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Abstract: *This study presents a comparative analysis of the relative impact of official developmental assistance/foreign aid (ODA) that was given by the OECD countries to select developing countries of the South (sub-Saharan Africa) during the last decade of the Cold War (1980-1990), and the immediate Post-Cold War period (1990-2002). Firstly, this study seeks to illuminate the specific role of foreign aid and its contributory effect in the economic growth and development of these countries between the two time periods, and secondly, delineates specific institutional and governance problems and how these militate against a more effective application of foreign aid or official development assistance. Findings from the data analysis indicate that ODA had no noticeable effect on economic growth as measured by average annual percentage change in GDP growth. While inflation had a negative effect on annual GDP growth during the last decade of the Cold War, it was relatively inconsequential in the period following the end of the Cold War. Only the human development index had a positive impact on annual GDP growth during the post-Cold War years (1990-2002) –suggesting that sub-Saharan Africa countries would need to develop a more robust institutional capacity and human capital skills as a prerequisite for aid effectiveness.*

Keywords: Official development assistance, foreign aid, economic growth, states and markets, OECD countries, good governance, institutions, human capital development, market failures, sub-Saharan Africa

Introduction

The issue of developmental assistance remains central in the global discourse on wealth redistribution, economic development, and in its more rhetorical form, the new international economic order. As the economic asymmetry between the North and the South countries continue to widen, the necessity for increased developmental assistance becomes a central element in the power politics between nations and regions. The particular case of the Organization for Economic Cooperation and Development (OECD) countries can be explained partly as a universal act of benevolence or as a global policy driven by the inclination to create markets for the industrial production of the North. If the second argument has merit, then it would be acceptable to make the case that official development assistance (ODA) from the OECD countries would not singularly yield the necessary economic base for development in many countries of sub-Saharan Africa.

Many countries in the region remain very poor, are highly indebted, and have been plagued by declining prices of primarily raw material based agricultural products. This has been the case since the 1970s and throughout much of the post-Cold War period. The reciprocal effect of a prolonged decline in the export price of raw agricultural products is that it reinforces an equivalent decline in the overall level of economic productivity. To the extent that various structural and governance issues undermine expected incentives from foreign aid as well as foreign direct investment, how have these affected the level of economic growth and development over the years?

Background and Context

The debate on the impact of foreign aid on the relative economic growth and development of many of the poor countries of sub-Saharan Africa is a financial as well as a development challenge. The effectiveness of any aid mechanism depends as much on the type of aid given, the amount relative to the internal administrative capacity of the recipient state, and most importantly, the structural mechanism through which aid is made available—the governance mechanism. "Theory is ambiguous with respect to aid's impact on the quality of governance" (Knack 2001, 311), but 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 (North 1990; Knack and Keefer 1995; Keefer and Knack 1997; Clague et. al, 1999). While it can be argued that the state per se is not in the business of creating wealth, rather it is supposed to provide the enabling condition for wealth creation; but because most official development assistance are given through state institutions, we run into a problem of having to deal with administrative leakages and loopholes that create opportunities for corrupt practices in aid dissemination that go undetected.

It is in recognition of this problem that we have recently seen the pattern and nature of aid flow shift from an institutional focus as in the Monterrey Consensus (2002) to an emphasis on promoting the private sector in developing countries, opening trade with them, as well as increasing official development assistance. While some studies have looked at the relationship between aid and growth but found no evidence that *more* aid leads to higher growth (Boone 1993; 1995), Burnside and Dollar (1997; 2000) argue that aid would have a positive impact for economic growth in countries identified with policies that promote long-run growth such as open trade regimes, fiscal discipline, and avoidance of high inflation. They state that "in a sound policy environment, aid attracts private investment, whereas in a poor policy environment, it displaces private investment; hence once a society has generated a thorough reform program, foreign aid can play an important supporting role through advices, training, and financial assistance" (Burnside and Dollar 1997, 5; also see Easterly and Rebelo, 1993; Sachs and Warner 1995).

The North-South Dichotomy: The Structural Basis of OECD Aid

The North-South dichotomy is a metaphor as well as a euphemism that explains the asymmetrical nature of international economic relations. "Whereas the 'North' may refer to all rich (non communist) industrialized countries with an average annual per capita income of $2000, the 'South' subsumes a wide variety of well over 100 states at many different levels of development, ranging from oil exporters, and newly industrialized countries (NICs), to the United Nations' designated 'least developed countries' or the World Bank's 'low-income developing countries" (Coyne 1984, 2). But the issue remains that "as long as the industrialized North, with only 30 percent of the world's population, has over 80 percent of the income and wealth, relations between developed and developing states, regardless of differences within the latter, are still viewed predominantly as a bipolar struggle between rich and poor, strong and weak, have and have-not states" (Coyne 1984, 2). While many governments of the 'South' argue for a re-evaluation of the various mechanisms of international economic transactions, the countries of the 'North' reinforce the necessity for the 'South' to make genuine structural and political reforms that would create the enabling environment for foreign direct investment and overall economic development. Nonetheless, much of the economic transfers have mostly been built around the framework of the OECD through its various programs of foreign aid and developmental assistance to the 'South' generally, and sub-Saharan African countries, in particular.

The original members of the OECD countries are Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. The following countries later on became members through accession: Japan, Finland, Australia, New Zealand, Mexico, Czech Republic, Hungary, Poland, and the Republic of Korea. However, in order to achieve its objectives, the OECD created a number of specialized committees. One of these is the Development Assistance Committee (DAC), whose members collectively agree to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programs, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies. Besides the role of individual OECD countries in developmental assistance to sub-Saharan Africa, the World Bank, the IMF, and the European Union (formerly EEC) have remained major contributors.

The State, Market, and Development

For the most part since 1990, a major change has occurred in the composition and volume of financial flows to developing countries, and in terms of relative decline in ODA, the sub-Saharan Africa countries have suffered the most. In line with overall decline in net receipts of ODA, OECD data indicates that there has been a decline in net receipts of ODA by Sub-Saharan Africa, from US$18.9 billion in 1994 to US$15.1 billion in 1997. At the same time, the rise in private capital flows, in particular foreign direct investment was celebrated by many as evidence of the success of market liberalization and was seen as an indication of the potential for private flows to replace official concessional flows. "The rise in private capital flows while a reflection and consequence of the shift away from state economic activity towards the market and growth of the private sector that has taken place since the late 1970s; is also a reflection of changing investor goals, attitudes and strategies, both in the case of multinational companies and investment funds" (South Center 2002). This meant that subjecting the financing of capital and long-term infrastructural development in the developing countries to the exigencies of private and commercial bank lending poses more problems than it could resolve. In fact, with a limited debt-servicing capacity and because private lending from commercial sources require a short-time horizon for settlement, it does not afford the long gestation period needed for several fixed infrastructural projects to materialize. While the state and the fledgling private sector would be forced into competition from the same source of funding capital, it gives the international lender enhanced leverage to play one side against the other.

The benevolent view of the state is that of having a limited but specific role in the function of a market economy—to provide a functioning legal system and a stable macroeconomic environment, to correct market failures, to provide or tax merit goods, and perhaps to subsidize infant industries. And beyond that, all other forms of economic activities should be left to the market which would provide goods and services as efficiently as possible (Peters and Verghis 1993, 1). While it is the responsibility of the state to create an enabling and supportive environment for economic growth, construction of long-term and durable infrastructures, and in most cases the creation of protective regulations geared to safeguarding the domestic economy from predatory competition also presents a viable option, at least in the short term. Protectionist policies--by providing the opportunity to develop economies of scale and domestic market stability--have been an important and perhaps necessary component of government-led strategies of economic restructuring (Lake 1984, 149). Nonetheless, critics see the benevolent view of the state as naïve (See Streeten 1993; Singh 1994). They cite the case of the East Asian countries who "rather than focusing on industries in which they had a comparative advantage, they created comparative advantage in specific industries; instead of worrying about allocative efficiency, they concentrated on productive efficiency, and used price to achieve strategic objectives—such as getting firms to invest in key areas, and letting prices be set by the market in the belief that it would lead to optimal outcomes" (Peters and Verghis 1993, 2).

This also applies to the liberalization of the financial sector in developing economies. "Given the structure of the financial system in most developing countries; it may be desirable (in the short term) for the financial sector to support a liberalization of capital movements but take a protectionist stance with reference to the entry of foreign firms" (Haggard and Maxfield 1996, 39). In her work titled '*Financial Politics in Contemporary Japan,*' Frances Rosenbluth (1989) points out that decontrol in Japan was propelled by financial institutions, acting in cooperation with the Ministry of Finance and sometimes politicians, to construct a new set of rules they needed to compete in a changing economic environment. The role of the private sector, on the other hand, is to create wealth through sound investment, building liquidity through investment in the domestic banking economy so as to create the internal capacity for domestic lending to small-scale producers, and above all to create jobs as a way of reducing domestic unemployment. But the problem for developing economies is that "the adjustable peg system becomes intolerable when imbalances in the external trade accounts come to be overshadowed (both as a source of problems and as a response to them) by massive movements of short-term speculative funds; hence it makes it increasingly difficult for governments to conduct macroeconomic policy and to support exchange rates under pressure" (Ruggie 1982, 408).

Among the many conditions that shape the environment in which aid is given and in which international transactions are consummated, the idea of economic globalization is a concept that captures key developments in international trade, finance, and foreign direct investment by trans-national corporations. As Mansbach and Rhodes (2003, 284) point out, since the end of World War

II, international trade has greatly expanded and has become a much more important factor in both domestic and international economic affairs. Whereas the volume of international trade had grown by only 0.5 percent annually between 1913 and 1948, it grew at an annual rate of 7 percent from 1948 to 1973. Nonetheless and over the course of the postwar era, trade has grown from 7 percent to 21 percent of total world income; as the value of world trade has increased from $57 billion in 1947 to $6 trillion in the 1990s. While some trade barriers may have declined, various multilateral trade regimes like the General Agreement on Trade and Tariffs (GATT), the Uruguay Round, World Trade Organization (WTO) have also been negotiated between states. The European Union has emerged as an imperial economic market with no tariffs, open trade borders, and a uniform currency to facilitate trade and policy coordination between member states. We have also witnessed a wave of liberal democracies and free-market economies emerging in Eastern Europe and South-East Asia, the teething economic pains in Russia, and the rising economic might of China. A corollary of this view is that the American economic and political system has become the model for the world (Mansbach and Rhodes 2003, 288), and that global economic advancement would create enabling conditions for the simultaneous emergence of peaceful liberal markets and democracies in the world.

Aid and Economic Growth: A Research Note

Besides the role of individual OECD countries in developmental assistance to sub-Saharan Africa, the European Union (formerly EEC) has remained a major contributor. About half of its aid is extended within the framework of long-term Conventions (Lome Convention) linking the EU to African, Caribbean, and Pacific (ACP) states. "But since most ACP states are located in sub-Saharan Africa, more than half of total EU aid is directed towards this region. This aid, the bulk of which is financed from the European Development Fund consists almost exclusively of grants. The other half of EU aid which is financed from the Union's budget, comprises food aid, and aid extended to Mediterranean and Latin American countries within the framework of long-term agreements and to Asian developing countries" (OECD 1990). However, while the average annual ODA contributions from OECD countries have declined over the years, the average annual growth in GDP as well as population have increased remarkably (Figure 1) such that available state resources are not able to accommodate the increasing demand for public goods services. But how much of this relative growth can be attributed to official development assistance and other types of foreign aid?

The contemporary debate on aid effectiveness largely influenced by the works of (Burnside and Dollar, 2000, 2004; Easterly, 2003; Easterly, et. al, 2004; Hansen and Tarp, 2001; Calderon, Chong, and Gradstein 2006) remains very present in the thinking of today's donors, and it has strongly shaped their allocation models over the years. While the central idea in the Burnside and Dollar (2000) argument is that aid has a larger positive impact on growth in countries which have good economic policy; the implication then is that it would make more economic sense to direct aid incentives toward countries that are most likely to use this aid in an effective manner. "The stress on aid disbursements is understandable given the peculiar nature of the aid mechanism—the fact that multiple objectives often work against each other and weaken each other, so that aid may end up serving none of its multiple goals especially well" (Easterly 2003, 34). Because the literature on aid effectiveness has largely ignored political economy considerations, instead speaking of *good* *governance*—a broader concept that includes institutional characteristics of recipient countries, the primary focus on the quality of institutions and policy in recipient countries seems to ignore the fact that efficiency also depends on other factors like the mechanisms through which aid is delivered, the restrictions associated with it, and the likelihood that programs that benefit from such aid are robust enough to yield potential gains for other productive sectors of the economy.

While the idea "that 'aid buys growth' has remained an integral part of the founding myth and ongoing mission of the aid bureaucracies" (Easterly 2003, 34), it is the distortions associated with growth that often determines the effectiveness of aid. "The incentive to invest aid and its subsequent productivity as capital are affected by various policy distortions that can lower the return on capital" (Burnside and Dollar 2000, 847). Hence the outcome of aid ought to depend precisely on how it is used, where it is invested, and what expectations drove such investment. Since different countries may have different economic policies as well as confront different levels of market distortions, does this therefore mean that the incentives from aid would be more robust in some countries and less in others? And what specific factors could contribute to the differential impact? The problem with measuring the relative impact of aid (if any) is that its effect may not lend itself to a single discrete outcome and in most cases could be subsumed within various socioeconomic and political indicators. It is therefore plausible to argue that the generic focus on the "aid-growth" nexus may have, by default, created a condition where the absence of a direct and robust relationship between aid and economic growth would essentially be construed as a failure. In light of this observation, donor and recipient countries as well as national policy makers sought to reassess the link between aid, policy, and growth by adding more countries and more data beyond what was used in the original Burnside and Dollar (2000) work. The result found that the proposition that aid promotes growth in countries with good policies was also not statistically significant. While not arguing that aid is, in itself, ineffective; they simply note that adding additional data to the Burnside and Dollar (2000) study raises new doubts about the effectiveness of aid and suggest that economists and policy makers should be less optimistic about concluding that foreign aid will boost growth in countries with good policies (see Rajan and Subramanian 2005; Alesina and Dollar 2000).

To counter the Easterly et. al (2004) study, Burnside and Dollar (2004) revisited the evidence derived from their earlier study of 2000. Using a new data set that focused on the 1990s, they conclude that aid spurs growth conditional on institutions as well as good policy environments. Hence "if aid is systematically allocated to low-income countries with relatively good institutions, then we would expect that this would increase the probability that reforms are successful and politically sustainable" (Burnside and Dollar 2004, 21). To this end, "aid could be a useful support even if it is not its main determinant" (Burnside and Dollar 2004, 21). But a follow-up study by Calderon et. al (2004) which examined the effectiveness of aid on income inequality and poverty reduction among select developing countries for the period 1971-2002 concluded that aid by itself does not appear to have a statistically significant effect on income inequality and poverty reduction. Even though their model seemed to suggest that good institutions may be necessary for aid to reach the poor, it failed to detect any robust impact of foreign aid in this regard even when institutional quality is taken into consideration—hence their conclusion that foreign aid does not have an impact on income inequality and poverty reduction. However, Hansen and Tarp (2001, 16) had earlier cautioned that for the simple fact that empirical conclusions about aid effectiveness, based on cross-country growth regressions depend on poorly understood non-linearities and critical methodological choices, the lack of robustness should not come as a surprise. While they present empirical support for the hypothesis that aid impacts (increases) growth via investment but not conditioned on the policy index established by the Burnside and Dollar (2000) study, they still retain the view that better theoretical explanation for the aid-investment-growth nexus needs to be pursued further.

Sub-Saharan Africa: Defining Characteristics

In the case of sub-Saharan Africa countries, the level of foreign direct investment and the declining rate of official development assistance from OECD/DAC countries, especially during the years 1990-2000 created a condition where yearly economic downturns could only be abated by utilizing the limited sources of developmental assistance for administrative processes related to governance as opposed to commodity and productive enterprises (Figure 1).

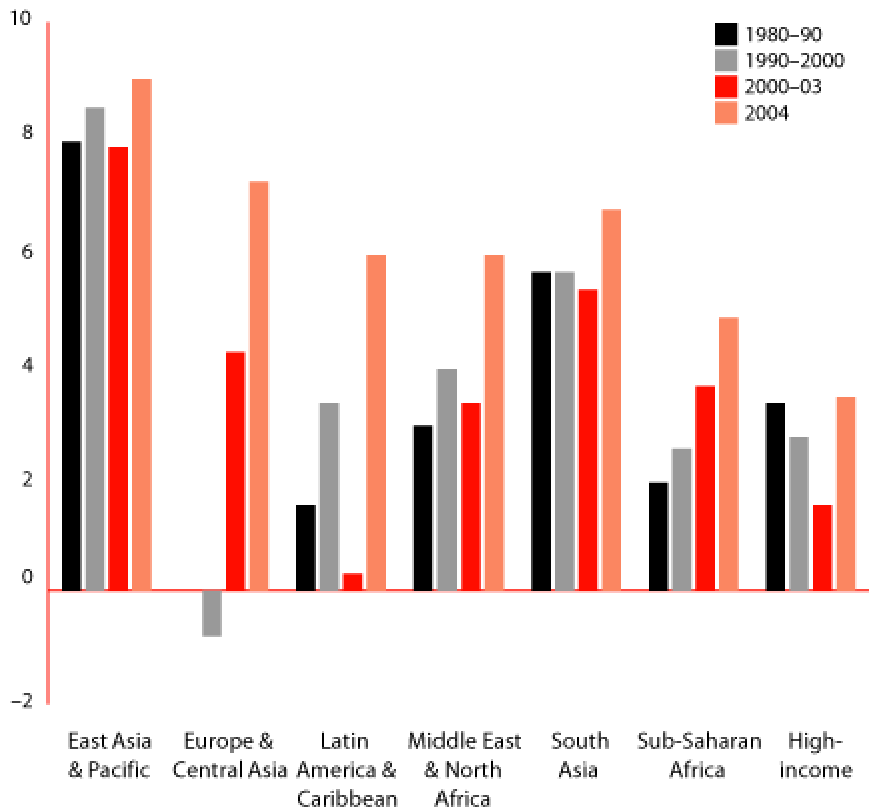

Figure 1: Average Annual Growth of GDP (%). Source: World Bank data files, 2006.

For instance, "in the 1970s and 1980s, the level of net total official development assistance was almost 0.35 percent of GNP for all the DAC countries together. This share declined after 1992, and in 1997, fell all the way to 0.22 percent--the lowest since the DAC began to make such statistics" (Degnbol-Martinussen and Engberg-Pedersen 1999, 61). Even though the tendency for reduction in OECD/DAC assistance to the developing countries began slowly in the 1970s, the end of the Cold War saw it as a more regular occurrence. However, the total ODA delivered so far has been less than half of the agreed targets (Figure 2). With total official foreign aid since 1970 (when the 0.7% target was set) being just under $2.3 trillion, *less than half* of what has been promised has been delivered. From the ones given, much of it generally does not always go to the poorest countries, but instead go to countries of most strategic interest to the donor. While one could argue or expect that most aid would go to the poorest countries, mostly in Africa. However, that is not historically the case (though there are signs that public pressure and the Millennium Development Goals of 2015 to reduce global poverty may encourage better aid quantity and quality). Since 1970, on average, sub-Saharan Africa has received about 25% of actual ODA. Although OECD data goes back to 1960, it was in 1970 that donor nations agreed to raise the figure to 0.7%.

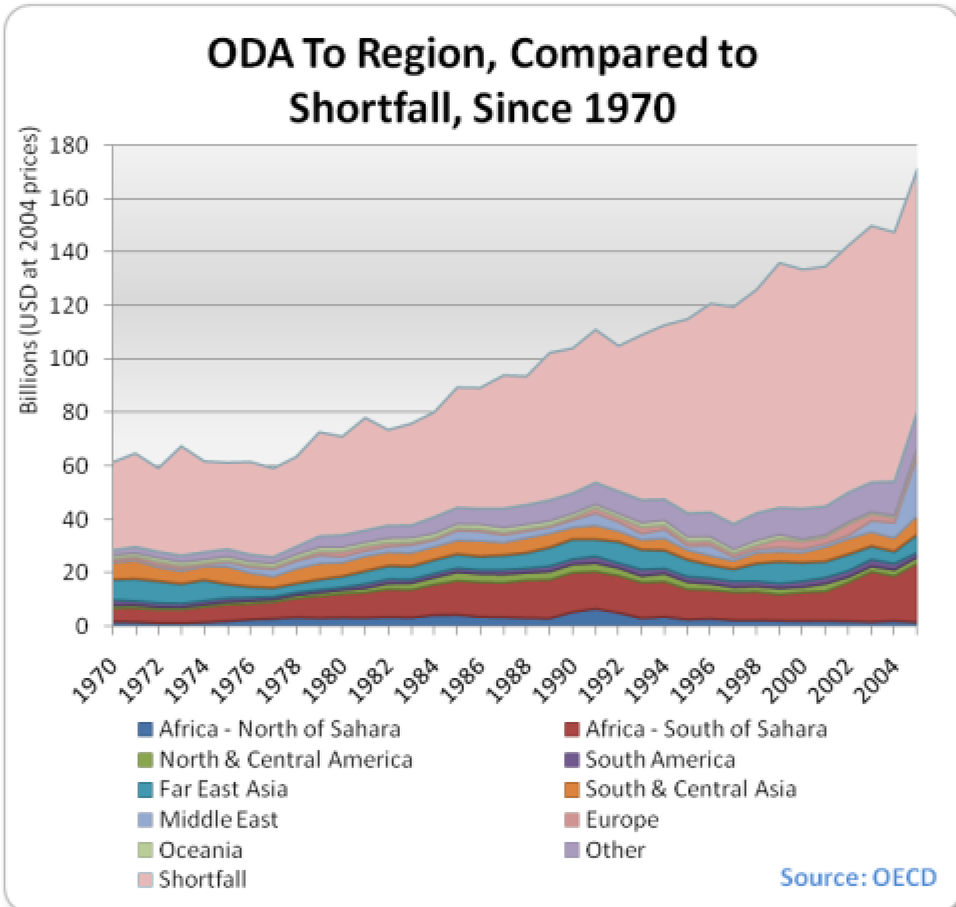

Figure 2: OECD ODA Disbursements to Regions of the World (1970-2004)

Data and Hypotheses

Developmental aid can come in many forms and is meant to serve varying purposes. Official aid is provided by donor countries for the economic and administrative needs of the recipient countries, and in the larger scheme of things, also for the economic benefit of the donor countries. The primary question that is addressed in this paper is: Do official development assistance/foreign aid from OECD countries have an effect on the rate of economic growth of sub-Saharan Africa countries? While the above hypothesis is consistent with some of the earlier studies on the impact of foreign aid on economic growth (Burnside and Dollar, 2000, 2004., Easterly 2003., Hansen and Tarp 2001., Knack 2001), this study utilizes a unique set of variables and methodology in addressing the same question for sub-Saharan Africa countries. The chosen dependent variable is a country's annual percentage change in GDP between the years 1980-1989 (Cold War years), and 1990-2002 (post-Cold War years). The independent variables are the ODA disbursements to 50 sub-Saharan Africa countries over the years in question. Data was collected for 50 sub-Saharan Africa countries for the period 1980-1990 and 1990-2002. The dearth of available data essentially limits the time period covered by this study, but would be robust enough to provide an indication of a trend.

Data for the analysis was sourced from the OECD official documents, country statistics, World Bank's *World Development Report*, the IMF, and the United Nations. Data were sourced from the OECD (1997). *Effort and Policies of the Members of the Development Assistance Committee Development Cooperation*, Table 38; OECD (1990, 1996); World Bank's *World Development Report* 2004; and John Allen Student Atlas of World Politics (7^{th} Ed.) Dubuque. IA: McGraw-Hill Co 2006, 144-147). Specific data for the independent variables "rule of law," government effectiveness," and "official corruption/graft" were collected for the years 2000-2001 from the United Nations Development Program (UNDP 2002): "Deepening Democracy in a Fragmented World," *Human Development Report*, New York: United Nations, pp. 37-41. According to UNDP (2002, 37), a country's performance on the indicator of "rule of law" is measured by the existence of "black markets, enforceability of private and government contracts, corruption in banking, crime and theft as obstacles to businesses, losses from and costs of crime, and unpredictability of the judiciary." The measures for "government effectiveness" are a country's level of "bureaucratic quality, transaction costs, quality of public health care, and government stability." For "corruption/graft," the measure for each country is based on level of 'corruption among public officials, corruption as an obstacle to business, frequency of irregular payments to officials and judiciary, and perception of corruption in civil service." For all the indicators, the parameter for a country's score ranges from -2.5 to 2.5 (higher is better). For the purpose of this study and consistent with Knack (2001), the combined indices/scores on these variables is used as a measure of a country's "quality of governance".

Data on Average Annual Increment to the Population for the years 1985-1990 and 1995-2000 was collected from John Allen (2006). With regard to the average annual percentage change in consumer price index (CPI), data was collected from UNDP (2003). "Millennium Development Goals: A Compact Among Nations to End Human Poverty," United Nations (2003, 280-281). Data on Human Development Index (HDI) was collected for the years 1990 (end of Cold War) and 2001 (post-Cold War) from UNDP (2003). "Millennium Development Goals: A Compact Among Nations to End Human Poverty" (United Nations 2003, 241-244). The HDI is a composite index measuring average achievement in three basic dimensions of human development—a long and healthy life, knowledge, and a decent standard of living (UNDP 2003, 353). In the HDI, income serves as surrogate for all the dimensions of human development not reflected in a long and healthy life and in knowledge (UNDP 2003, 341). Because the 'Human Development Index' is a composite measure of other factors indicated by "life expectancy index, education index, and GDP index (adjusted GDP per capita) and the impact of these factors can extend over several years, hence the two time periods (1990 and 2001).

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Methodology

Based on data collected for 50 sub-Saharan Africa countries for which scores were reported, and in other to isolate specific cases of definitional overlap as well as to determine the general independence of the predictor variables from one another, a correlation analysis between all the independent variables was done. The findings show that essentially all of the official development assistance (ODA) variables for each of the two time periods under study were significantly correlated with each other. Therefore, what this suggests is that the highly correlated independent variables may be tapping into the same underlying phenomenon, hence could raise issues of multicollinearity or reverse causality. This finding, however, does not in and of itself pose any insurmountable problem but only reinforces the extent of relationship one would expect when each of the independent variables are used to predict variations in the dependent variable. One way to deal with this would be to remove from the model some of the variables that were highly correlated with each other. Another way would be to consolidate or reduce the set of correlated variables to form one variable that draws from the same underlying phenomenon. The latter presented a better option.

The confirmatory approach involved the use of factor analysis procedure (for the independent variables) for data reduction and also as a way of isolating the underlying dimensions reflecting the relative impact of the hypothesized constructs on a country's average annual percentage change in GDP growth. A principal component procedure extracted four factors with 'eigen values' greater than 1 for both time periods (1980-1990) and (1990-2002) using Varimax rotation with Kaiser normalization. The factor loadings were found to correspond quite strongly with the hypothesized constructs. In fact, the sets of ODA independent variables that were initially found to be correlated with each other were loaded on the same factors (Tables 1-4). By this process, the independent effects of the various sets of independent variables have been reduced to achieve a homogenous effect and the potential issue of multicollinearity has been addressed.

The factor loadings of the various independent variables corresponded to the hypothesized constructs and underlying dimensions: official development assistance (Table 1), human capital development (Table 2), official development assistance (Table 3), and quality of governance (Table 4). The total explained variance for the two factors extracted for the Cold-War period (1980-1990) was 81.64%, while the total explained variance for the post Cold-War period (1990-2002) was 73.92%. It is also important to point out that a few of the explanatory variables differ for the two time periods. While this is due mainly to the non-availability of comparative data, I do not believe that it poses any validity problems in terms of the fundamental issues related to official development assistance.

Table 1: Loadings on First Rotated Factor: Official Development Assistance (1980-1990)-Cold War Era

Variables	Factor	Communality
ODA 1980	.937	.883
ODA 1981/1982	.958	.925
ODA 1986/1987	.961	.938
ODA 1988	.892	.882
ODA 1989	.844	.862
Eigen Value	4.27	
Proportion of Variance	61.00%	

Table 2: Loadings on Second Rotated Factor: Human Capital Development (1980-1990)-Cold War Era

Variables	Factor	Communality
Human Development Index (1990)	.725	.532
Av. Annual Increment in Pop (1985-90)	.811	.693
Eigen Value	1.44	
Proportion of Variance	20.64%	

Table 3: Loadings on First Rotated Factor: Official Development Assistance (1993-2002) Post-Cold War Era

Variables	Factor	Communality
ODA 1993	.884	.818
ODA 1994	.880	.834
ODA 1995	.834	.724
ODA 1996	.918	.909
ODA 1997	.915	.863
ODA 1998	.960	.922
ODA 1999	.962	.930
ODA 2000	.948	.901
ODA 2001	.897	.815
ODA 2002	.869	.777
Eigen Value	8.33	
Proportion of Variance	55.57%	

Table 4: Loadings on Second Rotated Factor: Quality of Governance (1993-2002) Post-Cold War Era

Variables	Factor	Communality
Government Effectiveness	.654	.654
Corruption/Graft	.675	.675
Rule of Law	.812	.812
Eigen Value	2.75	
Proportion of Variance	18.35%	

As a grouping of independent variables that have achieved a level of communality through several iterations, the factor loadings were converted into regression scores to be used in a regression analysis in order to determine the explanatory power and the contribution of each underlying dimension (cluster of independent variables) on variations in the dependent variable (average annual percentage change in GDP growth). By utilizing this approach, we would be able to indicate to what extent each independent variable contributes or does not contribute to the enhancement of a country's gross domestic product as well as overall economic growth and development. It would also delineate program areas where political leaders would need to concentrate and improve upon as a matter of public policy and efficient allocation of scarce resources. In order to find out the explanatory power of each independent variable on the annual rate of change in GDP growth over the two time period in question (1980-1990 and 1990-2002), I utilize an OLS regression analysis based on stepwise elimination at the .05 level of significance.

Relative Explanatory Effects of Independent Variables on Average Annual Change in GDP Growth

In addition to the factor loadings that were already converted into four regression scores, four other independent variables (annual percentage change in consumer price index—as a surrogate for rate of inflation; human development index—a composite index measuring rate of literacy and quality of life; and 'average annual increment to population' were added to the two regression models (Tables 5 and 6). For the late Cold-War period (Table 5), the result show that only one independent variable (annual percentage change in CPI) was significant at the .05 level but had a negative impact on average annual change in GDP growth. With a beta (unstandardized regression) coefficient of -.008, it shows that for a unit change (increase) in a country's annual rate of inflation, there was an average change (decline) of -.008 in its gross domestic product (GDP) during the later Cold War years (1980-1990). Furthermore, with a Beta (standardized regression) coefficient of -.339, the results show that for a 1 standard deviation change in a country's 'rate of inflation,' there was an equivalent -.339 standard deviation change (decline) in its annual GDP growth. Official development assistance (Factor 1) and human capital development (Factor 2) were not significant, hence had a negligible or no impact on a country's annual GDP growth. With an R2 of .19, the regression model explained 19% of the variation in the dependent variable (average annual change in GDP growth). The Durbin Watson test (DW=2.24, close to 2) indicates no autocorrelation between the error terms for the time periods in which data was collected. In addition, low variance inflation factors indicated no multicollinearity problem.

Table 5: OLS Regression Listwise Deletion (1980-1990, Cold War Era)

	Dependent variable: Average Annual % Change in GDP growth						
Independent Variables	b	Se	Beta	t	p	VIF	
Constant	2.72	.394		6.9	.000		
Annual % change in CPI (Inflation)	-.008	.003	-.339	-2.52	.015*	1.03	
ODA 1980-89 (Factor 1)	.032	.382	.011	.084	.933	1.02	
Human Capital Dev (Factor 2)		.742	.379	.261	1.96	.055	1.00
Total R = .44	R2 = .197			DW = 2.24			
Adjusted R2 =.144	P = .05*					N=50	
-.015<95% CI for b>-.002							

For the post-Cold-War period (Table 6), the result show that only one independent variable (human development index) was significant at the .05 level and had a positive impact on average annual change in GDP growth. With a beta (unstandardized regression) coefficient of 5.87, it shows that for a unit change (increase) in a country's human development index, there was an average change (increase) of 5.87 in its annual GDP growth during the post-Cold War years (1990-2002). Furthermore, with a Beta (standardized regression) coefficient of .349, the results show that for a 1 standard deviation change in a country's 'human development index,' there was an equivalent .349 standard deviation change (increase) in its annual GDP growth. Official development assistance (Factor 1), quality of governance (Factor 2), annual percentage change in CPI, and 'average annual increment to population' was not significant, hence had no noticeable impact on average annual change in GDP growth. With an R2 of .32, the regression model explained 32% of the variation in the dependent variable (average annual change in GDP growth). The Durbin Watson test (DW=1.94, close to 2) indicates no autocorrelation between the error terms for the time periods in which data was collected. In addition, low variance inflation factors indicated no multicollinearity.

Table 6: OLS Regression Listwise Deletion (1990-2000, Post-Cold War Era)

	Dependent variable: Average Annual % Change in GDP growth						
Independent Variables		b	Se	Beta	t	p	VIF
Constant	.346	.1.064		.326	.746		
Annual % change in CPI (Inflation)	-.003	.003	-.125	-897	.375	1.26	
Human Development Index		5.87	2.30	.349	2.55	.014*	1.21
Av. Annual Increment to Population		.000	.001	.034	.221	.826	1.51
ODA 1993-2002 (Factor 1)		.608	.397	.201	1.53	.133	1.10
Quality of Governance (Factor 2)	.734	.525	.242	1.39	.169	1.94	
Total R = .56		R2 = .32		DW = 1.94		N=50	
Adjusted R2 =.242		P = .05*					
1.23<95% CI for b>10.50							

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Summary and Conclusion

For the two time periods of the study, inflation had some impact on the decline in annual GDP growth during the last decade of the Cold War (1980-1990), but it had no impact during the post-Cold War years (1990-2002). Official development assistance or foreign aid had no impact for both time periods--a finding that supports the Easterly (2003), Easterly et. al (2003), Boone (1993), Rajan and Subramanian (2005) theses that the relationship between aid and growth show no evidence that more aid leads to growth. This also could affirm Calderon et. al's (2004) argument that aid by itself does not appear to have a statistically significant effect on income inequality and poverty reduction. Of equal note is the finding that 'quality of governance' had no effect on a country's annual growth in GDP, at least for the sub-Saharan Africa countries. While the earlier finding in Knack (2001) concluded that higher aid levels erode the "quality of governance" as measured by indices of bureaucratic quality, corruption, and rule of law; this study, on the other hand, makes the additional point that "quality of governance," in itself and to the degree it exists in the sub-Saharan Africa countries, does not seem to have an impact on a country's annual growth in GDP.

There may be key reasons why official development assistance from OECD countries has seemed to have no effect in the average annual GDP growth prospects of sub-Saharan Africa countries. Much of this could be due to the nature and type of aid which come mostly in the form of technical assistance, construction projects, professional exchange, food and health assistance, military assistance, weapons procurement, and administrative and training salaries. It could be argued, especially during the Cold war, that much of the aid disbursements went into building and strengthening strategic alliance structures which, invariably, was a central feature of the bipolar politics of that period. Since most of these are government-to-government engagement, they rarely filter to the private sector as investment capital. For the most part and for strategic reasons, aid policies are focused on specific countries rather than on broad objectives such as alleviating poverty. The historic pattern of aid and other forms of developmental assistance has continued to re-enforce the structural asymmetry in the international market system as well as a sense of permanency in the North-South divide. While "the majority of aid not only fails to reach the countries most in need, it also fails to support the sectors most critical to the poorest populations in the world. Despite the fact that the livelihoods of the majority of people in the developing countries depend on agriculture, today less than one-sixth of all aid resources supports agriculture" (Hoy 1998, 8). The cumulative effect of the shift in the global and strategic priorities of the donor countries and the internal crisis and civil wars in the recipient countries of sub-Saharan Africa combine to create an atmosphere where aid and other forms of developmental assistance play only a temporary stabilizing effect.

A crucial market failure implication is that "today, most sub-Saharan Africa (as in all other African) countries depend largely on external aid to manage their budgets" (Atakpu 2004, 65). In addition to the fact that aid is often mismanaged and/or siphoned off through corruption and official malfeasance, no matter in what form such aid is given (technical assistance, grants, or loans), its long-term economic impact has remained negligible. While the implication for state sovereignty is enormous (Thomson 1995), the sub-Saharan Africa countries themselves have to take a lot more responsibility to redirect the path of foreign aid assistance so that it could work more effectively for their citizens. Hiding behind 'state sovereignty' has become a mere legal fiction, one that provides cover for all sorts of internal abuses, mal-administration, and corruption—which invariably—have stymied international efforts to address the general problem of economic growth and development (Ellis 2005, 6). It is "one mistake for governments to restrict and distort market activity, reducing competition and perpetuating privileges; it is another to assume that market forces will automatically create opportunities for those at the margin" (Birdsall 1998,84).

Even when a case could be made that much foreign aid assistance that are targeted to important development objectives like democratization, promotion of civil society, educational objectives, and the likes that are intrinsically important development objectives, their potential impact on the GDP may be difficult to trace and could possibly show up in the long term. While we can also acknowledge the problem of 'lead times' for the effects of foreign aid assistance to filter into the macroeconomy; however, experience among the sub-Saharan Africa countries show that the persistent problems of market failures and economic uncertainty, more often than not, combine to undermine any noticeable long-term cumulative effect of non-targeted aid assistance for developmental objectives. Suffice it then to say that the potential for aid or other forms of assistance to become the single most important catalyst for sub-Saharan Africa economic development is limited. Aid has to come as a supplement to a well-planned internally-driven program of developmental finance, the building of internal capacity for sustained growth--anchored on aggregate improvements on the human development index as well as effective national institutions. As evidenced in the significance of this variable in the OLS regression (Table 6), the human development index (HDI) is a composite index measuring average achievement in three basic dimensions of human development (a long and healthy life, knowledge, and a decent standard of living), what may be most important in this regard, is for sub-Saharan Africa countries to initiate domestic programs that improve prevailing literacy rates, educational training and skills, the health care sector, and overall improvements in the quality of life.

An active and healthy population with enhanced technical and entrepreneurial skills can serve as the building block of human capital critical for long-term economic development objectives. Illustrating the importance of homegrown institutional competence, Nancy Birdsall et. al (2005, 143) point out that "aid is only as good as the ability of a recipient's economy and government to use it prudently and productively; hence the fundamental dilemma has been that countries most in need of aid are often those least able to use—thereby setting a limit on the extent to which large infusions of foreign aid can make a difference." And this is why it is necessary that official development assistance and other forms of foreign aid be targeted specifically to those sectors that would enhance the relevant measures of human development among sub-Saharan Africa countries. When effective institutions, good governance, and sound public policies are anchored on the bedrock of a healthy and productive citizenry, the multiplier effect would, on balance, create the enabling condition for short and long-term economic growth and development.

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