AFRICAN GOVERNANCE AND DEVELOPMENT
INSTITUTE

A G D I   Working Paper

WP/14/034

Foreign Aid and Governance in Africa

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AGDI Working Paper

Research Department

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December 2014

Abstract

Purpose – This paper investigates the effect of foreign aid on governance in order to extend the debates on foreign aid and to verify common positions from Moyo's 'Dead Aid', Collier's 'Bottom Billion' and Eubank's 'Somaliland'. The empirical evidence is based on updated data from 52 African countries for the period 1996-2010.

Design/methodology/approach – An endogeneity robust instrumental variable Two-Stage-Least Squares empirical strategy is employed.

Findings – The findings reveal that development assistance deteriorates economic (regulation quality and government effectiveness) and institutional (corruption-control and rule of law) governance, but has an insignificant effect on political (political stability, voice and accountability) governance. While, these findings are broadly in accordance with Moyo (2009) and Collier (2007) on weak governance, they neither confirm the Eubank (2012) position on political governance nor the Asongu (2012) stance on the aid-corruption nexus in his debate with Okada & Samreth (2012).

Practical implications – The use of foreign aid as an instrument to influence the election and replacement of political leaders in Africa may have insignificant results. It is time to solve the second tragedy of foreign aid and that economists and policy makers start rethinking the models and theories on which foreign aid is used to influence economic, institutional and political governance in recipient countries.

Originality/value – The paper extends the debate on foreign aid and institutions in Africa in the light a plethora of recent studies in the aid literature.

JEL Classification: B20; F35; F50; O10; O55
Keywords: Foreign Aid; Political Economy; Development; Africa

1. Introduction

For over five decades, the political economy of foreign aid has been widely debated in academic and policy-making circles. A large literature on institutions and development suggests that Africa is poor because it has poor institutions: dictatorship, lack of property rights, weak courts, contract enforcement, high corruption, political instability, violence and hostile regulatory environments for private business. According to this view, in order to end African poverty, the West needs to promote good institutions. In 2005, the West tried hard to salvage Africa. In July of that year, the Group of Eight (G8) agreed to double foreign aid to Africa from $25 billion a year to $50 billion to finance the 'Big push', as well as scrap African aid loans contracted during previous attempts at a 'Big push'. Prior to this effort, Africa was already the most aid-intensive continent in the world. In September of that same year, world leaders met at the United Nations to further discuss progress on ending poverty in Africa (Easterly, 2005a; Asongu & Jellal, 2013).

After 'Can aid save Africa?' by Easterly (2005a), the 'Bottom Billion' (Collier, 2007), 'Dead Aid' (Moyo, 2009), the Eubank (2012) Somaliland hypothesis and the aid-corruption nexus debate (Okada & Samreth, 2012; Asongu, 2012a; Asongu & Jellal, 2013) have had an important impact in advancing currents of the debates.

First, the 'Bottom Billion' (Collier, 2007) argues that foreign aid that is managed through the Official Development Assistance (ODA) program has not yielded expected fruits because many aid-dependent nations are weak in governance and fragile. He postulates that four main traps are standing in the way of aid effectiveness: dependence on natural resources, conflicts & mismanagement, weak governance in small countries, landlocked with bad neighbors and conflicts. According to the narrative, the "bottom billion" of the world is not benefiting enough

from the ODA program because strategies are based on quantities of aid (e.g meeting a certain threshold of donor economic prosperity). This strand is in line with the stance that ODA promotes a 'regional public bad', especially with no significant counter balancing a 'regional public good' effect (Collier & Hoeffler, 2007).

Another accomplished literature that has been the object of much discussion is Moyo's 'Dead Aid' (2009). According to the author, aid creates dependency, increases poverty and weakens domestic governance. Whereas the motivations of her work have inspired a recent strand of the literature (Banuri, 2013; Marglin, 2013; Wamboye et al., 2013; Asongu, 2012a, 2013a; Asongu & Jellal, 2013; Ghosh, 2013; Krause, 2013; Asongu, 2014a; Titumir & Kamal, 2013; Monni & Spaventa, 2013), there has also been a lot of criticisms on the foundations of her position. In essence, some of the classic concerns she tackles are clouded with missing links; the nexus between accountability and aid; the way in which she uses aid to substantiate her stances (especially the confusion between correlation and causality in the aid-growth relationship). While the thesis does not incorporate humanitarian and emergency relief assistance, her critics have left no stone unturned in blasting her viewpoint. Among them, the criticisms of Bill Gates and Jeffrey Sachs merit some emphasis. The former has recently qualified Moyo's book as promoting evil because she does not understand development assistance and that her thesis is not morally acceptable (Asongu, 2014a). The latter (Sachs, 2009) also maintains that Moyo has benefited from foreign aid and her book is unrealistic[1].

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[1] According to Sachs (2009), foreign aid is needed at the early stages of development. He insists that Moyo lacks the moral values to substantiate her position because she received scholarships to study in the best world universities (Harvard & Oxford) and later in life, thought that it was inappropriate to give a $10 aid package for an anti-malaria bed net to an African child. He further highlights that 'Dead Aid' is unrealistic by not taking into account the realities of life such as general need of help in one way or another at one point in life.

The Eubank (2012) Somaliland-based hypothesis that is broadly consistent with the 'Bottom Billion' and 'Dead Aid' has also been celebrated with the 2013 award for best paper from the Journal of Development Studies. According to this thesis, the dependence of a State on local tax income, gives taxpayers leverage on demanding more representative political institutions and accountability from government. Hence, Eubank has broadly confirmed the 'Bottom Billion' and 'Dead Aid' positions from a Somaliland point of view in the perspective of political governance. However, it should be noted that Eubank's hypothesis is still in need of some empirical structure if it is to extend beyond Somaliland.

In light of the above, recently Somaliland's minister of energy and minerals (Hussein Abdi Dualeh) has openly professed during an African mining conference that Somaliland was better without foreign aid and did not even need it: "*That is a blessing in disguise. Aid never developed anything…Aid is not a panacea, we'd rather not have it….How many African countries do you know that developed because of a lot of aid? It's a curse. The ones that get the most aid are the ones with the problems….We've been left to our own devices. We are our own people and our own guys. We pull ourselves up by our own bootstraps. We owe absolutely nothing to anybody. We would not change hands with Greece today. We have zero debt*" (Stoddard, 2014).

The recent debate on the effect of foreign aid on corruption has also had an important influence in policy and academic circles. The conclusion of Okada & Samreth (2012) that foreign aid decreases corruption in developing countries has been rejected by Asongu (2012a) in Africa. Asongu & Jellal (2013) have used indirect mechanisms to reconcile the debate by sustaining that, while foreign aid that is channeled through government expenditure increases

corruption, development assistance which goes through the private investment mechanism decreases corruption.

Drawing from the above, this paper aims to provide more insights on the common governance position from Moyo's 'Dead Aid', Collier's 'Bottom Billion' and Eubank's 'Somaliland' using updated data (1996-2010). Moreover, it would be interesting to investigate this aid-institutions nexus in light of recent developments because the underlying motivation of the ODA program has been bridge the saving-investment gap poor countries face (Rostow, 1960; Chenery & Strout, 1966; Easterly, 2005a). Hence, the great bulk of studies have focused on the effect of aid flows on GDP growth and other macroeconomic variables (investment or public consumption). Surprisingly there has been much less research conducted on the impact of foreign aid on the evolution of government institutions.

The linkages among aid, institutions and development are substantially discussed in Section 2. Moreover, the interest of the study also draws from the view that good institutions are essential for economic development and that foreign assistance should promote them (Ghura, 1995, Burnside & Dollar, 2000). In this respect, assessing the effect of development assistance on governance dynamics is relevant for economic development. In the same vein, the limitations and criticisms towards foreign assistance provided above have been contrasted with more positive accounts of foreign aid, among others: short-term positive effects on growth (Clement et al., 2004) and reduction of poverty (Ishfaq, 2004).

Drawing from the literature discussed above, this study assesses the effect on governance dynamics of foreign aid in 52 African countries for the period 1996-2010. The main contribution of the paper is to extend the debate of foreign aid and institutions, with particular emphasis on six governance dynamics, notably: political governance (voice & accountability and political

stability/non-violence), economic governance (regulation quality and government effectiveness) and institutional governance (corruption-control and rule of law). In so doing, we further contribute to the evolving debate on the effect of foreign aid on institutions in Africa.

The remainder of this paper is presented as follows. Section 2 examines existing literature on the aid-development nexus. The data and methodology are presented in Section 3. The empirical analysis and discussion of results are covered in Section 4. Section 5 concludes.

2 Aid, institutions and development

According to Easterly (2005a), empirics and theories on foreign aid in Africa could be highlighted in four main strands. *First,* the financing gap and/or 'Big-Push' models with corresponding scholarly feedbacks or reactions (Boone, 1996; Collier et al., 2001; Devarajan et al., 2002; Sachs, 2005; Kraay & Raddatz, 2005; Masud & Yontcheva, 2005). *Second,* project interventions related to health and education, with some consensus on the positions that Africa's poverty originates from poor human capital (education and health), corruption in health systems and deteriorating or poor infrastructure (Filmer & Pritchett, 1997; Filmer et al., 2000; Pritchett & Woolcock, 2004). Non-financial factors are also responsible for sanitation issues in the African continent (Njoh, 2012) and there are growing suggestions that the health policy debate should be reoriented on poverty and social inequality (Obeng-Odoom, 2012). *Third,* the role of 'multinational organizations' and 'growth models' in mishandling 'aid policy adjustments' (Alesina & Dollar, 2002; Burnside & Dollar, 2000; Van de Walle, 2001; Easterly, 2005b). *Fourth,* dysfunctional donors and poor institutional quality: as some of the reasons for failing aid (Svensson, 2000; Knack, 2001; Djankov et al., 2005).

With some exceptions to micro levels (Jones, 2012), the literature on the effectiveness of foreign assistance has been substantially oriented towards the macroeconomic impacts of aid: assessing its effects on economic savings, investment and growth. The depth of analytical frameworks, rely heavy on empirical evidence (which is often ambiguous at best) and inconclusive results with recently refined methodologies (Masud & Yontcheva, 2005) leaves the subject widely open to debate. For brevity, prior exposition on the effectiveness of aid on growth (or economic development) could be classified into two strands as summarized in Table 1: one by acknowledging the negative consequences of aid and the other by advocating the positive rewards of development assistance (Asongu, 2015). The table is meant to present a broad perspective of underlying connections and the interested reader can find greater insights into them in McGillivray et al. (2006).

Table 1: Summary of conflicts in the literature

Researchers	Main findings
First-strand: Aid improves growth (or economic development)	
Ghura (1995)	Aid positively impacts savings for good adjusters.
Burnside & Dollar (2000)	Aid can be effective when policies and economic management are good.
Guillaumont & Chauvet (2001)	Aid effectiveness is contingent on environmental factors (shocks and hazards).
Collier & Dehn (2001)	Aid effectiveness depends on negative supply shocks. The targeting of aid contingents on negative supply shocks is better than targeting based on good policies.
Collier & Dollar (2001)	The positive effect of aid on poverty depends on its impact on per capita income growth and per capita income growth on poverty reduction.
Feeny (2003)	The sectoral allocation of foreign aid to Papua New Guinea has been broadly in line with a strategy to effectively reduce poverty and increase human wellbeing.
Gomanee et al. (2003)	Aid has both a direct effect on welfare and an indirect effect through public spending on social services.
Clement et al. (2004)	Aid has a short-term positive impact on growth.
Ishfaq (2004)	Foreign aid, in a limited way has helped to reduce the extent of poverty in Pakistan.
Mosley et al. (2004)	Foreign assistance has an indirect impact on poverty and the wellbeing of recipient countries.

Addison et al. (2005)	Aid increases pro-poor public expenditure and has a positive effect on growth. Aid broadly works to mitigate poverty, and poverty would be higher in the absence of aid.
Fielding et al. (2006)	There is a straight forward positive impact of aid on development outcomes.
Sachs (2009)	Aid is needed at the early stages of development.
Minou & Reddy (2010)	Development assistance positively affects growth in the long-term.
Okada & Samreth (2012)	Foreign aid reduces corruption.
Asongu & Jellal (2013)	Aid channeled through private investment and tax effort decreases corruption.

Second-strand: Aid does not lead to growth (or economic development)	
Mosley et al. (1992)	Aid increases unproductive public consumption and fails to promote growth.
Reichel (1995)	Aid fails to promote savings owing to the substitution effect.
Ghura (1995)	Aid negatively impacts savings.
Boone (1996)	Aid is insignificant in improving economic development for two reasons: poverty is not caused by capital shortage and it is not optimal for politicians to adjust distortionary policies when they receive aid flows.
Pedersen (1996)	Foreign Aid distorts development and leads to aid dependency.
Collier (2007)	Aid is not a task that can be handled by Official Development Assistance (ODA) because aid-recipient countries are for the most part fragile and characterized by histories of conflicts, weak governance and limited good governance mechanisms with which to effectively disburse aid.
Collier & Hoeffler (2007)	Potentially, foreign aid is promoting a 'regional public bad' and there seems to be no regional public good impact offsetting the 'public bad' originating from the arms race in neighboring countries.
Moyo (2009)	Foreign aid has increased dependency, poverty and corruption in Africa.
Asongu (2012a)	Foreign aid fuels corruption and mitigates the control of corruption
Asongu (2014b)	Foreign aid increases corruption in English common-law and Christian-dominated African countries.
Asongu & Jellal (2013)	Aid channeled through government expenditure increases corruption.

Source (Author).

In the *first* strand, we find studies in favor of the positive effects of aid on growth and development. Among these works, we shall highlight that of Burnside & Dollar (2000) which concludes that aid is effective when policies are good. The Burnside & Dollar (2000) paper has received abundant comments from researchers (Guillaumont & Chauvet, 2001; Colier & Dehn, 2001; Easterly et al., 2003); comments which have been challenged as being "extremely data dependent" (Clemens et al., 2004). Minou & Reddy (2010) have concluded that development assistance positively affects growth in the long-run, broadly confirming Sachs' (2009) position

on the importance of aid in the early stages of development. A study by Okada & Samreth (2009) on developing countries concludes that aid decreases corruption. Asongu & Jellal (2013) think the decreasing effect advanced by Okada & Samreth is more apparent when aid is channeled through private investment activities.

The *second* strand includes authors presenting the case for the insignificant and/or negative impact of aid on investment, savings or growth. Aid has been shown to improve unproductive public consumption (Mosley et al., 1992) and stops short of increasing investment. This latter point has been confirmed by Boone (1996) and Reichel (1995). Ghura (1995) has articulated the negative effect of aid on domestic savings while Pedersen (1996) asserts that foreign aid distorts development and leads to aid dependency. The common positions of Collier (2007), Collier & Hoeffler (2007), Moyo (2009), Asongu (2012a) and Asongu & Jellal (2013) have been engaged in the introduction.

Consistent with Asongu & Jellal (2013), the interesting literature on foreign assistance and institutions has been focused around three principal questions. "*First, do donors allocate more to poor states with better institutions? Second, does development assistance induce better or worse institutions? Third, how do outsiders engineer a transition from informal institutions towards more formal institutional settings through foreign aid?*" (p. 2197). The present line of inquiry is consistent with the second question. We briefly discuss the findings of some articles that have investigated the effect of foreign aid on institutions. Boone (1996) has established that political elitist models are more relevant in predicting the impact of development assistance and the fact that the effect of aid does not change significantly based on the democratic quality of the recipient government. Hence, as a policy implication, short-run aid targeting liberal political regimes could be more feasible in mitigating poverty. Tavares (2003) has assessed the effect of

foreign aid on corruption using cultural and geographical distance to conclude that foreign assistance reduces corruption. Rajan & Subramanian (2007) have concluded that aid may be linked with weak governance: a position supported by Brautigam and Knack (2004, p. 266) in their conclusion that high levels of foreign aid in African negatively affect governance.

The evolving debate on the effect of foreign aid on institutions in Africa, on which this study is partly based, has been discussed in the introduction. For brevity and lack of space, we refer the interested reader to Asongu (2015) for insights into the narratives involved.

3. Data and Methodology

3.1 Data

We investigate a panel of 52 African countries with data from African Development Indicators (ADI) of the World Bank (WB) for the period 1996 to 2010. Corresponding variables are presented in Appendix 3. Consistent with the International Monetary Fund (IMF, 2005) and Kaufmann et al. (2010), the adopted governance dependent variables include: political governance (voice & accountability and political stability), economic governance (regulation quality and government effectiveness) and institutional governance (rule of law and corruption-control). The choice of these variables is in accordance with recent African institutional literature (Asongu, 2012bc). Borrowing from Asongu (2012a), the independent variable of key interest is Net Official Development Assistance (NODA). For robustness purposes we use total NODA, NODA from multilateral donors and NODA from the Development Assistance Committee (DAC) countries. Instrumental variables are income-levels, legal-origins and religious-dominations.

These instruments have been substantially documented in the economic development literature (La Porta et al., 1997; Beck et al., 2003; Asongu, 2011, 2012b, 2013b, 2014ac). They are also consistent with recent African human development (Asongu, 2013b, 2014a), finance (Asongu, 2012c) and institutions (Asongu, 2012a) literature. In essence, the following intuitions motivate the choice of the instrumental variables. *First,* economic prosperity in terms of wealth-effects or income-levels influence aid allocation decisions, since higher income-countries naturally become less reliant on aid over time. *Second,* colonial legacy also affects how colonial powers allocate development assistance. Expectedly, more aid is disbursed to former colonies as means of preserving strategic goals. *Third,* it is difficult to object to the fact that faith plays a role in aid allocation decisions. This intuition has been recently verified on the 'Musilm-ness' of aid recipients in 'faith and foreign aid' (Loud et al., 2008; Asongu, 2014a). The underlying foreign aid literature that has included the above instruments, include (Asongu 2012a, 2014a).

In the regressions, we control for openness (trade) and population growth in the baseline and for democracy and public investment in the Two-Stage Least Squares (2SLS). *First,* on the baseline regressions used to assess the strength of the instruments (1) population growth has been established to increase foreign aid in African countries (Asongu, 2014a) and (2) the intuition that more trade has had the potential to increase development assistance is consistent with literature on Sino-African relations (Asongu & Aminkeng, 2013). Second, democracy (Asongu, 2012a, pp. 2178) and public investment (Asongu, 2014a) have also been established to positively affect institutions for the same period and sample of African countries.

The choice of control variables is also contingent on the degrees of freedom necessary for overidentifying restrictions tests on two-stage regressions. Accordingly, more than two control variables will result in exact- or under-identification: meaning the instruments are either equal-to

or less-than the number of endogenous explaining variables respectively. The summary statistics and correlation matrix are also presented in the appendices (Appendix 1 and Appendix 2 respectively). While the former indicates that the distributions of the variables are comparable, the latter guides the empirical analysis in avoiding issues related to multicollinearity and overparameterization.

3.2 Methodology

3.2.1 Endogeneity

While development assistance has a bearing on the development of the recipient country (Addison et al., 2005; Fielding et al., 2006), the reversed effect cannot be ruled-out as aid from donor agencies (countries) is contingent on institutional and developmental characteristics. Such factors maybe environmental (Guillaumont & Chauvet, 2001), supply-shocks (Collier & Dehn, 2001) or even effective policies and economic management standards (Burnside & Dollar, 2000). Moreover, the literature on how government quality influences foreign aid is not clear-cut: a strand shows evidence that governments of questionable institutional standards receive no less aid (Alesina & Weder, 2002; Acht et al., 2014); another area explains why corrupt governments receive more foreign aid (De la Croix & Delavallade, 2012), while a third stream advocates for the levels of domestic government quality which is crucial in foreign aid location decisions (Alesina & Weder, 2002). We resist engaging this debate. What is common to the underlying strands that matter to us is the possibility of reverse causality which raises a potential issue of endogeneity. In essence, our focus is not on the positive or negative direction of such causality, but rather its mere existence. We are thus faced with a concern of endogeneity owing to reverse-causality and omitted variables, as the NODA indicators are correlated with the error term in the equation of interest. To address this concern we shall assess the presence of

endogeneity with the Hausman-test and then employ an estimation technique that takes account of the endogeneity issue.

3.2.2 Estimation technique

Concurring with Beck et al. (2003) the paper adopts an Instrumental Variable (IV) estimation method. Estimation by IV addresses the puzzle of endogeneity and thus avoids the inconsistency of estimated coefficients by Ordinary Least Squares (OLS) when the exogenous variables are correlated with the error term in the main equation. The adopted 2SLS estimation method entails the following steps.

First-stage regression:

$$NODA_{it} = \gamma_0 + \gamma_1 (legalorigin)_{it} + \gamma_2 (religion)_{it} + \gamma_3 (incomelevel)_{it} + \alpha_i X_{it} + \upsilon_{it} \quad (1)$$

Second-stage regression:

$$Gov'tQuality_{it} = \lambda_0 + \lambda_1 (NODA)_{it} + \beta_i X_{it} + \mu_{it} \quad (2)$$

In the two equations, X represents the set of control variables. υ and μ in the first and second equations, respectively denote the disturbance terms. Instrumental variables include: legal-origins, dominant-religions and income-levels. NODA stands for Net Official Development Assistance and *Gov'tQuality* represents a given dimension of governance. .

We adopt the following steps in the analysis. *First,* justify the choice of a 2SLS over an OLS estimation technique with the Hausman-test for endogeneity. *Second,* show that the instruments are exogenous to the endogenous components of explaining variables (aid channels), conditional on other covariates (control variables). *Third,* ensure the instruments are valid and not correlated with the error-term in the main equation with an Over-identifying Restrictions (OIR) test.

3.2.3 Robustness checks

To ensure robustness of the analysis, the following checks are performed: (1) usage of alternative indicators of Government Quality (GQ) dynamics; (2) employment of two distinct interchangeable sets of moment conditions that encompass every category of the instruments; (3) usage of alternative aid indicators; (4) account for the concern of endogeneity and (5) estimation with robust Heteroscedasticity and Autocorrelation Consistent (HAC) standard errors.

4. Empirical Analysis

This section addresses: the ability of the exogenous components of NODA dynamics to account for differences in GQ dynamics; the ability of the instruments to explain variations in the endogenous components of NODA dynamics and the possibility of the instruments accounting for GQ dynamics beyond NODA dynamic channels. To make these examinations we use the panel 2SLS-IV estimation method with legal-origins, income-levels, and religious-dominations as instrumental variables.

4.1 Development assistance and instruments

Table 2 below investigates the validity of the instruments in explaining cross-country differences in NODA dynamics. In order to mitigate issues of perfect multicollinearity, the idea is to use a dummy for each category of each variable (all in the same regression), and then examine their significance. Hence, in interpreting the results, it is important to note that the goal is to determine whether these instruments and controls capture different aspects of the dynamics of foreign assistance. Clearly, it could be noticed that distinguishing African countries by legal-origins, income levels and religious-dominations help explain cross-country differences in NODA. Based on the Fisher-test, the instruments taken collectively enter significantly in all

regressions at the 1% significance level. Broadly the following conclusions could be established. First, Christian-dominant countries have benefited more or less in foreign-aid than their Islam-oriented counterparts depending on which definition of NODA is used. Second, in line with common sense and economic theory, Low-income countries receive more aid than Middle-income countries. The control variables have the expected signs. This is essentially because, due to export substitution, foreign aid could increase with population growth and economic openness.

Table 2: Baseline regressions

| | | Net Official Development Assistance(NODA) | | | | | |
| | | NODAgdp | | NODAMDgdp | | NODADACgdp | |
		1st Set	2nd Set	1st Set	2nd Set	1st Set	2nd Set
Instruments	Constant	5.927***	-3.094*	2.008***	-2.592***	3.907***	-0.383
		(3.842)	(-1.806)	(3.030)	(-3.522)	(3.803)	(-0.336)
	English	0.174	---	0.513	---	-0.347	---
		(0.210)		(1.440)		(-0.630)	
	French	---	-0.174	---	-0.513	---	0.347
			(-0.210)		(-1.440)		(0.630)
	Christianity	0.155	---	-0.789**	---	0.995*	---
		(0.179)		(-2.120)		(1.723)	
	Islam	---	-0.155	---	0.789**	---	-0.995*
			(-0.179)		(2.120)		(-1.723)
	L.Income	---	9.351***	---	4.324***	---	4.937***
			(9.195)		(9.896)		(7.291)
	M. Income	-13.048***	---	-5.540***	---	-7.410***	---
		(-10.99)		(-10.86)		(-9.372)	
	LMIncome	3.696***	---	1.216**	---	2.472***	---
		(2.973)		(2.277)		(2.986)	
	UMIncome	---	-3.696***	---	-1.216***	---	-2.472***
			(-2.973)		(-2.277)		(-2.986)
Control Variables	Popg	2.439***	2.439***	1.287***	1.287***	1.128***	1.128***
		(5.912)	(5.912)	(7.263))	(7.263)	(4.108)	(4.108)
	Trade	0.037***	0.037***	0.019***	0.019***	0.016**	0.016**
		(3.471)	(3.471)	(4.208)	(4.208)	(2.346)	(2.346)
Adjusted R²		0.294	0.294	0.321	0.321	0.216	0.216
Fisher Statistics		47.342***	47.342***	53.563***	53.563***	31.774***	31.774***
Observations		668	668	668	668	668	668

L: Low. LM: Lower Middle. UM: Upper Middle. Ivt: Investment. Pop: population. *;**;***: significance levels of 10%, 5% and 1% respectively. NODAgdp: NODA on GDP. NODAMDgdp: NODA from Multilateral Donors on GDP. NODADACgdp: NODA from DAC countries on GDP. Student statistics ratios in brackets. 1st Set: First Set of Instruments . 2nd Set: Second Set of Instruments.

4.2 Development assistance and quality of government

Table 3 investigates two main issues: (1) the ability of NODA channels to account for GQ dynamics and (2) the possibility of the instrumental variables explaining GQ dynamics beyond NODA channels. Whereas we tackle the first issue by assessing the significance of estimated coefficients, the second is assessed with the Sargan-OIR test. Three main features of governance are investigated here. *First,* political governance decomposed into (i) political stability and (ii) voice & accountability: defined as the election and replacement of political leaders. *Second,* economic governance which reflects the formulation and implementation of policies that deliver public goods is measured by (i) government effectiveness and (ii) regulation quality . Last, institutional governance which is the respect by citizens and the State of institutions that govern interactions between them is measured by (i) corruption-control and (ii) the rule of law. These definitions are consistent with Kaufmann et al. (2010).

The null hypothesis of the Sargan test is the view that the instruments account for GQ dynamics only through NODA channels. Thus a rejection of the null hypothesis is the rejection of the view that the instruments explain GQ dynamics through no other mechanisms than NODA channels. The Hausman-test for endogeneity precedes every IV regression and justifies the choice of the estimation technique. The null hypothesis of this test is the view that OLS estimates are efficient and consistent. Therefore, a rejection of the null hypothesis points to the issue of reverse causality (endogeneity) we have emphasized above (see Section 3.2.1) and hence lends credit to the 2SLS-IV estimation technique. Otherwise OLS is used in the modeling exercise. For robustness checks, results are replicated using an alternative set of instrumental variables, as shown in the bottom lines of Table 3. In modeling the unrestricted regressions presented in Table

3, the null hypothesis of the Hausman-test is rejected for all the regressions, confirming the presence of endogeneity and hence the choice of the corresponding 2SLS-IV approaches.

With regard to the first concern which is addressed by the significance of estimated coefficients, it can be firmly established that NODA dynamics significantly decrease GQ dynamics in Africa. It follows that development assistance destined for the African continent decreases the political stability, voice and accountability, regulation quality and the rule of law, as well as control of corruption and government effectiveness. These results are broadly consistent with the strand of the aid-development literature which has established that development assistance: increases corruption in ethnically fractionalized countries (Svensson, 2000), worsens bureaucratic quality, leads to violation of the law with greater impunity and more corruption (Knack, 2001) and causes setbacks to democracy (Djankov et al., 2005).

Table 3: Two-stage regressions without HAC standard errors

	Political Stability			Government Effectiveness			Control of Corruption		
Constant	**-1.080***	**-1.089***	**-1.093***	0.198	-0.155	-0.066	**-0.631***	**-0.649***	**-0.621***
	(-2.661)	**(-2.704)**	**(-2.629)**	(0.376)	(-0.487)	(-0.191)	**(-9.100)**	**(-9.674)**	**(-8.519)**
NODAgdp	**-0.026***	---	---	**-0.050***	---	---	**-0.023***	---	---
	(-3.938)			**(-5.904)**			**(-6.010)**		
NODAMDgdp	---	**-0.062***	---	---	**-0.087***	---	---	**-0.053***	---
		(-3.979)			**(-6.419)**			**(-6.006)**	
NODADACgdp	---	---	**-0.046***	---	---	**-0.068***	---	---	**-0.041***
			(-3.778)			**(-6.131)**			**(-5.781)**
Democracy	**0.173***	**0.177***	**0.171***	**0.116***	**0.127***	**0.116***	**0.105***	**0.107***	**0.104***
	(6.653)	**(6.907)**	**(6.377)**	**(4.672)**	**(5.766)**	**(4.834)**	**(5.752)**	**(5.892)**	**(5.475)**
Public Investment	0.040	0.038	0.043	---	**-0.068***	**-0.070***	---	---	---
	(0.838)	(0.795)	(0.880)		**(-1.766)**	**(-1.686)**			
Hausman-test	**26.843***	**26.922***	**29.052***	**103.89***	**104.11***	**120.05***	**49.346***	**50.302***	**49.910***
OIR-Sargan test	**0.199**	**0.003**	**0.709**	**1.603**	**2.143**	**0.000**	**0.039**	**0.695**	**0.214**
P-value	**[0.654]**	**[0.950]**	**[0.399]**	**[0.205]**	**[0.143]**	**[0.983]**	**[0.980]**	**[0.706]**	**[0.898]**
Adjusted R²	0.325	0.324	0.314	0.102	0.205	0.186	0.177	0.172	0.167
Fisher Statistics	**27.534***	**27.823***	**26.081***	**21.992***	**32.020***	**28.389***	**34.280***	**34.523***	**31.793***
Observations	452	452	452	399	443	443	514	514	514

	Voice and Accountability			Regulation Quality			Rule of Law		
Constant	**-0.693****	**-0.686****	**-0.706***	-0.204	-0.259	-0.180	-0.357	-0.415	-0.334
	(-2.479)	**(-2.466)**	**(-2.515)**	(-0.603)	(-0.777)	(-0.510)	(-0.993)	(-1.160)	(-0.896)
NODAgdp	**-0.008***	---	---	**-0.030***	---	---	**-0.033***	---	---
	(-1.876)			**(-5.371)**			**(-5.575)**		
NODAMDgdp	---	**-0.021****	---	---	**-0.068***	---	---	-0.074	---
		(-1.968)			**(-5.221)**			(-5.332)	
NODADACgdp	---	---	**-0.014***	---	---	**-0.054***	---	---	**-0.060***
			(-1.772)			**(-5.263)**			**(-5.512)**
Democracy	**0.198***	**0.199***	**0.198***	**0.115***	**0.121***	**0.112***	**0.139***	**0.146***	**0.135***
	(11.08)	**(11.26)**	**(10.94)**	**(5.337)**	**(5.712)**	**(4.932)**	**(6.038)**	**(6.399)**	**(5.612)**
Public Investment	**-0.057***	**-0.058***	**-0.055***	-0.053	-0.052	-0.053	-0.049	-0.048	-0.048

	(-1.704)	(-1.746)	(-1.657)	(-1.323)	(-1.301)	(-1.267)	(-1.137)	(-1.115)	(-1.080)
Hausman-test	46.888***	44.846***	42.808***	48.153***	44.185***	54.739***	81.226***	79.312***	89.942***
OIR-Sargan test	0.685	0.338	1.038	1.890	4.163**	0.612	2.559	5.310**	0.929
P-value	[0.407]	[0.560]	[0.308]	[0.169]	[0.041]	[0.433]	[0.109]	[0.021]	[0.335]
Adjusted R²	0.564	0.565	0.562	0.206	0.208	0.191	0.217	0.209	0.211
Fisher Statistics	52.851***	53.084***	52.360***	26.947***	26.797***	25.203***	31.687***	30.848***	29.982***
Observations	452	452	452	450	450	450	452	452	452

First-Set of Instruments : Constant; English ; Christianity; Middle Income; Lower Middle Income

Second-Set of Instruments : Constant; French; Islam; Lower Income; Upper Middle Income

*;**;***: significance levels of 10%, 5% and 1% respectively. (): z-statistics. []: p-values corresponding to OIR-Sargan test. OIR: Overidentifying Restrictions test. NODAgdp: NODA on GDP. NODAMDgdp: NODA from Multilateral Donors on GDP. NODADACgdp: NODA from DAC countries on GDP.

Concerning the second issue, failure to reject the null hypothesis of the OIR test in almost all regressions signifies that the instruments do not explain GQ dynamics through other mechanisms beyond NODA channels. Thus, the instruments are valid and not correlated with the disturbance term in the main equation (the instruments do not suffer-from endogeneity). Most of the control variables are significant with the expected signs. Democratic institutions improve government quality while public investment is often associated with poor management and corrupt practices in contract allocation. According to Ndikumana & Baliamoune-Lutz (2008), the positive association between public investment and corruption supports the view that corrupt bureaucrats aim to increase capital expenditures (over maintenance expenditure) to maximize private gains (rent-seeking). The interest in this explanation is that public investment may increase corruption. The analysis in Table 3 is replicated with the second-set of moment conditions to confirm the robustness of results. We provide more in-depth discussion on NODA and governance dynamics for estimations robust to standard errors in Section 4.3.

4.3 Development assistance and quality of government (with HAC standard errors)

Table 4 below presents HAC-2SLS results. On a first note, results of the Hausman-test confirm the choice of our estimation approach. The Sargan-OIR test statistics also confirm the validity of the instruments in all regressions. Findings based on HAC-2SLS regressions broadly confirm those in Table 3. This is also the case when the analysis is replicated with an alternative

set of instruments. In substance, both the NODA regressors and control variables are significant with the right signs. Accordingly, democracy has a positive effect on the dependent variables. The fact that the coefficients for the aid variables are not significant when considering political stability or voice & accountability merit emphasis, as such diverges from the results obtained previously. The divergence is because the standard errors of results of Table 4 are robust to Heteroscedasticity and Autocorrelations.

The following specific findings can be established. *First,* foreign aid has no apparent effect on political governance which is measured by political stability and voice & accountability. Hence, we may conclude that foreign aid has no significant effect in the election and replacement of political leaders. *Second*, based on the magnitude and signs of estimated coefficients, it could be inferred that foreign assistance has a deteriorating impact on economic governance relative to institutional governance.

Table 4: Two-stage regressions with HAC standard errors

	Political Stability			Government Effectiveness			Control of Corruption		
Constant	-1.080	-1.089	-1.093	-0.094	-0.155	-0.066	**-0.631***	**-0.649***	**-0.621***
	(-0.882)	(-0.882)	(-0.899)	(-0.151)	(-0.246)	(-0.107)	**(-3.492)**	**(-3.580)**	**(-3.451)**
NODAgdp	-0.026	---	---	**-0.038***	---	---	**-0.023**	---	---
	(-1.632)			**(-3.071)**			**(-2.454)**		
NODAMDgdp	---	-0.062	---	---	**-0.087***	---	---	**-0.053**	---
		(-1.639)			**(-3.030)**			**(-2.384)**	
NODADACgdp	---	---	-0.046	---	---	**-0.068***	---	---	**-0.041**
			(-1.580)			**(-3.010)**			**(-2.474)**
Democracy	**0.173***	**0.177***	**0.171***	**0.120***	**0.127***	**0.116***	**0.105**	**0.107**	**0.104**
	(3.020)	**(3.028)**	**(3.016)**	**(2.957)**	**(3.021)**	**(2.907)**	**(2.368)**	**(2.377)**	**(2.347)**
Public Investment	0.040	0.038	0.043	-0.070	-0.068	-0.070	---	---	---
	(0.269)	(0.251)	(0.292)	(-0.936)	(-0.887)	(-0.955)			
Hausman-test	**26.843***	**26.922***	**29.052***	**109.52***	**104.11***	**120.05***	**49.346***	**50.302***	**49.910***
OIR-Sargan test	**0.199**	**0.003**	**0.709**	**0.425**	**2.143**	**0.000**	**0.039**	**0.695**	**0.214**
P-value	**[0.654]**	**[0.950]**	**[0.399]**	**[0.514]**	**[0.143]**	**[0.983]**	**[0.980]**	**[0.706]**	**[0.898]**
Adjusted R²	0.325	0.324	0.314	0.204	0.205	0.186	0.177	0.172	0.167
Fisher Statistics	**4.962***	**5.071***	**4.871***	**8.675***	**9.561***	**7.995***	**6.416***	**6.315***	**6.400***
Observations	452	452	452	443	443	443	514	514	514

	Voice and Accountability			Regulation Quality			Rule of Law		
Constant	-0.693	-0.686	-0.706	-0.204	-0.259	-0.180	-0.357	-0.415	-0.334
	(-1.142)	(-1.122)	(-1.173)	(-0.278)	(-0.343)	(-0.249)	(-0.447)	(-0.508)	(-0.427)
NODAgdp	-0.008	---	---	**-0.030**	---	---	**-0.033**	---	---
	(-0.884)			**(-2.542)**			**(-2.331)**		
NODAMDgdp	---	-0.021	---	---	**-0.068**	---	---	**-0.074**	---
		(-0.915)			**(-2.412)**			**(-2.203)**	
NODADACgdp	---	---	-0.014	---	---	**-0.054***	---	---	**-0.060**
			(-0.845)			**(-2.594)**			**(-2.385)**

Democracy	0.198***	0.199***	0.198***	0.115**	0.121***	0.112**	0.139**	0.146***	0.135**
	(5.367)	(5.457)	(5.323)	(2.545)	(2.644)	(2.479)	(2.561)	(2.631)	(2.531)
Public Investment	-0.057	-0.058	-0.055	-0.053	-0.052	-0.053	-0.049	-0.048	-0.048
	(-0.822)	(-0.829)	(-0.811)	(-0.590)	(-0.558)	(-0.600)	(-0.520)	(-0.493)	(-0.528)
Hausman-test	46.888***	44.846***	42.808***	48.153***	44.185***	54.739***	81.226***	79.312***	89.942***
OIR-Sargan test	0.685	0.338	1.038	1.890	4.163**	0.612	2.559	5.310**	0.929
P-value	[0.407]	[0.560]	[0.308]	[0.169]	[0.041]	[0.433]	[0.109]	[0.021]	[0.335]
Adjusted R²	0.564	0.565	0.562	0.206	0.208	0.191	0.217	0.209	0.211
Fisher Statistics	18.040***	18.748***	17.450***	9.415***	9.547***	9.123***	7.991***	8.196***	7.789***
Observations	452	452	452	450	450	450	452	452	452

First-Set of Instruments : Constant; English ; Christianity; Middle Income; Lower Middle Income
Second-Set of Instruments: Constant; French; Islam; Lower Income; Upper Middle Income

*;**;***: significance levels of 10%, 5% and 1% respectively. (): z-statistics. []: p-values corresponding to OIR-Sargan test. OIR: Overidentifying Restrictions test. NODAgdp: NODA on GDP. NODAMDgdp:NODA from Multilateral Donors on GDP. NODADACgdp: NODA from DAC countries on GDP.

4.4 Further discussion, policy implications and caveats

Our findings have revealed that development assistance deteriorates economic (regulation quality and government effectiveness) and institutional (corruption-control and rule of law) governance, but has an insignificant effect on political (political stability, voice & accountability) governance. While, these results are broadly in accordance with Moyo (2009) and Collier (2007) on weak governance, they neither confirm the Eubank (2012) position on political governance nor the Asongu (2012a) stance on the aid-corruption nexus in his debate with Okada & Samreth (2012).

The results on the negative linkages are also broadly in line with recent development literature (Wamboye et al., 2013; Marglin, 2013; Banuri, 2013; Titumir & Kamal, 2013; Krause, 2013; Ghosh, 2013; Monni & Spaventa, 2013). Indeed, the stance of Amin (2014) on neocolonialism governing aid is in accordance with Ndlovu-Gatsheni (2013) on the entrapment of the continent within the global colonial webs of power or Kindiki (2011) on the imperative for countries on the African continent to strategically overcome dependence on international regimes (Asongu, 2014a). According to Amin, development should not be limited to the Washington Consensus and donor thoughts about what is good for Africa. Consistent with the author, aid

allocation processes and decisions should be a process that prioritises African interest (Obeng-Odoom, 2013).

The insignificant relationship with political governance is not broadly consistent the recommendations of Boone (1996) that, targeting liberal political regimes, could be more feasible in mitigating poverty. This inference is based on the theoretical underpinning that foreign aid is meant to improve political governance which ultimately leads to economic development. The conclusions of Tavares (2003) on the negative relationship between foreign aid and political governance are not apparent in the findings. Conversely, our results are in line with Rajan & Subramanian (2007) on the negative linkage between aid and governance and (Brautigam & Knack (2004, p. 266) on the negative effect of foreign aid on African governance.

The unappealing relationship between development assistance and government quality could be traceable to the manner in which the allocation and results of aid are influenced by politics. In essence, aid supply is made contingent on the willingness of recipient countries to bow to conditions and political motivations of donor countries. Accordingly, the political economy perspective of development assistance is crucially relevant in understanding the results because the motives of aid are products of institutions, culture, dynamics of competitive interest and power distribution (Schraeder et al., 1998; Hopkins, 2000; Asongu, 2014a). Development assistance is also the result of bargaining in some type of political market that consists of donor aid bureaucracies, recipient government officials and multilateral aid agencies. In essence, the multiple motivations of donors vary over time. For example, to some extent, Japanese aid is motivated by economic gains, Nordic aid by global welfare improvements and French aid by political goals. Therefore, French motivations to maintain their colonial legacies could explain our findings to some extent.

It is logical to expect the above results because, until the 1990s, Cold war strategies were to a marked degree prime motivation for development assistance. In that époque, recipient countries did not fail because the interests of Cold war combatants were at stake and genuine development was a secondary concern. Therefore the rent-seeking elites were not constrained by donors to account for aid effectiveness. Hence, it is far from surprising that in the aftermath of the Cold war, countries that were once sustained by aid began openly failing in terms of governance. This confirms the long-standing consensus among some analysts that donor governments are essentially to blame for placing priorities on their interests: particularly commercial and political goals (Roggoff, 2014).

To put the above paragraph into greater perspective, it is important to note that imperialism and neocolonialism have substantially dominated the aid agenda. In this vein, donors have always sought to improve their realm of influence for each dollar disbursed in aid. With the exception of fast growing economies in Asia, recipients in Africa have moved towards giving-in to more concessions to the preferences of donors. The 1960 days when Egypt thoroughly resisted aid from the West are over. In African economies, aid receiving countries have begun constructing a supplicant mentality, coming-up with a range of projects with the aim of getting more aid (Lancaster, 1999; Hopkins, 2000; Asongu, 2014a). Under this scenario, donors bargain for greater influence. The colonial powers have the leverage to request higher policy standards in exchange for their money. Unfortunately, their demands are not always in the interest of advancing recipient countries. A case in point is a recent decision by the USA and British governments to curtail aid to African countries because of anti-gay laws. In February 2014, the World Bank also suspended a loan package to Uganda because an anti-gay bill approved by the Ugandan legislature had been signed into law by President Yoweri Museveni.

Our conclusions are relevant to the case study of Uganda because we have established that foreign aid has no significant effect on 'regime change' or political governance. This inference is substantiated by other notable cases like Zimbabwe where the distortion of foreign aid to effect 'regime change' is not working. A possible explanation is that, the manipulation of foreign aid to effect political outcomes may be used by populist parties to instill nationalistic sentiments among the electorate. The neocolonial slogan used by President Robert Mugabe is such an example (Mod, 2013).

It is also interesting to note that not only donors could be responsible for the adverse consequences of foreign aid on good governance, initial conditions of bad governance in recipient countries could also play a crucial role, especially when such countries were already corrupt prior to receiving foreign aid. This means, the deterioration of governance standards by foreign aid could be a two-way street. Hence, efforts might need to come from both fronts (donors and recipients) in measures to mitigate the issue. This concern about initial conditions is an interesting future research direction.

A potential caveat in the paper is that a claim by prior literature that the colonial legacy has influenced the quality of institutions (Acemoglu et al., 2001) may raise some issues about the exogeneity of this variable as an instrument.

5. Conclusion

The paper has investigated the effect of foreign aid on governance in order to extend the debates on it and verify common positions from Moyo's 'Dead Aid', Collier's 'Bottom Billion' and Eubank's 'Somaliland'. The empirical evidence is based on updated data from 52 African countries for the period 1996-2010. An endogeneity robust instrumental variable two-stage-least squares empirical strategy has been employed. The findings reveal that development assistance

deteriorates economic (regulation quality and government effectiveness) and institutional (corruption-control and rule of law) governance, but has an insignificant effect on political (political stability and voice & accountability) governance. While, these findings are broadly in accordance with Moyo (2009) and Collier (2007) on weak governance, they neither confirm the Eubank (2012) position on political governance nor the Asongu (2012) stance on the aid-corruption nexus in his debate with Okada & Samreth (2012).

At least two policy implications are noteworthy. *First,* the use foreign aid as an instrument to influence the election and replacement of political leaders in Africa may have insignificant results. Second, it is time to solve the second tragedy of foreign aid together with high time economists and policy makers start rethinking the models and theories on which foreign aid is used to influence economic, institutional and political governance in recipient countries.

Maybe the success of action in society depends on more particular facts than anyone can possibly know. As Hayek (1988) posited *"the curious task in economics is to demonstrate to men how little they know about what they imagine they can design"*. Once economists stop being too optimistic, there is hope to hold donors accountable for such piecemeal outcomes as well-maintained roads, water supply, medicines, textbooks and nutritional supplements to improve the wellbeing of the poorest people in the world.

Appendices

Appendix 1: Summary Statistics

	Variables	Mean	S.D	Min.	Max.	Observations
Development Assistance	Net Development Assistance(NODA)	10.811	12.774	-0.251	148.30	704
	NODA from Multilateral Donors	4.481	5.512	-1.985	64.097	704
	NODA from DAC countries	6.244	8.072	-0.679	97.236	704
Government Quality	Control of Corruption	-0.603	0.628	-2.495	1.086	611
	Government Effectiveness	-0.665	0.606	-1.853	0.807	587
	Political Stability	-0.563	0.963	-3.311	1.143	624
	Regulation Quality	-0.673	0.673	-2.729	0.905	620
	Rule of Law	-0.700	0.686	-2.691	1.053	622
	Voice and Accountability	-0.678	0.739	-2.174	1.047	624
Control Variables	Population growth	2.359	1.015	-1.081	10.043	780
	Trade	78.352	39.923	17.859	275.23	705
	Democracy	2.307	4.089	-8.000	10.000	735
	Public Investment	7.489	4.535	0.000	39.984	641
Instrumental Variables	English Common-Law	0.384	0.486	0.000	1.000	780
	French Civil-Law	0.615	0.486	0.000	1.000	780
	Christianity	0.634	0.481	0.000	1.000	780
	Islam	0.365	0.481	0.000	1.000	780
	Low Income	0.576	0.494	0.000	1.000	780
	Middle Income	0.423	0.494	0.000	1.000	780
	Lower Middle Income	0.230	0.421	0.000	1.000	780
	Upper Middle Income	0.192	0.394	0.000	1.000	780

S.D: Standard Deviation. Min: Minimum. Max: Maximum.

Appendix 2: Correlation Analysis

Quality of Government						Dev. Assistance			Control Variables				Instrumental Variables								
CC	Gov.E	PolS	R.Q	R.L	V&A	TA	MLD	DAC	Popg	Trade	Demo	PubI	Eng.	Frch.	Chris	Islam	LI	MI	LMI	UMI	
1.000	0.846	0.691	0.733	0.871	0.668	-0.14	-0.12	-0.14	-0.28	0.157	0.491	0.212	0.118	-0.11	0.133	-0.13	-0.32	0.322	0.071	0.327	CC
	1.000	0.659	0.806	0.890	0.703	-0.27	-0.25	-0.24	-0.36	0.115	0.459	0.123	0.293	-0.29	0.057	-0.05	-0.42	0.424	0.156	0.361	Gov.E
		1.000	0.643	0.802	0.661	-0.14	-0.12	-0.14	-0.22	0.312	0.528	0.252	0.060	-0.06	0.171	-0.17	-0.26	0.266	-0.03	0.367	PolS
			1.000	0.816	0.715	-0.24	-0.22	-0.23	-0.19	-0.00	0.519	0.078	0.134	-0.13	0.077	-0.07	-0.27	0.274	0.106	0.231	R.Q
				1.000	0.728	-0.20	-0.17	-0.20	-0.29	0.173	0.536	0.224	0.164	-0.16	0.115	-0.11	-0.35	0.357	0.084	0.359	R.L
					1.000	-0.00	-0.00	0.002	-0.15	0.041	0.755	0.025	0.255	-0.25	0.226	-0.22	-0.15	0.152	-0.08	0.279	V&A
						1.000	0.900	0.955	0.368	-0.10	-0.03	0.195	-0.05	0.050	0.058	-0.05	0.450	-0.45	-0.26	-0.28	TA
							1.000	0.733	0.400	-0.09	0.011	0.220	-0.03	0.035	-0.00	0.006	0.475	-0.47	-0.28	-0.29	MLD
								1.000	0.304	-0.09	-0.05	0.141	-0.05	0.056	0.098	-0.09	0.382	-0.38	-0.22	-0.24	DAC
									1.000	-0.25	-0.06	0.043	-0.10	0.107	0.008	-0.00	0.425	-0.42	-0.22	-0.29	Popg
										1.000	0.016	0.175	0.176	-0.17	0.181	-0.18	-0.35	0.35	0.137	0.294	Trade
											1.000	0.147	0.177	-0.17	0.163	-0.16	-0.03	0.034	-0.16	0.228	Demo
												1.000	-0.13	0.138	0.008	-0.00	-0.04	0.049	0.002	0.059	PubI
													1.000	-1.00	0.189	-0.18	-0.04	0.043	-0.05	0.115	Eng.
														1.000	-0.18	0.189	0.043	-0.04	0.057	-0.11	Frch.
															1.000	-1.00	-0.00	0.003	-0.15	0.167	Chris
																1.000	0.003	-0.00	0.153	-0.16	Islam
																	1.000	-1.00	-0.63	-0.56	LI
																		1.000	0.639	0.569	MI
																			1.000	-0.26	LMI
																				1.000	UMI

CC: Control of Corruption. Gov. E: Government Effectiveness. PolS: Political Stability or No Violence. R.Q: Regulation Quality. R.L: Rule of Law. V& A: Voice and Accountability. TA: Total development assistance. MLD: Development Assistance from Multilateral Donors. DAC: Development Assistance Committee. Popg: Population growth. Demo: Democracy. PubI:Public Investment. Eng: English Common-Law. Frch: French Civil-Law. Chris: Christian Religion. LI: Low Income. MI: Middle Income. LMI: Lower Middle Income. UMI: Upper Middle Income.

Appendix 3: Variable Definitions

Variables	Signs	Variable Definitions	Sources
Net Development Assistance(NODA)	NODAgdp	NODA (% of GDP)	World Bank(WDI)
NODA from Multilateral Donors	NODAMDgdp	NODAMDgdp(% of GDP)	World Bank(WDI)
NODA from DAC Countries	NODADACgdp	NODADACgdp(% of GDP)	World Bank(WDI)
Control of Corruption	CC	"Control of corruption (estimate): captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as 'capture' of the state by elites and private interests".	World Bank(WDI)
Government Effectiveness	Gov. E	"Government effectiveness (estimates): measures the quality of public services, the quality and degree of independence from political pressures of the civil service, the quality of policy formulation and implementation and the credibility of governments' commitments to such policies".	World Bank(WDI)
Political Stability/ No Violence	PolS	"Political stability/no violence (estimates): measured as the perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional and violent means, including domestic violence and terrorism"	World Bank(WDI)
Regulation Quality	R.Q	"Regulation quality (estimates): measured as the ability of a government to formulate and implement sound policies and regulations that permit and promote private sector development".	World Bank(WDI)
Rule of Law	R.L	"Rule of law (estimates): captures perceptions of the extent to which agents have confidence in, abide by the rules of society, in particular the quality of contract enforcement, property rights, the police, the courts, as well as the likelihood of crime and violence".	World Bank(WDI)
Voice and Accountability	V & A	"Voice and accountability (estimates): measure the extent to which a country's citizens are able to participate in selecting their government and to enjoy freedom of expression, freedom of association and a free media"	World Bank(WDI)
Trade(Openness)	Trade	Imports plus Exports in commodities (% of GDP)	World Bank(WDI)
Population growth	Popg	Average annual population growth rate	World Bank(WDI)
Democracy	Demo	Level of Institutionalized Democracy	World Bank(WDI)
Public Investment	PubI	Gross Public Investment (% of GDP)	World Bank(WDI)

WDI: World Bank Development Indicators. DAC: Development Assistance Committee.

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