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Greater Aid as the Panacea to Third World Development Challenges: a Critical Analysis

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Abstract
The effectiveness of the aid programs in developing countries have been questioned by development scholars and researchers leading to debates on the plausibility of the view that grater aid is the panacea to third world development challenges. While a few scholars have argued for the relevance of aid in the process of development, dissident economist such as Bauer and Friedman have argued against the ineffectiveness of these development aid programs. In their opinion, what aid really translates to is *"…an excellent method for transferring money from poor people in rich countries to rich people in poor countries"*. The main trust of this paper therefore, is to critically analyze all contending debates and arguments on the subject of aid / grater aid debate, with the view to determining the plausibility of the greater aid argument via traditional methods of rational critical analysis in philosophy and the conceptual clarification of relevant literature and arguments in related library and archival materials. In adopting the two gap model and the poverty-trap model as major frameworks of analysis for the study, the paper identified reasons why there is still no consensus on whether greater aid can indeed fuel growth at the macroeconomic level. All models employed for studies on aid tend to turn out different results. The various methods used for their analysis were also found wanting when subjected to sensitivity tests. This study therefore recommends that contemporary researchers subscribe to current trends of research geared towards identifying country specific factors responsible for the success or failure of aid in promoting growth.
Keywords: Development Challenges, Greater Aid, Ineffectiveness, Macroeconomic Level, Poverty -Trap Model, Two-Gap Model,

1. Introduction

There are numerous forms of aid, from humanitarian emergency assistance, to food aid, military assistance, etc. Development aid has long been recognized as crucial to help poor developing nations grow out of poverty. Foreign aid in recent times have often been regarded as being too much, or wasted on corrupt recipient governments despite any good intentions from donor countries. In reality, both the quantity and quality of aid have been poor and donor nations have not been held to account. In 1970, the world's rich countries agreed to give 0.7% of their Gross National Income (GNI) as official international development aid, annually. Since that time, despite billions of Dollars given each year, rich nations have rarely met their actual promised targets. For example, the US is often the largest donor in dollar terms, but ranks amongst the lowest in terms of meeting the stated 0.7% target. Shah, (2012).

In all, development aid is aimed at offering technical solutions to social and economic problems of the less developed countries without altering basic social structures in both donor and recipient countries. However, the effectiveness of these aid programs has been questioned by development scholars and researchers. Dissident economist such as Peter Bauer and Milton Friedman have made arguments against the ineffectiveness of these development aid. In their opinion, what aid really translates to is *"… an excellent method for transferring money from poor people in rich countries to rich people in poor countries"*. Bauer, (1972).

While a few other scholars: Dalgaard and Hansen, (2000), Hadjimichael, et. al. (1995), have argued for the relevance of aid in the process of development, other econometric studies (Friedman, 1958) and (Bauer, 1972) in recent times, supports the view that development aid have not affected the speed with which countries develop. This is as a result of so many perceived side effects of aid. Most of the government to government aid was ineffective because it was merely a way through which private support were offered to leaders and not the poor or the economy of a country. A good example is found in the life of the former dictator of Zaire; Mobitu Sese Seko, who after losing support from the West, just after the Cold War had ended, was known to have had personal money stocked up in Swiss Bank accounts sufficient enough to pay off the external debts of the country. Wiki, (2013).

This study is therefore a critical analysis of recent literature, studies and debates on the subject and the efficacy of aid, against which is aimed at asserting whether aid or grater aid will be the solution to the problem of third world development challenges in Africa and other parts of the world.

1.1 Aims And Objectives

- The purpose of the critical review of available literature in this study is to survey the available body of research done on the effectiveness of foreign aid as an agent for economic development of recipient countries, most of which come from the third world countries.
- In more specific terms, this review shall be directed at determining or assessing how strong the empirical evidence in support of the idea and claims that foreign aid has been an effective agent for economic growth and development.
- Attempts will also be made to draw, from logical and empiric evidence, the plausibility of the view that greater aid is a panacea to third world development challenges.
- The study shall draw valid conclusion from the evidence which this review will reveal. We hope, in the final analysis, to identify areas where future research on the subject of this study will be focused.

2. Conceptual Clarifications

In this section, we shall attempt a conceptual clarification of some of the basic concepts and terminologies which shall be used in this study. This clarifications and definitions will guide the study and analysis that shall be undertaken in this paper. Concepts to be considered include: Aid, Development Aid, Foreign Aid, Third World, and Development.

Aid; in international economics and relations, is a term used to denote the kind of help, assistance or relief which one person, group of persons, or organizations renders to others for the purpose of improving their statuesque. These kind of assistance often comes in the form of money, goods or services. In international relations, Aid, also known as international aid, overseas aid, is – from the perspective of governments – a voluntary transfer of resources from one country to another. (OECD, 2006). The Development of Assistance Committee of the Organization for Economic Cooperation and Development OECD defines it as Official Development Assistance (ODA):

> "ODA consists of flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: (a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and (b) it is concessional in character and contains a grant element of at least 25% (calculated at a rate of discount of 10%)." (OECD, 2006).

Development Aid; also known as development assistance, technical assistance, international aid, overseas aid, official development assistance (ODA), is financial aid given by governments and other agencies to support the economic, environmental, social and political development of developing countries. It is distinguished from humanitarian aid by focusing on alleviating poverty in the long term, rather than a short term response. Mahender, (2013)

Economic Development; is a normative concept i.e. it applies in the context of people's sense of morality (right and wrong, good and bad). The definition of economic development given by Todaro, (2000) is an increase in living standards, improvement in self-esteem needs and freedom from oppression as well as a greater choice. The most accurate method of measuring development is the Human Development Index (HDI) which takes into account the literacy rates & life expectancy which affects productivity and could lead to Economic Growth. When such a development takes place, it leads to the creation of more opportunities in the sectors of education, healthcare, employment and the conservation of the environment. In a nut shell, it implies a general increase in the per capita income of every citizen.

Economic Growth; on the other hand, is a narrower concept than economic development. It is an increase in a country's real level of national output which can be caused by an increase in the quality of resources, & improvements in technology or in another way, an increase in the value of goods and services produced by every sector of the economy. Economic Growth in this case can be measured by an increase in a country's GDP (gross domestic product). The kind of 'Economic Growth in focus here does not take into account the size of the informal economy. The informal economy is also known as the black economy which is unrecorded economic activity. In all, 'Development' alleviates people from low standards of living into proper employment with suitable shelter. Economic Growth does not take into account the depletion of natural resources which might lead to pollution, congestion & disease. Development however is concerned with sustainability which means meeting the needs of the present without compromising future needs.

Foreign Aid**;** occurs when the recipient country receives additional resources in foreign currency to boost their capacity to import and exports goods. In simple words, foreign aid means those additional resources which are used to raise the performance of the recipient country above the existing level. It can be defined as the debt which is given by a country to another country at concessional rates. The concessional elements may be: (a) Lower rates of interest than the prevailing rate of interest in the international commercial money market.

(b) Longer period for repayments. (c) Grants which does not entail the payment of other principal or interest, i.e., a free gift.

Former USAID official Carol Lancaster, in her book; *Foreign Aid* (2007) defines foreign aid as: "a voluntary transfer of public resources, from a government to another independent government, to an NGO, or to an International Organization (such as the World Bank or the UN Development Program) with at least a 25 percent grant element, the goal of which is to better the human condition in the country receiving the aid." (Lancaster, 2007:9).

Third World; The term *Third World* arose during the Cold War to define countries that remained non-aligned with either NATO (with the United States, Western European nations and their allies representing the First World), or the Communist Bloc (with the Soviet Union, the People's Republic of China, Cuba and their allies representing the Second World). This terminology provided a way of broadly categorizing the nations of the Earth into three groups based on social, political, and economic divisions. The Third World was normally seen to include many countries with colonial pasts in Africa, Latin America, and Asia. It was also sometimes taken as synonymous with countries in the Non-Aligned Movement. Due to the complex history of evolving meanings and contexts, there is no clear or agreed upon definition of the Third World. (Tomlinson, 2003:207).

Over the last few decades, the term '*Third World'* has been used interchangeably with the Global South and Developing Countries to describe poorer countries that have struggled to attain steady economic development, the conception of third world countries in this study will be more from this later perspectives.

3. Frame-Work / Econometric Models Adopted.

Before we go into a critical analysis of all the relevant literature relating to the subject of this paper, it is pertinent to discuss econometrics models which have been commonly used by researcher in assessing the impact of aid on economic growth over the years. This econometric models shall serve as the theoretical framework which the entire study and analysis shall be hinged upon. The common models which shall be considered in this study include: (1) The two gap model and (2) The poverty trap model.

3.1 The Two Gap Model

The two-gap model was originally presented by (Chenery and Strout, 1966) as an approach to economic development. According to them, most developing countries faced either:

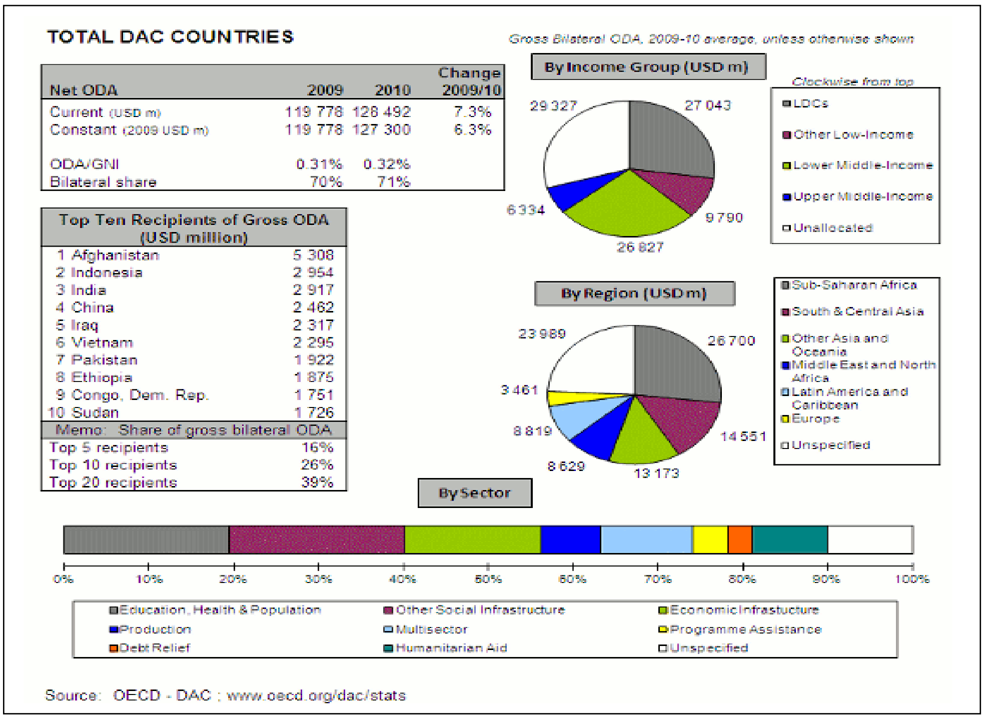
- A shortage of domestic savings to match investment opportunities (i.e. the saving gap or constraint), or
- A shortage of foreign exchange to finance needed imports of capital and intermediate goods (i.e. foreign exchange gap or constraint).

They also further assume that the savings and foreign exchange gaps are *'unequal'* in magnitude and that they are mutually *'independent'*. In other words, there is no substitutability between savings and foreign exchange, which is an unreal assumption.

In an economy where the demand for investment cannot be met entirely by domestically generated savings nor through imports financed by the country's own export earnings, resources are transferred from abroad in the form of either *loans, credits, grants, remittances*, or direct private *foreign investment*. This is the traditional 'two-gap' or dual approach to the analysis of the role of foreign aid in economic development where foreign resources are assumed to fill both a saving-investment gap as well as a foreign exchange gap in the recipient country. According to the assumptions of the two gap model, foreign aid, given an MPS, raises the level of domestic savings by raising the level of income and exports with the result that at some terminal date, foreign inflows are reduced to zero.

With this model (The two gap model), analysts are able to determine the necessary level of investment to achieve a desired level of economic growth. Gaps occur if the investment is below the desired level and these gaps can be ascribed as either *a savings gap* or as a *foreign exchange* (or trade) gap**.** If a country is unable to fill this gap through imports, exports or production, foreign aid inflow or foreign capital inflow will be needed so that the economy can grow more rapidly than its internal resources would otherwise allow. Hence an inflow of foreign aid should move a country's economy upwards. Consider the Development Aid chart below:

Figure 1. Development Aid Chart



The flow of aid in the above diagram is such that, cash inflow into the various economies concerned will bring about massive boost in all the sectors of the economy.

This model however has faced certain criticism, most of which are questioning the assumptions made by this model. Harms and Lutz (2004) have argued that the gap model assumes that investment is the only factor in increasing output, whereas there are other determinants of growth (i.e. education, research and development). They have also argued that not all aid is invested by the recipient country. Aid, as is any type of money flow, is fungible. It can be used for any purpose, and hence, aid cannot be assumed to all go into investment.

A recipient country will naturally use part of the aid money for its consumption (government expenditures other than capital outlay) and part for investment. Harms and Lutz, (2004) have further argued that in reality, aid availability is an incentive for corrupt administrations to intentionally lower their domestic investment efforts so that they get a continuous stream of aid money from donors. These criticisms notwithstanding, (Devarajan, et al. 2002:17) defends the two gap model saying that "it is a transparent and flexible framework for examining - for a large number of countries - the aid requirements of achieving the poverty goal". Most of the World Bank's research studies on foreign aid and growth rely on the two gap model. Consider the chart below.

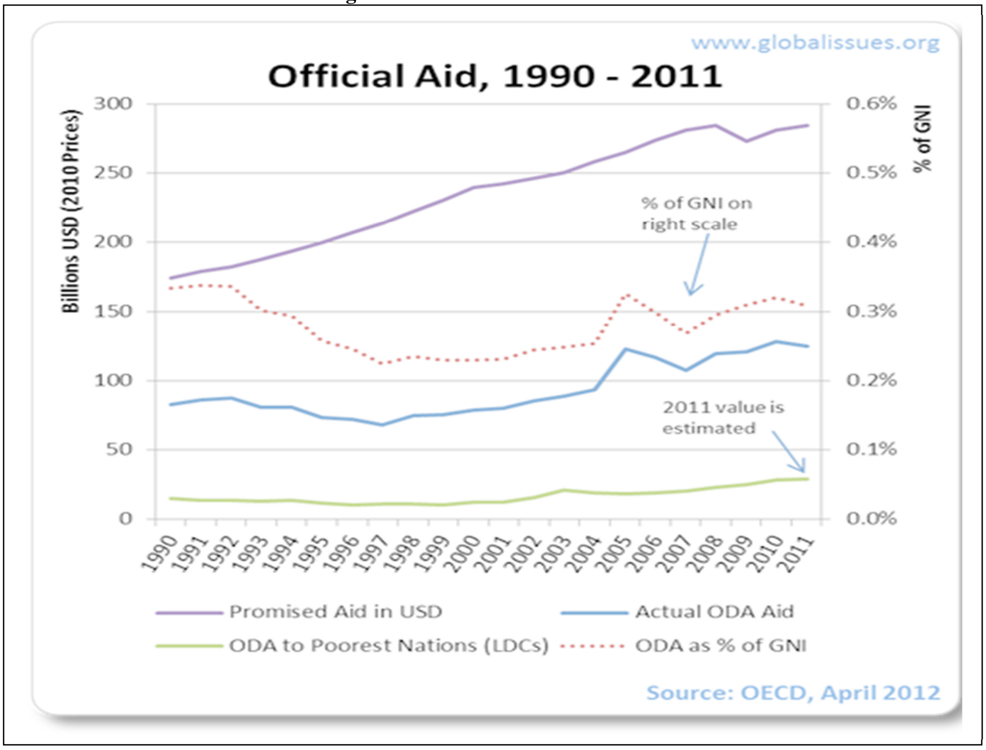
3.2 The Poverty Trap Model

Recent studies present the poverty trap model more as a *theoretical framework* than an *econometric* one. One of the earliest proponents and user of the poverty trap model Nelson, (1956). Unlike the gap model which sees foreign aid as a way to raise investment and thus influence growth, the poverty trap model upholds that growth is usually hampered by poverty traps which often comes in various factors like low production capacity, high population and weak savings. Regardless of the causes, poverty traps are seen to compromise growth. Foreign aid, which is a temporary injection of capital into an economy, is assumed to help the economy get out of the poverty trap and take-off towards growth. Nelson captures this clearly when he said that "increases in income and capital achieved through funds obtained from abroad can help to free an economy from the low-level equilibrium trap" (Nelson, 1956:904).

Unlike the gap model which necessarily requires the continuous and incremental inflow of aid into a recipient country, the poverty trap model requires a onetime infusion of aid to spur economic growth in developing countries. This notwithstanding, just like the gap model possess certain limitations, the poverty trap model is also known to have limitations. Harms and Lutz, (2004) state that it takes more than an infusion of aid for a country to get out of poverty and achieve economic growth. They say that the role of good governance and private capital is downplayed in the poverty trap model and that aid at best only provides a brief cure to poverty.

This two prevalent models of analysis used by analysts of the aid - growth relationship shall constitute a major tool and instrument of analysis which shall guide our critical and analytic assessments of the literature which exists in the ongoing debate for the purpose of affirming or negating the plausible view that greater aid is indeed the panacea to third world development challenges.

Figure 2. ODA from OCED Countries.



The chart above is reproduced from OECD (Using the latest data as at the time of writing this paper.

The chart above captures the flow of foreign aid (ODA) which has been made by OCED countries in the light of the two gap model discussed above.

4. Review Of Relevant Literature On The Debate

This section is very instrumental to the study proposed in the entire work. This is because the study here will be dedicated to focusing on a review of research studies which correlate the effects of aid on macroeconomic development of countries in the third world / developing countries. The purpose of the review will be to asses critically, whether researchers have been able to strongly establish, based on empirical evidence, that there are links - whether positive or negative - between foreign aid and economic growth, without any prejudice to the ongoing debate.

So far, we can infer that the whole idea of foreign aid took a new turn after World War II when the United States of America (USA) released billions of dollars to assist Europe (Sogge, 2002) in reconstructing the latter's economy. Consequently, foreign aid has been assumed to directly induce or at least, influence economic development in the recipient country. Most donor rhetoric perpetuates this assertion (World Bank, 1998). Several studies have been undertaken with the view to finding if such foreign aid actually fulfils its main objective, which is, to promote macroeconomic development in developing countries. Since then, half a century characterized by some serious changes in world economy and politics had taken place. These changes include: the breakdown of Communism, the surge of Globalization, the bitterness and pain of Terrorism, more than three devastating Tsunamis. These changes in the world in most cases, have giving reasons for greater aid. However, the link between greater foreign aid and economic growth remains at the centre of debates with regards to its effectiveness.

4.1 Review Methodology

Accepted that there is a massive volume of literature on the subject of this study, the need arise to however, attempt to provide a critical analysis of relevant research papers and articles with the view to assessing the merits or shortcomings of the research papers on the ongoing debate without actually leaning towards a particular perspective, for example: 'economic structuralism' or 'economic internationalism'. Although we may not be able to guaranty complete objectivity, we shall make efforts to be academic in our style in summarizing, identifying issues and exposing weaknesses or gaps contained in each argument / literature.

Since there is an immense literature on foreign aid, the study focused mainly on empirical research correlating aid with economic growth. Despite this delimitation, the fact remains that there is a wealth of information available on the subject of this study, therefore we may want to admit that a comprehensive review of all the relevant materials may not be totally possible. Nevertheless, the study is resolved to choosing and working with materials that appear most frequently in the total body of aid-growth literature. Materials which primarily aims at establishing the effect of foreign aid on political systems, governance and human rights in the recipient countries will be left out of the literature earmarked for review.

Typical of any debate is the fact that there are two contending schools of thought. Critics of foreign aid argue that it has had no effect on and even hurts the third world economies. Let us call the contenders on this side the: (***Negative aid-growth proponents***). On the other side of the debate, supporters of foreign aid espouse that on average or in most cases, aid has been an effective development tool to third world countries. Let us call this side of the debaters (***Positive aid-growth proponents***). This study however notes that the volumes of reviewed literature on the subject in focus, tends to indicate that another trend in the debate has since emerged. This study considers this trend as a third school of thought. Researchers of this third school contend that aid can either be effective or ineffective depending on certain donor conditions and country circumstances. This study will identify this new school of thought as the (***Conditional aid-growth proponent***). The review of literature intended for this study shall be organized around these three groups of researchers in the light of the econometric models utilized for their studies on 'aid / development growth assessments' discussed previously above.

4.2 Literature on Negative Aid-growth Proponents

On a general note, economists and researchers who belong to the negative aid proponents, advocates that aid has no effect on growth whatsoever. Matter of fact, they believe that the whole idea of aid or greater aid actually undermines development and growth.

Records show that since 1950s, thinkers and researchers have made inquiries into the efficacy of aid on economic growth and development. Scholars and Economists in this class include: Friedman, (1958) and Bauer, (1972). The both clearly called for an end to the provision of aid on the grounds that it was not a necessary requirement for economic growth and development of a country. Both men corroborates Hiryonen, (2005) who asserted that foreign assistance to governments is dangerous because:

> Aid is primarily designed to serve the strategic and economic interests of donor countries; aid is primarily designed to benefit powerful domestic interest groups; aid system based on the interest of donors instead of the needs of recipient's makes development assistance ineffective; too little aid reaches countries that desperately needs it; and all too often, aid is wasted on over prized goods and services from donor countries. Hiryonen, (2005)

Although Bauer, (1972) has been a leading critic of foreign aid, (McMillan, 2011:160) notes that **'**his ideas are grounded on very little empirical research and this is the main critique against his published writings'. This limitation, - the lack of empirical evidence - in Bauer's was made up for by other economists in the 1970s. Griffin and Enos (1970) were among the first to publish empirical research papers questioning the effectiveness of aid. There studies revealed that there was a negative relationship between aid and growth, in studies conducted over twenty seven (27) countries. The pessimistic view of aid pervaded as economists observed the persistence of poverty in developing countries. Throughout his life, (Bauer, 1991: 45) maintained his stance that aid is bad for development, "because aid accrues to the government's resources, patronage, and power in relation to the rest of society'. 'The resulting politicisation, McMillan notes:

> …enhances the hold of governments over and against their subjects and increases the stakes in the struggle for power. This result in turn, encourages or even forces people to divert attention, energy, and resources from productive economic activities to concern with the outcome of political and administrative processes and decisions. McMillan, (2011).

While noting that these criticisms of foreign aid dates back four decades, this study however observes that the same criticism in these contemporary times have lingered on. Younger economists and contemporary research still echo the old arguments. Some studies in these recent times which show a lack of connection between aid and economic growth include those of Mosley, (1980), Mosley et. al. (1987), Dowling and Hiemenz, (1982), Boone, (1994), Kanbur, (2000) and Jensen and Paldam, (2003) among other scholars. These researchers are unanimous in their conviction that aid fails to induce growth and development the way it should.

Like Bauer, (1991) these researchers claim that aid are most often misused or corrupted by recipient governments. Kanbur, (2000) in particular, reports that aid fails to induce growth because of corruption, poor administration, tying up of aid with precious resources in recipient countries and questionable aid allocation decisions by donors. Greater aid therefore, will only further impoverish such countries in question. McMillan, (2011) further observes that "another argument that these researchers espouse is that aid is a disincentive for the private sector to invest or to improve productivity". They cite the "Dutch disease" where aid induces the recipient country's currency to appreciate and weaken the profitability of the production of export goods. For example, food aid causes local farm output prices to decline, thus reducing local farmers' income. They also argue that aid flows can reduce both private savings and government savings since aid impacts on interest rates and on revenues. These anti aid proponents' also surmise that aid can help keep corrupt governments with poor economic policies and management capabilities in power, hence deterring growth and development.

This study however wish to note that not all of these researchers generalize that aid is bad, though. Mosley, et. al. (1987) admit that there have been some individual aid projects that achieved success. He posits the idea of a "micro-macro paradox", which holds that the success of some individual aid projects cannot make up for the negative overall impact of aid on growth and development. Without undermining the impact of these studies with regards to the subject of our study, we can't help but wonder about the validity and quality of the findings and claims of these researchers (the negative aid proponents). For one, how they measured the effect of aid on growth is unclear. Hence the attribution of negative growth with aid is also questionable, especially since a country's poor economic performance may be caused by a host of other economic, social and political factors.

It is for this purpose that this study identifies with the work by Boone (1996) who examined the effect of aid on a variety of macroeconomic variables and several development indicators, his study is acknowledged to be one of the most cited proofs that there is no significant, positive influence of aid inflows on investment and growth in recipient countries. His works however did not go without criticisms, he has been accused for assuming that only a simple linear relationship between aid and growth exists. He has also been accused for ignoring potential factors that may have direct or indirect effect on growth, while using an unconventional set of co-regressors (Clemens et. al., 2004). Boone, however did not directly estimate the impact of aid on growth but used indicators such as consumption and investment as variables. He also tested the effect of aid on private and government consumption. Boone, (1996) used a lot of other variables (i.e. the black market premium, indirect taxes and the inflation tax, infant mortality, life expectancy, and primary schooling). The sample comprises 96 countries and dates averages within the 1971-90 period. "Basically, Boone's study shows that aid has no significant effect on any of the indicators frequently used to justify aid programs" (McMillan, 2011).

A another recent and notable contribution to the negative aid proponent literature, is the one written by Easterly, (1999, 2001 and 2006), a notable main stream economist and professor of development and aid issues, has criticized foreign aid for not having done much despite the promises:

> A tragedy of the world's poor has been that the West spent $2.3 trillion on foreign aid over the last five decades and still have not managed to get twelve-cent medicine to children to prevent half of all malaria deaths. The west spent $2.3 trillion and still did not manage to get four-dollar bed nets to poor families. The West spent $2.3 million and still had not managed to get three dollar to each new mother to prevent five million child death.
>
> … it is heart-breaking that global society has evolved a highly efficient way to get entertainment to rich adults and children in the world, while it can't get twelve cent medicine to dying poor children all over the world. (Easterly, 2006:4)

The findings from his study strengthened critics' scepticism about the effect of aid on growth. His results also indicate that aid money has been wasted as the predicted impact of aid (using the "two-gap" model) on output growth, does not match the actual performance of a large sample of developing countries. Easterly found that aid had very little and in some cases, no impact at all on the performance of majority of the individual countries' growth and development examined. In his book, (Easterly, 2001), he presents figures for Zambia, where the actual growth performance falls way below the predicted aid-induced growth.

Evident in Easterly's study is the fact that, somewhere along the dynamics of aid provision and aid utilization in Zambia, not all aid went into investment or that not all aid-led investment were translated into economic growth. Other country' examples include Congo, Haiti, Papua New Guinea and Somalia, which have been observed as not growing despite receiving sizeable foreign assistance in various aspects of aid. A large percent of the population in Africa and South Asia also remained impoverished despite the huge amount of foreign aid that is frequently pumped into them.

4.3 Literature on Positive Aid-growth Proponents

The review of literature under this section advocates more for a positive correlation between aid and growth. Researchers under this category maintain that that aid can spur growth, but its effectiveness decreases as the level of aid infused into the economy increases. In other words, aid has diminishing returns. Some early studies like those of Papenek (1973) and Levy (1988) reported that aid had a positive impact on growth, hence sparking the debate between and among economists and researchers. Analysts of this school of thought believed that aid increases growth by augmenting savings, financing investments, and adding to the capital stock. They argue that aid also helps increase productivity, especially aid in the areas of health or education programs. Proponents of this school of thought also consider the transfer of knowledge and technology from rich countries to poor countries as a positive effect. Like the early anti-aid literature, these claims were barely substantiated with empirical research.

The claim that there is an absolute positive correlation between aid and growth, was more a belief than an actual fact since research at this time was focused on testing linear relationships between aid and growth. Sometime in the 1990s, researchers tested the diminishing returns hypothesis, that aid does spur growth but only up to a certain extent. Such studies include those of: Durbarry et al. (1998), Dalgaard and Hansen, (2000), Hadjimichael, et. al. (1995), Hansen and Tarp, (2000 and 2001), Lensink and White, (2001) and Dalgaard, et.al. (2004). Other studies considered include: Dowling and Hiemenz, (1982), Gupta and Islam, (1983), Burnside and Dollar, (2000), Gomanee, et al. (2003), and Karras, (2006). All these studies found evidence for positive impact of foreign aid on growth.

Most of these studies however notes that although aid has no absolute positive relationship with growth, there is evidence that the higher aid flows are, the more rapid growth is. Stiglitz, (2002) and Stern, (2002) have likewise argued that aid may have failed in some cases but it has undoubtedly been supportive of growth in some countries and prevented decline in other countries.

In support of their thesis, most of the above researchers (positive aid proponents) identified successful aid recipients like Korea, Taiwan, Indonesia, Uganda and Mozambique and to specific programs like the aid-financed campaign against river blindness and oral rehydration therapy. They also argue that ever since the concept of aid for growth and development in the third world was introduced after the Second World War, there has been a general significant improvement in the poverty, health and education indicators in many countries. However, this study observes that these claims (i.e. the growth of countries and the improvement of poverty indicators are caused / partially caused by aid) still need to be substantiated. For one, the growth and development of a particular country cannot be directly attributed to the inflow of aid. For another, data on aid is most often hard to isolate, unless one is evaluating a specific project. The data on official development assistance (ODA) which economists most commonly use in measuring the impact of aid on growth is an aggregate and may not be representative of the actual aid money that is brought into a country. Economists are still in search of a measure that firmly and exclusively establishes the link between aid and growth. One analyst, Roodman, (2003), conducted sensitivity analyses on some of these studies and only the modelling of Dalgaard, et.al. , and Hansen & Tarp turned out to have results that were valid and worthy of note.

The study conducted by McMillan, (2011) observed that the works of Hansen and Tarp, (2000) provides a summary of about thirty (30) studies published between 1968 and 1998. Individually, these studies estimate the relationship between aid and investment growth, albeit with less sophisticated econometric modelling methods and smaller data sets. In the study, Hansen and Tarp proceeded to aggregate the results of these studies, in other words, they conducted a meta-analysis. The results of the meta- analysis strengthen their claims that foreign aid raises the level of investment in recipient countries. Consequent on these results, Hansen and Tarp's study are one of the most referred to in the light of studies conducted in these areas.

A recent study by Hansen and Tarp (2001) used newer data from fifty six (56) countries between the periods of 1974 to 1993. Similar to this study is an earlier one conducted by Feyzioglu et al. (1998) who used data from thirty eight (38) countries within the period from 1971 to 1990. Both assessed the effect of aid on investment and both found results to support their initial hypotheses which claims that grater foreign aid positively influenced economic growth and development of third world countries.

4.4 Literature on Conditional Aid-growth Correlation

An analysis of the studies done in the two schools of thought represented above reveals that there probably will not be a general consensus on the stand that foreign aid has absolutely no effect on growth and vice versa. Consequent, a third group of researchers believe that, Instead of ascertaining whether aid has a positive or negative relationship with growth, they sort to ascertain where and in what circumstances greater foreign aid could have a positive or negative impact on growth. This study believes this is a more "enlightened" approach to the aid growth analysis. Our study on the last two proponents indicates that the effectiveness or ineffectiveness of greater foreign aid in influencing growth and development should be taken on a case to cases basis. It makes more sense to identify pertinent factors that cause foreign aid to work or not work for growth and development in third world countries.

The studies under this category may be further grouped into those that identify *country specific factors* and those that point out *donor specific factors* which provide conducive environment for aid to spur growth and development. Some studies indicate that in most circumstances, foreign aid have been very beneficiary in countries with good government policies and established institutions. The study by Isham, Kaufmann, and Pritchett (1995), is a typical example. While using World Bank data in the bid to find out which circumstances are conducive for aid-induced growth, the trio from their study where able to link good performance of aid-financed projects in a certain country to that country's policies on civil liberty. Their study indicate that there is a statistical and possibly, a causal link between these two variables. Apparently, aid projects in countries that practice the best civil liberties have a higher economic rate of return than those in countries with poorer civil liberty systems. Interestingly, this study found that the type of government (i.e. authoritarian, democratic) has no effect on aid project performance.

The study conducted by Burnside and Dollar, (2000), is another typical example of a study which provides evidence that aid has a positive effect on growth depending on the political economic environment. While using the methods of statistical regression, the summary of their position stipulates that aid encourages growth in countries with good government policies on trade. By this, a country is said to have good government policies if its records show a low inflation rate, low budget deficit, and a system that promotes a relatively open market policy. While making use of a standard growth regression, Burnside and Dollar, (2000) after comparing the interaction of aid (in percent of gross national product) with the policy variable, concluded that "the impact of aid is greater in a good policy environment than in a poor policy environment" (Burnside and Dollar, 2000:859). They further suggested that "making aid more systematically conditional on the quality of policies would likely increase its impact on developing country' growth" (Burnside and Dollar, 2000:864). The results from their study explained why foreign aid had influence growth in countries such as Korea, Botswana, Indonesia, Mozambique and Uganda. This same study explained why a negative impact was the case for countries like: Haiti, Liberia, Zaire and the Philippines. The findings made by Burnside and Dollar (2000), leading to the above results, made their work very popular among aid – growth researchers.

In another study done by Dollar and Collier (2001), the results generated from their study further substantiates the Burnside and Dollar findings. Their study indicated that greater (additional) aid of about 1% of gross domestic product (GDP) increases, on average, the rate of economic growth by about 0.6 % in countries with good policies, 0.4 % in countries with average policies, and 0.2 % in countries with poor policies. Consequent on these advanced studies by Burnside and Dollar (2001), donor policies on aid in most parts of the world have been known to now make reference to these studies as guides before implementing on any foreign aid program. Their findings are consistent with donor claims that individual aid projects do impact on growth positively. Donors like the World Bank now also refer to this study in reflecting on the way in which they allocate aid and assess aid effectiveness in recipient countries. The thesis: **"***money matters in a good policy environment"* **(**Burnside and Dollar, 2001:**28),** as adopted by World Bank in 1998, was influenced by their adoption of the study and results presented by Burnside and Dollar. The possible implication of this trend is that donor countries in the near future, would mostly resolve to allocate more aid to countries with good government policies although there is no confirmations of the practice of this, yet.

Other researchers who focused their studies on the interactions between aid and other country' specific variables followed suit. They all sort to find possible explanations to the conditional relationship between aid and growth. Collier and Dehn, (2001), for example, linked foreign aid effectiveness with the actual occurrence of external shocks (i.e. export price shocks, climatic shocks). Guillaumont and Chauvet, (2002) studied the variable of economic vulnerability (in terms of trade). Collier and Hoeffler, (2002) looked at the variable of conflict (i.e. policy warfare, totalitarian government) while Dalgaard, et al. (2004) looked at geographical factors (i.e. country location). A comparative study of all these studies with those of Burnside and Dollar, reveal that those of Burnside and Dollar were more popular. The statistical tests conducted by Roodman, (2003) on the study of Burnside and Dollar, went a long way to popularise the study.

5 Some Observed Gaps In The Existing Research

From all indications, there is a wealth of information on the subject of foreign aid as it relates to growth and development as indicated in the review done so far. However, there seem to be no consensus on whether aid can indeed fuel growth at the macroeconomic level. Statistical and economic analysts, although employing identical or at least similar models of analysis, have all arrived at different conclusions. To some researchers, the impact of foreign aid on macroeconomic growth is negated, to others, the proposition has been affirmed, and yet to others, it is dependent on country-specific conditions. The various methods used for each of the study have been further subjected to sensitivity analysis and have been found wanting in one way or the other. One clear fact from all these is that there is yet to be declared, a methods which is perfect in properly assessing the aid – growth relationship. The study conducted by McMillan, (2011) corroborates this fact. This study goes further to identify this limitation among scholars as an area where economist and scholars can advance further studies on.

The very major challenge in this area of study therefore, is for economist and researchers to provide or develop a model which will be sensitive enough to capture all the nuances of the aid-growth relationship, one that more or less takes into consideration the possible factors that affect this relationship (not just savings and investment as in the two gap model). On the other hand, economist can fine-tune the existing models with the view to make their results more robust with a higher degree of certainty.

From all the reviews of literature considered in this study, this paper observes that 'the time factor' in the various studies were rarely considered. If we accept for instance, that the traditional 'aid growth theory' increases investment and investment produces growth, it will still take a lot of time before we see the impact of the former

on the latter. Hence, in assessing aid and its effects on growth, the time lag needs to be factored in as a variable. Interestingly, most researchers are silent about this time factor in their analyses.
Another limitation which this study identifies is the treatment of aid in aggregate terms (researchers use macro ODA data) as a mode of operation, is often not ideal because there are different types of aid which form part of the aggregate data but are not actually directed towards growth. Therefore, using muddled ODA data in analyzing the impact of aid on growth would most likely muddle the data expected as results. It becomes of uttermost importance that researcher find a way of isolating data on aid which is intended to capture economic growth only.
This study also observes that all the literature reviewed and adopted for this study applied the method of *cross country regression* in their bid to establish the aid growth causality, yet their studies tend to come up with different conclusions. Most of them worked on the same data, set over the same period of time (at least the recent studies), but still, they come up with the same conflicting results. The problem - this study believes - is as a result of an attempt to generalize the effectiveness of aid across all countries and an attempt to globalize the benefits of aid. In doing so, researchers neglect to consider that each country is differently situated, differently governed and differently structured. Hence the macro approach or generalizing that foreign aid has a positive or negative effect on growth should not be the way to go in doing research on the aid-growth relationship.
The recent research trend (*conditional aid growth correlation*) which attempts to identify country specific factors that allow aid to be effective - this study believes - is a more reasonable approach to the aid and economic growth study. Most researchers are now delving into this matter at present but the country specific factors that have been identified as facilitating aid-induced growth, still generate debate. More research is therefore necessary to firmly establish the link between a good policy environment and aid-induced growth (Burnside and Dollar's thesis).
Since this type of research looks into country specific characteristics, this paper argues that 'country case studies' is the way to go. While country specific factors are being studied, this study corroborates the summations of a study by McMillan, which affirms that ''it is wise to study donor specific characteristics which could have an influence in inhibiting or facilitating aid induced growth, after all, the foreign aid system is an interplay between a country and a donor'' McMillan, (2001). The study so far conducted here, have not come across any study that has applied these approaches. We therefore believe that this is where future research should be focused on. Donor conditions and procedures for aid provision could be one of the reasons why aid has not induced growth in some developing countries.

6 Conclusion

The study embarked upon so far, has been a critical review of various literature on the subject of greater aid as an agent of growth and development. The study notes that despite the volumes of literature linking foreign aid with economic growth and development, no conclusive evidence emerged to either affirm or negate that these two are positively or negatively correlated. This paper identifies the weaknesses of the econometric models used to assess the relationship as one of the major problem which researchers have faced during the process of their research. In addition, most of the pro-aid and anti-aid studies outlined above used either the two-gap model or the poverty trap model which deals with more or less, the same data set over a period of time. This study also identified this factor as one of the major reasons why researchers continue to fail to arrive at similar conclusion.
The attempt to generalize the effect of aid on growth across all countries, in the light of the various factors, features and variables which distinguish one country from the other and consequently, its rate of growth and development, was also identified as a basic faults in the studies so far. This study therefore subscribes to the current trend of research geared towards identifying country specific factors responsible for the success or failure of aid in promoting growth. The study identifies this research trend is the way forward for feature research in the area of aid or greater aid as factors for growth and development..

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