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Foreign Aid and Economic Growth: Does It Plays Any Significant Role in Sub-Saharan Africa?

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Abstract
The effectiveness of foreign aid on economic growth is a much debated topic on the field of Development Economics. As such, a huge body of literature is available with the vast majority concluding that aid contributes in increasing growth (Hansen and Tarp, 2000); although some scholars, amongst them Boone (1996), Ovaka (2003), and Moyo (2009) hold a different and an opposite view. Aware of the fact that Sub-Saharan Africa is the poorest region in the world (Chen and Ravallion, 2012), (World Bank, 2012), and that Sub-Saharan Africa is the region which is the biggest beneficiary of aid (Lancaster, 1999), (OECD, 2010); but nevertheless aid in this region seems not to produce the expected results. There is a high volume of literature on the impact of foreign aid on development in Africa, yet not many of them recognize all the factors that contribute to aid (in) effectiveness. The focus is often on macro-economic indicators which do not fairly represent the realities of poverty and suffering in many African countries. We offer an analysis of the theories that have been propounded to explain the relationship between aid and (under) development in Africa. In this paper, we critically examine such findings
Keywords: Corruption; Foreign aid, Economic growth, Sub-Saharan Africa.

1. Introduction

Economic theories have identified capital formation as the basic problem of most developing countries, most especially Africa and aid is adjudged to play a vital role in capital formation which is essential for economic growth. The objective of foreign aid has been to end extreme world poverty, increase savings and investment and enhance living standard in developing countries, which is exactly what Africa needs. In consonance to the theory side, Africa has been the largest recipient of foreign aid. According to OECD Report (2009b), total net Official Development Assistance (ODA) from members of Development Assistance Committee (DAC) rose by 10.2 per cent in real terms to US$110.8 billion in 2008; it rose to US$130 billion in 2010. Likewise, bilateral aid (excluding volatile debt relief grant) to Africa and Sub Saharan Africa rose by 10.6 per cent and 10 per cent respectively in real terms. The need for large aid inflow into Africa is necessary to accentuate the consistent dwindling living standard in Africa. For instance, studies have shown that during the 80s, averagely, Sub Saharan Africa per capita income fell at an annual rate of 2.2 percent while per capita consumption dropped by 14.8 per cent and import volume rose at an annual rate of 4.3 per cent with export volume remaining constant; likewise, the real GDP per capita growth rate falls continually and became negative in the early 90s. In the same manner, about 79 per cent and 80 per cent of SSA countries were identified as low human development countries and heavily indebted countries respectively (Bakare, 2011). From the foregoing, it therefore becomes imperative that to escape the strap of economic slump, Africa countries needs to be helped (Riddle 2007).

As a home to a large proportion of the world's "bottom billion", Sub Saharan Africa has attracted substantial amount of foreign aid over the years. Statistics shows that ODA flow to the region stood at $80 billion in 2008, it reached $125 billion in 2010 and may likely rise in later years. Over the last five decades, foreign aid to governments in SSA amounts to over $1 trillion. In spite of this vast volume of aid inflow, it is worrisome to note that Africa, mostly SSA countries are yet to experience any significant economic progress.

Instead the countries have been continually plagued with high levels of unemployment, absolute poverty, low GDP per capita level, high mortality rates, low level of education and lack of access to health care facilities (Mosley, Hudson and Horrell 1987). The experience of Africa was unlike the story of other countries, for instance, China whose total ODA as a percentage of the world's total ODA was not as high as that of SSA experienced a higher growth leading to more structural change. As ODA increased from 0.2 percent in 1980 to 3 percent in 1985, economic growth rate increased from approximately 6 percent to 12 percent in the same period implying that as ODA doubled its rate, the economic growth rate also reciprocated suggesting that foreign aid was effective in accomplishing growth.

The situation seems contrary in SSA, when ODA reduced to 28 percent (as percent of world) economic growth rate became positive from its declining state and grew to 1.1 per cent. As the ODA pumped to Sub-Saharan Africa countries increased, economic growth rate declined, this therefore implies that aid has not been very effective in SSA countries. At the same time period, growth of GDP per capita in Africa actually registered a marked decline and was for many years even negative. GDP per capita figures also declined across most of Sub- Saharan Africa asides a few countries. For example, World Bank calculations show that based on the predictions of theories, foreign aid transfers to Zambia, which began in the 1960s, would have by today pushed per-capita income to over $20,000. However, reverse is the case as Zambian income per capita has stagnated at around $600 for years (Farah 2009). This provides a vivid illustration of the failures of foreign aid in Sub Saharan Africa.

There have been different debates and opinions about the effect of foreign aid on economic performance. One strand of literature states that there exists a positive relation between foreign aid and economic growth (Gupta 1975; Stoneman 1975; Gulati 1978; McGowan and Smith 1978; Bradshaw 1985) while another strand is based on the premise of an inverse relation between foreign aid and growth (Okon 2012; Brautigam and Knack 2004). Yet another strand states that there is no relationship whatsoever between foreign aid and economic growth (Mosley 1980; Svensson 1999, 2000; Knack 2001; Brumn 2003; Ovaska 2003; Easterly, Levine and Roodman 2004; Djankou, Montalvo and Reynal-Querol 2006). Thus, there has actually been no straightforward answer to the question of aid effectiveness. The evidences from literature has erstwhile been unparalleled until recently when empirical evidences identified that the quality of institutions in different economies mighty have played a significant role in the mixed results obtained hitherto. According to Whitaker (2006); Abuzeid (2009) and Durbarry, Gemmell and Greenaway (1998); Burnside and Dollar (2000), the quality of institutions is crucial in aid performance; this therefore implies that aid becomes more effective in high quality public institutions.

Consequently, Moyo (2009) challenged the theoretical strand surrounding the effectiveness of aid and opines that the billions of dollars in aid sent from wealthy countries to developing Africa nations has not helped to reduce poverty and increase growth. In fact, poverty levels continue to escalate and growth rates have steadily declined and millions continue to suffer. Similarly, overreliance on aid has trapped developing nations in a vicious circle of aid dependency, corruption, market distortion, and further poverty, leaving them with nothing but the need for aid. Our study is a corollary to the work of Moyo (2009)[1] but differs with our inclusion of control for institutional quality; though consistent to Burnside and Dollar (1997), our re-examination focused on Sub-Saharan Africa countries. Furthermore, our key interest in this re-examination is to ascertain whether aid has any effect on developing Africa's growth and poverty level. Though, this issue has been addressed from different perspective, we intend to examine the aid-growth nexus in Sub-Saharan Africa accounting for the role of institutions, education [2]

2. Review of Relevant Literature

According to Whitaker (2006), there is a positive relationship between aid and economic growth especially in countries that have sound policies that facilitates trade and the economy at large. This is also supported by Burnside and Dollar (2000), Farah (2009) and Durbarry et al., (1998) which suggests foreign aid also leads to economic growth if good fiscal policies and strong institutions are in place. The kinds of policies here encompass ensuring small, if any, budget deficits, controlling inflation, as well as trade openness and globalization; similarly, Durbarry et al., (1998) found that geographical factor is also a determinant of aid effectiveness. Mosley et al., (1987) sees foreign aid as being a channel of supplying international capital; as it serves as a big push to the post World War reconstruction of Europe under the U.S Marshall Plan while Farah (2009) opined that the big push theory can only work where there are reformed institutions and policies.

According to Burnside and Dollar (2000), World Bank (1998), aid is much more effective in environments characterized by high institutions quality as part of a capable developmental state. Todd Moss et al., (2010) suggest that "institutional development is an independent variable which affects the productivity of aid and is a recognized factor used to select and allocate to aid recipients". Whitaker (2006) also showed that despite the massive amounts of foreign aid forwarded by developed nations and international institutions, the perceived lack of result from this raises the question as to the actual effectiveness of foreign aid in developing Africa economies. The result of his study was that foreign aid had a positive effect on growth but factors like conflict and geography lessens the impact and can even make it negative. It was suggested by the World Bank that increasing foreign aid flows by $10 billion would lift about 25 million people out of poverty per year, provided that such countries have sound economic management. The figure drops to 7 million people for countries when it is vice versa.

Another strand of literature disagrees and is of the opinion that foreign aid has a negative effect on

[1] Moyo disregarded the role of the state by emphasizing private sector and free enterprise. She argued that aid deepen the level of corruption and conflict, inhibits social capital and foreign investment. Though, this claim seem unconvincing, as aid is an assistance development fund that can only thrive healthily on an established macroeconomic, infrastructural and institutional arrangement.

[2] This form the bedrock for macroeconomic environment

economic growth because it encourages corruption, encourages rent seeking behaviors and erodes bureaucratic institutions. Ali and Isse (2005) also showed that aid is bound by decreasing marginal returns thus explaining another way in which development assistance can be unfavourable to economic growth. Likewise, Boone (1995) discovered that in the 1970s and 1980s, aid intensive African countries experienced no economic growth though foreign aid as measured by share of GDP was actually increasing. Similarly, Knack (2001) espoused that increasing Foreign aid erodes bureaucratic and institutional quality as well as increases the level of corruption and encourages rent seeking behaviour. Also, Bauer (1971) and Friedman (1958) hinged aid inefficiency on the fact that politicians do not allocate aid properly as measured against the set goals and targets. Recipient countries misuse capital inflows since lack of domestic savings show lack of opportunities. The literature has also claimed that there exists a negative casual relationship between aid and growth in low developing countries because aid hinders growth by substituting for savings and investment rather than acting as their supplements.

According to Djankov et al., (2005), foreign aid provides a windfall of resources to recipient countries and may result into rent-seeking behavior. It was also discovered that foreign aid had a negative effect on democracy. The effect of oil rents on political institutions was also measured and aid was seen as a bigger curse than oil. Consequently, the literature witnessed a renewed interest in explaining how foreign aid influences the cross country economic growth. Jones and Williams (2000) argue that differences between countries in capital accumulation, productivity, and output per worker can ultimately be attributed to differences in "social infrastructure," which they define as the institutions and government policies that determine the economic environment within which individuals accumulate skills, and firms accumulate capital and produce output. Boone (1995) concluded that aid does not significantly increase investment and growth but it increases the size of government. Fiscal analyst and donors are of the opinion that aid process is weakened by the ability of the recipient governments to alter their spending patterns to undermine the sectoral distribution of expenditure for designated projects (Conchesta, 2008).

A few studies (Heller, 1975; Khilji and Zampelli, 1991; Pack and Pack, 1993) have supported the theoretical proposition that developing countries have been rendering foreign aid fungible by transferring resources from the donor-aid sectors to non-donor aided sectors. Also, World Bank (1998) report on assessing aid supported the fact that countries with good monetary, fiscal and trade policies (i.e. good policy environment) registered high positive effect of aid. Such good policy environment depends on the donor or recipient country; of great importance is whether recipient countries spend donor funds on intended purposes. However, studies using time series data in individual countries (Levy, 1987; McGuire, 1987; Gang and Khan, 1990; Pack and Pack, 1990) found no significant diversion and all agree that countries spend foreign aid funds on the designated purposes.

At sectoral level, Feyzioglu, Swaroop and Zhu (1998) found that aid is fungible on earmarked concessional loans for agriculture, education and energy, but not for transport and communication sectors. Pack and Pack (1990, 1993) concur with Feyzioglu, et al., (in the case of Indonesia and Sri Lanka) that strong fly paper effect does occur on concessional loans (but the results differ with data on the Dominican Republic). The evidence that aid money increases government expenditure means that the recipient governments do use the increased resources to increase spending, cut taxes or reduce fiscal deficits.

Further on the effect of foreign aid on government expenditure, Devarajan and Swaroop (1998) found that most aid (about 90 percent) boosted government expenditure with no significant evidence of tax relief. About half the aid was used to finance external debt service payments; one quarter to finance investments and the other quarter to offset current account deficits. On the other hand, Swaroop, Jha and Rajkumar (2000) focusing on the effects of foreign aid on expenditure decisions of central government of India, found that foreign aid merely substitute for already earmarked government spending. The central government spends funds obtained through aid on non-development activities; this implies that government choices are unaffected by external sources of finance. Finally, a comprehensive survey of theoretical and empirical literature using both panel and time series data supports the notion that aid increases government expenditure (Hudson 2004; McGillivray, et al., 2006).

On the other hand, a study conducted by McGillivray et al., (2006) demonstrates how aid to African countries not only increases growth but also reduces poverty. Furthermore, he points out the important fact that continuously growing poverty, mainly in sub-Saharan African countries, compromises the MDGs (Millennium Development Goals) main target of dropping the percentage of people living in extreme poverty to half the 1990 level by 2015. His research empirically analyzes time series data for 1968-1999. The paper concludes that the policy regimes of each country, such as inflation and trade openness, influence the amounts of aid received.

Ouattara (2006) analyzed the effect of aid flows on key fiscal aggregates in Senegal. The paper utilized data over the time period 1970 – 2000 and focused on the relationship between aid and debt. Three conclusions were made from the study. First, that a large portion of aid flows, approximately 41 percent, goes into financing Senegal's debt and 20 percent of the government's resources are used for debt servicing. Second, the impact of aid flows on domestic expenditures is statistically insignificant, and lastly, that debt servicing has a significant negative effect on domestic expenditure. Thus, his paper concluded that debt reduction could become a more successful policy tool than obtaining additional loans. Addison, Mavrotas and McGillivray (2005) examined trends in official aid to Africa over the period 1960 to 2002. The study found a relatively decreasing aid flow to Africa over the last decade which will likely affect Africans living in poverty and the African economy as a whole. As a result of the shortfall in aid, the MDGs will be much harder if not impossible to be achieved. Thus, the paper concluded that aid do promote growth and reduce poverty. In addition, it also positively impacts public sector aggregates as it contributes to increase public spending and lowers domestic borrowing. However, the MGDs cannot be achieved with development aid alone there is need to explore other innovative sources of development finance.

An empirical study by Karras (2006) examines the correlation between foreign aid and growth in per capita GDP using annual data from 1960 to 1997 for a sample of 71 aid-receiving developing countries and the paper concluded that the effect of foreign aid on economic growth is positive, permanent, and statistically significant. Though, the study neglected the effect of policies but found an increase in foreign aid by $20 per person leads to an increase in the growth rate of real GDP per capita by 0.16 percent.

Gomanee, Girma, and Morrissay (2005) addressed directly the mechanisms through which aid influenced growth. A sample of 25 Sub-Saharan African countries was examined over the period 1970 to 1997 and the study concluded that foreign aid had a significant positive effect on economic growth. Furthermore, they identified investment as the most significant transmission instrument. The paper also concluded that Africa's poor growth profile should be attributed to factors other than aid ineffectiveness. Rather than using a large pool of data for numerous developing countries, Quartey's (2005) paper focused on innovative ways of making financial aid effective in Ghana and noted that the government and its partners need to plan better and coordinate their efforts to make 'multi-donor budgetary support' (MDBS) successful. Quartey (2005) also suggested that government needs to work towards reducing its debt burden in order to reduce dependency on aid inflows as a means of servicing debt.

Economic research on foreign aid effectiveness and growth has frequently attracted unending interest in literature. Burnside and Dollar (2000) searched the links between aid, policy, and growth and found that foreign aid has a positive impact on growth in developing countries with good fiscal, monetary and trade policies but has little effect in the presence of poor policies. This result has enormous policy implications and as such it provides a role and strategy for foreign aid. Easterly, Levine and Roodman (2004) reassesses whether foreign aid influences growth in the presence of good policies using more data and concluded that adding new data raises reservation on the effectiveness of aid. According to Easterly (2003), achieving a beneficial aggregate impact of foreign aid remains a mystery.

According to Abuzeid (2009), sound policy and good economic management is more important than foreign aid for developing countries. Bauer (1993) claimed that the problem is that aid goes to governments whose policies retard growth and create poverty and these countries have incentives to make sure their institutions remain of poor quality because this will lead to more economic crises and an increase in aid flows (Azam and Laffont 2003).

The improvement of institutions is very important to decreasing inequality because better, more democratic institutions helps government to meet the needs of the poor (Reuveny and Lee 2003). Better institutions and governance also decreases inequality by redistributing income through effective taxation and by decreasing the influence of the "high-income political elites" through crackdowns on corruption. As the record shows, without good institutions, aid is likely to have a detrimental impact on the quality of governance in a recipient developing country. In the absence of these strong institutions, assistance efforts should be dedicated to improving the quality of governance before they can be effectively devoted to any economic development effort.

Ram (2004) looks at the issue of poverty and economic growth from the view of recipient country's policies being the important element in the effectiveness of foreign aid. Nevertheless, he disagrees with the accepted view that redirecting aid toward countries with better policies leads to higher economic growth and poverty reduction. Based on his research the author concluded that evidence is lacking to support the leading belief that directing foreign assistance to countries with good 'policy' will increase the impact on growth or poverty reduction in developing countries. Contrarily, Rodrik (1998) argued that countries with weak institutions are unable to deal with major economic shocks and this reflected in the slow performance of less developed countries. Also, Osabuohien and Ike (2011) concluded that economies with weak institutions move at a slow economic transformation rate because they would have difficulties in dealing with political and economic shock experiences.

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3. Sources of Failure of Aid: Internal versus External

Apart from those who, based on empirical studies, have made definite arguments about the effectiveness of aid, there remains a contention between those who believe aid failure is a result of factors within the recipient country and those who argue it is attributable to external impediments such as the unfair global economic structure. Akonor (2008) argues "aid to Africa is a "Band-Aid", not a long-term solution" since aid does not aim at transforming Africa's structurally dependent economies. He adds that if donors aim to make long-term sustainable impact, aid should target transcontinental projects such as highways, telecommunications and power plants.

There are others who still play solely the dependency card. In the past and even now, theorists such as Amin (1972), Peter Bauer and Andre Gunder Frank (1966). have blamed the global economic structure for the underdevelopment of the Third World. Frank concludes in an article in 1966 that underdevelopment is "generated by... the development of capitalism" and that the more a country is close to the centre, the more marginalized it is. Bauer (2000) argues development aid "promotes dependence on others" as it creates the impression that "emergence from poverty depends on external donations rather than on people's own efforts, motivation, arrangements and institutions." Prah (2002) admits Africa should take responsibility for its failings due to bad practices and dictatorships though he thinks the problem is caused by a mix of internal and external factors. This point is not recognized by Calderisi (2006) who argues that the African problem is inbred and thus cannot be blamed on globalization, unequal international, trade, colonialism, debt or slavery. The crux of the problem, according to him, resides in culture, corruption and the political correctness of donors who fail to tell African leaders where they are going wrong. He suggests new aid should be tough and focused on five 'serious' countries, namely, Uganda, Ghana, Mozambique, Tanzania and Mali. The 'seriousness' of these countries, according to Calderisi, is a result of their governments' efforts towards 'good governance' and fighting endemic corruption. We under- stand and actually accept that the unfair nature of the global economic structure affects development in the Third World and reduces the positive impact of foreign aid there. However, for the purpose of this paper, we shall not focus too much on this argument since we believe blaming external forces alone for Africa's woes simplifies the problem, and make the reasons why many states are failing to make progress myopic.

3.1 The problem of aid dependence

It appears as though most African countries are so dependent on aid that without it almost half of their yearly budgetary commitments cannot be fulfilled. For example, in 1992, aid is said to have accounted for 12.4 per cent of gross national product (GNP), over 70 per cent of gross domestic savings and investments in Sub-Saharan Africa and over 50 per cent of all imports (Ampaw, 2000). Under the age-old saying that "you cannot bite the fingers that feed you," leaders of these countries are unable to speak out when fake and unwanted goods flood their markets. It seems aid is not meant to ensure recipients become self-reliant since if it is the case, powerful states can no longer brag about who is giving more than the other. The conclusion we can deduce here is that since aid is not a "joystick by which donors can manipulate macroeconomic or political outcomes" (Edgren, 2002).

To a large extent, Africa's development depends on "African private sector entrepreneurs, African civic activists and African political reformers... not on what ineffective, bureaucratic, unaccountable and poorly informed and motivated outsiders do" (Easterly, 2005). Besides, there is constant debt servicing where recipients routinely report to donors, service donor consultants and try to keep things "normal" (Kanbur, 2000), thus neglecting domestic issues and development. Loans put Africa in debt and it has to spend eternity in a merry-go-round affair to reschedule and negotiate "to keep gross inflows sufficient to fund debt servicing outflows" (Kanbur, 2000). Karikari (2002) argues that development assistance has resulted in dependency as "it induces a lazy, slavish, dependent mentality and culture across society – from governments to villagers." This, according to him, under- mines the peoples' faith in themselves and the fact that they can make it on their own. Other scholars also think development should be situated within the context of the country concerned. Prah (2002) for instance argues that "people can best develop from the foundations of their indigenous knowledge" which is embedded in the culture of the people, adding that imposing a notion of "modernity" on Africa will not yield desired results. This does not ignore what the people already know but rather integrates the new knowledge into it. He finds that it will be difficult for the African elites who are "surrogates for Western culture in Africa" to fashion indigenously oriented development plans.

Ampaw (2002) believes the modernization paradigm is "a historical construct, not fashioned by a critical analysis of Africa's present condition as a product of history, structural presuppositions and process." Ampaw says even a national economic policy choice that is driven by the logic of structural adjustment program and its neo- liberal underpinnings will not make Africa experience autonomous development. And he doubts if this paradigm that propagates the role of foreign capital investment as catalyst to growth is really beneficial since the long- term dependence on aid puts the continent in a vulnerable position. Despite commitments by OECD countries to increase aid, Ampaw argues the trend of Official Development Assistance (ODA) has been falling since the beginning of the 1980s. He mentions that this fall has been confounded by the rise in ODA for "global housekeeping activities" such as managing the environment, controlling illicit drugs, and preventing infectious diseases such AIDS. Ampaw notes that these activities in the last few years have risen to about 40 per cent of ODA. This suggests that monies that previously targeted poverty reduction in Africa are now being channeled to deal with these global issues. Yet donors still want everyone to believe aid is flowing at an increased rate. Moyo (2009) argues that the notion that aid can alleviate poverty is a myth since "aid has been and continues to be, an unmitigated political, economic and humanitarian disaster" for most developing countries. She sees the vicious cycle of aid as one that chokes off investment, encourages dependency and facilitates corruption, adding that this cycle "perpetuates underdevelopment and guarantees economic failure" in poor regions. In her book, Moyo also touches on 'the paradox of plenty', insisting that aid instigates conflicts in Africa. If not, how come the same continent that receives the largest amount of aid is the most conflict ridden place in the world? For instance, the estimated costs of armed conflicts in Africa between 1990 and 2005 exceeded US$300 billion – an amount which is almost equal to overseas development assistance in the same period (UNDP, 2007).

This means that in places like Sudan, Congo, Angola, Rwanda, Burundi and Somalia, armed conflicts hinder efforts towards development – and that even when the floodgates of foreign aid are continually open, it will have no long-term effects. In this sense, countries that have depended on foreign aid are now facing the adverse consequences of their actions. Moyo therefore, suggests a low-aid market-based development financing model that encourages trade and investment (from both foreign and domestic middle class). This is her formula: 5 per cent from aid, 30 per cent from trade, 30 per cent from FDI, 10 per cent from capital markets and the remaining 25 per cent from remittances and harnessed domestic savings.

Her point that aid is not working is cogent, no two ways about it. However, her thesis makes it seem aid is entirely redundant as it stalls progress. Meanwhile, the trade and FDI which she advocates have not been entirely beneficial to poor countries. Berry (2000) thinks an open market is not necessarily an answer to world poverty since some of the things society would have naturally opted for such as "strong social security network, high social expenditures, high minimum wages and job security" are "sacrificed in order to attain the needed level of competition" in the 'dog-eat-dog' nature of international trade. Culpeper (2004) clearly states that foreign direct investment has "little impact on poverty reduction and other fundamental objectives of development, or worse, it undermines those objectives."

Although we might say the complexity of the African problem requires the tactics of the Machiavellian Prince, we cannot decidedly side with Moyo's lukewarm attitude towards the role of democracy in development. To her, what low economies need is not multi-party democracy but a "benevolent dictator." We cannot definitely correlate democracy with progress in Africa; neither can we tell where these countries would have been without elements of democracy. They probably could have been worse off. China, for instance, is touted as the third leading world economy, yet with burgeoning records of inequality and gross human rights violations. It is a paradox of modernity with Chinese characteristics, maybe, but what is development without equity and freedom from suppression? One needs to be skeptical of a so-called 'benevolent dictator' because he is likely not the one to save the bottom billion (Collier, 2007) from the bottomless pit of poverty, disease, corruption, weak institutions and overall underdevelopment – even global marginalization. The issue is not just whether aid increases dependency, or that a dictator can do the job. What is required is a separation of the 'merely desirable' from the 'essentials' of democracy and also a way of making aid influence, not determine, the development of poor countries.

3.2. Correlation between Foreign Aid and Economic Development

Is there any evidence that aid facilitate growth? Even if it does, is it growth measured by GDP or one that is measured by levels of poverty and basic living standards? There is no agreement in the literature on this question. While Rostow (1990) sees foreign assistance – the "external intrusion by more advanced societies" – as a precondition for the take-off into economic success, Hayter (1971) argues it is a disguised form of imperialism and as such cannot result in any desired economic benefits. To her any benefit that could arise from aid would only be incidental, not planned. These two divergent schools of thought in the aid/development literature are still present to date.

A paper by Burnside and Dollar (1997) was emphatic that there is a correlation between aid and economic growth, but only when aid is applied in a good policy environment. The paper, using a sample of 56 countries and six four-year time periods from 1970 - 1973 until 1990 - 1993, shows that where aid coincided with good policies, its impact on growth was strong and positive.

Collier and Dollar (2001) also argue "aid is conditionally effective," with conditions including policy environment, governance, rates of corruption and conflicts. Despite the support the Burnside and Dollar stance has amassed (Dovern and Nunnemkamp, 2007; John and Sackey, 2008), there are other studies that show no significant correlation between aid and growth. In the first place, besides the point that the four-year ranges they used is too short to measure significant growth, if the focus is "good policies" then very poor countries will not be selected for aid since they will mostly not meet this criterion.

Thus, eradicating poverty will not be realized soon. On this same matter, Easterly et al. (2003) found different results when they added more data and also extended the year range from 1993 to 1997. Although they do not actually argue that aid is ineffective, they find that with the introduction of the new data, the positive relationship between aid and growth withers away.

Easterly (2003) has pursued this argument further, stating that "the idea that 'aid buys growth' is an integral part of the founding myth and ongoing mission of the aid bureaucracy." Another argument is that aid reduces the incentives to invest, especially when the recipient is assured that future poverty will call for more aid. This phenomenon is known as the Samaritan's Dilemma (Gibson et al., 2005; The Economist, 1995). Aid can also reduce the recipient country's competitiveness (Rajan and Subramanian, 2005), culminating in the Dutch disease (a condition that reduces competiveness of the manufacturing sector due to overabundance of foreign assistance). The robustness of the many empirical studies have been tested but the fact remains that most scholars agree aid in real terms has not been effective as it has a "weak association with poverty, democracy and good policy" (Alesina and Dollar, 2000).

While Sachs (2005) sees more aid as increasing the possibility "to end extreme poverty by 2025", some recent literature ask a more reflective question: does foreign aid really work? (Riddell, 2007). Riddell presents a more balanced analysis of why aid has not lived up to performance by discussing the systemic impediments at the donor level (such as distortions caused by mixed interests, voluntarism in aid-giving and multiplicity of donors) and the issues of commitment, capacity, owner- ship and governance at the recipient end. He outlines a cluster of motives that have historically influenced aid allocation. They are (1) to address emergency needs; (2) for development – growth and poverty reduction goals; (3) to show solidarity; (4) to promote donor's commercial, political and strategic interests; (5) historical ties; (6) to reduce the ill effects of globalization; and (7) aid giving dependent on recipient's human rights record. Riddell concludes that although aid has made a difference, it could make a greater difference by having a "long-term, systemic or sustainable impact" on the lives of the poor when the roadblocks are removed.

This suggests that aid is not necessarily 'a good thing' but that it can be beneficial. If it is entirely a good thing, how come many countries in Africa still struggle with poverty? How come the same continent that is touted to receive the biggest chunk of aid money had an average growth rate of 3.8% between 1996 and 2000 and 4.75 in 2005? (OECD Observer, 2005). Finding a correlation between aid and (under) development remains a complex task but with the limited evidence of aid having had a good impact on Africa's development, we believe there is more to the debate than most scholars have recognized. To better explain Africa's developmental complexities, we think culture cannot be ignored.

4. Foreign Aid and Its Effects on a Country Economy

4.1. Foreign Aid Destroys Local Industries

Foreign aid in the form of supplies severely harms local industries in recipient countries. In an environment where free food, medicine, stationary, tents are readily available domestic producer of these goods do not get value for their produce; sometime, good intention might be harming the local economy. In one case mentioned by Dambisa Moyo in her book Dead Aid, a philanthropic Hollywood star spent several million dollars on about 100 thousand tents, and sent them to Africa to help prevent the spread of malaria.[1] Immediately local people benefit from this kind act and fewer people are affected with malaria. In a short time, few people would need to buy tents from local suppliers. Thus, it would strike suppliers, along with the workers they hire, and the suppliers on the upstream of the whole industry chain. They will lose their income to a great degree due to the sharp decrease of demand. A more devastating result is that they would be bankrupt and push out of the industry by the free imported tents.

As Amartya Sen has shown, food aid has the effect of destroying local agriculture, and benefits western agribusiness mostly, which are overproducing food and need to open new markets overseas[2]. Imagine the immensity of the following contradiction: a country like the Democratic Republic of Congo can produce food for an estimated 3 billion people, but today it is a net importer of food, and a large part of its 60 million inhabitants

[1] Dambisa Moyo, "Dead Aid", 1st Edition, p31

[2] "Africa Rising", The Economist, 3 December, 2011

receive food aid distributed by an army of NGOs from the West. The example can be replicated across Sub-Saharan Africa.

For that reason, leading humanitarian aid organisation Cooperative for Assistance and Relief Everywhere, Inc. (CARE) now says part of this obscenity is the result of the way the food aid industry currently works. Food aid has become an end in itself and constitutes a form of dumping that can be extremely destructive to local agricultural markets. The food aid 'industry' has become one of the dreadful 'dependency factors' that keep Africa in eternal poverty and dictate its development (these factors include the continuing effects of colonialism, resource wars induced by the West, the presence of post-colonial political satraps, hegemonic NGOs, foreign aid, Worldbankism, and indeed, food aid).

Especially the food aid system employed by the United States is seen as counter-productive: the U.S. government buys cheap food from powerful American agribusiness, hands it out to American charities in Africa, who then get to sell it for a profit. With the profit the NGOs fund themselves. This system has become big business and ruins the chances of local farmers to compete. Some go so far as to say food aid feeds everyone, except the poor. To make its point, Cooperative for Assistance and Relief Everywhere, Inc. (CARE) has decided to refuse about US$45 million a year in federal funding from the U.S., saying the system hurts the very poor people it aims to help. "If someone wants to help you, they should not do it by destroying the very thing that they are trying to promote;" one example of this practice is the sale of American wheat and vegetable oil that is flooding Kenya.

Furthermore, Zambia is an African country that produces abundant cotton. Textile industry is one of the most important industries in Zambia. Since their opening up in 1980s, countless pieces of second-hand clothes come to this country, through foreign aid or import. Their local produced cotton and textile do not have any advantage compared to second-hand clothes from other countries. In the past, Zambian people wore cotton clothes produced in their own countries, with cotton grown in the very country. Now, it is difficult to find clothes or textile produced by their local cotton and textile industries. In 1980s, about 25 000 people were employed to work in their textile industry, but that number decreased to 10,000 in 2002 and half of the workers had to look for jobs in other industries, or just stay at home[1].

4.2. Financial Aid Causes Inflation in Recipient Countries

Inflation is one common problem in any economy. It happens in all countries, and it hurts their economic growth. According to a report of IMF, the mean inflation rate in SSA from 2005-2013 was 10.1 percent, while the mean index of all the developing countries in the world was 8.7 per cent[2]. The majority of countries that have the highest CPI in the world are SSA countries, Sudan, Ethiopia, Ghana and Malawi had average CPI from 2011-2015 above 10 per cent, which is rarely seen in other parts of the world[3]. These are also countries that receive plenty of foreign aid.

In Somalia, especially in the capital of Mogadishu, the influx of cash from well-meaning foreign aid has negatively affected low-income families. Prices of food had increased since the foreign aid agencies came to Somalia. As a result, poor people could not afford to manage their living standard because of the rise in price of commodities. In 2011, according to an interviewed from parent who lived in Mogadishu, household expenditure increased due to inflation[4]. Some people argue that financial aid usually does not cause inflation because it is different from issuing too much money with in one country. Nevertheless, inflation appears when the growth of amount of money in the market greatly excels the growth of production of actual products. In many Sub-Saharan African countries that receive large quantities of financial aid, if the money luckily really goes down to people, they will be able to buy more things and improve their living standard; if the money is largely taken by corrupted government officials, then the outcome of aid will not be realized.

It seems that in this way, financial aid will increase the demand of goods and help promote the development of local economy. In fact, things are more complicated than this. Countries that receive significant financial aid usually are least developed in economy. There are not many factories, not much supply is offered by local producers. People used the money they get from aid to buy things, whereas there are not enough goods in the market to meet their demand. One immediate result is that the prices of produce will increase. Then, gradually, the producers will try to make more food, clothes, cars and other things to meet the increased demand. It seems good, but inflation has already struck their economy, and more money has flowed in through financial

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[1] Yan Lei, "The Effect of the Reform of Trade Liberalization on Textile Industry in Zambia", Journal of Shanxi University, May 2010, Vol. 33, No. 3

[2] Anh D.M. Nguyen, Jemma Dridi, Filiz D. Unsal and Oral H. Williams, "IMF Working Paper: On the Drivers of Inflation in Sub-Saharan Africa", August 2015, p4

[3] Inflation, Consumer Prices (%), World Bank, http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG/countries?display=default

[4] Mohamed Abdi Moddaale, "The Impact of Foreign Aid: Inflation", Somalia Report, 10/06/2011: http://www.somaliareport.com/index.php/post/1713/The_Impact_of_Foreign_Aid_Inflation

aid. Thus financial aid has created a vicious circle: it causes inflation, then economy is negatively affected, so more aid comes, and inflation becomes even more severe, economy becomes worse.

4.3. Aid Contributes to Corruption

The need for aid-recipient countries to have good policies and good-quality institutions in order to ensure a good management and a good effectiveness of aid has been a matter of interest of aid politics and academicians. More interestingly, the potential effect that aid could have on the quality of these institutions has also attracted the interest of many scholars. Even though the debate is still controversial, many empirical studies have concluded that aid dependence can potentially undermine institutional quality, by weakening accountability, encouraging rent-seeking and corruption, fomenting conflict over control of aid funds, siphoning off scarce talent from the bureaucracy, and alleviating pressures to reform inefficient policies and institutions. These empirical studies have focused on indexes of institutional quality (democracy, governance, corruption economic liberties indexes, etc.) (Svensson, 2000; Gold- smith, 2001; Knack, 2001; Alesina and Weder, 2002; McNab and Everhart, 2002; Hoffman, 2003; Tavares, 2003; Brautigam and Knack, 2004; Knack, 2004; FMI, 2005; Coviello and Is- lam, 2006; Dalgaard and Olsson, 2006).

Focusing on the specific impact of aid on corruption, some empirical studies fuel the controversy. In particular, a couple of them have demonstrated that aid leads to more corruption in recipient countries. Why?

The negative impact of aid on the quality of recipient countries' institutions is traditionally paralleled with the so-called "natural resources curse phenomenon" in the literature. This phenomenon explains that countries with great natural resource wealth would tend to experience more slow growth rates than resource-poor countries. Investigating the explanations of that, a huge literature has provided a political economy theoretical framework to explain the resources curse, pointing out induced-rent-seeking behaviors are the cause[1] Sala-i Mar- tin and Subramanian (2003) show that natural resources appear to cause no direct effect on growth; the negative effects, while severe, are indirect and operate through the weakness of institutions. Lane and Tornell (1996) and Tornell and Lane (1999) point out dysfunctional institutions inviting grabbing as the source of the disappointing growth performance after the oil windfalls in Nigeria, Venezuela, and Mexico. They explain how the "voracity effect" (the more-than-proportional increase in redistribution in response to a windfall) leads to lower growth.

Ades and Di Tella (1999) empirically show that natural resource rents stimulate corruption among bureaucrats and politicians. Other things equal, countries where firms en- joy higher rents (and thus where bureaucrats and politicians can extract them) tend to have higher corruption levels. According to Torvik (2002), a greater amount of natural resources increases the number of rent-seekers (entrepreneurs engaged in rent seeking) and reduces the number of modern entrepreneurs (running productive firms). Entrepreneurs move into rent- seeking once profit in rent-seeking is higher than before the windfall while profit in modern production is the same as before. Acemoglu, Robinson, and Verdier (2004) provides cases studies explaining how higher resource rents make it easier for dictators to buy off political challengers. In the Congo the "enormous natural resource wealth including 15% of the world's copper deposits, vast amounts of diamonds, zinc, gold, silver, oil, and many other resources [. . .] gave Mobutu a constant flow of income to help sustain his power". (p. 171). Their work explain that resource abundance increases the political benefits of buying votes through inefficient redistribution. The work of Leite and Weidmann (1999) also suggests that resource (especially minerals) rich countries tend to be more prone to rent-seeking and corruption, thereby decreasing the quality of government. Natural resources would create opportunities for rent-seeking behavior.

Several studies have provided empirical as well as theoretical evidence that foreign aid is associated with more rent-seeking activities and corruption[2] Boone (1996) analyzing the importance of the political regime for the effectiveness of aid programs, finds, with a panel of developing countries that foreign aid fails to raise the investment rate in recipient countries, because aid resources are mostly consumed. Knack (2001) provides evidence that higher levels of aid increase the level of corruption and thus erodes the quality of governance. By benign a potential source of rents. He provides the example of Tanzania where the increase of aid levels in the 1970s and 80s helped enlarge a public sector creating more opportunities for corruption by sustaining large government subsidies to state-owned enterprises and parastatals. Using data from the International Country Risk Guide (ICRG) including two six-point scale measures of corruption in government and rule-of-law (reflecting the potential for rent- seeking associated with weak legal systems and insecure property rights), aid levels have proved to be strongly and negatively related to changes in corruption ad rule-of-law measures.

[1] The "resource curse"-literature provides another kind of answers through the "Dutch-disease" phenomenon, well developed in Sachs and Warner (2001, 1997); natural resources abundance shifts factors of production out of sectors where production exhibits static or dynamic increasing returns to scale, pushing down productivity growth

[2] Although a couple of studies have reached the opposite conclusion, based on empirical results, that is more aid leads to less corruption (McNab and Everhart, 2002; Dalgaard and Olsson, 2008; Tavares, 2003)

5. Conclusion

It is difficult to conclude from the many debates above especially since there is no single magic wand (or stick) to command development to appear. Most of the so- called empirical studies focus on economic growth in the macro-economic sense without taking cognizance that development is much bigger than just statistically significant improvement in GDP per capita. The reality is that there could still be widespread poverty in the grassroots even when a country is perceived to have attained appreciable levels of macro-economic growth. Given the unclear and ambiguous nature of empirical literature on aid effectiveness, we cannot have a firm conclusion that aid has led to (under) development in Africa. However, we reiterate our argument that unless aid/development discussions incorporate socio-cultural factors, we cannot fully appreciate why foreign aid has failed to deliver 'development' in Africa. We propose a return to the culture-development discussions which have been over- shadowed by macro-economic 'buzzwords' in the development literature. This is against the backdrop that inasmuch as GDP growth rates matter, policies and institutions work in some socio-cultural milieu which has mostly been ignored by donors: The focus is too often on money alone, to the detriment of aid performance.

5.1 Policy recommendations

1. More assistance targeted to private sectors in developing countries, because business should be the engine of growth in the developing world;
2. A new business model to engage new non-governmental partners — foreign aid should be conducted in concert with local private or public partners that are committed to development;
3. Strengthened management capacity of foreign assistance agencies. International donors should improve monitoring and evaluation, human resources, and procurement and contracting capabilities of agencies involved with foreign aid to improve the effectiveness of taxpayer dollars. Also, while the workload of foreign aid agencies has gone up, the staff has been cut, which hurts effectiveness of the programs;
4. Promotion of local self-sufficiency by providing needs-based aid and building local capacity;
5. Adopt a unified, results-based management approach, based on principles of the Paris Declaration on Aid Effectiveness for improved aid effectiveness.
6. Increase non-project aid to developing country governments that have credible and transparent and coherent development strategies;

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