

IMPACT OF FOREIGN AID ON CORRUPTION IN SUB-SAHARAN AFRICA

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A project report submitted to the

FACULTY OF SCIENCE AND HUMANITIES

In partial fulfillment of the requirement for the award of the degree of

MASTER OF SCIENCE

IN

ECONOMICS



MADRAS SCHOOL OF ECONOMICS

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MAY 2010

Abstract

Critics of development programmes involving foreign aid have often blamed the high degree of corruption in recipient countries as a major factor behind the ineffectiveness of aid. This paper seeks to analyse the relationship between foreign aid, in the form of official development assistance, and corruption in twenty two countries of Sub-Saharan Africa which account for over 60 per cent of total aid to the region. After controlling for several determinants of corruption and using the generalised instrumental variable estimation (two stage least squares) procedure to control for endogeneity between variables, the study concludes that foreign aid has not increased corruption in the region. It also finds that irrespective of the legal system of the country and the level of economic development, other factors including the number of ethnic groups in society and political rights of the people are more important in explaining corruption.

Key words: Development, Foreign Aid, Corruption, Sub-Saharan Africa, Instrumental Variable, Two Stage Least Squares