

TOPIC :
EFFECTS OF CORRUPTION
OF FOREIGN AID ON
POVERTY AND
INEQUALITY IN
SUB-SAHARAN COUNTRIES



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Agenda

TODAY'S PRESENTATION

Overview

Key Issue

Lesson Learn

Conclusion

EXTREME POVERTY

Million of African people are still living in an extreme poverty with the average income of bottom 41 percent less than \$1.9 per day

POLITICAL

Western countries have a good political structure and government, they never constructed that for African countries and has become problematic. When African countries became sovereign, the issue occur as people were lack of knowledges about politics

overview

INDEPENDENCE

After gaining independence the countries have to govern themselves .
The structure of politics is to be blamed as it gives power only to minority who put their advantages over society.

" CORRUPTION HAS LED TO THE FAILURE OF THE STATE IN MANY DIMENSIONS "

: poverty and inequality have also reduced the government revenue and lead to disproportionate taxation

KEY ISSUES :

**How does corruption itself
bolster the Ebola outbreak?**



How does corruption itself bolster the Ebola outbreak?

THE EBOLA VIRUS DISEASE (EVD)

- An epidemic that swept through African often took place in the Sub-saharan region.

VACCINE

- Since 2019, the vaccination has been discovered, hundreds of thousands of people have been exposed because of the virus.

INTERNATIONAL AID FUND

- African countries are commonly known as a region that received the highest amount of international aid funds

GOVERNMENT'S LOW-TRANSPARENCY

- Many scholars have pointed to a high degree of government's low-transparency as an influence of the inadequate fund during the outbreak

CORRUPTION

- When this aid flow is merged with its high levels of corruption, aid will be transformed into private wealth, rather than public funds.
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Corruption and poverty



: TABLE 4

Corruption has led to an increase in poverty through unequal land distribution, low level of social spending, low level of growth rate, and education inequality.

Table 4. Corruption and Poverty: Instrumental Variable Estimates
(Dependent variable: income growth of the bottom 20 percent)

Independent Variable	(1)	(2)	(3)	(4)	(5)
Constant	0.92 1/ (0.48)	0.02 (0.77)	0.08 * (1.59)	-0.04 (-1.10)	-0.10 (-0.99)
Natural resource abundance	-0.13 * (-1.48)	-0.10 (-1.01)	-0.13 * (-1.65)	-0.18 ** (-1.70)	-0.12 * (-1.38)
Initial income of the bottom 20 percent ($\times 10^4$)	-0.48 ** (-1.79)	-0.54 * (-1.50)	-0.60 ** (-1.91)	-0.11 ** 2/ (-2.42)	-0.77 (-2.08) **
Initial secondary schooling	0.02 * (1.61)	0.02 * (1.58)	0.02 ** (1.79)	0.03 ** (2.04)	0.02 ** (2.06)
Education inequality		-0.02 ** (-1.73)			0.02 * (1.63)
Initial Gini coefficient for land ($\times 10^3$)			-0.99 * (-1.47)		0.55 (0.57)
Social spending ($\times 10^2$) ***				0.54 ** (2.34)	0.46 (2.51)
Growth in corruption	-0.02 (-0.72)	-0.08 (-1.16)	-0.25 1/ (-0.10)	-0.10 ** (-2.21)	-0.06 ** (-1.85)
Adjusted generalized R^2	0.05	0.07	0.13	0.30	0.35
Number of observations	41	41	37	35	31
P-value for Sargan's misspecification test	0.39	0.74	0.91	0.73	0.28

Notes: Numbers in parentheses are t-statistics based on White heteroscedasticity-consistent standard errors. The adjusted generalized R^2 is the measure of adjusted R^2 for regressions estimated by instrumental variable technique; see Pesaran and Smith (1994). Sargan's misspecification test is a test of validity of instruments. The instruments are fraction of a country's population that speaks English at home, distance of a country from the equator, and an index of ethno-linguistic diversity. The corruption index is multiplied by -1 so that a high value of growth in the index indicates a high growth rate of corruption.

1/Multiplied by 100.
2/Multiplied by 1000.

*** Significant at 1 percent level; ** significant at 5 percent level; and * significant at 10 percent level.



“Rapid economic growth increases the incomes of the poor and hence reduces poverty, increases in corruption hurts the poor rather than the rich and powerful (Kwabena G, 2001)”

The research in Liberia provides that among the people with low socioeconomic status, there is a higher tendency for the virus to be transmitted 3.5 times as many people as those living in rich areas.



Socioeconomic Status

Table 3. Risk ratio of transmission to secondary cases in low, middle, or high SES communities, given SES of the source case.

		Secondary Cases			Risk ratio
		Low SES	Middle SES	High SES	
Source case	Low SES (17.2%) ¹	5.45 (5.05–5.87) ²	1.79 (1.60–1.99)	1.26 (1.10–1.43)	2.16 (2.03, 2.31)
	Middle SES (35.4%)	0.65 (0.55–0.74)	1.13 (1.04–1.21)	0.91 (0.83–0.98)	0.94 (0.88, 0.99)
	High SES (47.4%)	0.31 (0.26–0.36)	0.56 (0.52–0.61)	0.78 (0.73–0.82)	0.62 (0.59, 0.66)



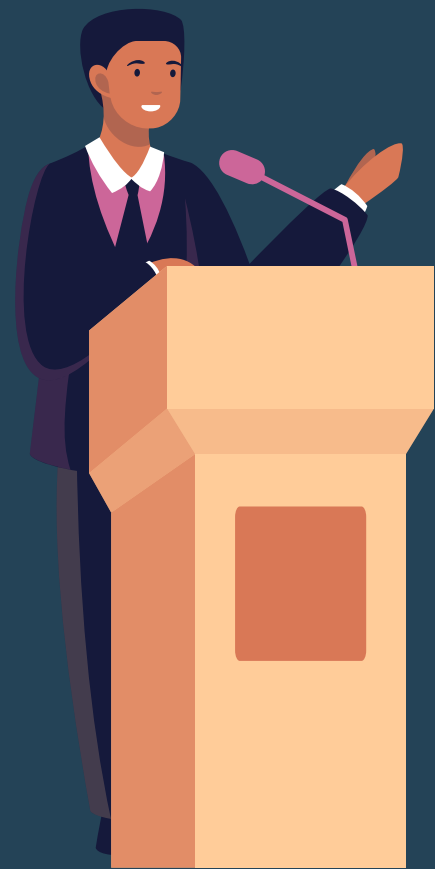
: TABLE 3

People with low SES (Socioeconomic Status) have a higher risk ratio.

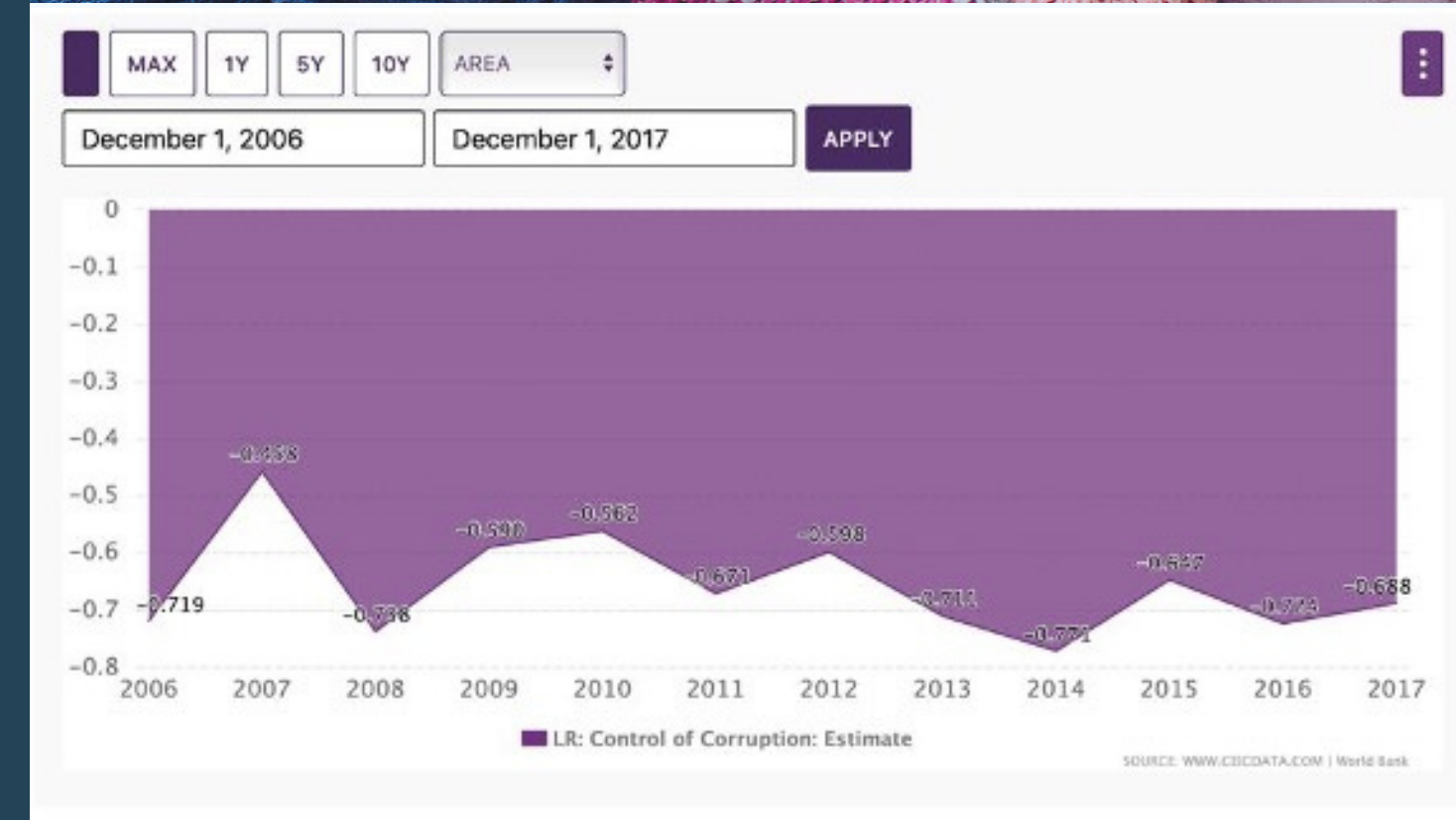


Corruption has many effects on society and all social welfare which are quality of living, education, transportation, and health care.

Government actions on corruption



- A method called “ the principal–agent theory” for reducing the corruption problems.
- The principal–agent theory for reducing corruption encapsulates the idea that government performance can be improved if incentive–based contracts between different actors are implemented.
- Example: Liberia under new president did a magnificent performance on reducing corruption (adapting the principal agent theory).



Lesson Learn

WITHOUT CORRUPTION

 FUNDS / REVENUE

 GOVERNMENT

SOCIAL WELFARE



CORRUPTION

 FUNDS / REVENUE

LESS

 GOVERNMENT

NOT ENOUGH

SOCIAL WELFARE

GET LESS -OR- NOTHING



Conclusion

- **Most of the population** lives in *extreme poverty* as there is a **large gap** within the income distribution.
- The main *reason* is the **high corruption levels** created by the Western colonization process.
- **European settlers** gave *more incentives* to the *African bureaucrats* to tax the population as much as possible.
- The **population is heavily taxed**, the *government revenue* is actually reduced.



- **Corruption** in the government had also worsened the *Ebola epidemic* due to the low transparency levels and poor control measures which adds to **higher poverty levels**.
- Results also suggest that a slight **increase in corruption levels** can lead to *negative impacts* in the GDP growth rate and income growth rate.
- The **corrupted government** is also seen negatively by their population which adds *more problems* to developing the population.
- Implications are that the **gap in income distribution** *within the country* will only continue to widen because of **corruption**

