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# Foreign Aid

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Ward and Ellery Kent —

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# Defining foreign aid

Foreign aid: Economic, technical, or military aid given by one nation to another for purposes of relief and rehabilitation, for economic stabilization, or for mutual defense.



# Types of Foreign Aid

- **Bi-lateral aid:** Aid from a single donor country to a single recipient country.
- **Multi-lateral aid:** Aid provided by a group of countries (or an institution such as the UN or World Bank) to one or more recipient countries.
- **Project aid:** Direct financing of projects for a recipient country.
- **Technical assistance:** Funding of expertise of various types in recipient country.
- **Humanitarian aid:** Emergency disaster relief, food aid, refugee relief and disaster readiness.
- **Soft loans:** A loan made to a country on an agreement basis with a lower rate of interest.
- **Tide aid:** Aid must be used by recipient according to the exact specifications that the donor country creates.
- **Debt relief:** Cancellation, refinancing or reorganization of a country's external debts.

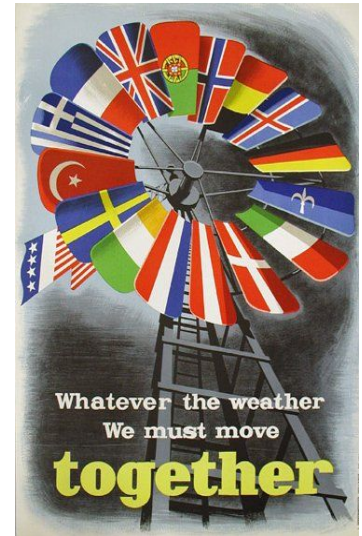
# The history of foreign aid

**19th Century:** European colonial powers (Germany, France, Britain) began providing aid to their colonies to improve infrastructure.

**1944-1946:** Post-war Development. UN, IMF, World Bank were created.

**1948:** The Marshall Plan. Created by the US to provide economic reconstruction for European nations. Congress pledge \$13.3 billion through this assistance effort.

**1949:** Modernization and industrialization. Focused on helping “underdeveloped” countries.



# History continued

**1950s-1960s:** Decolonization. Decade in which many Asian and African countries sought independence from European powers

**1970s:** A humanistic approach in which health care, education, income distribution and quality of life became the objective for aid funding.

**2000:** Millennium Development Goals. International aid was increased by .7% by western governments for the follow 15 years.



# How are recipients of aid doing currently?

## Africa

- Africa has received 1 trillion dollars in the past 60 years
- \$50 billion goes to Africa annually
- In the 1970s 10% of Africans lived on a dollar a day, now over 70% of Africans live on a dollar a day

(Baker, 2014, & Moyo, 2009)



# Pakistan

- \$73.14 billion in the form of foreign aid from 1960 to 2002
- Benefits of this foreign aid have not reached the whole society
- Aid has specifically served the interests of influential people and those in governmental supervisory positions
- Found to be politically driven rather than for the benefit of country's citizens (insured national security for America)

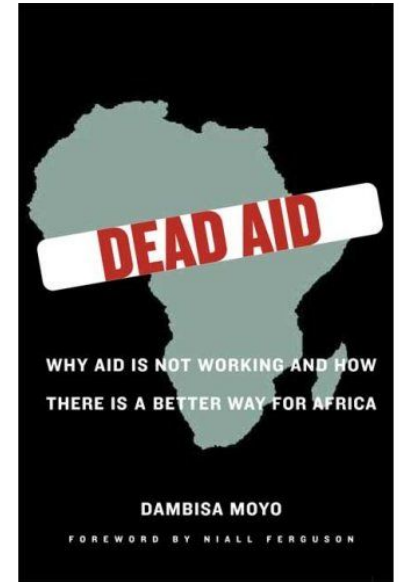


(Awan, & Moeen-ud-Din, 2015)

# The cycle of aid

## The Cycle of Aid:

- Debilitating Event Causing Economy to Crash
- Aid is given to country in need
- Corrupt Governments responsible for distribution of aid
- Civil Wars break out in rebellion against corrupt governments
- Economy begins to fall apart
- Moral obligation- continuing the cycle





# Aid that works

- **Relief**
  - Relief: the urgent and temporary provision of emergency aid to reduce immediate suffering from a natural or man-made crisis.
  -
- **Rehabilitation**
  - Rehabilitation begins as soon as the bleeding stops and it seeks to restore people and their communities to the positive elements of their pre-crisis situation.
  -
- **Development**
  - Development is the process of ongoing change that moves all the people involved closer to wholeness. Development is not done *to* people or *for* people but *with* people.

“How do you spell effective relief? S-e-l-d-o-m, i-m-m-e-d-i-a-t-e and t-e-m-p-o-r-a-r-y.” *When Helping Hurts*, (Corbett & Fikkert, 2009)

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# What are the foreign policies regarding Aid?

— Positive and Negative —

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# Western Savior Complex

- Western Savior Complex
  - Term that identifies the western charging to the rescue without considering how those they are rushing to help might feel about their “rescue”
- Teju Cole: Nigerian - American writer, photographer and art historian
  - “When the idea that those who are being helped ought to be consulted over the matters that concern them - listen to marginalized people, give them a platform and use our platforms to amplify their voices”

# Western Savior Complex

- “ The Western Savior Industrial Complex is not about justice. It is about having a big emotional experience that validates privilege.” - Teju Cole
  - “The wester savior complex supports brutal policies in the morning, founds charities in the afternoon, and receives awards in the evening.” - Teju Cole

# United States

- Quote from President Obama in his 2009 inaugural election
- 'To the people of poor nations, we pledge to work alongside you to make your farms- flourish and let clean waters flow; to nourish starved bodies and feed hungry minds and to those nations like ours that enjoy relative plenty, we say we can no longer afford the indifference to suffering outside our borders; nor can we assume the world's resources without regard to effect. For the world has changed, and we must change with it.'

# United States Foreign Policies

- Feed the Future
  - Small farmers, multiagency “whole government” approach
- Inter Religious Council of Uganda (IRCU)
  - To fight HIV/AIDS
  - Joseph Kony and the Lord’s Resistance Army
  - Moral ethics
- United States Agency for International Development
  - They received 14.1 billion
  - Millennium Challenge Corporation
  - Gate keeping mechanism



# The Postives and Negatives of US's policies

Used Human Rights as a gatekeeping tool to support countries

Thought that aid is used as benevolent, charitable practice to enhance the security of the country

Democracy promotion

Investing in People

Usage for national security, win allies, and to address threats.

They decided to back upopular leaders (Choosing the lesser two evils)

Specific about the type of economic conditions that a country has.

Not about the peace & security of the country

# Great Britain's Foreign policies

- Department for International Development (DFID)
  - Similar to USAID
  - Eight Criteria
  - Funding towards these goals have been used towards what
  - An example
- Stabilisation Aid and Stabilisation Fund
  - Work with countries that affected with conflict
  - DFID, Foreign and Commonwealth Office, Ministry of Defence
- Foreign Remittance
  - Migrant workers





# Positives and Negatives of Great Britain's policies

Understanding the belief that they are only supposed to be there short term	Lack of coordination seen within the European Union's donors
Develop a global partnership for development	Lack of staying power from the donor's side
Aid to Education, Health, Infrastructure, Food and Social Assistance	Lack of flexibility particularly in regards to the changing situation in Africa
Supporting countries on the expense of different programs of the UK	Lack of understanding of how to ship goods without the huge expense (providing incentives to domestic agricultural producers)

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# Foreign Aid Through Business

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# Purpose of Aid through Business

Ideal situation: to bring social and economic benefits to emerging market countries through inflow of capital, knowledge, and increased employment.



(Bardy, Drew, & Kennedy, 2012)

# Thoughtless Charity

## Consequences of Free

- Enersa Street Lights
  - NGOs send free lights
  - Decrease in sales & production for Enersa
- Philanthropy
  - \$213 billion sent in 2007
  - What is its impact?



# Misperceptions

- Enersa - perception that Haiti was barren.
- “Stop thinking of the poor as victims or as a burden and start recognizing them as resilient, creative entrepreneurs...” (Bardy, Drew, & Kennedy, 2012)
- Local communities are partners, not just aid recipients.



# Reducing Vs. Perpetuating Aid

- “The goal should be: give me a fishing rod to teach me how to fish and then move out. But after 40 years if you’re still here, there’s a problem.” - Poverty Inc.
- Philanthropy and business collide - TOMS



(Miller, Fitzgerald, Witt, Scionka, Wade, Ayithey, Chinery-Hesse, 2015)

# Should We Give Up?

- “I have not failed. I’ve just found 10,000 ways that won’t work.” - Thomas Edison
  - Not the principle of engagement but the function of development projects.



# A New Business Model

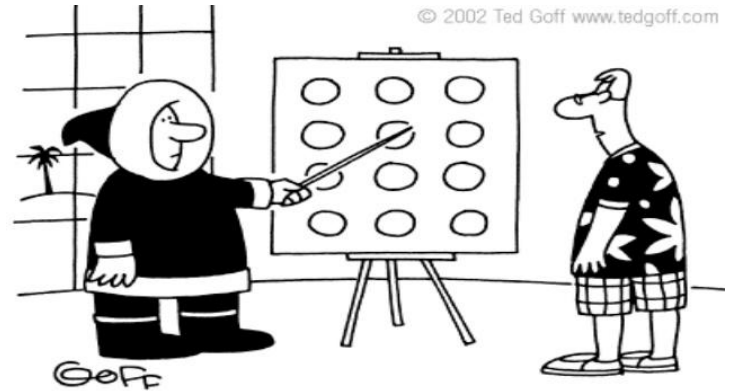
- Projects designed in national capitals and foreign embassies divorced from the realities of the local lives of the people they intend to help.
  - Failure of top-down and centrally planned aid models
- “Opportunistic Innovation” - William Easterly
  - Seeks targets of opportunity, not rigid, long-range goals set by donor agencies
  - Decentralized and more flexible
  - Freedom to try different approaches, **adapting to local values and initiatives**

(Lockhart, 2014) (Adelman, 2009)



# Outside Factors

- Education levels, political stability, government effectiveness, etc.
  - Ability to own property
- Cultural Competence
  - Priorities and values
  - Who's setting the goals and expectations?
  - Moral Standards



(Legatum Institute, 2016)

**"Snowballs? I thought we were discussing coconuts."**

# Moral But Effective Business

- Corporate Social Responsibility
  - Effects on environmental and social well-being
  - Complication: Corporations are to act morally but also to not injure the interests of stakeholders.
    - Tension-filled relationship between profit and morality.
- Western thought:
  - *Utilitarianism*: evaluates actions on the basis of their outcomes or consequences
    - “Was it worth it?”
  - *Social Income*: the monetary earnings of a person; the monetary value of that person to the social environment
    - What can you offer to society?

(Bardy, Drew, & Kennedy, 2012)



- The market serves humanity.
  - “Globalization is seen through the eyes of women and men in terms of the opportunity it provides for decent work; for meeting their essential needs for food, water, health, education, and shelter, and for a livable environment.”
    - Close relationship between value systems and effects of business activity

(Bardy, Drew, & Kennedy, 2012)

# Strengths of Local Businesses

- Takes away the complication of deciding between morality and profit.
- Local ownership ensures sustainability.
- Develops responsibility not dependency.
- Indigenous Philanthropy.
  - Reflects the actual needs of the recipients.

(Adelman, 2009)



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# Helping to Empower

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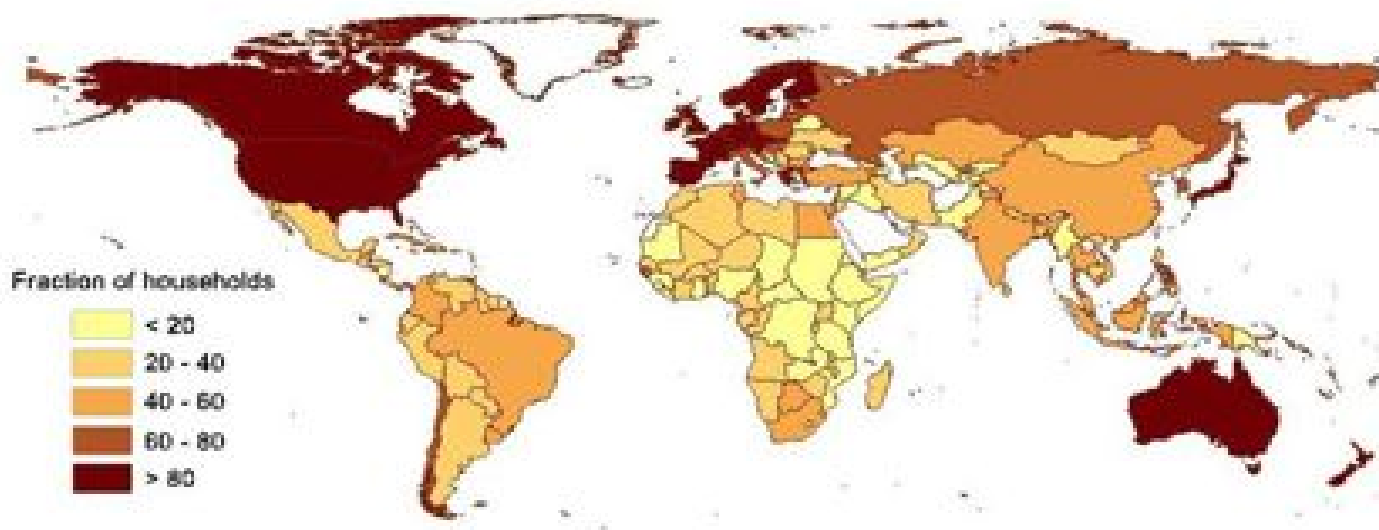
# How to invest your money

- According to the UN, about one in five persons in developing regions live on less than \$1.25 per day
- According to the CGAP (Consultative Group to Assist the Poor), those with financial struggles address their financial need through informal means.

# Limitations of Informal Financial Structures

- In-kind savings are subject to fluctuations in commodity prices
  - (Destruction of goods by insects, fire, illness)
- Informal Savings Groups produce small amounts of money with rigid amounts of investment on set dates.
  - High chance of group mismanagement and fraud

# Why don't banks serve poor people?

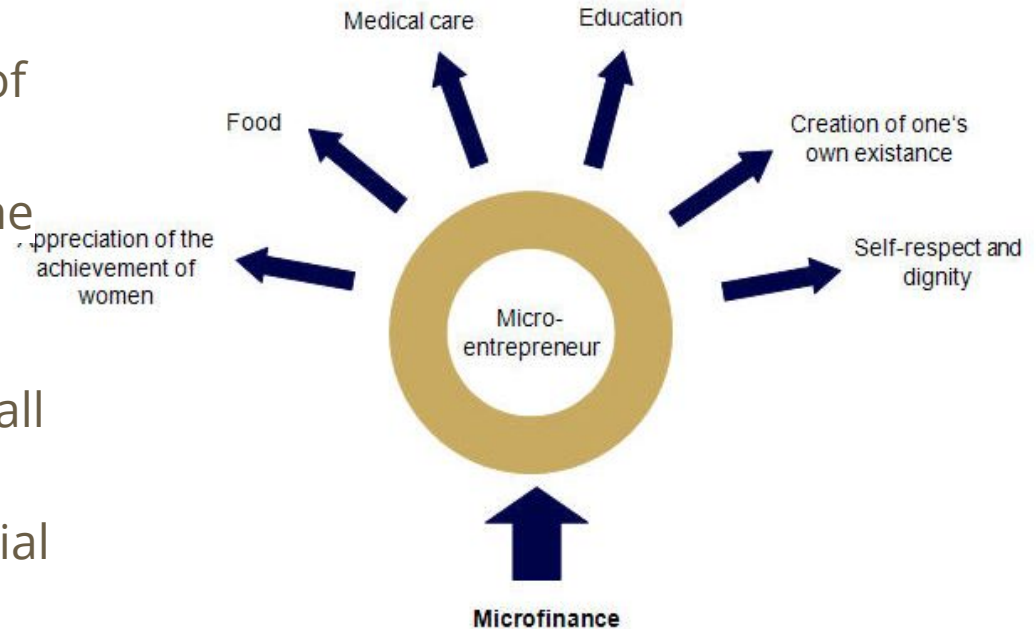


World population with access to finance (<http://worldbank.org>)



# Microfinancing

- Microfinance is the supply of loans, savings, and other basic financial services to the poor.
- MFI's (Microfinance Institutions) range from small NGO's (Non-governmental agencies) to large commercial banks.



# Kiva: How does it work?

Kiva is a non-profit organization with a mission to connect people through lending to alleviate poverty. Leveraging the internet and a worldwide network of Microfinance Institutions, Kiva lets individuals lend as little as \$25 to help create opportunity around the world. - Kiva

- 1 Choose a borrower**  
Read through hundreds of borrower stories of people looking for loans to grow businesses, go to school, switch to clean energy and more. Find someone who connects with you.
- 2 Make a loan**  
Click 'Lend' to make a loan to the borrower of your choice. All Kiva loans are disbursed by our Field Partners who vet and work closely with each borrower.
- 3 Get repaid**  
Get updates as the borrowers you support succeed and repay their loans. You'll see these dollars return to your Kiva account.
- 4 Repeat!**  
When borrowers repay, you can use that money to empower another person by supporting a new loan! You can also choose to donate the money to Kiva or withdraw it.

# Microfinancing Positives and Negatives

<b>Positives:</b>	<b>Negatives:</b>
Those with little to no assets gain access to a formal financial program	MFI's can charge high interest rates
Empowers women	Loans are not always used in the manner they were intended
Builds small businesses	
Extends education	
Creates jobs	

# Agricultural Aid

- According to the Irish Aid: Department of Foreign Affairs and Trade, by 2050 the food needs of a growing world population will require that food production increases by 60-70% worldwide.



- Asia has experienced great success in agricultural productivity
- Africa has yet to see such successes

# Agricultural Interventions

- Research on improving seeds
- Irrigation
- Improved transportation infrastructure
- Livestock
- Training and technology to cope with climate change

## Practical Action

**Raj increased his rice production by 20% with some help**

Introducing ducks to his fields to help with weeding and natural fertiliser



<http://practicalaction.org/how-we-are-funded>

# Agricultural Aid Road Bumps

- Sustainability: inability to continue maintaining programs long enough to create impact
- Inaccurate knowledge of and insufficient adaptation to local conditions
- Poor management that create overly complex projects

# Successful Foreign Aid

- Evidence and data should drive policy and practice
- Non-linear aid-growth relationship
  - The goal should be to empower a community rather than to create a dependency/charity culture
- Aid is given to the people, not corrupt government officials

# What can I do?

- Research charities and NGO's before donating
  - <http://www.givewell.org>
  - <http://www.charitynavigator.org>
- Advocate for evidence-based foreign aid policy changes
- Consider microfinancing, supporting agricultural aid projects, or taking part in long-term international community development work



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