

**THE EFFECTS OF FOREIGN AID
ON PERCEPTIONS OF POLITICAL CORRUPTION
IN SUB-SAHARAN AFRICA**

by

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ABSTRACT

This paper is a study of the effects of foreign aid on perceptions of political corruption in Sub-Saharan Africa. In keeping with the consensus on foreign aid effectiveness, this study proposed that Sub-Saharan African countries receiving more foreign aid would be more likely to maintain high levels of perceived corruption. Hypotheses were tested using multivariate regression, controlling for a number of factors which have shown to be influential on perceptions of political corruption. Two models were tested, one to show the regression over a period of nine years, and the other to show the relationship between the foreign aid and perceptions of corruption over one year. The tests resulted in showing a significantly negative relationship over nine years, but foreign aid lost its significance with perceptions of political corruption over one year. The most influential variable on political corruption in both models was the level of political rights in a country, which indicated a significantly negative relationship between the two variables.

The paper also looked at Nigeria in a case study focusing on the effects of foreign aid on governance and economic policy environments, corruption being a major factor in both of these. This study resulted in the conclusion that increases in foreign aid paralleled improved perceptions of political corruption, and that Nigeria's reform initiative during the Obasanjo regime (1999-2007) was the major determining factor in this perception shift.

Overall, this study supports the consensus that foreign aid given to countries with reform-minded governments is more likely to contribute to the fight against corruption.

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INTRODUCTION: THE CHALLENGES OF CORRUPTION AND FOREIGN AID

Corruption and Foreign Aid

Corruption in the Third World is becoming an increasingly discussed topic – especially for political scientists with an interest in international relations. Endemic corruption cripples political, economic and social development because it is both a product and a producer of poverty. Several studies have shown the negative effect that corruption has on development; it is no coincidence that the most undeveloped countries of the world are also the ones which suffer from the most endemic corruption.¹ Those invested in developing the Third World (for both humanitarian and economic purposes) have recognized the relevance of this powerful setback, and recent times have seen a growing interest in corruption and anti-corruption policies.

Foreign aid, trade, and financial investment are often seen as positive forces for Third World development – a redistribution of resources from the richest to the poorest countries. Because they “hold the purse strings”, lending and aid institutions believe that through their financial assistance, they can influence a country’s actions towards corruption. While many of the entities (ranging from individual governments to multinational charities) loaning – or giving - those billions of dollars do it for humanitarian, political and developmental reasons; they also realize the power that their money holds for recipients of their aid.² For example, anti-corruption policy is a major component of the World Bank’s lending agenda because it knows that the eradication of corruption is crucial to development. Even more in recent times, organizations like the World Bank and IMF have committed themselves to curbing corruption through their lending

¹ Alesina and Weder (1999), p.5

² The history of foreign aid has shown that the “developmental objectives of aid programs have been distorted by the use of aid for donor commercial and political advantage”, write Peter Hjertholm and Howard White. **Foreign Aid and Development: Lessons Learnt and Directions for the Future** (2000) p.25

and aid programs. Major donor countries are also focusing on using aid to implement reform programs in the Third World. In presenting his Millennium Challenge Goals, President Bush has said, that “greater contributions from developed nations must be linked to greater responsibility from developing nations”.³

For all of its good intentions, the developed world and its foreign aid have not made dramatic improvements in curbing corruption in the Third World, this is especially so for Africa. Most Sub-Saharan African countries have similar experiences with corruption that they had ten years ago - a grim pattern which has greatly affected their overall development. Billions of dollars have been invested in and given to these countries, but starvation, under-education, poor healthcare, corruption and under-development remain major problems in Sub-Saharan Africa.⁴ While this region remains the poorest in the world, it also remains the most corrupt.⁵ Whether it is due to squandering resources, or powerful governments (and leaders) keeping resources for their own benefit instead of for the sustainable development of their country, or an unattractive foreign investment environment – corruption has been known to prevent foreign aid from achieving its intended goals in this region.

Due to the lack of clear improvements, many have shed doubt on the effectiveness of aid with “strings attached”. There are those who believe that aid with proper conditionalities is a

³ See the White House official website at: <http://www.whitehouse.gov/infocus/developingnations/millennium.html>

⁴ Sanjeev Gupta et al (2006), p.1 shows that ODA (official development assistance) to Sub-Saharan Africa alone averaged about \$17 billion a year during 2000-2003. According to the 2006 Human Development Report, SSA remains the region with the most people living below the poverty line (\$1 a day). <http://hdr.org/hdr2006/statistics/indicators/23.html>

⁵ According to the 2006 Human Development Report, SSA remains the region with the most people living below the poverty line (\$1 a day). <http://hdr.org/hdr2006/statistics/indicators/23.html>. According to Transparency International's 2006 CPI, SSA countries made up 9 out of the 20 most corrupt countries in the world – the most of any region.

very powerful tool in combating corruption.⁶ Then there are those who are convinced that aid given to corrupt governments only fuels corruption, and that the donors are not as precise as they profess to be in their lending (in another words, they often give aid to corrupt governments).⁷

I will be looking at the relationship between foreign aid and perceptions of political corruption in my thesis.⁸ Specifically, my research question is, “What is the impact of foreign aid on perceptions of corruption in Sub-Saharan Africa?” By focusing on Sub-Saharan Africa – a region that is plagued with corruption and foreign aid dependency – this study furthers the application of research to the realities of policy. Further statistical tests focusing on foreign aid will contribute to the existing political corruption research, and provide vital information for future research. Much research has been done on the effects that foreign aid has on influencing recipients to enact development and governance reform, but few studies have focused on corruption specifically; this lack of research makes this study particularly important.

Structure of Thesis

Chapter 1: This chapter will give the reader a solid idea of what corruption is, and the part it plays in the developing world. It will look at different definitions of corruption, but I will follow the common acceptance of the definition “Corruption is the misuse of public office for private gain.” It will also introduce foreign aid as a concept and how it has been applied to the developing world, as well as list some examples of corruption. This chapter will put the problem of corruption into perspective (the problems for development, etc). It will also briefly discuss

⁶ Oxfam International (2005), “Increasing Aid Goes Hand in Hand with Fighting Corruption”, Also see Jose Tavares (2001).

⁷ Alberto Alesina and Beatrice Weder (1999), “Do Corrupt Governments Receive Less Foreign Aid?”

⁸ Because of the reliance on statistics derived from perceptions of corruption, most studies use the term perceptions of corruption and corruption interchangeably. I address some of the issues surrounding using perceptions of corruption as a measurement of corruption in Chapter 3 – Methodology and Sources.

foreign aid, reasons for lending (i.e. donor motivations), conditionalities, and how foreign aid has been shown to contribute to (or reduce) corruption.

Chapter 2: This chapter will be a literature review of the major works done on foreign aid's effects on levels of corruption. It will look at various findings on foreign aid's effectiveness in the development of good governance and policy reforms. This chapter will define the consensus that has formed from studies of foreign aid's effectiveness in battling corruption and furthering development.

Chapter 3: An in-depth description of the hypothesis, variables/data, sources and methodology.

Chapter 4: This chapter will be devoted to the quantitative research testing the consensus theory of the relationship between foreign aid and perceptions of corruption. It will report the results of the statistical analysis, and the correlation between perceptions of corruption and foreign aid, as well as several other control variables.

Chapter 5: This chapter will be devoted to the qualitative research concerning Nigeria.

Chapter 6: Chapter 6 will further explore the findings of chapters 4 and 5 and answer questions, such as: has the statistical analysis shown that foreign aid contributes to perceptions of increasing corruption? And when we apply the theory that foreign aid fuels corruption in corrupt countries to Nigeria, does it explain the changes in perceptions of corruption in that country? This chapter will summarize the findings and suggest their implications.

CHAPTER 1 – CORRUPTION AND FOREIGN AID – CONCEPTS AND DEFINITIONS

Corruption

Corruption itself is “a complex and multifaceted phenomenon with multiple causes and effects, as it takes on various forms and functions in different contexts.”⁹ An act of corruption can be anything from a country’s leader redirecting money meant for a development project into a secret Swiss bank account, to an office clerk quickly pushing through a contract for a businessman because the businessman paid him extra money to do so. Most accept the idea of corruption as the abuse of public office for private gain. This is the definition used by the World Bank, Transparency International, and many analysts.¹⁰ However, there are other (more elaborate) definitions of corruption. One example is Mushtaq Khan’s definition, who writes that corruption is “behavior that deviates from the formal rules of conduct governing the actions of someone in a position of public authority because of private reasons -regarding motives such as wealth, power or status.”¹¹

Most research on corruption has centered on the state and, as such, has defined corruption as a state-society relationship.¹² Corruption can affect all levels of state, and the two major categories of governmental corruption are political and bureaucratic. Political corruption takes place in the highest levels of government. Because of its incredible effects, political corruption has also been known as grand corruption. It occurs when the highest ranking political decision-

⁹ Andvig et al (2000), p.10

¹⁰ Ibid, p.11

¹¹ Ibid, p.12

¹² Ibid, p.10

makers exploit their positions of power to build personal fortunes.¹³ Their actions can range from skimming money off the top of major contracts for development projects to embezzlement from the public treasury. Perhaps even more detrimental to development, corrupt leaders often formulate policies and legislation to consolidate their personal power – thus solidifying corruption’s hold on a state.

If political corruption is “high”, then bureaucratic corruption is “low” because it affects the public more directly than that corruption at the highest levels of government. This kind of corruption resides in the lower levels of government (“the implementation end of politics”). “Low” corruption includes bureaucratic corruption, but extends to public services as well.¹⁴ People encounter this corruption when they go to the hospital, their children go to school, when they go to the police station (or the police come to them), or go to a government office for a business, drivers, or marriage license. Individually, these bribes often don’t amount to much - but for the very poor, these bribes can mean a rejection of necessary services if they cannot afford to pay.

While the word does have a widely accepted definition, corruption occurs in many different forms. Bribery (simply defined as any form of payment made by corrupt means) is the type of corruption which many international corporations and aid agencies encounter in a corrupt country – and most often they pay the bribes in order to make things pass more swiftly (or pass at all). Embezzlement is the theft of resources by those who are in charge of administering them. Fraud is an economic crime that involves some kind of deceit – a distortion of information or facts. Extortion is money or other resources extracted by the use of violence or force. Favoritism

¹³ Ibid, p.18

¹⁴ Ibid, p.18

occurs when there is a corrupted distribution of resources - when state officials and politicians give preferential treatment to certain people or companies. Nepotism occurs when a politician or ruler appoints positions of power to family members.¹⁵

Many accept that the overall consequences of corruption are negative, but we need to take a closer look at the causes and consequences of this problem. Much of the work done on corruption has been in relation to the causes of corruption. Susan Rose- Ackerman bluntly wrote that “widespread corruption is a symptom that the state is functioning poorly.”¹⁶ As we now know, a highly corrupt country does not just suffer from political corruption in its highest ranking leaders – corruption seeps into the lowest levels of government as well. In fact, in highly corrupt countries, both bureaucratic and political corruption exist as one.

Because the study of corruption is largely centered on the state, it is important to address the unique problems of the Sub-Saharan African state. John Mbatu wrote extensively on the topic of the state and corruption, especially pertaining to Africa. He attributed the widespread acceptance of statism by the post-colonial African leaders for the strength of corruption on the continent. Statism is “a developmental model that emphasizes government control of resource allocation, minimized the functions of the market, and granted the state significant power to intervene in private exchange, as well as to own and control productive resources.”¹⁷ The choices for this policy were made out of a need for security in the “war against mass poverty and deprivation” but have resulted (50 years later) in a bloated state where politicians and civil servants have “turned governance structures into instruments of plunder to enrich themselves at

¹⁵ Ibid, pp.14-18

¹⁶ Rose-Ackerman, *The Role of the World Bank*, p.1

¹⁷ Mbatu (2003), p. 217

the expense of society.”¹⁸ Combined with the popular choice of a one-party political system, most African countries have lived with 50 years of strong central governments with non democratic political systems. Mbaku attributes these structures to the entrenchment of corruption, poverty, and violence in Africa.¹⁹ Others have pointed to the acceptance of the “Personal Rule Paradigm” by many SSA rulers as the main form of politics for the reasons behind Africa’s stalled development.²⁰ Because a key feature of patrimonial rule is that public office is treated as personal property, “public office becomes a means for extracting private wealth”.²¹ The prevalence of patrimonial, centralized states is largely seen as a consequence of colonialism – which left behind “a weak and fractured political landscape.”²²

On the scale of low level corruption, many have pointed to the fact that often bureaucratic workers in highly corrupt governments are underpaid, overworked, poorly trained, and subject to extortion themselves as causes for the widespread bureaucratic corruption.²³

If poverty, selfishness, and poor institutions are causes of corruption, then they are also the consequences. Stanislaw Andreski lists no less than five effects of corruption in his book *Parasitism and Subversion: The Case of Latin America*. First, corruption impedes economic growth and development (because the money is not being reinvested in development and maintenance). Second, corruption stifles entrepreneurialism and the development of the private

¹⁸ Ibid, p.218

¹⁹ Ibid, p.218

²⁰ Leonard and Strauss, *Africa’s Stalled Development: International Causes and Cures*, p.2

²¹ Ibid, p.3

²² Ibid, p.8. Leonard and Strauss write that the slave trade definitely contributed to the problem of weak states in SSA because it had the “effect of encouraging compact raiding political units that rendered larger states unattractive...African political elites who built strong militaries during the transatlantic slave trade could gain much more from raiding and selling the labor power of their neighbors than they could from incorporating those families into their territories...the loss of many productive members of society, the destructive penetration of the African hinterlands, and the political conflicts that the slave trade inspired or intensified had a significant negative impact on the continent’s state development.”

²³ Andreski, p.78

economy (because those looking to make money find it less lucrative to take a chance in business than to go into the public sector where corruption supplements income). Third, the developmental decisions of the government are distorted by corrupt interests instead of the real needs of the country. Fourth, corruption weakens administrative capacity (the competition for corrupt proceeds can lead to inter/intra departmental rivalry, and there is a low morale because of this fragmentation combined with the frequency of other acts of corruption like nepotism). Fifth, and finally, corruption undermines democracy (as the over-riding goal of those seeking office is often to “capture power and keep the fortress of public power”, and often the voting process is so corruptible that it does not reflect a valid account of public sentiment).²⁴

Sub-Saharan Africa is one of the most corrupted regions of the world.²⁵ It is sadly ironic that this is also one of the most resource-rich regions in the world– an attribute that has turned into a drawback in relation to corruption, as many leaders have succumbed to the desire to build personal fortunes at the expense of the country. Despite its potential to generate its own wealth, poor development has made the region incredibly reliant on foreign aid for the survival of its people.

Foreign Aid

In Sub-Saharan Africa, poverty and underdevelopment have remained a mainstay since the independence of most of its countries from colonialism in the 1950s. Because of this state of affairs, the region also has been a major recipient of foreign aid. This section will describe foreign aid, those who give and receive it, and how elements of foreign aid can impact a country.

²⁴ Andreski, pp.125-129

²⁵ According to Transparency International’s 2006 CPI, SSA countries made up 9 out of the 20 most corrupt countries listed – thus it was the most represented region in the 20 most corrupt countries on the CPI scale.

Governmental, non-governmental, multi-national and non-profit organizations are the major donors that play a part in the transfer of funds from those with money to those in need. While reasons for donating or lending money vary as much as those entities who give it, the largest amount of money given as foreign aid originates in government and multinational organizations in the form of official development assistance. Over 106 billion U.S dollars in net official development assistance (ODA) were disbursed in 2005 alone.²⁶ For most countries in Sub-Saharan Africa, ODA is the largest single capital inflow – making up nearly half of all net capital inflows.²⁷

Foreign aid is most often directly linked to development, and the intentions of aid change as the doctrines of development change.²⁸ Since the ending of the colonial system in the 1940s and 50s, the ideas of Third World development have undergone many changes, and so the objectives of foreign aid have changed as well. In the 1940s, foreign aid was directed at reconstruction and planning - in reflection of the aftermath of WWII.²⁹ From the 1950s to the 1990s, foreign aid and development have been focused on targets ranging from improving the capabilities of investment and GDP per capita (through building up the national savings rates of Third World countries)³⁰ in the 1950s, to focusing on the heavy debt burden of underdeveloped countries in the 1980s, to focusing on structural adjustment and poverty alleviation in the 1990s and 2000s.³¹

²⁶ OECD statistics: www.oecd.org/document search 'Aid flows top USD 100 billion in 2005'.

²⁷ Making Aid Work (2006)

²⁸ Thorbecke, p.17

²⁹ Hjertholm and White, p.81

³⁰ Thorbecke, p.22

³¹ Ibid, pp.19-45

However, to believe that foreign aid is given only for developmental reasons would be naïve. Hjertholm and White write that “the developmental objectives of aid programs have been distorted by the use of aid for donor commercial and political advantage.”³² There is a substantial body of work that proposes that foreign aid has actually served to subjugate developing countries to the West through development programs dominated by Western terms – a post-colonial imperialism, if you will. One example is Tom Callaghy’s assertion that foreign aid dependency is simply a continuation of Africa’s economic marginalization and dependence on the Western-dominated world economy.³³ In Africa, foreign aid dependence has been cited as an impediment to real economic and political development because “the current aid system wastes much national energy and political capital in interacting with donor agencies, and distracts African governments from domestic debate and consensus building.”³⁴ Foreign aid has also been cited as a facilitator of corruption because aid “increases the size of resources fought over by interest groups” and “delays the adoption of policy reforms.”³⁵ The combination of structural adjustment programs (determined by institutions dominated by the Western agenda), aid dependency and the continuation of corruption lead many to question the virtue of the current foreign aid system.

The poorest countries – with their often underdeveloped and inadequate infrastructures – are the most in need of development. Foreign aid provides an opportunity for those in need to achieve that development. It also provides an opportunity for donors to encourage their own methods of development (those most often being tailored to the ideals of free market economics).

³² Hjertholm, p.81

³³ Thomas Callaghy “Africa in the World Political Economy”, Haberson and Rothchild’s Africa in World Politics, p.44

³⁴ Ravi Kanbur, “Aid, Conditionality and Debt in Africa”, found in “Foreign Aid and Development”(Hjertholm),p.419

³⁵ Alesina and Weder, p.3

Being a donor gives one a certain amount of power, and often that power is expressed in the form of conditionalities. Conditionalities are conditions for change attached to a loan or grant. These conditions are often directed at political (for developing good governance), economic (for opening up markets and reducing state control over the economy), developmental (for building infrastructure), and humanitarian reforms.

“Strings-attached” lending is at the heart of the debate on the effectiveness of foreign aid. Those who see foreign aid as a vehicle for positive change believe that conditionalities are a necessity for influencing leaders who would not otherwise devote resources to improvement for the entire country. The debate over conditionalities is not whether they are a good idea or not, but rather if they are truly effective. Corruption is an important aspect of this debate – largely because it is a major target of conditionalities, and also a reason why they do not succeed. The following chapter will elaborate on the debate over aid effectiveness.

CHAPTER 2: LITERATURE REVIEW

Foreign aid is intended to alleviate poverty and encourage development. Some argue that while foreign aid is not as effective as they would like, it is still helping to keep many people from complete starvation and does contribute to Third World development. However, many others argue that foreign aid is at best being misappropriated and at worst feeding the problems which it is intended to fix. The disparity between the amount of aid being given to developing countries and the lack of improvements in development in many of those countries is something which has led many scholars, aid agencies and donors to question foreign aid's effectiveness.

The Consensus

Empirical work on the effectiveness of aid has largely been critical. The subject of aid effectiveness has been studied from many different aspects, but especially from that of its effectiveness in building good governance and good policy environments. A good policy environment consists of good fiscal, monetary and trade policies.³⁶ Good governance consists of efficient institutions (which establish a predictable, impartial and consistently enforced set of rules) that are crucial for the development of the economy and society.³⁷ Donors claim that their aid pushes governments to reform their governance and policy environments into those which encourage development and openness. Countries which have good governance and policy environments are able to regulate the inhibitors to growth; corruption being a major inhibitor. Conditioning aid is seen as a major tool for encouraging good governance, development, and humanitarian reform – in fact, conditions attached to aid is *the* prominent tool that donors use to

³⁶ Ibid, p.847

³⁷ Knack (2001), p.311

push reform. The problem is that the empirical consensus largely points to the failure of conditionality.³⁸

Much of the literature on foreign aid and corruption points to the conclusion that aid is not effective in stopping corruption, and many argue that the way foreign aid is given now actually fuels corruption. These findings are significant because they counter the arguments that lending and donating money positively affects the governance policies of recipient countries. Earlier studies began with questions of aid effectiveness in reaching its targets. Peter Boone (1996) looked at how three different types of government/economic systems (egalitarian, elitist, and laissez-faire) used foreign aid. He measured non-military aid flows to 96 countries, and found that elitist political regimes best predict how aid will be spent. He also found no significant correlation between aid and growth³⁹ and that aid did not benefit the poor but only increased the size of government (the size of government has been shown to inhibit growth and increase the opportunities for corruption).⁴⁰

Burnside and Dollar (2000) asked the research questions: is the effect of aid on growth conditional on economic policies, and do donor governments allocate more aid to countries with good policies? This study measured a country's policy environment based on an index of budget surplus, inflation rate and openness; and measured the effectiveness of aid by how much of it was invested as opposed to spent outright.⁴¹ To address allocation issues, they controlled for population and variables that reflect donors' strategic interests, and found no tendency to allocate more aid to countries with good policies. They found that in countries with good policies,

³⁸ Knack (2001), p.312

³⁹ Boone (1996), p.10

⁴⁰ Boone (1996),

⁴¹ Burnside and Dollar (2000), p. 847

substantial amounts of aid contribute greatly to economic growth. However, they also found that in countries with poor policies, foreign aid had no positive effects on growth. The increase in aid tends to result in an increase in government consumption (not reinvestment), and government consumption has no positive effect on growth. Burnside and Dollar suggested that if a government with a bad policy environment receives aid, that aid does not lead to improvements in economic policy because the government lacks the incentive to reform – it already has the money from aid, so the motivations to improve its appearance to investors are less intense.⁴²

In two studies, Stephen Knack (2001 and 2004) studied the effects of aid on the quality of governance in recipients. In a cross-country analysis (of 80 countries), he found that higher levels of aid erode the quality of governance, as measured by an index of bureaucratic quality, corruption and the rule of law.⁴³ He used the International Country Risk Guide (ICRG) as a measure of quality of governance. To measure aid amount and dependency, the ODA as a percentage of GNP and as a percentage of government expenditures were used.⁴⁴ In order to account for other possible influences on governance, Knack controlled for per capita income (as they could lead to improvements in governance by increasing tax revenue), religious or legal traditions and colonial heritage. He found that the correlation between aid and governance was negative – thus, showing that high levels of aid erode the quality of governance. Of the governance quality index, corruption was the one least affected by aid. He suggested that governments supported by an influx of aid are more likely to maintain poor governance.

Knack's second paper "Does Foreign Aid Promote Democracy?" (2004) was a

⁴² Burnside and Dollar (2000), p.848

⁴³ Knack (2001), p.310

⁴⁴ Knack, p.314

multivariate analysis of the impact of aid on democratization.⁴⁵ He used a large sample of recipient countries over the 1975-2000 period. He used a Freedom House democracy index and the Polity index to measure democracy (and government institutions), and ODA as a percentage of GNP and government expenditures as measures of foreign aid.⁴⁶ The results of the multivariate tests showed an insignificant correlation between aid and the Freedom House index – concluding that aid (on average) has been ineffectual in promoting democracy.⁴⁷ Despite this study's focus on democratization, it is a significant indicator for the relationship between aid and corruption because it looks at aid effectiveness in reforming poor governance. This study found that foreign aid does not have the impact on reform that donors often claim.

Research done on the relationship between corruption and foreign aid has been less abundant than that on aid effectiveness, but it generally points to similar results. In one of the first quantitative studies done on foreign aid and corruption, Lane and Tornell (1996) argued that foreign aid encourages corrupt behavior in government. They suggest that this is due to competing political factions, whose competition over the resources foreign aid provides leads to more corrupted behaviors. In one of the first statistical studies focused on corruption and foreign aid, Alesina and Weder(1999) asked whether foreign aid reduces or fosters corruption and whether less corrupt governments receive more aid. Their corruption indicators were derived from ICRG, the 1997 World Development Report, Standard and Poors, Business International, the World Competiveness Yearbook and Transparency International. They found these indices to be highly correlated, thus giving credibility to measures of corruption.⁴⁸ They also used the following controls to control for other determinants for the allocation of foreign aid: level of

⁴⁵ Knack (2004), p.251

⁴⁶ Ibid, p.255

⁴⁷ Ibid, p. 257

⁴⁸ Alesina and Weder, p.10

income in recipients, population size, economic policies, political systems and historical/political links with donors. They used the OECD's measurement of ODA for the foreign aid source, and had three measures of foreign assistance: aid as a share of GDP (Gross Domestic Product), aid per capita, and aid over government spending.

Alesina and Weder found that donors are often *not* all that selective concerning recipients' policy environments. Instead of highly corrupt governments receiving less foreign aid, Alesina and Weder found that they actually receive more.⁴⁹ They also found that not all donors lend or give in the same way: on average, Scandinavian countries gave to less corrupt countries, while the U.S. gave more to corrupt countries; multilateral lending agencies (international agencies like the World Bank) basically paid no attention to the level of corruption in receiving countries; and private flows (the largest source from foreign investment) paid the most attention to corruption.⁵⁰ Their findings on the relationship between aid and corruption were less defined: they did not find signs that an increase in aid led to a decrease in corruption.⁵¹

In keeping with previous studies, Jakob Svensson (2000) sought to find if there was a relationship between widespread corruption and foreign aid. He used a game-theoretic rent-seeking model to assess whether foreign aid leads to an increase in rent seeking.⁵² His study included 66 aid recipient countries, and his time period began in 1980 and was divided into three 5-year periods.⁵³ He used an index of corruption drawn from ICRG, and aid data from the World Bank (he used grants instead of ODA). Other variables include ethno-linguistic heterogeneity, arms imports, infant mortality, democracy, and trade as a share of GDP. He found that instead of

⁴⁹ Alesina and Weder (1999), p.20

⁵⁰ Ibid, p.4

⁵¹ Ibid, p.18

⁵² Svensson, p.437

⁵³ Ibid,p.450

foreign aid being an inducement for reform, it actually encourages higher levels of rent-seeking. Svensson was surprised to find occurrences when an influx of aid into a government actually led to a decrease in public provisions.⁵⁴ As he writes, “the larger the government budget, the larger the incentives to deviate.”⁵⁵ Alesina and Weder also addressed this occurrence, and explain the decrease in public resources in the following way: “One manifestation of corruption may be a high tax evasion...[due to] a large black economy ...or unwillingness of the government to collect revenues.”⁵⁶ Thus, a government’s reliance on foreign aid as income can also discourage them from enacting stronger anti-corruption measures outside of the government as well as inside the government. Svensson also studied the effects of ethnic diversity on foreign aid and corruption, and found that ethnic heterogeneity is significant in increasing the level of corruption when foreign aid is introduced.⁵⁷

Ethnic competition is a major explanatory factor for corruption in Svensson’s study. It explains how the increase of government revenue can lead to a decrease in public provisions and how the mere expectation of aid can increase corruption (as competing groups scramble for claims on the expected aid).⁵⁸ His findings connect to the above studies by supporting the idea that aid does not encourage reform in a bad policy environment. In this case, a bad policy and governance environment is one in which competing social groups are enabled by a lack of strict rules and democratic regulation, guarding against competing for resources by corrupt measures.

⁵⁴ Svensson, p.437

⁵⁵ Ibid, p.456

⁵⁶ Alesina and Weder, p.14

⁵⁷ Svensson (2000), p.455

⁵⁸ Ibid, p.438

The Alternative

Despite the consensus among empirical studies pointing to inefficiencies of aid to improve bad situations in governance and economic policy, the reality is that donors are being asked to increase their aid, not decrease it. The leading economist Jeffery Sachs is a major proponent for increasing foreign aid (albeit with improvements), as are most charities and even international institutions (like the World Bank) are not shrinking from increasing their aid. In its 2005 Global Monitoring Report, the World Bank reported that foreign aid should be doubled.⁵⁹ Charity organizations like Oxfam International have frequently called for an increase in foreign aid. In their 2005 press release, they list the following ways that aid can be used as a weapon to fight corruption: it can build the capacity of governments to monitor the spending of aid and help them pay civil servants a livable wage (bureaucratic corruption being one of the most common and detrimental forms of corruption in the developing world), it can fight the poverty that creates endemic corruption in the first place, it can help spread democracy through the developing world, and donor countries can be more responsible in their lending by making sure “that aid is well-targeted, well-managed and transparently given on a needs-led basis. The G8 muststop giving aid solely as a reward for countries opening up their markets, pursuing free-market policies or joining the fight against terrorism.”⁶⁰

While much less abundant, there have also been empirical studies showing foreign aid in a more favorable light in relation to corruption. In his paper “Does Foreign Aid Corrupt”, Jose Tavares estimated the impact of foreign aid on corruption using geographical and cultural distance to the donor countries as instrumental variables to assess causality. He used the ICRG

⁵⁹ Sachs interview 2005 in Mother Jones

⁶⁰ Oxfam, p.2

indicator of corruption, and the OECD aid outflows to construct the instrumental variables.⁶¹ By instrumenting the aid variables with controls for GDP/capita, political rights, ethno-linguistic fractionalization, oil exporter, total population, public expenditures/GDP, and whether the country is a former colony, Tavares found that an increase in aid inflows of 1% GDP leads to a decrease in corruption of -.2 points (out of the possible range of 10).⁶²

In agreement with Alesina and Weder's finding that more corrupt countries receive more aid, Tavares concluded that the fact that less corrupt countries receive less aid biases previous findings. He claimed that the previous studies have not accounted for reverse causation and often have not instrumented their aid variable.⁶³ Tavares concluded that "we should interpret our results as pointing to the potentially beneficial impact of aid inflows on corruption once current biases in aid allocation are weeded out."⁶⁴ Tavares' study is one of the only studies with empirical evidence pointing to foreign aid as an inhibitor to corruption.

Beyond Academia

Burnside and Dollar's finding that the policy environment of a country will determine whether or not aid is effective has become a very popular argument. On their "Aid Effectiveness Research" website, the World Bank describes good policy environments as having, "stable macroeconomic environments, open trade regimes and protected property rights as well as efficient public bureaucracies that can deliver education, health and other public services. When developing countries have this kind of sound management, financial aid has a big effect on growth and poverty reduction, improving social indicators over and above what good

⁶¹ Tavares, p.101

⁶² Ibid, 103

⁶³ Tavares, p.103

⁶⁴ Ibid, p.104

management itself induces.”⁶⁵ In effect, the World Bank states that more money should go to countries with better management.

However, we know from Alesina and Weder’s findings that more money goes to countries with higher levels of corruption (and thus countries with poor governance and policy environments). The World Bank looks at this as the major problem: “The actual allocation of aid has often been influenced by the strategic interests of donors.”⁶⁶ They blame bilateral aid (between two governments) as being biased towards former colonies, political allies and strategies instead of focusing on policy environments.⁶⁷ The World Bank website suggests that a good way to promote reform through aid is to make financing conditional on the adoption of certain policies, and to improve the way these conditions are enforced. In keeping with Boone’s claims that conditioning aid does not work, the World Bank confesses that about a third of the World Bank’s adjustment loans failed to meet their objectives.⁶⁸ However, they attribute this to the policy environment, and not to the act of conditioning loans.

In 2004, the United States Government formed the Millennium Challenge Corporation based on the belief that the policy environment in a country determines the effectiveness of aid. Judging from 17 different indicators (one of them being corruption), the MCC grants loans or donates money based on how a country rates on those indicators. The MCC is an example of how influential the “policy environment” argument has been in affecting donor responsibility.

The amount of foreign aid being transferred from donors to the developing world is growing. The contributions pledged in 2007 by the 45 nations who make up the World Bank

⁶⁵ World Bank Group search ‘Aid Effectiveness Research’: found at <http://www.worldbank.org/aid/overview2.htm>

⁶⁶ Ibid

⁶⁷ Ibid

⁶⁸ Ibid

International Development Association (IDA) increased by 42% since 2005.⁶⁹ The argument that foreign aid is not effective is simply not being heeded by donors. The argument that the policy environment is crucial, however, is being listened to. The consensus is that foreign aid given to a country with a poor policy environment (high corruption being an aspect of that) is not only wasted, but is actually fueling that bad policy environment. Thus, it is generally agreed that foreign aid fuels corruption when corruption is highly present.

⁶⁹ Washington Post article Dec. 15 2007, p.1 Found at: <http://www.washingtonpost.com>

CHAPTER 3 – METHODOLOGY AND SOURCES

Methodology

While most of the research studying foreign aid and corruption has focused on the developing world at large, or been country-specific, this paper focuses on a region; specifically, on 14 Sub-Saharan African countries and their particular situations with corruption and foreign aid over nine years (1998-2006). These 14 countries have been chosen because they are the only African countries that are listed on Transparency International's CPI (Corruption Perceptions Index) consistently over the time period which was studied. Transparency International began publishing their CPI statistics in 1996; because of the slow-changing nature of corruption, a study of a longer time period is needed to show real change. However, Transparency International had limited access to Sub-Saharan African countries in the earlier years, and 1998 is the year in which it introduced all of the chosen countries - which are all still listed on the CPI in 2007. While the CPI is available up to 2007, the OECD (foreign aid statistics source) has not yet released the ODA statistics past 2006 – therefore the study is limited in its foreign aid information up to that year. Thus, the availability of the data has determined both the sample size and the time period.

Quantitative Section

I will be using a combination of quantitative and qualitative methods in my thesis. For the quantitative section, I will use multiple regression to measure the strength and direction of the relationship between the independent (foreign aid) and dependent (corruption) variables. I have chosen multiple regression because it allows me to incorporate controls into my study of the relationship between foreign aid and perceptions of corruption.

According to the empirical consensus, foreign aid perpetuates poor governance and bad policies (with corruption being a symptom of both) in countries with these problems. As such, it is presumed that foreign aid given to countries with high levels of corruption will fuel that corruption, and over a period of time we will see an increase in the levels of corruption. Therefore, I hypothesize that, if aid reciprocity increases corruption in highly corrupt countries, then such countries with rising aid levels should exhibit a declining CPI score (showing increasing levels of perceptions of corruption) over time. Accordingly, the dependent variable analyzed is the perception of corruption level (measured as the CPI). The independent variable is the amount of foreign aid received (measured as ODA).

Control Variables

As previous research has shown, there are other influences on corruption that may skew the accuracy of analysis focusing on the relationship between foreign aid and corruption. These determinants include changes over the 1998-2006 time period in: GDP, political rights, total population⁷⁰, and government expenditures; as well as the deposits of energy natural resources (oil, gas and coal) and ethno-linguistic fractionalization of each country. Controlling for GDP is important because there is a shown negative association between corruption and GDP.⁷¹ Political rights is a control because it is a direct indicator of good governance – which should lead to corruption-defeating policies.⁷² Government expenditure (public expenditures as a share of GDP) is a control because it has been shown that the more governments are involved in the economy, the more they are prone to pressures such as corruption.⁷³ Sachs and Warner (2001)

⁷⁰ Knack and Azfar (2000) -as cited in Tavares (2003)- show that large countries are over-sampled in corruption indices because of their attraction to foreign investors. This creates a sample selection bias.

⁷¹ Tanzi and Davoodi (2000) p.4

⁷² Hope (2000) as cited in Andvig et al, p.52, “Widespread corruption is seen as a symptom of a poorly functioning state, and as a failure of ethical leadership, democracy and good governance.”

⁷³ Tanzi (1998), Rose-Ackerman, Andvig et al, p.54. The idea development in the liberalist economic agenda focuses on restricted state involvement in the economy, rather than a ‘big’ bureaucratic state.

showed that economies that have high exports of natural resources grow slower; they suggested that this is due to higher government corruption.⁷⁴ Svensson showed that the more ethnolinguistic fractionalization a country has, the more it is prone to corruption when receiving foreign aid because competing groups will scramble for aid resources to benefit their own groups.⁷⁵

Qualitative Section

While the quantitative research will focus on a wider scope of countries, the qualitative research will be a case study that focuses on one Sub-Saharan country which has seen a massive increase in foreign aid (from 1998 to 2006) and which has also shown improvements in its control over corruption: Nigeria.

I chose Nigeria because it is one of the largest ODA recipients in the world, it is located in Sub-Saharan Africa, and it has CPI ratings for every year in my time period. In 2006, the OECD showed Nigeria to be the largest ODA recipient in Sub-Saharan Africa. More than any other country in my sample, Nigeria saw a massive increase in its ODA from 1998 to 2006.⁷⁶ At the same time, according to its annual CPI ratings, Nigeria has also reduced its perceived level of corruption over the nine years studied.⁷⁷ It would seem that this occurrence goes against the consensus.

Case studies are often used to test theories by applying the main tenets of the theory to actual cases. In this paper, I will be applying this method to the theory that foreign aid intake encourages corruption in countries with a poor policy and governance environments. This theory

⁷⁴ Leite and Weidmann (1999) model and document this relationship. As cited in Tavares (2003) p.101

⁷⁵ Knack (1998)

⁷⁶ OECD statistics: USD 203 mill in 1998 to USD 11434 mill in 2006

⁷⁷ Transparency International CPI ratings: the CPI ranges from 1 (highest corruption) to 5 (lowest corruption). Nigeria rated a 1.9 in 1999 and a 2.2 in 2006. This change shows a relative improvement.

combines the findings covered in Chapter 2 that support the consensus: that foreign aid has little positive effect on countries with bad policy environments (Burnside and Dollar), that foreign aid supports bad governance environments and that higher levels of aid erode the quality of governance (Knack), and that higher levels of aid encourage corruption and reduce productive public spending (Svensson and Boone).

Sources

Quantitative Sources

Corruption has been notoriously difficult to measure. Andvig et al write that, “ideally, the data applied in research on corruption should be based on direct and first-hand observations of corrupt transactions made by unbiased observers who are familiar with the rules and routines in the sector under scrutiny.”⁷⁸ However, the complexity of international transactions and various development projects often take place in large hierarchies to which independent corruption researchers probably do not have access. It is also difficult to measure corruption by recording accounts of those within the country because of the “hidden nature of corruption”. Corruption is often carried out in secret with no witnesses, and unlike many other crimes, corruption often has no direct witnesses. In crimes like theft and assault, crime can be measured by victimization surveys, but in corruption crimes, victims may not know about the corrupt act in detail.⁷⁹ Thus, information about corruption has often been indirect, and that has led to many earlier studies on corruption lacking a solid empirical basis.⁸⁰

⁷⁸ Andvig et al (2000), p.35

⁷⁹ Sampford, Charles et al, **Measuring Corruption**, Published by Ashgate Publishing, Ltd, 2006, p.203

⁸⁰ Ibid, p.35

However, there has recently been an increase in accountability in corruption research. In the mid-1990's, Mauro's article "Corruption and Growth" (1995) was highly influential in bringing the study of corruption into the interest of the field of economic growth studies among economists – and as a result the credibility of the empirical analysis of corruption has increased.⁸¹ While Mauro used Business International's 1980 survey, Transparency International's Corruption Perceptions Index (CPI) has since taken precedence as the most "well known and most used both in research and in the public debate."⁸²

The increased use of statistics that rely on perceptions of corruption to measure corruption has led some to question the validity of using perceptions of corruption as a valid measurement of corruption – arguing that the opinions and perceptions of those surveyed result in data that is subjective and vague.⁸³ However, due to the hidden nature of corruption, perception based on the actual experiences of individuals is sometimes the best information available.⁸⁴ The most reliable measures of perceptions of corruption are those that find the widest spectrum of individuals - including members of the community (those who deal with corruption as a part of their lives in the country) and those who must interact with the country for economic and non-economic reasons (including foreign investors, charitable organizations, etc). The idea that cultural beliefs may skew perceptions of what exactly constitutes corruption does

⁸¹ Ibid, p.39 - This article was an economic study of the effects of corruption on a country's growth rate – and Mauro's results supported the widespread belief that corruption has a negative effect on growth.

⁸² Ibid, p.39

⁸³ WorldBank "Development Outreach", Found:
<http://www1.worldbank.org/devoutreach/article.asp?id=371#endthree>

⁸⁴ Transparency International writes: **Why is the CPI based only on perceptions?** It is difficult to assess the overall levels of corruption in different countries based on hard empirical data, e.g. by comparing the amount of bribes or the number of prosecutions or court cases. In the latter case, for example, such comparative data does not reflect actual levels of corruption; rather it highlights the quality of prosecutors, courts and/or the media in exposing corruption across countries. One strong method of compiling cross-country data is therefore to draw on the experience and perceptions of those who are most directly confronted with the realities of corruption in a country.

not appear as substantial as once thought. According to several studies, perceptions of corruption from cross-country surveys of domestic firms tend to be very highly correlated with perceptions of corruption from expert ratings in commercial risk rating agencies or multilateral development banks.⁸⁵

The CPI is one of the most credible, and accessible, corruption ratings available. It has been supported by the advisement of the Index Advisory Committee since 1996 and, because of that, it is based on the latest and most developed methodologies and measurement tools. Besides the IAC, the national chapters in many of the developing countries also help to develop surveying techniques and corruption measurement.⁸⁶ Transparency International derives the CPI from expert assessments and opinion surveys from international sources as well as surveys within the countries.⁸⁷ The 1998 CPI rated 85 countries, and the 2005 CPI rated 158. In 1998, the CPI was based only on the perceptions of business people, but in 2005 the survey had grown to include country experts, non-resident business leaders from developing countries, and resident business leaders evaluating their own country.⁸⁸

The CPI is a “poll of polls” – it combines information from several different polls to figure out a country’s rating. The rating is based on the degree to which those surveyed believe a country’s public officials and politicians are corrupt (in that they accept bribes, embezzle public funds, etc.). In 1998, it was based on 7 different polls; in 2005, 16 surveys and expert

⁸⁵ World Bank: Development Outreach: The correlation between corruption ratings from the Global Competitiveness Surveys and expert polls such as Economist Intelligence Unit, and Global Insight, or Multilateral Institution ratings such as the World Bank’s Country Policy and Institutional Assessments (CPIA) are very high. A related critique is that assessments of corruption produced by think-tanks and commercial risk-rating agencies display ideological biases, generally pro-market and pro-right-wing. In Kaufmann, Kraay, and Mastruzzi (2004) we develop a test for such ideological biases and find that they are quantitatively unimportant.

⁸⁶ Ibid

⁸⁷ Transparency International website: http://www.transparency.org/policy_research/surveys_indices/about

⁸⁸ Lambsdorff, Johann, Transparency International methodological note, 1995. Found on website.

assessments were consulted (for individual countries, this number varied – however a country must have at least 3 sources in order to be listed on the CPI).⁸⁹ The CPI scale runs from 10 to 0, from the perception of a country having the least corruption to having the most. A score of 10 shows that the country is perceived as having no corruption, and a score of 0 shows that a country is perceived as being completely corrupt.

The Organization for Economic Co-operation and Development (OECD) is my source for the foreign aid statistics. I will be looking at the net official development assistance (ODA) over the nine year period for each of the 14 countries. ODA consists of disbursements of loans made on concessional terms and grants by official agencies of the member of DAC, by multilateral institutions and by non-DAC countries to promote economic development and welfare in the recipient territories and countries.⁹⁰ It also includes debt forgiveness, humanitarian aid and bilateral development projects.⁹¹ The DAC (Development Assistance Committee) is comprised of 23 member states – all of them developed countries – which are the major donor countries of the world. Of course, recipient countries receive aid outside of ODA (the largest amount of that being from private flows) but Sub-Saharan Africa is the only region of the world where ODA flows still run higher than private flows.⁹² In fact, despite the fall of ODA rates of 4.5% in 2006, Sub-Saharan Africa saw an all-time high of \$39.9 Billion in worldwide ODA inflows.⁹³ Therefore, ODA is the prominent source of foreign aid for this region.

The World Bank's 2006 "At a Glance" papers cover all of this study's countries, and is the source for GDP, government expenditures as a share of GDP, exports as a share of GDP, and

⁸⁹ Transparency International website.

⁹⁰ Aid dependency 6.11, p.1

⁹¹ OECD ODA 2006, p.3

⁹² Thorbecke, p.31

⁹³ OECD Final ODA Flows 2006, p.3

the population control variables. The political rights variable is taken from the Freedom House political rights rating, and the ethnolinguistic fractionalization variable is from the ELF (Ethno Linguistic Fractionalization) Index from the World Factbook, 2003. While most of the variables are averages, the population variable is directly from 2006. The GDP variable is an average of the 1996 and 2006 amounts in USD Billions. The exports and government expenditures variables are averages of the same time period, and are in percentages (as a share of GDP). The political rights average is taken from 1996-2006, and the ethnolinguistic variable is an average of the ELF rating from the 1960s to 1980s.⁹⁴

Qualitative Sources

The statistical sources for the qualitative research will be as follows: Transparency International's CPI for corruption levels, the OECD's ODA for aid recipiency, the Freedom House's rating for quality of governance, and the OECD's Nigeria Country Study paper to study both the policy environment and government spending trends. The other sources range from newspaper articles to in-depth studies of Nigeria's economic and governance policies. In 1998, Nigeria was one of the most corrupt countries listed on the CPI⁹⁵. This perceived high level of corruption was a major indicator of its bad policy environment. As was common, this did not stop the flow of ODA to this country – in fact Nigeria saw a massive increase of ODA over the nine year period. If the theoretical consensus is correct, then my research will show that Nigeria's policy and governance environments have not improved, but have actually gotten worse. Hence, Nigeria's corruption perception level should have stayed the same, or increased in severity over the nine year period as foreign aid was increased.

⁹⁴ "At a Glance" 2006 papers can be found at devdata.worldbank.org/AAG; Freedom House ratings found at freedomhouse.org; ELF index found in the **World Factbook**, (2003) Washington DC, Central Intelligence Agency, Washington DC, and bartleby.com

⁹⁵ Transparency.org 1998 CPI: With a score of 1.9, Nigeria was the 5th most corrupt country on the CPI.

Expectations

It has become popular to question foreign aid's effectiveness in encouraging positive change in the developing world. The idea that foreign aid has no positive effect on countries with poor policies and governance has been widely accepted as fact. So, why bother dedicating another body of research to this seemingly closed case? Many believe that this case is not closed and cite instances of foreign aid of not only lifting people out of poverty, but also pushing governments to reform bad policies. The aim of this paper is to apply the consensus of foreign aid's inefficiency in corrupt countries to Sub-Saharan Africa. If the theory proves correct in this instance, then the results will show a positive relationship between foreign aid and corruption; and if there is a negative relationship between the two then we see that the consensus needs further refining and questioning. Applying the theory to an in-depth study of Nigeria is valuable because it tests the theory on an individual basis. Statistical analysis assesses averages, and looking at one case alone gives us another perspective. If the consensus theory is correct, then we can expect to see Nigeria having higher levels of perceived corruption (because of their increase in aid) over the time period.

CHAPTER 4 – QUANTITATIVE SECTION

Introduction

This chapter shows the results of statistically testing the hypothesis that there is a positive relationship between foreign aid and perceptions of corruption. First, I will report trends in perceived corruption in Sub-Saharan Africa over the period of nine years. Then, I will report the simple bivariate correlations using Pearson's r correlation coefficients and significance levels to show the degree and strength of the linear relationship between two variables. Table 1 reports Pearson's r and significance levels in one-tailed tests among all variables. Table 2 shows a summary of correlations between each independent variable and corruption. Figure 1 is a scatterplot graph visually showing the direction of the relationship between foreign aid and perceptions of corruption. Figure 2 shows the variation in CPI ratings for each of the 14 countries, and Figure 3 shows the ODA variance. Using logistical regression analysis and controlling for other variables which have been shown to affect corruption, I next present estimates of the association between foreign aid, GDP, population, government expenditures/GDP, exports/ GDP, political rights and ethno-linguistic fractionalization. I also present regression equations illustrating the impact of foreign aid on corruption.

Corruption Trends

Figure 2 shows the CPI trends of the 14 Sub-Saharan African countries included in the study from 1998 to 2006. As with most countries included in the Transparency International CPI index, Sub-Saharan African countries have not seen dramatic change in perceived political corruption over the nine year period. For the most part, countries have not fluctuated more than one point, and within the nine year period a country's CPI often fluctuated both positively and

negatively from year to year. However small the change, there still is variance within most countries from year to year; this shows that most SSA countries do experience change in their corruption perception levels, often from year to year. A number of factors could be highly influential in this change, and some are discussed below.

Bivariate Analysis

Look to Table 1 for the correlation table. The following bivariate correlations reflect the 1998-2006 average corruption levels and all other variables to show the influence that GDP, population, government control over the economy, natural resources, political rights, and ethnolinguistic fractionalization may have on perceptions of corruption. This is based on Pearson's r correlations and significance levels. Not all of the independent variables proposed in the last chapter are significantly correlated with perceptions of corruption, and that leads to conclusions that question this study's core hypothesis.

GDP

Economic development is largely seen to be influential on corruption. The theory is that the more developed a country is, the less likely it is to have high levels of corruption. The correlation here is .222, which does show a positive relationship (as GDP increased, the CPI increased – showing a perception of less corruption), but it is not statistically significant in this situation. This may be due to the fact that this study only included Sub-Saharan African countries, where most of the countries are underdeveloped and have relatively low annual GDP amounts. In studies that include a sample with more diversity in GDP, the results would most likely be different.

Population

Population size is included as a control because it has been shown that large countries are over-sampled in corruption indices - because of their attraction to foreign investors. This action creates a sample bias in the indices used by this corruption measurement source.⁹⁶ The population variable is the 1996 population of each country. The correlation coefficient here is -.402. This means that as the population size increased, the CPI decreased (meaning that corruption increased). Therefore, the idea that corruption is more likely to be perceived as high in countries with large populations (because investors are more likely to deal with those countries) is evidenced in this correlation. However, the coefficient is insignificant, and this may be so because the sample was confined to the Sub-Saharan region.

Government Expenditure/GDP

It has been shown that the extent to which a government has control over the economy is influential on that country's political corruption.⁹⁷ In some cases, government consumption has also been shown to have no positive effect on growth⁹⁸, as well as lowering the provision of public goods.⁹⁹ Therefore, it is hypothesized that the larger the government expenditure (a measurement of the public sector's control relative to the private sector) as a share of GDP, the higher the corruption levels. Hence, the coefficient should show that a rise in government expenditure will equal a fall in CPI. The correlation coefficient for this study is -.036, which shows the hypothesized negative relationship, but is statistically insignificant. Therefore,

⁹⁶ Knack and Azfar (2001)

⁹⁷ See Knack (2004) for citation of Friedman's argument that foreign aid is inimical to civil liberties and democracy (p.253), and Tanzi (1998) suggested that governments that are more involved in the economy are more prone to private pressures like corruption (cited in Tavares).

⁹⁸ Burnside and Dollar (2000), p.848

⁹⁹ Svensson (2000)

government expenditures as a share of GDP have little very effect on perceived corruption in this situation.

Natural Resources

A measure of natural resources are included because studies have shown that natural resource rich countries tend to grow more slowly, and one reason is attributed to higher levels of corruption.¹⁰⁰ While Sachs and Warner primarily focused on countries with oil as a natural resource, I have included oil, gas and coal in this study's natural resource variable (energy). Energy is a dummy variable, coded 1 for countries with deposits of oil, gas or coal, and 0 for those without. I hypothesize that countries with oil, gas or coal as natural resources will be more likely to have lower CPI ratings (and thus higher levels of perceived corruption), so the relationship should be negative. The coefficient is .065, and is not significantly related to a country's political corruption in this study.

Political Rights

The political rights statistic was taken from the 1998-2006 average of each country's Freedom House rating, which is based on their annual *Freedom in the World* survey. The survey measures freedom according to two categories: political rights and civil liberties. Freedom House defines political rights as "rights that enable people to participate freely in the political process, including the right to vote freely for distinct alternatives in legitimate elections, compete for public office, join political parties and organizations, and elect representatives who have a decisive impact on public policies and are accountable to the electorate", and civil liberties as

¹⁰⁰ Sachs and Warner (2001) write about the curse of natural resources. The data source for this study is found in the World Factbook 2007.

“allow for the freedoms of expression and belief, associational and organizational rights, rule of law, and personal autonomy without interference from the state.”¹⁰¹

The Freedom House rating for political rights runs on a scale of 1 to 7, 1 indicating the highest level of freedom and 7 indicating the lowest level of freedom. The CPI is a scale of 0 to 10, with 0 indicating the most corruption and 10 indicating the least. As a country rises on the Freedom House rating (thus showing less political rights), it should fall on the CPI scale. Thus, the relationship between the political rights variable and the corruption variable should be negative, according to the widely-held belief that political freedoms coincide with less corruption. The correlation coefficient for this study is -0.817 (significant at the $.01$ level), showing a highly significant, negative relationship between perceptions of corruption and political rights. As the Freedom House rating rises (showing a decline in political rights), the CPI drops (showing a rise in perceptions of corruption).

Ethno-linguistic Fractionalization

Fractionalization between social groups has been shown to lead to higher rates of corruption in most situations. The idea behind this is that highly fractionalized countries are more prone to political instability and corruption because the social groups compete for resources. The ELF index of ethno-linguistic fractionalization runs on a scale of 0 to 1, with a score of 0 being the least fractionalized and 1 being the most fractionalized. Therefore, a negative relationship should occur between the CPI rating and the ELF rating. A country with a lower ELF will be less fractionalized, thus it will have a higher CPI rating (showing less

¹⁰¹ Freedom House website: <http://www.freedomhouse.org>. Click on the methodology link.

perceived corruption). The correlation coefficient in this study is $-.604$ (significant at the $.05$ level). This shows a significant, negative relationship.

Foreign Aid

The major hypothesis in this study proposes that the relationship between the corruption and foreign aid variables is strongly negative. Therefore, as the ODA levels rise, the CPI score should fall. This relationship is reflected in the correlation coefficient, which is $-.625$ (significant at the $.05$ level). According to this correlation, Sub-Saharan African countries with higher levels of ODA are more likely to have lower CPI scores.

Summary

The above bivariate correlations result in varied conclusions for this study. Previous work done on corruption and its contributors have shown that political corruption is influenced by a number of factors, and this study focused on how those factors influenced perceptions of corruption specifically in Sub-Saharan African countries. Given that many statistical studies on corruption have taken samples from various regions around the world instead of one (as this study does), the above factors have often had more of an impact in statistical tests because of the diversity between regions. GDP, population size and government expenditures correlations were insignificant in this study. Again, their insignificance may have more to do with regional similarity working as a control with these factors.

Perceptions of political corruption did prove to be heavily influenced by political rights, ethno-linguistic fractionalization and foreign aid levels. The political rights variable proved to have the strongest correlation with the corruption variable. According to this study, the more a government improves in providing political rights, the less it is perceived to be corrupt.

However, correlations do not address causality. Perceptions that corruption was improving probably closely parallel improvements in political rights, with both changes occurring because of government reforms. Ethno-linguistic fractionalization was also strongly related to perceptions of corruption. As previous research has shown, competition for resources between ethnic groups in government can often create high degrees of corruption. This was evident in the correlation test. Foreign aid was not the most strongly related to perceptions of corruption, but it did prove to have a significantly negative relationship with perceptions of corruption. As hypothesized, countries receiving the most amounts of foreign aid were also the most likely to have more perceived corruption. From the bivariate correlations, the conclusion can be made that countries with less political rights, more ethno-linguistic fractionalization and higher intakes of foreign aid are more likely to be perceived as having high levels of political corruption.

Multivariate Analysis

Introducing control variables that have been shown to be influential on the dependent variable in previous studies is important to assess a more accurate estimate of the relationship specific to the independent variable and dependent variable focused on in a theory. Therefore, I conducted two multiple regression tests to clarify and validate the proposed relationship between foreign aid and corruption. The first model regresses the below variables on the corruption variable (that averages the CPI ratings over nine years).¹⁰² The second model regresses the 2002 variables on the 2003 corruption variable to study the effects of the variables on perceptions of corruption over a year. I provide the model equations, tables and results for each of these models below.

¹⁰² Some independent variables remain relatively static from year to year. These variables are population, natural resources and ethno-linguistic fractionalization. For these variables, I provide one value for the entire period.

Regression Models and Results

For the first model, the foreign aid variable tested was an average of each country's ODA reciprocity over the nine year period. The corruption variable tested was an average of each country's 1998-2006 CPI ratings. The control variables were either averages or data from a specific year during the period (all of this information is discussed previously in the chapter). I discuss the results and provide tables of regression estimates for the model in this section.

Model 1 - Foreign Aid and Corruption Over Time

Model for Regression of Foreign Aid and controls on Perceptions of Corruption from 1998 to 2006

$$Corr_{avg} = B_o + ODA_{avg} + Pop_{96} + EthnicFrac_{avg} + Energy_{dum} + GDP_{avg} + PolRight_{avg} + GovtExpend_{avg}$$

The results for the first model are shown on Table 3. When (1998-2006) average ODA, 1996 population, the ethno-linguistic fractionalization rating (ELF), deposits of oil, coal and/or gas, average GDP, political rights rating average and government control over economy are simultaneously regressed on average corruption perception levels, most of the variables lose their significance. Foreign aid and political rights are the only variables that maintain significance with a p-value of less than .05 when regressed on corruption. Of the two, a country's political rights are the most influential on corruption (with an unstandardized coefficient of -.478 and a p-value of 0.00). This shows that countries with higher political rights ratings (which indicate a poorer political-rights environment) have lower CPI ratings. Intake of ODA did hold significance with corruption perception, with an unstandardized coefficient of -.001 and a p-value of .017. The model's standard error of estimate is .3316, with an adjusted R² of .933, suggesting that only

7% remains to be explained by other variables. The Model 1 regression test results in the conclusion that within Sub-Saharan Africa, political rights have the most influence on perceptions of corruption and foreign aid does have a negative impact on political corruption. Thus, the theory that foreign aid may contribute to perceptions of corruption proves valid in this case.

Model 2 – Foreign Aid and Corruption Over a One-year Period

In the second model, I narrow the time range of study to a specific year. In 2003, many of the countries in this study saw declining CPI rating from the previous year.¹⁰³ Because this study is concerned with influences on corruption, the independent variables have been lagged to values from 2002. Table 4 shows the regression findings for model 2. The model's equation is below.

Model for Regression of Foreign Aid and controls on Perceptions of Corruption over One Year

$$Corr_{03} = B_o + ODA_{02} + Pop_{02} + EthnicFrac_{avg} + Energy_{dum} + GDP_{02} + PolRight_{02} + GovtExpend_{02}$$

This model's adjusted R² is .833, suggesting that only 17% remains to be explained by other variables (with a standard error of estimate of .5043). All of the variables that lost their viability in the first regression test proved again to have no significance in this test. Foreign aid also lost its significance, leaving political rights as the only variable with influence on perceptions of corruption. This test shows that foreign aid may lose its influence on corruption in Sub-Saharan Africa from year to year. This finding means that foreign aid may be ineffective in controlling corruption as it is, and that foreign aid may only affect corruption over a more

¹⁰³ 11 out of the 14 countries had declining CPI scores in 2003, while 2002 proved to be a year that most countries experienced a peak in CPI's.

expansive period of time. The fact that the political rights climate seems to hold the most influence on perceptions of corruption is consistent with the consensus that a country must have a good governance environment, or be showing significant movement in that direction, before corruption can be effectively dealt with.

Summary

In summary, both of the models point in a similar direction – that perceptions of corruption in Sub-Saharan Africa is most influenced by the general state of political rights; foreign aid has a slightly negative influence on corruption. The other variables that have proven to be influential on perceptions of corruption have by and large proven insignificant in this study, but one may safely assume that to be attributed to regional similarities. Overall, the important information for this study's test of the literary consensus (that foreign aid is only effective in good policy/governance environments; and that, if given to countries with bad governance environments, foreign aid can foster corruption instead of fight it) is pointing to the support of that theory.

CHAPTER 5 - NIGERIA

This chapter analyzes the findings of the theoretical consensus on foreign aid and corruption as they apply to Nigeria. The first section will review the theoretical consensus. The second section will describe Nigeria's governance and economic policy environments, as well as Nigeria's relationship with foreign aid during 1998-2007. Finally, the third section will draw conclusions on the accuracy of the consensus in regards to the effects of foreign aid's ability to fight corruption in Nigeria. The central question of this section is: Have increases in foreign aid paralleled positive changes in Nigeria's governance and economic policy environments, and thus in its levels of corruption?

Theoretical Consensus

Many studies have found foreign aid to be ineffective in promoting economic growth and democracy, and have frequently pointed to foreign aid's enabling effects on detrimental factors such as corruption. Burnside and Dollar (2000) found that foreign aid given to countries with bad policy environments (thus high corruption) does not improve growth, and can actually fuel corruption.¹⁰⁴ Svensson (2000) found that foreign aid does not help growth when given to governments that spend the aid on large government expenditures, and little on re-investment.¹⁰⁵ He also found that countries with higher ethno-linguistic fractionalization were more likely to see foreign aid coincide with higher levels of corruption. Knack (2001) found that aid may actually undermine the quality of governance and its institutions by encouraging rent-seeking and corruption (by encouraging conflict over control of aid funds, discouraging real talent in the

¹⁰⁴ Craig Burnside and David Dollar (2000), Abstract

¹⁰⁵ Svensson, p.437

bureaucracy, and alleviating pressures on government by the public and investors to reform).¹⁰⁶

In a later study, Knack (2004) also found that aid does not promote democracy. This research has often led those policy makers opposing increases in foreign aid to argue that foreign aid given to corrupt countries is largely wasted and ineffective in promoting growth.¹⁰⁷

Nigeria's Policy Environment

Nigeria's Governance Environment 1998-2006

Stephen Knack stated that “good governance – in the form of institutions that establish a predictable, impartial, and consistently enforced set of rules for investors – is crucial for the sustained and rapid growth in per capita incomes of poor countries.”¹⁰⁸ In his article studying the effects of aid dependence and governance, Knack measured good governance by an index of bureaucratic quality, corruption and the rule of law. According to the UNESCAP website, governance is “the process of decision making and the process by which decisions are implemented.”¹⁰⁹ *Good* governance has the following characteristics: “It is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law.”¹¹⁰ This section will look at Nigeria's governance quality during the Obasanjo administration (1999 – 2007), focusing on the following: institutional quality, quality of electoral/political process, severity of corruption, and quality of life for Nigerians. Because of the drastic effect of the Abacha regime (the preceding government to Obasanjo's regime) on the Nigerian government, an introductory section will briefly describe the Abacha and Abubakar governance environments as well.

¹⁰⁶ Knack, Stephen (2001), p Abstract.

¹⁰⁷ World Bank, “Aid Effectiveness Research”

¹⁰⁸ Knack, S (2001), “Aid Dependence and the Quality of Governance: Cross-Country Empirical Tests”, p.311

¹⁰⁹ UNESCAP website found at: <http://www.unescap.org/pdd/prs/ProjectActivities/Ongoing/gg/governance.asp>

¹¹⁰ Ibid

From Abacha to Abubakar (1993 – 1999)

Nigeria experienced its darkest period under General Sani Abacha. When General Abacha assumed power in 1993, his hostile takeover caused many to demand a return to civilian rule. Due to the widespread strikes and protests in response to his takeover, Abacha declared a state of emergency – under which he banned political activity and representative government.¹¹¹ Only personal appointments of proven Abacha-supporters were given positions of power, and this greatly impeded any checks on his power.

In August of 1994, Abacha’s security forces arrested political opponents, closed down media offices and cracked down on any dissent to his regime.¹¹² In early 1995, Abacha’s regime and the Provisional Ruling Council (a military governing body created under Abacha) arrested 40 military officers and civilians and tried them in secret military tribunals for attempting a coup and “anti-regime activities” (prominent politicians like the former ruler (of the 1970s) Olusegun Obasanjo were included in this group, as were some human rights activists, journalists, and relatives of the coup members).¹¹³ Many were convicted and imprisoned, and death sentences were given to a few.

Finally, in response to national and international protests to his government, Abacha called for elections for a Constitutional Congress in 1994. However, most Nigerians boycotted the elections in protest to the government. In 1997, he set a timetable for civilian elections for 1998 and declared that Nigeria was in a transition to civilian rule. Once again, these promises were insincere, evidenced when he banned all but 5 political parties – all of which committed

¹¹¹ <http://www.nationsencyclopedia.com/economies/Africa/Nigeria-POLITICS-GOVERNMENT-AND-TAXATION.html>

¹¹² Ibid

¹¹³ Ibid

their support of Abacha as their presidential candidate in the upcoming elections – and continued to arrest members of the democratic organization NADECO and to hold political opponents in prison.¹¹⁴

Because of the economic policies of the Abacha's administration, the people of Nigeria suffered greatly during his regime. Petroleum prices rose dramatically – and, in effect, so did the prices of goods and services rose – while wages froze. As a result, communication between civilians and government was often hostile. The economic hardships, combined with political injustices, led to frequent strikes by labor unions and government employees. Abacha's regime responded with violence, imprisonment and exile. Administration strike forces carried out assassinations, quieted possible political opponents by threatening their families, and even set off bombs in several major cities.¹¹⁵ The electoral and political processes were those of a brutal military dictatorship.

The severity of political corruption in Nigeria peaked under Abacha. The Chief Economic Advisor to the President (Philip Asiodu) under Abacha later admitted that over £5.5 billion were stolen by the administration from the national treasury under Abacha, with 2.2 billion of that stolen by Abacha personally (and his family).¹¹⁶ Soon after coming to power, Abacha centralized control over the government's economic policy, exemplified in his requirement that the federal bank (Central Bank of Nigeria) answer directly to him.¹¹⁷ He eliminated opponents in the financial sector of the government, just as he did in the other sectors. Hence, there simply was no check on his power to allocate money.

¹¹⁴ <http://www.nationsencyclopedia.com/economies/Africa/Nigeria-POLITICS-GOVERNMENT-AND-TAXATION.html>

¹¹⁵ Nigeria Paralyzed, p.228

¹¹⁶ Ibid, p.232

¹¹⁷ Ibid, 233

There was great opportunity for personal enrichment through alliance with Abacha, and no fiscal restraints existed among those close to his regime. The Office of the First Lady under Maryam Abacha was involved in many projects which had exorbitant price tags. An example of this was the Expanded Program on Immunization (EPI) conducted by the Office of the First Lady; under which there were many subsequent accusations that the contracts for the purchase of the vaccines were substantially inflated.¹¹⁸ Military leaders, bureaucrats and others involved in the expansive military government accumulated land and wealth beyond their official paychecks.¹¹⁹ Billions of dollars were misappropriated for projects that were never completed, while government social services suffered because Abacha's centralized control over government revenue starved the local and state governments of funding.¹²⁰ This resulted in poor institutional quality throughout the government.

Abacha died under mysterious circumstances before the 1998 elections, and left Nigeria in a governance crisis. When General Abubakar was selected to replace the notorious Abacha, he faced the remnants of a repressive and corrupt dictatorship. He immediately set about reversing many of the previous regime's actions. He released political prisoners, raised civil servant wages, terminated wasteful and irrelevant institutions, and cancelled elections that were corrupted by the Abacha regime - promising new elections (and a turnover to civilian rule) in one year.¹²¹ Unlike previous leaders – with their excuses and delays, Abubakar did indeed allow elections in 1999, and handed over power to a civilian government headed by the former leader Ogluson Obasanjo.

¹¹⁸ Ibid, p.233

¹¹⁹ Ibid, p.233

¹²⁰ In the fiscal years 1996-97, the total revenue collected by the federal government was N869 billion, out of that the local and state governments were legally allocated 51.5%. However, the federal government kept 75% of total revenue and the other tiers of the government were given less than half of what was legally theirs. Ibid, pp. 230-231

¹²¹ NewsHour's Phil Ponce interview with Nigerian Ambassador to the United Nations Ibrahim Gambari and Nigerian dissident Dr. Beko Ransome-Kuti (July 21, 1998) found at http://www.pbs.org/newshour/bb/africa/july-dec98/nigeria_7-21.html

Although brief, Abubakar's leadership of the country is important because it was during this time that transition from military dictatorship to civilian democracy began. The governing institutions began to be rebuilt, and Abubakar's loosening of military control on the government was crucial for peaceful transition.

The Obasanjo Years (1999-2007)

Obasanjo's election in May of 1999 marked the beginning of civilian rule, and the end of 16 years of repressive military rule. Obasanjo's two terms as president of Nigeria allowed him to have much influence over the country, and his presidency is the most important for this study. This section will look at the governance environment created by Obasanjo from 1999 to 2007.

With Obasanjo came a new constitution and government structure. The constitution created a bicameral legislature: the National Assembly, with a 360-member House of Representatives and a 109-member Senate. The executive branch and the office of president retained strong federal powers. The judiciary and legislative branches were strengthened after suffering through the Abacha regime's neglect.¹²²

In a 2006 speech, Obasanjo outlined the importance of good governance: "Good governance remains...the most critical ingredient for eliminating poverty, instability, violence and underdevelopment. With good governance, you can be assured of accountability, respect for the rule of law and human rights, transparency, sensitivity to the plight of the disadvantaged and the deepening and consolidation of democracy."¹²³ While this speech enthusiastically supported good governance reform in Nigeria, many have pointed out how ineffective Obasanjo's time in office was in strengthening truly democratic institutions. In 2002 (towards the end of Obasanjo's

¹²² U.S Dept of State: Nigeria Profile found at <http://www.state.gov/r/pa/ei/bgn/2836.htm>

¹²³ Mail&Guardian: "Obasanjo Urges Nigerians to Seek Good Governance." May 2006

first term), Rotini Suberu (a senior lecturer in politics at the University of Ibadan, Nigeria, and former senior fellow at the U.S. Institute of Peace) said that “Nigeria is in a state of broad institutional ruination.”¹²⁴

Obasanjo’s government also faced the preceding military government’s structural problems: financial resources too concentrated in the federal government – with state and local governments starved for resources and political/fiscal autonomy,¹²⁵ extreme budgetary problems, an undeveloped election system, and ethnic/regional tensions caused by the federal/state dynamic. The new constitution continued the federal government structure, but the balance of power between federal and state/local governments remained imperfect even after Obasanjo left office.

Perhaps the biggest challenge to good governance was the election process, because it lacked a valid representation system. While the 2003 and 2007 elections were precedent-setting in that they passed control from civilian government to civilian government through elections, citations of these elections being rigged, violent and biased are not few and far between.¹²⁶ Therefore, it is hard to say that this aspect of good governance (consensus-driven and representative) was truly reformed under the Obasanjo administration.

Obasanjo’s campaign against corruption did show some success, and many believe that this was his major contribution to strengthening good governance in Nigeria. The creation of the EFCC (Economic and Financial Crimes Commission) in 2003 signaled the first time government

¹²⁴ United States Institute of Peace, “Nigeria’s Hopes for Democracy”, June 2002

¹²⁵ United States Institute of Peace, “Nigeria’s Hopes for Democracy”, June 2002

¹²⁶ Foreign Affairs Article “Nigerians Rigged Democracy”, USAid, BBC article “Obasanjo’s Legacy to Nigeria”, Freedom House Nigeria 2007 rating, Human Rights Watch article

officials would be held accountable for their corrupt behavior.¹²⁷ The commission actually convicted high level officials for corruption under Obasanjo, and 31 out of Nigeria's 36 state governors were investigated for corruption by 2006.¹²⁸ Still, even this success has not been completely without criticism. Some have accused the commission of targeting political enemies of Obasanjo and PDP (People's Democratic Party) opposition.¹²⁹ Others have criticized the lack of progress in tackling corruption at the state level – where half of public expenditures take place.¹³⁰

When determining the quality of governance under the Obasanjo regime, we must look at four key aspects of governance: institutional quality, quality of electoral/political process, severity of corruption, and quality of life for the population. This final section looks to several statistics and articles covering the developments made in these areas from 1998 to 2006 to further consider the success of the Obasanjo governance reforms.

The Human Development Index measures quality of life in many countries. The HDI measures three elements of human development: life expectancy, education (% of population attending primary, secondary and tertiary school enrollment and adult literacy), and standard of living (measured in Purchasing Power Parity income). Nigeria did improve its HDI rating over this period, though it stayed solidly in the low-development bracket. In 1999, Nigeria had a score

¹²⁷ Foreign Affairs, p.1

¹²⁸ Polgreen, Lydia, "Nigerian States Mired in Corruption", the International Herald Tribune, November 24, 2006. Found at: <http://www.iht.com/articles/2006/11/24/africa/web.1124nigeria.php>

¹²⁹ BBC article < "Obasanjo's Legacy"

¹³⁰ World Bank paper "Nigeria: Country Assistance Evaluation", p.4

of .439 (making it 151st of 175 countries), in 2001 the score improved to .445, and in 2005 the score improved again to .470.¹³¹

While Nigeria's HDI somewhat improved, high unemployment rates plagued the Obasanjo administration for its duration. In 2004, the Nigerian National Planning Commission stated that unemployment rates were down from 20% in 1999 to 10.8% in 2003.¹³² However, other accounts have shown actual unemployment rates to be as high as 28% in 2003.¹³³ The OECD reported that the unemployment rate was down to 5.3% in 2006. The OECD paper points out that an aggregate unemployment rate can be misleading, because it masks variations between different age groups, as well as the variation from region to region. In 2006, youth unemployment was 14%, and unemployment in the Southern region was nearly 24%.¹³⁴ Because of the variance in statistics from source to source, it is difficult to tell if unemployment improved during the Obasanjo regime.

Due to the lack of resources devoted to the states – where most of the public services were funded – during the Abacha regime, public services (such as healthcare, education and transportation) were in very poor condition when Obasanjo took office. Obasanjo's first term (1999-2003) showed little improvement in public services for Nigerians. In 2003, the OECD reported that “the government places particular emphasis on health and education, where

¹³¹ 1999 HDI found in the 2001 Human Development Report at <http://hdr.undp.org/en/reports/global/hdr2001/>. 2001 HDI found in the 2003 Human Development Report at http://hdr.undp.org/en/media/hdr03_hdi.pdf. The 2005 HDI found in the 2007/08 Human Development Report at http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_NGA.html.

¹³² “Meeting Everyone's NEEDS: National Empowerment and Development Strategy”, Nigerian Planning Commission, Abuja 2004, p.xli

¹³³ Nigerian Unemployment Rate, Index Mundi. They cite statistics from the CIA World Factbook, 2007.

¹³⁴ “African Economic Outlook: Nigeria”, 2007, OECD/AfDB paper. Found at: www.oecd.org/dataoecd/27/18/38562978.pdf

outcomes have not improved significantly despite large expenditures.”¹³⁵ While this period was marked by the rehabilitation of the education system, the results were mixed: the 2007 HDR reported that adult illiteracy was up from 62% in 1999 to 69% in 2005¹³⁶, while education for females had shown very little improvement in a decade, with primary school enrollment at less than 50% in 2003. The quality of healthcare also remained inefficient, exemplified in the high infant mortality rates (77 out of 1,000 infants died in 2005).¹³⁷

Obasanjo’s second term showed more success with public service reform. Major new projects like the NEEDS (Nigerian Economic Empowerment and Development Strategy) and SEEDS (State Economic Empowerment and Development Strategy) – created in 2003 - were aimed at improving the quality of life for Nigerians. By 2006, Nigeria had made improvements in poverty by reducing the proportion of people living below the poverty line to 54.4% (down from 70% in 2000).¹³⁸ In 2006, a government-conducted survey showed that 55% of the population had access to medical services.¹³⁹ The Universal Basic Education (UBE), which aimed at providing free primary and secondary education, resulted in a 120% total gross primary-school enrollment rate in 2005 (up from 98% in 2000).¹⁴⁰

Overall, the Obasanjo administration enacted many governance reforms from 1999 to 2007. While some were more successful than others, and Nigeria was still in need of major improvements, it can be said that the government was reform-minded; this is a crucial element in previous studies on foreign aid effectiveness.

¹³⁵ “2003/2004 OECD African Economic Outlook: Nigeria”, p.376

¹³⁶ 1999 statistics: “Accelerating Access to Telecoms: Developing an Integrated Infrastructure Investment Strategy” presented by Jan Mutai, the Secretary General of the African Telecommunications Union, The Nigerian Telecom Summit, May 2 2002, p.3. 2005 statistics, HDR 2007/08.

¹³⁷ Ibid, p.376

¹³⁸ 2006/07 African Economic Outlook: Nigeria, p.452

¹³⁹ “2006/2007 African Economic Outlook: Nigeria”, p.451

¹⁴⁰ Ibid, p.451

Nigeria's Economic Policy Environment 1999-2007

A country's economic policy environment has been shown to be necessary for foreign aid's effectiveness. A good economic policy environment is one that provides the institutions and opportunities for growth and development. The World Bank group stated that a stable macroeconomic environment and open trade regimes are necessary for long term growth.¹⁴¹ In their study, Burnside and Dollar (2000) created an index of economic policy environment indicators: budget surplus, inflation rate, openness, and investment. A high budget deficit, high inflation rates, high government control over the economy, a closed economy, low re-investment into the economy by the government, and high unemployment rates are all qualities of a poor economic environment. This section will look at Nigeria's economic policy environment over the eight years of Obasanjo's regime.

The detrimental effects of high level political corruption on Nigeria's economy were incredible. Abacha's regime managed to leave Nigeria with a deficit of 9% of GDP (up from 2.8% in 1990)¹⁴², unbridled waste and corruption, and a crumbling economic infrastructure. The economy was in real trouble, and Obasanjo was faced with dealing with high inflation, suffering agriculture and manufacturing sectors, high unemployment and underemployment, and the petroleum industry's crumbling infrastructure. At the start of his second presidential term (2003), Obasanjo's prized economic team (headed by Dr. Ngozi Iweala-Okonjo – formerly with the World Bank) NEEDS program, which targeted the major economic problems for Nigeria during Obasanjo's presidency. Its goals were to: boost the GDP growth to 5% (from 3%), establish

¹⁴¹ World Bank Group internet article.

¹⁴² Nationsencyclopedia.com, "Nigeria Public Finance"

stable interest rates, reform the public services, reduce unemployment, manage the massive foreign debt, privatize state managed operations, and deregulate the petroleum industry.¹⁴³

Obasanjo's economic team saw success in its macroeconomic policy. GDP grew from \$46 billion in 2000 to \$115.3 billion in 2006. Inflation as a share of GDP dropped from 38.2% in 2000 to 7.9% in 2006.¹⁴⁴ In 2003 the deficit was 3.5% of GDP, and by 2005 economic reforms transformed this deficit into an 11% surplus. In Obasanjo's last term, the foreign reserves increased from \$7.5 billion (2003) to \$38 billion (2006).¹⁴⁵ In 2006, the U.S. Treasury forgave \$18 billion of Nigeria's debt, as part of an international campaign to forgive debt to heavily indebted countries. During the last years of Obasanjo's regime, oil revenues soared to \$223 billion in (over two and a half times what was earned from oil revenues during the previous eight years.)¹⁴⁶

However, the persistently high levels of unemployment signaled a troubled economic policy environment. According to the speculations of the National Association of Chambers of Commerce in Industry, Mines and Agriculture (NACCIMA), unemployment in Nigeria was as high as 70% in August 2003.¹⁴⁷ As much as 60% of northern college graduates were unable to find employment – a trend that resulted in higher crime rates.¹⁴⁸ This trend was widespread across all regions in Nigeria. Basic living conditions continued to be poor during Obasanjo's regime; high unemployment, rising petrol and food costs, scarcity of clean water, declining

¹⁴³ AllAfrica.com article, p.

¹⁴⁴ WorldBank.org: Nigeria Data Profile, April 2007. Found at: <http://devdata.worldbank.org/>

¹⁴⁵ OECD Independent Evaluation Group, "Nigeria: Country Assistance Evaluation" (2007), p.3

¹⁴⁶ Foreign Affairs article, "Nigeria's Rigged Democracy", p.2

¹⁴⁷ It should be noted that when this statistic was mentioned to Obasanjo, he denied that this high of an unemployment rate was possible at the time. AllAfrica.com article, "Nigeria: Economic Reform on Course, Says Obasanjo", September 29 2003

¹⁴⁸ Foreign Affairs article, "Nigeria's Rigged Democracy", p.2

quality of public services, and electricity shortages all combined to make life more difficult for most Nigerians. The oil production infrastructure also suffered during this period - especially because of the violence in the Niger Delta region. Destruction to pipelines and refineries, increases in petroleum theft, and kidnappings of foreign workers all impacted oil exports and foreign investment.¹⁴⁹

The resulting economic policy environment of Obasanjo's regime is one that showed improvements in some aspects but continued insufficiencies in others. Macroeconomic policy changes led to a higher GDP growth rate, increases in privatization, lower inflation, and lower rates of corruption. High unemployment, declining quality of the agriculture and manufacturing sectors (due to inadequate re-investment) and the suffering petroleum infrastructure (due to violence) all served to hurt the economic policy environment. Since the Obasanjo regime enacted reforms aimed at improving the economic policy environment, it is possible to say that, while falling short of complete success, Nigeria's economic policy environment did improve on the previous regime's policies.

Foreign Aid to Nigeria 1998-2006

Major foreign aid organizations (like the World Bank and OECD) were impressed with the Obasanjo reforms. The OECD's 2007 "Africa's Economic Outlook" paper wrote that "Nigeria continues to make progress on its far-reaching economic reform program, NEEDS, and achieving the Millennium Development Goals (MDGs).....Progress has also been made in the areas of financial-sector reform, debt management, foreign reserves accumulation, exchange rate

¹⁴⁹ BBC article, "Obasanjo's Legacy to Nigeria"

stability and the fight against corruption.”¹⁵⁰ Nigeria’s 2006 CAE (Country Assistance Evaluation), which looked at the success of Nigeria’s economic and governance reforms and the World Bank’s assistance to Nigeria, cited that “a major increase in Bank support accompanied the restoration of democracy and improved economic development.”¹⁵¹ Clearly, donors viewed Nigeria’s governance and economic policy environment as changing for the better.

The period of General Abacha’s rule was one of low levels of foreign aid and developmental assistance to Nigeria due to the governance and economic policy environments under military rule. This directly affected the early years covered in this study. During Obasanjo’s first term, total ODA stayed relatively low by African standards.¹⁵² Many international donors steered away from sending money to Nigeria because of the record of the poor quality of governance and economic policy - exemplified in the extremely high levels of corruption in the government and severely poor industry infrastructure. For example, the World Bank only began lending again to Nigeria in (fiscal year) FY2000, and did not have a Country Office in Nigeria until 2002.¹⁵³ Establishing a Country Office at this time allowed the World Bank to work closely with the Economic Reform Team in the government, thus greatly influencing subsequent reforms.¹⁵⁴

Obasanjo’s second term (2003-2007) saw major increases in foreign aid, reflecting the perceived success of his administration’s reforms. In just one year (2004/05), ODA shot up from \$578 million to \$6416 million, making Nigeria Sub-Saharan Africa’s largest recipient in 2005. In

¹⁵⁰ AfDB/OECD Nigeria Outlook (2007), p.441

¹⁵¹ CAE, p.5

¹⁵² OECD statistics: Between 1999 and 2003, ODA averaged at \$274 million annually.

¹⁵³ CAE 2007, p.5: Nigeria was until then the largest borrowing member country that did not have a Country Office.

¹⁵⁴ Ibid, p.5

2006, ODA reached as high as \$11434 million.¹⁵⁵ The increase in foreign aid was aimed at supporting and implementing the new reform programs of the administration, especially the NEEDS and SEEDS programs. The World Bank (in conjunction with the DFID (UK's Department for International Development) and often working with USAID, UNDP, the EU and the African Development Bank) focused lending in the areas covered by the NEEDS three major objectives: improving social services, fostering economic growth (especially in the agriculture, manufacturing and non-oil sectors), and improving the effectiveness and efficiency of governance.¹⁵⁶

Conclusion– Foreign Aid and Corruption in Nigeria

This final section uses bar charts to show the progression of foreign aid and corruption in Nigeria from 1998-2006. I ask the question: did the rise in foreign aid parallel a decrease in political corruption in Nigeria, and thus result in improving policy and governance environments? Figure 4 charts Nigeria's CPI scores from 1998 to 2006, and Graph 5 charts Nigeria's receipt of ODA from 1998 to 2006.

According to Figure 4, there was actually a decline in CPI during Obasanjo's first term (showing a rise in perceptions of corruption), with an upturn in 2002. The high CPI score in 2002 was followed by a slight decline in 2003 – probably due to national and international perceptions of political corruption surrounding the elections. In Obasanjo's second term, there was a gradual rise in CPI ratings, reflecting the success of his administration's crackdown on corruption. One major motivator of this crackdown was the creation of the EFCC and the Independent Corrupt Practices Commission (ICPC), which prosecuted high-level politicians and recovered billions of

¹⁵⁵ OECD statistics

¹⁵⁶ CAE, p.6

stolen dollars during Obasanjo's second term.¹⁵⁷ Another anticorruption act by the government came in 2003, when Nigeria was one of the first countries to adopt the Extractive Industries Transparency Initiative (EITI) to help improve governance of the oil and gas sector. By the end of his presidency in 2007, Obasanjo's government had brought perceived corruption down to its lowest levels during the study.¹⁵⁸

The levels of foreign aid shown in Graph 5 illustrate a positive relationship with the CPI ratings in Figure 4 (and therefore, a negative relationship between foreign aid and corruption). If we look closely at the 2002 – 2004 time segment, a rise in foreign aid actually *precedes* a rise in CPI levels. In 2003, corruption was perceived to have risen (with the CPI falling from 1.6 to 1.4) slightly, but Nigeria received more ODA in 2003 than in the previous year (from \$294 million to \$308 million). This means that foreign aid was increased while perceptions of corruption in Nigeria were worsening – thus, if the consensus is correct, corruption should have continued worsening or stayed at the same level (since aid given to countries to worsening policy environments does not serve to improve conditions) in the following years. However, after 2003, perceptions of corruption in Nigeria continued to improve, and this paralleled further increases in foreign aid. The increases in foreign aid between 1998 and 2006 do appear to be correlated with improvements in the Nigerian government's fiscal success, as well as relative improvements in public services, human development, and unemployment.

The fact that Obasanjo's administration was reform-minded and embraced the advice of donors (especially that of the World Bank) can serve to support Burnside and Dollar's finding

¹⁵⁷ Nigeria: Country Assistance Evaluation, p.4 Assets worth over \$5 billion have been seized, confiscated and refunded to the state.

¹⁵⁸ Transparency International: The 1996 CPI was .69. The 2007 CPI was 2.2. Found at <http://www.transparency.org>

that “countries with good policies and significant amounts of aid...perform very well.”¹⁵⁹ While Nigeria did not complete its transformation into a good policy environment during this time period, it was well on its way – at least, according to major donors. The fact that there was a trend of improvements in fighting corruption towards the end of Obasanjo’s presidency, paralleled with a tremendous rise in foreign aid, can also support the argument that foreign aid can encourage a government to pursue corruption-fighting measures and improve governance and economic policy. If one looks at the example of Nigeria under Obasanjo, it appears that increases in foreign aid paralleled a decline in perceptions of political corruption – even in one of the most corrupt countries in the world.

¹⁵⁹ Burnside and Dollar (2000), p.848

CHAPTER 6 – CONCLUSION

Review of Findings

High levels of political corruption are detrimental to growth and stabilization in developing countries because it is an impediment to good governance and good economic policies. Research on aid effectiveness has shown that foreign aid given to countries with poor governance and poor economic policy environments does not aid growth and development, and may actually do the reverse. Improving foreign aid effectiveness is crucial to developing the Third World, and this study contributes to these efforts by examining perhaps the biggest inhibitor to development and foreign aid effectiveness - corruption. A focused study of foreign aid and corruption in Sub-Saharan Africa is badly needed at this time, as the major donors of the world are increasing foreign aid to beat extreme poverty and underdevelopment in this poverty-stricken region.¹⁶⁰

This paper has taken two approaches to studying the effects of foreign aid on perceptions of corruption in Sub-Saharan Africa. The quantitative approach used statistical analysis of fourteen countries to test the effects of certain variables on perceptions of political corruption. To investigate the relationship between foreign aid and perceptions of corruption, two models were created using variables based on previous statistical research, and, in doing so, has expanded on the body of knowledge already existing on the nature of corruption and foreign aid effectiveness. The Transparency International Corruption Perception Index provided annual ratings on corruption, and these served as the dependent variable. The independent variable was foreign aid, measured by the OECD's statistic for net Official Development Assistance. It was hypothesized

¹⁶⁰ The Millenium Challenge Goals include eliminating extreme poverty by 2010.

that countries with higher levels of ODA would be more likely to have higher levels of perceived corruption (a lower CPI). Multiple regression analyses controlled for a number of variables that previous research showed to be influential on corruption: ethnic-linguistic fractionalization, population size, political rights, government expenditures as a share of GDP, and natural deposits of energy resources (oil, coal and gas).

Simple bivariate correlations supported the hypothesis: ODA did have a negative effect on the CPI, thus showing a positive relationship between foreign aid and perceived corruption. However, regression analysis showed that the relationship between foreign aid and perceived corruption was not as strong as the hypothesis proposed. The first model used the 1998-2006 averages for the variables, and was intended to show the relationship of foreign aid and perceptions of corruption over time. While significant, foreign aid had only a slightly negative effect on perceptions of corruption over the nine year period. The second model focused on the effect that foreign aid had on perceptions of corruption over one year (2002-2003), and the results pointed to the ineffectiveness of foreign aid to affect corruption in the short term. The variable with the strongest correlation with perceptions of corruption was political rights; both the regression models pointed to political rights as having the strongest influence on corruption.

The qualitative approach was a case study of Nigeria during Olusegun Obasanjo's eight years as president. This case study used the tenets of the theoretical consensus that foreign aid given to a highly corrupt country only serves to perpetuate corruption. In Chapter 5, Nigeria's governance and economic policy environments were analyzed based on the success and progression of reforms from 1999 to 2007. The Obasanjo administration's policies towards corruption resulted in improvements in perceptions of political corruption, and foreign aid was

dramatically increased as a result. These findings can be used to both support and counter the theoretical consensus: on the supporting side, Nigeria was clearly embracing reforms aimed at improving governance and economic policy before foreign aid was increased; on the opposing side, Nigeria received massive increases in foreign aid before perceptions of corruption improved – and therefore it is possible that foreign aid actually aided in fighting political corruption in Nigeria. Either way, in Nigeria’s case, increases in foreign aid did not result in increased perceived corruption.

Increasing Foreign Aid in Corrupt Countries

It may appear that the statistical analysis of the fourteen Sub-Saharan African countries does not explain the happenings in Nigeria. On average, the countries that received more foreign aid were more likely to have higher perceptions of corruption. However, as Nigeria’s foreign aid increased, perceptions of its political corruption decreased. If anything, this shows that donors were aware of Nigeria’s changing policy environment, and of the effective anti-corruption reforms Obasanjo’s regime were enacting. Because it was already reform-minded, the conditions attached to the increasing foreign aid were more likely to be met by Nigeria’s government. This paper’s study of Sub-Saharan Africa as a region, and of one of its countries in particular, is useful because it shows that the effectiveness of foreign aid is determined by a close look at the existing policy environment. On the surface, Nigeria’s persistently poor CPI ratings have labeled it as highly corrupt, and that alone would support arguments against raising foreign aid to this country. In the BBC article “Why Aid Doesn’t Work”, Fredrik Erixon argues that “if nothing else, aid to Africa seems to have lowered rather than increased economic growth..... The tragedy of aid, as been shown in numerous evaluations and by World Bank research, is that donors are

part of the problem of corruption; aid often underpins corruption, and higher aid levels tend to erode the governance structure of poor countries.”¹⁶¹ In 1999, a paper from the U.S. House of Representative’s Joint Economic Committee Study’s Vice Chairman Jim Saxton suggested that, “minimizing IMF lending is one obvious way to prevent IMF assistance from promoting corruption”.¹⁶² In the CATO HANDBOOK FOR CONGRESS: POLICY RECOMMENDATIONS FOR THE 107TH CONGRESS (2001), suggestions like “abolish the U.S Agency for International Development and end traditional government-to-government aid programs” and “stop using foreign aid to encourage or reward market reforms” were made to the U.S. Congress.¹⁶³ These arguments overlook the cases like Nigeria, where foreign aid has assisted in the fight against corruption.

Overall, this study’s findings are congruent with the consensus that reform-minded governments are much more likely to use foreign aid effectively. Even though perceptions of corruption in Nigeria remain high, and the governance and economic policy environments have far to go before they can be considered “good”, increases in foreign aid have paralleled improvements. It does appear that the argument that policy reform, not foreign aid, is the key to development gains support by this study’s findings. Drawing from the strongly negative relationship between political rights and corruption, political and economic reforms are central to the fight against corruption. Foreign aid can be highly successful when it is directed at Sub-Saharan African countries who are concentrating on reforming governance and economic policy, even if they are still far from achieving it.

¹⁶¹ Erixon, Fredrik, “Why Aid Doesn’t Work”, BBC News, 11 September 2005. Found at: <http://news.bbc.co.uk>

¹⁶² Saxton, Jim, “Can IMF Lending Promote Corruption?”, December 1999, found at: <http://www.house.gov/jec/imf/corrupt.htm>

¹⁶³ “[Foreign Aid and Economic Development](#),” Chapter 64, CATO HANDBOOK FOR CONGRESS: POLICY RECOMMENDATIONS FOR THE 107TH CONGRESS (2001).

On Foreign Aid Policy

Since this study's findings lend credence to the consensus, it should come as no surprise that they reflect the current trend in actual lending policy. The former trend of giving aid more for geopolitical purposes than for supporting countries invested in positive change has been largely redirected as a result of the widespread acceptance of the need for targeting aid at countries with improving governance and economic environments.¹⁶⁴ A 2004 IMF study found that the drive for better aid effectiveness has led donors to increase their selectivity in giving aid; and the results have shown a difference in aid effectiveness: donors are directing aid to governments with better civil liberties and political rights, recognizing a need to improve aid quality ("by reducing the number of agencies involved in disbursing aid, harmonizing aid procedures to reduce compliance costs for the recipients, eliminating tied aid, and aligning aid priorities with the countries' own policy priorities"), and recipients are improving their public resource management.¹⁶⁵ These results reflect a hopeful trend in improving aid effectiveness in development of countries in need.

In conclusion, this study points to the need for donors to devote great attention and research into recipients' commitment to reform. Often, this means working intimately with experts and communities within recipient countries. Foreign aid must be targeted at the reform needs of each country in order to be effective in meeting the development needs of the country – and also to prevent the waste of resources aid can provide, through supporting poor, destructive policy environments. The success of Nigeria's anti-corruption measures and economic reforms

¹⁶⁴ Mark Sundberg and David Gel, "Making Aid Work", and IMF paper found at: <http://www.imf.org/external/pubs/ft/fandd/2006/12/sundberg.htm>. The authors write that both bilateral and multilateral aid demonstrate weak policy selectivity from 1977 -1991: aid was allocated with little weight placed on management and governance capacity. Poverty selectivity was also very low and even perverse for bilateral donors—that is to say, higher levels of poverty did not drive larger aid allocations.

¹⁶⁵ Ibid

resulted in foreign aid increases, and the foreign aid increases lent resources to support the continuation of such reforms. Sub-Saharan African countries are in need of well-targeted aid that helps to support reform; and the populations of these countries need foreign aid to be directed at improving their welfare. Foreign aid has supported non reform-minded governments in the past (often autocratic, suppressive regimes), and must now be targeted at those governments committed to building good governance and economic policies that lead to development of the country as a whole.¹⁶⁶ This, in short, will allow the flow of aid to be an infusion of greatly needed resources – instead of a crutch for inefficiency.

¹⁶⁶ Ibid – the authors write that “Aid has often been criticized for flowing to dictators and corrupt regimes with little interest in national development. And there is evidence that, during the cold war, aid was often provided for geopolitical reasons and sometimes even favored regimes with weak civil liberties and political rights.”

APPENDIX: FIGURES AND TABLES

FIGURES

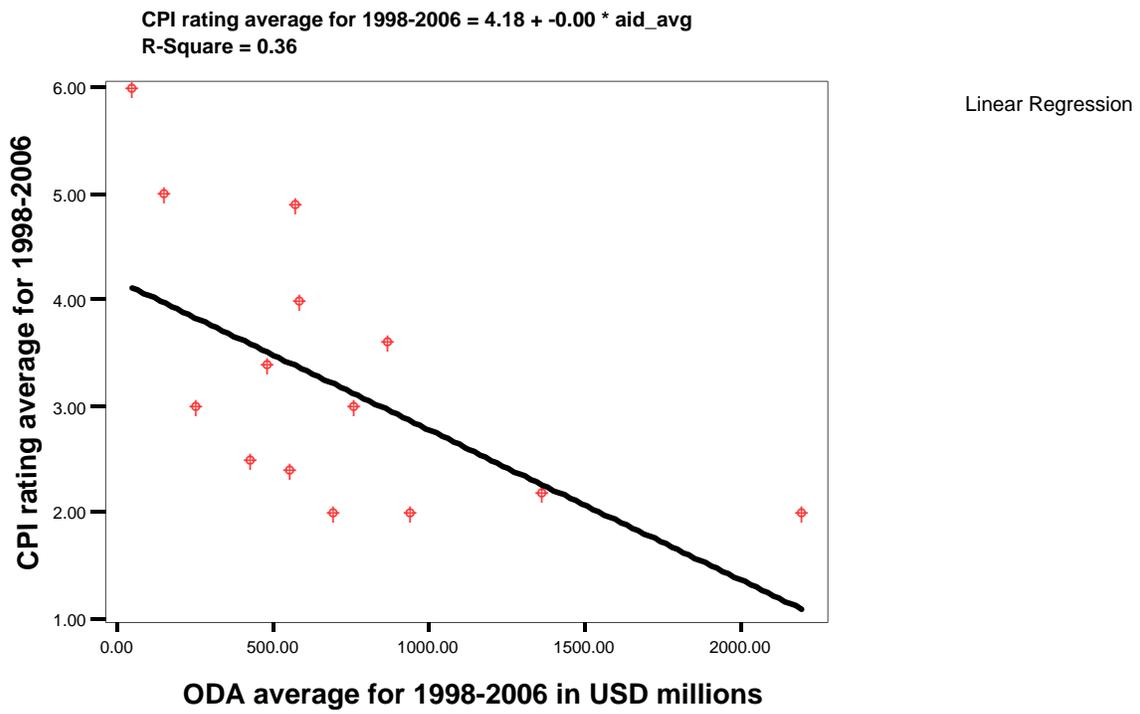


Figure 1: Scatterplot of CPI and Foreign Aid

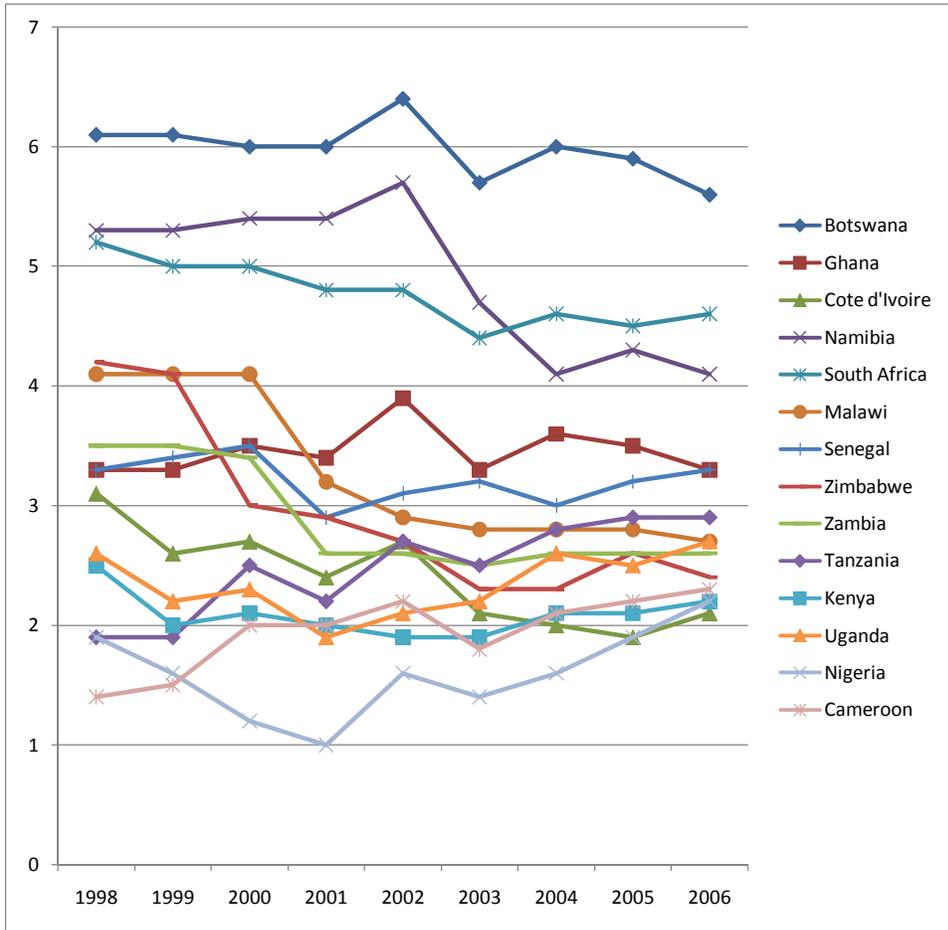


Figure 2: CPI Variance

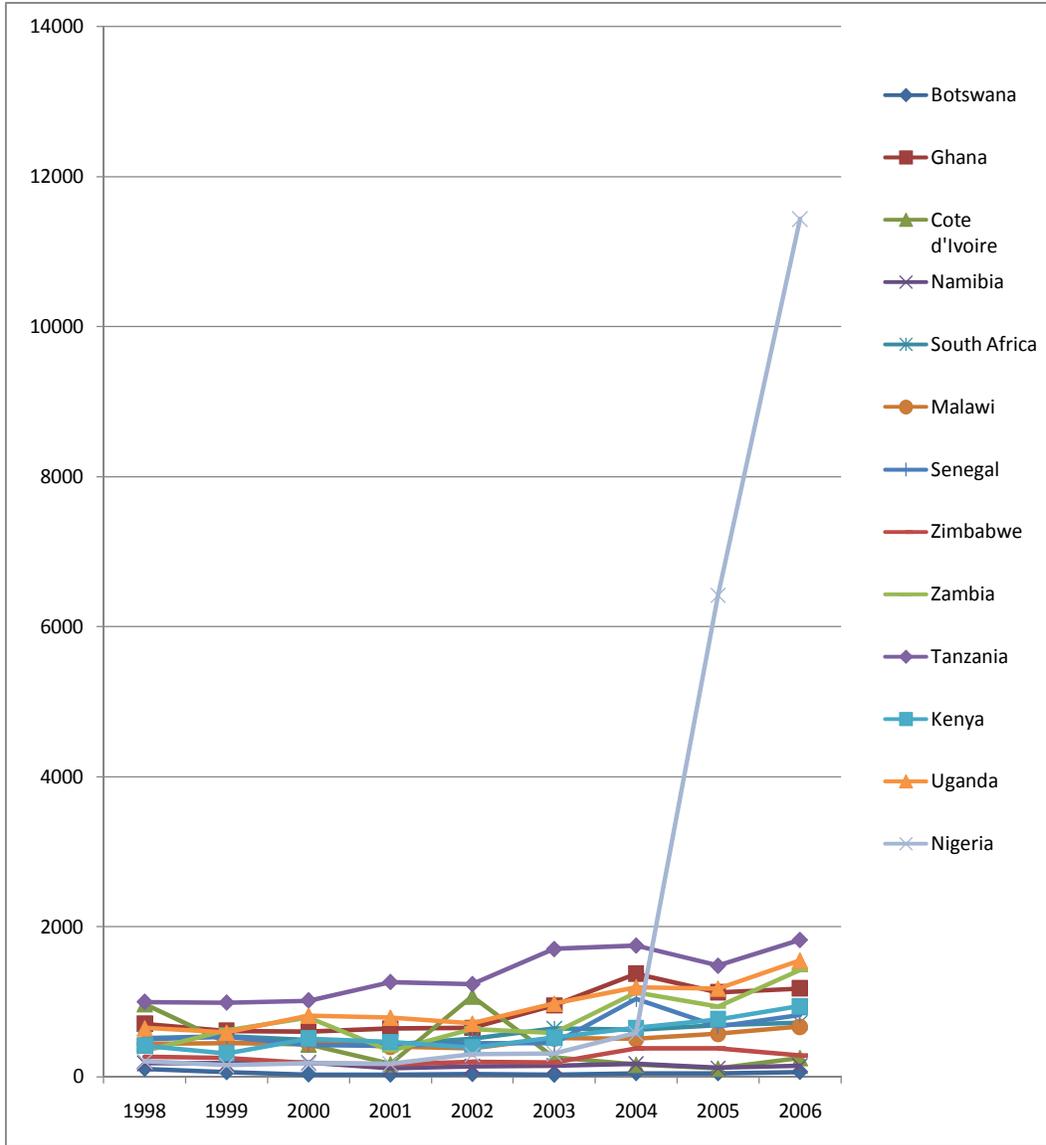


Figure 3: Foreign Aid Variance: ODA in USD Millions from 1998 to 2006

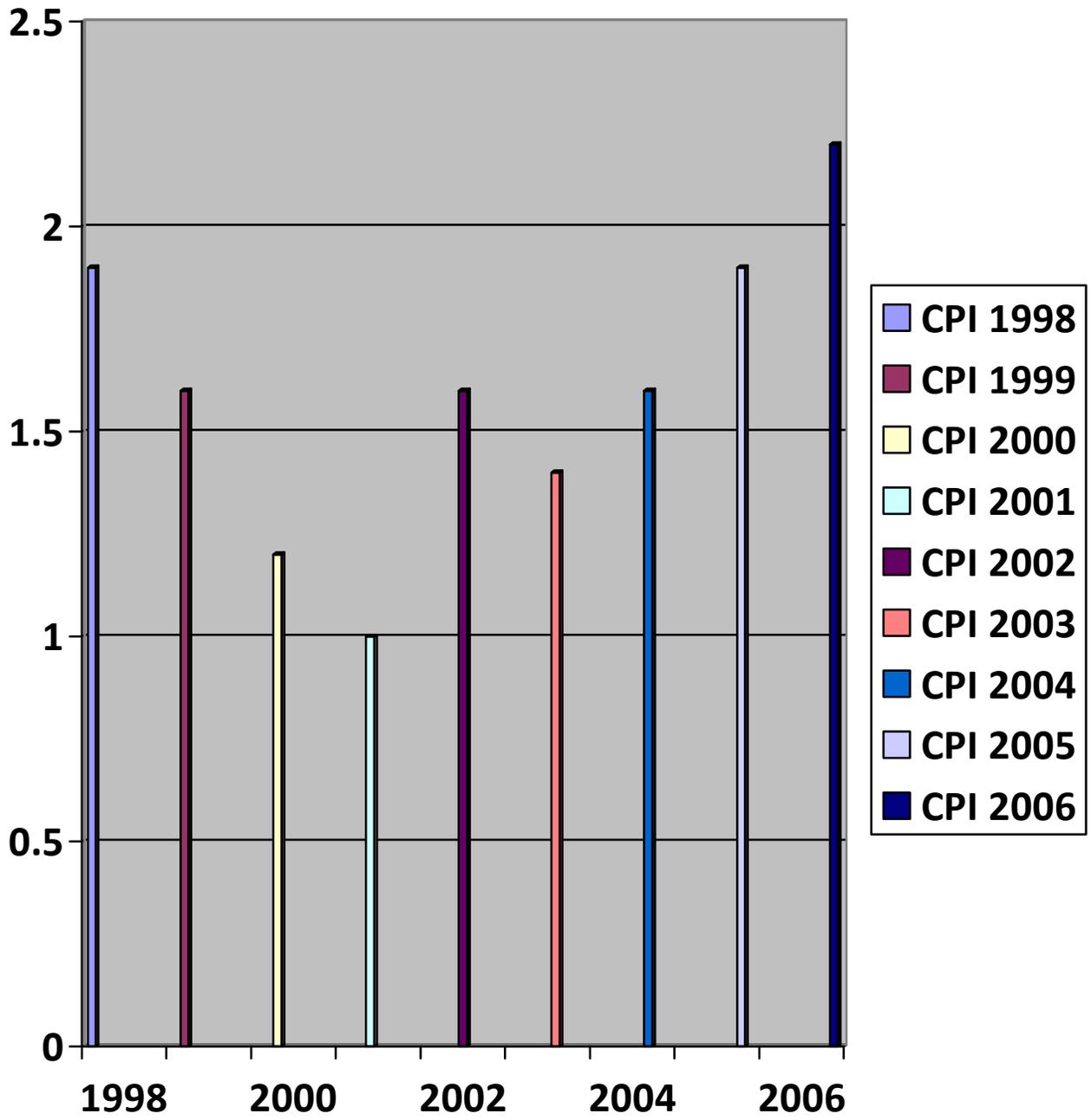


Figure 4: Nigeria: Corruption 1998-2006

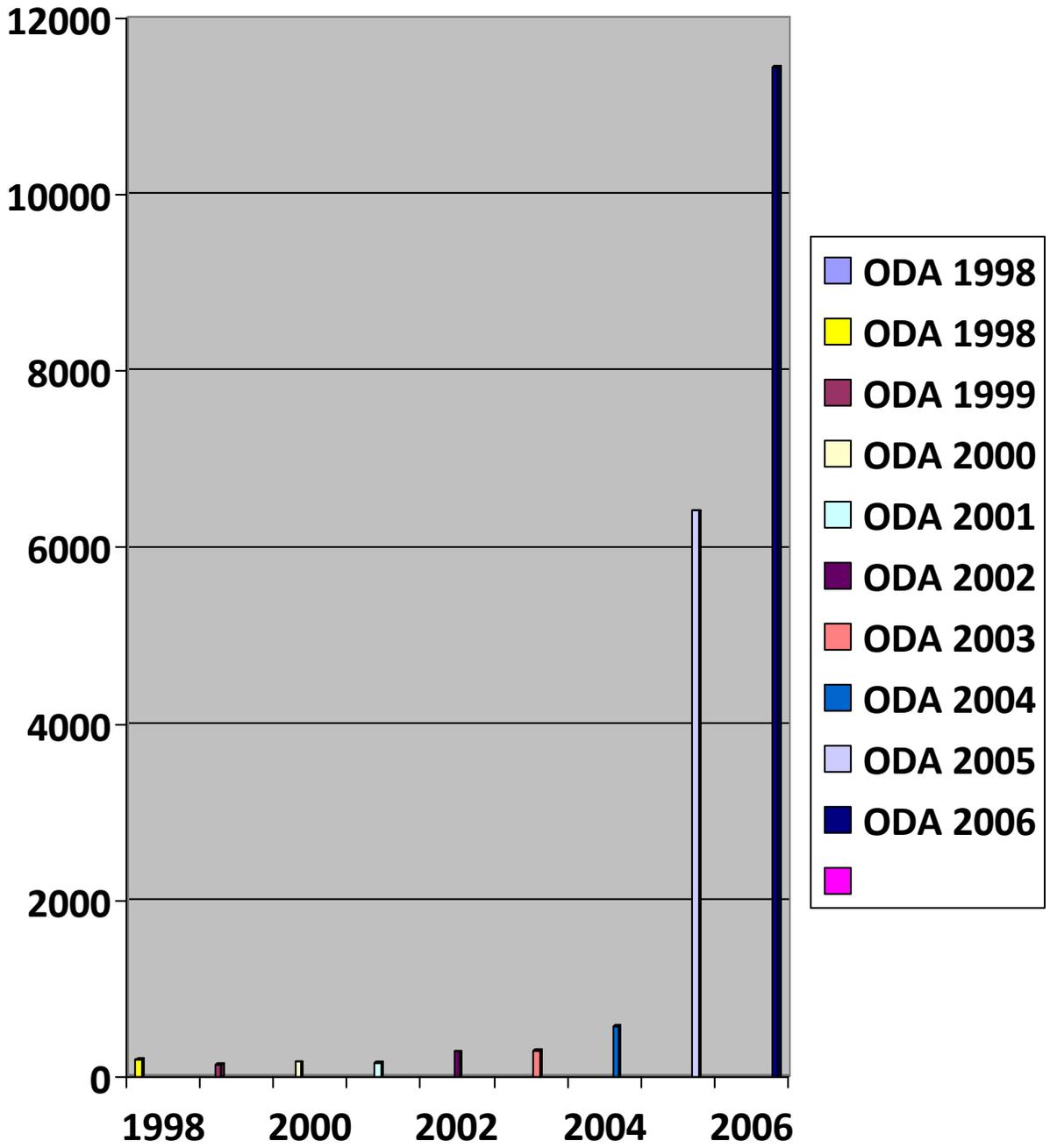


Figure 5: Nigeria's Foreign Aid Variance 1998 – 2006

TABLES

Table 1: Bivariate Correlations

		CPI rating average for 1998-2006	Country's ethnic fractionalization	Country's 2006 population size in millions	Political Rights rating average for 1998-2006	Government expenditures as a percentage of GDP average for 1996-2006	Country has natural resource deposits of natural gas, oil or coal	GDP average for 1998-2006 in USD Billions	Average ODA for 1998-2006
CPI rating average for 1998-2006	Pearson Correlation	1.000	-.604*	-.402	-.817**	-.036	.065	.222	-.625**
	Sig. (1-tailed)		.011	.077	.000	.451	.413	.222	.008
	N	14.000	14	14	14	14	14	14	14
Country's ethnic fractionalization	Pearson Correlation	-.604*	1.000	.352	.230	-.096	-.213	.203	.495*
	Sig. (1-tailed)	.011		.108	.214	.372	.233	.244	.036
	N	14	14.000	14	14	14	14	14	14
Country's 2006 population size in millions	Pearson Correlation	-.402	.352	1.000	.074	.744**	.103	.464*	.880**
	Sig. (1-tailed)	.077	.108		.401	.001	.363	.047	.000
	N	14	14	14.000	14	14	14	14	14
Political Rights rating average for 1998-2006	Pearson Correlation	-.817**	.230	.074	1.000	-.025	-.024	-.405	.223
	Sig. (1-tailed)	.000	.214	.401		.466	.467	.075	.222
	N	14	14	14	14.000	14	14	14	14
Government expenditures as a percentage of GDP average for 1996-2006	Pearson Correlation	-.036	-.096	.744**	-.025	1.000	.063	.271	.567*
	Sig. (1-tailed)	.451	.372	.001	.466		.415	.174	.017
	N	14	14	14	14.000	14	14	14	N

		CPI rating average for 1998-2006	Country's ethnic fractionalization	Country's 2006 population size in millions	Political Rights rating average for 1998-2006	Government expenditures as a percentage of GDP average for 1996-2006	Country has natural resource deposits of natural gas, oil or coal	GDP average for 1998-2006 in USD Billions	Average ODA for 1998-2006
Country has natural resource deposits of natural gas, oil or coal	Pearson Correlation	.065	-.213	.103	-.024	.063	1.000	.181	.141
	Sig. (1-tailed)	.413	.233	.363	.467	.415		.268	.315
	N	14	14	14	14	14	14.000	14	14
GDP average for 1998-2006 in USD Billions	Pearson Correlation	.222	.203	.464*	-.405	.271	.181	1.000	.212
	Sig. (1-tailed)	.222	.244	.047	.075	.174	.268		.233
	N	14	14	14	14	14	14	14.000	14
Average ODA for 1998-2006	Pearson Correlation	-.625**	.495*	.880**	.223	.567*	.141	.212	1.000
	Sig. (1-tailed)	.008	.036	.000	.222	.017	.315	.233	
	N	14	14	14	14	14	14	14	14.000
*. Correlation is significant at the 0.05 level (1-tailed).									
**. Correlation is significant at the 0.01 level (1-tailed).									

Table 2: Summary of Pearson's Correlation with Corruption

	Pearson R	Significance (One-Tailed)	N
2006 Population	-.402	.077	14
Oil, Gas, Coal Deposits	.065	.413	14
GDP average (1996-2006)	.222	.222	14
Government expenditures/GDP (average 1996-2006)	-.036	.451	14
ODA average (1996-2006)	-.602*	.011	14
Political Rights average	-.817**	.000	14
Ethnic Fractionalization	-.604*	.011	14

*Significant at the .05 level (one-tailed)

** Significant at the .01 level (one-tailed)

Table 3: Regression Model 1

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.982 ^a	.964	.933	.3316

a. Predictors: (Constant), Country's 2006 population size in millions, Political Rights rating average for 1998-2006, Country has natural resource deposits of natural gas, oil or coal, Country's ethnic fractionalization, Government expenditures as a percentage of GDP average for 1996-2006, Average ODA in USD millions for 1998-2006

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.060	.947		6.398	.000
	Average ODA in USD millions for 1998-2006	-.001	.000	-.560	-3.126	.017
	Country has natural resource deposits of natural gas, oil or coal	.260	.238	.087	1.092	.311
	Government expenditures as a percentage of GDP average for 1996-2006	.031	.016	.263	1.953	.092
	Political Rights rating average for 1998-2006	-.478	.056	-.653	-8.481	.000
	Country's ethnic fractionalization	-1.115	.964	-.125	-1.157	.285
	Country's 2006 population size in millions	.000	.007	-.020	-.101	.922

a. Dependent Variable: CPI rating average for 1998-2006

Table 4: Regression Model 2

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.954 ^a	.910	.833	.5043

a. Predictors: (Constant), Population 2002, Political Rights rating in 2002, Country has natural resource deposits of natural gas, oil or coal, ODA received in 2002, Country's ethnic fractionalization, GDP in billions for 2002

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.578	1.275		5.943	.001
	ODA received in 2002	.000	.001	-.049	-.276	.790
	Political Rights rating in 2002	-.532	.094	-.755	-5.631	.001
	Country has natural resource deposits of natural gas, oil or coal	-.533	.403	-.183	-1.320	.228
	Country's ethnic fractionalization	-2.124	1.616	-.247	-1.314	.230
	GDP in billions for 2002	.001	.009	.034	.152	.884
	Population 2002	-.013	.009	-.337	-1.505	.176
a. Dependent Variable: CPI rating for 2003						

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