Brands and Bypass: Getting Aid Donors What They Want

Gina Yannitell Reinhardt

Bush School of Government and Public Service

Texas A&M University

gyannirein@tamu.edu

www.ginareinhardt.com

For years scholars have assumed that donors have a set of priorities to achieve with foreign aid, using those assumptions to investigate aid effectiveness, and determining that donors and aid are failing to reach their fullest potential. I assume that donors what a complex set of goals, and that these multiple goals lead donors to use a variety of aid delivery mechanisms and strategies to achieve their aims. After outlining the theoretical implications of changing delivery channels, from public sector to bypass, on effectiveness, I consider the definition of effectiveness itself, and use the case of the United States Agency for International Development (USAID) to illustrate how bypass channels and new strategies of diplomacy and transparency can help donors get what they want.

What do donors want? Literature on aid effectiveness tends to conceptualize the goal of foreign aid either as poverty reduction in the recipient nation or as strategic/policy goals of the donor nation. Those who view aid as a tool of poverty reduction typically divide the concept into the two components *growth* and *development*, often measured in terms of national GDP per capita, or aggregate indicators of infant mortality, literacy, general health, or education (Burnside and Dollar 2000, 2004; Casella and Eichengreen 1996; Batana 2010; Easterly 2003). Scholars of aid as a policy tool have argued that aid advances donor goals of democratization (Bermeo 2011; Wright 2009), anti-terrorism (Bapat 2011), recipient government stabilization (Kono and Montinola 2009), favorable outcomes in the United Nations (Kegley and Hook 1991), and policy concessions (Bueno de Mesquita and Smith 2009). Each of these studies makes basic assumptions about what donors seek to achieve with foreign aid.

If we define effectiveness deductively, examining donor allocation patterns shows us that donors allocate aid according to a variety of altruistic/humanitarian, economic, and political priorities.[1] These have been measured with a multitude of indicators: literacy and infant mortality rates, access to health care, trade openness, export/import ratios with a donor, treaty memberships, UN voting records, UN voting similarity with a donor, and colonial ties are only a few. Although several argue that a mix of these priorities is associated with allocation (Balla and Reinhardt 2008; Alesina and Dollar 2000; McKinlay and Little 1977), rare is the study that measures effectiveness in terms of achieving a mix of these goals at the same time. The majority of work focuses on effectiveness as one measure of growth, or development, or diplomatic achievement.

Regardless of the goals of aid, most argue that aid does not achieve its fullest potential. The donor is at an informational disadvantage because it does not know the true motives or abilities of

[1] This method typically involves gathering national-level data on recipient nations over a range of time, then analyzing how aid flows from donors correlate with other national indicators. Although constrained to find patterns only in the variables scholars choose, the method has come to gain consensual validity over time.

the recipient with regard to aid implementation; these information asymmetries allow aid moneys to be captured by rent-seeking recipients in government (Economides, Kalyvitis, and Philippopoulos 2008) and absorbed by politically unsound or corrupt policy environments (Dietrich 2011; Burnside and Dollar 2000; 2004). Problems are compounded by the fact that aid is fungible (Swaroop, Jha, and Rajkumar 2000; Feyzioglu, Swaroop, and Zhu 1998) and subject to moral hazard; recipients have lower incentive to use aid effectively because they do not bear the cost of using it unwisely (Krugman 2009). Donor motives to achieve strategic/political goals, motives not always fully apparent to the recipient, create a reverse information asymmetry that has been dubbed a "double moral hazard" (Murshed and Sen 1995).

Aid donor organizations have developed ways to counteract the pitfalls inherent in aid allocation and implementation. After studies recommended the channeling of aid toward stronger institutional environments (Burnside and Dollar 2000, 2004), and the conditioning of aid disbursal on desirable behavior such as market liberalization and public sector cutbacks, donors indicated both in rhetoric and in allocation patterns that aid would be allocated in new ways (Easterly 2003). More recently, scholars have noted the implementation of aid by contractors or *bypass* channels (see Dietrich 2012; Knack 2013) rather than recipient governments.

Not all delivery mechanisms are suitable means to achieve all donor goals, in all contexts. Since donors vary in the ways strategic, economic, and humanitarian goals factor into their allocation calculi (Balla and Reinhardt 2008), they should also vary in which solution they choose as the most appropriate to achieve each goal. I contend in this paper that each of the aid delivery mechanisms designed to maximize aid effectiveness produces a different outcome with respect to each goal. The savvy donor varies its aid delivery mechanisms between government-to-government, public sector channels and bypass channels, according to the goals it wishes to achieve.

Specifically, I argue that the use of bypass channels allows donors to reduce the moral hazard problem associated with aid delivery, as well as shift the location of rent competition from the recipient country to the donor country. This positions bypass channels to be a particularly effective delivery mechanism for sectors of aid related to key elements of strategy, such as building goodwill and bolstering popular opinion, and components of poverty reduction, such as increasing education and health levels. Alternatively, government-to-government public sector channels are still deemed more effective at achieving goals of conflict reduction, peace and security, and government strengthening.

Using the United States Agency for International Development (USAID) as an illustrative case, I conduct over 140 interviews with representatives of governmental, private, and non-governmental recipients of US bilateral and multilateral aid in multiple countries over a 10-year period, including USAID mission directors in South America and Central America, and technical officers and administrators from USAID headquarters in Washington, DC. Examining these alongside documents and directives defining USAID policy and procedure, I find that individual decision-makers and in-country USAID missions have been achieving their goals of diplomacy, sustainable development, and improved international relations. For this donor, bypass channels have created a strict monitoring system with recipient organizations, and a branding policy has increased both aid transparency and goodwill among citizens. The US thus uses a portion of aid to purchase poverty reduction, while another portion purchases strategic goals of the donor.

This article is timely due to the increase in the use of bypass delivery mechanisms by several major bilateral donors in the past 15 years. Not only the US, but also Australia, Austria, Belgium, Canada, Finland, Greece, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom, give the majority of their aid via bypass channels (Table 1). EuropeAid, the United Kingdom's Department for International Development (DFID), and AustraliaAid, as well as all United Nations programs and World Bank-sponsored programs, all required brands. The proportion of the development community touched by aid delivered via bypass channels and marked with donor brands, both in its allocation and its implementation, is large and growing.

Table 1 Amount of ODA Being Channeled through Bypass Agents, in Absolute and Percentage Terms

	2008		2009		2010		2011	
	US$ to Bypass Channels	Percent of Total	US$ to Bypass Channels	Percent of Total	US$ to Bypass Channels	Percent of Total	US$ to Bypass Channels	Percent of Total
Australia	2208.84	61.16	2094.51	62.37	2601.87	68.29	2967.25	71.44
Austria	283.96	21.77	273.78	50.69	308.19	46.60	265.83	53.76
Belgium	491.55	32.65	591.61	34.22	1001.36	43.97	1057.59	53.13
Canada	2808.29	75.87	2570.52	65.80	2698.22	63.22	2639.21	63.47
Denmark	939.79	62.48	1321.24	75.87	952.05	41.29	1013.25	45.77
Finland	510.43	72.50	573.76	70.60	613.88	67.60	591.51	68.83
France	3148.36	39.88	1370.54	15.90	449.85	4.62	424.16	4.51
Germany	1871.69	17.08	1880.55	22.14	3158.44	31.63	3173.73	30.99
Greece	25.38	8.05	19.66	6.49	94.43	42.03	74.89	48.66
Ireland	587.64	70.10	427.54	62.70	377.92	61.22	376.79	62.08
Italy	1444.26	70.01	440.91	41.31	209.76	20.22	367.88	17.54
Japan	7917.18	43.53	1898.69	13.02	2398.67	14.69	2369.35	15.15
Korea	66.53	10.52	85.33	11.43	80.25	8.10	117.79	11.39
Luxembourg	160.43	52.55	156.92	52.39	196.62	59.34	151.58	53.95
Netherlands	3223.53	59.48	2890.45	57.08	2912.05	55.33	2807.31	61.69
New Zealand	133.67	40.15	106.58	35.10	85.21	27.81	104.95	31.49
Norway	2194.23	66.15	2578.63	64.37	2595.47	67.53	2469.09	69.33
Portugal	15.09	3.98	59.19	18.65	78.32	17.16	38.15	7.40
Spain	4122.70	77.90	2641.69	55.07	3220.93	69.23	1845.55	71.57
Sweden	2042.19	60.56	2395.48	65.88	2065.20	62.93	2256.89	61.09
Switzerland	1017.78	52.54	1109.63	51.18	1081.43	53.12	1286.27	53.57
United Kingdom	2489.72	33.49	4151.45	49.71	6266.07	70.28	6484.62	73.92
United States	14522.17	56.96	16017.65	60.63	16477.03	58.91	16183.37	57.23

There are two lessons to be drawn from this work. First, effectiveness should not be determined based on externally-imposed definitions of economic growth or human development. Donors have concrete ideas of what they are purchasing with aid, and the best way to get it.

Second, the complexity of donor goals requires a complex analysis of effectiveness. Narrowing the definition of effectiveness to only one component runs the risk of not only mis-measuring donor intent, but misjudging the full reach of aid.

AID AND DEVELOPMENT: TRADITIONAL IDEAS

The vast majority of aid allocation and effectiveness literature characterizes the foreign aid transaction as taking place between a donor organization (either bilateral or multilateral) and a recipient government in a developing nation, which then implements the aid funds. The donor thus represents a *principal,* using the recipient as its *agent* in the classic principal-agent paradigm, to implement development funds. Foreign aid donors in this situation are at a marked informational disadvantage. Recipient governments have a variety of interests, including maintaining diplomatic relations with donor governments, maintaining power or position in office, distributing favors, and enacting policy goals (Ahmed 2012; Pedersen 2001). Because the donor does not know at the onset how or to what end a recipient intends to use foreign aid, a variety of complications with implementation can result. At least three of these complications, or pitfalls, deserve attention.

Pitfalls: Moral Hazard, Rents, and Fungibility

Moral hazard refers to the idea that an aid recipient government will make different, riskier decisions about how to implement aid and other public funds, because it no longer has to bear the cost if things go poorly, with the donor there to continue aid provision. Gibson et al (2005) point out that donors have an incentive to give aid whether recipient governments participate in their own development or not, so recipients are better off not participating. Boone (1996) finds that aid primarily fuels consumption, rather than growth or pro-poor policies, and Ranis and Mahmood (1992) argue that when external resources are available, irresponsible policies are more likely. Pedersen (2001) outlines the perverse incentives of aid, suggesting that recipients who think they must compete with one another may, in order to justify continued aid, intentionally avoid addressing the situations current aid programs are intended to improve.

Asymmetric information is also associated with rent-seeking, political jockeying over the government surplus aid provides. The rent-seeking environment leads to competition over political favors, which can foster corruption (Svensson 2000). Alesina and Weder (2002) give limited evidence that aid increases along with corruption, and Maren (1997) argues that rents associated with aid incited war in Somalia by undercutting civil society. The flow of foreign aid to corrupt donors, defined as such by measures of institutional quality, corruptness indicators, and other means, is viewed as a donor policy failure by some scholars (Alesina and Weder 2002; Easterly and Pfutze 2008).

A final often-investigated facet of aid is the fungibility of aid moneys, referring to the fact that aid, even if for the purpose of a particular goal, can be replaced with other money by the recipient government and then used for another purpose. Feyzioglu, Swaroop, Zhu (1998) were among the first to argue the fungibility of aid, showing that in 14 developing countries over the course of 20 years, development funds given to the agriculture sector were merely used to replace funds the recipient government was already planning on using for the same purpose. Two years later Swaroop, Jha, and Rajkumar (2000) argued that in federalist recipients, foreign aid was used to pay for projects the government would have undertaken on its own, and that the funds the aid liberated was spent on activities unrelated to development.

Responses: Institutions, Conditions, and Bypass

In response to what is labeled the misappropriation of development assistance due to the array of incentives and practices described above, scholars and policy makers have arrived at three main solutions. The first deals with the *institutional environment* of the recipient. In 2000, Burnside and Dollar concluded that development assistance was more effective when aid was given to recipients with good policy environments, the implication being that knowing the quality of a recipient country's policy environment ahead of time was a way to reduce the information asymmetry. Representatives of the British Department for International Development (DFID) referred to Burnside and Dollar when announcing they would be directing aid toward "countries pursuing sound policies" (2000).

Soon policy makers in myriad agencies spoke of targeting aid toward "good policy environments" (see Easterly 2003). Collier and Dollar (2002) subsequently found that foreign assistance positively affected economic growth in countries with high-quality economic institutions and policies. In 2004, Burnside and Dollar changed their terminology to emphasize a "good institutional environment," and attention turned to investigating the connection between institutions and aid effectiveness.

Empirically, evidence of the link between either aid allocation or effectiveness and good institutions remains questionable, and sensitive to specification and sample (Guillamont and Chauvet 2001, Lensink and White 2001, Hansen and Tarp 2001, Dalgaard and Hansen 2001, Collier and Dollar 2002). Some suggest that "good" institutions have as a component "stability" or "strength." Balla and Reinhardt (2008) find that for some donors, the presence of a conflict increases the likelihood bilateral aid will be allocated to a recipient, but that the level of aid diminishes as the conflict's intensity increases, suggesting that donors move to stabilize political environments under threat, but pull back when the threat increases. For other donors, conflicts draw aid and more intense conflicts draw more aid, while for still other donors, conflicts repel aid. It appears as though the choice to target strong institutional environments depends on one's notion of effectiveness, and on what a donor hopes its aid will achieve (ibid.).

Donors have also used *conditionality* of aid disbursal as a possible solution to the pitfalls of information asymmetries. With this idea, aid packages should not be fully disbursed unless recipient countries meet requirements dictated by the donor, or demonstrate evidence of spending aid moneys in particular ways. US President George W. Bush announced, in his speech to the Inter-American Development Bank prior to establishing the Millennium Challenge Corporation, that US foreign aid would "reward nations that have more open markets and sustainable budget policies" (Bush 2002).

Yet scholars have lamented the inability of conditionality measures to prompt market liberalization or democratization. Svensson (2003) argues that the institutional constraints of donor countries' aid allocation and disbursement processes, combined with bureaucratic budgetary concerns, encourage continued allocation regardless of recipient government performance. Dunning (2004) suggests, instead, that it is the conflict among donors' goals that undermine conditionality. Political/strategic objectives, he argues, interfere with a donor's ability to credibly enforce conditions associated with democratic reforms. Empirical evidence also supports the idea that strategic motives can interfere with economic conditions under specific circumstances, finding that the association between aid allocation and economic reforms depends on whether or not allocation occurs during the Cold War (Heckelman and Knack 2008; Dunning 2004; Bermeo 2007; Bearce and Tirone 2010).

A "magic bullet," destined to solve the moral hazard and fungibility problems of aid, was the idea that aid could be allocated to and implemented by contractors, thus *bypassing* recipient governments. By allowing firms and non-profit organizations to compete for and implement aid projects and programs, the implementation of aid could become "untainted by the politics of government" (Fisher 1997: 442). In 1994, NGOs received over 10% of all public development aid ($8 billion), while over 25% of US bilateral aid was disbursed directly to NGOs (Gordenker and Weiss 1996a: 25). By 2002, NGOs were receiving over $2 billion in ODA alone, 65 times more than they had received twenty years prior (OECD 2013). In 2011, the most recent year for which complete data is available, the OECD reports that bypass aid amounted to U$49.11 billion (45.43%) of ODA (ibid.).

Effectiveness: Goals, Measurement, and Transparency

The above studies lack is a clear consensus on the definition of aid effectiveness. It is uncertain whether any of these solution mechanisms are successful at maximizing aid effectiveness if we do not know what donors consider effectiveness to be. The challenge in defining effectiveness comes from the complexity of donor goals, and the difficulty of measuring implementation outcomes.

Organizational literature tells us it can be cumbersome to pursue any one goal at one time, a task only complicated by the presence of other goals. The pursuit of divergent goals can result in failure to obtain any desired outcome (Downs 1967; Rainey 1997). These arguments are echoed in those of scholars who assert conditionality fails due to multiple donor goals, above (Dunning 2004).

Aggregating all goals to one, or focusing on only one at the expense of all others, further confounds and confuses assessments of effectiveness. A narrowing of certain scholars to studying aid by sectors has reduced some of this confusion. Bermeo (2009) shows how broad patterns donors seem to prioritize at the aggregate level change when sector aid is examined. Dietrich (2010) demonstrates how focusing on the health sector illuminates a different set of incentives from those indicated by aggregate aid examination.

The problem with defining effectiveness is not unique to scholars; policy makers debate the issue as well. Besides the multitude of goals, there is difficulty in the conflict between effectiveness in theory, and effectiveness in measure. In his 2010 essay, "The Clash of the Counter-bureaucracy and Development," former USAID Administrator Andrew Natsios writes of the importance of investing in long-term development outcomes. He argues that foreign assistance programs, in the US and elsewhere, run the risk of relying on "more easily and accurately measured" programs with "great political appeal to the media, public, parliaments, and congresses" when long-term projects with hard-to-measure payoffs are necessary (9). Doing so, he argues, "ignores a central principle of development theory—that those development programs that are most precisely and easily measured are the least transformational, and those programs that are most transformational are the least measurable" (ibid., 1).

In response to these difficulties, some have begun to emphasize *transparency* as a priority with aid projects and programs. The International Aid Transparency Initiative (IATI) aims to catalog and dispense information about aid flows so donor and recipient citizens can "hold their governments to account" regarding the use of aid resources on all sides of the aid equation. Launched in 2008, IATI brings together donors, recipients, governments, and civil society organizations to agree on a central standard for publishing more, better information about aid (IATI 2013). The work of initiatives such as that of IATI should clarify which aid money goes to alleviate poverty, which goes to economic development, and which goes to strategic/political objectives.

Bypass Aid and Transparency: Alternative Ideas

If we examine some of these new ideas and paradigms with respect to one another, we find different pitfalls, with different potential resolutions. With non-governmental contractors as implementers, we see a new set of incentives and interests. With transparency a priority, we find clear donor goals pursuing favor and diplomacy alongside development initiatives. Gone are recipient government's political motivations of reelection, diplomacy, and favor distribution. Instead, each implementing agency has as its primary motive the goal of survival. Private, for-profit agencies are driven by profit motives, while non-governmental organizations (NGOs) are also interested in fulfilling organizational missions, promoting their cause, and meeting the needs of their various stakeholders (Lewis 2001; Brown and Moore 2001).

The principal-agent relationship does not disappear with bypass implementers. Because donors are not implementing the funds themselves, because the physical location of implementation is far removed from the donor, and because the measures of aid effectiveness are varied and contested, monitoring every step of implementation is impossible (Martens et al (2002) detail the principal-agent steps of the entire aid chain). The pitfalls of the relationship, however, have different implications, which suggest alternative solutions, depending on donor goals.

Bypass Channels: Pitfalls

Asymmetric information in the principal-agent problem leads to moral hazard among all types of agents (McAfee and McMillan 1987; Hart and Holmstrom 1987). If the donor's implementing agent is the recipient country's government, and the donor finds out aid has been implemented ineffectively, it would be impossible to find a new government implementer in the same country. Thus, we see government-government aid relationships perpetuate despite evidence of shirking on the part of the recipient government. If a donor finds out a contractor is shirking, however, that donor can continue implementing funds in the same recipient country, and simply find a new implementer. Because of the possibility of continued relationships both within and across developing countries, contractors have less incentive to shirk, and a higher motivation to fulfill the terms of the contract.

The term *rent-seeking* takes on a new meaning with contractors, referring primarily to competition for the contracts and grants themselves. Most rent-seeking is moved to the location where contract partners are chosen, often in the donor agency home headquarters. This affects the lobbying scene in the donor government's capital city (see Kelleher and Webb Yackee 2009), and possibly local donor outposts for donors with a large local presence, such as USAID. Here, specific contractors lobby for contracts, and sectors lobby for priority designation (for example, democratization organizations lobby US decision makers to direct money away from other endeavors and toward democratization efforts).[2] Since the recipient government is now removed from the implementation process (except for consultation or local oversight purposes), the competition is less likely to affect recipient corruption.

Fungibility in its purest sense is not possible with contractors; that is, money given to contractors to implement a project/program will not be used to replace funds those contractors would have already been spending to implement similar projects/programs. However, the principle of fungibility is theoretically still possible. If other organizations are providing public services such as education, healthcare, food and water security, and environmental improvements, the government no longer has to provide them. It can allow these organizations to take over the provision, meaning the contractors essentially end up taking the place of the public sector, weakening and undermining the authority of the state apparatus (Knack 2001; Bräutigam and Knack 2004). In this vein, contracting agencies hire local workers at all levels of operations (from labor to management), and employ them according to both recipient and donor labor regulations, which can distort the local labor market by raising wages and removing some of the most qualified and highly-trained workers (Bräutigam and Knack 2004),[3] and could result in competition over local sub-contracts as a means of rent-seeking, simply replacing the recipient government with the donor's contractors.

Bypass Channels: Response

Researchers have expended vast efforts theorizing which types of contracts, and which contract mechanisms, elicit optimal performance from agents while requiring minimal monitoring

[2] USAID Director. Interview with Author.
[3] John M. Cohen researches this issue at length. See Cohen and Wheeler, "Training and Retention in African Public Sectors: Capacity-Building Lessons from Kenya," in Grindle, ed., pp. 125–56; also John M. Cohen, "Foreign Advisors and Capacity Building: The Case of Kenya," *Public Administration and Development* 12, no. 5 (1992): 493–510.

from the principal (Holmstrom 1979; Hart and Holmstrom 1987; Miller 1992; Fudenberg and Tirole 1990; Svensson 2000; Tirole 1994). Contractors can still accomplish substantial progress toward donor goals because aid money is less likely to get funneled into corrupt governmental ends or practices. Thus, targeting good policy environments is still possible, but no longer necessary, to achieve all donor goals.

Bypass contracts have further benefits because they have conditional elements built into them; if the contractor does not comply with financial reporting requirements, regular monitoring requests, or target measurement demands, the continuation of a current contract and the fate of future contracts are at stake. As the Executive Director of a leading development contracting organization notes, "The reporting requirements are onerous, but what can we do? If we don't meet them, we don't get future contracts. We don't even get the next five years of *this* contract, and this is just the first hundred million dollars. It's not like we have a choice."[4]

With reduced moral hazard and increased conditionality, donors can get closer to their goals. "Requiring us to work with the [host] government makes things more complicated, because then we need to get their approval on every project we engage in, every program we initiate, and worst of all, every implementing partner we choose. That's where they really want to step in and dictate things," says one USAID Mission Director. "When we don't have to do that, we're a lot better off, because we work directly with the implementing partner, and we can be sure to get exactly what we want."[5]

Bypassing recipient governments also allows the pursuit of goals with which a recipient government's overt presence would ordinarily interfere. "At least half of ordinary citizens here fear that the government might try to kill them," reports a contracted implementer of aid from Spain and EuropeAid. She further states:

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[4] Executive Director of Contracting Agency with $152.3 million in contracting funds from USAID. 2009. Interview with Author.

[5] USAID Mission Director, South America. 2003. Interview with Author.

> For some of them, that was a reasonable fear not too long ago. While we wish to work to dispel that fear, doing so goes against a generations-old, deeply inculcated and venerated history. So, when it comes to healthcare, we leave the political issues alone. That way, when it is time to inoculate children and distribute retroviral therapy, we are a trustworthy source because we do not represent the government they fear.[6]

Goals focused on developing goodwill among recipient populations might also suffer if aid is channeled through recipient governments. Increasingly, bilateral donors have attested to striving for "winning hearts and minds" of the citizenry of recipient countries with aid (Djerejian 2003). Aid money absorbed by recipient governments can be distributed to recipient citizens without attribution to donor governments. Worse, recipient government distribution of aid can acknowledge donor government participation, but carry with it a stigma related to the recipient government. Bypass channels, allowing closer control and a straighter line of contact, offer donors opportunities to reach the hearts and minds of recipient citizens directly.

EXPECTATIONS

Based on the above discussion, we should expect donors to choose aid delivery channels (government-to-government v. bypass) based on the goals they wish to achieve. Bypass aid channels should be seen in environments when donors believe government-to-government public sector aid channels will interfere with goal achievement, rather than further it. Government-to-government aid should be used in environments when donors believe governments are necessary for goal achievement. Further, since bypass aid relaxes the links between donor and recipient governments, we should see donors who rely more heavily on bypass aid to be more likely to set allocation and achievement priorities in terms of sectors or topics, as opposed to countries or regions.

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[6] Administrative Director of Contracting Agency with $1.19 million in contracting funds from AECID and EuropeAid. 2011. Interview with Author.

With respect to rent-seeking, the heavier the use of bypass aid by a particular bilateral donor, the more active should be the lobbying scene for aid contracts in the location of the donor headquarters. Since rent-seeking is largely transferred to the donor nation, however, we should expect to see bypass aid allocation to recipient countries continue even if those recipient countries offer corrupt environments. Instead, we should see aid disconnect from corruption, such that even if aid and corruption both continue, aid is not actually a driver of corruption.

As the scope of these expectations is too vast to examine in one article, the research presented here will not address rent-seeking or the expectations associated therewith. Instead, the investigation below will address the multiple goals and delivery mechanisms of donors, and whether those goals and delivery mechanisms match up in predictable patterns. Specifically, I use the case of the United States Agency for International Development, the primary aid designating arm of the United States, to probe the plausibility of these ideas.

DATA AND ANALYSIS

The data for this case comes from documents, press releases, aid allocation reports, and 140 open-format interviews conducted by the author from 2003-2013. Interviews took place in person (94: 71.21%), over the telephone (31: 22.14%), and over the internet (15: 10.71%), and ranged from 32-172 minutes long (average: 73 minutes; median: 67 minutes). Interview subjects fell into two broad categories. The first was composed of Executive Directors, Managing Directors, Finance Directors, and Project Managers of organizations competing for bypass aid contracts, grants, projects and programs. These subjects represented organizations that were and had been both successful and unsuccessful at acquiring aid from donors in one country to implement in another country. The second was composed of Global, Regional, National, Mission, and Technical Directors and Officers of donor agencies that give and/or administer bilateral and multilateral aid.

Face-to-face interviews typically took place in the main agency of the organization (12% took place in a neutral area, such as a coffee shop), in major cities in Brazil, Canada, Japan, the US, and Nicaragua. Telephone interviews took place with the subject in her/his organization office, adding Angola, Guatemala, Honduras, Jamaica, Mauritius, Mozambique, the Netherlands, Panama, South Africa, Switzerland, and Venezuela.[7] Subjects were chosen based on an elite snowball sample.

USAID

The United States Agency for International Development (USAID, or AID) is the United States executive agency that maintains and administers the largest portion of US Official Development Assistance (ODA).[8] AID also tracks and documents the disbursement of ODA administered by other US executive agencies. Each year since 2003 (the earliest date for which data describing administering agencies is available), approximately half of US ODA has been administered by AID, while the remainder has been administered by agencies such as the US Departments of State, Health and Human Services, Treasury, Interior, Defense, and the Import-Export Bank and Millennium Challenge Corporation.[9] Table 2 lists the agencies of the US Government that administered US ODA in 2011, in dollar ($US Millions) and percentage terms.

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[7] The donor agencies interviewed include: USAID (US), AECID (Spain), EuropeAid (EU), CIDA (Canada), DEZA(Switzerland), JICA / JBIC (Japan), IADB (Inter-American Development Bank), NORAD (Norway). See appendix for list of recipient organizations.

[8] The Organization for Economic Co-operation and Development defines Official Development Assistance as flows to countries, territories, and multilateral institutions that are:

1. ***Provided by official agencies***, including state and local governments, or by their executive agencies; and
2. Each transaction of which:
   a) Is administered with the promotion of the ***economic development and welfare of developing countries*** as its main objective; and
   b) Is ***concessional in character*** and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent). ((*sic.*) emphasis original; OECD 2013)

[9] Prior to 1982, nearly all US ODA was administered by non-USAID federal agencies. See Woods (1989), Butterfield (2009).

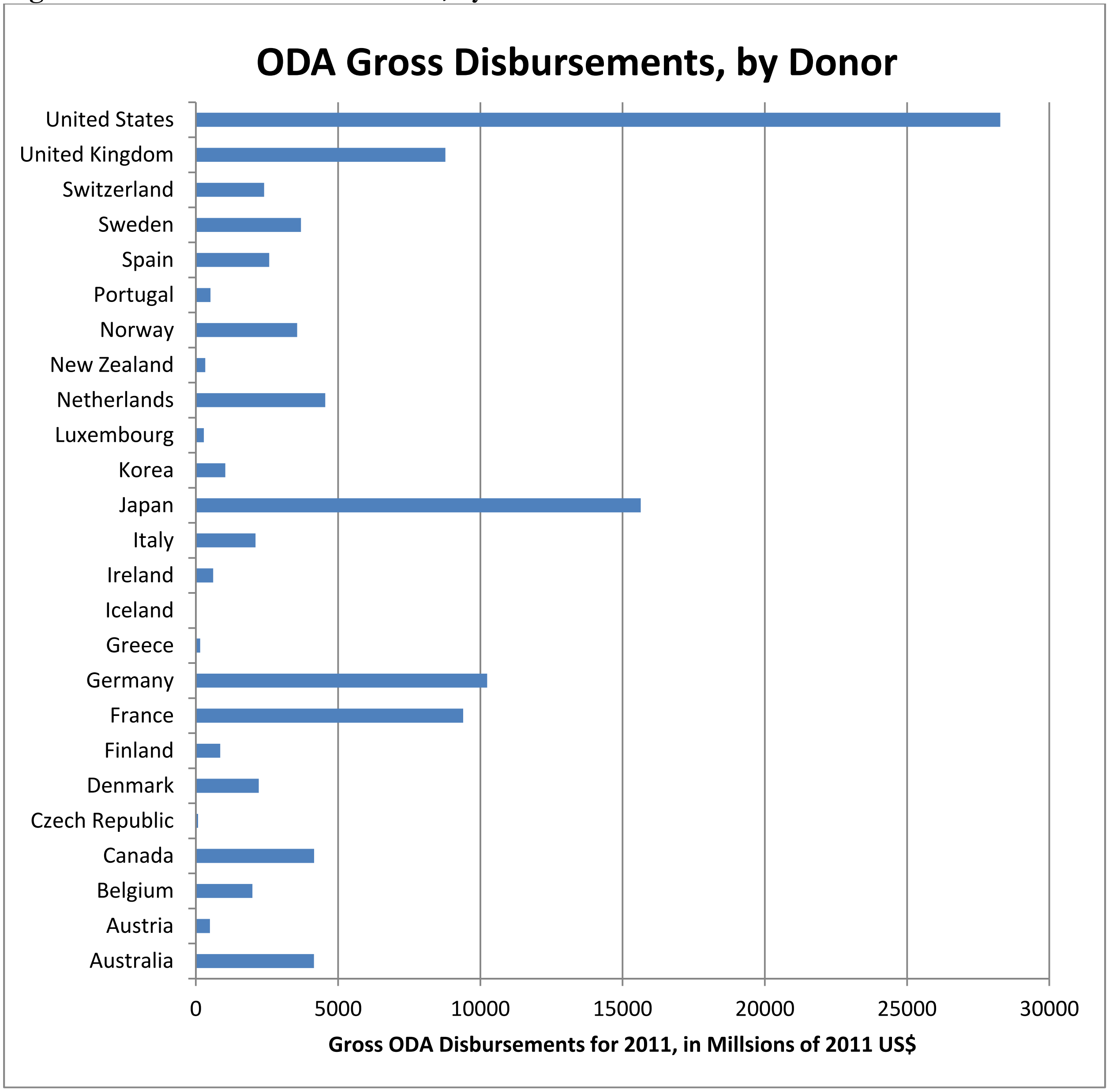
Table 2

Agency	US Bilateral ODA	Percentage of US Bilateral ODA	US Multilateral ODA	Percentage of US Multilateral ODA
African Development Foundation	33	.12		
Department of Agriculture	-31	-.12		
Department of Commerce	6	.02		
Department of Defense	695	2.57		
Department of Energy	154	.57		
Department of Health and Human Services	3,263	12.05	297	8.02
Department of Homeland Security	1	.00		
Department of Justice	8	.03		
Department of Labor	58	.22		
Department of State	4,059	14.99	968	26.12
Department of Transportation	3	.01		
Department of the Interior	199	.73		
Department of the Treasury	372	1.37	1649	44.47
Environmental Protection Agency	9	.03	10	.26
Export-Import Bank of the United States	979	3.62		
Federal Trade Commission	0	.00		
Inter-American Foundation	23	.09		
Millennium Challenge Corporation	1,620	5.98		
Peace Corps	368	1.36		
Trade and Development Agency	40	.15		
U.S. Agency for International Development	15,216	56.20	783	2.11
Bilateral and Multilateral Totals	**27,076**		**3707**	
TOTAL ODA		**30,783**		

Source: USAID and Author Calculations

I selected the United States as an illustrative donor in part because it gives a large quantity of ODA. Figure 1 depicts each donor's gross quantity of ODA in 2011 millions of dollars. Further, the US gave 57-61% of its aid via bypass channels from 2008-2012 (Table 1). This range holds the median proportion of ODA given via bypass channels for any donor during the same time range.

Figure 1 Gross ODA Disbursements, by Donor



In order to investigate hypotheses regarding bypass aid channels and donor goals, we first must know the goals of US ODA. After the terrorist attacks on the World Trade Center on September 11th, 2001, the one-phrase moniker of US foreign policy became known as "The 3 Ds: Defense, Diplomacy, and Development."[10] US foreign assistance was the primary tool of the 3rd D,

[10] President George W. Bush himself, though attributed with creating the "3-D" paradigm, does not actually refer to US strategy as such in any speech or directive. He does, however, refer to "three great goals" that must guide the US in order to build a better world, in a speech delivered to the World Bank in 2001. Followed by a speech to the

Development, and it was assigned a dual purpose. First, foreign assistance is expected to further US interests. Second, it is designed to improve lives in the developing world. The US Agency for International Development strives to allocate US foreign assistance to better fulfill these purposes by: promoting broad-scale human progress; expanding stable, free societies; creating markets and trade partners for the US; and fostering goodwill abroad (USAID 2012a, 2012b).

It is important to note that improving lives in the developing world has been seen as a means of furthering US interests since the inception of the Marshall Plan, announced by Secretary of State George Marshall at Harvard University on June 5, 1947:

> It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. (Marshall 1947)

With intentions of extending principles espoused by the Marshall Plan to regions around the world, President John F. Kennedy stated in his inaugural address on January 20, 1961, that helping the world's poor was a personal and administrative priority (Kennedy 1961a). He then went on to call for the Foreign Assistance Act in a special address to Congress in March of that year, noting that "economic growth and political democracy can develop hand in hand." Kennedy argued that aid was designed to stabilize countries politically by helping them develop economically (1961b).

USAID is still guided by the principle that it "plays a vital role in advancing US national security [and] foreign policy" by "addressing poverty fueled by lack of economic opportunity"

Inter-American Development Bank in March 2002, where he announced his plans to increase development funding by 50% and create the Millennium Challenge Account, the tripartite approach to US foreign policy began to take hold (Bush 2002; Bush 2001).

(USAID 2006). The Agency describes its core development objectives as being related to sector, rather than region or country.[11] A former Administrator states:

> Sectors are where priorities have to be. For one thing, it allows flexibility. A person can have expertise in HIV, democratization, energy sustainability, and that expertise is completely transferable. It's different from the old paradigm. You used to have expertise in a region of the world, and then what did you do if we pulled out of that region? People resisted the change, but now they see – this [focus on sectors] is better (*sic.*).[12]

Even with development objectives specified, political objectives do not fade, and AID work does not escape criticism. In a 2011 Peer Review of USAID referencing government-to-government aid, the Development Assistance Committee notes that US "Congress currently only authorises (*sic.*) the use of budget support for strategic partners of strong foreign policy interest, and does so even if their public management systems are weak" (DAC 2011).[13] If aid should be reserved for countries with strong institutional environments, and bypass aid is acceptable for countries with weak institutional environments, then the DAC is insinuating that giving budget support directly to weak governments seems to contradict both the principles of encouraging strong institutions and using bypass aid to achieve only the proper subset of goals.

Former USAID Administrator Andrew Natsios disagrees with this rationale. Natsios, who ran USAID from March 11, 2001 to January 16, 2006, reasons that giving budget support to strategic partners with weak public management systems, which the DAC report apparently criticizes, has management-strengthening potential. His assertion refers to the measurement difficulty inherent in development work, and the time horizon problem with recording results in

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[11] USAID's 7 Core Development Objectives are: Increase Food Security; Promote Global Health and Strong Health Systems; Reduce Climate Change Impacts and Promote Low Emissions Growth; Promote Sustainable, Broad-Based Economic Growth; Expand and Sustain the Ranks of Stable, Prosperous, and Democratic States; Provide Humanitarian Assistance and Support Disaster Mitigation; and Prevent and Respond to Crises, Conflict, and Instability (USAID 2011).

[12] USAID Administrator. 2013. Interview with Author.

[13] "Budget support" is a direct transfer of aid money from a donor to a recipient government.

particular development initiatives: "institution-building programs cannot prove they are sustainable until after the aid program has ended and funding has been cut off" (ibid., 10).

The pursuit of US interests with US aid has never been a secret. One of the means listed (above) by which USAID uses foreign assistance to fulfill this purpose, and the purpose of bettering lives in the developing world, is by fostering goodwill abroad. Goodwill is not fostered by implementing assistance poorly, by fueling corruption, or by funding ill-advised projects. Fostering goodwill is "not about compromising the integrity of our projects and programs. It's about letting people know about the good work we're doing, when we're doing it."[14] The next section details an AID strategy designed to pursue the goal of fostering goodwill by doing just that.

Branding and Marking

In 2002, USAID launched a new branding policy, requiring that all AID-funded programs, projects, activities, public communications, and commodities be branded or marked with the "USAID Identity." *Branding* identifies who the program is from, the sponsor of the work. *Marking* acknowledges contributors and identifies organizations supporting the work. The USAID Brand is issued to all partners, bypass implementers, and government recipients of US aid, and each is required to display the USAID Brand at worksites, on finished products, and on distributed items, such as pamphlets, food packets, or textbooks (USAID 2009).

Each implementing partner must develop a Branding Strategy (BS), to include where the Brand will be displayed throughout the project, where the Mark will be used, and what sort of newspaper/ radio/ television publicity campaigns or extra public awareness events will be held. The proposed Branding Strategy must be included in a prospective partner's application for grant/contract, and in its ultimate grant/contract/partnership agreement. A line-item for the

[14] USAID Administrator. 2013. Interview with Author.

Branding Strategy may be included in the budget requested for the grant/contract. Under special circumstances, particularly where the USAID Brand or Mark would be seen as counterproductive, exemptions to the branding policy may be granted (ibid.).[15]

The Brand itself is depicted in Figure 2, below. On the left sits the USAID logo, a seal bearing the words "United States Agency – International Development," around the rim. In the center sits a shield with a handshake in the center and a crest reminiscent of the American flag beneath. To the right is written in bold, capital letters, the brand name, "USAID," with the letters "US" in blue, and the letters "AID" in red. Beneath that is the tagline, also in blue capital letters, but a smaller font, "FROM THE AMERICAN PEOPLE." For different countries, the brand name is available with the country name thereafter, such as "USAID: LAOS," or "USAID: UGANDA," and the tagline in the local language.

Figure 2 USAID Brand

The branding policy was designed as a means to increase the visibility of USAID and US aid and its work, considered "America's good news" about which many recipient citizens knew nothing

[15] Branding has been controversial, for example, in Pakistan, where the security of AID implementing partners is argued to be at risk if the USAID Brand is displayed. Dr. Rajiv Shah, USAID Administrator, says that "we carefully tailor our decisions on where and how much to label aid to the risks in any given area. We closely monitor evidence of security threats and, when necessary for the safety of workers, provide waivers that allow them to distribute unlabeled aid. We do this in the most dangerous areas of Pakistan" (Shah 2010).

(USAID 2012a). The Obama Administration also argues that USAID branding increases transparency. Current USAID Administrator Dr. Rajiv Shah notes,

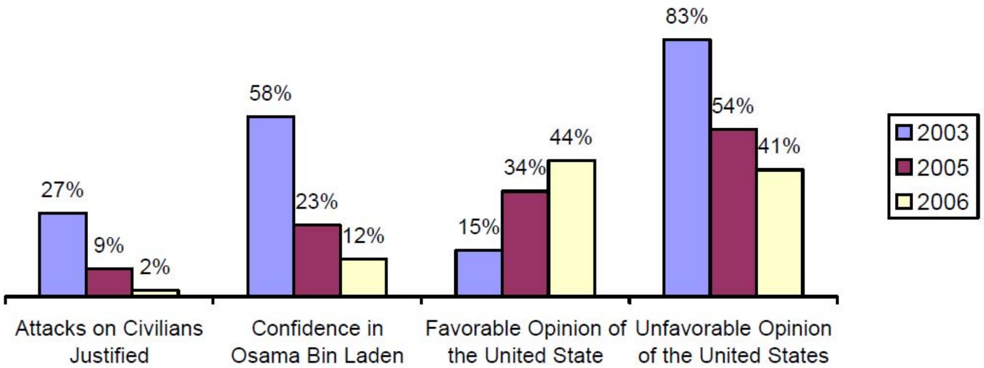
> We believe that people in Haiti, Pakistan and elsewhere have a right to know where their assistance is coming from. And American taxpayers have a right to know where their dollars are going. International aid operations can be complex, with many organizations, local officials and donor nations working together. Transparency helps reduce the chances that funds and supplies are misdirected or misused. (Shah 2010)

USAID has been criticized openly in development circles for its use of branding. Detractors claim that by enforcing its branding policy, USAID is undermining the ability of partners to deliver assistance, the credibility of local governments trying to build capacity, and the efforts of partner implementers to do their jobs. Worse, they argue, the Agency is making decisions about where to send aid based on which projects are most easily brandable, rather than which projects are "most worthy" (Leonzon 2010a, 2010b; Vaishnav 2012; Cutherell 2012).

Yet the critics do not concretely define what makes a development project "most worthy" of US aid. If aid is only meant to fund development, they may be correct. But since US aid is meant to be a tool of foreign policy, and branding is considered a part of that tool, making funding choices according to "brandability" may be equally worthy. According to USAID, branding and marking have been successful. The Agency notes on its website that water bottles sporting the AID Brand were widely distributed after the 2004 tsunami that killed over 230,000 people along the coasts of Indonesia, Sri Lanka, India, Thailand, and other surrounding Indian Ocean countries. AID cites State Department survey results of increased US favorability from pre- to post-tsunami, and Pew results that 79% of Indonesians had a more favorable view of the US "as a result of the relief efforts" (USAID, 2012a).

Independent sources suggest confirmation of these results. In Indonesia, the world's largest Muslim country, marked public opinion shifts were documented both in favor of the US and against Osama Bin Laden and terrorism, over the course of the tsunami events (Figure 3).

Figure 3 Public Opinion in Indonesia, Before and After US Tsunami Relief Efforts



Source: Indonesian Survey Institute, reported by Terror Free Tomorrow (2006)

Using a multistage random sample, the Indonesian Survey Institute (LSI) conducted three key polls, in May 2003, January 2005, and January 2006. The LSI found that in 2006, more than a year after the tsunami, 63% of Indonesians had a more favorable opinion of the United States due to American response to the tsunami. *Favorable* opinion toward the US among Indonesians nearly tripled from 15% in 2003, to 34% in 2005, to more than 44% in 2006. Meanwhile, Indonesians with *very unfavorable* views decreased from 48% in 2003, to 21% in 2005, to 13% in 2006. Two percent of Indonesians surveyed in 2006 believed suicide terrorist attacks are ever justified, a number down from 27% after September 11th, and 9% in 2005. Support for Osama Bin Laden also declined, from 58% favorable in 2003 to 23% in 2005, and 12% in 2006.[16]

Tsunami relief efforts represent the first wide-scale use of the USAID Brand. Every box of blankets, every container of food, every crate of water bottles, every individual water bottle, was labeled as being "FROM THE AMERICAN PEOPLE."[17] The US Senate went on to use the results of a similar poll in Pakistan to urge that the US "take the lead" in Pakistani earthquake relief efforts

[16] Polls are reported by Terror Free Tomorrow, a non-profit, non-partisan organization that employed the Lembaga Survei Indonesia (LSI, the Indonesian Survey Institute). LSI results and Terror Free Tomorrow publications were relied upon and cited by the *Wall Street Journal,* CNN, *The Washington Post, The New York Times, Associated Press, Reuters,* ABC, CBS, MSNBC, FOX News, the US State Department, and internationally, as a respected source of Indonesian public opinion.

[17] Although disaster relief is not a component of ODA, use of the USAID Brand and its "success," by US foreign policy standards, can be evaluated without risk of compromising the analysis.

in October 2005. Senate Resolution 356, issued by Senators Lugar (R-IN) and Biden (D-DE), was unanimously adopted by the Senate (Senate 2006).

It becomes clear, then, that Branding is viewed as an important tool, not just of USAID, but of US foreign policy, employed to foster goodwill toward the US among local recipient citizens, to encourage transparency, and to credit US taxpayers for AID-funded development. Nearly ubiquitous use of the tool in AID projects and programs indicates that branding is a key element to pursuing the dual purpose of foreign assistance: furthering US interests and improving lives in the developing world. "After all," reports one USAID Technical Officer, "*USAID* is displayed on everything now. We certainly don't want our name on something that turns out crummy. It gives us even more incentive to make sure everyone's doing all the right things, all the time."[18]

The information presented above reflects the multidimensionality of goals confronted by USAID in allocating US foreign assistance. Officials within USAID attest that sectors, rather than countries or regions, are Agency and national priorities, and sectoral allocations reflect a pattern according to channel of delivery. Figure 4 shows US ODA, as reported to the OECD in the Creditor Reporting System, for 2008-2012.[19] Each panel reflects the distribution of ODA to a particular sector, by delivery channel (bypass v. host government's public sector). Panels A-E show the channel breakdown for education, health, food, population/reproductive health, and water supply/sanitation aid, widely considered humanitarian pursuits of aid and development (see Balla and Reinhardt 2008). These sectors also have a collection of metrics that are easily measurable and publicized, such as inoculations given, seed packages distributed, courses taught, wells drilled, or condoms distributed (see Natsios 2010). The graphs reflect a marginal-to-heavy preference for bypass channel delivery in these sectors.

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[18] Interview with USAID Senior Technical Officer, 2011.
[19] These and subsequent CRS figures were collected from the OECD and tabulated by the author.

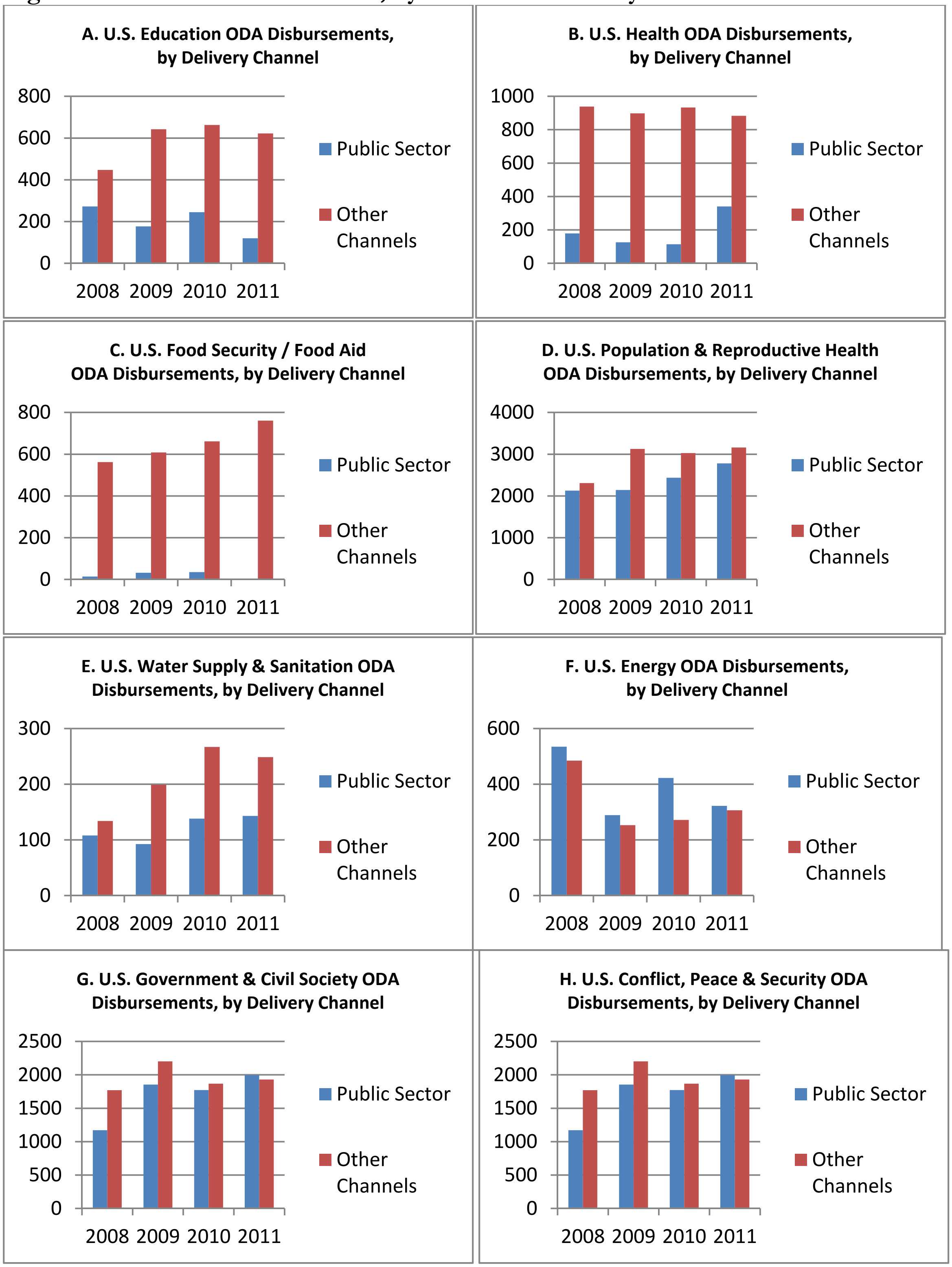
Panels F-H show sectors more removed from direct service delivery, and directed instead toward building capacity, infrastructure, sustainable best practices, and stronger governance structures. These graphs show the sector breakdown for energy, government and civil society, and conflict, peace, and security ODA. Notice that in these sectors, government-to-government public sector channels are generally on pace with, and occasionally eclipse, bypass aid channels. Host governments are consistently the predominant delivery channel used for aid directed toward the energy sector (Panel F).

CONCLUSION

The United States Agency for International Development delivers approximately three-fifths of its via bypass channels, and has dictated that nearly all implementing partners include a branding strategy and publicity plan in agreement contracts, and subsequently brand and mark AID-funded materials and output. Rather than a product of ill-conceived policy whims, as some have criticized, these two practices are the direct policy choices borne of a system of incentives and constraints given by the prior government-to-government unbranded, un-transparent aid delivery system. USAID has found a way to pursue development while also work to win the hearts and minds of local populations, a way to satisfy Congress and donor publics that aid efforts are both transparent and effective at buying favorable opinion, and a way to make the achievement of all these goals more effective through the use of bypass channels.

Certainly, other donors are not turning to the exact same set of solutions in the exact same ratios to meet their needs. But it would be foolhardy to assume that the behavior we observe from these other donors means the US and USAID are not fulfilling their goals or getting what they want. Rather, we should begin with the assumption that France, Germany, and Japan simply want a different mix of humanitarian and strategic goals, and move from there to where strategy takes us.

Figure 3 US ODA Disbursements, by Sector and Delivery Channel



Notes: y-axis is millions of US$ per year, in 2011 dollars.
Source: Author's calculations from OECD CRS database. "Other Channels" indicate bypass aid delivered by US Agencies, for-profit firms, NGOs, or multilateral institutions.

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