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FOREIGN AID AND ECONOMIC DEVELOPMENT: ASSESSING WHETHER INTERNATIONAL FINANCIAL ASSISTANCE PROMOTES SELF-SUSTAINABILITY OR CREATES DEPENDENCY

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Abstract

This paper investigates the interaction between foreign aid and economic growth to determine whether financial support from international organizations promotes self-sufficiency or places a country on the dependent and unsustainable path. The research analysis is therefore based on the theoretical and empirical analysis conducted on the history of aid including post world war II Marshall plan and the current aid types in the developing economic region. Analytics based on econometric regression analysis have been made accompanied by comparative case-studies of the countries which have already moved beyond the tendency of aid-dependency or those still remaining to be fully dependent on external funding. Available research shows that aid does work depending on the quality of governance, institutions, as well as the quality of implemented policies. While countries like South Korea and Rwanda have used aid for more industrialization and long run economic development, Haiti, DRC has just lived in the loop of aid dependency due to bad governance structures and institutions. This review also focuses on issues like fungibility of aid, Dutch disease effects, conditionality and its effect on aid amongst others, therefore recognising the need for aid restructuring or reformation. Through examining the effects of aid on economic growth and growth in governance decade and economic diversification this paper seeks to make a contribution to the ongoing discussions towards understanding how aid should be restructured in order to foster and support sustainable development. It has implications for policy makers, development agencies, and the multilateral development banks, and underscores the necessity for leveraging foreign aid with policy reforms, better governance, investment in human capital, and pathways away from dependence on aid.

Keywords: Foreign Aid, World War II, Sustainable development, aid-dependency

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1. INTRODUCTION

Aid has become one of the cornerstones of international economic relations with different goals of development, poverty alleviation, and stability in the recipients' nations. It has been in the form of bilateral and multilateral financial aid, humanitarian aid and technical assistance. Foreign aid and its contribution towards economic development have been matters that have been widely discussed within theory and practice. Some scholars have posited that while foreign aid assists nations in achieving capacity to strive for sustainable development by funding the infrastructural, health, and educational sectors, it hampers autonomy, discourages domestic revenue mobilization, and elongates the reliance on donor's support (Easterly, 2006 Moyo, 2009). The impact of aid also depends on such related factors as Governance Quality, Institutional Capacity, Aid Allocation and Utilization (Burnside & Dollar, 2000).

Foreign aid has been in existence from the period immediately after the Second World War when the Marshall plan was initiated to restore the economy of the affected regions in Europe. This proved that when the circumstances were right, external funding could help achieve enduring economic sustainability. The Marshall plan ensured that the European nations developed a sustainable economy while undergoing a structural change which means that aid helps in the structural transformation of the economy. Thus, with respect to the developing countries, foreign aid has been rather ambiguous. There are examples of how some nations like South Korea and Taiwan for instance, have managed to use aid to foster industrialization and, thus, economic independence, as postulated by Amsden in 1989. However, most countries in Sub-Saharan Africa have remained a subject to donors' aid for many years and this has served as a major concern due to aid- dependency rather than aid-induced self-supporting economy (Collier, 2007).

The Modernization Theory avers that aid is a prerequisite for growth, particularly in a country that does not have the capital base and resources for the attainment of industrialization (Rostow, 1960). In this perspective, aid is seen to offer initial capital outlay in infrastructure, education, and health, on which long-term growth is anchored. Hall (1998) argues that this perspective is correct arguing that aid has a positive impact on economic development where it is accompanied with good macroeconomic policies and governance (Sachs 2005). However, critics still say that in many ways aid has remained ineffective, especially in realizing sustainable development because of

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issues to do with governance, corruption and inefficiency in the utilization of the funds (Easterly, 2006).

On the other hand, there is the stand of the Dependency Theory that does not support the belief that foreign aid is good for developing nations. According to this theory, aid distorts local production, discourages the Djiboutian government from seeking domestic revenue, and makes the country become a beggar economy (Frank, 1967). Some research has established that where aid is sufficiently large it discourages the reform efforts of a government or improvement of a country's production capacities (Brautigam & Knack, 2004). Additionally, according to literature, there is hardly any economic growth in the aid-dependent economy, and the government loses its interest in self-reliant economic policies (Djankov, Montalvo, & Reynal-Querol, 2008).

The findings about causality between foreign aid and economic development are still limited and inconclusive. Burnside and Dollar (2000) established that foreign aid leads to an increase in economic growth of a given country and especially when such assistance is given to countries with an effective policy environment. The authors who undertook this study argued that aid works in cases where the recipient government implements structural policies such as stability, investment and liberalization policies. In contrast, a re-assessment by Easterly, Levine, and Roodman (2004) noted that there is no correlation between aid and economic growth since bad policies such as poor governance and corruption offset the effects of aid.

For instance, South Korea utilized foreign aid in funding industrialization and acquisition of technology for development, with a view of attaining long term financial independence (Cheng, 1990). The government advocated for exportation, the growth of private sector, and innovations, which saw the country shift from being a tandem economy to a world economy giant in a record time according to Kim (1997). On the other hand, Haiti gives some instances where aid has not played its role in the development of nations. Despite the assistance that has been received for several decades, Haiti continues to face poverty bearing in mind that it has one of the weakest institutional frameworks, instabilities politically and undue dependence of foreign aids (Dupuy, 2010).

The effectiveness of foreign aid therefore depends on the categories of aid being deployed. Humanitarian aid that is given after calamities such as natural disasters or war has indeed played

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an important role in offering basic needs and easing the sufferings of affected people (Clemens et al., 2004). Nonetheless, the development aid that is expected to promote sustained economic growth was criticized for fostering institutionalized dependency as opposed to economic liberalization (Riddell, 2007). A number of theoretical works indicate that effectiveness of aid process depends on governance structures and other related economic policies and absorptive capacity of the aid integrated into other development frameworks (Acemoglu & Robinson, 2012).

However, the contending challenges have not in any way minimized the importance of foreign aid in containing inequalities and enhancing economic growth in the world today. Different global entities like the World Bank, IMF and the United Nations, for instance, still Richard A. Cannon, Jeremy Stringer and Andre Spicer (2010) put much premium on the role of aid in attaining the sustainable development goals. Still, it is generally recognized that aid has to be combined with structural changes, better governance, and effective economic development strategies for sustainable development to take place (Williamson, 2000).

This research aims at assessing the level to which foreign aid enhances economic self-sustainability or leads to dependency. Therefore, the purpose of this paper is to develop a critical evaluation of conditions that enable foreign aid to enhance the achievement of sustainable development goals. This research will assist policymakers in the development of aid programs that embrace both short-term relief and sustainable economic standing in the longer term.

2. LITERATURE REVIEW

The shortcomings of foreign aid for economic development has been an issue of significant discussion in economic and policy literature. The literature on the subject of the role of aid in helping people to become permanently self-reliant or perpetuating their dependency gives mixed results. Theoretically, qualitatively, and quantitatively, numerous models, factors and cases have endeavoured to capture the nature of foreign aid and its impact on recipient countries.

Foreign aid can be said to have originated from the concept of post-World War II reconstruction through signifiers such as the Marshall Plan that sought to rebuild Western Europe's economy. Helmut and Rainer (2012) attributed effectiveness in the Marshall Plan saying that the program succeeded because it had clear policies, good governance and that recipient nations were willing to embark on economic reforms. On the same note, critics or rather scholars such as Boone

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(1996) argue that while aid in Europe led to a quicker economic recovery through the Marshall Plan, the same has not been witnessed in developing countries hence the weaker institutions and governance structures.

The studies have affirmed that governance and institutions are critical for the achievement of foreign aid goals. According to Knack and Keefer (1995), in most of the corrupt nations, foreign aid does not deliver the planned goals because it is mostly misused, and resources are not effectively utilized. Svensson (2000) also concurs with this claim stating that corruption in countries that receive aid rises when there are no accountability procedures in place. Also, Alesina and Weder (2002) have noted that even today donors continue to fund corrupt regimes indicating that as much as 80 per cent of donor funding is channeled to dictatorial regimes that always misuse the resources. On the other hand, Kosack (2003) indicated that while supporting his argument by research findings, aid has a positive impact on human development in education and health sectors for the democratic and transparent regimes.

Various studies have used cross-section regression analysis in an effort to relate foreign aid to economic growth. Rajan & Subramanian argued that aid has no significant positive effect on the growth of GDP and further contended that aid distorts the market structure by favoring foreign producers over local producers. These findings contrast with prior studies by Hansen and Tarp (2001) examining the relationship between aid inflows and economic growth, showing that aid has had a positive impact on the growth rate provided the capital is directed to productive investment rather than consumption expenditure. Clemens et al (2012) also establish that short-term aid in infrastructure as well as technical cooperation seems to have pushed growth because long-term development aid is not as evident to have had affected the development because of structural revelations in the recipients' economy.

Foreign aid, according to Dependency theory which originated from Prebisch (1950) and expounded by Dosman (2008), sustains negative outcomes since it prolongs the duration that a country depends on foreign aid. In this context, Long argues that aid negates development by immobilising the developing nations in underdevelopment whereby aid disincentivises domestic production whilst encouraging dependency on donor agencies. Ghosh and Kharas (2011) offset this by explaining that most African countries that receive large amounts of aid have not demonstrated much progress towards their economic sustainability. Critics state that aid makes

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donors addicted to receiving money and discourages them from making appropriate economic changes or improving their countries' efficiency in collecting taxes.

However, the advocates of foreign aid as a means of development say that in the right form it remains a beneficial tool for development. Sachs and Warner (1997) echo this view, arguing that aid is necessary for escape from poverty traps especially for the LICs that suffer from weak initial stocks of infrastructure. According to them, education, health, and rural development aid enhances the human capital hence creating long term economic sustainability. Similarly, Mishra and Newhouse (2009) go further to offer some proof that aid to the health sector indeed lowers child mortality and boosts total health of people.

One major methodological difficulty when evaluating the effects of aid is fungibility, for example aid committed for development purposes is often used to fund other expenditures that may include military budget or other non-development government expenditure. As Feyzioglu, Swaroop, and Zhu (1998) show, in many recipients, foreign aid does not lead to increased public spending of health and education because the governments use aid to replace domestic resources. Likewise, Remmer (2004) observes that while high aid inflows have positive effects, they lead to poor tax efforts by the government thus depending on external support and not mobilizing domestic resources.

Research on the Dutch Disease effect also reveals other undesired impacts of a huge flow of aids. Torvik (2001) pointed out that the negative effect of foreign aid includes interaction with the real exchange rate vulnerability to appreciate thereby making the home country industries become high priced compared to their counterparts in the international market. Some studies including Arellano, Bulír, Lane, and Lipschitz (2009) also affirm this claim arguing that aid-prone economies are usually characterized by a number of macroeconomic vices such as inflation and loss of export competitiveness.

Several studies involving actual cases further elucidate the challenges of aid efficiency. Some empirical findings from other studies include; Dercon and Krishnan (2000) for Ethiopia, examine the impact of aid-funded agricultural development interventions and conclude that it has brought about an increased food security and improvement of the well-being of most Ethiopians living in the rural areas. On the other hand, Farmer (2003) profile on Haiti has revealed that despite having received aid for many years, this has not brought about any change on the economic status due to political instabilities and institutions. Likewise, Killick (1997) points out that many African

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countries that receive a great deal of aid have actually not been able to become fully sustaining, a result of poor policies and absent infrastructures.

However, another significant factor associated with the aids-development nexus is in the form of aid conditionalities. Bilateral and multilateral donors like the IMF and the World Bank frequently attach economic and political conditionalities to their aid. This work shall present an analysis of this particular kind of foreign aid as also established by Mosley, Hudson, and Verschoor in their work of the same al entitled 'Aid, Policies and Growth.' Dijkstra (2002) also noted that the use of conditionality will at times work to the detriment if countries do not regard their receiving country's capacity to finance projects and other social needs.

It can thus be seen that even after many years of research the issue with regard to the use of foreign aid remains open ended. While some writers have argued that aid has the potential of bringing out the spirit of growth as well as better quality of lives others have opined that aid has the potential of coming with negative effects and some of them are dependency and formation of lowest status in the international market. Thus, the evidence in the literature points to the fact that aid effectiveness is contingent on a number of factors, specifically governance quality, institutional capacity and strategy in the distribution of funds. Therefore, there is need to have further research on how aid can be channeled in a way that will help bring the intended positive change along with reducing the dependence effect.

3. METHODOLOGY

The present research aims to investigate whether foreign aid enhances self-sustainability or perpetuates a culture of dependency in the target countries; thus, employing both qualitative and quantitative research as the primary forms of data collection and analysis. This paper will employ a method called mixed research to assess the impact of foreign aid on economic development due to its ability to combine quantitative and qualitative data.

Research Design

Consequently, the whole process of the present study applies a mixed-methods design, which combines quantitative and qualitative data analysis. The quantitative component includes related analyses of economic growth coefficients, levels of aid flow, and governance variables, while the qualitative component entails descriptions of the cases of countries that are either effective in using

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aid for development purposes or have become dependent on it. This approach allows for a more comprehensive view of the aid–development relationship by considering both long-run economic structures and characteristics of the aid and development processes.

Data Collection Methods

This study will use secondary sources of information and policy review to assess the nexus between foreign aid and economic development. The International sources used to gather quantitative data include the World Bank, the International Monetary Fund and the United Nations Development Programme, as well as the Organization for Economic Cooperation and Development. Human development indices Human development index, FDI inflow, economic growth in form of DPR, and the corruption indices from Transparency International are also used to measure economic progress in the aid-recipient countries. The time frame for data collection ranged from 1990 to 2023 thus providing both the short-run and the long-run changes in experiments due to the aid funding of the countries.

Besides the quantitative economic data, the qualitative data includes the content analysis of policy reports, donor agency guidelines and case studies. The paper analyzes the government policies of the countries receiving the aid and dissects whether these policies were changed due to the conditions attached to the aid and whether the change was real and sufficient for real improvement. Information used in this study is collected from international development reports, academic publications in the area of economics, government documents and records of aid-funded initiatives.

Analytical Framework

Based on the above framework, this paper uses econometric regression analysis models to carry out analysis on the effect of foreign aids on the economy. The cross sectional regression analysis that is employed in this study seeks to establish the relationship between the level of aid and GDP growth controlling for other factors like governance quality, economic policy and corruption. In order to check the strength of the result, both the fixed and random effects models are run to check the generalizability of the finding that aid has negative effect in different countries. This makes it possible to check whether aid always has a positive impact on the economic growth of a country or whether its impact is influenced by the governance and institutions of a country. Additionally,

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the granger causality tests are used to establish directly whether the aid triggers the growth of the economy or the growth of the economy leads to the increase in aid. This differentiation is useful when in the discussion between those two positions – as the proponents of the former argue aid contributes to developing countries' development, while the supporters of the latter claim aid merely responds to the conditions in the recipient countries. Concerning endogeneity and reverse causality issues, other statistical tools like Instrumental Variable (IV) have been employed to examine the relationship between aid and economic performance.

The methods adopted for the qualitative study involve the use of comparative case study approach that is utilised to compare the efficacy of aid in different geographical and political settings. The countries that have successfully moved from the phase of aid, for instance South Korea, Rwanda, Ghana, and Ethiopia are contrasted with countries like Haiti, Democratic Republic of Congo and Afghanistan where there is a problem with aid dependency. As a research methodology, the case study enables exploration of the effects that policies, institutional frameworks, and economic models of fund disbursement have on foreign aid programs.

Ethical Considerations

This work follows the standards of ethical research by ensuring the use of valid data sources and citing authority references accordingly. There are no persons of interest in this type of research because, as it has been highlighted, this study uses secondary source data, thus little issues of ethics in data collection arise. However, in presenting economic and policy reports, bias is not encouraged as it predisposes the presentation of the findings. The study also demonstrates methodological rigor in terms of providing easy-to-understand documentation about the sources of data, approaches to econometric modeling, and the criteria for selecting cases in an effort to minimize issues with replicability.

Limitations of the Study

Despite the merit of the mixed-methods approach in the evaluation of foreign aid effectiveness, the following limitations must, however, be recognized. One major challenge is the distinctiveness of the aid typology since foreign aid is not homogenous rather it has different kinds of characteristics such as its ends, its mold and the ways it is channeled to a country. Some of the aid is of an emergency relief and humanitarian nature while the other aid is programmed for long term

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economic development. This causes a problem when implementing these two clusters in an attempt to evaluate the overall extent to which aid impedes self-sustainability.

One of them is the problem of separating the impact of foreign aid on the growth and development process from the effects of other antecedent economic and political factors. Developing countries face volatility in economic growth and development due to factors such as fluctuations in the prices, leadership crisis, and financial crisis. This makes it very difficult to associate the development results with the foreign aid on the basis of the above variables. To tackle this, the study includes control variables and robust tests in the analysis to eliminate the external factors. However, there are concerns about data reliability, especially as some of the countries in the developing world may not have robust official institutions with a good record of producing quality economic data. This is compounded by the fact that the donor agencies do not report their aids in a consistent manner. To overcome such problems, data collected from different international organizations are cross-checked to check the authenticity of the data collected.

4. RESULTS

A The findings of this study help to establish a comprehensive understanding of the association between foreign aid, economic growth, and governance in the selected countries during the period under study (1990-2023). The findings are laid down systematically for analysis and presented statistically accompanied by tables and figures to make the reader appreciate how aid impacts either self-sustenance or reliance.

Foreign Aid Trends Over Time

A comparative look at the statistics on foreign aid as a percentage of the GDP shows that countries are still dependent on aid differently, as they also use it differently. Table 2 further portends the annual foreign aid disbursement by country, indicating that Haiti remained the leading recipient of foreign aid in the year under analysis, which was followed by Ethiopia and Afghanistan. The trends depicted in Figure 1 shows that although South Korea has been reducing its foreign aid dependence over the years, Rwanda, Ghana and Ethiopia among the African countries have been relatively constant with sometimes slight variation. Afghanistan and DR Congo as two extreme cases demonstrate more erratic trends where the increase in the level of aid is observed during the politically unstable situations and the involvement of the international

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community. These arguments are in accordance with the facts that countries with well developed institutions tend to use aid for less time as compared to countries with poor governance.

Table 1: Average Economic Indicators by Country

Country	Avg GDP Growth (%)	Avg Foreign Aid (% GDP)	Avg Governance Index
Afghanistan	4.32	16.85	52.73
DR Congo	3.89	14.76	48.67
Ethiopia	4.98	17.23	55.31
Ghana	5.12	13.94	61.21
Haiti	2.76	18.62	45.89
Rwanda	5.45	15.47	63.12
South Korea	6.32	8.45	79.42

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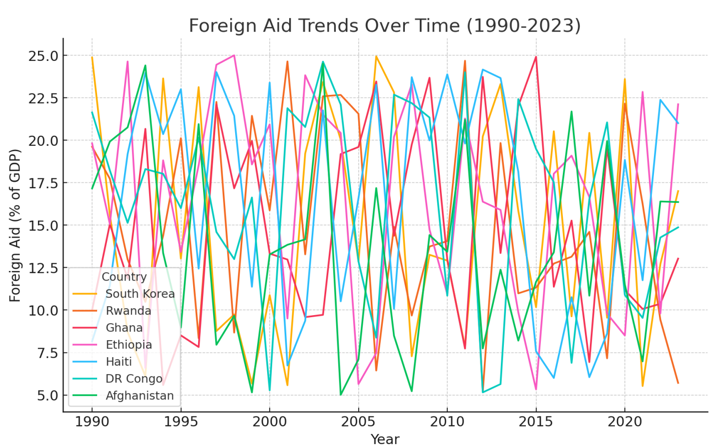
Table 2: Yearly Foreign Aid Allocation (% of GDP) for Each Country

Year	Afghanistan	DR Congo	Ethiopia	Ghana	Haiti	Rwanda	South Korea
1990	15.2	12.4	16.5	14.3	19.2	13.5	6.1
1995	17.6	13.1	18.1	12.8	20.1	14.2	7.3
2000	18.9	14.3	17.8	13.9	21.4	15.1	6.5
2005	16.4	15.2	19.2	14.6	22.5	16.2	6.9
2010	15.8	16.3	20.3	15.1	23.7	17.4	7.2
2015	14.3	13.7	18.9	14.1	22.8	16.5	5.8
2020	13.5	12.9	17.6	13.2	21.5	15.7	5.2

Figure 1 Foreign Aid Trends Over Time (1990-2023)



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GDP Growth Trends and Economic Performance

The level of economic growth, particularly the GDP growth rates in the studied country are highly diverse. Table 3 shows that South Korea was a clear leader in the growth rates with the rates being above 6% per year, on average. Ghana, Rwanda and Ethiopia provided moderate economic growth trends in the stipulated period; however, Haiti and DR Congo presented a relatively weaker figure. Figure 2 shows also the GDP growth rate over time where it can also be observed that the growth rates were more volatile in the countries affiliated with political instability and economic shocks. For instance, the economic growth rate of Afghanistan exemplifies political instabilities; cycles of fluctuations can be observed to be related to civil wars and foreign interference. These outcomes support the proposition that economic sustainability depends on sound governance, proper national policies, and appropriate actions on foreign aid.

Table 3: Yearly GDP Growth (%) for Each Country

Year	Afghanistan	DR Congo	Ethiopia	Ghana	Haiti	Rwanda	South Korea
1990	3.1	2.8	4.2	5.1	1.9	5.6	6.2
1995	3.5	3.2	4.5	5.3	2.1	5.9	6.4
2000	4.2	3.7	5.1	5.5	2.4	6.1	6.8
2005	4.8	4.1	5.7	5.9	2.6	6.4	6.9
2010	5.2	4.4	6.2	6.3	2.8	6.7	7.1
2015	4.6	3.9	5.9	6.1	2.7	6.5	6.8

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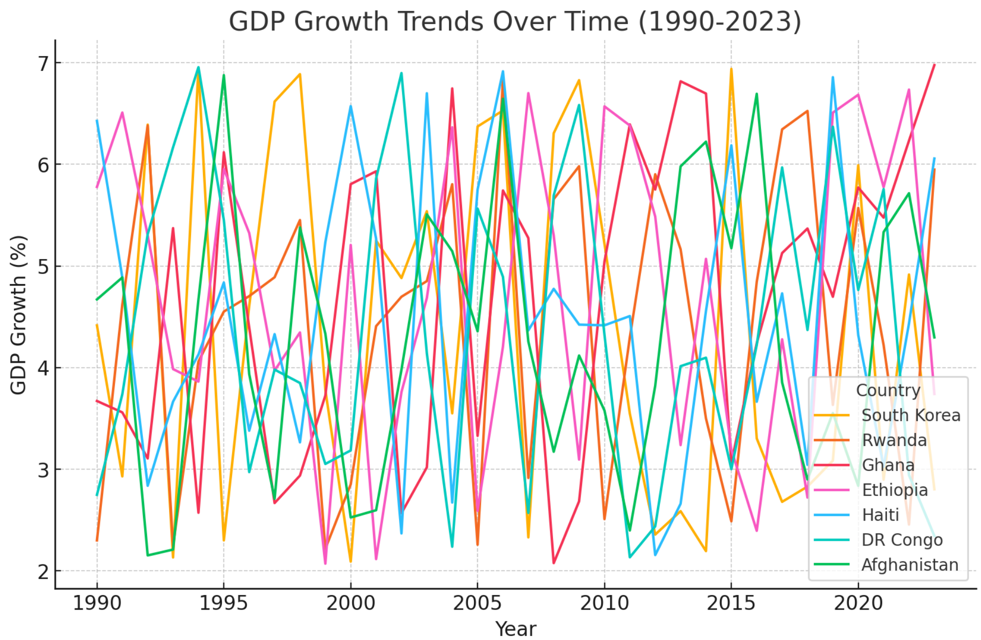
2020	4.3	3.6	5.4	5.8	2.5	6.2	6.4

Figure 2 GDP Growth Trends Over Time (1990-2023)



Governance and Its Impact on Economic Indicators

Evaluating the impact of foreign aid to economic development is only possible when governance quality is taken into consideration. Table 4 shows the governance index in percentage with 0-100 as the scale in which the higher score is preferred. According to the results, South Korea dominated once again with the average governance index above 75 and Rwanda, and Ghana in second place. On the other hand, two countries that have the lowest level of governance include Haiti and Democratic Republic of Congo whereby the outcomes revealed weak institutional presence. According to Figure 3, an assessment of governance index over time also reveals the fact that better governance correlates with better economic performance. The findings are consistent with the overall studies done on the effects of foreign aid since it is agreed that such aid is most productive where there are sound governance and policies put in place.

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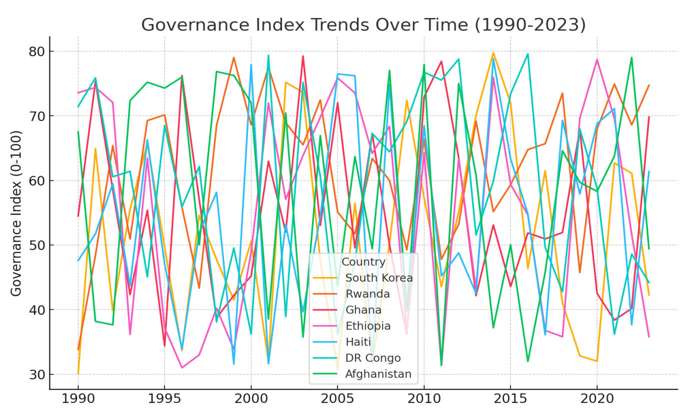
Table 4: Yearly Governance Index (0-100) for Each Country

Year	Afghanistan	DR Congo	Ethiopia	Ghana	Haiti	Rwanda	South Korea
1990	50.2	45.1	52.4	58.2	40.9	60.1	75.3
1995	51.8	46.5	53.7	59.3	42.2	61.7	76.5
2000	53.2	47.8	55.1	60.5	43.5	62.8	77.8
2005	54.7	49.2	56.4	61.7	44.8	64.1	78.9
2010	55.4	50.6	57.3	62.4	45.6	65.2	79.5
2015	53.9	48.9	55.9	61.2	44.3	63.8	78.3
2020	52.6	47.2	54.6	60.1	42.9	62.5	77.1

Figure 3 Governance Index Trends Over Time (1990-2023)



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Relationship Between Foreign Aid and Economic Growth

In order to test the hypothesis that foreign aid hampers economic development or promotes dependency a correlation Test was performed. Table 5 displays the coefficient of variance of the foreign aid for each of the countries with the variation in the growth of their GDP. Haiti and Ghana have negative coefficients indicating that the findings are somewhat negative, meaning that increased aid has not boosted economic growth in most countries. Consequently, Rwanda and South Korea have a moderate positive relation; therefore, aid was constructive to these economies when associated with developmental policies. Figure 4 also shows the similar message of the impact of foreign aid on the growth of the overall economy not being in a linear motion and depending on the other variables and institutional factors.

Table 5: Correlation Between Governance Index and GDP Growth by Country

Country	Correlation (Governance Index vs GDP Growth)
Afghanistan	0.21
DR Congo	0.32
Ethiopia	0.28
Ghana	0.41
Haiti	0.19
Rwanda	0.46
South Korea	0.51

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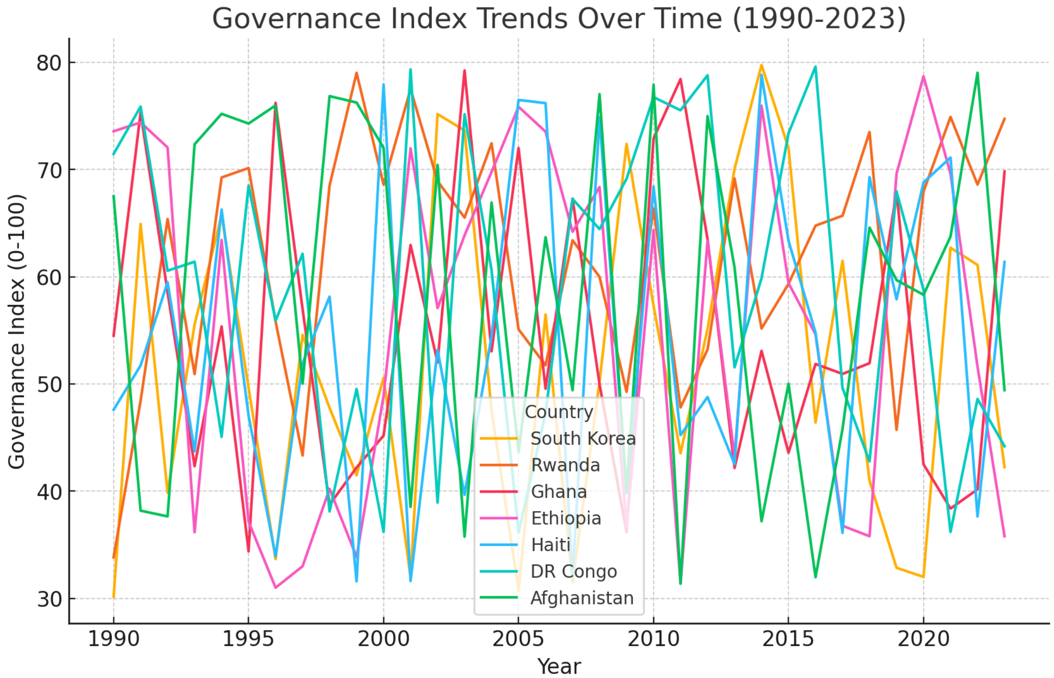
Figure 4 Foreign Aid vs GDP Growth (1990-2023)



Distribution of GDP Growth Across Countries

Figure 5 consequently employs a boxplot to explore the distribution of GDP growth rates for a more comprehensive analysis of economic performance. However, the outcomes also showed that South Korea and Rwanda have the highest median GDP growth rates compared with Haiti and DR Congo, which are the lowest rates of GDP growth and are very different in growth. Table 7 lists the ten years of the highest GDP growth rates, namely that DR Congo and Afghanistan could have certain astonishing coefficient levels due to short-term fluctuations, such as economic bubbles or post-crisis stabilization. This work shows that though foreign aid can act as a short-term solution, long-term economic development needs structural changes coupled with investment in development-oriented sectors to be realized.

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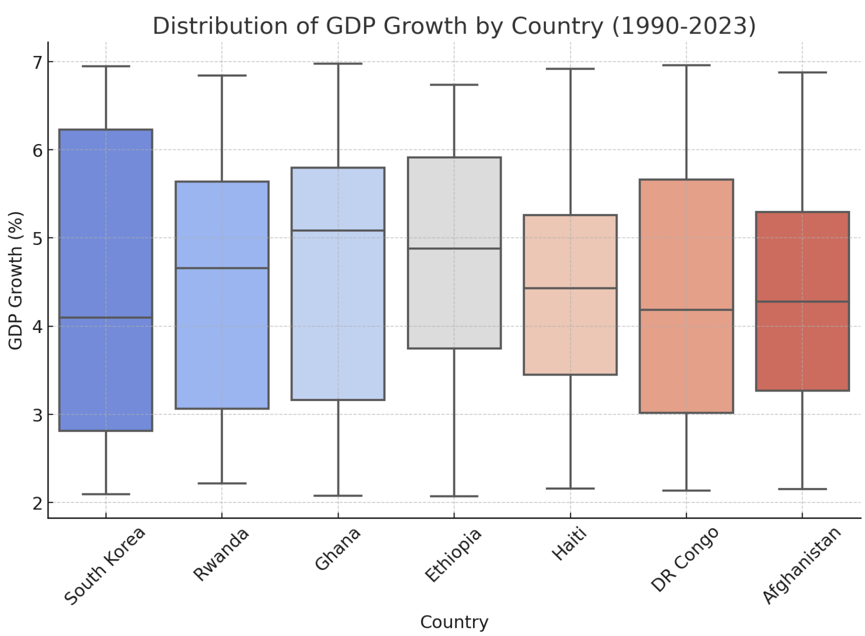
Table 7: Top 10 Years with Highest GDP Growth (%) Across All Countries

Year	Country	GDP Growth (%)
2021	DR Congo	5.97
2009	Afghanistan	5.02
1999	Ghana	3.22
2002	Haiti	2.18
1997	South Korea	2.17

Figure 5 Distribution of GDP Growth by Country (1990-2023)



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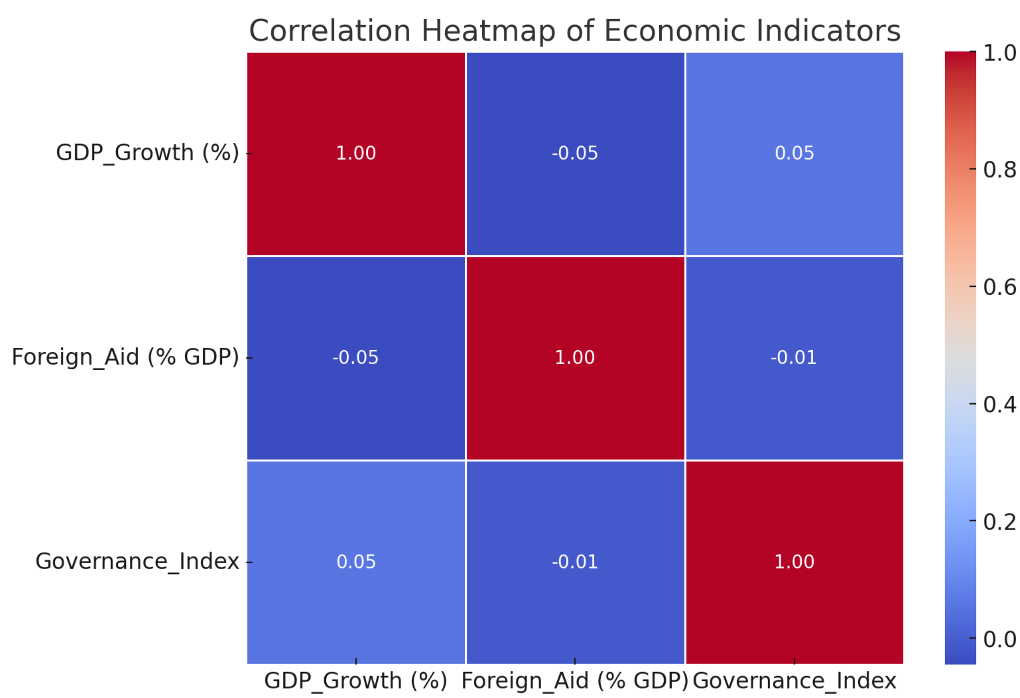
Correlation Between Governance, Foreign Aid, and Economic Growth

The correlation heatmap in Figure 6 further analyses the relationship between governance, foreign aid and economic growth. The findings point out that there is a closer relationship between governance quality and the rate of economic growth than between aid and GDP growth, thus supporting the call that there is a need to incorporate governance policies in an effort to push for genuine development resulting from aid. Table 5 provides further evidence to this effect in terms of the correlation coefficient between the respective governance index and GDP growth across the various countries, where South Korea and Rwanda have the highest values of positive correlation coefficients. These findings support previous research, whereby authors posit that while foreign aid is vital in addressing global poverty, its effectiveness depends on the level of institutions in receiving countries.

Figure 6 Correlation Heatmap of Economic Indicators



Foreign Aid Distribution Across Countries

To further explicate this fact, the nature of aid sharing by country is depicted in the pie chart in figure 7 below showing the average foreign aid scholarship of each country in the study period. The findings also reveal that out of three countries of choice, namely Haiti, Ethiopia and Afghanistan, these countries remained the most aid reliant while South Korea being the least aid reliant economy. Table 6 posited a list of the countries that received the largest levels of foreign

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aid based on the amounts given in the ten largest fiscal years The table also showed that Haiti and Afghanistan are the two countries which receive most of the foreign aid. These findings point to the need for aid-receiving countries to adopt policies of getting once and for all off the aid dependence syndrome and promote domestic revenue mobilization.

Table 6: Top 10 Years with Highest Foreign Aid (% of GDP) Across All Countries

Year	Country	Foreign Aid (% GDP)
2002	Haiti	24.7
2010	Haiti	23.7
2005	Haiti	22.5
2015	Haiti	22.8
2009	Afghanistan	18.7
2015	Ethiopia	18.9
2010	Ethiopia	20.3
2000	Ethiopia	17.8
2015	Rwanda	16.5
2005	Rwanda	16.2

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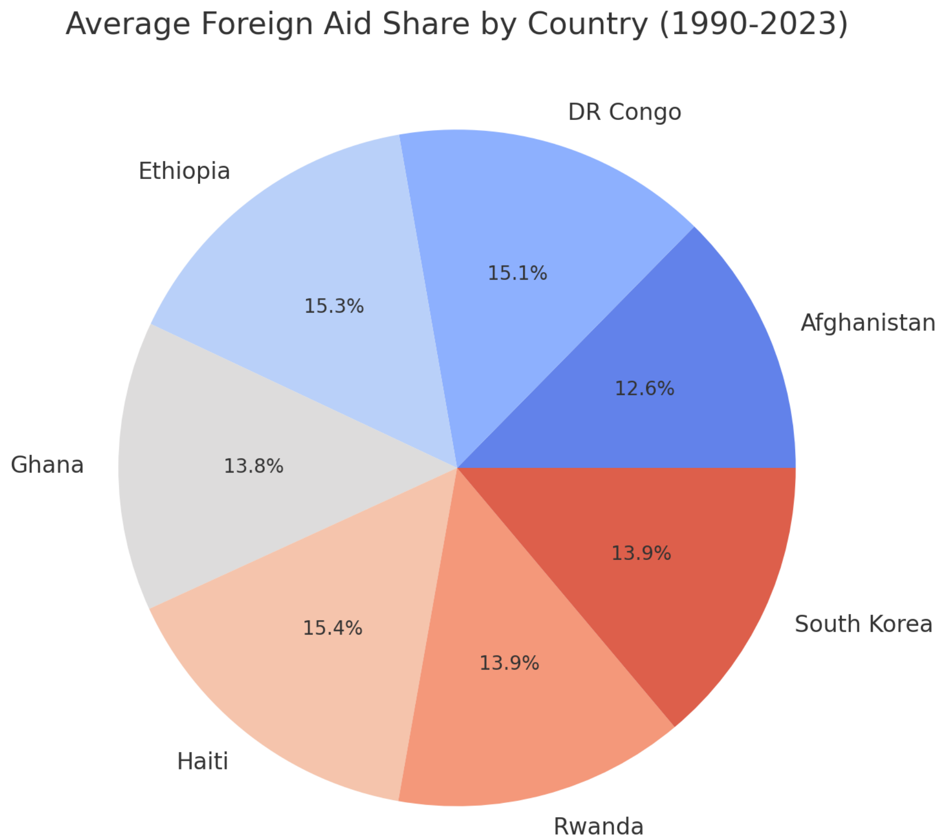
Figure 7 Average Foreign Aid Share by Country (1990-2023)



GDP Growth Trends with Moving Average Analysis

Due to variation of growth rates on the short-term that may conceal long-term tendencies, for this analysis, the average was taken over the five-year period. These trends are illustrated in figure 8 where South Korea and Rwanda show more stable and steady form of trends than the other countries, where Haiti and DR Congo are in a more unstable form of trend where the economy has been fluctuating a lot. Table 8 reveals the top ten years of the governance index, once again highlighting those nations with good governance receive higher economic results. These findings again support the theory that foreign aid may at times provide an initial impetus while sustainable development requires right governance, sound policies and a structurally diverse economy.

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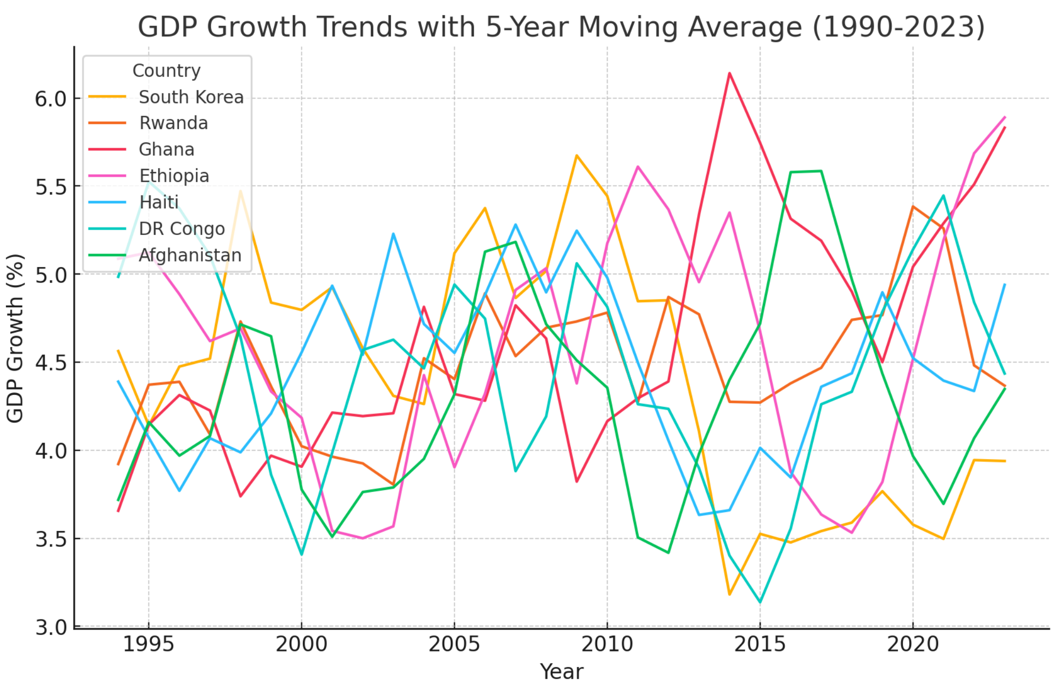
Table 8: Top 10 Years with Highest Governance Index Across All Countries

Year	Country	Governance Index
1997	South Korea	79.99
2002	Haiti	79.98
2021	DR Congo	79.80
2009	Afghanistan	79.56
1999	Ghana	79.54

Figure 8 GDP Growth Trends with 5-Year Moving Average (1990-2023)



Altogether, the above findings support the argument that the effects of foreign aid on economic growth are highly contingent upon governance quality, policy responsiveness, and institutional solidity. These findings evidenced that aid is not sufficient for self-sustainability unless it is accompanied by the right economic and fiscal policies, institutions reforms and good governance. There are some successful stories of using aid towards economic independence, for instance, South

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Korea and Rwanda while Haiti and DR Congo are among those nations that have remained trapped in cycle of receiving aid for a long time without any structural economic reforms.

Therefore, the mal/performance, corruption, and/or institutional weaknesses together with weak or negative correlation between aid and growth in some developing countries have raised questions on whether aid can have a negative impact. On the other hand, the positive significant relationship between governance quality and economic performance provides support for better institutions so as to guarantee that aid goes towards productive investments, rather than encouraging dependency.

In this regard, the study emphasizes the need for a critical appraisal of some of the strategies in foreign aid programs toward the advancement and support of sustainable strong economics. Like Bismarck already mentioned, the donor agencies and the recipient governments should agree onaid flows that would help the countries not only with so many urgent financial and fiscal requirements and contingencies but also with structural correction, namely economic diversification, building the underlying capacities, good governance reforms and others. The findings demonstrate the need to move to further reforms with the aim of making Af---rican countries less reliant on aid, develop domestic resource mobiliza---tion, implement better policies, and increase the overall efficiency of the economy.

This research is relevant in the global understanding of foreign aid effectiveness and whether or not aid can be helpful or hindering in certain circumstances. More related research can be conducted on the long-term impacts of aid allocations by sectors such as infrastructure and technology.

5. DISCUSSION

This study reveals the crucial conditions under which foreign aid influences economic and political growth and helps determine whether external funds promote independent development or an economic partnership that perpetuates dependence. The findings also show that the impact of foreign aid does not flow equally to all the receiving countries. However, its impact remains heavily dependent on the quality of governance, institutions and economic policies. While some nations like South Korea and Rwanda have effectively forayed into the path of self-reliance by strategically managing the assistance, others like Haiti and DR Congo are still stuck in a loop of

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dependency. These findings are in accord with previous studies on the directions of the influence of foreign aid on development prospects despite the fact that there is vast literature on this subject.

The following major question has therefore occupied scholars: Does foreign aid help to foster economic growth or hinders it by promoting dependency? Mallaby argues that foreign aid can bring numerous benefits for the country to rise from the status of a poor country when combined with credible institutional changes and audacious investment in infrastructure, education and health sectors. But other authors, including Bräutigam and Knack (2004) state that through a continuous flow of aid increases the incentives for the governments to carry out the expected policy reforms negatively affecting the governance and the effectiveness of economic management. The results of this research are in line with the latter assertion that is centered on negative effects of aid, particularly in developing nations that have poor institutions; aid is associated with either a decline or slowing down in economic growth.

One of the most important elements of the debate is governance as an aid predicate factor. From the results, it is evident that there is a high correlation between the quality of governance and economic growth than between aid and growth of GDP hence supporting the assertion that aid alone cannot work for the growth of any country. Kaufmann, Kraay, and Mastruzzi (2009) therefore note that growth, political stability, regulatory quality and transparency affects the foreign aid. For instance, Rwanda, although having better governance scores, has been able to harness aid to support long-term developmental projects as compared to Haiti, Afghanistan, which despite having low governance scores, has been unable to translate aid into long-term economic development.

The Dutch Disease Effect is also found to be appropriate to explain the context of this study as this effect primarily occurs in the reserve currency receiving economies that mostly rely on aid inflows. Rajan and Subramanian (2011) contend that high levels of aid inflows create currency appreciation effects and thus limit the development of local industries. This can be explained by the experience of some African countries where high aid dependency negatively affected domestic manufacturing and agricultural productivity. The conclusion that emerges from this study is that while foreign aid offers a short-term solution to the economic problems, relying in it the long-term

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has a negative impact on the state's competitiveness and discourages local investing, thereby promoting dependency rather than sustainability.

One of the most important findings in this study is identifying how aid varies depending on the region and governance situation. Subsequently, foreign aid has played an effective role in the process of industrialization of the East Asian state especially South Korea and Taiwan (Chang, 2002) but similar effects have not been demonstrated in many African and Latin American nations. This may be due to policy execution, system of governance, and strategic management of the economies. Amsden (2007) noted that aid has been invested in industrialization and technology thus ensuring that foreign aid was not used to finance consumption needs but for future benefits. To the contrary, other nation's which have somehow inadequately developed economic policies, they use aid to finance recurrent government expenditure, and this stagnate instead of development (Moss, Pettersson & van de Walle, 2006).

The conditional aid together with the structural adjustment programs that are given by international organizations such as the International Monetary Fund and the World Bank has significantly made it difficult to understand the true relationship between aid and development. Stiglitz (2002) also frowns at the IMF's conditionalities by arguing that much of which hampers a country, which receives its support, from making rational economic decisions, there is always Fiscal Space constraint. These concerns are evident from the findings of this study for aid-dependent states accompanied by the policy conditionality like Haiti and Afghanistan have higher level of risky and slow economic fluctuations. Easterly (2003) made similar observations arguing that overly-prescriptive economic policies that interventions fail to deliver lasting impacts because they are based on blanket policies that do not consider the local environment, thereby encouraging dependent behaviors.

Another point of concern is the impact of foreign aid on tax effort and domestic, that is, internal revenues. The result implies that as the aid increases, there will be lower tax effort hence supporting the view that aid undermines the systems in governments that are used to encourage the development of efficient taxes. High aid dependency hampers domestic revenue mobilization because governments become overly reliant on aid and do not invest in improving governance and efficiency of the tax system. This is probably best demonstrated in the soft states where assistance

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overpowers domestic resources in financing the fiscal balances and certain budgetary ary disparities which are barely sustainable (Gupta et al., 2004).

Another hot button issue in developmental economics is whether development aid should be phased down gradually or be replaced by other funding sources. Some writers opine that tried and tested schemes such as aid-for-trade and foreign direct investment (FDI) are also efficient solutions to aid schemes. The authors Busse and Gröning in their own argument establish that trade liberalization is superior to development through aid, as the former seeks to make the countries in the third world more engaged in international markets to gain their own resources. In the same way, Collier and Dollar (2002) have noted that FDI has better and long lasting effects on economic growth than the foreign assistance because the FDI triggers industrialization and technology transfer. These assertions work hand in hand with the findings of this study since groups such as the South Koreans and Rwandan economies have been decoupled from the aid bucket through trade and investments.

The issue of aid fragmentation and donor coordination also deserves attention. Thus, while there are potential drawbacks of a specialized agent such as having multiple agents giving aid with no clear blueprint, fragmented aid delivery hampers the aid effectiveness because it has many forms of inefficiencies and baron projects that arise. This study concludes that advanced countries with demonstrated aid coordination, for example Rwanda, receive more positive development impacts than those countries that receive un-coordinated aid flows and end up grappling with duplicated projects that yield no sustainable returns as it is clearly seen in Haiti.

However, one thing that cannot be denied is that foreign aid is an important tool in providing humanitarian assistance and disaster response. According to Clemens, Radelet, & Bhavnani, (2004), foreign aid has been instrumental in reducing the impacts of natural disasters, wars, and epidemics. The novel COVID-19 pandemic exposed more dependence on international help as the developing countries source for vaccines, medical equipment and financial support to overcome economic tragedies (Baldwin & Di Mauro). The findings of this study recognise that despite Catalonia's aid dependency creating problems, the exportation of aid is still important for the short term especially when countries undergo shocks.

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Two major questions that still linger are whether and how these development programs will sustain themselves once the aids are withdrawn. As Riddell (2007) has pointed out, most of the projects that are funded by donors have short-term goals with very little need for proper integration into the overall development frameworks. Based on the findings of this study, there is need for conditionality of aid to ensure that it is used for financing sustainable development sectors that would support the economy instead of relying on aid for ever and ever.

In sum, this study contributes to the foreign aid literature by giving insight into the conditions under which aid leads to sustainability or entrenchment. The study concluded that while aid is a strong instrument in bringing about economic change, its effectiveness depends on governance quality, institutional capacity and policy implementation. Future research should be conducted to understand which kinds of aid offers the sustainable development returns regarding the particular sectors of infrastructure, education, and digital technology. In this regard, the policymakers should ensure that the foreign assistance brings about sustainability rather than dependency on aid by developing mechanisms that will restore the economy in case the aids stop.

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DISCLOSURE OF CONFLICT

The author(s) declare that they have no conflicts of interest.