

# The Effectiveness of Aid in Developing Countries: Does Aid Work?

Ridwan Islam Sifat

Department of Development Studies, Bangladesh University of Professionals, Dhaka, Bangladesh.

## Abstract

This paper focused on the effectiveness of foreign aid in developing countries. The background of the paper is that as a developing country received and continues to accept foreign aid but is still underdeveloped. The effectiveness of aid can only be addressed if people's livelihoods are changed. This research is conducted by a qualitative point of view. Secondary data is collected from available books, publications, research studies, journals, websites, and articles. The findings show that aid is effective for the developing countries for ensuring economic growth and increasing human development rate.

**Keywords:** Aid, Bilateral Aid, Multilateral Aid, Developing Country

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## Introduction

Official aid faces many demanding situations. The many developmental targets that aid is predicted to obtain are premised on the fundamental assumption that aid works in reducing poverty. Yet the effectiveness of useful aid in reducing poverty and accomplishing different associated developmental consequences, which includes pre-situations for poverty reduction, has been puzzled for many a long time. Some critics cross thus far as to label aid as harmful, a failure or as counterproductive in phrases of those effectiveness criteria. This paper shows critical analysis of country level impacts of aid.

Increasing the effectiveness of aid means ensuring that aid facilitates developing countries to enhance the welfare in their poorest populations. because of this, aid ought to be genuinely targeted on development priorities set by these countries. at the heart of this commitment is the conviction that donors do not develop growing countries, developing countries have to develop themselves. To enable this to happen, donors and developing countries must establish authentic partnerships, wherein they are jointly and together responsible for development results.

The general aim of aid (loans, grants and technical assistance) is to provide in each underdeveloped country a positive incentive for maximum national effort to increase its rate of growth. The increase in income, savings and investment which aid indirectly and directly makes possible will shorten the time it takes to achieve self-sustaining growth" (Rosenstein-Rodan, 1961: 107).

Aid can make a positive contribution, and can be, under a relatively common set of situations, a necessary condition for increased progress in very poor countries. however, it is also accepted that aid can, and often does, do harm, especially due to the way it influences incentives and institutions in recipient countries. consequently, it matters a great deal what form aid takes and exactly how it is delivered.

Bilateral and multilateral aid are part of the larger ideological debate approximately the means and the ends of development. Multilateral aid appears more suitable for development purposes because of the higher participation of countries, high resources, political neutrality, and needs driven tasks, and global governance; however, in practice not all of these needs are fulfilled. Bilateral aid allows donor countries to allocate funds to the countries that they deem the neediest and to stay responsible to their people. Bilateral aid is more transparent to the citizens because they can see that this amount of money went to this country, while a lump of money going to a worldwide organization gives the appearance of wasted funds.

## Background of Research

The modern foreign aid system began when the United States helped to rebuild Europe through the Marshall Plan. From the 1960s to the 1980s, foreign aid become regularly used to help client states of the US and the Soviet Union, which of direction compromised the integrity and the development goals of the aid (Riddell, 2008). To address the issue of aid effectiveness, four high level fora on aid effectiveness were held in Rome in 2003, Paris in 2005, Accra in 2008 and Busan in 2011 (OECD, 2014). Aid has been not only effective but also ineffective in reaching its intended goal of the socio-economic development of a recipient country (Doucouliagos & Paldam, 2009). The Sub-Saharan African countries was suffering with three main epidemics which includes Aids, malaria and tuberculosis. Donor aid did start to mitigate these problem solution (Sachs, 2012).

However, development practitioners both in donor and recipient countries remain skeptical about the effectiveness of aid.

## Research Question

The main research question:

Is aid really effective for the developing countries?

## Literature Review

Remmer (2004) finds that aid increases the size of the government and government spending and reduces tax revenues, a result that is in contrast with market - oriented plans that many donors try to implement for the improvement of poor countries. the writer concludes that aid might induce corruption, since it weakens incentives of politicians to follow good policies. Pederson (2001) showed that in other cases, aid recipient governments might also avoid efforts to reduce poverty in anticipation of more aid.

Contributing to the discussion about the aid effectiveness, numerous researchers focus on the issue using different approaches. Herbertsson and Paldam (2005) reviewing related literature, argue that aid does not help poor countries in the long-run, even as Addison et al. (2005) find in their literature review that studies published in the previous couple of years support a positive link between aid and growth, concluding that poverty in developing countries could have improved if it was not for the aid flows.

Even as researcher analyze whether aid has a positive or a negative impact, Durbarry et al. (1998) argue that there is an optimal level of aid; wherein as small aid allocations may have no big impact on growth, too much aid would possibly have a negative effect. A finding also confirmed by Lensink and White (2001: 52), who argue that "there is a limit to how much aid a country can absorb".

Moreover, Gulrajani (2016) claims that multilateral channels exceed bilateral channels' capacity to enhance the quality of governance in aid-receiving countries. Briggs (2015) concluded that multilateral donors probably target a larger proportion of their aid to poor countries than bilateral donors because they have a challenge to use aid to reduce poverty and because they have voting arrangements that prevent any one stakeholder country's government from forcing its preferences on all issues.

## Theoretical Framework of Changing Aid Delivery

The traditional aid delivery structure has been characterized by four main actors namely; rich individuals in developed countries, rich governments in developed countries, poor governments in less developed countries and poor individuals in poor countries (Kharas, 2007). within this framework, the aid delivery channel includes the following mechanisms. funds mobilized from rich individuals in rich countries mainly through taxes were channeled through multilateral institutions to poor governments who, in turn, design programs and initiatives to the benefit of the poor of their countries. these multi-lateral institutions were more, or much less, extensions of the foreign services of these rich countries and the donor-recipient relationship were direct.

These arrangements characterized the immediate post-world war II era while aid was delivered as a martial program that would transform poorer countries economically and in a dramatic manner. This basic structure has considering that undergone a significant change and has become more complex (Kharas, 2007) with a large number of actors on both sides. This has resulted in a complex institutional arrangement for aid delivery in which civil society organizations, especially NGOs, play a massive role through intermediating between donors and individual beneficiaries in poorer countries amidst skepticism about the impact of official aid delivered via formal channels.

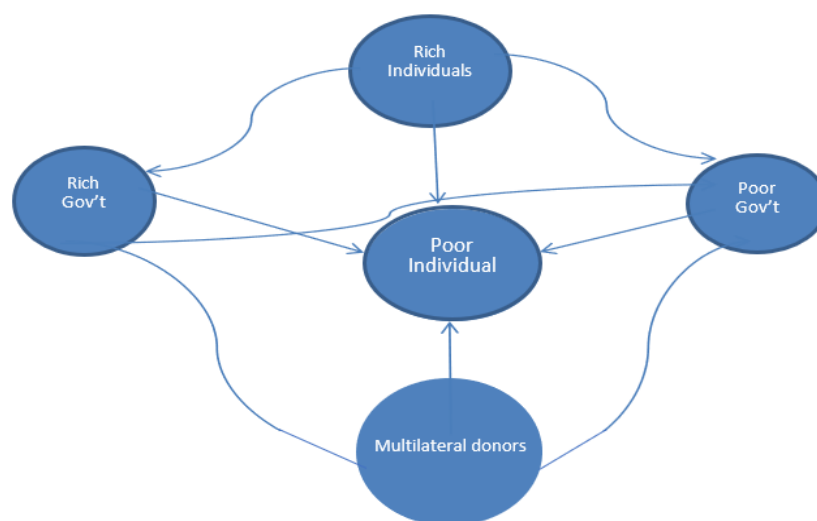


Fig: Aid Delivery Structure

The change is influenced by increasing numbers of rich individuals and corporate entities in rich nations that are looking for alternative method to deliver aid to the poor.

### **Critical Analysis and Findings**

The fundamental question of the current development debate is how to make aid more effective in reaching its financial and human-development goals, and many analysts have suggested that the best way to do this is by focusing on demonstrable, preferably quantifiable outcomes in order to gauge the value-effectiveness of different resource strategies. most people could possibly agree that bilateral foreign aid should go to countries where it is most possibly to improve the well-being of the people living there.

Aid effectiveness is important to people while selecting countries to support with bilateral foreign aid, on a par with recipient-country need as proxied by the level of hunger and malnutrition. both standards are more important than others. The least essential attribute is strategic links between the donor and recipient countries. overall, it appears that evidently people would like aid to be focused at countries where it is most likely to improve the well-being of the people living there, but not if this indicates the aid is not going to where suffering is the greatest.

Aid can of direction contribute to poverty reduction or, more usually, well-being enhancement more directly, through channels other than growth. this is essential, as growth is not the most effective means of reducing poverty, neither is it necessarily the most efficient way. Gomanee et al. (2002) look at aid and pro-poor expenditures, finding that aid is related to increases in these expenditures and in turn improvements in overall wellbeing success. The extent of democracy in recipient countries, aid turned into positively related to the level of well-being achievement amongst countries, as measured by the Human Development Index (Kosack, 2003). For example, in the health sector for example, development assistance has contributed significantly to the increase of life expectancy in the developing world from 40 to 65 years, the eradication of diseases such as smallpox and the reducing infant mortality (CGD, 2004). Asian countries such as Korea, Malaysia and Thailand are considered to have gained considerably from aid and achieved high rates of economic growth (Sachs, 2009). in the late 1960s the green revolution in India, which greatly benefited from foreign funding, saved millions of people from starvation (IFPRI, 2002). on the other hand, in spite of billions of dollars poured into underdeveloped countries for decades, in 2010, 48 percent of people in Sub - Saharan Africa were living in severe poverty (Olinto and Uematsu, 2013).

Bilateral channels are more politicized than multilateral channels. Bilateral donor interests seem to skew the aid allocation system in favor of strategic and political concerns, instead of country want or potential for development impact (Nunnenkamp and Thiele, 2006; Sippel and Neuhoff, 2009). This may slow opportunities for economic growth in comparison with aid through multilateral channels (Girod, 2008). indeed, while recipients are of less strategic interest to bilateral donors, it has been demonstrated that these channels turn out to be more effective at reducing infant mortality (Girod, 2012). for example, bilateral aid that is tied to counterterrorism activities can mitigate the adverse outcomes of terrorism on flows of Foreign Direct Investment (FDI) to developing countries (Bandyopadhyay et al., 2014).

Aid recipients prefer multilateral to bilateral channels. There has long been a statement that aid-receiving countries view multilateral institutions as more valid and trustworthy partners than their bilateral aid system. Multilateral aid has a tendency to focus on huge infrastructure initiatives and has a decrease percentage than bilateral aid given to humanitarian aid. However, multilateral aid organizations, such as the UN, have a popularity for financial inefficiency, posing harmful situations, specializing in focusing on economic prosperity over human rights and abusing assets to the quantity that much of the finances never reach the recipient nations. Humanitarian aid became the type of aid which truly did seem to work. The people saved from floods and earthquakes, refugees fed and clothed, health care and shelter provided. moreover, food, medicines and shelter to meet relief, rehabilitation and reconstruction desires have been supplied or delivered to a lot of those who need it, ensuing in lives being saved and sicknesses prevented, and for many livelihoods have been restored.

However, if the purpose of aid is to immediately reduce poverty, then rather than looking to increase growth and then hoping that growth helps the poor, aid could be used to provide the poor with goods and services. this may be completed through private goods provision, like cash transfers, or, more usually, through the availability of local public goods such as roads, schools, or health clinics. aid for local public goods may be particularly valuable because even when communities get wealthier, they may still struggle to provide local public goods because of collective action problems. however, the advantage of these types of goods declines as one moves away from them. for example, a health clinic built near you is useful, a clinic built some distance away is less useful. So, an essential condition allowing this kind of aid to help the poor is that local public goods must be built where poor people live.

The research findings show that there are many barriers to aid effectiveness and development in the developing countries. Uneven aid distribution is one of the main barriers of effectiveness of aid. Several factors have restrained the effect of international aid, weakening its attain and effectiveness. it has been used to acquire

political and safety targets and has often been driven by donor priorities, instead of the developing countries needs and preferences. Donors now understand that too many projects were designed to deliver rapid, visible outcomes. more emphasis need to now be given to projects aimed at achieving sustainable development and poverty reduction and helping themselves. It must be better coordinated and focused on the needs of local communities. Corruption and patronage remains a challenge at all levels and has impeded development closer to long-term development. this is because of numerous factors, including weak state institutions and financial governance, more than one layers of sub-contracting, and a way of life of impunity, along with a lack of transparency, timely information-sharing, and independent oversight. local communities. The rural poor are often the worst off, hampered by means of insecurity, indebtedness, poor infrastructure and lack of access to markets, as well as limited access to education and health care. The remoteness of many areas, mixed with poor infrastructure, mean that some communities have little or no access to outside markets and the related income and jobs.

The poor countries are usually dependent on aid. It will help to reduce poverty, basic needs facilities and sometimes create job opportunity. So, the barriers of aid effectiveness should be controlled.

### Recommendations

Some necessary steps should be implemented for effectiveness of aid.

- i. International donors have to intention to provide adequate and timely aid flows and avoid rapid or essential cuts in aid which risk destabilizing future economic and development progress.
- ii. Donors must commit to protect and priorities funding for essential services, particularly healthcare and education that are important to socio-economic development.
- iii. Donors have to ensure that gains made in advancing women's rights (and particularly in tackling violence against women) are secured and prolonged during the transitional period.
- iv. Donors need to use existing mechanisms to accomplish more levels of donor-government coordination and information sharing, such as the consultative groups.
- v. To ensure the rigorous implementation of the government's anti-corruption strategy and institute concerted measures to enhance transparency of government operations, especially in tax, procurement and expenditure; build stronger mechanisms for monitoring, oversight and audit; streamline government strategies and methods; and overall the anti-Corruption commission to ensure its integrity.

### Conclusion

This paper has examined and analyzed the link between aid and development in developing countries. It also presented a specific perspective that examines the justifications for foreign aid flows, together with other factors that may impact the effectiveness of overseas aid programs. it is concluded that corrupt environments, destructive development policies and corrupt regimes all contribute to explaining the disappointing performance of aid programs in recipient countries. the issue of most donors still basing their aid on numerous goals and self-centered interests, such as political, strategic, commercial, cultural and religious ones, poses a prime problem. The problem relates to the fact that donors, while always eager to promote these goals and interests, conversely show little attention by retaining the recipient countries accountable when the aid goals are not achieved. Moreover, it is concluded that foreign aid programs are offered and managed by bureaucrats interested in protecting their own existence. A theoretical framework shows the changing of aid delivery strategies. The critical findings show that poor regions are dependent upon bilateral and multilateral aid both. Due to the barriers of aid programs, the poor countries sometimes do not receive the funding. But it is cleared that developing countries are now increasing more economic growth and also increase their human development rate.

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