CATCH ME IF YOU CARE: INTERNATIONAL DEVELOPMENT ORGANIZATIONS AND NATIONAL CORRUPTION.

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Abstract

Many international development organizations (IDOs) have officially mandated anti-corruption criteria for aid selectivity. There remains substantial debate and conflicting evidence over whether corruption deters aid and to date there is no concrete evidence whether anti-corruption rules are effectively implemented. We argue that the extent to which corruption, and anti-corruption mandates, factor into IDO allocation depends on the composition of the donors. Using newly collected data on anti-corruption mandates for the period 1998-2013, we demonstrate that organizations composed of corrupt donors are just as likely to adopt—but much less likely to enforce—anti-corruption mandates than are organizations composed of less corrupt donors, who are more likely to punish corruption with or without formal anti-corruption rules in place. The implications are substantial because the economic prosperity of much of the developing world is concerned. They also speak to the debate over whether international efforts to institutionalize “good governance” standards are sincere or cheap talk.
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 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 now-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 Yet there remains substantial debate and conflicting evidence whether corruption deters aid and to date there is scant evidence whether anti-corruption rules are effectively implemented.⁴ The implications of this debate are substantial because the economic prosperity of much of the developing world is concerned. They also speak more broadly to the debate whether international efforts to institutionalize “good governance” standards are sincere or cheap talk.

¹ OECD 2013.
² Rodrik 1995; Winters 2010; Dietrich 2013; Milner and Tingley 2013a; Dietrich and Wright 2015; Findley, Milner, and Nielson 2017.
³ Wolfensohn 1996.
⁴ Oehler, Nunnenkamp, and Dreher (2012) show that anti-corruption programs are not always effective. See also Neumayer 2003a,b; Clist 2011; Dietrich 2013; Winters and Martinez 2014; and Vreeland 2006, 2007.
We argue that the extent to which corruption factors into IDO allocation decisions depends more on the makeup of the donors than on the formal rules. Organizations composed of corrupt donor states (what we refer to as “corrupted IOs”)—where those in power misuse their public office for private gain and engage in dishonest or fraudulent conduct—operate differently with respect to aid selectivity than organizations composed of less corrupt donors. While they often create the pretense of selectivity by adopting formal good governance standards, corrupted IDOs are reticent to enforce those standards, rendering their anti-corruption talk largely cheap. Organizations composed of less corrupt donors, by contrast, are much less likely to channel aid to corrupt states, even for strategic purposes, and they are reticent to do so whether or not their IDO has adopted anti-corruption standards. In short, anti-corruption mandates do not stop corrupt groups of states from channeling aid to corrupt governments, nor do they affect how the less corrupt donate.

We develop and substantiate our argument using newly collected data on anti-corruption mandates alongside existing data on multilateral aid allocations by 33 key IDOs (for which reliable data are available) over the period of 1998-2013. Our results, which align well with our argument, have several important implications for debates over foreign aid policy and efforts to spread norms of good governance throughout the aid regime. First, we complement existing efforts to demonstrate that multilateral donors are far from neutral, showing a new way in which aid organizations can foster bias. Second, we provide the first evidence (to our knowledge) that for corrupt donors, good governance talk appears largely cheap—easy to adopt and flout. That finding speaks to the broader literature about

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6 For existing efforts, see Dreher, Sturm and Vreeland 2009a,b; Schneider and Tobin 2013.
state compliance—or non-compliance—with IO standards. Third, we demonstrate that the composition of donor characteristics tends to correlate with aid allocation decisions as much or more than some of the strategic considerations commonly cited in the literature.

**NATIONAL CORRUPTION AND DONOR SELECTIVITY**

The provision of foreign aid to developing countries is an important strategy to further the sustainable economic and social development of poor and developing countries. 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 longstanding debate.\(^7\) The debate is of particular importance because whether and how donors choose to allocate aid have 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).

Today, the debate over the conditions for effective aid-giving is focused on good governance. At the heart of the movement is a concern over the allocation of aid to states embroiled in political corruption. That concern was sparked in 1996 by a declaration made by then-World Bank President James Wolfensohn claiming that corruption—a

\(^7\) 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).
phenomenon previously ignored by the development community—makes aid ineffective. His declaration was a reaction to growing accusations by watch dog groups like Transparency International that organizations like the World Bank and the IMF were enabling bad practices in recipient states. In response, many aid-giving organizations began to take up the issue, crafting formal anti-corruption mandates designed on paper to identify and deter the abuse of power, both within the donor organizations and among their recipients. For example, in March of 2002 countries adopted the Monterrey Consensus, the first UN framework to embrace the fight against corruption in international development. That Consensus has become a major reference point for international development cooperation. Today, many IDOs—including organizations comprised of corrupt donors—have put similar anti-corruption policies into place that should in principle generate more selective aid allocation, away from corrupt states and toward recipients with lower levels of corruption.

Despite the establishment of standards, and the movement to internationalize good governance more generally, there is no consensus whether or how corruption in recipient states affects IDO allocation decisions, nor is it clear whether donors comply with their own anti-corruption rules. Some studies suggest that corruption and poor governance in

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8 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.

9 Global anti-corruption norms were further institutionalized in the follow-up conferences in Doha (2008) and Addis Adaba (2015).
general deters aid;\textsuperscript{10} others suggest that it plays no role in aid allocation;\textsuperscript{11} still others suggest that corrupt states often receive more aid.\textsuperscript{12} 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 or strategic interests and extract policy concessions.\textsuperscript{13} Still others might turn a blind eye. 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.\textsuperscript{14} Although international development organizations are often claimed to be less prone to such 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.\textsuperscript{15} Moreover, little is known about the extent to which IDO anti-corruption rules actually deter allocation to corrupt states.\textsuperscript{16}

\begin{itemize}
  \item \textsuperscript{10} Neumayer 2003c; Hout 2007; Schudel 2008; Winters 2010; Clist 2011.
  \item \textsuperscript{11} Neumayer 2003a.
  \item \textsuperscript{12} Easterly and Williamson 2011; de La Croix and Delavallade 2013.
  \item \textsuperscript{13} Burnside and Dollar 2000; Neumayer 2003a, b c; Bueno de Mesquita and Smith 2009; Heinrich 2013, Milner and Tingley 2013b.
  \item \textsuperscript{14} Alesina and Dollar 2000; Neumayer 2003b; Bermeo 2017, 2018.
  \item \textsuperscript{15} Nielson and Tierney 2003; Fleck and Kilby 2006; Dreher, Sturm, and Vreeland. 2009a; Kilby 2011, 2013; Schneider and Tobin 2013, 2016; Dreher and Vreeland 2014; Milner, Neilson, Findley 2016. 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).
  \item \textsuperscript{16} On anti-corruption conventions and domestic corruption in member countries see Cole 2012.
\end{itemize}
Despite the spread of anti-corruption standards, and the more general movement in support of good governance as a selection criterion for foreign aid, the questions remain: Do recipient corruption or anti-corruption standards deter IDO aid?

DONOR COMPOSITION

Our central argument is that the composition of donor states affects whether IDOs factor corruption—and the formal rules—into their aid allocation decisions, over and above other strategic political concerns. After James Wolfensohn made corruption a global development issue and tied aid to failure in corrupt recipients, many IDOs—including those composed of corrupt donors—adopted formal anti-corruption standards promising to redirect their resources to better-governed places.\(^\text{17}\) Despite these commitments, however, we do not expect all IDOs to comply with these rules. **IDOs composed of donor states with lower levels of corruption should be more willing to channel resources away from corrupt recipients than are organizations composed of corrupt donors.** There are several reasons for this difference in behavior.

First, states tend to value and thus prefer to support governance styles that are similar to their own for both normative and strategic reasons. A great deal of evidence shows that international organizations composed of democratic governments or human rights advocating governments create and attempt to enforce policies designed to foster those forms of governance in other states, often as means to push their own values, assuage

\(^{17}\) On bilateral aid, see Schudel 2008.
domestic interest groups and/or foster peace and security abroad.\(^\text{18}\) In the same way, we expect that less corrupt donors will prefer to focus their resources on less corrupt recipients, where aid is thought to be most likely to contribute to their development goals. They will thus create and—importantly—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 mainly of less corrupt donors servicing developing countries throughout Asia—adopted (in 1998) a formal policy establishing a zero tolerance for corruption.\(^\text{19}\) 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 to staff, civil society and the private sector in order to detect, prevent and report corruption associated with any ADB projects.\(^\text{20}\) The bank has routinely enforced its standards, banning both individuals and companies from its projects following the organization’s annual check for corruption.\(^\text{21}\)

Second, less corrupt donors will prefer to channel funds away from corrupt governments to avoid domestic backlash for allocating scarce resources to countries where


\(^{19}\) 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.

\(^{21}\) ABC News 2014.
aid is likely to be captured by 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, 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. 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, and survey data indicate that Americans strongly favor restricting U.S. aid to corrupt countries.

Many elected U.S. officials are thus wary of the problem. For example, Senator Rand Paul—who sits on the Foreign Relations Committee and the Subcommittee on State Department and USAID Management—recently claimed that, of U.S. aid to developing countries, “… 70 percent of it’s stolen off the top.” That sentiment, whether it is correct or not, helps explain why U.S. aid agencies like the Agency for International Development Aid (USAID) now routinely pull the plug on aid projects under charges of corruption, including recent aid to Afghanistan’s Ministry of Health, where $63 million (of $263 million) went unaccounted for. And it helps explain why the U.S. has played a central

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22 Broz 2005; Broz and Hawes 2006.
23 Bearak and Gamino 2016. See also Milner 2006; Milner and Tingley 2011, 2013a.
24 Paxton and Knack 2012; Knecht 2010
26 NPR 2017; SIGAR 2013.
role in bringing a focus on anti-corruption into its own IDOs, such as the World Bank and the Asian Development Bank, both of which now have extensive good governance guidelines.

The growing concern over corruption and aid among IDO donors is certainly not exclusive to American voters and politicians. While Europeans are generally more favorable to the use of aid for development assistance than Americans, there remains considerable opposition in some nations, deep partisan divides among the right and left, and rising public pressures focused on punishing corruption.27 Surveys have shown that Swedes, a population that is highly supportive of foreign aid in general, would prefer to cut government aid targeted at corrupt recipients.28 And extensive public opinion surveys across Europe demonstrate that corruption often leads to aid fatigue, though reactions depend on what people believe aid is purposed for.29 The result has been a growing number of formalized guidelines, communications and efforts to tackle corruption, both within the EU and among its development partners and aid recipients.

For example, in 2003 the Commission called for a comprehensive EU anti-corruption agency, which would reduce all forms of corruption, including in its foreign aid programs.30 Both the European Court of Auditors and the European Anti-Fraud Office can scrutinize the EU’s aid spending to fight against fraud and corruption on all fronts, including development aid. Despite strategic interests and colonial legacies, these efforts

28 Bauhr 2016.
29 Bauhr et al. 2013.
have led to the suspension of aid to countries in response to corruption. Recently in Uganda, Europe cut aid following the alleged embezzlement of $13 million in aid funds by officials in the Prime Minister’s office,\textsuperscript{31} while they froze the equivalent of nearly half a billion dollars in aid to Tanzania following accusations that high-level government officials siphoned off the money from the central bank.\textsuperscript{32} Less corrupt donors are now reticent to spend their resources where they can fuel corruption.

Third, while wealthy governments have a long history of giving bilateral aid for their own strategic purposes, sometimes to corrupt or otherwise poorly governed states, their capacity to funnel aid to these recipients is diminished in a multilateral setting comprised of less corrupt donors. There is no question that powerful donor countries can use IDOs to advance their own political interests—we do not dispute this fact.\textsuperscript{33} However, the capacity for a single donor to capture an entire organization to foster its own interests in a corrupt recipient is weaker in a multilateral setting where there are multiple honest principals involved in allocation decisions that can block consensus.

By contrast, some IDOs are more willing to turn a blind eye to corruption. \textit{Specifically, we expect that organizations composed primarily of corrupt donor states are not likely to refuse aid to a recipient on the basis of corruption allegations.} They are more likely to be indifferent to corruption charges when making aid allocation decisions, inclined to use

\begin{footnotesize}
\textsuperscript{31} Reuters 2012.

\textsuperscript{32} The Guardian 2014.

\textsuperscript{33} 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.
\end{footnotesize}
IDO’s to funnel money to their friends and allies, many of whom may also be politically corrupt. Organizations driven by corrupt donors are likely to allocate aid differently for several reasons.

First, corrupt donors are generally unlikely to deter aid to corrupt recipients because good governance is not a concept they value, embrace or seek to spread. In response to the rising focus on the issue and the global spread of anti-corruption standards, they may very well adopt organizational mandates concerning corruption. For these groups of states, it is easy to adopt stated policies against corruption that are unenforceable outside the IDO donor base because the costs of non-compliance are essentially zero since such standards are entirely self-enforcing. While many adopt formal rules against supporting corruption, there is little reason to invest in any enforcement or punitive action against corruption in other states, nor is there reason to pressure potential recipient states to enact or implement anti-corruption policies. 34 Corrupted donor organizations may adopt anti-corruption standards, but they are more 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.

The Caribbean Development Bank (CDB) is a prime example of corrupt donors crafting rules against corruption and then turning a blind eye at implementation. The CBD is a regional organization comprised of 19 states that are eligible to borrow funds from the Bank and also have voting rights, which entitles them to be a part of the decision-making process of the Bank. These states include the likes of Haiti, ranked 157th (out of 180) by

34 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.
Transparency International for perceived corruption. Other members with voting rights include China (ranked 77th), Brazil and Colombia (tied for 96th), Mexico (ranked 135th) and Venezuela (169th).\textsuperscript{35} The Bank’s stated mission is to support the reduction of poverty in the region through social and economic development. As part of that mission, the Bank established the independent Office of Integrity, Compliance and Accountability (ICA) to combat corruption and fraudulent practices. On paper, its efforts are quite extensive, working to “deter, detect, investigate and recommend sanctions for all integrity violations, including fraud, bribery and corruption.”\textsuperscript{36} In practice, the organization channels substantial resources into highly corrupt states—such as Haiti—with minimal sanctions or repercussions.

Second, corrupt donors are likely to face much less pressure and scrutiny from their domestic selectorates concerning the allocation of foreign aid to corrupt 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 or business elites—often unaccountable to ordinary citizens—who select or influence candidates for election or office.\textsuperscript{37} 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 for supporting corrupt countries. 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

\textsuperscript{35} Transparency International 2017.

\textsuperscript{36} See: http://www.caribank.org/.

\textsuperscript{37} Bueno de Mesquita, Smith and Morrow 2003; Weeks 2008.
public outcry regarding this use of money to foster the government’s often violence-inducing interests in the region.\textsuperscript{38} Moreover, any public outcry or effort to criticize the government through media would almost certainly be suppressed. \textsuperscript{39} Electoral consequences are highly unlikely, as the only officials directly elected by the public are the lowest rung. The real selectorate is composed of party members and the winning coalition on which China’s leaders actually depend are members of the Central Committee. The Chinese government is thus free to provide aid to any country it—and its winning coalition—chooses without meaningful recrimination from its public.

China, of course, is not alone. Countries such as Saudi Arabia, one of the top aid donors globally, also face essentially zero pressure to reroute aid away from corrupt states. Elections in Saudi Arabia are held rarely (only three times in history) and only at the municipal level. Political parties are banned, and political dissent is a criminal act. The government enacts harsh restrictions on freedom of expression; tightly controls domestic media; and has repeatedly banned or harmed journalists who publish information deemed offensive to the regime. While the royal family hosts occasional meetings for citizens to air grievances, that process is available to only a few and does little to foster genuine representation of the public more broadly, which is unlikely in turn to have much to say about the country’s foreign aid policies. The relevant group of potential supporters is not

\textsuperscript{38} 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.

\textsuperscript{39} King, Pan and Roberts 2013.
the public but the royal family, and among them, mainly the senior princes in the innermost group. At that level of government, corruption remains a widespread problem, giving Saudi Arabia—like China—little incentive to divert aid away from other corrupt actors.\textsuperscript{40}

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 less corrupt donors. By definition, the governments of corrupt donors engage in dishonest or fraudulent behavior. Often, that entails bribery, backroom deals and trading favors. Perhaps one of the best known—and widely documented—examples of corruption 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.\textsuperscript{41} By definition, groups of corrupt donors are more likely to make these kinds of shady 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 possible to distinguish empirically in the context of this paper, our central hypotheses are that (1) IDOs composed of corrupt donors are less likely to divert aid away from corrupt recipients than are IDOs composed of less corrupt donors, and (2) that anti-corruption mandates amount to cheap talk by corrupted IDOs—the rules will not deter them from allocating aid to the corrupt.

\textsuperscript{40} Sonawane 2016. Recent work, however, indicates that Chinese bilateral aid is not likely to be more politicized than Western aid (Dreher and Fuchs 2015; Strange, Dreher, Fuchs, Parks, and Tierney 2017; Dreher, Fuchs, Parks, Strange, and Tierney 2018).

\textsuperscript{41} Dreher, Sturm, and Vreeland 2009b; Lockwood 2013.
RESEARCH DESIGN

To test our theoretical argument, we conduct a quantitative analysis using a data set on the foreign aid allocations of 33 IDOs to over 140 recipient countries from 1998 to 2013. The unit of analysis is the IDO-recipient-year. The 33 IDOs for which we were able to compile data include organizations that provide non-concessional loans, concessional loans and grants, or technical assistance.\textsuperscript{42}

\textit{Dependent Variable}

Our dependent variable is \textit{Aid Receipts (log)}, measured as the natural log of (one plus) the aid commitments in constant (2011) U.S. dollars that a given recipient state receives from each IDO in our sample. Data are from AidData.\textsuperscript{43} We 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.\textsuperscript{44}

\textit{Main Explanatory Variables}

\textsuperscript{42} Sample is based on data availability. A list of IDOs in our data set is in Appendix A.

\textsuperscript{43} We use AidData information since the OECD provides IDO aid flows only as disbursements (which is not preferable for theoretical reasons), and the OECD 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 (Tierney, Nielson, Hawkins, Timmons Roberts, Findley, Powers, Parks, Wilson, and Hicks 2011).

\textsuperscript{44} Furthermore, disbursement data is not available in the latest AidData research release.
We begin by introducing three explanatory variables to test our argument. The first variable measures a potential *Recipient’s Corruption* using annual data provided by the International Country Risk Guide (ICRG) to assess 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. 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 less corrupted IDOs decreases aid flows to corrupt states, we calculate the inverse of the ICRG measure: *Recipient Corruption* ranges from 0 to 6, with 0 representing low corruption and 6 representing high corruption.

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 in the appendix that our main results are robust to using these alternative corruption indicators.

The second explanatory variable is the *Average IDO Corruption* in any given IDO and year. To calculate the variable, we proceeded in the three steps:

1. For each IDO in our data set we derive the membership status of each state in each year. Membership data are from the Correlates of War project on International Governmental Organizations.\(^{45}\)

2. To represent the members of each IDO that are most likely to be donors and carry decision-making power, we identify the top 10 largest members within each IDO-year based on GDP. GDP data are from Graham and Tucker (2017).\(^{46}\)

3. For each IDO-year we calculate the average corruption of the ten largest member states using *Recipient Corruption*, weighted by GDP (to take into account that countries with greater structural power should have a greater influence on the IDO’s allocation decisions).

Our measurement choices in steps 2 and 3 approximate the decision-making process within most IDOs. Formally, votes are weighted by donor contributions, which are highly correlated with their national incomes. Informally, donors usually operate by consensus, where the outcomes reflect compromise, though governments with greater structural power carry greater weight in the decision-making process. Since aid allocation decisions are shaped by powerful donors and a norm of consensus, we use the ten wealthiest countries

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\(^{46}\) Graham and Tucker’s (2017) measures for GDP and population use data from the Penn World Table to supplement data missing from the World Bank’s World Development Indicators.
in each organization as a baseline. However, since IDOs vary in their decision-making rules—and the top ten is somewhat arbitrary—we also calculate average IDO corruption for the top 5, 15, 20 and all member states in order to ensure that our results are not driven by this particular operationalization.\textsuperscript{47} We also weight the measure by differences in structural power within the group of 10 in step 3 for similar reasons. Whether the decisions are made formally or informally, powerful states have more leverage to push the decision-making outcomes toward their preferred policies.\textsuperscript{48} While vote shares would provide a more exact measure of decision-making power within an organization’s governance structure, this information is not available for the entire cross-section of IDOs in our sample and its absence likely is nonrandom and correlated with IDO and recipient corruption.\textsuperscript{49}

Our measure of \textit{Average IDO Corruption} varies both across IDOs and over time as a function of changing memberships in IDOs, economic growth of member states, and changes in individual members’ corruption scores. Figure 1 illustrates these trends for four organizations in our sample as they vary over time: the Asian Development Bank (AsDB), the European Union (EU), the Caribbean Development Bank (CDB) and the International Development Association (IDA), part of the World Bank Group.\textsuperscript{50}

\begin{footnotesize}
\begin{enumerate}
\item See Appendix I.
\item We demonstrate that our results are robust to using an unweighted average corruption calculation.
\item We calculate the actual donor status of governments for the subset of IDOs on which we could acquire data on donations to IDOs. The results are robust and available on request.
\item Appendix B presents \textit{Average IDO Corruption} scores for each IDO in our sample.
\end{enumerate}
\end{footnotesize}
We then interact *Average IDO Corruption* with potential *Recipient Corruption* to analyze whether variations in donor corruption affect whether and to what extent corrupt countries receive aid.

**Control Variables**

In addition to these 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.\(^{51}\) While we strive to keep our main models parsimonious, 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

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account for the recipient’s logged *Per Capita GDP*. Data are from Graham and Tucker (2017). Poorer recipients should receive greater aid allocations, all else equal. To capture the strategic importance of a recipient we include three variables. First, we account for whether the recipient was a *Colony* of one of the top 10 largest member states in the IDO. Data are from the Issue Correlates of War (ICOW) Project. Second, following the literature on donor capture in IDOs, we include the log of the *Average Distance* of the recipient country to the ten largest members in the IDO. Distance data are from Gleditsch and Ward (2001). Finally, we include a variable that measures the sum of imports and exports from the ten largest IDO members to the recipient as a proportion of the ten largest members’ GDPs (*Trade/GDP*). Data are from the IMF Direction of Trade Statistics. *Distance* and *Trade (% GDP)* variables also proxy strategic interests and are calculated with the same IDO-year methodology as the corruption measure. 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 using logged *Population* (data from Graham and Tucker 2017), *Democracy*, which we measure as the level of democratic quality using Polity IV data, the logged number of *Disaster Deaths* in the recipient in any given year, and the presence of *Civil Conflict* as measured by the Correlates of War Inter- and Intra-State Data Sets. Appendix B provides descriptive statistics for all variables.

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52 For each variable, we used membership status and isolated the top 10 largest members within each IDO-year based on GDP. We then calculated the average distance from or trade with these top 10 members.

53 Sarkees and Wayman 2010.
Model Estimation

We use the Tobit estimator for panel data to estimate our main regressions because our dependent variable is left-censored, rendering OLS parameter estimates inconsistent.\textsuperscript{54} 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. The appropriateness of a selection model depends on the existence of a valid exclusion restriction, which is impossible to find in the case of aid allocations.\textsuperscript{55} 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.\textsuperscript{56}

To account for unobservable temporal variation, we include year fixed effects. We also use IDO fixed effects (and exclude recipient fixed effects) in the main model because we are interested in the effects of corruption within IDOs over time to identify the effects. We demonstrate that the findings are robust to the inclusion of recipient fixed effects.\textsuperscript{57} To

\textsuperscript{54} The use of Tobit estimation is consistent with the current standard in the aid allocation literature. See Alesina and Dollar 2000; Alesina and Weder 2002; Berthélemy and Tichit 2004; Bermeo and Leblang 2016; Bermeo 2017.

\textsuperscript{55} Berthélemy et al. 2009.

\textsuperscript{56} Berthélemy 2006. See also Bermeo and Leblang (2016) and Neumayer (2003) for an in-depth discussion of these issues.

\textsuperscript{57} Note that the inclusion of fixed effects in Tobit models can lead to bias and incorrectly estimated standard errors. Monte Carlo simulations demonstrate that this problem is negligible in Tobit
ensure that the measures precede aid allocation decisions, the time-varying explanatory variables are lagged by one year. We estimate our results 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.\textsuperscript{58} Finally, because AidData includes transfers to developed countries we restrict the sample to recipient countries with GDP per capita less than $12,746.\textsuperscript{59}

**Empirical Results**

Table 1 presents the main results of our estimations. Model 1 presents our two main explanatory variables without their interaction. Model 2 adds the interaction and Model 3 presents our main model including the full set of control variables. Model 4 uses the unweighted calculation of *Average IDO Corruption*. The results fit the models very well. The highly significant Wald tests indicate that all coefficients together are significantly different from zero.

<table>
<thead>
<tr>
<th></th>
<th>(1) Base</th>
<th>(2) Interaction</th>
<th>(3) Main</th>
<th>(4) Unweighted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipient Corruption (t-1)</td>
<td>-0.255</td>
<td>-2.587**</td>
<td>-2.665**</td>
<td>-2.152**</td>
</tr>
</tbody>
</table>

\textsuperscript{58} Indeed, this is what we find for the Cold War period. Results are available from the authors.

<table>
<thead>
<tr>
<th>Variable</th>
<th>(t-1)</th>
<th>(t-1)</th>
<th>(t-1)</th>
<th>(t-1)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>(0.657)</td>
<td>(1.093)</td>
<td>(1.123)</td>
<td>(0.940)</td>
</tr>
<tr>
<td>Interaction Top 10</td>
<td>1.041**</td>
<td>1.003**</td>
<td>0.817**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.217)</td>
<td>(0.222)</td>
<td>(0.203)</td>
<td></td>
</tr>
<tr>
<td>Colony</td>
<td>0.969</td>
<td>1.303**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.596)</td>
<td>(0.591)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade (% GDP)</td>
<td>-22.389**</td>
<td>-23.980**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(7.442)</td>
<td>(7.319)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distance (log)</td>
<td>-1.917**</td>
<td>-2.011**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.786)</td>
<td>(0.778)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civil Conflict (t-1)</td>
<td>-1.119</td>
<td>-0.890</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.684)</td>
<td>(0.675)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per Capita Income (log, t-1)</td>
<td>-3.638**</td>
<td>-3.501**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.297)</td>
<td>(0.295)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Democracy (t-1)</td>
<td>0.150**</td>
<td>0.135**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.039)</td>
<td>(0.038)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population (log, t-1)</td>
<td>1.633**</td>
<td>1.572**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.252)</td>
<td>(0.250)</td>
<td></td>
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</tr>
<tr>
<td>Disaster Deaths (log, t-1)</td>
<td>0.016</td>
<td>0.034</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>(0.053)</td>
<td>(0.052)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>18.912**</td>
<td>28.628**</td>
<td>41.971**</td>
<td>62.901**</td>
</tr>
<tr>
<td></td>
<td>(3.170)</td>
<td>(3.757)</td>
<td>(8.212)</td>
<td>(7.887)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>IDO Fixed Effects</td>
<td>Yes</td>
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<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Year Fixed Effects</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Wald Test</td>
<td>1971.413**</td>
<td>1989.576**</td>
<td>2069.581**</td>
<td>2486.430**</td>
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<tr>
<td>Observations</td>
<td>45965</td>
<td>45965</td>
<td>43396</td>
<td>43396</td>
</tr>
</tbody>
</table>

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

Table 1: Average Donor Corruption and IDO Aid Receipts, 1998-2013
The combined effect of the three main explanatory variables indicates that as average IDO corruption declines so does that organization’s 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 Average IDO Corruption. The marginal values of Recipient Corruption are displayed on the y-axis; the values for Average IDO Corruption are displayed on the x-axis; and the grey bars present the histogram of Average IDO Corruption to illustrate the distribution of sample values.

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60 Our interaction figure is based on Model (3) of Table 1 and generated using the code provided by Matt Golder (http://mattgolder.com/interactions#articles, last accessed: November 2016). See also Brambor, Clark, and Golder 2006 and Berry, Golder, and Milton 2012.
Figure 2: Marginal Effect of Recipient Corruption on IDO Aid Receipts for Different Levels of Average IDO Corruption, 1998-2013

For low levels of Average IDO Corruption (i.e., values less than 2.3), Figure 2 illustrates that IDOs provide less aid to more corrupt recipients. For example, at an Average Donor Corruption score of 1.9 (e.g., The European Union in 2001), a one-unit increase in recipient corruption decreases IDO aid allocations to that recipient by over 100%. The more corrupt the average donor membership in an IDO, however, the less pronounced are these considerations. As Average Donor Corruption increases, we observe that IDOs provide more foreign aid to recipients that have higher levels of corruption. Substantively, for high levels of Average IDO Corruption (i.e., a value of 3.7 for OPEC in 2010), a one-unit increase in recipient corruption can lead to almost a 150% increase in IDO aid allocations.
Our findings strongly indicate that IDO responsiveness to corruption concerns depends on their members’ own quality of governance. Whereas groups of less corrupt donors are more likely to withhold aid from potential recipients embroiled in domestic corruption, groups of corrupt donors are not; in fact, at first glance they appear more likely to fill the void by providing aid to corrupt recipients. That effect, we speculate, is likely not driven by a desire to aid corruption per se (i.e., is not causal) but rather to support political friends and allies, many of whom are corrupt. OPEC, for instance, has over the years provided substantial aid to Ethiopia—a highly corrupt country according to Transparency International—likely not in an effort to fund further corruption but rather to alleviate famine caused by drought. We return to this discussion in greater detail in Appendix L to show that when we relax the linearity assumption, the findings are consistent with our main argument about a punishing effect among low corruption donors, and that the behavior of corrupted IDOs is not always correlated with greater aid flows to corrupt recipients. In fact, the positive effect is driven by a very small set of observations, which do not amount to a general trend.61

61 More generally, our robustness checks indicate that the positive effect of IDO Member Corruption on aid allocations to corrupt recipients is not robust to a number of model specifications. Although the effect is not robust, it presents an interesting avenue for future research to investigate how IDOs composed of more corrupt members reach these aid allocation decisions. It is beyond the scope of this paper to do so, but one possible explanation for a positive effect could be in the rent-seeking behavior of corrupt donor governments who use regional IDOs to recoup some of the resources they contribute without being detected.
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 IDO aid allocation decisions. Recipients with larger populations do receive significantly more contributions from IDOs, however recipients who are far away or trade more with important IDO members receive significantly less aid. At the same time, IDOs do provide significantly more aid to recipients that are very poor or that have higher democracy. Colonial relationships, disasters, and civil conflicts have no effect (some of these effects are captured in the fixed effects). 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 that uses standardized coefficients reveals that the composition of donor characteristics tends to have a greater substantive effect than most of the strategic variables. This implies that strategic motivations for aid allocation tend to be diluted in multilateral settings, and that the makeup of the organization may be just as—or in some cases more—influential.62

*Mandates*

A central part of our argument involves the adoption and enforcement of good governance claims and rules—what we refer to as mandates. Many IDOs have adopted anti-corruption

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62 Variables are standardized by subtracting the mean and dividing by the standard deviation.  
Estimation results available upon request.
mandates over the last few decades. These mandates are, on paper, adopted in order to guide an organization’s aid allocation strategy away from potential recipients with records of corruption. One might expect that only IDOs that have very low levels of average IDO corruption adopt those mandates because they reflect the genuine preferences and intentions of members to steer clear of aiding corruption. If so, that makes it hard to determine whether these mandates are endogenous to state preferences for good governance or if they actually shape IDO lending practices. We have argued, by contrast, that corrupt states can readily adopt anti-corruption standards with little cost if they do not comply given that there is no external (outside of the organization) enforcement for noncompliance and that donors’ general publics often are misinformed—and do not care—about multilateral aid giving decisions; that publics in these donors are often disempowered from the capacity to punish their government; and that elite selectorates may have a direct preference to fund partners that happen to be corrupt, or at least to turn a blind eye.

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63 For all IDOs in our sample we code whether the organization in a given year had a formal, and enforceable, anti-corruption mandate in place (0,1). Appendix A provides the new data on mandates. Appendix C elaborates on the definition and coding protocol.
To substantiate this claim, we collected original data on anti-corruption mandates in our sample of IDOs. Figure 3 illustrates that many organizations with highly corrupt donors have also adopted anti-corruption standards. Those IDOs with mandates (e.g. The EBRD after 1991) have similar average donor corruption to IDOs that have no anti-corruption mandates (e.g. the IBRD before 2010). This raises the key question whether such

64 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. While the distribution is bimodal, the Average IDO Corruption for observations with (2.04) and without (1.88) a mandate is very similar. The fact that IDO-years with an anti-corruption mandate in place have a marginally higher corruption score is in line

Figure 3: Kernel Density Distributions of Average IDO Corruption by Mandate, 1998-2013

---

64 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. While the distribution is bimodal, the Average IDO Corruption for observations with (2.04) and without (1.88) a mandate is very similar. The fact that IDO-years with an anti-corruption mandate in place have a marginally higher corruption score is in line
mandates are cheap talk or whether donors—including the corrupt—abide by their own rules. Are IDOs with anti-corruption mandates more willing to withhold aid to potential recipients with records of corruption?

To determine whether mandates deter aid to corrupt countries, we estimate our main model with a triple interaction between Recipient Corruption, Average IDO 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. 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. We illustrate 90% confidence intervals around the marginal effects (grey-shaded areas).

65 We follow the method proposed in Brambor, Clark, and Golder 2006. Full tabular results are reported in Appendix D. We also split the samples by whether the IDO had a mandate or not; the results, which are robust to the findings of the triple interaction estimation, are reported alongside the triple interaction in Appendix D.
The findings show that corrupt donors generally do not comply with their own anti-corruption mandates—at best, mandates only slightly dampen their substantial willingness to aid corrupt states despite the rules, and that effect is not statistically significant. For IDOs that have no anti-corruption mandates (upper line in Figure 4), we observe that IDOs with high levels of average donor corruption (i.e. a value of 4.2 in the Arab Fund for Economic and Social Development during the early 2000s) increase their aid allocations (in dollars) to corrupt recipients by almost 300% for each unit increase in corruption. That effect declines slightly for corrupted IDOs with a mandate, like the Islamic Development Bank, (lower line in Figure 4) but only to 100% (and the confidence intervals suggest that the difference is not statistically significant). By contrast, IDOs that are composed of the least corrupt donors (i.e. a value of 0.3 in the Nordic Development Fund) are likely to lower

*Figure 4: Marginal Effects in IDOs without and with Mandates, 1998-2013*
their aid by over 500% to potential recipient countries that experience a one-unit increase in national corruption and—notably—this effect holds regardless of the rules: even IDOs that have not adopted anti-corruption mandates are reticent to provide aid to corrupt places when their principals are comprised of low levels of corruption.

The findings are revealing. The most corrupted IDOs that have anti-corruption mandates nevertheless provide foreign aid to corrupt recipients. This renders such standards largely cheap talk in the most corrupt organizations. Meanwhile, less corrupt donors honor and enforce anti-corruption rhetoric and norms even without formally institutionalizing them. The rules, then, appear to have little independent effect on aid allocation decisions for either group.

**Robustness Checks**

To ensure that the results are not dependent on our model specification choices, we conducted many additional tests, which we discuss briefly here and report in full in the appendix. First, Appendix F demonstrates that the findings are robust to using alternative measures of corruption, in particular Transparency International’s *Corruption Perceptions Index* (CPI) score and the World Bank’s *World Governance Indicators* (WGI) control of corruption score. For both alternative corruption indicators, we find a significant conditional impact of average donor corruption on the relationship between recipient corruption and IDO aid receipts. We also use different measures of good governance to analyze whether our findings are more generally applicable (Appendix G), including the World Bank’s WGI indicators of (a) Voice and Accountability, (b) Rule of Law, (c) Regulatory Quality, and (d) Government Effectiveness. The results show that our findings on donor corruption carry over to other governance indicators as well, with the exception
of the Rule of Law. Appendix H presents models with additional control variables, including measures of infant mortality, U.S. military aid, interstate conflict, IO member count, and income. We also analyze whether the results are robust to alternative indicators of democracy, recalculate our IDO-level variables (in particular, Colony, Trade, and Distance) based on the top 5 donors in each IDO,\(^\text{66}\) include a count of IDO members, and show that our results for Average IDO Corruption are not driven by the average level of democracy within the membership of the IDO.\(^\text{67}\)

Our main results are based on the average IDO corruption of the ten largest IDO members in order to take into account differential bargaining power inside the organization. Appendix I analyzes the robustness of our results to averaging the top 5, top 15, and top 20 of the largest member states as defined by GDP. We also created the variable for all members in an IDO-year. The results show that the interaction is consistently significant for all member pools. Appendix J turns to analyzing the robustness of our results in respect to model specification and presents results using recipient fixed effects, time-series cross-section estimators, a lagged dependent variable, and robust standard errors. We also present and discuss the results of a two-stage approach in Appendix K.

The multiplicative interaction effect that we graph in our main estimations assumes a linear interaction effect that changes at a constant rate with the moderator. In order to analyze whether relaxing this assumption changes our findings, we also use flexible

\(^{66}\) We add this robustness check under the assumption that the major donors will have the largest impact on IDO aid allocation decisions in respect to strategic variables

\(^{67}\) We calculate the Average IDO Democracy in line with the formula described in the research design section.
estimation to allow for nonlinear interaction effects (Hainmueller, Mummolo and Xu 2017). The graph presented in Appendix L is remarkably similar to our main specification for IDOs with low donor corruption but reveals some interesting results with respect to four Middle Eastern IDOs, which all rank high on average IDO corruption, but tend to avoid funding corrupt recipients. The appendix provides a discussion for why these effects may occur.

Our estimations are based on a sample of IDOs that have various characteristics. To analyze whether these characteristics affect our estimated relationship, Appendix M estimates the main model for subsamples, each excluding the most important forms of IDOs: development banks, UN development institutions, and regional IDOs. The main results are robust. We also report estimation results that exclude particular groups of countries and observations from the sample (North America and Europe). Finally, Appendix N analyzes the robustness of our results to the exclusion of potential outliers.

Overall, the robustness checks shed further light on the causal mechanisms and indicate that the results are robust especially with respect to the negative effect at low levels of *Average Donor Corruption*. We further find that the positive effect at high levels of *Average Donor Corruption* depends on a small set of sample observations, which leads us to conclude that IDOs with relatively corrupt donors are simply turning a blind eye to the issue.

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68 In line with the findings on multilateral aid in Winters and Martinez (2014), results for the type of aid are inconsistent and thus we do not report them here.
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 recently discover that the money has been used to fuel massive corruption.69 Canada gave many millions of dollars intended to help fund education in Kenya that corrupt officials inside the Ministry of Education instead siphoned off.70 Meanwhile, 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.71 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 the world’s poorest and most corrupt places72—as well as to the large supply of IDOs that provide a growing share of the financial resources. Some of these international

69 Chamberlain 2016.
70 O’Neill 2010.
72 Prizzon, Greenhill and Mustapha 2016. Recent work, however, indicates that Chinese aid is not likely to be more politicized than Western aid (Dreher and Fuchs 2015; Strange et al 2017; Dreher et al 2018.)
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. Specifically, organizations composed of highly corrupt donors are just as likely to adopt but much less likely to enforce anti-corruption standards as are organizations composed of less corrupt donors. Less corrupt donors, by contrast, punish states for corruption by withholding aid, and they do so with or without formalized anti-corruption rules in place. While strategic factors do shape aid allocation decisions, this study suggests that their importance is reduced in a multilateral setting where the composition of donors often plays a larger role. The implications for debates over foreign aid policy and good governance standards are substantial. Here, we briefly raise three.

First, our findings contribute to a growing literature seeking to provide evidence that multilateral donors are far from neutral or de-politicized aid-givers, as had once been assumed. 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 donors can and do capture their IDO’s agendas, which helps explain why certain IDOs are punitive toward
corruption while others are funneling money into very corrupt places, turning a blind eye to the problem.

Second, in this context, talk of good governance appears to be largely cheap. Groups of corrupt donors adopt anti-corruption 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. Less corrupt donors, by contrast, enforce these norms regardless of whether they have formalized them into rules. While this article 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 bad practices. If so, good governance standards may be on the rise but aid effectiveness in many places remains in question. Global rulemaking is not solving the problem, which calls into question the general effectiveness of the good governance movement’s regulatory strategy.

Finally, and more broadly, these findings speak to longstanding debates in other domains such as human rights, trade and the environment over whether international organizations 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, and track records of, 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 to the table, including those in violation of an organizational goal.

73 Hafner-Burton 2013.
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 corrupt donors leads to flows of IDO aid to corrupt recipients that, by just about any theory or metric, are unlikely to efficiently or effectively achieve the goal of economic development, even when anti-corruption rules are in place. Hope for the anti-corruption movement lies not in the rules IDOs adopt but rather in grouping together less corrupt donors.
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