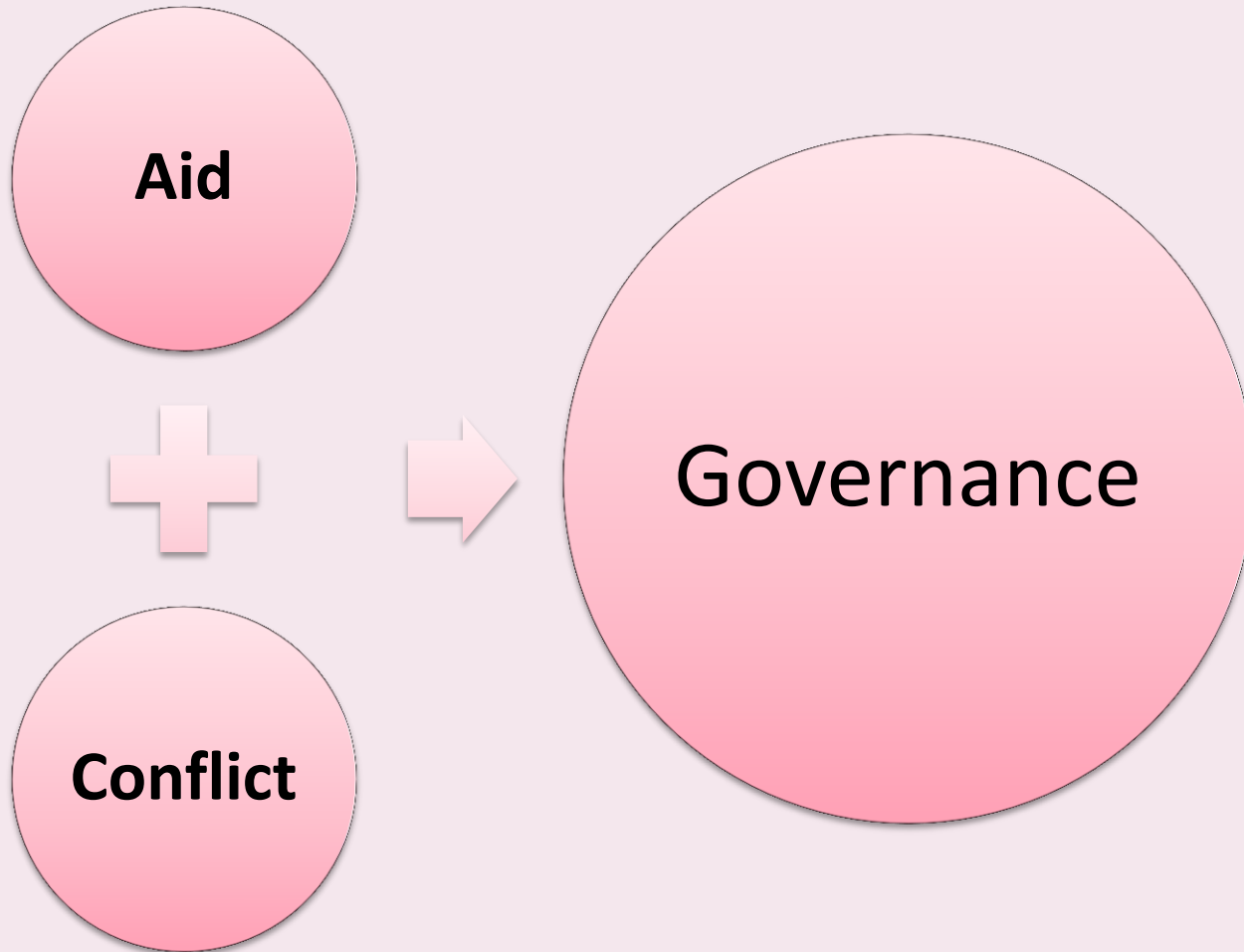


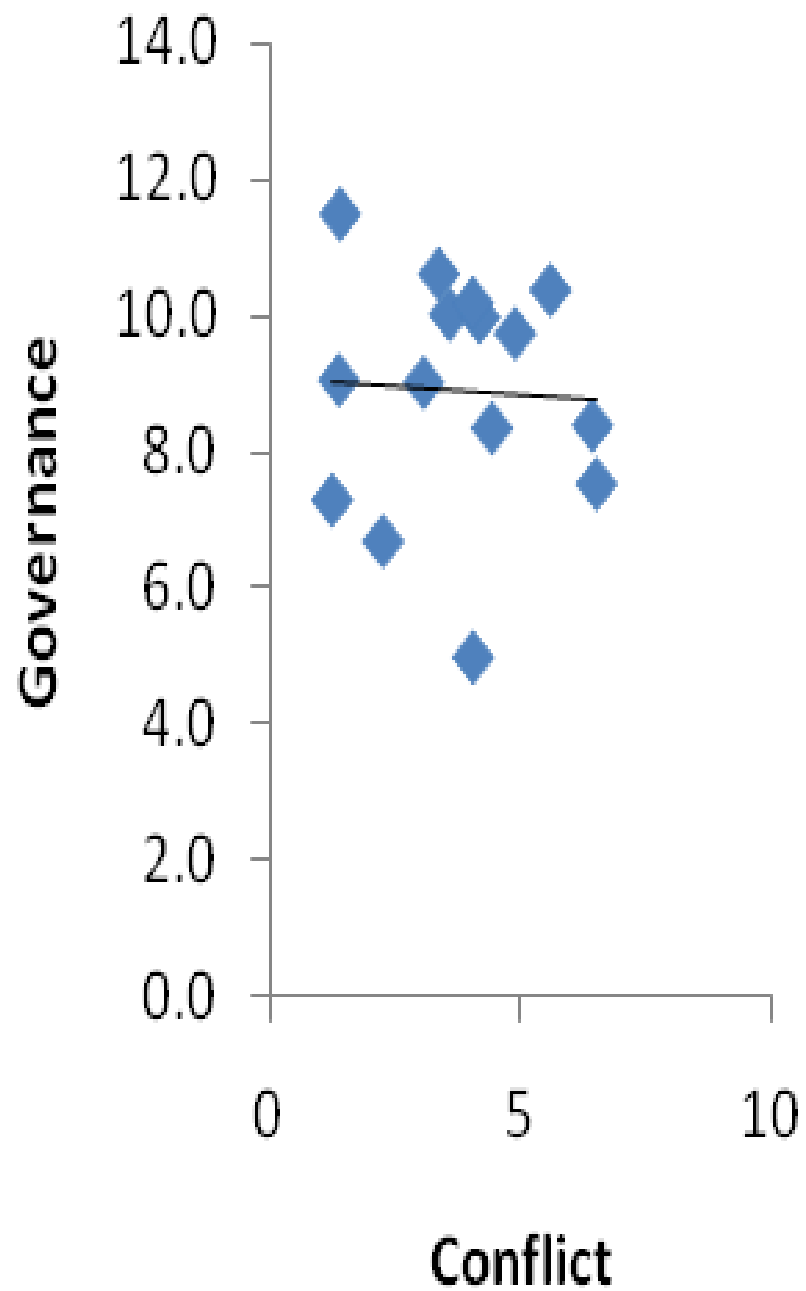
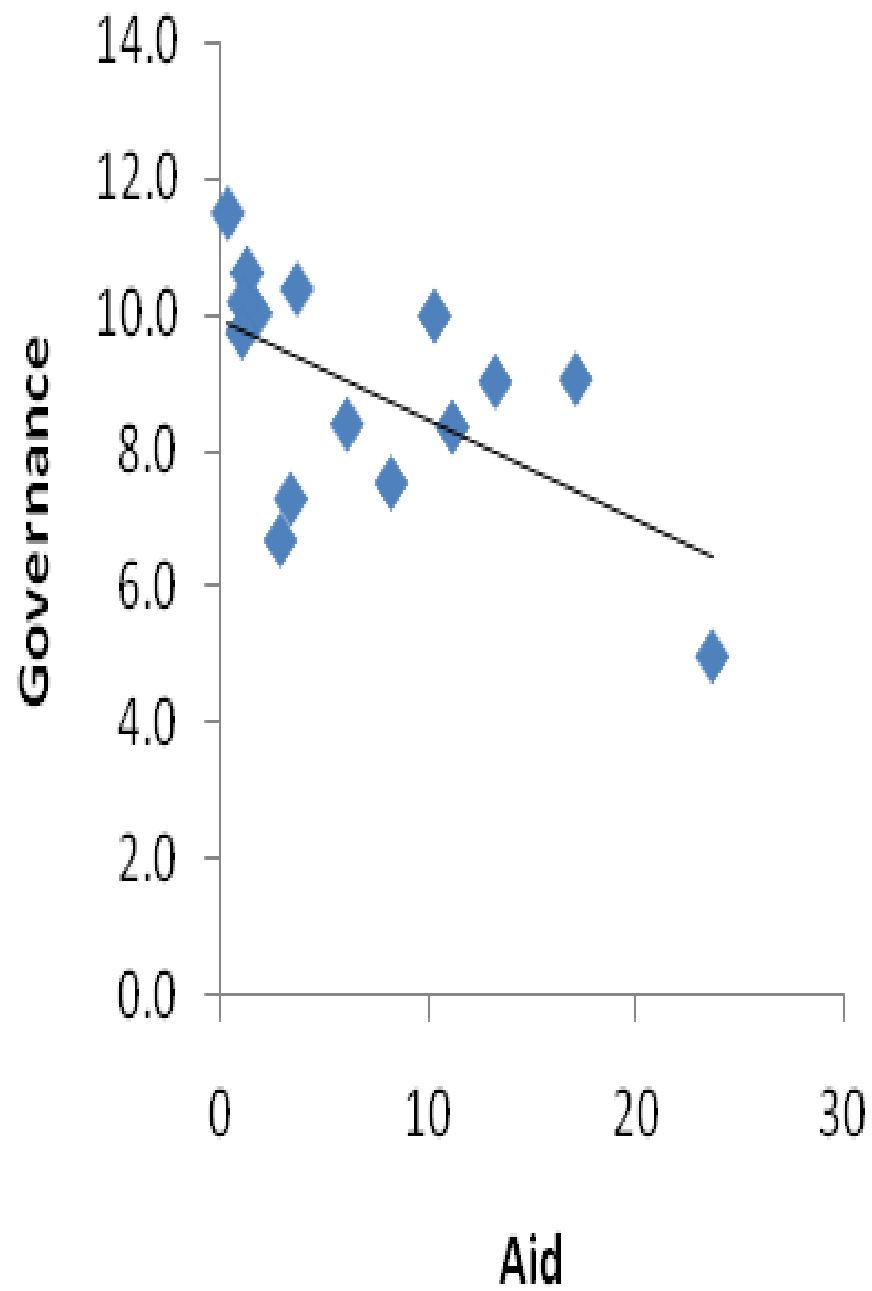
Institutional Quality, Conflict and Aid Dependency

by

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Introduction





Objective

- This study attempts to investigate, how aid dependency affects the quality of governance in developing nations by taking into consideration conflict.

Literature Review

- Knack (2001)
- Brautigam and Knack (2004)
- Busse and Groning (2007)
- Rajan and Subramanion (2007)

Data Description & Analysis

	Variable	Data Description / Source
1	Corruption	0-6 scale / ICRG
2	Bureaucratic quality	0-6 scale / ICRG
3	Rule of law	0-6 scale / ICRG
4	Governance	0-18 scale / ICRG
5	Government Stability	0-18 scale / ICRG
6	Internal conflict	0-18 scale / ICRG
7	External Conflict	0-18 scale / ICRG
8	Per capita GDP	WDI 2011
9	Population	WDI 2011
10	Infant Mortality	WDI 2011
11	Aid	WDI 2011

Table 1: Summary Statistics

	GOV	GS	CF	PGDPG	POP	AID
Mean	8.93	7.61	4.75	2.98	143000000	7.08
Median	9.33	7.83	4.47	3.35	55068880	3.71
Maximum	14.50	12.00	15.00	15.27	1340000000	57.60
Minimum	1.00	1.00	0.00	-16.51	1467846	-1.01
Std. Dev.	2.53	2.33	3.02	4.45	296000000	9.50

Table 2: Correlation Matrix

	GOV	GS	CF	PGDPG	POP	AID
GOV	1					
GS	0.36	1				
CF	-0.44	-0.45	1			
PGDPG	0.15	0.10	-0.11	1		
POP	0.03	0.13	-0.10	0.39	1	
AID	-0.38	-0.37	0.27	-0.19	-0.18	1

Table 3: Correlated Random Effects - Hausman Test

Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		28.626186	4	0.0000
Cross-section random effects test comparisons:				
Variable	Fixed	Random	Var(Diff.)	Prob.
GOV(-5)	0.141370	0.225035	0.000479	0.0001
AID	-0.038570	-0.035330	0.000075	0.7087
PGDPG	0.052644	0.054125	0.000010	0.6427
POP	-0.000000	-0.000000	0.000000	0.0078
Cross-section random effects test equation:				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.12249	0.867516	11.66836	0.0000
GOV(-5)	0.141370	0.049936	2.831046	0.0049
AID	-0.038570	0.016918	-2.279805	0.0233
PGDPG	0.052644	0.023758	2.215818	0.0274
POP	-1.38E-08	4.97E-09	-2.782563	0.0057
R-squared	0.42	F-statistic		12.43
Adjusted R-squared	0.39	Prob(F-statistic)		0.000

Table 4

Variable	Law	Bureaucracy	Corruption
C	2.732935 (0.3740)*	1.9814 (0.3322)*	3.5250 (0.4051)*
index(-5)	0.118913 (0.0477)**	0.4185 (0.0463)*	0.1400 (0.0554)**
AID	-0.024958 (0.0081)*	-0.0161 (0.0069)**	0.0002 (0.0071).
PGDPG	0.01827 (0.0113).	0.0163 (0.0098)***	0.0003 (0.0103).
POP	3.06E-09 (0.25E-09).	-8.93E-11 (0.21E-11).	-9.03E-09 (0.22E-09)*
N	329	329	329
Mean dependent var	3.47	3.19	2.56
R_sq	0.51	0.55	0.36
adj. R_sq	0.49	0.52	0.32
S.E. of regression	0.82	0.71	0.73
F-statistic	18.26	20.85	9.53

Table 5

Variable	Fixed Effect Model		2SLS Model	
	1	2	3	4
C	10.1224 (0.86)*	10.9695 (0.8219)*	15.4832 (2.1090)*	16.8738 (1.9352)*
Gov(-5)	0.1413 (0.0499)*	0.1303 (0.0468)*	0.3089 (0.0760)*	0.2499 (0.0718)*
AID	-0.0386 (0.0169)**	-0.0105 (0.0164)	-0.0746 (0.0274)*	-0.0648 (0.0275)**
PGDPG	0.0526 (0.0238)**	0.0404 (0.0223)***	0.1935 (0.0928)**	0.1689 (0.0904)***
POP	-1.38E-08 (0.50E-08)*	-1.14E-08 (0.47E-08)**	-6.15E-08 (1.43E-08)*	-6.16E-08 (1.38E-09)*
CF		-0.3007 (0.0450)*		-0.2019 (0.0666)*
N	328	328	328	328
Mean dependent var	9.26	9.25	9.26	9.26
R_sq	0.42	0.49	0.18	0.25
adj. R_sq	0.39	0.46	0.13	0.21
S.E. of regression	1.62	1.59	2.02	1.93
F-statistic	12.44	15.79		
J-statistic			1.76	3.88
Prob(F/J-statistic)	0	0	0.41	0.15

Conclusion & Policy Implication

- Results indicate that foreign aid erodes the institutional quality in case of Asian developing countries
- Countries that are fighting against the conflict are facing the weaknesses in their institutional structure which in turn deteriorate the quality of governance.
- For sustainable growth and effective utilization of foreign aid it is necessary that the government should try first to eradicate the external as well as internal conflict. If the government get control over the conflict then it will be possible for recipient country to improve the quality of governance by strengthening the civil services, enforcing rules and regulation through independent judiciary.
- Strong bureaucracy and independent court system may dissuade the corruption, bribery and baseness.

Thank you