Effectiveness of Foreign aid on Development Assistance

There is much controversy in the economic world about the efficiency of aid-receiving governments in allocating resources to reduce poverty. In order to have a better grasp on the effectiveness of aid there needs to be a more rigid conditionality process in accordance with donor countries. With the process of conditionality in place, foreign aid for development assistance should only continue to be sent at the current rate with the amendments of policy reforms X and Y. The primary reason that donor countries send aid to foreign countries is to assist governments in finding stable ways to give the poor access to resources that will help them climb out of poverty. Yet, instead of increasing growth, as seen in instances of allocation to elite governments, foreign aid is going primarily towards government consumption. The lack in the consistency in research about foreign aid is due to many factors including disparities of measurement and analysis, including the lack of evaluation of receiving countries use of aid. Due to this lack in consistency amongst research there is not complete certainty of foreign-aid being effective as it now is being distributed. Once the issues of the current allocation procedures are addressed, foreign-aid could become more effective in reducing poverty. With conditionality in place governments’ improvements will be measured after their use of the foreign aid funds. Policy reform x and y ensure that the aid that is currently being donated abroad is being allocated efficiently in that it is being spent concentrating on the two major issues of foreign aid including government infrastructure and financing of public goods.
Disparity in Analysis of Aid Effectiveness

Current research shows that there is much disparity in the economic viewpoint of whether or not aid is being effective in reducing poverty by increasing investments and savings. It is hard to detect growth in a state as the correlation of events after receiving foreign-aid does not necessarily mean the causation, and without the counterfactual, it may be hard to tell. Some researchers make claims of certainty either for against aid being effective. In some cases, researchers claim aid effectiveness not because of the result of research rather due to bias' including their funding or publishing appeal. Yet there are a few things that we do know about foreign aid, including the information that Roodman (2007) presents that the amount of aid that a state receives does not help predict its future economic growth. In their argument, Hansen and Tarp (2000) point to the Harrod-Domar growth model which shows that the greater the capital inflows from abroad, the lower the growth of the receiving state. This overarching theory is displaced by other researchers such as Boone and Bräutigam and Knack, who cite the type of legal system in place as the determining point of a state’s effectiveness in foreign aid allocation. In states with elite governments elite most foreign inflows go to consumption, leaving states with what Papanek (1972) refers to as only a fraction of inflows to be additive to domestic savings. Although humans are subject to influence and communities are constantly evolving (Roodman, 1996), this does not excuse the fact that foreign aid needs to have a sustainable distribution plan in recipient countries.

Government Failure in Efficiently Allocating Aid

Many aid-recipient governments are failing at sufficiently allocating their aid spending to the poor in their state. Easterly (2003) cites the dissuasion of some countries towards raising the
production potential of the poor of being due to the possibility of endangering political activism and threatening the current political elite. The indisputable ways in which foreign aid spending can be measured is against the human foreign indicators in a state, as explained by Boone (1996). If human foreign indictors become better in a state, it shows that a state has had greater empowerment over their poor as they would have had the freedoms to speak out and for better human foreign indicators.

One human foreign indicator that is very telling of the standing of the poor in a state is that of infant mortality rate. Infant mortality rate is very telling of the conditions that people are living in as it takes into account factors such as nutrition and access to health care. In many cases, countries that have been receiving aid for many years remain to have a dramatically slow decreasing rate of infant mortality rate. As Boone (1996) discusses, the predicted annual flows of 10% of GNP to a state will only reduce infant mortality rate by 2% over a decade which does not even come close to its potential of 20% reduction. This proves that aid does not induce great enough incentives within the government to allocate funds to primarily improve life for the poor, and that in the current situation of foreign aid the poor receive little benefits from foreign aid.

**Effectiveness of Aid Dependant on Policy**

The effectiveness of aid positively impacting growth of a state depends on the economic policy and the policy environment of that state (Burnside and Dollar, 2000). Countries need to have a strong legal system that will support an effective financial system, as a strong financial system is what leads to the ultimate growth within a state (Roodman, 2007). The legal system of least developed countries governments have not been strong as a result of many historical factors that Bräutigam and Knack (2004) bring to light such as the environment in which a government
came into power, the effect of the economic crisis or political instability and war. Many economists agree that aid effectiveness is dependent on political regime. Elitists governments may “waste aid” (Boone, 1996) due to corruption and government consumption (Bräutigam and Knack, 2004). As Boone (1996) explains in his paper, three quarters of aid receipts of elitist governments are going towards government consumption. This consumption increases the size of the government but does not work towards alleviating poverty. Even in governments that are Egalitarian, the non-linear relationship between aid and growth limits the capacity of governments to absorb foreign resources. In any case, as Kanbur (2000) point outs, countries will probably not benefit from spending the majority of their national energy and political capital on interacting with external donors on policy making.

Increasing the Effectiveness of Aid: Conditionality and Amendments

As Hansen and Tarp (2000) present, in order for aid to reduce poverty and for eventual growth to happen within a state, there is a range of characteristics and lines of influence that need to work together simultaneously. By combining the processes of imposing conditionality with time consistency (Kanbur, 2000) on receiving states with the implementation of the amendments of Policy Reform X and Policy Reform Y, aid will help reduce poverty long term as the appropriate funding will be allocated efficiently. The conditionality process between donors and recipients needs to transform to include conditions on loans and evaluation of effectiveness of foreign aid donating. In doing so it must take into account previous aid donations and the effect on growth (Easterly, 2003) as measured by human foreign indicators.

Policy Reform X brings into focus the infrastructures of governments. It will focus on decreasing the amount of time that governments work with foreign aid donors so that they have
more time to focus on domestic affairs. Each foreign aid recipient government will be assigned a
research team of economists, historians of the region and scholars of government to work with
governments to devise and begin implementing infrastructure improvements. Each team would
be responsible for submitting a plan for their short term stay as well as a time frame in the state
to be approved for funding. Implementation of infrastructure improvements will not allow for
any middleman hired in project assistance, in order to allow for governments to practice the
skills of managing and administrating projects.

Policy Reform Y focuses the role of the government to finance public goods and to use
narrow aid variables such as Roodman (2007) presents to work at the roots of poverty. A large
portion of aid allocation will be put towards literacy aid, education aid, and health care aid. This
portion will be determined by a research team of economist who will also measure the
effectiveness of aid over time.

Conclusion

For years economists have written papers on the ineffectiveness of foreign aid in how it is
currently being handled. To ensure that the foreign aid that is being sent to recipient countries is
going towards reducing poverty, the way that aid is managed and evaluated must change. By
adding Policy X, governments will work with a research team short term with the result will be
long term benefits in infrastructure. Policy Y holds governments accountable for allocating aid
funds to alleviating that the root causes and issues that perpetuates of poverty that stem from
illiteracy, lack of education and poor health will be addressed by governments.
References


