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Does Norwegian aid reduce bad governance?

Master's thesis in Political Science

Supervisor: Indra de Soysa

Trondheim, June 2020

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Assessing the effects of Norwegian aid on political corruption and government respect for human rights in developing countries, 1980-2018

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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, both out of altruistic and more practical concerns. Can aid from Norway, a wealthy country with apparently few strategic interests, and a great deal of political consensus in support of aid matter positively towards achieving better political governance among recipient countries? Using data on bilateral- and good governance aid, with a pooled, time-series, cross-sectional dataset from 1980-2018 consisting of 129 developing countries, I assess if Norwegian aid can reduce bad governance. Good governance is measured as the absence of political corruption and state violations of human rights. The results show that while aid from other DAC-donors has a negative impact on governance in aid receiving countries, Norwegian aid, at least to some extent, shows clear positive effects. However, the substantive impact of Norwegian aid is minimal when accounting for selection effects and endogeneity, ultimately suggesting that Norwegian aid is perhaps following good governance rather than causing it. While these findings do not directly support aid optimists, they nevertheless challenge the arguments about “dead aid” from Scandinavia. Furthermore, Norwegian taxpayers can rest assured that their money is not unduly benefiting the corrupt.

Sammendrag

Effektiviteten av bistand diskuteres stadig i akademia og politiske kretser. Årlig overføres milliarder av dollar fra industrialiserte land til utviklingsland, både av altruistiske og mer praktiske bekymringer. Kan bistand fra Norge, et velstående land med tilsynelatende få strategiske interesser, og en høy grad av politisk konsensus for bistand telle positivt for å oppnå bedre styresett blant mottakerlandene? Ved å anvende sammensatt data på norsk bistand (både bilateral bistand og bistand til godt styresett) med tidsserier og tverrsnitt fra 1980 til 2018, bestående av 129 utviklingsland, evaluerer jeg hvorvidt norsk bistand kan redusere dårlig styresett. Godt styresett måles som fraværet av politisk korrupsjon og statlige brudd på menneskerettigheter. Resultatene viser at selv om bistand fra andre donorer som er en del av OECDs utviklingskomité har en negativ innvirkning på styresett i bistandsmottakende land, viser norsk bistand, i det minste til en viss grad, klare positive resultater. Likevel vises det at når man inkluderer tester på seleksjon og endogenitet, er den substansielle virkningen av norsk bistand ekstremt liten, noe som tyder på at norsk bistand kanskje følger godt styresett fremfor å forårsake det. Selv om disse funnene ikke direkte støtter bistandsoptimister, utfordrer de likevel argumentene om “død bistand” fra Skandinavia. Videre viser resultatene at norske skattebetalere i det minste kan være trygge på at pengene deres ikke unødig gagnar de korruperte.

Preface

This thesis is my final academic work as a student enrolled in the Master's degree program in Social Science with Teacher Education at the Norwegian University of Science and Technology. Social science is a common core subject for all primary, lower secondary, and upper secondary education programs in Norway. One of the primary purposes of social studies is to teach pupils about "cultural diversity around the world, past and present". Both civic life, politics and democracy, and international affairs are highlighted as main subject areas in social science curriculums.

In the Master's degree program in Social Science with Teacher Education, the thesis can focus on either the educational portion of the degree or the disciplinary part, which, in my case, is political science. Because of the broad focus of social science in Norwegian schools, I chose to concentrate on the political science portion of my degree in my thesis, writing about efforts to eradicate worldwide poverty with development aid. This focus seemed to unite both aspects of my degree, as knowledge of world inequality is relevant regardless of what path I take in my future working life.

I want to thank my supervisor, Indra de Soysa, for his indispensable advice and guidance during this process. Writing a thesis during the outbreak of COVID-19 has not been the most straightforward task. Yet, with his supervision, things have worked out wonderfully. For this, I am genuinely grateful. I also wish to thank my brilliant partner, Kjetil, who has kept my hopes and morale up through this entire process. Lastly, my friends and family also deserve a huge thank you for supporting me in whatever I choose to do.

Acronyms and abbreviations

CC	Control of Corruption indicator by the World Bank
CPI	Corruption Perceptions Index by the Transparency International
DAC	The Development Assistance Committee
GDP	Gross Domestic Product
GNP	Gross National Product
GNI	Gross National Income
HR	Human rights
NOK	Norwegian Kroner
Norad	The Norwegian Agency for Development Cooperation
NRK	The Norwegian Broadcasting Corporation
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OHCHR	Office of the United Nations High Commissioner for Human Rights
SDG	Sustainable Development Goals by the United Nations
SSB	Statistics Norway
UN	United Nations
USD	United States Dollar
V-Dem	Varieties of Democracy Institute
WDI	The World Bank's World Development Indicators
WWII	World War II

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1 Introduction

For the first time, two scholars in development economics, Abhijit Banerjee and Esther Duflo, who study the effect of aid on the poor won this year's Nobel prize in economics. This suggests that aid as a subject might be gaining a central place in the economic sciences even if it has been high politics since the end of World War II. Foreign aid is a broad subject, and donors of aid are often motivated by different objectives. In some cases, aid is used as a “political currency”, where donor states “buy” friends, power, or a voice on the global arena with their aid monies. Such behavior has been visible several times throughout history, such as during the Cold War, where a bipolar order saw two rival superpowers using foreign aid as an inducement to gain allies (Griffin, 1991; Pharo, 2018). In most other cases, however, rich governments across the world view aid with altruistic intentions, and wealthy donors try their best to fulfill the hopeful aspirations of international policy agendas. The United Nation's (UN) “Sustainable Development Goals” (SDGs) is one example of such agendas, where rich nations donate large sums of money to the developing parts of the world, hoping to decrease poverty and improve human development.¹ Foreign aid's effectiveness for reducing poverty and achieving ambitious priorities is, in fact, highlighted in each of the UN's 17 SDGs, which is adopted by every member state of the UN. Yet, the effectiveness of aid is still heavily debated (Sachs, 2005; Easterly, 2006; Stiglitz, 2002; Moyo, 2010).

Critics of aid argue that among other adverse outcomes, aid creates dependency and fosters corruption, and despite donors' efforts to do good, helping makes things worse (Easterly, 2006; Moyo, 2010; De Mesquita & Smith, 2011; Edwards, 2015). Others see aid as the only tool available to close the growing gap of inequality between the rich and poor, and in order to eradicate poverty as a whole, those who can have to help those in need. One way to help, as highlighted by SDG 16, is by raising the effectiveness of governance in aid recipient countries, which can be done through aid targeted towards good governance (OECD, 1997). Per Easterly (2006: 117-8), this targeted focus of aid is quite new. Not more than ten years ago, donors seldom discussed how to best transform governments in recipient countries.

Since then, donor talk radio has been full of chatter about “good governance”. However, donors have still not figured out what to do to make good governance happen, or how to be selective about whom they give their money [...] The gangsters are still getting plenty of aid. (Easterly 2006: 117-118).

¹ In 2017, bilateral aid transfers from the Development Assistance Committee (DAC) donors to developing countries exceeded \$121 billion (World Bank, 2019). In that same year, over 768 million people, or apx. 11% of the world's population, were living in absolute poverty (Ferreira, Lakner & Sánchez-Páramo, 2017).

In an attempt to contribute to an extensive literature that seeks to discover solutions to a seemingly never-ending problem, this study focuses on the relationship between foreign aid and governance. More precisely, the study assesses the effects of Norwegian good governance aid and total bilateral aid on good governance in 129 developing countries from 1980 to 2018. While there are undoubtedly several ways to define and measure good governance, the term is in this context defined as the absence of political corruption and state violations against citizens' human rights. Human rights cover physical integrity rights or fundamental human rights to be free of physical harm or political activity. As good governance functions as an essential part of this thesis, the term will be further explored in both the theoretical chapter (chapter 2) and the methodological chapter (chapter 3). In all, the thesis contains five chapters, that are described below.

The first chapter, chapter 1, functions as an introduction to the study's theme, which is aid. Here, the concept of aid is defined, followed by a description of how most aid programs are organized today. Then, the reasons for examining Norwegian aid in particular are revealed. I also clarify why it is more beneficial to examine aid results generated by one specific country, even when most other research looks at Scandinavian aid combined.

Chapter 2 has a theoretical focus. Here, the broad literature that is available on the debate of foreign aid is presented. Both aid optimists and aid critics are introduced. The chapter also discusses why some aid programs seem to work while others fail. Furthermore, the theoretical chapter explores targeted aid programs, as the aim of the study is to assess Norwegian aid's results on good governance. Looking specifically at good governance targeted aid is therefore necessary. This in-depth focus will hopefully create some context for the four hypotheses that follow, thereby guiding the analysis of the study.

Chapter 3 looks at the chosen methodology, where I describe model specification and data. Instead of having two separate chapters for the results and analyses, the results are both presented and discussed simultaneously in the following chapter, 4. This way, the reader is hopefully guided through all relevant findings in a comprehensible way, thereby obtaining the answers to the main question: "*Does Norwegian aid reduce bad governance?*". The last chapter, 5, presents a conclusion, where the main findings are summarized, while potential unanswered questions are highlighted.

1.1 What is aid?

In its purest form, aid functions as a synonym for charity: a wealthy donor, usually a state, transfers money to someone who needs it, most often a developing country. In reality, however, aid is more complicated. In the book *Dead Aid*, aid is defined in three separate forms; humanitarian-, charitable-, and systematic assistance (Moyo, 2010: 7). Humanitarian assistance, or emergency relief, is provided as a response to disasters (ibid). In 2018, Norway provided more than NOK 4.1 billion² in emergency aid through various channels (Norad, 2019). Charity-based assistance occurs when people donate money to charities that further distribute the funds to recipients, while systematic assistance includes both bilateral and multilateral transfers (Moyo, 2010: 7-9). Bilateral aid is, not surprisingly, funded through bilateral cooperation where money, goods, equipment, or expertise is offered directly from one state to another. Multilateral aid is provided through multilateral organizations such as the UN and the World Bank and contributes to an international “joint financing of global obligations in a rational way” (Norad, 2020b).

1.1.1 Systematic aid from DAC donors

Official development assistance (ODA), or international assistance, is the form of systematic aid most commonly discussed. The Development Assistance Committee (DAC) manages ODA, a committee of 30 member nations organized under the OECD, the Organization for Economic Cooperation and Development. The 30 nations of DAC provide the majority of the world’s official aid (OECD, 2016: 239). Norway has been a member of DAC since 1962, and in 2018, Norway contributed with USD 4.3 billion in “net ODA” (OECD, 2019a: 89). This contribution represented 0.94% of Norway’s gross national income (GNI). Only surpassed by Sweden and Luxemburg, Norway was, in 2018, the largest DAC donor relative to GNI, and the tenth-largest when looking at the total amount of aid provided (OECD, 2019b). The country is one of five DAC members to have met the UN target of 0.7% of GNI in aid, having spent approximately 1% of GNI on ODA every year since 2009 (OECD, 2018: 367).

1.2 Why Norway?

The history of Norwegian aid began in 1952 with the Fund for Underdeveloped Countries, where NOK 10 million was granted to increase the efficiency and quality of the fishing industry in the region of Kerala in India (Norad, 2012; Pharo, 2015). The slogan for the grant was to

² Apx. 512,5 million 2018-USD

“help the people to help themselves”, yet Norwegian policy-makers also wished to strengthen the non-communistic, Western position in Asia, while promoting Norwegian foreign politics as well (Pharo, 2015). NOK 10 million might not be a substantial grant by today’s standards, but in 1952, Norway’s decision to act as a financial donor of aid was considered radical. Not only was the country still rebuilding after the destruction of WWII, but until 1952, Norway was also a recipient country of aid (ibid; Borchgrevink, 2004: 164). In fact, Norway received around USD 450 million through the Marshall Plan from 1948 to 1952, an amount which was about 20 times as large as what the country donated during the first ten years as an aid donor (Borchgrevink, 2004: 164). Still, the decision to become a donor was considered a success, and the Fund for Underdeveloped Countries thus initiated a significant Norwegian commitment to developing countries. This commitment has been of massive importance for the Norwegian image and visibility. By becoming a donor of aid, “Norway truly climbed the ladder of power and advanced from being a small state to becoming a middle power”³ (Toje, 2010: 211).

Today, Norway is internationally known as a promoter of peace, and as a prominent donor of aid (Tvedt, 2007). The stated overall goal of Norwegian aid policy is to “save lives and ease suffering”. The policy is “motivated on the basis of altruism”, where possible foreign political interests (if any) come second (The Ministry of Foreign affairs, 2016: 29; 2008: 11). This “concern with purity” has, per Simensen (2003: 275, in Borchgrevink, 2004: 164) been present within Norwegian development assistance since the beginning, and aid has, to the extent that is possible, been kept separate from other interests and motives. In 2009, the Norwegian aid budget alone was NOK 26.2 billion⁴, a sum that exceeded Fiji’s total gross domestic product (GDP) of that year (Toje, 2010: 211). Norway is among the most generous donors of aid, and societal consensus concerning moral engagement is high. A poll from 2017, conducted by Statistics Norway, showed that nine out of ten Norwegians are positive towards helping the poorer countries of the world financially (SSB, 2018). In other words, aid is an essential component of Norway’s foreign political priorities and a vital part of Norway’s self-image (Tvedt, 2007; Toje, 2010). Toje (2010: 211) claims that Norway is “exceptionally suited for solving problems on a global scale by international sentiment and a willingness to pay”.

While Norway is mostly affiliated with altruistic and generous donor behavior, the country’s policies are still questioned in certain academic circles. Bøås (2016), Sverdrup (2016), and Toje

³ Own translation from Norwegian to English.

⁴ Apx. 3 billion 2018-USD

(2010) are among those who dispute whether Norwegian development assistance truly is driven by moral intentions alone, while Moore (et al. 1999), Easterly and Williamson (2011) comment on the conditionality and naivety of Scandinavian aid. Debating whether or not Bøås (2016) and his companions are right in their critique of Norwegian altruism is perhaps beside the focus of this thesis. Still, their arguments do raise some interesting questions. If they are mistaken, and Norwegian development assistance truly is “motivated on the basis of altruism”, “too much good” can still generate poor results, as pointed out by Moore (et al., 1999), Easterly and Williamson (2011). Without strategic purpose, the Norwegian government might lose leverage over the recipient governments, thus weakening conditionality.

Furthermore, too much generosity can become a burden for the poor, as aid creates the opportunity for recipient governments to accept and use aid money rather than reform. In NRK’s TV series “The Good Will” from 2010, Suma Kaare –the leader of the MS Training Centre for Development Cooperation in Tanzania, argues that foreign aid donations to her country have created a weak, dependent government (NRK, 2013: 07:45-09:10). As a result, government officials seem to feel as if their legitimacy is derived from aid money, and not from the support of their people.

When you have the Norwegians coming here, giving support to health, the government doesn’t feel obliged to meet its obligation [...] That’s when you’re creating opportunity for misuse of public funds. Because people now are focusing on money from the Norwegian government, and not money from the government of Tanzania. (ibid).

As highlighted by Moore (et Al. 1999), such donor behavior can reduce accountability in recipient countries, which in turn can lead to “the gangsters” getting large shares of aid money intended for the poor (Easterly, 2006: 117-8). This argument is supported by Easterly and Williamson (2011), who blame the high political consensus of aid in Scandinavian countries for obstructing effective accountability. Scandinavian countries can be too quick to support corrupt regimes, which in turn means that Norwegian aid money may foster corruption, rather than hindering it.

Norway thereby makes for an interesting donor to study, as the views on the aid policies of the country are twofold. On one side, it is reasonable to believe that aid from Norway can help reduce corruption and violations against human rights in aid recipient countries. The country is

a generous donor who bases aid policies on altruism, where saving lives and easing suffering is the number one priority. On the other side, too much societal and political consensus, and too little strategic purpose might result in “lazy thinking”, consequently creating dependence and preventing reform. Moreover, whatever the intentions of the donor, easy money from aid can corrupt the recipient governments, undermining the cause of development indirectly. This study examines this critical question.

1.3 Why not examine all Scandinavian countries?

As illustrated through Easterly and Williamson’s (2011) arguments on lazy thinking, Norway is often associated with the other two Scandinavian donors. Several articles speak of Scandinavian aid combined, and the three countries⁵ are seldom examined individually (Alesina & Weder, 2002; Alesina & Dollar, 2000; Neumayer, 2003; Easterly & Williamson, 2011). As a result, the patterns and effects of Norwegian aid are merged with those generated by the other two Scandinavian countries, thus making it difficult to isolate the results created by the individual countries. From an international perspective, where aid is examined economically in macro-level studies, referring to the individual Scandinavian countries as one group makes sense⁶. The aid policies carried out by the Scandinavian countries differ significantly from those of other major donors, yet the policies between the Scandinavian countries are very similar. These similarities are evident both in generosity, allocation, and the stated overall goals of aid (Gates & Hoeffler, 2004). The three Scandinavian countries also have an objective of openness with regards to aid budgeting and allocation, and open national portals with continuously updated data on the individual countries’ aid projects are available online (Norad, 2014). In other words, the three Scandinavian countries are very similar in their donor behavior compared to other donor countries, maintaining a high degree of transparency.

However, this thesis does not seek to evaluate donor behavior and aid allocation (as previously mentioned research do), where referring to the Scandinavian countries as a single group can be defended. Instead, this thesis aims to analyze whether or not aid from one specific donor reduces bad governance in all aid-receiving countries compared with those that do not. In other words, this study examines the “outcomes” among recipient societies, regardless of the intent and priorities of the donor. While the Scandinavian countries behave similarly when compared to

⁵ Norway, Sweden, Denmark

⁶ Alesina & Dollar (2000) also include the Netherlands and Canada in their aggregation of «Scandinavian countries»

the other donors of aid, there are visible differences in aid strategies if the countries are only compared to one another. For example, numbers from the countries' aid databases from 2018 show that while all three countries donated large shares of aid to war-torn countries like Syria⁷ and Afghanistan, Norway placed Brazil⁸ third, while Denmark and Sweden prioritized Tanzania (Norad, 2020a; Openaid.se, 2020; Openaid.dk, 2020). While this illustration does not directly concern the motivation of this thesis, it does demonstrate that the three Scandinavian countries have different political agendas and priorities when allocating aid. This makes it meaningful to focus on one donor country only and examine the outcomes on the grounds where the donor chooses to locate. Given the importance of political conditions on the ground for the effectiveness of aid on development, this study focuses directly on how Norwegian aid effects political corruption and state violations against citizens' physical integrity rights, or fundamental human rights to be free of physical harm or political activity.

⁷ Syria placed first for Norway, second for Denmark, while 7th for Sweden, who prioritized African countries.

⁸ Brazil received apx. 86 million USD from Norway compared to apx. 3.2 million USD from Denmark, and apx. 1.8 million USD from Sweden

2 Theory

This chapter will present theory and previous empirical work deemed relevant in order to answer the question of Norwegian aid's effect on reducing bad governance. As there are many opposing opinions on whether or not, and how, aid works, the initial section of this chapter will present the most established voices of the aid debate. Here, Easterly (2006), Moyo (2010), Stiglitz (2002), and Sachs (2005) will be given the most attention, but other scholars like Edwards (2015), Collier (2007), Banerjee and Duflo (2011) are also included. Furthermore, this chapter will also examine why some aid projects work while others fail. Mosely's (1986) micro-macro paradox and Pedersen's (2001) Samaritan dilemma function as possible explanations for answering these questions. As this thesis focuses specifically on aid targeted towards creating change in governance, a brief clarification of targeted aid and good governance is also included. Acemoglu and Robinson's (2012) emphasis on inclusive institutions highlights the importance of good governance in order to create growth both in the economy and human development, which is why their work is given a section of the chapter. Lastly, corruption and violations against human rights are further examined, as these two challenges are, in this study, presented as the definitions of what "bad governance" is. The chapter ends with four individual hypotheses that create the foundation for the following analyses. Here, the effects of Norwegian good governance aid and total bilateral aid are tested towards creating change in governance in 129 developing countries.

2.1 The aid debate

After many decades, the debate on development aid remains heated amongst scholars, policymakers, and the general public alike. Should governments of industrialized countries spend billions of tax-payer's dollars annually to help citizens of poorer countries? Does aid help the poor, or does it only help the rich within poorer countries? Or are there more effective ways to close the gap of inequality between countries? The questions are as vast and many as there are opinions, and nearly a century later, we are still no closer to a definite answer. In his historical perspective of development aid, Edwards (2015: 277) mentions three distinct camps in the debate of aid effectiveness. The first belief he presents is that of those who are optimistic and argue that foreign assistance should be increased in order to reduce poverty (Stiglitz, 2002; Sachs, 2005). Second, there are those who have the opposite outlook. They consider foreign aid to be ineffective, deeming that it does more harm than good (Easterly, 2006; Moyo, 2010). The third, and last group, ask for new ways of thinking about the effectiveness of aid:

In their view, the acrimonious debate between the Easterly and Sachs factions has missed the boat [...] economists and other social scientists need to think in terms of concrete problems that can have specific answers, rather than foreign assistance in general (Edwards, 2015: 308).

By presenting the main arguments of the aid debate, this chapter will both illuminate the academic field in which this thesis belongs, and highlight the importance of more targeted studies of development aid, as the quotation above inquires.

2.1.1 The optimistic outlook on aid

Since the end of the second world war, aid flows have risen by billions of dollars. International policies, such as the UN's 0.7% GNI goal, highlight the importance of industrialized countries donating a certain amount of their GNI each year to help developing countries of the world financially. If aid critics are to be believed, and aid does not work, then why do the governments of industrialized countries keep on giving, while aid flows continue to increase? This chapter provides a brief insight into the more optimistic voices of the aid debate. Still, as most research does not conclude that aid in general works, the chapter only covers the most optimistic results of some works and scholars. A more in-depth review of both sides of the debate would be necessary in order to fully capture the complexity of the dense empirical work that is available on aid effectiveness. In other words, it is crucial to keep in mind that while there are more and less optimistic beliefs on the effectiveness of aid, very few scholars view the world of aid as "black and white", where there exists one particular approach or solution to poverty.

According to McGillivray, Feeny, Hermes, and Lensink (2006), the debate on aid effectiveness experienced a shift after the 1999-release of the World Bank's report "Assessing Aid: What Works, What Doesn't, and Why" (Arvin, 1999). The report concluded that *aid works* "to the extent that in its absence, growth would be lower" (McGillivray et al., 2006: 1031). While aid research pre-1999 produced either contradictory or inconclusive results, "all research" published after the World Bank report agreed with its general findings; aid works in a sense, yet the contexts in which it works is unclear (ibid).

"Aid optimist" Joseph Stiglitz (2002) shares the concerns of aid critics like Easterly (2006) and Moyo (2010) who worry about the economies of developing countries. However, Stiglitz's belief in aid is not "dead." According to him, the world's poorest countries are making little to

no progress economically: “out of the fifty countries where per capita incomes were lowest in 1990 [...] twenty-three had lower average incomes in 1999 than they did in 1990”. This lack of economic growth is one of the main reasons why he believes that aid is still very much needed (ibid). One of Sachs’s (2005) solutions to Stiglitz’s (2002) concern, is that rich countries should provide *more* aid. The UN’s 0.7 percent GNI goal is in Sachs (2005: xxxiii) belief too small to make a big difference, especially when few countries reach the set goal. They argue for a “big push” to get poor countries on a growth path again.

Ravallion (2013: 191) discusses the impact of redistribution (progressive income taxation), as some economists argue that poor countries can improve their distribution of income only by becoming richer. He finds that redistribution is possible, but only among the middle-income countries where the GNP per capita is above USD 4000 (ibid: 191-4). For the most impoverished countries, redistribution is not an option, as taking from the rich and giving to the poor would require tax rates higher than 100 percent. Ravallion (2013) thus concludes that foreign aid, accompanied by rapid growth, is the only solution to overcome global poverty (ibid). In other words, aid is still a necessity in order to overcome global poverty.

Collier (2007), Banerjee and Duflo (2011) claim that aid can make a massive difference *if provided properly* (Edwards, 2015: 308). This argument is supported by critics of aid as well, as they often tend to blame governments’ (both donors’ and recipients’) obstructing policies for aid’s ineffectiveness.⁹ Easterly and Williamson (2011: 28) refer to selectivity practices emphasized by the Paris Declaration of 2005 when stating that aid is more effective at reducing poverty when it goes to 1) the poorest countries, 2) to democratically accountable governments, and 3) to less corrupt governments. However, poor countries are more likely to have corrupt governments, thereby making it difficult for aid agents to strike a balance (ibid). Banerjee and Duflo (2011) urge economists like Easterly (2006) and Stiglitz (2002) to evaluate specific programs and their effectiveness, rather than debating aid in general. Lessons from concrete aid policies can “go a long way towards improving aid programs; it would help millions of people to get out of their poverty traps” (Edwards, 2015: 308).

⁹ Chapter 2.1.2 will discuss this further, where the arguments of aid pessimists are looked at in detail.

Overall, their view is that “details matter.” Poverty and underdevelopment are not so much the result of geography, politics or grand conspiracies that resulted in failed “institutions,” as they are consequences of policies that go wrong due to their complexity, incomplete information, and missing markets. **Official assistance, if properly provided, can make a huge difference**; “small changes can have big effects.” And, official aid, if properly disbursed, could finance a large number of effective “small projects.” The key, then, is to know how to dispense official aid properly (Edwards, 2015: 308-9)¹⁰.

2.1.2 The pessimistic outlook on aid

One of the more influential pessimistic voices in the foreign aid debate is William Easterly (2006: 17-19). He blames the failure of aid on a group of people referred to as “planners,” or bureaucrats, who distribute aid from a “top-down” perspective (Easterly, 2006: 5-7). When the planners behind the distribution of aid have little information about what is needed “on the ground,” feedback about why some projects fail, while others succeed, does not reach the decision-makers (the planners). Whether the donated money goes to those in need or ends up in the pocket of a corrupt government official is impossible to know in such cases, thus making it difficult for the planners to learn from experience (ibid).

To solve this problem, Easterly (2006: 5-7) asks for “searchers”, otherwise known as business- or nonprofit entrepreneurs, who have an understanding of specific societies and the needs they are trying to overcome. If there are too many planners, and too few searchers, aid will seldom work. New ways of organizing the distribution of aid, is ,therefore, one of Easterly’s many concerns regarding aid (ibid). Dambisa Moyo (2010) supports Easterly (2006), arguing that aid has done more harm than good in her continent, Africa. She compares countries that have received aid with those who have refused, claiming that the “aid-rejecters” have prospered economically. In contrast, the ones receiving help have become over-reliant on aid (Moyo, 2010). The continuous donation of money from wealthy countries has resulted in a never-ending circle of aid, where developing societies end up relying on grants, rather than focusing on building and strengthening their economy (ibid).

According to Seligson (2013: 3), the poor countries of the world are demanding better treatment from the wealthy nations. As a response, industrialized countries provide foreign aid, but due to “limited funds”, worldwide inequality is still growing. More often than not, efforts in the form of development aid “have failed or fallen far below expectations” [...] “Even when

¹⁰ The bold text in the quotation is highlighted by the author of this thesis.

programs have been effective and nations have seemed well on the way toward rapid growth, many of them nonetheless continued to fall farther and farther behind the wealthy countries” (ibid: 3). The critics of aid, such as Easterly (2006) and Moyo (2010), thus argue that the processes of development are not “supply” driven but “demand” driven, as illustrated by Seligson (2013). In the minds of the critics, the optimistic idea of the “big push” does not work compared with the opposing “pull up” idea, where the poor countries themselves can get things moving, provided the right kinds of institutions that increase better governance come into place.

2.1.3 Why do some aid programs work, while others do not?

Several more empirical works have evaluated the effectiveness of aid, where aid is found to be less efficient than desired, especially if evaluating aid in macro-level studies where success is associated with outcomes such as economic growth or the improvement of human development. Mosely (1986) refers to the micro-macro paradox when discussing previous empirical work, where aid effectiveness is debated. He claims that while data from microeconomic studies on aid are showing encouraging results, macroeconomic data, on the other hand, cannot find a positive relationship between aid and growth in aid recipient countries (Mosely, 1986: 22).

There is a sharp discrepancy between macro-and micro-level measures of the effectiveness of overseas aid. Many operations have been conducted which are successful in their own (rate of return) terms, but if the patient has not died there is a lack of evidence that aid inflows are making him any better (Mosely, 1986: 26).

Mosely’s (1986) patient-analogy can be interpreted in multiple ways. First, there is no way of knowing what would have happened if the “patient”, or the aid recipient country, did not get help in the form of aid. Thus, there is also no way to conclude whether or not aid is the explanation of why the patient is “still alive”. A second interpretation, that better explains the different outcomes of micro-and macro-level studies, is that aid often tends to function as a “respirator”, keeping the patient alive, but only artificially. As soon as the respirator is disconnected, or when donors of aid withdraw from a country, nothing has changed, as aid has not, in fact, created growth and development, but only temporarily subdued the original problems of the patient.

More macro-level studies support Mosely’s (1986) findings, concluding that the relationship between aid and development outcomes is often insubstantial and unclear (Boone, 1995;

Burnside and Dollar, 2000; Easterly, Levine & Roodman, 2003; Raghuram & Subramanian, 2005; Bourguignon & Sundberg, 2007). Referring to foreign aid programs as an unprecedented economic experiment, Boone (1995) finds that while aid seems to benefit the wealthy, and increase the size of government in recipient countries, it does not, however, increase general economic investment and growth. Nor does it benefit the poor by improving human development indicators. Still, he claims that aid *may* be useful if it is connected to political conditionality, or if it is used in more “narrow cases where aid is non-fungible” (1995: 34).

Burnside and Dollar (2000: 847) share this view, claiming that aid would be more effective if it “were more systematically conditioned on good policy”. Their findings show that aid can work in *some* countries, with satisfactory economic policies. Still, the neediest recipients of aid, where people are the poorest, rarely have such policies in place. In fact, they often suffer from distorted economies and governmental corruption, thus making it difficult for aid programs to have any effect at all (ibid: 848). This view corresponds with Burnside and Dollar’s (2000: 848-9) additional finding, where aid also seems to increase government spending:

We find that bilateral aid, in particular, has a strong positive impact on government consumption. This result is consistent with other evidence that aid is fungible and tends to increase government spending proportionately, not just in the sector that donors think they are financing. That aid tends to increase government consumption, which in turn has no positive effect on growth, provides some insight into why aid is not promoting growth in the average recipient country (ibid: 848).

Pedersen (2001) discusses the Samaritan’s and the prisoner’s dilemma when analyzing donors of aid and their accompanying recipient governments. He, much like Easterly and Williamson (2011)¹¹, argues that altruistic donors can become counter-productive in their efforts to help the poor and that their aid policies often tend to increase poverty and income distribution in poor countries (Pedersen, 2001: 694). These results are attributed to the mindsets of government officials in recipient countries, who, through subduing citizens’ income levels, thereby perceiving themselves as being extra disadvantaged, can increase their aid budgets (ibid). While this might not be in the best interest of the recipient governments, they – much like their donors, become stuck in a dilemma, having to choose between aid and development.

¹¹ As highlighted in chapter 1.2 and 1.3

Recipient governments are, in reality, encouraged to cut down on their poverty-reducing efforts and, thereby, worsen the income distribution because there exist foreign aid organizations eager to help the poor. The government knows that the more poverty an altruistic donor organization observes, the more aid it will give [...] From the recipient governments' point of view the resulting equilibrium reflects the prisoner's dilemma they are confronted with. They would both have wanted a more even domestic distribution of income given the amount of aid they obtain. However, each government knows that if it chose a more even distribution [...] it would lose some aid. That situation is considered even worse (Pedersen, 2001: 694, 700).

Perhaps Edwards (2015: 305) has a point when he claims that the aid debate, its academics, and the donors are using "the wrong yardstick to measure performance and success". Instead of focusing on targeted solutions and specific outcomes, both donor nations and academics of aid are too general in their behavior. While academics are busy arguing whether aid works on a general level, donors tend to emphasize how much funds they have spent, as if more money spent equals better results. In the pessimistic view of aid, Easterly's (in Edwards, 2015: 305) claims that foreign aid works for everyone but the poor can thereby seem reasonable, as it "takes \$3,521 in aid to raise a poor person's income by \$3.65 a year".

2.2 New ways of thinking about the effectiveness of aid

While aid optimists and aid pessimists mostly disagree, especially on whether aid, in general, should be increased or not, they do still seem to agree on some matters. Aid might not work to the desired extent today, especially not for those who need it to work the most. Still, *it can work*, if only better administered. So how can this be done? According to Collier (2007), Banerjee and Duflo (2011), a way of "providing aid properly with clear motives", is to target aid to be used for specific purposes. Instead of providing large shares of "general" bilateral aid, aid can be targeted towards improving specific parts or sectors of society, such as trade, education, health, environment, or governance – which in turn may increase economic growth and human development. As the connections between development, democracy, and human rights are widely recognized and debated, this thesis assesses the effects of good governance targeted aid. In order to get a better understanding of the main concerns of the study, section 2.2.1 will consequently explore the motivations for targeted aid, specifically those related to good governance, which in turn will lead to section 2.2.2, which further emphasizes the importance of institutions.

2.2.1 Targeted aid and good governance

In a document by the Norwegian Ministry of Foreign Affairs (2018), titled “Norway’s Humanitarian Strategy”, the Norwegian government highlights the significance of treating different developing countries and their specific challenges as individual cases when distributing aid. “Situations vary considerably. In order to meet the actual needs of the people affected, the response must be tailored more specifically to the context” (The Norwegian Ministry of Foreign Affairs, 2018: 12). This “tailored aid strategy” is more commonly referred to as *targeted aid*. In his article on targeted aid and capture¹², Winters (2010: 10) argues that more precisely-targeted foreign aid projects are more likely to be successful in terms of reaching the set developmental goals without becoming subject to capture for three reasons: “first, it is easier to overcome the collective action problem and organize smaller groups; second, smaller projects have clearer lines of accountability; and third, it is easier to monitor outputs in more delimited projects” (ibid).

Here, the second argument, related to accountability, is perhaps the one that gains the most support from both aid optimists- and pessimists alike. If an aid project is supposed to go to a specific sector of society, like good governance, the project’s purpose is more precise. Representatives on both sides “can more easily be held accountable and therefore are more likely to feel consequences from dissatisfied citizens in the event of improper or incomplete project implementation” (Winters, 2010: 12). Still, while targeted aid is by many viewed as the right way to reach the desired goals of development aid, targeted aid might also result in less desired outcomes (Eggen, 2013). If donor countries become too focused on improving specific sectors of the recipient countries, they often demand the same focus from the recipient governments, which in turn can lead to other sectors becoming less effective as they now receive less attention (ibid).

A sector which is deemed as highly relevant in order to improve both human—and economic development, is good governance – the main focus of this thesis. While there are many ways to define good governance, this study leans on the OHCHR’s¹³ (2020) definition that highlights well-functioning institutions, where the realization of human rights, free of abuse and corruption, is guaranteed. In other words, good governance is here seen as the absence of

¹² Winters (2010) uses the term capture when referring to corruption in aid programs

¹³ Office of the United Nations High Commissioner for Human Rights

governmental corruption and governmental violations of citizens' human rights.¹⁴ When discussing why aid does not work, Easterly (2006) emphasizes the importance of governance:

Not only does bad government have a lot to do with the low economic growth in poor countries, there is also evidence showing that bad government has a lot to do with the countries being poor in the first place [...] Badly governed countries are poor countries (Easterly, 2006: 116).

Norad (2011a) underlines the importance of aid being targeted towards good governance by claiming that understanding the challenges, dynamics, and power relations of the government in a recipient country is vital in order for aid to sufficiently work. As such, they deem that “aid policies should be customized to fit the context and power distribution they are intended for” (ibid).

2.2.2 Institutions matter, but which matter the most?

As a considerable amount of official development assistance is provided from government to government, the need for accountable institutions, especially in recipient countries, is highlighted by many in order to obtain successful development outcomes (Svensson, 2006). If a recipient government suffers from inefficiency or corruption, aid money that was projected towards decreasing poverty might never actually reach the poor (Acemoglu & Robinson, 2012). This is one of the reasons why well-functioning institutions in aid recipient countries are accentuated as essential in order to make aid work by both aid optimists – and pessimists. Whether institutions are well-functioning is also associated with the initial economic state of a country. While “good institutions” can lead to the empowerment of people, and escalate economic growth, “bad institutions” might explain why countries are poor in the first place (Auer, 2007; Easterly, 2006: 116).

Acemoglu and Robinson (2012) highlight the importance of institutions in developing countries. They claim that political and economic institutions in a country can either be inclusive, and encourage economic growth, or extractive, and become “impediments to economic growth” (ibid: 83). Inclusive institutions are here seen as institutions that are sufficiently centralized and pluralistic. In contrast, extractive institutions occur when these conditions fail, thereby concentrating power in the hands of a narrow elite who often extract

¹⁴ The term good governance is further explored in chapter 3.1.1, in relation to the main variables of the analysis.

resources from the rest of society (ibid: 81). According to Acemoglu and Robinson (2012), countries fail when they have extractive institutions. This means that the condition/choice of a country's institutions can be directly affiliated with the reasons for the success or the failure of that country (Acemoglu and Robinson, 2012: 83).

In his article published in *Development Policy Review*, Booth (2011) provides a review of the most established theory on institutions, where the relationship between institutions and economic progress is debated. He argues that over the past twenty years, we have learned four things concerning the importance of institutions, some which challenge the views of Acemoglu and Robinson (2012). His first point is that cross-country regression analysis and comparative case studies actually find that the quality of a country's institutions seems to be a more important factor when explaining economic growth in income per capita than any other factors (Booth, 2011: 7). Second, while we understand that institutions matter, we still cannot claim that we know what the "right" institutions are. Thus, we should not use the history of industrialized countries as a template for developing countries.

Indeed, prescribing for poor countries the institutions which now prevail in those (industrialized) countries, at the end of their process of development, is equivalent to 'kicking away the ladder' with which countries climbed up in the past (Booth, 2011: 7).

This leads to the third point, which highlights the importance of distinguishing between a country's long—and medium-term needs. Good governance measurements and economic outcomes show a clear correlation in cross-country regression covering the whole world. However, when covering only poor and middle-income countries, results are "far more ambiguous" (Booth, 2011: 7). This indicates that what the Western world sees as "good governance" might not be the best fit for all countries and cases, especially not when trying to make the initial, and most crucial changes, where decreasing poverty is the number one priority:

As confirmed by recent developmental successes in East and South-East Asia, the institutions that are good for obtaining growth and reducing poverty in the poorest countries may be quite different from the 'best practice' arrangements that have proven their worth in moving forward from middle-income starting-points (Booth, 2011: 7).

Lastly, if institutional change and improvement are to happen in the developing countries of the world, it will most likely happen as a result of domestic changes caused by social and

political reform, rather than by the hand of outsiders and their monies. Rather than trying to shape the institutions of poor countries to fit the industrialized standards, donors of aid could instead build on the institutions that are already in place, and settle for “good enough governance” to overcome the most crucial issues (Booth, 2011: 19).

2.3 Institutional challenges, corruption and violations of human rights

While Acemoglu and Robinson (2012: 450-2) may favor inclusive institutions over “good enough” institutions, they also have concerns regarding outsiders’ money, as they believe that only a small amount of aid budgets actually reaches the poor. “The idea that rich western countries should provide large amounts of “developmental aid” in order to solve the problem of poverty [...] is based on an incorrect understanding of what causes poverty” (ibid: 452-3). If the objectives of foreign aid are to decrease poverty, and if economic growth in a country is dependent on inclusive institutions, then providing aid to extractive institutions will, per Acemoglu and Robinson (2012: 453), not help the poor at all. Giving aid to extractive institutions may create further problems, and even increase poverty and inequality.

One explanation as to why these negative outcomes can happen when money is donated to extractive institutions, is that people with political power in these developing countries “will be able to set up economic institutions to enrich themselves and augment their power at the expense of society” (Acemoglu & Robinson, 2012:80). In other words, while inclusive institutions benefit nations, extractive institutions are a better choice for the corrupt, meaning those who are willing to win at the expense of others. In this chapter, I will attempt to address the topic of corruption, as corruption is one of the most severe obstacles to overcome, both for the donor – and the recipient countries of aid. Additionally, I will also include a section on the importance of human rights, as fighting corruption and increasing human rights often go hand in hand in many aid initiative policies.

2.3.1 Corruption in developing countries

In a report on corruption and human rights in third world countries, the European Parliament defines corruption as “the abuse of entrusted power for individual, collective, direct or indirect private gain” (European Parliament, 2017: 5). Corruption is a global phenomenon that ranges from small- to larger-scale efforts affecting both individuals, like government officials, and systems, like political, economic, and legal institutions (ibid). Corruption can also be caused by

a failure of said institutions, implying that the circle of corruption in less developed countries can be reciprocal, as corruption leads to weak functioning institutions, and weak functioning institutions lead to more corruption. High levels of corruption also lead to low rates of human-, social-, and economic development, and as corruption is present in a society, poverty and inequality among the population increases (ibid: 6-8).

Each year, corruption alone costs the EU between €179 billion and €900 billion in GDP (European Parliament, 2017: 8). In the United Nations Convention against Corruption, Kofi Annan claims that while corruption is present in both rich and developing countries, the effects are more destructive in the developing world. Governments in developing countries lose their abilities to provide basic services due to corruption, thus leading to inequality and injustice. Corruption may also discourage foreign aid and investment (The United Nations, 2004: iii). However easy it may be to link corruption and bad functioning governments in theory, the EU report underlines the difficulty of measuring corruption in practice, as it usually involves illegal activities deliberately being covered up. Working on strengthening the protection of human rights is, therefore, stressed as a valuable instrument in combating corruption worldwide (European Parliament, 2017: 8).

The Norwegian government shares concerns regarding corruption in developing countries, claiming that corruption and the abuse of power prevents effective use of a developing country's resources, while also preventing economic growth (The Foreign Relations committee, 2014). Support for establishing and strengthening institutions and good governance is therefore viewed as crucial by the Norwegian government, in order to promote sustainable development in many poor countries. Good governance is also a requirement for efficient utilization of development assistance, which is why both good governance and the fight against corruption have been "among the highest priority areas for Norwegian aid" (The Foreign Relations committee, 2014).

Alesina and Weder (2002: 20) empirically test whether corrupt governments receive less foreign aid than non-corrupt governments. They conclude that corrupt governments receive more foreign aid, especially if aid is scaled by the size of the public sector of the receiving country. The donation of aid to corrupt governments might still not occur due to the presence of corruption itself. As Easterly and Williamson (2011: 28) point out, the most impoverished countries who are in the most need of aid often have a more substantial presence of corruption,

leading donors to provide aid regardless. Alesina and Weder (2002: 20) also found differences in donor behavior. Scandinavian donors, like Norway, who are the most generous in per capita terms seem to reward less corrupt receivers. In contrast, the US seems to favor democracies, but do not pay attention to the quality of the government (ibid). Notably, Easterly and Williamson (2011) and Alesina and Weder (2002) disagree about how Scandinavian aid might encourage corruption, which highlights the need for a new study with the latest data.

2.3.2 Good governments respect their citizens' human rights

Many argue that what matters for true economic development is not aid money, but real freedoms and rights for people to pursue their self-interested economic activity (Easterly, 2006). Governments that block these basic human rights also constrain economic activity by practicing favoritism and monopoly for vested interests. Human rights are defined by the UN's Universal Declaration of Human rights as a set of rights for all human beings regardless of nationality, race, language, religion, sex, age, or any other individual status or preference (The United Nations General Assembly, 1948). The declaration, consisting of 30 articles, underlines the importance of equality and the rights to life, liberty, and security (ibid). Neumayer (2003: 650) states that many donors of aid claim to account for the respect of human rights in recipient countries when making allocation decisions. In his study, he clarifies the difference between *political and civil rights* and *personal integrity rights*. Personal integrity rights are, per Neumayer (ibid), closer to the core of human rights, where citizens are to be protected from imprisonment, disappearances, torture, political murder, and other forms of politically motivated violence. Indeed, where governments are bad, one would expect to see people dissenting, which ultimately leads to crackdowns on people's rights in the mentioned forms above.

Tvedt (2007: 68) claims that Norway's aid policy of giving a certain percentage of the GDP to developing countries each year is conditioned by the policy having a set of "positive goals" that everyone can support. He labels the aid policy as a "national charity project" where phrases such as "against poverty", "for peace" and "for human rights" function as easily supported positive goals. This makes political decisions regarding aid budgets and allocation easier to perform for the policy-makers. As long as they mean to do good, public support is provided. According to Toje (2010: 210), Norway sees itself as an embodiment of universal values – values like human rights. Neumayer (2003: 663) tests if the respect for human rights has an effect on donor behavior in aid allocation. His results are mixed; while respect for citizens'

civilian and political rights seem to play a role in whether a country receives aid or not, the respect for personal integrity is insignificant for most donors. Norway provides more aid to recipients with a higher respect for civil and political rights but also less aid to the recipients with a higher respect for personal integrity rights (Neumayer, 2003: 663). My analyses readdresses these concerns with newer, more updated data.

2.4 Hypotheses

Based on the presented theoretical background on the aid debate, targeted aid and good governance, institutions and their challenges such as corruption and human rights violations, I present four hypotheses constructed to empirically test the effectiveness of Norwegian aid, in order to answer the question: “*Does Norwegian aid reduce bad governance?*”.

H1: Norwegian bilateral aid increases corruption in recipient countries

Easterly and Williamson (2011) claim that aid is more successful if given to the poorest countries. However, the level of corruption is higher in poor countries, and Norway and other Scandinavian countries are apparently too generous to bad governments, leading to misuse of aid rather than genuine reform (ibid). While the Norwegian government claims to prioritize the fight against corruption and seem to reward less corrupt governments (Alesina and Weder 2002), Norwegian government officials have little incentive and small chances to know where money ends up after aid is transferred. If taking the skeptics of aid into account, it seems possible that while the intentions are good, Norwegian bilateral aid can end up increasing corruption in receiving countries by encouraging corruption because of aid.

As the presence of corruption also leads to inequality and injustice, the respect for human rights is expected to be low in a country where the government abuses their entrusted power for economic gain. If we believe that Norwegian bilateral aid increases corruption, it is only logical to assume that we will also see a low or even decreasing rate in the respect for human rights in such aid receiving countries. Thus, my second hypothesis is;

H2: Norwegian bilateral aid decreases government respect for human rights in recipient countries.

Edwards (2015) highlights the importance of details in aid policy, and shows that failure of aid programs are as much the results of over-complex plans based on incomplete information, as they are of grand thoughts of the uselessness of aid. If aid is appropriately provided, as Edwards (2015), Banerjee and Duflo (2011) discuss, it will work – and a way to make it work is by targeting it towards specific purposes. In many cases, good governance correlates with economic growth (Auer, 2007; Acemoglu and Robinson, 2012; Booth, 2011). It is therefore likely that;

H3: Norwegian good governance aid reduces corruption in recipient countries

and that

H4: Norwegian good governance aid increases government respect for human rights in recipient countries.

3 Methods and data

This chapter of methods and data describes the approach used to test the hypotheses from chapter 2.4. The first section of this chapter identifies the model employed to address the hypotheses, followed by a description of all included variables. The second section presents the challenges in estimating the models correctly because the complicated nature of the data employed, thus providing a proper understanding of the estimation method is critical. The final section describes the robustness tests used to ensure that the obtained results are not simply an effect of chance.

3.1 Model specification and data

As the purpose of this study is to examine the effects of Norwegian good governance aid and total bilateral aid, a quantitative approach became the most suitable methodical choice. Quantitative research methods are characterized by using statistical approaches to examine large samples, and obtain results that can be described as objective and unbiased (Wormnæs, 2002). In order to answer the central questions on the effects of Norwegian aid, I have used a pooled, time-series, cross-sectional dataset (TSCS). TSCS data consists of measurements of the distinctive variables in each country at a given time (cross-sectional), while also being repeated over time (time-series), and organized accordingly. Pooled refers to the collection of data among aid recipient countries measured at different points in time. The dataset covers roughly 129¹⁵ developing countries at various stages of development in the period from 1980-2018 (38 years).

3.2 Dependent variables

In the analysis, the effects of Norwegian bilateral– and good governance aid are measured by looking at the change in two selected aspects that are present in the governments of the aid recipient countries: *corruption* and the *respect for human rights*. Each variable will be presented separately, but first, a brief review of the two variables' eligibility as measurements for the effects of aid is provided.

3.2.1 How do we measure the effects of aid?

An essential element to keep in mind when deciding on dependent variables is the concept one aspires to measure. While I seek to assess the effects of aid, I do not wish to measure *all* effects

¹⁵ For a list of countries in the sample, see Table 1 in the appendix.

of aid. Neither is my objective to conclude on the overall debate of whether or not aid, in general, is “successful”, especially not in the economic sense where the eradication of poverty is the over-all goal. My wish is merely to comment on what effects Norwegian bilateral – and good governance aid have on Norway’s ability to reduce bad governance in aid recipient countries. Unlike a complex phenomenon such as economic growth, which is subject to many variables located outside the influence of recipient governments, such as global business cycles or the oil price, reform towards good governance is a choice made by a recipient of aid. So, in order to achieve this wish, knowing what good governance means is helpful, as this knowledge ultimately also tells us what bad governance is, which serves as the foundation of this thesis.

According to UNESCAP¹⁶ (2009) major donors are increasingly basing their aid and loans on conditions that ensure “good governance”. Where the term *governance* refers to the process of decision-making, the *government* is one of the key actors in this process. As such, good governance simplified refers to a government that is making *good* decisions (UNESCAP, 2009: 1). OHCHR¹⁷ (2020) says the following when discussing good governance:

[...] there is a significant degree of consensus that good governance relates to political and institutional processes and outcomes that are deemed necessary to achieve the goals of development. It has been said that good governance is the process whereby public institutions conduct public affairs, manage public resources and guarantee the realization of human rights in a manner essentially free of abuse and corruption, and with due regard for the rule of law.

As the absence of corruption and the presence of a government’s respect for the human rights of its citizens seem crucial to ensure good governance, these two aspects are chosen as the dependent variables of this analysis. Both variables are presented individually in the two following sections.

3.2.2 Corruption

The first dependent variable in this study is government corruption, which, as specified in chapter 2.3.1, is defined as “the abuse of entrusted power for individual, collective, direct or indirect private gain” (European Parliament, 2017: 5). While the links between corruption, bad functioning governments, and the lacking growth of human development are well established

¹⁶ United Nations Economic and Social Commission for Asia and the Pacific

¹⁷ Office of the United Nations High Commissioner for Human Rights

theoretically, corruption is difficult to measure empirically as corruption usually involves illegal activities deliberately being covered up (European Parliament, 2017: 8, Hamilton & Hammer, 2018: 2). Identifying robust indicators to measure corruption over time is, therefore, a valuable exercise, underlined by SDG 16 (OECD, 2012). When using corruption as a dependent variable, the chosen indicator has to identify a valid and reliable measure of corruption. While measuring corruption can be difficult, specific variable characteristics can be helpful when deciding on a quantitative indicator. The dependent variable should be substantively focused on measuring corruption, it should consistently measure outcome across national context, and across time (Hamilton & Hammer, 2018). Different corruption indicators are usually divided into two categories. First, there are objective indicators using “real data” to calculate the magnitude of power abuse, such as costs and used materials. These measurements can be described as economically focused. Second, there are subjective indicators that use survey data where individuals share their perceptions of corruption in their area of expertise (ibid).

In a report from 2018, the World Bank evaluated six of the most used corruption indicators to assess whether it is possible to associate changes in anti-corruption efforts (such as targeted good governance aid) to variations in reported corruption (Hamilton & Hammer, 2018). Here, the Transparency International’s Corruption Perceptions Index (CPI) and the World Bank’s Control of Corruption indicator (CC), which are both subjective indicators using survey data, were considered “the most valid measures of the magnitude of overall corruption in many country contexts”. (ibid, 2018: 2). The CPI provides an annual corruption indicator that aims to measure the abuse of entrusted power for private gain on a scale from 0 (extremely corrupt) to 10 (no corruption), thus capturing information about the administrative and political aspects of corruption. While findings show that the CPI is highly accurate with measures of actual corruption, data is only available starting from 1995. This makes the CPI’s corruption measurement less desirable to use in this study when data on Norwegian good governance aid (independent variable) is available from 1980 (Hamilton & Hammer, 2018: 9-10).

Like the CPI, the CC also has a political focus and is designed to capture the extent to which public power is abused for private gain. The two measurements are described as being very similar. The number of, and the organization of expert sources are the only thing that sets them apart. The CC is also limited in its range of years available (1996-2018), which is why neither indicator is used in this study.

A third corruption measure, also politically focused – and very similar to both the CPI and the CC, can be found in the Varieties of Democracy Institute’s dataset (V-dem), which I have chosen to use in this study. While this indicator is not included in the World Bank evaluation, perhaps because of its “young age”¹⁸, it is one of the largest social science data collections, covering 202 countries from 1789-2018. As such, this indicator makes for an excellent selection, as it not only attains the World Bank’s high standards in line with the CPI and the CC, but it also covers a great range of years.

My main variable on government corruption is created from an index (v2x_corr) from V-dem’s dataset, version 9, 2019. This political corruption index is generated by taking the average of the public sector corruption index (v2x_pubcorr), the executive corruption index (v2x_execorr), the indicator for legislative corruption (v2lgcrrpt), and the indicator for judicial corruption (v2jucorrdc). The index is on interval level, where higher values indicate more corruption. Every branch of government is incorporated in this corruption measurement, including the executive, legislative, and judicial branches. In the executive branch, the measures distinguish between corruption carried out through either bribes or embezzlement, as well as corruption in both the highest levels of government, where corruption is carried out by policymakers and leaders, and general corruption in the public sector (McMann, Pemstein, Seim, Teorell, & Lindberg, 2016). “The measures thus tap into several distinguished types of corruption: both ‘petty’ and ‘grand’; both bribery and theft; both corruption aimed at influencing lawmaking and that affecting implementation” (Coppedge et al., 2019: 266).

Like the CPI and the CC, data from the V-dem are based on feedback from individuals described as experts on specific countries and regions, thus placing the data in the subjective indicator category (Hamilton & Hammer, 2018). To account for corruption in their areas of expertise, the experts answer specific questions, such as:

How routinely do members of the executive, or their agents 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? (Coppedge et al., 2019: 279).

¹⁸ The V-Dem Institute is an independent research institute and the Headquarters of the project based at the Department of Political Science, University of Gothenburg, Sweden. The Institute was founded by Professor Staffan I. Lindberg in 2014. For more information, see: <https://www.v-dem.net/en/v-dem-institute/about-institute/>

After being coded, the measurements are subjected to rigorous analysis, namely item response theory, for minimizing intercoder bias and increasing reliability (Coppedge et al., 2019: 114). McMann (et al., 2016: 37) claims that the corruption measures from the V-dem dataset are generally valid and that a particular strength of the dataset is its capacity for analysis across countries over time. Still, there are those who believe that using subjective indicators may affect the validity and reliability of a study in a negative manner. One argument to support this belief is that individuals can interpret questions differently, thus creating inconsistent and unprecise data. Furthermore, even if these individuals are experts on certain countries or regions, one can still question whether they have insider information about illegal activities in said countries' governments, as corruption is illegal, and thereby generally hidden from the outside world. If so, data from subjective indicators, like the V-dem's data on corruption, may not be anything more than an educated guess – which ultimately casts a shadow of doubt on this study's validity.

On the other hand, subjective indicators of corruption are described as more suitable when trying to account for variation in corruption:

This is because, despite being based on perceptions, the major subjective indicators are highly correlated with narrower objective indicators, as well as outcomes associated with corruption (trust in government etc.), making it difficult to argue that objective indicators enjoy a 'validity-based' comparative advantage. Furthermore, subjective indicators also enjoy an advantage, in that: (1) they are focused on overall levels of corruption, rather than a narrow subset of activities (e.g. corruption associated with bridge building etc.); and (2) they are more readily available and reliable with respect to measuring cross-sectional variation in (perceived) corruption, thus enabling cross-sectional regression analysis to be used (Hamilton & Hammer, 2018: 4)

One of the great advantages of the V-Dem corruption measures over many others, is that given the focus only on government institutions, these corruption measures are far less likely to be biased by actual economic outcomes on the ground, such as economic growth or the confidence shown by international businesses.

Figure 1: The trend in average state corruption measured variously among 129 developing countries, 1980-2018

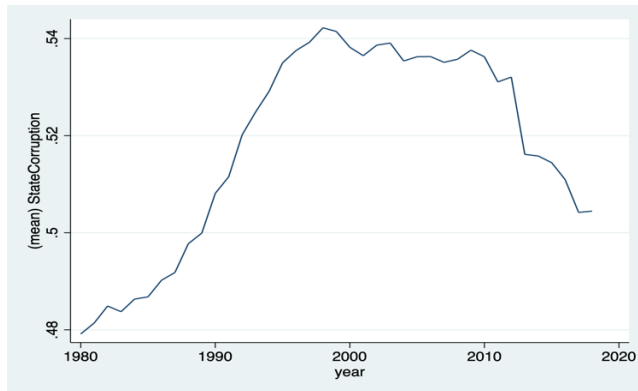


Figure 1 displays the trend in average state corruption from 1980-2018. As seen here, the trend in corruption increases significantly from the mid 1980s to the late 1990s. From year 2000 and onwards corruption seems to decrease, with a substantial decline after 2010.

3.2.3 *The respect for human rights*

The second dependent variable of this study is *government respect for human rights*¹⁹, measured by using the physical violence index (v2x_clphy) from the V-dem's dataset, version 9 from 2019. Like the corruption index obtained from the same dataset, the physical violence index is based on expert opinion where country experts answer the question: "to what extent is physical integrity respected?". The scale is on interval level, running from low to high (0-1). Here, physical integrity is understood as citizens' freedom from political killings and torture by the government (Coppedge et al., 2019: 275). In other words, the index attempts to measure whether the government in a country respects the human rights of its citizens, particularly citizens willing to risk their lives in order to dissent against a government. In many respects, a high incidence of violations of peoples' rights is a good indicator also of the support for a government among broad segments of a society. The index, which is constructed by using the indicators *freedom from torture* (v2cltort) and *freedom from political killings* (v2clkill), reflect violence explicitly committed by government agents and is not directly referring to violence committed at election time (ibid).

¹⁹ Often referred to as HR or respect for HR in study.

Figure 2: The trend in average state respect for citizens' human rights measured variously among 129 developing countries, 1980-2018

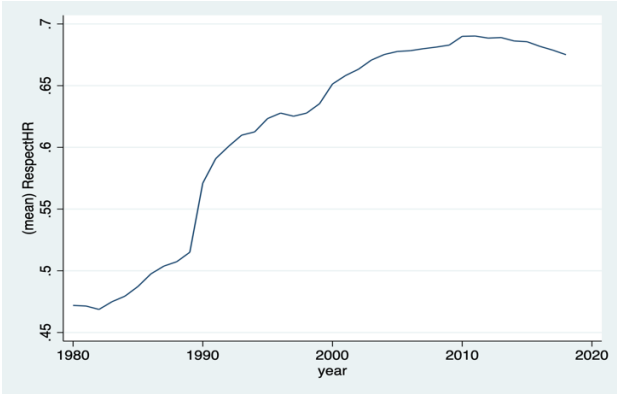


Figure 2 displays the trend in average state respect for citizens human rights from 1980-2018. As seen here, the trend in HR respect increases significantly from the mid 1990s, with a continuous increase until 2018. In other words, it looks as if governments have gradually shown more positive attitudes towards respecting human rights over the past 30 years.

By using both the measurements on government corruption and the government respect for human rights (concepts which are used in this paper as a measurement of good governance), I am able to get somewhat closer to answering the central question: “*Does Norwegian aid reduce bad governance?*” If aid can achieve these limited targeted outcomes, then one might say that the longer-term objectives of aid are potentially fulfilled.

3.3 Independent variables

The main independent variables of this study are total Norwegian bilateral aid, and Norwegian good governance aid. Data on total Norwegian bilateral aid is extracted from the World Bank’s World Development Indicators (WDI) online database as Norwegian bilateral aid in current US dollars. By using the US GDP deflator from the US Bureau of Economic Analysis, I express these values in 2015-dollars (Bureau of Economic Analysis, 2020). Data on Norwegian good governance aid is extracted from Norad, the Norwegian Agency for Development Cooperation. As data before 1980 do not contain sector information, I use data on Norwegian good governance aid from 1980-2018.

In order to make the two aid series (total bilateral aid and good governance aid) comparable, I use the official exchange rates for the US dollar provided by the Norwegian Central Bank

(Norges-bank), and convert the estimates of Norwegian good governance aid to current US dollars. These numbers are then converted to 2015-US dollars by using the GDP deflator, as previously conducted with total bilateral aid. Next, I create Norwegian bilateral aid and good governance aid as a share of the population (per capita) by dividing the 2015 US\$ aid values by the total population of the 129 aid recipient countries annually. Numbers on total population are extracted from the WDI. To reduce skewness and avoid bias from extreme values, I log both aid data series.

Figure 3: The trend in average Norwegian bilateral and good governance aid per capita among 129 developing countries, 1980-2018

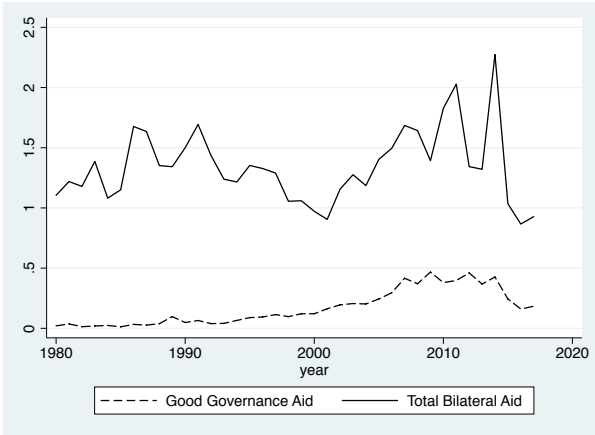


Figure 3 shows the trend of aid per capita for both total bilateral aid and good governance aid from Norway in per capita USD terms for aid-receiving countries. As seen here, total bilateral aid from Norway has varied considerably over the past 40 years. A significant peak was reached around 2015, with a substantial decrease in the most recent years. Good governance aid has a considerably lower quantity compared to total bilateral aid, with less than 0.5 USD per capita on average.

3.4 Control variables

To investigate the effects of Norwegian good governance aid and total Norwegian bilateral aid from other confounding factors, I include several control variables, but restrain myself from using too many as I wish to keep my models manageable for easier interpretation (Achen, 2005). In a sensitivity analysis by Serra (2006), the most commonly used empirical determinants of corruption are evaluated. Before deciding on control variables, I assess these findings to get a better understanding of the individual variables' robustness, thereby improving the likelihood of choosing more suitable variables. Serra (2006) finds that economic

development, Protestant religion and uninterrupted democracy impact corruption-levels in a positive manner (corruption decreases), while colonial heritage and political instability seemingly increase corruption (Serra, 2006: 225-6).

Inspired by Serra (2006), I initiate my control variables by examining the level of development by using GDP per capita, obtained from the WDI, expressed in constant 2010-US\$. Poorer countries should experience more corruption, which in turn may affect the effectiveness of aid in a negative manner (ibid). However, Easterly and Williamson (2011: 28) refer to selectivity when claiming that aid is more effective at reducing poverty when going to the poorest countries. If so, giving aid to those who need it the most makes sense both from a strategic perspective and from an idealistic perspective. *Income per capita* thus functions as the first control variable, as it is expected that Norway gives aid to countries where poverty levels are high, but where such factors also affect the outcome variables. Like with the main variables, I log the variable to reduce bias from extreme values.

Democratic societies also show lower levels of corruption (Serra, 2006). It is therefore reasonable to think that democracies also provide better security for citizens, thereby respecting citizens' human rights. Furthermore, donors appear to be sensitive to aiding democratic governments because of selectivity criteria, as well as official policies aimed at increasing democracy. Hence, the type of political regime in a country²⁰ seems to play an important role in both aid allocation and aid effectiveness. Therefore, I control for the minimum level of democracy by using data on *electoral democracy*, or polyarchy, from the V-dem. Here, countries are evaluated based on whether or not elections are conducted in a free and fair manner with political competition, and without physical coercion (Coppedge et. Al. 2019).

Whether or not there is an ongoing civil war also strongly correlates with the level of both corruption and respect for human rights, as well as the nature and amount of aid such a country may receive – thereby making *civil war* another control variable. The presence of civil war is taken from the Uppsala Conflict Data Program (UCDP²¹) and is dummy-coded as 1 if a war is ongoing where at least 25 battle-related deaths have occurred and where an organized rebel group is challenging a state, and as 0 if not. In addition to controlling for ongoing wars where aid might be lower, I also measure the history of civil peace by adding a count of the numbers

²⁰ Referred to as uninterrupted democracy by Serra (2006: 225)

²¹ <https://ucdp.uu.se>

of *years of peace* a country has enjoyed since the last civil war, or the year 1946 (past-WWII). This count variable is also taken from the UCDP.

The final control variable in my analysis accounts for total *Overseas Development Assistance* (ODA) from the entire DAC group, as Norwegian aid may follow ODA. By including this control variable, the effects Norwegian aid are in many ways compared to those of the entire donor community. Total ODA is obtained from the WDI in GDP, which similarly to other variables is converted to per capita, and logged to reduce skewness. Additionally, I estimate time trends in all independent – and control variables by adding a year dummy to all analyses. Since aid may trend upwards with time together with the dependent variables, I control for such trending series. Each of the independent variables is lagged 1 year to reduce the effects of simultaneity. Table 1, below, reports descriptive statistics of the various variables of this study. The data description is followed by a discussion of the statistical method.

Table 1: Descriptive Statistics

Variables	Mean	Std.Dev.	Min	Max	Obs
Corruption	.519	.296	.006	.976	6515
Human Rights Respect (Scale: 0-1)	.617	.3	.021	.987	6561
Good governance aid per capita in constant 2015 US\$ (log)	-8.354	5.615	-13.816	2.614	4696
Bilateral aid per capita in constant 2015 US\$ (log)	-1.625	2.44	-13.816	4.806	3788
Income/GDP per capita in constant 2010 US\$ (log)	8.416	1.538	4.898	12.174	7060
Electoral Democracy (Scale: 0-1)	.476	.282	.014	.948	6522
Civil War (Dummy: 0 for no conflict)	.177	.382	0	1	6186
Peace Years	22.667	20.309	0	71	6186
Total ODA per capita	3.164	2.982	-13.816	9.399	5539

3.5 Estimation methods

To answer the central questions on the effects of Norwegian bilateral and good governance aid on good governance, I have used a pooled, time-series, cross-sectional dataset (TSCS). As previously stated, this means that the data consists of measurements of the distinctive variables in each individual country for every year between 1980 and 2018, covering the 129 developing countries at various stages of development. When using TSCS data, it is important to note that data can be plagued with bias (systematic error) if the estimates are unadjusted for the complex correlation patterns across countries, within countries, as well as overtime (Beck, 2001). This chapter will identify these potential issues, and account for methods of testing and the following

required adjustments. For some issues, like heteroscedasticity and autocorrelation, one specific solution has the ability to solve multiple problems. Still, for the sake of clarity, this chapter will look at the presented issues individually, where the specific tests and adjustments follow the individual concepts. As a result, particular sections of this chapter may be somewhat repetitive.

3.5.1 Autocorrelation

When using TSCS datasets, issues regarding correlation, both in time and units are quite common. These issues are often referred to as serial/autocorrelation (time) and spatial correlation (units). As basic OLS regression with fixed effects is quite robust to spatial correlation, this issue will not be given any attention. The following section will thereby focus on autocorrelation, also referred to as serial correlation.

Autocorrelation happens when numerous time-series show similar trends over a given period. As underlined by Worrall and Pratt (2004), observations within TSCS data are rarely independent along the time dimension, and values of a particular unit from one time period is often associated with values from that same unit from another period. An example of autocorrelation (as used by Worrall and Pratt, 2004) is budget spending – for example Norway’s yearly spending of aid monies. How agencies of aid spend their budgets for a particular year can directly affect the budgets of subsequent years, where budgetary allotments may increase or decrease based on the actions of that particular year. If Norway, for example, spends less money on aid in 2015 than anticipated, budgets of aid may be reduced in the following year of 2016. “Thus, the very nature of the public budgeting process ensures that an agency’s budget for one year is highly associated with its budget for the previous year” (Worrall and Pratt, 2004). Furthermore, autocorrelation may cause an independent variable to appear explanatory to the dependent variable, or steal explanatory power from another independent variable, if the data remains unadjusted. This phenomenon can occur although the two variables have no direct causal connection, which in turn becomes problematic when analyzing the data.

A way to test for autocorrelation is to use the Wooldridge test, which is described as “very attractive because it requires relatively few assumptions and is easy to implement” (Drukker, 2003). Here, the effects of the independent variables on the dependent variable are estimated in first-differences. In other words, the variables represent the change on that variable in a country from t to $t-1$. In the Wooldridge test, the null-hypothesis rejects the presence of serial correlation. Therefore, it is desirable with a p-value higher than 0.05. When running the test on

the fully specified model, I obtain a p-value of 0.00. This indicates that my data suffer from first-order autocorrelation. To resolve this issue, I apply the Newey-West estimator, which produces standard errors robust to both first-order serial correlation and heteroskedasticity (Newey and West, 1987). Additionally, I use the Driscoll-Kraay standard error method that is essentially OLS regression, which in addition to first order serial correlation and heteroscedasticity is also robust to any form of spatial dependence (Hoechle, 2007).

3.5.2 Heteroscedasticity

The second issue that is common in TSCS datasets is heteroscedasticity, which occurs when the variation of errors is unevenly distributed across observations. In other words, the model is not *homoscedastic*, as is desired, where errors are evenly distributed (Long & Ervin, 2000). When errors are heteroscedastic, a model could, for example, be consistent when predicting low values of a variable, but inconsistent when predicting high values. If the model has heteroskedasticity, the distribution of errors will vary around the regression line with the values of X, indicating that the predictive ability of the model also varies with X (Midtbø, 2012). Put more simply, a model's ability to predict a variable is not consistent across all values of that variable if the model has heteroscedasticity, which in turn means that the regression is less reliable. Given that heteroscedasticity is common in cross-sectional data, which is the chosen method of this thesis, "methods that correct for heteroscedasticity are essential for prudent data analysis" (Long & Ervin, 2000: 217). However, as I have already included the Newey-West estimator due to autocorrelation, any potential issues related to heteroscedasticity are also accounted for.

3.5.3 Selection bias

This study focuses on the association between the independent variables of Norwegian aid (both bilateral and good governance), and the dependent variables of government corruption and government respect for human rights. What is important to note here, is that the association between aid and corruption/HR may not be causal due to selection bias. It is very well possible that aid agencies, in this case Norway/Norad, may select the "easy cases" when allocating aid, thereby making it seem as if they are creating a positive change. Furthermore, the "difficult cases", in this case the more corrupt countries, could also systematically reject aid, which again would make it seem as if Norway creates worthy results. If so, giving Norway credit for positive aid outcomes or handing out blame for negative outcomes, would be as mistaken as crediting a

terrible doctor who gets the “easy cases or patients” with success, and blaming a specialist for deaths because he gets all of the “harder cases”.

Finding a way to check for the association between aid and corruption/HR is therefore imperative in order to create reliable results. To account for selection bias, I utilize the Heckman correction method that uses a two-step approach. First, the method estimates the pattern of Norwegian aid giving, and then it uses that information in the second stage to assess the causal impact of X on Y (Heckman 1979). In other words, the effect of aid on the outcome is now tested after the data are randomized—i.e; after any pattern to Norwegian aid giving is accounted.

3.5.4 Reverse causality

When using TSCS data, it is also essential to keep in mind that these studies are usually not the best at answering analytical questions (Katz, 2006: 25). “The reason is that an association found in a cross-sectional study may go in either direction. The risk factor may cause the outcome (cause-effect) or the outcome may cause the risk factor (effect-cause, or *reverse causality*)” (ibid: 25). Reverse causality means that the dependent variable (Y) and the independent variable (X) are associated, but not in the way one expects where the independent variable is causing changes in the dependent variable. In this study, the presence of reverse causality would mean that Norwegian aid agents choose to assign more aid to those countries that have already improved their corruption/HR scores, thus making aid follow good governance and not the other way around.

Sven E. Wilson’s (2011: 2040) analysis on health sector aid and mortality raises the question of reverse causality. He shows that results from targeted aid programs, such as health aid (or in this case, good governance aid) may be linked to the allocation process used by donors of aid. Not only do donors of aid base their allocations on political or strategic factors, but they also assess improvements of the targeted sector in a recipient country when deciding on aid allocation (Wilson, 2011: 2040). This finding indicates that a donor of aid (i.e. Norway) often favors recipient countries that have already experienced improvements in the specific sector that is to receive aid (i.e. good governance), even when this change cannot be linked to previous aid programs of that specific sector (ibid). “In other words, development assistance [...] chases after development that has already occurred, rather than being put to use where it is likely to be effective” (ibid).

When interpreting the coefficients from the fixed effects analyses, keeping this concern in mind is crucial, as fixed effects analysis is robust to omitted variables, but not to reverse causality. It is very well possible that potential positive outcomes in the analysis may be a result of Norway's allocation decisions, and not of the aid programs themselves. In other words, Norwegian good governance aid may follow countries that have experienced improvements in good governance, rather than generating it.

4 Analysis

In this chapter, the results obtained by the statistical analyses described in chapter 3 are presented. The first section of the chapter (4.1) displays the main results on government corruption, while the second section (4.2) addresses the human rights respect results. The two sections, chapter 4.1 and 4.2, present one table each (Table 2 and Table 3). Here, the four individual hypotheses from chapter 2.4 are tested with the inclusion of five control variables. The two tables measure Norwegian aid's effects on reducing bad governance in 129 aid recipient countries, thus answering the question “*does Norwegian aid reduce bad governance?*”. In addition to illuminating the effects of Norwegian aid on governance, chapter 4.1 and 4.2 will also exhibit how Norwegian aid compares to total overseas development aid (ODA) by other DAC donors. The following section of chapter 4 (4.3) addresses the potential issues of selection bias, where results obtained with the inclusion of the Heckman two-step model are displayed (Table 4). Lastly, the matter of causality is addressed in chapter 4.4 by testing Wilson's (2011) chasing success model (Table 5).

4.1 Assessing Norwegian aid on government corruption

This chapter both presents and discusses the effects of Norwegian bilateral aid and Norwegian good governance aid on government corruption in aid recipient countries. Table 2, below, contains the results obtained from the regression analyses. The dependent variable here is *government corruption*, which captures whether the government in a country (including the executive, legislative, and judicial branches) suffers from corruption. The six models included in the table use both random effects (OLS), and fixed effects by implementing the Newey-West method (NW), consequently adding country dummies to account for unit heterogeneity. The models also include the Driscoll-Kraay method (DK) with fixed effects. The first three models (1-3) show the effects of the independent variable *Norwegian Bilateral aid per capita*. In comparison, the three following models (4-6) include the second independent variable *Norwegian good governance aid per capita*.

Table 2: The effects of total bilateral aid and good governance aid on government corruption

VARIABLES	(1) Corruption	(2) Corruption	(3) Corruption	(4) Corruption	(5) Corruption	(6) Corruption
Norwegian bilateral aid/pc (log)	-0.0145*** (0.00203)	-0.00174* (0.000945)	-0.00174** (0.000800)	-0.0161*** (0.00247)	-0.00190** (0.000964)	-0.00190** (0.000877)
Overseas development aid/pc (log)	0.00344* (0.00185)	0.00210*** (0.000720)	0.00210*** (0.000414)	0.00496*** (0.00184)	0.00215*** (0.000764)	0.00215*** (0.000449)
Income/pc (log)	-0.0427*** (0.00466)	-0.0622*** (0.0103)	-0.0622*** (0.00489)	-0.0402*** (0.00471)	-0.0634*** (0.0112)	-0.0634*** (0.00516)
Electoral Democracy	-0.331*** (0.0242)	-0.248*** (0.0225)	-0.248*** (0.0214)	-0.306*** (0.0242)	-0.247*** (0.0234)	-0.247*** (0.0221)
Civil War	0.00719 (0.00943)	0.00238 (0.00564)	0.00238 (0.00587)	0.00416 (0.00943)	0.00251 (0.00568)	0.00251 (0.00598)
Peace Years	-0.00241*** (0.000331)	-5.27e-05 (0.000239)	-5.27e-05 (0.000180)	-0.00245*** (0.000324)	-5.85e-05 (0.000243)	-5.85e-05 (0.000183)
Norwegian good governance aid/pc (log)				0.00123 (0.00109)	4.76e-05 (0.000449)	4.76e-05 (0.000427)
Constant	0.990*** (0.0434)	1.260*** (0.0631)	1.107*** (0.0361)	0.986*** (0.0453)	1.267*** (0.0685)	1.136*** (0.0382)
Observations	3,433	3,433	3,433	3,330	3,330	3,330
Number of groups	129	129	129	116	116	116
Estimation Technique	NW (RE)	NW (FE)	DK (FE)	NW (RE)	NW (FE)	DK (FE)
Time Fixed Effects	YES	YES	YES	YES	YES	YES
Country Fixed Effects	NO	YES	-	NO	YES	-
All x variables lagged 1 year						

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

4.1.1 Norwegian bilateral aid results on government corruption

In the first model (1) of table 2, total Norwegian bilateral aid per capita has a negative and highly statistically significant association with government corruption in aid recipient countries. This negative value indicates that higher levels of Norwegian bilateral aid flows per capita are associated with reduced levels of corruption in recipient governments. These random effects results could occur because of higher-order omitted variables, which is why the second model (2) includes fixed effects. Here, the effects of aid are estimated within each country over the time period analyzed.

When the effects of potential omitted variables are removed by accounting for such countries' heterogeneous effects, the effects of Norwegian bilateral aid on government corruption remains robust to two-way fixed effects, which is negative and statistically significant. These results are further confirmed by the OLS fixed effects regression analysis (model 3) accounting for spatial dependence estimated with the Driscoll-Kraay standard errors. In other words, the three first

models' estimations indicate that as Norwegian bilateral aid flows per capita increases, government corruption in the 129 aid recipient countries decreases. So far, the results seem to reject the first hypothesis, *H1: Norwegian bilateral aid increases corruption in recipient countries.*

For scholars such as Sachs (2005), Stiglitz (2002), and Ravallion (2013), who argue that aid is still very much needed, these results, produced by Norwegian bilateral aid, are promising. As one of the top donors of aid in GNI-terms, Norway certainly seems to contribute to the “big push” that, in their view, is needed for the developing countries to leave the worst poverty behind. If other nations also reach the UN's 0.7% GNI goal in aid, that Sachs (2005) highlights, maybe the future would see sinking levels of poverty. If nothing else, these results at least seem to support the claims of McGillivray (et al., 2006) and Arvin (1999), who state that aid works to the extent that in its absence, growth would be lower.

Still, even though the effects of Norwegian bilateral aid per capita are promising, they are substantively small. When looking at the three first models, all coefficients of Norwegian bilateral aid are near zero, especially with fixed effects. These low values indicate that while it is likely that more bilateral aid per capita is associated with lower levels of government corruption, the substantive effects are, in reality, quite small. If using the fixed effects (with DK) from model 3, a standard deviation increase in aid only reduces the standard deviation in corruption by roughly 3%²².

Critics of aid, such as Easterly (2006) and Moyo (2010), might blame these “less-than-desired” outcomes on aid objectives that are too general, or on leakages (corruption) in the system where “gangsters” end up with money intended for the poor. Easterly (2006) and Moyo's (2010) arguments support the findings of Boone (1995), and Burnside and Dollar (2000), where bilateral aid, in particular, seems to increase both the size of government and government spending. These increases may be one of the disadvantages of “general aid”. Aid without specific conditions often tends to become fungible, as illustrated by the Tanzanian development worker, Kaare, who claims that Norwegian aid excuses the Tanzanian government from

²² A standard deviation of Norwegian bilateral aid is apx. 2,8 USD. The substantive effect (standardized coefficient) is calculated by multiplying the coefficient (DK: -0.00174), with the within standard deviation of the x variable (\approx -1.56). This product is then divided by the within standard deviation of y (\approx .085) and multiplied by 100 to express as percentage (\approx -3.2)

upholding their obligations towards their people (NRK, 2013). Hence, general foreign aid might allow government officials in an aid-receiving country to use government saving for other purposes, like corruption, as citizens' basic needs are taken care of by foreign governments' aid money.

The arguments highlighted by Easterly (2006), Moyo (2010) Boone (1995), Burnside and Dollar (2000), and Kaare (NRK, 2013) can, of course, play a relevant part in the explanation of why we observe such weak substantive results of Norwegian bilateral aid. However, the small observed effects may also be driven by the general Norwegian commitment towards peace work across the globe. As pointed out by Tvedt (2007), Norway is internationally known as a promoter of peace, and this specific objective plays a large part in Norway's global identity and Norwegian aid allocation. It is therefore likely that the countries viewed as the neediest in terms of peacekeeping, such as Afghanistan – who in 2018 received NOK 795 million in Norwegian aid, receive aid without necessarily improving their corruption scores. Including all Norwegian aid-receiving countries in the sample, regardless of factors like war, will likely affect the outcomes of the estimations. In other words, it is possible that countries such as Afghanistan might also explain the weak substantive effects of Norwegian bilateral aid on government corruption.

4.1.2 Norwegian good governance aid results on government corruption

When including Norwegian good governance aid per capita in the three following models (models 4, 5, 6) in Table 2, we see that Norwegian good governance aid does not affect government corruption as the results are not statistically significant. In other words, the targeted element of Norwegian aid does not work the same way as total bilateral aid. A possible explanation for these insignificant outcomes can be that good governance aid is only provided to a handful of countries, thus making the measured outcomes to have lower explanatory power. Norwegian good governance aid can also be insignificant because sector spending is too small, especially in per capita terms, to generate any apparent results. Aid optimists, such as Sachs (2005), might agree, as he argues that the aid flows we see today are too small to generate the “big push” needed to generate economic growth in developing countries. In models 4, 5, and 6, we can also see that Norwegian bilateral aid stays highly statistically significant with a negative association on government corruption, impartial of the aid targeted towards good governance. These results could indicate that there may exist a small positive effect of aid on good governance, even if this is not visible in the good governance aid outcomes.

While the good governance results are not significant, they are interestingly enough positive, which points towards good governance aid being related to increasing levels of corruption. This finding is not expected, as both aid critics and aid optimists seem to favor a more targeted organization of aid (OECD, 1997; Collier, 2007; Winters, 2010; Banerjee and Duflo, 2011; The Norwegian Ministry of Foreign Affairs, 2018). Easterly and Williamson (2011) here serve as the exception, as they deem Scandinavian aid policies to be too naïve, which may ultimately foster corruption, as the results suggest. This is what Pedersen (2001) refers to as the Samaritan's dilemma, where altruistic donors may become counterproductive in their efforts to help.

Of course, these results cannot be interpreted literally, as they are not significant. Still, it is an interesting observation where Eggen's (2013) argument on how too much focus on one sector might result in other sectors of society getting less attention than needed, is a possible and compelling explanation. While providing sector aid, such as good governance aid, may, in theory, be good for accountability on both sides of an aid project, it could also lead to negligence of other segments of society that may also affect government corruption (Eggen, 2013; Winters, 2010). If Norwegian good governance aid's association with increasing levels of government corruption was, in fact, statistically significant, Eggen's (2013) thoughts could have been a possible explanation.

Summarized, there is no sure way of concluding on the effects of Norwegian good governance aid on government corruption from the insignificant results in Table 2. The second hypothesis related to corruption, *H3: Norwegian good governance aid reduces corruption in recipient countries*, is therefore dismissed, as further examination is needed to conclude safely.

4.1.3 Control variables on government corruption

What is especially interesting to observe in Table 2, with regards to the control variables, are the results obtained by the variable Overseas Development Aid per capita. While Norwegian bilateral aid seems to have a negative association with government corruption, thus reducing government corruption levels, aid from other DAC donors of the OECD seems to have the opposite effect. These findings suggest two things. First, it appears that as ODA levels rise, so does government corruption in countries that receive aid from other DAC donors. Second, while we cannot make this claim for certain because of other confounding factors such as selection or

causality, Table 2 nevertheless demonstrates that Norway associates differently with government corruption in aid receiving countries than other DAC donors. However, like with Norwegian bilateral aid, the results of ODA on government corruption are not substantively large, as a standard deviation increase in ODA per capita only increases a standard deviation of government corruption with roughly 5%. Still, Table 2 suggests that while Norwegian aid is associated with lower levels of corruption, other DAC donors are far much worse off.

For the other control variables, rising levels of income per capita also seem to have a negative impact on government corruption, which is not surprising, as more impoverished countries often tend to suffer from more corruption (Easterly & Williamson, 2011). That we see lower levels of corruption when citizens have higher incomes, thus makes sense. The same can be said about electoral democracy, which too is associated with decreasing levels of government corruption. This association indicates that more democratic countries experience less government corruption. If looking at the arguments of Acemoglu and Robinson (2012), this finding is expected as well. Democratic governments fall into their “inclusive institutions category”, where there is less misuse of public resources and higher chances of economic success (ibid).

Both the income variable and the electoral democracy variable are highly significant on a 1% level. Unlike with Norwegian bilateral aid or ODA from other DAC donors, income and regime type have a much more significant substantive effect. A standard deviation increase in income per capita results in a 22% reduction of a standard deviation of corruption. For electoral democracy, the impact is even higher, with a 37% reduction of a standard deviation of corruption, if increasing the standard deviation in electoral democracy. That is almost ten times the effect of Norwegian bilateral aid per capita.

For civil war and years of peace, both behave as expected with regards to change in government corruption. While the estimations of ongoing civil wars in aid recipient countries are not significant, a more extended period of peace seems to have a negative association with corruption. These highly significant, but weak effectual results indicate that as the period of peace years increases in a country, government corruption decreases.

4.2 Assessing Norwegian aid on government respect for citizens' human rights

This second section of the main results presents Norwegian aid's effects on the second dependent variable: *government respect for citizens' human rights*. The table presented here (Table 3) has two models, both using the Newey-West with two-way fixed effects since the results are generally almost identical to using the Driscoll-Kraay standard errors. The first model in this table (1) illustrates the effects of *Norwegian Bilateral aid per capita*, while the second model (2) also includes *Norwegian good governance aid per capita*. Like in the previous section (4.1) with Table 2, the effects generated by each independent variable will be discussed individually as they relate to relevant theory. The two remaining hypotheses related to the human rights respect variable (H2 and H4) will be discussed and answered where appropriate.

Table 3: The effects of total bilateral aid and good governance aid on government respect for HR

VARIABLES	(1) HR Respect	(2) HR Respect
Norwegian bilateral aid/pc (log)	0.00656*** (0.00148)	0.00501*** (0.00152)
Overseas development aid/pc (log)	0.00160 (0.00101)	0.00185* (0.00106)
Income/pc (log)	0.00279 (0.0104)	0.0126 (0.0112)
Electoral Democracy	0.712*** (0.0307)	0.717*** (0.0317)
Civil War	-0.0626*** (0.00897)	-0.0607*** (0.00898)
Peace Years	0.000359 (0.000309)	0.000541* (0.000310)
Norwegian good governance aid/pc (log)		0.00146** (0.000662)
Constant	0.204*** (0.0690)	0.152** (0.0729)
Observations	3,433	3,330
Estimation Technique	NW (FE)	NW (FE)
Time Fixed Effects	YES	YES
Country Fixed Effects	YES	YES
All x variables lagged 1 year		

Standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

4.2.1 Norwegian bilateral aid results on human rights respect

In the first model (1) of Table 3, total Norwegian bilateral aid per capita has a positive and highly statistically significant association with government respect for human rights in aid recipient countries. This positive value indicates that higher levels of Norwegian bilateral aid flows per capita are associated with rising levels of government respect for human rights in recipient governments. As with corruption, the effect does not seem substantively large. Here, a change in a standard deviation increase in Norwegian bilateral aid per capita increases a standard deviation of government respect for citizens' human rights by 7%.

When including Norwegian good governance aid in model 2, effects generated by total Norwegian bilateral aid per capita remain similar. The estimations are statistically significant, though somewhat less impactful than those in the first model with a coefficient value of 0.00501 compared to the previous value of 0.00656. Compared to the previous rise of 7% in a standard deviation of government respect for citizens' human rights, an increase of Norwegian bilateral aid per capita only increases government respect for human rights by 5% of a standard deviation of human rights in model 2.

While the results of Norwegian bilateral aid is not particularly strong substantively in either model, the results clearly show a correlation between rising levels of Norwegian bilateral aid per capita and rising levels of government respect for citizens' human rights. The overall results of Norwegian bilateral aid, therefore, seem to reject the hypothesis *H2: Norwegian bilateral aid decreases government respect for human rights in recipient countries*. My results, thus, contradict the findings of Neumayer (2003) and Easterly and Williams (2011), which suggest that Norwegian aid compensates governments that violate human rights. Thus far, Norwegian aid's effects on both corruption and human rights point in similar directions, but these results can only be seen to be associational and not causal.

4.2.2 Norwegian good governance aid results on human rights respect

Unlike in Table 2, where good governance aid's effects on corruption were statistically insignificant, Norwegian good governance aid provides significant results in Table 3 when assessing the effects on government respect for human rights. Here, higher levels of Norwegian good governance aid per capita increases government respect for citizens' human rights, as the coefficient is positive with a value of 0.00146. In other words, it seems as if good governance aid from Norway helps increase respect for human rights in aid recipient countries. Still, this

impact is, as with Norwegian bilateral aid, quite small substantively. A standard deviation increase in Norwegian good governance aid per capita results in a 4% increase of a standard deviation of government respect for citizen's human rights.

If looking at theory on targeted aid programs, these positive outcomes of Norwegian bilateral aid seem to be as expected. Winters (2010) claims that targeted aid programs, such as aid targeted towards good governance, should be more successful than larger and more general aid programs, such as bilateral aid. He justifies this claim by highlighting that smaller aid projects are easier to organize, as there are oftentimes both less funds and people involved. By targeting aid, it becomes easier to monitor outputs, and the line of accountability also becomes more clear for all involved parties.

However, even as Norwegian good governance aid is smaller both in the size of funds and recipient countries than Norwegian bilateral aid, the substantive effects of good governance aid on government respect for human rights are smaller (at 4%) than the effects of bilateral aid on government respect for human rights (7% in model 1). Thus, the type of aid provided, general or targeted, may not be what matters in particular for governments' respect for human rights, as both bilateral aid and good governance aid from Norway show similar outcomes. Rather, these results indicate that aid, regardless of type, seems to help to increase human rights on a general basis. As the correlation between Norwegian good governance aid and human rights respect is positive, regardless of bilateral aid results, the last hypothesis of the study; *H4: Norwegian good governance aid increases government respect for human rights in recipient countries*, seems to be confirmed.

4.2.3 Control variables on human rights respect

As for the control variables in Table 3, overseas development aid per capita from other DAC donors is positive, though only statistically significant when including Norwegian good governance aid in the second model (2). These results indicate that while ODA seems to increase corruption (Table 2), ODA also seems to increase governments' respect for citizens' human rights at the same time. This finding is interesting, as the two dependent variables, corruption and human rights violations, are usually highly correlated. High levels of corruption typically lead to low rates of human and social development, but corruption in a country also increases inequality in the population (European Parliament, 2017). For ODA to increase both government corruption levels and government respect for human rights thus seems like an

unusual finding, as one would expect to see negative corruption values associated with positive human rights values.

While income per capita is not significant in either model in Table 3, electoral democracy shows highly significant and strongly positive results. It is clear that regime type has a convincing impact on decreasing levels of government corruption (Table 2) and increasing human rights respect (Table 3). In fact, electoral democracy has such an impact on governments' respect for citizens' human rights, that an increase of a standard deviation of electoral democracy escalates human rights respect with 60% of a standard deviation. Again, this impact is much more effective than the effects fabricated by Norwegian aid, regardless of type. The dummy variable civil war is negative and highly significant in Table 3, suggesting that as a country experiences civil war, governments respect their citizens' human rights less, which seems like a realistic finding. As for peace years, more extended periods of peace seem to increase governments' HR respect, but these findings are only significant when Norwegian good governance aid is included in the model (2).

4.3 Selection effects

In chapter 4.1 and 4.2, several significant correlations were found between the main independent variables *Norwegian bilateral aid per capita* and *Norwegian good governance aid per capita*, and the dependent variables *government corruption* and *government respect for human rights*. While results suggest that Norwegian aid, in general, at least to some extent, appears to decrease government corruption and increase government respect for citizens' human rights, these results may occur because of selection bias. In other words, the positive results generated by Norwegian aid may be a result of Norway being provided with "the easy cases" (countries with less corruption or higher HR respect), thus making positive results easier to achieve. To make sure this is not the case, I apply the Heckman selection model, which is a two-step regression. The selection model essentially estimates the pattern to Norwegian aid giving and then estimates the outcome model while accounting for this pattern. By using the Heckman selection model to account for potential bias, I not only acquire information about the generalizability of my main results but also about the causal mechanisms of aid. The estimation model is presented on the following page in Table 4, where both the independent variables, bilateral—and good governance aid, are included. Findings are, as previously, discussed following the presentation of the table.

Table 4: Heckman Selection Model

VARIABLES	(1) Corruption	(2) HR Respect	(3) Corruption	(4) HR Respect
Norwegian bilateral aid/pc (log)	-0.000153 (0.000949)	0.0104*** (0.00160)		
Norwegian good governance aid/pc (log)			0.000520 (0.000609)	0.00313*** (0.000838)
Overseas development aid/pc (log)	0.00215*** (0.000609)	0.00167* (0.000963)	0.00121* (0.000668)	0.00194 (0.00133)
Income/pc (log)	-0.0620*** (0.00792)	-0.00179 (0.00820)	-0.0772*** (0.0113)	-0.00611 (0.0116)
Electoral Democracy	-0.258*** (0.0177)	0.686*** (0.0260)	-0.270*** (0.0239)	0.837*** (0.0439)
Civil War	0.000612 (0.00504)	-0.0639*** (0.00761)	-0.00127 (0.00581)	-0.0360*** (0.00915)
Peace Years	-2.93e-05 (0.000190)	0.000437* (0.000262)	-7.59e-05 (0.000276)	0.000941*** (0.000346)
Constant	1.240*** (0.0500)	0.240*** (0.0578)	1.330*** (0.0685)	0.236*** (0.0723)
SELECTION MODEL				
Overseas development aid/pc (log)	-0.0342 (0.0244)	-0.0449 (0.0321)	0.00707 (0.00968)	0.00537 (0.00957)
Income/pc (log)	-0.368*** (0.0974)	-0.446*** (0.113)	-0.155*** (0.0221)	-0.165*** (0.0224)
Electoral Democracy	0.0821 (0.361)	0.183 (0.350)	1.311*** (0.105)	1.136*** (0.103)
Civil War	0.232 (0.200)	0.415* (0.213)	0.381*** (0.0527)	0.452*** (0.0535)
Constant	5.161*** (0.757)	5.712*** (0.884)	0.826*** (0.171)	0.945*** (0.175)
athrho	-0.354** (0.140)	0.785*** (0.145)	0.0323 (0.0237)	1.417*** (0.222)
lnsigma	-2.577*** (0.0253)	-2.318*** (0.0178)	-2.584*** (0.0303)	-2.095*** (0.0590)
Observations	3,170	3,170	3,678	3,678

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

In this table, models 1 and 3 account for government corruption, while models 2 and 4 account for government respect for human rights. Results generated by Norwegian bilateral aid are presented in the two first models (1 and 2), while Norwegian good governance aid results are presented in the two latter models (3 and 4). The top part of Table 4 is the outcome model, while the selection model is observed at the bottom of the table.

By looking at the outcome model in Table 4, we can see that after accounting for the systematic pattern of Norwegian aid-giving in the selection model, the results of Norwegian bilateral aid (models 1 and 2) on corruption are no longer significant. What this essentially indicates, is that

Norwegian bilateral aid on government corruption may have acted effectively in the previous Table 2 because Norwegian aid agencies are perhaps choosing the “easier cases” in regards to corruption. In other words, it may seem that Norwegian aid goes to countries where there is less government corruption, or where corruption is more easily “treated”, thus making positive results easier to achieve. This is not the case for Norwegian bilateral aid on government respect for human rights (model 2), however, as results are positive and highly significant in the outcome model, which thus strengthens the findings from Table 3.

For Norwegian good governance aid (models 3 and 4), we observe similar results in the outcome model as we did with Norwegian bilateral aid. Corruption values (model 3) are slightly positive (as in Table 2), but not statistically significant. Again, this could indicate that Norway provides aid to countries where governments have lower levels of corruption, thus selecting the easier cases, or following success rather than generating it. For Norwegian good governance aid and government respect for human rights, results are positive and highly statistically significant, like with Norwegian bilateral aid, which again strengthens the results observed in Table 3.

Summarized, results from the Heckman selection model suggest that Norwegian aid, both bilateral and good governance aid, might account for corruption levels in aid receiving governments when allocating aid, as we observe insignificant results after accounting for sample bias. Results also show that after accounting for selection, Norwegian aid increases government respect for human rights. This suggests that violations of human rights, such as politically motivated violence or killings are definitely avoided where aid is greater. However, it should be noted that severe violations are really special cases and generally easily avoided by aid agencies, unlike the incidence of corruption that can generally be quite opaque. This is perhaps explained by the fact that corruption is an illegal activity that is often deliberately being covered up. Thus, accounting for corruption in aid receiving governments may be a difficult task for aid allocators.

To investigate whether Norwegian aid does, in fact, systematically avoid places where corruption scores are weak, or where results otherwise are more easily treated, I employ Wilson’s (2011) “chasing success” model, where Norwegian aid is now the dependent variable. While government respect for human rights did not indicate selection from Norwegian aid

allocators, the variable is nevertheless included in Wilson's model as a caution, seeing how corruption and human rights violations are often highly correlated.

4.4 Is Norwegian aid chasing success?

In the first two sections of the analysis (sections 4.1 and 4.2), it became visible that there exists a highly significant correlation between both types of Norwegian aid and the dependent variables government corruption and government respect for citizens' human rights. However, results from the Heckman selection model in section 4.3 suggested that these findings, at least for government corruption, might result from Norwegian aid agencies selecting the "easy cases". Indeed, it seems likely that Norwegian aid, in fact, has no obvious causal effect on good governance, and that Norwegian donor agencies simply pick better environments to increase aid. Such behavior is what Wilson (2011) refers to as "chasing success", where developing countries that have already improved their scores for corruption and human rights respect now receive more aid from Norway.

In order to control for the degree to which Norwegian aid agencies follow success rather than cause it, I follow Wilson's (2011) empirical model design. Here, a basic OLS model checks how Norwegian aid agencies react to a change in government corruption or government human rights respect in the immediate period before disbursing aid. I also include the changes in overseas development aid (ODA) from other DAC donors for comparison. In this model, aid functions as the dependent variable (run as Y_{t+1}), while corruption and human rights respect function as the independent variables. The main independent variables have both a static term and a term showing the change in corruption and human rights respect ($X_t - X_{t-1}$). If Norwegian aid agencies were to avoid problematic cases where aid results would be "less successful," we should observe statistically significant negative effects where corruption got worse, and positive effects where human rights respect got worse. As in previous models, a few control variables are added: ODA from other DAC donors, income per capita, electoral democracy, civil war, and peace years. Each of these controls determines the amount of aid as well as levels of corruption and respect for human rights. Like before, the findings are presented and discussed after the presentation of the table, which is displayed on the following page.

Table 5: Assessing Norwegian and DAC aid flows per capita to aid receiving governments, 1980-2018

(dep. vars: aid flows/pc) VARIABLES	(1) NOR Bilateral aid	(2) NOR Bilateral aid	(3) NOR Good Governance aid	(4) NOR Good Governance aid	(5) ODA	(6) ODA
Gov. Corruption	-0.718*		1.539*		1.405***	
	(0.404)		(0.891)		(0.396)	
Change in gov. corruption ($X_t - X_{t-1}$)	-0.496		-2.015**		0.0444	
	(0.303)		(0.876)		(0.224)	
Overseas Development Aid/pc (log)	0.0669***	0.0631***	0.160***	0.151***		
	(0.0191)	(0.0190)	(0.0338)	(0.0329)		
Income/pc (log)	-0.387**	-0.341**	-0.230	-0.335	-0.857***	-0.918***
	(0.161)	(0.157)	(0.371)	(0.368)	(0.220)	(0.216)
Electoral Democracy	-0.412	-1.035***	2.341***	-0.617	1.936***	0.968**
	(0.357)	(0.386)	(0.751)	(0.992)	(0.386)	(0.415)
Civil War	0.143*	0.212**	-0.138	0.0690	-0.159	-0.0970
	(0.0867)	(0.0895)	(0.235)	(0.234)	(0.149)	(0.149)
Peace Years	-0.0212***	-0.0212***	-0.0585***	-0.0578***	0.0182***	0.0194***
	(0.00450)	(0.00447)	(0.00911)	(0.00901)	(0.00647)	(0.00642)
Gov. Human Rights Respect		1.027***		3.241***		0.782**
		(0.360)		(0.778)		(0.327)
Change in Gov. Human Rights Respect ($X_t - X_{t-1}$)		0.110*		0.0717		0.0979*
		(0.0602)		(0.168)		(0.0575)
Constant	3.936***	2.747***	-7.521***	-6.316***	8.683***	10.12***
	(1.122)	(0.983)	(2.484)	(2.217)	(1.435)	(1.369)
Observations	3,311	3,311	3,599	3,599	3,998	4,021

Standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Two-way fixed effects estimated in all tests

4.4.1 Do aid agencies provide more aid where government corruption improves?

As seen in Table 5, model 1, Norwegian total bilateral aid per capita is negative for corruption levels, both in the previous year (X_{t-1}), and in places where government corruption got worse (rise in corruption score). This indicates that as government corruption in a country increases, the Norwegian bilateral aid to that country will decrease. In other words, it seems as if Norwegian aid agencies provide more bilateral aid where government corruption is low. However, only the static term of the corruption variables is statistically significant, while the delta variable (change in corruption) is not. When assessing Wilson's (2011) arguments on agencies that chase success rather than cause it, the change in government corruption is what matters. This lag variable indicates that Norwegian aid agencies may, in fact, review past government corruption to consider where to distribute aid in the future. As this variable is not significant in model 1, we cannot know if bilateral aid from Norway follows decreasing levels of government corruption, even if the static corruption variable is statistically significant.

When assessing Norwegian good governance aid and corruption (model 3), we see that the static government corruption variable has a positive and statistically significant coefficient. This indicates a correlation between increasing levels of government corruption and increasing

levels of good governance aid. Hence, when corruption is high, so is good governance aid from Norway. As the objectives behind good governance aid are to reform governments and other institutions in a developing country, this correlation is perhaps not that odd, as corrupt governments indeed need help improving. However, for good governance aid, the lag level of corruption is negative and significant. This indicates that past high values of corruption determine lower levels of good governance aid in the future. This finding supports the arguments for Norway chasing success, but it does not support good governance aid going to the places that need it the most. When taking into account that good governance aid goes to such few places, these two conflicting values may be accidental or occur due to omitted variables. Still, the reasoning behind Wilson's (2011) empirical model design, which I follow, is that if aid is not chasing success, then why would the delta variable for corruption matter?

For overseas development aid (ODA, model 5), we see similar results to Norwegian good governance aid. The static corruption variable is positive and highly significant, indicating that higher levels of corruption are associated with higher ODA levels. The delta variable for corruption is positive, which suggests that past levels of government corruption lead to more ODA, which means that other DAC donors do not follow success, but instead go where aid is perhaps needed. However, this coefficient is not statistically significant. Hence there exists no clear basis to claim that ODA evaluates past levels of government corruption when assessing future aid distribution.

To summarize, it seems as if Norwegian good governance aid is the only variable where past levels of corruption in aid receiving countries matter for future aid distribution, where aid seemingly increases as government corruption is low. For both bilateral aid from Norway, and overseas development aid from other DAC donors, past levels of government corruption turn out insignificant, thus making it difficult to suggest that those types of aid follow good governance in the form of low government corruption.

4.4.2 Do aid agencies provide more aid where government respect for human rights improve?

For Norwegian bilateral aid and government respect for human rights (model 2), both variants of the human rights respect variables are positive and statistically significant. This indicates that as a government in an aid-receiving country increases its respect for citizens' human rights, bilateral aid from Norway follows. These findings make it seem as if Norway indeed rewards

“good behavior” from developing countries, which may not be too surprising when keeping in mind the extensive Norwegian attention to peace and global justice.

Norwegian good governance aid shows similar results. Both coefficients for government respect for human rights are positive, thus indicating more aid correlated with higher levels of government respect for human rights. The delta variable for HR is, however, insignificant, which may be a result of the few countries that receive this type of aid. Overseas development aid, on the other hand, shows statistically significant results for both HR variables, indicating that other DAC donors “reward good behavior”, thus following success. According to Neumayer (2003), many donor states claim to account for the respect of human rights in recipient countries when making allocation decisions, which certainly seems to support my findings.

However, in Neumayer’s (2003) study, there is a distinction between political and civil rights and personal integrity rights. Personal integrity rights, where citizens are to be protected from imprisonment, disappearances, torture, politically motivated violence or murder, are perhaps the closest to my human rights variable, where citizens are to be free from political killings and torture by the government (Neumayer, 2003; Coppedge et al., 2019). In his study, Neumayer (2003) found that a country’s respect for personal integrity is insignificant for most donors. He also found that Norway provides more aid to recipients with a higher respect for civil and political rights, but also less aid to the recipients with a higher respect for personal integrity rights. My findings seem to partially contradict this. That is if one accepts the parallel drawn between his personal integrity rights variable and the V-dem’s physical integrity variable, which is utilized in this thesis. If this parallel is accepted, my findings in which Norway and other DAC donors increase levels of aid²³ where human rights respect is higher contradict his claim that personal integrity rights are insignificant for donors. Both Norway and DAC donors seem to favor countries that respect their citizens’ human rights, thus rewarding such governments with more aid.

²³ Only bilateral aid from Norway provided statistically significant results to support this claim.

5 Conclusions

The effectiveness of foreign aid has been debated heatedly for many decades. Does aid help the poor citizens of the world, or does it merely make things worse? On one side of the debate, there are the aid pessimists, like Easterly (2006) and Moyo (2010). They claim that aid from wealthy nations makes development more difficult to achieve for poor nations, as aid creates dependency and fosters corruption. According to Easterly (2006) and Moyo (2010), poor countries need a “big pull”, in order to get things moving in the right direction. This “big pull” indicates that the developing countries need to pull themselves out of poverty, given that they are provided with the right conditions, such as well-functioning institutions. Aid optimists, like Sachs (2005) and Stiglitz (2002), disagree with this pessimistic belief of “dead aid”, and ask for a “big push” instead. Rich nations need to increase their aid to help push the poor nations of the world out of the increasing inequality gaps that we still observe today.

In reality, the aid debate is much more nuanced than the Easterly and Sachs factions make it out to be, and most scholars stand somewhere in between the two polarized extremities. In fact, hundreds of studies have been conducted on the effectiveness of aid, yet most show up inconclusive. Aid may work under the right conditions. Still, these conditions seem to vary depending on the pool of countries evaluated, the chosen variables, and many other factors. By trying to add a new light to this debate on a macro-level, this thesis has evaluated aid targeting governance, answering the question “*Does Norwegian aid reduce bad governance?*”, as much empirical work asks for new ways to both organize and assess foreign aid.

Norway seems to be one of the more enthusiastic donor countries, especially if looking at the amount of aid donated relative to the percentage of GNI (OECD, 2019b). The country has few foreign political interests attached to its aid policy and a broad social and political consensus around the idea of aid. Thus, Norway has functioned as a suitable choice for assessing aid outcomes, as the country’s wealth and altruistic behavior provide aid with the best potential for achieving moral foreign policy aims that other, more calculated donor countries perhaps do not reach.

In order to assess Norwegian aid outcomes, the thesis has estimated both Norwegian good governance aid and total bilateral aid on good governance in 129 developing countries from 1980 to 2018. While there are undoubtedly several ways to define and measure good governance, the term has, in this context, been defined as the absence of political corruption

and state violations against citizens' human rights. In other words, good governance happens when a government is not corrupt, and when citizens' human rights are respected.

By using renewed data on government corruption and government respect for human rights, the study finds that Norwegian bilateral aid, in particular, is associated with both lower levels of government corruption and higher levels of government respect for human rights in aid recipient countries. For good governance aid, results are more diffuse, perhaps because so few countries receive this specific type of aid. Still, there is evidence to support that good governance aid from Norway, at least to some extent, is associated with increasing levels of governments' respect for human rights. As the study's regressions are estimated with fixed effects accounting for the within-unit variance, it is safe to conclude that these results are unbiased by omitted variables. In sum, it initially seems as if Norwegian aid in total, as opposed to aid from other DAC donors, does, in fact, reduce bad governance in aid recipient countries.

Nevertheless, the positive effects of Norwegian aid on bad governance are quite small substantively. In reality, other factors such as electoral democracy have a much more significant impact on reducing government corruption and increasing human rights respect in developing countries than Norwegian aid. When accounting for selectivity, it also becomes apparent that Norway might be chasing better governance than actually creating it. By following Wilson's (2011) empirical model design, I test if Norwegian aid agencies "chase success" in developing countries. While not entirely conclusive, results suggest that good governance aid from Norway increases when governments reduce their corruption scores. In contrast, Norwegian bilateral aid increases when governments improve their respect for human rights. Norwegian aid in total may, therefore, favor less corrupt rulers who also respect their citizens' human rights, thus following such improved behavior.

While these results do not fully support those who claim that aid is the only solution to eradicate poverty, even as the results initially find a correlation between aid from Norway and better governance, the results neither support those who claim that aid is dead. Like so many before me, my results end up somewhere in between the two factions of the aid debate. Though the study cannot fully conclude that Norwegian aid is reducing bad governance, at least the findings provide some comfort to both Norwegian policy-makers and taxpayers, as aid money from Norway is not unduly benefiting the corrupt.

For future studies, looking at corruption from a different angle may provide additional insight into how to improve governance in developing countries, which may further enlighten the possibilities and limits of Norwegian aid. This study has used government corruption as a dependent variable for measuring good governance²⁴, which again functions as the measurement of whether aid is effective. The corruption index, obtained from the V-dem, includes the executive, legislative, and judicial branches of a government, measuring corruption in both the government's highest levels and general corruption in the public sector. This index may not capture the other forms of state systems that often occur in developing countries, such as monarchies or autocracies, where state power is not divided. As I use an index which assumes that all systems are organized as democracies, valid corruption values in all aid receiving countries may not be captured accurately by my analyses. Future studies can also test the effects of Norwegian aid on other outcomes, such as political inclusivity of minorities and women, and various forms of political violence, as there are no universally defined criteria for when aid is working.

²⁴ In addition to government respect for human rights

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Appendices

Table 1: List of countries in sample

Afghanistan	Cabo Verde	Egypt, Arab. Rep.	Indonesia	Malaysia	Oman	Sudan	Yemen, Rep.
Albania	Cambodia	El Salvador	Iran, Islamic Rep.	Maldives	Pakistan	Suriname	Zambia
Algeria	Cameroon	Equatorial Guinea	Iraq	Mali	Panama	Tajikistan	Zimbabwe
Angola	Central African Republic	Eritrea	Israel	Mauritania	Papua New Guinea	Tanzania	
Argentina	Chad	Eswatini	Jamaica	Mauritius	Paraguay	Thailand	
Armenia	Chile	Ethiopia	Jordan	Mexico	Peru	Timor-Leste	
Azerbaijan	China	Fiji	Kazakhstan	Moldova	Philippines	Togo	
Bangladesh	Colombia	Gabon	Kenya	Mongolia	Rwanda	Trinidad and Tobago	
Barbados	Comoros	Gambia, The	Korea, Rep.	Montenegro	Saudi Arabia	Tunisia	
Belarus	Congo, Dem. Rep.	Georgia	Kosovo	Morocco	Senegal	Turkey	
Benin	Congo, Rep.	Ghana	Kyrgyz Republic	Mozambique	Serbia	Turkmenistan	
Bhutan	Costa Rica	Guatemala	Lao PDR	Myanmar	Sierra Leone	Uganda	
Bolivia	Cote d'Ivoire	Guinea	Lebanon	Namibia	Singapore	Ukraine	
Bosnia and Herzegovina	Croatia	Guinea-Bissau	Lesotho	Nepal	Slovenia	United Arab Emirates	
Botswana	Cuba	Guyana	Liberia	Nicaragua	Solomon Islands	Uruguay	
Brazil	Djibouti	Haiti	Libya	Niger	South Africa	Uzbekistan	
Burkina Faso	Dominican Republic	Honduras	Madagascar	Nigeria	South Sudan	Venezuela, RB	
Burundi	Ecuador	India	Malawi	North Macedonia	Sri Lanka	Vietnam	

