Why donors bypass recipient states, and why they shouldn't

By Nematullah Bizhan
1 November 2016

Aid delivery channels are crucial for aid effectiveness. Donors rely on different strategies in response to weak institutions and corruption in recipient countries. Some outsource the delivery of aid to non-state actors, such as NGOs and private development contractors. This method is called bypass (or off-budget aid). Others, however, continue to support the state management of aid by channelling their aid through the recipient budget or national systems. But they increase technical assistance and donor oversight to address inefficiencies.

Why do donors adopt different strategies in response to inefficient state institutions and corruption? Simone Dietrich makes an important contribution to the foreign aid literature in her 2016 *International Organization* article "Donor political economies and the pursuit of aid effectiveness" [paywalled; working paper version here], in which she investigates the linkage between domestic politics and foreign aid policy.

Dietrich uses cross-national observational and elite survey data to explain variation in outsourcing tactics across twenty-three OECD donor countries. She finds that "the domestic political economy of donors profoundly affects how they provide bilateral foreign aid".

Donor governments whose “political economies emphasise market-based delivery systems [e.g., the United States, United Kingdom and Australia] are more likely to pursue bypass tactics in poorly governed countries to circumvent aid capture by corrupted elites”.

On the other hand, donors with “[l]ess market-oriented delivery systems are expected to bypass less in poor governance environments”. These countries, such as Japan, South Korea, France and Germany, emphasise a more active role of the state in development. For example, Japanese aid is inspired by Japanese development after World War II, characterised by strong state leadership and state capacity.

The bypass tactic has particular disadvantages in fragile contexts. These countries have weak states, barely able to protect citizens and deliver public goods. The bypass tactic may foster the effective delivery of aid. But such an aid delivery method may create a dual public sector to deliver public goods and divert financial and human resources from state institutions. And it can deprive the recipient parliament of the right to oversee the implementation of projects funded outside the state system.

Moreover, the multiplier effect of aid in the economy is greater if aid flows through the recipient budget and national systems. The World Bank, for instance, in the case of Afghanistan, estimates that the local content (domestic demand share) of aid which bypasses the state is 10-25%, compared to 70-95% when using the recipient budget and national systems.

In summary, the unintended consequences arising from bypassing the recipient state may include undermining state capacity, the development of local economy, and also democratisation.

Relying on the recipient state systems does not mean simply filling the purse of the recipient government. This method includes budget support aid and pooled funding, using recipient national systems. Even in the case of budget support, the World Bank [pdf] argues:

> *“[R]ather than viewing budget aid as simply a transfer of financial resources to the country’s budget, and with a narrow focus on public financial management, it should be considered as a key element of an aid package that consists of evidence-based policy dialogue, analytical work, technical assistance, capacity building activities, as well as financial transfers.”*

Donors need to be more pragmatic when they determine the types of aid they use. While Dietrich’s results are telling, domestic politics is not destiny. Overreliance on bypass will harm institution-building and sustained poverty reduction efforts.

Nematullah Bizhan is a Visiting Fellow at the Development Policy Centre.

About the author/s

Nematullah Bizhan

Nematullah Bizhan is a lecturer at the Development Policy Centre. He lectures in public policy at the University of Papua New Guinea as part of the Centre's partnership with UPNG.