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Faculty of Regional Development and International Studies

AID FOR AFRICA: THE MAPPING AND EFFECTIVENESS OF FOREIGN AID

DIPLOMA THESIS

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Brno, 2015

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ABSTRACT

ČECHÁČKOVÁ, L., Bc. Aid for Africa: The Mapping and Effectiveness of Foreign Aid. Diploma thesis. Brno, 2015.

The diploma thesis deals with the current problematics of foreign aid effectiveness and is divided into theoretical and practical part. Within the theoretical part is introduced its background needed for further understanding of current state of foreign aid today and its impact on developing countries. Ethiopia is used as a practical example. In the practical part of the thesis are established four sectors with the highest foreign inflows and the impact of aid is examined on them. The final part of the thesis is devoted to recommendations of what might be improved, either in Ethiopia as well as on the general level.

Keywords: foreign aid effectiveness, foreign aid, foreign assistance, development aid, Ethiopia, Africa, correlation analysis, development

ABSTRAKT

Diplomová práce je zaměřena na současnou problematiku efektivity zahraniční pomoci a je rozdělená na teoretickou a praktickou část. Teoretická část se zaobírá představením problematiky zahraniční pomoci, která je potřeba pro pochopení současného postavení zahraniční pomoci ve světě a jejího dopadu na rozvojové země. V praktické části se práce zaměřuje na Etiopii. Jsou zde stanoveny čtyři sektory s největšími příjmy zahraniční pomoci, na kterých je zkoumán její dopad. Závěrečná část práce je věnována doporučením, co by mohlo být zlepšeno, jak v Etiopii, tak na obecné úrovni, pro zvýšení efektivity zahraniční pomoci.

Klíčová slova: zahraniční pomoc, rozvojová pomoc, zahraniční rozvojová spolupráce, Etiopie, Afrika, korelační analýza, rozvoj

LIST OF ABBREVIATIONS

avg	average
DAC	Development Assistance Committee
est.	Estimated
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Country
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
NGO	Non – governmental organization
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OOFS	Other official flows
PPP	Per capita income
UK	United Kingdom
UN	United Nations
USA	United States of America
USD	United States Dollars
WP – EFF	the Working Party on Aid Effectiveness
N/A	Not available
UNDP	United Nations Development Programme
EFFORT	Endowment Fund for the Rehabilitation of Tigray
FAOSTAT	Food and Agriculture Organization of the United Nations

CONTENT

INTRODUCTION

"...Africa has millions of opportunities, which will never navigate through the way the despair and helplessness West media largely presents to its audience. The effect of such presentation is it appeals to sympathy, pity, it appeals in something called charity... Therefore Africa is stripped from the self-initiative. Africa has fundamental weaknesses but equally it has opportunities and a lot of potential. We need to reframe the challenge which is facing Africa – from the challenge of despair called poverty reduction to a challenge of hope; the wealth creation..."

Andrew Mwenda, journalist and activist, TED Global 2007

Even nowadays, in the world claimed to be full of technologic, scientific and political advancement - still around 2, 7 billion people have to struggle for survival with less than 2 dollars a day, and 1 billion of them with extreme amount which is less than one dollar a day.[1] Despite the provable continuous decline of poverty around the world, according to the latest estimates the majority of poor people live in Africa and South Asia, together accounting for more than 77% of extremely poor.[2] The world is undoubtedly divided into rich North and poor South and that contributes to high levels of inequality reflected in the levels and quality of education, poverty, health care, security and instability in politics, life expectancy and other fields. Those appear to create so called *"vicious circle"* – all are interrelated and cannot be changed independently.

Undeterred by relatively successful and present decline of the poverty rate, it becomes more difficult and critical to target and reach the people facing extreme poverty, mostly because of their presence in remote areas making the access to education, health care, safe water and other necessities more difficult; contributing to the services remaining dependent on determiners such as higher social class, geographical location, or gender. The biggest challenge is to secure the long termed effect of actions taken as the line between poverty and lifting out of poverty is fragile.

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[1] Millennium Project. Fast Facts: The Faces of Poverty. [online].

[2] THE WORLD BANK. Data on poverty [online].

Majority of countries realize the causes and consequences of such inequalities and life standards in development around the globe and try to change the conditions in target countries for better, particularly in the form of international foreign aid. It is based on concept of advancement of the society by intervention of global community primarily by enormous transfers of monetary means from so called "rich countries", to the "poor countries".

More or less the term *"foreign aid"* itself (used within the thesis), often referred as *"foreign assistance"* or *"development cooperation"* might be summarized as all means given or loaned to other country, in various forms covering financial, humanitarian, military aid etc., later discussed within the thesis. This thesis deals with so called *"development aid"*, which is expected to have tenable long termed effect on the recipient country.

The thesis is devoted to the actual and to certain extend controversial topic of foreign aid effectivity. It raises important questions such as: ***Is it a large injection of money what is able to lift people out of poverty and poor living conditions?*** *What are the limits and opportunities of foreign aid, is it a good or bad concept for developing a country? Did foreign aid actually contributed to development of a certain country, like Ethiopia?*

As a practical example the author focuses on Ethiopia, country, which despite the regular intense money donations remains one of the poorest countries amongst African continent. The thesis serves as information source about the problematics of aid and is aimed to be the impulse for the further study of the phenomena of foreign aid, in a sense of revealing connections and realizing its positive impacts as well as the negative ones. The thesis is divided into two parts - theoretical and practical part.

The aim of the theoretical part is to provide reader with theoretical background of foreign aid, to cover its basic terms and definitions, brief historical development, and its classification. It analyses some of the foreign aid projects, both successful and also unsuccessful ones in order to conclude conditions in which aid works, or not. The effectivity of aid will be evaluated with the use of statistic tool; specifically the correlation analysis therefore brief theoretical background will also be included within the theoreti-

cal part. This part of thesis also includes brief country profile, from historical and also current point of view.

On the other hand, the practical part of the thesis takes real data from international institutions and applies the analysis on Ethiopia. Firstly, it maps the flows of foreign aid (multilateral and bilateral) and also describes the history of aid and Ethiopia. The author establishes four sectors with the highest inflows of money, and for each sector chooses appropriate indicators, according to their credibility and also availability. The following step in the analysis is to conduct a correlation analysis in order to gain the relation between established variables (amount of foreign aid and indicators chosen for individual sectors).

The end of the thesis is devoted to proposition of means and actions to be taken to achieve more control and effectivity over international aid flows followed by conclusion of whole research.

1 DEFINING FOREIGN AID

This chapter is devoted to establishing the definition of foreign aid. It deals with its basic terms, historical background, its types, division and also with ethical reasons for its providing. It also defines a scope of foreign aid which the thesis will cover.

1.1   Foreign aid

It is difficult to find a common definition of the term *"foreign aid"* (term used within the thesis), sometimes also referred as *"foreign assistance"* or *"development assistance" or "development cooperation"* due to variety of authors, who might reflect their own opinion on foreign aid based on characteristic they examine; therefore the author will cover several definitions.

The definition by World Bank claims, that aid is a financial flow of money to developing countries consisting of three main components;

- Grants (which does not have to be repaid)

- Concessional loans (which have to be repaid, but at lower interest rates and over longer periods than usual commercial loans)

- Contributions to multilateral institutions promoting development (UN, IMF etc.)[3]

Another widely accepted definition of the international development cooperation might be offered by Organization for economic cooperation and development (OECD), is the definition of official development assistance (ODA): *"Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent…"*.[4] ODA also includes the costs connected with its provision. Also it is possible to define the category of official aid (OA) – which must fulfill the same conditions as ODA, the difference is that recipients are transforming countries and therefore have different needs that developing countries.[5] The last category is other

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[3] WORLD BANK. *Foreign Aid and Foreign Investment* [online]. p 73 – 77.

[4] OECD. OECD Glossary of Statistical terms [online]. 2003

[5] OECD, OECD Glossary of Statistical terms [online]. 2003

official flows (OOFS), which are transactions to countries on the list of aid recipients, which do not meet conditions for ODA or OA, for not being focused on development or the grant element is less than established 25 percent.[6]

Economists usually define foreign aid as a flow of capital in the form of loans or grants to countries, which do not have such capital or in the case of loans the capital is borrowed at advantageous conditions, for example Dambisa Moyo, economist and author of Dead Aid claims that aid is *"...Large systematic cash transfers from rich countries to African governments have tended to be in the form of concessional loans (that is, money lent at below market interest rates, and often for much longer lending periods) or grants (which is essentially money given for nothing)."*[7] Peter Bauer defines foreign aid as "*transfer of resources from the taxpayers of a donor country to the government of recipient country.*"[8]

A further point might be that the sources of aid might also be hidden, for example favourable customs tariffs for export from third world countries (that allows the countries to gain higher profits and therefore results in transfer of capital). Another, similar example is when producers offer for minerals, for instance, to the third world countries at lower prices than prices which would be achieved at the world markets level. Also it would be interesting to mention military assistance, which is usually excluded from economic dimensions. Such flows, as mentioned in this section are not usually counted into foreign aid in general.[9] The transfer of foreign aid is not necessarily free transfer of means to other country, but in majority of the cases come with conditions regarding the economy or the policies. Donors might require enforcing of certain reforms which they feel might lead to growth of the recipient, e.g. in the case of IMF or WB, the requirements are known as stabilization and structural adjustment conditions. Those reforms are sources of frequent discussions, whether they really leads to growth.[10]

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[6] OECD, OECD Glossary of Statistical terms [online]. 2003

[7] MOYO, Dambisa. *Dead aid: why aid is not working and how there is a better way for Africa*. New York: Farrar, Straus and Giroux, 2009, 188 p. ISBN 03-741-3956-3. p.8

[8] SHEILER, Andrei. Cato Journal. 3. 2009. 379 – 380. *Peter Bauer and the Failure of Foreign Aid* [online]. p. 380 – 390.

[9] HAXALA, Petr. *Zahraniční pomoc ve vztazích vyspělých a rozvojových zemí* [online]. Politická a regionální geografie. 21 p., p. 2

[10] TARP, Finn. *Aid Effectiveness* [online]. *22 p.*

1.2   Historical background

The development cooperation in its broad sense indicates external interference into development countries in order to accomplish positive social change and its beginning might be dated to the post-colonial times. The following part will briefly define the key points in its historical development. Basically, there are three main processes contributing to the creation of the concept of aid:

1) Second World War: The post – war state of world created a platform for cooperation in the international field (1945) – United Nations. The initial part of its charter defines the will of members to support the social development and higher living standards within the international help.[11]

2) Rivalry between the Eastern and Western blocks: The usage of Marshall Plan, which is considered to be one of the most successful projects of foreign aid, was a US help to Europe for the post-war reconstruction.[12]

3) Liberation movements in former colonies: Until the end of 60´s, majority of colonies were gaining independence. The former economic relations with the colonies are now replaced to aid assistance from the side of former colonial powers.[13]

Even though the foreign aid is reflected almost in all human activities, during the time the priorities were dynamically changed to various focuses.

In the 60´s, the Development Assistance Committee (DAC) member countries were focused on building infrastructure and development of industry. During the next years the focus changed to basic human needs and development of agriculture. By the end of 80´s, the protection of environment, the position of woman in development and also the improvement of projects coordination entered into focus. In the 90´s, the new activities were considered – such as emphasis on good governance, citizens participation on economic and political life, respect for human rights and at last, the rule of law. Taking 90´s, the sector trends of foreign aid reflected the outputs of big international conferences, therefore the major flows targeted social infrastructure and services (as education, healthcare, water supply; creating about 30% of grants), economic infrastructure

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[11] United Nations. *Information Centre Prague.* [online].

[12] GARDNER, Philip a kol., *Encyklopedie Zeměpis Světa*. 1 ed. Praha: Columbus, s. r. o., 1999. 512 p. ISNB 20-901727-6-8.

[13] HAXALA, Petr. *Zahraniční pomoc ve vztazích vyspělých a rozvojových zemí* [online]. Politická a regionální geografie. 21 p., p. 5.

(creating less than 10% of grants, on the other hand more loans were provided), and just 7, 5% of ODA was devoted to agriculture. Programmes oriented on position of woman became a significant priority (accounting for 7% in the new bilateral aid), and in the second half of 90´s the ecological projects, pointing out the sustainable development belonged to fastest growing development programmes. Still, the basic effort is to create such conditions to ensure developing countries engage in the global economic system.[14]

1.3 Types of foreign aid

Aid flowing to developing countries can be classified to many types and purposes: there is humanitarian and military aid, official and official development aid, and aid coming from private foundations, corporations, political parties and other semi-official sources as well as non-governmental sources. Amongst all of those sources, the official development assistance (ODA), defined in the beginning of the chapter is the largest in scale and also is considered to be the most influential and therefore it will be used in the practical part of the thesis.[15]

Due to the provider of aid, the aid might be bilateral or multilateral. Bilateral aid means the donor country provides the assistance directly to the receiving country, the multilateral means the assistance are provided to the receiving countries via third actor, usually through international organizations.

According to the objectives, the foreign aid might be divided into development and humanitarian. The development aid focuses on long-termed goals in the field of social and economic infrastructure, environment and government forming. On the other hand, the humanitarian aid is usually provided as a reaction on emergency events and usually is short-termed.

The other division might be to governmental aid, non-governmental aid or the combination of both. The governmental aid uses the means of the state budget; the non-governmental consists of the scale of donors, foundations or charities, collecting donations of legal and physical persons.

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[14] HAXALA, Petr. *Zahraniční pomoc ve vztazích vyspělých a rozvojových zemí* [online]. Politická a regionální geografie. 21 p., p. 7.

[15] ZHOU, Hong, Jung, ZHANG and Min ZHANG. *Foreign Aid in China*. Beijing: Social Sciences Academic Press and Springer – Verlag Berlin Heidelberg, 2015. 370 p. ISBN 978-3-662-44272-2. p. 33.

According to the financial coverage the aid might be defined as grant (non-repayable money) or loans.[16]

1.4   Ethics

The name "aid" tends to be misleading in a sense there are more reasons why the concept of aid exists, beside the often mentioned "help". Below are listed the main objectives for providing aid, also supporting the interests and benefits for donors.

1. **Moral reasons**: Solidarity might be tied with national interests, which are what makes the foreign aid policy also pragmatic policy, instead of being just "a moral policy".

2**. Security goals:** Developing countries tend to be sources of instability, armed conflicts and organized crimes (e.g. smuggling of weapons or drugs). Effective aid might help with the prevention of problematic issues like immigration, organized crime, spread of diseases and for ex-ample preservation of environment.

3. **Economic goals:** The economic consequences of aid might be divided into direct and indirect. Providing aid can bring profit as well as jobs positions. The indirect impact is that the future prosperity of today´s developing countries might be reflected in advantageous mutual future trade cooperation.

4**. Political goals:** Aid certainly has effect on bilateral (e. g. improving or establishing political, cultural and economic relation with given country) and multilateral relations (e. g. improving the position on international scene).[17]

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[16] HAXALA, Petr. *Zahraniční pomoc ve vztazích vyspělých a rozvojových zemí* [online]. Politická a regionální geografie. 21 p.

[17] ROZVOJOVKA. *Globální problémy a rozvojová spolupráce*. 2 ed. Prague: Člověk v tísni, o. p. s., 2008. 214 p. ISBN 978-80-86960-55-2. p. 12 -13.

1.5   Declarations on foreign aid effectiveness: its goals

This subchapter deals with legal basis regarding the international cooperation. In the subchapter are listed the most important agreements influencing the international cooperation, which led to four high level forums on aid harmonization and effectiveness, held by OECD (from 2005 by WP – EFF). The most important agreements are listed in the *table 1* below:

Table 1- High Level Forums
(Elaboration based on source OECD)

Name	Year	City	Outcome
The First High Level Forum	2002	Rome	The Rome Declaration
The Second High Level Forum	2005	Paris	The Paris Declaration
The Third High Level Forum	2008	Accra	The Accra Agenda for Action
The Fourth High Level Forum	2011	Busan	The Busan Partnership for Effective Development Co-operation

The first forum about harmonization took place in Rome in 2003 and was focused on donor's harmonization. [18] The second forum in Paris in 2005 highlighted the need of better system of providing and managing aid in order to *"increase the impact aid has in reducing poverty and inequality, increasing growth, building capacity and accelerating achievement of the MDGs"*[19]. Also within the Paris declaration were introduced 5 main principles – ownership, harmonization, alignment, results and mutual accountability. The declaration was signed by 150 countries and the declaration itself does not include concrete definition of aid effectivity although there is a basic outline which covers technical part of aid. The Accra Agenda for Action exceeded and completed the Paris Declaration in a sense of adding new topics, such as democratic area, division of labour, cooperation between the states of South and conditionality. The Fourth Forum established *"a framework for cooperation that embraces traditional donors, South-South co-operators, the BRICS, civil society organizations and private funders"*[20].

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[18] OECD. The High Level Fora on Aid Effectiveness: A history [online].

[19] OECD. The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action [online]. 2005 – 2008. 21 p.

[20] OECD. The High Level Fora on Aid Effectiveness: A history [online].

The Millennium Development Goals have its roots in the UN Millennium Declaration, which was signed by the most world leaders, 189 countries, in the September 2000. The nations committed themselves to the fulfilment of set goals by the year 2015. There are formulated 8 goals to be achieved by 31 December 2015, listed in *table 2* below:

Table 2 - Millennium Development Goals
(Elaboration based on source UNDP)

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

The MDGs pushed the question of development further in the international scene and increased the legitimacy of development cooperation. These goals are also used as tools for persuasion of various groups concerning the need of active development policies and at last, the MDGs contributed to focus from economic growth to social politics when evaluating the development success. Concerning the outcomes of MDGs, before the crisis of 2008 certain progress was made, but the world´s success was to certain extend distorted by the rapid development of east and south Asia. The majority of countries are not able to follow MDGs, specifically those countries with low income[21].

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[21] Prague Global Policy Institute: *Rozvojová pomoc nestačí: alternativní politické přístupy k chudobě a bezmoci ve světě*. Prague: Globolis, 2009. 40 p. ISBN 978-80-254-6787-9. p. 10.

2 AID IN THE WORLD

This chapter describes the system of providing foreign aid in the world and also deals with the distribution of wealth in general in response to understand the current state of disposal of the wealth today. The chapter also deals with donors and recipients of foreign aid. Following subchapters also analyse the successful and unsuccessful projects, not only within Africa, in order to understand the conditions which might help with increasing the effectivity of aid in general.

2.6 Distribution and importance of aid in the world

Differences in the distribution of world´s wealth prevail until today, in the field of economic, ideological and political. As an example – concerning the world development it applies to North vs. South and in Europe for differences between East and West. In the global development those differences are best visible when it comes to see for instance the levels of private consumption. Like in the most cases, 20% of population is responsible for almost 80% private consumption expenditures - for comparison, the poorest 20% consume just 1, 5%.[22] Those disparities led to the need of supporting those low – developed countries in preventing poverty, conflicts, protecting environment and stability, in the form of foreign aid.

There are five biggest donors among all countries providing aid, and those are from the point of total amount of aid given in 2013 *(see figure 1)*: USA (31, 55 USD billions), United Kingdom (17, 88 USD billions), Germany (14, 06 billions), Japan (11, 79 USD billions) and France (11, 38 billions); and from the point of view of percentage of GNI: Norway (1, 07%), Sweden (1, 02), Luxembourg (1%), Denmark (0, 85%) and United Kingdom (0, 72%).[23]

More than half of the aid flows into bilateral development projects, programs and technical co-operation, based on the data from 2012 to 2013. Approximately one third flows into multilateral ODA, and the humanitarian aid is higher than net debt relief grants, but they are at a similar level, besides the period of 2004 to 2007, especially year 2005,

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[22] SHAH, Anup: *Consumption and Consumerism* [online]. 2014.

[23] OECD. Net official development assistance data from DAC and other donors in 2013 [online]. 2014.

when the level of net debt relief grants was significantly higher and reached its maximum, because of the policy of debt relief concerning the poorest countries.

Pomerantz claims that donors tend to target their aid to the recipient countries according to their interests, and agrees with Dollar and Alestina.[24] The study by Alberto Alestina (Harvard University) and David Dollar (The World Bank) shows that for example USA gives more aid to the countries according to their interest in Middle East, France to countries to former colonies laced by political alliances and Nordic countries according to economy.[25] The study also relates the aid to these variables: level of trade openness, level of democracy, civil liberties, colonial status, direct foreign investment, initial income (real PPP) and population.

The study proves that countries with higher level of democracy receive almost 40% more aid. Also countries, which has colonial past get bigger amount of aid, however certain exceptions might be found - for instance Japan and United Kingdom – Japan give 6, 3 % of aid to its former colonies, but when we look at France and UK, they focus their aid primarily on their former colonies – in the amount of 57% and 78% of total aid provided, but it is necessary to take the number of their colonies in to account – Japan had significantly less colonies than France and UK.

The colonial past is more important factor than the level of democracy. Also there is a correlation between the amount of aid and the political "friendliness" when voting within UN. "Friends" of Japan tend to receive more aid, whereas the "friends" of USA do not. Religion also might be an interesting factor – not for Muslims and Catholics, but Hindu, Animist and Atheists.

Economically opened countries tend to receive 20% more aid. It is also interesting to mention, that the amount of direct foreign investment is determined by the respect and enforcement of contracts, rule of law and economic freedom – it is not sensitive in relation to political democracy.

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[24] POMERANTZ, P R. Aid Effectiveness in Africa: Developing Trust Between Donors and Governments. Lanham, Md: Lexington Books, 2004. 173 p. ISBN 07-391-1003-9. p. 6.

[25] ALESTINA, Alberto and David DOLLAR. *Who Gives Foreign Aid to Whom and Why?*. Journal of Economic Growth. 2000. (1) 5. 63.p.

When it comes to the foreign aid recipients, according to data from World Bank, Afghanistan is clearly the biggest recipient of foreign aid − with amount of 6 725 030 000 current US dollars received (2012)[26], followed by Vietnam with amount of 4 115 780 000 US dollars and Ethiopia with amount of 3 261 320 000 US dollars, what makes the country the third biggest recipient of foreign aid, and the first country where is currently no significant violent military conflict. Bangladesh, Democratic Republic of Congo, Cote d´Ivoire, Kenya, Mozambique, Pakistan, Tanzania, Turkey and West bank and Gaza are countries whose amount of foreign aid received in 2012 exceeded the limit of 2 000 000 000 US dollars. [27]

2.7 Successful projects

For the analysis of successful projects of foreign aid providers I have chosen Marshall Plan and Vietnam, both based in different geographical conditions and political situations. It is important to stress that Marshall Plan *(European Recovery Programme)*, was implemented in different conditions than those present today in the developing world, but it is considered to be the most successful project of foreign aid by many scholars. In the developing world, institutions and structure must be created first, in the case of Marshall Plan the aid was used for the post − was restoration of institutions within the Europe. After the World War II, Europe was damaged (its infrastructure, agriculture and industry). The Marshall Plan provided loans to European businesses, which used the revenues to rebuilt infrastructure − ports, roads, railways and others, for their further usage. According to Glen Hubbard, chairman of the White House Council of Economic Advisers from 2001, the Marshall Plan worked, on the other hand aid for Africa not, because of aid funding government and non-governmental projects, without involvement of business sector.[28] The aid was offered to all European countries, but only western countries accepted the conditions (were set up by OEEC, the most importantly the OEEC decided how the aid was spend). In that time also Stalin forbade East Europe to join the Marshall plan, therefore 16 countries accepted the conditions and the total

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[26] THE WORLD BANK. Data on Net official development assistance and official aid received (current USD) [online].

[27] THE WORLD BANK. Data on Net official development assistance and official aid received (current USD) [online].

[28] HUBBARD, GLEN. *Think Again: A Marshall Plan for* Africa [online]. Foreign Policy. 2009.

amount of the aid, varies from 14 – 17 billion dollars, based on different sources. The structure of the plan was following: 20% of the whole amount was provided in the form of loans (most of them intended for buying American products), and 80% were donations (food, agricultural machinery, fertilizers etc.).

In the literature it is possible to find a lot of pros and cons of Marshall plan, but for the purposes of this thesis the author would like to stress following:

The Marshall Plan came with conditions and time framework – that means that if a certain country intended to take a part in it, it had to adopt policies which led to business operating normally. The fact is that in Africa, there are not many countries with real business markets, mainly because of government regulations. For instance, the *"Doing business"* indicator by World Bank Group shows, how easy is to do business (based on the regulatory environment conductive to the starting and operation of a local firm[29]). Most of African countries are at bottom lines ranking significantly over the level of 100, but for example, the indicator for South Africa (43) is almost the same as for Czech Republic (44), what means that government more or less let the businesses grow there, but those are rather exceptions. One of the possible interpretations might be that governments have no interest of changing those policies or business, because the poorer they are, the higher are the money they might receive in the form of foreign aid.

Another interesting point is that infrastructure does not necessarily come before business, although the common belief is that in Africa, it is necessary to build infrastructure first in order to support businesses. This might be proved on rich countries, which got developed thanks to businesses which gave means to build an infrastructure. In the case of Marshall Plan, the businesses got the loans first, then paid money back to "big national pot" and hereby financed national infrastructures. Furthermore Africa has already demonstrated its potential when it comes to the field of communication, for instance.[30]

The most important lesson, which might be taken, is that Marshall Plan itself was not the engine of post war development of Europe and did not directly lead to the development of free enterprise, or healthy economic policies, however, without the help of USA the western economies would hardly build democracy and free markets. That implies

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[29] WORLD BANK GROUP. Doing Business, Economy Rankings [online]. 2015.

[30] HUBBARD, GLEN. *Think Again: A Marshall Plan for* Africa [online]. Foreign Policy. 2009.

that aid itself does not lead to development of free enterprise or to revitalizing of economic policies, but might significantly contribute to the overall development of a certain country, where is such environment already created. Looking at the amount of support received by Marshall Plan, United Kingdom, France and Germany were given the highest amount of aid – reaching for 2, 5 % of their GDP, whereas most of African recipients received 8 – 13 % of their GDP via aid donations[31] – and after more than 50 years of aid donations the results are not as apparent as in the case of Marshall Plan in Europe after few years of running.

To sum it up, the World War II destroyed the physical infrastructure of Europe, but the social one remained. The main difference between Africa today and former Marshall Plan are the conditions; whilst Africa is mostly rural and agricultural based, with the lack of modern technology and knowledge of skills, Europe was already moved from agricultural to industrial society and therefore people shifted from rural to urban areas with corresponding knowledge. The varying nature of conditions seems to be the reason of aid in Africa not working as effectively as Marshall Plan in Europe in terms of conditions, monitoring and time framework.

Another of the popularly researched topics is the applying the **Southeast Asia experience** to African countries. Like Africa, Vietnam also came through a years of conflicts and brutality rooted in the colonization. When looking at Vietnam, its economic performance in the last two decades is one of the most spectacular in developing world, with the annual growth rate of around 7%. Also the poverty reduction reached impressive rates – the number of Vietnamese living on less than 1, 25 dollar per day decreased from 64 percent in 1992 to 17, 2 percent in 2012.[32] The main reasons are considered to be adoption and implementation of market reforms and opening to world economy, despite the problems such as undeveloped infrastructure, weak management and high costs of doing business.[33] Political and economic reforms from 1986 remodelled Vietnam from one of the poorest countries into a lower middle income country within a

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[31] Ted Global 2007, Andrew Mwenda

[32] http://www.international.gc.ca/development-developpement/countries-pays/vietnam.aspx?lang=eng

[33] HUY, Quoc Vu, Tran HUNG and Phung Van QUAN. Managing Aid for Trade and Development Results, Vietman Case Study [online]. 2012. 45 p.

quarter of a century (income per capita changed from below $100 to $1960 by the end of 2013).[34] In the 1986 the economic reform program was introduced – its main strategy was to integrate into world economy and focus on direct foreign investment. This strategy was tied with national agricultural growth and the newly achieved strong position for state-owned enterprises supporting the growth of private sector, what was also connected to the transition from centrally planned economy to the open market economy.[35] Certainly, the economic growth of Vietnam and its economic transition improved lives of many people, but not all sectors benefited equally – taking rural poor, ethnic minorities, or female – headed households. Also the single party policy poses a limitation for handling a corruption and also poses concerns over rights to freedom of expression. Nevertheless, there are compelling signals of higher government transparency and accountability, shown for instance regarding the National Assembly and its budget allocation.

The case of Vietnam clearly supports argument that for developing the country it is crucial to reform the economy and focus on the concept of open market, as well as to promote the development of private sector, to foster the ease of doing business; and also to focus on making the government steps transparent. Another step is proposing proper measures to fight corruption – as the new anti - corruption law being currently discussed in Vietnam.

2.8   Unsuccessful projects analysis

The foreign aid did not always meet with success, what might be demonstrated on many examples. For instance in Congo (Zaire), there exist evidence that international aid indirectly supported incompetence, corruption and inappropriate policies and bad governance. The dictator Mobutu Sese Seko, president of Congo from 1965 – 1997, became one of the richest people in the world (resources varies in the estimated amount of money allocated for foreign assistance disappearing from 1 billion USD to 12 billion USD, what might be the debt of the country in 1997), while the international aid flows stayed

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[34] THE WORLD BANK. *Overview of Vietnam* [online]. 2015.

[35] THOBURN, John. Vietnam as a Role Model for Development. Norwich: University of East Anglia, School of International Development, 2009. 18 p. ISBN 978-92-9230-201-6.

untouched *"…Irwin Blumenthal (whom the IMF had appointed to a post in the country´s central bank) warned in 1978 that the system was so corrupt that there was no (repeat, no) prospect for Zaire´s creditors to get their money back. Still, the IMF soon gave the country the largest loan it had ever given an African nation…"*[36] There exist documented cases, where Mobutu Sese Seko flew to France for food, bought expensive private estates abroad and also transferred money to Swiss banks and many more expenses.[37] This is of course not only the case of Congo, but also many more African countries; *"…As has been extensively documented, in many instances the first instinct of the officials receiving the funds is to steal them. Many a developing country leader has become a billionaire courtesy of foreign aid. When the money is not stolen by the leader, there are various ministers, officials, and other bureaucrats who all want a cut..."*[38]

To these days, despite the economic growth (6, 2% est. 2013[39]) of the Democratic Republic of Congo still stays one of the least developed countries in the world (with the rank of 186.), with the value of human development index of 0,338, and with the trends not significantly changing from 1980 (HDI of 0,336[40]).

From the case of Congo results that aid flows have to be controlled and regulated in order to prevent what happened in Congo. During the 2010, a debt relief program was agreed for Congo, with the amount of 12, 3 billion USD by International Monetary Fund and the World Bank, but the long – term effect remains questionable in many academic sources and will be discussed in the following chapter 5.

Another case of the foreign assistance ineffectiveness might be Tanzania, country with a long history of development cooperation. During the 20 years, there were invested about 20 billion USD in order to reconstruct the infrastructure (roads) however; the roads were destroyed before they could be built, because of the lack of maintenance.[41] Infrastructure is one of the key conditions for successful development of the country

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[36] MOYO, Dambisa. *Dead aid: why aid is not working and how there is a better way for Africa*. New York: Farrar, Straus and Giroux, 2009, 188 p. ISBN 03-741-3956-3.

[37] ŠMÍD, Tomáš, Ph.D., Research of Conflicts [lecture]. Brno: Faculty of Social Studies, Masaryk University, 24.3.2015.

[38] SHEILER, Andrei. Cato Journal. 3. 2009. 379 – 380. *Peter Bauer and the Failure of Foreign Aid* [online]. p. 5.

[39] CENTRAL INTELLIGENCE AGENCY. The World Factbook [online]. 2015.

[40] Human Development Index. In: United Nations Development Programme. Human Development Report. [online]

[41] HAXALA, Petr. *Zahraniční pomoc ve vztazích vyspělých a rozvojových zemí* [online]. Politická a regionální geografie. 21 p., p.13.

and for maintaining its economic growth. Nowadays, Tanzania with approximately 87 600 km of public roads[42] make certain steps to achieve better manipulation of resources, but on the other hand, how the latest government statistics reveal *"...that 19% of national roads and just 2% of district roads were paved on 2013. The poor condition of existing roads is a major factor in the severe congestion often experienced by drivers both in Dar es Salaam and on major trunk roads leading to and from the city. It has been estimated to cost the Dar es Salaam economy alone as much as 411 billion Tanzanian Shillings (approximately USD 250 million every year)".*[43] This case from Tanzania proves that ineffective allocation of resources and lack of control might cost the economy great amount of money.

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[42] CLYDE & CO. Road infrastructure in Tanzania [online]. 2014.

[43] CLYDE & CO. Road infrastructure in Tanzania [online]. 2014.

3   IMPACT OF FOREIGN AID

This chapter deals with the distribution of aid in Africa and the effects foreign aid might have. It focuses on critical points which are frequently the subject of discussions. It is not possible to define all within the scope of the thesis, therefore there are listed some of the critical issues authors usually focus most on. The aim of this chapter is to understand aid coming to Africa and realise the problematics the concept of foreign aid face.

3.1   Africa and aid

In 2013, official development assistance reached the amount of 134, 8 billion USD, what is the highest level ever recorded, as a lot of governments increased their spending on aid. Despite this fact, aid for some of the poorest countries is in decrease.[44] The trends of ODA are visible in *graph 1* in the attachments. *The table 3* below shows the aid flows in Africa. As might be seen, Ethiopia is the number one recipient of aid in 2012.

Table 3 - ODA recipients and ODA donors in 2014

(Based on data by OECD)

Top 10 ODA receipts by recipients USD million, net disbursement in 2012				Top 10 ODA donors USD million, net disbursement in 2012			
1	Ethiopia	3 261	6%	1	USA	9 127	18%
2	Congo, DR	2 859	6%	2	EU Institutions	7 141	14%
3	Tanzania	2 832	6%	3	IDA	4 712	9%
4	Kenya	2 654	5%	4	France	4 128	8%
5	Cote d´Ivoire	2 636	5%	5	UK	3 445	7%
6	Mozambique	2 097	4%	6	Germany	2 784	5%
7	Nigeria	1 916	4%	7	Global Fund	2 173	4%
8	Ghana	1 808	4%	8	AfDB	1 902	4%
9	Egypt	1 807	4%	9	Canada	1 856	4%
10	Uganda	1 655	3%	10	Japan	1 724	3%
	Other	27 833	54%		Other	12 365	24%
	Total	**51 357**	**100%**		**Total**	**51 357**	**100%**

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[44] OECD. Aid to developing countries rebounds in 2013 to reach an all-time high [online].

The *graph 1* below shows the total volume of international aid as a percentage of GDP and its relation to growth per capita. What the graph suggests is that the decreased aid flows might stimulate the growth per capita.

Another researches (by Burnshide and Dollar) shows, that aid has a positive impact on growth of developing countries with a good fiscal, monetary and trade policies, but aid has almost no impact on countries with inappropriate policies.

Aid and Growth in Africa
(10-year moving averages)

Graph 1- Aid and Growth in Africa (Source: The White Man´s Burden, page 56)

It is hard to make a general conclusion, if aid is harmful, or if aid actually helps the economic growth of developing countries - due to lot of authors who came to opposite conclusions – like Jeffrey Sachs, who calls for the double of the aid flows to end the world poverty and the opposite might be represented by William Easterly, who suggests that in history, aid was not able to buy any growth.[45]

Although it is clear that aid does not provide as significant benefits to recipients as was though in the past, what we might claim is aid was not and is not meant to be the "solution", the long term way how to obey poverty. In the following subchapters are listed and discussed some of the effects, causes, consequences of current aid flows system.

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[45] TARP, Finn. *Aid Effectiveness*[online]. p. *22.*

3.2   Constant flow of aid

Dambisa Moyo suggests that the constant flow of foreign aid is an effective method for keeping the inappropriate governance in power. Her claim is that thanks to the money received as aid, the governments do not need to collect higher taxes and also might support military – and if the military might be supported, governments do not need to worry about maladjusted inhabitants. Without the proper taxation system there is no need for representation of citizens in governance and that is how the same politicians stay in power. Getting aid still remains the easiest way how to get money (even though there are more methods for developing countries). For example in Ethiopia, where aid has created approximately 90% of the state budget only 2% of its inhabitants has an access to mobile phones (Africa average is around 30%). Moyo sees an opportunity for the government to sell mobile phone licences for creating income, comparing it to Ghana, where farmers and fisherman use mobile phones for researching the best conditions for selling their goods. To sum it up, the constant flow of aid could decrease the need of governments to implement income-generating means.[46]

3.3   Industries not competitive

Even though there is high level of for example food aid, which clearly improved a lot of lives, on the other hand there is a contra productive consequence of such interference. For instance the U. S. Food for Peace program, which aim is to reduce world hunger and malnutrition, currently works in 42 African countries, and for instance in Ethiopia at the present time runs 630 out of 1904 projects (33%)[47]. Each year, a millions of USD are spend in order to deliver food grown in United States to Africa to fight the hunger. Moyo claims that flooding the market with American food puts local producers out of the market and that using aid money for buying food from local farmers and distributing it towards the inhabitants would actually be more effective.

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[46] MOYO, Dambisa. *Dead aid: why aid is not working and how there is a better way for Africa*. New York: Farrar, Straus and Giroux, 2009, 188 p. ISBN 03-741-3956-3.

[47] USAID. *Africa* [online]. 2015.

3.4 Debt of developing countries and its relief

The question of debt relief (by international financial institutions in the form of HIPC and MDRI) of the poorest countries remains frequently discussed topic in the academic ground. Basically, there are two attitudes to it – one is that debt relief is a solution for the world poverty, because debt is what it stops Africa from supporting health and education and other sectors; and the second is that debt relief is rather a waste of money. The debt relief might be seen as tool for boosting the economy in a sense that if the country is not able to pay off its past loans, it may scare potential investors; but there are also examples, like Tanzania, which used the saved money from the debt relief to support primary schooling – in 2008, 98% of children were enrolled in primary schools, what evokes the positive effect of debt relief. On the other hand, there is a extend number of countries which benefited from the debt cancellation, but nowadays are again at high risk of not being able to pay its debt off, because of the sustainable new debts accumulating. Another issue for consideration might be vulture funds, financial ventures, who are seeking for a way to profit from countries in debt crisis (they buy debt from other investors at lower price and demand the full amount from governments). To make a conclusion, not all poor countries were able to benefit from the debt cancellation, but certain number of countries was excluded from the original agreement thanks to the ability to manage their debt well, like Kenya, which spend 569 USD million to pay the debt off, what is one third of its aid received in 2012, what is still a large portion of budget spent. [48]

3.5 Corruption

The term corruption refers to a misuse of power and money to achieve private benefit. Transparency International defines the term as *"the abuse of entrusted power for private gain"*. The corruption might take many forms, for example bribery, embezzlement, facilitation payment and others. Another used classification is division into political and bureaucratic corruption. Political corruption takes place at the highest positions of political positions, and usually involves politicians, ministers, or other public office holders.

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[48] ONE. Debt cancellation [online].

On the other hand, bureaucratic corruption takes place when implementing public poli-cies and usually involves stuff and the central and local level.[49] When it comes to a rela-tion between aid and corruption, in the literature there occur three approaches – first, the empirical tests showed, that aid is related positively to corruption (Knack).[50] Another research (by Tavares) proves that on the contrary aid decreases the possibility of corrup-tion.[51] And third, by Dalgaard and Olsson claim aid decreases corruption at low aid lev-els and increases it at high aid levels.[52] Regardless of the fact that there is not proven the argument that aid increases corruption generally, there is demonstrated that aid supports corruption in countries with specific characteristics, and that certain donor behaviour might evoke it as well. As the literature suggest, that countries under political and eco-nomic transition are responsive to corruption, fully democratic or authoritarian regimes shows lower level of corruption, what means that newly democratized countries might report higher level of corruption. Another crucial factor is resources of certain countries; improperly managed natural resources out of which those in rule benefits, instead of the whole population.[53]

3.6   Governance and shift of responsibility

From the historical perspective, the foreign aid has been used as a stimulus for punching certain reforms donors believed needed to be done in order to achieve growth. Collier, the former director of WTO claims that this method fails because of two reasons - psy-chological and economic. The psychological reaction to order is resistance and that is that the recipients reacted negatively to reforms they could benefit from. The second one is that aid recipients soon realized that if the stimulus is not properly thought of, it is enough to agree with certain conditions of donor, take the money and not pursue the

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[49] Department for International Development. *Why corruption matters: understanding causes, effects and how to address them.*
Evidence paper on corruption. Glasgow: Department of International Development, 2015. 110 p.

[50] KNACK, S. Aid Dependence and the Quality of Governance: Cross-Country Empirical Tests. *Southern Economic Journal*. 2001.
no 68, p. 310-329.

[51] TAVARES, J. Does Foreign Aid Corrupt?. *Economics Letters*. 2003. no 79, p. 99-106.

[52] DALGAARD, C. and OLSOON, O. Political Economy and Economic Development. *Working Papers in Economics*. Göteborg,
2006. Department of Economics, Göteborg University.

[53] Department for International Development. *Why corruption matters: understanding causes, effects and how to address them.*
Evidence paper on corruption. Glasgow: Department of International Development, 2015. 110 p.

reforms required, hereby agrees with Lancaster, who claims that recipient countries should have more power to establish their priorities in the decision process and not to be donor – driven that much[54]. Collier illustrates it in the case of Kenya, where in the exchange for foreign aid Kenya committed itself to the World Bank to pursue the same reform five times in the time scope of 15 years. Sometimes, the reforms were not pursued at all, and sometimes, only shallowly and subsequently cancelled. On the other hand, it also might be an argument for the ineffective allocation of aid by the World Bank. The shift of responsibility illustrates that pursuing those reforms within recipients results in reluctance of governments to take responsibility over them, therefore the for example in Zimbabwe in 1998, the minister of finances in local newspaper said, that those reforms were not theirs, but IMF, that they *"just had to do it"*. The consequences are that such reforms are easy to cancel, and they eventually were. Easterly claims there are two basic approaches in such situations: the first (USA, WB, and IMF) suggest that governments in poor countries are terrible and the west must press them to accept changes and the second is (OSN), that governments have rights to choose its development strategies.[55]

To achieve higher effectivity of extrusion of such reforms, Collier suggests the shift of power not to donor, but to shift of power from governments to citizens. Although it is not likely that citizens will force their governments to adopt public oversight, it is possible that external pressure in the form of foreign aid might be an effective tool.[56] Another author, Easterly to certain extend agrees with Collier, in a sense that *"…democracy works, but imposing democracy from the outside doesn´t… …democracy features feedback and accountability, rewarding searchers, while foreign aid does not…"[57]*.

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[54] LANCASTER, C. *Aid to Africa: so much to do, so little done*. Chicago, USA: University of Chicago Press, 1999. 303 s. ISBN 02-264-6839-9. p. 74 – 83.

[55] EASTERLY, William Russell. *The White Man´s Burden: Why the West Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. New York: Penguin Group, 2006. 436 p. ISBN 978-1-1012-1812-9. p.124.

[56] COLLIER, Paul. *Miliarda nejchudších: proč se některým zemím nedaří a co s tím*. Prague: Vyšehrad, 2009. 217 p. ISBN 8074290107. p. 127 – 129.

[57] EASTERLY, William Russell. *The White Man´s Burden: Why the West Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. New York: Penguin Group, 2006. 436 p. ISBN 978-1-1012-1812-9. p. 124 – 125.

3.7   Dutch disease

The phenomena of Dutch disease relates to developing countries. Basically it is a paradox, when the money from exploring and export of natural resources devaluates the country´s currency – and that has a consequence in weakening domestic secondary sector and that results in collapse of whole national economy – which then becomes dependent on fluctuations in international prices of the main exported commodity.[58] Moyo suggests that the aid flows into a country´s economy have the same effect as exploring the natural resources. In the end it might be the worst scenario for people´s jobs, which depend on being competitive in a global market.

3.8   Outflow of educated people

The international aid might have two forms – the form of money for government purposes or in the form of professional assistance (educated people who should be able to cope with reforms, eventually with people training), what means that donors provide qualified people on their expenses. Even if the country leader is willing to make useful reforms, he usually has to work with corrupted inherited authorities. For the poor states is typical that educated people decides to leave the country, because of the vision of better conditions. It is crucial to define the accurate time for inhabitants training, because if the country has no perspective, *"the diplomas confirming skills might be used as a passport".[59]* Collier claims that it is wiser if the educated people of professional assistance stay in the given country over the initial implementation period of the reform. His research shows that this type of aid is not effective in failing countries, where people just politely listen to what experts say, but on the other hand, during the first four years of new leadership it increases change of its preserving. Collier stresses the fact that the potential of such aid is not fully reached, because of the same amount of aid coming to the same countries not realising the political opportunities.[60]

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[58] EBRAHIM-ZADEH, Christine. Dutch Disease: Too much wealth managed unwisely. *Finance and Development* [online]. 2003. No 1. http://www.imf.org/external/pubs/ft/fandd/2003/03/ebra.htm

[59] COLLIER, Paul. Miliarda nejchudších: proč se některým zemím nedaří a co s tím. Prague: Vyšehrad, 2009. 217 p. ISBN 8074290107. p. 131 – 132.

[60] COLLIER, Paul. Miliarda nejchudších: proč se některým zemím nedaří a co s tím. Prague: Vyšehrad, 2009. 217 p. ISBN 8074290107. p. 134 – 136.

4   CORRELATION ANALYSIS

In the practical part of the thesis will be evaluated the effectiveness of foreign aid in Ethiopia through statistics, therefore it is necessary to define the analysis used. A statistical method used in this thesis for determining the degree of relationship of various variables is called correlation method, and the general analysis is called correlation analysis. This statistical method illustrates how closely are given variables related in a table called correlation matrix. The statistic tool which determines the degree of relation is called **correlation coefficient** (also referred to as **"Pearson's coefficient"**) what is a measure of linear association amongst variables. It is marked as **"r"**, and counted as in the basic equation below, which applies for concrete values $(x_1, y_1); (x_2, y_2)\ldots (x_n, y_n)$. The interpretation of the Pearson correlation coefficient assumes that both variables are random variables and have a common two – dimensional normal distribution.

$$r = \frac{\sum\limits_{i=1}^{n}(x_i - \overline{x})(y_i - \overline{y})}{\sqrt{\sum\limits_{i=1}^{n}(x_i - \overline{x})^2 \sum\limits_{i=1}^{n}(y_i - \overline{y})^2}}$$

The value of correlation coefficient might vary from $0,0$ to $1,0$ or $-1,0$ with positive and negative values illustrating the level of dependence between the variables. A correlation coefficient of $+1$ indicates that two variables are entirely related in a positive linear sense (move in the same direction) and on the other hand, a correlation coefficient of -1 indicates that two variables are entirely related in a negative linear sense (move in the opposite direction). The correlation coefficient with the value of 0 indicates no relation between two variables. The other values of correlation coefficient might be interpreted as illustrated in the *table 4* below.

For the purposes of this thesis for calculation of the correlation coefficient will be used the equation above and sample calculation is attached in the end of the thesis, and the correlation matrixes will be shown within the practical part of the thesis.

Table 4 - Interpretation of values of correlation coefficient (Bethea et al., 1995)
(Elaboration based on source: BETHEA, R M. Statistical Methods for Engineers and Scientists)

Value of "r"	Dependence between variables
Value close to – 1	Strong negative dependence
Value between – 0, 3 and - 0, 7	Medium negative dependence
Value between 0 and - 0, 3	Weak negative dependence
Value close to 0	No dependence
Value between 0 and 0, 3	Weak positive dependence
Value between 0, 3 and 0, 7	Medium positive dependence
Value close to 1	Strong positive dependence

It is needed to be considered with the usage of Pearson´s coefficient, that the statistically significant correlations are indicated by a probability of value less than 0, 05. (This means that the probability of achieving such coefficient by chance is less than 5 times out of 100). Also critical values for the Pearson´s coefficient need to be considered, because the coefficient is calculated from certain number of variables, therefore in order to work with a particular percentage of probability and validity of the calculation, it is needed for the result to be higher than the number in the table of critical values for Pearson´s correlation, which are listed in the *appendix 17*. A *p > 0, 05* indicates statistically significant value, evidence, that two variables are significantly correlated. If the statistic value of correlation r is located to the left from the *p < 0, 05* columns, the calculated values are not significant.

Limitations of correlation analysis

The correlation analysis reveals the presence or the absence of a relationship, but not the causation and effects. It only indicates the degree of linear association between variables. That might for example mean that there exist certain variables, which also affect the results. The conclusion about the relationship has to be based on the opinion and judgment of analyst.

5 COUNTRY PROFILE

5.1 Brief historical development of Ethiopia

Ethiopia is one of the countries with the long ancient history, dated back to the first century to *Aksumite dynasty*. Around third century, there is documented a formation of a first state – *the Empire of Axum* (extended across most of present Eritrea, Ethiopia, Western Yemen, southern Saudi Arabia and Sudan), thereafter Christianity was brought. *The Solomonic dynasty* achieved to maintain a direct line of inheritance until 1974 (with the two exceptions of Zagwe dynasty and Italian occupation) when the dynasty was overgrowth and the republic was created. The expansion of Islam and the decline of trade led to the failure of the Empire of Axum. During the following years there occurred intensive clashes with Islamic culture, mainly with *the Adal Sultanate*. From the beginning of 16th century, Portuguese helped Ethiopia to fight Islam and they were expelled in the middle of 17th century. From then there occurred many religious-based conflicts, resulting into overthrow of emperors who tried to turn back to Christianity. The feudal nobility came to a power, between the years 1784 – 1855, when the Ethiopian rulers ruled only nominally and the decisions were made by aristocrats – this period is known as *the Era of the Princes*. In the following years, the emperors tried to modernize the country, but were not able to achieve support of foreign powers. During the reign of *Johannes IV* (1871 - 1889), there occurred conflicts with Great Britain, Egypt and Italy. The following Emperor, *Menelik II* (reigning 1889 – 1913), was able to stop Italian invasion in the 1896 and also during his reign Ethiopia experienced rapid boom considering the expansion and infrastructure. After his death, and after the overthrow of his grandchild, *Haile Selassie I.* came to power. He was forced to leave to exile in 1936 thanks to Ethiopian - Italian war resulting into Ethiopia´s subjection to Italian rule (1935). Moreover during the Second World War he was able to conquer his country back with the help of Britain in 1941. His reforms and feudal system were blamed for poverty and social problems, and it resulted in 1974, when the monarchy was substituted by newly established socialist republic. The rule was led by the council; govern by *Mengistu Haile Mariam* inclining to Marxists theories. As the part of a Cold War, Soviet Union helped Ethiopia to win Ethiopian – Somali War in 1978. By the end of 80´s,

Mengistu lost his domestic and foreign support and was overthrow in 1991 by rebels, *the Ethiopian People´s Revolutionary Democratic Front*. Eritrea declared its independence in 1993; in 1994 Ethiopia became the federative republic and adopted its constitution and held its first elections one year later. In 2000 was signed a peace treaty with Eritrea ensuring the end of the war over borders, even though Ethiopia did not fully accepted coordinates of the borders and did not withdrawn troops from the areas once agreed as Eritrea's. [61] Ethiopia is often referred to as a country, which was not colonized at all (with the exception of few years of occupation from 1936 - 1941) and defeated a colonial power, what might be equally seen as positive or negative, because one of the benefits of colonization was the development of certain country, so while a majority of African countries were developed, Ethiopia remained under the feudal governance of Haile Selassie, what might be seen as one of the reasons why Ethiopia was and still remains one of the least developed countries.

5.2 Current Ethiopia

Ethiopia, in its long form the Federal Democratic Republic of Ethiopia is a federal republic, with its capital Addis Ababa. It is divided into 9 ethnically based states, and 2 self – governing administrations. Ethiopia is also the oldest independent country in Africa and also is one of the oldest in the world. In the *table 3 and 4* below are listed details about its individual government branches:

Table 3 - Executive and Legislative branches of Ethiopia (Based on data from the World Factbook, CIA)

EXECUTIVE BRANCH		LEGISLATIVE BRANCH	
Chief of state	President Mulatu Teshome Wirtu	**Division**	- House of Federation *108 seats, 5 years term of service*
Head of government	Prime Minister Hailemariam Desalegn		- House of People´s Representatives *547 seats, 5 years of service*
Cabinet	Council of Ministers		
Elections	Last held on 7 October 2013	**Elections**	Last held on 23 May 2010

[61]MEKONNEN, Yohannes K., *Ethiopia The Land, Its People, History and Culture*. Dar es Salaam: New Africa Press, 2013. 426 p. ISBN 978-9987-16-024-2. p. 13-108.

Table 4 - Judicial Branches of Ethiopia (based on data from the World Factbook, CIA)

JUDICIAL BRANCH	
Highest court	Federal Supreme Court or Supreme Imperial Court (11 judges)
Judge term of office	6 years
Subordinate courts	Federal high courts and federal courts of first instance, state court systems, sharia courts and customary and traditional courts

The economy of Ethiopia is dependent on agriculture, but the government tries to focus the production to manufacturing, textiles and energy sector. Ethiopia is one of the biggest producers and exporters of coffee. Concerning the agricultural sector there is a space for improving, especially in the field of poor techniques used and dealing with drought, but government makes certain steps in order to make improvements to prevent hunger. The foreign direct investments mainly flow into textiles, commercial agriculture, manufacturing and domestic investors are primarily drawn to banking, insurance, telecommunications and micro – credit industries. One of the current issues is long-term leases to tenants, whom state provides temporary land. Despite the overall GDP being in increase, the GDP per capita remains low and is one of the lowest GDP PPP in the world *(table 6 below)*. The economy of the country *follows Growth and Transformation Plan*, a five years plan for achieving infrastructure expansion and also for developing of the agriculture. During the recent years, the construction of Grand Renaissance Dam on the river Nile is often discussed controversial issue, project for developing electricity for consumption and also for export. The territorial dispute with Eritrea over border line was revised in November 2006 (dealing with two rival groups – Ethiopia´s Ogaden and southern Somalia´s Oromo). The efforts for stabilization of the situation and establishing of porous boundaries were complicated, because Ethiopia disputed the new border and therefore escalated the tensions again. In June 2006 Ethiopia supported Somalia´s government in a fight with Islamist militia, but there occurred conflicts with insurgents intensifying from both Ethiopia´s and Somalia´s sides, and the Ethiopian troops withdraw in 2009[62]. The basic overview of the country with the position amongst other countries in the world (rank) is illustrated in the *table 5* below.

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[62] CENTRAL INTELLIGENCE AGENCY. The World Factbook [online]. 2015. https://www.cia.gov/library/publications/the-world-factbook/geos/et.html

Table 5 - Brief overview of Ethiopia in numbers
(Based on source: the World Factbook, CIA)

AREA	INDICATORS	VALUE	RANK
GEOGRAPHY	Government type	Federal republic	N/A
	Location	Eastern Africa, west of Somalia	N/A
	Capital	Addis Ababa	N/A
	Area	1 104 300 square km	27.
	Natural resources	Gold, platinum, copper, potash, natural gas, hydropower	N/A
	Land use	Arable land 13, 19 % Permanent crops 1, 01% Other 85, 8% (2011)	N/A
POPULATION	Current environmental issues	Deforestation, overgrazing, soil erosion, desertification, water shortages	N/A
	Land boundaries	5, 925 km	N/A
	Border countries	Djibouti 342 km, Eritrea 1 033 km, Kenya 867 km, Somalia 1 640 km, South Sudan 1 299 km, Sudan 744 km	N/A
	Population	96 633 458 (2014 est.)	14.
	Ethnic groups	Oromo 34, 4% Amhara 27 % Somali 6, 2%	N/A
	Religions	Ethiopian Orthodox 43, 5% Muslim 33, 9% Protestant 18, 5%	N/A
	Birth rate	37, 66 births/1000 population (2014 est.)	14.
	Death rate	8, 52 deaths/ 1000 population (2014 est.)	77.
	Population growth rate	2, 89% est.	14.
	People living with HIV/AIDS	758 600 (2012 est.)	14.
	Literacy over age 15	39 % (child can write and read)	N/A
	Net migration rate	-0, 23 migrant/1000 population (2014 est.)	122.
	Life expectancy at birth	60, 75 years	193.
	Total fertility rate	5. 23 children / woman (2014 est.)	14.
	Health expenditures	4, 7% GDP (2011)	148.
ECONOMY	Education expenditures	4, 7% GDP (2010)	85.
	GDP purchasing power parity	118, 2 billion USD (2013 est.)	69.
	GDP per capita	1 300 USD (2013 est.)	211.
	GDP real growth rate	7 % (2013 est.)	24.
	Unemployment rate	17, 5 % (2012 est.)	154.
	Population below poverty line	39% (2012 est.)	N/A
	Public debt	50, 4% of GDP (2013 est.)	67.
	Inflation rate	8, 4 % (2013 est.)	N/A
	Labour force	45, 65 million (2013 est.)	14.
	Industries	Food processing, beverages, textiles, leather, chemicals, metals processing, cement	N/A
	Industrial production growth rate	7, 5% (2014 est.)	25.
TRANSPORTA-TION	Railways	681 km (2008)	102.
	Roadways	44 359 km (2007)	79.
MILITARY	Expenditures	0, 91% of GDP (2012)	107.
	Service age and obligation	18 years, non-compulsory (2012)	N/A
	Man power available	38 794 315 people aged 16 - 49	N/A

6 METHODOLOGY

The practical part of the thesis focuses on mapping and evaluation of the aid effectivity. There will be four sectors chosen, which are supported by the highest volume of aid. Each sector will be defined by chosen group of indicators, which are publicly accessible via international organization, such as the World Bank, Organization for Economic Co-operation and Development, World Health Organization, United Nations and others. The main goal is to map the aid flows to the country and examine if aid contributes to the development of those sectors, and that will be examined by the use of statistic tool, the analysis of correlation. Research questions will be used. Before the actual analysis, author would like to note that the data collection for individual sectors and indicators were problematic in a sense of its availability and it had to be considered when choosing the individual indicators.

6.1 Goals

There are listed the individual steps of the practical part of the thesis.
- ➤ *Mapping of the aid flows to Ethiopia*
- ➤ *Defining sectors to be evaluated*
- ➤ *Establishing research questions*
- ➤ *Establishing and defining indicators for individual sectors*
- ➤ *Correlation analysis*
- ➤ *Results in the context*
- ➤ *Recommendations*

6.2 Limitations

The weakness of this study is the use of indicators, whose were also supported by the government budget as well as by the foreign aid flows. That in a sense limits the calculated results in the following analysis.

7   MAPPING OF THE AID FLOWS

Ethiopia draws the attention in the international scene for its high rates of economic growth, but also for its frequent problems connected with fighting hunger and poverty. The country is one of the biggest recipients of aid, it gets the most aid from institutions such as International Development Association (World Bank Institution), United States and United Kingdom (*see graph no. 2*). Another significant donors in past was Soviet Union (primarily in the form of military aid, or ideological education), the aid support ended with the end of Cold War. Another large inflow took place during the time of war with Eritrea. Originally, United Kingdom was the only and during the time major donor of aid to Ethiopia, but soon, United Kingdom was outstripped by United States, and now, the biggest donor is IDA. During the last years, the country received one of the highest volume of aid received, which achieved the number of 4858, 19 million USD in 2012, and the volume decreased in 2013 to 3128, 15 USD in 2013, but the overall trend is in increase (*see graph no. 3, there are listed last 20 years, but the from the time recorded by OECD the volume of aid increase annually from the very beginning*). This money received represents from 50 to 60 percent of the national budget.

Graph 2- Top 10 Donors of Gross ODA to Ethiopia, 2012 - 2013 average in USD million (2001 prices), (Based on source: https://public.tableau.com)
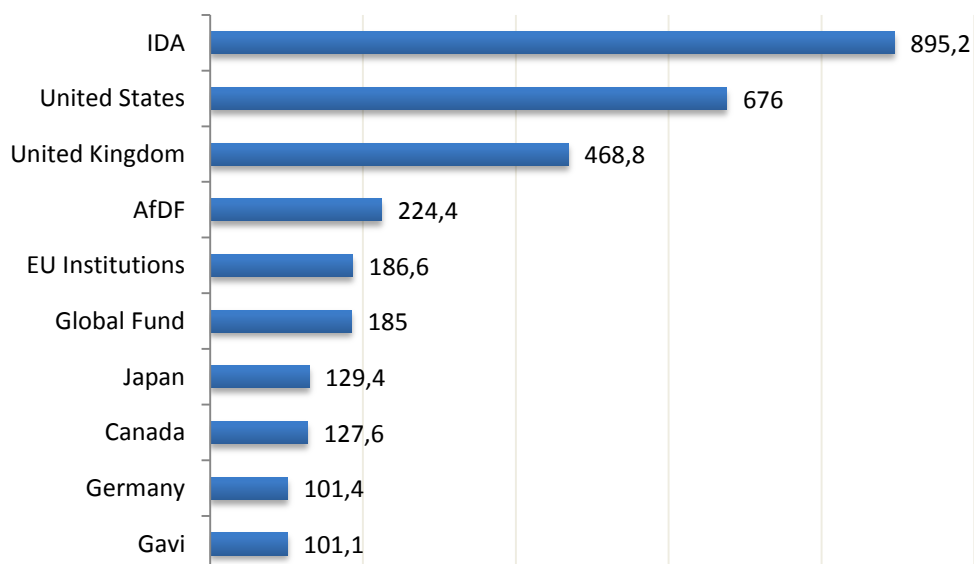
Graph 3- Total ODA flows to Ethiopia 1994 – 2013 in millions current USD)
(Graph elaboration based on source: http://stats.oecd.org)

Total ODA flows to Ethiopia
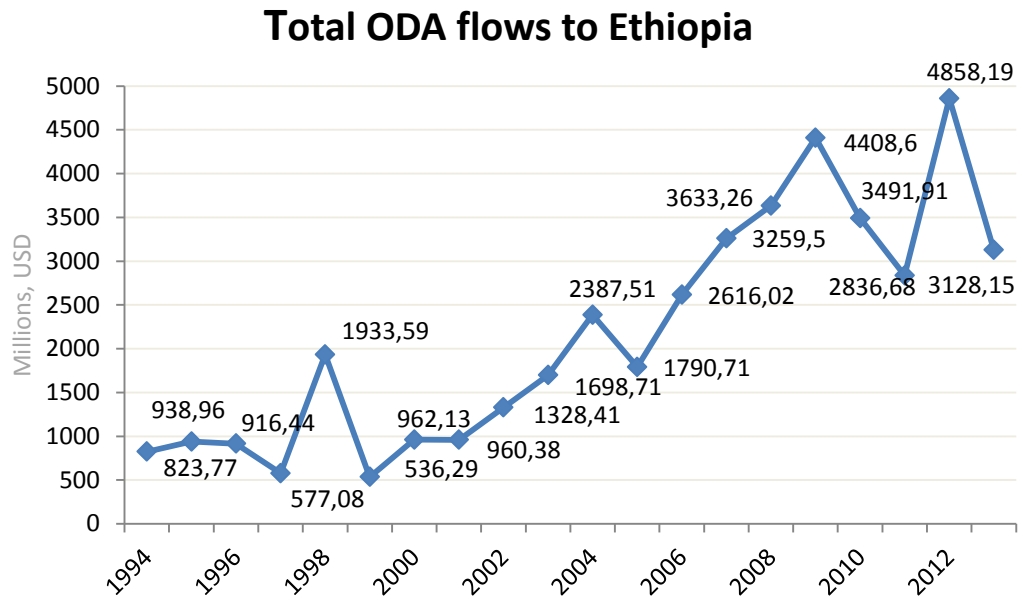
The practical part of the thesis will be based on the bilateral ODA, because of the data availability when it comes to division of ODA to individual sectors, what will be needed in the following parts. The development and amounts of bilateral and total ODA are visible in the following *graph 4* below.

Graph 4 – Development of Total and Bilateral ODA to Ethiopia 2005 – 2013
(Graph elaboration based on source http://stats.oecd.org)

Total and Bilateral ODA to Ethiopia
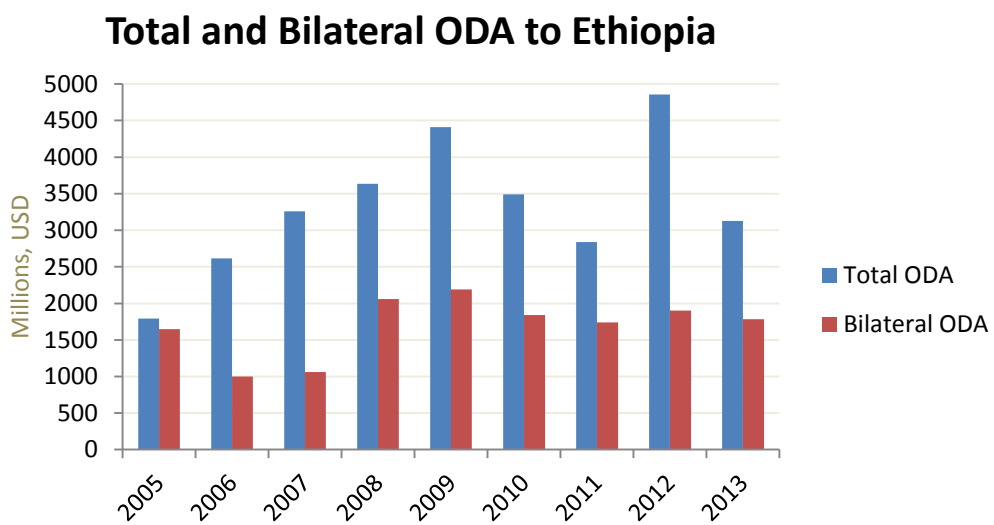
In 2001, the Ethiopia was accepted as the thirteenth country for *the Highly Indebted Poor Countries debt reduction programme* by IMF and WB. The total debt service relief under this initiative from all Ethiopia´s creditors reached the amount of approximately **3, 3 billion** nominal USD (2014). By taking part in the program Ethiopia committed itself to undertake work in defined areas to access the completion point and in order to receive definite debt relief. During the following years, Ethiopia reached its completion point (point where investors commit to deliver irrevocable debt relief): "*Ten of thirteen conditions that were set for searching the completion point under the HIPC Initiative have been met, and satisfactory progress has been achieved in implementing the remaining conditions relating to improvement in fertilizer markets, the reduction in the repetition rate* at the primary school level, and the consolidation of the federal and regional budgets. *Directors agreed… …Ethiopia has met the conditions for reaching the completion point.*"[63]

In November 2007 the Economist observed, based on the visit of the country, that there is an evidence that foreign aid is able to reach the target citizens, that infrastructure is being build and that there are *"few complaints of corruption, a fact that continues to make Ethiopia popular with foreign donors."*[64] Despite that fact, and despite of the impressive growth, as many indicators show and impressive aid donations, Ethiopia maintains one of the poorest country in the world. Due to Global Multidimensional Poverty Index, by Oxford University in the year 2014[65] Ethiopia is the second poorest country in the world, but on the other hand according to other indicators, if measured by human development index, the rank is 173 out of 187 countries evaluated (2012)[66].

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[63] International Monetary Fund. IMF and the World Bank Support Ethiopia´s Completion Point and Approve Topping-Up of Debt Relief Under the Enhanced HIPC Initiative [online]. 2004.

[64] The Economist. A brittle Western ally in the Horn of Africa [online]. 2007.

[65] United Nations Development Programme. *Human Development Report 2013*. New York: United Nations Development Programme, 2013. 216 p. ISBN 978-92-1-126340-4.

[66] United Nations Development Programme. *Human Development Report 2013*. New York: United Nations Development Programme, 2013. 216 p. ISBN 978-92-1-126340-4, p. 148 – 149.

8   SECTORS EVALUATED

For the evaluation of the aid effectivity it is crucial to establish the sectors which will be evaluated in the following parts of the thesis. In the *graph 5* below are shown bilateral aid flows to Ethiopia to individual sectors and its development from 2005 – 2013. There are visible trends for individual sectors, for example, that to social infrastructure and services are periodically directed the highest amounts of money. The second most subsidized sector is humanitarian aid, but it will be not evaluated in the thesis because of the expectance of short termed effects on development. The third sector would be the program assistance where is included food aid, therefore it will also be excluded from evaluation. The fourth sector with highest inflows is production sector including agriculture, forestry, fishing, industry, mining and construction, trade and tourism and at last, the fifth sector is economic infrastructure and services concerning transport and communications and energy. The development of remaining aid inflows is also graphically depicted in the *graph 5* below.

Graph 5 – Development of Bilateral Aid for Ethiopia by Sector 2005 – 2013
(Graph elaboration based on source stats.oecd.org)
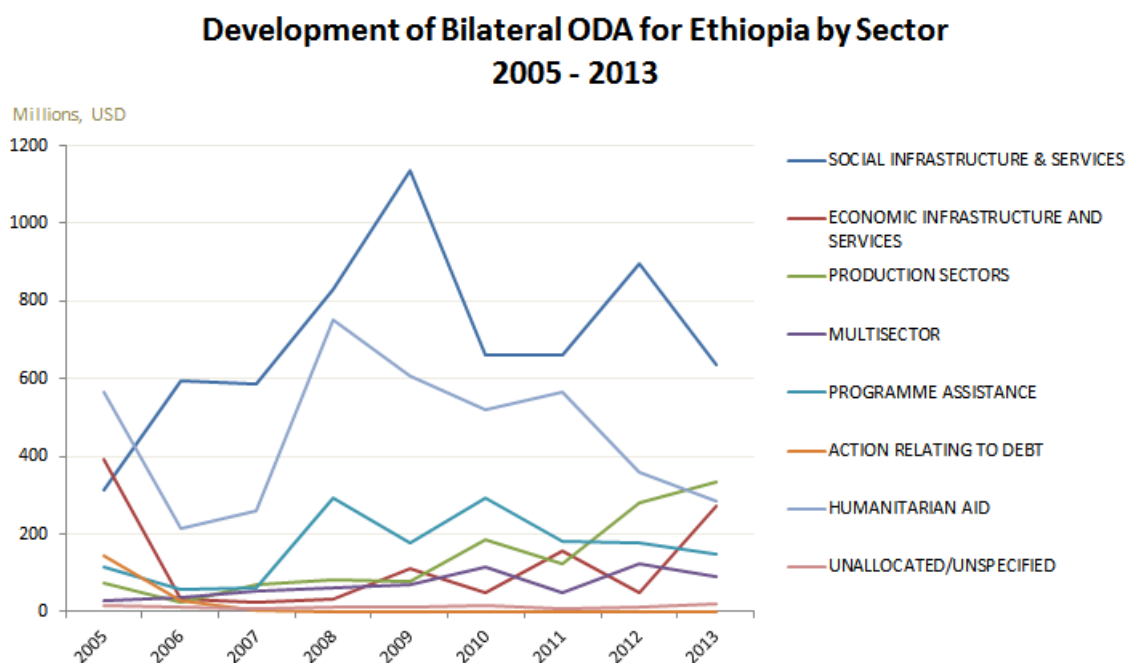
As for the choosing of sectors for aid effectivity evaluation, the sectors with highest inflows of bilateral ODA will be chosen, based on average data from 2012 – 2013. In the *graph 6* below are shown the percentage shares of individual sectors.

Graph 6- Bilateral ODA by sector for Ethiopia 2012 – 13
(Graph elaboration based on data from OECD stat)
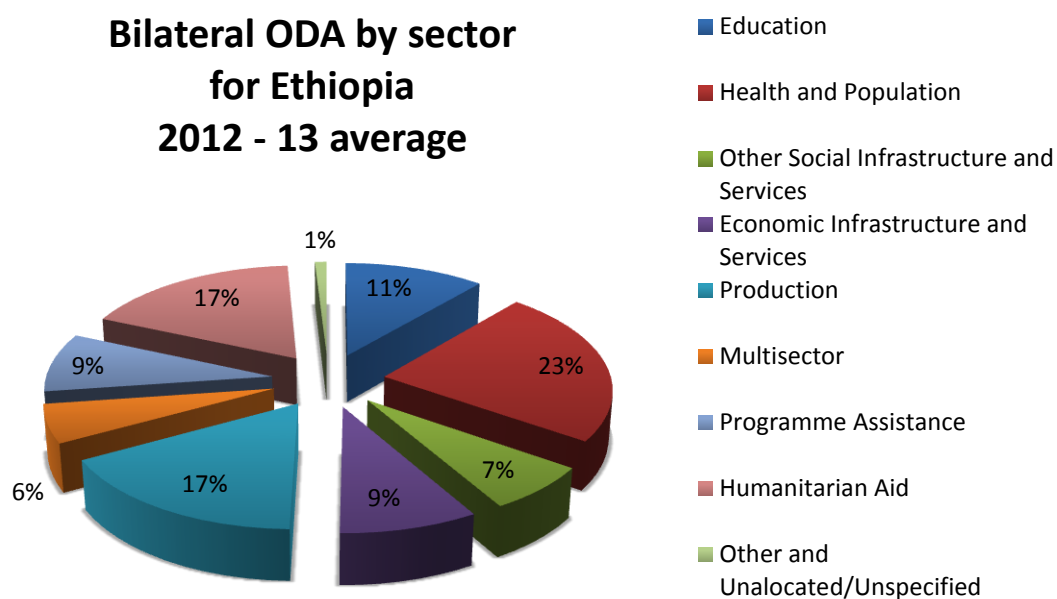
Based on the data from the previous *graph 6* the author chose four sectors for evaluation and those are listed in the *table 6* below with their perceptual share from total bilateral ODA. The four summed sectors create 60, 16% of total bilateral ODA and for each sector will be established indicators depending on their availability.

Table 6 - Evaluated Sectors

Sectors to be evaluated	Share in percent
Health and population	23, 43 %
Production	16, 74 %
Education	11, 27 %
Economic infrastructure and services	8, 72 %
Total share of evaluated sectors	**60,16 %**

9   RESEARCH QUESTIONS

In order to evaluate aid effectiveness (in a sense aid supporting the development of chosen sectors) research questions will be used and answered. Those questions are listed below:

Q1 *Does total and bilateral aid correlate with the indicators for health and population sector in Ethiopia?*

Q2 *Does total and bilateral aid correlate with the indicators for production sector in Ethiopia?*

Q3 *Does total and bilateral aid correlate with the indicators for education sector in Ethiopia?*

Q4 *Does total and bilateral aid correlate with the indicators for economic infrastructure and services sector in Ethiopia?*

10 INDICATORS FOR INDIVIDUAL SECTORS

This chapter is devoted to establishing indicators for individual sectors. It is crucial to note that the collection of indicators was limited by availability - not all indicators, which might be more suitable for usage when it comes to evaluation, but could not be used because of missing data. The data for each of indicators were collected through trustworthy websites, usually websites of international organizations such as World Bank, World Health Organization, and OECD etc. There will be mainly evaluated period from 2000 – 2012, because of the best data availability and also because the amount of aid has been increasing rapidly and periodically since then. This chapter also introduces and explains individual indicators which cover the given sector.

Health and population

For the evaluation of relation between ODA and development of sector health and education the author chose following indicators which will be explained in following pages:

- **Life expectancy at birth**
- **Health expenditures per capita**
- **Improved sanitation facilities**
- **Population growth**
- **Adult literacy rate**

Life expectancy at birth

This indicator, life expectancy at birth is one of indicators reflecting the state of health conditions and of mortality conditions. Basically it measures the amount of years newborn infants are expected to live on average, in given mortality rates during certain period. In the CSD indicators by UN it is placed in health section and its measurement unit are years of life.[67] The indicator is closely related to health conditions; as The Programme of Action on ICPD suggests: *"the unprecedented increase in human longevity reflects gains in public health and in access to primary health-care services"*.

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[67] Life expectancy at birth. In: LIFE EXPECTANCY AT BIRTH United Nations Indicators Methodology Sheet [online]. p. 43.

Health expenditures per capita

Health expenditure per capita is one of the most significant indicators when it comes to evaluation of money flows to individual in certain country. Health expenditures per capita express the expenditures per individual regarding health sector and are represented in current US dollars.[68]

Improved sanitation facilities

Essentially, improved sanitation facilities are certain features, which guarantee hygienic separation of human excretory products from human contact. It includes toilets which are able to flush, or pour-flush, the piped sewer system, connection to septic tank, or availability of pit latrine with slab, or composting toilet. The indicator by World Bank indicates the percentage of population, who use the improved facilities defined. The measure unit are percentage of population with access to such facilities. The United Nations stated there are 2, 5 billion people not using those facilities and still over 1 billion people practise open defecation. The conditions regarding sanitation are significant indicator considering the development of a country – the transition to improved facilities seems to reduce the child mortality about a third. Naturally, also public health, livelihoods and communities might reap the benefits of using improved facilities.[69]

Population growth

The population growth is often referred to as one of the significant elements which have effect on long – term sustainability. Rapid population growth represents serious questions for given country considering economic, social and environmental dimension, peculiarly when connected to high levels of poverty or lack of resources. This indicator is connected to other demographic, social and per capita indicators, such as GDP per capita etc. The implications of this indicator affect indicators connected to education, employment and infrastructure. It is important to note that the population grows unequally through regions, yet the rise in the urban areas prevails dramatically, what might

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[68] Heath Expenditures Per Capita. In *the Health Expenditures Per Capita by World Bank* [online]. 2015.

[69] United Nations Department of Economic and Social Affairs. *Access to Sanitation* [online]. 2014.

result into population in such areas having less possibility for achieving relatively high standards of living reflecting in various ways.[70] For the purposes of the thesis the population growth represents the exponential rate of growth of midyear population which is expressed as percentage.

Adult literacy rate

The adult literacy rate refers to percentage of people older than 15 years who are able to read and write. By reading and writing is usually meant writing short sentences for everyday use and usually is accompanied by the ability to count simple mathematic calculations. The education as whole, therefore even this indicator is connected to "health literacy", what is an emerging concept which brings together both health and literacy fields. The level of literacy should promote not only the abilities to read and write, but also should support and allow the population to access more information on health in their everyday life contexts.[71]

Production

For the evaluation of relation between ODA and development of sector of production the author chose following indicators which will be explained in following pages:

- **Food production index**
- **Energy production**
- **Manufacturing, value added**

Food production index

Food production index covers all food with nutritive value which is considered edible and is produced within certain region. Coffee and tea are not covered in the index, because of no nutritive value even though they are edible. Basically, the food production index stands for the changes in production between the given and base year, multiplied by 100. In the case in the thesis, the data are normalized to the base period 2004-2006.[72]

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[70] Population Growth Rate. In: POPULATION GROWTH RATE United Nations Indicators Methodology Sheet [online]. p. 96 - 98.

[71] World Health Organization. Promoting Health and Development: Closing the Implementation Gap [online]. Nairobi, 2009. 46 p.

[72] Food Production Index. In: *Food Production Index by the World Bank* [online]. 2015.

Energy production (kt of oil equivalent)

Energy production indicator measures the forms of primary energy – petroleum, natural gas solid fuels and combustible renewables as well as primary electricity, which are all converted into oil equivalents.[73]

Manufacturing, value added (% of gross domestic product)

This indicator measures the industries which belong to International Standard Industrial Classification, under division 15 – 37 (it covers division C construction; and division D manufacturing). Value added is the net output of a sector, with all outputs added and subtracting intermediate inputs. The origin value is established by the International Standard Industrial Classification (revision 3).[74]

Education

For the evaluation of relation between ODA and development of sector of education the author chose following indicators which will be explained in following pages:

- **Mean years of schooling of adults**
- **Expected years of schooling**
- **Expenditures on education**
- **Adult literacy rate**

Mean years of schooling of adults

This indicator refers to average number of years of formal education obtained by people aged 25 or older, converted from achieved education with the official duration of each level, expressed in years. The indicator is also used for calculation of Human Development Index. Across the nations might be visible various gender disparities, smallest in developed areas as North America, Western Europe and Central Asia and largest in sub-Saharan Africa, South and West Asia.

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[73] Energy Production. In: *Energy Production by the World Bank* [online]. 2015.

[74] Manufacturing, value added. In: *Manufacturing, value added by the World Bank* [online]. 2015.

Expected years of schooling

This indicator shows the number of years of schooling which a child entering school, is expected to spend in full – time and part – time schooling in their life. The expected years of schooling estimates are based on enrolment by age at all level of education, indicator elaborated by UNESCO Institute for Statistics.[75]

Total Expenditures on education (percentage from GDP)

The indicator covers total expenditure by government (local, regional and central) and governmental institutions on education, and is calculated as a percentage of GDP. It also includes expenditures financed by international sources.[76]

Economic infrastructure and services

For the evaluation of relation between ODA and development of sector of economic infrastructure and services the author chose following indicators which will be explained in following pages:

- **Foreign direct investment**
- **GDP per capita**
- **GDP growth**
- **International tourism (number of arrivals)**

Foreign direct investment, net inflows (in current US dollars)

Foreign direct investments are net inflows of investment aiming for lasting management interests in a business conducting in an economy aside of that of the investor. It is the sum of equity, long term and short term capital, reinvestment of earnings written in the balance of payments. That shows net inflows in the target economy from foreign investors and data are presented in current US dollars.[77]

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[75] United Nations Development Reports. *Human Development Index* [online]. 2015

[76] Total Expenditures on Education. In: Total Expenditures on Education by the World Bank [online]. 2015.

[77] Foreign Direct Investment. In: Foreign Direct Investment by the World Bank [online]. 2015.

GDP per capita (current US dollars)

Gross domestic product is one of the most important indicators when it comes to evaluation of nation´s economy. It represents the total value of goods produced and serviced provided in the country by all resident producers in a period of one year (including taxes and minus any subsidies not contained in the value of the products). GDP per capita is gross domestic product divided by midyear population. Its value is represented by current US dollars within the thesis.[78]

Annual GDP growth (2005 US dollars)

Annual growth rate of GDP is based on constant local currency at market prices, with aggregates based on constant 2005 US dollars and is expressed as a percentage.[79]

International tourism (numbers of arrival)

This indicator represents the number of international tourists staying in the target country overnight, with the maximum length of stay of 12 months. The methods and sources of data collection might be different across the countries – some data comes from border statistics completed with border surveys, some comes from tourism accommodation establishments and in the remaining countries the data might come from arrivals by air arrivals to hotels.[80]

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[78] GDP per Capita. In: GDP per Capita by the World Bank [online]. 2015.

[79] Annual GDP Growth. In: Annual GDP Growth by the World Bank [online]. 2015.

[80] International Tourism. In: International Tourism by the World Bank [online]. 2015.

11 CORRELATION ANALYSIS

13. 1 Correlation: total and bilateral aid and heath and population sector

For the calculation of correlation coefficient were used collected data in the *table 7* below for the years 2000 – 2012 regarding total aid and 2005 – 2012 concerning the bilateral aid, in order to avoid errors due to missing data (due to the fact OECD recorded data for bilateral aid from 2005). The sample calculation is listed in the *attachments 16*.

Table 7- collected values for health and population sector 2000 - 2012, elaborated by author
(source: WB, OECD, WHO, UN)

Year	Bilateral Aid	Total Aid	Life Expectancy at Birth	Health Expenditure Per Capita	Improved Sanitation Facilities	Population Growth	Adult literacy rate
2000		962,13	52	5	8	2,9	35,9
2001		960,38	53	6	10	2,9	35
2002		1328,41	54	5	11	2,9	41,5
2003		1698,71	55	6	12	2,9	42,7
2004		2387,51	56	6	13	2,4	35,9
2005	1647,06	1790,71	57	7	15	2,8	29,8
2006	999,46	2616,02	58	8	16	2,7	29,82
2007	1061,44	3259,5	59	11	17	2,7	39
2008	2059,27	3633,26	60	14	19	2,7	29,82
2009	2192,13	4408,6	61	15	20	2,6	36
2010	1839,8	3491,91	61	14	21	2,6	39
2011	1739,01	2836,68	62	14	22	2,6	39
2012	1901,48	4858,19	63	18	24	2,6	39

Within the calculation is needed to be considered from how many variables is the correlation coefficient counted. In the case of total aid and established indicators it is counted from 12 variables, therefore in order to work with 95% probability and validity ($p = 0, 05$) of the model, the Pearson´s coefficient have to achieve higher value than 0, 58.

Concerning the bilateral aid and established indicators, the correlation coefficient has to be higher than 0, 71. For easier illustration the critical values are listed in *table 8* below.

Table 8 - Critical values for Pearson´s coefficient,
elaborated by author

Critical Values For Pearson´s Coefficient	Life Expectancy at Birth	Health Expenditure Per Capita	Improved Sanitation Facilities	Population Growth	Adult literacy rate
Total aid (N = 12)	0, 58	0, 58	0, 58	0, 58	0, 58
Bilateral aid (N = 8)	0, 71	0, 71	0, 71	0, 71	0, 71

In the *table 9* below are listed calculated values for correlation coefficient with marked values which are considered significant according to the critical values in *attachment 17* (that means value above 0, 58 in the case of total aid and indicators and value above 0, 71 in the case of bilateral aid and indicators).

Table 9 - correlations: total and bilateral aid and indicators for health and population sector, rounded values used, elaborated by author

Correlations (Health and Population)	Life Expectancy at Birth	Health Expenditure Per Capita	Improved Sanitation Facilities	Population Growth	Adult literacy rate
Total Aid	0,92	0,93	0,91	- 0, 68	- 0,01
Bilateral Aid	0, 57	0, 67	0, 58	- 0, 43	0, 11

We might see there is a strong significant positive correlation between the total aid and life expectancy at birth (0, 92) what means that with the higher amount of aid the life expectancy at birth increases. Another strong significant correlation shows the dependence between total aid and health expenditures per capita (0, 93) explains that with the higher total aid, the health expenditures per capita increases. The last positive strong significant correlation (0, 91) explains that with the higher total aid the percentage of improved sanitation facilities also raises. When evaluating the relationship of total aid and population growth, the significant medium negative correlation suggests that with

the higher total aid inflows the population growth decreases. Evaluating the results of correlation analysis for the total aid and indicators established for health sector, it suggests positive development for the country; the higher the life expectancy is the better healthcare there is and the development of the country moves forward. Also when there are higher health expenditures per capita, more people should be able to get access to medical care. The improved sanitation facilities should be also effective when it comes to fighting diseases and it is possible to assume that more people are familiar with basic hygienic habits, what is considered to be a crucial issue when it comes to development of health sector in developing countries. The trend of population growth is also moving in a positive direction – the lower the population growth is, the more developed the country usually is, even though the correlation coefficient shows negative value, what means that it is not correlated to total amount of aid. The value of $-0,01$ for the adult literacy rate indicates there is no relationship between these two variables at all.

When examining the bilateral aid with given indicators, there is only one medium correlation and that is with health expenditures per capita what indicates the same trend as described before. Otherwise the calculated values of correlation coefficient cannot be assessed as statistically significant because they are lower than the critical value established for the given variables, ie. (0, 57; 0, 67; 0, 58; -0, 43; 0, 11) are lower than 0, 71.

While answering the first research question *(Q1: Does total and bilateral aid correlate with the indicators for health and population sector in Ethiopia?)*, there might be observed significant correlations when it comes to total aid and all indicators except the adult literacy rate. These significant correlations on the other hand might be questioned, because the sectors were established according to bilateral aid, not total aid – this is the fact, which makes the relation between bilateral aid and the indicators more relevant. When looking at the correlations between bilateral aid and indicators for the health and population sector, there are no statistically significant correlations.

13. 2 Correlation: total and bilateral aid and production sector

For the calculation of correlation coefficient were used collected data below (*table 11*), for the years 2000 – 2011 regarding total aid and 2005 – 2011 concerning the bilateral aid in order to avoid errors due to missing data.

Table 10- collected values for production sector 2000 - 2012, elaborated by author
(source: WB, OECD, FAOSTAT, UN)

Year	Bilateral Aid	Total Aid	Food Production	Energy Production	Manufacturing (value added)	Foreign Direct Investment
2000		962,13	69,6	24168,2	8	134640000
2001		960,38	76,5	24826,8	10	349400000
2002		1328,41	84,8	25464,9	11	255000000
2003		1698,71	87,6	26125,5	12	465000000
2004		2387,51	92,8	26784,7	13	545100000
2005	1647,06	1790,71	102,9	27447,8	15	265111675
2006	999,46	2616,02	104,4	28117,8	16	545257102
2007	1061,44	3259,5	107,1	28760,5	17	222000573
2008	2059,27	3633,26	115,3	29581,2	19	108537544
2009	2192,13	4408,6	121,6	30450	20	221459581
2010	1839,8	3491,91	136,9	31431,3	21	288271568
2011	1739,01	2836,68	137,8	32114	22	626509560
2012	1901,48	4858,19				

Within the calculation is again, needed to be considered from how many variables is the correlation coefficient counted. In the case of total aid and established indicators it is counted from 11 variables, therefore in order to work with 95% probability and validity ($p = 0, 05$) of the model, the Pearson´s coefficient have to achieve higher value than 0, 60. Concerning the bilateral aid and established indicators, the correlation coefficient has to be higher than 0, 75. For easier illustration the critical values are listed in *table 11* below.

*Table 11- Critical values for Pearson´s coefficient,
elaborated by author*

Critical Values For Pearson´s Coefficient	Food Production	Energy Production	Manufacturing (value added)	Foreign Direct Investment
Total aid (N = 11)	0, 60	0, 60	0, 60	0, 60
Bilateral aid (N = 7)	0, 75	0, 75	0, 75	0, 75

In the *table 12* below are listed calculated values for correlation coefficient with marked values which are considered significant according to the critical values in *attachment 17* (that means value above 0, 60 in the case of total aid and indicators and value above 0, 75 in the case of bilateral aid and indicators).

Table 12 - correlations: total and bilateral aid and indicators for production sector, rounded values used, elaborated by author

Correlations (Production)	Food Production Index	Energy Production	Manufacturing	Foreign Direct Investment
Total Aid	0,83	0,86	0,88	- 0, 09
Bilateral Aid	0, 53	0, 52	0,59	- 0, 40

In the *table 12* above are listed calculated values for correlation coefficients for the production sector of Ethiopia. The first calculated value for food production index and total aid is 0, 83 what explains strong, significant, positive dependence between variables. It could be explained that with the higher aid, the food production index increases – what basically means that with more aid flowing to the sector, more nutritive food is produced within the country than during the previous years. The energy production exhibits strong, significant, positive correlations with the total aid with the value of 0, 86. That means that the higher amounts of total aid supported the higher amount of energy production during the given years. Concerning the manufacturing, there also occur strong

positive correlation of value 0, 88; what indicates that total aid correlates with the development of manufacturing in Ethiopia during established years. Taking foreign direct investment and total aid, which are considered to be a successful tool for boosting the economy, the correlation coefficient shows zero dependence between variables at all.

As for the evaluation of bilateral aid and indicators for production sector, the first two indicators, food production index and energy production, shows medium positive dependence of the variables, what is not a significant value as in the case of total aid. When it comes to evaluation of relation between bilateral aid and manufacturing, the correlation coefficient (0, 59) stands for the medium positive correlation, but the value is also not statistically significant. In the case of foreign direct investment and bilateral aid, the correlation coefficient achieved value of − 0, 40 what stands for negative medium correlation, again the value did not meet the required value for significance.

While answering the second research question *(Q2: Does total and bilateral aid correlate with the indicators for production sector in Ethiopia?)*, there are three statistically significant correlation between total aid and food production index, energy production and manufacturing. These significant correlations on the other hand might be questioned, because the sectors were established according to bilateral aid, not total aid – what makes the relation between bilateral aid and the indicators more relevant. Correlation between total aid and foreign direct investment proves no relation between variables. Correlations between bilateral aid and given indicators did not exceeded the needed value of Pearson´s coefficient (0, 75), what means correlations are not statistically significant.

13. 3 Correlation: total and bilateral aid and education sector

For the calculation of correlation coefficient were used collected data below *(table 13)*. For each type of aid were used only years with all data disposed in order to avoid errors due to missing data, even though the table contains all years for easier orientation of the individual indicators.

Table 13 - collected values for education sector 2000 - 2012,
elaborated by author (source: WB, OECD, UN, WHO)

Years	Bilateral Aid	Total Aid	Mean Years of Schooling of Adults	Expected Years of Schooling	Expenditures on Education	Adult Literacy Rate	Population Growth
2000		962,13	1,5		3,9		2,9
2001		960,38				35	2,9
2002		1328,41				41,5	2,9
2003		1698,71				42,7	2,9
2004		2387,51				35,9	2,4
2005	1647,06	1790,71	1,5	6,6	5,5	29,8	2,8
2006	999,46	2616,02	1,6	7,1	5,5	29,82	2,7
2007	1061,44	3259,5	2	7,7	5,5	39	2,7
2008	2059,27	3633,26	2,2	8,2	5,4	29,82	2,7
2009	2192,13	4408,6	2,3	8,2	4,6	36	2,6
2010	1839,8	3491,91	2,2	8,2	4,7	39	2,6
2011	1739,01	2836,68	2,4	8,4	4,7	39	2,6
2012	1901,48	4858,19	2,41	8,5	4,69	39	2,6

Within the calculation is needed to be considered from how many variables is the correlation coefficient counted. In the case of total aid and established indicators it is counted from 8 variables, therefore in order to work with 95% probability and validity (p = 0, 05) of the model, the Pearson´s coefficient have to achieve higher value than 0, 71. Concerning the bilateral aid and established indicators, the correlation coefficient has to be also higher than 0, 71. For easier illustration the critical values are listed in *table 14* below.

Table 14 - Critical values for Pearson´s coefficient,
elaborated by author

Critical Values For Pearson´s Coefficient	Mean Years of Schooling of Adults	Expected Years of Schooling	Expenditures on Education	Adult Literacy Rate	Population Growth
Total aid (N = 8)	0, 71	0, 71	0, 71	0, 71	0, 71
Bilateral aid (N = 8)	0, 71	0, 71	0, 71	0, 71	0, 71

In the *table 15* below are listed calculated values for correlation coefficient with marked values which are considered significant according to the critical values in *attachment 17* (that means value above 0, 71 in both cases).

Table 15 - correlations: total and bilateral aid and indicators for education sector, rounded values used,
elaborated by author

Correlations (education)	Mean Years of Schooling of Adults	Expected Years of Schooling	Expenditures on Education	Adult Literacy Rate	Population Growth
Total Aid	0, 78	0, 79	-0, 63	0, 50	- 0, 72
Bilateral Aid	0, 62	0, 57	-0, 65	0, 11	-0, 43

In the *table 15* are listed calculated values of correlation coefficient for the education sector in Ethiopia. There are marked values which show the statistically significant correlations. The first calculated value of correlation coefficient for total aid and mean years of schooling of adults shows significant strong positive correlation (0, 78) what means that the variables are related. We might assume that with the higher total aid inflows the means years of schooling will be higher. Almost the same value of coefficient of correlation was achieved in the case of total aid and expected years of schooling (0, 93) what might be caused by the similar scale of those two indicators covering the years of education. Taking total aid and expenditures on education, the value of correlation coefficient is -0, 63 shows medium positive correlation, but the relation between those two variables is not statistically significant. When looking at the relation between total

aid and adult literacy rate, the correlation coefficient has the value of 0, 5; which is not statistically significant. Considering the relation between total aid and population growth, the value of correlation coefficient is -0, 72, what stands for significant strong negative correlation, with what can be explained that with the increase of total aid the population growth decreases what is definitely a sign of country developing.

When evaluating the relationship between bilateral aid and mean years of schooling of adults, the coefficient of correlation shows medium positive dependence with value of 0, 62; what indicates the movement of variables in the same direction that means with the higher bilateral aid the higher the means years of schooling of adults are, however the value is not statistically significant. The same applies for the relation of bilateral aid and expected years of schooling, the value of 0, 57 indicates medium positive correlation, however not significant. Considering the relation between bilateral aid and expenditures on education, the coefficient of - 0, 65 shows the negative medium correlation, what might be interpreted that with the higher bilateral aid the expenditures on education decreases, but it is not statistically significant. The last relation between bilateral aid and population growth shows the value of -0, 43 what might be classified as a medium negative dependence, but not significant.

Answering the third research question *(Q3: Does total and bilateral aid correlate with the indicators for education sector in Ethiopia?)*, there are three statistically significant correlations between total aid and established indicators (mean years of schooling of adults, expected years of schooling and population growth), and two not significant – expenditures of education and adult literacy rate. These significant correlations on the other hand might be questioned, because the sectors were established according to bilateral aid, not total aid – what makes the relation and results calculated between bilateral aid and the indicators more relevant. There are not any significant correlations observed between bilateral aid and given indicators.

13. 4 Correlation: total and bilateral aid and economic infrastructure and services sector

For the calculation of correlation coefficient were used collected data below *(table 16)*. For each type of aid were used only years with all data disposed in order to avoid errors due to missing data, even though the table contains all years for easier orientation of the individual indicators.

Table 16- collected values for economic infrastructure and services sector 2000 - 2012, elaborated by author (source: WB, OECD, UN)

Years	Bilateral Aid	Total Aid	Foreign Direct Investments	GDP Per Capita	GDP Growth (annual)	Total Tourists Incoming
2000		962,13	134640000	124,8	6,1	136000
2001		960,38	349400000	121,1	8,3	148000
2002		1328,41	255000000	112,2	1,5	156000
2003		1698,71	465000000	119,8	-2,2	180000
2004		2387,51	545100000	136,8	13,6	184000
2005	1647,06	1790,71	265111675	162,8	11,8	227000
2006	999,46	2616,02	545257102	195,2	10,8	330000
2007	1061,44	3259,5	222000573	245	11,5	358000
2008	2059,27	3633,26	108537544	327,6	10,8	383000
2009	2192,13	4408,6	221459581	382,3	8,8	427000
2010	1839,8	3491,91	288271568	343,7	12,6	468000
2011	1739,01	2836,68	626509560	357,4	11,2	523000
2012	1901,48					

Within the calculation is needed to be considered from how many variables is the correlation coefficient counted. In the case of total aid and established indicators it is counted from 11 variables, therefore in order to work with 95% probability and validity (p = 0, 05) of the model, the Pearson´s coefficient have to achieve higher value than 0, 60. Concerning the bilateral aid and established indicators, the correlation coefficient has to be also higher than 0, 75. For easier illustration are the critical values listed in *table 17* below.

Table 17- Critical values for Pearson´s coefficient,
elaborated by author

Critical Values For Pearson´s Coefficient	Foreign Direct Investments	GDP Per Capita	GDP Growth (annual)	Total Tourists Incoming
Total aid (N = 12)	0, 57	0, 57	0, 57	0, 57
Bilateral aid (N = 7)	0, 75	0, 75	0, 75	0, 75

Table 18 - correlations: total and bilateral aid and indicators for economic infrastructure and services sector, rounded values used, elaborated by author

Correlations (economic infra-structure and services)	Foreign Direct Investments	GDP Per Capita	GDP Growth (annual)	Total Tourists Incoming
Total Aid	-0,09	0,89	0,49	0,85
Bilateral Aid	-0, 40	0, 71	-0, 34	0, 38

In the *table 16* above are listed calculated coefficients of correlation for the economic and infrastructure sector. The relation between total aid and foreign direct investment is zero. Taking total aid and GDP per capita, there is visible strong positive correlation with the value of 0, 89 what means that with higher total aid the GDP per capita increases. The relation of annual GDP growth and total aid has the strength of 0, 49 what might be classified as medium positive correlation, but it is not significant. Looking at the relation between total aid and the total number of tourist incoming, the correlation coefficient has the value of 0, 85 what represents the strong significant positive correlation. It may be interpreted that with the more aid flowing to the country, the more tourists came. When it comes to relation between bilateral aid and established indicators, there are not any strong or significant correlations. The answer for the research question 4 (*Does total and bilateral aid correlate with the indicators for economic infrastructure and services sector in Ethiopia?*) would therefore be the only significant correlations are between total aid and GDP per capita and total number of tourists incoming.

14 RESULTS IN THE CONTEXT

Looking at the correlation analysis, the results suggest there are statistically strong significant correlations in each sector between indicators and the total amount of aid. On the other hand, no correlation was proved for the relation between bilateral aid and indicators, even though the selection of sectors was based on bilateral aid flows.

Another step in the analysis is the short comparison of development of selected indicators for the biggest aid recipients (Afghanistan, Vietnam, Kenya) and also with country which might be classified as relatively stable, like Ghana and. The aim is to find out, if the indicators changed positively with the change of aid and suggest ideas for further research.

Even though the results from the correlation analysis tent to support the idea of foreign aid linking with the development of the indicators, it is **needed to consider the pace of changes**, if the changes reached its potential. Ethiopia is given the most money from all the African countries, but there are a lot of countries, who despite the cuts of foreign aid reach better conditions, like Ghana, as visible in the table below.

Table 19- Comparison of Indicators I.
(elaborated by author, data by the World Bank)

	Total Aid 2000/2013			Population Growth 2000/2013		Heath Expenditures per Capita 2000/2013	
Afghanistan	6 426 500 000	5 265 950 000	- 18%	3	2, 4	16	55
Vietnam	2 940 080 000	4 084 770 000	+ 39 %	1,3	1, 1	20	111
Ethiopia	**3 525 210 000**	**3 826 250 000**	**+ 8, 5%**	**2, 9**	**2, 5**	**5**	**25**
Ghana	1 692 540 000	1 330 510 000	- 21 %	2, 4	2, 1	12	100
Kenya	1 628 570 000	3 236 280 000	+ 98 %	2, 6	2, 7	19	45

Table 20 - Comparison of Indicators II.
(elaborated by author, data by the World Bank)

	Total Aid 2000/2013	Food Production 2000/2013		GDP per Capita 2001/2013	
Afghanistan	- 18%	85,6	119,8	115,3	664,8
Vietnam	+ 39 %	77	133,7	448,9	2052,3
Ethiopia	**+ 8, 5%**	**69,6**	**147,5**	**121,1**	**505,0**
Ghana	- 21 %	78,1	143,7	275,5	1875,5
Kenya	+ 98 %	71,9	122,9	404,2	1238,5

Those three countries are comparable from the point of view of aid donations. There are listed three countries which are the biggest recipients of foreign aid. There are also listed the amounts of aid received in 2000 and 2013 and the value of indicators population growth and health expenditures per capita also in 2000 and 2013. We might see that despite the impressive changes considering aid donations the population growth, one of the target indicators of developed nations, changed disproportionally on how much aid flew into country over 13 years. Also with the higher aid the health expenditures per capita increased, but not symmetrically with the aid inflows over 13. Taking Ghana, despite the lowest aid flows the country has provably the best values of indicators. This implies there are other variables which might affect the improving of indicators selected in the given countries, not just foreign aid itself. The same principle applies to indicators listed in table 20, where the proportion and changes in the aid flows did not proportionally affected monitored states.

This knowledge leads to a question: *what are the realities influencing the effectivity of foreign aid, in other words how is possible that certain countries make more significant development progress than other countries, independently on how much development assistance they do receive.* Taking Vietnam, for example, as discussed in the previous chapters; the crucial change seems to be the movement to private enterprise and attempts to control corruption and transparency regarding governments' steps. Also other eventualities might affect the different course of results of aid implementation in certain countries, as described in the fifth chapter in the theoretical part, such as the levels of corruption, outflow of educated people, or the lack of competiveness regarding individual industries etc., as further discussed in the following chapter.

15 RECOMENDATIONS

Even though the current position of effectiveness of aid flows is not easy to establish, there are certain points which are possible to evaluate and propose certain measures to be taken. The proposed recommendations are designed at the general level, but also applied and applicable to Ethiopia.

Firstly, the author would like to note that the total amount of money distributed to individual countries is not as important as the way **how the aid is provided** in a sense of the most effective money allocation. It is clearly visible, that the number of aid donors significantly increased over the last decade as the number of projects running, but the real question is if the international help is able to reach its potential (especially in the case of Ethiopia, where despite the large money donations during the last decades and despite improving of certain indicators the country remains one of the least developed in the world).

Governments and international organizations usually pursue various reforms and policies in exchange for large money donations, but the countries should be **given the right to establish their own priorities, because there exists nothing like the universal one – fits all strategy for recipients** – for donors it means to involve and respect local experts and focus on what is really needed to be improved in individual country (e. g. should be money invested into education – considering the fact that in Ethiopia is the adult literacy level 39% - but what if graduates will not find jobs (unemployment rate in Ethiopia is 18%[81] – so maybe instead of "demotivating" people by not being able to find job after graduating - should it rather be invested into economic jobs creating – or should it rather be invested into health sector since the health expenditures are quite low comparing to other countries – 5,1 % of GDP, compared with Burundi or Mozambique etc.) The related step is to establish clear and measurable targets of individual projects in order to obtain feedback at the donor´s side as well as the recipients one.

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[81] Central Intelligence Agency. The World Factbook [online]. 2015.

The connected issue might be to establish firm **balance between the scope of influence of state and donor** when making decisions questioning money allocation in order to eliminate the risk of repeatedly wrong decisions made by unqualified people, alike in the fifth chapter, taking the case Congo and World Bank, where World Bank kept donating money to the country even though the government of Congo did not implement the suggested reforms requested.

One of the most discussed problematics remains the **corruption** in recipient countries, such as in Ethiopia the *corruption perception index* reached level of 33[82]. This indicates that the country is corrupted at high level (score 0 = highly corrupted, score 100 = clean), with the rank of 110 out of 175 countries making Ethiopia comparable with countries like Kosovo or Albania. Corruption is hard to obviate, especially in the country as Ethiopia, with political system which eliminates major institutional checks and balances. For example, taking the business group the Endowment Fund for the Rehabilitation of Tigray (EFFORT) established to rehabilitate the Tigray region in north Ethiopia after its destruction by poverty and conflicts and also accounting for approximately half of country´s economy appears to be closely linked with the ruling party of Ethiopia in a sense of controlling the public resources and is suspected of pursuing of the illegal operations. The conglomerate is led by Azeb Mesfin, widow of Meles Zenawi Asres, the Prime Minister of Ethiopia 1995 – 2012. She claimed to receive monthly salary of 250 dollars, but her estimated fortune reach 4 billion dollars, what might be explained by the acquisition of resources by illegal activities in cooperation with EFFORT.[83] But still there are few steps which might be taken to avoid it starting from the point of foreign aid allocation. In democracies with relatively good governance, there is probability of less corruption, and the aid should be directed on longer – time commitments, whether in countries with inappropriate governance it should be directed on short – time commitments, as in the case of Ethiopia. Another preventive measure **is transparency and visibility**, not only for the side of donors, but there should be given emphasis on delivering the "numbers", data and primarily information to the inhabitants. Among

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[82] Transparency International. Corruption Perception Index data [online]. 2015.

[83] Inter Press Service. Examining the Depths of Ethiopia´a Corruption. [online]. 2015.

other benefits for the nation, response and intolerance of corruption might boost the interest of foreign investors, making the country look more predictable and therefore more attractive to long termed partnerships.

That points out another issue, **the political system of the country.** As mentioned in the theoretical part *(chapter 4.1)*, democracies tent to receive 40% more aid (not the case of Ethiopia), what to certain extend might be explained by the more probable stability and tendency to follow basic **democratic principles** within the country. According to Amnesty International, the Ethiopian People´s Revolutionary Democratic Front, currently the ruling legitimate party of Ethiopia suppressed the opposition by imprisoning of its members as well as journalist and was firing on unarmed demonstrators and used state resources for weakening of political opponents. In December 2005 were judged 131 leaders, journalist and activists for treason and unconstitutional activities, threatened by the death penalty. At the same year, the government banned more than dozen of periodic and still 13 of them have not been restored today.[84] This case clearly indicates the violation of fundamental human rights and freedoms. In connection with foreign aid, the donors should enforce its compliance and should enforce the government orientation towards democracy and simultaneously make sure that donated money does not support such actions as described.

What might be seen as contra productive help are the persistent high levels of **humanitarian aid**, and also its current short termed positive effect on development, which in certain cases might do damage. Taking Ethiopia, for the last 9 years the humanitarian aid remains the second highest donated sector by international aid, but real question is if it really helped. It would be unacceptably immoral and ineffective to cut off humanitarian aid totally, but there exist eminent space for improvement. As mentioned in the *chapter 5*, bringing US food to Ethiopia might make the country´s food industry not competitive. The solution might be instead of delivering the basic tools needed from donor´s country to buy or to create food in the recipient country and thereby create job

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[84] Amnesty International. Ethiopský novinář odsouzen na 18 let za článek kritizující vládu. [online]. 2015.

opportunities and support the industry; moreover this principle should be enforced in all industries. Above that, also the way the humanitarian aid is provided should be consulted with local people to prevent useless import of goods the inhabitants do not need to precede situations of destruction of local businesses. To that applies the same principle as discussed before**, to sustain proper research, monitoring, feedback**, and in the ideal case support **inspections** to recipient countries.

Improved reporting of aid flows also might be another acquirable step taken, to be reached by increased visibility and transparency. During my research, on the websites of most development international institutions dealing with aid flows were primarily described the successes reached in certain countries or regions and the access to data was complicated, if possible at all. Even though I was researching the biggest recipient of foreign aid it was hard to gain proper secondary data for my research in a sense of finding detailed reports, or detailed data regarding aid distribution. Another improvement regarding the description of successes, it would be advisable to enhance public sharing of successes as well as the unsuccessful stories, what is crucial in order to make the whole concept of aid trustworthy and transparent.

Another step to be taken could be the **clear distribution of responsibilities** – taking Millennium Development Goals, presenting its success and contribution to fulfilling such goals. But if the goal will not be met, most probably no one would ascribe to such result. All organizations should stay clear to their goals, responsibilities and in particular make and perform plans if they fail to succeed.

On the other hand the **evaluation and collection of data** is a complicated process, because a lot of projects might be poorly managed, or might not have been established clear and measurable targets and more importantly the projects usually have limited time of duration, what basically imply that after certain period there might be no one responsible for the further monitoring of the sustainability of projects. Therefore it might result into less relevant monitoring of the achievements of projects and therefore there might be less space for improving its sustainability. It is crucial **to properly moni-**

tor the projects, even after their completion (preferably by impartial institution) and possibly make it publicly available in order to gain experience for better future performance.

Another issue which should be considered is the **lower amount of money which should be allocated to middle income countries** – the probability of appearance of disruptive factors such as corruption is lower in such countries than in the low income ones; there exist higher probability of more sustainable and effective aid management. The middle income countries tent to have higher saving rates, taxes revenues and possibility of open markets – which are considered as critical issues for developing. Therefore, the middle income countries should be endowed with lower aid money.

The last, and probably the most impacting suggestion is to establish firm **plans for foreign aid way out**, even though this is a plan for further decades. This step would emphasize the finite termination of aid donations and therefore it could push the fruition of individual project. Moreover, it would be a tool to build the trust between the donor countries and its citizens as well as the call for action at the recipient's side.

In addition to all proposed measures above, many scholars propose that **increased cooperation at the organizational donor´s level** might progress the global aid - supported performance and thus could contribute to fulfilment of the global development goals. Even thought there were attempts to raise this issue during the last decades, e. g. the Paris Declaration on Aid Effectiveness in 2005 and other high forums, the success of outlined objectives remains questionable as a lot of donors experience complications to meet their established targets.

As a conclusion to the recommendation part of the thesis the author would like to propose ideas for **further development of the thesis**. Firstly, the correlation analysis for the four most subsidised sectors by international aid could be made for the countries in similar condition, from the point of view of amount of donated money transfers as well as from the point of view of historical development of certain country or geographical locations. Also the further research might be based on only aid – donated (state – budget free) indicators, if it would be possible to reach such data, what was not possible while writing this thesis, in order to gain more specific results and conclusions. At last, the author suggests to compare such results considering individual countries and focus on the critical issues discussed within the chapter. The output of such research could reveal another connections and similarities among the whole process of foreign aid implementation and thus can suggest more mechanisms for improving of the system.

CONCLUSION

"In this new century, many of the world´s poorest countries remain imprisoned, enslaved and in chains. They are trapped in the prison of poverty. It is time to set them free. Like slavery and apartheid, poverty is not natural. It is man – made and it can be overcome and eradicated by the actions of human beings."

Nelson Mandela

The thesis dealt with the current issue of foreign aid effectivity, claimed by many to be the tool for eradicating the world´s poverty. The theoretical part was focused on definitions of the term foreign aid itself, from the institutional, economic and also its hidden forms point of view. This was followed by the brief historical perspectives of foreign aid provision, highlighting the role of World War II, the role of rivalry between Eastern and Western blocks and the liberation movements in the former colonies. It also dealt with the classification of foreign aid, followed by the foreign aid ethics basically covering the reasons for its existence. Furthermore it mentioned the most important and influencing declarations on foreign aid. Another part was devoted to the distribution of aid thorough the world, and there were also discussed the aid projects considered to be successful – such as Marshall Plan and Vietnam, and also the unsuccessful ones – such in Congo and Tanzania. In addition to that it dealt with the impact of foreign aid in a sense of highlighting the effects which might be seen as contra productive. The last chapter of theoretical part was the introduction to correlation analysis, which was further used in the practical part.

The practical part introduced Ethiopia, mentioning historical events which reflect in a state of Ethiopia today, as well as it was focused on describing the facts about the country. The aim of the practical part was to find out, if the foreign aid contributed to the development of certain sectors in Ethiopia and what can be done or improved to promote the better performance of the aid circulation Ethiopia and also at a general level. The author established four most donated sectors – health and population, production, education and economic infrastructure and services, according to the inflows of aid to

individual sectors. For each sector were chosen several indicators covering the sector due to its availability and credibility. Another step was processing of reached data with correlation analysis to reveal the relationship between indicators for given sectors and the amount of aid, either total of bilateral. The output of the analysis was that foreign aid significantly correlated with the development of chosen indicators in some sectors, but the impact of it remains questionable in a sense of aid reaching its potential. Another constraint of making conclusion about the analysis is the factor of internal financing of the Ethiopian state budget what could influence the given results.

The character of the diploma thesis does not allow bringing out the specific difficulties for the concrete state of Ethiopia. It is necessary to realize that it is impossible to gain absolutely trustworthy data for the issues such as corruption levels, or other, deeper, consequences of foreign aid use, such provable evidence for phenomena like Dutch disease, contra productive effects of revealing debt, outcome of noncompetitive industries, shift of responsibilities from governments to institutions and vice versa and the effects on outflow of educated people, and other phenomena, firstly because of data availability regarding developing countries and therefore Ethiopia and secondly and especially because of the scope of the diploma thesis.

Certainly, despite the mentioned constraints it is possible to make a conclusion about the future directions of foreign aid system as it is today and propose recommendations which would move the international cooperation at more effective level. When looking back at the first questions raised at the introduction at the beginning of the thesis:

Is it a large injection of money what is able to lift people out of poverty and poor living conditions? What are the limits and opportunities of foreign aid, is it a good or bad concept for developing a country? Did foreign aid actually contributed to development of a certain country?

All things considered in the end, from the historical perspective the use of aid provably had certain positive effects and hereby **could contribute to the process of eradicating**

poverty, taking the example of Marshall Plan. Without the Marshall Plan, Europe could hardly reach as striking eradication of poverty and raise of living standards in relatively short period after the war. Set in specific conditions regarding the state of social and physical infrastructure, it cannot be compared with majority of aid projects based in Africa, where the conditions are considerably different. The answer for the first question is that aid, the large injection of money, can contribute to the development of the country, to lift people out of poverty and living conditions, as in the case of Marshall Plan, but it is needed to consider its limits and opportunities.

Taking the **limits and opportunities** of the foreign aid, the critical matter is the reachable scale of influence foreign aid can achieve. It is possible to make a conclusion that the system of foreign aid today as it is does not reach its potential, because of the limitations which are hard to obviate - with reference to corruption, outflow of educated people, lack of balance between budget support and structural improvements, aid dependency and likewise; such as matters already discussed before. It is critical to concentrate on such limitations and rethink and establish new effective models for dealing with such realities. Looking at the opportunities of foreign aid, the author sees as crucial to establish firm plans for the aid way out, which are not really clearly defined. Furthermore, the potential of foreign aid might be approached by following of the previously examined recommendations; such as the procedure of establishment or individual priorities of states, demarcation of the state´s and organization´s scope of influence, ensuring preventing measures in relation to corruption, the adoption of democratic principles, cutting of humanitarian aid or the partial rethinking of the humanitarian aid model with focus on domestic production, improvement in the field of research, monitoring, feedback and reporting of the aid flows, distribution of responsibilities and creating of a model for adequate money distribution according to the parameters of individual states. Moreover its´s critical to come with a functional proposal for more meaningful and effective collaboration of international organizations, governments of individual donors as well as actors at non – governmental levels, in order to distribute and manage the ideas and resources more effectively, taking into consideration the ongoing press on governments to cut the national spendings.

The final evaluation if foreign aid contributed to a **development of a certain country**, in the case of this thesis - Ethiopia, is difficult and the thesis does not offer clear answer to this question. To certain extend there was visible a tendency of relation between development of individual indicators and the inflows of bilateral and total foreign aid, but extend and effect of those remain questionable as there exist a lot of limitation factors. Undoubtedly, since foreign aid represents 50 – 60% of national budget, it was certainly involved when developing individual sectors examined and overall conditions in Ethiopia. When looking at the state and indicators, it is possible to see, what matters should be addressed, even with the foreign assistance.

It is crucial to focus the international flows effectively into programs which can help the country to stand on its own feet, and not to target the aid money to results free initiatives. As far as the author sees the current situation in Ethiopia, the author consider it would be advisable to increase the focus on the **education** (11, 27 % of ODA to Ethiopia) - looking at the female persistence to last grade of primary, it is only 39, 6 % (2011), whereas in the developing sub – Saharan Africa it is 52, 1% within the same year. The youth female literacy rate is also relatively low, 47% (2007), whereas the youth male literacy rate is 63% (2007)[85], is much lower than the developing Sub-Saharan Africa average. It is advisable to educate more females, who are inclining to be the productive change for the economic productivity (considering Ethiopia´s fast growing economy), are able to lower infant and maternal mortality and surely with proper education can lower prevalence of diseases, such as HIV. The enrolment and persistence of female education should be the challenge and focus not only for allocation of international aid flows, but government goal as well; it should contribute to eradicating reasons for which primarily woman and also boys do not participate or drop out of school (poverty, cultural traditions, stereotypes etc.) The fundamental though is that with educating individual by formal educational system the individual will be able to form set of skills allowing him to be the movement in the society in every direction and therefore influence the future heading of a country.

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[85] THE WORLD BANK. Data on youth female literacy rate and persistence to the last grade of primary [online].

Still, it is important to realize and follow basic principles indicated in the thesis considering the critical matters when it comes to evaluating and investing into progress, not only in Ethiopia´s education sector. Ethiopia is a country with potential in many fields – starting from mining, tourism, transportation, fishing, telecommunication and manufacturing sectors, but the agriculture remains still predominant (accounts for 85% employment and 46% of GDP), even though the service sector is in increase during the last decades. The role of foreign aid should be to support and to address the crucial initiatives and challenges to help to start the positive directions of the development and growth, to share the knowledge and to subsequently vanish so the state itself has the motivation for self-development – what seems does not happen at all.

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LIST OF GRAPHS

LIST OF ATTACHMENTS

Attachment 1 - Official Development Assistance; the Most Significant Donors in 2013

Attachment 2 - Official Development Assistance; Trends 1960 – 2013
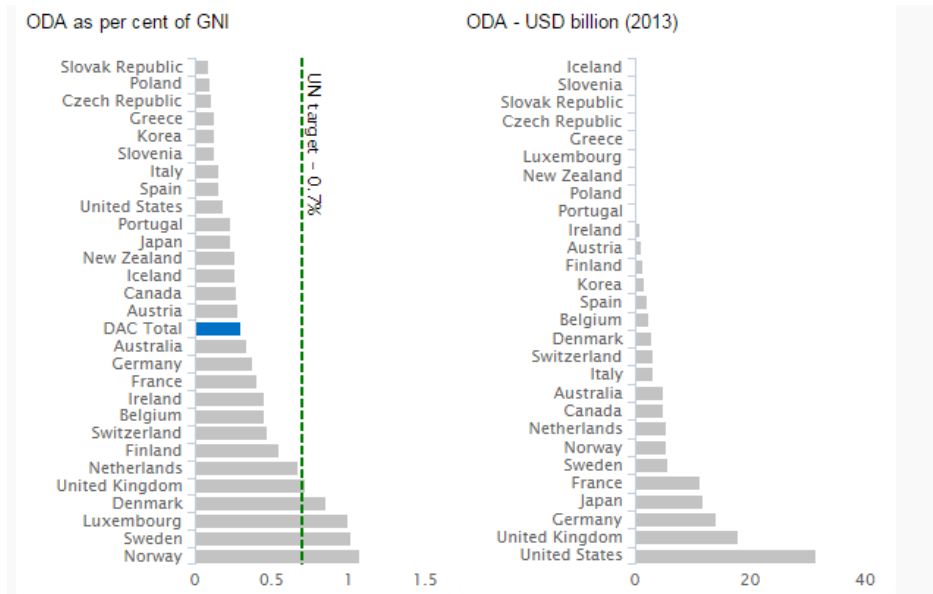
Attachment 3 - Regional Shares of Total Net ODA by Continents 1990 -2012

Attachment 4 - Map of Ethiopia

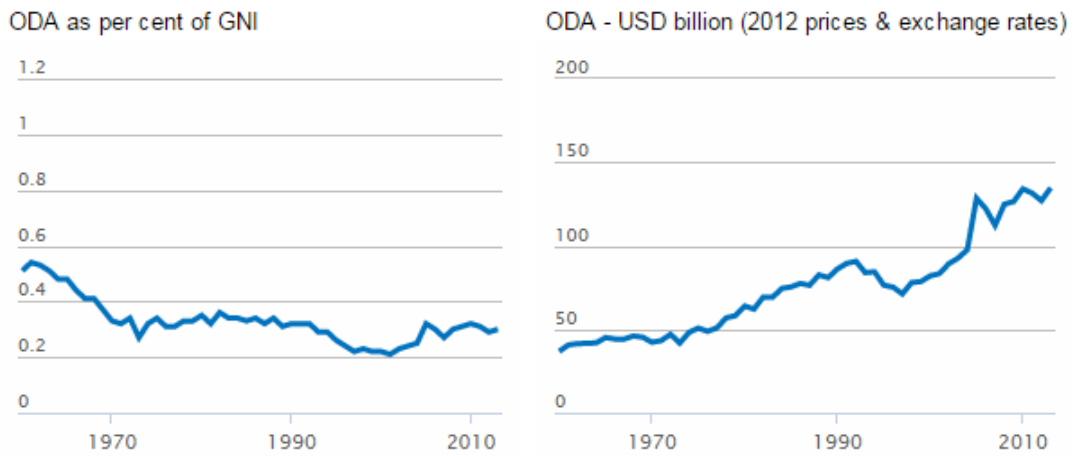Attachment 5 - Sample Calculation for Correlation between Total Aid and Life
Expectancy at Birth Indicator

Attachment 6 - Critical Values for the Pearson´s Coefficient

ATTACHEMENTS

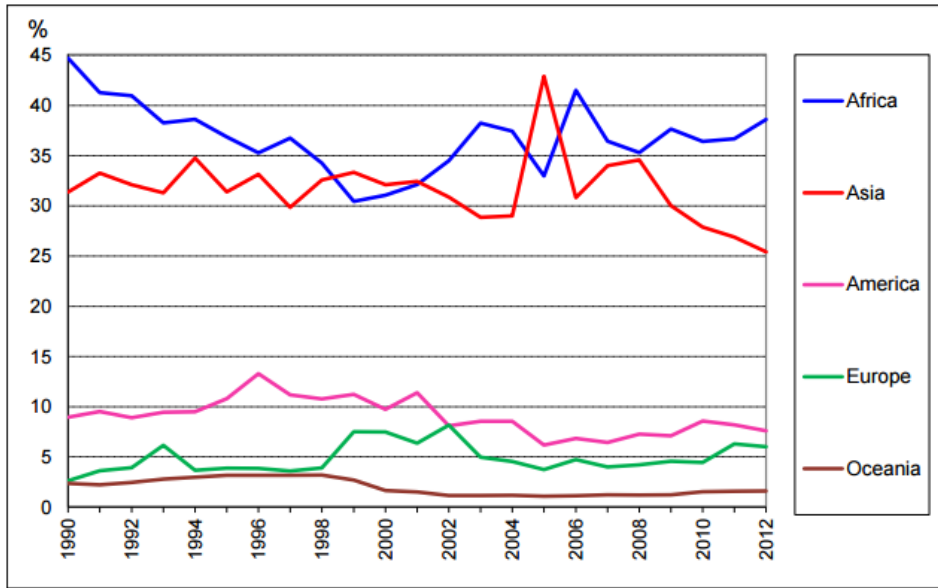*Attachment 1 - Official Development Assistance; the Most Significant Donors in 2013
(Source: OECD, OECD Home Newsroom)*

*Attachment 2- Official Development Assistance; Trends 1960 – 2013
(Source: OECD, OECD Home Newsroom)*

Attachment 3- Regional Shares of Total Net ODA by Continents1990 -2012
(Source: OECD, OECD Stat, documents)

Attachment 4 - Map of Ethiopia
(Source: Nations Online Project)

Total Aid	Life Expectancy at Birth		$(x_i - x\ avg)$	$(y_i - y\ avg)$	$(x_i - x\ avg) * (y_i - y\ avg)$	$(x_i - x\ avg)^2$	$(y_i - y\ avg)^2$	
962,13	52		-1671,101538	-5,769230769	9640,970414	2792580,352	33,28402367	
960,38	53		-1672,851538	-4,769230769	7978,21503	2798432,27	22,74556213	
1328,41	54		-1304,821538	-3,769230769	4918,173491	1702559,247	14,20710059	
1698,71	55		-934,5215385	-2,769230769	2587,905799	873330,5058	7,668639053	
2387,51	56		-245,7215385	-1,769230769	434,7381065	60379,07446	3,130177515	
1790,71	57		-842,5215385	-0,769230769	648,0934911	709842,5428	0,591715976	
2616,02	58		-17,21153846	0,230769231	-3,971893491	296,2370562	0,053254438	
3259,5	59		626,2684615	1,230769231	770,7919527	392212,1859	1,514792899	
3633,26	60		1000,028462	2,230769231	2230,832722	1000056,924	4,976331361	
4408,6	61		1775,368462	3,230769231	5735,805799	3151933,174	10,43786982	
3491,91	61		858,6784615	3,230769231	2774,191953	737328,7003	10,43786982	
2836,68	62		203,4484615	4,230769231	860,7434911	41391,2765	17,89940828	
4858,19	63		2224,958462	5,230769231	11638,24426	4950440,156	27,36094675	
						19210782,65	154,3076923	sum

34232,01	751	sum
2633,231538	57,76923077	average

Formula:

$$r = \frac{\sum_{i=1}^{n}(x_i - \overline{x})(y_i - \overline{y})}{\sqrt{\sum_{i=1}^{n}(x_i - \overline{x})^2 \sum_{i=1}^{n}(y_i - \overline{y})^2}}$$

50214,73462	
numerator	
54446,04244	
denominator	
r = numerator/denominator	rounded value
0,922284382	0,92

Attachment 5 - Sample Calculation for Correlation Coefficient between Total Aid and Life Expectancy at Birth Indicator

Critical values for the Pearson´s coefficient				
N	0.1	0.05	0.01	0.001
4	0.900	0.950	0.990	0.999
5	0.805	0.878	0.959	0.991
6	0.729	0.811	0.917	0.974
7	0.669	0.754	0.875	0.951
8	0.621	0.707	0.834	0.925
9	0.582	0.666	0.798	0.898
10	0.549	0.632	0.765	0.872
11	0.521	0.602	0.735	0.847
12	0.497	0.576	0.708	0.823
13	0.476	0.553	0.684	0.801
14	0.458	0.532	0.661	0.780
15	0.441	0.514	0.641	0.760
16	0.426	0.497	0.623	0.742
17	0.412	0.482	0.606	0.725
18	0.400	0.468	0.590	0.708
19	0.389	0.456	0.575	0.693
20	0.378	0.444	0.561	0.679
21	0.369	0.433	0.549	0.665
22	0.360	0.423	0.537	0.652
23	0.352	0.413	0.526	0.640
24	0.344	0.404	0.515	0.629
25	0.337	0.396	0.505	0.618
26	0.330	0.388	0.496	0.607
27	0.323	0.381	0.487	0.597
28	0.317	0.374	0.479	0.588
29	0.311	0.367	0.471	0.579
30	0.306	0.361	0.463	0.570
35	0.283	0.334	0.430	0.532
40	0.264	0.312	0.403	0.501
45	0.248	0.294	0.380	0.474
50	0.235	0.279	0.361	0.451
60	0.214	0.254	0.330	0.414
70	0.198	0.235	0.306	0.385
80	0.185	0.220	0.286	0.361
90	0.174	0.207	0.270	0.341
100	0.165	0.197	0.256	0.324
200	0.117	0.139	0.182	0.231
300	0.095	0.113	0.149	0.189
400	0.082	0.098	0.129	0.164
500	0.074	0.088	0.115	0.147
1000	0.052	0.062	0.081	0.104

Attachment 6 - Critical Values for the Pearson´s Coefficient
(Source: Fort Lewis College, Durango, CO)