Does Foreign Aid Inflows Promote Better Governance in Sub-Saharan Africa?

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By

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ABSTRACT

The emerging markets have recently been experiencing an influx in foreign aid inflows, despite a decline in foreign direct investment. In most cases, due to conditions attached to foreign aid, it has hampered the recipient country's economy compared to the benefits attributed to aid especially for African countries. There have been mixed views regarding the effects of foreign aid to a host country; some sources report that foreign aid inflows can provide supplemental domestic capital for investment activities to accelerate economic growth and development, reduce corruption, and improve governance. In contrast, other studies claim that foreign aid disrupts governmental development, enhances corruption and poor governance, reduces the degree of accountability, limits the rule of law, and increases bureaucratic inefficiency. As a result of these contrasting views, this study aims to look at the effect of foreign aid on governance in 43 countries in Sub-Saharan Africa from 2008 to 2017.

The results from the Generalised Method of Moments (GMM) exhibit that a statistically noteworthy positive relationship exists between foreign aid and governance, implying that foreign aid enhances good governance in the SSA region. With regard to corruption, the results revealed that a negative relationship exists with foreign aid in the SSA region, suggesting that foreign aid worsens corruption in SSA. Therefore, it is highly recommended that more of development foreign aid must be issued to Africa as it improves the economic environment of African countries, governance and standard of living of the African citizens. Future studies on the subject matter should try to investigate foreign aid effects on governance and corruption in decomposed regions of Africa, such as Middle East, Northern Africa and the Southern Africa Development Community, to mention a few.

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LIST OF ABBREVIATIONS

CSO	Civil Society Organisation
DDM	Double Deficits Model
FDI	Foreign Direct Investment
GLS	Generalised Least Squares
GMM	Generalised Method of Moments IMF International Monetary Fund
LDC	Least Developed Countries
MDG	Millennium Development Goals
ODA	Official Development Assistance
OECD	Organisation for Economic Corporation Development
OLS	Ordinary Least Squares
PFM	Public Financial Management
SSA	Sub-Saharan Africa
WG	Within Group Estimator

CHAPTER ONE: INTRODUCTION

1.1 Introduction

International development agencies have described ‘bad governance’ as a major impediment to economic growth and improvement (Moore, 2004). (Unsworth, 2010) argues that governance is more concerned with the mechanisms and interactions that link the state and civil society. This implies that governance plays a crucial role in the growth of the economy through enforcing democratisation, the rule of law and justice, as well as corruption, among other factors. Additionally, consolidated democratic regimes have better governance and promote higher levels of economic growth and social policies that benefit the poor (Unsworth, 2010). In countries that have vibrant democratic policies and good governance, foreign aid might unsurprisingly stimulate development (Stevenson, 2006). In the African context, (Aluko & Arowolo, 2010) argue that foreign assistance has done more harm than good due to the conditional ties imposed by donors and has a tendency to be harmful to their economic growth.

Furthermore, one of the often-unintended consequences of foreign aid is corruption, with some studies revealing that aid can lower the occurrence of it, whilst others seem to suggest that aid can actually fuel corruption. Donor interference in governance systems and institutions has been pointed out as one of the major ways through which foreign aid can lead to corruption. (Quazi, Alam, & Tandon, 2015) note that good governance is crucial in facilitating the efficiency of foreign aid inflows in a recipient country. The quality of governance is critical for aid effectiveness and for that reason, the principal objective of this research is to empirically examine whether foreign aid promotes or hampers the governance of its recipient countries in Sub-Saharan Africa.

1.2 Background of the Study

(P. Easterly, 2006) defines “foreign aid as a voluntary transfer of resources from one country to another, given at least partly with the objective of benefiting the recipient country”. Foreign aid tends to offer a number of functions, which include being a tool for diplomatic approval, as a means for fortifying a relationship through a military alliance, and as a way to compensate government for sought after behaviour by host economies. Donor economies can also utilise foreign aid as an instrument to improve infrastructure in recipient countries as a motive to enhance resource extraction from the recipient economies or possibly as a means to gain commercial access to other resources in the recipient country. For its part, the Organization for Economic Co-Operation and Development (OECD) defines foreign aid as “government aid designed to promote the economic development and welfare of developing countries”. The above definition is important, as it brings to the fore that aid is received by a given government and is aimed at achieving two basic goals, namely, economic development and social welfare. This definition helps to debunk the earlier definitions which focus on economic growth alone, highlighting that aid can also be used to pursue social goals. Official Development Aid (ODA) is the most conventional and popular type of foreign aid, and the main focus of this type of aid is poverty alleviation and development.

(Gillanders et al., 2015) argues that the provision of foreign aid is a key tool employed by developed nations to promote prosperity in developing countries. However, there are often hidden motives that accompany the provision of development aid to developing countries, especially those that are rich in resources. (Simplice A. Asongu & Nnanna, 2019) allude that neo-colonialist relationships play a vital role in the allocation of foreign aid to developing countries. Aid payments made directly to a recipient country’s government is referred to as systematic aid, and this aid can either be bilateral or multilateral aid depending on the donor. Bilateral aid is government to government based, providing financial flow from one country to another country, whilst multilateral aid is aid given through institutions such as the International Monetary Fund (IMF), and the World Bank. (David, 2005; P. Easterly, 2006) highlight that multilateral aid usually comes with certain policy conditionalities attached to it, which include democracy prescriptions and free markets, which possibly do more harm than good as they might not be favourable to the local environment.

In prolongation of the above discussion of bilateral and multilateral aid, there is private aid which normally collapses with the aforesaid aid types (Todaro, 1977). Bilateral aid accounts for 60% of aid donated to developing economies whereas multilateral aid accounts for 40% (Aluko & Arowolo, 2010). Therefore, it is of paramount importance to take note that of late there has been a considerable increase of foreign aid to developing nations, despite the decline in other types of foreign inflows which include Foreign Direct Investment (FDI). The Organisation for Economic Corporation and Development (OECD) (2012) states that since the global financial crisis the flow of FDI and other remittances has been declining, especially in 2009. For the purposes of this study, foreign aid is referred to as ODA (Official Development Assistance), which is loosely defined as aid granted to governments based on convenient concessional terms, usually as a simple donation. Therefore, Table 1.1 below gives an overview of foreign aid flows on a global and regional scale over a four-year period as the effects of foreign aid are long-term.

There has been a sharp increase in foreign aid mainly for developing countries between the four-year period of 2012 to 2015 and 2016 to 2019 of about 12.42% suggesting that more foreign aid has been channelled to developing countries. With respect to Africa, there has been a 2.34% increase in foreign aid with 34.65%, 3.95% and 0.41% increase in Middle East, Eastern Africa and Western Africa respectively. However, Southern Africa and Middle Africa experienced decline in foreign aid of 12.66% and 8.48% respectively.

Table 1.1: Foreign Aid Distribution

Year	2012 – 2015	2016 - 2019	Percentage Change
Developing Countries	89748.554	102477.5928	12.42%
Europe	2465.998	2930.9796	15.86%
America	6366.122	6657.0404	4.37%
Asia	23561.92	25811.216	8.71%
Africa	28806.162	29496.2864	2.34%
Eastern Africa	12966.736	13499.5272	3.95%
Middle Africa	2916.23	2688.324	-8.48%
Southern Africa	1356.404	1203.9708	-12.66%
Western Africa	6352.964	6379.0608	0.41%
Middle East	6262.97	9583.216	34.65%

Source: OECD Stats (2021)

SSA has been a significant beneficiary of official development aid (ODA) for over five decades (Rena, 2013). Although SSA's aid dependency has fallen in recent decades, ODA remains one of the key sources of finance (Morrissey, 2015).[1] Developing countries are mostly characterised by insufficient domestic capital to promote local investment, which is a gap covered by foreign aid as a supplement for domestic capital with the motive of boosting economic development (U Qayyum, Din, & Haider, 2016), reducing corruption (Okada & Samreth, 2012), improving governance (Busse & Gr"oning, 2009; Sharma, 2009), facilitating infrastructure development (Collier, 2007) and expanding education and healthcare (Arndt, Jones, & Tarp, 2007).

In contrast, other studies have found that ODA can have the opposite effect by disrupting governmental development, enhancing corruption and poor governance, reducing the degree of accountability, limiting the ability to learn from policies, limiting the rule of law, increasing bureaucratic inefficiency (Djankov, McLiesh, & Shleifer, 2007; U Qayyum et al., 2016; Rajan & Subramanian, 2007; Sarwar, 2015), increasing public consumption (Rena, 2013), and undermining the development and performance of the manufacturing sector (Collier, 2007; Rajan & Subramanian, 2007).

It has been argued that the extent to which ODA has positive or negative effects depends on the developmental state of institutions of the recipient country (Dutta, Leeson, & Williamson, 2013). Thus, ODA tends to enhance governance in developing countries that are already democratic but negatively affects political institutions in countries that are less democratic or suffer from weak governance and political institutions (Dutta et al., 2013; Goff & Singh, 2013). This is particularly applicable to SSA, which has a history of governmental flux, weak institutions, and confounding systems associated with traditional authorities, community systems, warlords or other power brokers, which potentially compromise development, welfare and security (Heidhues & Obare, 2011).

In SSA, ODA could negatively impact governance by enhancing corrupt ‘shadow states’ and predatory elitism, while reducing the effectiveness of poverty reduction programmes and policies (Mudacumura & Morçöl, 2014; Nduku, 2014). In the long run, numerous economies seem to rely on this external capital, with accompanying

[1] In 2017, SSA received $25 billion in ODA from the Development Assistance Committee (DAC) donors (OEDC, 2019).

negative side- effects on governance, and political and economic institutions (Young & Sheehan, 2014). (thian hee & Lau, 2018) indicate out that foreign aid encourages good governance systems in developing countries, particularly those within Latin America, Asia and Africa (Collier, 2007; Okada & Samreth, 2012; U Qayyum et al., 2016; Sharma, 2009).

Owing to the possible benefits attached to foreign aid, especially for emerging markets, this research aims to investigate the impact of foreign aid on governance, with particular focus to the Sub-Saharan African countries.

1.3 Research Problem

As highlighted by the background of the study, there are mixed findings on the foreign aid-governance nexus. Some studies, such as those of (Busse & Gr"oning, 2009; Dutta et al., 2013; Young & Sheehan, 2014) posit that in emerging economies, foreign aid enhances economic development, but caution that its efficiency predominantly lies on the recipient economy's soundness of governance and institutional quality.

However, studies note that foreign aid enhances governance by providing SSA governments with additional capital to fight corruption, as well as providing SSA with the required technical assistance to build effective institutions to improve governance (Busse & Gr"oning, 2009). This is contrary to some studies which counter argue that foreign aid promotes corruption, rent-seeking behaviours and other 'unintended ill' consequences (S. Asongu, 2014). Given these conflicting views, it is difficult to determine whether ODA has had a beneficial effect on governance in SSA. Therefore, this research seeks to investigate the effects of foreign aid on governance in SSA.

A sample of 153 countries was studied using a typical unobserved OLS model (Kaufmann & Kraay, 2002) and found that quality governance is an important factor in determining economic growth. With respect to SSA, sustainable growth of the economy is critical for development and the eradication of poverty and ODA remains one of the key sources of external finance for most African countries to support economic growth. African governments can be considered the main players in governance issues in SSA; they are the main decision makers on how foreign development aid resources are to be used. Their decision making impacts the extent to which received ODA is invested into productive projects and how likely this will yield results that impact economic growth and development; thus, governance is an important factor of aid effectiveness. The importance of governance is due to governments' obligation of ensuring macroeconomic stability which promotes the efficient functioning of markets including foreign aid inflows (Quazi et al., 2015).

Overall, the quality of governance is critical for aid effectiveness and for that reason, the chief goal of this research is to empirically explore whether foreign aid hampers governance in recipient countries in SSA and also whether governance contributes or hampers the effectiveness of foreign aid, which when effectively utilised contributes to economic growth. The study thus seeks to empirically analyse the relationship between ODA and governance in 43 SSA countries (five SSA countries were not included due to the unavailability of data) over the period of 2008 – 2017.

1.4 Research Objectives

The study's main goals are:

1. To examine how foreign aid affects governance in Sub-Saharan Africa.
2. To examine the effect of foreign aid on corruption in Sub-Saharan Africa.
3. To determine the causal link between foreign aid with governance and corruption in Sub-Saharan Africa.

1.5 Research Questions

The study's primary research questions are:

1. What effect does foreign aid have on governance in Sub-Saharan African countries?
2. What effect does foreign aid have on corruption within Sub-Saharan African economies?
3. What causal association exists between governance and corruption with foreign aid in Sub-Saharan African countries?

1.6 Research Hypothesis

The study seeks to test the following hypothesis:

$H1_0$: Foreign aid has no effect on governance in Sub-Saharan Africa.
$H1_1$: Foreign aid has a positive effect on governance in Sub-Saharan Africa.

$H2_0$: Foreign aid has no effect on corruption in Sub-Saharan Africa.
$H2_1$: Foreign aid has a positive effect on corruption in Sub-Saharan Africa.

$H3_0$: Foreign aid has no causal relationship with governance in Sub-Saharan Africa.
$H3_1$: Foreign aid has no causal relationship with corruption in Sub-Saharan Africa.

1.7 Contribution of the Research

The principal aim of the study is to proffer a solution to the existing debate on the aid-governance relationship through examining the role of foreign aid on governance and corruption, with particular focus on the Sub-Saharan African bloc. As highlighted in earlier studies, foreign aid is a major determinant of development in SSA, as it can be beneficial to the aided country when correctly applied. In the case of SSA, foreign aid inflows are an important source of funds, which if used effectively, can stimulate economic growth to reach the desired rates required for development and the reduction of poverty in SSA. (Winters & Martinez, 2015) note that during the 1990s, consensus was reached amongst donors, particularly big multilateral organisations, such as the World Bank, that aid allocation must be selective with regard to the governance of recipient countries, because good governance is a critical component for aid effectiveness.

Studies like those of (Unbreen Qayyum & Mahmood, 2013; Winters & Martinez, 2015) examine the effects of foreign aid on governance in Asian countries and focus on whether or not donors respond to the needs of the recipient country's governance when deciding on aid distribution. Furthermore, a close study by (Tait, Siddique, &

Chatterjee, 2015) investigates the influence of foreign aid on economic growth in SSA, covering 25 countries from 1970 to 2012. The study utilised a fixed effect panel data survey. In addition, (Tait et al., 2015) focus mainly on GDP growth and not governance per se. (Tang & Bundhoo, 2017) examine the effects of foreign aid on the economic development of the Sub-Saharan African region. The study relates foreign aid to the policymaking level, which might not be an effective indicator of governance. All these studies did not take into consideration the relationship between foreign aid and governance; therefore, this study hopes to contribute to the body of knowledge in two ways. Firstly, this study examines the effects of foreign aid on recipient countries' governance, and secondly, this study employs the Generalised Method Moments econometric estimation technique which previous studies did not use.

This study hopes to contribute to the small and growing literature regarding the relationship of foreign aid inflows, governance, and corruption in Sub-Saharan Africa. Finding out the impact of aid inflows on governance and corruption in Sub-Saharan Africa and whether such relationship is positive or negative is an answer that has not been adequately resolved by the existing literature given the existing contradictions, as presented in above in 1.2 and 1.3.

Consequently, this study would be important to interested stakeholders in multilateral organisations and bilateral donors who are interested in gaining a better understanding of the relationship between governance and the flow of foreign aid in order to improve the allocation of foreign aid. If donors are able to accurately allocate aid according to good governance, it is likely to motivate poor governed, corrupt countries to implement measures towards curbing corruption, encouraging policy reforms and improving overall governance. In addition, this study would also be important to government officials from recipient countries of foreign aid who aspire to improve governance in their countries to experience the economic and social benefits that can be brought about through foreign aid.

In summary, the research findings will further assist aid allocation policy makers to enable them to allocate aid in a manner that best maximises utility gains from foreign aid to the economy as a whole.

1.8 Scope of the Study

The study used a sample of 43 Sub-Saharan African economies over a ten-year period from 2008 to 2017 to examine the relationship between foreign aid and governance.

1.9 Organization of the study

The research proceeds with both the theoretical and empirical underpinnings of the study discussed in Chapter Two. Chapter Three details the methodology, including a discussion of the research philosophy and design, and the methods of data analysis. Chapter Four presents and discusses the data used to conduct the analysis, together with the results and the findings. The final chapter presents a summary conclusion regarding policy implications and future study recommendations

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents and discusses the literature for the study and is structured in sub-sections that consider the theoretical and empirical contributions. As such, section 2.2 investigates theoretical literature, including the theoretical framework of the study, namely the Financial Two-Gap Framework. The review of empirical literature is contained in section 2.6, and this includes literature on foreign aid effects on corruption and the impact of foreign aid on governmental accountability. Lastly, section 2.3 contains a summary of the literature gaps identified in this review. The current section explores theoretical literature review. This includes theoretical framework guiding the study as well as reviews of literature on the key concepts included in the study.

2.2 The Financial Two-Gap Model

The Two-Gap Model is used as the theoretical basis for this research. The Double Deficits Model (DDM), suggested by (Chenery & Strout, 1966), is another name for the model. In the literature, it has been the most quoted and referenced paradigm in economic development and international assistance discussions. The model's underlying hypotheses are: (i) that international assistance promotes and enhances economic growth; and (ii) that LDCs are unable to bridge the gap between savings and investment (I-S) or exports and imports (M-E). Assuming that all aid is spent, calculating the amount of aid required to achieve the target growth rate is easy. Aid has a significant influence.

In this regard, (W. Easterly, 2003) claims that foreign aid has a powerful growth impact because of its role in galvanizing and boosting domestic investment in LDCs and above what domestic savings can achieve. However, in most LDCs, especially in Africa, the anticipated contributions and gains are hindered by a high level of systemic corruption. In this vein, (Murshed & and Khanaum, 2014) bolster this argument: “Unfortunately, the presence of high- level corruption in the African continent has continued to retard the gains of foreign aid” (p. 108).

Indeed, expecting both an output-capital relationship that is constant and for all assistance to be expended is a tall order. The statement that growth is less related to physical capital expenditure than commonly thought is one line of criticism in the two-gap strategy (W. Easterly, 2003). If the productive influence of assistance is more dependent on incentives and relative prices, as well as the policy climate in general, these wider effects must be considered.

Needless to say, this model has its detractors, the majority of whom doubt the model's assumptions. The gap model, according to (Harms & Lutz, 2004) assumes that investment is the only factor in increasing productivity, when there are other factors at play (i.e., education, research and development). They also point out that the recipient country would not invest any of the assistance it receives. Aid, like any other form of currency, is fungible. Aid can be used for any function, but it cannot be assured that all of it would be invested. Naturally, a recipient country would spend some of the aid money on consumption (government spending other than capital outlay) and invest the rest.

In the context of the present study, the model is an effective way through which to understand the inter-relatedness between the level of foreign aid and the governance in a country. The model is helpful in informing research since it makes provisions for the analysis of data from multiple countries all at once, which is in line with the methodological approach of this study.

2.3 The Concept of Foreign Aid

Apart from simply defining what foreign aid is, the use of the term can be made clearer by explaining what its characteristics are. In the view of (Shah, 2012), foreign aid comprises three basic components, which include grants that are both interest-free and not repaid; loans that can have low interest rates or none at all, as well as loans that have long repayment periods. (Shah, 2012), therefore, lists several types of foreign aid which include technical, commodity, financial, emergency, programme, military and project aid. This agrees with the position provided by (Murshed & and Khanaum, 2014), who state that foreign aid is not only financial in form but also includes assistance in programmes and projects, as well as the supply of food.

Whilst it is common to think of foreign aid from a financial perspective, (Sharma, 2009) states that its main objective is not only humanitarian in nature but is also aimed at the strengthening of weak or fragile states, as well as to improve relations between the donors and the recipient countries. From the outset, it is clear that foreign aid is concerned with not only financial payments but also non-financial issues which include technical and material assistance. An important point to note, as raised by (Sharma, 2009), is that the degree of transparency of recipient governments varies widely, which is one of the reasons for the existence of foreign aid-corruption relationships.

2.4 The Concept of Corruption

As stated by (Amadi & Ekekwe, 2014), corruption in Africa is a multi-layered phenomenon whose major effect is to harm developmental efforts. The scholars contend that corruption increases inequality, gives rise to poverty and perpetuates it, reduces the efficiency of governance and hinders access to basic service delivery, particularly for vulnerable social groups (Amadi & Ekekwe, 2014). Therefore, it is evident that corruption is an undesirable vice which can affect public officials, compromise service delivery and spread poverty.

2.5 Governance

Government conjures up a more monolithic pattern of law, while governance conjures up a more pluralistic pattern of rule. Governance, according to (Unsworth, 2010), is less concerned with state circumstances and more concerned with the mechanisms and interactions that link the state and civil society. Civil society organisations (CSOs) are said to play an important role as a link between the government and the general public by engaging parliamentarians and political parties in discussion and offering efficient and responsible opposition (Interpeace, 2010). As (Moore, 2004) points out, international development agencies have described ‘bad governance' as a major impediment to economic growth and improvement.

2.5.1 Democratisation

When it comes to economic performance and poverty reduction, neither the best nor the worst performers are democratic states, however, there is proof that democratic regimes avoid the worst humanitarian disasters from arising (Unsworth, 2010). Over long periods of time, it appears that consolidated democratic regimes have better governance, may promote higher levels of economic growth and develop social policies that benefit the poor.

2.5.2 The Rule of Law and Justice

The negative effects of a weak rule of law on the poor, especially in regard to insufficient property rights and dispute resolution mechanisms, are well documented. While there is no clear evidence that donors' promotion of a ‘supply-side’ rule of law has had a positive effect on poverty rates (Unsworth, 2010), there are several promising case studies of efforts to increase disadvantaged people's access to justice, which show that this may be a way to alleviate poverty (Interpeace, 2010).

2.5.3 Corruption

According to (Unsworth, 2010), there has been very little empirical research on the effect of anti-corruption policies on poverty levels or growth in general. The literature focuses primarily on the link between corruption and economic growth, with an implied and/or indirect effect on poverty reduction. Many anti-corruption efforts have failed to show substantial results.

2.5.4 Decentralisation

There is evidence that decentralisation can improve state effectiveness, responsiveness, transparency, and citizen speech, which can all help with growth (Bevir, 2011; Obadein, 2018; Unsworth, 2010). However, there is a scarcity of reliable empirical evidence or evidence to back up these arguments, and several academic researchers have found that decentralisation has a detrimental impact on overall growth. The role of the political background in assessing progress is emphasized in the literature.

2.5.5 Public Administration Reform

There is widespread agreement in donor and scholarly literature available that a clear correlation needs to exist between public sector efficiency and transparency and development outcomes (S A Asongu & Jellal, 2013; Obadein, 2018). However, because of the circumstances and inadequate intervention design, the change capacity has not always been realised. However, there are some examples of reforms that have had an effect on growth, as well as evidence of donor influence.

2.5.6 Public Financial Management

It is vital to strengthen public financial management (PFM) in order for nations to achieve their development agendas. PFM impacts on poverty as it is largely determined by the efficiency and priorities and policies of the government which should be oriented toward the vulnerable. As a result, rather than using empirical evidence, the connection between PFM and development is often conceptually argued about (S A Asongu & Jellal, 2013). There are, however, case studies where PFM has helped to achieve the MDGs, such as through increased social sector budgetary allocations. PFM changes were chastised in the past for focusing on technological solutions to solve issues that are also political in nature.

2.6 Review of Empirical Literature

In this section, the focus is on empirical literature on the link between foreign aid and corruption and governance with particular focus on African economies. Understanding how it manifests in issues to do with foreign aid in SSA is important, which is the motivation of the literature review in the forthcoming sub-sections.

2.6.1 Foreign Aid Effects on Governance and Corruption

One of the often unintended consequences of foreign aid is corruption, with some studies revealing that aid can lower the occurrence of the vice, whilst others seem to suggest that aid can actually fuel corruption (Harrigan & Wang, 2011a). Academic literature seems to suggest that foreign aid can lead to corruption, with (Harrigan & Wang, 2011a) submitting that aid can manifest corruption in some situations, especially in cases where there is poor rule of law, policy uncertainty and poor accountability. (Isaksson & Kotsadam, 2018) focused their study on whether or not Chinese aid projects increase local corruption for 29 SSA countries. For their study, (Isaksson & Kotsadam, 2018) made use of georeferenced data for Chinese aid projects in Africa for the period 2000–2012, as well as primary data from 98 449 participants of the Afrobarometer survey. The findings of their study reveal that there is widespread corruption around Chinese construction sites as per China's project aid, leading them to conclude that Chinese aid fuels local corruption in SSA (Isaksson & Kotsadam, 2018).

A significant number of studies have relied on literature analyses in order to understand the link between foreign aid and governance. In a study by (Sundsten, 2016), the focus was to establish that correlation exists between corruption and foreign aid. A literary analysis was done, with the integration of Sen's Capabilities Approach as the theoretical framework. The books included in the review were Todd Moss' "*African Development*", George Cremer's "*Corruption and Development*", Graham Hancock's "*Lord of Poverty*", William Easterly's "*The White Man's Burden*" and Daniela Hermmann and Claire Fletcher's "*Internationalisation of corruption*". The findings from Sundsten's study confirm the foreign aid-corruption nexus, even though contextualisation to SSA remained tellingly absent. This position is later reinforced in a study by (Ndinda & Ngandu, 2016), who examined how foreign aid affects governance in the context of Kenya's health sector. The study was a review of foreign aid, governance, corruption and development literature for the period between 2008 and 2016. In his findings, (Ndinda & Ngandu, 2016) established that the Kenyan health sector's performance was on a decline as most donors had shied away from providing aid because of the prevalence of high corruption in the recipient country.

Donor interference in governance systems and institutions has been highlighted as one of the major ways through which foreign aid can lead to corruption. A study by (S A Asongu & Jellal, 2013) sought to assess how foreign aid leads to corruption in Africa. A total of 53 African countries were included in the survey, and it was found that governance consumption routes of channelling foreign aid led to corruption, whilst private sector channels decreased corruption. Similarly, utilising 52 African economies, (S A Asongu & Nwachukwu, 2015) focus on how foreign aid influences governance, covering 15 years from 1996 and 2010. In this study, through employing

Two Stage Least Squares (2SLS) estimator an endogeneity variable was analysed. The findings reveal that foreign aid negates the quality of governmental regulation and institutional effectiveness through corruption, even though it has a minimal effect on political governance indicators like accountability, stability and voice (S A Asongu & Nwachukwu, 2015).

These findings are supported by (Hanlon, Maydew, & Saavedra, 2017), who mentions that governmental and institutional effectiveness are compromised by foreign aid since donors attract civil servants through better salaries and remuneration away from governments. (The World Bank, 2013) suggests that donors often make use of their own resources and managerial skills to provide aid and in the process undermine the systems of the recipient countries and their governance. An example is the moving of key personnel from public organisations which creates a drainage of skills and decapacitates the government, as has been suggested by (Hanlon et al., 2017) from a case study of Mozambique. In addition, (Hanlon et al., 2017) explains that serving civil servants can also be attracted by donors through better perks and incentives for seminar participation and consultancies, which encourages them to serve self-interests at the expense of national ones, and which is a form of donor-approved corruption.

In the study done by (Mustafa, Kilishi, & Akanbi, 2015), the degree of causality between corruption and foreign aid is investigated from the perspective of the corruption trap hypothesis. The research exposes that unidirectional causality exists amid corruption and foreign aid, and that the causality is neutral between economic growth and foreign aid (Mustafa et al., 2015). This is also supported by (Harrigan & Wang, 2011b), who are of the opinion that corruption is one of the determinants of aid ineffectiveness and that as such, it indirectly compromises economic growth, development and governance in most developing countries. Corruption has been revealed to have negative effects on governance as it retards the gains of economic development and investment, poverty reduction, as well as the development of human capital (Harrigan & Wang, 2011b).

Earlier studies seem to confirm the notion that foreign aid and corruption are related in an undesirable way. (Djankov et al., 2007) explain that corruption leads to weak systems of governance as it increases rent-seeking behaviours and reduces the social gains accrued from the transfer of resources. (Djankov et al., 2007) further state that corruption negatively affects political institutions which can have an undesirable bearing on their transparency and performance. In the view of Young and (Young & Sheehan, 2014), foreign aid is aimed at the promotion of economies and the prosperity of developing countries but there must be caution given to its effectiveness which is dependent on the type of institutions and the level of governance in the country. (Rajan & Subramanian, 2007) argue that aid inflows undermine governance systems in most developing countries, whilst (Collier, 2007) regards corruption as one of the major growth traps that developing countries, like those in SSA, face concerning the benefits of foreign aid.

Other studies have examined the effects of foreign aid on corruption from both the short- and long-term perspectives, with (Arndt et al., 2007) studying the situation in the Mozambican case. In the long-run, aid is believed to play an imperative governance role, such as the improvement of health and education service delivery, as well as infrastructural provision, according to (Arndt et al., 2007). Amongst the long-term benefits of aid, as suggested by (Thamae & Kolobe, 2015), is the ability to enhance developmental, economic and poverty-reduction efforts.

On the other hand, however, the notion that aid can help reduce the incidences of corruption is also existent in literature. For instance, this is suggested by (Quazi et al., 2015), who gathered annual data for the period 1996–2013 from 14 developing nations in Asia in order to establish the effect of financial aid on corruption. The study's findings highlight that foreign aid can actually reduce corruption for the sampled nations and is more successful with multilateral aid, compared to bilateral aid (Quazi et al., 2015). In fact, some studies have gone further to demonstrate that foreign aid does not have any relationship with corruption. For instance, (Obadein, 2018) focuses on the interrelatedness of the effects of foreign aid in SSA, specifically how infrastructural and total aid can affect governance and corruption. The study made use of the fixed effect model to assess the link between foreign aid, corruption and the socio-economic status of SSA countries for the period between 2002 and 2014.

In the findings, (Obadein, 2018) shows that against expectations, there is no relationship between infrastructural aid and corruption, as well as a substantial association between total foreign aid inflows and corruption cases in a country.

(Obadein, 2018) does, however, mention that fund embezzlement is more likely in high corruption countries, even though this begs the question of under which contexts and under what governance scenarios.

Furthermore, there is no convincing proof that donors include administrative efficiency or misconduct on decisions on assistance distribution. There is no systemic evidence that bilateral or multilateral assistance is unduly provided to governments that are less corrupt, according to research. (Bevir, 2011) shows that bilateral donor aid distribution trends are much more strongly influenced by the donors' political and strategic agendas rather than good governance issues in the beneficiary countries. More specifically, past colonial and UN voting patterns, for example, seem to clarify more on the distribution of assistance than economic factors.

As a result, it is thought that the indiscriminate essence of the distribution of foreign aid has a direct effect on governance by tending to maintain current corruption in beneficiary countries (Bevir, 2011; Fischer & Gottweis, 2013). Given that many of Sub-Saharan Africa's largest recipients of ODA are also among the world's lowest-ranking countries in many areas of governance, including corruption, foreign aid appears to simply increase the amount of money available to corrupt government and state-based elites.

According to the literature, aid indirectly damages governance by increasing the scale of the government sector, which increases the opportunities for corruption (Bevir, 2011; Fischer & Gottweis, 2013; Peters, 2010). According to (Sharma, 2009), while aid increases government consumption, normally it does not help the poor, since money is spent on projects involving white elephants, military vehicles, fraudulent procurements and other expenses that provide plenty of greasing but do not create sufficient revenue to support the loan or boost development.

External assistance has also proven a valuable instrument in implementing policies that can yield rapid results but are not in the best interests of development and short term (Sharma, 2009). One popular strategy is to increase the government to minimize unemployment so that aid funds are spent on paying overly large numbers of public servants to do virtually nothing. This leads to a long-term tendency to overload the state.

Aid has also been shown to skew the domestic power balance in recipient countries, leading to economic politicisation and an increase in wasteful rent-seeking and lobbying (Niemann & Integration, 2008; Tang & Bundhoo, 2017). Aid influx, as (Harrigan & Wang, 2011b) correctly point out, is not a simple redistribution of resources since it does not fall evenly on the recipient population. Rather, it appears to go to a select number of people who are already in positions of authority. In particular, aid appears to tip the power balance in favour of the executive branch of government (Harrigan & Wang, 2011b).

According to (Sarwar, 2015), increased lobbying and rent-seeking activity which follows a resource windfall induces a more than proportional increase in redistribution in an economy characterised by powerful groups but weak institutions, as found in many SSA countries. As a result of the ‘voracity effect’, the investment's rate of return would be lower, resulting in a net social loss. Surprisingly, one study suggests that simply expecting assistance could be enough to cause the voracity effect. (Sarwar, 2015) claim there is reason to believe that foreign assistance will affect the recipient government's policies even though no funds are exchanged.

Aid distorts the incentive system for public actors by making corruption more lucrative, which can delay demands for institutional reform. In many developing countries, institutional change is the key to growth (Farah, 2009). Reform, on the other hand, necessitates the resolution of a diverse collection of collective action issues. Reforms, according to theory, are similar to public goods in that they favour the general public, and it is impossible to prevent others from benefiting from them. Reforms are often pursued with the aim of improving governance and lowering corruption levels in the world. Aid, on the other hand, makes corruption more profitable by making vast amounts of easy money available.

Aid also creates a ‘moral hazard’ issue in the recipient country, according to (Murshed & and Khanaum, 2014), by acting as a permanent soft budget constraint. When things go wrong, the constant flow of easy foreign aid money gives the impression that the recipient government will still be bailed out. There is little motivation in the framework for fiscal responsibility and good judgement because recipient governments do not have to respond to voters and are instead bound by relatively loose accountability structures to their donors (Murshed & and Khanaum, 2014). Aid is essentially ‘insurance’ for inept or corrupt leaders against the consequences of their actions.

Furthermore, leaders with short-term horizons are more likely to make reckless or rash decisions that may yield excellent short-term outcomes but may not have long-term effects that are sustainable or desirable. The problem is compounded by the fact that the most effective long-term initiatives, such as those that lead to systemic and economic change, are less politically attractive because they require significant short-term concessions, as well as patience and longer time horizons to achieve results (Farah, 2009; Peters, 2010).

Having discussed the literature above, it is clear there are gaps arising from differences in research aims, diverse methodologies, as well as generalisations from the findings. In Table 2.1, a summary of the major studies and gaps arising from the literature on the effects of foreign aid on governance and corruption is presented.

Table 2.1: An overview of the research on the effect of foreign assistance on corruption

Author(s)	Research focus	Methodology	Findings and conclusions	Weaknesses
Isaksson and Kotsadam (2018)	Impact of Chinese aid on local corruption for 29SSA countries.	Geo-referenced data for Chinese aid projects in Africa for the period 2000–2012 as well as primary data from 98 449 participants of the Afrobarometer survey.	Chinese aid fuels local corruption in SSA.	Does not include other donor contexts apart from China.
Sundsten (2016)	To establish the correlation that exists between corruption and foreign aid.	Literary analysis.	Confirmed foreign aid-corruption nexus.	Lack of contextualisation to SSA.
Ndinda (2016)	How foreign aid affects governance in the context of Kenya's health sector.	Review of foreign aid, governance, corruption and development literature for the period between 2008 and 2016.	Kenya's health sector's performance was on a decline as most donors had shied away due to the high corruption levels in the country.	Focuses on Kenya only, which is not part of SSA.
Asongu and Jellal (2013)	How foreign aid leads to corruption in Africa.	Survey of 53 African countries.	Governance consumption routes of channelling foreign aid led to corruption, whilst private sector channels	Summarises data for the whole of Africa, regardless of countries' differences.
Asongu and Nwachukwu (2015)	How foreign aid affects governance.	Data from 52 African countries, for the period between 1996 and 2010. Two stage least squares estimation method.	Foreign aid negates the quality of governmental regulation and institutional effectiveness through corruption.	Summarises data for the whole of Africa, regardless of countries' differences.
Mustapha et al., (2015)	Causality between corruption and foreign aid.	Use of the corruption trap hypothesis.	There is unidirectional causality between foreign aid and the corruption level, while the causality is neutral between economic growth and foreign aid.	Study delimited to corruption trap hypothesis only, notwithstanding the weaknesses of the model.
Quazi et al., (2015)	Aid's effect on corruption.	Annual data for 1996–2013 from 14 developing nations in Asia	Foreign aid can lower corruption in the studied countries.	Study done in Asian context which may not be readily applicable to the
Obadein (2018)	Interrelatedness of foreign aid's effects in SSA.	Fixed effect regression model.	No relationship between infrastructural aid and	Focuses only on infrastructural and leaves out other aid types.

2.6.2 Foreign Aid and Governmental Accountability

In the present section, focus is on reviewing the literature on how foreign aid impacts governmental accountability in SSA. A significant number of studies focus on how foreign aid is related to economic growth, with minimal attention paid to other goals of the said aid, such as good governance and the achievement of social goals. (Mekasha & Tarp, 2019) undertook a study on foreign aid effectiveness. Their methodology employed regression analysis and funnel plots. It was established that a robust affiliation exists between aid and its goals, such as economic growth and social welfare (Mekasha & Tarp, 2016).

A study by (Thamae & Kolobe, 2015) aimed at understanding the patterns of economic growth, political transformation and good governance resulting from aid, amongst African countries. The methodology of the study considered both the descriptive and explanatory research designs, with correlation used as a test to evaluate the degree or association with the endogenous (growth, governance and transformation) and explanatory factors (aid). From the study, (Thamae & Kolobe, 2015) concludes that development aid is significantly related to all three dependent variables, namely political transformation, economic growth and good governance.

(Hope, 2008) continued to rely on the shakiness of the connection between governance and poverty, implying that poor governance leads to the prevalence of poverty. He believes that some researchers claim that the public has a 'two-dimensional' view of aid and growth, in which governments and individuals in developed countries are held responsible for assisting vulnerable and passive citizens in developing countries (Bevir, 2011).

(Fischer & Gottweis, 2013) work under the assumption that argumentative approaches to governance have common orientations in policy research and planning, implying a step away from the dominant empirical, theoretical approach to problem-solving in favour of a more holistic approach.

Even if there is an efficient private sector to handle the economic and social functions, the failed state syndrome will arise if there is a lack of capacity for collective action (Niemann & Integration, 2008). Even if it comes with certain policy impositions on the people, this type of governance is seen as cultivating the common good. As a result, governance theories view successful governance as a feature of state intervention, which includes a political component that necessitates the participation of state actors in policymaking (Peters, 2010).

According to (Kenny and Dykstra, 2013), governments' capacity to shape a compact partnership agenda, specific for post-2015 sectoral priorities on the role of aid in influencing global public good goals and numeric objectives, forms a compact partnership agenda. When the parameters of good governance are used and put into practice, the global public good is critical for states to play the role of organising the provision of public services, while the normative aspect of governance becomes equally essential (Delcour & Tulmets, 2008).

Foreign assistance leads to economic growth in the form of good policy and governance, according to (Burnside & Dollar, 2004; Javid & Qayyum, 2011); otherwise, it has no impact or has a negative effect. (U Qayyum et al., 2016) investigated the impact of foreign aid on Asian developing countries' governance. The study discovered that foreign aid encourages corruption, implying that whenever government officials are in a position to obtain foreign assistance, they would indulge in corruption, undermining governance. Due to the fact that donors can employ bureaucrats with higher pay packages, foreign aid degrades bureaucratic efficiency.

There are four key alternative views on aid effectiveness, according to (McGillivray, Feeny, Hermes, & Lensink, 2005): (a) aid has diminishing returns, (b) aid effectiveness is influenced by external and climatic factors, (c) aid effectiveness is influenced by political conditions, and (d) aid effectiveness is influenced by institutional efficiency.

According to calculations based on theories, foreign aid transfers to Zambia, which began in the 1960s, would have pushed per-capita income to over $20,000 by today, according to a (World Bank, 2019). However, Zambian income per capita has been stuck at around $600 for years (Farah, 2009).

According to (Gerhardt, 2010), Africa's fifty years of aid inflow has rendered the continent more self-sufficient, but also resulting in one of the most regrettable outcomes of development cooperation. (Bigsten & Gebreeyesus, 2009) tries to figure out what makes Africa special, and he discovers that private agents in Africa face high threats and poorly functioning governments.

Using fixed effect panel data analysis and a sample of twenty-five Sub-Saharan African countries, (Tait et al., 2015) investigate the effects of foreign assistance in SSA from 1970 – 2012. The study's findings revealed that aid has a substantial positive long-term effect on per capita GDP growth over the time span studied, which is not subject to declining marginal returns and is not dependent on the country's degree of independence (Tait et al., 2015).

(Tang & Bundhoo, 2017) examine the effect of foreign aid on Sub-Saharan African economic growth as calculated by official development assistance (ODA), as well as the economic growth rate of the ten largest foreign aid recipients in Sub-Saharan Africa, over a 23-year period from 1990 – 2012. Although aid has no impact on economic growth on its own, the variable aid was statistically significant and positive when combined with the policy index, meaning that aid appears to improve growth rates in a favourable policy setting (Tang & Bundhoo, 2017). (Tang & Bundhoo, 2017) include the institutional context in their study.

(Tang & Bundhoo, 2017) also look at the two-gap growth model, which states that foreign aid stimulates economic growth through investment and imports, and found that in these ten countries, foreign aid is a good complement to investment and imports.

(Bräutigam & Knack, 2004) find through a cross sectional analysis of 32 African countries that aid might be harmful for governance, whilst (Rajan & Subramanian, 2007) find through a regression analysis that a weak association exists between foreign aid and governance due to the fact the governments need to tax the governed is reduced by aid inflows, thus reducing the need for the government to be accountable to the governed.

Table 2.2 summarizes some of the grey areas on the nexus between foreign assistance and governance as outlined by the above literature.

Table 2.2 Literature review on the impact of international assistance on governance

Author(s)	Research focus	Methodology	Findings and conclusions	Weaknesses
Qayyum (2013)	The effect of foreign assistance on Asian developing countries' governance	The Ramsey-Cass-Koopman model was expanded to include governance in an open economy framework	Foreign aid encourages corruption and degrades bureaucratic efficiency by allowing donors to pay higher	Asian context not readily applicable to Africa, especially SSA.
Winters and Martinez (2014)	Focus on whether or not donors respond to the needs of the recipient country's governance when deciding on aid distribution.	The logarithm of the total aid sum is predicted using linear regression.	Better governance results in considerably higher distribution of assistance flows for both bilateral and multilateral donors.	Study focusses on whether better governance in recipient-countries increases aid inflows; it does not analyse the impact of aid on recipient country's governance / institutional quality.
Tait, Siddique and Chatterjee (2016)	Influence of foreign aid in SSA covering 1970 to 2012 period.	A selection of twenty-five Sub-Saharan African countries was used in a fixed effect panel data survey	Aid boosts GDP growth dramatically over time, as long as the recipient country has good governance	Focus was on GDP growth and not on governance per se.
Tang and Bundhoo (2017)	Effect of foreign aid on the economic development of the Sub-Saharan African region.	From 1990 to 2012, there was a 23-year regression between official development assistance (ODA) and the economic growth rate of the ten largest recipients of foreign aid in Sub-Saharan Africa.	Aid, in combination with a country's policymaking (governance) level, can boost GDP growth rates.	Study relates foreign aid to policymaking level, which might not be an effective indicator of governance.

2.7 Summary of Literature Gaps

As the above various points of view demonstrate, the literature on the effect of foreign aid on governance in Sub-Saharan Africa is conflicting. Nonetheless, international assistance can be an effective tool for enhancing the standard of governance in recipient countries, as shown by many reports. (Burnside & Dollar, 2000) found that assistance has a positive effect on economic development in developing countries with strong institutions, based on a panel data collection of 56 countries over six four-year time periods. A study by (S. Gupta, Clements, Pivovarsky, & Tiongson, 2004) reached the same conclusion.

(S A Asongu & Jellal, 2013) find that, “foreign aid channelled through government’s consumption expenditure increases corruption, and development assistance channelled via private investment and tax effort decreases corruption”. “The effects of foreign aid on corruption and institutions are: directly positive; conditionally positive with a magnitude dependent on initial institutional capacity levels” (S. Asongu, 2014). Using techniques such as long-run cross-section and dynamic panel data, (Jones & Tarp, 2015) present that total aid has small positive net effects on political institutions. In respect to country specific studies, (Onakoya & Fasanya, 2012) looked at the effect of foreign assistance on Nigerian economic development from 1970 to 2010. The findings highlighted that aid provides free tools for increasing domestic investment and these findings are similar to those of (Mekasha & Tarp, 2013).

On the other hand, some studies indicate that international assistance has a negative impact on the governance of countries receiving aid. In a cross-sectional study of 32 SSA countries from 1982 to 1997, higher levels of assistance are linked to a decrease in governance and lower tax effort, according to (Bräutigam & Knack, 2004) using an instrumental variable method and a broad country sample, which is in line with (Busse & Gr"oning, 2009). Several reports (S A Asongu & Jellal, 2013), on the other hand, have found that international assistance helps to reduce corruption by improving governance efficiency. Most reports on foreign assistance concentrate on its economic benefits rather than how it affects a country's governance and none of the studies utilised the Generalised Method of Moments technique.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The study's research methodology is revealed in this chapter, which includes the theoretical structure, model specification, details, and variable definition. This chapter thus details the research philosophy, approach and design. It also outlines the econometric estimation technique and statistical package that was employed by the study. Lastly, it discusses the diagnostic tests carried out by the study, namely descriptive analysis, multicollinearity test, Sargan/Hansen over-identification test.

3.2 Research Approach and Philosophy

Deductive analysis was used in this study because it enables the researcher to look at the phenomena under investigation from a broad perspective before focusing on precise data (Gray, 2014). Moreover, the study adopted the deductive approach as it is suited for hypothesis testing. In addition, this study adopted positivism as its epistemological philosophy. Positivism considers reality to be what is available to the senses and contends that studies should be rooted in scientific observations based on facts and not speculation or assumptions (Gray, 2014). Credible data can thus be produced from the observations made by the researcher in ways that help explain natural realities in order to make generalisations (Saunders, Lewis, & Thornhill, 2009). Positivism advocates that the research does not suffer from possible internal research bias (Saunders et al., 2009).

3.3 Research Paradigm

The research is classified as quantitative analysis since it uses secondary data that is numerical in nature and subject to statistical inference (Leacock Coreen J., Warrican S. Joel., & Rose Gerald St. C., 2015). Since the analysis requires statistical inference, which is more suitable when dealing with large amounts of numerical data, a quantitative approach was deemed appropriate. In contrast to inductive reasoning, a quantitative analysis is usually correlated with deductive reasoning. This is mostly due to the fact that inductive reasoning shifts from a particular goal to a more general goal, resulting in the formulation of new theories (Leacock Coreen J. et al., 2015), which is not the case here since there are already established theories on the foreign aid-governance nexus, as discussed in Chapter Two. As the study's aim is to investigate and test current hypotheses that explain the relationship between foreign aid and corruption and governance, a deductive reasoning approach was used. Deductive reasoning, according to (Bradford, 2017), is based on checking the applicability and validity of current theories.

The study also employed an explanatory analysis paradigm, which aids in the development of research instruments for identifying main variables from qualitative data that should be analysed quantitatively (Creswell, 2009). The explanatory research model also aided in explaining the research issue and proposing hypotheses, as well as gaining insight into whether foreign aid has a major impact on corruption and governance in the Sub-Saharan African region. Finally, the researcher was able to elucidate and interpret the impact of foreign assistance on governance in relation to the research issue using an explanatory design.

As a result, the analysis used a quantitative research design and a deductive reasoning method.

3.4 Model specification

To investigate the rationale behind foreign aid and governance in SSA, a modified Two-Gap Model was employed. This follows that governance and corruption are a function of foreign aid, the level of economic growth, the quality of regulations, the poverty levels and the rule of law (Pulok & Ahmed, 2017). The study included an interaction term with the motive of allowing some degree of countries' characteristic variations. Moreover, the model was transformed into logs to cater for heteroskedasticity problems and to enable the researcher to interpret the results as elasticities (Gujarati, 2004). The study used the following regression models:

Governance Model

$$GOV_i = \beta_0 + \beta_1 FA_{it} + \beta_2 EG_{it} + \beta_3 POV_{it} + \beta_4 RL_{it} + \beta_5 RQ_{it} + \beta_6 FACC_{it} + \epsilon_{it}$$

Corruption Model

$$Corr_i = \alpha_0 + \alpha_1 FA_{it} + \alpha_2 EG_{it} + \alpha_3 POV_{it} + \alpha_4 RL_{it} + \alpha_5 RQ_{it} + \epsilon_{it}$$

Where i is country, t is time period; GOV is governance, Corr is corruption, FA is foreign aid, EG is economic growth, POV is poverty level, RL is Rule of Law, RQ is quality of regulations, FACC represents the interaction term and ε is error term.

3.5 Data and Variable Description

The research used a panel of 43 countries in the SSA region, covering ten-years from 2008 to 2017, in which 43 countries were used in the governance model, and the corruption model. The time frame of the study was mainly determined by data availability of the key factors which are governance, foreign aid and control of corruption. Description and data sources, as well as anticipated relationship between the exogenous and endogenous variables is illustrated in Table 3.1. Lastly, all estimations and various econometric tests were performed using Stata 14.1 econometric software.

Table 3.1 Data Description and Sources

Variable	***Proxy***	***Anticipated***	***Data Source***
	Dependent		
Governance (GOV_{it})	Overall Index of Governance		IBIAG
Corruption (CC_{it})	Control of Corruption Index		WB-WDI
	Independent		
Foreign Aid (FA_{it})	Official Development Assistance (% of GNI)	Positive	WB-WDI
	Control variables		
Economic Growth (EG_{it})	Real GDP per capita	Positive	WB-WDI
Poverty (POV_{it})	Human Development Index	Negative	WB-WDI
Rule of law (RL_{it})	Rule of Law Index	Positive	WB-WDI
Regulatory Quality (RQ_{it})	Regulatory Quality Index	Positive	WB-WDI
Interaction term ($FACC_{it}$)	Foreign Aid * Control of Corruption	Positive	WB-WDI

Note: IBIAG= Ibrahim Index of African Governance WB-WDI= World Bank – World Governance Indicators; Source: Researcher Computation

3.6 Econometric Estimation

To investigate the effects on the effect of foreign assistance on corruption and governance, the study utilised the Generalised Method of Moment (GMM) econometric technique which has been enhanced over the years by various scholars (Blundell & Bond, 1998; Holtz-Eakin, Newey, & Rosen, 1988). The GMM approach has the ability to address several econometric problems, such as endogeneity and unit root problems, which Random Effects, Least Squares and Fixed Effects model fail to address. (Roodman, 2009) states that the GMM approach can fit a dynamic endogenous variable, extra control factors and fixed effects in a linear model. The selection of the GMM estimator was mainly grounded on data properties (sample size properties, long N and short T) and the ability of the GMM model to generate reliable results under a large cross-section and the capability of the models to include past realisations on present values. The dynamic panel date model can be generally expressed as:

$$Y_{it} = Y_{it-1} + \beta X_{it}^{1} + \alpha_{it} + \mu_{it}$$

where Y_{it} is the dependent factor, Y_{it-1} is the lagged dependent factor, X_{it}^{1} is the matrix of independent factors, α and β are parameters to be calculated, and μ_{it} is the disturbance term.

(Kruiniger & Hugo, 2009)stated in the above expression Y_{it-1} is correlated μ_{it} since historical values depend on individual effects thereby violating the compatibility of the conventional panel data techniques. (Bond, 2002; Bun & Sarafidis, 2013) state that the Within Group (WG) and Generalised Least Squares techniques are more likely to suffer from biasness hence unreliable since the model is susceptible to endogeneity problems as a result of the correlation between Y_{it-1} with both X_{it}^{1} and μ_{it}. In an attempt to address the endogeneity problem, (Anderson, Bauman, Hsia, & Taunton, 1982) took ΔY_{it-2} and Y_{it-2} as instruments of Y_{it-1} which was reinforced by (Holtz-Eakin et al., 1988).

In a bid to authenticate the superiority of the GMM approach over GLS and WG, (Arellano & Bond, 1991) highlight that the GMM technique has minimum bias and variance over GLS and WG techniques through numerous simulation tests using moment conditions engendered by lagged values of the endogenous variable following that the GMM estimation approach is more efficient (Bond & Windmeijer, 2005).

A key issue of concern in GMM estimation is instrument validation, therefore, the study used first lag of governance and current values as the instruments, thus $gov_{t-1}, lgfa, lgcc, lgpov, lgrq, lggdpc, and\ lgrq$), and the same variables are utilised as endogenous factors. Therefore, the GMM estimated model becomes:

$$GOV_i = \beta_0 + \beta_1 GOV_{i,t-1} + \beta_2(FA_{it}) + \beta_3(EG_{it}) + \beta_4 POV_{it} + \beta_5 RL_{it} + \beta_6 RQ_{it} + \beta_7 FACC_{it} + \varepsilon_{it}$$

$$Corr_{it} = \beta_0 + \beta_1 Corr_{i,t-1} + \beta_2(FA_{it}) + \beta_3(EG_{it}) + \beta_4 POV_{it} + \beta_5 RL_{it} + \beta_6 RQ_{it} + \varepsilon_{it}$$

Lags (# #) instructs the number of lags to be utilised as endogenous variables. (Arellano et al., 1991; Bond, 2002; Bowsher, 2002) point out that if autocorrelation is present, the efficacy and dependability of the estimators is garbled due to invalidity of the instruments. To substantiate the GMM estimator's uniformity, a (Hansen, Hansen, & Lars, 1982) over-identification and instrument validity test was performed accompanied by an autocorrelation test to authenticate that there is no second-order serial correlation in the model.

3.7 Diagnostic Tests

The study performed the following diagnostic tests:

Descriptive Statistical Analysis

To have a general understanding of the patterns of the data, descriptive statistics were performed. The test helped to generate the parameters of the endogenous and exogenous variables thus, maximum, minimum, average and standard deviations which shape the foundation of a quantitative data analysis approach.

Multicollinearity

The relationship between independent variables is termed a multicollinearity problem since the same variable can be used to serve the same purpose as the others hence these variables cannot be jointly included in regression analysis thereby making variables indeterminate. Therefore, Pearson Correlation was used to determine the presence of multicollinearity. (Gujarati, 2004) argues that multicollinearity is always present rather the important thing being the level of correlation. Therefore, multicollinearity is a problem if and only if two independent variables have a correlation value above 0.8.

Autocorrelation Test

(Baltagi, Feng, & Kao, 2012) highlight that the involvement of a lagged dependent variable in econometric estimation is likely to create autocorrelation problems which may lead to the invalidation of some of the variables. In GMM analysis, the existence of first-order correlation is not taken into account AR(1) and more attention is paid to second order autocorrelation AR(2). This is so because the model presumes presence of association among the disturbance term and first lagged factors. To test autocorrelation the research utilized Arellano and Bond's autocorrelation test.

Instrument Validity Test

To check for instrument validity the study used (Sargan, 1958) test. (Bound, Hoeftter, & Temple, 2008) highlight that for instruments to be valid the condition that control factors are correlated with instruments is mollified and orthogonal to the error process.

Causality Test

To investigate the causality between governance, corruption and foreign aid a granger causality test was performed. (Gujarati, 2004) states that the rationale behind granger causality is that past events can cause future events but not the vice versa. Therefore, granger causality specifies that one variable can be predicted by another. In our case, to examine whether governance and/or corruption is caused by foreign aid, the approach gauges how much of foreign aid historic values can explain governance and/or corruption, hence, foreign aid is said to granger cause governance and/or corruption. The test is grounded on the following equations in our case:

$$Gov_t = \alpha_0 + \alpha_1 Gov_{t-1} + \cdots + \alpha_i Gov_{t-1} + \beta_1 FA_{t-1} + \cdots + \beta_i FA_{t-1}$$

$$FA = \alpha_0 + \alpha_1 FA_{t-1} + \cdots + \alpha_i FA_{t-1} + \beta_1 Gov_{t-1} + \cdots + \beta_i Gov_{t-1}$$

The equations null hypothesis is that governance is not granger caused by foreign aid and/or corruption in the first equation and in the subsequent equation governance does not granger cause foreign aid.

3.8 Chapter Summary

The chapter discourses the research methods that governed the study which included theoretical framework, econometric model and estimation, research philosophy, model specification and variable description and measurement. Different panel models were debated, and the Generalised Method of Moments approach was chosen based on the model's merits over other models, as well as the data's properties. The study's next segment introduces, analyses, and examines the research results.

CHAPTER FOUR: PRESENTATION AND DISCUSSION OF RESEARCH FINDINGS

4.1 Introduction

This chapter elucidates the research findings and opens by examining the trend of governance followed by presentation and discussion of the descriptive statistics and multicollinearity results. A further step was taken to explore and discuss the GMM results followed by diagnostic test results and lastly causality results which addresses the causation of the key variables of the research.

4.2 Governance Trend

Graphical analysis for governance was variables conducted in a bid to understand the pattern of governance in SSA and is depicted in Figure 4.1.

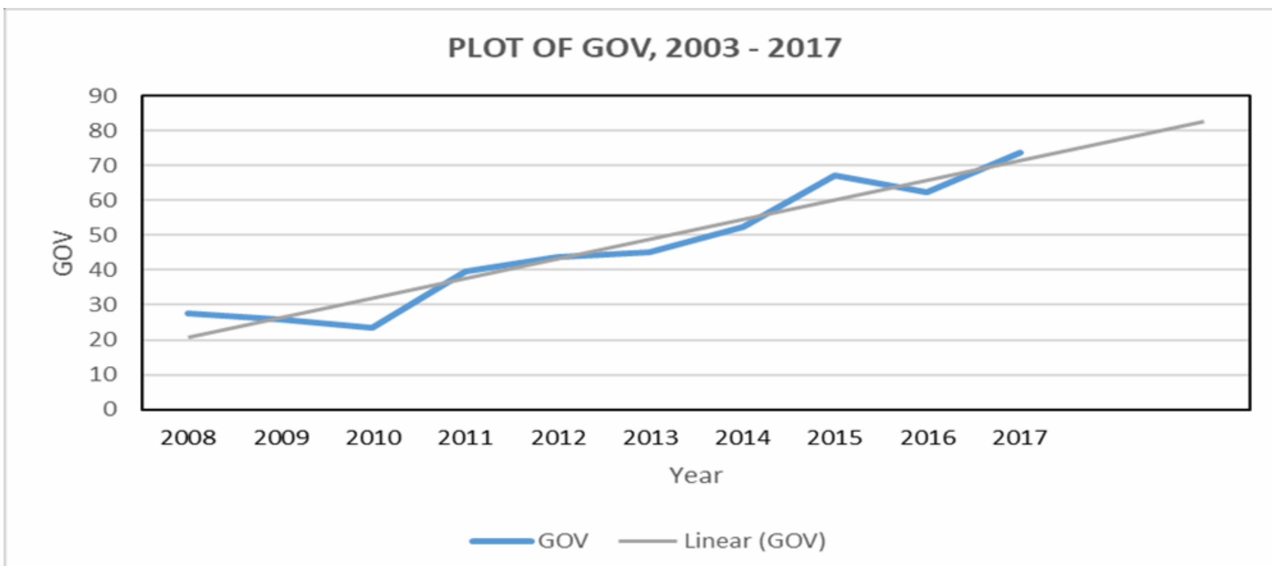

Figure 4.1 Governance Trend, 2008 to 2017

Source: Researcher Computation

Figure 4.1 shows that in 2017 the highest level of governance was recorded preceded by 2015 and 2016 respectively. A sharp decline in governance was experienced between 2008 and 2010, which might have been as a result of the global financial crisis. Additionally, between the three-year period of 2010 to 2012, SSA witnessed a piercing surge in governance which might have been because of the introduction of the MDGs where governance was one of the factors on its agenda that mattered. The linear forecast (grey line) highlights that in the future the SSA region is more likely to experience improvements in governance.

4.3 Data Variability Measures

Table 4.1 summarizes the maximum, minimum, average and standard deviation values for both dependent and explanatory variables.

Table 4.1 Descriptive Statistics Results

Variable	Observations	Mean	Std. Dev.	Min	Max
GOV	430	51.3047	12.0132	25	81.7
CC	430	-0.6055	0.6406	-1.8264	1.0391
FA	430	7.4517	8.113	10.0035	79.827
RL	429	-0.6494	0.6085	-1.8523	0.9963
RQ	430	-0.6372	0.5616	-2.1408	1.1273
HDI	430	0.5162	0.0998	0.304	0.801
EG	430	2599.757	3510.535	294.8054	20532.9

Note: GOV= Governance; FA=Foreign Aid; RL=Rule of Law; RQ=Regulatory Quality; CC=Control of Corruption; HDI=Human Development Index; EG=Economic Growth Source: Researchers Calculation using Stata 14.1

Results in Table 4.1 indicate that GOV had a mean value of 51.3047 which relatively is moderately good and that there is need to have sound governance structures to promote good governance in the region. These results suggest that in the SSA region, governance issues are neither bad nor good, hence there is much room for improvement. The dispersion between minimum and maximum values (that are 25 and 81.7 respectively) imply significant heterogeneity amongst countries, meaning that some of the countries have good governance whilst others have bad governance.

As for FA, the results show that there was a mean value of 7.45 as a percentage of GDP suggesting that Sub-Saharan Africa is a high recipient of foreign aid. These findings imply that the SSA region heavily relies on international development agencies. The standard deviation of FA was 8.11, which in this case is higher than the mean implying a significant variation in the data pointing to higher levels of heterogeneity within the region in terms of foreign aid receipt as indicated by the minimum (10) and maximum (79.8) values. RL has the mean value of -0.65, this entails that most of the SSA countries are highly characterized with low rule of law. The standard deviation of RL was at 0.61 which is lower than the mean implying low variation in the data. From the table, RL had a maximum value of 0.9963 whilst the minimum was -1.85. In terms of RQ, the mean value -0.64 was much higher than the measure of the variation that is the standard deviation with the value of 0.5616. This implies that there is low variation in the data. The maximum value for RQ was 1.13 whilst the minimum was -2.14.

CC had an average value of -0.61. It had a 0.64 standard deviation which is relatively higher than the mean which shows that there was a greater variation in the data. The maximum value for CC was 1.04 whilst the minimum was -1.83. HDI had an average value of 0.52. The HDI standard deviation was 0.10, which was lower than the mean, implying less variation in the data. The maximum value for HDI was 0.80 whilst the minimum was 0.30. EG had a mean value of 2599.76 which was much lower than the measure of the variation that is the standard deviation with the value of 3510.54. This implies that there is high variation in the data. The maximum value for EG was 20532.9 whilst the minimum was 294.81.

4.4 Multicollinearity Test

The Pearson Correlation Matrix was conducted to check whether the variables selected by the study can be jointly included in regression analysis or not. The decision criteria are that for any variables that have a correlation value of 0.8 or above, one of the variables must be dropped in GMM analysis (Gujarati, 2004) and Table 4.2 below summarizes these results. The findings in Table 4.2 show that all the variables can be jointly included in regression analysis since all the variables have a correlation value below 0.8. Therefore, all the factors were factored in the regression analysis model. Table 4.2 further depicts that there is low degree of association between the log of foreign aid and the log of governance as indicated by a pairwise correlation value of 0.2438. This signifies a link between governance and foreign aid. Additionally, control of corruption and foreign aid had a correlation value of 0.3259 indicating a positive correlation between the variables. Moreover, from Table 4.2 it can be noted that gross domestic product and human development index have a weak correlation (correlation value less than 0.4) with governance, whilst rule of law and regulatory quality have a strong relationship with governance (correlation value greater than 0.4).

Table 4.2 Pairwise Correlation Matrix Results

Variable	LGGOV	LGFA	LGEG	LGHDI	LGRL	LGCC	LGRQ
LGGOV	1.0000						
LGFA	0.2438	1.0000					
LGEG	0.2644	-0.4673	1.0000				
LGHDI	0.5184	-0.5917	0.6425	1.0000			
LGRL	0.5374	0.0239	-0.2325	-0.3614	1.0000		
LGCC	0.3592	0.3259	-0.0893	-0.1844	0.4374	1.0000	
LGRQ	0.5213	-0.0541	-0.1521	-0.2724	0.5172	0.2707	1.0000

Note: LG=Natural logarithm; GOV= Governance; FA=Foreign Aid; RL=Rule of Law; RQ=Regulatory Quality; CC=Control of Corruption; HDI=Human Development Index; EG=Economic Growth. Source: Researchers Calculation using Stata 14.1

4.5 Generalised Method of Moment Estimated Results

To assess the impact of foreign aid on both corruption and governance, a GMM model was run as a log model as it enabled the researcher to discuss the empirical findings as elasticities. A positive coefficient resembles a rise in governance with respect to the governance variable and this is also the case for the corruption variable. The GMM results are tabulated in Table 4.3, and they show that the model was statistically significant as depicted by the F-statistic value of 24.79 (<0.001) and 13.11 (<0.001) for governance and corruption models respectively. The F-statistic suggests that the models were correctly specified. Therefore, the first section discusses the foreign aid impact on governance followed by that on corruption and the results are depicted in Table 4.3 below.

Table 4.3 Generalised Method of Moments Results

Dependent variable	***Governance***		***Corruption***	
Variable	Coefficient	T-Stats	Coefficient	T-Stats
L.LGGOV	1.282*** (0.463)	2.77		
L.LGCORR			0.3038*** 0.109)	2.79
LGFA	0.1351** (0.1153)	2.07	0.0132*** (0.0042)	3.18
LGFACC	-0.840** (0.3257)	-2.58		
LGEG	0.079 (0.128)	0.62	-0.1378*** (0.0338)	-4.08
LGHDI	0.5243** (0.21)	2.5	0.1377* (0.0787)	1.75
LGRL	-0.1317* (0.1066)	-1.84	-0.0139* (0.0072)	-1.92
LGRQ	0.2652** (0.1284)	2.07	-0.002 (0.011)	0.1818
F-stat	24..79		13.11	
Prob	<0.01		<0.01	
Instruments	23		21	
Observations	343		343	

Note: LG=Natural logarithm; GOV= Governance; FA=Foreign Aid; RL=Rule of Law; RQ=Regulatory Quality; CC=Control of Corruption; HDI=Human Development Index; EG=Economic Growth; FACC=Interaction between control of corruption and foreign-aid.[2] *** ** and
* Signify statistical significance at 1%, 5% & 10%.

4.5.1 Foreign Aid effects on Governance

Lagged Governance (L. LGGOV) was statistically significant, with a coefficient value of 1.282. There is a positive association between the former year's level of governance and the present year. This means that the previous year's level of governance positively impacts the current year's degree of governance; statistically it entails that a percentage change in the former year's governance (say 2019) will have a 1.282% change in the present year's governance (in this case 2020).

[2] A high governance, corruption, HDI, regulatory quality, rule of law suggests high levels of good governance, high prevalence of corruption, low levels of poverty, sound regulatory system and rule of law

The study's main goal was to look at the impact of international assistance on governance. The study's results show that foreign aid and governance have a favourable relationship, as shown by the positive coefficient of 0.1351. According to the results of the study, a 1% rise in foreign aid would result in a 0.1351 percent increase in governance in the SSA region suggesting that foreign aid promotes governance within the region. A possible reason for this might be because most of the foreign aid donors are well developed countries hence the developing countries can use these donor countries systems as a benchmark for their governance systems. These results are consistent with those of (U Qayyum et al., 2016), who investigated the relationship between governance and foreign aid in the Asian region and discovered that the two have a positive relationship. This means that international assistance helps a country's governance. These results are also confirmed by (S. Asongu, 2014; Okada & Samreth, 2012) research.

Nevertheless, these findings contradict with those of (Bräutigam & Knack, 2004) who found through a cross sectional analysis of 32 African countries that aid might be harmful for governance, whilst (Rajan & Subramanian, 2007), found through a regression analysis that weak governance is associated with foreign aid due to the fact that governments desire to tax the governed which is discouraged by foreign aid. In the SSA context, a study by (Thamae & Kolobe, 2015) aimed at understanding the patterns of economic growth, political transformation and good governance resulting from aid, amongst African countries. The methodology of the study considered both the descriptive and explanatory research designs, with correlation used as a test to evaluate the degree or relationship between governance and aid. From the study, (Thamae & Kolobe, 2015) concludes that development aid is significantly positively related to good governance.

Additionally, interaction term inclusion significantly impacted the relationship between governance and foreign aid since it captures the effects of foreign aid on governance with respect to country specific characteristics. The results highlighted that a negative association exists between good governance and the foreign aid-institutional quality nexus. The variable FACC had a statistically relevant coefficient value of -0.840. As a result, a percentage increase (decrease) in foreign aid-institutional quality nexus (control of corruption) results in a 0.840% decrease (increase) in good governance. This means that there is need to control corruption in relation to foreign aid for it to create a good governance in SSA.

Additionally, the results of the governance model indicate that log of EG (LGEG) was statistically insignificant at the 5% level, meaning that in SSA, economic growth is not a significant determinant of governance.

The Human Development Index had a positive coefficient of 0.5243 and was statistically significant at 5%. These results explain that poverty is a determinant of governance. Consequently, if the HDI increases (decreases) by 1%, then governance will also increase (decrease) by 0.5243%. If a country is characterised by a high degree of poverty (low HDI), it means that the country is also more susceptible to experiencing poor governance, and lower levels of poverty, are normally associated with better governance. These results are consistent with those of (Pulok & Ahmed, 2017), who discovered a direct connection between an economy's poverty level and its governance.

(Forster & Forster, 2010) stated that the rule of law is a major issue of concern when it comes to governance issues as it explains the rationale behind how the government respects the law and is governed by the law. They further went on to explain that nations that observe the importance of the rule of law and practice upright governance, there is an encouraging causal affiliation between strong government and the rule of law. Perhaps surprisingly, a negative affiliation exists between the rule of law and good governance which contradicts the findings of Forster and Forster. The rule of law had a statistically significant negative coefficient value of -0.1317. A percentage rise (decrease) in the rule of law will result in a 0.1317% decrease (increase) in governance. The negative relationship might be due to the lack of institutions that enforce the law with every individual as prescribed by (Sarwar, 2015), who suggested that in a country with strong groups but feeble institutions, which is the case for most SSA economies, it is more difficult to have a sound governance system.

A positive coefficient value of 0.2652 suggested that regulatory efficiency was significant and had a positive impact on governance implying that a percentage change in quality regulations will improve governance by a 0.2652%. The findings are consistent with (Muhammad, Lubnah, & Amna, 2019), who discovered that regulatory consistency has a positive impact on governance and plays a critical role in determining whether or not there is good governance.

4.5.2 Foreign Aid effects on Corruption

The results in Table 4.3 for corruption highlighted that regulatory quality had a statistically insignificant effect on corruption for the sampled SSA economies with respect to the findings of this study. Regardless of the statistical insignificance of regulatory quality effect on corruption, the findings revealed that the above variables have an inverse relationship.

The current level of corruption was found to be positively influenced by a lag log of corruption regulation. The coefficient value of the lagged corruption regulation was 0.3038, which was highly statistically important at 1%. This explains that 1% change in the preceding year's corruption will result in a 0.3038% change in the contemporary year's level of corruption. Furthermore, the results showed that log of economic growth, log of human development index, log of the rule of law were statistically significant at explaining the variations in the log of corruption. There is a positive association flanked by the human development index and control of corruption whilst an inverse link exists between economic development and the rule of law. These results corroborate with studies of (Muhammad et al., 2019; Sarwar, 2015) who argue that economic growth and rule of law positively affects corruption in a country.

The study's specific objective was to determine the link between corruption and foreign aid. The results of the study (Table 4.3) highlight that a positive relationship exists amid corruption and foreign aid in SSA region. Foreign aid had a positive coefficient 0.0132 which is statistically significant. These results entail that a 1% rise in foreign aid will encourage corruption by 0.0132%. (Pulok & Ahmed, 2017) investigate the association between foreign aid, institutional quality and a positive connection was found. (Pulok &

Ahmed, 2017) argue that control of corruption plays an important role in an economy's operationalisation, aid and good governance. The findings corroborate with those of (World bank, 2019 and Alesina & Dollar, 2000).

"Foreign aid channelled through government's consumption expenditure increases corruption; development assistance channelled via private investment and tax effort decreases corruption" (S A Asongu & Jellal, 2013). (S. Asongu, 2014) argues that, "the effects of foreign aid on corruption and institutions are: directly positive; conditionally positive with a magnitude dependent on initial institutional capacity levels". (Jones & Tarp, 2015) found a slight positive net impact of aid on political institutions in their research.

4.6 Diagnostic Test Results

GMM analysis usually generates unreliable estimates if it is suffering from either autocorrelation or an instrument over-identification problem, hence, the study conducted the Sargan which tests over-identification and autocorrelation. The results are listed in Table 4.4.

Table 4.4: Diagnostic Results

Test	*Prob-value*	*Remark*
Sargan	0.49	Instruments subsets are valid
AR (2)	0.138	Autocorrelation is not present

Source: Researcher Calculations using Stata 14.1

From Table 4.4 results, both Sargan and Hansen's probability values are above 5%, implying that autocorrelation was not present in the model and the instruments subsets utilised by the study are valid which reinforces the conclusion that GMM estimated results are reliable.

4.7 Causality Test Results

The results of the granger causality test are presented below in Table 4.5.

Table 4.5: Granger Causality Results

Null Hypothesis	Obs	F-Stats	P-value
FA does not granger cause GOV	344	6.3092**	0.04
GOV does not granger cause FA		1.6960	0.13
FA does not granger cause CORR	344	3.9396**	0.02
CORR does not granger cause FA		0.7341	0.32
CORR does not granger cause GOV	343	3.8613**	0.02
GOV does not granger cause CORR		5.6293**	0.01

** denotes significance at 5%. *Source: Researcher Calculation using Eviews*

From Table 4.5, the results show that a unidirectional causation exists between governance and foreign aid running from the latter to the former. (S A Asongu, 2013) points out that foreign aid impacts an economy's governance and its effect varies with the host country's institutional standards. Furthermore, international assistance contributes to corruption in African countries (Okada & Samreth, 2012). The findings of the analysis agree with those of Okada and Samreth, which indicated a unidirectional relationship running from foreign aid to corruption. This means foreign aid can be a catalyst for corruption in the Sub-Saharan Africa region (Forster & Forster, 2010).

Lastly, there exists a bi-directional relationship between corruption and governance. This means that poor governance results in high corruption levels, and high levels of corruption results in poor governance. Research by (Rodriguez, Uhlenbruck, & Eden, 2005) backs up these results, which revealed that poor countries, usually in the case of Sub-Saharan Africa (World Bank, 2019), are dominated by a high degree of corrupt institutions, hence poor governance.

4.8 Chapter Summary

The chapter outlined governance trend analysis, descriptive statistics, and multicollinearity test results. The difference GMM model results indicated that foreign aid plays an essential role in determining the level of governance in Sub-Saharan Africa. Also, foreign aid was found to positively influence the degree of governance in SSA. Additionally, institutional quality (control for corruption), the human development index, the rule of law, regulatory quality, and the foreign aid-institutional quality nexus are key determinants of governance. The results signify that these variables influence governance positively except for the rule of law and interaction terms. Lastly, the diagnostic test results indicated that autocorrelation was not present and instruments subsets were valid. The following chapter gives an account of the research summary, the conclusion and recommendations.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The researcher drew potential policy recommendations based on the results of the study with respect to the impact of foreign aid on recipient countries' governance and corruption in Sub-Saharan Africa and these are included in the final chapter of the report. The chapter concludes by detailing potential study possibilities.

5.2 Conclusions and Summary

The research aimed to examine whether foreign aid had a statistically significant effect on governance for 43 sampled Sub-Saharan African economies covering a 10-year period from 2008 to 2017. The research employed secondary data to perform regression analysis, and key variables (corruption, governance and foreign aid); data availability was the key determinant of the cross section and study period. In the introductory chapter, the main thrust was to provide a snapshot on the importance of the subject matter (that is, the relationship between foreign aid and governance in the African context), and how this relationship has gained momentum in the field of research over the years, especially in Africa, where most countries are still developing and foreign aid dependent.

Theoretical and empirical literature in both developed and developing nations at a global and local scale were outlined in the literature review chapter. It revealed the foreign aid-governance nexus, as well as articulating other key issues and matters regarding foreign aid and governance which afforded a great deal to the theoretical foundations of the study. The study's third chapter reviewed the analysis methods used and the reasons for using the quantitative approach. Because of the data's properties, the Generalised Method of Moments approach was used, and the results were presented, evaluated, and discussed in Chapter 4.

The results enabled the researcher to answer and draw conclusions on the research questions as set in Chapter 1 (1.54):

1. *What impact does foreign aid have on governance in Sub-Saharan Africa?*

The findings of the study outlined that foreign aid and governance are positively associated as shown by a significant positive coefficient value of 0.1351, hence it implies that for SSA countries a surge in foreign aid will enhance governance. The findings are in line with those of (U Qayyum et al., 2016), who concluded that for Asian economies, a positive affiliation exists between the foreign aid and governance. This means that foreign aid enhances good governance in a country. These findings are also supported by the research done by (S A Asongu, 2013; Okada & Samreth, 2012). In the SSA context, a study by (Thamae & Kolobe, 2015) concluded that development aid is significantly positively related to good governance.

Consequently, grounded on the research findings, it can be derived that in SSA foreign aid positively influences governance, that is, foreign aid contributes to good governance in Africa.

2. *What impact does foreign aid have on corruption in Sub-Saharan Africa?*

From the GMM analysis results, foreign aid was found to be positively associated with corruption for the sampled SSA countries. Foreign aid had a positive coefficient value of 0.0132, hence a rise in foreign aid worsens corruption by approximately 0.0132%. (S. Asongu, 2014) states, “the effects of foreign aid on corruption and institutions are: directly positive; conditionally positive with a magnitude dependent on initial institutional capacity levels”. Nevertheless, these findings are strongly supported by (Jones & Tarp, 2015), who disputed that foreign aid's net effect on corruption are insignificant. Despite the size of international assistance for anti-corruption efforts in SSA being minimal, it worsens corruption in the region.

3. *What is the causal association between foreign aid, governance and corruption in Sub-Saharan Africa?*

Based on the granger causality results, a unidirectional causation exists between both governance and corruption with foreign aid. In both cases, the relationships run from foreign aid to governance and/or corruption, hence, the former can be used as a predictor for governance and corruption in Africa. (Okada & Samreth, 2012) reach the same conclusion of a unidirectional causation between foreign aid and both governance and corruption.

5.3 Policy Recommendations

Following the research findings, the following policy recommendations can be made:

- ➢ It is highly recommended that African countries must continue receiving foreign aid as it enhances good governance, as well as fostering economic development and the standard of living of the African citizens.
- ➢ To curb corruption and poor governance, it is recommended that drastic measures should be put in place to enhance transparency in foreign aid-related institutions.
- ➢ It is also recommended that governments in Africa must fully enforce a well-defined and clear rule of law system within a regulatory and justice framework in order to promote financial transparency, reduce corruption and promote good governance.
- ➢ African governments must ensure that they implement policies that enhance economic growth and poverty reduction such as an expansionary fiscal policy, beneficial trade agreements, and infrastructure development together with other growth-led strategies.

5.4 Future Research Avenues

The study's key drawback was that it was more focused on Sub-Saharan Africa as a whole, hence:

- Future studies on the subject matter should try to analyse the effects of foreign aid on governance and corruption in decomposed African regions, such as Middle East Northern Africa and the Southern Africa Development Community, just to mention a few.
- Future studies can also factor in the aspect of country specific effects on the relationship between foreign aid and governance and utilise models such as the Auto-Regressive Distributed Lag model.

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APPENDIX A: LIST OF COUNTRIES USED IN THE STUDY

Angola
Benin
Botswana
Cabo Verde
Cameroon
Central African Republic
Chad
Comoros
Congo, Dem. Rep.
Congo, Rep.
Côte d'Ivoire
Equatorial Guinea
Eswatini
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Mozambique
Namibia
Niger
Nigeria
Rwanda
São Tomé and Principe
Senegal
Seychelles
Sierra Leone
South Africa
Sudan
Tanzania
Togo
Uganda
Zambia
Zimbabwe