Foreign Aid and Poverty Reduction in Sub-Saharan Africa: A Cross-Country Investigation

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Abstract

The continuous increase in the rate of poverty in Sub-Saharan Africa can be linked to the inadequate management and use of international financial assistance such as foreign aid. Using a cross-country data, this paper examines the relationship between foreign aid and poverty reduction in Sub-Saharan Africa (SSA). The result obtained indicates that foreign aid has no significant influence on poverty reduction in SSA, because of the countries' weak economic management evidenced by high levels of corruption, bad governance, and political and economic instability. To improve the performance of foreign aid directed at poverty reduction, the paper suggests the implementation of measures directed at good governance, macroeconomic and political stability.

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1 Introduction

Reducing poverty in SSA has become a great concern to most governments, international organizations and people of this region given its consequences to their well-being. As a way of reducing poverty, different strategies (both domestic and international) have been applied at one time or another (see Narayan, *et al.* 2000a, 2000b).

One of the international strategies that have appeared more prominent in recent times is foreign aid which if properly used would spur economic growth and reduce poverty. As Killick (1991) puts it "aid that comes in a form of technical co-operation would affect the quality of a nation's labour force through the provision of training and imported skills which is essentially for economic growth and poverty reduction, if an enabling environment is allowed to exist".

But recent studies on the impact of foreign aid seem to provide a contrary view. Some of the factors deduced as the reasons for this include the presence of weak economic management evidenced by high levels of corruption, closed trade regimes and macro-economic instability thus making aid resources fungible. In turn, this has discouraged the flow of foreign aid to most less developed countries (see Burnside & Dollar 1997a, 1998; Collier & Dollar 1999).

The main thrust of this paper therefore, is to authenticate these facts using cross-country data and a regression analysis to examine the influence of foreign aid on poverty reduction in SSA.

In the next section, a conceptual and empirical overview of poverty and the consequences of foreign aid are examined. Section three provides the data source and the methodology used in determining the influence of foreign aid on poverty reduction in SSA. Section four provides the results, and the last section contains the conclusion and recommendations.

2
Conceptual issues: Poverty and foreign aid

2.1 Poverty

2.1.1 Definition and measurement

According to Friedman (1996), to be poor is defined as a form of disempowerment along three dimensions: social, political and psychological. Social disempowerment refers to poor people's relative lack of access to resources essential for the self-production of their livelihood; political empowerment refers to poor people's lack of a clear political agenda and voice; and psychological empowerment refers to poor people's internalised sense of worthlessness and passive submission to authority.

Rao (1981) also defines poverty in relation to: (i) purchasing power of the population that is below a monetary poverty line; (ii) calories intake that is 2500 calories per head per day or below; and (iii) health conditions, educational attainment and housing conditions that are low.

Kankwenda, *et al.* (2000) perceive poverty as either absolute or relative or both. Absolute poverty being that which could be applied at all time in all societies, such as the level of income necessary for bare subsistence, whilst relative poverty relates to the living standards of the poor to the standards that prevail elsewhere in the society in which they live.

Related to the definition and classification of poverty is the measurement of poverty. According to Foster, *et al.* (1984) the most frequently used measurements are: (i) the head-count poverty index given by the percentage of the population that lives in the household with a consumption per capita less than the poverty line; (ii) poverty gap index which reflects the depth of poverty by taking into account how far the average poor person's income is from the poverty line; and (iii) the distributionally sensitive measure of squared poverty gap defined as the mean of the squared proportionate poverty gap that reflects the severity of poverty (See also Ferreira, 1996; Grootaert & Braithwaite, 1998).

The importance of the measurement of poverty is to know who is poor, how many people are poor, and where the poor are located. Levy (1991) stresses that in measuring poverty two tasks have to be taken into consideration, namely (i) a poverty line that is set at $275 and $370 per person per annum for the extremely and moderate poor respectively; and (ii) the poverty level of individuals have to be aggregated. Further, in order to determine the poverty line, two methods are employed: (i) the use of nutritional intake which is set at 2500 calories per head per day; and (ii) the use a specific list of commodities considered essential for survival, such as food, housing, water, health care, education vis-à-vis income.

Recently, the use of income as a basis for determining the poverty line has lost much of its relevance since the method of calculation was not adapted to new economic trends resulting from high levels of inflation concurring with interest rate hikes and exchange rate devaluations. The use of consumption-expenditure is therefore advocated instead because it is usually better reported in household budget surveys (Aigbokan, 1997; Grootaert & Braithwaite, 1998; Kakwani & Subbarao, 1990 and Ravallion, 1996). Furthermore, there is an important theoretical consideration that expenditure reflects better long-term permanent income and life cycle consumption patterns because it is usually stable and devoid of short-term fluctuations like income. Moreover, if expenditure data is used for welfare analysis, it has the compelling advantage that the poverty line can be derived from the data itself and need not be adopted from other surveys.

Recent studies by the UNDP advocates the use of the Human Development Index (HDI) and Capability Poverty Measure (CPM). According to the UNDP (1997,1998), HDI combines three components in the measurement of poverty which include: life expectancy at birth (longevity); educational attainment; and improvements in the standard of living determined by per capita income. The first relates to survival, i.e. vulnerability to death at a relatively young age. The second relates to knowledge-being excluded from the world of reading and communication, and the third relates to a decent living standard in terms of overall economic provisioning. On the other hand, CPM focuses on the average state of peoples' capabilities by reflecting on the percentage of people who lack basic or essential human capabilities, which are means to an end needed to uplift income levels to reduce poverty and sustain strong human development.

2.1.2 The causes and consequences of poverty

According to the United Nations (1995) and the World Bank (1990), poverty has various manifestations that include lack of income and productive resources necessary to ensure a sustainable livelihood. Factors involved here are hunger and malnutrition; ill health; a lack of or limited access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate, unsafe and degraded environment and social discrimination and exclusion. It is also characterized by a lack of participation in decision-making in civil, social and cultural life. Women and children bear a disproportionate burden of poverty. Whereas older people, people with disabilities, indigenous people, refugees and internally displaced people are also particularly vulnerable to poverty. Poverty is also rapidly increasing in places where overall urbanization has posed some problems such as over-crowding, congestion, contamination of water, bad sanitation, unsafe shelter, crime and additional social problems. Poverty therefore, has different causes that can be more permanent in nature (e.g. limited resources; lack of skills) or transitory (e.g. calamities).

According to Yahie (1993) the causes of poverty include: (i) structural causes that are more permanent and depend on a host of (exogenous) factors, such as limited resources, lack of skills, locational disadvantage, and other factors that are inherent in the social and political set-up. The disabled, orphans, landless farmers, households headed by females fall into this category; and (ii) the transitional causes that are mainly due to structural adjustment reforms and changes in domestic economic policies that may result in price changes, increased unemployment and so on. Natural calamities such as drought, and man-made disasters, such as wars, environmental degradation and so on, also induce transitory poverty.

The main factors that cause poverty include: inadequate access to employment opportunities; inadequate physical assets, such as land and capital and minimal access by the poor to credit even on a small scale; inadequate access to the means of supporting rural development in poor regions; inadequate access to markets where the poor can sell goods and services; low endowment of human capital, destruction of natural resources leading to environmental degradation and reduced productivity; inadequate access to assistance for those living at the margin and those victimized by transitory poverty and lack of participation, i.e. the failure to draw the poor into the design of development programmes that affect their lives (Obadan, 1997).

The recent increase in poverty can be linked to macroeconomic distortions resulting from globalization and liberalization of various economies, which has exacerbated the economic stagnation experienced in a number of developing countries particularly in SSA, where over the past two decades growth of productive investment and employment has been negligible. More specifically, the Structural Adjustment Programme (SAP) implemented in many developing countries is given as one of the main causes of job losses and therefore increasing poverty. At the micro level, some people become poor because they have lost their source of livelihood or because their purchasing power has been reduced. In other cases, poverty is associated with a particular point in their family cycle; e.g. in the case of street children. For many, poverty is the result of a sudden shock: the loss of an adult family income earner; the confiscation of street traders' stock because they work informally, the loss of their house demolished because it was on illegal land or damaged by natural or human disaster, the high cost of an illness in the family. Furthermore civil war and the AIDS epidemic have generated considerable poverty (Vanderschueran, *et al.* 1996).

The loss of an income by the main breadwinner (normally men) has necessitates women to adapt within the family structure. Women, tend to swallow their pride and go out into the streets to do demeaning jobs, or in fact, to do anything it takes to put food on the table for their children and husbands. These changes often lead to alcoholism and domestic violence(Narayan, *et al.* 2000a).

Normally with mass poverty there tends to be a general loss of confidence in the constituted authority, thereby generating disrespect and rendering government policies ineffective; political apathy among contending forces; and social disillusion with respect to what the societal objectives are and peoples' responsibilities towards the attainment of these objectives (Aku, *et al*. 1997).

2.1.3 The trends of poverty in less developed countries and in Sub-Saharan Africa

Given some of the causes and consequences of poverty discussed above, the incidence of poverty in recent times seems rather alarming. Apart from the 1960s and the 1970s when major economic advances were witnessed the frontiers of poverty were pushed back and the income of even the poorest countries like Niger, Mali and Bangladesh rose. The 1980s witnessed some discrepancies in the development of these countries as economic growth deteriorated, which restricted individual well-being considerably. Between 1980 and 1990 the living standard of the people got worse, such that this decade was classified as the "lost decade". Within this period it was estimated that more than a billion people in the world live in abject poverty, most of whom are hungry everyday and with almost the same figure not having access to clean water for drinking, bathing and adequate sanitation. Child mortality in less developed countries is ten times higher than in developed countries, with 7 million people dying every year from preventable diseases. Poverty took on a new dimension with increasing inequality between the rich and the poor within these countries (World Bank, 1996).

In 1991, 49 per cent of the population in South Asia were poor. The figure was 48 per cent in SSA, 33 per cent in the Middle East and North Africa, 25 per cent in Latin America and the Caribbean and 11 per cent in East Asia (Courier, 1994). As indicated in Table 1, the rate of poverty in some countries like Ethiopia, Niger, Madagascar, Kenya and Zambia was 33.9 per cent, 61.5 per cent, 72.3 per cent, 50.2 per cent and 84.6 per cent, respectively.

Table 1

Estimated population and the rate of poverty in some countries in SSA (1997)

Country	Population	Population in poverty (million)	Percentage of population in poverty
Cote d'Ivoire	14.0	2.5	17.7
Ethiopia	56.4	19.1	33.9
Guinea	6.6	1.7	26.3
Guinea Bissau	1.1	0.9	87.0
Kenya	26.7	13.4	50.2
Lesotho	2.0	1.0	50.4
Madagascar	13.7	9.9	72.3
Mauritania	2.3	0.7	31.4
Niger	9.0	5.5	61.5
Nigeria	111.3	32.2	28.9
Rwanda	6.4	2.9	45.7
Senegal	8.5	4.6	54.0
Tanzania	29.6	4.9	16.4
Uganda	19.2	9.6	50.0
Zambia	9.0	7.6	84.6
Zimbabwe	11.0	4.5	41.0

Source: World Bank (1997) World Development Indicators. World Development Report 1997

2.2 Foreign aid: Definition, types and reasons for foreign aid

Foreign aid or Official Development Assistance (ODA) is a source of international financing of development (Jhingan, 1985). The World Bank (1993b, 1997) defines it as a transfer of resources, which comprises of either financial assistance (grants and concessional loans), food, medical and technical assistance given to a deserving country.

Generally, there are two types of foreign aid (bilateral and multilateral) that are given as an absolute grant or gift, or as soft loans with highly reduced interest rate and long grace of repayment periods, or as technical and military assistance, or for the provision of food for the hungry, emergency aid for victims of natural and man-made disasters, refugees, returnees and displaced persons throughout the world (Arnold, 1985).

In specific terms, bilateral aid is any form of aid which is agreed upon between one country and another. This type of aid is usually tired, that is, it is given with certain objectives and conditions which may include the purchase of certain machinery and equipment from the donor country and the price of which may be higher than world price; specific employment of personnel from the donor country and the recipient country being responsible for the local expenses of such personnel. In some cases the recipient countries may have to subscribe to certain ideological beliefs and orientations emanating from the donor country. This type of aid is normally provided by developed nations such as Britain and the USA (Thrilwall, 1982).

On the other hand, multilateral aid is provided by international world organizations to countries that are in dire need of assistance. This type of aid is given in an international framework in which donors and recipients alike participate. Such aid are channeled through world bodies like the International Bank for Reconstruction and Development (World Bank), the Organization for Economic Cooperation and Development (OECD) and the United Nations Development Programme (UNDP). In most cases this aid is in the form of humanitarian assistance - food, medical and technical assistance (Thrilwall, 1982).

According to Meire (1970), there are two basic approaches that determine whether a country needs foreign aid or not. These approaches are the "two-gap approach" and the "three phase approach" introduced by Chenery and Strout in 1966. The two-gap approach comprises of the saving gap and foreign exchange gap approach while the three-phase approach comprises the "saving and foreign exchange gap approaches" and the constraints on development arising from the "limit in absorptive capacity".

The saving gap approach is based on Harrod's steady economic growth model that emphasises investment which is determined by saving. Since domestic saving is not sufficient to meet the required investment (capital accumulation) in less developed countries, there is a need for foreign aid (see also Dollar & Easterly, 1998). In respect of the foreign exchange gap, the argument is that the problems of many less developed countries arise not as a result of their inability to save but from their inability to acquire foreign exchange through exports. Thus, foreign aid is viewed as not supplementing the saving gap but the foreign exchange gap, which arise because the supply of exports are not sufficient to meet the demand for imports.

According to Chenery and Strout (1966) cited in Meire (1970) the three phase approach is an attempt to specify the constraints on development arising from the two gap approach in quantitative terms. The limit in absorptive capacity is also specified, which include the ability to plan and execute development projects; the ability to change the structure of the economy; and the ability to reallocate resources that are circumscribed by the lack of crucial factors, institutional problems or unsuitable organizations (see also White & Luttick, 1994).

2.2.1 The trends of foreign aid in SSA.

The flow of foreign aid to some countries in SSA has over the years witnessed upswing and downswing situations. In the mid and late 1970s foreign aid flow to SSA witnessed an increase which could be linked to the spreading economic crisis in the region; the cold war competition which intensified given the establishment of socialist regimes in Angola and Ethiopia; and with the initiation of an aid programme by petroleum producing countries. The early 1980s also witnessed an increase in foreign aid to the region because of the continuing deterioration in economic conditions and with the severe drought in Ethiopia. By 1990, foreign aid to SSA began to decline because of the conversion of some socialist bloc countries from aid donors to aid recipients, together with rising concerns on the part of major donor governments with economic and fiscal problems of their own. (ADB, 2001; Burnside & Dollar, 1997b; Husain, 1994 and Lancaster, 1999). Table 2 clearly indicates the decline in the flow of foreign aid to some countries in SSA between the year 1990 and 1999. For instance, in 1990 the Demoractic Republic of Congo (former Zaire) and Ethiopia received close to $897.7 million and $1019.7 million respectively, but by 1999 the flow has dropped to $132.3 million and $633.4 million respectively.

Table 2
Net official development assistance from all sources to some countries in SSA (in $ million)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Angola	269.4	279.7	350.5	294.0	421.0	418.4	473.1	354.6	335.1	387.5
Botswana	148.5	136.0	113.7	133.5	89.0	92.3	74.5	121.5	106.3	60.8
Burundi	265.5	259.1	311.7	218.4	313.0	289.0	111.0	56.2	76.5	74.2
Cameroon	447.1	518.5	715.9	545.4	730.7	444.2	411.4	498.3	423.7	433.8
Cen.Afri. Rep.	251.0	174.7	177.8	173.3	166.4	167.6	166.9	91.0	119.9	117.2
Congo Dem.Rep	897.7	476.2	269.2	178.3	245.5	195.7	165.8	157.3	125.6	132.3
Cote'd Ivoire	689.3	632.7	757.8	765.1	1594.2	1212.5	954.3	445.8	798.5	446.9
Djibouti	194.6	108.3	113.1	133.9	129.2	106.3	96.8	85.4	80.9	75.0
Ethiopia	1019.7	1097.3	1182.1	1093.7	1074.5	887.9	817.3	571.5	647.7	633.4
Gambia	100.0	102.7	113.1	86.5	70.9	47.7	36.5	37.9	37.8	33.0
Ghana	563.5	882.1	812.9	618.2	546.4	653.3	649.1	489.0	700.9	607.4
Kenya	1187.3	921.2	886.4	910.7	676.5	731.8	590.6	444.6	474.6	308.0
Malawi	505.3	524.6	573.3	497.8	469.7	434.4	492.4	345.0	433.8	445.8
Nigeria	250.4	262.6	258.7	279.0	190.3	212.6	190.8	200.7	204.1	151.6
Rwanda	293.2	363.6	353.7	358.2	714.6	712.1	468.5	229.5	349.8	372.9
Senegal	822.7	639.0	675.6	504.3	645.0	671.4	578.8	422.3	500.3	534.2
Sierra Leone	62.8	104.9	135.0	208.7	276.5	206.7	184.0	118.6	106.3	73.5
Tanzania	1174.5	1080.7	1343.3	953.2	968.5	881.8	876.6	944.0	999.5	989.6
Uganda	670.8	666.8	728.4	612.4	753.3	830.7	675.5	812.8	470.8	589.8
Zambia	480.9	883.3	1035.9	871.9	718.6	2034.9	609.5	609.8	348.7	623.4
Zimbabwe	340.5	393.3	792.4	500.1	561.7	492.8	371.3	335.3	280.0	244.1

Source: ADB, 2001

2.2.2 The consequences of foreign aid

If properly managed, foreign aid could generate economic growth and reduce poverty, and in the long run relieve the recipient countries of the burden of seeking aid and making it self-sufficient. According to Baner (1967) cited in Miere (1970) foreign aid to less developed countries is indispensable for their development because of their poverty reinforced by the saving gap, foreign exchange gap and the limit in their absorptive capability. Given these factors, granting of aid is regarded as a moral duty and at times also as a restitution of past wrongs. When compared with local funds, aid money is intrinsically more effective than local funds as it comes packaged with technical assistance and superior management skills of donor agencies. In deed, it is quite likely that donor involvement may increase the rate of return on the project the aid is meant for. It may also lead to changes in policy, institutions and project design (Devarajan & Swaroop, 1998).

Burnside and Dollar (1997a, 1998) argue that foreign aid in some less developed countries with good policies has contributed significantly to government consumption that include recurrent spending on health and education, social relief, defence and industrialization which in the long run has improved social welfare and helped reducing poverty. Killick (1991) reiterates that foreign aid in some countries play an important role in relieving the countries from fiscal constraint by augmenting local tax and other revenues and increasing governments abilities to maintain expenditures on economic services and capital formation without generating inflationary and/or balance of payments pressures. Such expenditure in turn, promote growth particularly if they are in forms (and in a context) that would stimulate greater private sector activity.

According to Arnold (1985) the argument for aid can be divided into three groups: political, economic and moral. The political argument is centered on bringing the people of the world closer to a single world. This philosophy is appealing especially if set against the background of the endless disputes which trouble mankind. The economic argument is that it provides capital and makes available know-how and technology through technical assistance, personnel or private investment. Aid in other words allows developing countries to improve their standard of living, build up infrastructures, create industrial sectors and establish social services faster than would otherwise be possible. The moral argument is based on social justice, that is, most foreign aid are aimed at creating a one-world community, greater world prosperity, eliminating causes of injustice, poverty and conflict.

On the contrary, if not properly managed foreign aid will not ensure economic advancement as is clear from recent studies and historic evidence from various less developed countries. As indicated by Dornan (1993):

> "fat cat African dictators are living high on the hog-by looting billions of dollars in foreign aid while their people starve. We in the western world open our hearts and our pockets books to the pathetic plight of million of Africans but their own heartless leaders abuse our generosity to line their own pockets. As much as 60 per cent of all western aid sent to some African nations find its way into the hands of corrupt officials".

Foreign aid, if financial, is interest and dividend payments which are considered as major burdens in less developed countries since these payments are seen as losses, thereby draining the recipient countries' meager foreign reserve and the colossal magnitude of foreign debt it produces which in itself discourage further lending (Miere, 1970). Most aid is further project oriented instead of programme oriented. Some of these projects are large in nature and in most cases result in negative returns. One thing about these giant projects is that most of them are chosen to reflect the culture and technology of the donor countries and hence makes such culture the reference point in the recipient countries. Industries might be such that the spare parts and in some cases the human expertise to run them come from the donor countries, this tends to worsen the balance of payments which the aid was meant to correct in the first place. This phenomenon can further lead to the impoverishment of common people. According to Arnold (1985) foreign aid has created dependence and undermines self-reliance in recipient countries as an instrument of new-colonialism.

The tying of foreign aid has made it irrelevant for economic growth. According to Killick (1991) tying usually reduces the quality of aid by imposing cost on recipients and transferring some of the value of aid from them to beneficiaries in the donor country. Tying also introduces biases in donor project selections in favour of capital- and import-intensity, often to the detriment of developmental priorities in the recipient countries. It is also liable to incorporate inappropriate technologies or to foster a proliferation of technologies. It tends to place more demands on recipients' scarce administrative resources, introduce more complicated procurement procedures and thus an additional source of delay in utilizing the aid.

Foreign aid may also impede market-oriented development and/or impose distortions to the pattern of development that concern most recipient countries. The best known example of an aid created distortion is the disincentive effort. For instance, food aid to less developed countries may generate a number of disincentives thus affecting domestic agricultural production through the following: a price effect which lowers the domestic price of agricultural output; a labour market effect when food aid is used in food-for-work projects, as wages in these projects are higher than the income obtainable from agricultural production; a policy effect as the availability of food aid may allow a government to postpone necessary policy reforms to stimulate domestic agriculture; and by changing the pattern of tastes away from domestic output toward exotic imported foods (White & Luttick, 1994).

Large aid inflows can further overwhelm the administrative capacity of governments, leading to waste and inefficient and ineffective projects and programmes. It is therefore critical to ensure that an increase in aid does not reduce a country's incentives to adopt good policies and reform inefficient institutions. Experience indicate that dependence on aid may also weaken accountability, encourage rent seeking and corruption, and impede the development of healthy civil society if a recipient government is more accountable to its donors than to its own citizens (Adam & O'Connell, 1998; and Gunning, 2001).

3 Data source and methodology

3.1 Data source

Cross-country data for 1997 on the number of people that are not poor and the amount of foreign aid made available to some selected SSA countries, were used. A dummy variable was used to capture some of the social and political changes witnessed in the countries. Data were obtained from ADB (2001) and World Bank (1997).

3.2 The model

In specifying the model emphasis is placed on whether foreign aid has a significant impact on poverty reduction in SSA. Since the flow of foreign aid can not on its own influence poverty reduction on its own, social and political variables that determined the effective flow and use of foreign aid are used as interaction variables between foreign aid and poverty reduction.

Having established this link, the model is therefore formulated as:

$$POVR = f\ (FA, SPV) \qquad (1)$$

with a linear relationship such that

$$POVR = \beta_0 + \beta_1\ InFA + \beta_2\ SPV + U \qquad (2)$$

POVR = poverty reduction proxied by the number of people that are not poor in Sub- Saharan Africa.
InFA = log of foreign aid
SPV = social and political variables proxied by social and political stability or instability. Dummy 1 for social and political stability and dummy 0 for otherwise. Note that these variables are interaction variables between foreign aid and poverty reduction.
β0 = the intercept
β1 = the estimation parameters associated with the influence of foreign aid on poverty reduction.
β2 = the estimation parameter associated with social and political variables on poverty reduction
U = disturbance term.

Our a-priori expectations or expected behaviour of the independent variables (InFA and SPV) on the dependent variable (POVR) are:

$$\partial POVR / \partial InFA > 0; \quad \partial POVR / \partial SPV > 0$$

indicating that the more the flow of foreign aid, the more people would escape poverty and the more socially and politically stable the countries are the more people would escape poverty in SSA.

4 Empirical results and discussions

4.1 Results

The results of the regression analysis are presented in Table 3 below.

Table 3
Regression results of foreign aid and poverty reduction in SSA

Variable	Co-efficient and t-values in parentheses
Intercept (t)	34.22 (0.70)
InFA (t)	–2.90 (–0.40)
SPV (t)	–4.03 (–0.29)
R^2	0.55
F	7. 2

The model shows a rather weak fit since it has an R-square of about 55 per cent. At 5 per cent level of significance, the F-statistic shows that the model is useful in determining the influence of foreign aid on poverty reduction in SSA as the computed F-statistic which is 7.2 is greater than the tabulated F-statistic (2,16 degree of freedom) valued at 3.34. For individual variables, the coefficients and the associated t-values (at 5 per cent level significance) showed that foreign aid and changes in social and political variables are inversely or negatively related to poverty reduction thus contradicting our a-priori expectations of the influence of foreign aid on poverty reduction in SSA.

4.2 Discussion of the results

As it is observed from the results there exist a negative relationship between foreign aid and poverty reduction in SSA. The reasons for this negative result can be linked to the weak economic management evidence by high levels of corruption brought about by heavy use of patronage and personal rule; bad governance brought about by authoritarian rules and governments; institutional failure which can also be linked to political instability that are as a result of government turnover, military coups, ethnic violence and civil wars; macro economic instability captured by the volatility of economic variables like terms of trade, inflation and real exchange rate; conflict of interest between the donors and recipient governments and fungibility of foreign aid.

These assertions thus conformed with the observations of researchers like Adam and O'Connell (1998), Devarajan and Swaroop (1998), Devarajan, *et al.* (1999), Gunning (2001) and others who said that the failure of foreign aid to transform the economies of most SSA countries can be linked to factors such as inadequate institutions, bureaucratic corruption, policy uncertainty, couple with severe distortions and volatile macro-economic policy and political uncertainty.

Emphasizing on political uncertainty, Adam and O'Connell (1998) stressed that political uncertainty appears to be relatively high in Africa. It is generally accepted that Africa is currently the most violent region in the world with a greater risk of total political collapse given the high rate of executive turnover and cabinet reshufflement, military coups and religious and ethnic conflicts.

5 Conclusion and recommendations

An empirical study on the influence of foreign aid on poverty reduction in SSA was carried out using a cross-country data and a multiple regression analysis. The findings show that foreign aid is not significant to poverty reduction.

The result therefore, is a clear indication of how foreign aid has been mismanaged and misused in the sub-region. For an effective management and use of foreign aid certain policy measures must be put in place. Policy measures such as a stable macro economic policy environment that would guarantee price stability, exchange rate stability and economic growth is essential for high rate of returns to be achieved by anti-poverty projects financed with foreign aid.

Related to the above is a conducive political environment. An environment that is free from political violence, civil war, military coups and political unrest would guarantee strong institutional and absorptive capacity for the use of foreign aid for economic development and for poverty reduction. Having the right kind of institutions (the types that are free from corruption and not politicised along ethnic and religions lines) would in the long run be able to create the required politics, mobilize and manage the resources and deliver the services provided by foreign aid. Having the right kind of absorptive capacity, most especially human capital to manage and use foreign aid is also essential since a country with a highly skilled and educated labour force is expected to have high returns from investments that are financed by foreign aid.

It is also important for governments in Sub-Sahara African countries to address the issue of bad governance and corruption that has eaten so deep in the sub-region. With good governance the people of the sub-region would be involved in the management and use of foreign aid meant for social service delivery and governments' responsibility to ensure accountability, openness and transparency in the management and use of foreign aid would have maximum impact in benefiting the people. The fight against corruption should thus be intensified in order to guide against the diversion of foreign aid.

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