

Foreign aid and its effectiveness in developing countries



This article is from THE STAR, on Wednesday 22 September 2010. The article is about the aid given from a rich country to the poor. When there is an economic downturn in US, most of the donors they want to reduce their spending. One way to achieve that is cutting down the amount of aid to the poor. The UN Secretary-General Ban Ki-moon pressed the rich nation not to divert aid from the poor. While the donors, they claimed that the previous aid given has been wasted by the poor country. Meaning that they did not use the aid given to promote their economic development. To cope with this problem several efforts conducted to ensure that the aid is utilized fully and to look for alternative financing sources. The best solution is an increment in the amount of spending on education. Spending on education will ensure the proper utilization of aid perpetually.

COMMENTARY 3.

Foreign aid is defined as a help that is given to a country that would not have been provided through normal market forces. The development aid is given in order to decrease the amount of poverty in the long run and improve the welfare of individuals.

The United Nation^[1](UN) believes that the world is likely to halve poverty and hunger by 2015. This is part of their goals in giving aid to the poor. Recently, due to economic downturn in US, many developed countries have been affected. Thus, they are planning to reduce their spending by balancing budgets on the backs of the poor. Spanish Prime Minister said that countries were dealing with difficult decision as they try to revive their own country's economic growth. Spanish government has to cut development aid because

they are having fiscal crisis and high unemployment. The rich countries also claimed that previously the aid given was wasted. The poor countries invest the fund on the project that profitless. In reality, aid does not reach the neediest. There are possibilities of corruption in the bureaucracy that manage the funds. Thus, they refuse to give more since it caused them to loss.

If aid is given, poor countries will gain benefits by being able to increase spending on education, health care, and improving infrastructure in the country. Besides that, if the aid is in the form of money, they can use the foreign currency to import the capital and technology necessary for economic growth. This often coupled with technical aid and technical assistance from the donors. It also can help to fill the savings gap that exists in developing economies and so, encourage investment. In 21 African countries in 1997, aid represented 10% or more of all GDP (gross domestic products).[2]

However, if the aid is given continuously, the poor country will become too dependent on the donor country. The poor countries may be monopolized and their government will be manipulated. The donor's country will be too powerful until the rule or the policy of the poor countries is decided by them. They could lose their freedom.

On the other hand if the rich countries do not give any aid, there is high possibilities that they have difficulties when they need support when they in need. Their reputation as a rich country will diminish. Other countries lost confidence to trade with them. This will slow down the economic growth in

their country. Besides that, the level of poor country around the world will increase. The UN's goals would not be achieved forever.

To cope with this problem there is a suggestion to form a tax on financial transactions as a way of raising money to aid the world's poorest but it has been rejected. They believed that it is not effective as it will burden the rich countries. Secondly is to let more transparency management of aid and have better coordination and a special focus on helping pregnant women and infants. Providing the aid for the pregnant women and infant to have a better access to health care can improve their life expectancy. This group of people are in the category of human capital which defined as the value of work force. Investment in human capital through education or improved health care could be a significant contributor to economic growth.

Capital Goods

Z

Z1

W

Consumer Goods

X X1

s

Diagram 1: A production of possibilities curve (PPC) of poor country.

Diagram 1 is used to illustrate the potential output for poor country's economic growth. If they received aid it could help them to achieve point W which represents the actual output in the economy. At point Z resources are being shared between the capital goods (e. g. food or clothing) and consumer goods (e. g. machinery). Point Z1 is unattainable for the poor country economy as it is outside the PPC

The most effective solution is the aid given is used to increase the spending on the education perpetually, because a better access to education will produce a high skill worker that could produce more products at high quality. Their efficiency will increase and their production would improve. This could help in promoting economic development.

(753 words)