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Is the "Rogue" Donor Any Worse Than the Traditional Donors?

A Quantitative Analysis of the Aid Selectivity of the US, the EU, and China in the 21st Century

Master's thesis in Political Science

Supervisor: Indra de Soysa

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Abstract

Foreign aid funds allocated to corrupt and repressive governments are expected to be less effective at achieving development objectives and may even prolong the incumbency of self-serving autocrats who impede development. For this reason, aid selectivity, referring to the donor's decision of how to allocate its aid, has become an important part of the aid discourse. The dominant narrative of Chinese aid selectivity in the West is that of a "rogue" donor. Meanwhile, the foreign policy of Western donors is often accused of hypocrisy. This thesis will investigate the aid selectivity of the US, the EU, and China in the 21st century, three of the largest bilateral donors in recent years, using quantitative models with time-series cross-sectional (TSCS) data. Aid selectivity is measured by their ability to allocate less aid to more corrupt and repressive governments. The results do not support the narrative of China as a rogue donor. Rather, it suggests that the differences between China and the traditional Western donors of the US and the EU are minimal. In a separate model investigating aid allocations to sub-Saharan Africa only, China is even found to be more responsive to levels of corruption and repression than its Western counterparts.

Sammendrag

Bistandsmidler som blir tildelt korrupte og undertrykkende myndigheter forventes å være mindre effektive for å oppnå utviklingsmål og kan til og med forlenge styret til selvtjenende autokrater som hindrer utvikling. På grunn av dette har bistandsselektivitet, som refererer til bistandsgiveres valg om hvordan de allokere bistand, blitt en viktig del av bistandsdebatten. Den dominerende forestillingen av kinesisk bistandsselektivitet i Vesten er at det er en «rogue» bistandsgiver. Samtidig er utenrikspolitikken til vestlige bistandsgivere ofte beskyldt for hykleri. Denne oppgaven undersøker bistandsselektiviteten til USA, EU, og Kina i det 21. århundre, tre av de største bilaterale bistandsgiverne i nylige år, ved å bruke kvantitative modeller med tverrsnittsdata med tidsserie (TSCS). Bistandsselektivitet er målt som bistandsgivernes evne til å allokere mindre bistand til mer korrupte og undertrykkende regjeringer. Resultatene støtter ikke den negative forestillingen av Kina som bistandsgiver. I stedet antyder de at forskjellene mellom Kina og de tradisjonelle Vestlige bistandsgiverne, USA og EU, er minimale. I en separat modell som kun undersøker bistandsallokering til Afrika sør for Sahara viser Kina seg å være mer responsiv til nivåer av korrupsjon og undertrykkelse enn sine Vestlige motstykker.

Acknowledgements

This thesis represents the final product of my five years studying Political Science. Despite hardship, writer's block, late nights, and too many cups of coffee, I am grateful for the experience and proud of the outcome.

First off, I would like to thank my good friends at NTNU. These two years would not be the same without you. Our endless lunch breaks together in the break room have been memorable. So have the many weekends we've spent together. The good times definitely outshine the stressful ones.

I would like to thank my old university, UiA, as well as my exchange university in Krakow, Jagiellonian University. You gave me valuable lessons and prepared me for the Master's Program.

I am deeply grateful to my partner, Magdalena, the Master of the Household. I know my intense writing schedule, especially in the last couple weeks, has been exhausting. But I am endlessly grateful for all you've done for me throughout this period, all while holding down a full-time corporate job. My classmates have been envious of all the packed lunches I've brought to uni, when they haven't even had the time to go to the store for a week. I would also like to thank you for your feedback on my thesis. Your ability to find mistakes and ambiguities in the sentences that I've already read 75 times has increased the quality of this product.

Finally, I would like to thank my supervisor, Indra de Soysa. When I enrolled in your course during the first semester of the Master's program at NTNU, I knew nothing about International Political Economy. Your inspiring lectures and fascinating curriculum pulled me into a field of Political Science which I've since been unable to let go of. I also wrote my first quantitative paper in your course. Although challenging at first, it has opened my eyes to the possibilities of conducting research and investigating questions on a whole new level. I had no doubts that I wanted to return to International Political Economy for my Master's Thesis, or that I wanted Indra as my supervisor. You were just what I would want in a supervisor: allowing me to work independently and write at my own pace, but always prepared to help when I ask for it, and quick to respond to emails. Thank you.

I take full responsibility for any mistakes or shortcomings in this thesis.

Simen Skaret

Trondheim, June 2023

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1. Introduction

Differences in wealth between countries today are remarkably high (e.g., Acemoglu & Robinson, 2013, p. 40-42; Passé-Smith, 2014b; Seligson, 2014). In 2021, the 80 “high-income” countries of the world had an average GDP per capita of \$48,200, while the 28 “low-income” countries had an average GDP per capita of \$790¹ (World Bank, 2023a), yielding a more than 50-fold difference in wealth. This gap also impacts other development areas, such as public health, exemplified by an 18-year difference in life expectancy between citizens of high-income and low-income countries in 2021 (World Bank, 2023a). More to the point, poverty remains a foremost problem in many countries of the world (Easterly, 2007, p. 7; Passé-Smith, 2014a; Sachs, 2005), which explains the prevalence of foreign aid, or official development assistance (ODA), as a foreign policy tool in the 21st century. Indeed, the OECD’s Development Assistance Committee (DAC), consisting of 31 of the largest aid donors worldwide, reported its “highest level ever” of ODA disbursements in 2021 (OECD, 2022b, p. 2). The United States disbursed \$38.2 billion² in ODA that year, while the European Union institutions contributed with \$20.6 billion (OECD, 2023a). China, as one of the largest donors outside of the DAC, provided an estimated \$7 billion in ODA in 2017³ (Custer et al., 2021; Dreher et al., 2022). There is, however, a large concern that much of these monies are being poorly allocated, bypassing the most impoverished. China in particular is accused of being a “rogue” donor (Dreher et al., 2018), using its aid for counterproductive purposes.

Despite having disbursed trillions of dollars in total aid over the past decades, donors are criticised for not having much to show for in terms of development results (Acemoglu & Robinson, 2013, p. 452; Bueno de Mesquita & Smith, 2012, p. 179; Easterly & Williamson, 2011, p. 1930; Easterly, 2007, p. 4; Moyo, 2009, p. 28). This has sparked criticism on several fronts, mostly directed at the effectiveness of foreign aid. One recurrent criticism addresses the large volumes of aid that are transferred to corrupt, repressive, and autocratic governments around the world every year. These aid funds are likely to be used by recipient government officials to enrich themselves and further consolidate their power, instead of going toward their intended development purposes. As a result, foreign aid is expected to be less effective, and may even prolong the incumbency of vicious and corrupt autocrats who

¹ Measured in current US\$.

² Measured in current US\$.

³ Measured in current US\$. 2017 is the last year for which reliable data on Chinese ODA is available.

impede development (e.g., Bueno de Mesquita & Smith, 2012; Easterly, 2007). If this is how foreign aid is spent, its justification is undermined (Tavares, 2003). Therefore, if foreign aid funds are to be used effectively for development purposes, donors must exhibit good selectivity when allocating aid, by striving to avoid recipient countries plagued by poor institutions such as widespread corruption and autocratic government.

Good aid selectivity has been part of the rhetoric of most major donors for years. One obstacle related to this is that the poorest countries usually suffer the most from poor institutions (e.g., Bauhr et al., 2013; Easterly, 2007; Toft & de Soysa, 2021). Another obstacle is that foreign aid is used as a tool to advance the diplomatic and commercial interests of donors, which may work against good aid selectivity (Bueno de Mesquita & Smith, 2012; Jones & Tarp, 2016; Lancaster, 2007). Meanwhile, the literature suggests that donors differ in their selectivity, and that some are better at taking recipient country institutions into account, in addition to poverty levels, when allocating aid, while minimizing concerns for their own interests (e.g., Alesina & Dollar, 2000; Alesina & Weder, 2002; Carey, 2007; Dreher et al., 2022; Easterly & Williamson, 2011; Francisco et al., 2021). Aid funds from these donors are more likely to be used effectively toward development, and less likely to be wasted or cause harm in the recipient countries. Nevertheless, there is a lack of consensus in the literature on how various donors allocate their aid.

This thesis will analyze the aid selectivity of three major donors: the United States of America, the European Union, and the People's Republic of China. These are three of the largest donors of ODA in recent years, providing substantial volumes globally. Simultaneously, they differ in ways that should translate to systematically different aid selectivity patterns. The aid selectivity of the US has received much attention academically, possibly more than any other donor, and provides a good reference point for comparison with other donors. Previous studies usually highlight the strong influence of diplomatic and strategic considerations in the aid allocations of this donor (e.g., Alesina & Weder, 2002; Easterly & Williamson, 2011; Fleck & Kilby, 2010; Lancaster, 2007). At the same time, many of these studies are becoming outdated, requiring reassessment of the US with new and better data. As for the EU and China, their respective aid selectivity patterns are still coated in empirical uncertainty. For the EU, previous studies have largely focused on aid from individual member states, and not from the institutions of the EU, which since the late 1990s have provided aid volumes comparable to the largest European donor countries, like Germany, France, and the UK (OECD, 2022b, p. 2). Yet, there are good reasons to believe that the EU's aid allocations are largely motivated by the "correct" selectivity criteria. In the

case of China, data secrecy has been a major obstacle to quantitative assessments. Nonetheless, it is becoming increasingly important to understand how China as an emerging donor operates, and how it compares to more traditional donors. Chinese aid is branded “rogue” because established donors of the West suspect China’s foreign policy to be undermining their objectives of good governance, human rights, and democracy. Some fear that China might be using its aid in ways that bolster autocrats among poor countries in order to secure Chinese objectives. Meanwhile, Dreher et al. (2022) demonstrate that the West’s predominantly critical perceptions of Chinese development efforts are not supported empirically. At the same time, Roach (2022) warns us that false narratives have driven China and the United States to the brink of conflict, which will have dire consequences in the years to come unless corrected.

While the aid selectivity of these donors is interesting in themselves, this paper is unique in making an empirical comparison of the selectivity of these three donors in one and the same study. Each of the donors’ aid selectivity will be assessed by their ability to exhibit sensitivity to corruption and to basic human rights violations in recipient countries when allocating foreign aid, controlling for relevant factors like democracy, poverty, and armed conflict. Their respective selectivity is assessed both globally and for a sub-sample of sub-Saharan Africa only, as it is the most important region when it comes to foreign aid. In addition to simply assessing each donor individually, this empirical analysis will also conduct a three-horse race since these powers often overlap in their choices of where they allocate aid. This estimate makes it possible to see who has residual effects that are better than the rest in terms of selectivity. The results, thus, speak not just to the aid effectiveness debate, but also allow us to adjudicate between those who argue that Chinese aid is strategic and others who argue that China is a power with similar interests and practices as other Great powers. The selectivity of the donors will be analyzed quantitatively, from 2000 until the most recent year with available data,⁴ using time-series cross-sectional (TSCS) models with political data from the Varieties of Democracy (V-Dem) Project, development data from the World Bank’s *World Development Indicators* and from AidData, and conflict data from the Uppsala Conflict Data Program (UCDP).

The results present a nuanced picture of the selectivity patterns of the three donors. Globally, all three allocate less aid to more corrupt countries. Meanwhile, only the EU gives less aid to more repressive governments globally, while the US gives more, and China’s aid

⁴ 2021 for the US and the EU, and 2017 for China.

selectivity is not significantly affected by recipient repression. These results differ in sub-Saharan Africa, where China demonstrates the best aid selectivity concerning corruption and basic human rights violations. The control variables also demonstrate a nuanced picture, although various areas of emphasis emerge for the three donors. As a whole, the results reject the idea of China as a rogue donor, while suggesting inconsistencies between the rhetoric and reality of aid allocations from the US and the EU. These findings are largely robust to different model specifications. The possibility of reverse causality – that the donors affect governance through foreign aid – is explored using instrumental variables, but endogeneity cannot be ruled out. Hence, this paper only establishes association, not causality. This nevertheless allows one to gauge selectivity. If more money goes to poorly governed countries, regardless of questions of causality, one is able to make a judgement about donor objectives, which is the main question of this study.

Following this introduction, Chapter 2 will provide a review of relevant literature and previous research in the field, laying the theoretical foundations for the models in this paper. Subsequently, Chapter 3 will account for the data and methodology. Chapter 4 will present the reader with the results from the analyses, which are discussed in light of the literature in Chapter 5. Finally, Chapter 6 will summarize the paper and make concluding remarks.

2. Literature Review

Chapter 2 starts by introducing the reader to the purposes of foreign aid, as well as the ongoing debate and its associated controversies. Next, it presents a body of literature which argues that not only development and economic growth, but also the effectiveness of foreign aid, is conditioned by “good institutions” in the recipient country. These good institutions are elaborated on, emphasizing aspects like corruption and basic human rights violations as particularly detrimental, before the concept of aid selectivity is explained in more detail, along with references to previous studies in this field. Following this, the three donors of interest – the US, the EU, and China – are introduced, highlighting their relevant characteristics and differences as aid donors, including a discussion of their potential foreign objectives. Chapter 2 concludes with a presentation of hypotheses which will be tested empirically in the analysis.

2.1. What Is Foreign Aid and What Does it Do?

Given the large differences in wealth between countries and the persistence of extreme poverty, the prevalence of and support for foreign aid into the 21st century is unsurprising (Acemoglu & Robinson, 2013, p. 454; Alesina & Weder, 2002, p. 1126; Sachs, 2005; Tavares, 2003). Foreign aid is often framed in terms of altruism and solidarity (Bauhr et al., 2013; Lancaster, 2007; Malacalza, 2019, p. 15-16; Saltnes, 2019), but it is also justified by a history of colonialism and economic exploitation that contributed to the gap that we see today (Acemoglu et al., 2014; Easterly, 2007; Francisco et al., 2021). Furthermore, using foreign aid to advance development abroad is considered by some as aligning with the “enlightened self-interest” of the donors, as it helps mitigate some of the spill-over effects associated with poverty, including “civil war, terrorism, mass migration, and the spread of disease” (Toft & de Soysa, 2021, p. 1-3; see also Carbone, 2017; Lancaster, 2007; Moyo, 2009, p. 151; Sachs, 2005, p. 330-332).

Despite its widespread popularity and use, what foreign aid actually can achieve in terms of development remains inconclusive and subject to heated debate. Some argue that the transfer of resources from governments of wealthier countries to more impoverished countries is beneficial or even necessary to achieve economic growth in the recipient countries, while others settle for less ambitious goals for foreign aid, such as alleviating the

most urgent needs of the poorest or addressing specific problems associated with poverty. Others, again, do not think foreign aid can achieve much at all, at least not without reforming the current practice of aid-giving. A few critics even argue that aid contributes to poor economic and political outcomes in recipient countries (see Dreher et al., 2022, p. 203; Easterly, 2007; Edwards, 2015; Lancaster, 2007, p. 40; Moyo, 2009; Sachs, 2005). Empirical studies attempting to determine the effects of foreign aid on development have been equally inconclusive (e.g., Arndt et al., 2010; Burnside & Dollar, 2000; Rajan & Subramanian, 2008). Before diving deeper into the literature on aid, a clarification of what foreign aid entails is in order.

The most widely recognized definition of foreign aid, or ODA, is provided by the Development Assistance Committee (DAC), which consists of the “wealthy, industrialized countries” that have dominated the global development efforts for decades (Dreher et al., 2022, p. 5). The DAC was established in 1961 by countries of the OECD (Organization for Economic Co-operation and Development) to coordinate their foreign development efforts and has 31 members today: 30 countries and one international organization, the European Union. Among the member countries are many of the most generous aid donors in the world, both in relative and absolute terms, consisting of 24 European countries along with Australia, Canada, Japan, New Zealand, South Korea, and the United States (Edwards, 2015, p. 299; Francisco et al., 2021, p. 187; OECD, 2022b). The OECD-DAC’s definition of ODA is as follows:

Official development assistance flows are defined as those flows to countries and territories on the DAC list of ODA Recipients and to multilateral development institutions which are [...] provided by official agencies, including state and local governments, or by their executive agencies; [...] each transaction of which: [...] is administered with the promotion of the economic development and welfare of developing countries as its main objective; and [...] is concessional in character. (OECD, 2023b)⁵

Most of the literature and previous studies on foreign aid apply this definition⁶ (e.g., Alesina & Dollar, 2000; Dreher et al., 2018, 2022; Easterly & Williamson, 2011; Francisco et al.,

⁵ The DAC List of ODA Recipients includes almost all low-income and middle-income countries and territories in the world and is periodically updated. In 2021 it included around 140 countries and territories. The precise qualification criteria, as well as the complete list for various years, can be found at the OECD’s website: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm> (last accessed 03 March 2023).

⁶ For a critical discussion of this definition, see Lancaster (2007, p. 9-10).

2021; Isaksson & Kotsadam, 2018). As will be explained in Chapter 3, the aid data used in this analysis are based on the same definition. Therefore, any use of the terms “aid,” “foreign aid,” or “ODA” throughout this paper refers to an understanding based on this definition by the OECD-DAC.

Foreign aid flows can meanwhile take on different forms, including “cash (grants or concessional loans), in kind (e.g., food aid), or [...] debt relief” (Lancaster, 2007, p. 11). Furthermore, as we see from the OECD-DAC’s definition, “development” should be the main objective of ODA. Development efforts can encompass a variety of activities, including: “providing humanitarian relief, supporting economic and social progress, promoting democratization, addressing global problems, and managing postconflict transitions” (Lancaster, 2007, p. 9-10). However, development efforts converge on the more general objectives of promoting economic growth and reducing poverty (Edwards, 2015; Lancaster, 2007; Moyo, 2009, p. 16-17).

This does not mean that decisions about aid allocations are exclusively informed by development objectives. Lancaster (2007) identifies several purposes of aid giving, of which development is just one. Besides development, two central purposes of aid include: *diplomatic* purposes, which “involve international security, international political goals, and the management of relationships between governments”; and *commercial* purposes, which “include the expansion of a country’s exports and securing access to needed raw materials imports” (Lancaster, 2007, p. 13-14). Aid for diplomatic purposes is also referred to in the literature as “strategic” aid-giving (Alesina & Dollar, 2000; Alesina & Weder, 2002; Bauhr et al., 2013; Carey, 2007; Dreher et al., 2022), while aid for commercial purposes is often associated with securing natural resources from the recipient country (Dreher et al., 2022; Lancaster, 2007) or “tying” aid to the purchase of goods and services from the donor country (Easterly & Williamson, 2011; Easterly, 2007, p. 43-44; Francisco et al., 2021; Lancaster, 2007). Aid for diplomatic or commercial purposes relates to the interests of the donors, and as the literature explains, aid for these purposes can often work against good aid selectivity and therefore be obstructive to development in the recipient country (e.g., Alesina & Weder, 2002; Bueno de Mesquita & Smith, 2012; Easterly & Williamson, 2011; Easterly, 2007; Jones & Tarp, 2016, p. 267; Lancaster, 2007, p. 7-8; Morgenthau, 1962).

Theories of international relations – realism, liberalism, and constructivism⁷ – can help us better understand the different purposes and motivations behind aid. While none of

⁷ This is not an exhaustive list of theories of international relations, but three of the most central.

these theories are able to provide a full explanation for aid-giving that applies to all contexts, each provides a relevant framework for which to understand aid-giving in various contexts, including for specific time periods, donors, or even specific allocations.

Realism asserts that states are primarily concerned about their own relative power and security in the international system (Malacalza, 2019; Mearsheimer, 1995). Foreign aid, according to this perspective, is considered a foreign policy tool for the donor state to advance its own objectives related to power and security, irrespective of the developmental outcomes in the recipient country (Bueno de Mesquita & Smith, 2012; Carey, 2007; Malacalza, 2019; Morgenthau, 1962; see also Lancaster, 2007). According to Morgenthau (1962), foreign aid is primarily political and may be used by donor states to achieve foreign policy objectives “which cannot be secured” by other, more traditional foreign policy tools such as military means (p. 301). The realist perspective is well suited to explain the emergence of foreign aid in the context of Cold War politics (Malacalza, 2019, p. 12). Since the early years of the Cold War, the US used foreign aid strategically to contain the spread of communism and the power of the Soviet Union. It started with the Marshall Plan, a US program of providing aid to European countries to rebuild their economies in the aftermath of World War II. The idea was that an economically stable Europe was less perceptible to communism and would additionally serve as a crucial group of allies in the years to come (Francisco et al., 2021, p. 183; Lancaster, 2007; McCormick & Olsen, 2013, p. 187; Mearsheimer, 1995; Moyo, 2009, p. 12-13; Seligson, 2014). Later in the Cold War, the US began using foreign aid as a payment for developing-country governments to stay in the “right camp,” while also urging other wealthy countries, including the now recovered Western Europe, to contribute. The Soviet Union, followed by China, soon established their own foreign aid programs and adopted the same tactic (Easterly, 2007; Bueno de Mesquita & Smith, 2012; Lancaster, 2007; Moyo, 2009, p. 14). These aid disbursements were primarily motivated by expanding the donor’s respective camp and securing allies against the opposing power in a bipolar international system. As many scholars have commented, this system of aid-giving did not prioritize the development of recipient countries, and donors on both sides were happy to ignore the domestic activities of its recipient governments, including repressive and corrupt behavior (e.g., Broberg & Sano, 2018; Bueno de Mesquita & Smith, 2012; Easterly, 2007; Fleck & Kilby, 2010; Lancaster, 2007, p. 45; McCormick & Olsen, 2013, p. 187; Moyo, 2009, p. 14, 23).

Like realist traditions, the traditions of liberalism and neoliberal institutionalism concede that states use their foreign policy to seek their own interests internationally.

However, they assert that international rules, norms, and practices – the “institutions” of international relations – influence state behavior, by downplaying pure power politics and promoting cooperation. International cooperation, meanwhile, only persists as long as mutual benefits can be obtained (Keohane, 1988; Malacalza, 2019). Foreign aid, from this perspective, is viewed as a form of international cooperation capable of addressing common “challenges resulting from complex interdependence,” and can thus benefit a set of actors simultaneously, including both the recipient and the donor (Malacalza, 2019, p. 14). This relates to the “enlightened self-interest” of donors mentioned above. As an example, Western donors reached the perception later in the Cold War that poverty reduction and development in recipient countries were more sustainable solutions against the spread of communism than simply paying off governments, which always allowed the recipient government to reverse its policies in response to the highest bidder. Thus, aid for development purposes aligned with the donors’ objective of containing communism globally (Lancaster, 2007).

Constructivism tries to explain the development of states’ interests and identities, looking at immaterial factors like norms and ideas that influence state behavior (Malacalza, 2019; Saltnes, 2019; Ulbert, 2014). According to this tradition, states comply with norms because they are considered legitimate, not simply because they are linked to their interests. Norms and ideas are meanwhile formed “through interactions between states on the international level” (Ulbert, 2014, p. 255). Hence, international interactions can change norms, ideas, and the underlying discourse, making it possible “to move beyond realism to a world where institutionalized norms cause states to behave in more communitarian and peaceful ways” (Mearsheimer, 1995, p. 91). Constructivism in relation to foreign aid focuses on norms that are dominant in various social contexts. For instance, the aid practices of a group of countries, notably the Scandinavian donors along with Canada and the Netherlands, are described as being motivated by a discourse which strongly emphasizes “welfare policies, respect for human rights, and responsiveness to the needs of the Third World” (Malacalza, 2019, p. 16). The European Union is another development actor which can be understood from a constructivist perspective as being motivated by a set of norms related to improving living conditions abroad (Malacalza, 2019, p. 26; Saltnes, 2019).

While theories of international relations provide a theoretical framework to understand the purposes and motivations for foreign aid, discussions about the *effects* of aid are tied to theories of economic growth and the causes of global inequality, as both proponents and critics of aid base their arguments on different understandings of how to lift people and countries out of poverty. This is especially the case since the effects of foreign aid

have been notoriously difficult to assess empirically (Alesina & Weder, 2002, p. 1127; Arndt et al., 2010, p. 2-4; Edwards, 2015, p. 304; Isaksson & Kotsadam, 2018, p. 146), leaving the debate unresolved. Critics tend to point out that certain countries have received large amounts of aid without any associated achievement in development, at the same time as other countries have climbed out of poverty without noteworthy aid funds. A common example of the latter is the impressive economic growth in recent decades of a handful of countries in Southeast Asia, including China, where aid levels were modest and unlikely to have been a crucial factor to their success (Easterly, 2007; Moyo, 2009). Proponents counter this argument by emphasizing that the more aid-dependent countries had conditions that were unfavorable to economic growth to begin with, which explains why they receive more aid, and simultaneously why they fail to achieve development. Thus, the counterfactual could be that these countries would be even worse off without the aid (Arndt et al., 2010; Sachs, 2005; see also Alesina & Weder, 2002, p. 1127; Bueno de Mesquita & Smith, 2012, p. 178-179; Easterly, 2007, p. 40; Moyo, 2009, p. 150). In other words, there is a selection bias present in the allocation of foreign aid, which invalidates a simple comparison between countries that receive large volumes of aid and countries that receive little or no aid. Couple this selection bias with all the innumerable factors besides aid that play into any development outcome in a country (Rodrik et al., 2014, p. 112; Sachs, 2005), and it becomes understandable why “[o]ne of the most controversial issues in development economics refers to the effectiveness of foreign aid” (Edwards, 2015, p. 277).

Economist Jeffrey Sachs (2005) is one of the most prominent advocates of foreign aid. He provides the theoretical argument of a “poverty trap,” whereby poverty itself prevents the poorest countries from achieving economic growth. Countries in a poverty trap lack the basic infrastructure and human capital necessary to take advantage of market forces. At the same time, saving resources to invest in the future is usually not an option for people living in extreme poverty, many of whom die from malnutrition and preventable diseases. Under these conditions, countries are stuck with economic stagnation, and sometimes even negative economic growth when the poverty trap combines with other factors, such as rapid population growth, hostile geographical features, or disease environments. According to Sachs (2005), this trap can only be escaped through external assistance, in the form of foreign aid. This has led him to promote a substantial increase in aid to lift impoverished countries out of the poverty trap and to a level of development where they can achieve self-sustaining economic growth (Sachs, 2005).

This view of foreign aid is strongly contested by a number of critics, with Easterly (2007) and Moyo (2009) at the forefront. In their opinion, foreign aid has caused more harm than good over the years and is not a solution to poverty. Easterly (2007) argues that one of the main reasons why foreign aid fails is the lack of feedback and accountability between aid bureaucracies and the intended beneficiaries. He concedes that when these mechanisms are improved, aid can address specific problems in specific contexts, but not end poverty. Moyo (2009) maintains a more critical view of foreign aid, asserting that it invariably brings harm to recipient economies. Instead, she urges governments of poor countries to reduce their aid dependency and rely on market forces to address their economic shortcomings. Both Easterly (2007) and Moyo (2009) contest Sachs' (2005) idea of a poverty trap as the primary explanation for economic stagnation and reject foreign aid as the solution, instead emphasizing homegrown solutions and the opportunities of market forces. They also argue that corruption and bad governance – common in many poor countries – pose serious problems to development and aid effectiveness (Easterly, 2007; Moyo, 2009). This corresponds with a number of scholars who stress the effects of “institutional” factors on economic performance (e.g., Acemoglu & Robinson, 2013; Acemoglu et al., 2014; Rodrik et al., 2014).

2.2. Institutions and Development

Acemoglu and Robinson (2013) explain how differences in wealth between countries today are primarily caused by differences in economic and political institutions over the last two centuries. They argue that sustained economic growth is achieved when these institutions are inclusive, as opposed to extractive. Under inclusive *political* institutions, all citizens enjoy political rights and freedoms, and the government is accountable to its citizens. Inclusive political institutions also tend to implement and protect inclusive *economic* institutions, under which property rights are protected, basic public services are provided, and the legal system is unbiased. This encourages economically productive activities, such as innovation and investment, and economic growth tends to result from the expansion of economic activity. On the other hand, extractive institutions are, as the name implies, set up to extract resources. Extractive *political* institutions concentrate power in a narrow elite, which will then form the *economic* institutions that most benefit and enrich this elite, usually at the expense of a large portion of the country's citizens. When people live under institutions that extract their

resources, growth driven by innovation and expansion is reduced, generating mass poverty alongside a comfortable elite (Acemoglu & Robinson, 2013).

A related argument is advanced by Bueno de Mesquita and Smith (2012) in their theoretical framework of coalition-size and citizen welfare. They describe coalition-size as the number of essential supporters that a political leader depends on in order to stay in office, and argue that the motivations and constraints caused by differences in coalition-sizes explain how benevolent a political leader will act. In large-coalition systems, where the leader is dependent on the support of a large portion of the citizenry to stay in office, for example through competitive elections, it is in his or her best self-interest to provide public goods to remain in office. Since so many people must be won over, and it is difficult to distinguish those inside the coalition from those outside, it is more practical and effective to spend the limited government funds on public goods, rather than private goods. These public goods include infrastructure, education, health services, reasonable tax rates, even freedom, all of which are advantageous to economic growth and higher standards of living. Additionally, the benefits of public goods, by nature, rarely discriminate against those outside of the coalition (Bueno de Mesquita & Smith, 2012). In contrast, for leaders in small-coalition systems, such as dictatorships, the most secure way to stay in office is to buy loyalty from their few essential supporters. This means providing private goods or “rewards” to those in the coalition at the expense of the larger population, which results in high levels of corruption to direct resources toward the coalition and a lack of the public goods that benefit the public and lay the foundations for economic growth. Bueno de Mesquita and Smith (2012) further argue that the leader of a small-coalition system often has incentives to increase the suffering of those outside of the coalition, because redirecting resources toward his or her essential supporters and repressing political dissent from outside increases the leader’s chances to remain in power. Leaders who do not respond to the incentives of keeping the coalition satisfied are usually replaced by someone who will – for example, in coups and rebellions. In summary, the coalition-size of a country determines whether a political leader has incentives to increase the welfare for all citizens, or to concentrate welfare in the hands of a few at the expense of the many. The size of a country’s coalition is, in turn, determined by the country’s institutions, especially political institutions (Bueno de Mesquita & Smith, 2012).

Theoretical accounts such as those of Acemoglu and Robinson (2013) and Bueno de Mesquita and Smith (2012) emphasize that institutions constitute an essential part of the equation regarding development. When a country’s institutions allow power to be concentrated in a small elite, this elite will more often than not redirect resources toward

itself, thwarting economic growth in the process when necessary. Accordingly, poverty is not simply about a scarcity of resources. For a country to reduce poverty and achieve development, with or without significant aid funds, it needs institutions that encourage economic growth and distribute government resources beyond the country's elite and toward where they are needed. This is why Acemoglu and Robinson (2013) assert that the "most common reason why nations fail today is because they have extractive institutions" (p. 368-369) and Bueno de Mesquita and Smith (2012) argue that the only common denominator among wealthy countries today is that their governments depend on large coalitions (p. 120-121).

A good indication that an increase in resources is insufficient for achieving development is provided by the phenomenon referred to as the "natural resource curse." The term is used to describe how countries that are rich in natural resources, such as oil, gas, and minerals, continuously underperform economically and socially despite the substantial revenues generated by these resources. The resource curse also manifests itself in poorer institutions and higher probability of armed conflicts compared to countries without significant natural resource endowments (Bueno de Mesquita & Smith, 2012, p. 89-90; Jones & Tarp, 2016, p. 270; Wenar, 2017). Wenar (2017) argues that the occurrence of the resource curse depends on political conditions in the country prior to the discovery of natural resources. He uses Norway as an example of a country where citizens were politically empowered and the government was constrained by checks and balances prior to the discovery of significant oil reserves. This allowed the country to use the revenues to increase welfare for all its citizens, while bypassing the adverse consequences of the curse (Wenar, 2017). Easterly (2007) makes a similar argument about Botswana. Despite the discoveries of massive diamond reserves in the 1960s and 1970s, Botswana has had one of the best economic performances in Africa since, which Easterly (2007) attributes to its "strong pre-colonial institutions" (p. 315; see also Acemoglu & Robinson, 2013, p. 409-414). In numerous other African countries, along with countries in the Middle East and Latin America, discoveries of natural resources have instead been accompanied by poor economic performance, consistent with the resource curse (Easterly, 2007, p. 119, 316; Wenar, 2017). Again, the crucial factor appears to be the institutions of a country.

A positive association between good institutions and economic development is widely recognized in the literature (e.g., Acemoglu & Robinson, 2013; Acemoglu et al., 2014; Bueno de Mesquita & Smith, 2012; Jones & Tarp, 2016; Rodrik et al., 2014). So is the association between institutions and the expected effectiveness of foreign aid (e.g., Alesina & Dollar,

2000; Easterly, 2007; Edwards, 2015; Jones & Tarp, 2016; Knack, 2001; Rajan & Subramanian, 2008). This has been well established in the aid discourse since at least the mid-1990s (Carey, 2007; Charron, 2011; Easterly & Williamson, 2011). However, in the early 1980s, donors were more concerned about promoting reforms in recipient countries to implement the economic policies and institutions that had worked so well in the West, consistent with an open market economy (Burnside & Dollar, 2000; Easterly, 2007, p. 53; Edwards, 2015; Moyo, 2009, p. 20-21). These reforms included “currency devaluation, trade liberalization, deficit reduction, elimination of controls on prices, wages, and interest rates, and a host of other economic policy” (Lancaster, 2007, p. 43-44) and were meant to spark economic growth. Nonetheless, over time it became apparent that there was no universal recipe for economic success that could be applied to countries and regions all over the world with conditions very different from each other and from the West. Furthermore, the way donors were imposing reforms on recipient countries soon became unpopular, giving way to demands for increased local ownership of development efforts⁸ (Easterly, 2007, 53-54; Edwards, 2015, p. 301-302; Lancaster, 2007, p. 50-51; see also Rodrik et al., 2014, p. 116).

With this, a new concern emerged among donors and scholars. It came to light that in many countries, failure to develop was not due to incompetence or ignorance on the part of recipient governments, as has been a common perception among economists (see Acemoglu & Robinson, 2013, p. 63-64), but instead to malevolent governments intentionally impeding development efforts for their own personal gains and political objectives. Already in 1981, the World Bank’s Berg Report had argued that poor economic performance in many African countries was caused by government officials who “had captured the state apparatus and were using it for their own benefit as well as for that of their immediate supporters, families and friends” (Edwards, 2015, p. 290). To use the terminology of Acemoglu and Robinson (2013), it appeared that efforts to implement inclusive economic institutions proved difficult under the extractive political institutions of many poor countries. Nonetheless, it was not until the 1990s that the focus on recipient political institutions really gained prominence, with the term “good governance” echoed widely in the aid discourse. During this period, donors agreed that more aid should be allocated to recipients exhibiting good governance in order to maximize aid effectiveness. In recipient countries with bad governance, it was believed that officials in charge were not genuine about development efforts, and that aid funds were more at risk of

⁸ This is not to say that the imposition of economic and political policies from foreign donors came to an end (see Easterly, 2007; Moyo, 2009).

being wasted or misused (e.g., Alesina & Weder, 2002; Carey, 2007; Charron, 2011; Dreher et al., 2022, p. 140-142; Easterly, 2007; Lancaster, 2007, p. 50; Moyo, 2009).

Despite their popular use in the literature and among donors, terms like “good political institutions” and “good governance”, even “good government” (e.g., Easterly, 2007) refer to vague concepts that can encompass a variety of different political aspects (Acemoglu et al., 2014, p. 129; Jones & Tarp, 2016, p. 269; Keohane, 1988; Knack, 2001, p. 311). Nonetheless, some key aspects have been emphasized more frequently and prominently than others, by donors as well as scholars, and are compatible with good institutions, good governance, and good government: corruption, human rights, and democracy. More specifically, the rhetoric of major donors has since the 1990s reflected their commitment to condition aid allocations on the recipient government’s performance in areas related to corruption, human rights, and democracy (Alesina & Weder, 2002; Bauhr et al., 2013; Carey, 2007; Charron, 2011; Easterly, 2007; Jones & Tarp, 2016, p. 269; Lancaster, 2007; Moyo, 2009, p. 22; Toft & de Soysa, 2021). Not only were these political features believed to contribute to development and to more effective use of aid funds, but they also aligned well with the values Western donor countries wanted to promote globally through their foreign policies (Carbone, 2017; Carey, 2007, p. 447; Lancaster, 2007). The remainder of section 2.2. will elaborate on corruption, human rights, and democracy, and how they relate to development and foreign aid effectiveness.

2.2.1. Corruption

The Varieties of Democracy (V-Dem) Project, whose corruption data this paper relies on, defines corruption as “the use of public office for private gain” (McMann et al., 2016, p. 2, 8). This is similar to the various definitions of corruption found in the literature, such as “the misuse of public office for private gain” (Svensson, 2005, p. 20), “the abuse of public office for private gain” (Charron, 2011, p. 68), or “the abuse of entrusted power for private gain” (Broberg, 2014, p. 254). The central idea remains the same across these definitions, namely that corruption concerns public officials using their position to enrich themselves, their families, or their friends (McMann et al., 2016, p. 8). It also has a component of illegitimacy (Rose-Ackerman, 2008), as expressed by words like “misuse” or “abuse.” The word “illegal,” however, is usually avoided in definitions of corruption, since legislature related to corruption differs across countries. Indeed, a lack of laws against corruption is often a symptom of

severe and widespread corruption in a government. Bueno de Mesquita and Smith (2012) explain that for many political leaders, especially autocrats, “corruption is not something bad that needs to be eliminated. Rather it is an essential political tool. Leaders implicitly or sometimes even explicitly condone corruption. Effectively they license the right to extract bribes from the citizens” (p. 88). At the same time, implementing stricter laws against corruption has little effect in highly corrupt countries, and may even be counterproductive: “such measures are either a façade behind which it is business as usual, or they are designed as a weapon to be used against political opponents” (Bueno de Mesquita & Smith, 2012, p. 160; see also Svensson, 2005, p. 34-35).

Corruption may include a variety of activities, including bribery, embezzlement, kickbacks, theft, undocumented extra payments, and misappropriation of funds (Coppedge et al., 2023a, p. 301; McMann et al., 2016, p. 9; Svensson, 2005, p. 20). What these activities have in common is that the gains obtained through them are “private” in nature, which implies that they come at the expense of public gains. McMann et al. (2016) describe it as follows: “The public office and private gain are linked together with phrases that connote a trade off of public for private welfare, including ‘grant favors in exchange,’ ‘steal, embezzle, or misappropriate public funds,’ or ‘abuse their position’” (p. 8). This trade-off corresponds with notions of extractive institutions (Acemoglu & Robinson, 2013) and small-coalition systems (Bueno de Mesquita & Smith, 2012), as corruption similarly redirects welfare away from the public and toward private individuals, especially those in positions of power. Corruption has clear parallels to extractive institutions, described as institutions under which politicians “are able to abuse the power entrusted to them, or that they have usurped, to amass their own fortunes and to pursue their own agendas, ones detrimental to those of the citizens” (Acemoglu & Robinson, 2013, p. 42). Corruption is also a central component of most small-coalition systems. It is exactly the private goods-oriented strategy of autocratic leaders which allows them to stay in office for a long time while the majority of their citizens are denied public goods (Bueno de Mesquita & Smith, 2012). Given the centrality of corruption in extractive institutions and small-coalition systems, the implication is that corruption should have a negative effect on development and sustained economic growth.

Unsurprisingly, most scholars agree that there is a negative association between corruption and development (e.g., Alesina & Weder, 2002; Bueno de Mesquita & Smith, 2012; Charron, 2011; Easterly, 2007; Moyo, 2009; Rose-Ackerman, 2008; Svensson, 2005; Tavares, 2003). There are multiple mechanisms through which corruption undermines development. For instance, Svensson (2005) argues that bribery has “higher transaction costs

than taxes, because of the uncertainty and secrecy that necessarily accompany bribe payments” (p. 20). Others argue that widespread corruption negatively impacts the economy by deterring investments (Moyo, 2009; Rose-Ackerman, 2008; Tavares, 2003, p. 101). High corruption levels also lead to uncertainty over enforcement of property rights and fair court procedures (Easterly, 2007; Moyo, 2009). Meanwhile, Svensson (2005) claims that one of the “most devastating forms of corruption include the diversion and outright theft of funds” meant for public programs (p. 19). All of these processes reduce the provision of public goods and services, impoverishing ordinary citizens while enriching public officials.

Alas, there are multiple examples of autocrats in impoverished countries who have enriched themselves immensely on public funds while in power – so-called kleptocrats. Bueno de Mesquita and Smith (2012) describe how Mobutu Sese Seko, former president of the Democratic Republic of the Congo, “stole billions and lived the high life [...] owned villas in the Swiss Alps, Portugal, the French Riviera, and numerous residences in Brussels,” all while presiding over one of the most impoverished countries in the world (p. 155). Echoing this, Moyo (2009) describes how numerous African leaders have “crowned themselves in gold, seized land, handed over state businesses to relatives and friends, diverted billions to foreign bank accounts, and generally treated their countries as giant personalized cash dispensers” (p. 48). This is unfortunately a frequent occurrence in very corrupt (and often poor) countries around the world. Other notorious examples of kleptocrats alleged of massive theft from their countries’ public funds during their incumbency include, but are not limited to: Suharto of Indonesia, Marcos of Philippines, Fujimori of Peru, Milosevic of Serbia, Mugabe of Zimbabwe, Abacha of Nigeria, and al-Bashir of Sudan (Bueno de Mesquita & Smith, 2012, p. 153-155; Moyo, 2009, p. 48; Svensson, 2005).

In other words, one of the major concerns regarding corruption is that it involves misappropriation of public funds for private enrichment; and just as domestic funds are at risk of being misappropriated in highly corrupt environments, so are external resources, such as foreign aid funds, at risk of misappropriation by recipient governments who prioritize private wealth over the country’s development. By some, aid funds raise even higher concerns for misappropriation and corruption, since foreign aid has the properties of rent resources. Rent resources are those which provide revenues for the government without relying on the productivity of its citizens, and are often used to describe aid resources, in addition to revenues obtained from natural resources (Bueno de Mesquita & Smith, 2012; Easterly, 2007; Jones & Tarp, 2016, p. 267; Knack, 2001; Moyo, 2009, p. 52; Tavares, 2003; Wenar, 2017). Since the productivity of citizens is irrelevant for how much “rent” a government can obtain,

channels of accountability between citizens and government spending break down and the incentives for governments to provide public goods to its citizens disappear (Bueno de Mesquita & Smith, 2012; Jones & Tarp, 2016; Moyo, 2009, p. 66). When a government mostly depends on revenues through taxation, it requires some level of productivity from its citizens, or else there is nothing to tax from. In order to enable and encourage economic productivity, the government must provide at least a minimum of public goods, including basic education, infrastructure, and health services. If the institutions are too extractive, the citizens are discouraged from being economically productive. This would result in insufficient tax revenues, and the government would be unable to provide the goods – public or private – that it needs to stay in office. The government is therefore forced to make the economic institutions more inclusive, which is usually accompanied by greater freedom for the country's citizens (Acemoglu & Robinson, 2013; Bueno de Mesquita & Smith, 2012). According to Bueno de Mesquita and Smith (2012), making a government rely on revenues generated by citizens' productivity rather than rent resources is one of the surest ways to liberalize the country's policies and eventually move toward institutions which are compatible with the interests of the public (p. 91-95).

Rent resources, however, allow a government to bypass this whole process of liberalization by providing it with the revenues necessary to keep the coalition satisfied without making institutional changes to encourage productivity – which unintentionally improves public welfare. Hence, political leaders with access to rent resources can continue to enrich themselves and provide private goods to their small coalition to stay in office, not subjecting themselves to institutional reforms that constrain their discretionary power and put their incumbency at risk (Bueno de Mesquita & Smith, 2012; Jones & Tarp, 2016, p. 266; Knack, 2001; Morgenthau, 1962, Rose-Ackerman, 2008; Tavares, 2003; Wenar, 2017). Thus, if foreign aid acts as a rent resource, then allocating aid to corrupt governments is likely to finance a network of private enrichment instead of being used for development. More insidiously, aid could perpetuate bad governance, ultimately doing more harm in the long run even if well intentioned.

2.2.2. Violations of Basic Human Rights

Discussions of development efforts and foreign aid effectiveness have also emphasized the promotion of human rights (e.g., Bueno de Mesquita & Smith, 2012; Carey, 2007; Lancaster,

2007). The discourse on human rights is meanwhile accompanied by a large variety of rights and freedoms, as demonstrated by the Universal Declaration of Human Rights (see United Nations General Assembly, 1948). This variety has led to disagreement over definitions of human rights (Poe & Tate, 1994). Breaches of any of those rights commonly associated with human rights may be indicative of failure on the part of the government and should be taken seriously. However, this paper will follow others (e.g., Carey, 2007; de Soysa & Midford, 2012; Poe & Tate, 1994) in limiting the focus of human rights to violations of personal integrity rights, which involves political torture, killing, and imprisonment by the government. It is reasonable to argue that “governments abusing this right are committing the most egregious and severe crimes against humanity and that these violations are of the sort that can usually be avoided” (Poe & Tate, 1994, p. 854). According to Carey (2007), violations of these rights are serious enough to warrant interference from foreign powers, since “the primary purpose of governments is arguably to protect the lives of their citizens. If a government is unable to do so or if it engages in violence itself, it loses its legitimacy” (p. 450). In other words, some human rights, like those related to economic or social rights (see United Nations General Assembly, 1948), often require economic development and cultural changes which are beyond the immediate control of governments, irrespective of their intentions. Meanwhile, rights related to personal integrity reflect conscious choices by the government and can easily be changed as long as the willingness of the government is evident (Poe & Tate, 1994). The paper will henceforth refer to the freedom from state killing and torture as “basic human rights” and the violations of these rights as “repression.”

Widespread repression by governments, in the form of basic human rights violations, is usually performed to preserve the self-serving interests of corrupt autocrats and their small coalitions. More specifically, these governments repress their citizens in order “to ensure that the existing system is maintained” (Bueno de Mesquita & Smith, 2012, p. 23). Political opponents or others who pose a threat to the rulers are usually those targeted by government repression (Acemoglu & Robinson, 2013; Bueno de Mesquita & Smith, 2012; Poe & Tate, 1994). Thus, in the same way as very corrupt governments trade public welfare for private welfare, so are governments willing to violently repress citizens in order to stay in office evidently more concerned about the benefits they can obtain from their position in office than about the well-being of the public.

Repression often goes hand in hand with corruption. As already explained, officials of corrupt governments are able to accrue massive personal wealth, often in countries where poverty remains a problem. This means that the benefits of being in office are enormous, and

so the competition for political power intensifies. As a result, repression is employed against dissidents and potential challengers to ensure continued incumbency and the private enrichment that it entails (Acemoglu & Robinson, 2013).

As previously stated, foreign aid is used by donors to promote respect for human rights abroad. Carey (2007) explains that “[s]ince the early 1990s, respect for human rights has consistently appeared in policy statements by OECD donors,” as the protection of human rights is identified as one of the “qualitative foundations that are deemed to be essential for achieving development goals” (p. 450). However, aid can also have unintended consequences when allocated to the wrong governments, due to its quality as rent resources. First, foreign aid increases the prize of being in power, since they represent large resources that the government can use with limited constraints (Bueno de Mesquita & Smith, 2012; Moyo, 2009). The prospect of controlling foreign aid funds thus raises the incentives for governments to repress their citizens in order to obtain and maintain power (Rose-Ackerman, 2008). As posited by Charron (2011), large volumes of aid lead to “increasing conflict over aid funds” (p. 69). Second, foreign aid provides the resources that governments need to purchase repressive means. As discussed by Bueno de Mesquita and Smith (2012) it is “an unpleasant task” to torture and kill fellow citizens, so “coalition members need to receive enough benefits from their leaders that they are willing to do horribly distasteful things” (p. 23; see also p. 129-131).

2.2.3. *Democracy*

Democracy is another institutional or governance-related trait highlighted by donors as prompting development and making aid more effective in poor countries (Carey, 2007, p. 454; Moyo, 2009, p. 23-24). Bueno de Mesquita and Smith (2012) repeatedly compare large-coalition systems to democracies. In democracies, political leaders depend on a large coalition through elections, and those who promote public goods to many are likely to fare better than those who promote private goods to a few. Additionally, democracy creates mechanisms for accountability and feedback, allowing citizens to make their wishes known to governments and holding them accountable (Bueno de Mesquita & Smith, 2012, p. 156; Teorell et al., 2019). Democracy is also associated with inclusive political institutions, as understood by Acemoglu and Robinson (2013), since it promotes a plurality of interests instead of the interests of a small elite.

Democracy is clearly correlated with other aspects of good governance, including lower levels of corruption and repression (Bueno de Mesquita & Smith, 2012, p. 131; Charron, 2011; Poe & Tate, 1994; Rose-Ackerman, 2008, p. 335). In the words of Easterly (2007); “Different dimensions of good government tend to come together in packages, so it is hard to tell which one is causing economic development” (p. 116). However, some argue that “formal democracy may hide many autocratic practices, such as the repression of rights” (de Soysa & Midford, 2012, p. 6. Indeed, this implies that democracy is not as impactful in the short term: “Democracy is valuable for many reasons, but, taken by itself, is hardly a cure for corruption” (Rose-Ackerman, 2008, p. 339). Easterly (2007) similarly argues that democracy in many countries has been unaccompanied by lower corruption levels and reduced violations of basic human rights (p. 106, 113). Poe and Tate (1994) also emphasize that democracy only accounts for a part of a government’s level of repression (p. 867). Easterly (2007) further posit that in democracies, “politicians could appeal to voters’ gut instincts of hatred, fear, nationalism, or racism to win elections” (p. 113), which is unlikely to be constructive for development.

Foreign aid is commonly linked to performances related to democracy in the recipient country (e.g., Acemoglu & Robinson, 2013, p. 453; Carey, 2007; Jones & Tarp, 2016; Moyo, 2009). Alesina and Dollar (2000) find that countries that democratize are usually rewarded with increases in foreign aid, consistent with the rhetoric of traditional donors. However, as several scholars have remarked, true democratic institutions are not something which can quickly be implemented, and especially not when imposed from foreign donors (e.g., Easterly, 2007; Moyo, 2009).

2.2.4. Aid Fungibility

As explained so far, corruption allows government officials to enrich themselves at expense of the public welfare, while repression helps to maintain the status quo. Foreign aid represents a rent resource which can be misappropriated by the government for further enrichment of the leader and loyal backers, while providing the means to finance repression of political threats. Democracy is promoted by donors as a political system more responsive to the needs of the people, but superficial democratic institutions are often still marred by high levels of corruption and repression. If corruption and basic human rights violations impede development, and donors finance these government practices through foreign aid,

then foreign aid is unlikely to be effective. It may even, as posited by some (e.g., Bueno de Mesquita & Smith, 2012; Easterly, 2007; Moyo, 2009), be counterproductive, creating more harm than good.

One important prerequisite to the argument that aid resources resemble rents and are easily captured by government officials for corrupt purposes is that foreign aid resources must be fungible (Jones & Tarp, 2016, p. 267). The fungibility of aid refers to recipient governments having discretion in terms of where aid funds are directed and how they are used (Bueno de Mesquita & Smith, 2012, p. 183; Moyo, 2009, p. 46). The degree to which foreign aid is fungible is disputed. Some claim that governments are relatively constrained in their use of aid (Jones & Tarp, 2016, p. 267), whereas others view aid as highly fungible, and therefore easily stolen or redirected for private gains by recipient authorities (Bueno de Mesquita & Smith, 2012, p. 183; Dreher et al., 2022, p. 204; Moyo, 2009, p. 46, 52; Tavares, 2003). Tavares (2003), for instance, describes aid disbursements as “typically handed free to local authorities that then distribute them, with considerable discretion, among their fellow citizens” (Tavares, 2003, p. 100). Bueno de Mesquita and Smith (2012) similarly remark that aid is fungible and that “recipient governments have nearly complete discretion about moving funds from one project to another” (p. 183; see also Moyo, 2009, p. 46).

According to Jones and Tarp (2016), the fungibility of aid has two limitations: the allocation of aid to specific sectors or projects and the use of aid conditionality (p. 267). It is true that not all aid involves a no-strings-attached transfer of cash directly to the recipient government. However, aid funds earmarked to specific sectors or projects can still be fungible:

[I]n practice, recipients are very skilled at converting aid into the kinds of rewards they want rather than the kind of rewards donors want them to provide. [...] When aid funds are used to substitute for government spending, then few, maybe even no one, has actually been helped unless the government uses the freed-up money for other projects of benefit to the general public. Of course, they don't. They use the money to shore up their political position and the loyalty of their essential backers. (Bueno de Mesquita & Smith, 2012, p. 183)

Dreher et al. (2022) similarly discuss the possibility that aid sometimes “supports projects that would have been financed by the recipient government anyway, thereby allowing the recipient government to spend its own funds on less productive activities like patronage and graft” (p. 203-204).

The idea that aid is fungible is evidently supported by various scholars and explains how aid allocated to corrupt and repressive governments is unlikely to be effective. Nonetheless, Jones and Tarp (2016) suggest that the initial institutions of the recipient country matter for the effects that foreign aid will have, fungible or not. In non-democratic regimes, the use of aid resources is less constrained institutionally, and therefore more easily diverted, misappropriated, and used for inimical purposes (p. 267). This draws parallels to the resource curse discussed above, where the adverse effects of the additional external revenues appear to depend on the initial institutions of the country, as evident in the cases of Botswana and Norway. Thus, we can expect the negative effects associated with foreign aid as a rent resource to be less likely in a country with good institutions, in particular because good institutions constrain the government's discretion and ensure accountability. This brings us to the second limitation to the fungibility of foreign aid: the use of aid conditionality.

2.2.5. *Aid Conditionality*

Aid conditionality means that the disbursement of aid is conditioned on certain political or institutional outcomes in the recipient country (Carey, 2007, p. 449; Charron, 2011; Lancaster, 2007, p. 11; Moyo, 2009, p. 39). Donors can thus use aid “*as an incentive or as a payment* for recipients to act in ways favored by the donor” and reduce or eliminate aid “when recipients behave in ways unwelcome to the aid-giving government” (Lancaster, 2007, p. 11). The idea is that aid conditionality limits the misappropriation of aid funds, since governments who fail to meet the conditions risk missing out on future aid resources. Aid conditionality is also used in order to promote certain institutions or governance outcomes, by incentivizing the recipient government to democratize, fight corruption, and respect human rights (Carey, 2007; Charron, 2011; Jones & Tarp, 2016; Tavares, 2003).

Since the 1990s, aid conditionality has often been used in relation to corruption and human rights outcomes, since it simultaneously promotes these governance outcomes and ensures that the aid is delivered to countries where they can be used effectively for the right purposes. Carey (2007) observes that “making aid conditional on respect for basic human rights helps donors justify the expense of aid to their taxpayers, as financing repressive regimes is unlikely to find support among voters in their own country” (p. 450). Charron (2011) investigates the extensive use of conditionality related to corruption since the 1990s. How effective the use of aid conditionality has been, is meanwhile debated.

Morgenthau (1962) discusses the use of aid conditionality from a realist perspective, i.e., whether the recipient government will adopt the policies which serve the donor country's interests. He argues that the conditioning of aid has two limitations. First, the recipient can be expected to adopt the desired policies only if these policies are not strongly contradicting the recipient government's own interests. According to Morgenthau (1962), foreign aid is given to recipient governments in order for them to change the status quo, yet they are usually the beneficiaries of the status quo; "To ask them to use foreign aid for this purpose is to require a readiness for self-sacrifice and a sense of social responsibility which few ruling groups have shown throughout history" (p. 305). Second, aid conditionality is unlikely to be effective, according to Morgenthau (1962), if the recipient government does not believe that there is a connection between the disbursement of aid and its own political actions (p. 309). In other words, if actual implementation of the donor's condition is not perceived as credible for determining the disbursement of aid, then the recipient government does not have incentives to comply with the condition. Although discussed in terms of policies which serve the donor's interests, the logic can reasonably be extended to aid conditionality based on the adherence to good governance, which is not immediately connected to the donor's own interests.⁹

Acemoglu and Robinson (2013) argue that aid conditionality has been unsuccessful, both at making aid more effective and at changing the institutions of the recipient, since "the amount of additional foreign aid that a dictator can obtain by undermining his own power is both small and not worth the risk either to his continued dominance over the country or to his life" and "[c]ountries failing to meet these conditions typically receive as much aid as those who do" (p. 453-454). Likewise, Moyo (2009) considers aid conditionality to have been unsuccessful since the donors' conditions, particularly those related to corruption and other indicators of bad government, have been "blatantly ignored" and "openly violated" by recipient governments, apparently without affecting the actual aid allocations of the donors (p. 39). Thus, "analysts generally conclude that conditioning aid on policy and governance reform is largely ineffective" (Knack, 2001, p. 312).

To sum up, institutional aspects of the recipient, such as corruption and basic human rights violations, are recognized as counterproductive for the effectiveness of foreign aid. This recognition has led donors to impose conditions related to governance on the recipients

⁹ At least not the short-term interests of the donor. However, as posited by liberalism and neoliberal institutionalism, donors may have a long-term interest in the expansion of liberal democratic governments around the world (Malcalza, 2019; Ulbert, 2014).

governments. Yet, the use of aid conditionality has largely been deemed a failure. This relates to the aid selectivity of donors, which will be the topic for the following section.

2.3. Aid Selectivity

Aid selectivity refers to a donor's decision of how to distribute its aid funds across recipient countries, both in terms of who to allocate aid to, and how much to allocate to each country (Alesina & Dollar, 2000, p. 34; Arndt et al., 2010, p. 14). Donor governments consider multiple factors in their selectivity of aid recipients, including development objectives, diplomacy, and commercial interests (Bauhr et al., 2013; Carey, 2007, p. 452; Lancaster, 2007). However, *good* aid selectivity, which implies dedication to development objectives, is commonly understood as “aid delivery to the poorest countries while avoiding corrupt dictators” (Easterly & Williamson, 2011, p. 1930).

For obvious reasons, recipient need is a central component of aid selectivity; donors aim their aid funds toward poorer countries (e.g., Alesina & Dollar, 2000, p. 47; Burnside & Dollar, 2000; Carey, 2007, p. 455; Toft & de Soysa, 2021, p. 7). As the definition of ODA stipulates, development should be the principal objective and only low-income and middle-income countries are eligible recipients. Poverty levels are most commonly captured by GDP per capita (e.g., Carey, 2007; Charron, 2011; Dreher et al., 2022; Toft & de Soysa, 2021), but other development measures, such as extreme inequality or poor public health, may also indicate the impoverishment of a country (Alesina & Dollar, 2000; Dreher et al., 2022; Sachs, 2005). Moreover, humanitarian crises such as natural disasters or civil war may suddenly increase recipient need without an obvious connection to economic factors (e.g., Dreher et al., 2022, p. 147-148; Francisco et al., 2021, p. 185; Lancaster, 2007, p. 82; Sachs, 2005).

Identifying the countries that are most in need of aid is unfortunately not enough. The literature on aid selectivity postulates that for aid to be effective toward development, donors must also, in the words of Easterly and Williamson (2011), avoid corrupt dictators. As previously explained, bad institutions impede economic growth and even constitute an obstacle to alleviate the urgent needs of the poor. Corruption, repression, and autocracy are emphasized as particularly damaging to development. For the same reasons, aid funds allocated to corrupt, repressive, and autocratic governments are expected to be less effective for achieving development objectives (see Alesina & Weder, 2002; Broberg, 2014; Bueno de Mesquita & Smith, 2012; Carey, 2007; Charron, 2011; Easterly & Williamson, 2011;

Easterly, 2007; Lancaster, 2007; Moyo, 2009; Svensson, 2005; Toft & de Soysa, 2021). According to scholars like Easterly (2007), Bueno de Mesquita and Smith (2012), and Moyo (2009), foreign aid can even cause more harm than good to the citizens of the recipient country if the recipient government exhibits these characteristics. After all, there is little reason to assume that these governments will make good and unselfish use of the additional funds provided by external donors, especially when these funds have the properties of rent resources and are highly fungible. Rather, these governments are likely to direct the funds toward further personal enrichment and protection against political opposition.

For these reasons, more demanding criteria for aid selectivity postulates the need to take institutional characteristics of the recipient government, including corruption levels and regime type, into consideration when allocating aid. The dilemma is that poorer countries also have poorer institutions (Alesina & Weder, 2002; Bauhr et al., 2013; Easterly & Williamson, 2011, p. 1938; Easterly, 2007; Francisco et al., 2021, p. 182; Jones & Tarp, 2016; Moyo, 2009; Svensson, 2005; Toft & de Soysa, 2021, p. 7). This is not coincidental, but largely a consequence of the effects of institutions on economic performance, as described above; poorly governed countries perform poorly economically. Donors thus face the challenge of allocating foreign aid to the poorest countries while simultaneously avoiding corrupt and autocratic governments that repress their citizens, a selectivity principle which would prove impossible if applied strictly (Broberg, 2014; Toft & de Soysa, 2021, p. 24).

This is not to say that good aid selectivity is a hopeless endeavor. Multiple studies have analyzed the aid selectivity of various aid donors and found that they differ regarding their ability to reconcile or balance these seemingly contradictory objectives (e.g., Alesina & Dollar, 2000; Alesina & Weder, 2002; Carey, 2007; Charron, 2011; Easterly & Williamson, 2011). Theoretically, there are several ways to achieve this intricate balance between recipient need and recipient governance. One way, as suggested in the literature, is that donors should aim to “reward” recipient countries with increased aid when their governments show improvements in political institutions, and to “punish” recipients with reduced aid when these institutions are deteriorating (e.g., Alesina & Dollar, 2000; Alesina & Weder, 2002; Carey, 2007), looking for notable changes in democracy, corruption levels, or repressive practices. Another approach is to apply a criterion of simply avoiding the countries with the worst institutions – the most corrupt, autocratic, and repressive governments (Easterly & Williamson, 2011; Easterly, 2007, p. 135; Lancaster, 2007, p. 53). Finally, since the correlation between poverty levels and institutions is not perfect, one can identify recipients with better institutions among those with similar poverty levels, or recipients with higher

poverty levels among those with similar institutions, and direct more aid toward these recipients (Dreher et al., 2022; Easterly & Williamson, 2011). Together, these are three practical ways to reconcile the different criteria for good aid selectivity, despite the fact that poorer institutions are found in the same places where foreign aid is most needed.

If the main objective of foreign aid is development, then aid selectivity based on a balance between recipient need and recipient governance, as described above, is most relevant (Easterly & Williamson, 2011, p. 1938). Development is by definition the primary objective of foreign aid, but it is far from the only one. We have already seen that donor governments sometimes allocate aid in order to advance their own diplomatic and commercial interests, including security, trade, political alliances, or global influence. When objectives related to the interests of donors are given too much weight in the allocation of aid funds, the effectiveness of aid is likely to suffer, partly because considerations of good selectivity criteria are deprioritized (Alesina & Dollar, 2000; Alesina & Weder, 2002; Easterly, 2007, p. 43-44; Jones & Tarp, 2016, p. 267; Lancaster, 2007). The literature on foreign aid is full of examples of aid donors spending lavishly on corrupt and authoritarian governments in order to advance their own foreign policy objectives (see Bueno de Mesquita & Smith, 2012; Easterly, 2007; Fleck & Kilby, 2010; Lancaster, 2007).

How do donors allocate their foreign aid in practice, according to previous studies? At the aggregate level, the literature paints a mixed – but predominantly pessimistic – picture. Alesina and Weder (2002) find “no evidence that less corrupt governments receive more foreign aid” at the aggregate level (p. 1136). Easterly and Williamson (2011) find that donors “continue to allocate aid to corrupt and unfree countries” (p. 1931), calling out the sharp contradiction between the rhetoric of donors and their actual aid selectivity (p. 1946). Meanwhile, Lancaster (2007) observes that “there were signs during the 1990s that donors were becoming more selective in their allocation of aid, with aid flows to the most corrupt and incompetent governments decreasing” (p. 53). Charron (2011) finds evidence suggesting that aid selectivity was improving since around the mid-1990s, although this trend is only observed for total multilateral aid, analyzed separately from total bilateral aid.

In fact, in the literature on aid selectivity, a distinction is often made between bilateral and multilateral aid (Alesina & Dollar, 2000, p. 35; Charron, 2011; Easterly & Williamson, 2011). Bilateral aid is provided directly by each government through national aid programs, whereas multilateral aid is provided through international organizations (Lancaster, 2007, p. 23). By splitting their aid budgets between these two channels, donor countries are able “to be selective” in their bilateral aid decisions, while using multilateral aid “to join forces with

other donor nations in supporting broader initiatives” (Edwards, 2015, p. 299-300). It is typically argued that multilateral aid donors should demonstrate better selectivity than bilateral aid donors:

Bilateral donors may be influenced by a host of factors which have very little to do with corruption. For instance, donor countries typically give disproportionately to their former colonies regardless of their level of corruption. Political alliances and several strategic considerations (e.g., the Middle East) also matter. These considerations may be of greater or lesser importance for different donors. Since international organizations should be less directly affected by the colonial history of the recipients, international alliances, and geopolitical considerations, one may expect that multilateral aid flows may be more responsive to the policies and institutions of receiving countries. Specifically, one may expect that multilateral aid should penalize corruption more than bilateral aid. (Alesina & Weder, 2002, p. 1128)

Bilateral ODA is argued by many to be tied with the political agenda of the donor country and less focused on ‘good governance’ reform in the recipient country for its own sake. Though of course not apolitical, multilateral ODA is seen as relatively more impartial, and the program to fight corruption and improve governance in the developing world has been at the forefront of the agenda of each major Bretton [sic] Woods organization since the mid-1990s, and thus might be associated with more effective results in curbing corruption. (Charron, 2011, p. 67)

Lancaster (2007) similarly explains that multilateral aid came to be regarded as more developmentally oriented “because multilateral agencies, unlike governments, did not have diplomatic, commercial, or cultural motives that typically influenced the country allocation and use of bilateral aid” (p. 42). Nonetheless, Alesina and Weder (2002) find that, at the aggregate level, multilateral aid donors demonstrate no better aid selectivity than bilateral aid donors. Charron (2011), meanwhile, finds that multilateral donors actually do better than bilateral donors concerning aid selectivity, but only since the mid-1990s. This could also explain the conflicting results found by Alesina and Weder (2002), as their period of analysis mostly predates the mid-1990s.

The results appear to differ depending on the period of analysis, which brings us to another important factor to consider when analyzing aid selectivity: the time dimension. In general, when assessing time series data, the decision on what time period to use is often of importance. This clearly holds true for analyses related to aid as well:

[A]id policies have evolved significantly through time. They were very different in the 1960s than in the 2000s. Bumping several decades together when analyzing these issues – as it has been done in many econometric studies – makes little sense and is likely to generate misleading results. (Edwards, 2015, p. 310)

This is explicitly addressed by other scholars as well (e.g., Charron, 2011; Fleck & Kilby, 2010; Jones & Tarp, 2016). Certain events and contexts are noted in the literature as marking important shifts in the aid selectivity of donors. One widely emphasized event is the end of the Cold War, around 1990, which had huge implications for the diplomatic motivations behind aid allocations. With the end of the Cold War and its associated diplomatic aid-giving, donors were able to be much more selective in their allocations, especially concerning good governance (Alesina & Weder, 2002; Carey, 2007, p. 447; Broberg & Sano, 2018; Charron, 2011; Jones & Tarp, 2016). Lancaster (2007) observes that “the end of the Cold War made it possible for aid-giving governments to reduce or terminate aid to repressive and corrupt regimes that had been assisted only because of East-West maneuvering” (p. 45). Moreover, the acute reduction in the “national security justification for aid-giving” that characterized the Cold War permitted more attention to be dedicated to the issue of aid effectiveness (Lancaster, 2007, p. 50-52). At the same time, other political considerations arose, albeit not as strong or exhaustive as those stemming from the Cold War (Bueno de Mesquita & Smith, 2012; Fleck & Kilby, 2010; Jones & Tarp, 2016; Lancaster, 2007).

One post-Cold War aid trend observed by many scholars is the increase of ODA to the Middle East, due to the region’s oil reserves and political instability (e.g., Alesina & Weder, 2002; Lancaster, 2007). Another trend in aid-giving, especially since the terrorist attacks against the US in September 2001, has been to use ODA as a tool in global anti-terrorism efforts, related to the so-called “war on terror” (see Bueno de Mesquita & Smith, 2012; Fleck & Kilby, 2010; Jones & Tarp, 2016; Lancaster, 2007; Moyo, 2009, p. 75). While these trends are most directly associated with American aid-giving (which will be elucidated shortly), other donors – including multilaterals and DAC donors – have also followed US leadership to a certain degree in their aid-giving (e.g., Francisco et al., 2021; Lancaster, 2007).

A different shift in aid selectivity over time stems from the increased focus in the 1990s on good governance in recipient countries as a stipulation for effective aid outcomes. While the end of the Cold War is likely to have escalated this shift, it also emerged as a result of years of aid disbursements without development results and more awareness of the self-serving practices of many recipient governments (Alesina & Weder, 2002, p. 1131; Knack,

2001; Lancaster, 2007). For instance, this period saw increased recognition of the obstructive effect corruption has on development and the effectiveness of aid (Charron, 2011). The discourse on aid selectivity since the mid-1990s has therefore been more explicitly focused on corruption levels in the recipient government, and donors have conditioned aid disbursements on outcomes related to corruption, at least in rhetoric. Charron (2011) describes this shift as an “anti-corruption movement,” which “brought substantial attention to the fight to curb corruption” (p. 68). Donors also became more explicit in their promotion of democracy and human rights in their foreign policy in the 1990s, with the result that aid was conditioned on performances in these fields by recipient governments (Carbone, 2017; Carey, 2007; Easterly & Williamson, 2011).

This governance shift, coupled with the shift in strategic aid allocations away from Cold War diplomacy and toward the war on terror and geopolitical interests in the Middle East, means that foreign aid allocation patterns in the 21st century could look substantially different than allocations made in the second half of the 20th century. The rhetoric of many aid donors certainly reflects change, although the evidence on actual donor behavior is inconclusive. It is therefore of interest to investigate whether old selectivity patterns persist in more recent years, using newer data.

It should be noted that poor aid selectivity does not always indicate that donors emphasize other objectives over development. Sometimes, donors exhibit what is called “lazy giving,” meaning that selectivity criteria are not carefully considered when allocating aid (Toft & de Soysa, 2021, p. 5). One source of lazy giving is that donors are slow to react to changes in recipient institutions and instead continue their earlier allocation patterns. Carey (2007) refers to this as “bureaucratic inertia” and finds that it represents a significant obstacle for good aid selectivity, at least as far as selectivity based on recipient governments’ respect for basic human rights are concerned: “[I]t seems unreasonable to assume that donors make their yearly allocations without considering whether and how much aid a country received in the preceding year. Bureaucratic inertia most likely limits the amount of change in donors’ aid commitments” (p. 448). Easterly and Williamson (2011) similarly find that “the increased share of aid going to corrupt countries is driven almost entirely by the increased corruption of the same aid recipients rather than by a shift from less corrupt to more corrupt countries” (p. 1941-1942), which suggests that donors are slow to react to increasing corruption among active recipients. However, poor aid selectivity should not be considered more acceptable if originating from lazy giving or inertia, rather than from commercial interests or diplomacy, as long as it results in less effectiveness, and possibly even harm in the recipient country.

Reverse causality comprises a possible issue in most analyses related to foreign aid. It could also be present in the relationship between aid selectivity and institutions: “The fact that countries with poorly developed institutions receive more aid (if they do) may mean that donors are trying to help build institutions, not that aid is bad for good governance” (Alesina & Weder, 2002, p. 1127; see also Charron, 2011; Jones & Tarp, 2016). Indeed, some believe that foreign aid can be used to improve institutions in the recipient country, including reducing corruption and human rights violations and increasing democratic accountability. Studies to investigate the effects of foreign aid on institutions, however, remain as inconclusive as those investigating the effects of aid on economic growth (see Charron, 2011; Isaksson & Kotsadam, 2018; Jones & Tarp, 2016; Knack, 2001; Moyo, 2009; Sachs, 2005; Tavares, 2003; Toft & de Soysa, 2021).

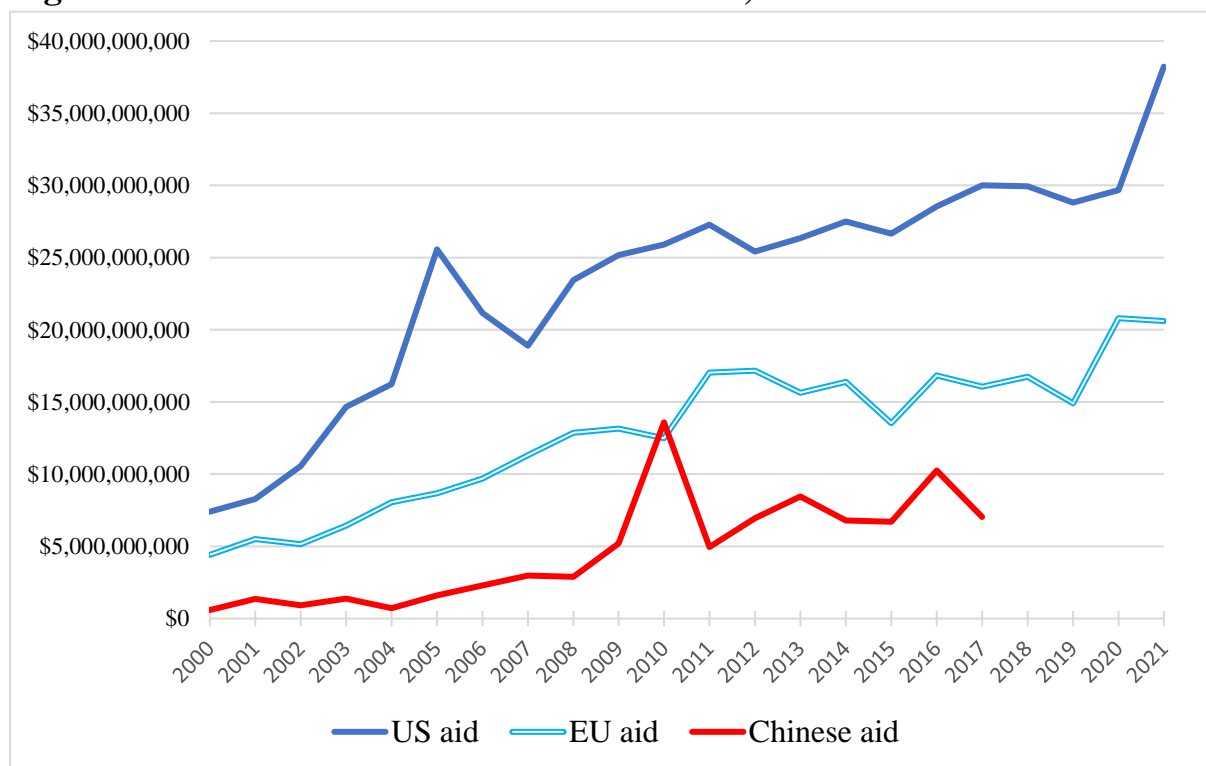
In the aid discourse, one region stands out. Africa, or more specifically sub-Saharan Africa, has a higher concentration of poverty than any other region (Moyo, 2009, p. 5-6; Sachs, 2005, p. 21-22). Of the 28 low-income countries in 2021, 24 are located in sub-Saharan Africa.¹⁰ Looking at it from another perspective, half of the 48 countries of sub-Saharan Africa are low-income countries today (World Bank, 2023a). A concentration of extreme poverty in sub-Saharan Africa is also visible 23 years ago (World Bank, 2023c). This concentration of poverty has been accompanied by a multitude of issues associated with development, including poor public health, disease outbreaks, political instability, armed conflict, and more (e.g., Easterly, 2007; Moyo, 2009; Sachs, 2005). The region also has many of the most corrupt and repressive autocratic governments in the world (Buono de Mesquita & Smith, 2012, p. 149; Lancaster, 2007, p. 50). Easterly (2007) describes Africa as a “region impoverished by warlords, civil conflict, unending war, corruption, and brutal tyrants” (p. 307). Due to the high levels of poverty in Africa, discussions and research related to foreign aid demonstrate a unique interest in this continent: “Africa is the most important single region in examining the impact of aid, because it is far more aid dependent than other regions” (Knack, 2001, p. 322; see also Easterly, 2007, p. 39). As an example, both the US and the EU directed around 40% of their gross bilateral ODA to Africa in 2020 (OECD, 2022a, 2022d). Africa is also a primary recipient of China, with the region receiving more than half of all Chinese aid since 2000 (Dreher et al., 2022, p. 114-117).

¹⁰ Outside of this region, the only four low-income countries as of 2021 are Afghanistan, North Korea, Syria, and Yemen.

2.4. The Donors

This section introduces the reader to the three donors of interest in this thesis: the United States, the European Union, and China. The aim is to provide a short overview of their characteristics as aid donors and show differences which may be of relevance to their aid selectivity. As Lancaster (2007) highlights, a donor's aid allocations cannot be explained without an understanding of both the donor's domestic political environment and relevant external factors (p. 4). For illustrative purposes, Figure 1 demonstrates the total net bilateral aid disbursements from the three donors annually since 2000, measured in current US\$.

Figure 1: Total net bilateral aid disbursements, 2000-2021.



All disbursements measured in current US\$. Data on aid from the US and the EU is obtained from the OECD-DAC's online database (see OECD, 2023a). It measures total ODA to all developing countries and regions. Data on Chinese aid is based on AidData's Global Chinese Development Finance Dataset, Version 2.0 (see Custer et al., 2021; Dreher et al., 2022). Total Chinese ODA¹¹ is summarized by year to obtain the aggregates displayed in Figure 1. Note that the aggregates of Chinese aid volumes are only estimates and likely to be undervalued due to missing data.

¹¹ Only aid transactions coded ODA-like and recommended for aggregates are included in these calculations, more on this in Chapter 3.

2.4.1. The United States

The United States is the largest bilateral aid donor in the world (OECD, 2022d). In contrast to many other high-income countries, however, the US provides moderate levels of aid relative to its GNI. From 2000 and 2021, ODA from the US ranged from 0.10 to 0.23 percent of GNI, way below the donor target of 0.7 percent¹², and also much lower than a majority of other DAC members (Bueno de Mesquita & Smith, 2012, p. 175-176; OECD, 2022b, p. 1-2). Nonetheless, the size of its population and economy compared to other high-income countries still makes the US the largest aid donor in absolute terms. The magnitude of its foreign aid program is illustrated in Figure 1: total bilateral US aid has been above US\$ 10 billion every year since 2002, reaching US\$ 30 billion in the most recent years (OECD, 2023a).

In addition to being the largest provider of aid globally, the US played a crucial role in establishing foreign aid as an internationally accepted policy norm for wealthy countries (Lancaster, 2007). Foreign aid as we know it today originated with the previously mentioned Marshall Plan, which was an American aid program targeting war-torn Europe in the late 1940s. The US escalated its aid program during the Cold War with increasing volumes and geographical reach, something which was soon imitated by both allies and adversaries. By the end of the Cold War, the concept of foreign aid was established as an internationally recognized norm for wealthy countries (Lancaster, 2007).

Due to the country's immense foreign aid program, as well as its superpower status stemming from its political, military, economic, and cultural importance on the international scene in general (McCormick & Olsen, 2013, p. 187), US foreign aid has been of great focus in the aid literature. Lancaster (2007) observes that US aid has been influenced by the role "as great power and leader of the Western alliance" (p. 98). Possibly reflecting this, the country's aid selectivity is often characterized as strongly influenced by US foreign policy interests and strategic considerations, leading to concerns that objectives related to diplomacy are advanced at the expense of development goals. Given the negative consequences this is likely to have on the effectiveness of aid and on development in general, it has spurred criticism against the US and its aid selectivity (e.g., Alesina & Weder, 2002; Bueno de Mesquita & Smith, 2012; Easterly & Williamson, 2011; Fleck & Kilby, 2010).

¹² Donor countries have since 1970 agreed to a target of dedicating 0.7 % of their GNI to aid. However, this target has only exceptionally been reached by some donors (Lancaster, 2007, p. 12-13, 37; OECD, 2022b, 2023c; Sachs, 2005).

During the Cold War, Washington clearly allocated aid on the basis of strategic considerations, using the funds to reward governments that picked the “right” side in the Cold War, irrespective of their domestic governance performance. There are numerous examples of the US financing corrupt and violent dictators as a result of its Cold War strategy (e.g., Bueno de Mesquita & Smith, 2012; Lancaster, 2007; Moyo, 2009). Fleck and Kilby (2010) write that “[a]nti-communist dictators such as Suharto in Indonesia, Marcos in the Philippines, and Mobutu in Zaire could count on substantial U.S. funding despite widespread corruption, human rights abuses, and often counterproductive domestic policies” (p. 185). These names may sound familiar from the previous list of notorious kleptocrats (see section 2.2.1.). At the same time, it should be noted that the US was not unique in this regard. Its Western allies often followed American leadership in their emerging aid programs, whereas the Soviet Union and China were prepared to aid any government whose ideology aligned with communism, irrespective of widespread corruption and repression (Dreher et al., 2022; Easterly, 2007; Lancaster, 2007; McCormick & Olsen, 2013).

The motivations stemming from the Cold War started to subside in the late 1980s as the war came to an end. Some saw this as marking a shift in US aid selectivity toward the right criteria. It certainly made a significant impact on the aid selectivity of major donors (e.g., Jones & Tarp, 2016; Lancaster, 2007). Meanwhile, other strategic considerations emerged in the post-Cold War period that the US decided to address with foreign aid, often in combination with other foreign policy tools. One consideration that would strongly impact US aid allocations in the post-Cold War period was the desire for stability in the Middle East, a region with important oil reserves combined with political unrest and multiple armed conflicts (Alesina & Weder, 2002; Bueno de Mesquita & Smith, 2012, p. 238; Lancaster, 2007). This consideration explains why US aid, together with other forms of US foreign policy involvements, has been “vastly concentrated in the Middle East” (Alesina & Dollar, 2000, p. 38). The most prominent examples are Egypt and Israel. Lancaster (2007) explains that the US provided around a quarter of its bilateral aid budget annually to these two recipients since the 1970s until the end of the century. The aid was given as incentives to comply with the Egypt-Israel peace agreement, given the diplomatic importance that these two governments had to the US (p. 78-79). Alesina and Weder (2002) describe Egypt and Israel as outliers in their analysis due to the disproportionately large amounts of aid they

received from the US in the second half of the 20th century (p. 1131; see also de Soysa & Midford, 2012).¹³

Another impactful consideration for US aid emerged in the beginning of the 21st century, following the 2001 terrorist attack against the US. The ensuing war on terror has been backed by increased foreign aid, both as a tool to secure allies against global terrorism (Bueno de Mesquita & Smith, 2012, p. 165; Fleck & Kilby, 2010) and to address the causes of terrorism. According to Lancaster (2007), “[t]he attack was interpreted by many in the media and among the public as a consequence of the poverty and gross inequalities in the world” (p. 59). In addition, countries ravaged by war and poverty are often well-suited as safe havens for terrorists. As a result, the US increased aid to very impoverished countries and countries affected by civil war (Bueno de Mesquita & Smith, 2012; Lancaster, 2007; Moyo, 2009). In 2020, for example, the US provided around 45% of gross bilateral ODA to fragile contexts,¹⁴ including humanitarian aid and aid aimed at conflict prevention and peace (OECD, 2022d). However, this could also reflect a trend in US aid in the 21st century toward higher public support for the development purposes of aid (Lancaster, 2007, p. 93). Moreover, it could reflect a reconciliation between US interests and foreign development, as it reminded the public “of the potential for problems abroad to harm US security at home” (Lancaster, 2007, p. 92).

Beyond the diplomatic motivations behind US aid, the US has a “foreign policy agenda of promoting democracy and human rights” (de Soysa & Midford, 2012, p. 1; see also Bueno de Mesquita & Smith, 2012, p. 280). According to Lancaster (2007), human rights was elevated as a central part of the aid debate during Carter’s presidency, at which time it was decided that the allocation of US aid “would be conditioned on the human rights performance of recipient countries” (p. 79). Succeeding administrations followed up on Carter’s initiative of increased selectivity based on recipient governance, expanding US conditionality to democracy:

The Bush [Senior] administration began to allocate aid funds [to promote democracy], for example to finance elections [...] and improve governance. [...] President Clinton, echoing scholarly discourse of the time, declared that democracy strengthened

¹³ The importance of these two countries has evidently subsided in the 21st century. The data, which is presented in Chapter 3, demonstrates that US aid to Egypt was far below the average among US recipients in per capita terms in the 2000-2021 period. Israel was removed from the DAC list of ODA recipients after 2004 (World Bank, 2023b).

¹⁴ More on fragile contexts can be found at <http://www3.compareyourcountry.org/states-of-fragility/overview/0/> (last accessed April 27 2023).

international security because democratic governments were believed disinclined to war against one another. For the development community, it was increasingly asserted that democracy was a precondition for development – where governments were not transparent and accountable to their population, corruption, mismanagement, repression, and conflict could impede economic and social progress. (Lancaster, 2007, p. 84)

Lancaster (2007) remarks, however, that the actual implementation of conditionality related to democracy and human rights would continue to depend on the strategic importance of countries (p. 79). This supports realist accounts that “the foreign policy output of great powers, particularly the United States, often derive from strategic interests and self-serving objectives” that are at odds with its rhetoric (de Soysa & Midford, 2012, p. 2).

As for empirical analyses, several studies conclude that the aid selectivity of the US is poor. Easterly and Williamson (2011) conduct a comparison of the donor practices of 42 bilateral and multilateral aid agencies in 2008, one component of which is aid selectivity. They find the US to perform poorly on selectivity, both regarding recipient needs and recipient government (operationalized as corruption and democracy), giving it a selectivity score of 12 out of 100. They reason that the aid allocations of the US are “perhaps reflecting the primacy of foreign policy objectives rather than aid selectivity in a superpower” (Easterly & Williamson, 2011, p. 1938). Alesina and Weder (2002) similarly find that “corruption is positively correlated with aid received from the United States” and argue that the “reason for this correlation is probably that the United States pays little attention to corruption, and the other motivations for aid-giving end up favoring more corrupt governments” (p. 1127). However, they also find that US aid “favors democracies over dictatorships,” speculating that “the United States may be more interested in democratic institutions per se relative to the quality of government” (Alesina & Weder, 2002, p. 1127, 1135). This finding is supported in Alesina and Dollar (2000). As for the association between US aid and human rights, the literature provides very conflicting evidence (Carey, 2007, p. 448).

2.4.2. The European Union

EU aid, which in this paper refers to aid provided by the institutions of the European Union, has received surprisingly little attention in the literature on aid selectivity, despite the international organization having developed a significant foreign aid program. A majority of

the member countries of the DAC (currently 20 out of 30)¹⁵ are EU member states, including some of the most generous aid donors, both in relative and absolute terms. In 2021, four of the five DAC members that reached the ODA target of 0.7 percent of GNI were also members of the EU: Denmark, Germany, Luxembourg, and Sweden. Among the five largest DAC donor countries in absolute terms in 2021, we find two EU member states, France and Germany, and one recent member state, the UK¹⁶ (OECD, 2022b, p. 1). In fact, total ODA from the EU and its member states constitutes around 43% of all aid globally (European Commission, 2022). However, only a portion of total ODA from the EU are provided through the EU institutions, as most of the aid is disbursed by member states bilaterally or through other multilateral institutions (Carbone, 2017). According to data from the European Commission (2023), on average 22% of total ODA from the EU was provided through the EU institutions annually in the period of 2007 to 2021, ranging from 18.7% to 29.5% for specific years.¹⁷ This is still a significant share of the very substantial volumes of total aid coming from the EU, making the EU institutions one of the largest “bilateral” aid donors in the 21st century. As seen in Figure 1, the EU’s foreign aid disbursements reached \$10 billion in 2006, and has remained above this level every year since, surpassing \$20 billion in 2020 and 2021 (OECD, 2023a).

Since the EU consists of some of the world’s most generous aid donors, the aid allocations of individual member states have been subjected to numerous quantitative analyses. While these analyses reflect the bilateral aid selectivity of individual EU countries, they might give some clue as to what considerations are important for European aid allocations, and thus for EU aid selectivity. The Nordic/Scandinavian donors, due to consistently high ODA levels relative to GNI, tend to be of high interest in these studies. Alesina and Weder (2002) find that Scandinavian donors demonstrate good aid selectivity relative to many other DAC donors, as their ODA allocations avoid some of the most corrupt governments. Similar results are found by Alesina and Dollar (2000): “Certain donors (notably the Nordic countries) respond more to the ‘correct’ incentives, namely income levels, good institutions of the receiving countries, and openness” (p. 33). Meanwhile,

¹⁵ Of course, as previously mentioned, the EU itself is also a DAC member.

¹⁶ The UK’s membership in the EU ended in January 2020, and along with it, its contributions to the EU’s aid program (European Commission, 2023). The UK was nonetheless an EU member state during most of the period of analysis for the models in this paper, which means its aid contributions to the EU are included in the data until 2020.

¹⁷ These numbers are calculated as aid from the EU Institutions divided by total EU aid for each year, based on data from the European Commission’s *EU Aid Explorer* (see European Commission, 2023).

Easterly and Williamson (2011) find that Scandinavian countries score below average on overall donor practices, although these countries vary significantly in terms of aid selectivity.

Scholars have also shown interest in the aid allocations of the former colonial powers of Europe. A large part of the developing world today has a history of being colonized by European powers at some point in history, which most likely contributed to their poverty and poor institutions (Acemoglu & Robinson, 2023; Acemoglu et al., 2014; Easterly, 2007, p. 249-250), and which may influence the patterns of aid disbursements from European donors. For instance, Alesina and Dollar (2000) find that France, the UK, and Portugal all allocate a majority of their bilateral aid to their former colonies, whereas Spain, another former colonial power, only provides a small percentage of bilateral aid to its former colonies. However, this may to some extent reflect more than simply a preference of former colonies per se. For example, the UK and France both colonized large parts of Africa, which is where poverty is most concentrated today, while most of Spain's former colonies are in Latin America, a region with much higher levels of development in recent years. Additionally, European colonization (particularly that of the UK) was so expansive that former colonies make up a significant number of countries around the world, especially among recipient countries. This makes former colonies natural targets of large aid funds. This is not to say that the colonial ties do not play a diplomatic role in aid allocations (Alesina & Dollar, 2000; Bauhr et al., 2013; Lancaster, 2007). As Lancaster (2007) explains, France and the UK initially considered their obligations toward their colonial territories to cease at the moment of independence, but this attitude changed toward the end of the 1950s, with a subsequent increase in aid toward their newly independent former colonies (p. 29). Along the same lines, the early aid disbursements from the European Community (the predecessor to the EU), starting in the late 1950s, were mostly directed at the former colonies of its founding member states (Carbone, 2017; Lancaster, 2007, p. 42).

Translating the aid selectivity of these individual bilateral donors to that of the EU institutions brings us to an important difference between EU aid and aid from the US and China: its multilateral quality. Governments from as many as 28 member states¹⁸ come together in the EU to reach decisions on aid allocations, which means that the foreign policy interests of any single donor, whether relating to diplomacy or to commercial interests, are severely reduced (Bauhr et al., 2013; Carbone, 2017; Saltnes, 2019). Among the 28 members

¹⁸ During the period of analysis (2000-2021), the number of EU member states ranged from 15 before 2004, to 28 after the accession of Croatia in 2013. It is currently at 27 member states, after the withdrawal of the UK in 2020.

are countries of various population size, economic development, culture, and political institutions. The EU also includes some major former colonial powers, as already addressed, as well as countries without any colonial history. This plurality of governments and their various aid motivations could influence decisions on aid allocations in a very different way than with a single government, as is the case for the US and China. This also relates to the literature on the differences between bilateral and multilateral aid selectivity. Although there is no consensus in this field, there is evidence suggesting that a multilateral aid donor such as the EU could be more responsive to the selectivity criteria we are interested in here.

On the international stage, the EU “portrays itself as a champion of the interests of the developing world and a promoter of various norms,” including “peace, democracy, human rights, sustainable development, and regional integration” (Carbone, 2017, p. 310-311). Manners (2006, 2012) argues that the EU does have a set of shared values and principles which distinguishes this group of countries from other high-income democratic countries, and which it promotes in different aspects of its foreign policies, including in its development policies. Both the EU and its member states have emphasized the promotion of its values, in particular human rights and democracy, in their foreign aid allocations. This became even more explicit since the end of the Cold War (Broberg & Sano, 2018; Carbone, 2017, p. 298; Carey, 2007; Manners, 2006). Carey (2007) observes that “the promotion of human rights is listed as one of the main priorities of EU development policy” (p. 451). The EU has also signed a set of “comprehensive anti-corruption initiatives” related to its foreign aid policies (Charron, 2011, p. 71). This largely speaks in favor of the EU’s aid selectivity compared to that of the US. In fact, the EU is often contrasted to the US on the international scene, as a “normative power” compared to the “realist superpower” of the US, amplified by the strong and active military presence of the US around the world and the absence of a united military force of the EU (Carbone, 2017; Manners, 2012; McCormick & Olsen, 2013, p. 186-187). Indeed, Carbone claims that reforms in the EU’s aid policies in the early 2000s represented “an attempt to differentiate the EU’s approach from that of other actors in international development, most notably the Bretton Woods institutions and the USA [...] and increasingly the emerging powers, specifically China” (Carbone, 2017, p. 307).

Nonetheless, the EU as a donor is not exempt from criticism. Easterly and Williamson (2011) observe that the European Commission’s aid agency has a “diffuse ownership and [...] a remarkably high overhead cost ratio” (p. 1935). Furthermore, despite the multilateral nature and normative power of the EU, we cannot exclude the existence of strategic aid allocations from this donor. Carbone (2017) argues that the distinctions between the EU’s development

objectives and its political objectives have become increasingly blurred, especially in recent years (p. 312). One indication of the EU's strategic aid selectivity is evident in its primary recipients. Among the top 10 recipients of EU aid in 2020 in absolute terms, we see a dominance of countries in Eastern Europe and Northern Africa: in other words, along the borders of the EU. The top 5 recipients that year were Ukraine, Turkey, Morocco, Egypt, and Georgia, while both Tunisia and Serbia were in the top 10, showing that "[i]n line with its policy priorities, its top 10 recipients are mainly in its Eastern and Southern neighbourhood" (OECD, 2022a).¹⁹ This resembles the concentration of EU aid allocations toward post-communist countries in Central and Eastern Europe in the 1990s, several of which eventually became member states (Carbone, 2017, p. 299; Lancaster, 2007, p. 45). The EU's interest in neighbouring countries and the possibility of enlargement is thus not a new trend in its foreign development policy. The EU and its member states have meanwhile faced more serious accusations, like using their development policy as an instrument to secure natural resources and political influence in various parts of the developing world, particularly in former colonies of EU countries (see Carbone, 2017; Lancaster, 2007). Hence, Carbone (2017) asserts that the EU's "commitment to democracy and human rights proved more rhetorical than substantive, confirming the fact that the EU's lofty aspirations do not always match the reality" (p. 301).

Among those who have analyzed EU aid selectivity empirically, Easterly and Williamson (2011) find that the European Commission performs poorly when it comes to recipient need, but considerably better at selecting free and noncorrupt countries as recipients. The European Commission actually obtains one of the better selectivity scores among the aid agencies in the analysis, with a score of 83. As a reminder, the US received a selectivity score of just 12 (Easterly & Williamson, 2011). Meanwhile, Carey (2007) assesses the association between human rights and aid from the four largest European donors (the European Commission, France, Germany, and the UK), and finds that human rights do not have the impact on European aid allocations that the rhetoric of these donors implies. Still, the results indicate that the European Commission improves its aid selectivity related to human rights in the post-Cold War period (p. 460). Francisco et al. (2021), meanwhile, find that the EU allocates aid similarly to multilateral donors such as the UN and the World Bank, "in line with the principle of a relatively wide distribution in diversified geographical areas, with a

¹⁹ For reference, none of these seven countries were in the top 10 recipients of the United States in 2020 (see OECD, 2022c).

special focus on the lowest-income countries, as well as being influenced by certain structural links between donors and recipients” (p. 194).

2.4.3. *China*

China is associated with one of the most significant development achievements in modern history, namely its own economic development. Being “one of the poorest countries in the world” by 1949 (Acemoglu & Robinson, 2013, p. 234), it has sustained very impressive economic growth since the late 1970s, lifting millions of its citizens out of extreme poverty and becoming an important economic player on the international scene (e.g., Acemoglu & Robinson, 2013; Bueno de Mesquita & Smith, 2012, p. 158; Easterly, 2007; Passé-Smith, 2014b; Roach, 2022; Sachs, 2005; Seligson, 2014, p. 2). The country now boasts a sizeable foreign aid program globally, despite the fact that it was a net recipient of aid until as recently as around 2005 (Dreher et al., 2022, p. 3) and still continues to receive aid from other donors, including a total of \$750 million from the United States and \$1.75 billion from the EU institutions between 2000 and 2021 (World Bank, 2023b).²⁰ Of course, China is still a middle-income country, officially upper-middle-income since 2010, with a GDP per capita far below that of the US and Western Europe, and roughly equal with the poorest EU member states, Romania and Bulgaria, as of 2021 (Acemoglu & Robinson, 2013, p. 441; World Bank, 2023b, 2023c). Reflecting this, Chinese ODA also remains modest as a percentage of its GNI. Between 2000 and 2014, Chinese aid ranged from 0.04 to 0.13 percent of GNI, which is way below that of most EU member states, and even below that of the US (Dreher et al., 2022, p. 107-108; OECD, 2022, p. 2). However, in a similar fashion to the US, the mere size of its economy makes even this modest percentage significant in absolute terms.

One of the most notable aspects about Chinese aid is that China continues to be among the least transparent global aid donors. In 2022, it ranked third worst in aid transparency among 50 major donors, only outperforming Turkey and the United Arab Emirates. China obtained an aid transparency score of 5 out of 100, which is still an improvement from previous years, such as 2.2 in 2013 and 2014, and 1.2 in 2018 (Publish What You Fund, 2022, 2023). According to the 2022 Publish What You Fund Report, China is “not publishing standardised data” and is “making limited information available” online (Publish What You Fund, 2022, p. 13). Dreher et al. (2022) similarly note that China “does

²⁰ Net bilateral aid, measured in current US\$.

not disclose comprehensive or detailed information about its aid projects. Nor does it publish a country-by-country breakdown of its foreign aid activities. It considers its foreign aid program a ‘state secret’” (p. 8). Isaksson and Kotsadam (2018) add: “Unlike the OECD-DAC donors, the Chinese government does not release detailed, project-level financial information about its foreign aid activities. This lack of transparency has made evaluation of Chinese aid notoriously difficult” and “the subject of much speculation” (p. 147). Easterly and Williamson’s (2011) donor comparison, which highlights the importance of aid transparency, excludes Chinese aid from analysis because of “extremely limited data” from said donor (p. 1932). China is excluded from the analysis of the aid allocations of 51 bilateral and multilateral donors by Francisco et al. (2021) for the same reason.²¹

Partly despite of and partly because of this secrecy and the consequent lack of empirical assessment, Chinese development efforts have received much attention, often critical:

With the explosion of Chinese [aid] funds, concerns over its donor practices have followed. Critics claim that Beijing uses their development finance to create alliances with the leaders of developing countries, to secure commercial advantages for their domestic firms, and to prop up corrupt and undemocratic regimes in order to gain access to their natural resource endowments. (Isaksson & Kotsadam, 2018, p. 146)

Beijing’s critics and rivals characterize China as a rogue actor that uses its largesse for nefarious purposes: to purchase the loyalty of ruling elites in corrupt and authoritarian regimes, to exploit natural resources without concern for environmental consequences, and to create unfair commercial advantages for Chinese firms in overseas markets. (Dreher et al., 2022, p. 5)

These critical assessments have come, not only from journalists and scholars, but from other governments, including European and American governments, as well as from multilateral development actors (see Dreher et al., 2022).

A persistent fear concerning the rise of China as a global development actor is “the idea that Chinese aid favors corrupt and authoritarian regimes and that Chinese aid makes it easier for these governments to delay much-needed governance reforms, thereby prolonging the longevity of such regimes” (Dreher et al., 2022, p. 140). This echoes scholars (e.g., Bueno de Mesquita and Smith, 2012; Easterly, 2007) who criticize foreign aid for the harm it causes

²¹ Of course, the Chinese government’s extraordinary censorship and control of information in general is well-known (e.g., Acemoglu & Robinson, 2013, p. 440; Roach, 2022).

when allocated to corrupt and autocratic governments. It also reflects one of the broader fears regarding China's rising power on the international scene, namely that it is expected to be destabilizing for democracy and other institutions globally, and especially in those countries where China is actively engaged, for instance through development projects (de Soysa & Midford, 2012; Dreher et al., 2022, p. 142-143; Isaksson & Kotsadam, 2018). Unlike most major aid donors, including those of the DAC, China is not a democracy, and its government is characterized by higher corruption levels and a poor human rights record (Acemoglu & Robinson, 2013; Moyo, 2009, p. 107; Roach, 2022; Sachs, 2005, p. 166-168). Since these aspects of good governance are not considered domestic goals by the Chinese government, there is little reason to expect Beijing to promote them abroad.

Additionally, Chinese foreign policy is strongly guided by the principle of non-interference, which informs Beijing to stay out of the internal affairs of other governments (de Soysa & Midford, 2012; Dreher et al., 2022). On the one hand, this can be considered “a convenient rationale for economic involvement in undemocratic and corrupt countries” (Isaksson & Kotsadam, 2018, p. 148; see also Dreher et al., 2022, p. 140-141). On the other hand, it is possible that China's principle of non-interference prevents it from more aggressively pursuing foreign policies which cause harm in recipient countries and oppose Western policy interests. In the cautionary words of de Soysa and Midford (2012): “Western nations will likely come to rue the day they convince China to abandon its policy of non-interference, since this may prompt China to begin favoring authoritarian regimes over democracies, something China does not do today” (p. 11).

Another source of criticism is that China uses aid for commercial purposes. For instance, China's development engagement in Africa is seen as a strategy to secure raw materials that the country needs to sustain its huge population and economy (Dreher et al., 2022, p. 123; Moyo, 2009, p. 105-106). If this is the case, China could end up supporting some of the worst governments in the region, since the resource curse implies that resource-rich countries have poorer institutions and governance. As an example, Moyo (2009) describes how “China's insatiable appetite for oil has led it into partnership with [Sudan] where in the region of Darfur more than 200,000 people have been killed” (p. 108). China is also believed to use development projects abroad to profit Chinese firms, including by tying aid to the purchase of Chinese goods and services in the implementation of development projects (Dreher et al., 2018, 2022).

China also receives criticism due to its opposition to the Bretton Woods institutions (the IMF and the World Bank) and its rivalry with Western development efforts. According to

Dreher et al. (2022), China grew “increasingly frustrated with the policies, decision-making procedures, and voting shares of the Bretton Woods institutions” and has therefore “worked with other emerging powers to build an alternative set of international financial institutions” (p. 59). In a similar way, China has refused to cooperate and coordinate its development efforts with the OECD-DAC donors (p. 64-65). This has led some to believe that Chinese aid undermines multilateral and DAC aid conditionality by offering an alternative source of external funds for rouge governments facing sanctions from the West (see de Soysa & Midford, 2012; Dreher et al., 2018, 2022, p. 141-142).

Like other donors, China is also known to have used aid for diplomatic purposes. For example, during the Cold War:

Chinese aid was also deployed opportunistically to create diplomatic opportunities and to compete for influence in its various mini-cold wars – with the Soviets, with Taiwan for recognition as the legitimate representative of the Chinese people, including occupying the Chinese seat in the UN General Assembly and on the Security Council (which it achieved in 1971), and, of course, in competition with the United States for influence in Asia and elsewhere. (Lancaster, 2007, p. 32)

Dreher et al. (2022) describe in more detail how China’s former president Mao used aid as an instrument to compete with the Taiwan-based Republic of China (ROC) for international recognition: “When the leaders of foreign governments abandoned diplomatic recognition of the ROC and established diplomatic ties with the [People’s Republic of China], he rewarded them with lavish spending on stadiums, theaters, museums, presidential palaces, and parliamentary buildings” (p. 46). Beijing similarly allocated aid diplomatically in the aftermath of the Tiananmen Square massacre in 1989 to minimize international criticism and secure support from governments outside of the West (Dreher et al., 2022, p. 52-53). However, as Dreher et al. (2022) remind us, and consistent with previous studies (e.g., Alesina & Dollar, 2000; Alesina & Weder, 2002; see also Bueno de Mesquita & Smith, 2012; Lancaster, 2007), traditional donors also use aid diplomatically to advance their own policy interests.

Meanwhile, where some see a threat, others see a competitive alternative to the traditional aid donors. The latter “view China as a flexible and demand-driven financier that is willing to bankroll and build big-ticket, high-impact projects” (Dreher et al., 2022, p. 5; see also p. 291-292) and they “praise China for its responsiveness to recipient needs and its ability to get things done in a timely manner without placing an extensive administrative

burden on strained public bureaucracies in the developing world” (Isaksson & Kotsadam, 2018, p. 146). Carbone (2017) notes that “China has been praised by several African countries for its stress on mutual interests and the principle of non-interference, and increasingly for its attempt to project itself as a ‘responsible global power’” (p. 311). Moyo (2009) also praises China as a development actor, primarily for its massive commercial investments in Africa, asserting that “no country has made as big an impact on the political, economic and social fabric of Africa as China has since the turn of the millennium” (p. 103).

China, on its part, embraces the position as a champion of the “Global South” and characterizes its global development efforts as “South-South cooperation,” where China’s first-hand experience with poverty and development, and not least as an aid recipient itself, gives it an advantage vis-à-vis traditional donors (Dreher et al., 2022). In line with the idea of South-South cooperation, China’s development efforts are informed by the principle of mutual benefits (Dreher et al., 2022, p. 56; OECD, 2022c). This principle is used to justify the use of Chinese ODA to benefit both the recipient and China as the donor, as it is still a middle-income country on its own path of development. This may also partially explain why Chinese aid allocations could be strongly influenced by commercial purposes, like securing natural resources or benefitting Chinese firms. Moyo’s (2009) assessment suggests that mutual benefits can be achieved, noting that while China unquestionably is in Africa to secure natural resources, its consequent investments and activities in the region has benefitted “the average African” in the process (p. 109-111).

As previously noted, China is notoriously secretive concerning its aid allocations, which means that much of its assessments, whether critical or approving, remains highly speculative. Meanwhile, a team of researchers in collaboration with AidData has undertaken comprehensive efforts to gather data on Chinese development financing and assess it empirically (e.g., Custer et al., 2021; Dreher et al., 2018, 2022). One of their main findings from this data is China’s transition from benefactor to banker in the 21st century, meaning that an increasing share of the country’s overseas spending is in the form of debt-financing,²² rather than aid-financing (Dreher et al., 2022, p. 4-5). They explain that China as a development actor is poorly understood because it is usually assessed without distinguishing between these two forms of financing, yet “China’s aid-financed projects and its debt-financed projects are guided by fundamentally different allocation criteria” (Dreher et al.,

²² The Chinese state relies more heavily on debt-financing (other financial flows, or OOF) in its overseas spending relative to OECD-DAC countries. This is because China’s economy is state-led, meaning that the Chinese state takes on some of the tasks that usually go to the private sector in OECD-DAC countries (Dreher et al., 2022, p. 5-7).

2022, p. 5, 118). They find, despite common perceptions, that China “allocates aid in ways that closely resemble the practices of Western donors” and that “Beijing is no more likely than major Western donors to provide aid to corrupt or authoritarian regimes” (Dreher et al., 2022, p. 128; see also Dreher et al., 2018). Additionally, they find “no evidence that China provides more aid [...] to countries abundant in natural resources” (Dreher et al., 2022, p. 140).

2.5. Hypotheses

As seen from the literature, several controversies persist concerning foreign aid, its effectiveness, and the selectivity patterns of major donors. Empirical studies exist of the aid allocations of the US, the EU, and China, but these studies have not always provided consistent results. More importantly, these three donors have not been analyzed together before, with the same data and methodology, which means that these various results cannot be compared directly. This thesis makes an important contribution to the literature in this regard.

The thesis also contributes to the literature by trying to fill in some limitations from previous studies in the field. Influential studies such as Alesina & Dollar (2000) or Alesina & Weder (2002) are becoming increasingly outdated and require new analyses to establish whether their characterizations of US aid selectivity still hold true in the 21st century. This reassessment is also relevant since the political considerations of US aid have undergone major shifts since the Cold War. The ratings of best donor practices by Easterly and Williamson (2011), which are one of few quantitative studies to include both the US and the EU, is also becoming outdated. In addition, it relies on cross-sectional data for a single year, 2008, rather than data over time. The analysis of Chinese aid selectivity by Dreher et al. (2022) uses the previous version of AidData’s dataset on Chinese development financing (Version 1.0), which has less complete data and only covers the period 2000-2014.

Based on the literature review and previous studies, some hypotheses are formulated and presented here. It should be noted that some of these hypotheses are tenuous and partly based on contradicting observations and evidence with limited application to the 21st century. Nonetheless, they are formulated for the sake of convenience.

Regarding the US, the literature suggests that diplomatic considerations often overshadow the developmental considerations of its foreign aid allocations. This has led to

allocations in the past which contradict the selectivity rhetoric of the US. I therefore formulate the following hypotheses for the aid selectivity of the US:

H1: The US gives more aid to more corrupt governments.

H2: The US gives more aid to more repressive governments.

For the EU, critical accounts of diplomacy and failed aspirations are outweighed by its feature as a multilateral donor, its shared values, minimal strategic considerations, and previous studies which find a positive association between good governance indicators and EU aid allocations. In line with this, I hypothesize for the EU:

H3: The EU gives less aid to more corrupt governments.

H4: The EU gives less aid to more repressive governments.

When it comes to China, there is a large contrast between common perceptions, which are predominantly negative, and empirical evidence, which indicates close similarities to traditional donors. Based on findings by Dreher et al. (2018, 2022) and the principle of non-interference, I produce the following hypotheses for China:

H5: There is no systematic association between Chinese aid and corruption levels in the recipient government.

H6: There is no systematic association between Chinese aid and repression levels in the recipient government.

These hypotheses will be carefully assessed quantitatively, following the presentation of data and methodology in Chapter 3.

3. Data and Methodology

3.1. Data

3.1.1. Dependent Variables

The dependent variable is a measure of bilateral foreign aid flows from the US, the EU, and China. It measures how much ODA each recipient country received from each donor, each year. Data on foreign aid from the US and the EU is obtained from the World Bank's *World Development Indicators*, and measures "net disbursements of official development assistance (ODA) or official aid" in current US\$ (World Bank, 2023b). The World Bank has obtained the data from the OECD-DAC, which means that the data is consistent with the common definition of aid provided above. The data is limited to flows of bilateral character:

Data exclude DAC members' multilateral aid (contributions to the regular budgets of the multilateral institutions). However, projects executed by multilateral institutions or nongovernmental organizations on behalf of DAC members are classified as bilateral aid (since the donor country effectively controls the use of the funds) and are included in the data. (World Bank, 2023b)

Regarding the EU, the variable is described as measuring aid flows from the European Union institutions, and therefore effectively excludes bilateral ODA from individual EU member states. Some aid flows from the US and the EU are not categorized to a specific country, but instead to a region or the world total (World Bank, 2023b). Since the analysis is focused on recipient *countries* as the unit of interest, these unspecified flows are excluded.

Data on foreign aid from China is obtained from AidData's *Global Chinese Development Finance Dataset, Version 2.0* (Custer et al., 2021; Dreher et al., 2022). As previously explained, China does not disclose data on its aid disbursements, so there is no official data available on Chinese aid. AidData has therefore, "in collaboration with an international network of researchers," set out to construct a dataset on development finance from China and other emerging donors using a method they have developed called "Tracking Underreported Financial Flows (TUFF)" (Custer et al., 2021, p. 5). Version 2.0 of the dataset, which is the most recent at the time of writing (published September 2021), captures 13,427 Chinese aid- and debt-financed development projects across 165 countries between 2000 and 2017, with a total value of US\$ 843 billion (Dreher et al., 2022, p. 303). It is based on more

than 63,000 unique sources, both official and unofficial, in various languages, using a machine learning algorithm that assists in identifying potentially relevant sources among millions of search results (Custer et al., 2021). The dataset “is unique in that it covers every major world region, every low-income and middle-income country, all sectors, and all types of financial and in-kind transfers from government and state-owned institutions in China”²³ (Custer et al., 2021, p. 8). Furthermore, the dataset has been subjected to rigorous quality assurance (p. 73-76). AidData categorizes each observation, meaning development project, according to a *Flow Class*, which distinguishes the flows between aid-financed (“ODA-like”) and debt-financed (“OOF-like”). This distinction is crucial for the validity of analyses related to Chinese development efforts (Dreher et al., 2022). Importantly, AidData’s definition of and criteria for ODA is based on that of the OECD-DAC, which allows for a direct comparison of Chinese and non-Chinese ODA flows (Custer et al., 2021; Dreher et al., 2022, p. 26-28). A third category, “Vague,” captures observations that “cannot be reliably categorized as ODA-like or OOF-like because of insufficiently detailed information” (Custer et al., 2021, p. 20). Since this paper is interested in aid, as understood by the OECD-DAC, the models will only include observations categorized as “ODA-like” by AidData. Further, all observations coded “No” on the dataset’s variable *Recommended for Aggregates* are excluded, as recommended by AidData for “analysis that requires the aggregation of projects [...] including analysis of monetary amounts” (Custer et al., 2021, p. 15). This removes flows that might be duplicated elsewhere in the dataset to avoid “double-counting,” as well as “cancelled projects, suspended projects, and projects that never reached the formal approval (official commitment) stage” (p. 12-15). This leaves 7,567 observations classified as ODA and recommended for analysis, 4,281 of which have a transaction amount. Since the observations in this dataset are development projects, some recipients have multiple observations in the same year. In contrast, the data on US and EU aid only has one observation for each country-year unit. To make the Chinese aid data compatible with the data from the World Bank, all projects coded with the same country and year are summarized, thus obtaining country-year observations. Chinese aid flows categorized by region are excluded, as was done with the aid flows from the US and the EU, leaving only aid flows to recipient *countries*. Chinese aid flows are also measured in current US\$²⁴ (Custer et al., 2021).

²³ For a comparison of this dataset to other existing datasets on Chinese development financing, see Custer et al. (2021, p. 88).

²⁴ AidData uses the term “nominal” instead of “current” (Custer et al., 2021), but these are equivalent measures.

Regarding the analysis of aid data, special attention should be given to observations with missing data (see Arndt et al., 2010; Jones & Tarp, 2016). Neither data from the World Bank nor AidData contain observations coded as zero; country-year observations without reported flows are simply coded as missing. Yet, if observations coded as missing really represent the absence of aid disbursements, meaning that the donor decided to not give aid to that recipient that year, they conceal valuable information in terms of aid selectivity. Arndt et al. (2010) argue that “missing” values should be treated as zero rather than missing when it comes to aid data from the OECD-DAC, since “in most cases they represent unreported null values” rather than missing data per se (p. 11-12). However, the data do not distinguish between countries that are eligible for aid and not, i.e., whether a country not receiving aid is on the DAC list of ODA recipients that year. Coding all missing values as zero would then bias the data since it would also code zeros for countries that by definition are not eligible for aid, including high-income countries. Jones and Tarp (2016) account for this by excluding countries that receive no aid during their whole period of analysis, and treating missing as zero for the remaining countries (p. 270). This nonetheless fails to take into account that some countries are eligible for aid for only some years, as the DAC list of ODA recipients is periodically updated (see footnote 5). A special solution is applied in this analysis. If, in a given year, a country receives any aid – as defined by the OECD-DAC – from any of the 31 DAC donors, we can be sure that the country is on the DAC list of recipients that year, and the absence of aid flows from any of the three donors of interest should be interpreted as representing zero; i.e., these countries are eligible but were completely bypassed. On the other hand, if a country receives no aid from any of the DAC donors, we can assume that this in most cases means that the country was not on the list of recipients that year, especially since DAC donors are known to distribute aid across many recipients “to be involved everywhere” (Alesina & Dollar, 2000, p. 42; see also Easterly, 2007). Thus, using a measure of total bilateral aid flows from all DAC donors, missing observations from the US, the EU, and China are coded as zero if any aid flows from the DAC is reported to that country that year. They remain missing for those observations where no aid flows from any of the DAC donors are reported. The measure of total aid flows from DAC donors is obtained from the World Bank’s *World Development Indicators* (World Bank, 2023b), and is defined on equal terms as the measures of aid flows from the US and the EU.

Some exceptions are observed for the Chinese aid data. First, all observations after 2017 remain coded as missing, since the dataset has no data after 2017. Second, China as a

recipient is coded as missing and not zero, since China cannot allocate aid to itself.²⁵ Finally, 213 observations of Chinese aid remain coded as missing in the 2000-2017 period, despite reported aid flows from the DAC. These are observations where AidData's dataset indicates the presence of Chinese aid flows (ODA-like and recommended for aggregates), yet the coders were unable to identify a reliable monetary value for these flows (Custer et al., 2021). Hence, these observations actually represent missing data, and are treated as such.

As for US and EU aid data, the World Bank reports some observations with negative values. These are coded as zero, since it does not make sense to analyze negative aid flows.

After these transformations, the aid flows from all three donors are divided by the recipient country's total population for the same year, thus quantifying the "aid per capita" that a country receives. This takes into account that the size of aid allocations is influenced by recipient population size, and is done in other analyses (e.g., Alesina & Weder, 2002; Toft & de Soysa, 2021). Annual population data for recipient countries is obtained from the *World Development Indicators* (World Bank, 2023b). The aid variable is then logged²⁶ in order to account for extreme observations and a skewed distribution (see Mehmetoglu & Jakobsen, 2017, p. 329), also similar to other analyses (e.g., Alesina & Dollar, 2000; Alesina & Weder, 2002; Carey, 2007; Dreher et al., 2022; Toft & de Soysa, 2021).

Finally, some recipients are excluded from analysis due to missing data on other key variables. This primarily concerns small island states for which V-Dem data is missing (see Coppedge et al., 2023d). Table A1 in Appendix A provides a list of recipients excluded from analysis.

3.1.2. *Independent Variables*

The main independent variable measures corruption levels in recipient countries. Data on corruption is obtained from the V-Dem (Coppedge et al., 2023b), relying on their *political corruption index*, which measures the pervasiveness of political corruption in each recipient country (Coppedge et al., 2023a, p. 300). The variable is described as such:

²⁵ This only concerns Chinese aid. For US aid and EU aid, China is treated as a recipient throughout the whole analysis period.

²⁶ Prior to the log-transformation, US\$ 1 is added to each observation so as not to lose any observations or obtain negative numbers (Alesina & Dollar, 2000, p. 62; Dreher et al., 2022, p. 166; Mehmetoglu & Jakobsen, 2017, p. 329-330).

The corruption index includes measures of six distinct types of corruption that cover both different areas and levels of the polity realm, distinguishing between executive, legislative and judicial corruption. Within the executive realm, the measures also distinguish between corruption mostly pertaining to bribery and corruption due to embezzlement. Finally, they differentiate between corruption in the highest echelons of the executive at the level of the rulers/cabinet on the one hand, and in the public sector at large on the other. The measures thus tap into several distinguished types of corruption: both ‘petty’ and ‘grand’; both bribery and theft; both corruption aimed and [sic] influencing law making and that affecting implementation. (Coppedge et al., 2023a, p. 300-301)

The V-Dem’s corruption data has several advantages. To start with, the V-Dem has a wide coverage, providing corruption data on “all countries of the world [...] from 1900 to the present” (McMann et al., 2016, p. 1-2). Second, the data is valid “for analyses across countries and over time. This is a significant strength considering that these analyses are common in corruption research, yet many of the existing datasets have not been designed to undertake this type of work” (McMann et al., 2016, p. 2). In a related point, the data is precise enough “to capture an increase or decrease within a short time period, such as a year or two” (McMann et al., 2016, p. 23). Third, by including executive, legislative, and judicial corruption, the V-Dem’s dataset is more comprehensive than other datasets that only focus on specific sectors. This provides an advantage since “different countries are marred by corruption in different forms or sectors” (McMann et al., 2016, p. 9; see also Rose-Ackerman, 2008). Fourth, the V-Dem “produces original corruption data,” compared to many other corruption datasets who “aggregate information from different sources” (McMann et al., 2016, p. 13). Fifth, the data is expert-based, as opposed to several corruption datasets that are based on citizen perceptions of corruption. Perception-based corruption data “may suffer from bias due to incomplete information,” while “highly corrupt environments normalize corruption which could lead to the amount of perceived corruption being lower” (Isaksson & Kotsadam, 2018, p. 149). McMann et al. (2016) agree that data based on citizen perceptions is “noisy” and “systematically biased,” and argue that this type of data “will over-estimate corruption in consolidating democracies and under-estimate it in stable democracies” (p. 13-14). The V-Dem’s expert coders “have been recruited based on their academic or other credentials as field experts in the area for which they code, on their seriousness of purpose and impartiality” (McMann et al., 2016, p. 14). Additionally:

For V-Dem, at least five experts code each question-year observation for a total of more than 2000 experts assisting us in gathering the data. As a rule, at least three fifths of the experts coding a particular country either are nationals of or reside in the country in question. We thus tap into a local source of expertise and knowledge on corruption, avoiding the problem of far-removed experts and also the problem of citizens within limited experience and information. (McMann et al., 2016, p. 14)

The corruption index is measured at the interval level, ranging from 0 to 1, with a higher value indicating a higher pervasiveness of corruption (Coppedge et al., 2023a, p. 300-301). Given that the V-Dem's corruption data provides many advantages over other existing corruption datasets, using this dataset should lead to more valid and unbiased estimates than analyses relying on other datasets. This concerns most of the previous analyses investigating the relationship between corruption and foreign aid, relying on, for instance, the ICRG's political risk index (e.g., Alesina & Weder, 2002; Charron, 2011; Easterly & Williamson, 2011; Easterly, 2007; Knack, 2001; Tavares, 2003) or the WGI (e.g., Dreher et al., 2022).

A measure of basic human rights is used as an alternative main independent variable. It will be used to test whether the donors show the same aid selectivity patterns toward egregious human rights violators as they do toward corrupt governments. Data on respect for basic human rights is also obtained from the V-Dem (Coppedge et al., 2023b), using their *physical violence index*. The variable measures the extent to which physical integrity is respected, which they understand as “freedom from political killings and torture by the government” (Coppedge et al., 2023a, p. 297). The V-Dem's index is estimated as an average of two indicators, one measuring freedom from torture and one measuring freedom from political killings, and ranges from 0 to 1 at the interval level (Coppedge et al., 2023a, p. 297). The index is originally coded so that a higher score indicates more respect for physical integrity by the government, but is reversed for the sake of this analysis, meaning that a higher score indicates *less* respect for physical integrity. This makes it more compatible with the corruption index, since both now have a higher score indicating worse governance, allowing for easier interpretation of the results. Carey (2007), using a similar measure in her analysis, describes the freedom measured here as an indicator of “basic human rights.” Similarly, de Soysa and Midford (2012) measure human rights as “state repression of physical integrity rights,” such as “torture, disappearances, imprisonment, and political murder” (p. 4). Given the direction of this variable and its association with human rights, the variable will be referred to as *basic human rights violations*.

Democracy is used in the models as a control variable, following other studies (e.g., Alesina & Dollar, 2000; Alesina & Weder, 2002; Carey, 2007; Dreher et al., 2022; Easterly & Williamson, 2011). Democracy is a proclaimed aid selectivity criterion by many donors. Simultaneously, democratic institutions often correlate with other indicators of institutions or governance, including corruption and respect for human rights. To measure democracy, we rely on the V-Dem's *electoral democracy index* (Coppedge et al., 2023b), also referred to as *polyarchy*, which asks: "To what extent is the ideal of electoral democracy in its fullest sense achieved?" (Coppedge et al., 2023a, p. 44). The variable is described as such:

The electoral principle of democracy seeks to embody the core value of making rulers responsive to citizens, achieved through electoral competition for the electorate's approval under circumstances when suffrage is extensive; political and civil society organizations can operate freely; elections are clean and not marred by fraud or systematic irregularities; and elections affect the composition of the chief executive of the country. [...] In the V-Dem conceptual scheme, electoral democracy is understood as an essential element of any other conception of representative democracy – liberal, participatory, deliberative, egalitarian, or some other. (Coppedge et al., 2023a, p. 44; see also Coppedge et al., 2023c)

The variable is constructed by a total of 40 indicators, together measuring five key components of electoral democracy based on the popular definition of polyarchy by Dahl: elected officials, free and fair elections, associational autonomy, freedom of expression and alternative sources of information, and inclusive citizenship (Coppedge et al., 2023a, p. 44; Teorell et al., 2019). As with the variables for corruption and for basic human rights violations, the index for electoral democracy is measured at the interval level and ranges from 0 to 1, but with a higher value indicating a *higher* achievement of electoral democracy (Coppedge et al., 2023a, p. 44).

Poverty, as an indicator of economic development and recipient need, is controlled for in the analysis. While poverty is targeted by donors, it also correlates with poorer institutions and governance, which donors exhibiting good aid selectivity should aim to avoid. Poverty is captured by GDP per capita in the recipient countries, which is one of the most common proxies for poverty used in the literature (e.g., Carey, 2007; Charron, 2011; Dreher et al., 2022; Knack, 2001; Toft & de Soysa, 2021). Data on GDP per capita is obtained from the World Bank's *World Development Indicators* and is measured in constant 2015 US\$ (World Bank, 2023b). The variable is logged in order to address a skewed distribution, following

similar studies (e.g., Carey, 2007; Charron, 2011; Dreher et al., 2022; Jones & Tarp, 2016; Knack, 2001; Tavares, 2003; Toft & de Soysa, 2021).

Conflicts are also controlled for in the models, since donor countries have an interest in peacekeeping and postconflict recovery (Carbone, 2017; Easterly & Williamson, 2011; Lancaster, 2007). Meanwhile, conflicts are usually also associated with poorer institutions and governance (e.g., Acemoglu & Robinson, 2013, p. 94-95; Poe & Tate, 1994). Two variables are used to control for conflict, constructed using data from the Uppsala Conflict Data Program (UCDP). The first is a dummy variable measuring whether there is an ongoing armed conflict in the recipient country, defined by the UCDP as at least 25 battle-related deaths in a year (Gleditsch et al., 2002). This variable, henceforth referred to as civil war, is coded 1 if there is an ongoing conflict in the country that year and 0 otherwise. The second variable measures how many years have passed since a recipient country's last conflict, as defined above, or since 1960 (calculated as described in de Soysa & Noel, 2020, p. 194).

A measure of natural resource dependency is included in robustness tests, given its association to economic development and institutions as indicated by the resource curse. Additionally, donors may direct more aid toward countries with natural resources for their own commercial interests. Controlling for natural resources is done in several other studies (e.g., Dreher et al., 2018, 2022; Jones & Tarp, 2016; Knack, 2001; Toft & de Soysa, 2021). Data on natural resource dependency is obtained from the World Bank's *World Development Indicators*, using their measure of total natural resources rents as a percentage of the country's GDP. It is calculated as "the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents" (World Bank, 2023b). Since the variable is highly skewed, it is log-transformed.²⁷

Data on all the variables described above are measured annually with data for each country. Descriptive statistics for the variables are presented in Table 1. The descriptive statistics for the dependent variables are based on the years 2000-2021 for the US and the EU, and 2000-2017 for China. For the independent variables, the descriptive statistics are based on the years 2000-2021 among the 3,273 country-year units that are identified as aid recipients (using the measure of total DAC aid). 179 countries are identified as recipients for at least one year between 2000 and 2021. Of these, around 150 recipient countries have data on all key variables and are included in the analyses. Note that the exact number of observations and countries varies between models, but are indicated in the tables. In

²⁷ A value of 1 is added to all observations prior to the log-transformation.

Appendix A, Table A2 provides a list of countries that are included in the analysis, whereas Table A1 lists recipients that are excluded from analysis due to missing data. Additionally, Table A3 of Appendix A provides a correlation matrix of all the variables presented in Table 1. The correlation matrix uses pairwise deletion and is based on the same 3,273 country-year observations as for Table 1.

Table 1: Descriptive statistics

	Obs.	Min.	Max.	Mean	St. Dev.
<i>Independent variables</i>					
Political corruption	2,886	.009	.969	.625	.24
Basic human rights violations	2,892	.016	.986	.387	.275
Democracy	2,892	.017	.912	.447	.222
GDP per capita (logged)	3,145	5.542	11.680	7.935	1.087
Civil war (0=No 1=Yes)	3,273	0	1	.180	.384
Years of peace	3,273	0	61	27.135	21.460
Natural resources (logged)	3,160	0	4.495	1.553	1.142
<i>Dependent variables</i>					
US aid per capita (logged)	3,273	0	8.221	1.545	1.382
EU aid per capita (logged)	3,273	0	6.116	1.790	1.281
Chinese aid per capita (logged)	2,494	0	6.452	.635	1.068

Years = 2000-2021

Number of recipients = 179

3.2. Methodology

The data introduced above will be analyzed using time-series cross-sectional (TSCS) models, with annual data on each variable for each recipient country in the analysis. The analysis focuses on the aid selectivity of the US, the EU, and China in the 21st century, using all available data since 2000. The decision of analysis period is informed by several considerations. First, the dataset on Chinese aid only has data going back to 2000, and there is no other source that has detailed data on Chinese aid prior to this (see Custer et al., 2021, p. 88). Data on foreign aid from the US and the EU goes back further, but to ensure a more valid comparison between them and China, the same starting year will be applied to all three donors. Second, by 2000 all aid motivations related to the Cold War had long subsided, but new motivations for aid-giving had already formed, including an interest in peacekeeping and a stable supply of natural resources and, since 2001, aid as a tool in the war on terror. The time period thus captures motivations that have played a role in recent years and continues to

do so, while excluding historic motivations that are no longer relevant. Third, by 2000, the association between aid effectiveness and good governance was well established in the aid discourse and in the rhetoric of major donors. While this recognition was evident earlier, it did not start making a real impact until the mid-1990s. The 1990s can thus be considered a transition period for aid selectivity, but since the turn of the century, we should expect donors to have adapted their allocations to the new selectivity criteria related to good governance (Charron, 2011). The models thus exclude the aid selectivity patterns of the donors before the 21st century, looking at more recent years while also including a long enough time period to obtain sufficient observations for statistical significance. For the US and the EU, data on their aid allocations is available until 2021, so they are analyzed for the period 2000-2021. The dataset on Chinese ODA only has data until 2017, so Chinese aid selectivity is analyzed for the period 2000-2017.²⁸

The aid selectivity of each donor will be assessed in separate models with their respective aid allocations (divided by recipient population and logged) as the dependent variable. The models are primarily interested in the association between “quality of governance” in the recipient country, operationalized as political corruption and basic human rights violations, and the volume of aid received from each donor. Relevant control variables are included in the models to reduce the risk of spurious correlations (Mehmetoglu & Jakobsen, 2017; Skog, 2021). These control variables also show interesting results in themselves, namely, whether the aid selectivity of the donors is influenced by democracy, poverty levels, and armed conflicts in recipient countries. Meanwhile, the number of control variables is kept moderate for the sake of a parsimonious model. Furthermore, unlike several previous studies (e.g., Alesina & Dollar, 2000; Alesina & Weder, 2002; Carey, 2007; Dreher et al., 2018, 2022), factors measuring diplomatic or strategic importance – such as geographic proximity, voting in the United Nations General Assembly, trade, or former colonies – are not controlled for. Understanding the motivations which explain their aid allocations is outside the scope of this thesis. Instead, we are simply interested in whether their allocation patterns reflect good aid selectivity, as commonly understood (see Easterly & Williamson, 2011; Fleck & Kilby, 2010, p. 186). The impact of diplomatic or commercial considerations should rather be interpreted implicitly in light of their selectivity patterns: if a donor gives aid contrary to criteria of good aid selectivity, we can interpret this as implying that considerations other than those related to the recipient’s development are strongly influencing

²⁸ As a robustness test, all models with US aid and EU aid are also estimated for the period 2000-2017, to ensure that the results are not unduly influenced by the most recent years when China lacks data.

the donor's aid allocations. The control variables that are included in the models are compatible with good aid selectivity, such as the promotion of democracy or the prioritization of poorer countries. Notwithstanding the fact that countries with armed conflicts can reflect strategic or diplomatic importance for donors, especially in terms of security threats or potential migration flows, these countries are also targeted to address the destructive consequences of war, which have obvious connections to a country's development. Traditional donors like the US and the EU have even made explicit commitments to peacekeeping and postconflict recovery (e.g., Carbone, 2017; Lancaster, 2007). In other words, these allocations can reflect humanitarian considerations. Therefore, conflict is controlled for in the models. In robustness tests, natural resource endowments are controlled for, which do reflect donor interest. The reason for including this is the argument among critics that China targets resource-rich countries, as well as the abundance of natural resources in sub-Saharan Africa.

All of the independent variables are lagged by one year, as is common practice for TSCS models (Mehmetoglu & Jakobsen, 2017, p. 254). This is also common in studies of aid allocations with TSCS data "to allow for changes in those independent variables to influence donors' aid commitments" (Carey, 2007, p. 455) and "to reduce the effects of simultaneity" (Toft & de Soysa, 2021, p. 14; see also Dreher et al., 2022, p. 131). Additionally, a year dummy is included in all models to control for trends in aid and in the explanatory variables over time (see Mehmetoglu & Jakobsen, 2017, p. 249-250; Toft & de Soysa, 2021, p. 14).

TSCS data usually violates the OLS assumption of independent residuals, which causes the presence of autocorrelation. A statistically significant Wooldridge test (see Mehmetoglu & Jakobsen, 2017, p. 233-234) confirms that autocorrelation is present in our data. Additionally, TSCS data is often troubled by heteroscedasticity; and for geographical data, including country-level data, there is a risk of spatial correlations (Mehmetoglu & Jakobsen, 2017, p. 254-255). To account for this, all the models are estimated using the Driscoll-Kraay estimator, which "produces heteroskedasticity- and autocorrelation-consistent standard errors that are robust to general forms of spatial and temporal dependence" (Hoechle, 2007, p. 282). Multicollinearity is tested for by looking at the variance inflation factor (see de Soysa & Midford, 2012, p. 7; Mehmetoglu & Jakobsen, 2017, p. 146-147). These scores confirm that multicollinearity is not a problem for our data.²⁹ Finally, a Dickey-

²⁹ The pairwise correlations in Table A3 in Appendix A show that basic human rights violations and democracy have a high correlation ($r > 0.7$), which could result in multicollinearity. However, the variance inflation factor

Fuller test suggests that the data is stationary (see Mehmetoglu & Jakobsen, 2017, p. 252-258).

The aid selectivity of the donors will first be estimated using political corruption as the main explanatory variable, controlling for democracy, GDP per capita, civil war, and years of peace. For each donor, this model will be estimated with both fixed effects and random effects, and the results from the two estimation methods will be compared. Fixed effects models estimate the within-country effects of X on Y , whereas the random effects models estimate both the within-country effects and the between-country effects of X on Y (Bell & Jones, 2015; Mehmetoglu & Jakobsen, 2017). However, since the Hausman test suggests that the fixed effects models are more consistent (see Hoechle, 2007; Mehmetoglu & Jakobsen, 2017, p. 240-241), the results produced with fixed effects will be assigned more weight, and for the subsequent models, only the results estimated with fixed effects will be displayed.³⁰

In the next table, the aid selectivity of the three donors will be assessed by replacing political corruption with the alternative explanatory variable, namely basic human rights violations. The model will otherwise remain identical in terms of control variables and the estimation method. However, only the fixed effects results will be presented in the table output.

In the third table, all the previous fixed effects models are replicated for a sample consisting of sub-Saharan African recipient countries only. As previously noted, this is the most poverty-afflicted and aid-dependent region in the world. Additionally, special concern has been raised over China's active engagement in the region. Several studies of aid perform separate models for Africa or sub-Saharan Africa (e.g., Dreher et al., 2018; Isaksson & Kotsadam, 2018; Knack, 2001). The sub-sample relies on the World Bank's regional categorization and consists of 48 countries (see World Bank, 2023c). Indicative of the region's aid-dependency, all 48 countries of sub-Saharan Africa are aid recipients in the 2000-2021 period, a large majority of them for the whole period. The output will present fixed effects estimates for all three donors, with political corruption and human rights violations, respectively, as explanatory variables.

Following this, aid flows from all three donors are included in the model together, where the previous main independent variables will act as dependent variables for a three-

confirms that multicollinearity is not a problem, even in the models where both these variables are included together.

³⁰ Results produced with random effects for the subsequent models in this paper are available upon request.

horse race between the three donors. In other words, the measures of political corruption and basic human rights violations, respectively, are used as dependent variables. This model allows us to assess the allocations of each donor while controlling for the allocations of the other two donors, thus identifying their unique allocations only (see de Soysa & Midford, 2012, for a similar approach). In this model, the three variables measuring the donors' aid flows are led by one year, i.e., given the level of corruption or repression the previous year, how would aid be allocated during the current year?

As mentioned, controlling for relevant variables reduces the risk of spurious findings. Additionally, fixed effects models are “able to control for all time-invariant variables” and “get a purer relationship between” the explanatory and the dependent variable (Mehmetoglu & Jakobsen, 2017, p. 248). However, these methods cannot tell us anything about causal effects, only correlations (Toft & de Soysa, 2021, p. 9). The literature, meanwhile, suggests that both causal directions are plausible: governance can affect aid allocations, but aid allocations can also affect governance. To address this, we attempt to construct an instrumental variable approach which can explain aid allocations but are exogenous to corruption and basic human rights violations (see Pinto & Zhu, 2022; Toft & de Soysa, 2021). The instrumental variable is constructed as a product between average GDP growth in the OECD countries and the distance between the donor capital city and the recipient capital city. Data on distance is measured in kilometres.³¹ GDP growth is obtained from the World Bank's *World Development Indicators* and measures GDP growth at the aggregate level among all OECD countries. A valid instrument has to be relevant, which means that it explains the main independent variable (aid) but does not directly explain the dependent variable (instrument exclusion). More specifically, we can expect donors to give aid to geographically proximate countries (Francisco et al., 2021; Toft & de Soysa, 2021, p. 10), and to give more aid when growth in the OECD countries is higher, as governments will have fewer budget constraints. Simultaneously, higher growth in the OECD countries should not be relevant for corruption and repression in recipient countries. Neither should geographical proximity to the donor countries explain corruption or respect for human rights. The analysis will discuss the instrumental variable model, but the formal tests for instrument validity were weak.

Several robustness tests are performed (not shown) to assess whether the results are robust to various model specifications.³² First, as indicated above, the models are reproduced for the US and the EU for the years 2000-2017 only. This is to ensure that the estimates of

³¹ Capital distance data available at <http://ksgleditsch.com/data-5.html>.

³² Also available upon request.

these results are not disproportionately influenced by the most recent years for which there is no data on Chinese aid, which would reduce the validity of the comparison between them and China. Second, natural resources are included as a control variable, assessing whether this changes the estimates of the donors' aid selectivity. Third, the robustness of the results for sub-Saharan Africa is tested for the whole of Africa.

Chapter 4 presents the results from the models, whereas Chapter 5 discusses these results in more detail.

4. Analysis

Table 2 presents the results for the first model, which investigates the association between political corruption levels and aid per capita, controlling for democracy, GDP per capita, civil war, and years of peace.

Column 1 and Column 2 of Table 2 show the results for US aid flows, estimated with fixed effects and random effects, respectively. Starting with the fixed effects estimates in Column 1, we see that the coefficient for political corruption is negative and statistically significant at the 5% level of confidence ($p < .05$), indicating that the US allocates less aid per capita to more corrupt countries. Substantively, if political corruption in a recipient country increases by one standard deviation, that is, by around 0.067 on a scale from 0 to 1, US aid per capita is expected to decrease by 4.1% to that country the following year.³³ As for the control variables, they are all statistically highly significant. The positive coefficient for democracy suggests that more US aid goes to more democratic countries, whereas the negative coefficient for GDP per capita suggests that more US aid goes to poorer countries. Furthermore, the US appears to give more aid to countries with an ongoing civil war, and less aid the longer a country has been at peace.

In Column 2, the model for US aid is replicated with random effects. Compared to Column 1, the results are largely consistent: all the variables remain statistically significant and with the same direction of the coefficients. Most importantly, the fixed effects model supports the finding that the US gives less aid to more corrupt governments.

Table 2 Columns 3-4 demonstrate the results for the EU, again with fixed effects and random effects, respectively. Column 3 shows that the effect of political corruption on EU aid is negative and statistically significant at the 1% level of confidence. Thus, the EU also appears to allocate more aid to less corrupt countries. Substantively, a standard deviation increase in political corruption in the recipient country is associated with a subsequent 5.7% reduction in EU aid per capita. Democracy, as the first control variable, is positive but not statistically significant, even at the 10% level of confidence. GDP per capita is negative but also not statistically significant. It thus appears that neither democracy nor poverty levels are substantially affecting the aid selectivity of the EU. The effects of civil war and years of peace are meanwhile statistically significant and consistent with that of the US, suggesting

³³ Calculated as $100 \cdot (e^{\beta \cdot \sigma} - 1)$, where β represents the coefficient for X , and σ represents the within-country standard deviation of X (see Skog, 2021, p. 248).

that the EU allocates more aid to countries with ongoing civil war and decreasing aid volumes the longer a country has been at peace.

Table 2: Effects of political corruption on the aid selectivity of the US, the EU, and China

	(1)	(2)	(3)	(4)	(5)	(6)
	FE	RE	FE	RE	FE	RE
Dependent variable	US aid per capita		EU aid per capita		Chinese aid per capita	
Political corruption	-0.605** (0.235)	-0.588** (0.251)	-0.832*** (0.177)	-0.869*** (0.187)	-0.426** (0.165)	-0.393* (0.222)
Democracy	0.648*** (0.205)	0.655** (0.232)	0.388 (0.233)	0.545** (0.203)	-0.088 (0.223)	-0.230 (0.150)
GDP per capita	-0.774*** (0.108)	-0.544*** (0.103)	-0.164 (0.100)	-0.187*** (0.058)	-0.201 (0.158)	-0.190*** (0.052)
Civil war (dummy)	0.124*** (0.033)	0.141*** (0.031)	0.078** (0.037)	0.066* (0.037)	-0.147** (0.069)	-0.183* (0.089)
Years of peace	-0.008*** (0.001)	-0.007*** (0.002)	-0.007*** (0.001)	-0.004*** (0.001)	0.008** (0.003)	0.006* (0.003)
Constant	0.000 (0.000)	6.285*** (0.948)	0.000 (0.000)	3.890*** (0.578)	0.000 (0.000)	0.000 (0.000)
Observations	2,788	2,788	2,788	2,788	2,091	2,091
Number of groups	149	149	149	149	148	148
Years	22	22	22	22	18	18

Standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

The random effects estimates are displayed in Column 4 and demonstrate that the effect of political corruption on EU aid remains statistically significant ($p < .01$) and negative. The control variables, meanwhile, differ somewhat for the EU when estimated with fixed effects. Both democracy and GDP per capita become statistically significant in the random effects model, indicating that the EU does give more aid to democratic countries ($p < .05$) and to poorer countries ($p < .01$). The coefficients for civil war and years of peace remain statistically significant and with the same direction as for the fixed effects.

Columns 5 and 6 of Table 2 show the results for China.³⁴ In Column 5, we see that the coefficient for political corruption is negative and statistically significant at the 5% level of

³⁴ Note that the number of recipient countries is one less than for the other donors, since China as a recipient country is excluded. The number of observations is also smaller because of a smaller number of years, due to lack of data on Chinese aid after 2017, and because some observations suffer from missing data.

confidence. In substantive terms, a standard deviation increase in political corruption is associated with a 2.4% decrease in Chinese aid per capita. As for the control variables, neither democracy nor GDP per capita are statistically significant. On the other hand, both civil war and years of peace are significant at the 5% level, but with the opposite direction of the other two donors. In other words, China gives less aid to countries with a civil war and more aid to countries that have been at peace for a longer time.

Looking at the model for Chinese aid estimated with random effects, in Column 6, some minor differences are evident. First and foremost, the effect of political corruption on Chinese aid is now only statistically significant at the 10% level of confidence, although the effect remains negative. Democracy is still statistically insignificant. However, as with the EU, the negative effect of GDP per capita becomes statistically significant when estimated with random effects. The effects of civil war and years of peace on Chinese aid have the same direction as in Column 5; however, they are now only statistically significant at the 10% level of confidence.

The results in Table 2 are fairly consistent across the models estimated with fixed effects and random effects, in particular concerning the effects of the main independent variable of interest, political corruption, on the donors' aid allocations. The most important difference with regards to this paper's research question is the reduced statistical certainty in the effects of corruption on Chinese aid, when estimated with random effects (Column 6). It should also be noted that the fixed effects estimates imply a stronger substantive effect of the explanatory variable on the aid selectivity of the donors, since the total standard deviation is larger. This is reasonable, since donors are likely to consider differences *between* recipients as well as considering differences *within* recipients over time when allocating aid.

For the control variables, the main differences between the fixed effects estimates and the random effects estimates are in the standard errors, which lead to differences in statistical significance levels for some variables; the directions of the coefficients are consistent across the fixed effects models and the random effects model. It is possible that some of the control variables have little within-variance over time, or that between-variance is more visible for donors, which would explain lower statistical significance for the fixed effects estimates. Nonetheless, as explained above, the Hausman test suggests that the fixed effects estimates are more consistent and are to be preferred over the random effects estimates. For this reason, the results produced with fixed effects are assigned more weight.

In Table 3, the alternative main independent variable – measuring basic human rights violations – is employed, replacing political corruption. The model is otherwise identical to

the one in Table 2. However, as mentioned above, only fixed effects will be displayed in Table 3. Column 1 shows the results for the US, followed by the results for the EU in Column 2, and finally the results for China in Column 3.

Column 1 of Table 3 shows that US aid is positively associated with basic human rights violations, indicating that more repressive governments receive more US aid. The coefficient is statistically highly significant ($p < .01$). Substantively, when a government increases basic human rights violations by one standard deviation, or 0.09 on a scale from 0 to 1, that government can expect an increase in US aid per capita of 4.3% the following year. Meanwhile, all control variables remain statistically significant and consistent with the results from Table 2, indicating the preference of US aid toward democracies, poorer countries, and countries which are currently or recently afflicted by conflict.

Table 3: Effects of basic human rights violations on the aid selectivity of the US, the EU, and China

Dependent variable	(1) US aid per capita	(2) EU aid per capita	(3) Chinese aid per capita
Basic human rights violations	0.463*** (0.156)	-0.519*** (0.154)	-0.186 (0.199)
Democracy	1.212*** (0.237)	0.320 (0.249)	-0.033 (0.249)
GDP per capita	-0.719*** (0.102)	-0.128 (0.097)	-0.188 (0.150)
Civil war	0.116*** (0.035)	0.115*** (0.036)	-0.130* (0.069)
Years of peace	-0.008*** (0.001)	-0.008*** (0.001)	0.008** (0.003)
Constant	6.897*** (0.786)	3.205*** (0.874)	0.000 (0.000)
Observations	2,794	2,794	2,097
Number of groups	150	150	149
Years	22	22	18

Standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

The results for the EU are shown in Column 2 of Table 3. The negative and strongly significant coefficient for basic human rights violations indicate that the EU allocates less aid to more repressive governments. In substantive terms, a standard deviation increase in basic

human rights violations in a recipient country is associated with a 4.8% reduction in EU aid per capita the following year. The results for the control variables are meanwhile consistent with those in Column 3 of Table 2: neither democracy nor GDP per capita are statistically significant, whereas civil war and years of peace are statistically significant and have the same direction as before.

Finally, for the results of Chinese aid, the negative sign for basic human rights violations suggests that Chinese aid is lower to human rights violators, although the result is not significant. The results for the control variables are meanwhile largely consistent with the ones in Column 5 of Table 2.

The results provided in Table 3 remain mostly unchanged when estimated with random effects (not shown), the most important difference being that the positive effect of human rights violations on US aid is now only statistically significant at the 10% level of confidence. Additionally, for the EU and China, the negative effect of GDP per capita becomes statistically significant, consistent with the models estimated with random effects in Table 2.

In Table 4, the fixed effects models from Table 2 and Table 3 are replicated for the sub-sample of sub-Saharan Africa only. The effects of political corruption are investigated in Column 1-3 and the effects of basic human rights violations investigated in Column 4-6. The results indicate that the aid selectivity patterns of the three donors deviate in the context of sub-Saharan Africa, compared to that of the whole global sample.

Starting with the US in Column 1, the effect of political corruption on its aid selectivity, while negative, is no longer statistically significant in sub-Saharan Africa, even at the 10% level. The effects of democracy and GDP per capita have actually reversed direction, but are also not statistically significant. Only the effects of civil war and years of peace remain statistically significant and consistent with previous models: more US aid goes to countries with ongoing or recent armed conflict.

For the EU (Column 2), the effect of corruption on its aid allocations is still statistically significant and negative. In sub-Saharan Africa, the substantive impact of corruption on the EU's aid selectivity is similar to that of the whole sample, with a standard deviation increase³⁵ in political corruption resulting in a 5% reduction in aid per capita – compared to a 5.7% reduction for the global sample. Table 4 further suggests that the EU gives more aid to democracies and to poorer countries in sub-Saharan Africa, both

³⁵ Note that the within-country standard deviation in sub-Saharan Africa differs and is now at 0.059.

coefficients statistically significant at the 1% level of confidence. The negative effect of years of peace persists, but the effect of civil war is not statistically significant for the EU in sub-Saharan Africa. Overall, the EU clearly has better selectivity than the US within the sub-Saharan African sample.

Table 4: Effects of corruption and repression on aid selectivity in sub-Saharan Africa

Dependent variable	(1) US	(2) EU	(3) China	(4) US	(5) EU	(6) China
Political corruption	-0.570 (0.370)	-0.828** (0.334)	-1.525** (0.666)	- -	- -	- -
Basic human rights violations	- -	- -	- -	0.252 (0.171)	-0.453 (0.275)	-1.162** (0.405)
Democracy	-0.501 (0.361)	1.118*** (0.289)	0.697 (0.552)	-0.151 (0.400)	0.956** (0.359)	0.284 (0.536)
GDP per capita	0.138 (0.114)	-0.564*** (0.145)	-0.576 (0.346)	0.149 (0.117)	-0.510*** (0.143)	-0.475 (0.322)
Civil war (dummy)	0.117** (0.053)	0.023 (0.038)	0.002 (0.084)	0.119** (0.048)	0.056 (0.041)	0.084 (0.079)
Years of peace	-0.005** (0.002)	-0.007*** (0.002)	0.006 (0.005)	-0.005** (0.002)	-0.007*** (0.002)	0.006 (0.004)
Constant	1.685** (0.782)	6.140*** (1.155)	0.000 (0.000)	0.978 (0.824)	5.476*** (1.100)	0.000 (0.000)
Observations	1,009	1,009	738	1,009	1,009	738
Number of groups	48	48	48	48	48	48
Years	22	22	18	22	22	18

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.10

The results for China are presented in Column 3. The coefficient for political corruption is statistically significant and negative, indicating that China allocates less aid to more corrupt governments, also in sub-Saharan Africa. The substantive effect of corruption is meanwhile more substantial, indicating a 7.3% reduction in Chinese aid per capita for countries recording a standard deviation increase in political corruption. This is much larger than the 2.4% change that was calculated for the global sample. None of the control variables are meanwhile statistically significant for China in this model.

Column 4 shows the effect of basic human rights violations on US aid in sub-Saharan Africa. The coefficient is positive but not statistically significant, suggesting that the US allocates aid regardless of human rights violations in this region. The results for the control variables are consistent with those estimated in Column 1 of Table 4, showing that the effects of GDP per capita and democracy are not statistically significant for the US in sub-Saharan Africa, while the effects of the conflict variables show the same consistent patterns as in previous models.

For the EU, presented in Column 5, the results in Table 4 deviate substantially from the results for the global sample in Table 3. While the coefficient for basic human rights violations is negative, it is not statistically significant, even at the 10% level. Meanwhile, in contrast to the global sample but consistent with Column 2 of the sub-Saharan African sample, the effects of democracy and GDP per capita are statistically significant, suggesting that the EU is more considerate of democracy and poverty levels in this region than elsewhere. The conflict variables show the same indications as in Column 2: no effect of ongoing civil war but a negative effect of years of peace.

Column 6 presents the results for China. In contrast to the global sample, the effect of basic human rights violations is statistically significant for Chinese aid in sub-Saharan Africa. The negative coefficient indicates that China allocates less aid to more repressive governments in this region. Substantively, a standard deviation increase in repression is associated with an 8.7% reduction in Chinese aid. Meanwhile, none of the control variables are statistically significant, as was the case in Column 3 of Table 4.

The results obtained so far are subjected to robustness tests. First, as previously stated, the results for the US and the EU are re-estimated for the 2000-2017 period. The estimates for the effects of corruption are consistent with those demonstrated in Table 2. However, compared to the results displayed in Table 3, there is no longer a statistically significant effect of human rights violations on US aid allocations globally when the last four years are excluded from analysis. Furthermore, compared to Table 4, the negative effect of corruption on US aid in sub-Saharan Africa is statistically significant in the 2000-2017 period. This indicates that the US has been less selective regarding human rights violations globally and regarding corruption in sub-Saharan Africa in the most recent years, since excluding 2018-2021 from analysis demonstrates a better selectivity pattern. For the EU, meanwhile, the exclusion of the most recent four years only changes the estimates in Table 4 Column 2, now indicating a statistically non-significant effect of corruption on EU aid in sub-Saharan Africa.

Hence, the aid selectivity of the EU in sub-Saharan Africa evidently improves in the most recent years, as least as far as corruption is concerned.

The robustness of the results is also tested with the inclusion of natural resource endowments. This inclusion does not change any of the results from Table 2 or Table 3. Additionally, natural resources do not have a statistically significant effect on Chinese aid, contrary to what critics claim. In sub-Saharan Africa, meanwhile, resource-rich countries do receive more aid from China, statistically significant at the 5% level. Nonetheless, this does not drastically change the results, except that the effect of corruption on Chinese aid drops in statistical significance to the 10% level. At the same time, the US also allocates more aid to resource-rich countries in sub-Saharan Africa, and the inclusion of natural resources makes the positive effect of basic human rights violations statistically significant at the 10% level.

The results in Table 4 change somewhat when including all African countries, instead of just sub-Saharan Africa.³⁶ The negative effect of corruption becomes statistically significant for the US at the 10% level of confidence, while it becomes statistically not significant for China. Otherwise, the results are consistent. This implies that their aid allocation patterns differ slightly between sub-Saharan Africa and Northern Africa.

Moving forward with the analysis, the next model includes the aid flows from all three donors as independent variables in a three-horse race, while corruption and human rights are modelled as dependent variables. Still, the model makes no attempt of arguing for a causal relationship. It simply shows associations between governance in recipient countries and the unique aid flows from the three donors. Table 5 Column 1 presents the results with political corruption as the dependent variable, while Column 2 presents the results with basic human rights violations as the dependent variable. Both columns present results with fixed effects estimation, but random effects estimation produces virtually identical results (not shown but available upon request). This model investigates the full global sample.

Column 1 of Table 5 shows the association between political corruption and the unique aid flows from each donor, controlling for GDP per capita, democracy, civil war, and years of peace. The first coefficient shows that there is a statistically significant negative association between US aid and political corruption. In substantive terms, a 10% increase in logged US aid per capita is associated with a 0.001-point reduction in corruption (on a scale from 0 to 1) in the recipient country.³⁷ The association between EU aid and corruption is also

³⁶ This entails the addition of Algeria, Djibouti, Egypt, Libya, Morocco, and Tunisia to the 48 countries of sub-Saharan Africa.

³⁷ Calculated as $\beta \cdot \log(1.10)$ where β represents the coefficient of X .

statistically significant, with virtually the same substantive effect: a 0.001-point reduction in corruption for a 10% increase in logged EU aid per capita. For China, there is a very small negative association, but it is not statistically significant even at the 10% level.

Table 5: Three-horse race between the US, the EU, and China

Dependent variable	(1) Political corruption	(2) Basic human rights violations
US aid per capita	-0.010*** (0.002)	0.004 (0.003)
EU aid per capita	-0.011*** (0.002)	-0.009*** (0.003)
Chinese aid per capita	-0.001 (0.001)	-0.001 (0.001)
GDP per capita	-0.066*** (0.010)	-0.036** (0.013)
Democracy	-0.279*** (0.030)	-0.540*** (0.050)
Civil war (dummy)	-0.020*** (0.005)	0.040*** (0.008)
Years of peace	-0.000 (0.000)	-0.001*** (0.000)
Constant	0.000 (0.000)	0.000 (0.000)
Observations	2,091	2,097
Number of groups	148	149
Years	18	18

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.10

US aid/pc, EU aid/pc, and Chinese aid/pc are led by one year.

In Column 2, the same analysis is performed with basic human rights violations as the dependent variable. Here, there is no statistically significant association between US aid and repressive government, controlling for aid flows from the EU and China and for GDP per capita, democracy, civil war, and years of peace. The association is statistically significant for EU aid, however, and negative, meaning that increased aid per capita from the EU correlates with less repression by the government, holding the other variables constant. Nonetheless, the association is still substantively small, indicating that a 10% increase in logged EU aid per capita is associated with a reduction in basic human rights violations of only 0.001 (also on a scale from 0 to 1).

Since it is argued that the causal relationship between aid and institutions works both ways, a model with instrumental variables is produced (not shown) in order to test whether aid from the three donors can have an effect on political corruption and basic human rights violations in the recipient country. If this is the case, for instance if aid improves these indicators, then the allocation of aid to countries with bad governance can be legitimized. The instrumental variable is, as described above, constructed as a product of average GDP growth in OECD countries and distance between the respective donor's capital city and the recipient's capital city. The donors are analyzed separately, using the aid measure as an independent variable, with democracy, GDP per capita, civil war, and years of peace as control variables and corruption and basic human rights violations, respectively, as dependent variables. The explanatory and the independent variables are lagged by one year. However, as mentioned in Chapter 3, the instrument is invalid. It is relevant in that it explains aid well, as indicated by a statistically significant Kleibergen-Paap statistics. However, it fails to pass the exclusion criteria, as demonstrated by a statistically significant Hansen J statistics (Pinto & Zhu, 2022; Toft & de Soysa, 2021, p. 20). In other words, the instrument is not exogenous to the institutions of the recipient countries. This holds true for all three donors and for both corruption and repression as dependent variables. Most likely, the distance from the donors correlate with corruption levels and repression levels in the recipient country. As observed by Pinto and Zhu (2022): "One possible violation of the exclusion restriction is that geographic distance may correlate with the diffusion of norms and values such as democratic governance and neoliberal economic ideas" (p. 1021-1022). The instrument is tested with several variations, including log-transformations of one or both variables, as well as with different model specifications, but these do not improve the instrument vis-à-vis the exclusion criteria. Since the instrument is invalid, and there is no other instrument which we reasonably can expect to fulfil the criteria, we cannot make inferences about a causal effect of aid on corruption and basic human rights violations in the recipient country. Regardless, it is hard to prove causality between aid and recipient country outcomes, and this thesis is primarily concerned with aid selectivity for making a comparison between these three donors.

5. Discussion

The analysis presented above shows a complex pattern of aid selectivity across the three donors. Consistent with the findings by Dreher et al. (2022), the results do not support the narrative of China as a “rogue donor”; nor are the traditional donors – the US and the EU – presented as pure “heroes” in their aid selectivity, which is consistent with assessments by Easterly (2007) and Bueno de Mesquita and Smith (2012), among others. Before discussing the results in more detail, the hypotheses presented at the end of Chapter 2 are reiterated here:

H1: The US gives more aid to more corrupt governments.

H2: The US gives more aid to more repressive governments.

H3: The EU gives less aid to more corrupt governments.

H4: The EU gives less aid to more repressive governments.

H5: There is no systematic association between Chinese aid and corruption levels in the recipient government.

H6: There is no systematic association between Chinese aid and repression levels in the recipient government.

Starting with Table 2, the first model shows that all three donors give less aid to more corrupt governments in the 21st century. This finding stands in contrast to many previous studies which find that more corrupt governments are disproportionately rewarded with more aid. This could suggest that donors have made a decisive shift in the 21st century toward better aid selectivity with regards to corruption. Whether this is a result of the anti-corruption movement starting in the mid-1990s or of the reduced emphasis on diplomatic and strategic aid-giving in the post-Cold War era is not clear from this analysis. Interestingly, these results are evident for three very different donors, two of which (the US and China) are not expected to be very selective in terms of recipient country corruption. The models do however indicate that the EU is the most sensitive to corrupt recipient governments among the three donors in substantive terms, while China’s selectivity appears to be the least influenced by corruption. While this partly supports the idea of the EU’s normative power, the differences between the

donors are not as strong as one might expect. In fact, the results suggest relatively insubstantial effects of corruption on aid allocations for all three donors.

Table 2 clearly fails to support *H1* and previous studies of US aid selectivity; the US now responds to recipient corruption in accordance with good selectivity, punishing increases in corruption and rewarding improvements. Whether political considerations still strongly influence US aid allocations is outside the scope of this study, but regardless of whether they do or not, they do not lead the US to finance more corrupt governments with more foreign aid. *H3* is meanwhile clearly supported by Table 2; aid from the EU is negatively associated with levels of corruption in the recipient country. This is also consistent with much of the literature on EU aid. *H5*, on the other hand, is refuted; corruption levels do have an effect on Chinese aid, and it resembles that of the traditional donors, the US and the EU.

The results from Table 3, investigating the effects of basic human rights violations on their aid allocations globally, are much less uniform, but more supportive of the hypotheses. The US gives more aid to human rights violators, which provide evidence for *H2*. Hence, while the US is successfully responding to corruption levels of the recipients, it still finances more repressive governments who engage in political killing and torture. This could be indicative of strategic aid allocations from the US. *H4* is meanwhile supported; again, the EU shows that it takes good governance into account in its selectivity and rewards good performers, also in terms of governments respecting basic human rights. *H6* is also supported, as indicated by the non-significant effect of human rights violations on Chinese aid. China thus does not reduce aid levels when governments become more repressive. On the other hand, this is still better than the US, which increases aid levels in response to increasing repression by recipient governments.

Before discussing the specific results for sub-Saharan African recipients, some attention should be given to the control variables from Table 2 and Table 3. Both tables suggest that the US takes democracy more into account when allocating aid, compared to both the EU and China. This resembles older findings of US aid selectivity targeting electoral democratic institutions (e.g., Alesina & Dollar, 2000; Alesina & Weder, 2002). The rhetoric of the US to promote democracy thus appears to be supported empirically, even if its human rights rhetoric is strongly disproven. In contrast, the EU's rhetoric of promoting and conditioning aid disbursements on democracy is not strongly supported empirically, which is quite surprising given the EU's pronouncements about "normative" objectives and its emphasis on promoting democracy abroad. As for China, there is no evidence in any of the models that it takes levels of democracy into account in its aid selectivity. This is not

surprising given that China is not a democracy and makes no claim to promote it abroad. However, looking at the results from another perspective, the analysis clearly fails to support the critical claims that China gives *more* aid to autocracies, which is also part of the “rogue donor” narrative.

The results from Table 2 and Table 3 indicate that the US allocates more aid to poorer countries. This finding does give support to Lancaster’s (2007) observation that the development purpose of aid gained more support in the early 2000s, as well as its increased focus on fragile contexts. The EU and China are only found to consider recipient poverty levels in the random effects models, which imply that they are more concerned with poverty levels between countries than with changes in poverty levels over time in the same countries. The coefficients for GDP per capita across the models do not support the findings by Dreher et al. (2022) that China as an aid donor is more sensitive to poverty than its Western counterparts.

Our two variables from the UCDP, indicating ongoing conflict and duration of peace, demonstrate an interesting contrast between China and the two traditional donors. The models, in general, show that the US and the EU both allocate more aid to countries with ongoing conflict, and that these aid disbursements decline as the duration of peace increases. They are thus using aid actively in the postconflict period, assumably for peacekeeping and postconflict recovery, as these are stated objectives of their aid programs. This could reflect a willingness to address fragile contexts and intervene in difficult situations, consistent with humanitarian objectives, but it could also reflect the donors’ own interests, including security and migration issues, or objectives related to the war on terror. On the other hand, China demonstrates the opposite pattern; less aid allocated to conflictual areas and more aid to countries that have been at peace for a longer period of time. China is seemingly reluctant to allocate aid to turbulent countries. One possible explanation for this reluctance is the principle of non-interference in internal affairs, which guides the foreign policy of China. Civil conflicts can be considered internal affairs that China do not want to interfere with, whether for humanitarian reasons or geopolitical reasons. Another possible explanation relates to a different principle of Chinese foreign policy, that of mutual benefits. It is likely that China considers mutual benefits to be less likely to obtain in a conflictual and unstable country than in a peaceful and stable country, all else being equal. The US and the EU, meanwhile, take on responsibility to address conflicts abroad.

Table 4, which investigates the donors’ aid selectivity for recipients in sub-Saharan Africa only, provides interesting results, somewhat contradicting the findings from the global

sample. It suggests that the three donors allocate aid differently toward the most important region in relation to foreign aid. Surprisingly, China appears to be the donor that most responds correctly to corruption and repression in sub-Saharan Africa. The results suggest that China is decidedly better than the US in sub-Saharan Africa, in so far as corruption is concerned. China's allocation record also seems to be slightly better than the so-called "normative" superpower's, the EU. The negative association between corruption and Chinese aid disbursements is substantively stronger than for any of the other donors, even in the global sample. Corruption still functions as a determinant of EU aid, with similar substantive effects as for the global sample. In sub-Saharan Africa, the effects of democracy and GDP per capita on EU aid are also statistically significant, even with fixed effects. This means that, overall, we can conclude that the aid selectivity of the EU is better in this region than globally. For the US, meanwhile, there is no statistically significant effect of corruption on aid allocations in sub-Saharan Africa. At the same time, for the US, the positive effect of democracy and the negative effect of GDP per capita reverse direction and become statistically non-significant. In other words, the US demonstrates poor aid selectivity on nearly all measures in sub-Saharan Africa. Only the effects of conflict and years of peace persist.

In sub-Saharan Africa, there is no significant effect of basic human rights violations on aid from the US and the EU. For the US, this is an improvement compared to the global sample, where it allocates *more* aid in response to higher repression, whereas for the EU, it shows poorer aid selectivity than globally. For the EU, at least, the positive association with democracy and the negative association with GDP per capita may somewhat justify the failure to respond to repression. It is still clearly in contrast to the EU's normative power and incompatible with the rhetoric of the EU that human rights promotion abroad is a main priority. The most unexpected result, however, may be the negative and statistically significant effect of human rights violations on Chinese aid in this region. Overall, in sub-Saharan Africa, support is only given to *H3*, stating that the EU gives less aid to more corrupt governments. The remaining hypotheses are not supported, although it should be noted that both the US and China demonstrate *better* aid selectivity than expected by the hypotheses.

Since China is not expected to exhibit better aid selectivity, and certainly not to be selective on the basis of the recipient government's human rights violations, this finding warrants further discussion. We saw earlier (section 2.4.3.) that China itself has an imperfect human rights record, and that it does not promote human rights abroad, the way the US and the EU do (along with other DAC donors). However, as with the results concerning ongoing

conflict and years of peace, China's principles of mutual benefits and non-interference could explain some of this counterintuitive finding. Its principle of non-interference can function as a justification for China not to allocate aid to countries with very high levels of corruption and repression. It can thus bypass the difficult cases and dedicate resources to the places where they can have a better impact. China's perceptions of potential mutual benefits can also be affected by this. If the foreign environment is perceived as riskier and less certain, for instance due to widespread corruption and state repression, China is probably less likely to consider mutual benefits to be obtainable there. Dreher et al. (2022) observe that China tends to combine aid flows with financial flows on more commercial terms (OOF) in "packages." Considering this, China is less likely to invest in environments perceived as risky, in the form of widespread corruption and repression, and aid projects to that country may simultaneously subsidize. Instead, China could look for other, less risky recipient environments where it can allocate aid and other financial flows and expect higher returns.

A closer look at the data confirms that China has more zero-observations in sub-Saharan Africa than the US and the EU, i.e., recipients that are completely bypassed. Among the 1,009 country-year observations included in this sub-sample model, both the US and the EU have zero-values on only 13 observations each, or 1.29% of all possible recipient-years. In other words, the two traditional donors give aid to almost all the countries of sub-Saharan Africa every year. In contrast, China has zero-values on 128 out of 738 country-year observations in sub-Saharan Africa, or 17.34%.³⁸ This indicates that China is more likely than the US and the EU to completely exclude recipients. The same pattern is visible for the global sample, where around 37% of country-year recipients were bypassed by China, compared to 6.7% for the US and 3.6% for the EU. Thus, it is likely that the results are, at least somewhat, caused by the fact that China can more easily ignore the riskiest or most difficult recipients when allocating development finances, whereas the US and the EU feel obligated to address risky and difficult contexts abroad, whether for humanitarian or strategic reasons. This leads them to give aid to pretty much all governments, while justifying allocations to the "worst" cases by referring to a desire to change institutions and politics there. The domestic political climates of donors can contribute to this (Bauhr et al., 2013; Lancaster, 2007). The free press of the US and the EU can put pressure on democratically accountable governments to assist in impoverished countries, even if the funds end up going to bad governments. These mechanisms are not present in China, where government decisions concerning aid allocations

³⁸ Note that this is after excluding observations where AidData reports Chinese aid projects but was unable to identify a credible monetary amount.

are far removed from citizens and covered in secrecy. Of course, these findings can at least prove that there might be a false narrative about China's intentions in Africa and the consequences of its global engagement. Furthermore, as suggested by de Soysa and Midford (2012), China's principle of non-interference may be a blessing in disguise, since it seemingly prevents China from funding corrupt, repressive autocrats. As stressed by Easterly (2007), meanwhile, Western responsibility to intervene abroad could sometimes be more harmful than helpful.

Moreover, the results remain largely unchanged when including natural resources to the various models. Despite a large number of critical claims that China uses its aid to obtain natural resources from abroad, there is no statistically significant association between natural resource endowments and Chinese aid. Although this changes when looking at sub-Saharan Africa only, the inclusion of this measure does not change the overall results in any substantial way.

Table 5, which investigates the unique disbursements of each of the donors by controlling for the other donors, provides statistically significant coefficients only for the EU and the US when corruption is the dependent variable, and only for the EU when basic human rights violations is the dependent variable. These coefficients are negative, as one would expect, and implies that the EU is the most selective donor among unique allocations. More specifically, the residual effects of the EU are better allocated compared with the other two donors. The statistically non-significant coefficient for the US (in the second column) and China (for both columns) could reflect that their selectivity patterns largely follow that of the other donors. The results are also not that surprising since China allocates aid less widely than the other donors.

Unfortunately, the analysis fails to establish a causal relationship between the aid allocations of the donors and the measures of corruption and of basic human rights violations. The instrumental variables are found not to be valid, even with various specifications and combinations, so we can only conclude that there are patterns of association or correlation between the donors' aid and governance indicators. However, the literature suggests only a weak effect, if any, of foreign aid on institutions and governance, and the main focus of this thesis is selectivity.

6. Conclusion

This thesis has investigated the foreign aid selectivity of the US, the EU, and China in the 21st century. The focus has been on whether they allocate more aid to more corrupt and repressive governments, since this is expected to impede development and the effective use of the aid funds. In fact, corrupt governments can use aid resources to prolong their incumbency by purchasing repression and loyalty. For these reasons, donors who want their aid to go toward purposes of development and not be wasted or cause harm, should target recipient governments exhibiting lower levels of corruption and repression with increased aid.

In the aid discourse, the emerging donor of China is characterized as “rogue,” due to its alleged financing of corrupt and repressive autocrats to achieve its own strategic objectives. This is perceived among the traditional Western donors as impeding their foreign development objectives. Yet, the Western donors are not exempt from criticism themselves. Their rhetoric often fails to live up to reality, inviting allegations of hypocrisy. The thesis thus aims to investigate whether the traditional donors of the US and the EU actually show a different selectivity pattern than China, or whether China simply behaves like any other power internationally. The US and the EU, meanwhile, represent two major traditional donors, but yet very different; the US, a superpower accused of being strongly influenced by strategic or diplomatic considerations in its aid allocations, and the EU, a “normative power” which is expected to be driven by a set of ideas and values more responsive to the needs of recipient countries. At the same time, much of the Western criticism directed at China appear to be in the form of false narratives that usually do not hold up to empirical scrutiny (e.g., Dreher et al., 2018, 2022; Roach, 2022; see also de Soysa & Midford, 2012).

This thesis has approached this matter quantitatively, with TSCS models for the years 2000-2017/2021, using AidData’s constructed dataset of Chinese development aid, the World Bank for data on aid from the US and the EU, political variables from the V-Dem, and various control variables from the World Bank and the UCDP. The analysis consists of global models, as well as models for sub-Saharan Africa only.

The results suggest that all three donors respond to higher levels of corruption in recipient countries with lower volumes of aid allocations globally. Meanwhile, the US provides more aid to repressive governments, while the EU gives less, and China is not systematically affected by levels of recipient government. The results differ in sub-Saharan Africa, where the US is not affected by neither corruption nor repression, and the EU is only

significantly affected by corruption levels. Meanwhile, China proves responsive, both in significant and substantive terms, to corruption levels and repression levels. Overall, the results clearly fail to support the narrative of China as a rogue donor. Not in any of the models is there a statistically significant indication that China rewards corruption, repression, or autocracies. Also contrasting common perceptions is the indications that China is better than traditional donors in sub-Saharan Africa, evidently not making the negative impact it is accused of in this region. Its selectivity also seems fairly untouched by recipients' natural resource endowments. For the US, there are indications of hypocrisy, especially in terms of selectivity based on repression globally and on nearly all measures in sub-Saharan Africa. The EU exhibits selectivity which overall is supportive of its hypotheses, with the exception of repression in sub-Saharan Africa. Nonetheless, it does not make the clear divergence from the other two donors which could be expected – nor do the variables of interest have the substantive impact on EU aid that we would expect. In other words, the thesis provides another example that “Western foreign policy rhetoric does not always match reality” (de Soysa & Midford, 2012, p. 2).

The surprisingly positive results for Chinese selectivity are discussed in more detail. It is remarked that two of the principles guiding its foreign policies – those of mutual benefits and non-interference in internal affairs – are likely to be a crucial factor in the allocations. While these factors may reflect China's willingness to ignore humanitarian crises and challenging recipient environments, it may ultimately be less harmful than the most well-intentioned efforts by Western donors. As several scholars have emphasized (e.g., Bueno de Mesquita & Smith, 2012; Easterly, 2007; Moyo, 2009), Western intervention often brings more harm than good.

In accordance with Easterly and Williamson (2011, p. 1932), it should be emphasized that the results presented here do not measure the actual impact or effectiveness of foreign aid. Rather, one should lean on the theoretical frameworks provided earlier in this thesis to make assumptions that poor aid selectivity *increases* the probability of the funds being wasted or causing harm, whereas good selectivity makes the funds more likely to have a positive impact on the recipient country's development. Many other factors can and do influence aid effectiveness, including overhead costs, corruption and fraud internally in aid agencies, and incompetence in terms of knowing how to spend the aid funds (Acemoglu & Robinson, 2013, p. 451-452; Broberg & Sano, 2018; Easterly, 2007).

It should also be noted that the models presented here do not measure the impact of diplomatic or commercial objectives on the donors' aid allocations directly. It is a well-

known fact that donors have used aid to pursue their own interests in the past, and they are likely to continue to do so in the 21st century. The models in this study did not control for such measures, since it would explain away the donors' potentially poor selectivity. It is more implicitly assumed that poor aid selectivity is likely to be related to donors allocating aid for objectives other than those of the development of the recipient. Future studies should aim to empirically identify the strategic considerations that impact these donors in the 21st century.

Finally, this thesis would like to urge researchers to continue to pay attention to China as its economic and political power expands. What is important, meanwhile, is that claims and assessments are backed by careful empirical evidence, or else false narratives are allowed to dominate and diplomatic relationships are likely to sour, with potentially catastrophic consequences (Roach, 2022). The current data on Chinese aid still provides only estimates, which means that there is room for measurement error in the results presented here. The dataset also lacks data on recent years, during which we see major increases in aid from the US and the EU. China's upwards trend in aid disbursements in the 21st century (see Figure 1) and its ongoing Belt and Road Initiative (see Dreher et al., 2022; Roach, 2022) indicate that China may have allocated vast sums of foreign aid funds in the few years after 2017, with potentially huge impacts on recipient countries and populations around the world. The foreign aid disbursements of China, along with those of the US, the EU, and other donors, should continue to be assessed in the years ahead, especially given that poor selectivity has the potential of causing more harm than good. What is at stake, after all, is the well-being of millions of citizens in recipient countries around the world.

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Appendix A

Table A1: List of recipient countries excluded from analysis due to missing data

Antigua and Barbuda
Aruba
Bahamas
Belize
Bermuda
British Virgin Islands
Brunei Darussalam
Cayman Islands
Cook Islands*
Dominica
French Polynesia
Gibraltar
Grenada
Kiribati
Korea, Dem. People's Rep.
Macao SAR, China
Marshall Islands
Micronesia, Fed.
Nauru
New Caledonia
Niue*
Northern Mariana Islands
Palau
Samoa
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Tonga
Turks and Caicos Islands
Tuvalu
Venezuela

*Recipients from AidData without data from the World Bank.

Table A2: List of recipient countries included in the analysis.

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

*Lacks data on political corruption

**Excluded from models investigating Chinese aid

Table A3: Correlation matrix with all variables

	US aid per capita (logged)	EU aid per capita (logged)	Chinese aid per capita (logged)	Political corruption	Basic human rights violations	Democracy	GDP per capita (logged)	Civil war	Years of peace	Natural resources (logged)
US aid per capita (logged)	1.000									
EU aid per capita (logged)	0.259	1.000								
Chinese	0.052	0.118	1.000							
Political	0.055	-0.16	-0.032	1.000						
Basic	-0.048	-0.285	0.032	0.565	1.000					
Democracy	0.048	0.200	-0.036	-0.507	-0.761	1.000				
GDP	-0.215	-0.053	-0.146	-0.416	-0.350	0.264	1.000			
Civil war	0.043	-0.157	-0.077	0.231	0.367	-0.198	-0.249	1.000		
Years	0.009	0.245	0.031	-0.403	-0.418	0.215	0.407	-0.552	1.000	
Natural resources (logged)	-0.131	-0.307	0.125	0.294	0.351	-0.303	-0.295	0.212	-0.304	1.000



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