The General Ineffectiveness of Foreign Aid: A Look at Poverty Reduction

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On January 12, 2010, a 7.0 earthquake struck the Caribbean island of Hispanola in the Haitian capital of Port-au-Prince. As the death toll approached 200,000, the global community mobilized with compassion and urgency to bring aid to the Haitian people. Sadly, foreign assistance is not a new phenomenon in this small country. Over the past decade, Haiti has received over 4 billion dollars in direct foreign aid but still remains the poorest and most underdeveloped country in the Western Hemisphere. The true Haitian tragedy is not a consequence of this natural disaster, but rather the painful reality that eighty-percent of Haitians were living in poverty before this earthquake, and will continue their struggle long after media attention fades. This paper will address the general ineffectiveness of foreign aid, and examine why bilateral and multilateral efforts have failed to lift the world’s poor from the squalors of poverty.

What is foreign aid?

The term foreign aid is a broad classification that refers to the distribution of humanitarian, developmental, or military aid by a foreign party to a domestic party. Its employment in the modern era first appeared in the form of military assistance in the 18th century when Prussia began subsidizing its many allies with munitions. Although today military support is still a central tenant of foreign aid, this paper will focus primarily on developmental and humanitarian aid and their effects on poverty.

1 Buss, Terry F. Haiti in the balance why foreign aid has failed and what we can do about it. Washington, D.C: Brookings Institution P, 2008. Pg. 1
Humanitarian aid refers to the material or logistical support provided for humanitarian purposes, such as relief following a natural disaster. The aid currently being sent to Haiti remains a prominent example. While this type of assistance can have negative consequences, the moral and ethical foundations of humanitarian aid are sound. The goal is to provide support: “in particular the supply of food, medicines, shelter, and healthcare, [...with...] Inter-governmental and non-governmental organizations working impartially and with strictly humanitarian motives”, as according to the United Nations General Assembly Resolution 46/182. Efforts of impartiality have commonly been pursued in order to keep focus on the afflicted party rather than on foreign and domestic political agenda. This is a point of distinction from developmental aid. Humanitarian aid is also unique in its application because it is typically an immediate response aimed at relieving suffering in a narrow time frame. Long-term objectives, which include rebuilding of infrastructure and alleviating poverty, are rarely undertaken.

Developmental aid differs radically from humanitarian aid in that it has immense political roots and focuses on long-term economic and social development. Modern institutions of developmental aid can be traced back to the culmination of World War II with the creation of the World Bank in 1944 and the Marshall Plan in 1949. During this period, bilateral developmental aid was commonly used by the United States to combat the spread of communism and the influence of the USSR in the third world. Similar political motivations have remained prevalent well into the 21st century drawing question to the true intentions of developmental aid donors. In an effort to subvert these political motives, international organizations such as the United Nations Development Programme.

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6 Bilateral aid: Aid given from one country directly to another.
(UNDP) have emerged to provide multilateral aid. Despite good intentions, these organizations have become plagued by the very same problem that affects bilateral aid: general ineffectiveness. Over the last five decades, Western nations have spent over 2.3 trillion dollars on foreign aid and have virtually nothing to show for it. This begs the question, why have bilateral and multilateral aid efforts failed in finding a solution to world poverty?

Developmental economist William Easterly, attributes much of these past failures to a simple question that foreign aid distributors often asked of themselves, “How can the West end poverty in the Rest?” The connotation of this question implies a top down approach as well as the need to ‘solve’ the poverty problem and ‘develop’ the third world. This ideology has permeated through modern society developing the mantra that with enough money, compassion, and a Big Plan, world poverty can be abolished. Even Harvard Economist Jeffrey Sachs seems to latch onto this idea. In his book, *The End of Poverty: Economic Possibilities of Our Time*, Sachs writes that finding a solution to poverty, “will be much easier than it appears.” According to Professor Sachs, with effective developmental aid policies, by 2025 extreme global poverty can be eliminated. With a little understanding of marginal cost, it should be clear that these absolute objectives can and will never be reached. The goal to eliminate all pollution provides a similar example. The costs involved would be astronomical, rendering such a project

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7 Multilateral aid: Aid given by a donor country to an international organization, which then distributes the aid to developing countries.
8 Easterly, William Russell. *White man's burden why the West's efforts to aid the rest have done so much ill and so little good*. New York: Penguin P, 2006. Pg.10
9 Easterly, Pg.11
10 Easterly, Pg.10
12 Marginal Cost (using the example of pollution): If one is to reduce pollution unit by unit, over time the cost of reducing an additional unit of pollution will be greater than the last unit. This rise in marginal cost will begin to increase at an exponential rate to a point where continually reducing pollution will be so costly it would be unfeasible and undesirable. In other words, The negative externalities (costs) of that last unit of pollution will be minuscule compared to the cost of having to remove it.
unobtainable and even undesirable. These “Planners”, as Easterly calls them, set
themselves up for failure by constructing such grandiose and utopian development
schemes.

Why has the Top Down Approach failed?
A commonly held belief among aid donors is the need for an overarching plan. In 1959,
economist and Nobel Laureate Gunnar Myrdal claimed, “It is now commonly agreed that
an underdeveloped country should have…an overall integrated national plan…under the
encouraging and congratulating applause of the advanced countries.”¹³ This remains the
predominant ideology, implying that because the West has achieved prosperity, it alone
has the expertise to develop a plan that will bring about similar growth in the third world.
Consequently, the foreign aid process is dominated by central planners who do not rely
on input from recipient countries in determining how aid should be used and allocated.
These “Planners”, in defense of their policies, often contested that if aid were given
directly to the poor it would foster corruption or be used ineffectively. Despite these
arguments, in implementing developmental aid strategies, donors themselves have
created many of the same problems.

In his book the Contradictions of Foreign Aid, developmental economist
Desmond McNeill highlights leverage as the main instigator of foreign aid
ineffectiveness. Donors often use foreign aid, especially developmental aid, as leverage
to induce an aid recipient to follow a certain course of action. McNeill argues that the
motives behind leverage can be broken into three broad categories: for donor self-
interest, for recipient interest, and for efficiency and good management. Donor self-

¹³ Easterly, Pg. 26
interest, commonly seen in bilateral aid, refers to the distribution or withholding of aid for political, strategic or economic means. This practice is perhaps the most inefficient and unscrupulous form of aid. In his analysis, McNeill describes the construction of a new metro system, “a new metro might be financed not because it is economically feasible, but because such a project is in the commercial interest of the donor.” A large amount of the material and expertise needed for such a project would be imported from the donor country, making a select group of metro builders rich at the expense of aid recipients. In a study conducted in Pakistan, similar commercial and economic leveraging practices contributed to increased project costs, which were on average 51 percent higher than had the project been opened to competitive bidding.

Often associated with multilateral aid, leverage for recipient interest, efficiency, and good management aims to help the developing world by pushing projects that donors believe are in the best interests of aid recipients. McNeill uses housing projects to display the negative consequences of these leveraging practices. In 2006, UN-HABITAT approached the African country of Chad with a proposal to provide three thousand impoverished Chadians with shelter and running water. However, weary of political corruption and the ability of local government to plan and manage the program themselves, acceptance of the proposal was contingent upon the Chadian government giving complete control to UN-HABITAT. The donor mindset behind this process is perhaps best explained by anthropologist James C. Scott, “I would say the progenitors of such plans regard themselves as far smarter […] than they really were and, at the same

time, regard their subjects as far more stupid and incompetent than they really were."\textsuperscript{17} As a result, donors commonly implement projects with limited understanding of local conditions resulting in unforeseen expenditures. To suppress rising costs, donors often turn to micromanagement and increase central planning. McNeill concludes while the housing will undoubtedly help the poor, “the good intentions of the donor agency are somewhat offset by their ignorance of local conditions, and [...] the cost in terms of additional time and effort expended, and the antagonism aroused in the recipient government by the donor’s interference.”\textsuperscript{18} In brief, foreign aid as a leveraging tool fails to achieve efficiency or abolish corruption and in many cases, fosters a new environment for unscrupulous activity.

Even though leverage and central planning constitute the primary adulterations of developmental aid, there are a vast number of unwanted side effects that plague the aid process. While the list is endless, lack of maintenance funding and prolonged aid dependency are the most deleterious and widespread problems. With regard to the previous example, once a housing project is completed, aid agencies typically hand over the ‘keys’ to the local government. Houses require regular maintenance as they degrade over time, yet in the utopian view of the central planner, money is better spent on a new housing project rather than providing recurrent funds to maintain the original. In a similar example, McNeill states, “Capital expenditure, is more visible; politicians […] are likely to spend money on things which have glamour. Thus construction of a new road has more


\textsuperscript{18} McNeill, Pg. 36
appeal than the repair of an old one.”

As a result, scarce resources are wasted and a positive reduction in poverty remains questionable.

It is now pertinent to refer back to Haiti for the discussion of aid dependency. Like many other developing nations, Haiti has become dependent on foreign aid, annually receiving assistance equal to 9.41 percent of GDP (refer to Table 1). Meanwhile, between 1980 and 2002, Haiti had the fourth worst per capita growth rate in the world. While aid organizations have pointed fingers at the nonfunctional Haitian government, according to economist Terry Buss, it is developmental and humanitarian aid that have allowed these bad institutions to exist, “Aid dependency undermines institutional quality by weakening accountability, encouraging rent seeking, facilitating corruption […] and alleviating pressures to reform from the government.”

Once a country begins receiving large quantities of aid, local governments have little incentive to provide public services already being supplied by the foreign community. This phenomenon is extremely common with humanitarian aid. Consequently, developmental economists have argued that aid can exacerbate poverty conditions because it actually gives local officials a disincentive to change policies and encourage economic growth. Aid organizations seem to understand this concept, however their typical solution is to exert leverage on recipient governments; not exactly a sensible and efficient course of action.

**Conclusions**

For the past sixty years, bilateral and multilateral aid donors have arrogantly pursued their utopian agendas in an unrealistic attempt to solve global poverty. Rather than using leverage and social engineering, aid donors need to embrace their ignorance and take a

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19 McNeill, Pg. 72
20 Buss, Pg. 98
hard look at their own programs: Are they working? From 1980 to 2002, the ten countries with the best per capita growth rates were under IMF (International Monetary Fund) programs only 11.6 percent of the time. Meanwhile, the ten worst countries were under IMF supervision nearly five times as long. These findings indicate an inverse relationship between aid and economic growth. While the true connection is still under investigation, William Easterly argues that either way, it is time for “Planners” to rethink the question they have been asking themselves and instead consider, “What can foreign aid do for poor people?”\textsuperscript{21} There will always be individuals who desire to help the underprivileged. Therefore, it should be the duty of aid agencies to take that generosity and effectively apply it to \textit{small} focused projects that clearly address the needs of the poor. While the West can learn from its mistakes and effectively bring assistance to those in desperate need, neither aid nor economic theory will ever eliminate poverty or ensure global prosperity. There will always be those who are poorer than the rest. For in the candid words of Dr. Easterly, “The only Big Answer is that there is no Big Answer.”\textsuperscript{22} 

\textsuperscript{21} Easterly, Pg. 11
\textsuperscript{22} Easterly, Pg. 382
Table I

The Ten Best and Worst Per Capita Growth Rates, 1980-2002

<table>
<thead>
<tr>
<th>Country Name</th>
<th>Per Capita Growth</th>
<th>Aid GDP (%)</th>
<th>Percentage of time Under IMF programs, 1980-2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ten Best Per Capita Growth Rates, 1980-2002</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td>5.9%</td>
<td>0.03</td>
<td>36%</td>
</tr>
<tr>
<td>China</td>
<td>5.6%</td>
<td>0.38</td>
<td>8%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>4.5%</td>
<td>0.00</td>
<td>0%</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.5%</td>
<td>0.07</td>
<td>0%</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.9%</td>
<td>0.81</td>
<td>30%</td>
</tr>
<tr>
<td>India</td>
<td>3.7%</td>
<td>0.66</td>
<td>19%</td>
</tr>
<tr>
<td>Japan</td>
<td>3.6%</td>
<td>0.00</td>
<td>0%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3.5%</td>
<td>0.02</td>
<td>0%</td>
</tr>
<tr>
<td>Mauritius</td>
<td>3.2%</td>
<td>2.17</td>
<td>23%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.1%</td>
<td>0.40</td>
<td>0%</td>
</tr>
<tr>
<td>Median</td>
<td>3.8%</td>
<td>0.23</td>
<td>4%</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td>11.6%</td>
</tr>
</tbody>
</table>

| Ten Worst Per Capita Growth Rates, 1980-2002 | | | |
| Nigeria | -1.6% | 0.59 | 20% |
| Niger | -1.7% | 13.15 | 63% |
| Togo | -1.8% | 11.18 | 72% |
| Zambia | -1.8% | 19.98 | 53% |
| Madagascar | -1.9% | 10.78 | 71% |
| Cote d'Ivoire | -1.9% | 5.60 | 74% |
| Haiti | -2.6% | 9.41 | 55% |
| Liberia | -3.9% | 11.94 | 22% |
| Congo | -5.0% | 4.69 | 39% |
| Sierra Leone | -5.8% | 15.37 | 50% |
| Median | -1.9% | 10.98 | 54% |
| Average | | | 52% |

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Works Cited


Easterly, William Russell. White man's burden why the West's efforts to aid the rest have done so much ill and so little good. New York: Penguin P, 2006.


