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FEATURE

Foreign Aid Effectiveness: Fact or Fiction?

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Abstract: *The literature on foreign aid is vast and conflictive. Data show that certain types of aid are both effective and ineffective. Some call for more aid; some call for less. Reviewing recent studies shows complex patterns suggesting that aid is not the issue but the context surrounding the aid is. This paper does not find evidence to support Moyo's (2009) recommendation of reducing or stopping aid to Africa. Rather, this paper explores why aid effectiveness may be stunted and ends with recommendations on how to improve aid effectiveness especially to Africa.*

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Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. The steps that are needed from the developed nations are clear. The first is ensuring trade justice. The second is to end the debt crisis for the poorest countries. The third is to deliver much more aid and make sure it is of the highest quality. – Nelson Mandela

No one would remember the Good Samaritan if he'd only had good intentions —he had money as well. – Margaret Thatcher

Love your neighbor as you love yourself. – Jesus Christ

In the past fifty years, more than USD$1 trillion in development-related aid has been transferred from rich countries to Africa (Moyo, 2009). According to Moyo (2009), this assistance has not improved the lives of Africans and in fact the recipients of this aid are not better off as a result of it, but worse—much worse. She shows that poverty levels have continued to escalate and growth rates have steadily declined. Part of Moyo's (2009) argument is based on a

contrast between African countries that have rejected the aid route and prospered, and others that have become aid-dependent and have seen poverty increase. This contrast paints an unflattering picture that aid reliance has trapped developing nations in a vicious cycle of aid dependency, corruption, market distortion, and poverty, leaving them with nothing but the “need” for more aid. Although the majority of Moyo’s (2009) criticisms may be justified, they are hardly new. What is new is the contention that aid should be stopped, which has made her the darling of the west: “Ah now we have an African—and a woman at that—who gives us the ammunition to reduce or even cut off aid!” (Mooney, 2009).

The purpose of this paper is to ascertain whether the recommendation to stop aid to Africa is justified or not. Thus this paper reviews the aid literature in order to lay the foundation whereby Moyo’s (2009) conclusion can be revisited. This review focuses on the following questions:

- In what context do aid selectivity strategies and aid conditionalities work?
- How does Foreign Aid impact Direct Foreign Investment?
- Where does NGO aid fit in?
- Aid and the MDGs—where is the shortfall (a possible fourth generation of literature)?
- Should aid to Sub-Saharan Africa be stopped?

A Brief Historical Review of Foreign Aid Literature

It is important to note that the focus of the early literature on aid is based on ‘gap’ models. Hansen and Tarp (2000) have classified the literature into three generations of studies based on these gap models: aids and savings; aids and investments; and aids and policy. Development theorists during the 1950s believed a country would develop when the level of investment increased (see Lewis, 1954). If this were the case, the necessary capital required to facilitate these investments should also increase. Early theorists believed that aid would fill in the void between what funding a country generated internally and the level of funding that was required to propel the economy’s growth.

One of the first identified gap is the Harrod–Domar growth model (Westerberg, 2010), which assumes that labor is in excess and that growth is limited only by the availability and productivity of capital. In this model, availability of capital for investment is determined by the amount of savings. In other words, what people in the country save is what financial institutions lend out in forms of investments. However, more often than not, savings in developing countries are too low to propel growth in the form of investment

(Rodan, 1961). The second gap is the foreign exchange gap that foreign aid could fill (see Chenery & Strout, 1966). This view is based on the premise that, in order for investment to increase, capital goods are required for investment. But it recognizes that the chances of developing countries achieving surpluses in their net exports are low, making it unlikely that they will be able to afford the importation of capital goods for investments. Thus the 'dual gap' model was born with the assumption that aid would fill this void.

A third gap, identified by Bacha (1990) and Taylor (1990), focuses attention on the inability of developing countries to raise enough revenue to cover a desired level of investment, such as infrastructure. Foreign aid provided directly to the government, used for investment purposes, would fill this gap. In summary, gap models assert that foreign aid can supplement savings, foreign exchange or domestic revenues. Thus, foreign aid will result in greater levels of savings and increased investments, which will lead to a higher growth rate (McGillivray et al., 2006).

Early studies that focused on the Harrod-Domar Model found no evidence to support the claim for foreign aid supplementing savings (see Weisskopf, 1972; Gupta, 1970; Griffin, 1970; Rahman, 1968). Griffin explained this non-relation by asserting that a part of foreign aid is diverted to consumption and, unless the recipient country's marginal propensity to save is equal to one, savings will not increase. Later studies found that foreign aid does increase savings, which propels growth (see Papanek, 1972; Newlyn, 1973). Papanek provides an alternative explanation for the non-relation discovered by others, asserting that the negativity of the relationship reflects the treatment of domestic savings as the dependent variable. He believed that, though foreign aid sometimes funds consumption, the issue that should be measured is whether total savings—calculated as domestic savings plus foreign aid—rise or fall. In his study, he concluded that aid does increase savings as well as growth. A meta-analysis of all the first generational studies concentrating on savings and growth (Hansen & Tarp, 2000), found that aid does lead to an increase in total savings, although not by the entire aid flow amount. Hansen and Tarp's (2000) data included 131 cross-country regressions identified in the literature published from the late 1960s to 1998.

With regards to the relationship between aid and investment and growth, there is a lack of agreement within the literature. One of the oft-cited paradoxes in foreign aid literature is the 'micro-macro' paradox, in which it is argued that aid taken at the micro level seems to work while, at the macro level, it does not seem to work (Mosley et al., 1987). This is related to the conclusion by Boone (1996) that increases in foreign aid lead to increases in government consumption rather than to increases in investment. Dowling and Hiemenz (1982) studied the same relationship in the context of Asia and found a positive a relationship

between foreign aid and economic growth. Hansen and Tarp (2000) suggested that the reason why other studies found no relationship is because they accounted for foreign direct investments alone and did not include other forms of aid.

In 1998, the World Bank released a report titled *Assessing Aid,* arguing that aid effectiveness may depend on specific circumstances in recipient countries. The report concluded that aid does help to increase growth, but only in countries with sound economic management, or 'good governance,' in the form of sound economic policies. According to the report, aid should, therefore, be allocated on a selective basis, where prospective recipients of aid must have good governance, sound economic policies, and strong institutions.

There have been two specific reactions since the publication of the World Bank's report in 1998:

- The debate in the literature has moved away from the question of whether or not aid works to the contexts in which aid works most effectively (Addison, Mavrotas, & McGillivray, 2005).
- Aid selectivity strategies have become an issue, where donors select countries that have good policies or where, in their absence, they add conditions to their aid in order to create conditions in which aid is more likely to be effective.

The debate about the relationship between aid effectiveness and sound policies in recipient countries is still ongoing. Several studies have supported the World Bank's report and argue that aid works better where economic policies are sound (see Burnside & Dollar, 2004; Collier & Hoefler, 2002). Others have argued that aid works regardless of policy environment within recipient countries (see Hansen & Tarp, 2000; Dalgaard et al., 2004; Ram, 2004). Addison et al. combine these two positions, suggesting that aid works regardless of the policy environment, but that it appears to work better when sound policies are in place. Regardless of whether policy is important for aid effectiveness, both groups of researchers agree that aid works in increasing growth, although this is certainly not to say that every aid project or program works as it was designed to (Feeney & McGillivray, 2003).

Aid Selectivity Strategies and Conditionalities

Selectivity greatly increased in the second half of the 1980s and is practiced by most donors today (Dollar & Levin, 2004). International Development Assistance (IDA) lending in the period 2000–2002 reflects the institution's strong selectivity (Hout, 2004), supporting Dollar and Levin's findings that the IDA—in their lending—is highly sensitive to the quality of recipients' institutions and policies. The current view of donors and lenders is, thus, that a

country that wishes to receive financial assistance ought to prove its commitment to reform by improving its policies and institutions—particularly the quality of its governance—as a condition for the receipt of aid (Noorbakhsh & Paloni, 2007).

In developing selectivity further, Ivanova et al. (2003) studied programs that were supported by the IMF and concluded that program success is exclusively dependent on political economy factors in recipient countries which are beyond the Fund's influence. However, Silarzky's (2004) assessment of World Bank programs disputes these findings indirectly, saying that the donor can affect the success of the program. Noorbakhsh and Paloni (2007) tried to identify the factors that determine a recipient country's willingness to comply with conditionalities—conditions that recipient countries must abide by to qualify for aid from donors. If these factors are outside the donor's control then greater selectivity is the key to greater aid effectiveness. If, by contrast, these are factors which the donors can influence to improve the likelihood of reform implementation, then greater aid effectiveness would also depend on the design of conditionality. According to their findings, the major determinant of compliance with conditionality is a country's income status. Their findings concluded that donors have a very limited impact on institutional quality, hence the policy recommendation of selectivity is reinforced.

Morrissey (2005), another advocate of selectivity, has also contrasted selectivity and monitoring, two approaches which he defines as types of 'conditionality.' The monitoring approach allows donors to engage with those countries that do not meet selection criteria. This approach recognizes that donors, through appropriately designed conditionality and intervention, can influence government policy.

A different approach was taken by Bird (1999) when he studied whether there is a reward for getting the macroeconomics right in terms of capital inflows. In examining whether having sound economic policies translates into receiving aid, he discovered that, although there are no predictable rewards for getting macroeconomic environment 'right,' there are predictable penalties for getting macroeconomics badly wrong. Bird concluded that getting it 'right' does not mean that aid in FDI, grants, or loans will automatically flow in, but getting it wrong does mean that the chances of getting aid are greatly reduced.

Minoiu and Reddy (2009) claim that aid is inherently ineffective and that aid budgets should be reduced. They suggest that an increase in aid and a change in its composition in favor of developmental aid is more likely to create sizable returns in the long run—any aid that is not for developmental purposes may be ineffective. Further, by showing that donor characteristics play a role in aid effectiveness, they argue that the quality of the donor-recipient match may matter more for aid effectiveness than selectivity-based policies. However, it is

important to recognize that the issue is not whether or not selectivity works but, rather, the fact that donors are becoming increasingly specific about their recipients and the purpose of their donations (Noorbakhsh & Paloni, 2007).

Donor conditionality came to the fore during the 1980s and has shifted from economic conditions to including non-economic conditions as well. An example of stringent conditions could be Uganda, where the World Bank set out a total of 86 specific policy commitments in 1991-1992 of which 79 had to be initiated in the 1991-1992 fiscal year alone (Killick, 1997). Non-economic conditions include but are not limited to environmental protection, reduced military spending, enhanced human development, gender equality, and child labor reform.

Killick (1997) studied developing countries mainly related to the World Bank structural adjustment programs and its conditions, and concluded that conditionality is not an effective means of improving economic policies in recipient countries: there is a weak correlation between economic deprivation and political willingness to change. Noorbakhsh and Paloni (2007) also asserted that focusing on conditionalities has brought about disappointing results, especially when conditionalities following the funding—as opposed to funding after the reform—did not make true reformers of the recipients. One reason that can be suggested for the failure of conditionalities to bring about the intended results could be that donors—be they multilateral or bilateral—are seen as encroaching on the sovereignty of the recipient nation (Venter, 2008).

A new model of donor-recipient relationship has been suggested as an alternative to the use of conditionality. The components of this model are ownership; selectivity; dialogue; and support (Killick, 1997). *Ownership* refers to the donor country allowing the recipient country to control its affairs without stipulating conditions. *Selectivity* refers to selecting countries that have adopted economic policies that are the essence of the conditionalities themselves. *Dialogue* means that the lines of communication between the recipient and the donor must be open. *Support* refers to financial support in terms of reducing foreign debt in recipient countries as well as increasing technical assistance. This alternative (see Killick, 1997) might work better than conditionality because partnership exists between the donor and the recipient countries.

Does Foreign Aid Increase Foreign Direct Investment?

The debate on whether foreign aid increases foreign direct investments (FDI) is ongoing. Many theorists believe that aid stimulates private investment in less developed countries because of its ability to supplement the gaps (Hansen & Tarp, 2000), and yet others suggest that aid has a negative effect on private investment because of consumption rather than investment spending, the 'dutch-disease' effects (Pratti & Tressel, 2006), and the central government's ability to

compete with the private sector because of its increasing funding via aid (Snyder, 1996). The 'dutch-disease' effect occurs when aid is spent domestically rather than on imports and the government's ability to increase the money supply is constrained resulting in a contraction of the private sector (Snyder, 1996).

The *catalysis theory* (Krueger, 1998) asserts that the presence of either the World Bank or the IMF in any country signals to speculating investors that that developing country is economically sound to invest in. Krueger's (1998) study suggests that private investors are often unwilling to invest unless the World Bank or the IMF have first signaled their acceptance of economic policies. Rodrik (1996) suggests that multilateral flows should act as a catalyst for private flows because of the information and signals contained in conditionality that must be complied with before the inflow of aid takes place (as cited in Bird & Rowlands, 2000). Thus the catalysis theory argues that by signaling policy credibility to the markets, IMF conditionality encourages additional private capital flows. On the other hand, the presence of the IMF and World Bank programs signals severe economic distress (Bird & Rowlands, 2000). Thus the IMF involvement in East Asian economies in 1997 was associated with accelerating capital outflows such that catalysis appeared to be negative. A broad examination of aggregate data suggests that lending by the IMF tends to increase at times when private lending is falling, implying that lending by the multilaterals substitutes for private capital flows rather than complementing them as the catalytic effect would predict. This issue is still being debated.

Snyder (1996) observed that aid flows are negatively associated with private investment. The magnitude of this relationship varies across countries, being strongest for low income countries and countries in the Asian region. Other questions arise from his study: why does aid discourage private investment? Is aid incapable of stimulating private investment, or has it been misused? What is the appropriate role of non-humanitarian foreign aid in a rapidly-privatizing developing world? Durbarry (2004) raised the same concern by questioning aid effectiveness and its fungibility. Where aid is fungible, it substitutes for an existing gap (savings, etc.). It removes the normal need for private investment, and the aid is consumed unnecessarily, and is therefore wasted.

Another aspect relating to FDI and aid flows is expropriation risk. There is an inverse relationship between FDI and expropriation risk whereby aid can mitigate but cannot eliminate the adverse effect of risk. Asiedu, Jin, and Nandwa (2009) constructed a model of FDI, risk and aid to see whether foreign aid mitigated the adverse effects of expropriation risk on FDI. They concluded that the threat of expropriation leads to under-investment; the optimal level of FDI decreases as the risk of expropriation rises; and aid mitigates the adverse effect

of expropriation risk on FDI. Their finding concluded that risk has a negative effect on FDI and that aid mitigates but cannot eliminate the adverse effect of risk.

The literature is not conclusive on the impact of aid upon FDI, save that in some countries it works, and in others, it doesn't. In any case, there appears to be more to aid and FDI than altruism itself. In fact, aid and FDI are sometimes sent because of some other hidden agenda. Some have called it another form of colonialism—but whether that is fact or fiction is outside the scope of this paper.

How do NGOs Fit Into Foreign Aid?

NGO aid to developing countries is worth mentioning because it is considered to be one of the most effective methods of transferring resources internationally. A 2005 IMF working paper (Masud & Yontcheva) assessed the effectiveness of foreign aid in reducing poverty through its impact on human development indicators. The data set included both bilateral aid and NGO aid flows. Masud and Yontcheva (2005) also compared the effectiveness of NGOs as compared to bilateral aid. They used two human indicators: health and education, and infant mortality—because these are considered in the literature as flash indicators of improvement in the conditions of the poor (Boone, 1996).

Masud and Yontcheva's (2005) results show that NGO aid significantly reduces infant mortality while bilateral aid does not, and they give the following reasons:

- NGO aid reaches and works at the grassroots level
- NGO aid is allocated more toward countries with high infant mortality while bilateral aid favors countries with lower infant mortality (aid selectivity strategy)
- Bilateral aid seems fungible and increases in aid don't seem to be reflected in health expenditures
- Bilateral aid covers many projects and programs and it might not be the correct measure for it is not as specific as NGO aids
- NGO aid usually bypasses the recipient's government which avoids the possibilities of diversion to benefit wealthy elite (corruption; see also Boone, 1996).

Concerning illiteracy, the results are less significant. A possible explanation is that the 10-year period for the study was too short in terms of literacy, for it takes time for people to become literate. Another important fact that Masud and Yontcheva's (2005) study provides is that NGO aid does not reduce recipient governments' efforts. They also noted that NGO aid appears more effective in

reaching out to the poor and the vulnerable populations, and insisted that donors who have channeled aid through NGOs have made the right choice.

Aid and the Millennium Development Goals: Where are the Shortfalls?

The World Bank Global Monitoring Report for 2009 was titled "A Development Emergency," which they said was the result of a triple crisis: food, fuel, and financial. This crisis may reduce the possibilities of achieving Millenium Development Goals (MDG) targets set for 2015. Figure 1 looks at the human development goals of the MDG package.

In 2007 the MDGs reached the midpoint, and it was clear that there was a gap between what should be and what was. Figure 2 shows the striking differences in these crucial life quality factors between developing countries based on the classification of developing countries into middle/low income and fragile states.

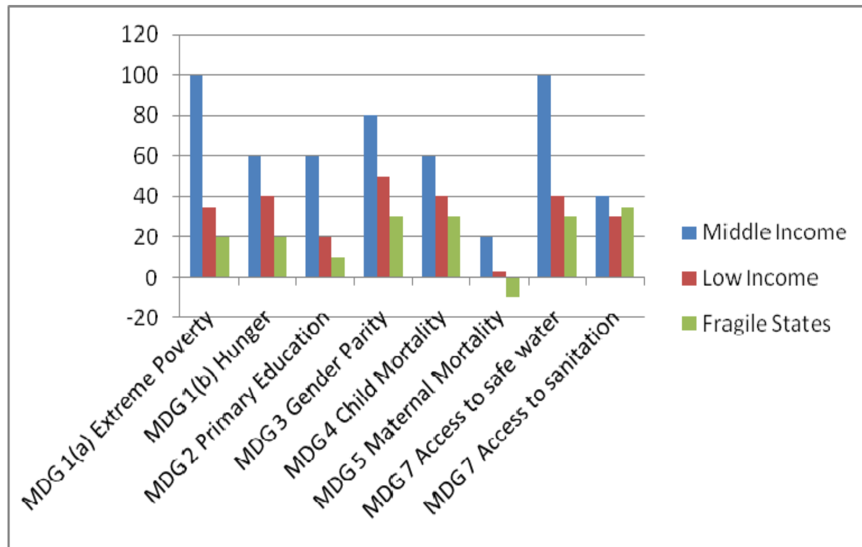

Figure 1. Millenium Development Goals at the global level: Serious shortfalls in the area of human development goals.

Note: Adapted from "Global Monitoring Report," by The World Bank, p. 16. Copyright 2009 by The International Bank for Reconstruction and Development, Washington, DC.

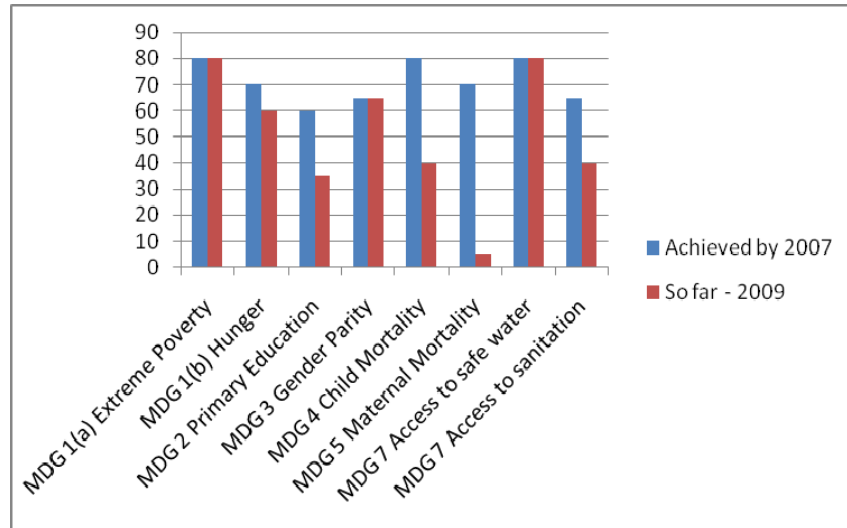

Figure 2. Fragile states have made the least progress toward the Millenium Development Goals.

Note: Adapted from "Global Monitoring Report," by The World Bank, p. 17. Copyright 2009 by The International Bank for Reconstruction and Development, Washington, DC.

One of the World Bank's strategies to meet the MDGs was to scale up aid to poor countries**.** The World Bank has also proposed that developed countries invest 0.7% of their stimulus packages in a Vulnerability Fund to help developing countries. The Fund would support three crisis-response priorities in developing countries that lack the resources to act on their own:

1. Strengthening social safety nets
2. Funding investments in essential infrastructure
3. Supporting financing small and medium enterprises and microfinance institutions (Global Monitoring Report, 2009, 178)

The World Bank has recognized the growing role of unofficial donors and private sources of funding and is continually urging aid coordination frameworks in order to encompass a broader range of development partners. It is the World Bank's hope that scaling up aid to developing countries, amongst other strategies, will go a long way toward accomplishing the developmental goals (MDGs) targeted for 2015 (Global Monitoring Report, 2009, 113, 114).

Should Aid to Sub-Saharan Africa be Stopped?

Having reviewed the literature above, we are now ready to wrestle with the original question of whether or not aid to Sub-Saharan Africa should continue. I would like to offer the following observations based on my interpretations of the perspectives presented.

Selectivity Strategy vs. Millenium Developmental Goals

There is a conflict between the pursuit of the MDG goals and the donor selectivity strategy policies of donors. Based on the selectivity policy, developmental aid is given to countries that have good economic governance, sound policies and reasonable infrastructure. The problem with this approach is that the neediest countries—those that are classified as low income or fragile states—will not be eligible for aid because of the selectivity policy. Figure 3 shows the World Bank compiled data for overall aid based on figures provided by the worlds' 5 largest Multilateral Development Banks from 2000-2008.

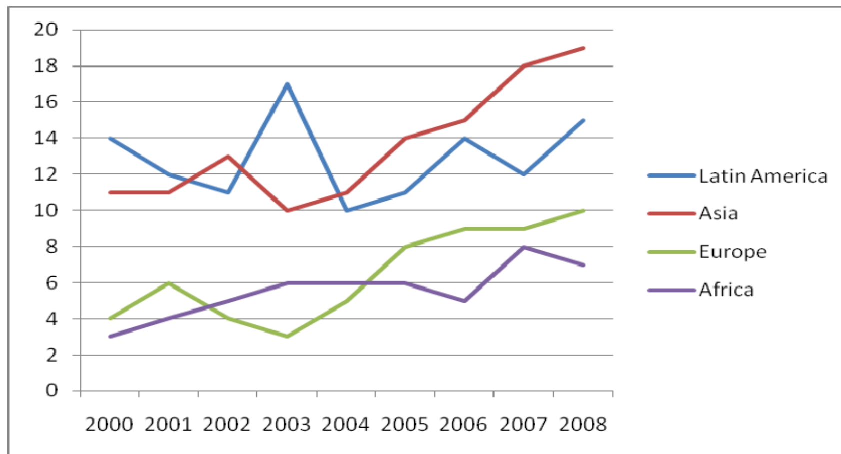

Figure 3. MDB Gross Disbursements by Region 2000-2008.

Note: Adapted from "Global Monitoring Report," by The World Bank, p. 180. Copyright 2009 by The International Bank for Reconstruction and Development, Washington, DC.

Figure 3 show that funding is concentrated to a large extent on Asia, then Latin America, Europe and Africa, in that order. Hence, policy apparently dictates spending, whereas the MDGs address issues that policy will not support. Most African countries, which are most in need of funding if the MDGs are to be met, do not qualify for developmental aid because they do not meet the criteria. Most of the aid flowing to Africa may be for humanitarian purposes rather than developmental purposes.

Donor Centricity Hinders Aid Effectiveness

One of the many recommendations from the literature on aid is to balance the relationship between the donor and the recipient to enable the recipient country to take ownership of the program. The 2005 Paris Declaration Agreement (PDA) recommended that:

> **Ownership:** Partner countries exercise effective leadership over their development policies and strategies, and coordinate development actions.
>
> **Alignment:** Donors base their overall support on partner countries' national development strategies, institutions, and procedures.
>
> **Harmonization:** Donors' actions be more harmonized, transparent, and collectively effective.
>
> **Managing for results:** Resources and decision making be managed for improved results.
>
> **Mutual accountability:** Donors and partners be accountable for development results. (Progress Report on implementing the PDA, 2009)

Venter (2008) suggested that the PDA is limited because it reflects a developed world perspective, hence it is donor-centric rather than recipient-oriented. As an example, she named ownership and harmonization as two of the PDA commitments. With regards to ownership, there is a clear line between the sovereign right of countries to determine their own development and the risk that the PDA might infringe on this sovereignty. Aid harmonization can also be used to create donor lobbies that push for orthodox policy reforms, leaving little room for home-grown partner-country solutions and policies. Thus most of the broader community and donors and development partners that do not form part of the OECD such as Brazil, Russia, India, and China do not acknowledge the status of the Paris Declaration. As such, the PDA Monitoring Report (2008, 16) concluded, "More determined and consistent efforts in turning principles into actions are needed. Overall, the 2008 Survey results should serve as a wake-up call. They tell us quite clearly that "more of the same" is unlikely to be enough to deliver the transformation envisaged by the Paris Declaration."

In agreement with Venter, Clay, Geddes, and Natali (2009) evaluated the PDA and recommended that donor aid should be untied—that recipient countries be given the right to choose where to purchase their goods from with aid funds instead of buying only from the donor countries or those specified by the donor. This recommendation came in the realization that "a positive approach to the use of untied funds…as well as adopting country systems for procurement were promoting ownership and facilitating alignment with partner country priorities" (ix). They also found that when funds are untied, the balance of sourcing goods and services is shifted towards local suppliers which promote local business development. Thus the untying of aid would enhance recipient's ownership thereby increasing aid effectiveness and its developmental impact.

Corruption and Capacity

A factor that is seen to stunt development in Africa is corruption. Of the ten countries considered most corrupt in the world, six are in sub-Saharan Africa (Hanson, 2009). Hanson reports that corruption increases the cost of doing business such that a one-point improvement in a country's Transparency International corruption score is correlated with a 4 percent increase in the gross domestic product (GDP). Likewise, Hamm (2009) reported Nuhu Ribadu—former head of Nigeria's anti-corruption commission—assert that the best way to reduce poverty is to attack corruption. In his study, Ruhashyankiko (2005) suggests that the presence of an informal economy—one where corruption exists—indicates that the capacities with which an economy is endowed are not being utilized.

Ruhasyankiko (2005) asserted that each country has natural capacities (e.g. natural resources, land, labor); acquired capacities (e.g. human capital, knowledge, ideas); or constructed capacities (e.g. institutional design, physical infrastructure; organizational or social capital) that are rarely utilized. In relation to aid, he found that aid selectivity strategies focused almost exclusively on capacity building. This means that they provide the capacity such as physical infrastructure but not the 'know-how' to utilize this capacity effectively. This neglect hampers greater aid effectiveness. This issue is relevant to corruption because in imperfect capacity utilization there is an informal economy existing beyond the formal, a characteristic of developing countries (Schneider, 2002; Hansen & Tarp, 2001). Table 1 shows the magnitude and size of the informal economy in Africa.

Trying to locate further data that might be more current, Wikipedia suggests that non-agricultural informal employment makes up 51% in Latin America; 65% in Asia and 72% in sub-Saharan Africa. If agricultural employment is included, the percentages rise in sub-Saharan African countries beyond 90%.

Table 1

Magnitude and Size of the Informal Economy in Sub-Saharan Africa

Informal economy as share of	**%**
Non-agricultural employment	78
Urban employment	61
New jobs	93

Note: Adapted from "The informal sector in Sub-Saharan Africa," by Xaba, Horn, & Motala. *Working Paper on the Informal Economy*. Copyright 2002 by the Employment Sector: International Labour Office, Geneva.

The above statistics attest to the staggering proportions of the imperfect utilization of the capacities in sub-Saharan Africa. Thus Ruhashyankiko (2005) argue that aid should not only be focused on capacity building but diversify to capacity utilizations because the capacity building generates growth in the short run but if not managed properly, will not generate growth in the long run. To make aid *more* effective, donor countries should not only concentrate on capacity building—it should also build on recipient countries' ability to utilize those capacities.

Conclusion

The assumption that aid is not working is not supported by the current aid literature. The literature agrees with most of Moyo's (2009) concerns about the effectiveness of aid but it also agrees on another thing—the absence of aid will leave sub-Saharan Africa worse (Addison, et al. 2009). The weak development record of individual countries should not be attributed to a question of aid effectiveness per se because it is based on other factors such as the soundness of the institutions within their respective countries. Furthermore, aid may be seen as not effective because of the selectivity policy whereby a lot of aid is offered to selected countries based on the soundness of their economic governance amongst other things. This selectivity leaves the ineligible countries poorer. Many of these ineligible countries are from Africa. The suggestion of not sending any more aid to Africa is eye-catching, but the literature is quite clear that though aid may not work effectively, the absence of aid will leave sub-Saharan Africa worse than it currently is. The solution is not to stop aid but find the contexts where it will be most effective.

In understanding the literature better, there are a few suggestions that might make aid effective for Sub-Saharan Africa as opposed to stopping aid to Sub-Saharan Africa:

- Sub-Saharan African nations need to utilize unused capacities. It is important that whenever aid is focused on capacity building, there is a need to learn and understand the knowledge and skill which is being transferred.
- Donor countries should encourage more participation from recipient countries in setting of policies and conditionalities to encourage ownership of projects and programs planned.
- Anticorruption bodies should be established to bring accountability and transparency to national leaders with regards to use of the resources that a country has access to which includes foreign aid.
- Aid should be used to fund proven successful ventures that would enhance development such as the Grameen concept of micro-financing. Grameen's concept of micro-financing is effective, as it nurtures development at the grassroots level. Furthermore, Grameen's concept of micro-financing not only funds projects at the grassroots level, ensures the education of children and also increases the earning capacities of adults through vocational training (Sahota, 2009).
- Donors should be creative about the use of foreign aid in combating poverty. One of the MDG goals is to have worldwide education at least for the primary level. Sub-Saharan Africa should do as Mexico is currently doing with their Progresa program (Mourmouras & Rangazas, 2006)—the government is subsidizing families for the income forgone when the older (high school) children go to school in the hope that they can break the poverty cycle with a better education. Implemented in 1997, this program has already been deemed successful (Mourmouras & Rangazas, 2006).
- Encourage the use of NGOs in deploying donor funds especially with humanitarian issues because they work at the grassroots level and typically bypass the pockets of intermediaries, going directly from the donor to the project the funds were intended to reach.

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