Are Aid Funds Diverted for Corruption?

- Mixed consensus on the effectiveness of international assistance; a growing literature documents that it may be captured by economic and political elites.
- Recent paper from the World Bank documented that aid disbursements to highly aid-dependent countries coincide with sharp increases in bank deposits in offshore financial centers (Andersen, Johannessen and Rijkers, 2020).
- Our paper: Replicates the exercise for IMF program flows but exploiting the timing and schedules tranching of disbursements.
- Overall, we are unable to detect statistically significant effects suggesting that IMF disbursements are channeled to offshore financial centers.

Empirical Strategy

Denote offshore as the aggregate (quarterly) deposits of country $i$ at time $t$ in all offshore destinations and $IMF_F$ as a dummy indicating whether country $i$ received a disbursement at time $t$.

$$\Delta \log(\text{offshore}_i) = \beta - IMF_F + \gamma_i + \alpha_t + \epsilon_{iT}$$

The timing of IMF disbursement ($IMF_F$) clearly endogenous:

- As a first step, we run the same specification with non-offshore flows and, more formally, the difference between offshore vs. non-offshore flows which absorbs time-varying country-specific shocks to cross-border flows.
- Next, we restrict the sample to the duration of the IMF program exploiting only the timing of disbursements.
- We also instrument for the timing of disbursement using the pre-determined schedule of disbursements.

Baseline Effect: IMF Disbursement on Cross-border Flows

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<tbody>
<tr>
<td>(A)</td>
<td>(B)</td>
<td>(C)</td>
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<tr>
<td>IMF disbursement quarter</td>
<td>-1.756***</td>
<td>0.937</td>
</tr>
<tr>
<td>(0.637)</td>
<td>(0.732)</td>
<td>(0.861)</td>
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<tr>
<td>Quarterly GDP (log)</td>
<td>0.055</td>
<td>-0.308</td>
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<tr>
<td>(0.620)</td>
<td>(0.610)</td>
<td>(0.610)</td>
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Observations: 10,164
Country F.E.: X X X
Time F.E.: X X X

Note: a statistically significant positive coefficient in Columns A and C would provide evidence of elite capture. We do not find such evidence.

Conclusion

- We analysed whether IMF lending is associated with an increase to offshore destinations which is a metric widely used to document elite capture.
- We find:
  - No positive and statistically significant effect around the timing of IMF disbursements and flows to offshore.
  - Result is robust to restricting to the duration of an IMF program and instrumenting with scheduled tranche of disbursements.
  - Effects could be heterogeneous; we are unable to find any positive significant effects in any of the (heterogeneity) subsamples.
  - The results are reassuring at a time when the IMF is expanding lending to an unprecedented extent, with much of the lending in light-conditionally emergency programs.
- Extend the data for the Covid crisis period: no evidence to support an association between recent surge in emergency lending and increased offshore flows.

Robustness: Using Scheduled Disbursements as an Instrument

- Focus on disbursement schedule at the time of program arrangement and use this predicted schedule as an instrument for actual disbursement.
- Validation: predicted disbursements uncorrelated with future contemporaneous shocks that determine actual disbursement.

Additional Robustness and Covid-19 Shock

We conduct additional checks but results are robust:

- Conditional on observable sources of economic stress (oil shocks) and corruption indicators;
- Examine heterogeneity by program type (crude proxy for concessionality and conditionality), type of country and quantity of disbursement.

Sub-sampling by Covid-19 lending period:

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<tr>
<td>(A)</td>
<td>(B)</td>
<td>(C)</td>
</tr>
<tr>
<td>IMF disbursement quarter</td>
<td>0.833</td>
<td>0.507</td>
</tr>
<tr>
<td>(0.835)</td>
<td>(1.434)</td>
<td>(0.861)</td>
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</table>

Observations: 294
Country F.E.: X X X
Time F.E.: X X X

Note: a statistically significant positive coefficient in Columns A and C would provide evidence of elite capture. We do not find such evidence.

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