

Title: The Impact of Foreign Aid in Africa: A case study of Botswana and Somalia

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Abstract:

Globally, Africa is the biggest foreign aid recipient. Every year, billions of dollars are sent in as foreign aid and development assistance to Africa with the aim to alleviate hunger, end poverty, foster economic development, democratic governance, and the rule of law without jeopardizing the peace of these countries.¹ Unfortunately, little to no improvements have been made in terms of socio-economic or political development in the areas of rule of law and democratic governance as Africa remains the poorest continent in the world according to Gross National Income (GNI) and the Human Development Index (HDI).² This paper uses Botswana and Somalia as case studies to find clarity on why intended results have or have not been achieved considering the vast amounts of money received in foreign aid for development. Research shows that the positive impact of foreign aid is often marred by bad governance, weak rule of law, high levels of corruption, absence of strong democratic institutions, lack of accountability and information control by government officials.³ This was reiterated by James Wolfensohn, the former World Bank President when he stipulated that “corruption, bad policies and weak governance will make aid ineffective.”⁴

¹ Margareta Sollenberg, “A Scramble for Rents: Foreign Aid and Armed Conflict,” *Dissertation presented at Uppsala University*, (2012):13, accessed May 4, 2019, <https://uu.diva-portal.org/smash/get/diva2:512184/FULLTEXT01.pdf>.

² Kin Boon Tang and Diya Bundhoo, “Foreign Aid and Economic Growth in Developing Countries: Evidence from Sub-Saharan Africa,” *Theoretical Economics Letters* 7, 2017: 1473

³ Ibid.

⁴ James D. Wolfensohn, “Keynote Address delivered at the Woodrow Wilson International Center,” Washington DC (2002).

Introduction

Several countries in the world today participate in the process of foreign aid either as donors, recipients or as both donors and recipients. The impact of foreign aid in donor and recipient countries is largely unsettled in theory and data analysis and this is because of the various arguments for and against the benefits of foreign aid.⁵ Many economists believe that foreign aid is synonymous to economic growth because it complements and supplements national resources as well as provides additional financial resources which assist in ameliorating a country's economy and political environment.⁶ On the contrary, others argue that foreign aid can replace national savings and also promote aid dependency, which can, in turn, hinder economic and investment growth.⁷ These scholars assert that foreign aid promotes aid-dependency while serving as a side source of income to political elites in recipient countries determined to ensure their dominance of the political and economic scene to avoid losing the side source of income.⁸ This is so, particularly in Africa, where foreign aid has been used to foster the interests of the influential elites instead of being used to develop the economy and promote the rule of law and democratic governance. Therefore, it is perceived that foreign aid in Africa encourages corrupt, highly inefficient, ineffective governments, hinders economic and investment growth, stalls democracy, and the respect for rule of law as well as unstable economic policies.

Despite existing arguments for and against the impact of foreign aid in most countries, it is undeniable that foreign aid is a crucial source of financial resources and holds the potential to play an important role in the promotion of rule of law, democratic governance and in turn economic development. Foreign aid driven with clear development agendas have a high

⁵ Muhammad Arshad Khan and Ayaz Ahmed, "Foreign Aid – Blessing or Curse: Evidence from Pakistan," *The Pakistan Development Review*, 46, no 3, (2007): 215 - 216.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

potential to improve rule of law, create strong democratic institutions, strengthen policies and assist governments with low revenues that are committed to development. In addition, rule of law initiatives sustained by foreign aid can put an end to violent conflicts, alleviate the woes of post-conflict societies, advance economic development, promote and protect human rights.⁹

Foreign aid dependency in Africa

Foreign aid started in 1947 with the institution of the Marshall Plan, after the Second World War (1939 – 1945). What began as an initiative with economic and political interests by the United States of America to provide economic assistance in rebuilding Europe after the Second World War turned into economic and political development interests as well as a humanitarian cause.¹⁰ However, some analysts contend that the idea of foreign aid was formed on the notion that it is arduous for low-income countries to develop economically without help from the developed countries. This is likely the reason why Easterly, an economist specializing in development, called foreign aid the “white man’s burden”.¹¹ According to Easterly, “the White Man’s Burden” was derived “from the West’s self-pleasing fantasy that ‘we’ were the chosen ones to save the rest, where the White Man offered himself the starring role in an ancient regime version of Harry Potter.”¹² This basically means that even though developed countries are what they are today without any form of assistance, developing countries are unable to do the same.

Easterly argues that aid has done more harm than good as there is substantial evidence that showed that foreign aid programs hold back countries and make them dependent. The

⁹ Katherine Erbeznik, “Money Can’t Buy You Law: The Effects of Foreign Aid on the Rule of Law in Developing Countries,” *Indiana Journal of Global Legal Studies* 18, no. 2, (2011): 873.

¹⁰ Deborah A. Brautigam and Stephen Knack, “Foreign Aid Institutions and Governance in Sub-Saharan Africa”, *Economic Development and Cultural Change* 52, no. 2 (2004): 256.

¹¹ William Easterly, *The White Man’s Burden: Why the West’s efforts to aid the rest have done so much ill and so little good*, The Penguin Press, New York (2006): 27.

¹² *Ibid.*

author of this research paper believes that Easterly's argument is logical as undoubtedly, foreign aid has made a lot of African countries dependent. Several African countries are unable to carry out any of its fundamental functions such as the institution of newly established structures, the maintenance of basic systems and services or the provision of necessary public services and infrastructures, without foreign aid, administered in the form of projects or technical assistance.¹³ Half of these countries' annual budgetary commitments go unfulfilled because donor countries have enabled a "cozy accommodation with dependency".¹⁴ Even though all aid-dependent countries in Africa are low-income countries, some low-income countries are not as dependent on aid as others, indicating that aid dependence is not a result of poverty as many believe.¹⁵

High levels of dependency on foreign aid by most African countries has led to a lot of antagonism against foreign aid. These antagonists contend that foreign aid, whether in the form of conditional loans or Official Development Assistance (ODA), is supposed to be mainly beneficial to the recipient countries, but oftentimes, foreign aid has done more harm than good despite the donors' good intentions. This is because foreign aid is often misused by bureaucratic and corrupt governments. Research shows that corrupt governments receive as much financial assistance as governments with lower levels of corruption.¹⁶ This should not be the case as foreign aid should be used as a tool to threaten or halt an undemocratic and/or corrupt regime and reward those that show improvements or good will in improving governance and the rule of law.

¹³ Deborah A. Brautigam and Stephen Knack, *Foreign Aid Institutions and Governance in Sub-Saharan Africa*, 258.

¹⁴ World Bank, "Partnership for Capacity Building in Africa: A Report of the Working Party on the Impact of Bank Policies, Instruments and Operational Practices on Capacity Building in Africa," (1996):7.

¹⁵ Juliette Lyons, "Foreign aid is hurting, not helping Sub-Saharan Africa" *Le Journal International* (2014) https://www.lejournalinternational.fr/Foreign-aid-is-hurting-not-helping-Sub-Saharan-Africa_a2085.html (accessed 18 November 2019)

¹⁶ Alberto Alesina and Beatrice Weder, "Do corrupt governments receive less foreign aid?" *American Economic Review* 92, no. 4 (2002): 1128.

Foreign aid has often led to dependency by numerous African countries because the aid given does not operate in a vacuum. Extraneous political and institutional factors must be taken into consideration when examining the effects of aid as these can hinder any positive impacts.¹⁷

The impact of foreign aid on African countries

Foreign aid enables governments to strengthen their institutions by providing educational and technical support aimed at building strong legislative, executive, and judicial systems to enhance the effectiveness and efficiency of governance.¹⁸ Foreign aid can further improve governance and respect for the rule of law by reducing corruption through the management of a country's expenditure and revenue creation in a legitimate manner.¹⁹ Although the original motive behind foreign aid is institutional reform including rule of law reform, the promotion of democratic governance and fostering economic development, on the other hand, foreign aid can also pose a challenge to rule of law and democratic reforms. This is because when foreign aid is provided to autocratic governments, it creates a larger pool of resources for government officials and political elites to fight over for their selfish and personal gains, which may be detrimental as it may hinder the adoption of policy reforms and stable policies.²⁰ Therefore, it is believed that the conflicts, political instability, ballooning debt, civil wars, and coup d'états that have occurred in Africa over the past five decades may have been as a result of foreign aid, which has afforded these countries the financial means to carry out the aforementioned atrocities.²¹

In addition, higher levels of foreign aid destroy the quality of governance, as calculated by rule of law indicators and corruption because foreign aid is viewed by corrupt leaders as a

¹⁷ Kin Boon Tang and Diya Bundhoo, "Foreign Aid and Economic Growth in Developing Countries: Evidence from Sub-Saharan Africa," *Theoretical Economics Letters* 7, 2017: 1475.

¹⁸ Deborah A. Brautigam and Stephen Knack, "Foreign Aid Institutions and Governance in Sub-Saharan Africa", *Economic Development and Cultural Change*, 52, vol. 2 (2004):255.

¹⁹ Deborah A. Brautigam and Stephen Knack, "Foreign Aid Institutions and Governance in Sub-Saharan Africa, 256.

²⁰ *Ibid.*

²¹ Deborah A. Brautigam and Stephen Knack, *Foreign Aid Institutions and Governance in Sub-Saharan Africa*, 255.

tool for power.²² Therefore, individuals, lacking sincere intent to use the funds for reform or development, will aim to remain in power to gain control of the funds. Knack stipulated that aid bolsters coup attempts and political instability because receiving aids and controlling the government is profitable, thus reducing the likelihood of the promotion of rule of law and democratic governance.²³ Political elites of these countries in Africa have little or no motivation for reform as huge amount of money in the form of foreign aid provides numerous fringe benefits to them such as salary increments, luxurious vehicles and houses that would ordinarily be unavailable or scarce.²⁴ As a result, rule of law reforms are shunned because of the afore-mentioned benefits so as to remain on the status quo.

In light of the above, it is believed that foreign aid increases corruption as many African leaders divert foreign aids to their private foreign bank accounts or use the foreign aid to fund projects specifically for the political elites.²⁵ Even though there have been arguments that foreign aid can reduce corruption by managing a country's finance and reform its public administration, empirical analysis shows that countries that receive more foreign funds show higher levels of corruption.²⁶ In addition, high levels of foreign aid are perceived to block rule of law reforms and governance amelioration. For instance, the high cost of transaction that accompanies aid, multiple donors, their different agendas and projects can cripple institutions rather than improve them.²⁷

The subsequent section aims to shed light on the effects of foreign aid in the promotion or hindrance of the rule of law in two African countries – Botswana and Somalia.

²² Katherine Erbeznik, Money Can't Buy You Law: The Effects of Foreign Aid on the Rule of Law in Developing Countries, 885.

²³ Stephen Knack, "Does Foreign Aid Promote Democracy?" *International Studies Quarterly* 48, (2004):253.

²⁴ Katherine Erbeznik, Money Can't Buy You Law: The Effects of Foreign Aid on the Rule of Law in Developing Countries, 886.

²⁵ Stephen Knack, Does Foreign Aid Promote Democracy? 311.

²⁶ Katherine Erbeznik, Money Can't Buy You Law: The Effects of Foreign Aid on the Rule of Law in Developing Countries, 887.

²⁷ Deborah A. Brautigam and Stephen Knack, Foreign Aid Institutions and Governance in Sub-Saharan Africa, 260.

Case study of Botswana and Somalia

Somalia is one of the foremost recipients of foreign aid in the world with over USD 55 billion received from 1991 till date and paradoxically, remains one of the poorest countries in the world.²⁸ Somalia has always been dependent on foreign aid since its independence in 1960. Foreign aid has brought problems to Somalia such as the violent rivalry for control over large-scale food aid, which is partly responsible for the government's collapse in Somalia.²⁹ Foreign aid in Somalia has also fueled corruption and incapacitated Somalia's economy.³⁰ In 2011, the Public Management Unit disclosed that approximately USD 30 millions in government funds, as well as USD 70 million from Arab donors, had gone unaccounted for from Somalia's treasury.³¹ In addition, the United Nations Group on Somalia and Eritrea (SEMG) reported that 70 percent of foreign aid allocated for development between 2009 and 2010 had been embezzled.³² SEMG also disclosed that 80 percent of the foreign funds transferred to the Central Bank of Somalia were taken out for personal use.³³ These incidents amongst others, drove Somalia to be the most corrupt nation according to the Corruption Perception Index from 2014 till date, where Somalia ranks 180 out of the 180 countries in the world that were surveyed in 2018.³⁴ The Government of Somalia has taken advantage of the dire situation to misuse foreign aid for personal gain rather than putting it toward bettering the conditions of its populace, its institutions, and strengthening its rule of law.³⁵

Corruption aside, there are issues of political instability that continue to occur in Somalia. For the last 18 years, Somalia has had nine official presidents, eighteen official prime ministers and regular change in government officials, all struggling for a piece of the 'foreign

²⁸ Ibrahim B. Anoba, How Foreign Aid Hurts Famine Relief in Somalia, Foundation for Economic Education, (2017), accessed May 4, 2019, <https://fee.org/articles/how-foreign-aid-hurts-famine-relief-in-somalia/pdf>.

²⁹ Stephen Knack Does Foreign Aid Promote Democracy, 253.

³⁰ Ibrahim B. Anoba, How Foreign Aid Hurts Famine Relief in Somalia, Foundation for Economic Education.

³¹ Ibrahim B. Anoba, How Foreign Aid Hurts Famine Relief in Somalia, Foundation for Economic Education.

³² Ibid.

³³ Ibid.

³⁴ Corruption Perceptions Index 2018, accessed May 4, 2019, <https://www.transparency.org/cpi2018>

³⁵ Ibrahim B. Anoba, How Foreign Aid Hurts Famine Relief in Somalia, Foundation for Economic Education.

cake'.³⁶ These constant changes in government have led to various economic policies that do not align with donors priorities and there exists a lack of competence and strategic initiatives to carry out the said economic policies by successive governments.³⁷ The political instability has also caused gross unaccountability for the funds received.³⁸ This is an example of how foreign aid is usurped by the corrupt ruling and political elites, as the majority of the foreign funds are constantly squandered by the corrupt leaders and do not reach the intended beneficiaries. Unfortunately, foreign aid continues to be sent to Somalia every year, thereby encouraging the corrupt initiatives and practices of Somalian leaders.³⁹

Foreign aid, when in the hands of the right people supported by strong institutions, can enable government to strengthen the democratic and rule of law institutions in their countries. Turning to Botswana, foreign aid has played and continues to play a significant positive role. Botswana is commended for being one of Africa's success stories in terms of good governance characterized by political stability, people-serving and incorruptible leaders, as well as an effective economic system.⁴⁰ According to the Corruption Perceptions Index of 2018, Botswana is ranked 34 out of 180 countries on corruption.⁴¹ The supportive environment in Botswana, enabled development initiatives to thrive and as a result, aid dependency started to drop.⁴² In Botswana, aid dependency dropped from 100 per cent in 1970 to between 40 to 60 per cent in the late 1970s, less than 15 per cent in 1992 and in 1997, foreign aid had declined to a mere three per cent.⁴³ This steady decline in dependency was achieved through good

³⁶ Deborah A. Brautigam and Stephen Knack, *Foreign Aid Institutions and Governance in Sub-Saharan Africa*, 255.

³⁷ *Ibid.*

³⁸ Hussein Ahmed Warsame, "Role of International Aid and Open Trade Policies in Rebuilding the Somali State," *Bildhaan: An International Journal of Somali Studies* 11, no. 1, (2012): 10.

³⁹ *Ibid.*

⁴⁰ Charity Kerapeletswe, Jan Isaksen, Anneke Slob and Alf Morten Jerve, "Managing Aid Exit and Transformation: Botswana Country Case Study," *Joint Evaluation* 1, no 6. (2008):17.

⁴¹ Corruption Perceptions Index 2018, accessed May 6, 2019, <https://www.transparency.org/cpi2018>

⁴² Deborah A. Brautigam and Stephen Knack, *Foreign Aid Institutions and Governance in Sub-Saharan Africa*, 256.

⁴³ Lise Rakner, "Botswana – 30 years of economic growth, democracy and aid: Is there a connection?" *Chr. Michelsen Institute Series*, (1996): 34.

governance, incorrupt practices, political stability and shrewd economic management. As a result, the author of this research paper agrees with Bell that foreign aid can produce maximum results as long as it is linked to maximum self-dependency.⁴⁴ Botswana's development and economic growth after independence would have been impossible without foreign aid, however, Botswana has strong institutions in place to carry out its development priorities and government policies as enshrined in its National Development Plans promulgated every 5 to 6 years.⁴⁵ For instance, foreign aid received by the Government of Botswana is coordinated centrally and then fused into the overall national budgeting and development planning process which is at the heart of Botswana's aid management system.⁴⁶ One of Botswana's main achievements regarding foreign aid is its relationship with donors. This relationship allows Botswana to encourage individual donors to focus on particular government priorities to avoid a duplication of efforts and projects.⁴⁷ Botswana keeps a precise data and knowledge management of its donors and as a result of this knowledge, the Government of Botswana pairs the donors with the necessary development proposals informed by public expenditure.⁴⁸ The Government of Botswana is known to be firm in bargaining with donors and often reject aid that does not align with their principles which include a high priority given to rural development and self-sufficiency.⁴⁹ By ensuring that the foreign aid is incorporated into Botswana's development plans, Botswana has greater collective ownership over its uses and outcomes.⁵⁰ Therefore, foreign aid has helped Botswana get to its desired results faster. In fact, by 1998, Botswana was declared an upper middle-income country by the World Bank.⁵¹ By

⁴⁴ David E. Bell, "The Quality of Aid," *Foreign Affairs* 43, (1965): 603.

⁴⁵ Charity Kerapeletswe, Jan Isaksen, Anneke Slob and Alf Morten Jerve, *Managing Aid Exit and Transformation: Botswana Country Case Study*, 17.

⁴⁶ Lise Rakner, *Botswana – 30 years of economic growth, democracy and aid: Is there a connection?* 28

⁴⁷ Charity Kerapeletswe, Jan Isaksen, Anneke Slob and Alf Morten Jerve, *Managing Aid Exit and Transformation: Botswana Country Case Study*, 18.

⁴⁸ *Ibid.*

⁴⁹ Lise Rakner, *Botswana – 30 years of economic growth, democracy and aid: Is there a connection?* 29.

⁵⁰ Lise Rakner, "Botswana – 30 years of economic growth, democracy and aid: Is there a connection?" 40.

⁵¹ Charity Kerapeletswe, Jan Isaksen, Anneke Slob and Alf Morten Jerve, *Managing Aid Exit and Transformation: Botswana Country Case Study*, 15.

virtue of Botswana's successful development history, donors are reducing and even eliminating their assistance to Botswana, where there is a general consensus that Botswana can financially do without foreign aid because of Botswana's increased Gross Domestic Product (GDP).⁵²

Conditionality related to the provision of aid

After an examination of the impact of foreign aid in Botswana and Somalia, it is worthy to note that foreign aid in itself is not a problem but the circumstances, method of distribution, and use by the recipient country is the problem. In addition, foreign aid on its own does not have a positive impact unless the recipient country's environment is stable. Therefore, to put an end to the negative effects of foreign aid, it is imperative that there should be conditionality linked to the provision of aid. Research shows a consensus that conditionalities on aid allocation can minimize or eradicate the potential for negative impact of foreign aid. In a statement by Douglas Hurd, a British Politician known for his fiscally conservative views, in June 1990, affirmed that good governance is synonymous to economic development and economic development can only be achieved through a honest and efficient government, observance of the rule of law and political pluralism.⁵³ Douglas Hurd added that⁵⁴

Countries which tend towards pluralism, public accountability, respect for the rule of the law, human rights, market principles, should be encouraged. Governments which persist with repressive policies, corrupt management, wasteful and discredited economic systems should not expect us to support their folly with scarce aid resources which could be used better elsewhere.

Political conditionality can have an impact on national politics, particularly when there are pressures from within for reform; additional foreign pressures can further exacerbate tensions or have the intended positive impact. For example, donor pressure encouraged former

⁵² Where Botswana's GDP has made it unqualified for special development funding open to developing countries. Ibid.

⁵³ Overseas Development Institute, "Aid and Political Reform," *Overseas Development Institute Briefing Paper* (1992): 1.

⁵⁴ Overseas Development Institute, *Aid and Political Reform*, 1.

President Kenneth Kaunda of Zambia to legitimately seek political power through multi-party elections and transferred power to the opposition party when he lost at the polls.⁵⁵ Aid conditionality has also worked in countries like Ghana, Uganda, and Ethiopia, where conditioned aid significantly lessened and controlled the misuse of aid resources.⁵⁶ Linking conditionality to aid when it comes to political and economic reform is absolutely necessary to improve the effectiveness of aid.⁵⁷ Thus, it is important that conditionalities are attached to foreign aid before they are given to the recipient countries. Conditions for aid are not new as conditionalities were used by the Bretton Wood Institutions when handing out foreign loans to developing countries to encourage them to establish and enhance their democratic institutions. These conditionalities set by the Bretton Wood Institutions were based on performance standard, criteria, and policies that countries borrowing funds had to meet before the financial resources were released to them.⁵⁸ Some have argued that this conditionality has somewhat failed but this is outside the scope of this research paper. Aid conditionality can stifle corruption and strengthen the general rule of law and governance. Particularly, when foreign aid is only given to countries that have solid democratic institutions in place, or, when it is given to countries that make a commitment to carry out rule of law and democratic reforms, whereby if these countries fail, they will be sanctioned and the foreign funds terminated.⁵⁹

An example of foreign aid conditionality was carried out by the British terminating aid to Somalia as punitive actions for its persistent abuse of human rights on its citizens.⁶⁰ However, many countries in Africa are disgruntled with aid conditionality viewing it as a

⁵⁵ Ibid

⁵⁶ Ibid.

⁵⁷ Overseas Development Institute, *Aid and Political Reform*, Overseas Development Institute Briefing Paper (1992): 2.

⁵⁸ Jean-Pierre Allegret and Philippe Dulbecco, "The Institutional Failures of Bretton Woods Institutions conditionality," *Annual Meeting of the European Public Choice Society*, (2004): 1.

⁵⁹ Ibid.

⁶⁰ Overseas Development Institute, *Aid and Political Reform*, 2.

violation of national sovereignty.⁶¹ Although conditionality has been generally accepted, there are reservations that it would not work in practice as complying to political conditions may be difficult. Therefore, it is important that conditionalities tied to aid should be negotiated with the recipient country to ensure the recipient country's buy-in rather than a unilateral imposition by the donor (donor government coordination/agreement).

Conclusion

Despite donors' original intentions when distributing aid, high levels of corruption within recipient governments, poor democratic institutions, onerous conditionalities and fiscal imprudence have made foreign aid a curse rather than a blessing for several African countries. The 2005 Paris Declaration on Aid Effectiveness described that a focus on donor harmonization, country ownership, alignment with the recipient country's national development strategies, accountability between donors and countries are effective ways to increase the positive impact of aid.⁶² Instead of directing foreign aid to countries lacking strong democratic institutions, economic sanctions should be used to motivate governments and political elites into political and economic reforms. As a result, aid conditionality when applied correctly, can improve the chances of political and economic development because adherence to aid conditions can open doors to additional development assistance.⁶³

Lastly, aid promotes development in already functioning political systems like in the above-mentioned case of Botswana. Injecting aid into a unified national planning and budgeting system has proved productive in Botswana's aid management system. Botswana has used aid resources positively because of its ownership of several financed and implemented projects, which were attained through excellent bargaining skills and economic advantage

⁶¹ Ibid.

⁶² The 2005 Paris Declaration on Aid Effectiveness

⁶³ Lise Rakner, Botswana – 30 years of economic growth, democracy and aid: Is there a connection? 40.

produced by its flourishing economy.⁶⁴ Possessing relevant democratic and rule of law institutional structures may not be enough to create a positive impact for foreign aid; rather, good management and strategic planning of foreign aid can be the determinant to the successful impact of foreign aid on a nation. Although awarding foreign aid to countries with the above-mentioned requirements may substantially lessen the pool of qualified recipients, in order to meet its key objective, this paper argues that it is necessary. Therefore, foreign aid conditionalities placed on countries with weak institutions ensures that governments use the foreign aid for designated reforms because failure to comply will result in sanctions.

The author of this paper contends that foreign aid alone without the presence of strong democratic institutions in a country will lead to corruption, thereby, forfeiting the original motive for which the aid was given. Therefore, if aid is given to countries without strong democratic institutions, there must be conditions attached to it to create a positive impact.

⁶⁴ Ibid.