Rich and Naïve? Assessing the Effects of Norwegian Aid on Political Corruption, 1980-2018

Abstract

The effectiveness of aid is heatedly debated in academia and policy circles. Annually, billions of dollars are transferred from industrialized countries to developing countries out of moral and practical concerns. Can aid from Norway, a country apparently with little strategic interests, a great deal of political consensus in support of aid, and much wealth, make a difference towards achieving better political governance in the poorer world? Using data on bilateral- and good governance aid per capita as measures of the value of aid to recipients, and novel data on political corruption, we find that aid from Norway associates negatively with political corruption, whereas total aid from all donors associates positively. The substantive impacts of these effects, however, are minimal. More sophisticated analyses accounting for selection effects and endogeneity suggest that Norwegian aid is perhaps following good governance rather than causing it. This finding, while not supporting aid optimism, might somehow comfort Norwegian taxpayers who might rest assured that their money is not unduly benefiting the corrupt. While there is no support for the extremely pessimistic view of Norway's generosity towards the poorer world, one might still question its instrumental value if it only *follows* success rather than *causes* it.

Effective and efficient use of development financing requires both donors and partner countries to do their utmost to fight corruption. **Accra Agenda for Action (2008: 20).**

1. Introduction

The gap between the rich world and the poor is enormous, with many in the poorest group simply failing to provide adequate fundamental necessities, such as clean water, health care, and education, to citizens (Passé-Smith 1998).[1] In addition to the moral and normative questions these disparities pose, the problem of failed states spills over to the rich world in the form of civil wars, terrorism, mass migration, and the spread of disease (Pogge 2010). The policy agendas of international institutions, such as the United Nation's "Sustainable Development Goals" (SDGs), offer lofty prescriptions, while national governments in the rich world simply commit to more aid (OECD 2012).[2] Foreign aid's effectiveness for reducing poverty and achieving ambitious priorities highlighted in 17 SDGs is, however, heavily debated (Collier 2007, Easterly 2006b, Moyo 2009, Sachs 2005). Indeed, SDG 16 is devoted to raising the effectiveness of governance, a critical issue if aid recipients are to take "ownership" of projects and build the institutions required for long-term sustained development (Acemoglu and Robinson 2012, OECD 1997). Critics of aid are pessimistic about donor efforts to solve what some term the "economic" problem through deep structural reforms that reduce market distortions, which they see as the fundamental barrier to sustained development (Easterly 2005b, Skarbeck and Leeson 2011). Some critics even argue that aid increases corruption by allowing bad rulers to avoid reform and survive in office (Bueno de Mesquita and Smith 2011, Edwards 2015). Many others argue that aid is mainly a self-serving foreign policy tool, serving donor interests, such as stemming the flow of economic migrants (Azam 2019). We assess these

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[1] In 2017, roughly a billion people lived on less than $2 per day, the threshold for absolute poverty. Total global aid that year was $127 billion. See https://data.worldbank.org/indicator/dc.dac.totl.cd (accessed 20.01.2020).

[2] For a history of the Donor Assistance Committee's (DAC) foreign aid priorities, see https://www.oecd.org/dac/stats/the07odagnitarget-ahistory.htm (accessed 20.01.2020).

debates by examining Norwegian aid's effects on various novel indicators of political corruption.

By using the latest Norwegian aid data that measure total bilateral aid and aid earmarked for good governance, and indicators of "political corruption" and "corruption in the public services" taken from the Varieties of Democracy project (VDEM), we assess our results using fixed effects regression analyses. The results suggest that Norwegian aid is associated with lower corruption. These results are robust to the inclusion of several confounding factors and estimation methods. The substantive effects of Norwegian aid on corruption, however, are slight. Moreover, when adjusting for selection and estimating instrumental variables analyses to assess reverse causality, the significant negative effects of Norwegian aid on corruption no longer hold. These results suggest that Norwegian aid is likely following better governance in aid recipient countries than actually causing it. A direct test of this proposition clearly shows that Norwegian aid avoids corrupt regimes to a far greater extent than the other DAC donors as a group, which further suggests that Norwegian aid is chasing success rather than determining it. Either way, these results do not suggest that Norwegian aid is naïve, encouraging corruption, as many aid pessimists claim. Nor does it seem that Norwegian taxpayers might be unduly compensating corrupt rulers at the expense of the truly poor. This is good news. Next, we discuss theory and outline our innovations to previous research, outline our data and method, discuss results, and briefly conclude.

2. Previous research

The underlying logic for aid is that governments of developing countries need finance to cover expenses, whether for investments towards physical capital, or other public goods, such as schooling and health (Ranis 2011). Since poor countries have low savings and are generally unable to access finance from open capital markets on favorable terms, rich countries can, by

collecting taxes from their own citizens, help finance development in poorer countries through foreign aid programs. The success of the Marshall Plan in the post-war recovery of war-affected Western Europe coincided with the US's struggle to win allies among the emerging nations in the Cold War struggle with the Soviets, two factors among many that provided a compelling rationale for extending aid to countries vulnerable to communist movements. As some see it, increasing aid to the poor today might be equated with the immediate post-war period as "enlightened self-interest" because problems in poor countries oftentimes spill-over to the rich world, which aid might then somehow mitigate (Collier 2007).

Formal neoclassical economic theories, popular at that time, also provided the economic rationale for aid (Rostow 1960, Solow 1956). The neoclassical growth model suggested that the higher the inputs—capital and labor—the higher the output of gross domestic product (GDP). Since poor countries lacked capital, greater investment from the savings of others could increase growth and thereby transform the poor countries. Aid was seen as one of the inputs for providing poor countries with the "big push" required for self-sustaining long-term growth. By the 1980s, however, the neoclassical growth model was being challenged by new growth theories that viewed the criticality of technological change—not just the quantity of capital inputs. As such, the idea (technology) component associated with both physical and human capital become more important (Romer 1986). Economic growth and development, thus, became predicated far more on endogenous factors associated with human capital and institutions rather than exogenous capital imports alone (Mankiw, Romer and Weil 1992, Sala-I-Martin 2001). These new insights into endogenous processes of growth and development also led to the questioning of "big push" ideas associated with aid, including the failed lending attributed to international financial institutions (Easterly 2005a).

The question of assessing the effectiveness of aid on development is an extremely thorny one given the heterogeneous nature of donor intentions, recipient intentions, and the question

of what is to be measured, not to mention the question of timing and the assessment of the quality of aid monies (Arndt, Jones and Tarp 2015, Clemens et al. 2012). The concept of development likewise is broad and amorphous, but economists have generally focused on economic growth. Since aid monies allow higher rates of investment and allow governments to plug their financing gaps, aid can increase the growth of output and the supply of public goods, both of which could generate long-term sustained development (Ranis 2011). Recent evidence suggests that aid, at least since the 1980s, has caused higher growth rates after endogeneity is taken into account, and when a limited sample of countries (77 countries) is estimated (Arndt, Jones and Tarp 2015, Clemens et al. 2012). While these positive effects on growth remain modest at best and still subject to greater scrutiny, the bulk of the evidence on aid and development remains mixed (Banerjee and Duflo 2012).

Indeed, by the end of the Cold War, despite over 3 trillion dollars of aid that was transferred from the West to the rest, many began to argue that aid had failed the poor (Easterly 2006b). Many heavily aid-dependent countries in Sub-Saharan Africa collapsed, leading to civil wars and massive population displacement (Bates 2001). A large body of critical literature on the failure of aid suggested that aid hurts the poor more than it helps (Maren 2002). These critics of aid suggest various ways in which aid is misplaced. First, aid serves the strategic and foreign policy interests of the donors rather than the poor populations that get aid. Secondly, governments of the countries that receive aid have their own agendas, which means aid projects do not have enough local support and involvement. Thirdly, because of aid, the incentives of aid receiving governments to reform endogenously are few. Fourth, aid corrupts the politics of a country because governments become dependent on aid and not on the local population´s taxes, which might generate local accountability. Fifth, rich countries simply aid because they do not want to make the hard choices of allowing the poor market access or more favorable

terms of trade, leading to "lazy giving" (Alesina and Weder 2002, Banerjee 2007, Easterly 2006b, Moyo 2009).

In short, aid, in the pessimistic sense, falls short because donors either fail to impose effective conditions on bad governments or because aid is inherently "state-led" development, what Easterly (2006) calls development by "planners" and bureaucrats. Such critics would instead ditch aid for the empowerment of civil society or "rights-based" approaches that allow development through the growth of markets and the harvesting of entrepreneurship by "seekers" (Easterly 2005b). A first step to rights-based approaches to development would be to ensure better political institutions that create the foundations for markets to thrive, such as secure property rights (Acemoglu and Robinson 2012, Easterly 2006a). As many pessimists on aid suggest, the fundamental issue of aid is its inability to solve the "economic problem" related to development (Skarbeck and Leeson 2011). This economic problem is based on secure property rights and market-supporting institutions that secure the rule of law. Poor countries typically lack such institutions because it is not in the interest of incumbent rulers to undermine their hold on power and privilege by empowering others that might displace one's privilege (Acemoglu and Robinson 2006). Thus, the only point at which money from aid can persuade rulers to undertake drastic reforms is if aid is actually marginally greater in value than the returns from extracting rents from society. Indeed, there is a considerable literature on the problems of conditionality related to large, powerful multilateral entities, such as the World Bank and the International Monetary Fund's (IMF) involvement in the poor world, which confirms that conditionality rarely works (Dreher, Sturm and Vreeland 2013). In other words, the dictates of political survival explain well why many poor countries have corrupt rulers who knowingly follow bad policy for surviving in office, a logic that would be hard for donors to affect simply by offering some money (Bueno de Mesquita and Smith 2011). While the question of exactly how institutions affect forms of corruption, which in turn affect development, is

likely to be debated for some time to come, the bulk of the evidence suggests that on normative and practical grounds, bad governance defeats the cause of economic and social progress on many fronts (Chang 2011, Lederman, Loayza and Soares 2005, Rothstein 2011).

For addressing the problem of corruption, the international community has come up with various policy directives designed to mitigate failure and increase the effectiveness of aid. For example, The Paris Declaration in 2005 and the Accra Agenda 2008 commit to the idea of "ownership" to allow "partner" countries in the developing world to play a more significant role in the design and implementation of aid projects (Easterly and Williamson 2011). However, the problem with "ownership" is that countries with corrupt governments are unlikely to make aid work for the needy, but they might instrumentalize aid for corrupt purposes. As some empirical studies show, aid works best where governments are less corrupt (Bueno de Mesquita and Smith 2011, Svensson 2003). Another policy stance is that donors should show better selectivity, or disburse aid based on moral concerns for the poor and avoid corrupt environments that waste both taxpayer money as well as reduce the chances of the poor. Thus, by judging what kinds of governments receive aid, donor agencies can be judged based on selectivity, regardless of the actual outcome of the aid (Knack, Rogers and Eubank 2010). Donors increase their chances of being more effective, thereby fulfilling their obligations to the ordinary citizens of recipient countries, if indeed, aid is disbursed among cleaner governments (Clist 2011). Studies of the determinants of aid continue to find, however, that there is heterogeneity among the donor community (DAC) when it comes to selectivity, and that there is considerable discrepancy between donor *rhetoric* and *reality* when it comes to allocation of aid (Easterly and Williamson 2011, Knack, Rogers and Eubank 2010). Easterly and Williamson (2011) find, in particular, that corruption has not deterred aid allocation decisions, particularly by bilateral donors. They conclude that;

> A good candidate for worst trend in aid is [lack of] selectivity, most specifically aid to corrupt countries….The corruption outcome reflects the

sharpest contradiction between rhetoric and symbolic actions, on the one hand, and actual outcomes on the other (Easterly and Williamson 2011:1946).

Thus, the specialized literature on aid selectivity is rather pessimistic about donor motives. Apparently, donors are driven by a perverse incentive to fund as many countries as possible rather than fulfill moral duties to aid the poor in better political environments. Since many donors are judged based on *how much* they disburse rather than the effectiveness of funding, then increasing aid to recipients regardless of selectivity criteria has led to what some have termed "lazy giving," where funds are allocated loosely rather than with an eye to succeeding (Banerjee 2007). Aid directly to governments for bridging the so-called "finance-gap" is particularly vulnerable to being misused even if donors might prefer having governments held to some "conditions" for receiving aid. Conditionality, however, often fails because money is fungible, and donors are ill-equipped to monitor the effective use of their monies (Banerjee 2007, Maren 2002). Strategic interests, foreign policy goals, and business interests could well hamper countries from avoiding corrupt regimes.

In many cases, corrupt regimes may indeed be compensated with greater aid because they can deliver donors' policies, which has been the case, for example, most recently in places such as Afghanistan, where the objective of defeating the Taliban superseded good governance efforts (Chayes 2015). Thus, many argue that donors should target aid for achieving specific outcomes designed to serve the poor, without considerations extraneous to this task (Banerjee 2007). As Edwards (2015: 308) puts it, "economists and other social scientists need to think in terms of concrete problems that can have specific answers, rather than foreign assistance in general." For these reasons, we focus our empirical analyses on assessing Norwegian aid's performance, focusing specifically on aid in general, and targeted aid directed towards the improvement of governance. Can aid from a country with little military-strategic interests around the world be more "morally" intentioned and thereby more effective on the specific

outcome of good governance, which many argue is critical for generating broad-based development?

3. Why Norway?

Critics of aid, such as Easterly and Williamson (2011), single out Scandinavian aid for poor selectivity. Norway, together with Sweden, is one of the most prominent Scandinavian donors, active in peacemaking, human rights promotion, climate change mitigation, and several other noteworthy causes. Norway is one of the 30 DAC members that provide the majority of the world's official aid. Norway's contribution to "overseas development assistance" (ODA) was estimated at 4.3 billion US dollars in 2015, which has grown since then (OECD 2016). Norway's aid budget relative to Gross Domestic Product (GDP) is one of the highest, exceeding 1%. Norway is one of the largest donors in the DAC relative to GDP, and the ninth-largest when assessed by the total value of aid provided. The country is one of six member states that has reached the UN target of surpassing 0.7% of GDP (OECD 2016: 239). In other words, comparatively, Norway has one of the most generous aid budgets with very high societal consensus around engagement in moral purposes in foreign policy. Notably, the bilateral component of Norwegian aid is roughly 80% of total aid, with roughly 20% on average earmarked for multilateral institutions. Thus, we focus on this bilateral giving since it measures a Norwegian political priority more directly.

Because of the high societal and political consensus regarding aiding the poorer parts of the world, aid, thus, functions as an essential component of Norway's foreign policy priorities, and a vital part of Norway's self-image (Toje 2010, Tvedt 2007). Toje (2010: 211) claims that Norway is "exceptionally suited for solving problems on a global scale due to international sentiment and a willingness to pay." Indeed, as some argue, Norway's wealth and its small power status make it ideal for acting as a "moral superpower" and furthering progressive

international causes (Borchgrevink 2004, Egeland 1989). The act of giving is stamped as important for both Norway's self-image and its image abroad, and providing aid is done with the belief that a world with less poverty and greater justice is in the public's interest (Toje, 2010: 211). As such, there is broad consensus among the taxpayers and their political representatives that Norway remains a world-beater in the area of development aid and humanitarian activity (Borchgrevink 2004).

The question of whether Norwegian aid is morally intentioned or driven by other, more sinister objectives and distorted incentives is highly debated and perhaps beside the point (Borchgrevink 2004, Tvedt 2007). The question is still whether donors, even with the best intentions, might undermine the very cause they throw money at. Norway's small size and lack of strategic purpose might reduce its leverage vis-à-vis recipient governments—in other words; conditionality is likely to be weak. Its generosity might indeed be a burden for the poor by creating moral hazard among the rulers, who might take aid monies rather than reform. In other words, Norwegian aid might increase dependence on outsiders and reduce state dependence on its own citizenry, thereby reducing accountability (Moore et al. 1999). Moreover, the strong political consensus within donor countries for giving aid could be a form of moral hazard within the donor polity because consensus may hamper effective accountability, leading to "lazy thinking" about aid. Indeed, the Scandinavian donors, particularly Norway and Sweden, are castigated by Easterly and Williamson (2011) for being too quick to support corrupt regimes, which they explain as stemming from naïve generosity and historical ties to more socialistic regimes because of a shared ideology associated with "big government," which they associate with the more corrupt regimes.

Studies, such as Easterly and Williamson's (2011), addressing selectivity assess donor decisions by examining the shares of aid budgets allocated to recipients based on various selectivity criteria. In other words, they examine shares of the total aid budget to assess the

veracity of "donor rhetoric." However, it is almost a given that the most significant shares would be allocated to the most impoverished places, particularly if poverty is a strong selectivity criterion. The poorest places, however, are also likely to be the most corrupt, which suggests that aid shares are bound to be higher among more corrupt recipients, regardless of intentions. In other words, more patients may die at the hands of the "best doctors" simply because they get the "worst patients." We revisit this issue a bit more differently. We assess whether Norwegian aid is greater in per capita terms (economic value to recipient) among more corrupt governments, holding constant other relevant factors, such as the level of poverty and political openness. In other words, is Norwegian aid more valuable for corrupt regimes relative to less corrupt regimes, *ceteris paribus*?

Moreover, examining donors' budget priorities can only reveal "how well" aid was allocated rather than its "value" to the recipient, which might help reveal the consequences of aid for the recipient governments over time. For example, does Norwegian aid reduce corruption after controlling for other factors, such as income growth and democracy? We use multiple regression with fixed effects, as well as selection models and instrumental variables techniques, to assess how Norwegian bilateral aid and the more targeted good governance aid might induce better political governance, as well as assess how this aid might indeed be causally impacting political corruption by accounting for selection and endogeneity concerns. It should be noted that the "value" of all overseas development assistance (ODA) to recipient governments is on average roughly 6% of GDP. Clearly, trying to induce a ruling elite to make reforms that may undermine their positions for such share of aid in total production might seem unreasonable. This marginal cost and benefits of aid to a ruling elite, however, is hard to get at directly. Even when looking at Norwegian aid alone in per capita terms, the average transfer is roughly 1.2$ per capita, which seems very small, but how conditionality works would depend on the size of the ruling elite, not to mention their costs for holding on to power. A society with

a million people and 1 ruler in this case would receive 1.2 million $ per annum for making reforms, which is not a small amount for 1 person. Indeed, the maximum value of per capita aid is 122$. In the example above, a ruling elite would stand to gain 122 million, if indeed aid worked purely on the theoretical basis of "bribing" rulers to adopt the rule of law. Future studies should clearly identify how indeed aid might be used to induce reform by examining actual aid monies versus the precarity of a ruling elite´s hold on power.

Indeed, a recent study addressing the question of aid and good governance using institutional variables quite similar to ours (discussed below) reports a small positive effect of aid on institutional change towards better governance (less corruption) and less political terror (Jones and Tarp 2016). Departing from most other studies on aid that are cross-sectional in nature, and thus static, Jones and Tarp (2016) estimate dynamic models in a variety of ways, but with data averaged in periods, which limited their options for estimating country-level heterogeneity—in other words, T was too small. As many suggest, empirical studies on aid on outcomes, such as growth, are extremely sensitive to specification (Roodman 2008, Wilson 2011). Wilson (2011) suggests that this heterogeneity needs to be accounted for because of the various reasons for which states receive aid and the heterogeneity of institutional outcomes. Our study, while focusing on Norwegian aid, thus, will control for the effects of all ODA received, but we use annual data over a longer time period, which allows us to account for country heterogeneity. Thus, we allow the intercept to vary across units. Despite the meticulous design of the statistical analyses and great care in their estimating strategy, particularly for inferring causality, Jones and Tarp (2016) also measure their main variable of interest, aid flows, as aid over the recipient country's Gross Domestic Product (GDP). Since the denominator, GDP, is likely to be very sensitive to other factors, particularly the growth rate of GDP, business cycles, global economic factors that also affect aid, a better measure of the

economic value of aid to the recipient country is aid per capita, which we use following many others (Wilson 2011). We discuss these issues in detail below.

2. Data and methods

To answer the central questions on the relationship between Norwegian bilateral and good governance aid on corruption, we use a pooled, time-series, cross-sectional dataset (TSCS). This means that the data consists of measurements of the distinctive variables in each individual country for every year between 1980 and 2018 (38 years). The dataset covers roughly 129 developing countries at various stages of development. TSCS data can be plagued with bias if the estimates are unadjusted for the complex correlation patterns across countries, within countries, as well as overtime (Beck 2001). Since the generalized least square method (GLS) is supposedly biased, we use ordinary least squares (OLS), accounting for bias from autocorrelation (temporal dependence) and heteroscedasticity by using the Newey-West estimator, computing both year and country fixed effects for addressing heterogeneity (Newey and West 1987, Wilson and Butler 2007).[3] Additionally, we also estimate OLS regressions with Driscoll-Kraay standard errors that account for spatial correlation (spatial dependence), which in many similar studies has been treated as a nuisance, or indirectly modeled using a lagged dependent variable. Aid and corruption, however, are both very likely to show co-movement across space (Driscoll and Kraay 1998, Hoechle 2007). While fixed effects, or estimating the within variance, is considered the workhorse of causal inference, we also estimate standard fixed and random effects models for comparison with earlier studies. Further, one cannot assume a causal association between aid and corruption because of selection bias. Indeed, aid agencies may select the "easy cases" when allocating aid, or the difficult cases (more corrupt

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[3] We test for serial correlation by running the Woodridge test on the basic model. We could not reject the null hypothesis that our data suffer from first-order serial correlation.

countries) might systematically reject aid. Giving Norway credit for positive aid outcomes, in this case, thus, would be akin to crediting an average doctor for a high success rate because she got all the easy cases. To account for this selection bias, we use the Heckman correction method that uses a two-step approach, which first estimates the pattern of Norwegian aid giving and then uses that information in the second stage to assess the impact of Norwegian aid after the systematic pattern in aid giving is accounted in the model (Heckman 1979).

While fixed effects estimation assesses the within-unit variance, one might be reasonably assured that bias due to omitted variables is not present. However, we are not able to dismiss reverse causality. In other words, Norwegian aid agents could simply pick those countries that improved their corruption scores to assign more aid—thus, aid follows good governance rather than the other way around, or aid is endogenous to improvements in good governance. To overcome this endogeneity issue, we estimate two-stage, least-square instrumental variables techniques, where exogenous instruments explaining Norwegian aid are used to explain aid, but are exogeneous to good governance. We pick the annual average global oil price because Norway's government budget is affected by revenues from oil exports, which in turn would be affected by the price of oil on the world market. The oil price is unlikely to be affected by any one recipient country's corruption score. The oil price on the world market, however, could influence corruption in oil wealthy recipient states. Therefore, we vary the effect across space by interacting the oil price with geographic distance from Norway. Countries with geographic proximity to Norway, generally, should get more aid per person relative to very distant places where Norwegian concerns are likely to be less urgent.

Our main independent variables are total Norwegian bilateral aid extracted from the World Bank's *World Development Indicators* (WDI) online database as Norwegian bilateral

aid in current US$.[4] We use the US GDP deflator for expressing these values in 2015$.[5] Next,

we extract total Norwegian good governance aid from the Norwegian Aid Agency (NORAD)

data site, which provides data in Norwegian Kroner (NOK) expressed in thousands of NOK.

We use the official exchange rates for the US$ provided by the Norwegian Central Bank

(Norgesbank) and convert the estimates to current dollars, which we then convert to 2015 US$

using the GDP deflator to make our two aid series comparable.[6] Next, we create Norwegian aid

and good governance aid as a share of the population (per capita) by dividing the 2015 US$ aid

values by total population (WDI) of the recipient countries annually. Both aid data series are

logged to reduce skewness and avoid bias from extreme values.

Figure 1 displays the time trend of the aid per capita for both types of aid from Norway

in per capita dollar terms across 129 developing countries.

**********FIGURE 1 ABOUT HERE**********

As seen there, Norwegian bilateral aid seems to have bumped up considerably, peaking around

an average of little over 2 dollars per capita around 2014-2016 and coming back down again in

the most recent years. Good governance aid follows a similar pattern but at a much lower

magnitude of less than 0.5 US$ on average. The geographical coverage of good governance aid

is also comparatively much more limited. In 2017, the top five aid receivers in terms of

economic importance to the recipient in per capita terms were Palestine (35$), Lebanon (9$),

Syria (7$), South Sudan (6.5$), and Guyana (6$). Indeed, Guyana has been a very fortunate

recipient of Norwegian aid, hitting 122 $ per capita in 2014, the highest ever aid disbursed in

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[4] These data are available at: https://databank.worldbank.org/reports.aspx?source=world-development-indicators&preview=on#. (last accessed 27 January 2020).
[5] The GDP deflator is obtained from the US Bureau of Economic Analysis: https://www.bea.gov (accessed 27 January 2020).
[6] The official exchange rates for the Norwegian Kroner and the US$: https://www.norges-bank.no (last accessed 27 January 2020).

terms of value to the recipient in per capita terms. The top five good governance aid recipients in 2017 were Kosovo (3.05$), South Sudan (1.7$), Somalia (1.4$), Bosnia Herzegovina (1.2$), and Georgia (0.72$) respectively. The Maldives is one of the highest recipients consistently of good governance aid, reaching a peak of over 13$ per capita in 2014, while Palestine, too, has received relatively high per capita values of good governance aid. Interestingly, the share of good governance aid relative to total bilateral aid has grown from roughly 1% in 1980 to 16% in 2017, having reached a high of almost 30% around the peak of the Arab Spring between 2009 and 2012. Jones and Tarp (2016) report a value of 10% when assessing the share of good governance aid relative to total aid from DAC donors, suggesting that Norway's commitment to good governance is slightly above par compared with the DAC.

Our main dependent variables on corruption are taken from the Varieties of Democracy (VDEM) project's political corruption indicators that measure the degree of corruption within a regime, assessed as the prevalence of neo-patrimonial and clientelist tendencies within the regime taken as a whole (executive, legislature and judiciary) and corruption specific to the public sector (McMann et al. 2016). VDEM data are based on expert opinion, where country and regional experts answer specific questions, such as the following:

> *To what extent do political actors use political office for private or political gain?*

The expert coding is then subjected to rigorous analysis, namely item response theory, for minimizing intercoder bias and increasing reliability. According to VDEM (2019: 262), regime corruption is defined in the following manner.

> In systems of neopatrimonial rule, politicians use their offices for private and/or political gain. This index relates closely to V-Dem's political corruption index (v2x_corr), but focuses on a more specific set of actors – those who occupy political offices - and a more specific set of corrupt acts that relate more closely to the conceptualization of corruption in literature on neopatrimonial rule.

We also use political corruption in the government, which is defined as the following (VDEM 2019: 266).

> The corruption index includes measures of six distinct types of corruption that cover both different areas and levels of the polity realm, distinguishing between executive, legislative and judicial corruption. Within the executive realm, the measures also distinguish between corruption mostly pertaining to bribery and corruption due to embezzlement. Finally, they differentiate between corruption in the highest echelons of the executive at the level of the rulers/cabinet on the one hand, and in the public sector at large on the other. The measures thus tap into several distinguished types of corruption: both 'petty' and 'grand'; both bribery and theft; both corruption aimed at influencing law making and that affecting implementation.

Finally, we also test corruption in the public sector, coded by VDEM coders, according to the following question (VDEM 2019: 267).

> To what extent do public sector employees grant favors in exchange for bribes, kickbacks, or other material inducements, and how often do they steal, embezzle, or misappropriate public funds or other state resources for personal or family use?

**********FIGURE 2 ABOUT HERE**********

Figure 2 displays the trends in the three corruption indicators. Unsurprisingly, they seem to be very closely related. While each of these variables is highly correlated with each other, they may not be interchangeable. Regime corruption is correlated at r = 0.96 with government corruption, but only r = 0.83 with corruption in the public sector. Corruption in government is correlated at r = 0.88 with corruption in the public sector. The trends in corruption also show an interesting development at odds with a simple association between corruption and democracy, in that corruption increases after the end of the Cold War when trends in democracy show the opposite. Studies, such as Easterly and Williamson's (2011), that look at Norwegian aid shares on the POLITY democracy scores, thus, are likely missing many aspects of corruption associated with democracy. Indeed, democratic controls on the corruption of governments and state agents are not a given. Countries, such as Singapore, with lower levels

of democracy have very high controls on corruption of the public sector, whereas countries, such as India, with high levels of democracy, show higher than usual political corruption as well as corruption within the public sector. Thus, there can be a great deal of variance between countries when it comes to the heterogeneity of corruption, which the fairly high but less than perfect correlations cited above suggest.

We feel that our measures of corruption detect political corruption, rent-seeking, bribery, neo-patrimonialism and clientelism better than previous studies that have used either the World Bank's "Country Policy and Institutional Assessment" (CPIA) as a measure of corruption, or the International Country Risk Guide´s (ICRG) control of corruption measure (Knack et al. 2010). Easterly and Williamson (2011) base their study on corruption measured by the ICRG political risk index, where states with a political, financial, and economic risk rating score of less than 2 on a 0-6 scale are defined as corrupt. Like others have noted, the CPIA might generally be biased towards policies that the World Bank favors (Easterly and Williamson 2011). The ICRG, which is developed as a country risk indicator for international businesses, could be biased by actual economic conditions in a country, plus it assigns greater weight to "political stability" rather than the *quality* of governance *per se*. McMann et al. (2016: 37) claim that the corruption measures from VDEM are generally reliable and correlate well with known outcomes, and that a particular strength of the dataset is its capacity for analysis across countries over time. Recall, however, that our study is different from Knack et al. (2010) and Easterly and Williamson (2011) because they look at shares of aid monies allocated rather than the value of the aid in per capita terms to the recipient government.

To investigate the effects of Norwegian aid from other confounding factors, we include several control variables, but keep our models manageable for easier interpretation (Achen 2005). First, we account for total Overseas Development Assistance (ODA) form the entire DAC group because Norwegian aid might follow the other DAC donors. Thus, in many ways,

we also compare Norwegian aid's effect with those of the entire donor community. Total ODA is obtained from the WDI in per capita dollars, which is logged to reduce skewness. Secondly, we control for the level of development using GDP per capita (constant 2010$) obtained from the WDI. This variable is logged to reduce bias from extreme values. Aid should go to the poorer countries, which would also generally exhibit higher levels of corruption. Third, donors are sensitive to aiding democratic governments because of selectivity criteria as well as official policies aimed at increasing democracy. Thus, we control for the minimum level of democracy assessed as electoral democracy by the VDEM data, where countries are coded according to whether or not elections are conducted in a free and fair manner with political competition and without physical coercion (Coppedge and Reinicke 1990). We use VDEM's measure of polyarchy for controlling regime type. Whether or not there is an ongoing civil war also strongly correlates with the level of corruption in a country as well as the nature and amount of aid such a country may receive. We control for both ongoing war, where aid might be lower, plus the history of civil peace by adding a count of the numbers of years of peace a country has enjoyed since the last civil war, or the year 1946. The presence of civil war is taken from the Uppsala Conflict Data Program (UCDP) and is coded as 1 if a war is ingoing where at least 25 battle-related deaths have occurred, and where an organized rebel group is challenging a state, and zero if not.[7] Additionally, we estimate time trends by adding a year dummy to all our analyses. Since aid may trend upwards with time together with the dependent variable, we control for such trending series. Each of the independent variables are lagged 1 year to reduce the effects of simultaneity.

3. Results

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[7] See https://ucdp.uu.se (last accessed 28 January 2020).

Table 1 presents the results of Norwegian bilateral and good governance aid on regime corruption, which captures whether a country generally suffers from neo-patrimonial and clientelist corruption in politics emanating from the political leadership. We test a model with random effects (OLS) and fixed effects by adding country dummies for assessing heterogeneity using the Newey-West (NW) method. Additionally, we test models using the Driscoll-Kraay (DK) method, estimating fixed effects. The first 3 columns test total bilateral aid, while columns 4-6 assess good governance aid.

**********TABLE 1 ABOUT HERE**********

In column 1, we see that the effects of total Norwegian bilateral aid on regime corruption are negative and statistically highly significant. Norwegian aid measured in per capita terms is lower among more politically corrupt regimes, meaning that higher aid flows per capita associated with less corruption. This random effects result might be due to some higher-order omitted variables, but in column 2, when country heterogeneity is accounted, the negative and statistically significant effect persists. Substantively, a standard deviation increase in bilateral aid per capita reduces regime corruption by roughly 4% of a standard deviation of regime corruption.[8] These results are further confirmed by the OLS fixed effects regression analysis accounting for spatial dependence estimated with the DK standard errors. Thus, while the effects of total Norwegian aid per capita reduces regime corruption, the substantive effect is fairly small. Moreover, columns 4 - 6 suggest no effect of good governance aid on regime corruption since each of the estimations are not statistically significant. Notice, however, that total bilateral aid's effects are independent of the portion of aid targeted at good governance. In

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[8] The standardized coefficient is computed by multiplying the coefficient with the within standard deviation of the x variable. This product is then divided by the within standard deviation of y and multiplied by 100 to express as percentage.

general, our results support others that report a small positive effect of aid on good governance (Jones and Tarp 2016).

Table 2 replicates Table 1 but with the dependent variable as "government corruption", which measures the degree of corruption within the executive, legislative, and judicial branches of government. As seen there, higher amounts of total bilateral aid per capita reduce government corruption. Substantively, a standard deviation increase in aid reduces corruption by roughly 3% of a standard deviation in corruption, which again is not very large. Again, however, good governance aid (columns 4 – 6) has no discernible effect on corruption. Thus far, these two tables (Tables 1 and 2) show extremely interesting results, especially when Norwegian aid is compared with total ODA received. The other DAC donors taken together, compared with Norway, show positive effects on corruption, both regime corruption and government corruption. Taking the results in Table 2, column 2, the substantive impact of total ODA shows that a standard deviation increase in ODA per capita would increase government corruption by roughly 5% of a standard deviation of government corruption, which again is not substantively very large. The effects of the control variables income per capita and of regime type are highly intuitive and reasonable. Gains in income per capita and electoral democracy reduce corruption. For example, a standard deviation increase in electoral democracy reduces government corruption by roughly 37% of a standard deviation of government corruption, or almost 10 times the effect of Norwegian aid. A similar increase in income per capita reduces corruption by 22% of a standard deviation of government corruption. Given that aid's effect is independent of income and democracy, perhaps there are some indirect effects of aid on corruption through these two other factors indirectly, working through economic growth and better institutions (Arndt, Jones and Tarp 2015, Clemens et al. 2012).

In Table 3, this basic picture changes somewhat when public sector corruption is estimated.

**********TABLE 3 ABOUT HERE**********

As seen there, total bilateral aid now alone continues to influence public sector corruption negatively, results that are statistically significant. These effects continue to be substantively small. A standard deviation increase in aid reduces public sector corruption by roughly 3% of a standard deviation of public sector corruption. This time, when good governance aid is estimated; however, it has a negative and significant effect above those of total aid. A standard deviation increase in good governance aid reduces public sector corruption by roughly 5% of a standard deviation of public sector corruption. These substantive effects, however, also remain small. Notice that the control variables essentially have very similar effects to those reported above. Nevertheless, the fixed effects analyses estimated in Table 3 suggest that when Norwegian aid increases in value to recipient countries, the effects of public sector corruption decreases, holding income levels, total aid from the DAC donors, electoral democracy, and the incidence and history of civil war constant.

We check the strength of the basic results by subjecting the models to several alternative specifications. First, we entered some demographic variables, such as country size measured as total population, which may explain strategic aid as large countries are more important and may have higher corruption. We run the basic OLS regression with Newey-West standard errors estimating two-way fixed effects. Large populations show a strong positive and significant effect on regime corruption, but the independent negative effect of bilateral aid per capita remains statistically significant. Next, we enter a term measuring the degree of urbanity because aid is likely to be lower to less rural areas, but these countries are also likely to have lower corruption. A more urban country has little effect on corruption, while the effect of aid remains robust. Neither did the growth rate of GDP per capita have a statistically significant effect, but

aid per capita remained robust to the inclusion of these additional variables. Next, we enter a term for the importance of oil production, which measures oil rents accruing to governments as a share of GDP taken from WDI. Oil-wealthy economies are not likely to get much aid, but they usually tend to be more corrupt (Ross 2012). Adding oil to the model made little difference to the main result on aid. Finally, we added a measure of sound economic policy measured as the Economic Freedom Index (EFW) taken from the Fraser Institute (Gwartney, Lawson and Hall 2011). Easterly argues that aid agencies might use a measure such as this to gather the commitment of governments to development (Easterly 2006c). Thus, if aid follows good economic policy and such factors associate with less corruption, then any effect of aid might indeed be spurious. Interestingly, the effect of aid remained robust, and sound policy has no independent effect on regime corruption, although the EFI has one component that explicitly includes property rights protection and the rule of law. Norwegian aid's negative effect on corruption, thus, seems robust, supporting some earlier studies that showed Scandinavian aid to be associated with cleaner governments while other donors, such as the US, were not (Alesina and Weder 2002).

As discussed earlier, perhaps these positive results, where Norwegian aid is associated with decreasing levels of all three corruption measurements, are obtained because Norwegian donor agencies simply pick the easy cases. In other words, Norwegian aid, both bilateral and good governance, is more likely to follow good governance rather than cause it, a practice some term as "chasing success" (Wilson 2011). Thus, we estimate the possibility of this endogeneity or reverse causality by using both the Heckman two-step method and instrumental variables analyses. The Heckman selection model essentially estimates the pattern to Norwegian aid giving first and then estimates the outcome model while accounting for this pattern in the second-step regression. The Heckman model also provides a Chi^2 statistic that estimates whether the two equations are indeed separate. In none of the estimated dependent

variables is neither total bilateral aid, nor good governance aid statistically significant after selection is accounted for.[9] These results indicate that the linear effects estimated above might be due to selection. Next, we also ran all our models with 2-stage instrumental variables analyses. While the instruments mostly passed instrument validity criteria assessed by the Kleibergen-Paap F statistic and the first-stage F statistic, which was always greater than 20, they also pass the exclusion criteria assessed by the Hansen-J statistic (Angrist and Pischke 2009, Staiger and Stock 1997). Both aid variables remained statistically not significant in the presence of the instruments. In other words, the chances that Norwegian aid has no discernible causal effect on corruption is highly likely, and that Norwegian donor agencies pick better environments to increase aid is the likelier case. As mentioned, some call such aiding practices "chasing success" (Wilson 2011). We address this issue direct below, but first, we need to address why some, such as Jones and Tarp (2016), who use aid as a share of GDP for DAC donors (Aid/GDP) find a negative effect on corruption, whereas our ODA/Gross Domestic Product shows a positive and significant effect on corruption.

We replicate Jones and Tarp's (2016) study by using a model similar to theirs, except that we use an annual setup rather than their averaged setup, which, as you may recall, did not allow them to estimate country heterogeneity due to the short T. The novelty of their approach, however, was to estimate dynamic rather than static models. We obtain all the control variables from the WDI, including ODA to Gross National Income, which correlates almost perfectly (r = 0.96) with Jones and Tarp's ODA/Gross Domestic Product constructed by us using the World Bank´s ODA in US dollars used by us for computing our per capita measure. We drop one of their controls, life expectancy, which correlates very highly with per capita income and is not statistically significant in their analyses in any case. As seen in Table 4, column 1,

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[9] Results not shown out of space consideration but available from authors upon request.

**********TABLE 4 ABOUT HERE**********

ODA/GNI has a statistically significant negative effect, as reported by them. However, this result is not robust to estimating method because in column 2, it turns positive and not statistically significant when country fixed effects are estimated and becomes strongly statistically significant and positive when a dynamic model is estimated with fixed effects accounting for country heterogeneity. Thus, the difference between our findings using total ODA per capita above and others estimating aid as a share of GDP has to be due to estimating method rather than model specification. Sacrificing the effects of country heterogeneity for aggregating both the dependent and independent variables in arbitrary time intervals might be questioned, although admittedly, our replication here of others is only for illustrative purposes of our findings and not necessarily a direct critique. It might also be too soon to conclude that Norwegian aid allocation is better than the rest of the DAC's simply because it associated with corruption more negatively than the DAC's allocation. Future empirical studies may push the robustness of the findings reported by Jones and Tarp (2016).

Next, to assess further the degree to which Norwegians might be following success rather than determining it, we follow Wilson's (2011) novel empirical model design for assessing how Norwegian aid reacts to corruption and its change prior to disbursing aid. He computes a basic OLS model determining aid flows (aid as the dependent variable) with a static term of the main independent variable (corruption in our case) and a term showing the change in corruption ($X_t - X_{t-1}$) run together in a model with the dependent variable run as Y_{t+1}. If aid avoids the really hard cases, then there should be statistically significant negative effects where corruption got worse, holding constant a few controls. We control for total ODA from the DAC, income per capita, electoral democracy and conflict, and its history as we have done in other

models. Each of these controls is related to the amount of aid as well as levels of corruption. As seen in Table 5, columns 1-2,

**********TABLE 5 ABOUT HERE**********

total bilateral aid per capita from Norway is statistically significant and negative on corruption levels the previous year and in places where corruption got worse (changed positively) over the previous years. Since the fixed effects computes the within-unit effect as a deviation from the mean, the result is the average size of the deviation of Norwegian aid over the time period rather than as a response to annual change alone. Norwegian bilateral aid, thus, seems averse to corruption by avoiding places that increase their corruption scores by greater amounts compared with others. This effect is also noticeable when assessing public sector corruption, especially considering the level rather than change. In columns 3 and 4, good governance aid too is negative and statistically highly significant when assessing both level and change in corruption. In column 4, unlike bilateral aid, good governance aid clearly avoids places where public sector corruption grew, regardless of the level. Interestingly, in columns 5 and 6, all ODA from the DAC flows in greater quantities to recipients who are more corrupt, particularly when considering public sector corruption, and the DAC as a group has no clear aversion to places that have clearly increased corruption on average over the time period. These results suggest, again, that Norway simply follows success more than the DAC as a group. These results too suggest clearly why Norwegian aid, particularly total bilateral aid, correlates negatively with corruption. Norwegian aid simply associates with lower corruption because it avoids it.

These findings, taken together, clearly do not support the extreme pessimistic arguments based on how aid decreases good governance, or that aid agencies might, for some perverted

reason, prefer corrupt political environments, even if that perversion is driven by an honest desire to force change. In so far as Norwegian aid in terms of economic value to the recipient state captures a Norwegian preference, then we might conclude that Norway chooses to reward the good guys by avoiding the bad, or as others term it, "chase success" (Wilson 2011). Indirectly, there is some good news for taxpayers that presumably would prefer to see good behavior compensated and their hard-earned money put to better use than be wasted in corrupt environments. This point raises another, more fundamental concern, which is that aid may indeed not have much instrumental value when it comes to gaining good governance, as our theoretical discussion above has already noted. What else, then, might aid be good for? This question we leave for future research and debate, a debate that instructs harder thinking about how donors might really aid the processes of development by positively affecting institutional change towards securing the rule of law and increasing the rights of citizens.

4. Conclusion

The yawning income gaps between rich and poor countries have moral and practical implications (Passé-Smith 2008, Pogge 2010). Historically, the preferred policy stance of the rich countries seems to be to "aid" the poor out of their misery (Banerjee 2007). The Norwegians seem to be one of the most enthusiastic and eager donor countries, with broad social and political consensus around the idea of aid. Indeed, Norway's wealth and purpose apparently give her some potency for achieving moral foreign policy aims otherwise impossible for superpowers (Egeland 1989). Despite this optimism about spending money on gaining reform in poor countries, results on the ground have been poor (Easterly 2006b). The pessimistic voices on aid, which seem to have gathered steam lately, are particularly fond of pointing out that the generosity and naivety of Scandinavia aid might indeed do more harm than good (Bueno de Mesquita and Smith 2011, Moyo 2009). Indeed, comprehensive studies

evaluating how aid agencies might be allocating their resources suggest that selectivity is poor, particularly when considering shares of aid budgets being allocated to corrupt and undemocratic regimes (Easterly and Williamson 2011, Knack, Rogers and Eubank 2010). If aid budgets, however, are supposed to prioritize poverty alleviation, then avoiding corruption is an impossible task, since the most corrupt governments exist in the poorest places, or places sorely in need of good governance (Edwards 2015). Thus, we ask this question a bit differently, which is to assess if Norwegian aid actually is higher among the more corrupt countries—or in other words, whether Norwegian aid is more valuable to corrupt rulers measured as per capita aid.

Using novel data on political corruption measured in various ways, we find that Norwegian bilateral aid associates with lower corruption – results that are statistically significant and robust. However, the substantive impact of the effects of aid on corruption is very slight, compared with, for example, economic development and electoral democracy. Since we estimated fixed effect regressions accounting for the within-unit variance, we might safely conclude that these results are unbiased by omitted variables. However, we cannot disregard potential endogeneity emanating from reverse causality and selection bias. Formally testing for such selection effects and reverse causality suggested that, indeed, Norwegian aid might be chasing better governance than actually causing it. In other words, Norwegian aid does not seem to be compensating corrupt rulers, but it is also not really dissuading corruption. We also find quite robustly that Norwegian aid is at least economically less valuable to the corrupt compared with total aid from the DAC donors as a group. While these results are in no way support for the idea of a potent small power with money achieving stated objectives, there is good news here for the taxpayers in Norway who might rest assured that their monies are not necessarily being squandered in highly corrupt environments as many of the pessimists claim. Indeed, we show quite clearly, that Norwegian aid avoids compensating the corrupt relative to other DAC donors as a group. Future studies may usefully test the effects of Norwegian aid on

other outcomes, ones less likely to be tainted by subjective biases, such as political repression,

political inclusivity of minorities and women, and various forms of political violence.

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Figure 1. The trend in average Norwegian bilateral and good governance aid per capita among 129 developing countries, 1980-2017
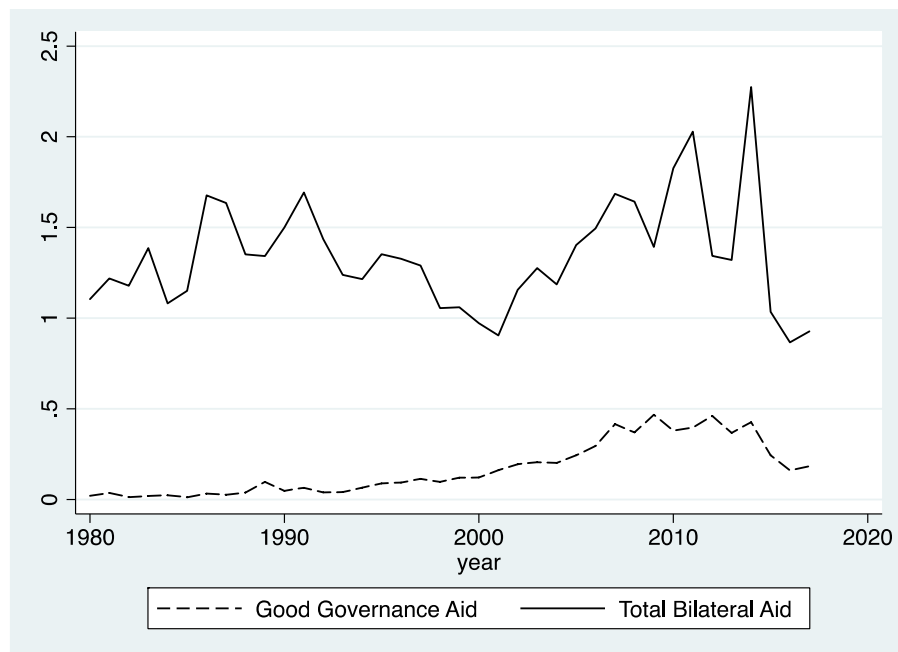

Figure 2. Trend in average corruption measured variously among 129 developing countries, 1980-2017
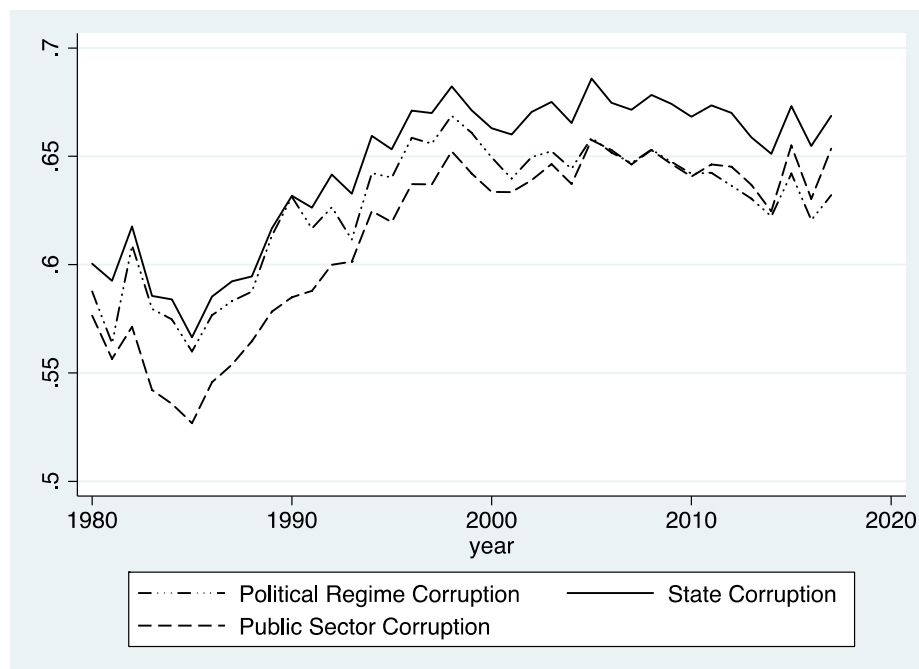
Table 1. The effects of Norwegian bilateral and good governance aid on regime corruption

Dep variable = Regime corruption	(1)	(2)	(3)	(4)	(5)	(6)
	NW(RE)	NW(FE)	DK(FE)	NW(RE)	NW(FE)	DK(FE)
Norwegian Good Governance Aid/pc (log)				0.000381	0.000325	0.000325
				(0.00116)	(0.000510)	(0.000474)
Norwegian Bilateral aid/pc (log)	-0.0145***	-0.00264**	-0.00264***	-0.0152***	-0.00291**	-0.00291***
	(0.00213)	(0.00110)	(0.000842)	(0.00253)	(0.00114)	(0.000954)
Total DAC ODA/pc(log)	0.00310	0.00125	0.00125**	0.00452**	0.00127	0.00127*
	(0.00193)	(0.00101)	(0.000573)	(0.00194)	(0.00108)	(0.000626)
Income per capita (log)	-0.0333***	-0.0684***	-0.0684***	-0.0302***	-0.0710***	-0.0710***
	(0.00506)	(0.0126)	(0.00698)	(0.00509)	(0.0137)	(0.00719)
Electoral democracy (VDEM)	-0.378***	-0.330***	-0.330***	-0.353***	-0.333***	-0.333***
	(0.0261)	(0.0263)	(0.0236)	(0.0265)	(0.0274)	(0.0244)
Civil war ongoing	-0.00338	0.00768	0.00768	-0.00582	0.00776	0.00776
	(0.0105)	(0.00678)	(0.00736)	(0.0105)	(0.00682)	(0.00751)
Years of peace since last war	-0.00239***	0.000288	0.000288	-0.00247***	0.000302	0.000302
	(0.000361)	(0.000285)	(0.000177)	(0.000359)	(0.000289)	(0.000185)
Constant	0.924***	1.304***	0	0.909***	1.322***	1.204***
	(0.0469)	(0.0761)	(0)	(0.0487)	(0.0827)	(0.0552)
Observations	3,433	3,433	3,433	3,330	3,330	3,330
Number of groups	129	129	129	116	116	116
Standard errors in parentheses						
*** p<0.01, ** p<0.05, * p<0.10						
Year fixed effects	YES	YES	YES	YES	YES	YES
Country fixed effects	NO	YES	.	NO	YES	.
All x variables lagged 1 year						

Table 2. The effects of Norwegian bilateral and good governance aid on government corruption

Dependent variable = Government corruption	(1) NW(RE)	(2) NW(FE)	(3) DK(FE)	(4) NW(RE)	(5) NW(FE)	(6) DK(FE)
Norwegian Good Governance Aid/PC (log)				0.00123	4.76e-05	4.76e-05
				(0.00109)	(0.000449)	(0.000427)
Norwegian Bilateral Aid/PC (log)	-0.0145***	-0.00174*	-0.00174**	-0.0161***	-0.00190**	-0.00190**
	(0.00203)	(0.000945)	(0.000800)	(0.00247)	(0.000964)	(0.000877)
Total DAC Aid/PC(log)	0.00344*	0.00210***	0.00210***	0.00496***	0.00215***	0.00215***
	(0.00185)	(0.000720)	(0.000414)	(0.00184)	(0.000764)	(0.000449)
Income per capita (log)	-0.0427***	-0.0622***	-0.0622***	-0.0402***	-0.0634***	-0.0634***
	(0.00466)	(0.0103)	(0.00489)	(0.00471)	(0.0112)	(0.00516)
Electoral democracy (VDEM)	-0.331***	-0.248***	-0.248***	-0.306***	-0.247***	-0.247***
	(0.0242)	(0.0225)	(0.0214)	(0.0242)	(0.0234)	(0.0221)
Civil war ongoing	0.00719	0.00238	0.00238	0.00416	0.00251	0.00251
	(0.00943)	(0.00564)	(0.00587)	(0.00943)	(0.00568)	(0.00598)
Years of peace since last war	-0.00241***	-5.27e-05	-5.27e-05	-0.00245***	-5.85e-05	-5.85e-05
	(0.000331)	(0.000239)	(0.000180)	(0.000324)	(0.000243)	(0.000183)
Constant	0.990***	1.260***	0	0.986***	1.267***	1.136***
	(0.0434)	(0.0631)	(0)	(0.0453)	(0.0685)	(0.0382)
Observations	3,433	3,433	3,433	3,330	3,330	3,330
Number of groups	129	129	129	116	116	116
Standard errors in parentheses						
*** p<0.01, ** p<0.05, * p<0.10						
Year fixed effects	YES	YES	YES	YES	YES	YES
Country fixed effects	NO	YES	.	NO	YES	.

All x variables lagged 1 year

Table 3. The effects of Norwegian bilateral and good governance aid on public sector corruption

Dependent variable = Public sector corruption	(1)	(2)	(3)	(4)	(5)	(6)
	NW(RE)	NW(FE)	DK(FE)	NW(RE)	NW(FE)	DK(FE)
Norwegian Good Governance Aid/PC (log)				-0.00125	-0.00108*	-0.00108**
				(0.00103)	(0.000567)	(0.000533)
Norwegian Bilateral Aid/PC (log)	-0.0145***	-0.00204*	-0.00204**	-0.0135***	-0.00148	-0.00148
	(0.00192)	(0.00111)	(0.000790)	(0.00226)	(0.00114)	(0.000912)
Total DAC Aid/PC(log)	0.00446***	0.00345***	0.00345***	0.00560***	0.00340***	0.00340***
	(0.00164)	(0.000757)	(0.000580)	(0.00167)	(0.000780)	(0.000567)
Income per capita (log)	-0.0497***	-0.0622***	-0.0622***	-0.0483***	-0.0622***	-0.0622***
	(0.00459)	(0.0115)	(0.00570)	(0.00468)	(0.0124)	(0.00486)
Electoral democracy (VDEM)	-0.444***	-0.211***	-0.211***	-0.418***	-0.195***	-0.195***
	(0.0221)	(0.0261)	(0.0202)	(0.0223)	(0.0267)	(0.0214)
Civil war ongoing	-0.0415***	-0.00138	-0.00138	-0.0445***	-0.00141	-0.00141
	(0.0106)	(0.00720)	(0.00717)	(0.0107)	(0.00722)	(0.00726)
Years of peace since last war	-0.00257***	0.000462	0.000462**	-0.00271***	0.000352	0.000352*
	(0.000319)	(0.000300)	(0.000201)	(0.000316)	(0.000302)	(0.000198)
Constant	1.065***	1.247***	0	1.043***	1.235***	1.059***
	(0.0431)	(0.0684)	(0)	(0.0453)	(0.0741)	(0.0354)
Observations	3,433	3,433	3,433	3,330	3,330	3,330
Number of countries	129	129	129	116	116	116
Standard errors in parentheses						
*** p<0.01, ** p<0.05, * p<0.10						
Year fixed effects	YES	YES	YES	YES	YES	YES
Country fixed effects	NO	YES	.	NO	YES	.

All x variables lagged 1 year

Table 4. Testing the effects of total aid per GNI rather than aid per capita on regime corruption in static and dynamic models, 1980-2017

Dep var = Regime corruption	(1)	(2)	(3)	(4)
lagged dependent variable			0.977***	0.890***
			(0.00347)	(0.0128)
Total aid/GNI	-0.00242***	0.000354	0.000278***	0.000295*
	(0.000625)	(0.000414)	(0.000108)	(0.000154)
Income per capita (log)	-0.133***	-0.0682***	-0.00220*	-0.0118***
	(0.00661)	(0.0141)	(0.00121)	(0.00383)
Urban populations share (log)	0.0704***	0.0775***	-0.00122	0.0139*
	(0.0132)	(0.0249)	(0.00214)	(0.00750)
Trade /GDP (log)	0.0283***	-0.0527***	0.000346	-0.00773**
	(0.00841)	(0.00868)	(0.00144)	(0.00324)
Oil rents/ GDP (log)	0.00919***	0.00612***	0.000315***	0.000714**
	(0.000678)	(0.000922)	(0.000107)	(0.000346)
Constant	1.332***	1.323***	0.0339***	0.163***
	(0.0511)	(0.0930)	(0.00909)	(0.0337)
Countries	129	129	129	129
Observations	3,928	3,928	3,928	3,928
Newey-West standard errors in parentheses				
*** p<0.01, ** p<0.05, * p<0.10				
Two-way fixed effects estimated	NO	YES	NO	YES

Table 5. Assessing Norwegian and DAC aid flows per capita to corrupt regimes, 1980-2017

Dep vars = aid flows per capita	(1) NOR Bilateral	(2) NOR Bilateral	(3) NOR governance	(4) NOR governance	(5) DAC ODA	(6) DAC ODA
Regime corruption	-0.772**		1.778**		0.740*	
	(0.351)		(0.772)		(0.392)	
Change in regime corruption (X_t-X_{t-1})	-0.608**		-1.886***		0.136	
	(0.247)		(0.570)		(0.204)	
Public sector corruption		-0.832**		0.284		1.382***
		(0.342)		(0.766)		(0.302)
Change in public sector corruption(X_t-X_{t-1})		-0.0418		-0.943***		0.0566
		(0.103)		(0.237)		(0.1000)
DAC ODA/pc (log)	0.0661***	0.0679***	0.160***	0.161***		
	(0.0191)	(0.0192)	(0.0339)	(0.0339)		
Income per capita (log)	-0.401**	-0.387**	-0.224	-0.248	-0.880***	-0.839***
	(0.161)	(0.160)	(0.371)	(0.373)	(0.221)	(0.215)
Electoral democracy	-0.493	-0.408	2.573***	2.074***	1.828***	1.879***
	(0.366)	(0.353)	(0.759)	(0.750)	(0.389)	(0.392)
Civil war ongoing	0.147*	0.142	-0.148	-0.131	-0.161	-0.157
	(0.0865)	(0.0865)	(0.235)	(0.234)	(0.150)	(0.149)
Years of peace	-0.0208***	-0.0206***	-0.0587***	-0.0582***	0.0187***	0.0178***
	(0.00449)	(0.00449)	(0.00909)	(0.00913)	(0.00651)	(0.00643)
Constant	4.074***	4.025***	-7.791***	-6.317***	9.442***	8.635***
	(1.098)	(1.075)	(2.463)	(2.435)	(1.470)	(1.354)
Countries	125	125	129	129	131	131
Observations	3,311	3,311	3,599	3,599	4,021	4,021

Newey-West Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.10
Two-way fixed effects estimated in all tests