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Does Norwegian Aid Promote Good Governance in Recipient Countries?

An Empirical Analysis, 1985-2013

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Foreword

This piece of work is dedicated to Hilde, Øivind and Marie.

For this project, both in conception and execution, the importance of my superb supervisor Indra de Soysa was incalculable.

The thesis was made possible only through the invaluable work of a masterclass pedant and editor, Eirik Tegle Stenstad, and the timely support of many others who jumped in when the going got rough for me. Thanks to Mathias Moene Rød, Halvor Haugan and Ingrid Vik Bakken for generous feedback.

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Sammendrag

Denne masteroppgaven ser på effekten norsk bistand har på korrupsjonsbekjempelse i utviklingsland. Økonomer har tidligere vært mest opptatt av bistandseffektivitet, mens statsvitere på sin side har vært mest opptatt av hvilke bakenforliggende faktorer som påvirker bistandsallokering. Det blir i denne oppgaven forsøkt å knytte de to sammen. I første rekke ser oppgaven på hvilke trekk ved mottagerland som påvirker norsk bistandsallokering, og i neste rekke blir effektiviteten av bistandsmidlene på korrupsjonsbekjempelse undersøkt. Oppgaven tester dette for to typer norsk bistand: Totale bistandsmidler og bistandsmidler som er øremerket til å bekjempe korrupsjon og fremme demokrati. Resultatene antyder at total norsk bilateral bistand i større grad går til land som er mindre korrupte, og at bistanden har en positiv effekt på korrupsjonsnivå. Bistandsmidlene som skal gå med til å bekjempe korrupsjon, har ingen signifikante effekter på korrupsjonsnivå å vise til.

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1 Introduction

According to the most optimistic among academics, foreign aid can potentially eradicate poverty (Sachs, 2006). Critics, on the other hand, argue that foreign aid creates dependency, encourages corruption, stokes up inflation and creates debt problems (Bräutigam & Knack, 2004; Easterly, 2006; Moyo, 2009). Because of the high percentage – 1 percent – of its Gross Domestic Product (GDP) spent on foreign aid, Henrikson (2005, p. 71) with others view Norway as one of the most generous countries in the world, terming its diplomacy a “niche diplomacy”. The total amount of aid disbursed by Norway in 2015 was 3.45 billion dollars (NORAD, 2016). There is also a political consensus in Norway for being a generous giver, and the sitting Solberg government has decided to maintain the foreign aid budget at one percent of Norwegian GDP. However, the government prioritizes trade and investments (Hveem, 2015).

During the last decades, political scientists and economists have seemed to agree upon certain aspects. A large body of literature suggests that corruption has a harmful effect on development, and that good governance is an important precondition for growth. There is also a consensus about the importance of good governance as a precondition for aid effectiveness. Political scientists have previously been more concerned about aid determinants, and economists have been preoccupied with aid effectiveness. Bearce and Tirone (2010) connect aid determinants and efficiency in their study, but study only the associations between foreign aid and reforms in recipient countries. The literature lacks a study that includes both aid determinants regressions and a model that can make arguments about effectiveness. This thesis analyzes the determinants of both total bilateral aid given by Norway and good governance aid, which specifically targets corruption. Does aid from Norway have an impact on reducing corruption and increasing good governance among recipient countries?

To answer the questions, the determinants of Norwegian foreign aid are established. I use OLS regression analysis on time-series cross section (TSCS) data, using World Bank data from 1985 to 2013 for 113 non-OECD countries. TSCS cannot confirm causal relationships, but the results suggest that Norwegian aid is associated with less corrupt recipient countries. The main dependent variable is corruption, and I use democracy, GDP per capita, and ongoing civil war as independent variables. The regression results suggest that Norwegian

total bilateral aid is associated with less corrupt regimes, and that for good governance aid, the level of corruption seems to not matter. Results from selection models that control for non-randomness of aid allocation suggest that good governance aid does not have any effect on the control of corruption. Norwegian total aid, however, seems to matter.

One critical assessment about Norwegian foreign aid is conducted by Easterly and Williamson (2011). The study criticizes Norwegian aid determinants, as well as the performance of Norwegian aid donors. According to their article, Norway has a “strikingly high tolerance for undemocratic regimes” (Easterly & Williamson, 2011, p. 1938). My results clearly dispute their claim about the high tolerance of Norwegian aid for corrupt regimes. My findings on corruption echo what Alesina and Weder (1999) find, namely that Norway does not aid corrupt regimes. In addition to this, the results suggest that GDP per capita in the recipient countries is not a factor that affects the total Norwegian bilateral aid for my sample of countries for the years tested. These findings suggest that Alesina and Dollar’s (2000) findings for an earlier time period are not supported.

I structure the thesis as follows: In the first part, I present the literature on foreign aid, aid effectiveness and growth, in order to set the discussion in a larger framework. In the rest of the literature review and theory section, I will outline the general theories about foreign aid determinants, and then discuss the research about Norwegian aid determinants in particular. Also included are theories and research about the effect corruption has on growth and aid efficiency, and how aid can influence good governance. At last, my hypotheses are presented. In the next part, I introduce and discuss the dependent and independent variables, before I present the methodological strategy. In the latter stages, the results are presented and discussed, followed by concluding remarks.

2 Theories and literature review

In the first part of this section, I outline general assertions and concepts about foreign aid. In the second part, the research and theories about determinants of foreign aid are presented, followed by an introduction on the research and theories about Norwegian aid determinants in specific. Furthermore, the literature about good governance, growth and aid effectiveness are discussed, and then the effects of strategic objectives on the effectiveness of aid. At last, the hypotheses are introduced.

2.1 Foreign aid: Concepts, definitions and utility

The Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) defined foreign aid officially in 1972. According to DAC, it is the official agencies that provide foreign aid, and states that such assistance is “including state and local governments, and “is administered with the promotion of the economic development and welfare of the developing countries as its main objective”. Furthermore, it is “concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of 10 per cent)” (OECD, 2016). Included is also humanitarian and technical relief, in addition to humanitarian assistance. Multilateral aid accounts for approximately 25 percent of total foreign aid, and the rest is bilateral aid. There are several definitions of foreign aid, although all include the same key elements. An alternative definition to the one presented by OECD’s is presented by Tavares (2003, p. 100). What defines foreign aid, according to him, is that “it provides goods or finance at below market prices to governments or population groups.” Furthermore, foreign grants “are typically handed free to local authorities that then distribute them, with considerable discretion, among their fellow citizens”. It is important to distinguish between emergency and development aid. Emergency aid refers to rapid assistance to relieve suffering. This thesis is concerned about development aid. The official aim of the aid agencies is to reduce poverty (Sachs, 2006; Sachs et al., 2004), but the effectiveness of aid is highly challenged in the literature (e.g. Banerjee & He, 2007; Boone, 1996; Bräutigam & Knack, 2004; Easterly, 2006; Moyo, 2009).

There are at least three ways to view the question of foreign aid, according to the literature. The first view claims that foreign aid is used for wasteful public consumption (Boone, 1996). The second view argues that donor countries reward developing countries that

have implemented sound policies (C. Burnside & Dollar, 1998). The last view claims that foreign aid is used for geo-political or strategic objectives (Alesina & Dollar, 2000). This thesis is concerned about the latter aspect, but also to the extent to which it affects the two former. Strategic objectives can affect aid effectiveness negatively because self-interested donor countries are less concerned about the development in the recipient countries or aid effectiveness in general (Dunning, 2004). Previous research on foreign aid determinants have looked into specific factors that potentially determine how foreign aid is allocated: Income level and democracy score in the recipient countries, foreign direct investment (FDI), civil liberties, colonial history, trade openness, population size and corruption level (Alesina & Dollar, 2000; Alesina & Weder, 1999; Easterly & Williamson, 2011; Lumsdaine, 1993). A growing body of evidence suggests that foreign aid was more strategically centered during the Cold War than it is today (Alesina & Weder, 1999; Kuziemko & Werker, 2006; Meernik, Krueger, & Poe, 1998; Schraeder, Hook, & Taylor, 1998). During the Cold War, Western donors assisted many autocratic leaders who did not intend to promote sustainable and equal development. The two main forces behind foreign aid flows – altruism and strategic interests – need, however, not necessarily be mutually exclusive. Although this was formerly a much-used framework, it is today viewed as a false dichotomy. Later, such dichotomy has been viewed as false (Bermeo, 2010; Fearon & Laitin, 2004). Moreover, although they are not necessarily mutually exclusive, it should be noted there certainly is a spectrum between the two (Clist, 2011).

Aid conditionality is an important concept for the discussion about strategic and aid effectiveness. During the Cold War, when strategic aspects were considered important, aid was uncorrelated with reform in recipient countries (Bearce & Tirone, 2010). Modern aid conditionality has its origins in the 1970s, when donor countries tied foreign aid to certain conditions, for instance economic reforms. Stokke (2013) terms this the “first generation-conditionality”. The second-generation conditionality refers to systemic and policy reforms. Why is foreign aid often given in order to meet specific ends (conditionality), and not merely to support the budget in developing countries? In later years, budget support has been downplayed, and increasingly criticized for not benefitting the general population (Hayman, 2011). Unwin (2004) claims that it is damaging to the lives of the poor. This is perhaps despite the consensus around the need for recipient country control over development projects (Heller, 2005; Jain, 2007; Sharpe, Wood, & Wratten, 2005).

The definition of aid conditionality is up to debate (Stokke, 2013). Nevertheless, there are three different ways to impose aid conditionality. The first type is to tie aid to procurements: For instance, that the recipient country will have to buy certain goods from the donor country. Another way to impose conditions is to tie aid to specific sectors in the recipient countries. The third is to tie aid to political or economic reforms (Moyo, 2009). The good governance aid examined in this thesis refers to the second way: Aid tied to specific sectors. Aid conditionality is often seen as an instrument for donor countries to achieve political objectives (like democracy promotion, good governance etc.). Conditionality tied to procurements can also help to prevent corruption. Tanzi (1998) has found that government spending on education is less likely to spur corruption than military spending. The reason is that military spending often involves large and few expensive units. Education spending, on the other hand, involves small, cheap units (pencils, books etc.), units less attractive for corrupt bureaucrats. Aid given on the condition that it involves spending on education can thus promote good governance. Conditionality is often associated with efforts to reduce moral hazard and time inconsistency problems. Moral hazard problems refer to an event in which one part takes the greater risk, on behalf of the first part. Time inconsistency problems refer to the fact that donor countries do not know how its grants are spent, because the policies or potential reforms are being implemented after foreign aid is given. The World Bank and the International Monetary Fund (IMF) have been implementing such conditions for several decades (Nanda, 2006).

Since the Monterrey Consensus, the outcome of the 2002 Monterrey Conference, the United Nations International Conference on Financing for Development, there has been a general agreement about the need for good governance in developing countries (Dollar & Levin, 2006). However, the origins of the good governance discourse can be traced back to the end of the Cold War (Doornbos, 2001). The concept of good governance had not been used, according to Doornbos (2001), in Western political science discourse for decades prior to its relaunch. The word was previously used in a more legalistic way. Adding the adjective *good*, however, gave it a normative approach, thus setting up a standard referring to how a given country should be governed (Doornbos, 1995). The concept good governance has no universal definition, however. Each international organization, agency and NGO has their own. For the World Bank, for instance, good governance includes “open and enlighten policy-making”, but also a certain bureaucratic quality standard (World Bank, 2016). Neither the UN, OECD nor the World Bank use the word democracy in their definitions. Norwegian

good governance aid, on the other hand, is combating corruption, but also promoting democracy (NORAD, 2015a).

There are also different views on what constitutes good governance in the academic literature. For some, like Knack (2001) and North (1990), good governance reflects the rules of the game: the institutions. Others argue that good governance also includes the players: the politicians and bureaucrats (World Bank, 2016). Crawford (2001) analyzes the different conceptions big donors have of good governance. In some parts of the literature, the concept includes the rule of law, control of corruption and accountability (Santiso, 2001). Features that also define good governance include small government with limited engagement, formalized structures and rules (Thomas, 2010). Furthermore, concepts like high quality, depoliticized public personnel in formal bureaucracy; efficient and effective program implementation and service delivery, especially in education, health and infrastructure; disciplined budgets and efficient expenditures, responsive, transparent, participatory and decentralized; stable and credible policies; pro-business orientation and minimal red tape are often emphasized (Andrews, 2008; Arndt, Jones, & Tarp, 2010; Kaufmann, Kraay, & Zoido-Lobaton, 1999). In 1989, the World Bank, reporting on the poverty crisis in Africa, characterized the problem as a “crisis of governance”. The World Bank played an influential part in the growing interest of good governance. In the 1980s, the international economic organizations needed to explain the failings of the structural adjustment programs (SAP) that were imposed on developing countries during the debt crisis. The failings were in part explained by the necessity for developing countries to implement governing system reforms (Lancaster, 1993). Both bilateral and multilateral donors have always been concerned about the need for good governance (Stokke, 2013).

2.2 What determines foreign aid?

Svensson (1999) distinguishes between three types of donors. The first group includes countries Nannestad and Paldam (1997) call “like minded” countries, such as Scandinavia, Canada and Holland. The second group consists of the donor countries widely held as strategic aid donors, like Japan, the US and Germany. The last group consists of countries more concerned about its colonial history than the concern for growth, good governance and civil rights, for instance France and Italy. The assumptions echo what Alesina and Dollar (2000) found in their research. In a comprehensive study, they analyzed the different recipient country factors that can affect donor country allocation. The variables used in the

study are income level, openness, democracy, civil liberties and U.N voting patterns. The results they present are ambiguous: Some countries, such as the Scandinavian, target aid based on income level. Big donors, like the United States, Japan and France, are more concerned about other factors. The United States targets one-third of its total bilateral aid to two close allies, Israel and Egypt – doubtlessly strategic aid. When controlling for aid to Egypt and Israel, however, the main determinants for US aid are democracy, income level and political openness. France on its side gives an overwhelming amount of foreign aid to its former colonies. The authors propose a theory that suggests that the big donor countries favor UN voting partners and former colonies. The results suggest that this is true for some of them. UN voting patterns seem to have an effect on Japanese foreign aid. In general, UN voting patterns and colonial history are more important determinants of the allocation of aid than democracy and bureaucratic quality in the recipient countries, according to their results.

Alesina and Weder (1999) test empirically the notion that foreign aid flows to corrupt regimes. They conclude that there is no evidence to suggest that corrupt countries receive less aid. There are some differences between countries, however. Scandinavia, on the one hand, favor less corrupt regimes, while the US, on the other hand favor democracies, but does not pay much attention to good governance. The whole body of evidence is inconclusive as to whether self-interest or altruistic motivations are the main determinants. The motivations vary among countries, and between different aid programs in different recipient countries. The question about foreign aid flows to corrupt regimes is not perfectly clear because countries with a low level of income are also often relatively corrupt. If a donor country gives foreign aid based on income, chances are that an empirical analysis will suggest that the country gives aid to corrupt regimes as well. Aid organizations have previously argued that although it is true that many poor countries also are corrupt, the donor countries should try to discriminate against corrupt regimes (Alesina & Weder, 1999).

Neumayer (2003) tests the relationship between human rights and aid allocation. The results presented also give a mixed picture. For most donor countries, according to the study, the civil and political rights in the recipient countries are an important, significant determinant of foreign aid. Respect for personal integrity rights is not important. The study is consistent with what Alesina and Dollar (2000) found in the case of Norway, France, Germany, Italy, the UK, the US and the Netherlands. It is not consistent with what Svensson (1999) finds, possibly because of a misspecification. He does not control for personal integrity rights (Neumayer, 2003).

Wall (1995) finds that countries with lower levels of income per capita tend to receive more foreign aid. Dollar and Levin (2006) look at the difference of donor selection between multilateral and bilateral donors, concerning regimes that have strong rule of law. In the 1980s, both bilateral and multilateral aid was associated with countries that did not have a strong rule of law, according to their findings. This pattern changed for the multilateral donors after the turn of century. The results for bilateral donors did change from the negative association, but remained insignificant to countries with a strong rule of law. Kuziemko and Werker (2006) analyze empirically the relationship between the UN Security Council voting/membership and foreign aid. The UN Security Council consists of fifteen member states, ten of which are rotating members, each sitting a two-year period. According to the findings in the article, a country that takes a seat at the council can expect a 59 percent increase in US aid, and eight percent increase in UN aid. There are three potential explanations for these findings. The first is perhaps the most intuitive, namely that donor countries trade cash for favoring votes in the UN Security Council. Another reason, perhaps less cynical, is simply that the recipient country through UN participation has been able to bring up its issues to the international community. The third explanation can be that the important factor is omitted (Kuziemko & Werker, 2006).

Considering the widely held view that self-interest plays an important part in international relations, Lumsdaine (1993) suggests that many of the countries that had the most costly aid programs did not have large interests in the Third World, thus making the argument that foreign aid is not driven by self-interest. The political left has traditionally viewed aid as an instrument for the rulers to promote capitalism in developing countries. Critics from the right, on the other hand, tended to view aid flows as badly spent tax money and as support to socialist states in the developing regions. Lumsdaine also examines the advocates of the foreign aid regime in its early stages. According to him, they were mainly idealists. A study of American voter opinion about aid spending indicated that Americans favored that aid flows should go to for instance “medical help, doctors and nurses”, “teachers and books” and “food, clothing”. Aid assistance for military purposes was not highly prioritized (Lumsdaine, 1993, p. 149). There are reasons to believe that the voter opinion is not very different today. Eurobarometer asked European voters in 2015 how important humanitarian aid is. According to the report, the opinion that humanitarian aid is important is “extremely high across all Member States” (Eurobarometer, 2015). Chong and Gradstein (2008) identify the factors that contribute to individual support for foreign aid in the donor

countries. The results suggest that the perceived satisfaction with government efficiency, in addition to higher income level in the recipient countries, is positively associated with support for foreign aid.

Realists in international relations tend to argue that because the international system is anarchical, states' primary objective in its relation to other countries is to preserve power (Mearsheimer, 2001; Morgenthau, 1973; Waltz, 2010). Realists assume that states that do not follow these rules based on self-interest will not survive. According to this framework, foreign aid is being used in order to maintain spheres of interest. This systemic determinism is denied by Lumsdaine (1993). He argues that although the systemic framework is important, there are other ends in human behavior than survival. He also argues that in many situations, there is a payoff to acting cooperatively. Some deeply held ideals could also be important for the country's strength, namely what Henrikson (2005) terms "niche diplomacy". The human nature, and thus the states' leaders, is too complex to be thought of as being completely driven by rationality and systemic interests (Lumsdaine, 1993).

2.3 What are the main determinants of Norwegian foreign aid?

Stokke (1989) claims that Norwegian foreign aid is led by six main determinants: Dominant socio-political norms, the overarching systemic interests, private sector interests, traditional relations with the Third World and the evolving economic situation and decisions at the domestic level. Dominant socio-political norms refer to the Norwegian welfare state ideology, the Christian standards embedded in the value system and the humanitarian tradition. After World War II, the welfare state ideology has penetrated the political system in Norway, and it is now common to hold this up as an ideology all the political parties to some extent want to preserve. The socio-political determinants of Norwegian foreign aid refer to the view that foreign aid is led by idealistic intentions. The overarching systemic interests are based on, broadly speaking, a sense of the preservation of foreign policy interests. Foreign aid can work as a foreign policy instrument in several ways for different objectives. One way is to spread norms and interests. The objectives can be merely self-interested (relating to public and private interests in the donor countries), but also interests that both the industrial and the developing countries share (international common goods). Historically, Norway has not relations with the developing world, as colonial ties have been absent. Private sector

interests refer to the interests of Norwegian multinational countries investing in developing countries.

There are several main concerns for Norway in relation to these questions, according to Stokke (1989). First, because of its position as a small state with an open economy, Norway is concerned about international economic openness. In addition to this, the preservation and promotion of Norway's economic interests are important. Norway has both private sector companies and state-owned companies investing in a number of countries in the developing world. This relates to both access to resources and investments. Although mentioned as a possible determinant of foreign aid policy, Stokke (1989) argues that because the Norwegian colonial relations are scarce, this factor is not that important. One can turn this argument upside-down, however. Because Norway's relations with the developing world are scarce, foreign aid can be an instrument to expand its sphere of interest. With the economic downturn in the 1970s, Stokke (1989) claims that Norway became more concerned about bilateral aid for strategic and economic ends, rather than reducing poverty in recipient states. Although Norway's foreign aid regime might have become more strategic during the last decades, the country still is a good example of what Lumsdaine (1993) claims, namely that it is possible to have a moral, idealist vision on aid even in a realist world. Foreign aid can thus bring countries "soft power".

In an article from his time as Norwegian Minister of International Development, Erik Solheim makes the case for Norwegian aid in Western Africa as an instrument of getting access to the region's energy markets. "25 percent of the United States' expected petroleum exports are planned to come from Western Africa", he argues, and it is "in this context Norway is as a producer of oil and an important country for the international petroleum industry" (Solheim, 2007, p. 103). This region is the biggest recipient of Norwegian petroleum related investments outside of the Norwegian continental shelf. The Norwegian Western Africa strategy centers on foreign aid to Liberia. Liberia is ranked by Transparency International as the 83rd most corrupt country in the world in 2015 (Transparency International, 2015). This serves as an obvious example of Norwegian foreign aid flowing into highly corrupt regimes. The stated purpose of the presence is not just the economic interests Norway has in the country, however. Norwegian NGOs, Flyktningshjelpen in particular, were engaged at the time of the implementation of the Liberian strategy in the country. The development strategy often balances the self-interested motives and the humanitarian ones. Solheim clearly states the need of aid aimed at post-conflict and peace

work in the war-torn country (Solheim, 2007). A similar mixture of self-interested and humanitarian motives can be traced as far back as the India help starting in 1952. The project was initiated based on diverting the NATO opposition within the Labor party, while at the same time spreading idealism (Østerud, 2006). Foreign policy thought evolved during the 19th century. Monarchs and aristocratic *realpolitik* originally dominated it, although evolving differently from country to country (Leira, 2004). Norway is perhaps an exception to this historical pattern, partly because it was subjected to a union with Sweden. Due to a lack of conservative elite, the foreign policy elite became comparatively liberal, and centered on a belief in progress and good doing in the world. The implication of this is that Norwegian foreign policy traditions have evolved into a combination of realist and idealist visions.

The Minister of International Development has traditionally had more autonomy than the Minister of Foreign Affairs (Leira, 2012). When Erik Solheim became Minister of International Development in 2005, his plan was to concentrate on a few specific factors he meant were crucial for development, in contrast to the Norwegian debate about foreign aid that he considered too lofty. When Solheim's term ended, the Norwegian development policies were radically different from that of his predecessor, the Christian Democratic Party's Hilde Frafjord Johnson (Eggen, 2013). The Norwegian development policies were in 2005 centered on human rights and highly prioritized political aims. However, some have claimed that it did not necessarily have a consequential, practical approach.

A relatively recent study by Easterly and Williamson (2011, p. 1938) concludes that the Scandinavian countries have a "strikingly high tolerance for undemocratic regimes". The results are based on a scale that is a merger of recipient countries' democracy score and corruption score. Sadly, the paper does not discuss theoretical assumptions about any of the results. The statistical analysis only shows simple correlations in contrast to Easterly and Williamson's (2011) article, Alesina and Weder (1999) concludes that Norwegian aid is not associated with corrupt regimes. Lower income per capita in recipient countries is according to their results significantly associated with Norwegian foreign aid. However, two of the three major empirical studies that have analyzed Norwegian aid determinants are old, and the last one suffers from weak methodology.

2.3.1 NGOs, the Norwegian sub-system and historical changes

De Mesquita and Smith (2011) and other critics that emphasize the strategic aspects of foreign aid, often undermine the interests of the NGOs that is involved, and how influential they are in foreign aid policies and decision-making. By considering the Norwegian state-NGO relationship, the picture appears more complex. The Norwegian development system, which Terje Tvedt calls the “Norwegian sub-system”, consists of a dozen organizations, interests, policy makers, sets of ideas and policy promoters (Tvedt, 2003). In order to explore the argument about how NGOs are molding the foreign aid regime in a less cynical way, the relationship between the state and NGOs should be analyzed. Gidron, Kramer, and Salamon (1992) propose four typologies to explain aspects of NGO and government relationships:

- 1) Government-dominant model: This model is at one extreme, where taxes fund government services. The government operates as a monopoly.
- 2) Third-sector dominant model: This model is the opposite extreme from the first, where the third-sector is the dominant provider of services.
- 3) Dual model: NGOs provide services where the government does not have the capacities.
- 4) Collaborative model: In this model, NGOs and the government work together, and not, as is the case in the dual model, separately.

Research suggest that the dual model is the most common (Kramer, 1981), and the cooperation between the state and NGOs seems to be more important for the aid sector (Tvedt, 1998). According to Tvedt, Norway is one of the donor countries where the political and economic interests to the least extent have influenced foreign aid policies. One of the reasons for this is that Norway has not traditionally had important interests in the developing world. This has made it possible for the aid NGOs and the government to have such close ties.

Norwegian NGOs have been involved in political activities, for instance supporting groups fighting the apartheid regime in South Africa. In indirect cases, Norwegian NGOs supported political groups that were presenting themselves as NGOs, in countries like Palestine, Nicaragua and Eritrea (Eriksen, 1987). The Norwegian selection policies have changed since the beginning of the foreign aid regime. In the Norwegian discourse, critics have argued that Norway should use its aid program to promote business and foreign policy interests, thus challenging what is commonly referred to as the Norwegian “naivety”.

Defenders of the prevailing actions have argued that Norway should use the aid program to promote itself as a leading human right proponent (Eggen, 2013). The dispute goes back to the 70s and 80s, when politicians regarded as “good-hearted” were the ones responsible for aid policies. Moreover, because Norway was not a colonial power, Norway had a relatively good reputation among NGOs. Because of this, the Norwegian NGOs have several times taken up on the government’s decisions and policies (Tvedt, 1998).

2.4 Good governance, aid effectiveness and growth

The aid effectiveness debate can be divided into three strands (Radelet & Levine, 2008). The first hold that aid has no effect on growth, and that it can potentially undermine growth. Boone (1996) claims that foreign aid is ineffective because it finances consumption, not investments. The second strand argues that foreign aid might work cross-country wise, but with diminishing returns. The third strand holds that foreign aid can have a positive effect on growth if the right conditions are met. This thesis is concerned about the importance of good governance for aid to be effective, but also how foreign aid can improve governance.

2.4.1 Does good governance matter for aid effectiveness?

The proposition that sound economic policies matter for economic growth is uncontroversial (Acemoglu, Johnson, & Robinson, 2002; Busse & Gröning, 2009; Gupta, Davoodi, & Alonso-Terme, 2002; Mauro, 1995). In an influential article, A. C. Burnside and Dollar (1997) provide evidence that the soundness of the policies in recipient countries is the most important factor for aid effectiveness. Easterly, Levine, and Roodman (2003) reassess the evidence presented by Burnside and Dollar. The authors suggest that although it should be considered a seminal paper, one should be cautious about the conclusions. They do not argue that it is wrong that foreign aid is effective for countries with sound policies, but that more research is needed. C. Burnside and Dollar (2004) argues in a reply that they believe that the methodological criticism is too negative, but that there are other ways in which sound policies matter for aid and growth.

Because sound policies determine the level of investments in countries, the use of foreign aid is also affected by this. Moreover, the view that foreign aid is spilled when allocated to corrupt regimes is widely held. In two influential studies, it is suggested that

there is not enough evidence to suggest that foreign aid leads to growth, and that poor governance often are the reason why (Boone, 1994, 1996). Several other scholars have found evidence to suggest the importance of good governance. Knack (2001) finds that strong institutions in recipient countries prevent aid dependency. Dollar and Pritchett (1998) makes the same type of argument, namely that institutional gaps are the main challenges for aid effectiveness.

2.4.2 Can foreign aid improve governance?

The question of the impact Norwegian aid can have on governance in recipient countries has not previously been looked at empirically. Several studies have analyzed it in principle, however. In later years, promoting good governance has been both an *objective* and a *condition* for foreign aid. The results are ambiguous, and implementing programs to promote governance is considered difficult. Two examples of such failed attempts are US aid efforts in Haiti and Swedish efforts in Tanzania (Bräutigam & Knack, 2004). On the negative side, there are several reasons to assume that aid can have a destabilizing effect on governance quality and stability. Grossman (1992) argues that the civil war in Somalia broke out because of conflicts over distributive shares. Another factor that harms institutional development is that aid organizations tend to hire the most skillful bureaucrats, thus harming the bureaucracies in the recipient countries (Bräutigam & Knack, 2004; Dollar & Pritchett, 1998). Rent-seeking activities because of aid flows have perhaps the most adverse effect on the local bureaucracies (Knack, 2001). In addition to this, foreign aid can weaken incentives to improve governance by taking necessary steps to reform. Rajan and Subramanian (2007) find that foreign aid has a negative effect on governance when controlled for GDP growth.

From a theoretical point of view, foreign aid can also potentially improve technological capabilities and release revenue constraints to promote good governance and investments. Okada and Samreth (2012) find that foreign aid can decrease corruption and improve governance quality. Their study is merely quantitative, and does not offer any theoretical explanation to the results. The methodology used in the article differs from other studies about the effect of foreign aid on governance (Knack, 2001; Svensson, 1999; Tavares, 2003). Tavares (2003) concludes that foreign aid has a positive effect on corruption. In some cases, foreign aid raises the wages and provides training for public sector workers, which most likely leads to better skilled bureaucrats and reduced corruption. Another way in which aid can improve good governance is through aid programs aimed at improving for instance

the legal systems (Knack, 2001). Even in cases where foreign aid only spurs consumption, it is argued that it can be valuable because it can help reform-willing leaders to survive. On the other hand, the same principle applies to the survival of authoritarian leaders. Aid can in that respect retard good governance promotion.

Goldsmith (2001) analyzes the effectiveness of foreign aid from 1975 to 1997. His focus is primarily political performance, not economic. His findings suggest that critics that hold that foreign aid is detrimental to good governance are wrong. However, he finds only a slight improvement in political performance. Dunning (2004) claims that because the strategic interests are downplayed in African countries after the Cold War, the donor countries are more concerned about imposing conditionality. He uses the dataset used by Goldsmith (2001) and emphasizes the importance of recipient country factors, and argues that aid, in order to be successful, should promote incentives for economic reform. Dunning (2004) refuses the “perversity theory”, namely the belief that an attempt to push society in one direction will have the contrary effect. On the other hand, he argues that the reason why foreign aid has been more successful after the Cold War is that donor countries’ threats to terminate aid programs are more credible than they were during the Cold War.

Foreign aid allocated on the condition of domestic reform can give the right incentives for the recipient countries to improve. Dunning (2004) claims that during the Cold War, the geopolitical importance of African countries was so important that conditionality was not imposed. Western donor countries feared that the countries could fall into the communist sphere of interest. The same is true for the promotion of economic growth. Bearce and Tirone (2010) find that growth and the promotion of economic reform increased during the aftermath of the Cold War. They control for economic globalization and the introduction of the “Washington Consensus”. After the 9/11 attacks, however, foreign aid might again be used by large strategically.

2.5 How the strategic objectives affect aid effectiveness

Political scientists have traditionally been more interested in the determinants of foreign aid flows, than the effectiveness of foreign aid. Economists have on the other hand been more concerned about the latter. The two aspects are interrelated however, because the literature suggests that recipient country governance is important for aid effectiveness. Bearce and

Tirone (2010) find that less self-interested donor countries are less willing to impose necessary reforms.

The argument about the strategic efforts of aid is straightforward: Donor countries that are acting strategically, e.g. using aid as a foreign policy tool, are not concerned about growth in recipient countries. The arguments are based on the assumption that good governance is a precondition for aid effectiveness. The implication of this is that strategic foreign aid allocated to regimes that lack sound policies most likely will not have any effect on growth. This has led several to argue that foreign aid has become more effective after the Cold War (Bearce & Tirone, 2010; Headey, 2008). Headey (2008), analyzing aid effectiveness from 1970-2001, concludes that multilateral aid is more effective than bilateral aid. The reason for this is that the strategic motivations behind bilateral foreign aid make it less effective.

Another way that strategic foreign aid can be harmful to the effectiveness is that it can make it harder to impose conditionality. It is, however, up to debate whether conditionality is the solution. Several critics have argued that it is hard to impose conditionality and that it is often ineffective (Dollar & Pritchett, 1998; Easterly, 2006; Kapur & Webb, 2000; Stiglitz, 1999). In addition to this, autocratic leaders have simply refused to make the necessary reforms, and aid has continued to flow (Acemoglu & Robinson, 2012; Moyo, 2009). Foreign aid allocated on the condition of domestic reform can give the right incentives for the recipient countries to improve.

Others suggest that the end of the Cold War had another important effect on aid effectiveness, namely in relation to coups. After the Cold War, donor countries have punished states military-juntas seizing power through coups. This is contrary to before the Cold War, when the big states ignored military juntas as long as they were loyal (Masaki, 2016). The explanation for this is that donor countries were more concerned during the Cold War about preserving its sphere of interest. One prominent example is Liberia's authoritarian president Samuel Doe at the time of the dissolution of the Soviet Union. The United States, no longer concerned about preserving its interests in the country, cut off its aid program, which led to a weakening of Doe's powers (De Mesquita & Smith, 2011). In some cases, aid sanctions can be harmful to development, especially in cases of ongoing projects. From the donor countries' point of view, conditionality is an instrument for policy objectives (Crawford, 2001; Stokke, 2013). There are therefore two ways to look at the connection between conditionality and self-interest. Some donor countries do not impose conditions, because they

want to recipient country to stay loyal. On the other hand, however, conditionality can make donor countries impose favorable conditions they benefit from. The rationale behind economic sanctions also applies to aid sanctions, according to some scholars (Clist, 2011). The governments that impose sanctions either are concerned about a domestic group or want to show that it cares about the situation in the country (Drezner, 1999; Hovi, Huseby, & Sprinz, 2005).

De Mesquita and Smith (2011) make a straightforward case about the potential negative effects of strategic foreign aid. For many dictators in developing countries during the Cold War, strategic Western foreign aid provided the funds necessary for increased military expenditure. Sylvan (1976) found that recipient country governments tend to act more conflictual when military assistance is increased. The long-standing Ethiopian autocrat Haile Selassie stands out as a prominent example. Reigning from 1930 to 1974, the autocrat put the need of his citizens in front of him. Much of the money raised from for instance the Live Aid concerts, aimed at disaster relief, ended up in the hands of corrupt governments with no intention of relieving any disaster. Trucks that were delivered to transport food to Selassie's population were used to force people to work in collective farms (De Mesquita & Smith, 2011).

Previous research has focused on the dichotomy between pursuing self-interests and promoting development. In some cases, like American support to wealthy states like Israel, aid is doubtlessly based on strategic interests. McKinley and Little (1979, p. 248) also found that US aid is "compatible with the realist image of international relations". Bermeo (2010) puts forward, in contrast to these assumptions, the argument that donor countries seek what he calls *strategic development*, which is based on the idea that the developed countries benefit when other countries develop. Another basis for this argument is that in a globalized world, where flows of migrants, money, weapons, ideology and diseases are increasing (Keohane & Nye Jr, 2000), it is in industrialized countries' interests that weak states do not collapse. This can explain Western intervention in developing economies (Fearon & Laitin, 2004). Ullman (1983) makes the same type of argument: It is in the interests of wealthy nations to ensure that developing countries develop. Foreign aid is according to this view based on self-interest, but it is likely to benefit both the donor and the recipient country. According to the views presented at first in this section, strategic foreign aid is often given merely to preserve the donor country's sphere of interest. The second view, on the other

hand, argues that there might be in the donor country's interest to promote growth in developing countries.

2.6 Hypotheses

The first hypothesis is based on the research done by Alesina and Weder (1999), which concludes that Norway discriminates against corrupt regimes. This is in line with the theories about the Norwegian social-political norms and humanitarian motives that Stokke (1989) and Simensen (2003) outline, namely that the policy outcome is determined by altruistic and solidarity motives. The first hypothesis is:

H1: Norway has a low tolerance for corrupt regimes

The second hypothesis relates to the effectiveness of Norwegian foreign aid on corruption. The research and theories about this is somewhat ambiguous. Because of the literature that suggests that Norway is a well-meaning country, and that foreign aid can potentially improve governance, the second hypothesis is:

H2: Norwegian aid has a positive effect on corruption

3 Data and empirical strategy

This section presents the main dependent variable, control of corruption, and the main independent variables, Norwegian total bilateral aid and good governance aid. The other independent variables are democracy, income per capita and ongoing civil war. To measure the Norwegian foreign aid, I use the official numbers from the Norwegian Agency for Development Cooperation (NORAD). For the corruption variable, I use the International Country Risk Guide (ICRG), which is provided by the Political Risk Services group (PRS). In the last part of this section, the methodology is presented. In table 1, Norwegian aid is the independent variable. In the following two tables, control of corruption is the dependent variable.

3.2 Dependent variable

The main independent variable is corruption. Corruption is a difficult concept to define and measure. The most common definition of corruption is *the abuse of public power for private gains*, according to Tanzi (1998). The corruption index used in this thesis, International Country Risk Guide's (ICRG), is provided by PRS, which is a commercial provider of political risk forecasts. The PRS group defines corruption as:

A measure of corruption within the political system that is a threat to foreign investment by distorting the economic and financial environment, reducing the efficiency of government and business by enabling people to assume positions of power through patronage rather than ability, and introducing inherent instability into the political process (PRS Group, 2015).

The ICRG index is the most commonly used in academic articles (Dollar, Fisman, & Gatti, 2001). In addition to this, ICRG is the only corruption index that has numbers as far back as 1982 and has the widest samples of countries. My data is from 1985 to 2013. The index takes measure of corruption from 1 to 6, where score 6 is least corrupt, and one is the most corrupt. The index is based on current assessments of analysts. There are problems related to both reliability and validity for the corruption index. Validity and reliability refer to the quality of the research design. Acock and Collier (2001, p. 529) asks the crucial question about the validity of researchers' conclusions: "Do the observations meaningfully capture the ideas contained in the concepts?" In causal studies, there are three types of validity. The first one is

the validity relating to the statistical conclusions. The two other is internal and external (Lund, 2002, p. 232), which are being discussed the analysis part.

Another problem is that the index does not differentiate between different types of corruption. This can be problematic because of the different effect the two main types of corruption, petty and grand, has on growth. Petty corruption is in the academic literature viewed as small-scale and often systematic corruption in bureaucracies. Grand corruption is generally portrayed as large political corruption scandals (Della Porta, 1999). According to some economists, petty corruption is not a severe problem. Some even argue that it can have a positive impact on growth (Leys, 1965). The problem in this analysis is therefore that the different types of corruption are not separated.

NORAD's definition of corruption should be included. If the ways ICRG defines corruption is very different from the one NORAD uses, it could be problematic for the discussion of good governance aid. The definitions are not too different. NORAD defines corruption as:

Any person who a) for himself or other persons, requests or receives an improper advantage or accepts an offer of an improper advantage in connection with a position, office or assignment, or b) gives or offers anyone an improper advantage in connection with a position, office or assignment, shall be liable to a penalty for corruption (NORAD, 2015a).

3.1 Independent variables

The main independent variable is Norwegian foreign aid, and NORAD provides the data.¹ I distinguish between total foreign aid and good governance aid. Good governance aid is tied to combating corruption and promoting democracy. The variables are converted from Norwegian "kroner" to dollars per capita. Using per capita makes the interpretation more intuitive. Many normalize aid by GDP, but since other factors can affect GDP, the ratio of aid to GDP can be misleading. The per capita figure is likely to be more stable.

Norwegian aid is, according to NORADs website, aimed at "reducing poverty and promoting human rights" (NORAD, 2015a). Good governance aid is included because its specific aim is to combat corruption. It is also interesting to include because the motivations behind the different types of aid may be different. In addition to this, the effects of the

¹ See NORAD data: <http://www.norad.no/en/front/toolspublications/norwegian-aid-statistics/>

independent variables may vary. Good governance aid is supposed to “combat corruption”, but also promote democracy (NORAD, 2015a). Relating to validity and reliability questions, the meaningfulness of the numbers presented about the independent variables, total bilateral aid and good governance aid, is the only alternative as it is the official data. To measure and capture Norwegian aid flows, the official numbers from the development directorate are the only reasonable measurement. The numbers are from 1985 to 2013. In addition to promoting good governance, Norwegian aid is also aimed at stimulating trade, education, health and social services, environment and energy and emergency assistance. The Norwegian foreign aid numbers are based on multilateral and bilateral donors (NORAD, 2016).

The other independent variables are Gross domestic product (GDP) per capita and democracy. GDP per capita data is collected from the World Development Indicators online database.² This is the official data, and although some datasets presented by the World Bank in the past have been challenged (Solt, 2009), it is very commonly used in the academic literature. This variable is log transformed because the distribution was skewed. The official goal of the Norwegian foreign aid regime is to reduce poverty, and GDP per capita is therefore an accurate goal. GDP per capita is also the same level measurement on “well-deserving” recipients as Alesina and Dollar (2000) use in their study. I could alternatively use poverty level instead, as Easterly and Williamson (2011) do. Both give a valid picture of the recipient countries’ needs. However, I consider GDP per capita more appropriate because Alesina and Dollar (2000) use it in their study.

The aim of including the income per capita variable is to measure the material need in different developing countries. It is important to note that there are several reliability problems relating to the official World Bank data. Reliability refers to the extent to which a study can give the same result repeatedly. In principle, a researcher should be able to replicate the study in order to test if it yields the same results (Trochim, 2006; Yin, 2013). This challenge is easier to face in quantitative studies than in qualitative. Although it is probably the most reliable data available for GDP, the problems ought to be taken into consideration. There is in many countries, primarily in Northern Africa and the Middle East, a lack of specific data. Jerven (2010) argues that with the exception of a few resourceful countries in Africa, the majority of the African countries ought to be considered to have the same income level. Accordingly, the GDP measure is futile. Jerven outlines three key

² See World Bank GDP data: <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?page=5>

problems about the income per capita statistics. First, there is a discrepancy between the three most common measurements that are the World Development Index (WDI), the ones used in this thesis; the Maddison, and the Penn World Tables. Blades (1980) comes to the same conclusion about GDP statistics in large parts of Africa. The two latter are thus the alternative approaches this article could have used. Second, the African GDP level estimates are often not reliable because of calculation problems. A third problem, not as important for reliability purposes, is the fact that African GDP numbers are highly volatile. Jerven (2010) concludes that the three sources of ranking mentioned above agree upon some of the Sub-Saharan countries in the sample, counting 45 in total, although they disagree on most of them. In other words, if this thesis used income per capita numbers from Maddison and Penn World Tables, the results could be completely different.

The same test was used for 22 Latin American countries, comparing the rankings of the different sources. The results for Latin American were also ambiguous, although the results suggest that the Sub-Saharan countries are harder to estimate, and variations are larger. The numbers from this region is probably so hard to get right because it is a sign of the underdevelopment in those countries (Riddell & Coughlin, 1990). If Jerven's findings are correct, the results I find about the association between Norwegian foreign aid and income level are not reliable. Several developing countries lack proper data. The numbers from the World Bank from these countries are estimated based on, among other factors, how well the neighboring countries are doing economically. The important thing to note in relation to this thesis is that the numbers from the World Bank are the most reliable, although certain flaws need to be remarked. Because the World Bank gets the data from the national authorities, the reliability is weaker. One alternative way to do that is to use a measurement for purchasing power, e.g. the "dollar-a-day" measurement, first introduced by Ravallion, Datt, and Walle (1991). In short, this indicator measures how much you can buy for a dollar in any given country. A recent critique by Reddy and Lahoti (2016) points to several problems, although the authors are primarily concerned about the "dollar-a-day" concept. One of the problems is the inability to separate data from the richer urban areas, to the relatively poorer rural areas. The rural-urban variations should be taken into consideration when the average purchasing power is taken into account, because of high inequalities. This methodological challenge also relates to the basic income data. To conclude, although I am aware of its fallacies, I use the GDP measure income level from the World Bank because it is the best proxy available.

The democracy variable is included because good governance aid is aimed at democracy promotion. In addition, most studies on aid determinants use democracy as an independent variable. Many theories about aid effectiveness also link the results to the importance of good governance. Many definitions include, as showed in the theory part, aspects related to democracy. Polity IV is the index used by Easterly and Williamson (2011). I use the Polity IV dataset for the measurement of democracy. Democracy is defined as 1 if the polity score is 6 or larger on a scale from -10 to 10.³ The Polity IV data consists of multiple historic sources for each country. In the academic literature, the Policy IV datasets are one of the most commonly used (Acemoglu, Johnson, Robinson, & Yared, 2005; Plümpert & Neumayer, 2010). It is based on three components: competitiveness of political participation, openness and competitiveness of executive recruitment, and the chief executive's constraints (Systemic Peace, 2016). The quality of the data is consistently challenged by academics (Munck & Verkuilen, 2002). Alternatively, the Freedom House measure is commonly used. There are with this index, as with most indexes, positive and negative attributes. I choose to use the Polity IV dataset because the Freedom House measure is by some viewed as ideologically biased (Steiner, 2012), and Easterly and Williamson (2011) use the Polity IV in their study.

Munck and Verkuilen (2002, p. 19) criticize the reliability of the Polity IV “due to the failure to conduct a test of intercoder reliability”. According to their criticism, Polity IV in addition to this also only captures one aspect of democracy. Marshall, Gurr, Davenport, and Jagers (2002) claim, on the other hand, in a comment, that during the time of comparing Polity IV data to other they have reached “increased confidence in the accuracy of its codes (Marshall et al., 2002, p. 44). The problems of validity will always be prevalent when democracy indexes are used, but the problems are reduced by using Polity IV.

In table 1, I control for ongoing civil war, and in table 2 and 3, population size is included. The data on ongoing civil war is from the Uppsala Conflict Data Program.⁴ Civil war is coded 1 if at least 25 deaths have occurred in a single year between government and rebel forces and 0 if not. Population size is from the World Bank.⁵ I do not include that many variables in my model. In the social sciences, there has been held by many that the more mechanical the research is, and the more variables are included, the less explanatory is the

³ See Polity IV data: <http://www.systemicpeace.org/polity/polity4.htm>

⁴ See Uppsala Conflict Data Program: <http://www.pcr.uu.se/research/UCDP/>

⁵ See World Bank population size data: <http://data.worldbank.org/indicator/SP.POP.TOTL>

model (Achen, 2005). Thus, I have chosen to include only those variables that theoretically have most importance. A limited model based on substantive theory makes interpretation easier and the arguments stronger.

3.3 Methodology

This section introduces the methodological strategies used to test the hypotheses. In the first table, I use OLS regression, to analyze time-series cross section data. In the following tables, I use the Heckman selection model to estimate the impact of Norwegian foreign aid on control of corruption.

3.3.1 OLS regression

To test hypothesis 1, which states that Norway has a low tolerance for corrupt regimes, I use OLS regression analysis on time-series cross section (TSCS) data. TSCS cannot confirm causal relationships, because it is unable to show causal directions (Lund, 2002). However, TSCS data is better suited to prove causality than many other research designs, and when the data is supplemented by proper use of theory, the direction problem can be reduced. This thesis uses many data points, which according to Gerring (2005) makes it easier to argue that there is a causal relationship. The numbers consist of data from 116 countries. Some countries are missing because of the different selections in datasets, so the results can be unbalanced. There are some important countries missing, which is important to note. One example is Afghanistan, which is riddled with corruption, and receives a lot of Norwegian aid. I control for several variables that are likely to have an effect on Norwegian foreign aid allocation. The dependent variable is lagged with one year, so that the previous year has an effect on foreign aid allocation. This is because foreign aid allocation ought to be determined based on the previous year's corruption score. The main problems with TSCS, are relating to autocorrelation and heteroscedasticity (Worrall, 2010). To overcome these problems, I compute Newey-West standard errors. To control for potential spurious correlation between corruption score and Norwegian foreign aid, I control for other democracy, income per capita and ongoing civil war.

3.3.2 Heckman selection model

To establish an argument that assumes some kind of causal relationship, the Heckman selection model is implemented. The purpose of this correction method is to correct for biases in non-randomly picked samples. It is intuitive that selection bias has to be taken into account in order to establish arguments about the efficiency of a policy program. The Heckman model is often used to estimate the effects of political programs (e.g. Abouharb & Cingranelli, 2007; Meernik et al., 1998; Vreeland, 2003; Wright, 2009). In the first step of the two-step model, the factors affecting Norwegian foreign aid policies are identified. In the second stage, the impacts of being selected are examined.

The selection model considers no randomness by including the residuals of a selection equation into the effect of the Norwegian aid equation. The second step in the two-step model estimates the effects of the Norwegian aid corruption when controlled for biases. There are two possible reasons for selection biases: The first reason relates to the self-selection that has been conducted by individuals or organizations. For the simplicity of purpose, one can assume that this is NORAD. A possible second reason is that the data or analysts are operating in the same way as actors that self-select do (Heckman, 1977). One common example to illustrate the purpose of using Heckman selection is studies on wages. Suppose that the only observations available are those of the people who work. The people who do work are non-randomly selected, and the Heckman selection model is thus controlling for the bias. The first model shows if you are in the group or not, thus, following the example of wages, if you are receiving wage or not. The Heckman model has been questioned by several economists and statisticians (Goldberger, 1983; Little, 1985).

4 Results

In the first part of this section, the results from table 1, the regression on Norwegian aid determinants – total bilateral aid and aid aimed at promoting good governance – will be presented. The two models in this table represent the association between Norwegian good governance and total bilateral aid, and control of corruption. In the second part, the results from the selection models will be presented. It complicates the interpretation that the Norwegian aid variables are log transformed. The determinants for both types of Norwegian aid in table 1 are interpreted by percent. Table 2 shows the impact of Norwegian good governance aid on control of corruption when controlled for selection bias. Table 3 shows the impact of Norwegian total bilateral aid on control of corruption. An analysis of the results follows in next part of the paper.

4.1 Norwegian aid determinants

Table 1 shows the determinants of Norwegian foreign aid. Model 1 indicates that less corrupt regimes have a positive association with good governance aid, but only at a 10 percent level, which is not statistically significant. I use the significance at the 5 percent level, which is the standard significance level in the social sciences (Ringdal, 2013). The association between good governance aid and income level is not statistically significant. Good governance aid is associated with democracies at the 1 percent significance level. When a country goes from a non-democracy to a democracy, good governance aid increases by 0.03 percent. By dividing the standard deviation of the dependent variable by the coefficient, the result is 0.13. The recipient country thus increases the amount of aid by 13 percent of the standard deviation, which is marginal effect. Countries affected by civil war have a significantly negative association with good governance aid. By again dividing the coefficient by the standard deviation, the results are 0.17. When a country is affected by a civil war, Norwegian aid flows decreases by 17 percent of the standard deviation.

Model 2 shows the determinants of Norwegian total aid. Total Norwegian aid is associated with regimes that are less corrupt on the 1 percent significance level. A scale unit increase in control of corruption, increases total aid by 0.04 percent. By dividing the standard deviation of the dependent variable by the coefficient, the result is 0.05. When a country

increases its control of corruption by one unit, Norwegian total bilateral aid increases by 5 percent of the standard deviation. The association to countries that are democracies or civil war countries is not significant. The association between aid and income level is not significant either. The results suggest that H1 can be confirmed, which states that Norway has a low tolerance for corrupt regimes. The results in model 1 indicate that H1 cannot be confirmed for good governance aid. Control of corruption is the only variable that is a significant determinant of Norwegian total bilateral aid.

To sum up, the results from table 1 indicate that Norwegian good governance aid is associated with democracies, but not corrupt regimes. Norwegian total aid is associated with less corrupt recipient countries, but not democracies. Income per capita is insignificant for both types of aid. H1 can be confirmed for total bilateral aid, but not for good governance aid.

Table 1: Determinants of Norwegian aid (1985-2013)

	(1) Good governance aid	(2) Total aid
Control of corruption	0.01* (0.00)	0.04*** (0.01)
GDP per capita	-0.01 (0.01)	-0.02 (0.02)
Democracy	0.03*** (0.01)	0.03 (0.02)
Civil War	-0.04*** (0.01)	0.00 (0.02)
Observations	3,349	3,349

Standard errors in parentheses

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

4.2 The impact of good governance aid on control of corruption

Table 2 shows the effects of Norwegian good governance aid on corruption. The findings indicate that Norwegian good governance aid did not lower corruption level in recipient countries. The impacts of aid are insignificant even when accounting for the selection effects. One possible explanation for the insignificant effect of good governance aid on control of corruption is that the amount is so small that it does not create the right incentives for change in policies or reforms.

The results are in line with what the Office of the Auditor General of Norway found in a report from 2015. The report concluded that several of the programs implemented in most of the countries were unsuccessful, and that where results were found, they were expected to disappear relatively fast. The debate about aid conditionality could potentially be discussed in this context, but several of the critics are more critical towards conditional aid that includes procurements, not merely aid tied to specific sectors. The results can be said to make the point Easterly (2006) claims repeatedly in his critique of donor countries: For him, the ‘big planners’, the policy makers in recipient countries that have a firm belief that the West can save the rest, do not necessarily know the realities on the ground. The same argument can be used to explain why good governance aid does not seem to have a positive impact on governance.

Table 2: The impact of good governance aid on control of corruption (1985-2013)

		(1) Control of Corruption
	Good governance aid (log)	-0.417 (0.387)
	Total aid (log)	0.139 (0.147)
	GDP per capita (log)	0.224 (0.228)
	Population (log)	-0.068 (0.782)
	Democracy	0.122 (0.137)
	Ongoing Civil War	-0.315** (0.160)
Good governance aid (Selection corrected)	Total aid (log)	1.314*** (0.246)
	GDP per capita (log)	-0.108* (0.057)
	Democracy	0.482*** (0.158)
	Ongoing Civil War	0.455*** (0.145)
	Observations	3,655
Wald test of indep. eqns. (rho = 0): chi2(1) = 11.80 Prob > chi2 = 0.0006		

4.3 The impact of total aid on control of corruption

Table 3 shows the impacts of total aid on corruption. The findings indicate that Norwegian total aid did lower corruption level in recipient countries. The results thus indicate that total aid can improve governance. The theory part explained, however, how difficult it is to estimate the factors causing aid effectiveness. The upper part of the table suggests that total Norwegian bilateral aid has a statistical positive effect on control of corruption in the

recipient countries. As mentioned in the theory part, the effectiveness Norwegian aid has on good governance in recipient countries have not previously been studied. The finding is in contrast to what Easterly and Williamson (2011) argue about Norwegian foreign aid, namely that Norwegian agencies do poorly on specialization. The results relate to the results in table 1. Given the assumption that good governance is crucial for aid to be successful, Norwegian aid has a positive effect on corruption because the regimes have met the right preconditions for receiving foreign aid.

Table 3: The impact of total Norwegian aid on control of corruption (1985-2013)

		(1) Control of corruption
	Total aid (log)	0.329** (0.153)
	Good governance aid (log)	0.107 (0.376)
	GDP per capita (log)	0.005 (0.151)
	Population (log)	0.556 (0.596)
	Democracy	0.326*** (0.116)
	Ongoing Civil War	-0.126 (0.144)
Total aid (Selection corrected)	Good governance aid (log)	7.405** (3.644)
	GDP per capita (log)	-0.427*** (0.062)
	Democracy	0.476*** (0.173)
	Ongoing Civil War	0.347** (0.155)
	Observations	3,263

Wald test of indep. eqns. (rho = 0): chi2(1) = 1.21 Prob > chi2 = 0.2705

5 Analysis

The results presented suggest that Norwegian total bilateral aid flows more to less corrupt regimes, but that the trend is absent for Norwegian good governance aid. The results on the effectiveness of the two types of aid suggest that total bilateral aid does have a positive effect on the control of corruption, whereas good governance aid does not. These results will be the backdrop for the analysis. These two main findings are going to be discussed exclusively, but I will also discuss how the aid determinants may explain the results about effectiveness. In the first part, the previous literature about Norwegian foreign aid determinants and effectiveness will be discussed. Moreover, Easterly and Williamson's (2011) assumption that Norway has a high tolerance for undemocratic regimes will be discussed together with the state-NGO relationship that according to Terje Tvedt influences foreign aid policies. In the last sections, the interplay between strategic objectives, aid effectiveness and good governance is analyzed.

5.1 Norwegian aid and corrupt regimes

Hypothesis 1 can be confirmed based on the results, but there are several uncertainties related to the results. External validity refers to quantitative generalization, e.g. if the conclusions drawn from the study can also be prevalent outside the units studied. Internal validity, on the other hand, refers to the connection between the variables that are used, and the possibility of confirming a causal relationship (Acock & Collier, 2001). The internal validity can specify the causal direction. It is difficult to establish causal arguments, but with proper use of theory, the causal direction problem can be reduced (Lund, 2002, p. 117). The important question that needs to be examined is whether the methodology can connect the ideas to the facts. A causal study has a good statistical validity if the causality is statistically significant and relatively strong (Lund, 2002, pp. 105-107). Gerring (2005) argues that many data points can largely identify causality. One simple data point cannot reveal normality, and it is thus difficult to identify a causal status to the variable. Because the results that have been presented relating to the hypotheses are statistically significant, and they confirm the theoretical assumptions, the results about corruption in table 1 can be considered valid.

The hypothesis states that Norway has a low tolerance for corrupt regimes. There are several ways to analyze foreign aid flows to corrupt regimes, however. Firstly, there is the

view that countries give bilateral aid to corrupt regimes in order to receive some advantage. Examples of advantages are for instance favoring votes in the UN Security Council, access to natural resources or improved diplomatic relations (Kuziemko & Werker, 2006; Lumsdaine, 1993; Stokke, 1989). Secondly, there is the view that corrupt regimes are the poorest, and need aid the most. In a regression analysis, effects can be isolated by different variables. Easterly and Williamson (2011) take the former view when they explain their findings that Scandinavian aid to a surprising extent flows to undemocratic regimes. According to their argument, the Scandinavian countries have supported authoritarian socialist regimes through aid.

Easterly and Williamson (2011) test empirically the concept of selectivity, namely to what extent countries give aid to low income countries while at the same time avoiding corrupt and undemocratic leaders. They are suggesting that the proper balance is to give aid to the poorest countries that have the soundest institutions. There are several possible arguments that can explain why their results are different from the results presented in this thesis. Their numbers are, first, older than the ones used in this thesis. This does not affect the results in a significant way, however, because the difference is small. The authors explain the results by referring to the “tradition of Scandinavian aid going to more ideologically socialist regimes that perform badly on democracy measures” (Easterly & Williamson, 2011, p. 31). If the assumption is correct, it was more likely so during the Cold War. The numbers used in this thesis cover several years of the Cold War, and this thesis concludes contrary to theirs. There is no evidence in the literature to suggest that Norway predominantly supported authoritarian socialist regimes; the literature suggests that policies were rather inconsistent (Eriksen, 1987). It is important to note, however, that the results on democracies presented in this thesis do not disprove Easterly and Williamson (2011). The effect of being a democracy seems to be not statistically significant.

The left-wing fraction was most influential in implementing Norwegian foreign aid policies, although being a part of NATO made the Norwegian aid regime a part of containing communism and expanding Western spheres of interests. Historically, the inconsistency is demonstrated by Norwegian support for countries that had established relations with Western countries, as well as countries with Marxist-Leninist liberation forces. Norwegian humanitarian aid was given to such liberation forces for instance in the Portuguese colonies in Africa: MPLA (Angola), FRELIMO (Mozambique) and PAIGC (Guinea-Bissau and Kapp Verde) (Eriksen, 1987). Norway also used aid as a mean of improving foreign relations with

regimes as ideologically diverse as South Africa and Nicaragua on the one hand, and Cuba and Vietnam on the other (Ruud & Kjerkland, 2003).

The methodology used in this thesis is also different from the one Easterly and Williamson (2011) use. Both studies use the Polity IV data to construct the democracy variable, but in this thesis, it is used as a different dummy variable. Easterly and Williamson (2011) regard democracies as countries that score better than eight as free, but this thesis sets the bar at six. According to De Soysa and Vadlamannati (2011, p. 31), this is standard procedure. If several countries that are included in the datasets score seven and eight, it affects the results. Their article also uses a bivariate regression analysis. In the bivariate regression, they show ratio of aid to a measurement that includes the countries defined as *clean* (a corruption score less than two out of six) and in addition score more than 8 on the Polity IV index. Moreover, and perhaps more importantly, Easterly and Williamson (2011) do not include any variable that captures incidence of civil war. This is not necessarily an important omission for many countries, but it is crucial to include when Norwegian foreign aid is examined, because of the Norwegian tradition of support for post-conflict work and conflict resolution, ever since the Norwegian implementation of the Peace Corps (Liland & Kjerkland, 2003). Their methodology and numbers are likely to be the reason why some of the results are different. As the numbers used in this thesis cover both a decade of the Cold War, and over two decades later, the results presented in this thesis should be considered more reliable.

The fact that Norway seems to discriminate against corrupt governments is not surprising because it is in line with the findings of Alesina and Weder (1999). In their article, however, they use different measures of corruption. In addition to this, they also use a constructed corruption variable based on the World Bank Development report from 1997, and Transparency International's from 1997. The first thing to point out is that the numbers they use are old, as their study was published in 1999. Secondly, their results about Scandinavian aid are not supplemented by theoretical arguments. The conclusions are contingent on the measurements used. Another way of measuring corruption and democracy can yield different results. Instead of using the ICRG index, this thesis could have used for instance the Transparency International Index. This is one of the corruption indexes Alesina and Weder (1999) use in their study. Nevertheless, the ICRG index is also based on perceptions, so the results should not be drastically different. As discussed in the methodology part, the use of Polity IV data could have given different results. One alternate index is the one provided by

Freedom House, but some consider it ideologically biased (Steiner, 2012). The Polity IV is the measurement of democracy most commonly used in academic literature, and is not as criticized for being biased as the former has been. Alesina and Weder (1999) also use the ICRG corruption index, but they use the variable as dummy variable. This is a minor difference and is not likely to affect the results in a significant way. The fact that the findings of Alesina and Weder (1999) are the same as this study's strengthens the validity of the findings presented in this study.

The assumption that foreign aid flowing to corrupt governments is likely to be motivated by strategic considerations is not necessarily correct. In many cases, one can argue that certain situations can justify high amounts of aid to corrupt governments. One example from the Norwegian 2015 foreign aid budget is Jordan. The rationale behind the high amount of Norwegian aid to the relatively corrupt regime was to make the government capable of helping the refugees in the country. In Liberia, on the other hand, another corrupt regime, the official Norwegian rationale is that aid is necessary for post-conflict work and peace work while at the same time admitting the potential for opening up for Norwegian economic interests in the region (Solheim, 2007). In some cases, foreign aid policies are inconsistent for reasons unknown. In 2013, Norway gave a large amount of deforestation aid to Guyana, a small and highly corrupt country in South America. A case study by Bade (2012) explores how Norway ended up giving a lot of money to the corrupt and undemocratic Guyana. The NGOs involved were highly critical to the relationship, because of a lack of Norwegian presence in the country and poor knowledge about the local conditions. The case study concludes that it was an example of aid used as a climate tool, e.g. for political objectives.

Data from for the highly corrupt Afghanistan is lacking in the models, which account for a weakness in the results. Afghanistan is an interesting case however, because the foreign aid given is amounting to 691.2 million NOK in 2015 (NORAD, 2016). This is likely to be the result of a combination of foreign policy objectives and the traditional peacekeeping and conflict resolution work. Afghanistan is riddled with corruption, and the exclusion of the country may have an effect on the results. The case of Norwegian aid to Afghanistan can serve as an example of the theory of a false dichotomy of donor self-interests and willingness to promote development. Foreign aid flows often follow soldiers from the donor countries. After the American invasion of Iraq, 7.6 billion dollars in foreign aid flowed into the country. The number was more than twice the amount Iraq received between 1962 and 2002 (Kisangani & Pickering, 2015). However, aid to such countries is also easily justified by the

need for it. The Norwegian government white paper number 36 from 1984-85 illustrates this point. The white paper sets out to outline the overall aims of Norwegian foreign aid (Departementet for utviklingspolitikk, 1985). Absent from the formulations are concerns about economic performance, accumulation of wealth and efficiency. The moral standards and justifications dominate the strategy. The importance of helping the most needing countries is perhaps the most central point.

While the executive branches are largely in charge of foreign policy decision-making, it is more difficult to implement foreign aid policies because the electorate, the parliament and the bureaucratic processes have more influence. An exogenous shock, like military intervention, can be the sort of action that makes it easier to implement foreign aid policies. In addition to this, in cases where the electorate is skeptical towards military intervention, foreign aid can be used to spur public support. For Norway, these arguments can apply to the high amounts of foreign aid given to Afghanistan. On the other hand, the significant association between Norwegian foreign aid and conflict in the recipient countries shows that Afghanistan could have received the money independent of the Norwegian military presence. In the last couple of years, Norway has given the country 700 million NOK annually. The sitting Solberg government announced in 2015 that the policies will be continued, and in that same year, Norway gave 750 million NOK (Vestvik, 2015).

The importance of post-conflict work can also serve as an example of the lack of a consistent policy, and aid can in this sense go to undemocratic and corrupt regimes. Liberia is one example. The country is highly corrupt, and picked, according to Solheim, because of the private sectors interests, but also post-conflict work. Afghanistan, on the other hand, is important for Norway strategically. Norway has intervened militarily in the country, and all of the coalition partners want to stabilize the country. However, it is also of strategic importance relating to the NATO alliance membership. Both examples, Afghanistan and Liberia, thus show that doing good is also a part of picture, although the strategic interests make sure which countries are picked. Several countries need foreign aid as much as Liberia, but they are not prioritized.

The strategic interests Stokke (1989) outline can be extended to an argument about diplomatic relations. It needs to be pointed out, however, that it has been widely held that the Norwegian aid regime during the Cold War was based on promoting liberal values and NATO loyalty (Stokke, 1989). Norway has a state-owned oil company, Statoil, which invests

in many countries worldwide. Another important aspect is the bureaucratic factors and the role of the NGOs. The theory about voting partners in the United Nations Security Council as an aid determinant does not apply because Norway has only been sitting there for one period during the time our dataset covers, in 2001-2002 (United Nations, 2015). As mentioned, the traditional preservation of interests in former colonies has not been present in the Norwegian foreign policy interests. The former colonial powers used aid as an instrument of presenting itself as a humanitarian force, thus seeing an opportunity to invest in the developing markets.

The finding that Norwegian good governance aid is not associated with less corrupt regimes is somewhat surprising as the good governance aid's specific goal is to combat corruption. However, it is perhaps more intuitive that total aid does not go to corrupt regimes, and good governance aid as a smaller amount tries to combat corruption where it is widespread. One possible explanation for the insignificant association to corrupt countries is that Norway gives aid in order to improve good governance in countries with trade interests. It is in Norway's interest that countries where it has trade interests, improve governance. In addition to this, critics of foreign aid often hold that foreign aid targeted at corrupt regimes makes it harder for governance to improve. According to Easterly (2006), Moyo (2009) and other critics, one of the problems is that aid goes to corrupt governments, thus strengthening the regimes and wasting the money. This is more likely to be true for aid that merely functions as budget support, rather than aid that, like good governance aid, targets specific objectives. Therefore, the view of Alesina and Weder (1999), that it is a policy failure to give aid to corrupt regimes, should not necessarily account for good governance aid.

The Norwegian NGO-state relationship complicates the explanation of aid determinants. The NGOs have traditionally been relatively free to allocate aid (Ruud & Kjerkland, 2003). The largest Norwegian NGOs, for instance Redd Barna and The Norwegian Red Cross, have centered its efforts on being viewed as "good-hearted" and altruistic. Both the taxpayers and donors regard the NGOs as legitimate channels. For the purposes of this thesis, this channel of aid is therefore not being examined in depth. However, the NGOs have had an important impact on the public opinion in Norway, and they lobby for increased aid spending. Opinion polls have shown that Norwegians regard aid as a way in which the West can help to reduce global poverty. In the 1980s, almost none of the informants regarded Norway's self-interest as being important for aid efforts (Tvedt, 1998).

The public funding of aid NGOs has also increased substantially during the last decades. In 1963, the amount of government economic support to aid agencies was 3 million NOK (Tvedt, 1997). In contrast, the amount in 1995 was 1.6 billion NOK. The amount in 2015 is 4.6 billion NOK. The NGO that received the highest amount was Flyktninghjelpen, obtaining 746.9 million NOK. It was followed by the Norwegian Red Cross at 702.7 million NOK, and the Norwegian Church aid that received 524.1 million NOK (Christophersen, 1997). In addition to this, the NGOs have, as Tvedt (1998) notices, very diverse values and aims. This affects the policy outcomes. However, the NGOs have long been viewed as potential foreign policy instruments by policy makers. NORAD has had a close relationship with the NGOs since the mid-70s (Tvedt, 1998). The Norwegian Ministry of Foreign Affairs has previously been more interested in relief aid. NORAD, on the other hand, is more involved in long-term projects. The NGOs are valuable in this respect because they are useful in achieving popular support. With regard to foreign policy interests, the relationship between NGOs and the government “has been intermingled” (Tvedt, 1998, p. 114).

Norwegian aid is positively associated with control of corruption due to many factors. One possible factor is that NORAD is aware of the negative consequences corruption and poor governance has on aid effectiveness. Good governance aid seems to flow to countries where there is a potential for improving governance. There are both conceptual and methodological reasons why the conclusions by Easterly and Williamson (2011) are disputed. The NGO-state relationship also makes foreign aid policies somewhat inconsistent.

5.2 Why is the association between income per capita and foreign aid insignificant?

The question of the association between Norwegian foreign aid flows and income per capita in recipient countries is not directly related to any of the hypotheses. The results are, however, somewhat surprising, and they are related to the question of the strategic aspect, so a discussion should be included. The GDP per capita variable is not significant for total Norwegian aid or good governance aid. This does not echo the findings in Maizels and Nissanke (1984) and Alesina and Dollar (2000), who found that Scandinavian countries give aid based on the recipient countries’ needs. Maizels and Nissanke (1984) argue that 75 percent of the Scandinavian aid allocation was based on the recipient countries’ needs. The great powers, on the other hand, allocate their aid largely based on security or political

objectives. Both studies are somewhat outdated, however. The time discrepancy makes it hard to compare to theirs, especially since the Cold War has ended since then. However, it is on the other hand not likely that the Norwegian aid motives have changed much, and the numbers used in this article cover partly the Cold War period. In addition to this, there are reasons to believe that the data can be affected by the inaccuracies of the official data. As discussed in the methodology part, the official World Bank numbers have been under scrutiny. The data is considered unreliable for several developing countries because they are collected based on numbers that are highly volatile and have reliability problems.

The official NORAD numbers for 2015 can also help explain the insignificant results of GDP per capita. Palestine received 79 million dollars in 2015. The inhabitants, counting 4.5 million in total, thus received 17.5 dollars per capita (NORAD, 2015b). According to the UN Human Development Index, Palestine is ranked as number 113 out of the world's 188 countries. The other countries that received most Norwegian foreign aid per capita are Liberia (8, 25 dollars per capita) and South Sudan (7 dollars per capita). The two latter are poor countries, but Lebanon, being the fifth biggest receiver, is relatively prosperous. The high amount of aid to Lebanon can be explained by the current refugee crisis facing the neighboring countries to the war-torn Syria. In 2015, Lebanon received over 1 million Syrian refugees. The results show that income per capita is not significant and can thus be explained at least partly by crisis. Lebanon is ranked at 65 as of 2015, according to the UNs Human Development Index (United Nations, 2016).

The findings related to GDP must also be evaluated in light of previous research. If Norwegian foreign aid was allocated to the most needing, GDP per capita in the recipient countries should have a positive effect on the allocation, but this study does not find proof of such an effect. One can argue, as Easterly and Williamson (2011) do, that the Norwegian altruism and humanitarianism are reflected by the large amount of money spent on aid. However, it is implied in their argument that the Scandinavian countries give a lot, in order to do the right thing, but that they are not very concerned about how the money is spent. This is echoing Tvedt's assumption about Norway as an engaged country, but in lack of a comprehensive understanding of the problems developing countries are facing (Tvedt, 2007). Easterly and Williamson (2011, p. 19) also find that the Scandinavian donors are less transparent than many others are; they do "surprisingly poor", in their words. According to their study, the Scandinavian countries are also poor on specialization.

Some of the results confirm the theory that Norway is an altruistic and humanitarian country, concerned about reducing poverty and promoting good governance. The positive association between corruption score and total bilateral aid can be explained by the theory Stokke (1989) proposes about the dominant socio-political norms. Norway is not, according to the theory, self-interested. He makes the same type of argument in a later article. He argues that Norwegian aid has traditionally not interfered with the domestic politics of the recipient countries. The insignificant effect of corruption on good governance aid, on the other hand, can point in a different direction. If the purpose of good governance aid is to fight corruption, the aid should probably flow to corrupt governments. If the purpose is to award democratic developing countries, the association to democratic recipient countries on this type of aid works to its purpose.

However, economic need has played an important part in determining foreign aid allocation since the end of the Second World War. Since the results suggest that income per capita in the recipient countries are not an important determinant for Norwegian foreign aid, one can assume that other factors are more important. Norwegian foreign aid has been closely linked to the UN, as have Norwegian policy interests. To state that the UN is a “cornerstone in Norwegian foreign policy” has evolved almost into a cliché among Norwegian politicians. During the early 1990s, the Norwegian government was more apt to participate in UN operations than NATO-led operations. A government report from 1994 changed this conception however. In the report, the government stated clearly that the NATO membership guarantees safety. Norway’s relationship to the UN is still being an important factor (Svenbalrud, 2012).

The image of Norway as a peace-nation did not evolve fully until the early 1990s. Government spending on international peace operations increased from 335 million NOK in 1990 to 2041.4 million NOK in 2000 (Liland & Kjerkland, 2003). Norway supported peace work in several ways. One was through diplomacy and participation in UN peacekeeping operations, but most importantly, and a premise for the former, was providing the funds necessary. Two of the most prominent Norwegian peace programs were carried out during the civil war in Sri Lanka and the Israel-Palestinian conflict. The Palestinian case can therefore help explain the importance of post-conflict aid and conflict resolution as a dominant factor in determining foreign aid. In addition to being riddled with corruption (Anderson, 2015), Palestine is as mentioned relatively prosperous. In addition to this, the

NGOs involved play an important part, as they have traditionally been vocal about the Palestinian cause.

Eriksen (1987) draws on two important examples to illustrate Norwegian inconsistencies: foreign aid to Vietnam during the Vietnam War and to Nicaragua during the Reagan intervention. None of the countries met the poverty qualifications, so if poverty had been a requirement, the countries should not have received Norwegian foreign aid. According to Eriksen (1987), Norwegian aid to Vietnam was given in order to show opposition to the American intervention in the country. The same is the case with foreign aid to Nicaragua. In 1986, the United States warned that aid to Nicaragua would have consequences for the national security in Norway. This shows the importance of presenting itself as a peace nation and a human rights promoter has been visible for a long time. In 2006, the Secretary of State at the time, Jonas Gahr Støre, said, in a lecture at the Norwegian Peace Center, that being a “peace nation” is the Norwegian contribution to the world (Østerud, 2006). The development policies have confirmed this self-image, although the economic policies have been associated with humanitarianism and solidarity with the Global South. Foreign aid is crucial to that self-image. To imagine Norway without the amount of money spent on foreign aid is to picture a country with enormous oil wealth, restrictive immigrant policies, high customs, that in addition to preserve its sovereignty, is skeptical towards the EU, thus a greedy and egocentric nation according to Lodgaard (2007). Østerud (2006) elaborates on the point presented by Lodgaard. Putting aside all the good intentions and symbolic actions, he claims, Norway should be considered a war and crisis profiteer when the oil and gas prices rise.

To sum up the findings about GDP per capita, there are several reasons why Norwegian aid is not associated with poorer countries. One reason is that Norwegian foreign aid policies have been very inconsistent, for natural reasons. In some cases, Norway has given aid for strategic reasons, for instance in order to contain communism (during the Cold War) or to promote economic interests.

5.3 Why is Norwegian bilateral aid successful?

The results suggest that hypothesis two can be confirmed. Norwegian good governance aid does not have any positive effect on control of corruption in recipient countries, but total Norwegian aid has. The Heckman selection model has as discussed in the methodology section been criticized at various times. However, it is difficult to make reasonable arguments about aid effectiveness. There are several ways to explain the positive effect Norwegian bilateral aid can have on corruption in recipient countries. Although it may be true that there is a false dichotomy between strategic interests and humanitarian motives, aid effectiveness is inevitably in many cases negatively affected where strategic interests are prevalent. Good governance aid flows do not seem to have a positive association with corruption, however. Norway's concern about corruption when picking countries to receive total bilateral aid might be the reason why the results are positive.

One potential reason why good governance aid does not have positive effect on corruption and bilateral aid does, is that the focus on good governance spills over to other categories of tied aid. Aid aimed at promoting economic development is one of those. NORAD emphasizes different considerations that are important for economic development,⁶ and several of those are closely connected to good governance. For instance, it emphasizes the importance of sound policies and distribution of wealth. In addition to this, developing sound economic policies is also included in the type of aid tied to economic development. NORAD is also referring directly to the negative consequences of corruption. The positive effect of total aid on corruption can thus be a combination of a focus on corruption that is broader in scope than only good governance-tied aid, in addition to the larger amount of money than good governance aid.

As discussed in the theory section, several studies argue that foreign aid can be harmful to governance. According to Bräutigam and Knack (2004) the results can be explained by aid dependency, hence that leaders lack an incentive for implementing necessary reforms as they become dependent of aid for revenues. Busse and Gröning (2009) suggest that moral hazard problems and rent seeking can explain the negative results. The articles that look at the effect foreign aid has on governance are often (as all of those referred to above) technical quantitative articles that do not go into theoretical arguments. It is thus difficult to argue why the results presented in this thesis are different from the other studies,

⁶ NORAD's thematic areas are outlined at: <https://www.norad.no/en/front/thematic-areas/>

except for methodological differences. Moreover, and more importantly, the studies do cross-country research, whereas this thesis looks specifically at Norway. The reason why this thesis presents different results is thus probably a combination of the country studied, and methodological differences.

One must also be cautious about making too much out of the results, as there are for instance countless of domestic factors that influences economic growth and development, which are out of the donor countries' control. When the previous studies go into details about the negative effects of foreign aid on governance, aid dependency is usually the answer, for instance for Rajan and Subramanian (2007). It is difficult to make the argument that Norwegian aid is improving governance because it makes recipient countries less dependent on aid. However, foreign aid given to countries with sound institutions is less likely to lead to dependency. One reason why foreign aid given to less corrupt leaders is more effective is that sound economic policies determine the level of investments in the recipient country. Foreign aid is thus more effective (Bearce & Tirone, 2010). Democratic leaders are most likely more concerned about implementing necessary reforms than autocratic leaders. If Norwegian aid tied to economic development is reducing corruption, it can mean that the uncorrupt regimes receiving Norwegian aid are implementing programs that are recognizing the need for improved governance. Another study that emphasizes the importance of internal government factors is Svensson (1999). According his argument, the civil rights situation in the recipient countries is crucial for foreign aid to be effective. Although the civil rights situation could alternatively be a good estimation of this, the democracy variable predicts the civil rights situation well. The argument put forward by De Mesquita and Smith (2009), arguing that strategic aid helps propping up corrupt dictators, is disputed by the findings in the case of Norwegian foreign aid. Their argument may still be true for other countries, however.

The question that follows from this is if there really is any self-interest involved in the case of Norwegian foreign aid. There is, as explained above, certainly self-interested aspects involved, but they are not as prominent as for instance the US aid programs. In addition to this, there is a possibility that Norway, while giving aid based in part on strategic objectives, *also* picks the countries where it is possible to combine strategic gains and aid effectiveness. However, even though strategic interests are prevalent, the concern for corruption seems to be prominent.

Based on the premise that total Norwegian bilateral aid has a positive impact on the control of corruption, there is evidence to suggest that Norwegian aid in the end promotes growth. A vast body of literature suggests that good governance is an important precondition for growth. According to NORAD, research shows that corruption “no doubt has serious adverse effects on economic growth, inequality and poverty and on the allocation of public spending on education, health and infrastructure” (NORAD, 2015b). Although the assessment is not far from representing an academic consensus, there are certain academic disagreements. In the end, the hope is that foreign aid can help developing countries develop. The literature suggests that reduced corruption can have a clear positive effect on growth rates. Leys (1965) and Huntington (1968) are, on the other hand, among those who see corruption as a way of making effective shortcuts through ineffective bureaucracies. Many economists and political scientists have later disputed their theories. According to Tanzi and Davoodi (1998), there is a strong negative correlation between GDP and corruption. Analyzing numbers from 1997, their conclusions are that the majority of countries that are corrupt have weaker growth rates and lower GDP. Another reason why corruption is bad for growth is that it gives bigger companies a comparative advantage. Smaller companies are often less capital intensive, but are often more innovative. In addition, several economists argue that corruption makes it harder to access much-needed investments and capital (Mauro, 1995; North, 1990).

Mauro (1995) finds that in the year the article was published, if Bangladesh had the same corruption level as Uruguay, the investment rate in the country would increase by four percent points. Méon and Sekkat (2005) point to similar results. Tanzi and Davoodi (1998) refer to two other explanations for why corruption retards growth. Firstly, they refer to a study by Devarajan, Swaroop, and Zou (1996) that supports the assumption that public investments are positively associated with economic growth. Secondly, they contend that corruption does not affect infrastructure, which is important for growth. NORAD argues, as showed in the quote above, that corruption has an effect on public expenditure. Mauro (1998) found that corrupt bureaucrats are more likely to spend public money on projects where large, expensive objects are involved, deals that make it easier to receive bribes. This often includes military projects, or so-called “white elephant” projects, big infrastructure projects not very likely to benefit the average citizen. Public spending on education, on the other hand, typically consists of a large amount of small units, like pencils and books, and the transactions are not very profitable for the corrupt bureaucrat. Djankov, Montalvo, and

Reynal-Querol (2008) show in their article that aid can be harmful to democratic development if it leads to dependency.

5.4 The insignificant impact of good governance aid

The results suggest that Norwegian good governance aid does not have a positive impact on the control of corruption. The results echo what the Office of the Auditor General of Norway found in 2015. An evaluation of several Norwegian good governance aid programs gave negative results (Riksrevisjonen, 2015). Of the 21 projects that were evaluated, only four of them achieved the aim of strengthening institutions and organizations. In 13 of the projects, the auditor concluded that the positive effects were likely to disappear when the programs stopped. The countries included in the evaluation were Afghanistan, Bosnia-Herzegovina, Uganda and Zambia. In the last ten years, these countries have received 2.74 billion NOK aimed at promoting good governance. According to the report, Norwegian good governance aid is not strategically directed, in the sense that it is not targeted where the money is likely to be spent properly. The report also criticizes the Norwegian Ministry of Foreign Affairs for not having been clear enough about the challenges the projects are facing. In addition to this, there is no indication of any willingness to reduce the number of projects, and Norway does not take into account the UN Convention against Corruption. In 2014, good governance aid was distributed to 170 projects in almost 100 different countries, according to the report. Half of this amount was directed at NGOs, the other being bilateral aid.

The conditionality that Norway imposes only ties aid to specific sectors. This type conditionality is not as extensively criticized as for instance conditionality that imposes reforms on recipient countries. That political conditionality attached to foreign aid has a positive impact on effectiveness is disputed in the literature (Easterly, 2006; Moyo, 2009). The general discussion in the literature about conditionality can explain the insignificant results of Norwegian good governance aid. Easterly (2006) critiques the conditionality Western donors attach. Easterly analyzes how the West imposes conditionality on developing countries based on a set of fixed factors. Foreign aid regimes are, according to him, dominated by what he terms *planners*. The problem with the planners is that they do not have local knowledge, and the conditions and standardized plans are not adjusted to local realities. The problems with conditionality Easterly outlines is probably more related to structural adjustments programs and other aid programs, however, for instance programs where aid is

given on the condition that a given set of reforms are being implemented, or that the recipient country has to meet certain criteria.

Another reason why the good governance aid does not improve corruption, and bilateral aid does, is possibly that the amount of the bilateral aid is bigger. In addition to this, because Norwegian aid is associated with less corrupt regimes, and NORAD is marketing its policies that way, recipient countries have the incentives to reduce corruption in order to receive more Norwegian bilateral aid. As Alesina and Dollar (2000) have found, for the rest of the big donors, other determinants are more prevalent than low corruption scores. In many cases, as shown above, donors do not pay attention to how well the recipient countries are governed. It is hard to prove causal relationships, but the Heckman selection model suggests at least statistical causality.

6 Conclusion

This study examined the effects of Norwegian aid on good governance among recipient countries. The results suggest that Norway has a low tolerance for corrupt regimes, despite contrary claims by some scholars pessimistic about aid. In addition to this, the results suggest that the GDP level of the recipient countries is not a factor that affects the allocation of Norwegian aid. I explain these findings by using different theories about aid determinants. The finding that Norway discriminates against corrupt regimes is explained by the assumption that Norway is an uninterested party and that officials may pay a price for overtly aiding corrupt regimes. The motivations for the aid seem to be humanitarian and altruistic, reflecting the social-democratic values, founded on Christian values and international solidarity. It is difficult to explain aid determinants, however, as considerations differ from recipient country to recipient country. Good governance aid is not, according to the model, affected by the corruption level in the recipient countries nor does it seem to improve conditions. The results about good governance aid have previously not been studied. There is also a lack of theoretical framework to explain my findings about good governance aid.

The results about the total bilateral aid differ from some of the previous research. Easterly and Williamson (2011) find that Norway has a high tolerance for corrupt regimes, a finding my results suggest at least with the methodology I use is not correct. Unlike Maizels and Nissanke (1984) and Alesina and Dollar (2000) that find that Norwegian aid is given based on need, my results suggest that GDP per capita has no significant effect. Research that is more comprehensive should be conducted to find out why Norwegian aid allocation seems to have drifted from going to the poorest countries. Their results should be examined more comprehensively than the scope of this thesis. Alesina and Weder (1999) suggest that Norway discriminates against corrupt governments, in accordance with the findings of this thesis. There should be more research on these complex matters, however, in future studies, perhaps using other measures of democracy and good governance. Good governance aid motives and the effectiveness of this type of aid are surprisingly absent in the literature. The results presented in this study taken together suggest that Norwegian foreign aid can have a positive effect on corruption in recipient countries. One of the reasons for this can be that Norwegian aid goes to countries with better governance.

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8 Appendix

8.1 Summary stats

Variable	Obs	Mean	Standard Deviation	Min	Max
Control of corruption	2845	2.568924	0.9940887	0	6
Good governance aid	3263	0.0756923	0.2281698	0	3.604506
Total aid	3263	0.4543474	1.660086	0	51.68789
GDP pc	3263	7.438972	1.378642	4.171462	11.47957
Democracy	3263	0.3530493	0.4779911	0	1
Civil war	3263	0.1844928	0.387945	0	1

