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EVALUATING THE AD-HOC IMPACT OF FISCAL POLICY AND GOVERNANCE QUALITY IN ATTRACTING THE OFFICIAL DEVELOPMENT ASSISTANCE: A TESTIMONIAL FROM EAST AFRICAN COUNTRIES

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Abstract. Numerous studies have exclusively focused on foreign direct inflow attraction whereas the relative attraction of official development assistance (ODA) has relatively seldom been addressed, particularly in the context of spillover attraction in East Africa. In contrast to FDI, official development assistance, requires lesser complex frameworks for donors although the idiosyncrasy of philanthropic grants for developing nations such Africa is more unlikely without a cardinal governmental strategy. Accordingly, in this paper we examine how adequate fiscal policy in East Africa contributes to increase of official development assistance (I), we also addressee how governance quality facilitates the barrier for ODA inflow which in turn provides a decent inflow for recipient state. To provide empirical answers, the study employed panel cointegration test Ols test to explore the impact and relationship, similarly a granger causality test was used to observe future effect. According to the findings, fiscal policy manifested a negative long run association with official development assistance. Which brings the light how East Africa region are still stagnating in the sense of failing to implement adequate fiscal policy. This poor budget implications with a limited portfolio fails the assurance of providing a concise distribution at different public sectoral which in turns alters potential external aid. At the same time, the finding in this article also demonstrates that aid may have adverse fiscal policy-related repercussions that are not just harmful but also ineffectual. Channeling help to nations with "poor policies" does not solve the problem: funding consistently weakens positive policies that already exist while encouraging aid dependency. On the other hand, Governance factors positively attracts ODA spillover. This Panacea of Governmental quality for ODA materialization in the long-run can be attributed on how ODA is attracted toward nations with greater transparency level.

Key words: aid assistance, East Africa, budget implication, fiscal policy, bureaucratic quality.

JEL Classification: E62, E61, H72

1. Introduction

Official development assistance (ODA) is a type of government assistance that specifically targets and promotes the economic development and welfare of developing countries, and is an important means for developing countries to overcome bottlenecks in their own economic development. Certainly, Low-income developing nations will have to rely heavily on ODA as a source of foreign capital since they are mostly overlooked by private foreign investors and, pragmatically, cannot entice private investment through projects that offer high lucrative and fairly low-risk private returns, considering their current capital share. For example, in our fast-globalizing world, the vast majority of developing nations won't be able to increase their rates of development if their rates of investment stay confined by national savings, and unsupported by ODA. (Kim and Gray, 2016; Azam and Feng, 2021; Lang, 2021) Indeed, private investors seeking the best market returns will adopt a wait-and-see approach toward these nations notwithstanding the remarkable expansion of private capital flows, and would rather shift towards more sophisticated emerging countries

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capable of giving higher returns. Therefore, in order to lessen the differences in the rates of growth of the various developing nations, ODA must play a significant role.

For many years and even for the current time, aid was perceived as a tactical tool to support the underdevelopment of the periphery in order to maintain the current global structure in the interests of the core rather than as a kind of compassion from the giver to the recipient. As part of a larger effort by core nations to ensure access to raw commodities, it was believed that their support for autocracy served to block developing countries' aspirations of self-determined economic growth and to create corruption and reliance. Similarly, the notion of an imperial system has been revived under the banner of liberal interventionism, according to some scholars; aid was viewed as a particular sort of "liberal imperialism".

Although, as has been frequently remarked, the contribution of ODA by developing countries has resulted in a diversity of participants, ideas, aims, and instruments in the area of international development. It is suggested that prior interpretations of assistance in terms of North-South dynamics are becoming increasingly problematic due to this power distribution in the international assistance architecture. The emergence of new donors has challenged traditional assistance standards and principles, notably those of the OECD Development Assistance Committee, and further divided and convoluted the existing global aid structure. Some people see new donors' assistance initiatives as promising alternatives to the predominant aid/development paradigm. It is suggested that they have been at least equally beneficial as Western programs, if not more so, especially in light of their quick accomplishment of crucial infrastructure improvements and focus on growth-induced economic progress. The development support given by emerging donors is in fact perceived by aid recipients as being substantially less opportunistic than conventional Western aid and as effectively comprehending their concerns and demands in terms of advancement.

Numerous potential papers have underlined the substantial benefit of ODA in the different public sectors. (Li et al., 2021; Gatto, A. and Sadik-Zada, E.R, 2021) in their study of East Asian countries noted that greater ODA spillover is interlinked positively with education and ecological footprint reduction which retroactively infuses economic betterment in the region. In a similar vein, the relative ad-hoc effect of ODA on the health sector had been proven by. (Negeri G., Haile Mariam D., 2016) Certainly, previous authors have proven the effect of ODA, yet to the author's knowledge no research has evaluated the effect of fiscal policy and government quality factors on ODA attraction. For instance, Economic and social growth, which are the primary objectives of ODA, are correlated with governments' effectiveness. Unless government uphold the rule of law, adopts sound economic policy, and opts for certain appropriate public investments; the predominance of an alternative scenario would result in stalemate, whereas, ineffective government with relatively poor performance will likely have negative consequences in developing countries. Accordingly, we aim to assess how East African countries' Fiscal policy factors influence Official development assistance both in the short-run and the long-run, while simultaneously examining the role of governance in stimulating such a monetary aid assistance.

2. Methodology

2.1. Data description and variables

The analysis takes into account the data's cross-country and historical variance. The data sample includes seven countries from Eastern Africa namely Burundi, Ethiopia, Kenya, Rwanda, Sudan, Tanzania, and Uganda. The paper uses annual statistics from the years 2000 through 2021. The current paper estimates the factors that attract official development assistance in the region. Within this scope, the study is classified into two major categories, the first category consists of analyzing the role of fiscal policy components in attracting official development assistance. Whereas, the second category compromises the role of adequate governance components in attracting official development assistance. As a result, the paper nominated factors such as expenditure in education, expenditure in the military, expenditure in healthcare, domestic credit to the private sector, gross capital formation, inflation, and final consumption expenditure as a determinant for the fiscal policy. On the other side, factors such

Table 1
Variable's description

Variables	Abbreviation	Measurement	Proxy
Dependent	ODA	The logarithm of net official development assistance and official aid received (current US$)	Proxies the fiscal policy components
Independent variables of fiscal policy	LE	The logarithm of adjusted savings: education expenditure (current US$)	
	H	Domestic general government health expenditure (% of general government expenditure)	
	FC	Final consumption expenditure (% of GDP)	
	ME	Military expenditure (% of general government expenditure)	
	DC	Domestic credit to private sector (% of GDP)	
	CF	Gross capital formation (% of GDP)	
	IF	Inflation, consumer prices (annual %)	
Independent variables of governance quality	C	Control of Corruption: Percentile Rank	Proxies the governance quality components
	GE	Government Effectiveness: Percentile Rank	
	PS	Political Stability and Absence of Violence/Terrorism: Percentile Rank	
	RQ	Regulatory Quality: Percentile Rank	
	RL	Rule of Law: Percentile Rank	
	VA	Voice and Accountability: Percentile Rank	

as control of corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice accountability as measurements for adequate governance. To proceed with the investigation the paper performed, OLS regression to assess the effect echoed by variables in proportion to the dependent variable. Next, a PMG-ARDL is performed to observe both the long-run and short-run impact of the variables. Finally, a granger causality test is used to determine the causal direction among the variables. The data are collected from the World Bank Database.

3. Model specification

The formula below denotes the fundamental format the paper employs in order to investigate the researched phenomena.

$$ODA_t = \int\left(LE_t, H_t, FC_t, ME_t, DC_t, CF_t, IF_t\right) \quad (1)$$

$$ODA_t = \int\left(C_t, GE_t, PS_t, RQ_t, RL_t, VA_t\right) \quad (2)$$

Furthermore, in order to explore the factors that influence the financial institution's performance in the gulf region the study used a panel ARDL that consists of Pooled Mean Group (PMG), with additional simple OLS regression developed by. (Pesaran et al., 1999) For a number of reasons, this model is expected to deliver more reliable findings than the customary dynamic panel models. Because the data include a modest number of countries (N = 7 countries) relative to the chosen period (T = 21 years). Additionally, the benefit of this technique is that it examines the existence of a cointegration connection between the elements, irrespective of the magnitude of serial correlation between the variables. As suggested by Arellano and Bond (1991) a longer time period entails an increasing number of instruments that may affect the test's validity and, consequently, the null hypothesis of instrument exogeneity. For the periods t = 1, 2,..,T and the nations I = 1, 2,..,N, the model is expressed as the follow:

$$\Delta y_{it} = \varnothing_i\left[y_{i,t-1} - \lambda'_i X_{i,t}\right] + \sum_{j=1}^{p-1}\xi_{ij}\Delta y_{i,t-j} + \sum_{j=0}^{q-1}\beta'_{ij}\Delta X_{i,t-j} + \varphi_i + e_{it} \quad (3)$$

$$\Delta \mathrm{ODA}_{it} = \varnothing_i\left[\mathrm{ODA}_{i,t-1} - \lambda'_i X_{i,t}\right] + \sum_{j=1}^{p-1}\xi_{ij}\Delta \mathrm{ODA}_{i,t-j} + \sum_{j=0}^{q-1}\beta'_{ij}\Delta X_{i,t-j} + \varphi_i + e_{it} \quad (4)$$

In the equation above the dependent variable ΔODA_{it} which is the official development assistance is expressed in form of panel ARDL. Additionally, we have the X_{it} which implies the vector of our independent variables it includes both the fiscal components factors such as expenditure in education (LE_{it}), health expenditure (H_{it}), total government consumption (FC_{it}), military expenditure (ME_{it}), domestic credit to the private sector (DC_{it}), capital formation (CF_{it}), inflation rate (IF_{it}). And the governance quality components such as control of corruption (C_{it}), government effectiveness (GE_{it}), political stability (PS_{it}), regulatory quality (RQ_{it}), rule of law (RL_{it}), and voice and accountability (VA_{it}). λ'_i are the lag coefficients of our mains factors. ξ_{ij} and β'_{ij} are the short run-dynamic coefficients.

Additionally, it was intended to record how the different variables related to one another causally. The Granger causality test, recommended by (Granger, 1969), was performed to ascertain whether there is a causal link between the variables. Below a more comprehensive explanation of the model is provided:

$$X_t = \sum_{l=1}^{p}\left(a_{11,1}\mathrm{X}_{t-1} + a_{12,1}\mathrm{Y}_{t-1}\right) + \mu_t \qquad (5)$$

$$Y_t = \sum_{l=1}^{p}\left(a_{21,1}\mathrm{X}_{t-1} + a_{22,1}\mathrm{Y}_{t-1}\right) + \epsilon_t \qquad (6)$$

As illustrated in equation (5) and (6) is the model order, $a_{ij,1}(i,j=1,2)$ are the coefficients of the model, and $\propto_t$ and ϵ_t denotes the residuals. Ordinary least squares can be used to estimate the coefficients, and F tests can identify the Causality relationship between X and Y.

4. Results

Table 2 displays the statistics results for the fiscal policy components. ODA shows an average value of 9.19% for the selected period. Additionally, the table records a maximum value of 9.72% for ODA and a minimum value of 7.9%. Based on the results, FC, CF, and IF revealed the largest standard deviation values, indicating that these components had a high level of volatility. In addition, the distribution is positively skewed, for all the variables except for the ODA, LE, and CF. What is more, according to the results all the variables exhibit a negative correlation with the ODA except for LE, CF, and IF. The absence of high correlation coefficients allows the exclusion of the multicollinearity possibility among the variables. Additionally, determining multicollinearity based on the correlation matrix is not robust. As consequence, the Variance inflation factor is carried on to estimate the relationship among the explanatory factors in regression models. To be precise the more VIF rises the less authentic and reliable the regression results will be. For instance, a VIF over 10 demonstrates an excessive correlation and reason for worry. Mostly, the authors propose a safe degree of 5 to 10. Hence in conformity with the Table 2 outcome, all the variables have a variance of less than 4 which suggest that the study is free from multicollinearity. (Myers, 1990)

The statistics result for the governance components are shown in Table 3. We believe that C, GE, RQ, and RL have the highest standard deviation values, indicating that these components were highly volatile. Furthermore, for all variables except ODA, the distribution is positively skewed. Furthermore, the results show that all variables have a positive correlation with ODA. This implies that increasing one of these variables will increase ODA and vice versa. Furthermore, the variance inflation factor indicates that the study is not multicollinear.

The component of this study consists of a panel data structure of 7 countries. Therefore, in order to determine whether the data is stable and the variables are stationary, the unit root test must be considered before proceeding with the regression. Hereby, in table 4 the study employed the Im-Pesaran-Shin test to assess the stationarity of the variables. Within this context, the Im-Pesaran-Shin test reveals that all the variables displayed to be stationary at first difference except for ODA, LE, H, ME, IF, GE, and PS. Hence, we can proceed with the regression models.

According to the Pedroni (1999) cointegration test presented in Table 5, all the variables display to be cointegrated at 10%, 5%, and 1% significance levels. Panel 1 which consist of both the fiscal and governance components exhibit that four of the seven Pedroni residual cointegration tests confirm that the variables are cointegrated. Additionally, Kao (1999) test disclosed that all the variables are cointegrated at a 1% significance level. Hence, we conclude the presence of a long-run cointegration among the variables as a result we will continue performing the PMG-ARDL model.

Table 6 illustrates the PMG-ARDL results for the fiscal policy component in proportion to ODA

Table 2

Statistics results for the fiscal policy components

Descriptive Statistics								
	ODA	LE	H	FC	ME	DC	CF	IF
Median	9.191	8.738	7.327	85.57	7.019	13.16	22.09	7.667
Maximum	9.724	9.684	18.28	113.7	43.15	36.69	43.21	382.8
Minimum	7.969	7.332	2.091	60.58	3.605	0.000	0.000	-8.237
Std. Dev.	0.355	0.542	2.379	12.03	7.271	8.156	10.30	33.44
Skewness	-0.609	-0.344	0.694	0.196	1.839	0.357	-0.322	1.323
Kurtosis	2.912	2.620	5.195	2.468	2.166	3.077	2.821	4.88
Jarque-Bera	9.588	3.974	43.32	2.800	151.2	3.319	2.878	62464.01
Observations	154	154	154	154	154	154	154	154
Correlation Matrix								
	ODA	LE	H	FC	ME	DC	CF	IF
ODA	1.000							
LE	0.828	1.000						
H	-0.142	0.032	1.000					
FC	-0.613	-0.654	-0.253	1.0000				
ME	-0.373	-0.262	0.266	-0.172	1.000			
DC	-0.132	0.063	0.020	0.404	-0.223	1.000		
CF	0.450	0.539	0.190	-0.637	-0.116	-0.336	1.000	
IF	0.097	0.032	-0.121	-0.059	0.026	-0.140	-0.051	1.000
VIF		3.23	1.27	3.95	1.51	1.83	2.08	1.06

ODA: official development assistance, LE: Adjusted savings education expenditure, H: Domestic general government health expenditure, FC: Final consumption expenditure, ME: Military expenditure, DC: Domestic credit to private sector, CF: Gross capital formation, IF: Inflation, consumer prices.

Source: created by the author

Table 3

Statistics results for the governance components

Descriptive statistics							
	ODA	C	GE	PS	RQ	RL	VA
Median	9.191	20.77	29.49	12.62	28.60	30.09	19.84
Maximum	9.724	75.48	63.46	52.83	60.096	61.53	44.23
Minimum	7.969	0.473	2.162	0.529	3.846	1.990	2.463
Std. Dev.	0.355	18.33	15.30	13.318	16.10	15.44	12.88
Skewness	-0.609	1.102	0.121	1.095	0.110	0.065	0.182
Kurtosis	2.912	3.663	2.220	3.3219	1.631	1.968	1.690
Jarque-Bera	9.588	33.99	4.274	31.49	12.32	6.939	11.86
Observations	154	154	154	154	154	154	154
Correlation Matrix							
	ODA	C	GE	PS	RQ	RL	VA
ODA	1.000						
C	0.167	1.000					
GE	0.404	0.706	1.000				
PS	0.212	0.724	0.677	1.000			
RQ	0.205	0.441	0.808	0.648	1.000		
RL	0.507	0.684	0.863	0.771	0.760	1.000	
VA	0.350	0.053	0.432	0.420	0.636	0.504	1.000
VIF		4.11	4.91	3.71	4.53	5.63	2.22

C: control of corruption, GE: government effectiveness, PS: Political Stability; RQ: Regulatory Quality, RL: Rule of Law, VA: Voice and Accountability

Source: created by the author

Table 4
Unit root test

Im, Pesaran and Shin						
Variables	**At level**		**At first difference**		**Decision**	
	Statistic	**Note**	**Statistic**	**Note**	**Lag**	
ODA	-2.187**	Stationary	-4.593***	Stationary	1	I (0) I (I)
LE	-2.004**	Stationary	-2.595***	Stationary	1	I (0) I (I)
H	-1.407*	Stationary	-7.727***	Stationary	1	I (0) I (I)
FC	-0.400	Not stationary	-5.011***	Stationary	1	I (I)
ME	-3.068***	Stationary	-6.140***	Stationary	1	I (0) I (I)
DC	-0.070	Not stationary	-4.522***	Stationary	1	I (I)
CF	-0.173	Not stationary	-4.922***	Stationary	1	I (I)
IF	-1.514*	Stationary	-9.792***	Stationary	1	I (0) I (I)
C	-1.083	Not stationary	-4.910***	Stationary	1	I (I)
GE	-2.011**	Stationary	-6.826***	Stationary	1	I (0) I (I)
PS	-1.525*	Stationary	-5.424***	Stationary	1	I (0) I (I)
RQ	-0.603	Not stationary	-5.345***	Stationary	1	I (I)
RL	-0.948	Not stationary	-6.415***	Stationary	1	I (I)
VA	-1.487	Not stationary	-4.554***	Stationary	1	I (I)

ODA: official development assistance, LE: Adjusted savings education expenditure, H: Domestic general government health expenditure, FC: Final consumption expenditure, ME: Military expenditure, DC: Domestic credit to private sector, CF: Gross capital formation, IF: Inflation, consumer prices. C: control of corruption, GE: government effectiveness, PS: Political Stability; RQ: Regulatory Quality, RL: Rule of Law, VA: Voice and Accountability

Source: created by the author

Table 5
Panel Cointegration test

Panel 1: Pedroni test for fiscal policy			Panel 1: Pedroni test for governance quality		
Pedroni panel cointegration test – within-dimension			*Pedroni panel cointegration test – within-dimension*		
	Statistic	Prob.		Statistic	Prob.
Panel v-Statistic	0.426428	0.3349	Panel v-Statistic	-3.613471	0.9998
Panel rho-Statistic	0.197598	0.5783	Panel rho-Statistic	0.456375	0.6759
Panel PP-Statistic	-4.427178***	0.0000	Panel PP-Statistic	-3.123942***	0.0009
Panel ADF-Statistic	-1.542702*	0.0615	Panel ADF-Statistic	-3.128953***	0.0009
Pedroni panel cointegration test – between-dimension			*Pedroni panel cointegration test – between-dimension*		
Group rho-Statistic	1.697601	0.9552	Group rho-Statistic	1.872971	0.9695
Group PP-Statistic	-6.561069***	0.0000	Group PP-Statistic	-3.958130***	0.0000
Group ADF-Statistic	-1.779049**	0.0376	Group ADF-Statistic	-2.577499***	0.0050
Panel 2: Kao residual cointegration Test			Panel 2: Kao residual cointegration Test		
	Statistic	Prob.		Statistic	Prob.
ADF	-4.030001***	0.0000	ADF	-3.017195***	0.0013

***, **, and * denotes 1%, 5%, and 10% respectively

Source: created by the author

attraction. As per the results, we perceive that in the long run, all the fiscal policy components negatively influence the ODA attraction. This suggests that in the long run, the fiscal policy of the East African countries is unfavorably affecting the ODA inflows in the region. However, in the context of short-run period factors such as expenditure in education and capital formation are positively attracting official development. For example, we detect a 1% increase in LE and CF rises by 0.36%, and 0.005% the ODA.

Table 7 presents the outcomes of the governance components in attracting the ODA. In accordance with the long-run estimates of the level of corruption, the government's effectiveness and voice, and accountability demonstrate to increase the official development assistance by 0.007%, 0.012%, and 0.01% respectively.

Table 6

PMG-ARDL results for the fiscal policy components

Long-Run estimates			
Variable	Coefficient	Std. Error	Prob.*
LE	-0.794635***	0.104272	0.0000
H	-0.048341***	0.004189	0.0000
FC	-0.028719***	0.004173	0.0000
ME	-0.027762***	0.002464	0.0000
DC	0.058680***	0.004329	0.0000
CF	-0.006300***	0.001291	0.0000
IF	-0.003092*	0.001721	0.0760
Short-Run estimates			
Variable	Coefficient	Std. Error	Prob.*
COINTEQ01	-0.275031	0.188508	0.1483
Δ (LE)	0.367731**	0.166210	0.0296
Δ (H)	0.008008	0.006436	0.2169
Δ (FC)	0.004099	0.005226	0.4351
Δ (ME)	0.013983	0.010410	0.1828
Δ (DC)	-0.000419	0.009777	0.9660
Δ (CF)	0.005482*	0.002991	0.0704
Δ (IF)	0.000338	0.000950	0.7227
Constant	5.166863	3.546888	0.1489

*, **, and *** indicate significance at 1%, 5%, and 10% significance levels, respectively

ODA: official development assistance, LE: Adjusted savings education expenditure, H: Domestic general government health expenditure, FC: Final consumption expenditure, ME: Military expenditure, DC: Domestic credit to private sector, CF: Gross capital formation, IF: Inflation, consumer prices.

Source: created by the author

Table 7

PMG-ARDL results for the governance quality components

Long-Run estimates			
Variable	Coefficient	Std. Error	Prob.*
C	0.007898**	0.003292	0.0188
GE	0.012464***	0.003702	0.0012
PS	0.002960	0.004138	0.4766
RQ	-0.007134**	0.003413	0.0398
RL	-0.006419	0.004813	0.1862
VA	0.012536***	0.003712	0.0011
Short-Run estimates			
Variable	Coefficient	Std. Error	Prob.*
COINTEQ01	-0.336866***	0.078437	0.0000
Δ ODA (-1)	-0.246079**	0.115952	0.0370
Δ ODA (-2)	-0.085992	0.181000	0.6360
Δ (C)	-0.004220	0.003650	0.2511
Δ (GE)	-0.006157	0.005131	0.2338
Δ (PS)	0.001228	0.001998	0.5406
Δ (RQ)	-0.001255	0.006490	0.8472
Δ (RL)	0.006526**	0.002205	0.0041
Δ (VA)	0.004367	0.005663	0.4429
Constant	2.921020***	0.660465	0.0000

*, **, and *** indicate significance at 1%, 5%, and 10% significance levels, respectively

C: control of corruption, GE: government effectiveness, PS: Political Stability; RQ: Regulatory Quality, RL: Rule of Law, VA: Voice and Accountability

Source: created by the author

Interestingly, we perceive that regulatory quality tends to reduce the ODA by 0.007% in the long run. Further, during the short period, all the governance components have no prominent impact on the attraction of ODA except the rule of law which exhibits to increase the official development assistance by 0.006%.

Table 8 elaborates on the OLS regression results for both the governance and fiscal components. Starting with the role of governance components in attracting the ODA the outcome indicates that GE, RL, and VA positively increase the ODA attraction by 0.012%, 0.02%, and 0.007% respectively. This suggests that government effectiveness, rule of law, and the voice of accountability play a favorable role in attracting official development assistance in East African countries. Next, factors such as the corruption level and regulatory quality appear to be reducing the ODA by 0.007%, and 0.018%. What is more, the fiscal policy components mainly display a negative influence on the ODA. For instance, the quantity of government expenditure on health, military, domestic credit to the private sector, and capital formation tend to reduce the attraction of ODA by 0.019%, 0.008%, 0.013%, 0.007%, and 0.005% respectively. Nevertheless, a 1% increase in the expenditure on education in the region reveals to increase the official development assistance by 0.43%.

After an evaluation of the cointegration between the predictor variable (ODA) and the regressors (LE, H, FC, ME, DC, CF, IF, C, GE, PS, RQ, RL, and VA), the pairwise granger causality test will be carried out to assess the link between the variables. Starting with Model 1, which reflects the fiscal policy outcomes. We witness unidirectional causation extending from ODA to H, DC, and CF. This implies that granger causes health spending, domestic credit to the private sector, and gross capital formation. The test next revealed bidirectional causation between the ODA, LE, and ME. The remaining factors showed no indication of causation with ODA. Furthermore, the outcomes of the second model, which includes the governance components, indicate that all variables have one-way causation

Table 8
OLS results

Governance quality components		Fiscal Policy components	
Variables	ODA	Variables	ODA
C	-0.00700***	LE	0.438***
	(0.00255)		(0.0440)
GE	0.0124***	H	-0.0195***
	(0.00387)		(0.00581)
PS	-0.00476	FC	-0.00848***
	(0.00306)		(0.00202)
RQ	-0.0183***	ME	-0.0131***
	(0.00287)		(0.00229)
RL	0.0212***	DC	-0.00724***
	(0.00307)		(0.00181)
VA	0.00758***	CF	-0.00536***
	(0.00229)		(0.00132)
		IF	0.000192
			(0.000254)
Constant	8.795***	Constant	6.525***
	(0.0564)		(0.550)
Observations	154	Observations	154
R-squared	0.512	R-squared	0.802

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

ODA: official development assistance, LE: Adjusted savings education expenditure, H: Domestic general government health expenditure, FC: Final consumption expenditure, ME: Military expenditure, DC: Domestic credit to private sector, CF: Gross capital formation, IF: Inflation, consumer prices. C: control of corruption, GE: government effectiveness, PS: Political Stability; RQ: Regulatory Quality, RL: Rule of Law, VA: Voice and Accountability

Source: created by the author

Table 9

Granger causality test

Model 1. Fiscal Policy				
Null Hypothesis:	W-Stat.	Prob.	Decision	Direction
LE does not homogeneously cause ODA	3.20793***	0.0017	Dismiss	Bidirectional
ODA does not homogeneously cause LE	7.81270***	0.0000	Dismiss	
H does not homogeneously cause ODA	1.91182	0.2351	Maintain	Unidirectional
ODA does not homogeneously cause H	4.18249***	4.E-06	Dismiss	
FC does not homogeneously cause ODA	1.10798	0.9795	Maintain	No-Causality
ODA does not homogeneously cause FC	1.78818	0.3169	Maintain	
ME does not homogeneously cause ODA	3.79016***	6.E-05	Dismiss	Bidirectional
ODA does not homogeneously cause ME	5.84906***	1.E-12	Dismiss	
DC does not homogeneously cause ODA	1.06390	0.9265	Maintain	Unidirectional
ODA does not homogeneously cause DC	2.52509**	0.0346	Dismiss	
CF does not homogeneously cause ODA	1.33765	0.7483	Maintain	Unidirectional
ODA does not homogeneously cause CF	2.29910*	0.0764	Dismiss	
IF does not homogeneously cause ODA	1.41138	0.6656	Maintain	No-Causality
ODA does not homogeneously cause IF	0.82282	0.6484	Maintain	
Model 2. Governance quality				
Null Hypothesis:	W-Stat.	Prob.	Decision	Direction
C does not homogeneously cause ODA	3.24981	0.3550	Maintain	Unidirectional
ODA does not homogeneously cause C	4.48324**	0.0327	Dismiss	
GE does not homogeneously cause ODA	1.44309	0.3960	Maintain	Unidirectional
ODA does not homogeneously cause GE	6.75849***	1.E-05	Dismiss	
PS does not homogeneously cause ODA	2.22474	0.9351	Maintain	No-Causality
ODA does not homogeneously cause PS	2.92152	0.5467	Maintain	
RQ does not homogeneously cause ODA	1.90925	0.6957	Maintain	Unidirectional
ODA does not homogeneously cause RQ	5.48017***	0.0018	Dismiss	
RL does not homogeneously cause ODA	2.40456	0.9242	Maintain	Unidirectional
ODA does not homogeneously cause RL	4.01965*	0.0928	Dismiss	
VA does not homogeneously cause ODA	2.54669	0.8145	Maintain	No-Causality
ODA does not homogeneously cause VA	2.60109	0.7733	Maintain	

***, **, and * indicate significance at 1%, 5% and 10% significance levels, respectively

ODA: official development assistance, LE: Adjusted savings education expenditure, H: Domestic general government health expenditure, FC: Final consumption expenditure, ME: Military expenditure, DC: Domestic credit to private sector, CF: Gross capital formation, IF: Inflation, consumer prices. C: control of corruption, GE: government effectiveness, PS: Political Stability; RQ: Regulatory Quality, RL: Rule of Law, VA: Voice and Accountability

Source: created by the author

with ODA except for political stability and voice accountability. Table 9 shows this.

5. Discussion

Assuming that encouraging economic growth in developing nations has been the primary driver of ODA, yet there may be divergent opinions regarding the function and effectiveness of ODA depending on one's perspective on how development occurs and what the best development policies are. After years of employing foreign assistance for development cooperation, the first question that is frequently posed is: Why has foreign aid not been as effective in attaining its development objectives? In a recent study on Africa, Wang et al. (2022); Alao and Alola (2022) addressed some of these difficulties. He claims that Africa is a continent that demonstrates very clearly how foreign aid fails to accomplish its primary goal, which is the increase in the per-capita GDP of these African nations. Despite decades of ongoing attempts by donor nations to provide foreign aid and other forms of foreign support, Africa has not been able to see sustained or substantial economic growth; in fact, a number of countries presently have lower per capita incomes than they had in 1975.

Indeed, foreign aid did not encourage growth-oriented policies but instead made these nations more dependent on it. Therefore, in accordance with previous studies the cessation of all unrestricted foreign aid, particularly to Africa, and its replacement with assistance based on stringent policy frameworks intended to spur economic development will be rather effective.

The results of the panel cointegration revealed that fiscal policy factors are negatively interlinked with official development assistance in the long run. In fact, the governmental fiscal strategy implemented by most Eastern African states hinders the flow of ODA. Yet, in contrast to ODA, Foreign direct inflow requires greater emphasis on a hybrid portfolio that accommodates return and political stability within the national territory; on the other hand, official development assistance (ODA) flows a more basic framework, however, without a holistic approach of impartial spending directed toward required sectors by the recipient state; the likelihood of witnessing a relative distortion of monetary aid is greater in East African countries, which brings the light to the favorable policies implication for ODA attraction.

For instance, in the late 90s and early 2000s, the IMF and the World Bank granted an average of 6 adjustments borrowing to each country in Africa and an average of three to countries in Eastern Europe, North Africa, and the Middle East. This led to an imbalance between borrowing and adjustment, primarily because neither the lenders nor the receivers of the loans were sufficiently incentivized to spur growth through the lending process. (Dinh and Phuc, 2022) Certainly, assistance only has notable results when it is directed toward nations with the "correct" policies. Whereas from budgetary implications; high degrees of reliance on outside resources might contribute to moral hazard issues. Once more, the reasoning behind ODA as a panacea for fiscal policy is becoming obsolete considering how governments supported by external foreign transfers fail to adapt when faced with financial constraints; believing that the center would cover the expenses through debt reduction or more transfers. In a similar vein, countries that rely primarily on foreign grants and loans may be anticipated to respond to budgetary shortages or rising debt burdens by requesting more foreign aid and debt forgiveness, which, in the worst scenario, would diminish the incentives for austerity and sound policy formation.

The findings also demonstrate an appealing positive influence of state characteristics in fostering aid inflow in the long run, although ODA is purely generated for economic development purposes and other yet unsolvable internalities; but the relative consideration of state transparency and effective bureaucracy still remains in the mind of donors even if aids are provided in form of a purely genuine grant. Mostly the relative consideration of effective regulation and state openness provides a cardinal portfolio for potential donors. The reverse causality effect has also been observed in granger causality, where ODA has a relative influence on most government factors, as a result creating an interdependence. Pragmatically, ODA will increase in countries with a favorable human rights score, in retrospect government that embraces democratic values may allocate accordingly such monetary assistance, although skepticism arises when we further look at East African states' scores in human rights standing-ground and human capital development which in fact explains the negative influence of ODA in fiscal policy in these countries.

6. Conclusion

The obvious conclusion is that a more comprehensive reconsideration of the political economy of aid assistance is necessary. If aid is not an effective means of promoting development, as many previous studies and this article have suggested, then efforts to address the disparities between the developed and underdeveloped regions of the globe might be more successful and more systematic with market-oriented outlooks on development if they depended seldom on resource transfers between institutions and official authorities and more on economic exchanges between private actors. Similarly, the context of increasing monetary assistance in Eastern African nations could have been a plausible panacea for many internalities (Infrastructure, Health, Education, Ecological issues, and Immigration) yet, the abnormality of fiscal policy with relative inconsistency in the sense of failing to provide reasonable budgetary implication for donor nation had consecutively altered ODA channels.

In the same vein, albeit projecting a positive significant effect in attracting official development assistance – irrelevant for the sake of philanthropic propose; it is doubted that East African nations could sustain this effective bureaucratic system and transparency level in the long run without severe reforms. Alternatively, the dilemma of juxtaposing governance qualities and fiscal policy could be noted from the current paper, whereas effective budgetary allocation projects healthier civil servants, on the other side clean government that emphasizes rule of law could adequately manage in implementing consistent budget distribution as a turn resulting higher foreign assistance. The key policy outcome of the article is; East Africa nations should consider regional governmental transfer with less dependence toward external aid. Certainly, aid is a perquisite force for several public sectors, although the extend of transparent allocation is rather questionable, considering the limited disclosure by public authorities.

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