INTERNATIONAL DEVELOPMENT ORGANIZATIONS AND NATIONAL POLITICAL CORRUPTION

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Abstract

International development organizations (IDOs) provide billions of dollars in aid to developing countries. Many IDOs have official criteria for aid selectivity, based on the idea that development aid is most effective in the absence of corruption. There remains, however, substantial debate and conflicting evidence over whether donors are actually responsive to allegations of corruption in potential recipient states. Our central argument is that the extent to which corruption factors into both IDO allocation rules and decisions depends on the composition of the donors within these IDOs. Using newly collected data on anti-corruption mandates, alongside existing data on aid flows for the period of 1984-2013, we demonstrate that organizations composed of highly corrupted donors are just as likely to adopt—but less likely to enforce—anti-corruption standards as are organizations composed of more honest donors. More corrupt recipient states receive more aid, more corrupt organizations give more aid, and more corrupt organizations funnel more of that aid to corrupt recipients.

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States give billions of dollars in foreign aid annually to developing countries in every region of the world, many of which are highly aid dependent. They channel a significant share of these resources through international development organizations (IDOs), including global and regional agencies and development banks.[1] These organizations are rapidly increasing in number and importance and are often considered to be less politicized and more independent and effective than alternative bilateral aid channels, in principle making them less apt to be used for strategic or political purposes.[2] Many of these organizations have adopted official criteria for aid selectivity, based on the widely held idea that development aid is most effective in promoting economic growth and poverty reduction in the absence of "the cancer of corruption."[3] There remains, however, substantial debate and conflicting evidence over whether donors are actually responsive to allegations of political corruption in potential recipient states when making aid allocation rules and decisions. Some argue that donors take corruption in recipient states into account when deciding whether and how many resources they should allocate to them, while others argue that they do not.[4] The implications of this debate are substantial because the economic prosperity of much of the developing world is concerned. They speak more broadly to the question of whether international efforts to institutionalize "good governance" are sincere or cheap talk.

Our central argument is that the extent to which corruption factors into IDO allocation rules and decisions depends on the political makeup of the donors, which varies across institutions. Organizations composed of highly corrupted donor states—where those in power misuse their public office for private gain and engage in dishonest or fraudulent conduct [5] —operate differently with respect to aid selectivity than organizations composed of more honest donors. While they often create the pretense of selectivity by creating formal good governance standards, IDOs with more corrupt donors are reticent to enforce those standards when making aid allocation decisions, rendering their anti-corruption talk cheap. Rather, they use IDOs to funnel money to their politically corrupted friends and allies. Organizations composed of more honest donors, by contrast, are less likely to channel aid to corrupted states, even for strategic purposes.

In the sections that follow, we develop and substantiate our argument using data on multilateral aid allocations by 16 key IDOs over the period of 1984-2013. Using newly collected data on good governance mandates, we demonstrate that donor-corrupted organizations are just as likely to adopt—but much less likely to enforce—anti-corruption standards than are organizations composed of more honest donors. In general, more corrupt recipient states receive more aid, more corrupt donor organizations give more aid, and more corrupt organizations funnel more of that aid to corrupt recipients. As the good governance movement has spread—on paper—to many international development

[1] OECD 2013.

[2] Rodrick 1995; Winters 2010; Dietrich 2013; Milner and Tingley 2013a; Findley, Milner and Nielson 2014; Dietrich and Wright 2015; Gulrajani 2016.

[3] Wolfensohn 1996. See Burnside and Dollar 2004 for an alternative view.

[4] For example, Oehler et al (2012) show that anti-corruption programs are not always effective. See also Neumayer 2003; Clist 2011; Dietrich 2013; Winters and Martinez 2014; and Vreeland 2006, 2007.

[5] Svensson 2005.

organizations over time, corrupt donors have not become more likely to punish recipients for corrupt practices at the national level.

GOOD GOVERNANCE AND DONOR SELECTIVITY

The provision of official foreign aid to developing countries has long been an important strategy to further the sustainable economic and social development of the poorest countries around the globe. Donor states allocate development aid both through bilateral and multilateral channels, and the criteria for making effective aid allocation decisions through either channel are a source of debate.[6] The debate is of particular importance because whether and how donors choose to allocate aid have important material consequences for the economic development of recipient states. Most recipients are developing economies and many are highly aid-dependent. Between 2005 and 2013, low and middle-income countries received foreign aid that on average amounted to more than 10% of their gross national income (GNI). In some instances, foreign aid has accounted for the vast majority of governments' expenditures.[7]

Today, the debate over the conditions for effective aid-giving is focused on good governance. At the heart of the good-governance movement is a concern over the allocation of aid to states embroiled in political corruption.[8] That concern was sparked in 1996 by a declaration made by then-World Bank President James Wolfensohn that corruption—a phenomenon previously ignored by the development community—makes aid ineffective.[9] The declaration was a reaction to a growing number of accusations by watch dog groups like Transparency International that powerful organizations like the World Bank and the IMF were themselves engaging in acts of corruption and enabling bad practices in recipient states. In response, many aid-giving organizations—from the OECD to the EU—began to take up the issue, crafting anti-corruption mandates designed to identify and deter the abuse of power, both within the donor organizations and among their recipient states. For example, in March of 2002 over 250 countries adopted the Monterrey Consensus, the first UN framework to embrace the fight against corruption in international development, which has become a major reference point for international development cooperation.[10] Today, many IDOs have put anti-corruption policies into place—including many organizations comprised of corrupt donors—that should in

[6] The more general question of whether aid generates or undermines sustainable economic growth and development is also hotly debated and the evidence is mixed. Some scholars find a positive relationship between foreign aid and economic growth (Sachs 2006; Galiani et al. 2014); some find no relationship (Burnside and Dollar 2000); and some find a negative relationship (Easterly and Pfuetze 2008; Knack 2009).

[7] For example, in 1999 foreign aid constituted 99% of the Rwandan government's expenditure, and 89% of the Malawian government's expenditure.

[8] Although there is increasing evidence that good governance in recipient countries can improve aid efforts, some studies do not find a positive effect. For a discussion, see Boone 1996; Svensson 1999; Easterly et al. 2004; Wright 2007.

[9] Wolfensohn 1996. That declaration was followed by a 1998 World Bank report and a seminal article by Burnside and Dollar (2000) claiming that foreign aid could only foster economic growth under the condition that recipient countries pursued "good" economic policies.

[10] Global anti-corruption norms were further institutionalized in the follow-up conferences in Doha (2008) and Addis Adaba (2015).

principle generate more selective aid allocation, away from corrupt states and toward recipients with better governance.

Despite the development of these mandates, it is not clear whether or how corruption in potential recipient states actually affects IDO aid allocation decisions, nor is it clear whether donors comply with their own anti-corruption mandates. Some studies suggest that corruption and poor governance in general deters aid;[11] others suggest that it plays no role in aid allocation;[12] still others suggest that corrupt states often receive more aid.[13] While some donors might enforce good governance norms in an effort to foster sustainable economic growth and development, others might allocate foreign aid to corrupt recipients to further their own political interests and extract policy concessions.[14] When making bilateral aid decisions, for instance, donors tend to favor their former colonies as well as states with which they are politically allied in the United Nations.[15] Although international development organizations are often claimed to be less prone to capture by any single donor's political interests, and to deliver aid that is both more effective and less conducive to corruption, there is ample evidence that politics can and do play a role in their allocation decisions too.[16]

Despite the development of anti-corruption mandates, and the more general movement in support of good governance as a selection criterion for foreign aid, the question remains: *Under which conditions do IDOs—many with formal anti-corruption mandates now in place—take the corruption of potential recipients into account when making allocation decisions?*

WHY THE DONOR COMPOSITION OF IDOS MATTERS

Our central argument is that the composition of donor states affects whether international development organizations factor political corruption into their aid allocation rules and decisions. After James Wolfensohn made corruption a global development issue in the late 1990s, organizations composed primarily of donor states governed domestically by the rule of law and electorally accountable to their selectorates became more likely to withhold aid to foreign states perceived to be politically corrupted and to channel their resources to better-governed recipients.[17] There are three reasons for this behavior.

First, states generally tend to value and thus prefer to spread and support good governance styles that are similar to their own for both normative and strategic reasons. Much in the same way that international organizations composed of democratic governments or human rights advocates often create and attempt to enforce policies and

[11] Neumayer 2003c; Hout 2007; Schudel 2008; Winters 2010; Clist 2011.
[12] Neumayer 2003a
[13] Easterly and Williamson 2011; de La Croix and Delavallade 2013.
[14] Burnside and Dollar 2000; Neumayer 2003a, b c; Bueno de Mesquita and Smith 2009; Heinrich 2013, Milner and Tingley 2013b.
[15] Alesina and Dollar 2000; Neumayer 2003b.
[16] Nielson and Tierney 2003; Fleck and Kilby 2006; Girod 2008; Dreher, Sturm, and Vreeland. 2009a; Kilby 2011, 2013; Milner, Neilson, Findley 2013, Schneider and Tobin 2013, 2016; Dreher and Vreeland 2014. Although there is some evidence that good governance in recipient countries can improve aid efforts, some studies do not find a positive effect (Svensson 1999, Zanger 2000).
[17] On bilateral aid, see Schudel 2008.

practices designed to foster those norms in other states, honest donors will prefer to focus more resources on better governed recipients.[18] They will thus be more likely to create and enforce formal organizational rules designed to deter corruption. For example, shortly after Wolfensohn's impassioned speech, the Asian Development Bank (ADB)—an aid-giving organization composed of mainly honest donors servicing developing countries throughout Asia—adopted (in 1998) a formal policy establishing a zero tolerance for corruption.[19] Today, these standards are enforced through the Office of Anticorruption and Integrity, which reports directly to the President of the Bank and operates as the focal point for monitoring member states' behavior. The ADB's anti-corruption activities are numerous and include education and training to disseminate the policy widely to staff, civil society organizations and the private sector in order to detect, prevent and report corruption associated with any ADB projects.[20]

Second, honest donors will prefer to channel funds away from corrupted governments in part to avoid domestic backlash for allocating scarce resources to foreign countries where aid is likely to be captured by dishonest public officials who use it for their own personal gain, forfeiting the humanitarian purpose of assistance. Foreign aid is already both controversial and misunderstood by the populations of most big donor states. In the United States, for example, where voting on aid reflects the makeup and concerns of Congressional districts,[21] recent polls suggest that the average American thinks that 26% of the federal budget goes to foreign aid—the correct answer is much less than 1%—and the majority are of the opinion that the government spends far too much on aid.[22] Moreover, when they do support aid, the vast majority of Americans prefers aid for humanitarian purposes, such as alleviating hunger and disease; they do not support aid that is misplaced or used for other purposes, such as the advancement of U.S. interests.[23] While Europeans are generally more favorable to the use of aid for development assistance—the majority of Spaniards and Germans today support an increase in foreign assistance—there remains considerable opposition in some nations—including the UK, Hungary and Greece—and deep partisan divides among the right and left.[24] In Japan, those who support the government's foreign aid programs—about 70%—do so for largely humanitarian purposes, while those who oppose it believe that building Japan's domestic economy is a bigger priority.[25]

Third, while wealthy Western governments have a long history of giving bilateral aid for their own strategic purposes to poorly governed states, their capacity to funnel aid to these recipients is diminished in a multilateral setting comprised of largely honest donors. There is no question that single donor countries use IDOs in an effort to advance their

[18] Pevehouse 2002, 2005; Hafner-Burton 2005, 2009; Greenhill 2015.
[19] In 2015, the top five ADB donors included Japan, Canada, the United Kingdom, Switzerland and the United States.
[20] See: https://www.adb.org/site/integrity/overview.
[21] Broz 2005; Broz and Hawes 2006.
[22] Bearak and Gamino 2016. See also Milner 2006; Milner and Tingley 2011, 2013a.
[23] Knecht 2010.
[24] Pew Research Center 2016.
[25] Cabinet Office of Japan 2009 Public Opinion Survey on Diplomacy (09-35) 2009.

own political interests.[26] However, the capacity for an honest donor to capture an entire organization to foster its own national interests is weaker in a multilateral setting than in a unilateral donor setting. While the U.S. pledges billions of dollars in bilateral aid—a record $38 billion over the next ten years[27]—to Israel—a country that ranks among the Western world's most corrupt[28]—IDOs composed of well-governed donors, such as the OECD, are much less likely to allocate funds to Israel to placate U.S. interests. To the contrary, Israel is often a donor—not a recipient—state.

By contrast, some IDOs are more willing to turn a blind eye to corruption. Specifically, we expect that organizations composed primarily of poorly governed donor states that are themselves corrupted domestically are not likely to refuse aid to a recipient on the basis of corruption allegations. They may be indifferent to corruption when making aid allocation decisions, or they may even be inclined to channel more resources by using international aid giving institutions to funnel money to their politically corrupted friends and allies. Organizations driven by corrupted donors are likely to allocate aid differently for several reasons. First, corrupted donor states are unlikely to selectively deter aid to corrupted recipients because good governance is not a concept they genuinely value or seek to spread. In response to the rising focus on the issue and the spread of anti-corruption standards, they may very well adopt organizational mandates concerning corruption, however there are essentially no incentives for corrupt donors to enforce those standards by refusing to allocate resources on the basis of poor governance. There is no reason to invest in any enforcement or punitive action against corruption, nor is there reason to pressure potential recipient states to enact or implement anti-corruption policies.[29] It is easy for IDOs to adopt policies against corruption when they are unenforceable outside the donor base and the costs of non-compliance are essentially zero. Corrupted donor organizations may adopt anti-corruption standards, but they are likely to look the other way at the allocation stage because they too are engaged in unscrupulous political behavior that they neither want to draw attention to nor discipline.

Second, corrupted donors are likely to face much less pressure and scrutiny from their domestic selectorates concerning the allocation of foreign aid to poorly governed recipients. In many cases, the domestic selectorate of a corrupt donor does not represent or reflect the general will of the people but rather of a small group of political elites—often unaccountable to ordinary citizens—who select candidates for election or office.[30] In these places, even if the average citizen had an opinion about their government's foreign aid policy, their opinion would be unlikely to generate real negative externalities on the government. In China, for example, a country that gives substantial aid to extremely corrupt and even violent countries like the Sudan in exchange for favorable rights to develop oil and mining projects, there is minimal public outcry regarding this

[26] There is ample evidence for this in the context of the World Bank. See Anderson, Hansen and Markussen 2006; Dreher, Sturm and Vreeland 2009a; Lyne, Nielson and Tierney 2009, Schneider and Tobin 2013; 2016.
[27] Borger 2016.
[28] Datel 2010.
[29] This is consistent with Pevehouse 2002, who argues that if external guarantees and threats are not credible, IOs will no longer help to foster democracy.
[30] Bueno de Mesquita, Smith and Morrow 2003; Weeks 2008.

use of money to foster the government's interests in the region.[31] Moreover, any public outcry or effort to criticize the government through media would almost certainly be suppressed.[32] The Chinese government is thus free to provide aid to any country it choses without meaningful recrimination from its public.

Third, a multilateral setting does not provide the same deterrent for a group of corrupt donors to funnel money to poorly governed recipients as it does for honest donors. By definition, the governments of corrupt donors engage in dishonest or fraudulent behavior. Often, that entails bribery, backroom deals and trading favors. Perhaps the best known—and widely documented—example is vote buying, where leaders representing one country offer material benefits, such as foreign aid or IMF loans, to leaders from another country in exchange for their vote in an IO.[33] Groups of corrupt donors are more likely to make these kinds of deals between themselves to allocate multilateral aid to satisfy the interests of a single, or even multiple, donors in exchange for a return on the favor.

For all of these reasons, which are neither mutually exclusive nor easy to distinguish empirically, our central hypothesis is that *international development organizations composed of highly corrupted donor states are as likely to adopt—but less likely to enforce—anti-corruption standards as are organizations composed of more honest donors.*

RESEARCH DESIGN

To test our theoretical argument, we conduct a quantitative empirical analysis using a data set on the foreign aid allocations of 16 IDOs to over 140 recipient countries from 1984 to 2013. The unit of analysis is the IDO-recipient-year. The 16 IDOs for which we were able to compile data include institutions that provide non-concessional loans, concessional loans and grants, or technical assistance.[34]

Dependent Variable

Our central question is whether corrupt recipient countries receive more development aid from IDOs that are composed of highly corrupt donor states than from organizations composed of more honest donors? Our dependent variable is *Aid Receipts (log),* measured as the natural log of aid commitments in constant (2011) U.S. dollars that a given recipient state receives from each IDO in our sample. Data are from AidData.[35] We

[31] According to AidData, Ghana, Nigeria and Sudan are the biggest recipients of Chinese aid which goes primarily to infrastructure projects like oil pipelines: http://aiddata.org/. According to Transparency International, China's government ranks as highly corrupt: http://www.transparency.org/country#CHN.

[32] King, Pan and Roberts 2013.

[33] Dreher et al. 2009b; Lockwood 2013

[34] A list of IDOs in our data set is in Appendix A.

[35] We prefer to use AidData aid flow information since the OECD provides IDO aid flows only as disbursements (which is not preferable for theoretical reasons), and the OECD aid flow data includes loan repayments (which renders some entries of IDO flows negative; and it is not possible to disentangle in-and outflows). The data can be downloaded at http://aiddata.org/datasets; last accessed: October 2016. See also Tierney et al. (2011). One potential problem of using recipient-year aggregated AidData is that AidData uses data

analyze commitment rather than disbursement data because the former take into account the overall decision-making process in donors whereas the latter are influenced by a variety of factors that are not connected to the political decision of aid allocation in the IDO.[36] We use annual data on aid receipts for our main models, but demonstrate that our results are robust if we average the data over 3 and 5-year time periods in order to smooth out the impact that any year-to-year variation could have.

Main Explanatory Variables

We introduce three explanatory variables to test our main theoretical argument. The first variable measures *Recipient Corruption* using annual data provided by the International Country Risk Guide (ICRG), which provides an assessment of political risks associated with corruption within a country's political system, including financial corruption in the form of demands for special payments and bribes, excessive patronage, nepotism, job reservations, 'favor-for favors', secret party funding, and suspiciously close ties between politics and business.[37] The ICRG's corruption measure registers small values for high corruption and large values for low corruption. Since we are interested in whether membership in corrupted IDOs increases aid flows to corrupt states, we calculate the inverse of the ICRG measure: the variable, as we have transformed it, ranges from 0 to -6, with 0 representing high corruption and -6 representing low corruption.

The second main explanatory variable is the *Average Donor Corruption* in any given IDO and year. To calculate the variable, we proceeded in the following three steps. First, for each IDO in our data set we derive the donor status of each member state in each year by comparing their financial contributions to the IDO with their receipts from the same

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provided by the OECD International Development Statistics through the Creditor Reporting System (CRS). This excludes aid flows that donors reported through the aggregated OECD DAC data reporting system, but not through the CRS. However, this problem is mainly relevant for aggregating AidData's bilateral aid flows data before the late 1990s. Most donors started to provide complete information through the CRS starting in the mid 1990s, when our core sample period begins. In addition, for IDO aid flows, AidData has mainly relied on IDO annual reports and other donor documents, especially for the earlier periods (see Appendix B for an overview).

[36] Furthermore, disbursement data is not available in the latest AidData research release.

[37] There exist alternative corruption indicators, notably the corruption score of the World Governance Indicators (WGI), and Transparency International's corruption index (CPI). All indicators are based on the subjective evaluations of experts or survey respondents who are asked how widespread corruption is in each country in a given year. Each indicator has its advantages and disadvantages. We chose to focus the analysis on the ICRG measure because its measurement most closely resembles the type of corruption we would expect political leaders to be engaged in and it also provides a better assessment of the political risks associated with corruption. In addition, the ICRG index has a longer time series, and does not experience significant changes in methodology which makes over time comparisons of the other indexes, particularly the CPI index, much more challenging. In fact, the ICRG data is used in the construction of the WGI corruption index. Nevertheless, the correlation between these three indicators is very high (above 0.9), and we show that our main results are robust to using these alternative corruption indicators. Note, although desirable as a robustness check, it is not possible to use the bribery incidence index from the World Bank, which is an objective measure of bribery, because it has not enough observations that fall into our sample period.

IDO. We define a donor as an IDO member state that provides more contributions to the IDO than it receives from the same IDO. Data on financial contributions to IDOs are from the OECD Development Statistics.[38] Second, for each IDO we calculate the average level of corruption for all donor states in each year. Third, we multiply this average score by -1, such that larger values of *Avg Donor Corruption* imply a more corrupt IDO donor membership, and smaller values imply a less corrupt IDO donor membership.

Our measure of *Avg Donor Corruption* varies both across IDOs and over time as a function of both changing donor memberships in IDOs and also changes in other donors' corruption scores. Figure 1 illustrates these trends for three organizations in our sample as they vary over time: the Asian Development Bank (ADB), the United Nations Development Programme (UNDP) and the International Fund for Agricultural Development (IFAD).

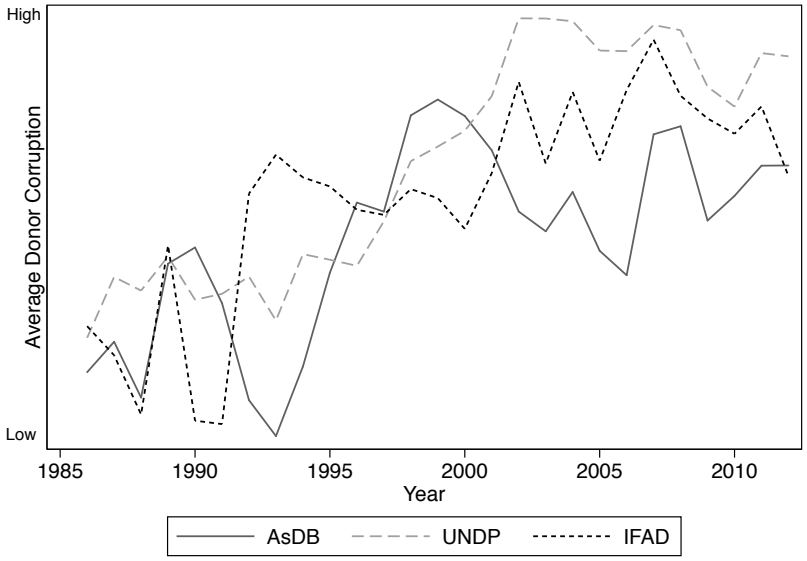

Figure 1: Average Donor Corruption in Selected IDOs, 1984-2011

We then interact *Avg Donor Corruption* with *Recipient Corruption* to analyze whether variations in donor corruption affect whether and to what extent corrupt recipient countries receive aid.

[38] The OECD is the only provider of data that reflects donations from states to multilateral IDOs. Thus, we create the net indicator using OECD donation data and AidData receipt data. We prefer to use AidData as the receipt measure for the reasons mentioned above, namely the exclusion of loan repayments (that render a significant number of observations negative) and the provision of commitment data. If we calculate net donations using both donation and receipt data form the OECD, the measures are correlated at r=0.95. Additionally, the net indicator is designed to address the rare cases of middle-income countries that both give and receive aid in a given year (overall 672 observations out of more than 100,000 state-year observations). Comparing the financial contributions to IDOs with receipts from the same IDO, allowed us to address the handful of ambiguous states. Most state-years were only donors or only recipients.

Control Variables

In addition to our main explanatory variables, we include a number of potential confounding economic and political factors that are commonly included in the literature seeking explanations for foreign aid allocations. While we strive to keep our main models parsimonious, in the robustness section we demonstrate that the findings are robust to the inclusion of a number of additional control variables. To capture the development needs of a recipient country we account for the recipient country's logged *Per Capita GDP*. Data are from Graham and Tucker (2016).[39] We expect that poorer recipient countries should receive greater aid allocations, all else equal. To capture the strategic importance of a recipient country we include the following three variables. First, we account for whether the recipient country was a *Colony* of one of the top 5 donor states in the IDO. Data are from the Correlates of War 2 Project. Second, following the literature on donor capture in IDOs, we include the log of the *Average Distance* of the recipient country to the top 5 donors in the IDO. Distance data are from Gleditsch (2001). Finally, we include a variable that measures the sum of imports and exports from the top 5 IDO donors to the recipient as a proportion of GDP (*Trade/GDP)*. Data are from the IMF Direction of Trade Statistics. We expect that colonial relationships, geographic proximity and higher trade volumes between donor and recipient countries correspond with higher IDO aid receipts. In addition, we control for the size of the recipient state using logged *Population* (data from Graham and Tucker 2016), *Democracy*, which we measure as the level of democratic quality using Polity IV data by Marshall et al. (2013), total *Investment* as the share of recipient GDP (data are from the IMF's World Economic Outlook Database), and the presence of *Civil Conflict* as measured by the Correlates of War Inter- and Intra-State Data Sets.[40] Appendix C provides descriptive statistics for all variables.

Model Estimation

We use the Tobit estimator for panel data to estimate our main regressions. The Tobit estimator is warranted because our dependent variable is left-censored. The left censoring renders OLS parameter estimates inconsistent. An alternative approach to deal with left-censoring, or selection bias, is to estimate selection models that take into account that the selection of aid recipients by IDOs may depend on variables that also determine the size of aid allocations. However, the value of a selection model crucially depends on the existence of a valid exclusion restriction, which is impossible to find in the case of aid allocations (Berthélemy et al. 2009). Moreover, Berthélemy (2006) found that it is reasonable to assume that the selection bias is of second order because the correlation between the selection of aid recipients and aid allocation is not statistically significant.[41]

To account for unobservable effects of individual IDOs, our main model includes IDO fixed effects as well as year fixed effects. Note that the inclusion of fixed effects in Tobit models can lead to bias and incorrectly estimated standard errors. Nevertheless,

[39] Graham and Tucker's (2016) measures for GDP and population use data from the Penn World Table to supplement data missing from the World Bank's World Development Indicators.
[40] Sarkees and Wayman. 2010.
[41] Berthélemy (2006). See also Bermeo and Leblang (2016) for an in-depth discussion of these issues.

Monte Carlo simulations demonstrate that this problem is negligible in Tobit models, particularly if there are more than five time periods and if there is a larger frequency of censored observations. We also demonstrate that our findings are robust to excluding fixed effects. Although our full dataset ranges from 1984-2013, we estimate our core models beginning in 1998, the year the first IDOs started to adopt anti-corruption mandates and an international norm against corruption emerged in the development community. We do not expect corruption to have had an influence on IDO aid allocation prior to this period.

MAIN RESULTS

Table 1 presents the main results of our estimations. All models include IDO and year fixed effects unless otherwise noted. Model 1 presents the base model with just our three main explanatory variables. Model 2 presents our main model including the set of control variables. Overall, the results fit the model very well. The highly significant Wald tests indicate that all coefficients together are significantly different from zero.

Table 1: Average Donor Corruption and IDO Aid Receipts, 1998-2013

	(1) Base	(2) Main
Recipient Corruption	0.328**	0.566**
	(0.104)	(0.122)
Avg Donor Corruption	0.129*	0.474**
	(0.072)	(0.090)
Interaction	0.082**	0.136**
	(0.026)	(0.031)
Colony		0.114**
		(0.031)
Trade (% GDP)		-5.588*
		(3.325)
Distance (log)		0.177**
		(0.043)
Civil Conflict		-0.331**
		(0.077)
Per Capita Income (log)		-0.265**
		(0.022)
Democracy		0.009**
		(0.004)
Population (log)		0.178**
		(0.022)
Investments (log)		0.001
		(0.002)
Constant	1.273**	0.535
	(0.285)	(0.663)
IDO FE	Yes	Yes
Wald Test	16.943**	817.653**
Observations	20453	15395

DV: Aid Receipts (log)

Standard errors in parentheses
* p<0.10, ** p<0.05

The combined effect of the three main explanatory variables indicates that as average IDO donor corruption increases so does IDO aid to more corrupt recipient countries. Since the interaction effect cannot be interpreted straightforwardly from the table, Figure 2 graphs the marginal effects (solid line) together with 90% confidence intervals (dashed line) of *Recipient Corruption* on *IDO Aid Receipts* for different values of *Avg Donor Corruption*.[42] The marginal values of *Recipient Corruption* are displayed on the y-axis; the values for *Avg Donor Corruption* are displayed on the x-axis; and the grey bars present the histogram of *Avg Donor Corruption* to illustrate the distribution of sample values.

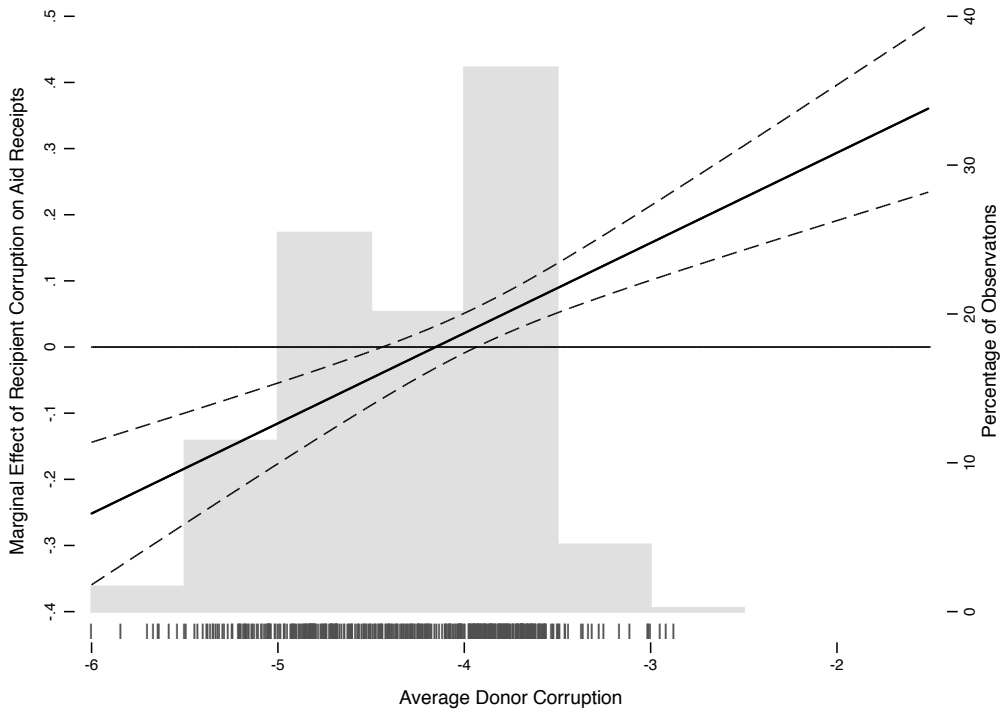

Figure 2: Marginal Effect of Recipient Corruption on IDO Aid Receipts for Different Levels of Avg Donor Corruption, 1998-2013

Figure 2 illustrates the positive effect of *Avg Donor Corruption* on the relationship between *Recipient Corruption* and *IDO Aid Receipts (log)*. For low levels of *Avg Donor Corruption*, we find that IDOs punish potential recipients that have higher levels of national corruption: well-governed IDOs provide less aid to corrupt countries. Substantially, for very low levels of *Avg Donor Corruption*, a one-unit increase in

[42] Our interaction figure is based on Model (2) of Table 1. The interaction graphs are based on the code provided by Matt Golder (http://mattgolder.com/interactions#articles, last accessed: November 2016). See also Brambor et al. 2006 and Berry et al. 2012.

recipient corruption *decreases* IDO aid allocations to that recipient by over 25%. The more corrupt the average donor membership in an IDO, however, the less pronounced are these good governance considerations. If *Avg Donor Corruption* increases to -4 (on a scale from -6 (low corruption) to 0 (high corruption), we observe that IDOs provide more foreign aid to recipients that have higher levels of corruption. Substantially, for very high levels of *Avg Donor Corruption* (i.e. a value of -2.5), a one-unit increase in recipient corruption can lead to an almost 25% increase in IDO aid allocations. In other words, our findings strongly indicate that IDO responsiveness to good governance criteria depends on their own level of good (or bad) governance. Whereas groups of well-governed donors are more likely to punish potential recipients for bad domestic governance by withholding aid, groups of donors that do not practice good governance are more likely to reward corrupt recipients by increasing aid allocations.

Our results also support previous findings on IDO aid allocations more generally. In line with the literature, we find that both strategic and non-strategic factors matter in the IDO aid allocation decisions. Recipients that are former colonies of major IDO donors, recipients with larger populations, and recipients that are geographically closer to major donors, receive significantly more contributions from IDOs. Trade relationships, however, have a negative impact.[43] At the same time, IDOs do provide significantly more aid to recipients that are very poor, that have higher democracy scores, and that are not embroiled in civil conflicts. Even though these factors exert a significant influence on IDO aid allocation patterns, as the existing literature has established, a comparison of the strength of the effects from an estimation which uses standardized coefficients reveals that the composition of donor characteristics tends to matter *more* than any of the strategic variables. This implies that strategic motivations for aid allocation tend to be diluted in multilateral settings; they also matter less than non-strategic factors such as the level of economic development.[44]

Can Mandates Make a Difference?

Many IDOs have adopted formal anti-corruption mandates over the last few decades.[45] These anti-corruption mandates are, in principle, adopted in order to guide an organization's aid allocation strategy towards potential recipients with records of good governance, away from the corrupt. One might expect that only IDOs that have very low levels of average donor corruption adopt those mandates; Figure 3 belies this intuition. Using box plots, Figure 3 illustrates that many organizations with highly corrupt donors have also created formal anti-corruption standards.[46] Those IDOs with anti-corruption

[43] In the appendix we show that trade has a significant effect during the Cold War period. Note that the coefficients on *Democracy* and *Colony* are not consistent across estimations with and without mandates. This is most likely due to sampling effects.

[44] Results are provided in Appendix D.

[45] For all IDOs in our sample we code whether the organization in a given year had a formal anti-corruption mandate in place (0,1). We thank Rachel Schoner for her research assistance in collecting this information. Appendix E provides the new data on mandates.

[46] The main ingredient of this box plot is the eponymous box, used to indicate the lower and upper quartiles of the variables (*Avg Donor Corruption* for all IDOs over time). The length of the box represents the interquartile range (IQR). The line within the box represents the median of the sample. The whiskers include all data within 1.5 IGR of the lower quartile and stop at

mandates (right-hand side box plot) have similar average donor corruption than IDOs that have no anti-corruption mandates (left-hand side box plot), indicated by the median sample values.[47] This raises the key question whether such mandates are cheap talk or whether donors—including the politically corrupt—actually abide by their own rules. Are IDOs with anti-corruption mandates more willing to impose punishments against potential recipients with records of bad governance?

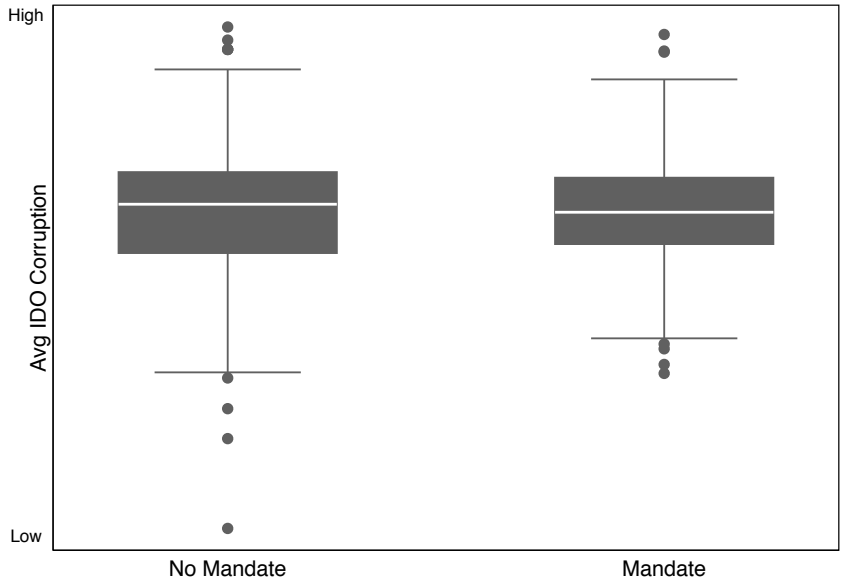

Figure 3: Box Plots of Avg Donor Corruption, 1998-2013

To determine whether mandates "matter," we estimate our main model with a triple interaction between *Recipient Corruption*, *Avg Donor Corruption*, and a dummy variable for whether the IDO had an anti-corruption *Mandate* or not (0,1) in any given year. Figure 4 illustrates the marginal effect graphically.[48] The two lines represent the marginal effects of national corruption on aid allocation for different levels of average donor corruption for IDOs with and without mandates, respectively. The stars above the lines mark levels of *Avg Donor Corruption* for which the marginal effects are significant at least at the 90% significance level.

The findings show that corrupt donors mostly do not comply with their own anti-corruption mandates. In IDOs that have no anti-corruption mandates (upper line in Figure 4), the effects are substantially similar to the effects in the main model (reported in Table 1). IDOs that have very high levels of average donor corruption increase their aid

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the smallest value. Any data points beyond the whiskers are shown individually. The box plots therefore convey information about the level (median), spread, symmetry or asymmetry of the median both within and beyond the central half of the data, and, on its own definition, possible outliers. It is thus a fairly information-rich graphical reduction of key quantiles.

[47] Note that the variation for IDOs without mandates is much larger than for IDOs with mandates and that there are a number of IDOs that have no mandate but also very low levels of average donor corruption.

[48] Full tabular results are reported in Appendix F.

allocations to recipients with bad governance records by over 25% for each unit increase in recipient corruption. The punishing effect by honest donors is approximately 20%, somewhat smaller than the punishing effect in the main model, further supporting our argument. In IDOs with mandates (lower line in Figure 4), the punishing effect becomes expectedly much stronger. IDOs that are composed of mainly honest donors are likely to lower their aid by over 60% to potential recipient countries that experience a one-unit increase in national corruption. At the same time, IDOs with anti-corruption mandates and mainly corrupt donors are now less likely to "reward" corrupt recipients; the effect is less strong and only significant at very high values of *Avg Donor Corruption*. The findings are revealing. While most corrupted IDOs that have good governance mandates do not channel more money to corrupt recipients, neither do they shy away from providing them foreign aid—they simply no longer take corruption into account when making aid allocation decisions. The most corrupt of them even proceed as if there was no anti-corruption mandate in place, rendering such standards largely cheap talk. Thus, corrupt donors do not comply with their own good governance standards; rather, the adoption of such standards makes them indifferent to a potential recipient's corruption.

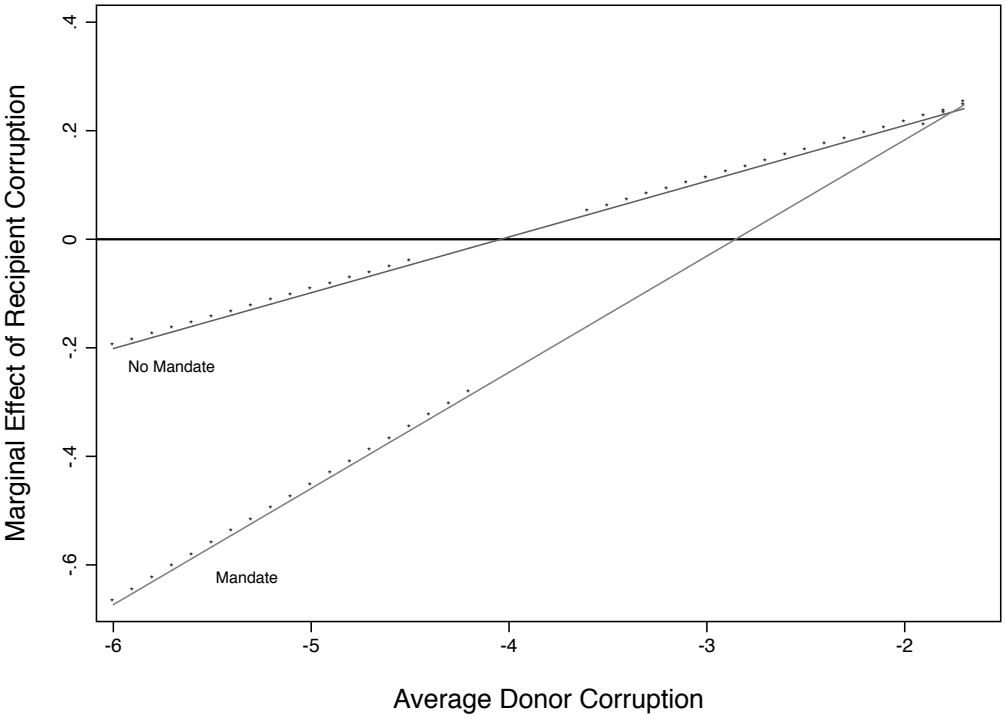

Figure 4: Marginal Effects in IDOs without and with Mandates, 1998-2013

Robustness Checks

Our main models support our theoretical argument that the makeup of an IDO's donors determines whether the organization enforces norms of good governance when allocating aid. IDOs that have low levels of average donor corruption reduce their aid allocations to recipients with records of bad governance, while IDOs that are characterized by high levels of donor corruption are less likely to punish potential recipients with records of bad governance. In fact, these types of IDOs, while just as likely to adopt anti-corruption

mandates, are likely to increase aid allocations to corrupt recipients. To ensure that the results are not dependent on our model specification choices, we conduct a number of additional tests, which we discuss briefly here and report in full in the appendix.

First, our main model estimation is based on the period 1998-2013. We excluded earlier years for two main reasons. First, anti-corruption mandates were not discussed explicitly amongst donors until the late 1990s, and they should not matter in aid allocations before that time. Second, as others have pointed out, the Cold War period was driven by different donor considerations and should therefore be analyzed separately.[49] Appendix G analyzes our main model (Model 2 in Table 1) for different time periods. Model 1 takes into account the entire period from the post-Cold War era and includes data for 1992-2013. Model 2 analyzes the period between 1996-2013 as this was the year when the World Bank first made the issue prominent. Model 3 analyzes the period 1984-1991 to check if there exists a structural break in the importance of good governance as a selection criterion after the Cold War. Finally, Model 4 includes the entire time period for which we have data, 1984-2013. The results for all post-Cold War estimations are robust to our main estimation results (Models 1 and 2). As expected, the results do not hold up in the Cold War period (Model 3) and they are weaker if we include years before 1996, thereby further supporting our argument.

Appendix H demonstrates that the findings are robust to using alternative measures of corruption. Model 1 uses the World Bank's World Governance Indicators (WGI) control of corruption score, which captures perceptions of the extent to which public power is exercised for private gain, as well as capture of the state by elites and private interests.[50] Model 2 uses Transparency International's *Corruption Perceptions Index* (CPI) score, which measures the perceived level of public sector corruption in a country in a given year.[51] For each model, *Avg Donor Corruption* is estimated in the way described in the research design above using these different underlying data, which cover slightly different countries and time periods.[52] The results reported in the appendix are robust: for both corruption indicators, we find a significant conditional impact of average donor corruption on the relationship between recipient corruption and IDO aid receipts.

In addition, we also use different measures of good governance to analyze whether our findings are more generally applicable (Appendix I). In Model 1, we rely on the World Bank's WGI indicator of Voice and Accountability to capture perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Model 2 relies on their indicator of the Rule of Law to gauge perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Regulatory Quality (Model 3) captures perceptions of the ability of the government to formulate and implement sound policies and regulations

[49] Morrison 2011; Bermeo 2015.

[50] Kaufman et al. 2010.

[51] Transparency International 2014.

[52] The WGI is available from 1996-2002 (every two years) and then annually until 2013. CPI is available from 1995-2013. Since the methodology for the CPI index changed significantly in 2012, we only include data until 2011. We use the inverse of both indicators such that larger values on each variable indicate more corruption.

that permit and promote private sector development. Government Effectiveness (Model 4) captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. For all indicators, we calculated the relevant *Average Donor Good Governance* scores using the formula described in the research design section. The results show that our findings on donor corruption carry over to other governance indicators as well.

Model 1 in Appendix J includes a number of additional control variables into the main estimation. First, we include another measure of recipient need. The variable *Infant Mortality (log)* is calculated as the deaths of infants under the age of one, per 1000 live births. Data are from the World Bank Development Indicators. Second, we include a variable for *US Military Aid (log)* to further capture potential strategic interests of donor countries.[53] The variable is calculated as the total of military assistance provided to recipients each year. Data are from the USAID Greenbook. We also include a logged measure for the number of disaster deaths. Data are from EM-DAT. Finally, we replace our Polity variable with the *Political Rights and Civil Liberties* variable from Freedom House. Model 1 presents the results. While the inclusion of these variables contribute to a better understanding of IDO aid decisions, only US military aid has an effect on our main explanatory variables. Model 2 includes lagged values of our main independent variables, without changing the results. Finally, for our main estimations we calculate our IDO-level variables (in particular, *Colony*, *Trade*, and *Distance*) based on the top 5 donors in each IDO under the assumption that the major donors will have the largest impact on IDO aid allocation decisions in respect to strategic variables. In Models 3 and 4 of Appendix H, we demonstrate that our results are robust to calculating all three variables for the top 3 donors (Model 3) and all donors (Model 4) in each IDO.

Appendix K turns to analyzing the robustness of our results in respect to model specification. Model 1 re-estimates the main model in Table 1 but adds recipient fixed effects to the IDO and year fixed effects. Model 2 includes recipient and year fixed effects (excluding IDO fixed effects). Model 3 estimates a random effects Tobit model. Model 4 estimates a time series cross-section model instead of a Tobit model. Model 5 includes a lagged dependent variable (LDV) in the estimations, and Model 6 uses robust standard errors. Our main results are robust to all of these specification changes.

Our estimations are based on a sample of IDOs that have various characteristics. To analyze whether these characteristics affect our estimated relationship, Appendix L estimates the main model for subsamples, each excluding the most important forms of IDOs: development banks (Model 1) and United Nations development institutions (Model 2), respectively. The results are robust. In addition, we also report estimation results that exclude particular groups of countries and observations from the sample. By convention, we recode all missing information on our DV as 0, as missing values imply that donors did not provide any aid to those recipients. Model 3 excludes all information on the dependent variable that was recorded as missing in AidData. Model 4 excludes all countries from North America and Western Europe (results are robust to excluding all

[53] Whereas the United States is not the only donor that influences IDO allocation decisions, it is one of the most dominant donors and its strategic interests are very closely aligned with those of its allies. *US Military Aid* can therefore serve as a rough proxy for donor interests.

European countries as well), and Model 5 excludes all countries that have a per capita income of greater than $12,746, defined by the World Bank as high-income economies.[54] Our main results do not change.

Our main results are based on annual observations. This can be problematic because of short-term fluctuations in aid allocations (i.e. in the incidence of disasters) and because corruption does not tend to change as quickly over time. Appendix M demonstrates that our results are robust to estimating our main model on data that are based on averaging the variables over three-year periods (Model 1) and over five-year periods (Model 2).[55]

Finally, Appendix N analyzes the robustness of our results to the exclusion of potential outliers. Model 1 excludes potential outliers according to the Cook's Distance measure. Cook's distance measures how much the regression function changes when the i-th observation is removed. One method of identifying outliers suggests using $D_i > 1$ as the cut-off point to identify influential points. Because none of our observations reach this threshold we use the more conservative cut off of 4/n to identify observations with high influence. Models 2 and 3 remove potential outliers in accordance with the DFBETA test. Because DFBETA identifies how much influence each observation has on a particular predictor variable, Model 2 removes variables with high influence on *National Corruption* and Model 3 removes variables with high influence on *Avg Donor Corruption*. DFBETA calculates how much the regression coefficient changes when the i-th observation is deleted. For small or medium data sets, an absolute value greater than one is problematic. Because no observations reach this threshold we use the conventional threshold for large datasets, $2/\sqrt{n}$. Our models are robust to removing all three groups of potential outliers.

CONCLUSION

Aid allocation decisions have become incredibly controversial and politicized. As the good governance movement expands, examples of aid scandals proliferate. The British government has provided Pakistan hundreds of millions of pounds to fund education in the state of Punjab only to discover this year that the money has been used to fuel massive corruption.[56] Canada gave many millions of dollars intended to help fund education in Kenya that corrupt officials inside Kenya's Ministry of Education instead siphoned off.[57] Meanwhile, the U.S. Agency for International Development Aid (USAID) recently pulled the plug on cross-border foreign aid to Jordan and Turkey—intended to provide humanitarian relief in neighboring Syria—due to the revelation of corrupt practices, including bid-rigging, bribery and kickback schemes.[58] All of these donor countries have good governance standards in place that, in theory, should dampen aid to corrupt states in the first place.

Increasingly, this debate and the associated scandals apply not simply to wealthy Western donors giving bilateral aid but to the emergence of new development providers such as China—a corrupt country which accounts for a rising share of funds to many of

[54] See: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups, last accessed: November 2016.
[55] We use the maximum value for all dummy variables in each period.
[56] Chamberlain 2016.
[57] O'Neill 2010.
[58] U.S. Office of Inspector General 2016.

the world's poorest and most corrupt places[59]—as well as to the large supply of IDOs that provide a growing share of the financial resources. Some of these international development organizations are comprised of corrupt donors, and some of the most prominent—including the World Bank—have been repeatedly accused of engaging in corrupt lending practices. Such scandals fuel longstanding debates about the general effectiveness of foreign aid, and they raise deep concerns about whether even well intended or supposedly neutral donors are simply throwing money into the hands of corrupt politicians.

This paper is the first to our knowledge to stake the claim that the extent to which corruption factors into IDO allocation decisions depends more on the composition of the donors than on the organization's aid-giving rules or the donors' strategic interests in individual recipients. Organizations composed of highly corrupted donors are just as likely to adopt but much less likely to enforce anti-corruption standards as are organizations composed of more honest donors. Similarly, while strategic factors do shape aid allocation decisions, their importance is reduced in a multilateral setting where the composition of donors plays a larger role. Corrupt recipient states receive more aid and corrupt donors in international development organizations are their main suppliers. The implications for debates over foreign aid policy and good governance are substantial. Here, we briefly raise three.

First, our findings provide additional evidence that multilateral donors are far from neutral or de-politicized aid-givers, as has often been assumed.[60] While it is beyond the scope of this paper to compare how corruption factors into aid allocation decisions by IDOs and bilateral donors, what is clear is that corrupt donors can and do capture their IDO's agendas, which explains why certain IDOs are deliberately funneling a lot of money into very corrupt places.

Second, talk of good governance appears to be largely cheap for many donor states that themselves engage in political corruption. Groups of corrupt donors adopt good governance standards that in theory should guide their IDO's allocation decisions away from sponsoring corrupt governments. Many, however, simply ignore the rules at will, which are unenforceable against donors. If the good governance movement has had any effect at all on IDO aid-allocation, its effect has been felt primarily among groups of wealthy Western governments. While this paper is not about the effectiveness of foreign aid, a likely implication is that a substantial amount of aid goes to corrupt places without real strings. Such aid is unlikely to be used by corrupt recipient governments to combat the problem, and it may very well exacerbate corruption locally by providing the resources to fuel even more bad practices. If so, good governance standards may be on the rise but aid effectiveness in many places remains in question.

Finally, and more broadly, these findings speak to longstanding debates in other domains such as human rights, trade and the environment over whether international organization should be inclusive—open to membership by many or even all states, including those with dubious track records—or kept exclusive—creating standards for membership based on national benchmarks for compliance with an organization's goals. On one side of the debate is the view that inclusivity fosters a form of legitimacy that is central to the functioning of international organizations by bringing a wide range of states

[59] Prizzon, Greenhill and Mustapha 2016.
[60] For a similar line of reasoning, see Dreher, Sturm and Vreeland 2009.

to the table, including those in violation of an organizational goal. Inclusion all but assures some degree of non-compliance, but it may also facilitate high-level dialogue, which in turn can stimulate compliance through processes of suasion, in-group dynamics or political pressure. On the other side is the view that inclusivity can do just the opposite. A public track record of substantial noncompliance decreases the legitimacy and authority of the organization, undermines its credibility as a commitment device, and waters down its ultimate power to affect behavior. In the case of foreign aid, the costs of inclusivity are now clear: grouping together corrupted donors leads to flows of IDO aid to poorly governed recipients that, by just about any theory or metric, are unlikely to efficiently or effectively achieve the goal of economic development.

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Appendix

INTERNATIONAL DEVELOPMENT ORGANIZATIONS AND NATIONAL POLITICAL CORRUPTION

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Appendix A: International Development Organizations in the Data Set

1. African Development Bank
2. African Development Fund
3. Asian Development Bank
4. Asian Development Bank Special Funds
5. Caribbean Development Bank
6. International Development Association
7. Inter-American Development Bank
8. International Fund for Agricultural Development
9. International Monetary Fund
10. International Bank for Reconstruction and Development
11. International Finance Corporation
12. United Nations Development Programme
13. United Nations Population Fund
14. United Nations High Commissioner for Refugees
15. United Nations Children's Fund
16. United Nations Relief and Works Agency

Appendix B: AidData Data Sources

	Donor Documents	CRS
1. African Development Bank	1967-2010	2011-2013
2. African Development Fund	1967-2010	2011-2013
3. Asian Development Bank	1968-2011	2010-2013
4. Asian Development Bank Special Funds	2013	--
5. Caribbean Development Bank	1970-2010	--
6. International Development Association	1961-2011	2010-2013
7. Inter-American Development Bank	1970-2008	2010-2013
8. International Fund for Agricultural Development	1978-2011	2012-2013
9. International Monetary Fund	1981-2011	2012-2013
10. International Bank for Reconstruction and Development	1947-2011	2011-2013
11. International Finance Corporation	1980-2002	--
12. United Nations Development Programme	--	2004-2013
13. United Nations Population Fund	--	2001-2013
14. United Nations High Commissioner for Refugees	--	2011-2013
15. United Nations Children's Fund	--	2000-2013
16. United Nations Relief and Works Agency	--	2010-2013

Source: Aiddata.org (http://aiddata.org/sites/default/files/inline/readme.pdf)

Appendix C: Descriptive Statistics

	mean	sd	min	max
Aid Receipts (log)	.8949224	1.809007	0	10.92455
Recipient Corruption	-2.449915	.9652585	-6	0
Avg Donor Corruption (t-1)	-3.959063	.3578862	-5.666667	-2.875
Interaction	9.608113	4.004384	0	31
Colony	.2248203	.4174779	0	1
Trade (% GDP)	.0040763	.0044996	.0000608	.0381883
Distance (log)	7.076214	.4442493	4.817397	8.077979
Civil Conflict	.0172008	.1300235	0	1
Per Capita Income (log)	7.829683	1.421579	5.30694	11.31268
Democracy	3.516294	6.144799	-10	10
Population (log)	16.373	1.491785	12.95914	20.94812
Investments (log)	22.85216	6.896423	2.48	63.94
N	14883			

Appendix D: Main Model Specification with Standardized Coefficients

	(1) Standardized
Recipient Corruption	0.443**
	(0.095)
Avg Donor Corruption	0.181**
	(0.034)
Interaction	0.513**
	(0.115)
Colony	0.029**
	(0.008)
Trade (% GDP)	-0.056*
	(0.033)
Distance (log)	0.050**
	(0.012)
Civil Conflict	-0.029**
	(0.007)
Per Capita Income (log)	-0.253**
	(0.021)
Democracy	0.041**
	(0.018)
Population (log)	0.225**
	(0.028)
Investments (log)	0.008
	(0.015)
Constant	0.565**
	(0.173)
Wald Test	817.653**
Observations	15395

DV: Aid Receipts (log)
Standard errors in parentheses
* p<0.10, ** p<0.05

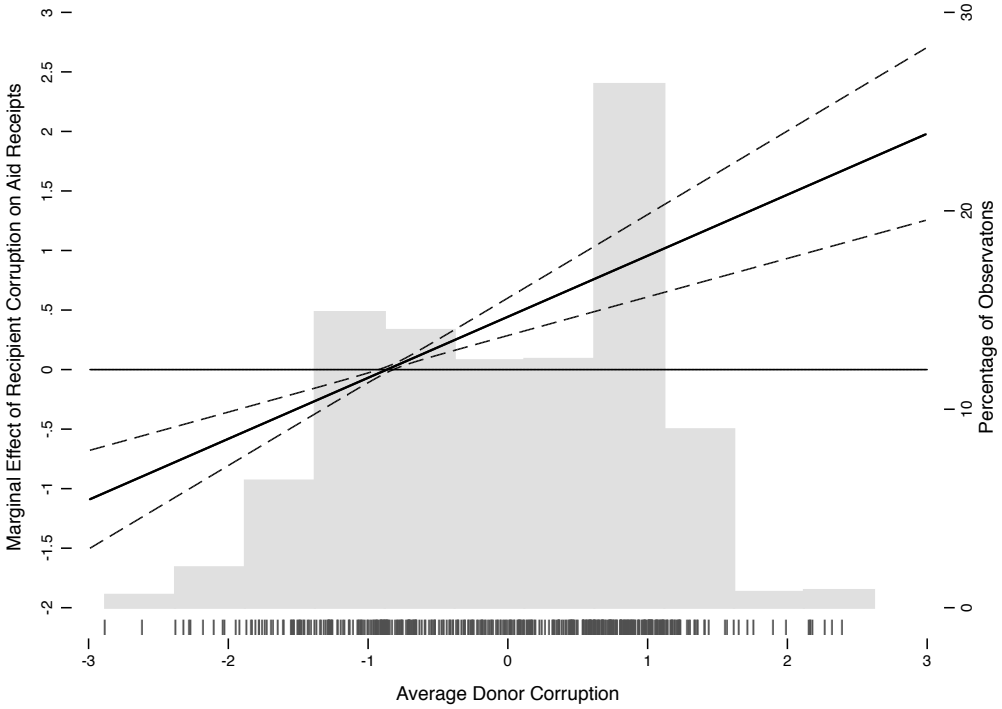

Figure D-1: Standardized Marginal Effect of Recipient Corruption on IDO Aid Receipts for Different Levels of Avg Donor Corruption, 1998-2013

Appendix E: Mandate Adoption Data

	Mandate Adoption
1. African Development Bank	2005
2. African Development Fund	2005
3. Asian Development Bank	1998
4. Asian Development Bank Special Funds	1998
5. Caribbean Development Bank	2014
6. International Development Association	2010
7. Inter-American Development Bank	2001
8. International Fund for Agricultural Development	2005
9. International Monetary Fund	1997
10. International Bank for Reconstruction and Development	2010
11. International Finance Corporation	2010
12. United Nations Development Programme	2003
13. United Nations Population Fund	2012
14. United Nations High Commissioner for Refugees	2013
15. United Nations Children's Fund	2011
16. United Nations Relief and Works Agency	2015

Appendix F: Triple Interaction Model

	(1)
Recipient Corruption	0.415**
	(0.139)
Mandate	0.229**
	(0.072)
Avg Donor Corruption	0.424**
	(0.092)
Corruption*Mandate	0.196*
	(0.105)
Corruption*Avg Donor Corruption	0.103**
	(0.034)
Corruption*Avg Donor Corruption*Mandate	0.036
	(0.026)
Colony	0.111**
	(0.031)
Trade (% GDP)	-6.278*
	(3.330)
Distance (log)	0.171**
	(0.043)
Civil Conflict	-0.328**
	(0.077)
Per Capita Income (log)	-0.262**
	(0.022)
Democracy	0.009**
	(0.004)
Population (log)	0.178**
	(0.022)
Investments (log)	0.001
	(0.002)
Country FE	Yes
Year FE	Yes
Wald Test	832.526**
Observations	15395

Standard errors in parentheses
* p<0.10, ** p<0.05

Appendix G: Robustness – Time Periods

	(1) 1992-2013	(2) 1996-2013	(3) 1984-1991	(4) 1984-2013
Recipient Corruption	0.368**	0.525**	0.148	0.311**
	(0.072)	(0.097)	(0.154)	(0.056)
Avg Donor Corruption	0.429**	0.563**	0.012	0.358**
	(0.057)	(0.074)	(0.108)	(0.044)
Interaction	0.081**	0.123**	0.023	0.070**
	(0.017)	(0.024)	(0.030)	(0.012)
Colony	0.132**	0.132**	0.109**	0.137**
	(0.027)	(0.029)	(0.043)	(0.023)
Trade (% GDP)	3.605	-2.998	7.172	8.410**
	(2.606)	(3.042)	(4.935)	(2.235)
Distance (log)	0.210**	0.204**	-0.000	0.120**
	(0.036)	(0.041)	(0.043)	(0.027)
Civil Conflict	-0.181**	-0.292**	-0.095	-0.220**
	(0.064)	(0.072)	(0.087)	(0.053)
Per Capita Income (log)	-0.245**	-0.259**	-0.252**	-0.261**
	(0.021)	(0.022)	(0.032)	(0.020)
Democracy	0.012**	0.012**	0.004	0.012**
	(0.003)	(0.004)	(0.004)	(0.002)
Population (log)	0.190**	0.177**	0.143**	0.173**
	(0.022)	(0.022)	(0.029)	(0.021)
Investments (log)	0.006**	0.003*	0.002	0.005**
	(0.002)	(0.002)	(0.003)	(0.001)
Constant	-0.320	0.579	1.164	0.514
	(0.570)	(0.617)	(0.818)	(0.512)
IDO FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Wald Test	947.048**	894.588**	552.391**	1028.279**
Observations	21017	17266	6452	27469

DV: Aid Receipts (log)
Standard errors in parentheses
* p<0.10, ** p<0.05

Appendix H: Robustness – Alternative Corruption Measures

	(1) CPI	(2) WGI
Corruption	0.278**	0.658**
	(0.110)	(0.206)
Avg Donor Corruption	0.334**	0.548**
	(0.068)	(0.130)
Interaction	0.032**	0.168**
	(0.015)	(0.059)
Colony	0.102**	0.113**
	(0.032)	(0.029)
Trade (% GDP)	-5.081	-7.142**
	(3.626)	(3.326)
Distance (log)	0.175**	0.098**
	(0.044)	(0.041)
Civil Conflict	-0.118	0.010
	(0.083)	(0.090)
Per Capita Income (log)	-0.228**	-0.233**
	(0.025)	(0.023)
Democracy	0.011**	0.014**
	(0.004)	(0.004)
Population (log)	0.167**	0.168**
	(0.020)	(0.018)
Investments (log)	0.003	0.001
	(0.002)	(0.002)
Constant	1.052	1.066
	(0.717)	(0.673)
IDO FE	Yes	Yes
Year FE	Yes	Yes
Wald Test	970.104**	936.723**
Observations	14722	15733

DV: Aid Receipts (log)
Standard errors in parentheses
* p<0.10, ** p<0.05

Appendix I: Robustness – Alternative Good Governance Indicators

	(1) Voice/ Accountability	(2) Rule of Law	(3) Regulatory Quality	(4) Effectiveness
Good Governance	0.790**	0.540**	0.393	0.806**
	(0.263)	(0.271)	(0.278)	(0.252)
Avg Donor Governance	0.850**	0.627**	0.684**	0.814**
	(0.185)	(0.181)	(0.202)	(0.169)
Interaction	0.243**	0.140**	0.141**	0.206**
	(0.077)	(0.069)	(0.072)	(0.066)
Colony	0.081**	0.081**	0.080**	0.082**
	(0.028)	(0.028)	(0.028)	(0.028)
Trade (% GDP)	-5.526*	-5.320*	-5.754*	-5.688*
	(3.192)	(3.193)	(3.192)	(3.190)
Distance (log)	0.134**	0.133**	0.136**	0.130**
	(0.041)	(0.041)	(0.041)	(0.041)
Civil Conflict	-0.318**	-0.312**	-0.312**	-0.312**
	(0.066)	(0.067)	(0.066)	(0.066)
Per Capita Income (log)	-0.263**	-0.258**	-0.314**	-0.244**
	(0.021)	(0.024)	(0.023)	(0.025)
Democracy	0.007	0.009**	0.006*	0.010**
	(0.005)	(0.003)	(0.003)	(0.003)
Population (log)	0.183**	0.183**	0.180**	0.183**
	(0.018)	(0.018)	(0.018)	(0.018)
Investments (log)	0.001	0.001	0.001	0.001
	(0.001)	(0.001)	(0.001)	(0.001)
Constant	1.571**	1.174	1.478	1.795**
	(0.801)	(0.877)	(0.930)	(0.822)
IDO FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Wald Test	964.418**	959.646**	978.122**	973.070**
Observations	17077	17077	17077	17077

DV: Aid Receipts (log)
Standard errors in parentheses
* p<0.10, ** p<0.05

Appendix J: Robustness – Control Variables

	(1) Control	(2) Lag IV	(3) Top 3	(4) All
Recipient Corruption	0.729**	0.773**	0.572**	0.535**
	(0.156)	(0.124)	(0.122)	(0.122)
Avg Donor Corruption	0.639**	0.747**	0.485**	0.489**
	(0.105)	(0.090)	(0.090)	(0.090)
Interaction	0.181**	0.183**	0.138**	0.129**
	(0.039)	(0.031)	(0.031)	(0.030)
Colony	0.117**	0.110**	0.156**	0.014
	(0.033)	(0.031)	(0.038)	(0.029)
Trade (% GDP)	-4.183	-6.792**	1.231	-0.000**
	(3.482)	(3.387)	(2.687)	(0.000)
Distance (log)	0.194**	0.175**	0.101**	0.367**
	(0.049)	(0.046)	(0.034)	(0.041)
Civil Conflict	-0.348**	-0.306**	-0.327**	-0.320**
	(0.079)	(0.077)	(0.077)	(0.077)
Per Capita Income (log)	-0.152**	-0.249**	-0.277**	-0.251**
	(0.042)	(0.023)	(0.022)	(0.022)
Population (log)	0.206**	0.184**	0.183**	0.178**
	(0.024)	(0.023)	(0.022)	(0.022)
Freedom House	-0.021			
	(0.017)			
Investments (log)	0.001	0.002	0.001	0.000
	(0.002)	(0.002)	(0.002)	(0.002)
Infant Mortality (log)	0.081			
	(0.064)			
US Military Aid (log)	0.019**			
	(0.003)			
Disaster Deaths (log)	0.001			
	(0.006)			
Democracy		0.010**	0.010**	0.008**
		(0.004)	(0.004)	(0.004)
Constant	-0.641	1.425**	1.147*	-0.972
	(0.869)	(0.696)	(0.632)	(0.660)
IDO FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Wald Test	923.266**	866.156**	809.048**	877.609**
Observations	14661	14773	15395	15395

DV: Aid Receipts (log)
Standard errors in parentheses
* p<0.10, ** p<0.05

Appendix K: Robustness – Model Specification

	(1)	(2)	(3)	(4)	(5)	(6)
	Recipient FE	Recipient FE	No FE	OLS	LDV	Robust SE
Recipient Corruption	0.508**	0.482**	0.498**	0.568**	0.439**	2.949**
	(0.123)	(0.123)	(0.122)	(0.122)	(0.125)	(0.504)
Avg Donor Corruption	0.453**	0.446**	0.376**	0.474**	0.328**	2.130**
	(0.090)	(0.090)	(0.087)	(0.090)	(0.091)	(0.387)
Interaction	0.124**	0.118**	0.130**	0.136**	0.104**	0.663**
	(0.031)	(0.031)	(0.031)	(0.031)	(0.031)	(0.128)
Colony	0.112**	0.120**	0.103**	0.116**	0.084**	0.396**
	(0.032)	(0.032)	(0.031)	(0.031)	(0.030)	(0.103)
Trade (% GDP)	-4.674	-1.833	-1.731	-5.616*	-4.422	-20.707**
	(3.446)	(3.436)	(3.280)	(3.326)	(3.174)	(9.864)
Distance (log)	0.199**	0.271**	0.225**	0.174**	0.141**	0.679**
	(0.051)	(0.050)	(0.044)	(0.043)	(0.040)	(0.126)
Civil Conflict	-0.292**	-0.292**	-0.332**	-0.332**	-0.290**	-1.308**
	(0.077)	(0.077)	(0.075)	(0.077)	(0.077)	(0.355)
Per Capita Income (log)	0.056	0.060	-0.272**	-0.266**	-0.174**	-1.227**
	(0.092)	(0.092)	(0.023)	(0.022)	(0.017)	(0.036)
Democracy	0.012**	0.012**	0.009**	0.009**	0.006*	0.051**
	(0.006)	(0.006)	(0.004)	(0.004)	(0.003)	(0.008)
Population (log)	0.733**	0.733**	0.169**	0.177**	0.126**	0.556**
	(0.140)	(0.140)	(0.024)	(0.022)	(0.016)	(0.031)
Investments (log)	-0.001	-0.001	-0.002	0.001	0.002	0.021**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.006)
Constant	-14.822**	-15.399**	0.072	0.569	0.137	1.555
	(3.343)	(3.345)	(0.654)	(0.652)	(0.572)	(1.880)
IDO FE	Yes	No	No	Yes	Yes	Yes
Country Fe	Yes	Yes	No	No	No	No
Year FE	Yes	Yes	No	Yes	Yes	Yes
Wald/F Test	1059.490**	550.710**	343.032**		2673.656**	123.7**
Observations	15395	15395	15395	15395	14880	15395

Appendix L: Robustness – Samples

	(1) No Banks	(2) No UN	(3) No missing	(4) No Europe/NA	(5) Only Low Income
Recipient Corruption	1.085**	0.412**	0.484*	0.681**	1.026**
	(0.138)	(0.174)	(0.294)	(0.174)	(0.200)
Avg Donor Corruption	1.227**	0.389**	0.424**	0.551**	0.753**
	(0.101)	(0.128)	(0.184)	(0.114)	(0.124)
Interaction	0.274**	0.095**	0.127*	0.171**	0.258**
	(0.035)	(0.043)	(0.075)	(0.044)	(0.050)
Colony	0.167**	0.070	0.135**	0.118**	0.110**
	(0.030)	(0.052)	(0.041)	(0.033)	(0.037)
Trade (% GDP)	-1.739	-11.887*	-17.402**	-6.463*	-7.428*
	(3.077)	(6.314)	(5.043)	(3.643)	(3.944)
Distance (log)	0.216**	0.377**	0.279**	0.201**	0.198**
	(0.041)	(0.076)	(0.073)	(0.062)	(0.055)
Civil Conflict	-0.373**	-0.406**	0.008	-0.360**	-0.332**
	(0.071)	(0.136)	(0.137)	(0.084)	(0.088)
Per Capita Income (log)	-0.304**	-0.317**	0.066*	-0.219**	-0.180**
	(0.020)	(0.040)	(0.037)	(0.028)	(0.033)
Democracy	0.008**	0.013*	0.010*	0.010**	0.014**
	(0.004)	(0.008)	(0.006)	(0.005)	(0.005)
Population (log)	0.124**	0.240**	0.414**	0.233**	0.245**
	(0.020)	(0.041)	(0.026)	(0.026)	(0.026)
Investments (log)	0.003*	-0.005	-0.001	0.002	0.001
	(0.002)	(0.004)	(0.003)	(0.002)	(0.002)
Constant	3.486**	-1.869*	-3.949**	-0.584	-0.278
	(0.622)	(1.121)	(1.045)	(0.828)	(0.838)
IDO FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Wald Test	1008.888**	545.094**	2409.716**	820.999**	828.121**
Observations	10903	7805	3938	12787	12819

Appendix M: Robustness – Period Data

	(1) 3 Year	(2) 5 Year
Recipient Corruption	0.253**	0.276**
	(0.088)	(0.095)
Avg Donor Corruption	0.445**	0.450**
	(0.080)	(0.093)
Interaction	0.053**	0.051**
	(0.021)	(0.022)
Colony	0.205**	0.220**
	(0.034)	(0.040)
Trade (% GDP)	-0.955	0.527
	(4.062)	(4.786)
(mean) avgdistancetop5_ln	0.002	0.039
	(0.047)	(0.051)
Civil Conflict	-0.141**	-0.100**
	(0.046)	(0.046)
Per Capita Income (log)	-0.275**	-0.263**
	(0.021)	(0.022)
Democracy	0.011**	0.012**
	(0.004)	(0.004)
Population (log)	0.161**	0.153**
	(0.021)	(0.020)
Investments (log)	0.004*	0.007**
	(0.002)	(0.003)
Constant	2.394**	2.223**
	(0.634)	(0.683)
IDO FE	Yes	Yes
Period FE	Yes	Yes
Wald Test	945.606**	854.442**
Observations	6920	4537

DV: Aid Receipts (log)
Standard errors in parentheses
* p<0.10, ** p<0.05

Appendix N: Robustness – Outliers

	(1) Cook's Distance	(2) Dfbeta (National Corruption)	(3) DfBeta (Avg Donor Corruption)
Aid Receipts (log)			
Recipient Corruption	0.500**	0.434**	0.564**
	(0.087)	(0.131)	(0.125)
Avg Donor Corruption	0.425**	0.372**	0.556**
	(0.065)	(0.095)	(0.096)
Interaction	0.124**	0.102**	0.136**
	(0.022)	(0.033)	(0.031)
Colony	0.127**	0.138**	0.142**
	(0.022)	(0.030)	(0.029)
Trade (% GDP)	-4.328*	-5.912*	-5.967*
	(2.342)	(3.151)	(3.087)
Distance (log)	0.073**	0.130**	0.134**
	(0.031)	(0.041)	(0.040)
Civil Conflict	-0.337**	-0.413**	-0.432**
	(0.059)	(0.075)	(0.073)
Per Capita Income (log)	-0.246**	-0.264**	-0.265**
	(0.016)	(0.021)	(0.021)
Democracy	0.010**	0.010**	0.009**
	(0.003)	(0.004)	(0.004)
Population (log)	0.079**	0.171**	0.165**
	(0.016)	(0.021)	(0.021)
Investments (log)	0.002	0.001	0.002
	(0.001)	(0.002)	(0.002)
Constant	1.977**	0.561	1.253*
	(0.470)	(0.650)	(0.645)
IDO FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Wald Test	1085.606**	890.757**	931.658**
Observations	14330	14817	14684

Standard errors in parentheses
* p<0.10, ** p<0.05