

# U4 Expert Answer



## Bilateral versus multilateral aid and corruption

### Query

It is often argued that the UN and the development banks are better positioned in terms of capacity and knowledge to handle funds in addition to being better at preventing corruption occurring in the programmes and projects financed. Are there any studies underpinning the assumption? Are there any studies which compare aid through multilateral institutions with bilateral aid, in terms of how they engage and combat corruption? Are there any documented negative consequences on corruption of aid from multilateral institutions/banks?

### Purpose

The multilateral agencies are receiving more and more financial support from the government, and there is a clear shift from bilateral aid to even more multilateral aid.

### Content

1. Comparative merits of multilateral and bilateral aid channels
2. Multilateral aid and corruption
3. References

### Caveats

There are few studies specifically comparing the effectiveness of bilateral and multilateral donors in combating corruption. The literature typically

focuses on the comparative merits of bilateral and multilateral aid in broader terms.

### Summary

There is empirical evidence suggesting that multilateral aid channels are less politicised, more demand-driven, more selective in targeting poorer countries, better positioned to provide global public goods and the preferred option of recipient countries. Multilateral donors can also draw from a broader technical base than individual bilateral donors.

However, multilateral agencies are less selective than bilateral agencies in terms of the governance of recipient countries and do not align aid modality accordingly. There are also indications that bilateral agencies exhibit lower administrative

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costs than multilateral agencies, but evidence is still patchy in this regard.

The Helpdesk has found no comparative studies on the respective approach of bilateral and multilateral agencies to fight corruption. The evidence regarding the impact of aid – irrespective of whether it is delivered through bilateral or multilateral channels – on corruption is also mixed and inconclusive.

## 1. Comparative merits of multilateral and bilateral aid channels

OECD countries distribute an important part of their foreign aid through multilateral organisations, such as the European Union (EU), World Bank, IMF, UN and regional development banks. The use of such multilateral systems by members of the OECD Development Assistance Committee (DAC) increased to a record US\$59 billion in 2013, representing 41% of total gross overseas development aid. Of these funds, 60% went to the European Union, the World Bank Group and the United Nations funds and programmes (OECD 2015).

There are many overlaps and similarities between aid disbursements of bilateral and multilateral agencies. These similarities make the substitution of aid channels from a donor country perspective possible and bilateral donors are increasingly exploring the opportunities of directing larger portions of aid to multilateral channels, delegating aid implementation to multilateral agencies (Annen and Knack 2015; ODI 2015). International or domestic public institutions are the first-level implementation partners for both channels; they both operate in countries facing similar development challenges; their engagement often covers the same range of actors, states and sectors; and they are involved in comparable policy debates and similar forums at global and country levels.

### Assumptions on the comparative advantages of bilateral and multilateral aid

There are few studies specifically comparing the effectiveness of bilateral and multilateral donors in

combating corruption. The literature typically focusses on the comparative merits of bilateral and multilateral aid in broader terms. There are a number of propositions made on the comparative advantage of delegating aid to multilaterals, in terms of neutrality, efficiency, selectivity, fragmentation and recipients' preferences. The OECD, for example, refers to multilaterals as “politically neutral convenors of global partnerships, vehicles for upstream pooling of resources, facilitators of multi-stakeholder cross-border operations and setters of global standards and norms” (OECD 2015).

### Politicisation of aid channels

Neutrality is perceived as a key advantage of using multilateral aid channels. Proponents of such approaches argue that multilateral aid is more cost-effective and less prone than bilateral aid to be captured by vested and individual interests as they have more diverse stakeholders and use untied aid (Barden 2016). Bilateral channels are also suggested to be more politicised than multilateral channels, while multilaterals are assumed to enjoy a degree of autonomy from the states that fund them (ODI 2015).

Interactions between multilaterals and recipient countries is, therefore, likely to be less politicised, a quality that could reduce tensions between the strategic interests of donor countries and development goals.

Because they are seen as politically neutral, multilateral agencies can more effectively exercise conditionality for demanding social, governance or economic reforms, or enforce pro-poor conditionality more effectively than bilateral agencies (Biscaye et al. 2015). In addition, multilaterals may have more legitimacy and credibility than individual donors to develop and disseminate norms and standards or act in politically sensitive situations – for which independent donors may lack neutrality and credibility (Barden 2016).

While evidence tends to confirm that aid allocations of bilateral donors are more likely to be influenced by strategic and political considerations, some argue that political bias is

not always negative and can have positive intended or unintended consequences.

For example, bilateral donors can use long-standing relationships, a shared past, and similar institutional structures to achieve positive outcomes. Multilateral channels are also more remote from electoral pressures and public opinion, which may insulate them from these sources of political influence (Reinsberg 2015). Multilateral agencies' neutrality and impartiality may also be undermined by the influence of major stakeholders and internal bureaucratic factors (ODI 2015).

### **Selectivity**

Selectivity refers to the selection of recipient countries based on governance criteria so that aid is well spent on development needs (so that aid is given to the poorest countries) and is widely assumed to contribute to aid effectiveness (ODI 2015). Multilaterals are often perceived to be more selective than bilateral donors, targeting aid to the poorest countries (need criteria) and to better governed countries (good use of resources). However, there is some emerging evidence that bilateral donors tend put greater emphasis on institutional quality and multilateral agencies on recipients' development needs (ODI 2015). Multilateral aid is also reputed to be more needs-based and humanitarian in orientation and less susceptible to be controlled by any governments and their foreign policy goals, providing better quality aid (Milner 2004).

### **Efficiency**

Using the multilateral system is seen as allowing for economies of scale (OECD 2013). Multilateral aid channels are believed to be more efficient in terms of lower overhead costs, economies of scale, economy of scope (efficiency gained by variety) and value for money, but the evidence base supporting this claim appears fragile (ODI 2015).

Multilaterals can better harmonise positions, coordinate interventions, achieve common standards and policies, and pool resources to achieve economies of scale. As larger donors, multilaterals can also realise some returns to scale, by spreading overheads over more projects

(Barden 2016). However, recent comparisons of donor overhead costs challenge the assumption that multilaterals offer better value for money. On the contrary, DAC donors appear to be the best at maintaining low overheads compared to non-DAC donors and multilaterals (ODI 2015; Palagashvili and Williamson 2014).

It is also suggested that international organisations are more efficient because they have more specialised professionals in the field, allowing for reduction in time and costs (Andreaopoulos et al. 2011). These multilateral institutions are also suggested to have a broader technical base than individual bilateral donors (OECD 2013). As they include a broader range of members, multilaterals can also draw on this diversity and a wider range of experiences (OECD 2013).

However, some argue the cost of running a large-scale organisation can be extremely high because of the high-level salaries required to pay the trained personnel and the expenses of keeping the organisation running (Andreaopoulos et al. 2011). In addition, there are often delays when aid funds are collected and managed by an international organisation and less of the funds reach the intended destination (Andreaopoulos et al. 2011).

### **Effectiveness in supporting development outcomes**

There is no empirical consensus in the literature on the respective effectiveness of bilateral and multilateral agencies in supporting development outcomes, using measures such as GDP growth, investment flows and human development indicators. A comparable number of studies find that: 1) bilateral agencies are more effective than multilaterals; 2) multilateral are more effective; and 3) that there are no significant differences (Biscaye et al. 2015). Based on the existing body of evidence, it is not possible to draw robust conclusions on the comparative effectiveness of each aid channel in supporting development outcomes.

### **Fragmentation**

Aid fragmentation refers to the extent to which sources of aid received by a recipient are

dispersed, resulting in decrease of bureaucratic quality, increased transaction costs, reduced growth and increased corruption (ODI 2015).

Unlike national donor agencies, multilateral agencies often have a regional or sectoral specialisation that reduce excessive aid fragmentation. Specialisation is indeed confirmed as a comparative advantage of multilaterals in terms of both geographic and sectoral measures (ODI 2015). Using multilaterals can also maximise donors' influence by presenting a unified front to recipients and reducing the possibility for recipients to play various donors off each other.

### **The respective role and expertise of national donor agencies and multilateral institutions**

Multilaterals are also seen as uniquely positioned for global collective action on issues that are dispersed across countries, groups and generations – referred to as global public goods – such as climate change, peace and security and pandemic control, offering an appropriate vehicle for tackling global issues because of their political legitimacy (ODI 2015; OECD 2013). Finally, using the multilateral system allows for economies of scale (OECD 2013). Bilateral agencies accordingly tend to allocate funding for these issues through multilaterals (OECD 2015).

Multilateral aid also tends to adhere to widely-shared principles, standards and procedures, with the understanding that many of these problems are not local, but global, and therefore have to be tackled by the corresponding institutions and mechanisms (Andreaopoulos et al. 2011).

In addition, their inter-governmental structures allow them to compile globally relevant, high quality information through global surveys and international conferences and disseminate expertise. They are also considered as possessing high levels of expertise and being better positioned than bilaterals to attract qualified professionals by undertaking internationally competitive recruitments (ODI 2015).

Finally, multilateral agencies may have more legitimacy and credibility than individual donors to develop and disseminate norms and standards or act in politically sensitive situations – for which

sovereign countries may lack neutrality and credibility (Barden 2016).

### **Recipient's preferences**

Aid recipients are believed to find multilateral institutions more legitimate and trustworthy than bilateral donors (ODI 2015). These assumptions tend to be confirmed by surveys of recipient countries' officials (Custer et al. 2015). Bilaterals continue to be suspected of neo-colonial aspirations, even when aid is delivered unconditionally, in spite of evidence that multilaterals also impose coercive conditionalities, such as the IMF austerity programmes and structural adjustment policies in developing countries and can represent global hegemonic interests (Andreaopoulos et al. 2011).

### **Assessments of aid quality and donor performances**

A number of organisations and papers have sought to assess performances across donors and rank them on a number of criteria.

#### **Quality of development assistance**

The Quality of Official Development Assistance (QuODA) assessment is a quantitative assessment and ranking of 23 bilateral donors and 8 multilateral agencies' performance according to four dimensions of aid quality (maximising efficiency, fostering institutions, reducing the burden on recipient countries, and transparency and learning), reflecting international effectiveness standards. Multilateral agencies, which tend to have the largest share of aid going to fragile states, also tend to perform better than bilateral donors across all categories except transparency and learning (Birdsall et al. 2010).

The report attributes the development benefits of multilateral agencies to their ability to avoid political considerations in allocating aid, providing more aid to poorer countries and to well-governed countries and avoiding tied aid. They also tend to have much less fragmented aid, with larger project sizes, reducing the administrative burden on aid recipients. Among multilaterals, the development banks tend to perform better while

the UN institutions tend to be more fragmented and less efficient.

### **Best and worst practice in foreign aid**

Another Brookings' study ranks bilateral and multilateral donors across five dimensions of aid practices, including: transparency of aid; specialisation (or the degree to which aid is not fragmented among too many donors, sectors and countries); selectivity (or the degree to which aid avoids corrupt autocrats and goes to the poorest countries); ineffective aid channels, such as food assistance, technical assistance and tied aid; and overhead costs of aid agencies (Easterly and Pfutze 2008).

An interesting finding is the correlation between the ranking on fragmentation and the ranking on overhead costs. A lot of aid continues to flow to corrupt countries and countries other than the lowest income countries, while inefficient channels, such as aid tying, the use of in-kind assistance and technical assistance persist in many agencies.

A broad pattern emerging from this ranking is that multilateral banks tend to be closest to best practice, while UN agencies are typically at the bottom of the ranking (except for UNICEF and UNRWA), and bilateral donors are spread out in between. These trends seem consistent over time (Easterly and Williamson 2011), although there are indications of improvements in terms of transparency, and decreases in disbursing aid through food aid, tied aid, and technical assistance.

### **Aid quality**

Another study constructs an index based on four distinct dimensions of aid quality emerging from the aid effectiveness literature: selectivity, alignment (on partner countries' national development strategies, institutions and procedures); harmonisation (of donor activities); and specialisation (Knack, Rogers and Eubank 2011). This ranking of donors produced very similar results than the QuODA assessment, with some multilateral agencies ranking high on selectivity, alignment and specialisation.

### **Value for money**

ODI (2015) refers to a study by Palagashvili and Williamson comparing overhead costs in terms of administrative costs, the ratio of aid salaries and benefit to aid flows and total disbursement per employee and find that DAC bilateral donors are better than multilaterals at keeping overheads low.

### **Recipient countries' satisfaction**

AidData launched the Reform Efforts Survey in 2014 designed to provide data on the trustworthiness, influence, and performance of 100+ Western and non-Western development partners, as observed and experienced by the in-country counterparts of development partners (Custer et al. 2015). While some question the validity of such results for methodological reasons (Kenny and Sandefur 2015), findings show that multilaterals have a performance edge versus DAC and non-DAC bilaterals across all performance indicators used in the survey. Development partners that have the most influence on policy priorities in their low-income and middle-income countries are large multilateral institutions like the World Bank, the GAVI Alliance, and the Global Fund to Fight AIDS, Tuberculosis and Malaria (Custer et al. 2015).

In terms of quality of communication between host government officials and development partners, the most communicative development partners are very large or narrowly-focused multilateral agencies such as United Nations Development Program (UNDP) and other UN agencies. However, some bilateral development partners appear to be more prominent in particular policy domains. For example, the United Kingdom is placed among the top five communicators in anti-corruption and transparency and justice and security, while Norway is prominent within both the anti-corruption and transparency and education policy domains (Custer et al. 2015).

In terms of performance and agenda setting influence, host government officials find the advice of multilaterals and small DAC bilaterals to be most useful and seem more receptive to their policy advice. Multilateral organisations perform policy advisory activities with greater neutrality and credibility than their bilateral counterparts, which contributes to their greater perceived ability

to influence host government reform efforts. Multilaterals and small DAC bilaterals are also seen as being the most helpful development partners in reform implementation (Custer et al. 2015).

A survey of Ugandan citizens also found that a large majority of respondents (60%) believe that multilateral donors do better than bilateral donors in terms of impact and have the least amount of waste in achieving their goals. A similar number, (59%) also found that multilateral aid most often matched the needs of their community (Findley, Milner and Nielson 2014).

## 2. Multilateral aid and corruption

### The impact of bilateral and multilateral aid on corruption

The evidence regarding the impact of aid on corruption is mixed and inconclusive.

While causality between aid and corruption is difficult to establish, some authors argue that foreign aid tends to increase corruption. For example, a 2001 empirical study finds that higher aid levels erode the quality of governance (as measured by indexes of bureaucratic quality, corruption) by weakening accountability, encouraging rent seeking and corruption, fuelling conflict over control of aid funds, siphoning off scarce talent from the bureaucracy, and alleviating pressures to reform inefficient policies and institutions (Knack 2001).

More recently, another study using data from 52 African countries between 1996 and 2010 provides evidence that development assistance (whether from bilateral or multilateral agencies) tends to fuel corruption on the African continent (Asongu 2012).

Other authors find that aid does not influence corruption in its current design, irrespective of whether it is delivered through bilateral or multilateral channels. Corruption does not seem to influence aid allocations either (Menard and Weill 2015).

A number of studies looking at the comparative impact of bilateral and multilateral aid tend to indicate that multilateral aid can help reduce corruption to a greater extent than bilateral channels. Using quantitative regression analysis, Okada & Samreth (2011) find that foreign aid generally lessens corruption with a larger reduction effect in countries with pre-existing low levels of corruption. Their analysis further indicates that multilateral aid has a larger reduction impact on corruption especially in recipient countries that already take some steps to fight corruption. Apart from Japan, bilateral aid from donor countries such as France, the United Kingdom, and the United States, has no significant effect on corruption (Okada and Samreth 2011).

Similarly, Charron (2011) finds that the impact of multilateral aid is strongly and robustly associated with lower corruption levels, while bilateral aid is not significantly correlated with lower corruption levels.

### Internal integrity management systems of multilaterals

#### Fraud and corruption in multilateral agencies

There are no studies comparing corruption risks in bilateral and multilateral donors, and it is not possible to draw conclusions on whether multilateral aid is more vulnerable to corruption than bilateral aid.

However, there is anecdotal evidence that corruption affects projects financed by multilateral donors in all sectors. For example, in 2015, the World Bank's Integrity Vice Presidency received and opened 323 preliminary inquiries related to fraud, corruption and collusion in World Bank Group-financed activities. Of the preliminary inquiries, 99 were selected for full investigations. Of the closed investigations, 74% were substantiated (World Bank Group no date).

In terms of fraud, some bilateral and multilateral agencies conduct large sampling exercises to collect measures of losses due to what they call "improper payments". Reported figures vary widely from organisation to organisation and over time. The total estimated improper payments rate

for USAID was reported as 0.85% in 2008 and 0.28% for 2009, while the estimated financial impact of irregularities on the budget of the European Anti-Fraud Office OLAF rose from 1.13% in 2009 to 1.27% in 2010 (Button et al. 2012).

While it is difficult to establish with reasonable certainty the amount lost due to fraud in the United Nations system, external and internal oversight bodies have highlighted that the level of reported fraud is estimated to be in the range of 0.03% (United Nations Joint Inspection 2016). The 28 UN agencies detected fraud amounting a total of US\$384 million for the period 2008 to 2014. Compared with fraud statistics from other agencies and national governments – the public and private sector average is in the range of 1% to 5% of total revenue – this is considered unusually low, and attributed to underreporting and/or non-detection given the scale and complexity of the United Nations system operations and the high-risk environments in which these operations take place (United Nations Joint Inspection 2016).

While there are considerable variations across UN agencies, large organisations such as UNESCO, UNAIDS, UNCTAD and ILO had not reported a single case of fraud or corruption in that period. A 2016 United Nations Joint Inspection Unit report concludes that most organisations in the UN system do not carry out systematic assessments of fraud risk or do not consider fraud as a risk to the organisation and that much more needs to be done to combat fraud in the United Nations' system (United Nations Joint Inspection 2016).

### **Accountability mechanisms of multilaterals**

Most bilateral and multilateral agencies have established accountability mechanisms to ensure that aid is spent well and impose accountability measures to recipient countries providing international oversight on how aid is used.

However, the Helpdesk has found no comparative studies assessing the respective approaches, impact and effectiveness of multilateral and bilateral agencies' accountability mechanisms.

There is a broad consensus that as multilateral channels are more remote and individual donors are one step removed in a multilateral arrangement, accountability and oversight processes can be better exercised through bilateral channels. Bilateral donors are indeed under increased pressure from legislative bodies and civil society to scrutinise and even limit multilateral aid as they have greater control over where and how aid is delivered and spent by recipient countries (Biscaye et al. 2015; OECD 2013).

Like bilateral donors, most multilateral agencies have established internal integrity management systems to mitigate corruption risks in their programmes and operations. Like bilaterals (Weth 2010), efforts have mostly consisted of reviewing internal procedures, setting up fraud and corruption investigative bodies, and supporting partner countries' anti-corruption initiatives.

Faced with corruption challenges, for example, multilateral banks led by the World Bank have, in the last decade, invested considerable resources in improving internal controls and establishing appropriate integrity management systems to prevent and combat corruption in their projects and activities (Chêne 2010). Efforts have focused on strengthening the basic elements of any comprehensive anti-corruption framework, namely prevention, detection, investigation and sanctions.

Prevention efforts include: adopting anti-corruption policies; conducting corruption risk assessments at country, sector and project level, and designing mitigation strategies to address those; developing operational guidelines supporting increased transparency, participation, disclosure and oversight; and promoting high integrity standards through codes of conduct, ethical training, etc.

In terms of detection, most multilateral banks have established a complaint mechanism supported by whistleblowing protection provisions to encourage people involved with World Bank supported projects to report suspicions of corruption and wrongdoing. They have also established an investigative body in charge of uncovering fraud and corrupt practices in projects and investigating

allegations of possible staff misconduct. Sanctions typically include reprimands, conditions imposed on future contracting or debarment.

Multilateral banks have also made progress in recent years in harmonising their anti-corruption policies to promote a consistent approach to governance and corruption, as reflected by an agreement between a number of banks to debar firms and individuals that have engaged in corruption in projects financed by multilateral banks.

A previous Helpdesk answer specifically focuses on [multilateral banks' integrity management systems](#).

At the EU level, a study of the EU's integrity system looks at corruption risks in 10 EU institutions, including the European Commission, examining the rules and practices designed to prevent corruption occurring internally in these institutions, as well as how each institution is fostering public sector integrity, and also contributing to the wider fight against corruption (Transparency International EU Office 2014).

The report highlights a number of strengths, including a network of staff "ethics correspondents" across Commission departments, internal whistleblowing provisions, a comprehensive framework of internal financial controls, a large volume of documents and information on institutions made available, high level of independence in operational activities and active use of existing mechanisms to hold the EC to account.

The report also provides recommendations to strengthen certain aspects of its integrity system, including a clarification and harmonisation of its internal integrity rules for all staff categories, reform of the compliance and sanction mechanisms regarding the conduct of commissioners, and improvement of the effectiveness of exclusion and deterrence mechanisms in public procurement (Transparency International EU Office 2014).

In the UN system, there is no single anti-corruption policy or strategy to shape or unify anti-corruption efforts, particularly when it comes to internal policies. Each fund and programme has its own policies that oversee related integrity and anti-corruption issues. As a result of these separately administered organs and programmes, there is also no system-wide "zero tolerance" policy on corruption (Fagan 2011). As already mentioned, the recently published United Nations Joint Inspection report concludes that the UN system needs to do more to fight fraud and corruption both within its agencies and its external partners.

A previous Helpdesk answer has focused on the [integrity management systems in global bodies](#), looking at the examples of the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria, and the European Union.

### **Aid transparency**

In 2011 in Busan, leading donors pledged to make their aid transparent by the end of 2015. As part of the International Aid Transparency Initiative (IATI), major donors have committed to publishing details of their development projects using a common IATI standard. Multilateral and bilateral donors make up 16% and 13% of IATI members respectively (IATI 2016).

The 2016 Aid Transparency Index demonstrates whether these commitments have been met. Findings show that only 10 donors of varied types and sizes, accounting for 25% of total aid, have met the aid transparency commitment made in Busan, while the majority of the organisations fall into the lowest three categories suggesting incomplete publication of timely, comparable and disaggregated information about their development projects to the IATI registry.

A number of multilateral organisations are among the best performers. UNDP is ranked at the top of the index, followed by the Millennium Challenge Corporation (MCC) and UNICEF. In the "very good" category are the United Kingdom's Department for International Development (UK-DFID), the Global Fund, the World Bank International Development Association (WB-IDA), the Inter-American Development Bank (IADB), the

Asian Development Bank (ADB), the government of Sweden and the African Development Bank (AfDB). The largest number of donors – including Norway – is grouped under the “fair” category (Publish What You Fund 2016).

### Anti-corruption’s responses of multilateral and bilateral donors

The Helpdesk has found no studies comparing the respective anti-corruption strategies and approaches of multilateral and bilateral donors in recipient countries and how they support recipients’ countries anti-corruption efforts. However, a few studies provide insight on multilateral and bilateral donors’ responses to governance and corruption challenges, in terms of conditioning aid to governance reform and aid composition.

#### The governance conditionality

Accountability can be enhanced by international oversight and conditioning aid to governing practices to make recipient countries more accountable and less corrupt. Donors may condition aid flows to countries willing to improve the quality of their institutions, to ensure the optimal use of aid flows, providing incentives for reforms and contributing to improving recipients’ governance framework.

There are claims that multilateral channels exceed bilateral agencies’ ability to improve the quality of governance of recipient countries (Charron 2011). Bilateral aid is believed to be aligned with the political agenda of the donor country and less emphasis is put on the good governance reforms of the recipient countries, while anti-corruption has been at the forefront of Bretton Woods organisations since the mid-nineties who instigated an “anti-corruption” norm. International organisations therefore have an incentive to maintain their relevance as major international actors of development and governance. On their side, recipient countries are strongly tied to anti-corruption and good governance demands of multilateral donors to maintain their reputation and secure future aid (Charron 2011).

Findings of a study using panel data from 1986 to 2006 tend to confirm the strong correlation

between multilateral aid and anti-corruption progress after the mid-1990s and the instigation of the “anti-corruption norms” (Charron 2011).

#### Governance and aid flow composition

In terms of aid allocations and targeting aid based on governance criteria, the evidence is also mixed and ambiguous. A number of studies conclude that, irrespective of whether they are bilateral or multilateral, donors do not reward countries with low corruption levels with greater aid flows (Menard and Weill 2015). In other words, corruption level does not seem to influence incentives of donor countries to allocate aid to a specific country or not. Some even find that corrupt countries, as countries with lower per-capita income and productivity, receive more aid than less corrupt countries as donors tend to target poorer countries with low productivity (Delacroix and Delavallade 2014). Bauhr and Nasiritousi’s (2011) analysis refer to this as the “aid-corruption paradox”, affirming that countries where corruption and opaque governance is most prevalent are similarly where aid is greatly needed.

However, even though donors’ response to governance and institutional quality is overall weak, there are also indications that bilateral donors tend to focus more on the governance and institutional quality of recipient countries (the governance criteria) than multilateral donors who tend to put greater emphasis on targeting poorer countries and meeting recipients’ poverty and development needs (ODI 2015; Palagashvili and Williamson 2014).

In line with this, some studies show that, in practice, bilateral donors tend to filter their sectoral allocations on the basis of the governance criteria to a greater extent than multilaterals. For example, compared to multilateral agencies, bilateral donors invest in primary education only when recipients demonstrate higher control of corruption, and such conditionality is significantly correlated with improved primary school enrolment (Christensen et al. 2011).

There are also some variations across bilateral donors, with donors with no colonial history or less

corruption appearing to be more selective in terms of governance and corruption levels (ODI 2015; Schudel 2008; Nunnenkamp and Thiele 2006). Schudel (2008) in particular argues that the responsiveness of donor states to corruption in recipient states depends on their own level of corruption, with less corrupt donor states allocating more aid to less corrupt recipient states than to corrupt recipients (Schudel 2008).

When multilaterals do select well-governed recipients, they do not always select the aid modality best suited to work with more effective governments, using, for example, fungible aid – meaning the possibility that aid is used in ways not intended by donors when disbursing the funds – such as budget support, instead of project aid which can be better monitored (Winters and Martinez 2015)

Nunnenkamp and Thiele (2006) find that multilateral institutions and most bilateral donors provide more aid to countries with relatively low per-capita income than to richer countries, but many donors have failed to direct aid predominantly to where local conditions rendered it more likely that aid could be used productively. Their findings lead them to challenge the proposition that multilateral institutions provide better targeted aid than bilateral donors in terms of rewarding poor countries with better policies and institutions.

Some studies also indicate that multilateral donors do not always choose the aid modality most suited to the institutional quality of the recipient country (or lack of thereof), using more fungible programmatic aid in poorly governed countries instead of project aid that can be more easily monitored (Winters and Martinez 2015 referred to in ODI 2015).

Based on existing literature, it is not possible to conclude whether multilateral aid is better equipped to fight corruption than bilateral donors or vice-versa and more research would be needed to assess the comparative merits of each channel of assistance in the fight against corruption.

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