be one hundred percent. Consider the aid share A, in donor-recipient dyad i for channel j. The compositional nature of the variable is expressed by the constraints that the fraction of the aid share that government-to-government or non-state channels might receive is doubly bounded, falling between 0 and 1,

$$A_{i,j} \in [0,1] \qquad \forall \;\; i,j, \tag{1}$$

with $A_{i,j}$ denoting the fraction of the aid in donor-recipient dyad i (i=1, ..., N) for delivery channel j (j=1, J). Government-to-government aid and non-state aid in a given donor-recipient dyad sums to unity,

$$\sum_{j=1}^{J} A_{ij} = 1 \qquad \forall \;\; i,j, \tag{2}$$

where J is the total number of delivery channels, which equal 2 (government-to-government and non-state aid) in my case.

Following Aitchison (1986), I create a $(J-1)$ log aid ratio, which compares the non-state aid to government-to-government aid:

$$Y_{i1} = ln(A_{i1}/A_{i2}) = ln(A_{i1}/(1-A_{i1}) \tag{3}$$

The advantage of log transforming proportional outcomes is that the outcome is unconstrained, allowing for a straightforward estimation through OLS. The coefficient of the log-transformed non-state share variable then describes how the log ratio of non-state aid changes with respect to government-to-government aid. After modeling, the estimates are transformed back into their original scale of interest:

$$A_{i1} = (1 + e^{-}Y_{i1})^{-1}. \tag{4}$$

and Y is log-transformed following the steps (1) through (4) above.

Number of Respondents	Agency	Country
4	State Department	United States
4	USAID	United States
2	Millennium Challenge Corporation	United States
1	Treasury	United States
1	Office of Budget and Management	United States
6	Ministry of Foreign Affairs	Sweden
7	Swedish International Development Cooperation Agency	Sweden
5	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

Table 5: *Survey respondents by agency and country.*

Survey Instrument Scenarios and Outcome Questions

Now I would like to talk about the design of aid policy. Donor governments have different tools to deliver foreign aid in poor countries. For instance, donor governments can rely on various channels through which they can deliver bilateral foreign aid: these channels of aid delivery include the recipient government, international organizations, not-for-profit organizations, and for-profit contractors. In 2010, OECD donors committed a total of US $ 112 billion and channeled over 30% of the bilateral aid through non-state development actors. Given your own experience working for your government, I would like to ask you some questions about aid policy decision-making.

(**Country A:**) 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. Corruption is relatively low and state capacity is relatively strong. 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.[1]

⊔ International/[respondent country's][2] 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.

Given what you know about how things have been going in Country A, 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).[3]

    (a) None
(b) Some
(c) Quite a Bit
(d) A Large Amount
(e) All

(**Country B:**) Now I would like to take you through a different country scenario. Imagine that your country allocates bilateral aid for development in Country B, 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. Most people agree that Country B lacks state/absorptive capacity. The state institutions are weak

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[1]This question is asked three times directly following the each of the three scenarios. The order of channels is randomized

[2]I insert the respondent's country

[3]This question is asked three times after each scenario, directly following the rank-order question.

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. 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 B. 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.

(See outcome questions above)

(**Country C:**) Now I would like to take you through a different country scenario. Imagine that your country allocates bilateral aid for development in Country C, 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. 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$ 50 million were used to pay foreign and local companies for services that were never delivered. 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 C. 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.

(See outcome questions above)

Question about Time Horizon in Evaluating Aid Success:
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

Question about Importance of State-building as Share of Overall Aid Effort:
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. Considering your experience as an aid official for your country: How much of the overall aid that your government provides to developing countries would you prefer to be directed at capacity-building projects whose goals is to strengthen the capacity of the state?
(a) None
(b) Some
(c) Quite a Bit
(d) A Large Amount
(e) All