Lack of foreign aid effectiveness in developing countries between a hammer and an anvil

Moosa Elayah

To cite this article: Moosa Elayah (2016) Lack of foreign aid effectiveness in developing countries between a hammer and an anvil, Contemporary Arab Affairs, 9:1, 82-99, DOI: 10.1080/17550912.2015.1124519

To link to this article: http://dx.doi.org/10.1080/17550912.2015.1124519

© 2016 The Author(s). Published by Informa UK Limited, trading as Taylor & Francis Group

Published online: 13 Jan 2016.

Article views: 1416

View Crossmark data
Lack of foreign aid effectiveness in developing countries between a hammer and an anvil

Moosa Elayah\textsuperscript{a,b}

\textsuperscript{a}Centre for International Development Issues Nijmegen (CIDIN), Radboud University, Nijmegen, the Netherlands; \textsuperscript{b}University of Sana’a, Sana’a, Yemen

\textbf{ABSTRACT}

This article examines reasons for the ineffectiveness of foreign aid interventions in developing countries, using the examples of Yemen, Egypt and Jordan. It starts with a review of two contradictory theories used to explain foreign aid ineffectiveness: the public interest perspective (PIP) and the public choice perspective (PCP). On the basis of the PCP, this article shows that deficiencies are locked within a vicious circle of a poor policy and institutional environments in developing countries and donors’ self-interest. The article ends by proposing a third explanation of foreign aid ineffectiveness that goes beyond the scope of the PCP.

\textbf{KEYWORDS}

Foreign aid effectiveness; public interest perspective; public choice perspective; poor policy and institutional environment; aid donors’ self-interest; lack of local knowledge; Yemen; Egypt; Jordan

\section*{Introduction}

For several decades now, an ongoing extensive discussion has been repeatedly occurring in the media on the lack of effectiveness of foreign development aid. Such discussions may have contributed to the contradictory conclusions being drawn with regard to what reasonable and acceptable justifications are for the granting of development assistance. Such contradictory conclusions have also impacted on aid assistance for economic growth and institutional reforms in recipient countries.

This paper studies the factors and potential reasons for deficiencies in granting development assistance for promoting economic growth and self-sufficiency in poor countries. It also explores the seemingly diverse theoretical discourse for the effective implementation of aid. More precisely, these factors of deficiencies are locked within a vicious circle of corruption, weak policies and fragile institutions in recipient countries, on the one hand, and problems and objectives within the donor countries and organizations themselves, on the other.

It is an attempt to describe and analyze the origins of foreign aid granting to developing countries as well as to identify the factors affecting them.

This paper is structured as follows. The next section covers a definition of the concept of foreign aid and its effectiveness for recipient countries. The third section deals with the conceptual context, and the fourth section includes a conceptual framework, as well as a contradictory viewpoint regarding the justification for foreign aid, its effectiveness and the...
main studies undertaken in this area. The fifth section describes the outcomes and gives an analytical survey with examples of the factors affecting foreign aid, with particular focus on the corruption levels found in recipient countries – notably Arab countries – and the intended goals of the donor countries. The final section is a conclusion with results and recommendations.

The concept of foreign aid

Foreign aid can be defined as financial flows from donor to developing countries as well as countries in a transitional status. Such financial donations may include the funding of official financial loans, economic aid, funding trade, funding charity organizations, as well as military, security and political aid. Charitable aid is understood as representing the efforts of the donor countries to fight hunger, misery and despair in the poor countries. Yet, economic aid is understood as the efforts of donor countries to support the people of economically underdeveloped countries to develop their resources and to create appropriate conditions for economic sustainable development to become self-sufficient countries. Political, security and military aid are understood as aid programmes provided by donor countries, and efforts to achieve political stability in recipient countries, thereby reducing the risk of conflict and war, strengthening peace, promoting democracy, maintaining the political independence of former colonies of the donor countries, and, finally, to create new dominance for foreign donor countries (Pronk et al. 2004).

After the terror attacks of 9/11 against the United States, the war against terror became an indispensable part of foreign aid programmes in poor countries, mainly because the industrialized countries (the donors) recognized the important and increasing need to collaborate with the governments of these countries to ensure global security. This stems from a profound comprehension the donor countries have of the intrinsic link between the spread of poverty and the phenomenal spread of terror. Accordingly, the persistence of poverty increasingly makes poor vulnerable countries become threats to global security. Therefore, a large part of the aid programmes have been directed to facing the challenges of development, and to fighting poverty by implementing programmes to develop the required human resources to intensify the capacities of governmental institutions and the various civil society organizations in the recipient countries (Akramov 2006).

The concept of the effectiveness of foreign aid is seen by some analysts as deeply linked with the performance level of programmes and strategies of external developing aid in promoting economic growth, institutional reforms, and fighting and decreasing poverty in the target countries. Some others link the effectiveness of foreign aid with the ‘power of development’; drawing attention to the relationship between foreign aid programmes and their objectives, stressing that it is not necessarily needed to achieve the required goals in the recipient countries (Scott-Smith 2013). Thus, it is hard to give a clear and definitive definition to the concept of foreign aid, generally because such aid is presented by various donors with different objectives. Moreover, there are a number of different factors that may control the final results of the developing efforts: civil war and natural disasters are but a few examples. Accordingly, it would be hard to draw a connection between the effectiveness of the programmes and policies of foreign aid, on the one hand, and the degree of the achieved development in the recipient countries, on the
other. Due to the broad controversy related to the definition of the concept of foreign aid, it will not be addressed in this article. Here the main concern is to review the discourse on foreign aid, and to become acquainted with the different and contradictory viewpoints regarding the effectiveness of foreign aid.

**Justifications of foreign aid from a contradictory viewpoint**

A growing body of research has actually coincided with the launching of donation of foreign aid. This research revolves around two major conceptual and rather contradictory viewpoints concerning the justification and effectiveness of foreign aid: one is from a public interest perspective (PIP), the other is from a public choice perspective (PCP).

**The public interest perspective (PIP)**

Over the past 60 years, many studies have been carried out from the PIP, which is based on the assumption that it is legitimate to grant foreign aid, as most poor developing countries lack local financial resources to fund beneficial investment opportunities, or lack access to international capital markets. Thus, foreign aid – the only source of income in many developing countries – can play an important role in bridging the funding gap to reach the level of necessary investment, or the required growth rate (Akramov 2006). Yet, despite the importance of the PIP of the foreign aid, most of these studies are still theoretical and lack experimental evidence that support arguments put forward with regard to it.

This section contains a review of a detailed and in-depth study based on experimental evidence published by Sachs (2005) in his famous book *End of Poverty, Economic Possibilities of Our Time*. Sachs presents successful examples of the Western donors’ experiences in helping poor countries. These include the green revolution for food production in Asia, vaccinations and treatment of anti-malarial diseases, oral rehydration treatment, agricultural renew for soil nutrients, antiviral medicines, the increase of family planning programmes, and many others. The writer states that, in dealing with all these cases, a new technique was initiated, for the first time, in the markets of the rich countries, and was implanted in the poor countries with the help of evolutionary development procedures led by the donors (Sachs 2005).

Sachs says that the key needed to put an end to extreme poverty is to enable the needy ones to determine and achieve their development by themselves. To do such a thing, we have, firstly, to figure out how the ‘trap of poverty’ works in the poor countries, and whether foreign aid programmes can really help in this development perspective donors (Sachs 2006). Sachs presented a kind of systematic perception (Figure 1) on how to identify ‘the poverty trap’ in poor countries and how to deal with it. Consequently, the foreign development aid may be able to stir the process of capital accumulation, achieve economic growth and increase the family income especially within the poorest ones (Sachs 2006).

Sachs has presented a strategic solution for the donors in order to be more effective with regard to granting foreign aid to poor countries which will, in return, help these countries to launch the process of capital accumulation, economic growth and the increase of family income. This can be accomplished through three main developing channels. In the first channel, Sachs stresses that part of the foreign aid should be directly allocated to cover...
living costs for poor families, especially in emergency cases, such as food aid in times of drought. The second channel must receive the biggest share of the financial allocation, which goes directly to finance the deficit in the general budget of recipient countries in order to fund public investments for these countries. The third and final channel should allocate a number of aid programmes to private companies – farmers and youth, for example – through small fund programmes as well as other directly financed projects, such as small business and agricultural improvements.

Sachs argues that if foreign aid is big enough and lasts for an appropriate time, public capital will rise in a way that guarantees the transition of poor families into a stage above self-sufficiency. In this case, the poverty trap will be broken, and economic growth will emerge from self-sufficiency or even from family savings and public investment; especially from imposing taxes on families and private companies. In a case like this, foreign aid will no longer be a charity presented for social care, but rather an investment that will help in breaking the poverty trap in the target countries (Sachs 2005). Sachs concludes that donor countries should pay more attention to both the quality and the quantity of foreign aid simply because it became more difficult to achieve the development objectives under the existing circumstances (Easterly 2008).

**The public choice perspective (PCP)**

Although the controversy that arises on the objectives of foreign aid is attention-grabbing, it is nothing but a waste of time and even a waste of money. Most studies on the perspective of public choice argue that aid flows have contributed greatly to the failure of the development efforts employed in developing countries. The direct reason for such a failure is the expansion of governmental bureaucracies that may lead to the propagation of personal benefits out of aid programmes, corruption and the enrichment of the elite in poor countries.

William Easterly (2006) is considered one of the most contemporary opponents of foreign aid programmes, especially in his *The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. He presented statistical
evidence (Table 1) proving that much of the financial aid was spent in countries that achieved a small amount of growth, as well as a minimal reduction of poverty. In other words, although the white man has spent massive amounts of money on foreign aid programmes, this aid accompanied a decline in growth in the recipient countries. Such a negative link does not necessarily determine that foreign aid is the direct reason for the decline of growth, but it shows that aid is not always able to stem this decline. Easterly argues that economic growth could take place in countries not receiving foreign aid.4

Easterly (2006) and many other scientists, such as Browne (2006), introduced two major factors that illustrate the discrepancies in figures and data shown in Table 1. First, development is a sheer domestic issue, and the triggering of the wheel of development depends mostly on the type of government. The best 10 countries that managed to achieve the high rate of growth in average per capita are now starting to be among middle- and high-income countries. Most of these countries have good approaches with regard to the process of development. They managed to use their available resources in purposes of development; the donors are but facilitators for projects and progress. On the contrary, the worst 10 countries have suffered from extreme poverty simply because of inadequate management and corruption. These countries were under the mercy of predatory blatant regimes which are not concerned with achieving real development for their people. Many of these countries have also suffered from the challenges of their geographic conditions, limited natural resources and from natural disasters (Easterly 2006).

Table 1. Ten best and worst per capita growth rates, 1980–2002.

| Country               | Per capita growth, 1980–2002 (%) | Aid/gross domestic product (GDP) (%) 1980–2002 | Per cent of time under International Monetary Fund (IMF) programmes, 1980–2002 |
|-----------------------|----------------------------------|-------------------------------------------------|----------------------------------------------------------------------------------|
| **Ten best per capita growth rates, 1980–2002** |                                   |                                                 |                                                                                  |
| South Korea           | 5.9%                             | 0.03                                            | 36%                                                                              |
| China                 | 5.6%                             | 0.38                                            | 8%                                                                               |
| Taiwan                | 4.5%                             | 0.00                                            | 0%                                                                               |
| Singapore             | 4.5%                             | 0.07                                            | 0%                                                                               |
| Thailand              | 3.9%                             | 0.81                                            | 30%                                                                              |
| India                 | 3.7%                             | 0.66                                            | 19%                                                                              |
| Japan                 | 3.6%                             | 0.00                                            | 0%                                                                               |
| Hong Kong             | 3.5%                             | 0.02                                            | 0%                                                                               |
| Mauritius             | 3.2%                             | 2.17                                            | 23%                                                                              |
| Malaysia              | 3.1%                             | 0.40                                            | 0%                                                                               |
| Median                | 3.8%                             | 0.23                                            | 4%                                                                               |
| **Average**           | 3.8%                             | 0.23                                            | 11.6%                                                                            |
| **Ten worst per capita growth rates, 1980–2002** |                                   |                                                 |                                                                                  |
| Nigeria               | −1.6%                            | 0.59                                            | 20%                                                                              |
| Niger                 | −1.7%                            | 13.5                                            | 63%                                                                              |
| Togo                  | −1.8%                            | 11.18                                           | 72%                                                                              |
| Zambia                | −1.8%                            | 19.98                                           | 53%                                                                              |
| Madagascar            | −1.9%                            | 10.78                                           | 71%                                                                              |
| Ivory Coast           | −1.9%                            | 5.60                                            | 74%                                                                              |
| Haiti                 | −2.6%                            | 9.41                                            | 55%                                                                              |
| Liberia               | −3.9%                            | 11.94                                           | 22%                                                                              |
| Congo, Democratic Republic of | −5.0%                        | 4.69                                            | 39%                                                                              |
| Sierra Leone          | −5.8%                            | 15.37                                           | 50%                                                                              |
| Median                | −1.9%                            | 10.98                                           | 54%                                                                              |
| **Average**           | −1.9%                            | 10.98                                           | 52%                                                                              |

Source: Easterly (2006).
The second factor concerning such discrepancies pointed out by Easterly is that a number of poor countries suffer from a severe shortage of financial resources to fund the development process. Unfortunately, donor countries that have a lot to offer to these poor countries did not offer the required aid. Instead, they offered some bad policies and mechanisms of implementation. In point of fact, most donors are unaccountable and their performance lacks the minimum standards of transparency. Researchers in this field have discovered that in most cases foreign solutions provided by foreign aid led to the undermining of the ability of the recipient countries. Therefore, there are a number of increasing calls claiming that foreign aid is, in fact, greatly damaging for recipient countries. It is for this reason as argued by Sachs (2005) that financial flows are opposed (Akramov 2006).

**Why is foreign aid in developing countries ineffective?**

On the basis of the PCP, this paper will analyze the major factors that undermine the effectiveness of foreign aid. These factors range from corruption, weak policies and fragile institutions in the recipient countries, on the one hand, and the intended goals of the donors, and lack of domestic knowledge of foreigner experts working in donor organizations in order to make a change in the recipient countries, on the other (Monkam 2008; Lancaster 2007).

**Corruption, weak policies, fragile institutions in the recipient countries and the ineffectiveness of foreign aid**

From the recipient side, corrupt regimes was given as an explanation of performance disappointment (World Bank 1998). This issue requires attention to become aware of and to identify a series of problems in the political and economic institutions, and even in public policies. These include political and social accountability, administrative systems and governmental bureaucracy, and the delivery of public services in the recipient countries (De Haan 2009). Combating and reforming such regimes is considered to be a hard task. In an attempt to overcome corrupt regimes, donor countries and organizations have been persistently introducing hundreds of regime programmes, and employed countless developmental measures, since the second half of the 20th century. Yet, such regimes remain as reckless an obstacle as ever in the face of achieving effective foreign aid programmes. Experimental evidence indicate that complex problems inherent in such regimes prevented the creation of convenient conditions for necessary reform, and have even prevented these developmental measures being put to appropriate use.

A number of studies in this field have shown that foreign aid programmes directed at poor countries have created what can be called a ‘vicious circle’. Specifically, poor countries have become increasingly dependent on foreign aid and at the same time reduced their efforts to bringing about market reforms that can promote public production and income taxes in other sectors. Instead, these poor countries spend financial aid on financing government expenditure, and funding non-productive consumer sectors (Bauer 2000).  

Referring to the Yemeni situation, nearly 95% of capital and operational expenditures of the government, as well as other aspects of non-capital expenditures are covered by
either foreign aid or oil revenues. In 1995 and 2012, Yemeni got foreign developmental commitments and foreign aid equal to US$18 billion. Parallel to that, the country’s national revenue – especially from oil production – constitutes about 75% of total national income. Yemen was (and will continue to be) completely reliant on foreign aid as a driving force in the country’s development. Yemen is incapable of collecting taxes; statistics show that only 10% of the expected total amount of taxes was collected. This percentage, which was collected by the central bank of Yemen, is only from pensions and government contracts. There is no effort to collect this kind of tax lack. Consequently, organizations concerned in tax collection constitute a heavy operational burden on both country and society. Moreover, they are really unemployment disguised within the administrative system of the country.

Another example comes from Jordan, where it received direct cash foreign aid of about US$24 billion between 1970 and 2007. This aid aimed at bridging the gap of deficiency in the public budget, or was indirect cash aid offered through different programmes and projects. An agreement between the Jordan Ministry of Planning and the donors, with regard to the different aspects of planning and implementing these programmes and projects, gives the donors the right to intervene directly in them. Thus, foreign aid is considered to be a crucial aspect of the Jordanian economy where total foreign aid constituted the highest proportion of fixed capital in 1975 at around 153%, then retreated in 2003 to around 66% of fixed capital. Jordan remains the country receiving the highest amount of foreign aid among the Arab countries including Egypt, Yemen, Lebanon, Sudan and others. All these indications provide a clear and complete picture about the degree of Jordan’s dependence on foreign aid, and the extent of weakness in economic policies that hinder developing the domestic resources of the country.

Therefore, developing policies of poor countries give a realistic understanding of the ineffectiveness of foreign aid programmes, and even of how such policies hinder the development efforts introduced by the countries themselves. It is known that such policies were designed and fostered in any given society under the influence of the ‘political nature’ of the ruling regime. Supporters of this perspective claim that the ineffectiveness of foreign aid is a direct result of the ‘tyrannical regimes’ in most recipient countries. They claim that these tyrannical regimes do not protect human or civil rights and they even suffer from the absence of specialized and uncorrupted public administrations. Consequently, they are unable to use aid in an effective way (Leftwich 1993, 2000).

An important book published by the political economist Francis Fukuyama, entitled Falling Behind: Explaining the Development Gap between Latin America and the United States (2008), explains the nature of the development gap between the countries of Latin America (most of them are aid recipients) and the United States. It traces the history of development over four centuries and gives a special focus on the last 50 years. The conclusion of this study claims that political and totalitarian regimes of most Latin American countries constitute the main essence of the economic gap with the United States. These regimes, he claims, are keen to achieve the maximum benefit of care for the ruling and long-lasting coalition in these countries, rather than working for the welfare of their societies. Some researchers have concluded that tyrannical and totalitarian regimes deliberately adopt wrong and short-term development policies; they thereby work against the effectiveness of foreign aid programmes.6
Both Boone (1996) and Bauer (2000) conclude that the miserable conditions of the recipient countries of foreign aid programmes are not only a direct result of ineffective policies, but rather an outcome of the official ‘devastating’ policies adopted by tyrannical rulers of these helpless countries. For an in-depth understanding Bonne (1996) offers a practical analysis concerning the effectiveness of foreign aid programmes in 97 recipient countries. In this analysis, Boone distinguishes between three different political regimes: the neutral regime, the regime based on equality and the regime of the elite. This third type is considered the most corrupt ruling regime in expending the resources of the foreign aid. The high rate of poverty emerges in countries ruled by such regimes that adopt devastating policies, and not for the reason of a shortage of economic and financial resources, as they claim.

Bauer (2000) presents a long list of these destructive policies, such as the persecution of the most productive groups, especially ethnic minorities (who were sometimes expelled), suppression of trade (sometimes accompanied with the destruction of the trading system), restrictions on capital flow and foreign companies, a wide range confiscation of property (including compulsory collective labour), voluntary and involuntary purchase of foreign companies that captivate rare and external capital (thus depriving the country from learning valuable skills and competencies), pricing policies that discourage agricultural production, forms of unneeded and costly support of unsustainable projects and activities (this includes the replacement of subsided imports), the imposing of specific economic measures, the negative effects of the restrictions of foreign contacts, and mobility procedures. The long list presented by Bauer of destructive policies cause a delay in newly constructive ideas (Bauer 2000; Boone 1996).

If just one of the previous examples were to be applied to the Arab countries, it would be found that most Arab countries subsidize the prices of basic consumer goods by random policies. Such policies have resulted in the bankruptcy of the economy of these countries and the destruction of both the agricultural and the industrial sectors, turning them into misfit sectors. For example, Egypt, Jordan and Yemen spend more than one-quarter of the national budget and 5–6% of the total gross national product (GNP) on subsiding basic consumer products. Such conflicting policies have led primarily to the inability of the agricultural and industrial sectors to compete with the prices of imported products which are subsidized by the government. This has led to the bankruptcy and closure of many facilities. Furthermore, in recent years there has been no growth or development in either of these two important development sectors. Negative consequences and impacts of such policies are not confined to this level; rather it has opened the door to corruption with subsidized products being sold on the black market and even exported to other countries at extremely expensive prices. This has created a heavy burden on the budget of the country, created deficits of different kinds, increased the internal and external debts, and produced mafia-like and unofficial economic networks that control the economy of the country. Last but not least, these policies have helped to create a fragile economy in most Arab countries, putting them in an unstable position and making their people live in extreme poverty.

The reasons behind these regimes that adopt destructive policies in order to keep their people in extreme poverty are numerous. Easterly (2007) argues that, firstly, the elitist political regimes frankly seek to reduce the productive capacity of the poor, so as not to be threatened by political activity in case the poor became more productive. Secondly, the
selfish economic benefits of the corrupt ruling elite (the PCP) depend on encouraging the donors to allocate foreign aid on humanitarian grounds. The index of poverty in the recipient countries is the controlling indicator for the donors to allocate foreign aid to these countries. In other words, the elitist ruling regimes want their people to live in extreme poverty so they can draw donors’ support. The duplicity of such regimes is that they seek more foreign financial resources to promote development and reduce poverty, yet they adopt destructive policies that create more misery for their people (Easterly 2007).

Treasury bills and short-term money bills are good examples of the destructive financial and economic policies in most Arab countries, especially the non-oil-rich ones. In spite of the wide controversy about the effectiveness of treasury bills being a governmental tool adopted as a monetary policy in case of emergency to create monetary stability by striking a balance between money supply and purchasing power, it has turned out to be a short-term policy. It is considered as an easy procedure to ensure the profits and capital value. Regardless of the exact theoretical indications of the monetary policy adopted by most Arab countries in presenting bids ranging from three months to one year, in either local or foreign currencies, it has become clear that these countries managed to withdraw and save currency. Nevertheless, there is one condition necessary for the success of this monetary policy, namely the capability and effectiveness of the country to invest the cash to ensure the return of these capitals with profits to the beneficiaries whether they are institutions or individuals. In some countries such as Yemen, the profit percentage reached a really massive ration of about 19% of the total capital value. In fact, this absurd monetary policy will not succeed in countries that are unable to invest their available resources; therefore, they will be unable to invest treasury bills.

In most Arab countries, the consequences of the treasury bills policy are disastrous. For example, in Yemen and Egypt this monetary policy has led to the restriction of the private sector. These private sectors were engaged in achieving lucrative profits in investments rather than investing in the development projects required for the revival of the country’s economic progress. The reduction of the risk of such private sectors depends on the fact that the country is obliged to pay; otherwise the banking system would collapse on a general level. Recently, this situation was compounded by the unstable political and security conditions in the regions. Consequently, the private sectors, banks and even individuals, and the corrupt employees in public institutions, all opted for treasury bills as secure investment. Another facet of this disastrous monetary policy is the various methods of corruption by the unofficial decision makers in most Arab countries, in the framework of treasury bills, through borrowing from foreign banks and investing in these treasury bills with high interest rates. These procedures, although they achieve massive profits, render countries unable to invest in different areas including foreign assets, and lead people impoverishment, and increase the proportion of internal debts to critical levels. In Yemen, for example, and according to the data of Yemen’s central bank, in 2014 the total internal debt reached about 300 trillion Yemeni riyals as a direct result of treasury bills. In Egypt, the total internal debt reached its peak in 2015 to a record 99% of gross domestic product (GDP), exceeding the barrier of 2 trillion Egyptian pounds to a record 2.2 trillion Egyptian pounds (more than half the internal debt) to be paid to 15 Egyptian banks. These destructive policies are not confined to the economic sector; rather, they extend to all governmental sectors including the education sector, which is considered to be any given country’s source of revival.
In a study that focused on the persistence of the ruling elite and the direct consequences of ruining the education sector in Yemen, data were gathered that illustrate the effects of this particular kind of policy adopted by some ruling Arab recipient regimes (Easterly and Levine 1997). Figure 2 shows the link between the policy of survival and the policy of education. In such a link, the policy of survival has double-negative consequences on the education sector, on both domestic and national levels alike. On the domestic level, the ruling elite gave tribal sheikhs more influence over the education sector in order to weaken education outputs. Tribal sheikhs were given the right to manage schools and were appointed as local officials over the education process. It is known that tribal sheikhs have their own objectives; they are aware that a real educational process will lead to greater awareness, and vigilance among tribal men, that may affect their loyalty, and dependability. To prove this argument, the researcher made a comparison between the education outputs of the educational reforms in Yemen in two different areas; the first was controlled by strong tribal influence, the second had a fairly frail and vulnerable tribal influence. The results of these two areas differed considerably in both the quality and the quantity of the outputs. For example, the rates of primary education enrolment in a region with strong tribal influence were fairly low when compared with the other region; it recorded 80\% in the region with frail and vulnerable tribal influence (75\% for females, 84\% for males). Yet, only 48\% enrolled in primary education in the region with strong tribal influence, where 70\% of the population lives. In 2008, the net enrolment rate for females was 28\%, and 67\% for males in the region with strong tribal influence.

In return, the ruling elite in Yemeni have adopted many destructive policies on the domestic level to weaken the educational sector and to prevent the emergence of strong powers that might threaten their existence. One of these policies is the creation of duality in education whereby there are three educational systems operating simultaneously: the official education system, the scientific schools and the scientific institutes. These three different systems are in constant competition with each other, with each one trying to undermine the others. This has ended up weakening the educational process.

**Figure 2.** Survival policy of the ruling elite and the reality of education in Yemen. Source: Elayah (2008).
One of the practices of weakening the educational process is the horizontal expansion of educational institutions by foreign funding without ever contemplating the idea of creating and developing the required human resources in both the administrative and educational cadres.

Figure 2 shows how the weak educational sector contributes to the survival of the ruling elite and their persistence in authority in two different strands:

- The weak educational system is one of the techniques of the survival policy that enable the elite to continue ruling without a single threat from the education sector and thus prevent the emergence of other forces of power.
- The graduates of this weak educational system will be unqualified and, thus, will serve in forming a ring in the survival cycle in two different ways. Firstly, weak outputs of the educational sector will lead to the re-creation of the tribal system on the domestic level, and thereby strengthen the tribal sheikhs who will in turn lead to the formation of alliances on the national level with the ruling elite guaranteeing their survival in positions of authority. Secondly, these weak outputs will help in the creation of unqualified administrative employees who help in the chain of the country’s bureaucracy that will in return lead to the weakening of the country’s administrative sector. This second factor will threaten the survival of the ruling elite and their permanency in ruling positions, and even will prevent the emergence of the forces of power. As mentioned above, the existence of powerful institutions in the country will directly threaten the survival policy of the ruling elite. Therefore, the policy of survival and the process of education remain intact through the repetition of the inputs and outputs on both the domestic and national levels.

- The third factor in adopting the destructive development policies, Easterly argues, is the ethnic diversity found in recipient countries as well as the lower level of education, political instability, inadequate infrastructure, and many other related factors associated with the slow cycle of development.

A model of ruling regimes in developing countries was presented by Migdal (1988), as explained previously in the Yemeni example. He pointed out that ethnic diversity stands against the continuity of the ruling totalitarian elitist regimes. Therefore, such regimes provide political, economic and financial care for these ethnic groups for the sake of political mobilization, and, for this reason, preserve their alliance. Cohen (2006) introduces a type of practical study concerned with the relationship between ethnic diversity and the effectiveness of foreign aid in Kenya. He concludes that ethnic diversity has unforeseen influences on the formulation and implementation of development interventions in the framework of foreign aid programmes. Cohen sees that in the financial year 1991–92 the government of Kenya approved the implementations of 654 development projects to be funded by grants or loans presented by different donors. Yet, the actual number of the accepted projects in that same year was much less than the above-mentioned number. The reason behind such a contradiction is that both government officials and foreign experts from the donors’ side all agreed to divide these projects to ensure that ethnic groups received a fair share of the foreign aid. Coinciding with this, the coalition members in Kenya have other incentives with regard to the local resources, and how to make use of them in economic projects in tribal regions that ensure their loyalty.
Cohen concludes that dictatorship regimes pursue the mobilization of the poor by different methods, including money; they also pursue the use of destructive development policies for the reorientation of foreign financial aid.8

Problems with the self-centred targets of donors and ineffectiveness of foreign aid

It is totally wrong to believe that the donors have the ability to impose reform conditions associated with the programmes of the foreign aid by threatening to stop this aid in future, in the case of it not being used in the right way. However, from the PCP, most donors still connect their own self-centred interests, including those related to politics, strategy, trade, culture and ideology, with the likely granting of foreign aid. The essence of the problem lies in the fact that donors entertain strong intentions to accomplish these self-centred interests while paying little attention to the failure of foreign aid programmes. A widespread feeling about the ineffectiveness of foreign aid programmes points to evidence that these programmes often work against humanitarian and development objectives. This assumption goes further, claiming that donors’ self-centred interests help to undermine the outputs of the aid and limit their effectiveness.

Lancaster (2007) describes the nature of the relationship between the local actors in the donor countries and the foreign aid as a rather complex one. He presented a long list of actors and factors on different political and administrative levels in the donor countries. Those actors could be, for example, individuals or official organizations, or unofficial organizations. They have certain interests and targets in forming and implementing interventions in the process of foreign aid in particular ways. These actors have their own guidelines and targets that hide some concerns. They know precisely where, when and in what way to use their influence to achieve their goals. Their goals and interests very often vary, and can influence the governments of the donor countries externally and on the international level. They can, with the help of the bilateral and multilateral agencies that run aid interventions in the recipient countries, exercise strong pressure on techniques and methods of foreign aid. In other words, in most cases, the objectives of foreign aid policies are rooted and reflected in the nature of the domestic powers and forces in donor countries. These in turn can govern competing interests in controlling the aid offered to poor and developing countries (Olsson and Wohlgemuth 2003, Brainard and Chollet 2007).

Therefore, it is neither strange nor very surprising to discover that the objectives of the foreign aid cover the following considerations:

- Diplomatic interests (e.g., the establishment of a military basis, securing votes in the United Nations and supporting the preferred regimes).
- Security interests (e.g., preserving the national security of the donor countries within the framework of the fight against terror. This takes place in developing countries that are considered suitable for the growth and expansion of terror).
- Commercial interests (e.g., the provision of export support to donor countries’ companies, with great emphasis on projects of high foreign currency profits).

Groups, which own certain commercial interests, always take advantage of foreign aid so as to raise their exports, and sometimes use foreign aid as a means to seize much needed
raw materials. Cultural interests often used to change religion and language, or to change values that may represent threats to Western countries (Hancock 1989). Furthermore, some of the public interest groups may support relief, development and other different purposes. These groups have a complex network of organizations to exert pressure on policy-makers, just like the agriculture producers, chambers of commerce, business associations, individual institutions, trade unions, churches, universities and other influential unofficial networks.

In the framework of international aid to Yemen, one may find that obsession with security constitutes a major consideration, simply because Yemen is seen as fertile ground for the growth of terror. This stems from two factors: the first is that Yemen is a fragile country; the second is that it lacks control over its borders. Figure 3 illustrates that the financial obligations of the donor countries increased after the attacks of 9/11. We can therefore conclude that donors are very keen to uphold their own national interests and security. Hence, donor countries decided to distribute aid according to these two factors. The total amount of donor commitments made to Yemen at the conference in The Hague in 1996 was US$500 million. It was largely increased after the attacks of 9/11. At the Paris conference in 2002, the total amount of the donor commitments reached US$2300 million. In 2006, at the London conference, the amount increased to US$5700 million. This increase should be seen in the context of the increasing threats of Al-Qaeda in the Arabian Peninsula with Yemen as its centre. In 2012, at the New York conference, foreign commitment to Yemen was increased to reach US$7800 million. This increase reflects the exerted efforts to restore stability in Yemen after the events of the Arab Spring in 2011.

With respect to the relationship between the United States and Egypt, it is widely known that this relationship is deeply rooted in both security and military issues, is crucial to American national security and its policies in the region, is interconnected with the Arab-Israeli conflict, and even with the guarantee of the oil supply from the Gulf countries and Saudi Arabia. However, we are concerned here in this article with the relationship between the United States and Egypt.

It is true that Egypt receives huge economic aid from the United States, recorded at US $800 million in 1980, but decreased in 2015 to only US$250 million. The United States is considered to be the largest and only trading partner with Egypt, and the second largest

![Figure 3. Aggregate volume of donor commitments to Yemen, 1995–2012 (US$ millions).](image)
investor in Egypt. Prior to 2011, Egypt was the largest recipient of US foreign aid in the Middle East and North Africa (MENA). However, the United States still sticks to the policies of the donor countries in serving its national economy before serving the economy of the recipient country. Nearly 70% of American investments in Cairo are directed at the oil and gas sectors to obtain the much-needed raw materials. Hence, new channels of investments in other sectors were initiated. These new channels help in increasing productive employment in Egypt as well as pushing the development wheel. Moreover, Egypt is considered to be a large market for American products in all areas. Egypt is a consumer country with a huge population estimated at 100 million individuals. In 2013, the level of United States imports to Egypt reached US$7 billion, mostly in the agricultural and consumer areas. In this context, Thana’a Abdel Allah (2006) concluded that every American dollar spent as aid to Egypt will return 10 times as many dollars to the American economy.

Even when some donors are ready to abandon the above-mentioned interests while presenting foreign aid, there will still be the problem with the bureaucracy of the agents that run aid programmes. This has generated a lucrative business from the aid programmes. These agents argue about the necessity of continuing this business because of how profitable it is. According to Hancock (1989), programme aid has become nothing more than a deal between bureaucrats at the expense of others, done by intermediaries and brokers – ‘poverty employees’ as Hancock calls them – hence, the people the aid is concerned with are overlooked. It needs to be understood that the taxpayers in the rich countries genuinely intended that aid assistance be directed at the deserving poor in the south, and that aid was not intended for intermediaries, brokers and agents to build businesses for themselves from it.

Foreign aid is really a very lucrative and easy business for those who run these programmes. The income of workers in these programmes is determined in accordance with the following principle. Salaries of international organizations’ employees should be high enough to attract competitive experts to run these programmes effectively. Therefore, these salaries exceed the salaries of high-level staff in the richest country on earth, namely the United States. This does not to say that it is not preferable to attract experts with high salaries. Such a policy can, however, open doors to greedy souls taking advantage of the suffering of the poor as a justification for their greed, and without being attentive to the damage that can take place with regard to aid in both national and international levels. The experts’ lack of local knowledge of the target countries that may influence the effectiveness of the development process can be a big issue. This stems from the complexity and diversity of the environment of the recipient countries. It is, therefore, important to shed a light on the lessons that need to be learned on issues that can affect the performance level of the donor countries and organization responsible for planning and managing development projects (Elayah 2014).

Inevitably, if the nature of the continuously changing local environment is not understood, it will not be possible to estimate the local problems effectively. Finally, the adoption of any given development model may appear to be contributing to solving the problems of a given society. Nonetheless, after a while, the adopted method may appear to be remote from reality because new local perspectives may appear with regard to certain issues. Alternatively, the method may not be able to reflect the real problems of the society, especially given that development issues have various perspectives. Therefore, most aid programmes may not suit the target tasks. This may be due to foreign experts being employed who are
unacquainted with the nature of the local environment with all its social, political, and administrative complexities (Brinkerhoff 2005, Carlsson and Wohlgemuth 2007).

This situation of a knowledge shortage in the framework of foreign aid has resulted in negative consequences for both donors and recipients. The orientations of foreign experts and administrators in the design and management of the development projects has easily become biased towards their countries of origin. It may also even be that these orientations were derived from other recipient countries in which they had previously worked. Moreover, a number of these experts cannot be aware of the various development methods that should be applied in countries that are different from their own, simply because of a lack of knowledge, inadequate time to become acquainted with the local environment, the real level of need and the extent of problems in recipient countries (Elayah 2014).

In facing such situations, some donors have adopted international models and strategies to reorganize the way of encouraging change in the target countries, whether through economic, democratic or institutional reforms. The idea behind these international models is to apply a planning and administrative framework to foreign aid projects; a frame that fits all. Because of the diversity in the social, economic and political nature of each country, it is believed that this framework may be successful in one country, but may not have positive results in others (Easterly 2002). For example, the strategy of the fast track to generalize preliminary education was applied in most developing countries such as Pakistan, Yemen, Kenya, Tajikistan, Nigeria, Cameroon and others. It seems that such planning and administrative frameworks in all these countries are the same to some extent. If we agree that the experience of administrative and financial decentralization has succeeded in one of the Eastern Europe countries, or in one of the Latin American countries (Brazil), donor countries should in return agree that the inputs and methods of reformation and development have not been beneficial in Yemen (Elayah 2014).

Conclusions

This paper has examined and analyzed the link between foreign aid and development in developing countries. It also presented a particular perspective that examines the justifications for foreign aid flows, together with other factors that may influence the effectiveness of foreign aid programmes.

The paper concluded that there are two contradictory perspectives regarding the justifications for granting aid and the effectiveness of aid programmes and projects: the PIP and the PCP. It also concluded that there are three explanations regarding the ineffectiveness of foreign aid programmes. The PIP has greatly influenced the debate around the need to increase aid in order to eliminate poverty in poor countries through bridging the financial gap, and breaking the trap of poverty. This perspective offers basic necessities to the poor, increases their savings and enable the accumulation of capital that helps in achieving economic growth. The second perspective is the PCP that perceives targets of foreign aid as worthy, but is based on wrong development policies. This perspective is really just a complete waste of time. Foreign aid is negatively connected with development in recipient countries, and the aid even causes harm instead of creating real development.

It is concluded that corrupt environments, destructive development policies and corrupt regimes all contribute to explaining the disappointing performance of aid
programmes in recipient countries. The issue of most donors still basing their aid on various targets and self-centred interests, including political, strategic, commercial, cultural and religious ones, poses a major problem. The problem relates to the fact that donors, while always keen to promote these targets and interests, conversely show little consideration by holding the recipient countries accountable when the aid objectives are not achieved. Moreover, it is concluded that foreign aid programmes are offered and managed by bureaucrats interested in protecting their own existence. These bureaucrats have turned foreign aid programmes into a profitable business, especially now that an argument has emerged that even calls for the necessity of maintaining such a business. Furthermore, a complex issue regarding experts and employees’ lack of local knowledge of the recipient countries now needs to be addressed. This issue, which stems from the diverse and complex local environments in target countries, influences extensively and to a large degree the effectiveness of the development process.

There is no doubt that lessons learned from previous mistakes may lead to some changes in policies, targets and priorities of donor countries in planning projects and the methods of accomplishing work in future. Without such lessons, many wrong methods may be prolonged. If that is the case, most efforts aimed at developing countries will not be able to achieve their targets. Furthermore, given the belief that bad regimes are beyond repair, donors should review the self-centred aspect of their interests related to granting aid, and even realize that their missions lie in reforming corrupt environments in target countries. A great deal of importance should be paid to gaining a precise understanding of the nature of local environments and to drawing up policies adaptable to them to guarantee the effectiveness of aid programmes. Therefore, there needs to be an awareness of the importance related to the knowledge of local environments as not being limited to the guidance process or even to daily administration, but rather as being hugely influential in making basic suggestions and proposals about the values and principles guiding the development process as a whole.

Notes

1. These could be donor countries or even multiple organizations.
2. Previously, foreign aid programmes were used in the geostrategic cold war between two polar powers competing in influential areas in the world. Most of these programmes were allocated to weak countries’ allies, or for the sake of building new coalitions, sometimes even paying bills from these programmes.
3. This concerned China and India, in particular.
4. Some writers such as Nicholas Diego (2010) state that the comparison between these 10 countries with the best rate of GNP, and the worst 10 countries of GNP shows that there is an inverse relationship between aid and economic growth. From 1980 to 2002, the best 10 countries remained in the framework of the programmes of the International Monetary Fund (IMF) by 11.6% at that period of time, while the worst 10 countries remained under the supervision of the IMF programmes equivalent to five times the percentage mentioned above.
5. For a detailed account, see Bauer (2000) and Bearce and Tirone (2010).
6. For full detailed accounts, see Svensson (1999), Van Rijckeghem and Weder (1997), and Schwalbenberg (1998).
7. One-third of the Yemeni budget is 400 billion Yemeni riyals.
8. For more in-depth research and analyses, see Sorens (2007), Easterly (2002, 2005a, 2005b, 2006, 2007), Browne (2006), Lancaster (2007) and Whitfield (2009).
Acknowledgement

I extend my deepest appreciation to Dr. Lau Schulpen. Whenever I needed to discuss any issue or clear up any difficulty, Dr. Lau Schulpen's door was always open. The article would not have been possible without the logistic help of Radboud University Nijmegen, for which I am very grateful.

Disclosure statement

No potential conflict of interest was reported by the author.

References

Abdullah, T. 2006. The US Aid to Egypt. Cairo: Al-Ahram Center.
Akramov, Kamiljon T. 2006. Governance and Foreign Aid Allocation. Dissertation. Santa Monica, CA: RAND Corporation. http://www.rand.org/pubs/rgs_dissertations/RGSD202.
Bauer, P. 2000. From Subsistence to Exchange and Other Essays. Princeton, NJ: Princeton University Press.
Bearsce, D., and Daniel C. Tirone. 2010. “Foreign Aid Effectiveness and the Strategic State Standards Gaining Momentum of 10 Donor Governments.” Journal of Politics 72 (3): 837–851.
Boone, P. 1996. “Politics and the Effectiveness of Foreign Aid.” European Economic Review 40 (2): 289–329.
Buiting, L., and D. Chollet. eds. 2007. Too Poor for Peace? Global Poverty, Conflict and Security in the 21st Century. Washington, DC: Enhanced Consent Institution Press.
Brinkerhoff, D. 2005. “Institutional Dualism and International Development: A Revisionist Interpretation of Good Governance.” Administration & Society 37 (2): 199–224.
Browne, S. 2006. Aid and Influence: Do Donors Help or Hinder? London: Earthscan.
Carlsson, J., and L. Wohlgemuth, eds. 2003. Dialogue in Pursuit of Development. Stockholm: Almqvist & Wiksell International.
Cohen, J. 2006. Ethnicity, Foreign Aid, and Economic Growth in Sub-Saharan Africa: The Case of Kenya Ethnicity. Cambridge, MA: HIID Press.
De Haan, E. 2009. Aid: The Drama, the Fiction, and does It Work? ISS Working Paper 488. The Hague: Institute of Social Studies.
Diego, M. 2010. “The General Ineffectiveness of Foreign Aid: A Look at Poverty Reduction.” Accessed March 24. http://sb.cofc.edu/centers/publicchoice/files/The%20General%20Ineffectiveness%20of%20Foreign%20Aid.pdf.
Easterly, William. 2002. “The Cartel of Good Intentions: The Problem of Bureaucracy in Foreign Aid.” Journal of Policy Reform 5 (4): 223–250.
Easterly, William. 2005a. “What Did Structural Adjustment Adjust? The Association of Policies and Growth with Repeated IMF and World Bank Adjustment Loans.” Journal of Development Economics 76 (1): 1–22.
Easterly, William. 2005b. “Relieving the 50s: The Big Push, Poverty Traps, and Takeoffs in Economic Development”. Accessed July 28. http://www.myvirtualdisplay.com/2005/07/28/william-easterly-on-the-big-push-theory/.
Easterly, William. 2006. The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good. New York and London: Penguin.
Easterly, William. 2007. “Was Development Assistance a Mistake?” American Economic Review 97 (2): 328–332.
Easterly, W., ed. 2008. Reinventing Foreign Aid. Cambridge, MA: MIT Press.
Easterly, William, and Ross Levine. 1997. “Africa’s Growth Tragedy: Politics and Ethnic Divisions.” Quarterly Journal of Economics 112 (4): 1203–250.
Elayah, M. 2008. “Public Sector Reform in the Republic of Yemen: Presentation of an Administrative reform Model.” Unpublished MSc thesis. Leiden University.
Elayah, M. 2014. *Donors-Promoted Public Sector Reform in Developing Countries and the Local Knowledge Syndrome: the Dutch–Yemen NPT Program for Developing the Higher Education Sector in Yemen*. Leiden: Leiden University and Smart Print.

Fukuyama, F. (ed.) 2008. *Falling Behind*. Oxford: Oxford University Press.

Hancock, G. 1989. *Lords of Poverty: The Power, Prestige, and Corruption of the International Aid Business*. New York: Atlantic Monthly Press.

Lancaster, C. 2007. *Foreign Aid: Diplomacy, Development, domestic politics*. Chicago: Chicago University Press.

Leftwich, E. 1993. “Governance, Democracy and Development in the Third World.” *Third World Quarterly* 14 (3): 605–624.

Leftwich, A. 2000. *States of Development: On the Primacy of Politics in Development*. Cambridge: Polity.

Migdal, J. 1988. *Strong Societies Project and Weak States: State–Society Relations and State Capabilities in the Third World*. Princeton, NJ: Princeton University Press.

Monkam, F. 2008. *The Money-Moving Syndrome and the Effectiveness of Foreign Aid*. Frankfurt: VDM.

Olsson, Jan, and Lennart Wohlgemuth, eds. 2003. *Dialogue in Pursuit of Development*. Stockholm: Almqvist and Wiksell International.

Pronk, Jan P., et al. 2004. “Aid as a Catalyst.” In *Catalysing Development? A Debate on aid*, edited J. Pronk, 3–10. Malden, MA: Blackwell.

Sachs, J. 2005. *The End of Poverty: Economic Possibilities for Our Time*. New York: Penguin.

Schwalbenberg, M. 1998. “Does Foreign Aid Cause the Adoption of Harmful Economic Policies?” *Journal of Policy Modeling* 20 (5): 669–675.

Scott-Smith, T. 2013. *The Least Provocative Path: An ANT Lens on Development Project Formation and Dissolution*. Working Paper 3. Center for Development Informatics. Institute for Development Policy and Management. SED University of Manchester.

Sorens, J. 2007. “Globalization and Ethnic Discrimination.” Paper presented at the annual meeting of the Midwest Political Science Association. Palmer House Hotel, Chicago, IL. 12 April.

Svensson, J. 1999. “Aid, growth and democracy.” *Economics and Politics* 11 (1): 275–97.

Van Rijckeghem, Caroline and Beatrice Weder. 1997. “Corruption and the Rate of Temptation: Do Low Wages in the Civil Service Cause Corruption?” IMF Working Paper 97/73.

Whitfield, Lindsay. 2009. *The New ‘New Poverty Agenda’ in Ghana: What Impact?* Danish Institute for International Studies (DIIS). Working Paper 15.

World Bank. 1998. *Assessing Aid: What Works and What Doesn’t and Why*. New York: Oxford University Press.