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Pernicious effects of foreign aid

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ABSTRACT

A number of concepts, actions, and policies exists out there that are considered universally right and positive. Few people would deny the moral and ethical character of concepts such as aid, charity, or assistance. This is because the wide community's judgment is often based on the intentions of undertakings rather than on their actual effects which are sometimes hard to pinpoint or predict. The aim of this research paper is to challenge the mainstream belief that foreign aid to developing countries is a good and necessary policy that Western democracies should keep on adopting. In fact, beginning after the end of the Second World War and even more in the last couple of decades, foreign aid has been portrayed by national governments and international organizations as the key to reaching global justice, full economic integration, and a long-lasting worldwide peace. The logic behind foreign aid seems pretty straightforward on the surface: richer countries transfer funds to poorer countries so that the latter get the chance to modernize, build infrastructures, industrialize, and provide better services to their peoples. From this perspective foreign aid seems no doubt an ethically right political instrument to ensure that all governments get to have those minimum financial resources needed to guarantee acceptable living conditions to their populations. However, are we sure that foreign aid works following such a linear logic? Is it actually all about helping others? Is foreign aid a 'one-size-fit-all approach' that will always be successful no matter which country it is given to? In the next pages I try to shed some light on the 'hidden logic' of economic aid, its controversies, and its actual and potential drawbacks.

1. INTRODUCTION

Beginning in the Post-War era, transferring economic resources from developed to developing countries has been widely perceived as a viable policy to tackle world poverty. However, most theories that support foreign aid (such as the 'Big Push Theory' which will be illustrated in great detail throughout this paper) tend to underestimate the existence of different circumstances as if money could do no harm and prescribe influxes of massive amounts of economic funds to all those countries that are struggling to develop. Nevertheless, it would be too naïve to see foreign aid as a 'one-size-fits-all-approach'. The transfer of financial resources can have significant negative effects on the governments and the people of countries that receive them. Moreover, one should not neglect the dynamics that prompt the governments of donor countries to provide economic aid to countries that are often far away and that have (at least as far as public opinion is concerned) very little to do with them. This is to say that foreign aid is often given upon interests and political mechanisms that governments of donor and receiving countries tend to keep hidden.

1.1 What is foreign aid?

Before going into the analytical part of this research paper, it is important to provide a definition of and some background knowledge about foreign aid. The term refers to a voluntary transfer of resources from one (usually more developed) country to another (usually developing) country. Any aid program formally aims at promoting the economic development and welfare of receiving nations. As Farah Abuzeid rightly points out in an article published on the *Stanford Journal of International Relation*[1], depending to the way in which resources are transferred from one government to another it is possible to distinguish between two major types of foreign aid: bilateral aid and multilateral aid. While the former "flows directly from donor to recipient governments"[2], the latter "is channeled through an intermediary lending institution like the World Bank"[3]. However, no matter whether resources are pumped directly or indirectly in another country's economy, the question remains of why a prosperous developed country should voluntarily donate some of its wealth to a far away and poor country. In fact, seeing aid as a disinterested action seems far too naïve and beyond the rationality of policymakers. However, to these days few theories have been developed that try to identify explanations for foreign aid other than as a mean to perpetuate mere charity and do good to

[1] Farah Abuzeid, *Foreign Aid and the "Big Push" Theory: Lessons from Sub-Saharan Africa*, Stanford Journal of International Relations, 2009

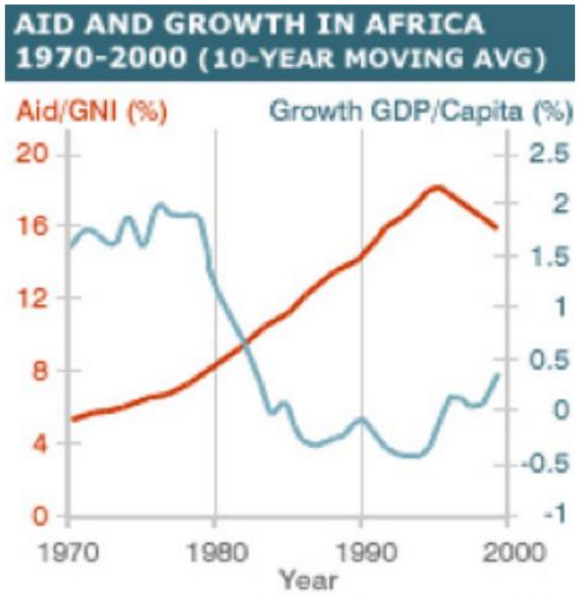
[2] Farah Abuzeid, *Foreign Aid and the "Big Push" Theory: Lessons from Sub-Saharan Africa*, Stanford Journal of International Relations, 2009, Vol. XI | No. 1, p. 17

[3] Farah Abuzeid, *Foreign Aid and the "Big Push" Theory: Lessons from Sub-Saharan Africa*, Stanford Journal of International Relations, 2009, Vol. XI | No. 1, p. 17

developing economies. Indeed, traditional development economics has generally supported foreign aid as a tool for overcoming the savings gap between rich countries and poor countries based on the well-consolidated assumption that greater savings will lead to greater investments, thus faster growth. Always according to mainstream development economic literature, foreign aid has the potential to free countries stuck in the so-called ‘poverty trap’, a situation in which a country lacks of capital to a point where it is “too poor to achieve robust, high levels of economic growth and, [in some instances], simply too poor to grow at all.”[4]

Hence, economic aid has been often portrayed by contemporary economists as the instrument to end world poverty once for all. Jeffrey Sachs in his paper *The End of Poverty*, prescribes massive aid transfers as a sufficient mean to get the process of economic modernization under way in those parts of the world that have remained most backward. According to Sachs, such therapy could end “extreme poverty by the year 2025”[5], meaning in just twenty years time considering that the paper was published in 2005.

However, are we sure that this therapy has no drawbacks? Evidence seems to suggest that foreign aid does have some major drawbacks or is at least inefficient most of the times. Sub-Saharan Africa is no doubt the poorest region of today’s world. Given the unacceptable living conditions of most of its people and the severely backward economies of the area, Sub-Saharan countries have received a staggering amount of about 1 trillion US Dollars[6] in the form of foreign aid from Western countries. However, in spite of this huge transfer of economic resources, evidence seems to suggest that the gross domestic product per capita in the region has not reflected at all increased financial availability resulting from aid. On the contrary, GDP levels in Sub-Saharan Africa actually declined in the period going from 1970 to 2000 as shown by the graph on the left.



Source: Erixon, F. (2005b) “Why Aid Doesn’t Work.” BBC News.

What is even more striking is the clear negative correlation that exists between foreign aid and GDP per capita growth. This is to say that the evidence provided by the graph on the side suggests that the higher the amount of aid, the lower the economic growth of the receiving region, at least in the case of Sub-Saharan Africa. This perhaps unexpected relation seems to suggest that aid may actually enhance and magnify the phenomena it is supposed to defeat, namely

[4] Jeffrey D. Sachs, John W. McArthur, Guido Schmidt Traub, Margaret Kruk, Chandrika Bahadur, Michael Faye, Gordon McCord, *Ending Africa’s Poverty Trap*, Columbia University and UN Millennium Project, Brookings Papers on Economic Activity, 1:2004, p. 121

[5] Jeffrey D. Sachs, *The end of poverty: economic possibilities for our time*. Penguin Press, New York City, 2005, p.288

[6] Wolfgang Kasper, *Make poverty history: tackle corruption*, The Center for Independent Studies, 2006, Vol. 67, p. 9

absolute poverty, economic stagnation, investments gap, etc. As this research paper wants to point out, this apparently irrational correlation is generated by numerous socio-political fallacies that arise following the sudden increase in financial resources (such as corruption, inequality, low levels of extraction, etc.) and that such fallacies get reflected on the economy of the receiving country. Consequently, the more a government is dependent of foreign aid, the worse its quality of governance. In order to understand how much a country's economy is dependent of aid one shall estimate the total foreign aid transfers it receives as a percentage of its GDP: the greater such proportion, the more the aid-dependence of the country. The "negative relationship between aid intensity and quality of governance"[7] is well-illustrated by Professor Deborah Bräutigam in her research paper *Aid Dependence and Governance*, in which she is able to measure statistically such relationship using the 18-point scale of the *International Country Risk Guide*, an index which "comprises 22 variables in three subcategories of risk: political, financial, and economic."[8] Four years before the publication of Professor Bräutigam's findings, also Keefer and Knack had stressed that sustained and rapid growth in per-capita incomes cannot be achieved without good quality governance and that such quality could be not be improved in situations of strong economic dependence.[9]

Thus, going beyond the apparent benefits of foreign aid and identifying all its potential drawbacks should be a priority in order to understand whether donor governments should stop transferring funds to developing countries before causing further harm to the latter's political and economic structures. This research paper tries to provide an answer to such question which is as important as it is underestimated.

1.2 Why foreign aid? The alleged positive effects on developing countries

Public opinion in developed Western countries has come to accept (or at least tolerate) that governments may occasionally devolve a portion of their wealth to what appears to be charity towards people living in remote and backward parts of the world severely affected by wars, famines, and misery. No remarkable riots or uprisings have occurred to stop economic transfers to developing countries. The reason why foreign aid is not labeled as "waste of taxpayers' money" as frequently as other (and significantly less costly) government policies is that people in Europe and North America have more or less been persuaded that not only is aid given for a good cause but that developed countries too can benefit from having economies in Sub-Saharan Africa, Asia and other poor regions of the world escape from the so-called "poverty trap"[10].

[7] Deborah Bräutigam, *Aid Dependence and Governance*, Expert Group of Development Issues, 2001, p. 2

[8] Llewellyn D. Howell, *International Country Risk Guide Methodology*, The PRS Group, p. 1

[9] P. Keefer, Knack, *Why don't poor countries catch up? A cross-national test of an institutional explanation*, Economic Inquiry, 1997, Vol. 53, pp.590-602.

[10] By poverty trap is meant a state of affairs in which a country's economy is stuck in a vicious cycle that hinders growth and development. The mechanism behind it is that at very low income levels, people have very little or nothing to save, thus investments are low, which in turn leads to low incomes again. This cycle keeps going and it is very hard to escape it unless

Moreover, many international organizations, such as the World Bank, and NGOs, such as the United States Agency for International Development (USAID), have traditionally strongly supported foreign aid as a tool that could bring about outstanding benefits to all nations no matter how 'messed up' their economic, political, social, and institutional structures are. Although the aim of this research paper is exactly that of challenging this view, it is nonetheless relevant at this stage to list and briefly explain the advantages that foreign aid is widely believed to produce.

- First, foreign aid is often portrayed as a tool to help fragile states rise up again following natural disasters, wars, and tyrannies allowing them to rapidly strengthen their economic, military, political, and social structures in order for such countries to finally acquire a relevant position at an international level. According to those who support this idea, also donor countries benefit from giving foreign aid because this promotes the expansion of democracy and free markets around the world fostering the establishment of communications and good relationships between countries across opposite sides of the globe. Thanks to aid and the integration in the international system, developing countries would finally have the resources needed to generate investments, promote entrepreneurship, and establish solid trade relationships with other nations. This argument is certainly appealing but does foreign aid actually make a country stronger?
- Secondly, foreign aid is often seen as a necessary mean for poor countries to be able to build schools and libraries in order to provide education to their populations. Those who support this positive correlation between aid and education believe that "in developing countries, […] with this requested increase in foreign aid funding for education, [it is possible to] meet our international commitment to the goal of Education for All."[11] Education is no doubt a fundamental factor to escape the 'poverty trap' situation in which many countries are stuck, because it endows people with skills and knowledge needed to carry out complex jobs in different sectors of the economy, undertake more entrepreneurial careers and get involved in research and development activities, all of which are fundamental to generate greater investments, thus greater growth. Besides the positive economic outcomes, providing a fair and inclusive education system also produces outstanding social returns: "education builds civil society. It fosters tolerance and understanding, and promotes democratization and stability. An educated citizenry that is capable of making informed decisions, voicing opinions, and holding elected officials responsible is essential for democracy to survive and flourish. And, as secondary school enrollment increases,

significant amounts of capital are pumped into the economy. Institutions play the key role of making sure that such resources are then effectively turned into higher levels of investments in key areas of the economy.

[11] F. Moseley, *State, Foreign Operations & Other Programs*, CQ Congressional Testimony, Lexis Nexis database, 2006, paragraph 17

government corruption decreases."[12] However, are we sure that foreign aid gets converted into the building of schools, libraries, and the hiring of teachers in such a smooth and easy way?

- Similarly, foreign aid can support the development of national health systems in those countries that do not have one. Due to the greater purchasing power of currency in developing countries, by giving little aid Western countries allow the construction of hospitals and the provision of drugs even in remote and poor areas of the world. It is worth stressing that improving the health of people is not an end in itself: with better health comes longer life-expectancy meaning that people will be productive for a longer time; the healthier a citizen is, the less he or she is a burden for the government or for other members of the community; health is also tightly linked to education because, as development economists Todaro and Smith stated, "healthier individuals are more able to productively use education at any point in life"[13]. Moreover, eradicating dangerous viral diseases that are very common in poor regions is also important for developed countries as this diseases can spread with great ease even across different continents. However, despite the objective need for everyone to enjoy at least basic healthcare and the apparent desirability of aid to accomplish it, the relationship between foreign aid and medical improvements in the developing world remains rather blurry and requires further investigation.
- Also, supporters of foreign aid often claim that helping countries rise up economically will make them more independent of other countries as well as mafias and internal militia groups. The argument behind this idea is that generating a prosperous economy creates significant opportunities for people. Such opportunities (such as ease to borrow money, start a business, trade, availability of technology, etc.) can potentially improve equality and per capita income, eradicating rebel groups and organized crime. In fact, when people are given the means to use their potentials and skills, such groups are likely to lose popular support. Moreover, supporters of aid claim that a country that has a prosperous economy is a country that is respected by other countries that would otherwise exploit it in all sorts of ways. However, the findings of this research paper seem to go strongly against this argument.
- Foreign aid is often believed to increase security and ensure peace between countries. Many conflicts throughout history have occurred due to diverging economic interests. If rich countries reduce their wealth in favor of poor regions, future wars may be prevented and good relationships between the developed and developing world can be maintained. Foreign aid may actually foster successful military alliances between countries in different continents that may be strategic for peacekeeping. However, the idea of 'giving more money' today to avoid 'fighting over money' in the future is not fully convincing and seems somewhat contradictory.

[12] F. Moseley, *State, Foreign Operations & Other Programs*, CQ Congressional Testimony, Lexis Nexis database, 2006, paragraph 13

[13] Michael P. Todaro, Stephem C. Smith, *Economic Development*, 11th Edition, Addison-Wesley, 2012, p. 362

- According to its supporters, foreign aid is not an everlasting commitment for developed countries. If the developed world worked together to transfer economic founds to poor regions, in a matter of few years, developing countries would be able "to achieve self-sustaining growth"[14], meaning that once a country is able to escape from stagnation thanks to the positive effects of foreign aid, it should be able to keep growing autonomously. At this stage donor countries could stop transferring resources. However, significant amounts of foreign aid has been given to Sub-Saharan Africa especially by the United States and the United Kingdom for decades now, but on average the economy of that region to these days keeps experiencing economic contraction.
- Developing countries are stuck in a traditional agricultural economy not necessarily because they lack of factors of production or entrepreneurial minds, but mainly because technology is expensive, too expensive to start a successful process of economic modernization. If develop countries transfer economic resources to developing countries, the latter are able to develop technology and most importantly import technology from developed countries. In this way, not only do developing countries have the chance to integrate their agricultural economy with other sectors, but also Western countries benefit from exporting their technology to those countries. However, is this really happening?
- Lastly, developing countries have significant problems of balance of payments. Lacking a well-established industrial sector, developing countries tend to import more than they export, and this "gap between exports and imports leads to the balance of payment difficulties."[15] With the help of foreign aid, these countries are able to meet their import requirements without having to worry about their amount of exports. Since receiving countries end up importing from donor countries, foreign aid sort of comes back to the 'creditor'. However, is this a viable solution to create a strong economy in those nations that lack one?

Now that the main alleged positive effects have been listed and briefly explained, in the next section of this research paper the counterarguments are going to be illustrated. In fact, this paper strongly challenges the widespread belief that foreign aid fosters economic growth in developing countries with all the linked benefits of prosperity. Foreign aid can cause harm to the developing world, indeed it has more drawbacks than it has benefits in the vast majority of cases. The next few pages try to go beyond utopia by shedding some light on the numerous pernicious effects of foreign aid, as well as the interests of Western countries which are too often kept quiet.

[14] Guljinder Kaur Randhawa, *Foreign Aid in Economic Development,* International Journal of Computing & Business Research, 2012, p. 4

[15] Guljinder Kaur Randhawa, *Foreign Aid in Economic Development,* International Journal of Computing & Business Research, 2012, p. 8

2. BEYOND UTOPIA: THE NEGATIVE EFFECTS OF FOREIGN AID

The positive effects of foreign aid illustrated in the previous section and supported by much scholarly literature of the 90s and early 2000s are simply utopian. Economic transfers can cause serious harm to receiving countries as this section of the research paper wants to demonstrate. The negative effects that are too often brought about by aid simply defeat the very purpose of it, at least the official one, which is to help financially those countries that are struggling to develop.

In recent years new scholarly literature has been published that rightly challenges the actual efficacy of foreign aid. Since then this political practice of Western countries has become less popular every day. However, most of the scholars that have tried to oppose foreign aid have focused on specific issues and single causal-relationships that do not provide a full picture of all the major drawbacks of transferring funds to poor regions. The next pages include a clear collection and explanation of the numerous pernicious effects that foreign aid very often have on the developing world. Among the most common negative outcomes of aid that are discussed in great detail below is the strengthening of existing corruption and malpractice in receiving countries, the creation of "multiple distortions in the public sector"[16], the creation of the so-called 'rentier states', and the discouragement for governments of receiving countries to carry out urgent reforms.

2.1 Challenging the mainstream assumptions of foreign aid

Although scholars are becoming more and more skeptical about foreign aid as a tool to solve global issues such as underdevelopment, poverty, and economic stagnation, the idea that the developing world can benefit significantly from massive injections of financial resources in their economies is still present and strongly supported by many contemporary economists and political scientists.

This section identifies a number of side effects that foreign aid has had or might potentially have on developing countries. All the following pernicious effects of aid go firmly against the mainstream belief that poor regions need funds from Western countries to get the process of growth and modernization under way.

[16] Farah Abuzeid, *Foreign Aid and the "Big Push" Theory: Lessons from Sub-Saharan Africa*, Stanford Journal of International Relations, 2009, Vol. XI | No. 1, p. 18

❖ One of the most evident drawbacks of foreign aid is that it can increase existing corruption of governments of receiving countries. In fact, poor countries tend to lack institutional structures and checks-and-balances systems needed to make sure that public resources are used in the interest of the people. This means that governments of developing countries, being overwhelmed with economic transfers and lacking the structures to use them wisely, might end up using this new sudden availability of resources to bribe opposition, achieve shady political interests, finance personal expense of powerful politicians, or any activity other than fostering development and well-being of the population. Hence, without a good quality governance "the larger the government budget, the larger the incentives to deviate."[17] Policymakers of donor countries do not pay enough attention to this aspect when they it comes to allocating aid. Surprisingly enough, a study by Alberto Alesina and Beatrice Weder published by 'The National Bureau of Economics' reveals that more corrupt countries tend to receive more aid[18], as shown by the table[19] reported on the left-hand-side. This is supposedly because donors do not really care whether they are helping a corrupt government or not. Rather, they want to pursue their economic interests and achieve their political goals. In fact, another study conducted by David Dollar and Alberto Alesina provides reliable evidence that "the direction of foreign aid is dictated by political and strategic consideration, much more than by the economic needs and policy performance of the recipients."[20] This study reveals that aid allocation is rather determined by factors such as voting patterns in the United Nations,

Table 10: Corruption (ICRG avg. 1990-95) and previous aid (avg. 1981-95)

Split by		Aid/ Gov	Aid / GNP	Total Aid pc	Bilateral Aid pc
	Number of countries	72	98	101	91
	Average Corruption	2.96	2.72	2.68	2.83
Average	Number of countries with higher than average corruption	26	39	32	32
	Average aid	**30.75**	**8.27**	31.89	**27.89**
	number of countries with lower than average corruption	46	59	69	66
	Average aid	**23.13**	**6.26**	32.90	**25.02**
Median	Countries with corruption higher than median	36	49	50.5	45.5
	Average aid	**25.02**	**7.47**	30.54	**27.20**
	number of countries with lower than median	36	49	50.5	45.5
	Average aid	**18.51**	**6.63**	32.26	**24.53**
Top and bottom quintiles	The top quintile most corrupt countries	14.4	19.6	20.2	18.2
	Average aid	**33.32**	**11.42**	**31.92**	**29.86**
	The bottom quintile Least corrupt countries	14.4	19.60	20.2	18.2
	Average aid	**20.59**	**6.06**	**21.01**	**19.45**

Bold numbers indicate that more corrupt countries had received higher aid.

[17] Jakob Svensson, *Foreign aid and rent-seeking*, Journal of International Economics, 2000, Vol. 51, p. 455
[18] Alberto Alesina, Beatrice Weder, *Do currupt countries receive less aid?*, National Bureau of Economic Research, Nber Working Papers Series, 1999, pp. 3 – 20
[19] Alberto Alesina, Beatrice Weder, *Do currupt countries receive less aid?*, National Bureau of Economic Research, Nber Working Papers Series, 1999, Appendix, Table 10
[20] David Dollar, Alberto Alesina, *Who gives foreign aid to whom and why?*, National Bureau of Economic Research , Nber Working Papers Series, 1998, p. 3

economic openness, and, more importantly, colonial history Indeed, data collected by Dollar and Alesina shows that donors tend to transfer economic resources to their former colonies. What is even more striking is that international institutions like the World Bank and the International Monetary Fund, adopts no criteria to allocate foreign aid that discriminates against corrupted governments. As a result of foreign aid being distributed pretty much regardless of the quality of governance, corruption tends to increase as more funds are transferred to recipient developing countries worsening their already unstable political and economic situation.

- Another remarkable drawback of foreign aid is that creates several distortions in the public sector of receiving countries. In fact, evidence suggests that economic transfers from donors are often followed by a significant enlargement of the government sector (hence corruption) of the recipients. Not only is this a negative consequence *per se*, but it also proves that much aid is wasted to cover unnecessary government expenditures (which are often labeled as 'development spending')[21]. Indeed, as Peter Boone claims in his research paper *Politics and the Effectiveness of Foreign Aid*, increases in government expenditure following "increases [in] the size of government, […] does not benefit the poor"[22] who are those who should get the more advantages from foreign aid either directly or indirectly. Rather, aid seems to encourage the expansion of already corrupted governments that are likely to waste such funds from donor countries into fraudulent activities, undesirable military expansions, unsound projects, and private expenses of powerful politicians.

  Even in those developing countries in which corruption levels are low, aid is still very likely to bring about serious distortions in the public sector. Such distortions may have a long term negative effect on the growth and development patterns of recipients. One of the most common policies adopted by politicians in good faith when their governments receive foreign aid is to tackle unemployment by hiring an excessive number of people in the public sector. Being in surplus, the productivity of these new government employees is basically zero and they become a burden for the governments that have to keep paying wages. When this occurs, two main outcomes (both of which are negative) might occur. First, receiving countries might become so dependent on foreign aid to be able to pay wages and cover disproportionate public expenses that they become 'puppets' of donor governments. This unhealthy relationship established between recipient country and donor country puts the latter in the position to exploit and dominate the former under the constant threat of economic aid transfers being stopped. The second possible outcome is that once foreign aid ceases or reduced, the developing country is suddenly unable to support economically the excessive expenses of the public sector and it is forced fire employees and downsize the government structure finding itself back to square one, with massive levels

[21] Doug Bandow, Ian Vasquez, *Perpetuating poverty – the World Bank, the IMF, and the Developing World*, Cato Institute, Washington D.C., 1994

[22] Peter Boone, *Politics and the Effectiveness of Foreign Aid*, Centre for Economic Performance – Discussion Paper No. 272, 1995, p. 22

of unemployment, a serious economic crisis, and institutions unable to generate growth and development.

- Another significant drawback of foreign aid stems from the fact that it is often given to countries to fund specific projects aimed at fostering growth and modernization but due to its "fungible nature"[23], aid ends up perpetuating (either directly or indirectly) the interests of the receiving governments prior to the good causes for which resources were transferred in the first place.

  First of all, due to its 'fungibility', aid indirectly allows receiving governments to reallocate their own funds that they used to finance the areas of the economy to which donors are transferring resources, to fund other (often shady) activities. This idea is better explained with a simple example: developed country A gives five-million U.S. Dollars to developing country B upon a formal agreement that the government of B will use those resources entirely to build a road that connects the more populated areas of the country. Prior to receiving foreign aid, the government of country B had put together its yearly budget that states that one-million of its currency (which we assume for simplicity to have the same value of U.S. Dollars) is earmarked for road construction and maintenance, which is too little to get anything done. Once foreign aid is received from donor country A, although it is bound to use it entirely for the project of building the road, the government of B can now use that one-million of its own currency that it had initially allocated in its yearly budget to road construction and maintenance for "other purposes, productive or wasteful, such as an enlargement of the army, repayment of the debts of parastatal organizations, or an increase in expenditures in general administration"[24]. This shows that even when foreign aid is transferred upon certain commitments being taken by the receiving country, it can still indirectly generate serious corruption and unneeded expenditure as the government of the recipient can stop using its own (although limited) resources to fund the area to which aid is transferred and use them as it wishes.

  The second undesired outcome of 'fungibility' is that aid surplus can be used by the receiving governments as they wish. In fact, being transferred in advance on the basis of an estimation of the cost of a specific project, aid is likely to be in excess and such surplus is almost never returned. The remaining resources after the project for which they were transferred is completed can amount to a great quantity of money. In developing countries that tend to have weaker political and economic structures as well as widespread corruption such 'extra-money' is very likely to end up funding shady activities. In the most extreme cases, such surplus can be created fraudulently by the governments of receiving countries by completing the projects for which aid is given below the standards expected by using the least possible amount of resources in order to withhold as much surplus as possible.

[23] Farah Abuzeid, *Foreign Aid and the "Big Push" Theory: Lessons from Sub-Saharan Africa*, Stanford Journal of International Relations, 2009, Vol. XI | No. 1, p. 19

[24] Seifu Gebrehanna, Mukti P. Upadhyay, *Fungibility of Foreign Aid in Selected African Countries,* Eastern and Southern Illinois Universities, 2012, Vol. 10 | No. 1, p. 63

- Foreign aid also increases inequality in the receiving country. In fact, aid tends not to be distributed fairly among the people who needs it the most. Rather, resources transferred by donors often remain in the hands of the very politicians who are supposed to allocate them in the best possible way to tackle misery and absolute poverty in the country they govern. As a result, aid tends to circulate only within the elites of receiving countries, enhancing the already existing inequality typical of the developing world. The concentration of massive amounts of resources in the hands of a few powerful figures inevitably changes the domestic balance of power, leads to politicization of economic life, and encourages oppressive lobbying activities, all of which sharpen the gap between 'the ordinary citizens' and 'the elites'. When high inequality exists, there can be no development because, as William Easterly claims, "inequality does cause underdevelopment"[25]. This is because with high inequality a large portion of citizen is cut out of economic activities, education, healthcare, and all those major factors that contribute to steady growth and socio-economic progress. With a significant percentage of people excluded from enjoying public services and carrying out economic activities, it is impossible to get the process of development under way because a small percentage of rich, educated, and healthy people are not enough (and are not motivated at all) to drag an entire country into such a complex process as development. Hence, given that those who live in conditions of absolute poverty and misery do not generally benefit from foreign aid whereas those few people who are already doing well get huge advantages from it, one can safely state that foreign aid hinders development way more than it fosters it.
- A further problem of foreign aid is that it may change the direction of accountability in receiving countries. In fact, recipients tend to satisfy the requests and listen to the advice of their donors in order to establish a good and long-lasting relationship with them which is likely to result in more aid being transferred. However, it appears clear that in this way the governments of receiving countries become more accountable to other governments than to their own people. This is a dangerous situation because the requests and the advice of donors may not go along the same lines as the needs and the will of the population. In this way, the needed condition of development that institutions must be responsive to their citizens is challenged by foreign aid, the very tool that is supposed to foster growth, modernization, and progress. This change in direction of accountability may completely destroy the system of checks and balances that every country has, although to a different extent. In fact, even in the most backward country in the world that has no institutions to control and limit the power of the executive, there are people, who exercise the ultimate form of checks and balances, and who can eventually rebel and overthrow the oppressive rulers. However, if those rulers are protected by a foreign government, it becomes extremely hard for people to revolt and get their voices heard.

[25] William Easterly, *Inequality does cause underdevelopment: insights from a new instrument*, New York University, 2006, p. 33

Once this change in accountability occurs, the receiving country has lost its independence and has become a ‘puppet’ of its donors.

- With foreign aid often comes the establishment of aid agencies and non-governmental organizations especially in those developing countries that have become systematically dependent on it. Due to the lack of well-functioning domestic institutions as well as strong political and economic structures, those agencies and NGOs acquire a disproportionate amount of power that destabilizes the already precarious equilibria typical of developing countries. Such power is used to undertake projects and implement policies that end up benefitting the donors more than the local population. This is not necessarily done on purpose. Rather, it happens because those who are behind NGOs and aid agencies know little about the real problems of the people they try to help. By acting as a substitute of local governments and by lacking the needed information and knowledge to carry out useful projects for development, these organizations cause harm to the social, economic, and political structures of the countries in which they operate. In fact, not only do NGOs and aid agencies weaken governments and often carry out useless projects, but they end up fueling a counter-productive phenomenon of ‘brain-draining’[26]. This phenomenon occurs because these international bodies “pay higher salaries and attract more motivated personnel”[27] than local institutions. By doing so, the few highly educated and trained people living in aid-dependent countries end up being hired by non-governmental organizations and aid agencies. These ‘brains’ are usually assigned to work on mostly unproductive projects decided by chief executives from developed countries who know little about the problems of the local population. Hence, this ‘brain-draining’ phenomenon only weakens the local public and private sectors by depriving them of the few people that would have the knowledge, skills and potential to actually do something good for the development of the nation. One point that is worth noting is that salaries offered by NGOs and aid agencies can be even twenty or thirty times higher than the average national wage. “In a not atypical example, a donor-funded agricultural project in Kenya hired seven local economists (who had probably been trained in another donorfunded capacity strengthening project) away from the civil service, offering monthly salaries of 3,000–6,000 USD, compared with government salaries of approximately 250 USD”[28]. This huge difference inevitably cast doubt on the ‘good faith’ of NGOs and aid agencies. In fact, one might conclude that these organization offer great incentives precisely to weaken the local government and get in control of the countries they are supposed to help develop.

[26] Brain-draining is the phenomenon by which highly educated, skilled and trained people decide to emigrate to other countries where their abilities are adequately rewarded with higher wages and other types of incentives. In today’s globalized world, brain-draining may also refer to the phenomenon by which highly educated, skilled and trained people remain in their own country but end up working for foreign organizations or companies that offer better working conditions, higher wages, and numerous perks.

[27] Deborah Bräutigam, *Aid Dependence and Governance*, E.G.D.I. (Expert Group on Development Issues, 2000, p. 39

[28] Deborah Bräutigam, *Aid Dependence and Governance*, E.G.D.I. (Expert Group on Development Issues, 2000, p. 40

- Foreign aid is likely to generate 'rentier states' that are, as the term itself suggests, states that are dependent on rents. Given Adam Smith's famous definition of rents as "unearned incomes or profits reaped by those who did not sow"[29], one can label aid as a type of rent, and states that systematically receive it as 'rentier states'. This phenomenon may have a number of negative effects on development. First of all, the institutions of 'rentier-states' usually lack of effective extractive power. This is because governments that receive economic transfers from developed countries on a regular basis feel that they can rely on their donors forever, or at least long enough for the current politicians to be out of office. Thus, governments do not feel the need to extract resources from their people through taxation like governments in developed countries do. 'Rentier states' prefer to use aid rather than extracting for two main reasons. First, aid is unearned income that requires no effort whatsoever to be acquired. This means no extractive institutions to be set up, no bureaucrats to be hired, no investigations to find tax evaders, etc. Second, by not extracting income from households in the form of taxes, governments get to enjoy more popular support and are likely to be reelected for another term (in those countries in which elections take place regularly). However, both reasons are short-viewed. Indeed, a country that lacks the institutions needed to support itself economically is bound to remain underdeveloped and dependent on donors. A great number of 'rentier states' is found in Sub-Saharan Aftica as a result of recent decolonization combined with massive aid transfers from developed countries. Many Sub-Saharan African countries acquired their independence only in the 1960s and 1970s, a period in which foreign aid was very popular among scholars and policymakers. Hence, as soon as these countries were declared free from external domination, the newly established governments started receiving huge amounts of economic resources from a number of donor countries, mostly their former colonizers, that clearly did not want to lose control on those territories. As a consequence, the crucial process of state-making every new country has to go through in order to build solid institutions and structures, never occurred or at least was never completed.

  Not only is the lack or inefficiency of extractive institutions an issue for state-making and for the economic self-support of 'rentier states', but this condition also worsens the quality of government and other existing institutions. In fact, a state that does not use tax revenues as a primary source to fund its activities is inevitably less accountable to its citizens. Being accountability one of the most important pillars of democratic governments one can easily understand why the majority of 'rentier-states' has authoritarian regimes. This aspect is well-illustrated by Michael L. Ross who explained that "states that fund themselves through […] taxes (and hence have higher values on the Taxes variable) should be more

[29] Adam Smith, *Critical Assessments*, edited by John Cunningham Wood, Routledge, 1993, Vol. I | p. 764

democratic; conversely, states that fund themselves through other means (such as trade taxes, parastatals, external grants, and right-of-way fees) should be more authoritarian."[30]

Michael L. Ross was not the only one to put forward the idea that aid is a curse for democracy: Simeon Djankov, Jose G. Montalvo, and Marta Reynal-Querol conducted a research on 'rentier-states' in 2005 and "using data for 108 recipient countries in the period 1960 to 1999, [found] that foreign aid has a negative impact on democracy."[31] Using empirical evidence they showed that "if the average share of foreign aid over GDP in a country were 1.9% over the period 1960-1999, then the recipient country would have gone from the average level of democracy in recipient countries in the initial year to a total absence of democratic institutions."[32] The results of the study are striking because most 'rentier-states' receive amounts of aid that exceed 1.9% of GDP.

- ❖ Another implication of foreign aid is that it may lead governments of receiving countries to procrastinate urgent and crucial reforms, in particular those concerning institutional structures and quality. Governments that are not dependent of foreign aid usually carry out reforms either because the executive itself realizes that major institutional or policy changes are needed or because such changes are demanded by the people. In either case, reforms are passed and social, political and economic stagnations prevented. In fact, when domestic dynamics are not distorted by aid, even governments that are reluctant to carry out reforms are in the end interested in maintaining or acquiring popular support, hence, if people demand for changes, the executive will likely satisfy them. This does not necessarily occur in developing countries that receive massive economic transfers from donors. Aid changes the priorities of recipients and reduce their accountability (as discussed previously), making them less willing to listen to their people's complaints. The paradox of aid is that it may end up funding unnecessary development projects while hindering crucial reforms that would otherwise be carried out.
- ❖ Foreign aid also generates 'moral hazard'[33] problems. Indeed, governments of developing countries that receive massive influxes of foreign aid might feel relieved from the fear of spending their own limited resources on unnecessary or counter-productive projects because they feel that their donors will keep covering even the costs of their wrongful undertakings. In other words, aid acts as a sort of insurance and prompts unskilled leaders to make reckless or risky decisions. However, even though the costs of such

[30] Michael L. Ross, *Does Oil Hinder Democracy?*, Project Muse – World Politics 53, 2001, p. 347

[31] Simeon Djankov, Jose G. Montalvo, Marta Reynal-Querol, *The Curse of Aid*, The World Bank, C.E.P.R, Universitat Pompeu Fabra, I.V.I.E., 2005, p. 1

[32] Simeon Djankov, Jose G. Montalvo, Marta Reynal-Querol, *The Curse of Aid*, The World Bank, C.E.P.R, Universitat Pompeu Fabra, I.V.I.E., 2005, p. 3

[33] 'Moral hazard' is a phenomenon by which a person or a decision-making body takes greater risks than they would normally take because someone or something else bears the costs of their undertakings. In this case the decision-making bodies that take greater risks than normal are governments of receiving countries whereas the bodies that bear the costs of their undertakings are donor countries. In international politics, 'moral hazard' can be a very dangerous phenomenon because it may encourage governments to take disproportionate decisions that are not adequately planned and reasoned, resulting in critical changes in dynamics at the domestic and international levels.

decisions are covered by funds from developed countries, wrongful undertakings can still have long-term negative effects on the social, political, and economic structures of recipients, hindering development.

In this section the most remarkable pernicious effects of foreign aid have been singled out and explained. As this research paper suggests, such drawbacks can strongly endanger the stability of receiving countries and clearly defeat the official purpose of aid which is to foster development in those regions that are struggling to get this crucial process under way. Being the identification of the disadvantages of foreign aid the core of this essay, it is important to list all of them once more before moving on to further analysis, in order for the reader to keep them in mind more easily as the paper develops. As discussed in great detail, foreign aid may have the following major implications: increase corruption in the governments of receiving countries; create several distortions in the public sector of recipients, in particular an excessive expansion of the sector and a disproportionate increase in government expenditure; perpetuate the interests of the receiving governments prior to the good causes for which resources were transferred in the first place; increase socio-economic inequality in recipient nations; change the direction of accountability; creates 'rentier states': decrease pressure for urgent and highly-demanded reforms; and generate 'moral hazard' problems.

2.2 Drawbacks of foreign aid: an underestimated and unspoken topic

Given the seriousness of the side effects of foreign aid, the international community would be expected to get together and discuss whether or not it is appropriate to keep supplying developing countries with resources that only seem to harm them. However, as of today, this issue has not been adequately discussed at the table of any international conference, and despite the growing number of studies, research papers, and academic debates that have shed light on the perils of aid, it seems that this topic is not a priority worth analyzing. This negligence is somewhat ironic given that countries that have been receiving foreign aid for a long time in Sub-Saharan Africa as well as certain regions in Asia and Latin America, remain severely underdeveloped and keep experiencing economic stagnation or even recessions. Yet, the solution that many organizations like the International Monetary Fund (IMF) propose is to keep increasing the amount and frequency of economic transfers to the developing world: "according to the IMF, the sub-Saharan countries that will most likely need aid include Angola, Ivory Coast, Ghana and Nigeria."[34] Not surprisingly, these four countries are among the ones that have received the greatest influxes of resources from developed countries in the past years and that have been performing extremely badly in terms of growth. Nigeria, for example, "in a pattern all-too-familiar in sub-Saharan Africa, experiences a contraction of its GDP per

[34] A.E.D.I (Africa Economic Development Institute, *IMF Weary Impacts on Sub-Saharan Africa*, www. Africaecon.org

capita, so that in 2000 it is in fact poorer than it was in 1960."[35] Even those scholars and policymakers that are firmly convinced that foreign aid is not the cause of such poor development patterns should at least admit that transferring resources to the 'most vulnerable countries' (as the International Monetary Fund calls them) is not bringing about any tangible improvement in recipients. Actually, as this research paper claims, aid is only bringing about serious negative effects in those regions. It is quite bizarre to be honest that the inefficacy and dangers of foreign aid is a topic that the international community largely ignores, or better, prefers to keep quiet. In fact, as this paper discusses in the next sub-section, both donor governments and receiving governments have great interests in maintaining the practice of economic transfers alive. However, while governments pursue their shady or even lucrative interests, millions of people around the world are suffering the consequences of underdevelopment and persistent misuse of economic resources. Unfortunately, they are likely to remain stuck in this unpleasant and declining situation for a long time if the policy of foreign aid as it is today is not stopped. This is because most of the pernicious effects identified in the previous section of this paper tend to have a multiplier negative effect, meaning that they keep getting worse and worse keeping other conditions constant. For instance, given that economic transfers from developed countries may increase the corruption level in recipients, if aid keeps being transferred it will keep fueling corruption even more. Similarly, given that inequality in receiving countries might increase with foreign aid, it follows that inequality will increase even more if additional funds are pumped into their economies.

Hence, there is no time to waste. If the international community really wants to help those countries that are struggling to develop, it must evaluate objectively the pros and cons of aid and stop this practice before it is too late. While developing countries keep growing steadily, many aid-receiving developing countries keep experiencing economic stagnation or even recessions. This means that every day that goes by sharpens the gap between 'rich countries' and 'poor countries' meaning that an extra effort will be required for the bottom countries in order to catch up in terms of growth and modernization. If foreign aid as it is today is not stopped, this trend can only get worse and worse, up to the point where expecting developing countries to recover will simply be utopian, if not impossible.

2.3 The untold interests of developed countries

As discussed in the previous sub-section, as of today the efficacy of foreign aid has not been adequately evaluated by the international community and a constructive discussion between governments on how to tackle the numerous pernicious effects of this practice has never been held. So why would donors keep giving part of their resources to countries that are far away and that do not even seem to benefit from such

[35] Daron Acemoglu, *Introduction to Modern Economic Growth*, Department of Economics, Massachusetts Institute of Technology, 2007, p. 14

generosity? Similarly, why would recipients keep accepting foreign aid if this tool only seems to harm their economy and hinder development? The answer to these questions is that the interests of governments are not always aligned with the more rational and logical interests of the wider community. Since foreign aid is a practice that depends on governments rather than people, it is reasonable to expect that governments will use it to pursue their own objectives first.

Following is a list of the potential interests that countries can have in donating or receiving aid.

- ❖ Donor countries might give foreign aid in order to gain influence in a state or region that is strategic to achieve their economic objectives. In fact, many of today's developing countries are endowed with abundant natural resources such as oil, gold and other precious minerals but lack the capital and labor to be able to extract them efficiently. Developed countries might be very attracted by the idea of getting in control of these resources or at least get some sort of concession to extract them at extremely convenient rates. To do so, developed countries must have a good relationship with their 'preys'. One of the easier and faster ways to establish or consolidate such relationship is to give a conspicuous amount of aid to the government of the targeted developing country which will perceive it as 'easy free money' that it can use as it wishes. After having done a favor it becomes easier to ask for one. Therefore, the donor government by granting more transfers in the future can successfully put forward its request to extract resources from the recipient at convenient rates and eventually get control over them.
- ❖ Aid is the new tool in the hands of developed countries to maintain dominance over their former colonies. Post-War decolonization has not been an easy process, and although former 'super-powers' have officially declared their colonies independent, many of these territories have remained effectively subordinated to their long-time protectors. Many of today's developed countries spent fortunes and fought years to get in control of territories overseas. It is not easy to let go the huge political influence gained in those regions. To maintain such influence, former 'super-powers' often resort to foreign aid. This hypothesis seems to be confirmed by a study conducted by Alberto Alesina and David Dollar at Harvard University, in which they collected data for a great number of countries and demonstrated that there is a correlation between direction of aid and former colonies. Countries that once had colonies tend to direct most of their foreign aid to the governments that now control those territories, whereas countries that did not have colonies clearly do not follow this criterion to allocated funds: "the share of aid going to countries that were their colonies in the 20th Century varies from 99.6% (Portugal) to zero for countries such as Canada and Sweden that had no colonies."[36] Hence, it seems clear that former 'super-powers' transfer economic funds primarily to maintain political influence in their former colonies and not just as a disinterested undertaking to foster their development.

[36] David Dollar, Alberto Alesina, *Who gives foreign aid to whom and why?*, National Bureau of Economic Research , Nber Working Papers Series, 1998, p. 7

- Given the pernicious effects of foreign aid, developed countries might want to transfer resources precisely to make sure that today's 'most vulnerable countries' do not catch up and become potential threats to their security and relative economy stability. Although according to many contemporary economists such as Nobel Laureate Michael Spence, "economic growth is not a zero-sum-game"[37], states fear that others might challenge their military and economic position. It is true that if all countries were developed, trade networks would expand and world inequality would finally be defeated. Nevertheless, the interests of a government that is already doing well as it is might be different from the interests of the international community as a whole. By definition, developed countries are doing much better then developing countries: they have a prosperous economy, the average citizen enjoys more than satisfactory living conditions, wars and civil conflicts only occur seldom, and they enjoy a relevant position at an international level. Hence, a single government of a 'rich country' might not feel motivated at all to promote the growth of states that have never caused any trouble or posed any threat until then. In other words, although the recovery of backward regions might expand trade networks and bring about other benefits, the governments of some developed countries might not want to run the potential risks that come with it. One such risk might be that by recovering, nations that have posed no serious military threat until then might become potential enemies and challenge the security of other countries. Another risk might be that these countries might acquire political influence in international organizations and deviate the 'Western-centered' focus that most of these bodies have traditionally had. Hence, 'rich countries', knowing the negative effects of foreign aid, might use it as a tool to hinder the development of today's 'most vulnerable countries' and keep things as they are.
- Developed countries might give foreign aid to pursue military interests overseas. With the emergence of terrorism and globalization, wars are no longer fought mostly between adjoining territories as was the case in the past. Today, enemies can be far away, in fact on opposite sides of the globe, in other continents. Hence, it has become extremely important for countries that seek stability to form military alliances, increase their military influence and presence overseas to be able to eliminate or at least defend themselves from possible threats to their national security. In order to 'make friends' in the regions in which the enemies are, developed countries might give massive amounts of foreign aid in order to persuade the governments of countries located in those regions to help them oppose the threat by creating military alliances, which are not always official or made public. Even if alliances are not established, aid can be a tool for developed countries to create a sort of buffer zone of 'friend countries' around the enemy. In this way it becomes easier to acquire information on the enemies and put pressure on them to desist from their belligerent intents.

[37] Michael Spence, *Why Global Economic Growth Is Not A Zero Sum Game*: Michael Spence, Project Syndicate, 2012

- On the other side, recipient governments welcome foreign aid enthusiastically because despite the long-term negative effects that it can have on the social, political, and economic structures of their countries, this massive amount of financial resources allows politicians to achieve short-term and short-viewed goals that can nevertheless consolidate their power and popular support, allowing them to remain in office for a longer period of time. As already explained earlier on in this research paper, one such short-lived goal could be to tackle unemployment by hiring a disproportionate amount of people (many of which are low-skilled) in the public sector and pay their wages with money coming either directly or indirectly from aid. Surely, this policy is evaluated positively by the population of the receiving country because they see unemployment rates go down and average per-capita income go up. As a result, the politicians that have put in place this policy gain immediate support and if elections are held in the upcoming few years their change of being reelected increases. However, it will not take people long to realize that hiring a huge number of job-seeking fellows in the public sector is not a definitive solution to the problem. As a matter of fact, once donors stop transferring funds to recipients, the government of the latter will be unable to pay wages and unemployment will rise again. Nevertheless, by the time citizens realize this mechanism and rethink their initial enthusiasm for the policy, chances are that politicians responsible for the misuse of foreign aid have already been reelected or concluded their career.
- Many developing countries, besides being weak economically, are also weak militarily. Hence, especially those 'most vulnerable countries' that feel seriously threatened by adjoining nations or even by rebel groups within their own territories, are happy to receive foreign aid firstly because they feel the protection of a stronger country and secondly because they might be able to redirect some funds to expand their army and buy weapons. In such situation of fear, the governments of recipients are not likely to pay adequate attention to the number of possible perils that come with aid. Their main concern is to prevent possible attacks either by showing that they have a strong developed country on their side that might step into a conflict to defend the countries it is helping economically, or by enlarging their military capacities. In this case, it is possible to understand how the interests of recipients in receiving aid go beyond the sheer cause of development and economic growth.
- People in developing countries are those who suffer the most from the pernicious effects of foreign aid. On the contrary, governments, politicians, and more in general the elites, can use these resources to pursue their interests. Hence, there is no reason why a recipient government would say 'no' to free money coming from abroad. Since the ruling class is not affected by the drawbacks of aid which have been singled out earlier on in this research paper, they are likely to use these funds recklessly, wastefully, or selfishly. The misuse of aid in turn results in increased corruption, a worsening of the already precarious economic situation of the country, potential military conflicts, etc. of which the ordinary people will pay the consequences.

Before moving on to discussing the reasons why foreign aid is generally unsuccessful, it is worth recapping the hidden interests of both donor and receiving countries that have been explained in greater detail above. Donor countries might give foreign aid because they are interested in acquiring economic influence in developing countries endowed with precious natural resources such as oil and minerals; those developed countries that were once colonial powers might transfer resources to their former colonies in order to maintain political influence over certain strategic regions of the world which is hard to let go; developed countries are doing well as they are, they do not want to face future military threats or economic competitors, thus they give foreign aid to the developing world precisely to generate the pernicious effects on growth and development that have been identified in this research paper; finally, developed countries might use aid as a tool to acquire military influence in certain 'hot regions' of the world to better defend themselves against terrorism or form alliances with the recipients in order to contain future conflicts. Governments of receiving countries instead might be interested in obtaining funds from other nations so that politicians can achieve short-term and short-viewed goals which might, nonetheless, increase their popularity and result in a reelection; many developing countries, being weak military, might welcome aid because they are interested in having protection from a stronger state or having money to build a stronger army on their own to be able to face possible threats coming from adjoining states; lastly and more generally, 'most vulnerable countries' have no reason to say 'no' to aid from other countries because politicians and the elites do not suffer directly from its drawbacks.
As anticipated, in the next section of this research paper the reasons why foreign aid is mostly unsuccessful are singled out and explained in order to understand where the side effects of this widespread policy come from. Additionally, an answer is provided to the question that many readers probably have at this stage: can foreign aid be successful?

3. REASONS BEHIND THE INEFFICACY OF FOREIGN AID

Up to this stage, this research paper has strongly criticized foreign aid by providing concrete arguments that challenge the common expectation that transferring resources to the 'most vulnerable countries' would bring about rapid economic growth and sustained development. While sticking to this well-grounded critique, this section wants to bring the analysis of the matter one step forward by identifying the intrinsic conditions and dynamics that make foreign aid such a harmful tool. In fact, it would be too simplistic to conclude that foreign aid is detrimental on its own. Rather, as argued in the next few pages, the context of the receiving countries is largely responsible for the manifestation of the serious pernicious effects of aid.

3.1 Why foreign aid is mostly unsuccessful

Foreign aid may not necessarily be harmful in itself. Indeed, the fact that the reception of an amount of funds, be it small or large, systematically generates the pernicious effects identified earlier on in this paper, just goes against any rational economic assumption. In a nutshell, the argument of this sub-section is that foreign aid carries all its drawbacks in a 'dormant state' and that their manifestation depends on the "institutional environment of the recipient country."[38] This is to say that the quality of governance and structures of the receiving states gets reflected on the degree of success of aid. From this claim follows that the higher the quality of institutions of recipients, the higher the chance of foreign aid being successful in contributing to growth and development. This causal relationship is 'the' problem of aid. If the reader stops and thinks about this relationship for a minute they will probably understand on their own why economic transfers bring about so much harm and so many side effects in developing countries. In fact, it is straightforward and well-known that foreign aid generally goes to poor states, and that most of times the reason "why they are poor in the first place"[39] is exactly because they lack a good quality institutional environment. So, given the positive relationship between quality of institutions and the degree of success of aid, the reason why economic transfers from the developed world bring about harm in the developing world is easily explained. Hence, in the absence of good governance aid externalizes its otherwise 'dormant' side effects, contributing to worsening even more the political, social, and economic structures of the receiving country.

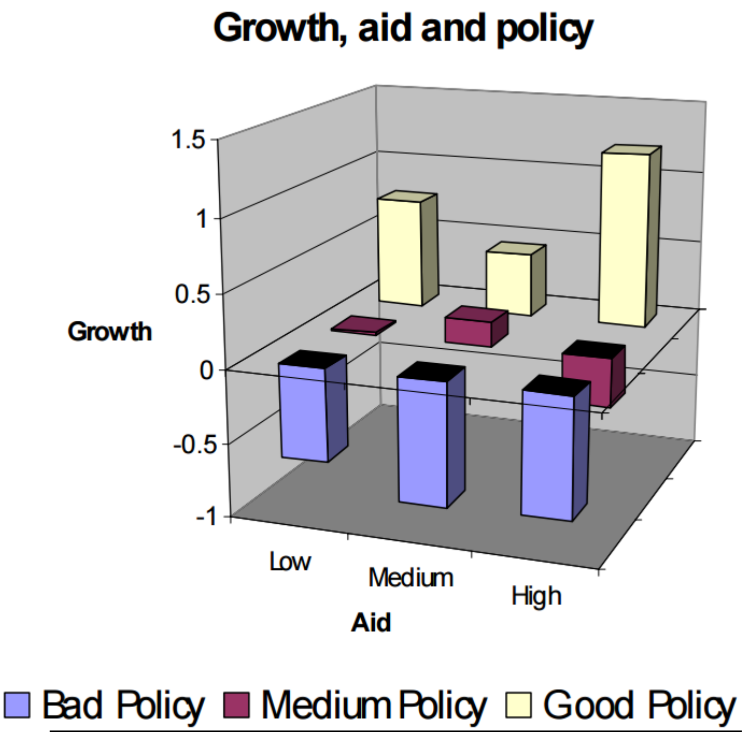
3.2 Can aid be successful?

In the light of the arguments against foreign aid put forward in this research paper, can aid ever be successful? At this stage the reader might expect the answer to this question to be 'no, it cannot'. Yet, despite the heavy critique against this policy, the answer provided in this subsection is "sure it can", however, only under certain circumstances that are largely absent in most developing countries to which foreign aid is addressed nowadays. Indeed, the relationship identified in the previous page – the higher the quality of institutions of recipients, the higher the chance of foreign aid being successful – not only explains that aid is mostly detrimental for the 'most vulnerable countries' because they often lack the adequate political environment to be able to convert funds into common-good projects, but this relationship also implies that aid can be successful if good quality governance is present. The reason why economic transfers

[38] Farah Abuzeid, *Foreign Aid and the "Big Push" Theory: Lessons from Sub-Saharan Africa*, Stanford Journal of International Relations, 2009, Vol. XI | No. 1, p. 21
[39] Claudia R. Williamson, *Exploring the failure of foreign aid: The role of incentives and information*, Economics Department, Appalachian State University, 2009, p. 8

overall have strong negative effects on recipients is that, as already mentioned earlier on, aid is addressed to poor countries, and often the very reason why they are poor is exactly because they lack a proper institutional environment.

Hence, more in theoretical than practical terms, economic transfers can bring about positive effects.



Source: *Aid, Policies, and Growth: Revisiting the Evidence*, by Craig Burnside and David Dollar

In a World Bank Policy research paper titled *Aid, Policies, and Growth: Revisiting the Evidence*, Craig Burnside and David Dollar find evidence that "supports the view that the impact of aid depends on the quality of state institutions and policies."[40] This is to say that "aid accelerates growth in developing countries with sound institutions and policies, but has less or no effect in countries in which institutions and policies are poor."[41] The chart on the left-hand-side put together by Craig Burnside and David Dollar, clearly show that given the same amount of aid (be it low, medium or high) governments with good policy systems are able to successfully turn these funds into effective growth, whereas those governments with bad policy systems considered in the study always experience a severe recession. The evidence contained in the study *Aid, Policies, and Growth: Revisiting the Evidence* should be alarming to those donor countries and international organizations that have traditionally supported foreign aid. Yet, only in 2014 the United States of America has "supplied 135.2 billion Dollars"[42] through its O.D.A. Program[43] and the beneficiaries of such an outstanding amount of money (which is important to stress it was given just by one government in one single year) are mostly 'bad-policy countries', nations that would belong to the blue bars of the chart reported on the previous page. The possible reasons why governments of developed countries would transfer a part of their own economic resources to poor regions despite evidence suggests that such transfers are of no help, were explained in detail in the previous section in which some light was shed on the hidden interests of donors and recipients. If developed countries were

[40] Craig Burnside, David Dollar, *Aid, Policies, and Growth: Revisiting the Evidence*, World Bank Policy Research Paper Number O-2834, 2004, p. 1
[41] Craig Burnside, David Dollar, *Aid, Policies, and Growth: Revisiting the Evidence*, World Bank Policy Research Paper Number O-2834, 2004, p. 2
[42] www.truenumbers.it: *Aiuti Statali al Terzo Mondo: Servono?*, 2016
[43] O.D.A. stands for Official Development Assistance and it is a program of the government of the United States of America through which the U.S. transfers resources to those countries across the World that are struggling to develop and grow economically.

truly disinterested in giving aid, they would pay greater attention to the institutional quality of beneficiary states and would refrain from transferring resources to governments that lack the structures, willingness, and ability to turn additional funds into actual growth and development. In fact, as stated in this sub-section, foreign aid can lead to positive outcomes if the institutional environment of recipients is favorable. This claim seems to be supported by a number of different cases, including the well-known Marshall Plan which is largely considered to be a very successful example of foreign aid. Too seldom, however, is it stressed that the Marshall Plan was a success mainly because it was given to countries that despite being worn out by years of fighting in World War II, still had well-established working institutions, a fairly long political history, and a process of development already under way. Due to its great relevance to the topic, the Marshall Plan and the reasons why it concretely fostered the reconstruction of Europe in the aftermath of World War II are discussed in greater detail in the next sub-section.

3.3 The Marshall Plan

It is undeniable that the Marshall Plan was a success. However, the focus on a successful foreign aid program at this stage shall not be viewed by the reader as a counterargument that displaces the idea that aid is detrimental for the growth and development of the 'most vulnerable countries'. Rather, this focus is meant to complete and integrate the critique on foreign aid. In fact, by identifying the features that made the Marshall Plan successful, one can better understand why most aid programs that lack such characteristics often end up hindering the process of growth and development.

The European Recovery Program (ERP), more commonly referred to as 'Marshall Pan', was an American aid program aimed at helping Western Europe rebuild and 'get back on its feet' after the end of World War II. From 1948 to 1951 the United States transferred roughly 13 billion Dollars overall to some eighteen European countries. With this plan named after then Secretary of State George Marshall under the presidency of Democratic Harry S. Truman, not only did the U.S. want to help

Table 1: Marshall Plan Aid, 1948–51

Country	Funds Received (in millions of dollars)
Austria	488
Belgium and Luxembourg	777
Denmark	385
France	2,296
Greece	366
Iceland	43
Ireland	133
Italy and Trieste	1,204
Netherlands	1,128
Norway	372
Portugal	70
Sweden	347
Switzerland	250
Turkey	137
United Kingdom	3,297
West Germany	1,448

SOURCE: Martin A. Schain, ed., *The Marshall Plan: Fifty Years After* (New York: Palgrave, 2001), 120.

the reconstruction of countries that were severely worn out by the war, but it also aimed at pursuing some national interests such as removing trade barriers, containing the spread of communism, and making Western Europe prosperous and economically modern so that America could re-establish a profitable relationship with the 'old continent'. The U.S. government followed a roughly per capita criterion in the allocation of Marshall Plan aid, with industrial powers and Allied nations receiving a greater portion of it. As the table on the left-hand side shows, the three countries that received more foreign were the United Kingdom, France and Germany.

Many contemporary political scientists view the successful and rapid reconstruction of Western Europe in the years following the end of the Second World War as a direct positive outcome of the Marshall Plan. All countries that received aid in the context of the European Reconstruction Program (E.R.P.) experienced a fast recovery and are among today's most democratic and developed countries in the world. Due to the successfulness of this aid program, "over the last 60 years the Marshall Plan has become a myth. Whenever our countries are hit by a crisis, the media or politicians ask for a new Marshall Plan."[44] However, the indiscriminate prescription of economic transfers to help countries that are struggling financially does not always work as expected. Foreign aid is not a 'one-size-fits-all' policy to promote growth and development. The fact that the Marshall Plan was successful in contributing to a fast reconstruction of Western Europe in the aftermath of World War II does not imply that a similar aid program directed to a Sub-Saharan African country is going to produce equally positive results. This is because, as discussed earlier on in this research papers, the context in which foreign aid is received does matter a lot in determining the efficacy of any aid program. Many of today's aid programs are directed to recipients that have systematically corrupt governments, that are in some cases ruled by dictators, that do not embrace any of the basic democratic principles, and that lack well-functioning economic and political institutions. On the contrary, the Marshall Plan was given to countries that had always played a key role in international trade and affairs (think about the United Kingdom, France, Germany, and all the other recipients really); countries that before the outbreak of the Second World War already had a process of development, modernization and industrialization well-under-way; countries that despite suffering the severe effects of the conflict were able to maintain those institutions that have historically made them able to keep up with the changing times; countries that as the war was over wanted to turn the page and work for the better. It appears clear then that the context of the recipients does matter, and that prescribing foreign aid notwithstanding such differences in the institutional environment, the willingness, and the history of countries is simply reckless.

However, the favorable social, political and economic contexts of nations that received Marshall Plan aid is not the only explanation to why this program was more successful than the majority of contemporary foreign aid plans. At least two more reasons can be identified: First, in the case of the E.R.P., the interests of the

[44] Eliot Sorel, Pier Carlo Padoan, *The Marshall Plan: Lessons Learned from the 21st Century*, O.E.C.D. (Organization for Economic Co-operation and Development, 2008, p. 13

donor (the United States) were exceptionally along the same lines as the interests of the recipients. As explained earlier on in this research paper, most of the times donors use foreign aid as a tool to pursue undeclared and shady interests that often damage the recipients. Thus, the fact that this mechanism has not come into play with the Marshall Plan is purely exceptional. Indeed, back in the years following the end of World War II, America was genuinely interested in making Western Europe strong and prosperous again in order to better contain the spread of communism and to reestablish solid trade relationships between the two continents. Hence, the 'hidden interests' of the donor in this case did not damage receiving states as most foreign aid programs end up doing. Rather, the strong desire that the U.S. had to stop communism and the longing to have reliable trade partners again actually contributed to making the Marshall Plan successful.

The last but not least explanation for the positive outcomes produced by the European Recovery Program lies in its unusual nature. As its official name same suggests, the Marshall Plan was a 'recovery' aid program rather than a pure development aid program. In fact, while most contemporary economic transfers target backward regions of the world which are severely underdeveloped, the Marshall Plan was directed to countries that 'simply' had to repair the damages caused by years of fighting . In simple worlds, going back to a previous state of development and growth is easier than getting both processes under way 'from scratch'.

Hence, the Marshall Plan instead of being seen by contemporary policymakers and international organization as evidence that foreign aid programs work well in general, it should rather be taken as a lesson learned from the past which explains that in the absence of certain basic institutional requirements any aid program is actually very likely to produce severe pernicious effects on the recipients.

4. CHALLENGING THE 'BIG PUSH THEORY'

One of the political science and international relations theories that most firmly support foreign aid as a fundamental tool to foster growth and development in backward regions of the world is the 'Big Push Theory'. Since by criticizing foreign aid in general this research paper has also indirectly criticized the basic tenets of this well-known theory, it is worth dedicating a few pages to illustrating what is meant by 'Big Push' and why this approach is fallacious.

4.1 What is the 'Big Push Theory'?

The basic idea behind the 'Big Push Theory' is that significant aid transfers to countries that are stranded in a 'poverty trap' condition are likely to have remarkably positive effects in stimulating steady growth and development. In fact, according to those scholars and commentators who support this theory, the mechanism that comes into play when a massive amount of money is transferred into a 'poor' country's economy is the following: by increasing the availability of financial resources, more public and private savings will be generated, which in turn lead to greater investments that eventually result in a fast and (most importantly) steady growth. It is very important to stress this last point (the steadiness of growth) to fully understand the essence of the 'Big Push Theory'. Indeed, the theory claims that the outcome produced by a given amount of foreign aid does not simply get converted into a proportional improvement in growth and development. Rather, that given amount of resources will generate a continuous and long-lasting process of growth and development that will quickly drag the recipient economy out of the poverty trap and, in a matter of a few years, will turn it into a fully-industrialized and modern one. This intuition is based on the well-grounded belief that economic stagnation, typical of backward regions, is caused primarily by a lack of investments in the industrial sector of the economy. As a matter of fact, "virtually every country that experienced rapid growth of productivity and living standards over the last 200 years has done so by industrializing."[45] Given that development is positively correlated to the level of industrialization, many economists argue that building large factories in 'poor countries' will boost other development correlates such as urbanization, high saving rates, high investment rates, economic openness, etc. Theorists and commentators who support the 'Big Push Theory' have picked up this correlation and have agreed that the lack of industrialization in the developing world is mainly due to a "coordination problem"[46] among economic agents which results in a great number of countries in the world still having to these days a solely traditional, agricultural, and backward economy. By 'coordination problem' economists refer to "a state of affairs in which agents' inability to coordinate their behavior (choices) leads to an outcome (equilibrium) that leaves all agents worse off than in an alternative situation that is also an equilibrium."[47] Specifically, 'Big Push Theory' supporters see a 'coordination problem' in the inability of firms to industrialize simultaneously which results in no industrialization at all and therefore no growth nor development. In a traditional market, firms do not have an incentive to industrialize unless other firms do the same given that increased productivity that would result from investing in technology and building factories would not match the low domestic demand of a still purely agricultural economy. This is to say that there are two possible equilibria in such economy: either

[45] Kevin M. Murphy, Andrei Shleifer, Robert W. Vishny, *Industrialization and the Big Push*, Journal of Political Economy, University of Chicago, vol. 97, no. 5, 1989, p. 1

[46] Alexander Culiuc, Michael Walton, *The Big Push: what does it mean, and does it make sense for Ethiopia?*, teaching notes, PED401. Applications and Cases in International Development , p. 1003

[47] Michael P. Todaro, Stephem C. Smith, *Economic Development*, 11th Edition, Addison-Wesley, 2012, p. 156

no firm industrializes or all firms industrialize. Clearly, the two equilibria are pareto-ranked, with the latter being by far preferred to the former. If a given economy is stuck in a 'poverty trap' condition it would be irrational for a single firm to industrialize if in that same economy no other entrepreneur takes the same decision, thus the undesirable equilibrium is maintained. Rather, if a number of firms decided to industrialized more or less simultaneously, the traditional agricultural market would start turning into a modern industrialized economy, and therefore all other firms would have an incentive to invest in technology and build factories in order to increase their productivity to match the new demand and make more profits. Eventually all firms will industrialize and the economy will reach the optimal equilibrium.

However the big question remains: how do we get firms to industrialize in a traditional economy in the first place? According to 'Big Push' theorists the answer to this question is very straightforward: through large amounts of foreign aid. Once the economy receives these large amounts of resources, a process of self-sustaining growth will be activated and the country will be free of the 'poverty trap' it was caught into. With more resources available, savings, investments, and output will increase consequently. Firms will invest in new technologies and machineries to boost their productivity. The industrialization of the first firms will have a positive domino effect on all other firms operating in the market as they will expect further industrialization to occur. In fact, a core belief of the 'Big Push Theory' is that firms decide whether to industrialize or not depending on the expectation of what other firms will do. The process of growth and development started by foreign aid is going to be a steady one and will eventually lead to the complete modernization of the recipient economy. Hence, an initial 'big push' (foreign aid) is needed to generate self-sustaining growth. As the originator of this theory Paul Rosenstein-Rodan explained in 1957, "launching a country into self-sustaining growth is a little like getting an airplane off the ground. There is a critical ground speed which must be passed before the craft can become airborne."[48]

Although the 'Big Push Theory' is pretty convincing as it is based on macroeconomic notions that are hard to dismiss, the assumption that foreign aid is just as any other form of investment is not very sound. In the next subsection, the role that foreign aid should play in getting development and growth under way as described in the 'Big Push Theory' is challenged.

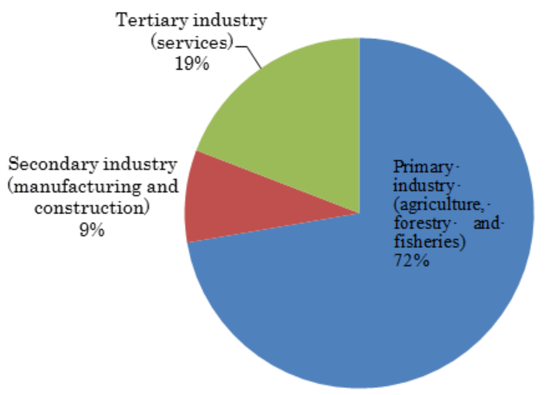
4.2 The fallacies of the approach

Despite being based on macroeconomic assumptions that are well-consolidated, the 'Big Push Theory' presents a number of fallacies that are singled out and explained in this subsection. Although this popular theory may work in ideal economies, it leaves out the fact that most markets, developing ones in particular, are affected by several distortions and conditions that make their behavior highly unpredictable.

[48] Paul Rosenstein-Rodan, *Notes on the Theory of the "Big Push"*, Center for International Studies, Massachusetts Institute of Technology, Cambridge, Economic development Program Project, 1957, p. 1

- First, 'Big Push' theorists prescribe large amounts of foreign aid to developing economies but neglect the fact that many recipient countries not only lack of financial capital but they also lack other types of resources such as human capital (meaning a skilled, motivated, healthy, productive, and knowledgeable workforce), social capital (in particular those institutions such as schools, trade unions, and businesses that help develop human capital), manufactured capital (consisting of machineries, technology, and all those tools and means that are needed to increase output). Hence, money on itself is not sufficient to generate growth and development if receiving countries lack of all the other resources needed to build infrastructures, implement development programs, start businesses and enterprises, etc. In such unfavorable context, foreign aid would just be an unneeded investment which would likely end up financing private expenses of few rather than public improvements for all.
- Secondly, the 'Big Push Theory' only focuses on the development of the industrial sector which is no doubt crucial for the modernization of backward economies. Nevertheless, it ignores agriculture which is also extremely important given that the vast majority of people in developing countries work in this sector. Policymakers and theorists cannot expect the entire economy of a poor nation to modernize by neglecting the area that has supported the whole country until then. Take a typical developing country like Cambodia. As it is possible to see from the pie-chart on the left-hand-side, as of the 2008 population census, 72% of workers were employed in the primary sector, this means over 10 million people out of the 13,395,682 living in Cambodia live out of agriculture.[49] In a developed country the distribution of the pie-chart would be very different, with the industrial sector being the largest of the economy. However, the expansion of the tertiary sector in a 'poor' country shall not be carried out at the expenses of agriculture. 'Big Push' theorists on the contrary seem to believe that in order to get growth and development under way, foreign aid should be used by receiving governments mainly (if not entirely) to create a strong and modern industrial sector. The reason why this belief is fallacious is that it is based on the wrongful idea that since agriculture is by far the largest area of the economy of backward regions, it is also more developed than the other areas. That is not necessarily true and it certainly is not as developed as the primary sector of any fully developed country. Indeed, if two countries are considered, one of which is developed while

Ratio of workers above the age of five by sector



Source: 2008 population census

[49] Kingdom of Cambodia, *General Population Census – National Report on Final Census Results*, National Institute of Statistics, Ministry of Planning Phnom Penh, Supported by: UNFPA, JICA, Government of Japan, and Government of the Federal Republic of Germany, 2009,p. 19

the other is developing, and the primary sectors of the two countries are compared, one would quickly realize that the more developed nation would have a smaller but more modern agriculture than the developing nation that would have a larger but very backward agriculture. This is to say that most of the times it is all sectors of a 'poor' country's economy that need to be modernized for growth and development to occur rapidly and homogenously. As all sectors of the economy develop, workers will naturally move (as explained by the Lewis Model) from the area of the economy in which they are in surplus (agriculture) to areas in which labor is needed (industrial sector and other emerging sectors). Hence, the pie-chart showing the distribution of workers in a developing economy would progressively look more like that of a modern developed country.

- In order for foreign aid to act as a 'big push' to development and growth, receiving governments must be active and able to handle such huge amount of resources. However, as already explained earlier on in this research paper, developing countries tend to have inefficient and corrupt administrations which is very often the very reason why such states are unable to modernize and grow. Widespread corruption and institutional inefficiency together with other factors typical of developing countries' administrations such as the lack of skilled, trained and knowledgeable public officials and the scarce coordination between the different state departments, results many times in foreign aid being used for financing activities other than development and growth. Hence, the indiscriminate distribution of aid as prescribed by the 'Big Push Theory' does not seem to be a viable way to help 'poor countries' catch up their economic, political, and social gaps.
- The 'Big Push Theory' is not supported by historical evidence. Celso Monteiro Furtado was one of the first development economists to openly express "his criticism of the general historical validity of […] the big push."[50] To him "the economic history of Bolivia was a case point."[51] In fact, despite Bolivia has received significant amounts of foreign aid, its economy has remained stagnant and it is to these days among the poorest countries of Latin America. Bolivia is just one of many cases that show the inefficacy of the 'Big Push Theory'. Nigeria is another country that, as explained in the very first pages of this paper, has experienced an overall recession in the last fifty years despite the massive transfers from Western countries and it is poorer now than it was in the 1960s. Hence, evidence seems to go against the key belief of the 'Big Push Theory' that large amounts of aid can get development and growth under way in today's backward regions of the world.

Besides the fallacies explained above, the 'Big Push' may have all the pernicious effects of foreign aid identified earlier on in this research paper. Indeed, at the end of the day, the 'Big Push' is nothing more than a theory that prescribes large amounts of foreign aid to developing economies. Thus the problem of

[50] Mauro Boianovsky, *A View From the Tropics: Celso Furtado and the Theory of Economic Development in the 1950s*, Universidade Federal Fluminense, Faculdade de Economia, 2008, p. 25
[51] Mauro Boianovsky, *A View From the Tropics: Celso Furtado and the Theory of Economic Development in the 1950s*, Universidade Federal Fluminense, Faculdade de Economia, 2008, p. 25

fungibility, the creation of distortions in the public sector of recipients, the change in the direction of accountability, the potential increase of inequality, and all the other remarkable side effects explained in the first pages are all possible fallacies of the 'Big Push Theory'.

Now that the reader has been provided with all the necessary knowledge to understand the numerous implications of foreign aid, the next section will go about analyzing two case-studies: Cambodia and Haiti. As explained in the next few pages, these two countries have received significant amounts of aid in the last few decades and yet have experienced no improvements in the levels of development and growth.

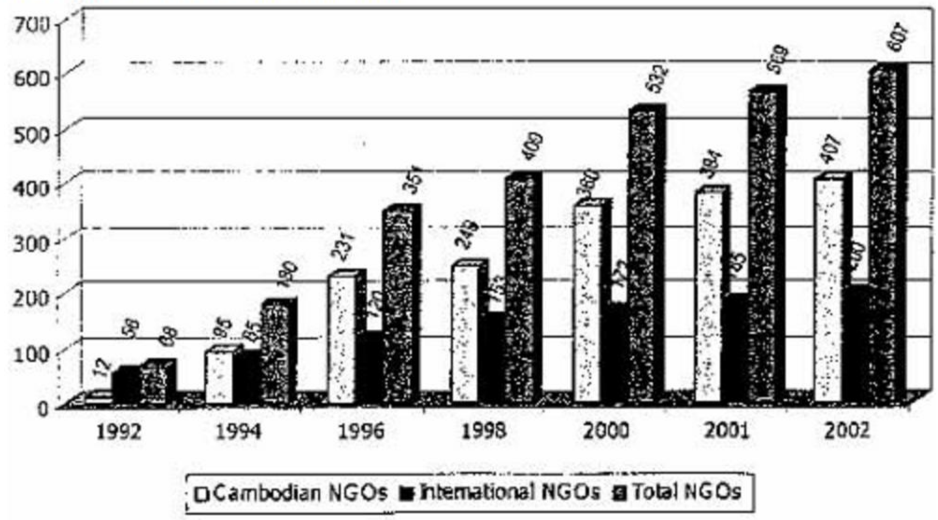
5. CASE-STUDIES

Until now this research paper has criticized foreign aid by exposing strong but general counterarguments to the idea that economic transfers to the 'most vulnerable countries' can help those nations develop and grow. Although all the major pernicious effects that foreign aid is likely to bring about have been already explained in great detail earlier on, before drawing a final conclusion it is important to complete the analysis of the matter by discussing the aid-related experience of two specific countries that have traditionally received large economic transfers from mainly Western donors, namely Cambodia and Haiti.

5.1 Cambodia

Cambodia is a Southeast Asian country that has a population of roughly 15 million people. It is just one out of the many developing countries in the region, however, what is striking about Cambodia is that it has "about 3,000 NGOs and associations registered"[52] and has received over 5.5 billion U.S. Dollars from a number of different donors during the last decade, making it one of the most aid dependent states in the entire world. The bar-chart on the left-hand side shows

GRAPH 2: Number of NGOs in Cambodia

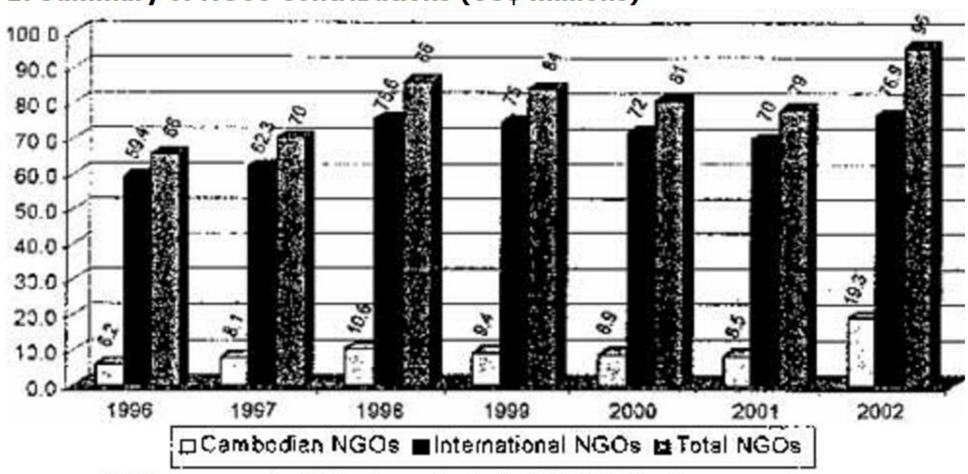


Sources: CCC International Humanitarian/Development Assistance and Cambodian NGO Directories (1992-2002); Non-Governmental NGOs in Cambodia by CDC (1998-2000)

[52] Cheng Lyta, *How many is too many?*, The Phnom Penh Post, Wednesday January 26, 2011

the progressive and drastic increase of NGOs, both local and international, on the territory of Cambodia in just a decade, from 1992 to 2002. Even more astonishing is the data reported by the bar-chart below which shows the huge donations that these NGOs have made to the government of Cambodia from 1996 to 2002. Here we are talking about several millions U.S. Dollars transferred in just seven years. Surprisingly enough though, those several millions U.S. Dollars just amount to small part of total foreign aid received by the Cambodian government. In fact, it is important to highlight that these two graphs are only considering NGOs, which provide just 10% of total aid, the remaining 90% come from single developed countries and associations that cannot be classified as NGOs. Recent surveys and studies estimate that "during the last decade, total development assistance to Cambodia amounted to about US$5.5 billion. Cambodia obtained, on average, development assistance of around US$600 million a year during the last five years."[53] Needless to say, these figures are so outstandingly big especially in relation to a small, traditional, developing economy like Cambodia's.

GRAPH 1: Summary of NGOs Contributions (US$ millions)



Sources: NGO Statement to the CG Meeting on Cambodia 1997-2002, Non-Governmental Organizations in Cambodia 1998 by CDC; 1998-2000 Development Cooperation Report for Cambodia by CDC; 1999 Cambodian NGO Resource Directories by Ponlok; CCC Directories 2000-2002 (*Note: 2002 figures are projected estimated budget figures only)*

NGO figures inclusive of bilateral, multi-lateral and core/own resources)

If foreign aid had the positive effects that many scholars and theorists claim it has, one would expect Cambodia to be closing its economic and development gap at an outstandingly fast pace. Yet, reality is much different. Its per-capita income and growth rate are way lower than those of most neighboring countries. Its economy is still a traditional one, with a large agricultural sector and a small industrial sector, resulting in the majority of people living in rural areas. 18.6% of Cambodians experience living conditions below the so-called poverty line and, as a the updated World Bank database reveals, 37% of total deaths are caused by "communicable diseases and maternal, prenatal and nutrition conditions [which] include infectious and parasitic diseases, respiratory infections, and nutritional deficiencies such as underweight and stunting."[54] All these patterns show that Cambodia is still a backward country and, what is even more important for the purpose of this paper is that years of aid-dependence have not contributed to the development of the country. In fact, as Cambodian political

[53] Ek Chanboreth, Sok Hach, *Aid Effectiveness in Cambodia*, Wolfensohn Center for Development Working Papers, No. 7
[54] The World Bank, *Working for a World Free of Poverty*, Data by country, Cause of death, by communicable diseases and maternal, prenatal and nutrition conditions (% of total) link: http://data.worldbank.org/indicator/SH.DTH.COMM.ZS/countries

economist Sophal Ear argues in his book *Aid Dependence in Cambodia: How Foreign Assistance Undermined Democracy*[55], "years of dependency are not showing positive results in the rehabilitation of Cambodia, its democracy and war on poverty."[56]

Not only has foreign aid brought about no improvements in the economy of the country nor in the living conditions of the people, but some indicators actually suggest that it has had several pernicious effects on Cambodia. In other words, aid has actually harmed the country more so than it has helped it grow and develop.

For example, it seems that Cambodia has become progressively more corrupt with foreign aid. Indeed, the Corruption Perception Index ranks Cambodia 150th out of 168 countries[57], where 1st is the least corrupt country and 168th is the most corrupt country on earth. This means that NGOs, associations and individual governments have supplied and keep supplying funds to one of the top corrupted nations in the entire world. Yet, this does not seem to be of much concern for the donors, including the United States of America, whose Department of State openly affirmes that "Cambodia relies heavily on foreign assistance—between 30 and 40 percent of the central government's budget depends on donor aid. […] In 2014, U.S. foreign assistance for programs in health, education, governance, economic growth, and demining of unexploded ordnance totaled over $77.6 million."[58] Given the extremely widespread corruption in Cambodia, donating such a conspicuous amount of financial resources to this country in just one year does not seem to be a wise choice at all.

Another factor that shows how foreign aid is having serious counterproductive effects of Cambodia is the diminishing government expenditure on public health. Indeed, with an increase in foreign aid one would expect recipient institutions to have more funds available to improve basic public services such as healthcare. Yet, while in 1996 35.6% of total health expenditure was public, meaning coming from the government budget to "cover the provision of health services (preventive and curative), family planning activities, nutrition activities, and emergency aid"[59], eighteen years later, in 2014, public health expenditure was just 22.0%.

Several other examples could be made to show that foreign aid is not leading to the development nor the growth of Cambodia, it is enough to type pretty much any indicator in the online World Bank Database to get results and graphs showing that Cambodia is not moving forward but rather that it is moving backwards.

In light of this situation, why do not donors stop supplying funds to this country and maybe start figuring out alternative ways to actually help its people improve their living standards and possibilities? According to

[55] Sophal Ear, *Aid Dependence in Cambodia: How Foreign Assistance Undermined Democracy*, Columbia University Press, 2013

[56] Alberto Rodas, *Cambodian Scholar Suggests Pernicious Effects of Aid Dependence*, TED Fellows, 2012

[57] Transparency International, *Corruption by Country*, link to the website: http://www.transparency.org/country#KHM

[58] U.S. Department of State, *U.S. Relations with Cambodia*, link to the website: http://www.state.gov/r/pa/ei/bgn/2732.htm

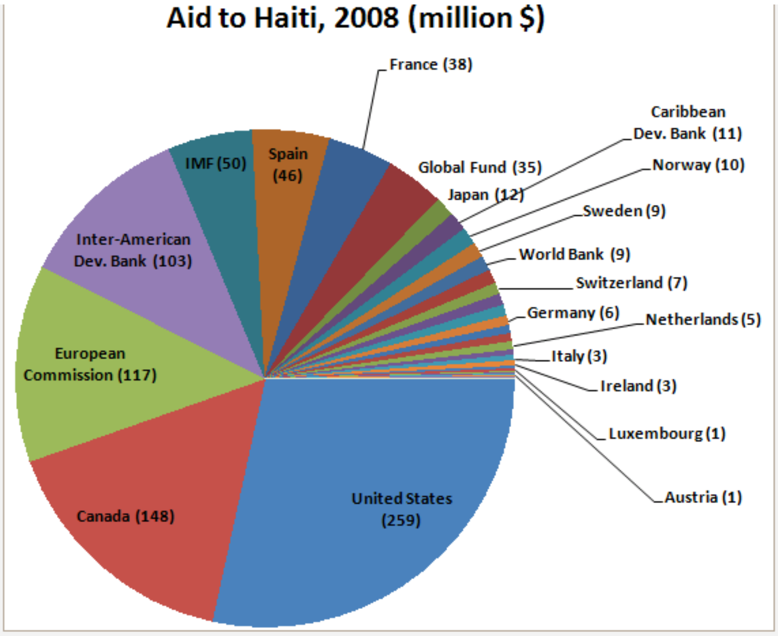
[59] The World Bank, *Working for a World Free of Poverty*, Data by country, Health expenditure, public (% of total health expenditure) link: http://data.worldbank.org/indicator/SH.DTH.COMM.ZS/countries

political economist Sophal Ear "they know what is going on, but they turn a blind eye"[60]. Indeed, as explained in depth in the first pages of this research paper, the interests of donors as well as the interests of the receiving governments often go well-beyond what is good for the people and for the nation.

5.2 Haiti

Haiti is an Atlantic island of 8 million people just few hundred miles off the coast of Florida. Haiti, being a affected by recurring natural disasters and struggling to develop and progress, has received billions in foreign assistance throughout recent years. Yet, as of today, Haiti is considered as one of the poorest and worst governed countries in the entire world. Its Governments have repeatedly and constantly failed to be responsive to the population's needs, to provide essential public services, and to perform the basic functions every 21st Century government is expected to perform. This persistent political inability that has characterized most Haitian governments has had remarkable negative effects on all aspects of the society and the economy. Needless to say, data about poverty and underdevelopment in Haiti are shocking at best.
The UN Human Development Index ranks Haiti as 163rd least developed nation out of 177 countries and the Transparency International Index ranks it as the most corrupt country on earth. Also from a social perspective the situation on the island could not be much worse: about 75% of Haitians live in an absolute poverty condition as they live on less than $2 a day. The widespread poverty of the island is inevitably reflected on the general quality of life of the people: about 4 million people of the 8 million Haitians have no drinking water in their houses nor anywhere near to where they live causing the frequent spread of contamination-induced and poison-induced diseases from using and drinking poisoned water. Additionally, only a negligible portion of households have electricity meaning that the vast majority of Haitians do not have lighting, heating, plugs, nor electrical devices of any sorts and kinds in their homes. Besides, unemployment in the island could not be much higher: it is estimated that 95% of the population does not have a stable job, yet, somewhat paradoxically, child labor is a very common phenomenon.
The tragic economic, social and political situation that has just been described appears even more concerning given the billions of U.S. Dollars given in the last few decades as foreign aid, with the official purpose of helping the country develop and reconstruct after several natural disasters that have accentuated even more the already existing problems of the nation..

[60] Alberto Rodas, *Cambodian Scholar Suggests Pernicious Effects of Aid Dependence*, TED Fellows, 2012



The graph above shows "Net Official Development Assistance" (Net ODA), the standard DAC measure of aid quantity. Source: DAC Table 2a. 2006--08 version

How is it possible that "few places in the world, and no places in the Western Hemisphere, are poorer than Haiti"[61] if the latter has received such a constant and remarkable influx of economic resources in its economy? It sounds like a contradiction, yet, as explained thoroughly throughout this research paper, it is not. Hence, one could say that Haiti's case is nothing new. However, the reason why this island in the Atlantic Ocean is brought as a case-study is that, like Cambodia, it is such an extreme and relevant case that it was impossible to not mention it at some point in this paper.

As Research Fellow in Freedom and Growth at 'The Heritage Foundation's Center for International Trade and Economics' James M. Roberts suggests, "Haiti struggles with the insidious and negative effects of what could fairly be labeled as "over-aid" from its developed friends."[62] When governments of developing countries are inherently corrupt or unable for any reason to make good use of their own resources, providing them with more money is not just useless but it is highly counterproductive. The situation in Haiti clearly reflects the side effects of foreign aid in their most dangerous and insidious forms. What is even more worrying at this stage is that Haiti has become so aid-dependant that it is hard to think it will ever be able to stand on its own again unless a smooth and well-planned transition back to autonomy and economic independence is started.

6. CONCLUSION

Foreign aid seems to bring about more harm than it brings benefits. In fact, the idea developed by Western countries in the aftermath of the Second World War that transferring economic funds to backward regions of

[61] Terry F. Buss, Adam Gardner, *Why Foreign Aid to Haiti Failed (and How to Do It Better Next Time)*, National Academy of Public Administration, 2006, p. 3

[62] James M. Roberts, *The Negative Effects on Haiti of Too Much Foreign Aid*, The Daily Signal, 2015, paragraph 4

the world would help them catch up enabling them to rapidly strengthen their economic, military, political, and social structures in order for such countries to finally acquire a relevant position at an international level, seems to have failed in the vast majority of cases. Foreign aid was also thought to be a tool that would allow developing countries to build schools, hospitals, roads, and infrastructures of all sorts and kinds that would contribute to getting a modernization process underway. Supporters of foreign aid have also traditionally believed that pumping money into a developing economy would tackle criminality (especially large-scale organized crime) and contribute to ensuring long-lasting peace between the countries of the world as many conflicts in history have outbroken due to diverging economic interests. Aid was also expected to solve the balance of payments problems that most developing countries face, as well as turning agricultural traditional economies into modern industrial ones.

As explained thoroughly in this research paper, despite the great hopes and efforts that developed countries and international organizations have put in creating effective aid plans, it turned out that transferring large amounts of financial resources into a developing country economy would spark a number of drawbacks that outweigh by far any alleged benefit such practice could possibly generate. Among these drawbacks is the increase in corruption which results from the lack of appropriate political practices and institutional transparency needed to manage large incoming amounts of financial resources; the creation of several public sector distortions such as an uncontrolled and unsustainable expansion of government which is made possible by the availability of new funds from donor countries; the 'fungibility' of foreign aid, meaning that despite being allocated to specific projects, aid is likely to end up financing (either directly or indirectly) other shady government activities; the increase in inequality as only elites and politicians end up getting their hands on aid money in most cases rather than those who would really need to benefit from it; the change in the direction of accountability as recipient governments tend to become more accountable to their donors rather than to their people; the creation of 'rentier states', meaning that receiving countries become so dependent on foreign aid that there is no turning back; the procrastination of urgent reforms as aid money kind of cover for the economic, social and political fallacies typical of developing countries; last but not least, the creation of 'moral hazard' problems, as receiving governments, encouraged by the greater availability of resources coming from donor states, are more likely to undertake reckless and ill-planned actions or policies that may actually worsen the situation.

In the light of the numerous pernicious effects of foreign aid identified in this research paper and that were recapped briefly in the last few lines, and in the light of the evidence collected herein, it is safe enough to conclude that foreign aid is not the right way to go about world poverty and underdevelopment. It is true that in the case of the Marshal Plan foreign aid actually produced great benefits and dragged entire nations out of misery, but (as remarked in the section of this essay dedicated to this matter) it is important to bear in mind that most of the nations to which the Marshall Plan was addressed had a relatively long political history and had pre-existing solid institutions that despite being weakened by the Second World War were able to rise up stronger and juster than before. Hence the case of the Marshall Plan does nothing but confirm the intuition of this paper that if countries lack the ability and institutions to manage resources in a wise way, pumping large amounts of money in their developing economies is likely to unleash a series of detrimental effects for the receiving country itself and for its defenseless population.

A question was raised in this essay of why developed countries would keep earmarking large sums of their yearly budget to foreign aid despite the growing number of cases that clearly show the deleterious effects this policy is likely to lead to. The answer, somewhat maliciously but not necessarily far from reality is: interests. Donor countries do have interests in supplying funds to the developing world. Such interests range from maintaining power over former colonies, get influence in militarily and economically strategic areas of the globe, or even precisely to spark the pernicious effects that aid can generate so that emerging economies and powers do not become a threat to the currently leading countries.

Hence, one can conclude that the ‘Big Push Theory’ (to which an entire section of this paper is dedicated) is at best incomplete because it only emphasizes the potential positive effects of aid notwithstanding all the other aspects that play a role in the determining the actual effectiveness of this policy. Haiti and Cambodia, the two case-studies presented in the past few pages, are concrete pieces of evidence that foreign aid is a complex matter, whose intricacy is hidden by the apparently linear logic that “money can do no harm”.

In conclusion, good economic policies and thoughtful administrations are needed more than foreign aid programs. Without well-established and well-performing institutions, aid is only going to serve the interests of those who are quick enough and in a position to get their hands on it.

Thus, a good starting point for donors to reduce the pernicious effects of this policy would be to carry out careful evaluations on the political, economic and social conditions of developing countries in order to determine which of those would actually be able to make good use of economic transfers. Also, foreign aid should be transferred gradually, starting with small amounts, in order to be able to cause the least possible damage and be able to stop the program if the receiving government shows it is unable to manage those funds in a proper way.

Alternatively, developing countries may have a possibility to ask for help for the realization of a specific project (such as building infrastructures, defeating epidemics, etc.) and developed countries may decide to pick up the cause of the requesting government and send specialized personnel and / or material needed to satisfy the need of the developing country. In simple words, if country A needs to build a road that connects the most populated cities and does not have enough funds to build it on its own without having to cut on public services, it can issue a request to the international community. If any country, say country B, decides to help country A, it will take care of purchasing the material and paying the workforce directly so that no exchange of money between the two governments occur.

It is crucial that research on this topic keeps going because foreign aid needs an alternative to tackle world poverty and inequality which are (and have always been) among the world most urgent and large-scale issues.

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SUMMARY OF THE DISSERTATION IN ITALIAN

RIASSUNTO DELLA TESI IN ITALIANO

Gli effetti collaterali degli aiuti finanziari ai Paesi in via di sviluppo

A partire dal secondo dopoguerra, trasferire risorse economiche dai Paesi sviluppati ai Paesi in via di sviluppo è stata largamente identificata come una politica utile e sostenibile per far fronte alla povertà nel mondo e colmare le abissali differenze sociali, economiche e politiche tra le nazioni. Tuttavia, molte teorie che supportano gli aiuti all'estero (come per esempio la teoria *Big Push*) tendono a sottovalutare l'esistenza di contesti storici e istituzionali profondamente diversi nei Paesi in via di sviluppo, ritenendo la politica degli aiuti all'estero come universalmente applicabile per facilitare l'uscita di intere nazioni dalla miseria, nella convinzione che i soldi non possano mai arrecare danni. Questa tesi vuole dimostrare, partendo dall'analisi di casi concreti e dati statistici, che il trasferimento incondizionato di risorse economiche può mettere in moto numerosi meccanismi controproducenti per i governi e le popolazioni delle nazioni beneficiarie, annientando lo scopo principale (almeno quello formale) degli aiuti stessi.

Per aiuti all'estero si intende il trasferimento volontario di risorse da un paese solitamente più sviluppato a un paese solitamente in via di sviluppo per promuovere il progresso economico, politico e sociale di quest'ultimo. A seconda della modalità di trasferimento è possibile identificare due tipi diversi di aiuti all'estero: gli aiuti bilaterali e gli aiuti multilaterali. I primi consistono di trasferimenti diretti tra i governi dei paesi donatori e beneficiari mentre i secondi avvengono attraverso la mediazione di una istituzione terza (come per esempio la Banca Mondiale). Qualunque sia la modalità di trasferimento, resta la domanda di perché un paese prospero e sviluppato dovrebbe volontariamente donare parte della sua ricchezza a un paese povero e lontano. Ritenere gli aiuti all'estero come una politica disinteressata da parte dei paesi donatori sarebbe infatti una spiegazione troppo semplicistica. Tuttavia, fino ad oggi sono state proposte poche teorie per cercare di mettere in luce i numerosi interessi che si possono celare dietro questa politica. L'economia dello sviluppo tradizionale ha generalmente supportato gli aiuti all'estero in quanto strumento per superare il *gap* di risparmio tra paesi ricchi e paesi poveri, sulla base della ben consolidata nozione che maggiore risparmio porterà a maggiori investimenti, e quindi a crescita rapida. Sempre secondo la letteratura economica dello sviluppo convenzionale, gli aiuti all'estero hanno il potenziale di liberare tutte quelle nazioni che si trovano nella cosiddetta ‘trappola di povertà’, una situazione in cui un paese non dispone di capitale al punto che è troppo povero per sostenere un processo di crescita economica.

In generale, gli aiuti all’estero sono stati spesso interpretati da molti economisti contemporanei come uno strumento per porre fine alla povertà nel mondo in maniera definitiva. Jeffrey Sachs nel suo libro *The End of Poverty* (*La Fine della Povertà*) (2005) prescrive trasferimenti massicci di risorse economiche come mezzi necessari per mettere in moto un processo di modernizzazione nelle regioni più arretrate del mondo. Secondo Sachs, tale pratica potrebbe porre fine alla povertà estrema entro il 2025, ovvero in soli venti anni considerando che il libro è stato pubblicato nel 2005.

Tuttavia, la casistica degli ultimi decenni sembra suggerire che gli aiuti all’estero siano per il più delle volte accompagnati da numerosi effetti collaterali. Ciò è constatabile se si guarda all’Africa sub-sahariana. Date le condizioni di vita inaccettabili della maggior parte delle popolazioni e le economie fortemente sottosviluppate della regione, i paesi sub-sahariani hanno ricevuto una quantità impressionante pari a circa 1 trilione di dollari sotto forma di aiuti finanziari principalmente da parte dei Paesi occidentali. Eppure nonostante questo enorme trasferimento di risorse economiche, il prodotto interno lordo pro capite nella regione non ha subito gli incrementi che si sarebbero aspettati da una maggiore disponibilità finanziaria derivante dagli aiuti. Al contrario, i livelli del PIL in Africa sub-sahariana sono addirittura diminuiti nel trentennio che va dal 1970 al 2000 e la regione resta senza dubbio una delle più povere del mondo. Questa relazione forse inaspettata sembra suggerire che gli aiuti all’estero possano addirittura amplificare proprio i fenomeni che dovrebbero andare ad intaccare, vale a dire la povertà assoluta, la stagnazione economica, il gap nel livello di investimenti, ecc. Tale correlazione apparentemente illogica è generata da numerosi altri fattori (come la corruzione, la disuguaglianza, i bassi livelli di tassazione ecc.) che tendono ad accentuarsi a seguito dell'improvviso aumento di risorse finanziarie, generando effetti negativi sull'economia del paese beneficiario. Di conseguenza, più un paese è dipendente dagli aiuti economici, peggiore sembra essere la qualità della sua amministrazione. Al fine di comprendere quanto l'economia di un paese sia realmente dipendente dagli aiuti finanziari bisogna stimare la percentuale di PIL che deriva da risorse economiche trasferite dai paesi donatori . La relazione negativa tra la quantità di aiuti all’estero e la qualità dell’amministrazione è stata ben illustrata dall’economista Deborah Bräutigam nel suo articolo accademico *Aid Dependence and Governance* (2001), nel quale l’autrice è riuscita a misurare empiricamente tale relazione utilizzando la scala di diciotto punti della *International Country Risk Guide* (Guida Internazionale dei Rischi dei Paesi), un indice che comprende ventidue variabili collocate in tre sottocategorie di rischio: politico, economico e finanziario. Quattro anni prima della pubblicazione dei risultati della Bräutigam, anche gli economisti Philip Keefer e Stephen Knack avevano sottolineato che una crescita sostenuta e rapida dei redditi pro-capite non può

realizzarsi in assenza di un governo di qualità e che tale qualità potrebbe non essere migliorata in situazioni di forte dipendenza economica.
Alla luce di tutto ciò è importante andare oltre i benefici che gli aiuti all’estero dovrebbero portare sulla carta. Identificare i diversi aspetti di questa politica ed in particolare i suoi potenziali effetti collaterali, dovrebbe essere una priorità nel campo delle scienze politiche ed economiche. Bisognerebbe determinare con ragionevole certezza quando è opportuno che i governi donatori trasferiscano fondi ai paesi in via di sviluppo e quando invece il continuo flusso di aiuti sia concausa di ulteriori danni alle strutture politiche, economiche e sociali di questi ultimi.

Alla base degli aiuti all’estero c’è, come già detto, la supposizione che trasferire fondi a regioni sottosviluppate del mondo le aiuterebbe a colmare il loro *gap* dando ai governi dei paesi di quelle zone la possibilità di fortificare rapidamente la propria economia, le proprie strutture sociali e il proprio potere politico e militare in modo da poter finalmente acquisire un ruolo rilevante a livello internazionale. Gli aiuti all’estero, per decenni, sono stati descritti da una vasta letteratura accademica come strumenti indispensabili per permettere ai governi dei paesi in via di sviluppo di costruire scuole, ospedali, strade e più in generale, infrastrutture che possano contribuire al processo di ammodernamento degli stessi. Ma le ragioni in favore degli aiuti all’estero che sono state proposte nel corso degli ultimi decenni sono molte di più. Gli aiuti all’estero dovrebbero in teoria facilitare l’eradicazione delle realtà criminali (specialmente le mafie) che si manifestano più frequentemente in situazioni di povertà e assenza di stato, così come dovrebbero contribuire al mantenimento della pace nel mondo dal momento che la storia insegna che gran parte dei conflitti scoppiano per ragioni economiche. Inoltre, gli aiuti all’estero dovrebbero ridimensionare il problema della bilancia dei pagamenti che la maggior parte dei Paesi in via di sviluppo si trova ad affrontare, così come dovrebbero velocizzare il processo di trasformazione delle economie agricole tradizionali in economie industriali moderne.

Come spiegato in questa tesi, nonostante le grandi speranze che i paesi sviluppati e le organizzazioni internazionali, sostenuti fino ai primi anni 2000 da una vasta letteratura a riguardo, hanno riposto negli aiuti all’estero, sembra che trasferire grandi quantità di risorse finanziarie ad un economia di un paese in via di sviluppo provochi una serie di effetti negativi che superano di gran lunga qualsiasi presunto vantaggio che tale pratica potrebbe generare. Tra questi vi è l'aumento della corruzione che deriva dalla mancanza di qualità politica e trasparenza istituzionale necessarie per la corretta gestione e amministrazione di grandi quantità di risorse finanziarie entranti; il presentarsi di numerose anomalie nel settore pubblico del paese beneficiario come per esempio un'espansione incontrollata e insostenibile dell’amministrazione resa possibile dalla disponibilità di nuovi fondi provenienti dai paesi donatori; la 'fungibilità' degli aiuti all’estero, ovvero che pur essendo stanziati per progetti specifici, possono facilmente essere “dirottati” e trasformati in finanziamenti diretti o indiretti ad attività governative talvolta ambigue che poco hanno a che fare con l’iniziale progetto di apportare miglioramenti per il bene comune; l'aumento della disuguaglianza dal momento che nella maggior parte dei casi solo le *élites* e i politici finiscono per mettere le mani sui soldi degli aiuti all’estero invece di coloro che ne avrebbero davvero bisogno; il cambiamento nella direzione della responsabilità politica dal momento che i governi beneficiari hanno più interesse verso i loro donatori che verso la popolazione, essendo l’economia del paese più subordinata agli aiuti dall’estero che ad un reale progresso socio-economico endogeno; la creazione di ‘stati redditieri’, ovvero di paesi la cui economia è dipendente da una sostanziale rendita esterna a tal punto che mancano di un sistema di tassazione adeguato per garantire la propria autonomia e sovranità; la procrastinazione di riforme urgenti dal momento che le risorse provenienti dai paesi donatori vanno a coprire temporaneamente i notevoli problemi economici, sociali e politici che sono ricorrenti nei paesi in via di sviluppo; ultimo ma non meno importante, la creazione di problemi di "azzardo morale", poiché i governi beneficiari, incoraggiati dalla maggiore disponibilità di risorse provenienti da stati donatori, sono più propensi a intraprendere azioni sconsiderate e mal pianificate o adottare politiche che in realtà potrebbero addirittura peggiorare la situazione socio-economica pre-esistente.

Alla luce dei numerosi effetti dannosi degli aiuti all’estero riassunti brevemente nel paragrafo precedente, e alla luce dei casi e dei dati statistici raccolti in questa tesi, è possibile affermare che gli aiuti all’estero non rappresentano una politica adeguata ed efficiente per far fronte al sottosviluppo e alla povertà nel mondo. È vero che nel caso del piano Marshall, gli aiuti all’estero hanno effettivamente portato a grandi benefici e trascinato intere nazioni fuori dalla condizione di miseria in cui erano precipitate durante la Seconda Guerra Mondiale, ma (come osservato nella sezione di questa tesi dedicata a questa questione) è importante considerare che la maggior parte delle nazioni che hanno beneficiato del Piano *Marshall* avevano già una storia politica relativamente lunga e già possedevano istituzioni che nonostante fossero state indebolite dalla Seconda Guerra Mondiale sono state in grado di risorgere più forti e democratiche di prima. Quindi il caso del Piano *Marshall* non fa altro che confermare che se i paesi beneficiari non hanno le capacità e le istituzioni necessarie per gestire gli aiuti finanziari in modo saggio, il trasferimento di grandi somme di denaro nelle loro economie rischia di scatenare una serie di effetti dannosi per i paesi stessi e le loro popolazioni.

Una questione che è stata sollevata in questa tesi riguarda il motivo per il quale Paesi sviluppati sono disposti a stanziare parte del loro bilancio annuale per gli aiuti all’estero nonostante il crescente numero di casi che dimostrano chiaramente gli effetti deleteri che questa politica può generare. La risposta, un po' maliziosa, ma non necessariamente lontana dalla realtà è: interessi. I paesi donatori hanno interessi nel trasferire fondi alle nazioni in via di sviluppo. Tali interessi spaziano dal mantenimento di una forma di dominio sulle ex-colonie, all'accrescimento dell'influenza nelle aree economicamente e militarmente strategiche del globo, o ancora precisamente per far scaturire gli effetti collaterali che gli aiuti all'estero affinché le economie emergenti non diventino una minaccia per i paesi che attualmente dominano la politica e l'economia internazionale.

Perciò, la teoria "*Big Push*" (a cui è dedicata un'intera sezione di questa tesi) è quantomeno incompleta perché enfatizza esclusivamente i potenziali effetti positivi degli aiuti all'estero nonostante vi siano altri aspetti che giocano un ruolo fondamentale nel determinare la reale efficacia di questa politica. Haiti e la Cambogia, i due casi di studio illustrati dettagliatamente in questa tesi, dimostrano, che gli aiuti all'estero sono una questione complessa che va ben oltre la logica semplicistica che il denaro non nuoce mai. Ogni paese che ha sperimentato una rapida crescita degli standard di produttività e di vita nel corso degli ultimi 200 anni ha ottenuto ciò grazie ad un processo di industrializzazione. Dal momento che lo sviluppo è positivamente correlato al livello di industrializzazione, molti economisti sostengono che costruire grandi fabbriche in paesi poveri amplificherebbe anche altri fattori di sviluppo come l'urbanizzazione, alti tassi di risparmio e investimenti, mercati più aperti, ecc. e che tale processo di industrializzazione può solamente essere avviato tramite il trasferimento di grosse somme di aiuti all'estero. Tuttavia i casi di Haiti e Cambogia dimostrano chiaramente che gli aiuti all'estero non sono affatto sufficienti ad innescare fattori di sviluppo, ma al contrario sembrano addirittura reprimerne la manifestazione. Politiche economiche efficaci e amministrazioni competenti possono essere più d'aiuto per i Paesi in via di sviluppo di trasferimenti sconsiderati di risorse economiche da parte di governi donatori. In assenza di istituzioni stabili ed efficienti, gli aiuti all'estero rischiano di essere asserviti agli interessi di coloro che sono nella posizione di mettere le mani su di essi.

Così, un buon punto di partenza per i paesi donatori per ridurre gli effetti dannosi di questa politica, sarebbe quello di effettuare attente valutazioni sulle condizioni politiche, economiche e sociali dei Paesi in via di sviluppo beneficiari al fine di determinare quali di questi sarebbero effettivamente in grado di fare buon uso dei trasferimenti economici. Inoltre, gli aiuti esteri dovrebbero essere trasferiti gradualmente, al fine di permettere il monitoraggio sull'utilizzo effettivo delle risorse trasferite e fermare il programma per tempo se il governo ricevente mostra di non essere in grado di gestire questi fondi in modo corretto.

In alternativa, per evitare scambi di denaro tra governi, i paesi in via di sviluppo dovrebbero fare richiesta di aiuto alla Comunità internazionale per la realizzazione di un progetto specifico (ad esempio costruzione di infrastrutture, profilassi contro le epidemie, ecc.) I paesi sviluppati a loro volta decideranno se sostenere economicamente la causa del governo richiedente, inviando personale specializzato e / o materiale necessario per soddisfare il bisogno del paese in via di sviluppo. In altre parole, se una nazione dell'Africa sub-sahariana *A* intende realizzare una infrastruttura strategica allo sviluppo del proprio territorio come una diga o costruire una strada per collegare le città più popolate ma non dispone dei fondi sufficienti alla realizzazione dell'opera, potrà inviare una richiesta alla comunità internazionale. Qualsiasi paese *B* potrà rispondere e decidere di volta in volta se aiutare il paese *A*, prendendosi cura della realizzazione del progetto, dell'acquisto del materiale e pagando direttamente maestranze e forza lavoro necessaria,

Gli aiuti allo sviluppo, un tempo largamente giustificati, sono oggi al centro di profonde critiche e riflessioni. È fondamentale che gli studi in materia di economia dello sviluppo continuino ad andare avanti, per creare quante più possibili alternative valide agli aiuti all'estero tradizionali intesi spesso come sussidi e vengano messe a punto dinamiche di interdipendenza ed integrazione per creare situazioni che favoriscano la ricerca di soluzioni vantaggiose per tutti i membri della comunità internazionale. Smantellare un superato apparato teorico alla ricerca di sempre più efficaci soluzioni per affrontare in maniera concreta e con sempre minori effetti collaterali la povertà nel mondo e le disuguaglianze che ne derivano. Appare ormai chiaro che bassi livelli di reddito non sono sufficienti a giustificare il circolo vizioso della povertà e stagnazione economica, così come grandi quantità di denaro non bastano ad innescare un durevole progresso socio-economico nei paesi poveri. Il possesso di denaro è infatti il prodotto di situazioni politiche, scelte economiche di successo e condizioni di mercato e mai l'unico presupposto allo sviluppo. Non confondere la povertà con le sue cause è fondamentale per trovare le risposte alla domanda largamente condivisa a livello mondiale su come colmare le profonde diseguaglianze tra le varie aree del mondo di cui la povertà, intesa in termini assoluti, è causa e fronteggiarne le tragiche conseguenze come la malnutrizione, vera calamità del ventunesimo secolo.