

# Investigating the association between political corruption in recipient countries(CPI score) and US foreign aid program 2012-2017

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## Abstract

This paper aims to explore the negative effects of US foreign aid program on the quality of governance in recipient countries between 2012 to 2017. We hypothesized that as the governments of the recipient countries are in charge of fund allocation, the funds donated by other countries are not likely to be used in an appropriate way and provide the chance of political corruption because high volume of foreign aid provide a good money resource for recipient countries which leads to less need for tax revenues. Thus the responsiveness of the government will decrease and political corruption will be promoted in recipient countries. Using data from 24 countries shows that there is a negative relationship between Corruption Perception Index and foreign aid in recipient countries between 2012 to 2017.

*Keywords:* Corruption Foreign aid political corruption responsiveness

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## 1. Motivation

Foreign aid and humanitarian programs being provided by many countries with various reasons and results. When we talk about foreign aid programs the very first thing which comes to mind is health, food and education plans for poor countries provided by developed countries and mainly international organizations such as UN and IMF. But this is not the real image of foreign aid as foreign aid has a lot of categories and methods for inflow and the results for recipient countries are not always what was expected.

The reason I chose this topic for my research is to question the receiver governments as the main agents in receiving and allocating. A weak government will obviously abuse the fund and fail to use it based on the main purposes mandated by the donor government. In this paper I am trying to touch the weak point of this system of foreign aid allocation and show that foreign aid is not always good for the recipient countries as it provides money resources for weak recipient countries and less responsible to the citizens and thus more corrupted.

## 2. Introduction

Reduction of poverty and the promotion of growth as a main goal for most of the developed countries began since the Second World War. The amount of nonmilitary aid, which

was transferred to the recipient/developing countries was around 55 billion. Through most of the international scholarly works, diminishing poverty in developing countries has been discussed in a wide spectrum of manners and through various perspectives. Poverty alleviation requires different policy makings and specific frameworks but in both multilateral and bilateral types, foreign aid should be considered as one of the main tools of poverty reduction (e.g., Okada and Samreth (2012); Chong et al. (2009); Philip (2013)). Based on the existing literature and previous researches regarding foreign aid and its effects on both receiver and donor countries, there are a wide variety of effects made by different types of foreign aid on receiver countries by which the quality of policy making and governance will be seriously impacted.

Corruption in receiver countries as one of the main aspects, which indicates the quality of governance, has been discussed to dramatically influenced by various types of foreign aid. There are a number of scholarly works that address the impact of corruption on economic growth such as Mauro (1995) and Mo (2001) and also Alesina and Weder (2002), Swamy et al. (2001) Davoodi (2000) Tavares (2003) using ordinary least squares (OLS). These previous studies have mostly insisted on the quality of governance (in terms of corruption) on the economic performance, which is obvious and predictable while this study aims to explore the impact of foreign aid from US- on the quality of governance (corruption) among the most recipient countries. In their study of the association between foreign aid and policies in 52 African countries, Okada and Samreth (2012) argue that foreign aid has a positive effect on controlling corruption in terms of policy implication while these findings cannot be generalized to other recipient countries as more than half of the most aid receiver countries are middle eastern and they are mostly get foreign aids in military and security.

This research enables us to examine the effect of specific types of foreign aid on corruption including multilateral and bilateral foreign aid and also the total amount of foreign aid. This division and categorization of foreign aid helps us to find which types of foreign aid by US in recipient countries has more effects on corruption in terms of increasing? And which types have not or less effects on the good performance of the government? The reason for this dividing approach originates from Alesina and Dollars (2012) work in which it has been demonstrated that there are various differences between bilateral and multilateral aid and their results on recipient countries.

### **3. Foreign aid and its categories**

According to the definition of World Bank, countries attribute the capital in six main categories, which are bilateral aid, multilateral aid, Tied aid, Project aid, military aid and voluntary aid. Each of these types is explained below.

Bilateral assistance is a direct allocation of the capital from one developed government to the recipient, in which the main concern is long-term projects specifically humanitarian aids, developing democracy and stability and also economic growth.

Multi-lateral assistance comes from not just one government but it is provided by many countries through international organizations such as IMF, UN or the World Bank itself

in which the capital flow should mainly be used in projects regarding poverty reduction in developing countries. Based on the specific allocation of the US foreign aid this part is one of the minor sectors provided by US while other countries dedicate a significant part of this fund to the international organizations.

Tied aid is also provided by One government so it can be a subgroup of bilateral aid in which the donor country mandates the recipient country(s) to spend the capital on specific goods and services specified by the donor. This aid can be in form of a loan or special grants for recipient countries Project aids are used to financially support particular humanitarian projects such as hospitals and schools by one donor country or a group of donors. Military aid, which is discussed a lot in this paper, is not categorized as altruistic supports like the previous assistances. Military assistance is a big portion of US foreign assistance to a number of recipients. Only in 2011 the US allocated approximately 15 Billion to military various types of military aid in form of mandating recipient countries to buy arms and weapons from US and ship them over military transport or in form of defense contracts. Voluntary assistance as it appears from its name is a kind of charity in recipient countries through which humanitarian projects are being supported such as Doctors without Borders. These forms of assistance are implemented mostly through non-governmental organizations in regions in which people need special helps for deceases or wars.

#### **4. Political corruption, definition and types**

What Is Political Corruption? Political corruption has a wide spectrum of definitions and circumstances under which the government doesnt have the specific qualifications to be defined as a good government. All situation in which rules and regulations are circumvented in order to fulfill government business can be defined as political corruption such as using the power of office for personal interests or any abusing of the trust for a certain office.

There are various definitions for corruption and each of them insists on one specific aspect of bad governance. In the shortest way and based on Kaufmanns definition, corruption can be defined as the abuse of public office for private gain Kaufmann (1997). The receivers of the foreign aid in any type are governments (public office) and according to Alesina and Dollar (2000) almost two-thirds of all kinds of foreign aids by donors are being collected and used by the recipient countries and the governments are in charge of allocating the capital flow dedicated by international organizations or countries and distributing the assistance in general public.

Thus it can be argued that foreign aids can be either a reason to develop the receiver countries or a way for more corruption by office. (Tavares 2003, p. 100). Based on the existing literature, corruption has various definitions and can be categorized through various subgroups. Elliot(1997) argues that when the officials look for accelerating permissions by integrating their salaries with non-significant bribes small(petty) corruption happens while big (grant) corruption occurs when the officials manipulate the allocation of contracts to mandate firms in order to pay bribe. According to the work of Ackerman (1978) bribery can be divided to two separate forms. One is to manipulate the existing rules and regulations

and come up with new rules and the other is to bribe without changing the rules. There are also other examples of these deviations such as Shleifer and Vishny (1993) work on corruption in which in one scenario corruption is accompanied with theft so the officials get the whole capital made by the firm while in the other scenario corruption is without theft when the officials provide the government with goods and services and get the additional bribe. Another classification explained by Doh et Al and Rodriguez classifies the political corruption in terms of pervasive and arbitrary corruption the former type is the situation in which as long as the firm deals with the government corruption is inevitable while the latter concerns the situation in which there is a constant uncertainty for the firm about the bribes and the fulfillment of the services

There is a wide spectrum of different political corruptions based on the existing literature but the most significant and common types of political corruption are listed below:

#### *4.1. Types of Political Corruption*

One of the most common forms of political corruption is payoffs and bribes which can be defined as the act of providing services, goods or giving money to one or more official in exchange for favorable interest. For instance for a new development contract a building contractor may pay large amount of money to an official.

Another common form of political corruption is called graft which is the act of using the fund of a specific project or person for personal interests. Act of embezzlement is the situation in which some officials agree to specific local development contracts in exchange of large amount of money in their personal bank account.

Political extortion happens when officials use their great power in order to threaten others into do a certain job or behave in specific way. Another type of corruption, which is related to extortion, is political blackmail, which occurs when an elected official threatens to release confidential information about an issue or a person to mandate them for cooperation or a certain way of behaving.

And one of the most common types of political corruption is preferential treatment which is the circumstance under which the appointment of the officials get influenced by factors other than knowledge and fairness such as special connections or family relations. Patronage is one type of preferential treatment occurs when one officials base his or her appointments on personal benefits, payoffs or in exchange of vote. There is also another kind of preferential treatment, which is known as nepotism. This happens when an official give the appointments to the family members in all levels instead of taking in to account the significant actual qualifications of the appointees. This paper accumulates all of these different types of corruption as Corruption Perception Index (CPI) score which is in the scale of 0-100 so the countries near the score of 100, have less or nothing of these types of political corruption.

## **5. Data and Methodology**

### *5.1. Data*

I use a panel of 24 African, Middle Eastern and Asian countries which are the most recipients of foreign aid specifically from the United States with the data released by the

Department of State and the United States Agency for International Development (USAID) ranging from 2012 to 2017. Working on 24 countries through the time period of five years provided us 144 observations. The Dependent variable in this paper is the level of corruption in each country in five years which is indicated by Corruption Perception Index (CPI) score. The CPI score data for each country per year comes from the World Bank database which is a cumulative number of 13 different databases and also 12 various institutions which specifically work on political corruption. This data is in the scale of 0-100 where 0 shows the highest level of corruption and 100 indicates the lowest level of political corruption. The independent variable is consisted of 14 indicators of Foreign aid and the data for all indicators comes from the Department of State and United States Agency for International Development (USAID). Reno (1995) The foreign aid indicators are explained below:

#### *5.1.1. Peace and Security*

The first category of foreign aid by US is known as peace and security. Based on the council of foreign relations report this category mostly includes Actions regarding the conditions and capacity for nations to effectively achieve peace, stability and security. Also this category enables the country to have proper responds against the potential threats, which exist for national stability and national security.

#### *5.1.2. Democracy, human rights and social services*

The second category of the US foreign aid is known as Democracy for the recipient countries. This type of foreign aid mainly includes Actions that increase and promote democratic consolidation in recipient countries and put them in a direction through which an effective democracy and proper bureaucracy can be shaped in the country.

#### *5.1.3. Health*

According to the report of United States Agency for International Development (USAID) The main concern of this category of US foreign aid for recipient countries is to improve the health for people specifically women and children and other part of the population who are vulnerable or suffer from disease in the recipient countries. This program provides services for basic health such as family health plans, strengthening the system of national health and special programs for infectious diseases such as HIV/AIDS which are not national but global concerns.

#### *5.1.4. Education and social services*

One of the main concerns of all foreign programs is education and social services specifically providing effective, sustainable and equitable education system both in formal and non-formal education. Also the significance of education system can be explained in terms of a way to protect people from poverty and the risk of victimization through helping people reach job opportunities, self reliance and decrease poverty and have more productive role in the society.

#### *5.1.5. Economic development*

This part of the foreign aid aims to provide the condition in which a broad-based, rapid and sustained economic growth and poverty reduction would be possible for the recipient countries and people.

#### *5.1.6. Environment*

This section of the foreign aid basically concerns about Supporting a clean and productive condition for the environment through various plans for ensuring that the environment and natural resources are managed in a way that sustain productivity growth and healthy population since the livelihood and human lives are totally depend on the natural resources. The long-term viability and sustainable potential of the natural resource is the main focus of the Environment plan in order to properly meet the needs of future and present generations.

#### *5.1.7. Humanitarian assistance*

The goal of this program is to decrease the economic costs for people who have faced disasters and displacements, save their lives and diminish their sufferings. This plan is provided based on services regarding human dignity, impartiality and the principles of universality. The approach is integrated and coordinated but covers multiple sections to have the most optimality. These services are not only in terms of establishing social services but to reduce iconic poverty and develop first necessary services.

#### *5.1.8. Program management*

Aims to provide the general support for the completion US foreign assistance by monitoring, evaluation and facilitating the management of the program and tracking the costs.

#### *5.1.9. Multi-sector*

This sector is for when a sector is cross-cutting between various sections or cannot be categorized or identified under one specific section.

### *5.2. Methodology*

This paper uses is testing the negative effects of foreign aid provided by US. on the governance of the recipient countries using Ordinary Least Square (OLS) models which will be discussed in the following sections. For reaching this goal the main hypothesis here is: The foreign Aid provided by developed countries specifically US are useful for economic and humanitarian help in recipient countries while this aid decreases the quality of the government in terms of Corruption since most of the recipient countries and developing countries which already suffer from a lot of the factors bad governance such as failing to use resources for public needs, lack of adequate institutions and the domination of government on all sectors of people's lives.

Also the only way between donated capitals from donor countries and the destination of the foreign aids(needy sectors in recipient countries) is the weak governments of the recipient countries. Thus there is high probability that those governments fail to use the capital in proper ways and in the right direction or intentionally use the capital flows for personal

Foreign Aid Indicator	Program Explanation	Category
<b>Peace and Security</b>	Actions regarding the conditions and capacity for nations to effectively achieve peace, stability and security	Bilateral Aid
<b>Democracy, Human Rights &amp; Social Services</b>	Actions that increase and promote democratic consolidation in recipient countries and put them in a direction through which an effective democracy and proper bureaucracy can be shaped in the country	Bilateral Aid
<b>Health</b>	Provides services for basic health such as family health plans, strengthening the system of national health and special programs for infectious diseases such as HIV/AIDS which are not national but global concerns	Tied Aid Humanitarian Aid
<b>Education &amp; Social Services</b>	Providing effective, sustainable and equitable education system both in formal and non-formal education	Bilateral Aid Humanitarian Aid
<b>Economic Development</b>	provide the condition in which a broad-based, rapid and sustained economic growth and poverty reduction would be possible for the recipient countries and people	Bilateral Aid
<b>Environment</b>	The long-term viability and sustainable potential of the natural resource is the main focus of the Environment plan in order to properly meet the needs of future and present generations	Tied Aid Project Aid
<b>Humanitarian Assistance</b>	To decrease the economic costs for people who have faced disasters and displacements, save their lives and diminish their sufferings	Humanitarian Aid
<b>Program Management</b>	Aims to provide the general support for the completion US foreign assistance by monitoring, evaluation and facilitating the management of the program and tracking the costs	Bilateral Aid
<b>Multi Sector</b>	This sector is for when a sector is cross-cutting between various sections or cannot be categorized or identified under one specific section	Bilateral Aid

Table 1: Foreign Aid Indicators.

interests, unnecessary sectors or even against the people. As a result the more capital flows enter the poor-government countries the more governments find the chance to abuse the money and get closer to political corruption such as embezzlement and bribe because: The poor governments find a good money resource so the need for taxes from people will decrease so the responsibility of the government will decrease and the probability of corruption will increase in the recipient countries. Figure 1 represents this fact in the Middle East region: During the time period between 2013 to 2014 The CPI score of Turkey has decreased from 50 to 45 (scale of 0-100) while the foreign from United States to this country has increased from 1'330'000 US dollars to 1'550'000. This is also true from 2014 to 2015 as the amount of foreign aid reaches to 2'900'000 dollars while the CPI is still getting worse.

This is also true about Afghanistan as it is shown that decreasing the amount of foreign aid from US. from 2014 to 2015 has slightly increased the CPI score of this country. In Jordan 2012 the CPI score of the country stands near 50 while when the amount of foreign aid from US drastically increases from 24 million dollars to 645 million dollars the CPI score decreases to 43 which again indicates the negative effects of foreign aid on the quality of government. For Syria this trend is visible from 2015 to 2016. The CPI score at 2015 is around 20 while when the foreign aid increase to 570 million dollars the CPI score decreases to 10 and stays around the same score by increased the foreign aid to 580 million.

As it is shown on the figure the only country which has a different trend in the Middle East is Pakistan in which the CPI score has increased or stayed the same while the foreign aid from the United States has increased. The CPI score of Iraq has slightly increased from 2014 to 2015 as the foreign aid from US decreased to 140 from 219 million dollars. Figure 2 represents the same inverse relationship between the countries located in Asia such as Bangladesh, Myanmar, India and Vietnam. The CPI score is negatively associated with the annual amount of foreign aid in these countries specially Vietnam and India.

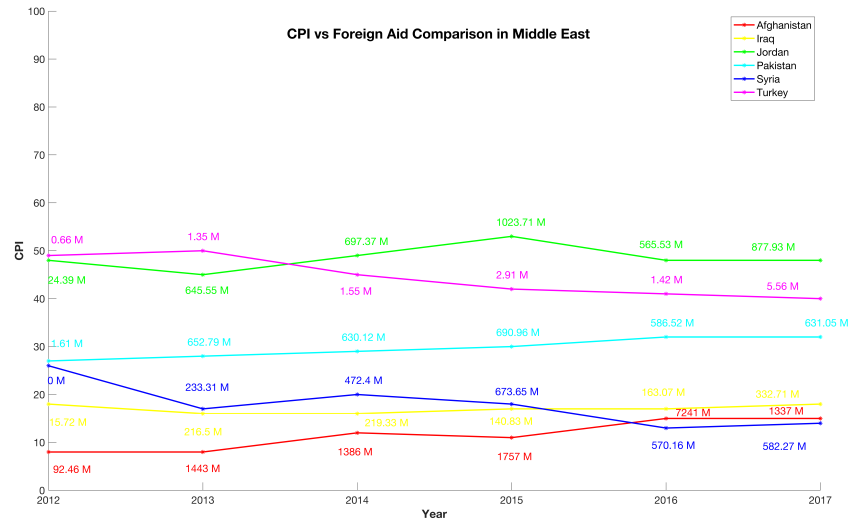


Figure 1: This figure shows the moderate reversal relationship between foreign aid and CPI score for six countries located in the Middle East region (Afghanistan, Iraq, Jordan, Pakistan, Syria, Turkey) between 2012 to 2017

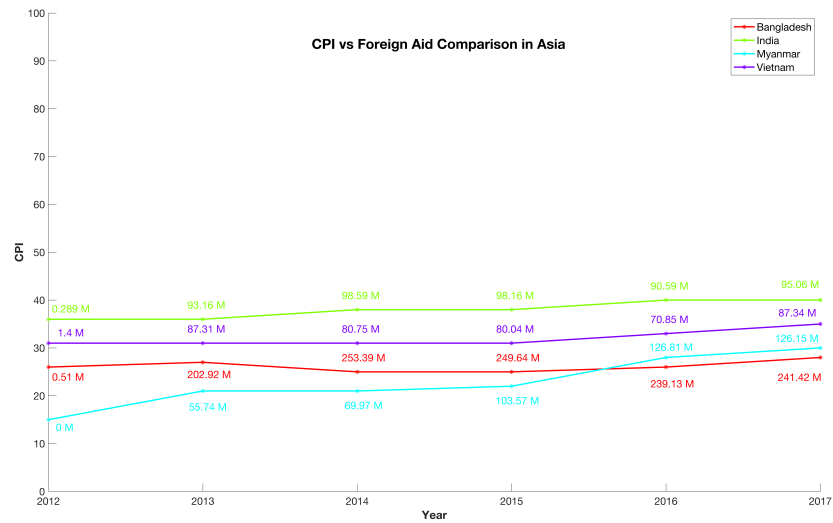


Figure 2: This figure shows the moderate reversal relationship between foreign aid and CPI score for four countries located in the Asia region (Bangladesh, India, Myanmar, Vietnam) between 2012 to 2017

As it is shown in Figure 2, as the amount of foreign aid from US to India decreases from 98 million dollars in 2015 to approximately 90 million dollars in 2016 the CPI score has increased and stood around 50 but when the amount of capital increases to 95 million



dollars in 2017 the CPI score decreases as it was predicted. This fact is also true about Bangladesh. As it is shown in the figure, when the amount of US foreign aid increases from 202.92 million dollars from 2013 to 253.39 in 2014 the CPI score decreases to approximately 20 and eventually in 2016 by diminishing the foreign aid from US the CPI score gets higher which shows the decreasing trend in political corruption.

Through this category of countries Myanmar is an exception as the CPI score is increasing with the amount of foreign aid from US while for Vietnam the same fact is true as it is for India. the CPI score in this country at 2015 is worse than when the the foreign aid decreases to 70 million dollars but at 2017 the CPI increases alongside the foreign aid capital from the United States which is in contrast with our hypothesis.As a result our hypothesis is acceptable in both Middle East and Asia so far. Now we take a look at figure 3 which represents the Association between CPI and Foreign aid in 5 African countries which receive large amounts of foreign aid from the United States.

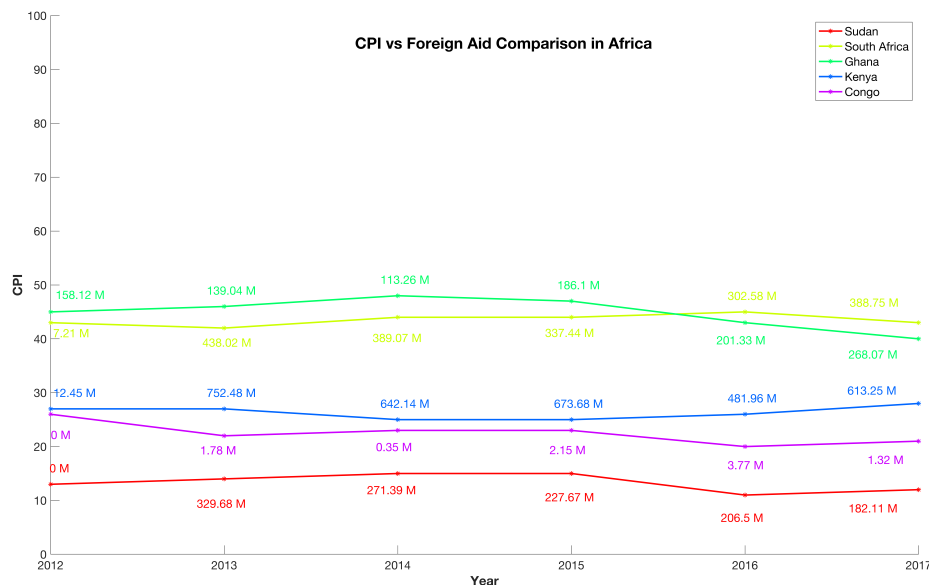


Figure 3: This figure shows the moderate reversal relationship between foreign aid and CPI score for five countries located in the Africa region (Sudan, South Africa, Ghana, Kenya, Congo) between 2012 to 2017

As it is shown in Figure 3 the association between CPI score and foreign aid flow is negative. The CPI score of south Africa in 2013 is 45 while this score gets better when the amount of foreign aid from US. decreases in 2014 and also 2015. The CPI score of Congo gets better when the amount of foreign aid decreases from 2013 to 2014. The same story is true about Kenya from 2015 to 2016 and the CPI score is slightly better when the foreign aid is diminished.Ghana has the same association between foreign aid and CPI score in which while the aid is getting greater the CPI score is getting worse from 2015 to 2016.

Table 2:  
Association between Corruption Perception Index (CPI score) and annual foreign aid indicators.

	<i>Dependent variable:</i>		
	Corruption Perception Index		
	(1)	(2)	(3)
Foreign Aid	0.292* (0.148)		
Peace & Security	-0.290* (0.148)	0.002 (0.002)	0.002 (0.002)
Democracy	-0.384** (0.152)	-0.091*** (0.033)	-0.100*** (0.031)
Health	-0.290* (0.149)	0.003 (0.006)	
Education	-0.167 (0.146)	0.107** (0.045)	
Economic	-0.260* (0.150)	0.035*** (0.010)	0.043*** (0.009)
Environment	-0.282 (0.174)	0.029 (0.075)	
Humanitarian	-0.319** (0.147)	-0.029*** (0.007)	
Program Management	-0.379** (0.159)	-0.088 (0.059)	-0.040 (0.054)
Multi Sector	-0.097 (0.210)	0.198 (0.149)	0.279* (0.156)
Constant	30.190*** (1.105)	29.981*** (1.112)	29.311*** (1.046)
Observations	143	143	143
R <sup>2</sup>	0.377	0.359	0.253
Adjusted R <sup>2</sup>	0.330	0.315	0.226
Residual Std. Error	8.282 (df = 132) <sup>10</sup>	8.371 (df = 133)	8.903 (df = 137)
F Statistic	7.989*** (df = 10; 132)	8.266*** (df = 9; 133)	9.275*** (df = 5; 137)

*Note:*

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01

## 6. Empirical Results

For this research we provided three models using Ordinary Least Square in order to explore the association between political corruption and foreign aid using the data comes from 24 most foreign aid recipient countries between 2012 to 2017. Model 1 represents the the association between 9 indicators of foreign aid and also the total amount of the annual foreign aid. There is a negative relationship between the CPI score and the first category of foreign aid which indicates that increasing this category which is mostly about military contracts can decrease the quality of governance in recipient countries and makes it easier for the officials to use the received money and power for the usages other than the public interests. Also there are negative association between CPI score and all other variables included in model 1 specifically Humanitarian and program management which can be an evidence to prove that the more foreign aid under these certain categories, the more chance will be provided for political corruption. In model 2 the total foreign aid is excluded to be more specific about each variable. the results show that the negative association exist between CPI and only three of the variables which are democracy, humanitarian and program management foreign aid. this result promotes the idea that because the receiver governments are in charge of allocating foreign aid even humanitarian helps will not be allocated in a proper way and will be abused. Model 3 which only shows the association between political corruption versus economic and democracy fund indicates that the more countries plan to increase democracy in developing countries the less they succeed as the agent who is in charge of fund allocation and fund using is weak itself that put the funds in an inappropriate way of use.

## 7. Conclusion

This scholarly work aimed to investigate the association between the political corruption in receiver countries and the foreign aid donated by developed countries specifically US. we explored there is a slight negative relationship between these two variables using 3 OLS models and 143 observations. the main hypothesis which is "the recipient countries are weak so the fund could not be used appropriately" has been proved based on the empirical research here.

Political corruption is a vast field of study and has been addressed by many manners and scholars via different perspectives. still there are a lot of unfinished topics and unanswered questions regarding political corruption and foreign aid which can be contributed to this field of study in the future. text ?

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