Donor Political Economies and the Pursuit of Aid Effectiveness

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November 25, 2013
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1. Aid fatigue among donor publics in 1990s
Aid Effectiveness has become central tenet in aid-policy making

- Aid fatigue among donor publics in 1990s
  - Low public support of aid → ODA cuts

Aid effectiveness studies (e.g. Burnside and Dollar 2000, 2004)

Bad governance (corruption and weak institutions) in recipient country → aid capture/waste

How to improve aid outcomes/results? How to manage risk of aid capture?
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If public sector is badly governed:

→ outssource foreign aid delivery to non-state actors?


Lots of anecdotes: HIV/AIDS clinic in Maganja da Costa, Mozambique
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Bulldozer initiative in Bosnia (public-private partnership)

The New York Times
“Bosnia Charging Business Barricades”

FINANCIAL TIMES
World business newspaper.
“Bosnia Bulldozing Trade Barriers”

THE TIMES
“Bosnia harvests fruits of brighter future”

[Image of people holding a banner: “50 EKONOMSKIH REFORMI ZA 150 Dana”]

[Image of a bulldozer]

[Image of a group of people standing in front of a bulldozer]
If outsourcing is more effective:
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Why aren’t all donors doing it to the same degree?
If outsourcing is more effective:
Why aren’t all donors doing it to the same degree?

Aid effectiveness means different things to different people
Argument

Donors differ in utility assigned to aid for development

Short term goals: get aid to people

- "Sweden saves the lives of 50,000 women" (Carl Bildt, *Aftonbladet* 6/15/2013)

Long term goals: empower states to provide aid to people

- "We want Japan's aid to transform a country's capacity to implement aid" (Keiichiro Nakazawa, IMF/WB Meetings, 10/11/2013)

Donors differ in national orientations about role of state in public goods delivery

- Market-oriented domestic delivery: outsource relatively more aid in poorly governed public sector
- State-centered domestic delivery: outsource relatively less aid in poorly governed public sector
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Market-oriented domestic delivery
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Interviewing officials

Reaching Individuals (USG officials)

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

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

**Government-to-government aid**

- Aid flows engage recipient government
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Outsourcing, non-state development aid
- aid is channeled through NGOs (e.g. Love Life in South Africa, Oxfam),
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Measuring “national orientation” in goods delivery

Domestic Government Outsourcing By Donor
Measuring “national orientation” in goods delivery

Domestic Government Outsourcing By Donor

% of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP</th>
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<tbody>
<tr>
<td>Japan</td>
<td></td>
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<tr>
<td>Luxembourg</td>
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<tr>
<td>Belgium</td>
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<td>Korea</td>
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<td>Switzerland</td>
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<td>Germany</td>
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<td>Portugal</td>
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<td>Austria</td>
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<td>Spain</td>
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<td>France</td>
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<td>Ireland</td>
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<td>Norway</td>
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<td>Greece</td>
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<td>New Zealand</td>
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<tr>
<td>Netherlands</td>
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<td>United States</td>
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Government Outsourcing and Aid Delivery Tactics

% of Bilateral Aid Delivered as Bypass

1st quartile 2nd quartile 3rd quartile 4th quartile

Level of Government Outsourcing

Bad Governance Good Governance

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- Source: OECD data on official development assistance (ODA)
  
  1. includes aid flows to social and economic sectors
  2. excludes military aid
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- DV: continuous specification: proportion of aid delivered through non-state actors
Sample

- 2005-2011

- Unit of analysis: dyad (OECD donor-recipient) year
  1. 23 OECD donor countries
  2. ODA eligible recipients
Model and Method

- Quality of recipient governance (Kaufman et al 2011): political stability, gov’t effectiveness, regulatory quality, rule of law, corruption control.

Method:

- OLS regression
- Continuous, doubly bounded DV
- Compositional data

Aitchison's transformation:

\[ A = \log(B \text{ bypass share government share}) \]; inverse:

\[ B \text{ bypass share} = e^{A} e^{-A+1} \]
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- **continuous, doubly bounded DV**, compositional data
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Marginal Effect of Gov’t Outsourcing on Share of Bypass Aid
As Quality of Governance changes
Marginal Effects of Government Outsourcing on NGO and IO Bypass Across Levels of Governance
Extensions

Elite and Mass Public Survey Experiments
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Elite sample: 60 senior aid officials from statist (France, Japan, Germany) and market-oriented donors (US, UK, Sweden)
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Political parties debate degree of marketization of goods delivery: **Left**: more engagement with/strengthening of public sector (e.g. Obama alters Pepfar focus to health systems, USAID Forward); **Right**: more performance-orientation (e.g. Cameron, Merkel, Harper, Rheinfelt cut budget support)
Conclusion and Implications

Domestic factors (i.e. political economies) affect foreign-aid decision making and have implications for the study of governance, donor coordination, aid effectiveness, and leader survival.
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Measuring “national orientation” in goods delivery

Outsourcing / Government Spending By Donor
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Outsourcing / Government Spending By Donor
Measuring “national orientation” in goods delivery II
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Donor Political Economies and Aid Delivery Tactics

Varieties of Political Economies

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<thead>
<tr>
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<th>Neocorporatist</th>
<th>Neoliberal</th>
<th>Scandinavian</th>
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% of Bilateral Aid Delivered as Bypass

- Statist
- Neocorporatist
- Neoliberal
- Scandinavian

Bad Governance Good Governance
Bypass Across Donor Countries Across Time
Change in Bypass Across Donor Countries 2008-2011

Change in % of Bypass Aid

- Italy
- Spain
- Luxembourg
- United States
- New Zealand
- Ireland
- Korea
- France
- Norway
- Portugal
- Finland
- Japan
- Sweden
- Germany
- Switzerland
- Belgium
- Denmark
- Netherlands
- Austria
- Canada
- United Kingdom
- Greece
Distribution of Individual Bypass Channels

Fraction of Byass Aid Delivered through Individual Bypass Channels

- Austria
- Belgium
- Denmark
- Finland
- France
- Germany
- Greece
- Italy
- Japan
- Korea
- Netherlands
- New Zealand
- Norway
- Portugal
- Spain
- Sweden
- Switzerland
- UK
- US

NGOs
Multilaterals
Private sector/Other
Regression Results I

<table>
<thead>
<tr>
<th></th>
<th>Model 1 Bypass Share</th>
<th>Model 2 Bypass Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recipient Governance</td>
<td>-1.352**</td>
<td>-0.241</td>
</tr>
<tr>
<td></td>
<td>(0.30)</td>
<td>(0.48)</td>
</tr>
<tr>
<td>Gov’t Outsourcing</td>
<td>0.554**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.14)</td>
<td></td>
</tr>
<tr>
<td>Gov’t Outsourcing*Rec. Governance</td>
<td>-0.160**</td>
<td>0.132**</td>
</tr>
<tr>
<td></td>
<td>(0.07)</td>
<td>(0.04)</td>
</tr>
<tr>
<td>Major Power</td>
<td>-2.788**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.19)</td>
<td></td>
</tr>
<tr>
<td>Natural Disaster Deaths</td>
<td>0.078**</td>
<td>0.132**</td>
</tr>
<tr>
<td></td>
<td>(0.04)</td>
<td>(0.04)</td>
</tr>
<tr>
<td>Civil Conflict</td>
<td>0.488**</td>
<td>0.379</td>
</tr>
<tr>
<td></td>
<td>(0.22)</td>
<td>(0.25)</td>
</tr>
<tr>
<td>Trade</td>
<td>-0.134**</td>
<td>-0.343**</td>
</tr>
<tr>
<td></td>
<td>(0.04)</td>
<td>(0.05)</td>
</tr>
<tr>
<td>Total Aid</td>
<td>-0.039*</td>
<td>-0.049**</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.02)</td>
</tr>
<tr>
<td>Social Sector Aid</td>
<td>-0.022**</td>
<td>-0.039**</td>
</tr>
<tr>
<td></td>
<td>(0.01)</td>
<td>(0.01)</td>
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<tr>
<td>Democracy and Governance Aid</td>
<td>-0.005</td>
<td>0.054**</td>
</tr>
<tr>
<td></td>
<td>(0.01)</td>
<td>(0.01)</td>
</tr>
</tbody>
</table>

| N                              | 10049                 | 10049                 |

* p<0.10; ** p<0.05. Model 1: Donor fixed Effects, year trend, other controls, and constant included but not reported. Model 2: Year fixed effects, other controls, and constant included but not reported. 2005-2011.