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# THE EFFECTIVENESS OF FOREIGN AID IN DEVELOPING COUNTRIES: AN EXPLORATORY REVIEW

## Abstract

*The aim of this paper is to examine whether official development assistance (ODA) or foreign aid has made developing countries worse off as alleged by a number of aid critics. ODA disbursement to developing countries increased almost five-fold; from around US\$36 billion in 1960 to US\$176 billion in 2016. The study found that between the period 1970 and 2017: (i) a total of 17 countries have been added to the ODA list, (ii) 60 countries have graduated from the list, mainly due of increases in their per capita incomes; (iii) out of these 60 graduates, 45 graduated between 1991 and 2018; and (iv) it is projected that another 24 countries and territories will graduate by 2030. This suggest that, overall, a number of countries have prospered over the years, and have therefore not been made worse by foreign aid. Global poverty, represented by headcount poverty rates (at US\$1.90 a day) have been decreasing considerably from around 44 percent in 1981 to less than 10 percent in 2015.*

**Keywords:** Effectiveness of foreign aid; aid effectiveness literature (AET); graduation from official development assistance (ODA); developing countries; millennium development goals (MDGs); sustainable development goals (SDGs); poverty reduction.

**JEL Classification:** F35, I30, F63

## 1. Introduction

Official development assistance (ODA) or foreign aid has been used on one hand, as an important international relations policy tool by donors and on the other, a source of funds for development by developing countries. Since its inception around the 1940s, foreign aid has been among one of the most researched topics in development economics.

Many scholars and decision makers have been raising the question; *'does aid work?'* The answer to this seemingly easy question has led to aid being labelled controversial (Glennie & Sumner, 2014) and 'bipolarity' (Easterly, 2008). On the one side of the debate are strong advocates for aid who argue that aid is the most effective weapons in the war against poverty and that it helps to reduce poverty by increasing economic growth, improving governance and increasing access to public services (Easterly, 2008, p. 1). Gates and Gates (2014) argue that *"foreign aid is ... a phenomenal investment. Foreign aid does not simply save lives; it also lays the groundwork for lasting, long-term economic progress"*. Some of those who have strongly argued that foreign aid has been effective in reducing poverty and therefore has to be increased include Sachs (2005), Stiglitz (2007) and Arndt *et al.* (2010, 2015).

On the other side of the debate are equally strong anti-foreign aid sentiments. Some of the most quoted critics are Moyo (2009, p. 28) who argue that aid *"perpetuates the cycle of poverty and derails sustainable economic development"* and Deaton (2013, p. 272) who states that *"giving more aid than we currently give will not better the situation"*. Crosswell (1999, p. 1) quoted The Heritage Foundation (1995) as saying *"Not only has U.S. development aid been wasted, it has actually retarded economic development in the countries that receive it. Not one country receiving foreign aid has succeeded in developing sustained economic growth."* Other critics

of development aid include Bauer (1972, 2000), Friedman (1958), Easterly (2003, 2006, 2008), Doucouliagos and Paldam (2006) and Deaton (2013).

A third group has emerged, starting with Burnside and Dollar (1997, 2000) and the World Bank (1998), which argue that that once we distinguish channels through which foreign aid affect development, we may notice several degrees of positive impact on development and poverty reduction (Collier & Dollar, 2002; Collier, 2007; Mosley *et al.*, 2004; Gomanee *et al.*, 2005a, 2005b).

This paper adds to this growing aid effectiveness literature (AEL), with particular focus on examining whether foreign aid has made the developed world worse off. It documents the history and global trends of foreign aid, development progress made by countries while receiving foreign aid and highlights that several countries have not only graduated from ODA, but some have become foreign aid donors.

## **2. Brief history of foreign aid**

Broadly defined, foreign aid comprises of all resources; physical goods, skills and technical know-how, financial grants (gifts) or concessional loans, which are transferred by donors to recipient countries (Riddell, 2007). ODA includes (i) grants and (ii) concessional loans that have at least a 25 percent grant component (World Bank, 1998, p. 6), and is usually disbursed bilaterally (two-sided, one donor government directly to a recipient government) and multilateral (many-sided, usually administered by agencies of the donor governments). International institutions which administer multilateral aid include the United Nations (UN), the World Bank (WB), International Monetary Fund (IMF) and other development agencies (Hjertholm & White, 1998). According to OECD (2009) more than two-thirds of total ODA

from OECD's Development Assistance Committee (DAC) member countries is provided bilaterally, mostly in the form of grants. In recent years, there has been growth in aid disbursement through non-governmental organisations (NGOs). Traditional NGOs include Oxfam, CARE, Save the Children and recently the Gates Foundation, who deliver essential services and public goods to poor countries (Hjertholm & White, 1998).

As shown in Table 1 the history of foreign aid can be traced as far back as the late 1870s and early 1920s when United Kingdom (UK) started the discussion on how to finance the development of poor countries, which were British colonies then. In the United States of America (USA), the government transferred its food surplus to poor countries in 1896 with the intention of developing its agricultural markets. In 1912, the United States Congress officially passed an Act for the Relief of the Citizens of Venezuela. Even during the first World War I (WWI) period, countries were helping each other, but aid allocations (which were treated mainly as gifts) were patchy and temporary (Hjertholm & White, 1998).

According to the World Bank (1998) and McGillivray *et al.* (2006), the provision of development aid, as it is known today, started after World War II (WWII). The USA established and funded the Marshall Plan in 1947, which was aimed at rebuilding Europe after the war. As illustrated in Table 1, development aid has grown to become a global phenomenon with annual disbursements estimated at around US\$176 billion in 2016 (OECD, 2017b).

**Table 1: Chronological History of Foreign Aid**

<b>Decade (Period)</b>	<b>Main Activity (Year)</b>	<b>Main Motive or Purpose of Aid</b>	<b>Types of Aid</b>	<b>Main ODA Trend</b>
<b>1812-1900</b>	<ul style="list-style-type: none"> <li>- First discussions in UK of official finance for colonies under Chamberlain (1870s)</li> <li>- Transfer of food surplus (under Ministry of Agriculture) begins from US with intention of developing new markets (1896)</li> </ul>	<ul style="list-style-type: none"> <li>- Humanitarian (relief)</li> <li>- Donor commercial or political interest.</li> </ul>	<ul style="list-style-type: none"> <li>- Food and humanitarian aid</li> </ul>	<ul style="list-style-type: none"> <li>- Aid allocations were patch and temporary</li> </ul>
<b>1901-1939</b>	<ul style="list-style-type: none"> <li>- USA Congress passes Act for the Relief of the Citizens of Venezuela (1912)</li> <li>- USA ships 6.23 million tonnes of food aid to Europe after the first World War I (WWI) (1918)</li> <li>- Formation of the International Labour Organization (ILO) in 1919</li> <li>- First UK Colonial Development Act (1929)</li> <li>- Great Depression (1930s)</li> <li>- USA passed the Agricultural Adjustment Act, a price support scheme, which marked beginning of systematic shipments outside of emergency situations (1933)</li> </ul>	<ul style="list-style-type: none"> <li>- Humanitarian (relief)</li> <li>- Donor commercial or political interest.</li> </ul>	<ul style="list-style-type: none"> <li>- Food and humanitarian aid</li> <li>- Non-administrative aid (through the UK's Colonial Act)</li> </ul>	<ul style="list-style-type: none"> <li>- Aid allocations were patch and temporary</li> </ul>
<b>1940s-1950s</b>	<ul style="list-style-type: none"> <li>- Establishment of the United Nations (UN) in 1942 (formally came into being in 1945, with the signing of the UN Charter).</li> <li>- Formation of UN Relief and Rehabilitation Administration (UNRRA) in 1943</li> <li>- Bretton Woods conference. Formation of Oxfam and CARE (1944)</li> <li>- Formation of the UN's Food and Agricultural Organisation (FAO) in 1945</li> <li>- End of the second World War (WW II) in 1945</li> <li>- UK passes the Colonial Development and Welfare Act (1945)</li> <li>- Formation of Unicef (1946)</li> <li>- France creates its aid agency (FIDES) in 1946, which was eventually superseded by the Ministry of Cooperation</li> <li>- Launching of Marshall Plan (1947/48)</li> <li>- USA Act of International Development and President Truman's Point Four speech (1949)</li> <li>- Establishment of the Expanded Programme of Technical Assistance (EPTA) by the UN (1949)</li> <li>- Launch of the Colombo Plan (1950)</li> <li>- Growth of Community Development Movement (CDM) in the 1950s.</li> <li>- USA Mutual Security Act (1951)</li> <li>- USA Agricultural Trade Development and Assistance Act (1954)</li> <li>- First meeting of non-aligned movement (1955)</li> </ul>	<ul style="list-style-type: none"> <li>- Humanitarian (relief)</li> <li>- Donor commercial or political interest.</li> <li>- Developmental aid, mainly funded by through the Marshall Plan and the UN system</li> <li>- Ideology: (i) focused on central planning and (ii) anti-communist</li> <li>- Donor focus: Community Development Movement (CDM)</li> </ul>	<ul style="list-style-type: none"> <li>- Programme aid (Marshall Plan), mainly towards reconstruction</li> <li>- Humanitarian aid</li> <li>- Projects aid</li> <li>- Technical Assistance</li> </ul>	<ul style="list-style-type: none"> <li>- Aid allocations were still patch and temporary</li> <li>- Proper record started being recorded in the 1950s</li> <li>- Aid started to grow in the mid-1950s, and USA contributed over half of all the official aid</li> </ul>

Decade (Period)	Main Activity (Year)	Main Motive or Purpose of Aid	Types of Aid	Main ODA Trend
	<ul style="list-style-type: none"> <li>- Soviet Union, under President 1956 Khrushchev announces expanded Soviet Uniob aid programme, which took over funding of Aswan Dam in Egypt.</li> <li>- Formation of India Aid Consortia by World Bank and five main donors (1958)</li> <li>- UN Special Fund starts operations (1959)</li> </ul>			
<b>1960s-1970s</b>	<ul style="list-style-type: none"> <li>- Establishment of International Development Association (IDA) under the auspices of the World Bank (1960)</li> <li>- The Organisation for Economic Co-operation and Development (OECD) founded in 1961, with the formation of the Development Assistance Committee (DAC)</li> <li>- USA Presedent (Kennedy) launches Alliance for Progress (1961)</li> <li>- Creation of Nordic countries aid agency (1962)</li> <li>- Formation of World Food Programme (WFP) in 1963</li> <li>- Formation of the United Nations Development Programme (UNDP) through the merging of UN Special Fund and EPTA (1965).</li> <li>- DAC agrees definition of official development assistance (ODA) in 1968</li> <li>- The Pearson Report (1969) proposes 0.7 percent of GNI target for ODA donors</li> <li>- World Bank President (and former USA Defense Sectreatry) Robert McNamara speech launches World Bank reorientation towards poverty (1973)</li> <li>- World oil crisis (1973)</li> <li>- USA International Development and Food Assistance Act (1975)</li> <li>- UK Government publishes a white paper on aid titled '<i>The Changing Emphasis in Bristsh Aid Policies: More Help for the Poorest</i>' (1975)</li> </ul>	<ul style="list-style-type: none"> <li>- Developmental aid, with a special focus on poverty (1970s)</li> <li>- Humanitarian (relief)</li> <li>- Donor commercial or political interest (especially to allies)</li> <li>- Ideology: state intervention in the market</li> <li>- Donor focus: (i) support infrastructure development and the productive sectors and (ii) poverty, including support for agriculture and social sectors</li> </ul>	<ul style="list-style-type: none"> <li>- Bilateral aid</li> <li>- Technical assistance</li> <li>- Budget support</li> <li>- Debt relief</li> <li>- Multilateral aid</li> <li>- Infrastructure aid: Funding of large scale industrial projects</li> </ul>	<ul style="list-style-type: none"> <li>- Aid stagnation (mid1960s to mid-1970s)</li> <li>- Expansion in aid levels (mid-1970s to late 1980s). ODA from DAC donors quadrupled from around US\$6.8bn in 1970 to over US\$27bn by 1980.</li> <li>- The expansion could be due to the escalation of the Cold War</li> <li>- Fall in food aid in the 1970s</li> <li>- World grew to become the largest source of development finance</li> </ul>
<b>1980s-1990s</b>	<ul style="list-style-type: none"> <li>- First structural adjustment loans (SAL) in 1980 and the increasing populasation of the Washington Consensus (1980s)</li> <li>- Publication of Brandt Reports: '<i>North-South: A Programme for Survival</i>' (1980) and '<i>Common Crisis</i>' (1983)</li> <li>- World Bank publishes a report titled '<i>Accelerated Development in Sub-Saharan Africa</i>' (1981)</li> <li>- Start of debt crisis (1982)</li> <li>- Launch of Special Programme of Assistance for Africa (SPA) in 1987</li> <li>- Unicef publishes a study '<i>Adjustment with a Human Face</i>' (1987)</li> <li>- World Bank launches governance agenda (1989)</li> </ul>	<ul style="list-style-type: none"> <li>- Developmental aid, with more pronounced shifts in donor policy toward poverty reduction.</li> <li>- Introduction of neo-liberal othodoxies, focused on 'removing impediments to growth'</li> <li>- Conditions for aid: adoption of market</li> </ul>	<ul style="list-style-type: none"> <li>- Rise of NGO aid</li> <li>- Emergency aid</li> <li>- Sectoral aid</li> <li>- Financial programme aid</li> <li>- New focus on Sub-Saharan Africa (SSA)</li> </ul>	<ul style="list-style-type: none"> <li>- Rapid expansion in aid levels, with some volatility in the 1980s</li> <li>- Oil exporters become aid donors</li> <li>- Rise in NGO aid</li> <li>- Japan become the largest official aid donor in the 1990s</li> </ul>

Decade (Period)	Main Activity (Year)	Main Motive or Purpose of Aid	Types of Aid	Main ODA Trend
	<ul style="list-style-type: none"> <li>- World Bank publishes a report titled '<i>Sub-Saharan Africa: From Crisis to Sustainable Growth</i>' (1989)</li> <li>- End of cold war (1990)</li> <li>- First Human Development Report (UNDP) and World Development Report (World Bank) on poverty (1990)</li> <li>- Copenhagen Summit, culminating in 2020 initiative and formulation of DAC targets (1994)</li> <li>- Helleiner Commission Report emphasising the importance of 'local ownership of aid programmes and initiatives' (1995)</li> <li>- World Bank and the IMF jointly launch a debt relief initiative for the heavily indebted poor countries (HIPC) in 1996</li> <li>- OECD publishes a report titled '<i>Shaping the 21<sup>st</sup> Century: The Contribution of Development Co-operation</i>' (1996)</li> <li>- Several donors publish white papers or other policy documents embracing partnership for development initiatives (1997)</li> <li>- World Bank publishes a report titled '<i>Assessing Aid</i>' (1998)</li> </ul>	<ul style="list-style-type: none"> <li>oriented policies and trade liberalisation</li> <li>- Ideology: market-based economic structural adjustment programmes (ESAP), especially in the 1980s</li> <li>- Aid was used as the tool for the implementation of ESAP in the 1980s</li> <li>- Donor focus: poverty reduction and governance</li> <li>- aid as a tool to foster democracy and governance in the 1990s</li> </ul>		<ul style="list-style-type: none"> <li>- Fall in aid after the end of Cold War, regarded as the end of 'political aid'.</li> </ul>
<b>2000s-Present</b>	<ul style="list-style-type: none"> <li>- World Bank publishes a report titled '<i>Attacking Poverty</i>' (2000)</li> <li>- Adoption of the UN 'Millennium Declaration and the publication of the Millennium Development Goals (MDGs) in 2000</li> <li>- 11 September 2001 (9/11) terrorist attack on USA soil</li> <li>- World Bank publishes a report titled '<i>A Case for Aid: Building Consensus for Development Assistance</i>' (2002)</li> <li>- Publication of the Zedillo Report (2002) on the funds and strategies need to achieve the International Development Goals (IDGs) or MDGs.</li> <li>- Monterrey Consensus on Financing for Development (2002)</li> <li>- Rome Declaration on Harmonization (2003),</li> <li>- Paris Declaration on Aid Effectiveness (2005),</li> <li>- World Bank publishes a report titled '<i>Annual Review of Development Assistance: The World Bank's Contribution to Poverty Reduction</i>' (2005)</li> <li>- Launch of the Millennium Villages Project (2005)</li> <li>- Commission for Africa Report, titled '<i>Our Common Interest</i>' is published (2005)</li> <li>- Accra Agenda for Action (2008)</li> <li>- Busan Partnership Agreement (2011)</li> </ul>	<ul style="list-style-type: none"> <li>- Developmental aid, with renewed focus on poverty reduction as per the MDGs</li> <li>- Focus on the role of donor-recipient partnerships for aid effectiveness</li> <li>- Ideology: linking aid effectiveness to governance, transparency and human rights policies</li> <li>- Donor focus: meeting MDGs by 2015.</li> </ul>	<ul style="list-style-type: none"> <li>- Developmental aid</li> <li>- Humanitarian aid</li> <li>- NGO aid</li> <li>- Emergency aid</li> <li>- Sectoral aid</li> <li>- NGO aid</li> </ul>	

Source: Own Compilation from Hjertholm and White (1998), Riddell (2007), and Moyo (2009)

### 3. High level foreign aid trends

Compared to other global financial flows to developing countries, the relative importance of ODA has decreased over the last five decades (see Table 2). In the 1960s, ODA used to constitute around 55 percent of all net disbursements by DAC countries but has since decreased to around 30 percent in recent years. Private flows, which include foreign direct investment (FDI) and commercial bank loans, has grown from 29 percent to 57 percent over the same period. Just like ODA, Other official flows (OOF)<sup>1</sup> has remained relatively small and has decreased from its peak of 7 percent in the 1970s to a lowly 1 percent in the 2010s. These dynamics show that, on average, the main source of funds for development has shifted significantly from ODA to private (mainly FDI) funding. As also shown in Table 2, private funds from all DAC donors were averaging at US\$253 billion during the period 2010 to 2016 compared to US\$125 billion in ODA.

**Table 2: Average official and private flows to developing countries, net disbursements (1960-2016)**

	1960s	1970s	1980s	1990s	2000s	2010-16
<b>ODA (All Donors, Total)</b>	41 310,67	59 895,56	80 061,69	80 760,54	108 549,66	151 784,66
<b>ODA (DAC Countries, Total)</b>	41 114,70	44 641,84	65 516,51	71 706,68	94 909,13	125 181,91
<b>Private Flows, DAC</b>	22 178,71	57 834,91	60 797,26	103 759,59	129 762,99	252 998,47
<b>Other Official Flows (OOF), DAC</b>	3 395,19	8 426,52	8 604,71	10 155,45	3 498,27	3 948,66
<b>Total ODA+OOF+Private (DAC Countries)</b>	75 579,80	136 673,96	151 129,65	197 596,63	244 665,76	430 458,43
<b>ODA (DAC) % of Total</b>	55%	35%	46%	40%	44%	31%
<b>Private (DAC) % of Total</b>	29%	39%	38%	48%	47%	57%
<b>OOF (DAC) % of Total</b>	4%	7%	6%	6%	2%	1%

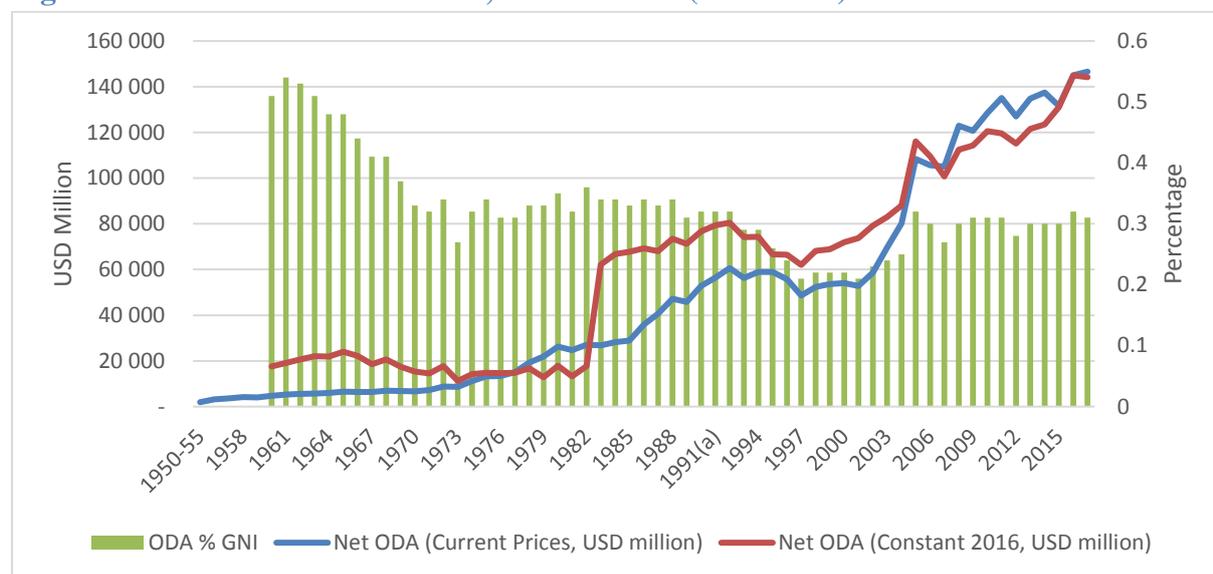
Source: OECD (2017a), DAC statistics

The abbreviations ODA stands for official development assistance; DAC: Development Assistance Committee; OOF: other official flows.

<sup>1</sup> According to (OECD, 2018b) ‘other official flows (OOF)’ are defined as official sector transactions that do not meet official development assistance (ODA) criteria. OOF include: grants to developing countries for representational or essentially commercial purposes; official bilateral transactions intended to promote development, but having a grant element of less than 25%; and, official bilateral transactions, whatever their grant element, that are primarily export-facilitating in purpose.

According to the official data collected by the OECD DAC, development aid, at constant prices, reached a new peak of US\$176 billion in 2016 (OECD, 2017b). At a high level, the main components of development aid include: (i) humanitarian aid, (ii) in-donor refugee costs, and (iii) net ODA. Figure 1 gives an historical picture of ODA flows from developed to developing countries since 1960. ODA increased almost five-fold; from around US\$36 billion in 1960 to US\$176 billion in 2016.

**Figure 1: Net ODA Disbursements, DAC Donors (1950-2017)**



Source: OECD (2017a), DAC statistics

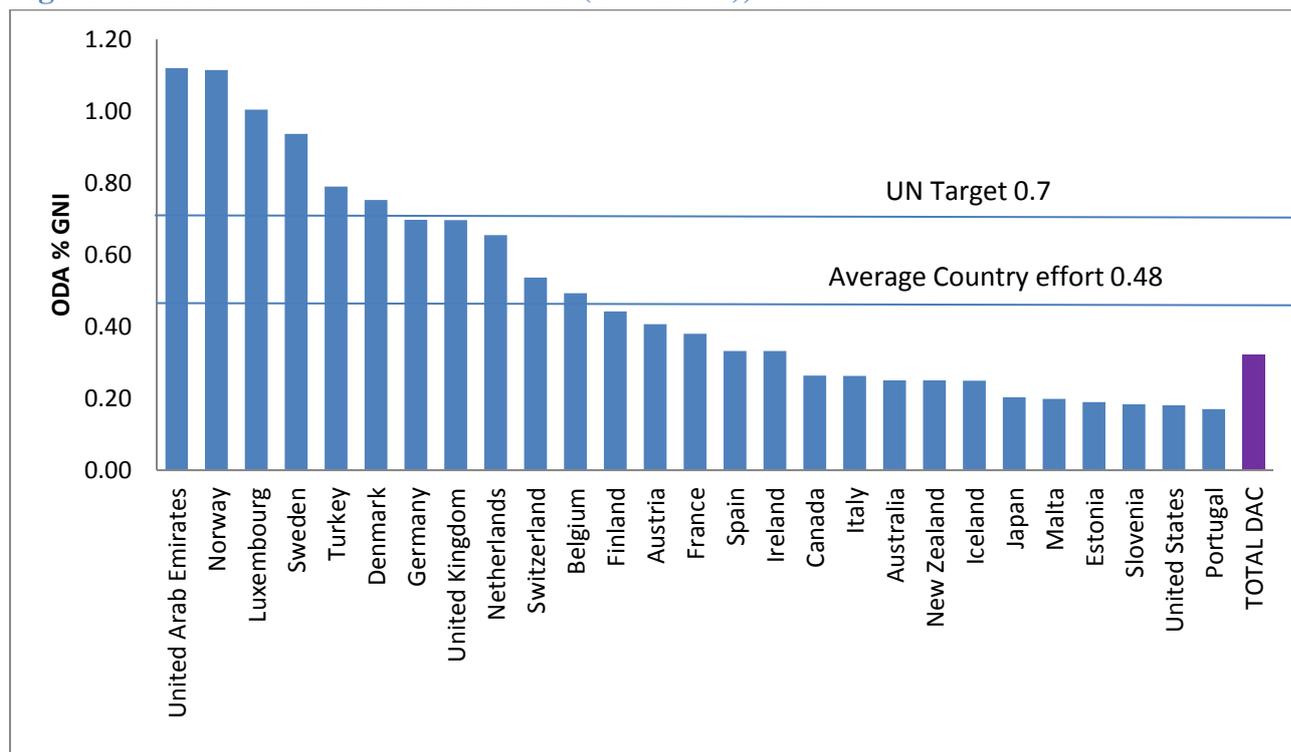
As shown in Figure 1, total ODA, both current and constant (2016) prices, was been fairly stagnant in the 1960s to mid-1970s. Notable events in the aid calendar during this period include the establishment of International Development Association (IDA) in 1960, formation of the DAC in the following year and merging of the UN Special Fund and Expanded Programme of Technical Assistance (EPTA) into UNDP in 1965. During this period, there was a refocusing of aid towards poverty as highlighted by the World Bank President (and former USA Defence Secretary) Robert McNamara’s speech in 1973, which aimed to reorient the bank

towards poverty reduction (Riddell, 2007). A deep in ODA flows in 1973 could be partly due to the world oil crisis (see Table 1).

The late 1970s to early 1990s witnessed the early resurgence of aid flows to developing countries. This was the era for economic structural adjustment programmes (ESAPs) and the height of the Cold War. The Cold War ended in 1990 and was followed by a sharp fall in aid volumes throughout the 1990s. Except for the short-term dip in ODA during the global financial crises in 2007 and 2009, aid has recorded the longest period of expansion since 2000/1. This sharp increase in ODA, could be a response to the call by the international community to meet the Millennium Development Goals (MDGs).

From as early as the 1969, the donor countries were called upon to allocate aid which is equivalent to 0.7 percent of their gross national income (GNI). The call was made by the Pearson Commission in 1969 (Riddell, 2007). However, despite the repeated calls for donor countries to reach the 0.7 percent target, on average, DAC donors have not reached the target except for a few countries. As shown in Figure 1, the ODA/GNI ratio was highest in the early 1960s and has been decreasing, with some fluctuations. Figure 2 shows that only eight donor countries met or exceeded the 0.7 percent target in 2016, and these are: United Kingdom (0.70%), Germany (0.70%), Denmark (0.75%), Turkey (0.79%), Sweden (0.94%), Luxembourg (1%), Norway (1.11%), and United Arab Emirates (1.12%), in ascending order.

**Figure 2: Net ODA from donor countries (ODA/GNI), 2016**



Source: OECD (2017a), DAC statistics

The abbreviations ODA stands for official development assistance; GNI: gross national income; UN: United Nations; DAC: Development Assistance Committee.

Table 3 shows the historical levels of ODA received by each of the six geographical regions and developing country income groups in the of ODA as a percentage of GNI and net ODA received per capita. Over the years, sub-Saharan Africa (SSA) has been getting the highest in term of net ODA as a percentage of GNI. The high volumes of humanitarian relief aid flowing into the region could be one of the major causes, including high levels of poverty and lower per capita incomes. Though the Middle East and North Africa (MENA) and Eastern Europe and Central Asia (ECA) regions have been receiving lower levels of net ODA as a percentage of GNI, the high pressure from the oil crisis in the early 1990s could have resulted in greater increase in the ratio of ODA per capita in the MENA region. Generally, net ODA as a percentage of GNI has been highest in the 1980s and 1990s. Lastly, least developed and low-

income countries tend to receive net ODA as a percentage of GNI compared to lower- and middle-income countries.

The net ODA received per capita trend (Table 3), shows that over the period, the MENA has been receiving the highest in per capita net ODA. In 1960s, the region was receiving \$6.61 per capita while the second largest one was SSA, receiving \$3.91 per capita. By 2014, these figures had increased by 770% and nearly 1200% for the MENA and SSA, respectively. As can be expected, the highest supply of aid went to less developed, low income economies while in occasional outbreaks of crisis, more economically developed, high income countries received aid. It can also be noted that highly populated regions like East Asia Pacific (EAP) had the lowest per capita ODA compared to MENA and SSA, for example. The higher per capita ODA could be due to the fact that these regions have relatively lower population but are receiving high volumes of foreign aid.

**Table 3: Net ODA (% of GNI) and ODA Per Capita Received by Region**

Region	Variable / Indicator	Years					
		1960s	1970s	1980s	1990s	2000s	2010-2014
East Asia and Pacific	Net ODA (% of GNI)	0.89	0.97	0.93	0.83	0.29	0.09
	Net ODA per capita (current US\$)	0.79	1.63	3.48	4.58	4.41	4.8
Eastern Europe and Central Asia	Net ODA (% of GNI)	-	-	-	0.76	0.78	0.56
	Net ODA per capita (current US\$)	1.64	0.99	2.57	11.29	22.57	36.42
Latin America & the Caribbean	Net ODA (% of GNI)	0.98	0.48	0.54	0.43	0.3	0.23
	Net ODA per capita (current US\$)	3.23	4.17	10.53	11.93	13.88	20.02
Middle East and North Africa	Net ODA (% of GNI)	-	-	-	1.49	1.8	1.07
	Net ODA per capita (current US\$)	6.61	25.08	33.45	23.37	43.62	57.55
South Asia	Net ODA (% of GNI)	2.31	1.9	1.65	1.29	0.82	0.66
	Net ODA per capita (current US\$)	2.31	3.13	5.5	4.11	5.74	9.07
Sub-Saharan Africa	Net ODA (% of GNI)	2.5	2.29	3.96	5.38	4.77	3.12
	Net ODA per capita (current US\$)	3.91	8.98	26.44	26.06	37.79	50.23
Least developed countries	Net ODA (% of GNI)	-	-	8.38	10.09	7.95	6.03
	Net ODA per capita (current US\$)	2.62	9.68	26.44	23.08	34.48	50.41
Low income	Net ODA (% of GNI)	-	-	7.95	12.37	12.68	10.77
	Net ODA per capita (current US\$)	2.93	8.07	24.88	25.38	40.31	60.59
Lower middle income	Net ODA (% of GNI)	2.34	2.63	2.24	2.28	1.38	0.89
	Net ODA per capita (current US\$)	2.66	6.16	10.79	9.71	11.73	16.47
Middle income	Net ODA (% of GNI)	1.44	1.16	1.08	0.93	0.57	0.29
	Net ODA per capita (current US\$)	1.89	3.7	7.24	7.38	10.02	12.29
Upper middle income	Net ODA (% of GNI)	0.69	0.35	0.42	0.37	0.27	0.1
	Net ODA per capita (current US\$)	1.02	1.35	3.62	4.5	7.66	6.7

Source: World Bank (2017), World Development Indicators (WDI)

#### **4. Effectiveness of Foreign Aid: Graduation from Foreign Aid by Region**

Since 1970, the *DAC List of ODA Recipients*<sup>2</sup> has undergone some substantial changes, which reflect general improvement in global prosperity over the last few decades. According to OECD (2018a), from 1970 a total of 17 countries have been added to the list and 60 countries have graduated from the list, mainly due of increases in their per capita income. Out of these graduates, 45 graduated between 1991 and 2018 and it is projected that another 24 countries and territories will graduate by 2030 (Sedemund, 2014). We briefly discuss aid allocation and ODA graduates by region below.

##### ***4.1. Foreign aid graduates in Sub-Saharan Africa region***

The Sub-Saharan Africa region constitutes around 46 countries, and nearly all of them have been relying on foreign aid over the years in supplementing their budgets. According to OECD (2018a), Seychelles graduated from ODA recipient countries in 2018, which makes it the first country in SSA region. Moreover, recent trends are showing a general decline in aid reliance especially in countries such as Equatorial Guinea, Botswana, and Eritrea. The OECD (2014) estimates that the following countries from the SSA region might graduate from foreign aid by 2030: Gabon, Mauritius and Equatorial Guinea.

##### ***4.2. Foreign aid graduates in East Asia Pacific region***

The EAP region has transformed itself from being the poorest region with more than 80 percent of its population living in extreme poverty in 1981 to one of the richest regions in the developing world. By 2015, the proportion of population living in absolute poverty was estimated at 4.1 percent, which was lower than the developing world average of 11.9 percent.

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<sup>2</sup> The List is kept and updated by the OECD: <http://www.oecd.org/development/financing-sustainable-development/development-finance-standards/historyofdaclistsofaidrecipientcountries.htm>

The biggest decline in EAP region is due to China, which lifted more than 850 million out of extreme poverty between 1981 and 2013 (Mahembe & Odhiambo, 2018).

There have been several countries in the EAP region who graduated from the reliance on aid since the 1960s. By 1996, Hong Kong, Taipei and Singapore had discontinued their reliance on aid while China's Macau and Korea stopped relying on aid just before the turn of the 21st century. OECD (2014) projects that by 2030 three more countries from the EAP region would have graduated from the '*DAC List of ODA Recipients*', namely China, Malaysia and Thailand.

#### ***4.3. Foreign aid graduates in Europe and Central Asia region***

Net ODA as per capita started fairly low in the 1960s but began to increase sharply in the late 1980s and picked in the early 2000s (Table 3). The increase in the late 1970s and early 1980s could be a response to the widespread debt crisis in the region. From then, there were a major fluctuation in aid receipts over the next two decades. Between 2000 and 2002, there was a major peak in aid flowing into the region mainly fuelled by the need for nations to meet the MDGs.

By 1996, Cyprus was no longer depending on foreign aid while three years later, Gibraltar received its last flows of ODA before the turn of the 21st century. Malta also stopped relying on aid by 2000. However, by 2015, all central Asian countries depending on aid were still receiving it.

#### ***4.4. Foreign aid graduates in Latin America and the Caribbean region***

According to Meyer (2018), the USA has been the biggest contributor of foreign aid to a number of countries in the LAC since the 1940s, contributing around a total of around US\$176

billion (in constant 2016 dollars) between 1946 and 2016. Most of the aid from the USA to LAC region in the 1960s and early 1970s has been directed towards antipoverty initiatives, but with the main aim of countering the Soviet Union and Cuban influence (Meyer, 2018, p. 3). The Soviet Union was very important in the provision of aid to this region, and the Central American conflicts in the 1990s was the main determinant of foreign aid allocation (Meyer, 2018)

Most of the graduates from foreign aid in the LAC region are small Island countries, which are former European colonies. For instance, by the early 1990s, the Cayman Islands and Bermuda were already giving out aid instead of receiving. At the start of the 21st century, the British Virgin Islands and Netherlands Antilles had also cut reliance on aid. Furthermore, by 2010, Trinidad and Tobago Turks as well as Caicos Islands also stopped relying on ODA. Recently Chile and Uruguay joined the ODA graduation list (OECD, 2018a). Lastly, it is projected that by 2030 another nine LAC countries would have graduated from ODA, namely: Antigua and Barbuda, Panama, Brazil, Argentina, Costa Rica, Mexico, Suriname, Peru and St. Vincent and Grenadines (OECD, 2014). Furthermore, some countries such as Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay have developed to an extent of being able to offer technical assistance and development aid to other poorer countries in the LAC region (Meyer, 2018).

#### ***4.5. Foreign aid graduates in South Asia region***

Historically, South Asia (SA) region has not been a major recipient of foreign aid. However, soon after the 9/11 event, the USA and other western countries began disburse more aid to the region. The main aid motives were generally political, including combating terrorism, advancing bilateral military agreements, combating socio-economic and political instability and trying to reduce extremism (Lum, 2008). This explains increase in USA aid disbursements

to countries such as Afghanistan and Pakistan. Natural disasters such as earthquakes, tsunami and heavy rains in Sri Lanka, Pakistan, India and Bangladesh have also attracted humanitarian assistance aid in the SA region.

As at 2015, all countries in the region relying on aid and have not yet discontinued receiving. Mostly, for countries like Bangladesh, yearly floods and famines make it difficult for the country to cut all ties with receiving aid. Moreover, Bangladesh, India and Afghanistan have to deal with the problem of limited access to basic resources by citizens, which are often hard for governments to take care on their own, hence the need for developmental aid to support poor families in becoming self-reliant.

#### ***4.6. Foreign aid graduates in Middle East and North Africa region***

The main foreign aid trends and flows to the MENA are shown in Figure 2.52 below. Since the 1970s, the MENA region has been the world's largest recipient of ODA per capita, third largest global recipient of total aid after SSA and EAP (Harrigan, 2011). The main drivers of aid to the region are geopolitics, commercial considerations (such as oil), responses to regional conflicts and anti-terrorism (Yousef, 2004; Harrigan, 2011; Middle East Monitor, 2017).

There are is significant number of foreign aid graduates from aid in the MENA region. In the late 90s, countries like the United Arab Emirates, Israel and Kuwait hardly relied on aid. However, countries like Bahrain, Oman and Saudi Arabia only stopped receiving aid more recently in 2005.

## 5. Concluding Remarks

The main objective of this paper was to examine whether foreign aid has made the developing countries worse off as alleged by aid critics such as Moyo (2009), Easterly (2003, 2006, 2008) and Deaton (2013). Just like Crosswell (1999), this paper does not claim that foreign aid is the sole reason why recipient countries have prospered, but it shows that several countries and territories have not only graduated from ODA, but some have now become aid donors. The study has found that between the period 1970 and 2017: (i) a total of 17 countries have been added to the ODA list, including South Sudan which was added in 2011; (ii) 60 countries have graduated from the list, mainly due of increases in their per capita income; (iii) out of these 60 graduates, 45 graduated between 1991 and 2018; and (iv) it is projected that another 24 countries and territories will graduate by 2030.

This suggest that, overall, a number of countries have prospered over the years, and have therefore not been made worse by foreign aid. Global poverty, represented by headcount poverty rates (at US\$1.90 a day) have been decreasing considerably from around 44 percent in 1981 to less than 10 percent in 2015.

However, there are a number of countries which are still to ‘take off’ and could be described as dependent on foreign aid, especially in SSA. Future research should be directed at (i) lessons learnt from ODA graduates, (ii) channels through which foreign aid affect poverty reduction and development, and (v) how to improve aid effectiveness in the new Sustainable Development Goals (SDGs) based on the lessons from MDGs.

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