

The Failure of Foreign Aid

For: Mr. Morrison

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Preface

Over the past fifty years, the economic gap between developed and undeveloped countries has become much greater. As a result, the concept of 'foreign aid' has been introduced throughout the world. 'Foreign aid' as the title suggests, is aid sent from a developed country to a foreign, undeveloped country to help it develop in a series of different ways. This aid can be in the form of food, water, medicine, building materials and most importantly; money. The aid can be sent from a variety of sources, the main ones being the governments of developed countries, various non-government organizations (NGO's) and international government organizations (IGO's.) This aid is also sent to a variety of different places, mainly the governments of undeveloped countries and in some cases, directly to the people in need. The purpose of 'aid' is much more in-depth than simply helping a country develop. In certain situations, its purpose is to help reduce poverty, disease and poor education. In other cases, it is sent to help strengthen a country's economy and increase infrastructure. If aid could resolve these development-hindering problems, the results would be phenomenal. The truth of the matter; however, is that foreign aid is not working.

Something that is very important to understand about foreign aid is that in many circumstances there are strings attached. A large majority of countries that provide aid to developing nations do so because they expect to benefit somehow. Some governments may expect to be repaid in money while others create 'rules' that the receiving country must abide by. For example, a country receiving aid from Canada might only be allowed to purchase a Canadian product even though the same product would be much cheaper to purchase from the

United States. Another, much greater issue with foreign aid is the concept of 'aid dependency.' Undeveloped countries all over the world have become so extremely dependent on foreign aid that they maintain little or no economic stability. Although aid has been pouring into countries like Ethiopia, Haiti and the Congo for the past forty years, the poverty rate only seems to increase. The economies of these countries still maintain extremely low levels of independent stability. The reason for this is that they have become so accustomed to being 'given' all of this money they do not *need* to develop a strong economy. This is also caused by the improper usage of the money received.

Many people argue that in certain instances, money sent as foreign aid never even gets to the people who need it. It is believed by some that corrupt officials in both the donor and recipient countries are responsible for the misappropriation of aid money. Several notorious dictators in history such as Ferdinand Marcos of the Philippines have been known to steal aid money. This has led to a massive chain of corruption in the field of developmental aid that will be analyzed later in this report.

Over the past fifty years more than (US) \$1 trillion has been transferred from developed countries to the African continent; all of which is development-related aid.¹ The problem surrounding foreign aid is that there is no end in sight. It is a continuous spiral of money either flowing into the wrong hands or being spent on the wrong things. If we keep doing what we are doing, the people of developing countries will never grow to be self reliant. Instead, they will always be; aid reliant.

¹ Dambisa Moyo: Dead Aid: Why Aid is not Working and How There is a Better Way for Africa. (New York: Farrar, Straus and Giroux 2009) Introduction: xix

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Summary

The purpose of this report is to explore and analyze the history of foreign aid. It will investigate the role of control and the presence of various NGO's and IGO's in order to consider the issue from every possible perspective. This paper will see the positive and negative impacts of foreign aid and focus mainly on developmental aid. It will examine the viewpoints of one expert and consider the religious aspects of the issue. It will also study the history and effects of the issue in three separate case studies; Ethiopia, Haiti and Indonesia. Finally, it will link the issue back to Canada and consider the potential solutions. Military aid and emergency aid are different topics that will not be examined in this paper.

History of Foreign Aid:

The concepts of foreign aid all started during and immediately following World War II. By the end of the war, a large portion of Europe had been destroyed. Millions of people were left without homes and thousands of businesses and government offices had been destroyed. As a result, there was a change made to the U.S foreign policy and the Marshall Plan was put into effect. The Marshall Plan, named after U.S secretary of state George Marshall, was the aid program launched to rebuild Europe. The Plan sought the transfer of aid to fourteen devastated European countries. Over (US) \$13 billion was installed into the plan which is the equivalent of about (US) \$100 billion today. The Plan lasted five years (1948 – 1952) and of the fourteen receiving countries, Great Britain received the most aid (Norway received the most per capita as it has a much smaller population.) From an American perspective, the plan was put in place for several different reasons. Two reasons were to reduce poverty and increase economic stability in European countries. The plan benefitted them because it gave the US a type of collateral against the receiving nations as well as giving them stronger trading partners. The main reason the United States engaged in the Marshall Plan however was to reduce the threat of the 'Red Scare.' The Red Scare was the fear of communism felt in many countries across the world, especially in North America. One of Marshall's famous lines stated that 'Our policy is not directed against any country or doctrine but against hunger, poverty, desperation and chaos.'² With Europe experiencing all of these issues, Marshall knew they had to be eliminated to avoid the threat of communism within the countries affected. With the Marshall Plan, he introduced

² The Marshall Plan Speech:
http://www.oecd.org/document/10/0,3343,en_2649_201185_1876938_1_1_1_1,00.html

to the world the idea of foreign aid. It was a plan to eliminate the spread of poverty in Europe which as a result would build stronger economies and reduce the desperation for a better way (communism.) Throughout the five year period of the Marshall plan, Europe experienced its fastest ever period of economic growth. Aside from some criticisms, the Marshall Plan is considered to have been a successful move. Every receiving country's economy sky-rocketed and at the same time, poverty was almost eliminated entirely. This not only reduced the number of communist enemies that the US had to face, it gave the US more allies for the Cold War.^{3 4}

The Marshall Plan was one of the first and most successful examples of foreign aid in history. This raises a very important question; if aid can work in Europe, then why would it not work in the third world countries as well? People quickly turned their attention over to undeveloped and developing countries. On September 4, 1961 the United States congress passed the Foreign Assistance Act and less than one month later, President John F. Kennedy established the U.S agency for international development; also known as USAID. This became the first American foreign aid program launched on a long term basis. When justifying the new Foreign Assistance Act, Kennedy based his ideas on three concepts:

(1) then current foreign aid programs, 'America's unprecedented response to world challenges", were largely unsatisfactory and ill suited for the needs of the United States and developing countries, (2) the economic collapse of developing countries "would be disastrous to our national security, harmful to our comparative

³ Alan Milward: *The Reconstruction of Western Europe, 1945-51* (New York: Routledge, 2007)

⁴ USAID History, April 2009, http://www.usaid.gov/about_usaid/usaidhist.html

prosperity, and offensive to our conscience', and (3) the 1960s presented a historic opportunity for industrialized nations to move less-developed nations into self-sustained economic growth.⁵

This was the beginning of the common belief that simply donating money to foreign aid organizations will solve problems. People began to think that this was the right thing to do and never truly questioned the logistics of the programs. This 'problem' was not only happening in the United States. Eventually, similar programs were launched all over the world in countries like Japan, Canada and even newly restored Europe.

Foreign aid acts as a response to several different types of issues. What this means is that aid itself is not the issue. The issue is that foreign aid is failing to help countries develop. The problems surrounding foreign aid were not recognized until somewhat recently when people began to question the facts. As foreign aid began to pour into the developing world, the initial results seemed to be phenomenal. The problem was that there was no end in sight. In the early years of the Foreign Assistance Act, poverty seemed to decrease in receiving nations. This gave people the false idea that foreign aid was a great tool to develop the third world.

The twenty-eight year span from 1970 to 1998 is a very important time period when studying foreign aid. It was in this time that certain countries receiving foreign aid thrived while others suffered horribly. Asian countries in particular experienced tremendous economic growth where as countries throughout Africa experienced little or no growth at all. In fact; in 1970, of all people living under \$1.00 per day, 11% lived in Africa and 76% lived in Asia. By 1998

⁵ USAID History, April 2009, http://www.usaid.gov/about_usaid/usaidhist.html

those numbers were almost reversed. In 1998 about 66% of all people living on less than \$1.00 per day lived in Africa and only 15% were living in Asia.⁶ The reasoning for such success throughout Asia will be investigated later in this report. The reasoning behind why Africa suffered so dramatically in such a short time period does have a lot to do with foreign aid. The issues and failures of foreign aid to countries in Africa have continued to progress but it is not only an issue in Africa. Foreign aid has also failed to help countries in Central America, South America, The Middle East and South East Asia to develop. The failure of foreign aid has been a major problem that has only gotten worse over the past fifty years. Whether it is aid corruption or aid dependency, foreign aid is a solution to a problem that has become a problem itself. It is an issue that everyone in the world is a part of. In order to successfully help the third world develop, the current methods of foreign aid need to be examined and major changes need to occur.

Expert: Dambisa Moyo

Dambisa Moyo of Lusaka, Zambia has dedicated her life to studying and raising awareness about the failure of foreign aid. Moyo was born in 1969 and was educated in Zambia. She later moved to the United States where she worked and received further education at several different universities. Moyo has earned a Doctorate in Economics from Oxford University as well as an MPA in international development from Harvard University. She also holds a bachelors degree in Chemistry and an MBA in finance from Washington D.C.'s American University. Moyo also gained a lot of experience and knowledge in her years working

⁶ Carlos Lozada, Economic Growth is Reducing Global Poverty, March 9 2010, <http://www.nber.org/digest/oct02/w8933.html>

for the World Bank and Goldman Sachs. In 2009 she was made famous with the release of her debut book Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa. Dead Aid is an extremely controversial book in which Moyo bluntly states that foreign aid to Africa needs to be halted. With her years of experience and incredible life story, Moyo expresses the way she feels about the development of various African countries and compares them to other developing regions of the world. She criticizes almost every aspect of foreign aid and lays down the facts that make its failure clear. Dead Aid was a New York Times bestseller and has been published in eight languages. In May of 2009 Moyo was put on Times Magazines list of the world's 100 most influential people as well as Oprah Winfrey's list of 20 remarkable visionaries in September of that year.⁷

In her book Dead Aid, Moyo identifies the problems Africa faces due to aid and proposes a solution to how it can be fixed. In several lectures and television appearances she has expressed her blunt, controversial opinions on aid in Africa. Dead Aid starts off by bluntly establishing the thesis that aid in Africa is not working and needs to be stopped. Moyo then goes on to study the history and origins of aid and its failure. She compares the state of poverty in Africa to other thriving countries in the world that have turned down aid and emphasizes various examples of corruption in world governments. In the second half of the book Moyo turns to a 'Capital Solution' to solve the aid crisis. Dambisa Moyo's potential solution to the failure of foreign aid revolves around China. She states; "The Chinese are Africa's friends and that they have what Africa needs, and Africa has what China needs."⁸ Moyo's plan is to turn to

⁷ Dambisa Moyo Biography, <http://www.dambisamoyo.com/>

⁸ Moyo, op.cit.

the newly developed nation of China. China would be an excellent trading partner for African nations as many of its products would be much cheaper than products from elsewhere in the world. Moyo's solution involves looking at China's history and using its success in development as an example. Another main aspect of her solution is to cut off aid from other regions of the world. By turning to China and China alone, Moyo believes Africa stands a good chance at development.⁹

Dambisa Moyo has served as a phenomenal leader, thinker and critic throughout her career. She has already made several massive contributions regarding the issues surrounding foreign aid and some would say that her career is just beginning. Her ideas have been considered by several extremely powerful world leaders and show great potential for the future. One leader who has been known to support Moyo's ideas in particular is Chinese Premier Wen Jiabao. At the Forth Ministerial meeting of the forum on China-Africa Cooperation, Jiabao had this to say:

I have read a book titled Dead Aid written by an African woman writer. The author talks about her personal experiences and draws the conclusion that China's assistance to Africa is sincere, credible, practical and efficient and is welcomed by the African people. We in China have a saying that goes, "As distance tests a horse's strength, time reveals a person's heart." I am confident that time will prove that friendship and cooperation between the Chinese and African people have a bright future.¹⁰

⁹ Moyo, op.cit

¹⁰ Full text of Chinese premier's press conference in Sharm el-Sheikh, November 2009, <http://www.fmprc.gov.cn/zflt/eng/zxxx/t626205.htm>

This shows that Premier Jiabao is a supporter of Moyo's ideas but he is not the only one.

Rwandan president Paul Kagame also read Moyo's book Dead Aid and had this to say about it:

Dambisa Moyo's controversial book, Dead Aid, has given us an accurate evaluation of the aid culture today. The cycle of aid and poverty is durable: as long as poor nations are focused on receiving aid they will not work to improve their economies. Some of Ms Moyo's prescriptions, such as ending all aid within five years, are aggressive. But I always thought this was the discussion we should be having: when to end aid and how best to end it.¹¹

The continued support of Moyo's 'Capital Solution' is what makes her such an influential and powerful author. Less than a year after the release of Dead Aid she has already made a huge impact on the issue and caught the attention of multiple world leaders. Moyo certainly has a bright future in helping Africa develop.

Although much of Dambisa Moyo's studies on foreign aid have been restricted to Africa, they can be compared to other regions of the world. The poverty-stricken state of several other third world countries can be also potentially solved using Moyo's 'Capital Solution.' This solution will be further analyzed in the solutions section of this report.

The Role of Control:

¹¹ Paul Kagame, Africa has its own road to prosperity, May 2007, http://www.ft.com/cms/s/0d1218c8-3b35-11de-ba91-00144feabdc0,Authorised=false.html?_i_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F0%2F0d1218c8-3b35-11de-ba91-00144feabdc0.html&_i_referer=http%3A%2F%2Fen.wikipedia.org%2Fwiki%2FDambisa_Moyo

When discussing foreign aid, the role of control is one of the lead causes of failure. Aid is usually controlled by whoever sends it. This could be an NGO, IGO or a government agency. In many cases they are the ones that actually cause the problems. They often maintain control after sending aid because there are several strings attached. The role of control is also 'stolen' at times by the corrupt leaders and dictators of the receiving nation. In other cases, the role of control is given to NGO's because they are in charge of the money donated to them. Control of foreign aid can be an open invitation for corrupt individuals to take personal advantage. Corruption can mean anything from the general misappropriation of aid funds to the forms of bribery and manipulation that come with the aid.

One of the most famous examples of foreign aid corruption occurred in Zaire (presently known as Democratic Republic of Congo.) Transparency International is a well known NGO that is dedicated to preventing and raising awareness about corruption. This organization reported that during his time in office, former Zaire president Mobutu Sese Seko stole at least (US) \$5 billion worth of aid money.¹² In 2006 a similar story occurred with Baliki Muluzi, former president of Malawi. Muluzi was charged with the embezzlement of more than (US) \$12 million worth of aid money.¹³ One final example is that of Frederick Chiluba, former president of Zambia. After he left office on January 2nd of 2002, Chiluba was charged with the theft of more than (US) \$40 million. Chiluba went on to be charged and arrested three more times as his crimes were uncovered. These are just three examples of extreme corruption that have

¹² Dambisa Moyo, Why Foreign Aid Is Hurting Africa, March 2009, <http://online.wsj.com/article/SB123758895999200083.html>

¹³ IBID.

occurred in Africa alone.^{14 15} If we jump across the globe to the Philippines, history shows similar stories that have happened there as well. Former president Ferdinand Marcos was accused of stealing billions of dollars in governmental funds. All of these 'leaders' used the same strategy to hide their corruption from the media and authorities. They simply moved the money into foreign banks accounts. Marcos transferred most of his stolen, embezzled funds to bank accounts in the United States and Switzerland.¹⁶ These are the leaders that are in charge of the billions of dollars in aid money that is sent to third world countries every single year. So much of the money given to these nations never actually gets to the people who need it the most. So why do we keep giving away our money? Why do the governments of developed nations keep sending away their peoples hard-earned tax money? The answer is simple, the countries that send the aid are benefitting from it as well.

Something else that has a major influence on foreign aid is the media. Billions of dollars have been transferred from the governments and organizations of western countries to developing nations over the years. One of the largest problems with this is that the people in the richer countries do not understand that they are not helping. With the celebrity influences, ad campaigns on television and massive charity-based events such as Live 8, people think that giving away their money is the right thing to do. People often have the misconception that if they just donate some money, poverty in Africa will be abolished. In 2001, former British Prime Minister Tony Blair stated that "The state of Africa is a scar on the conscience of the world"¹⁷ at

¹⁴ Moyo, op.cit.

¹⁵ <http://www.transparency.org/>

¹⁶ Encyclopedia Britannica Online: Ferdinand E. Marcos, March 2010, <http://www.britannica.com/EBchecked/topic/364302/Ferdinand-E-Marcos>

¹⁷ Tony Blair, October 2 2001

a Labour Party conference in the City of Brighton and Hove. These wise-sounding words only encourage the general public and mislead them into giving away their money. It provokes the idea that the first world is responsible for the poverty-stricken state of Africa. So many misconceptions have also been generated by the entertainment industry. Although their intentions may be positive, several celebrities have lent their name to charities aimed at ending the spread of malaria in Zambia or providing food to the impoverished nation of Haiti. The problem with this is that their money can buy a piece of bread for a starving little girl in Kenya, but what about the next day? That child is still going to need food tomorrow, so the only solution could be to donate more money to keep feeding her. This is the type of problem that many NGO's and IGO's have run into when trying to reduce issues of starvation, disease and poverty. It would seem that simply eliminating those organizations and passing money off to the government agencies would allow foreign aid to be much more effective; however, the governments' distribution of foreign aid comes with its own problems.

As mentioned above, aid is very rarely sent without any strings attached. The countries that do send 'untied aid' are often smaller countries such as Sweden and Denmark. In fact, almost 90% of aid from these countries is sent without any strings attached.¹⁸ The countries that *do* send tied aid however are the larger, more powerful nations such as the United States, Japan, France and even Canada. Aside from just having a better reputation as a generous country, the goals of tied aid are to better the relationships between the donating and receiving countries. An example of tied aid used in the book Aid and Development by Ali Brownlie Bojang states that "A country receiving aid may have to buy a particular brand of tractors or anti-AIDS

¹⁸ Ali Brownlie Bojang, Aid and Development. (Mankato, Minnesota: Evans Brothers Lim., 2008) Pg. 26.

drugs from, say, the U.S, rather than cheaper drugs from South Africa or Brazil.”¹⁹ This example shows how the aid money does not actually help because it is simply going back into the U.S economy. The receiving country could just buy cheaper drugs from South Africa or Brazil but that would not benefit the United States in any way. In that situation the U.S would simply be giving their money away, which is why they create these obligations and rules known as ‘strings.’ Aid can also be used as a type of lever to manipulate the receiving government into doing what you want. The European Union (EU) threatened the Government of Nicaragua that they would halt all aid programs unless they cancelled the passing of a new law that would forbid abortions.²⁰ This is an example of how aid is used as blackmail so the EU can get what they want.

All of these examples show that the role of power when it comes to foreign aid, can be corrupt on both sides. Both the giving and receiving nations can be responsible for the misappropriation of aid money. The people who have the role of control are the government officials in all countries involved, but if these people cannot responsibly handle that opportunity, then who should? These people are the only ones that *can* handle the aid money unless they want the problem to get even worse. Even if the intentions of the giving countries are positive, corruption is still taking place. That is the problem that needs to be solved.

Foreign Aid: The Religious Aspect:

¹⁹ ¹⁹ Ali Brownlie Bojang, Aid and Development. (Mankato, Minnesota: Evans Brothers Lim., 2008) Pg. 26.

²⁰ IBID.

Another massive issue regarding aid is that of faith-based aid. Faith-based aid is a type of aid that is collected, sent and occasionally received by religious organizations. It is the same as any other types of aid however; it favours a certain group of people in the receiving countries. Faith-based aid is also responsible for the reasoning behind why countries supply aid for the nations that they do. It is quite surprising how much religion and spirituality has to do with the failure of foreign aid.

In many cases, a church from a developed country will send aid to a similar type of church in an undeveloped country. For example, a protestant church in France may allocate resources for a church in The Ivory Coast of similar beliefs. This means that in dominantly Roman Catholic countries such as the Philippines, the minority religions often go ignored. This problem does not only occur with the Christian religion; all developed countries with a certain religious make-up are much more likely to send foreign aid to a country with similar demographics. For example, foreign aid received by Israel is mainly dedicated to impoverished, Jewish people and aid received by Lebanon is mainly distributed to people of Muslim faith. The problem with this is that a vast majority of faith-based aid is governed by the Christian religion. This is because in the developed world, Christianity is the most commonly practiced religion. In fact, of the twenty countries who donate the largest amount of foreign aid, all are dominant in the Roman Catholic faith. On the flipside, the 2007 HDI index indicated that the twenty least developed countries on earth are almost all dominated by the religion of Islam.²¹²² A lot of aid is faith-based and a vast majority of the developed world practice different religions than the

²¹ List of Countries by Human Development Index, 2007, http://en.wikipedia.org/wiki/List_of_countries_by_Human_Development_Index

²² Major Religious Groups, 2010, http://en.wikipedia.org/wiki/Major_religious_groups

undeveloped world. This means that in some cases, the countries that need the aid the most are not getting it.

Another issue with foreign aid that relates to religion is the pressures to convert. In many cases around the world, missionaries from the Roman Catholic churches of developed countries are sent to undeveloped nations. These missionaries enter countries with distinct cultural and spiritual backgrounds with the intentions of converting local citizens to the Christian religion. In some countries native cultures have been wiped out entirely by the Roman Catholic Church as it is their only way to survive. Nations are often given different forms of incentives to change their religious traditions before aid is brought in. As a result, the island nation of Sri Lanka has installed a new law that forbids forced religious conversion.

The proposed bill calls for fines up to 500,000 Sri Lankan rupees (\$4,425) and up to seven years in prison for trying to convert a Sri Lankan citizen from one religion to another by using "force, fraud or allurement." The harshest punishments are reserved for those convicted of converting women or children. "The right to worship as dictated by one`s conscience is a basic fundamental human right, and one that is the foundation of any truly free society," said Rep. Akin,²³

This article shows how seriously the issue of religious conversion as a result of foreign aid is being taken. Foreign aid, when it is sent with a faith-based motive completely contradicts itself. It does not provide peace and the money is not spent in the places it is most needed. Often

²³ Sri Lanka to forbid religious conversion, February 2009,
<http://www.speroforum.com/site/article.asp?idCategory=33&idsub=122&id=18076&t=Sri+Lanka+to+forbid+religious+conversion>

times, it is spent building various types of religious facilities rather than things that would generate a stronger economy for development. Religion is a massive aspect of the failure of foreign aid. It contributes very heavily to the problems with foreign aid in several of the ways mentioned.

Case Study – Ethiopia:

Ethiopia is a developing country located in North-east Africa. It has a massive population of roughly 85,000,000 and is very unique to other African nations. In 2008, Ethiopia ranked 169th on the Human Development Index. This means that as a country, Ethiopia is extremely poor and undeveloped. Ethiopia is a landlocked country, meaning it has limited access to waterways that could be used for various industries as well as transportation. As a result, agriculture is Ethiopia's largest industry. It accounts for approximately 85% of the countries employment and 45% of their Gross Domestic Product.²⁴ The country has a devastating history of conflict, famine and disease. It is also one of the most poverty stricken nations on our planet today. As a result, Ethiopia has a long history of receiving foreign aid.

Foreign aid has been a major part of the Ethiopian economy since the end of World War Two. Western nations had begun to seek ways to increase development in Ethiopia and after the success of the Marshall Plan; foreign aid was seen as the way to go. Before aid began flowing into Ethiopia; however, other ideas were put into effect by developed countries. Western nations in particular strived to increase trade with Ethiopia in an attempt to strengthen the Ethiopian economy. The problem with this idea was that Ethiopia needed a lot

²⁴ CIA World Factbook: Ethiopia, March 29, 2010, <https://www.cia.gov/library/publications/the-world-factbook/geos/et.html>

more than it had to offer. Ethiopia is not particularly wealthy in natural resources so when trade was increased in the early fifties, Ethiopia did not have much to export. This resulted in a massive trade deficit which led the Ethiopian economy to the beginning of an era supported by foreign aid.

Another massive setback to the Ethiopian economy was the abrogation of American aid in 1976. As a reaction to Ethiopia signing a military assistance agreement with the Soviet Union, The United States halted all military missions in Ethiopia.²⁵ The agreement with The Soviet Union was seen as a threat to The United States as the cold war was in full effect at that time. The American government did not like the fact that a country was receiving military assistance from both sides of The Cold War. As a result, The United States government removed all military aid programs designated for Ethiopia and halted certain foreign aid missions aimed towards development. This was devastating for Ethiopia considering The United States was one of their number one sources of foreign aid. The United States resumed their role as a major contributor of foreign aid to Ethiopia after the cold war had ended; however, military aid was never fully brought back.

Today, Ethiopia is the worlds' seventh largest recipient of foreign aid. The World Bank has sent more than \$3.1 Billion in aid to the country since 1993.²⁶ The issues surrounding aid in Ethiopia are endless. As determined earlier in this report, aid corruption and aid dependency are two separate issues. The level of aid corruption in Ethiopia is actually quite low. The reason for this is that governments and NGO's that provide aid seem to go right past the Ethiopian

²⁵ U.S Department of State: Ethiopia, March 30, 2010, <http://www.state.gov/r/pa/ei/bgn/2859.htm>

²⁶ A Case Study of Aid Effectiveness in Ethiopia, March 30, 2010
http://www.brookings.edu/papers/2009/04_ethiopia_aid_alemu.aspx

government to the people. This assures that the aid is distributed appropriately. Another reason why corruption is low is that a massive percentage of aid sent to Ethiopia is food aid. Food aid is not seen as something of value by corrupt officials and as a result would not even be worth dealing with. The fact that corruption in aid to Ethiopia is low is an attractive factor for donating nations. This is why amounts of aid sent to Ethiopia continue to increase and as a result; Ethiopia is one of the most aid-dependent nations in the world.

Ethiopia began receiving foreign aid immediately following World War Two. This aid has not halted ever since. Ethiopia is a prime example of a country that is extremely reliant on aid. If it were not for the billions of dollars brought into the country each year, a massive percentage of the Ethiopian population would die of disease and starvation. The biggest problem with Ethiopia's aid reliance is the massive percentage of it that is food aid. Food aid is aid that is sent with the intention of reducing hunger and poverty in the target nation. It is most commonly sent in the form of food packages and in Ethiopia's case, it is used with the intentions of development rather than emergency relief. The problems that arise from this food aid are devastating to the Ethiopian economy.

Agriculture is Ethiopia's largest industry. It accounts for more than 80% of all employment in the country. Whenever a package of food aid arrives in Ethiopia, one potential consumer of these homegrown crops is fed from another source. This in turn, decreases the income that farmer will receive and makes his survival much more difficult as well. This demonstrates one of the most commonly known problems surrounding foreign aid. When aid is brought into a country like Ethiopia, it often puts locals out of work. The Canadian International

Development Agency is one of the organizations that regularly sends aid in the form of food and water to Ethiopia. The USAID is also a major culprit in this problem considering that they also donate massive amounts of food aid to Ethiopia on a yearly basis. From the viewpoint of these agencies, Ethiopia needs this type of aid. Millions of Ethiopians are unable to attain food on a daily basis due to a lack of it. Famine is one of the largest issues that Ethiopia faces as a nation and food aid simply feeds those people in need. Simply sending food to Ethiopia fails to solve this issue in the long run and generally fails to do so temporarily. The problem is, that the food produced by the agricultural industry in Ethiopia is not enough to serve Ethiopia's massive population. Another major problem is that even when enough food is produced, it is not properly distributed. Farms in rural areas lack ways of transporting goods into the urban areas of the country. A potential solution to this issue would be to spend money building things like roads that would allow food to be properly distributed. This would increase the number of people fed by home-grown crops and decrease the amount of food aid necessary for the country.

Ultimately, Ethiopia has become one of the world's best examples of an aid-dependent nation. The amount of foreign aid sent to Ethiopia on a yearly basis is absolutely phenomenal. If aid were to ever be halted to this poor, landlocked nation, the results would be horrific. The mistake which led Ethiopia to this dependency nightmare started immediately following World War Two. If Ethiopia were to back up to the source of their issue, it would become evident that refusing aid in the beginning would have been the best option. Now Ethiopia continues to rely more and more on aid each year and their economy fails to thrive. After years of receiving foreign aid, Ethiopia is in a debt so massive it would seem impossible to ever pay it off. That

debt will only continue to get worse if foreign aid continues to pour into this African nation. Ethiopia's constant flow of foreign aid also puts locals out of work as it decreases the demand for homegrown crops and services. The African continent is a section of the world that the failures of foreign aid are most commonly discussed. Ethiopia continues to be a hotspot for AIDS, poverty and poor education. It is one of the best examples of a failed economy that only worsens with the continuance of foreign aid. It is important; however, to know that foreign aid has caused a great deal of problems in developing nations worldwide.

Case Study - Indonesia:

The Republic of Indonesia has a population of roughly 237,000,000, making it the fourth most populous country in the world. It is located in South-East Asia and is made up of thousands of islands with a massive range in size. Approximately 81% of Indonesia's population is Muslim making Indonesia the world's largest Muslim population. Aside from Islam, the Indonesian government recognizes five official religions; Buddhism, Confucianism, Hinduism, Protestantism and Roman Catholicism. Indonesia declared its independence from The Netherlands in 1945 and has been suffering developmental issues ever since.

In 2007, Indonesia ranked 111th on the Human Development index, therefore classifying it as a developing nation. Indonesia has an abundance of natural resources that give it the potential to have an extremely wealthy economy. Petroleum, Tin, Gold, Silver, Nickel and Natural gas are all quite abundant in Indonesia. The agricultural industry of Indonesia also has great potential to thrive as the soil and climate of Indonesia are very suitable. Today, some of the most commonly produced agricultural products in Indonesia are rice, cassava, peanuts and

coffee. The problem with all of these figures; however, is that the amount of these resources is very minimal compared to the countries massive population. There is no way that these resources alone could provide enough money and food for the huge Indonesian population. In response to their resource-deficit, Indonesia is forced to import a lot of food. Since Indonesia has more people than it can support, the country does not have enough to export in exchange for the imported food. As a result, Indonesia receives a lot of foreign, food aid and suffers a great deal in the field of development. Poverty is a massive issue in Indonesia that hinders the nation's development. After Indonesia declared their independence, their economy was no longer self-sufficient. As a result, Indonesia turned to the developed world for foreign aid.²⁷

Much like various other nations, Indonesia began receiving foreign aid following World War Two. Today, Indonesia is an extremely aid-dependent nation. In 2004, The International Monetary Fund sent \$43 billion in aid to Indonesia. A large portion of aid sent to Indonesia is food aid. Much like in Ethiopia, food aid bankrupts local farmers as it removes potential consumers. It also causes a great deal of reliance because once food aid is sent, it is almost impossible to stop. One of the more specific issues surrounding foreign aid in Indonesia is the construction of irrigation systems. In order to better agricultural production, millions of dollars in aid money has been put towards building irrigations systems. Much like every other issue with foreign aid, the intentions of these projects have been positive; however, the outcomes have not.

The amount of money required to install irrigation systems in a third world, equatorial country is tremendous. Millions of dollars have been used by both foreign economies as well as

²⁷ CIA World Factbook, op.cit.

the Indonesian government for the construction of irrigation systems. These irrigation systems are extremely expensive because they require a constant supply of fresh water. Considering about 100 million Indonesian people do not have access to safe drinking water, this seems like a waste of such a valuable commodity.²⁸ The issue with irrigation systems that is caused by foreign aid is the millions of dollars necessary for maintenance after construction. Many foreign economies have invested in irrigation systems for Indonesia. These systems are extremely costly to install and require constant maintenance after construction. The big problem is Indonesia does not have the technology to build the systems. This means that technology and supplies must be imported from foreign, developed countries. This also means that in order to maintain the systems, products must be brought in from those same countries. This creates the issue of foreign aid dependency because Indonesia will always need to import foreign materials once the systems are in place. Seeing as they cannot afford to purchase those materials, they must be sent as foreign aid. Irrigation systems also cause issues surrounding land rights. The systems take up massive amounts of land that has, in many cases, been taken away from Indonesian people. For an irrigation system to effectively work, large canals must be built to transport water. Many farmers of Indonesia refused to support the construction of the systems because they did not receive compensation for the land taken from them. This related to foreign aid because it was not the Indonesian government that implemented the installation of

²⁸ Asian Development Bank: Country Water Action – Indonesia, March 2006, <http://www.adb.org/water/actions/ino/simple-solution.asp>

the irrigations systems. Instead, it was various NGO's and foreign economies that decided it would be beneficial to both themselves, and the Indonesian agriculture industry.^{29 30}

The Indonesian economy is much stronger than other aid-dependent countries. They have the potential to thrive and develop into a self-sufficient nation; however, foreign aid continues to hinder those chances. Much like Ethiopia, every single aid packages puts the Indonesian economy in an even bigger debt. After years of receiving aid, Indonesia has failed to significantly develop. Indonesia has the economic stability to greatly reduce the amount of aid it receives. It is a country rich in resources as well as industry. What Indonesia needs to do is use their own money to enhance those industries and maximize production of their resources. This would increase trade and decrease the necessity for aid. Of every country affected by the failure of foreign aid, Indonesia is one of the closest to a resolution. The problems with foreign aid in Indonesia have been recognized, now it is time for them to be resolved.

Case Study – Haiti:

The Republic of Haiti is the poorest country in the western hemisphere. It shares the Caribbean Island of Hispaniola with The Dominican Republic and has a population of just over 9 million. Haiti declared independence from France in 1804 and was the first black-led country in the world. Haiti has suffered extreme economic failure for as long as it has been independent. Poorly managed natural resources and governmental corruption has led Haiti down a path of devastation. About 80% of the Haitian population is currently living under the poverty line and

²⁹ Policy analysis: The continuing failure of foreign aid, James Bovard, 2001, <http://www.cato.org/pubs/pas/pa065.html>

³⁰ International Development Research Centre: Project in Indonesia, 2010, http://www.idrc.ca/en/ev-83016-201_740066-1-IDRC_ADM_INFO.html

the 2006 Human Development Index ranked Haiti as 149th.³¹ Haiti also has one of the worst Gini rankings in the world, meaning that they suffer extreme economic inequality. In fact, 1% of Haiti's population owns more than half of the country's wealth.³² Haiti is a beautiful country loaded with natural resources. Haiti is rich in bauxite, copper, calcium carbonate, gold, marble and hydropower which could all be potentially traded. Unfortunately, the country suffers a great deal of corruption and chaos which would make these resources very difficult to control. It has also had the potential to be a hotspot for tourism; however, it has never flourished. Haiti is an exceptionally poor nation that some would consider undevelopable. Foreign aid has had a massive impact on the state of Haiti today.

The Haitian government's national budget is comprised of close to 40% foreign aid money. Haiti received more than \$4 Billion in foreign aid from 1990 to 2003. The largest amount of Haitian developmental aid is sent from the United States, followed by Canada and the European Union.³³ As a result of the recent earthquake, emergency aid has been pouring into Haiti. Before the earthquake; however, the types of aid that Haiti received included building materials and food. Due to the still impoverished state of Haiti, people often question the effectiveness of this aid. Clearly, it is not working as Haiti has become almost entirely dependent on it, and is still showing no sign of improvement.

Corruption is a major contributing factor to the failure of foreign aid to Haiti.

Transparency International declared Haiti as the third most corrupt country in the world.

³¹ CIA World Factbook, op.cit.

³² IBID.

³³ Thomson Reuters Foundation: Q+A's-Haiti's Aid Controversy, September 2009, http://www.alertnet.org/db/an_art/59877/2009/08/28-173441-1.htm

Corruption has been known to occur in every level of government in Haiti. Aid received in various parts has been known to go missing and never reach the people who need it. In the higher offices, appropriation of aid is controlled by very few officials and in many cases has been stolen.³⁴ If the aid given never actually makes it to the people in need, there is no question that it will not be effective.

The state of Haiti is so impoverished that the actual distribution of aid is extremely difficult. As a result of various natural disasters, Haiti's transportation routes have been completely wiped out. This makes accessing rural citizens almost impossible. The lack of a transportation system also causes Haiti distribution issues with harvested crops and various resources. This means that locally grown food never reaches people in urban centers. The locally grown food then becomes rotten and the urban dwellers are forced to eat food donated as foreign aid. This goes back to the issue that food aid bankrupts the local agricultural industry and creates massive dependencies.

About 80% of the Haitian population is part of the Roman Catholic faith.³⁵ As mentioned earlier in the report, a statistic like this results in vast amount of faith-based aid. An extremely large portion of aid sent to Haiti over the past fifty years has been sent through various churches and religious organizations. Numerous Non-Governmental Organizations have been known to send aid to specific groups of Haitian people. Various Roman Catholic churches in particular receive much more aid than other religious groups in Haiti. This is because of the large Roman Catholic population in the countries that donate the most aid to Haiti. In fact,

³⁴ Thomson Reuters Foundation: Q+A's-Haiti's Aid Controversy, September 2009, http://www.alertnet.org/db/an_art/59877/2009/08/28-173441-1.htm

³⁵ CIA World Factbook, op.cit.

more than half of all food aid sent to Haiti is passed through faith-based, non-governmental organizations such as World Vision.³⁶ This aid causes a lot of problems because it can exclude different groups of people. Also, since it is sent through organizations, faith-based aid is often not well thought out. Governmental agencies such as USAID and CIDA study the places that their aid will be used and attempt to maximize effectiveness. The goal of faith-based aid is often to convert people of a different religion and help people in need. This increases aid dependency and decreases the rate of development.

Haiti faces a devastating number of issues that are all somehow connected to foreign aid. There are multiple potential solutions to save the Haitian economy that have been presented to date. To solve the issues involving faith-based aid, Anastasia Maloney recommends handing of money from various NGO's to government agencies.³⁷ These agencies have a higher degree of power that could assure proper use of the aid money. The United Nations has begun to install a citizen watchdog program in Haiti which is aimed at reducing corruption related to foreign aid. Programs like this will help Haiti make better use of the money it receives by building roads and institutions. If the corruption within the Haitian government could be stopped, the amount of aid that would actually reach the people would increase very dramatically. Transparency International is an organization that has been working towards a decrease of corruption in Haiti. Clearly the Haitian government is nowhere near stable so another potential solution would be to somehow change who has the power to decide where aid goes. Considering close to 40% of Haiti's annual budget comes from foreign

³⁶ Kristof Nicholas, New York Times: Learning From the Sin of Sodom, February 2010.

³⁷ Anastasia Maloney, Thomas Reuters Foundation: Q+A-Haiti's Aid Controversy, September 2009.
http://www.alertnet.org/db/an_art/59877/2009/08/28-173441-1.htm

economies anyways, the people donating deserve a say in what happens with their money. Haiti has an extremely high poverty and unemployment rating. Simply continuing to supply Haiti with survival aid will never create growth. Foreign aid funds need to be diverted to create things that would generate a stronger economy. First off, Haiti needs a better transportation system. Much of Haiti's roads have been completely destroyed by natural disasters. As a result produce is often transported to markets by burros or carried on foot.³⁸ Making roads and railways would allow the various resource-based industries to thrive and strengthen the Haitian economy. A temporary solution to the unemployment issue would be to hire locals to build the roads rather than bringing in foreign aid workers. Once the roads are built and the resource based industries begin to thrive, more jobs will then be available in that sector. This still leaves the issues of unemployment and poverty in urban areas. Since a transportation route will then be available, locally grown crops and locally raised meats can then replace the food aid that Haitians rely on so much. The money that would have been put towards food aid could then be used for building institutions. These institutions would create peace and order in Haiti and provide countless job opportunities. These potential solutions could only work; however, if the corruption and misappropriation of aid is halted.

The economic situation that Haiti faces today is worse than any other nation in the western hemisphere. Haiti is one of the most aid-dependent nations on Earth. It is a country devastated by corruption, natural disasters, political disrupt and poverty. Haiti has everything it needs to become a developed nation as long as the ways of foreign aid are changed. Clearly

³⁸ Encyclopedia of the Nations: Transportation – Haiti, April 2010.
<http://www.nationsencyclopedia.com/Americas/Haiti-TRANSPORTATION.html>

foreign aid has never been successful in Haiti and its' effects have only made its problems worse. In 2009, Haiti received close to \$525 million in debt-forgiveness through the Highly-Indebted poor country initiative.³⁹ Haiti needs to embrace this opportunity to flourish and begin a future without foreign aid.

Ethiopia, Haiti and Indonesia are all countries that have become fully dependent on foreign aid. They use foreign economies to keep their own economies alive. All three of these nations have the potential to break out of the foreign aid trap; however, the donor countries and organizations need to help as well. If everyone could work together, the issues of corruption and dependency could both be dealt with. The foreign aid crisis in these third world nations only gets worse as time goes on and the time to fix it is now.

International Organizations:

Foreign aid that is disbursed by international, non-profit and non-governmental organizations is commonly referred to as 'private aid.' Private aid has grown to become a key element of foreign aid distribution over the past thirty years. It accounted for more than one quarter of all foreign, developmental aid in 2005 and has continued to grow since.⁴⁰ These organizations have a massive range in size, legitimacy and focus. Smaller organizations like Spread the Net, focus on providing bed nets to families in Liberia and Rwanda. Spread the Net is a Toronto based organization which has goals much smaller than organizations like The United Nations or The World Bank. The World Bank is a huge, international financial institution that

³⁹ CIA World Factbook, op.cit.

⁴⁰ Themudo, Nuno, Private Foreign Aid: NGOs, Foreign Aid and International Development, Paper presented at the annual meeting of the ISA's 49th ANNUAL CONVENTION, BRIDGING MULTIPLE DIVIDES, Hilton San Francisco, SAN FRANCISCO, CA, USA, Mar 26, 2008 <http://www.allacademic.com/meta/p254295_index.html>

provides loans to third-world countries for development. The United Nations is a massive organization that is committed to solving countless issues. As a result, The United Nations has several side funds such as UNICEF and UNDP that focus on international development and poverty reduction. All of these different types of organizations play a massive role in the failure and success of foreign aid.

In her book Dead Aid, Dambisa Moyo uses the following example to show how a non-governmental organization like Spread the Net can have negative effects.

There's a mosquito net maker in Africa. He manufactures around 500 nets a week. He employs ten people, who (as with many African countries) each have to support upwards of fifteen relatives. However hard at work, they cannot make enough nets to combat the malaria-carrying mosquito.

Enter vociferous Hollywood movie star who rallies the masses, and goads Western governments to collect and send 100,000 mosquito nets to the affected region, at a cost of a million dollars. The nets arrive, the nets are distributed, and a 'good' deed is done.

With the market flooded with foreign nets, however, our mosquito net maker is promptly put out of business. His ten workers can no longer support their 150 dependents (who are now forced to depend on handouts), and one mustn't forget that in a maximum of five years the majority of the imported nets will be torn, damaged and of no further use.⁴¹

⁴¹ Moyo, op.cit

This is a fairly controversial approach to proving that some non-governmental organizations can cause more harm than good. Moyo uses the common example of mosquito bed nets however similar issues can occur from almost any type of aid. By bringing in foreign supplies and workers to build a new school, an NGO could obviously put local builders out of work, not to mention any local industry that makes the same products. The aid brought in to developing nations to build things like schools and homes is most commonly faith-based aid. Most of these organizations offer typical television advertisements that con people into thinking their money will help locals in a developing country. Smaller organizations only seem to get in the way of the big development agencies. Although their intentions are extremely positive, small organizations have failed to help third world countries develop.

These smaller organizations can create more problems than larger international agencies such as the United Nations and The World Bank. These larger organizations spend much more time to assure the effectiveness of their aid. Rather than simply sending food to a village in Mali, these organizations study what will remove the aid-reliance a country has. The United Nations Development Programme, (UNDP) might send money to an Indonesian farmer so that they can purchase equipment to harvest crops. Meanwhile, a catholic church from the United States might send a group of missionaries with food aid. That food aid would defeat the demand for the farmers' food and create reliance. Considering there are thousands of small organizations with similar missions, there is no way they could work together with the UNDP.

In recent years, the ineffectiveness of foreign aid has been noticed by various IGO's. As a result, these organizations have started to create new ways to solve the issue. They have been

pursuing new approaches that project a higher degree of effectiveness towards development. One of the largest NGO's that has helped to put a stop to the failure of foreign aid is Transparency International. Founded in 1993, Transparency International has done a tremendous job at reducing rates of corruption. They define corruption as "The abuse of entrusted power for private gain. It hurts everyone whose life, livelihood or happiness depends on the integrity of people in a position of authority."⁴² Corruption at any level of power is a barrier to reducing poverty. It enhances numerous problems that aid is sent to fix. It jeopardizes lives and creates extensive economic inequality. It would be impossible for any form of foreign aid to ever be successful with corruption present. Transparency is one non-governmental organization that shows great hope for the future development of third world countries. Until corruption is completely depleted; however, those countries will never fully develop.

Overall, the intentions of various NGO's and IGO's are extremely positive. Unlike certain government agencies, they aim to help reduce poverty and increase growth without personal benefit. Unfortunately, they continue to be judged by their intentions and not by their results. Because of this, people continue to donate money to the organizations that seem to cause more harm than good. In order for foreign aid to be successful, everyone needs to work together. If NGO's, IGO's and various government agencies could work with each other to create plans to develop, they would not run into issues of dependency. It is also necessary that the different government agencies such as CIDA and USAID work together as well.

⁴² Transparency International: About us. March 2010, http://www.transparency.org/about_us

A Canadian Contribution:

Canada has always been known as a generous contributor to foreign aid. There are several non-governmental, Canadian organizations that have disbursed millions of dollars in aid to developing nations. The foreign aid/development sector of the Canadian government is known as The Canadian International Development Agency (CIDA.) CIDA was created in 1968 when it replaced the Canadian External Aid Office. Before CIDA was created, the majority of Canadian aids funds were transferred through The United Nations. The goal of Canada's foreign aid is to "support sustainable development in developing countries in order to reduce poverty and to contribute to a more secure, equitable and prosperous world."⁴³ In order to achieve that goal, Canada committed itself to the 'Millennium Development Goals'. At a United Nations conference held in 2000, world leaders adopted a list of eight development-related goals to achieve by the year 2015. The goals are as follows:

- (1) Eradicate extreme poverty and hunger.
- (2) Achieve universal primary education.
- (3) Promote gender equality and empower women
- (4) Reduce child mortality.
- (5) Improve maternal health.
- (6) Combat HIV/AIDS, malaria, and other diseases.
- (7) Ensure environmental sustainability.
- (8) Develop a global partnership for development.⁴⁴

CIDA is very devoted to achieving these goals, which has raised some questions about their leadership roles. For many years, Canada has followed the United States in their foreign aid movements. In several cases, CIDA has just bought into American foreign aid plans for

⁴³ Canada's Foreign Policy Statement, 1995

⁴⁴ Canadian International Development Agency: FAQ's, March 29 2010 <http://www.acdi-cida.gc.ca/acdi-cida/ACDI-CIDA.nsf/eng/NIC-5410529-KFT>

developing nations. In recent years; however, Canada has begun to move away from other governments and become a more independent foreign aid donor.

The effectiveness of Canada's foreign aid has often been criticized. CIDA has, in the past, been accused of focusing too much on food aid and not enough on other types of developmental aid. This has created heavy aid-reliance in receiving countries. CIDA has also been known to tie a lot of its aid which creates massive debts in receiving nations. In fact, Canada tied 47% of its aid in 2005.⁴⁵ A large percentage of Canadian foreign aid is also considered 'Phantom Aid.' This means that the aid was poorly targeted, poorly coordinated and/or highly conditional. Almost 40% of Canadian foreign aid fell into this category in 2004.⁴⁶ Since CIDA has this history of failure, they have now begun to create new ways to increase development in the third world. CIDA revised its Aid Effectiveness Agenda in 2008. On September 5th, 2008 CIDA announced its plans to untie food aid immediately. CIDA also announced plans to untie all its aid by the year 2013.⁴⁷ Canadian Minister of International Cooperation, Beverly Oda announced that untying aid would make "existing resources work more effectively" and "give developing countries greater opportunities to be suppliers of goods and services and, in that way, generate economic growth within their local markets."⁴⁸ Canada has also devoted its governmental aid funds to 20 'Countries of Focus.' This allows them to focus more on those countries, yielding more concrete results.

⁴⁵ Alexandra Zabjek and Alex Hutchinson, The failure of aid, The Ottawa Citizen, August 13 2006, <http://www.canada.com/ottawacitizen/news/story.html?id=aaafef14-b237-4294-a26e-b2392b01ced1>

⁴⁶ IBID

⁴⁷ IBID

⁴⁸ Beverly Oda, CIDA press conference, September 5 2008.

One of CIDA's countries of focus is Ethiopia. As mentioned in the first case study, Ethiopia is an extremely poor nation in North-east Africa. In the past, CIDA has unintentionally hindered development and growth in Ethiopia through foreign aid. A lot of aid sent to Ethiopia from CIDA has been tied, food aid. This type of aid creates debts and dependency that only seem to help the donating nation. With CIDA's revision of its aid-effectiveness agenda, many changes have been made to Canadian aid projects in Ethiopia. CIDA has agreed to untie all aid and focus on more effects types of aid that is sent to Ethiopia. They have also set the following four priorities to cover with aid to Ethiopia:

(1) A sustained effort to address the root causes of food insecurity. (2) A concerted effort to improve the coverage and quality of basic services. (3) Investments to promote market-based agricultural development. (4) Support to build accountable and effective public institutions at all levels and to increase civil society capacity for engaging in poverty reduction policies and programming.⁴⁹

These goals are expected to greatly increase aid-effectiveness in Ethiopia. The problem with this plan; however, is that it is only being put into place by one country. In order for Ethiopia to see results of these actions, all aid-donors need to work together and assure that the same changes are being made to Ethiopia's aid policy.

The moves that Canada has made towards foreign aid can be seen as a good model for other countries, or an example of what not to do. Untying such a large amount of aid is an extremely risky thing to do; however, it might remove the aid-dependency that causes foreign

⁴⁹ CIDA op.cit.

aids' failure in the first place. Canada has, in the past, been a major part of the failure of foreign aid. Food aid used to be a very large part of Canadian foreign aid, which created devastating dependencies that are still lasting today. Canada has presented a potential solution to solve the failure of foreign aid. Tied aid causes a lot of issues that only benefit the donating country. By untying all aid, Canada has started to move towards potential success in the effectiveness of aid. Canada has presented one of the countless solutions that could help third-world countries develop.

Solutions to a failed solution:

Billions of dollars have been put towards the development of third world countries in the past fifty years. This money has shown little or no positive outcome and has resulted in several aid-dependent countries. Foreign aid, in many cases, has not been used in ways that it is intended. It has ended up in the hands of corrupt officials and been used for useless, temporary products. Even if these factors did not occur; however, foreign aid would still hinder economic development. It creates massive debts that third world countries will never be able to pay off. It is also not distributed properly in many places that it is received. Due to lack of transportation routes in many countries, aid is given to urban dwellers rather than the rural people that need it more. These are the main issues that cause the failure of foreign aid.

Now that the causes of foreign aids failure have been identified, various solutions can be considered. Since the failure of foreign aid is such a vast topic, there are literally hundreds of proposed solutions to the issue. Some are very dramatic where as others are quite minor. This section will identify and analyze a series of potential solutions.

Firstly, in order for foreign aid to be successful, certain things would have to be done. Corruption would need to be stopped indefinitely and aid could no longer be sent with strings attached. Every aspect of the aid being sent would have to be considered. This means asking: what type of aid it is, where it is coming from, where it is going to, who is giving it, who is receiving it, etc,. Also, governments would have to work together with NGO's and IGO's to assure common goals. These goals could all be reached by pursuing various different approaches.

When the failure of foreign aid is brought up, a common 'solution' is simply to stop sending aid. An easy fix to the problems of corruption and aid-dependency would be to simply cut-off all foreign aid. Due to the devastating conditions that many third world countries are in today, this would never be effective. Economies in countries like Haiti rely on foreign aid for close to 40% of their annual budget. Almost 13 million Ethiopians rely entirely on food aid. If this aid were to simply disappear, the results would be catastrophic. Millions of people would die of starvation and chaos would be rampant. Simply stopping foreign aid is a solution that would not be effective for third world countries.

CIDA acted as a leader in 2008 when it announced that it would untie all of its aid before 2013. This is a major step for the foreign aid system; however, it may not be entirely effective. By untying all of its aid, CIDA is giving away any benefits it received from tied aid. The conditions put on tied aid can include rules that restrict specific trade as well as ensuring that all funds given are eventually given back. Tied aid is clearly not effective; however, stopping it entirely would cause new types of problems. Without tying the aid it sends, donors would not

benefit from sending foreign aid in any way. As a result, a massive percentage of foreign aid sent would be halted. Several government agencies would dramatically reduce foreign aid budgets because they would no longer benefit from them. If everyone were to untie aid, there would not be enough aid left to create any kind of development. This generates the same problems as cutting off aid entirely.

Organizations like Transparency International (TI) work to stop corruption. Stopping corruption is a potential solution to foreign aid because it would allow aid to reach its destination. TI works to stop corruption by using a variety of different methods. They place officials in the government offices that receive the aid, as well as private investigators in the receiving nations. They also conduct regular reports that assure the aid is reaching its destination. TI also works together with various NGO's and IGO's to create plans that avoid potentially corrupt receiving governments all together. They would do this by dedicating more aid to the construction of hospitals and health-care centers in undeveloped nations. This would be done by transferring money from other aid projects. The problem is that stopping corruption entirely would be almost impossible. Corruption is everywhere, at every level of government. No matter how hard TI works, they will never completely eliminate corruption from the foreign aid system. Even if corruption was eliminated; however, all of the other foreign aid issues would still be present. Countries would still be extremely dependent on aid and the amount of foreign aid might even be decreased. After donors realize that more of their aid is making it to the people, they may reduce the aid they send. Although it would be an extremely positive aspect to solving the foreign aid crisis, stopping corruption is not a solution.

Dr. Josh Ruxin, founder of Rwanda Works believes that the focus of foreign aid is all wrong. He believes that in order to create a thriving economy, aid must start with the people. Ruxin stated that ‘funds must be increased in order to get rid of AIDS and Malaria in developing nations.’⁵⁰ He thinks that in order to increase growth, we must first deal with poverty and increase health expenditure. The problem with Ruxin’s solution is that he fails to consider every perspective of this aid. His solution would reduce the spread of various diseases and increase overall health; however, no growth or development would take place. Receiving nations would become entirely reliant on this new type of aid and never flourish into a self-sustaining society. A potential addition to Ruxin’s solution would be to double the amount of foreign aid that is sent to third world countries.

Aid is often divided into physical aid for people and aid used to build schools, roads, etc. Because of this, there is not enough aid to support either side, but by doubling the amount of aid sent, there would be. This would allow people to be fed with food aid while farms are being developed at the same time. Eventually, the food aid could stop and the people could become reliant on locally grown food. The problem with this idea is that doubling all aid funds would be extremely difficult. Many countries already pour great percentages of their annual budget into sending foreign aid. There is no way enough money could be generated to provide all of these things. It would also be extremely difficult to get every party to agree. In order for an idea like this to be effective, every donating government agency would have to collaborate with every IGO and NGO to assure they have common goals. Even once that was achieved, they would have to work with the governments of the receiving nations. The donor would almost need to

⁵⁰ Josh Ruxin, Big Think: [How to Fix Foreign Aid](http://bigthink.com/ideas/16254), September 8 2009. <http://bigthink.com/ideas/16254>

completely take over a receiving nation to allow this plan to work. This would be extremely difficult to do if the government of the receiving country did not approve. Overall, this solution is very far-fetched and would potentially cause much more harm than good.

In his book 'Why Foreign Aid Isn't Working: The Trouble with Africa,' Robert Calderisi identifies the issues that cause the failure of foreign aid. He then introduces his 'Ten ways of changing Africa.' They are:

(1) Introduce mechanisms for tracing and recovering public funds. (2) Require all heads of state, ministers, and senior officials to open their bank accounts to public scrutiny. (3) Cut aid to individual countries in half. (4) Focus direct aid on four to five countries that are serious about reducing poverty. (5) Require all countries to hold internationally-supervised elections. (6) Promote other aspects of democracy, including a free press and an independent judiciary. (7) Supervise the running of Africa's schools and HIV/AIDS programs. (8) Establish citizen review groups to oversee government policy and aid agreements. (9) Put more emphasis on infrastructure and regional links. (10) Merge the World Bank, IMF and United Nations development programme.⁵¹

These are all extremely well-thought-out ideas that show great potential. They attack the corruption and dependency issues that hinder aid-effectiveness. The first two ideas would be a very good way of halting the corruption of aid money. Unfortunately; however, it would be very difficult to enforce rules that would publicize the bank account of government officials. It is extremely unlikely that every government official in every third-world country would agree to

⁵¹ Robert Calderisi, *The Trouble with Africa: Why foreign aid isn't working*. (New York: Palgrave Macmillan, 2006)

this concept. It would also be quite hard to trace all public funds. The third and fourth ideas would also be quite difficult to conduct. Simply 'cutting aid in half' would be an extremely dangerous procedure due to the heavy aid-reliance several countries have. For the fourth idea, Calderisi selected the countries Uganda, Ghana, Mozambique, Tanzania and perhaps Mali. He states that focusing on these countries and allowing them to have more flexible, general aid programs would help them grow. Although this idea may work, it leaves too many other countries without assistance. If donor nations focused their attention on these 5 nations, several other undeveloped countries would be left ignored. Overall, Calderisi's approach to effective development shows many flaws. The international presence in his ideas is much too strong and could never be successful. Calderisi's solution encourages the continuance of aid and tries to make it more effective. Other approaches to aid-effectiveness; however, involve a much more drastic approach to eliminating all foreign aid.

Dambisa Moyo's approach to solving the foreign aid crisis shares many similarities with Calderisi. Both authors focus on the troubles that Africa faces as a continent. Moyo bluntly points out that the image the world has on Africa needs to change. She identifies that the developed world looks at Africa as a poor and needy continent that is unable to support itself. Moyo has had enough of this paradigm and believes it is time to end it. Moyo's 'Capital Solution' includes several different aspects and ideas. Her main ideas are to cut off all aid sent to Africa within five years and dramatically increase trade between African nations and China. The Chinese economy has thrived tremendously over the past fifty years. No country has ever experienced as much growth as China has in recent years. Since 2000, reports have shown that the Chinese economy has grown by up to 10% every year. As China gets wealthier, their

demand for resources grows as well; resources that Africa has to offer. China has already begun to invest in building roads in Africa to provide better means of transportation. In 2004, The Chinese government invested \$900 billion dollars into the African continent. This money was used to build roads, pipelines and railways. The reason that this does not create an aid-dependency is that it is not sent in the form of aid. The Chinese government does not demand any payback for their donations. These tools can be used in the future to transport and trade Africa's resources. Once African countries are able to export products, they will have enough money to import goods that will ultimately reduce poverty and increase development. The reason China is such an ideal trading partner for African nations is that both sides are committed to fair trade. Trade between African countries and The United States or Europe has often been accused of being unfair. China offers a commitment to fair trade that Africa cannot pass up. This solution eliminates the entire concept of foreign aid to Africa. What this means is that the issues of corruption and aid-dependency would be eliminated just as well. Moyo also suggests that all African countries obtain credit ratings and seek micro financing that would allow more flexibility with money. There is often the argument that not all countries and governments in Africa would be able to agree on the same development solution. Moyo's 'Dead Aid proposal' also mentions the idea of regional approaches. She states that smaller nations such as Rwanda and Zambia could join together with neighboring countries to generate a regional development program. The problem with this is, that Africa as a continent is constantly experiencing civil unrest. The idea that two countries could simply band together is quite unlikely. There is also the issue that Africa would be abandoning all of the countries that send the continent aid. A massive issue with foreign aid today is the constant strings that are

attached to it. Donating countries and organizations often benefit enormously from the aid they send. By eliminating all foreign aid to such a massive continent and excluding trade to countries other than China, Africa would be turning its back on the world. Much of the developing world would not put up with this. Although the idea may be successful, it allows the Chinese government too much opportunity. Overall, Moyo's 'Capital Solution' has several brilliant ideas. If governments from around the world could agree to pursue it, Moyo's proposal shows extreme potential to solving the issue. Not only would her proposal reduce aid dependency and corruption, it would eliminate foreign aid to Africa overall. Developing nations in Oceania, the Middle East and throughout Asia could also pursue the same idea with China. India has also been experiencing tremendous growth over the past decade and is a potential client for Moyo's solution. Although it is not perfect, Dambisa Moyo has presented a brilliant idea to solve the foreign aid crisis. She has opened many doors for government officials that have the power to pursue them. Her ideas have been considered by numerous world leaders. Dambisa Moyo's 'Capital Solution' is one of the best known proposals to solving the failure of foreign aid.

Conclusion:

In his book The White Man's Burden; Why the West's Efforts to Aid the Rest have Done So Much Ill and so Little Good, William Easterly states the following:

[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 has not managed to get twelve-cent medicines to children to prevent half of all malaria deaths. The West spent \$2.3 trillion and still has

not managed to get four-dollar bed nets to poor families. The West spent \$2.3 trillion and still has not managed to get three dollars to each new mother to prevent five million child deaths.⁵²

This quote once again proves the legitimacy of foreign aids' failure to help the third world develop. It points out that although our intentions may be positive; the Western world continues to unsuccessfully help the third world. Over the past fifty years, the positive impact that foreign aid has made in the world has been extremely insignificant. It has failed to solve issues of disease, malnutrition, homelessness and poverty. Foreign aid, which was initially created to solve these issues, has become its own issue that needs to be solved. In order for any solution to work, every level of control must work together. The governments of both donor and recipient countries must work alongside with IGO's and NGO's to assure common goals. Together, they can put a stop to corruption and eliminate things such as tied aid. This would also ensure the equality in the distribution of aid and eliminate the exclusive nature of faith-based aid.

Over the past fifty years, foreign aid has become an accepted part of society. People living in the western world are accustomed to sending it, and people in the third world are accustomed to receiving it. We often donate money to charities without wondering where it goes. People hold massive concerts and rallies to eliminate poverty and yet nobody questions how that is being done. Foreign aid is something that does not need to exist and if it was effective, it would not exist today. Unless something is done, foreign aid will never be stopped.

⁵² William Easterly, *The White Man's Burden; Why the West's Efforts to Aid the Rest have Done So Much Ill and so Little Good*, (Penguin Press, 2006)

The people in the developed world will continue to give money to the undeveloped world and none of it will do any good. If after fifty years, \$2.3 billion has not done any good, where will we be in another fifty years? The failure of foreign aid is an issue that worsens every day, and the time to fix it is now.

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