

**UNIVERSITY OF NAIROBI**

**INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES**

**ROLE OF FOREIGN AID IN DEVELOPING COUNTRIES: A CASE**

**STUDY OF KENYA (1990-2010)**

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**REG No: R50/63619/2010**

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Masters of Arts in International Studies of the University of Nairobi**

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**DECLARATION**

This research paper is my original work and has not been presented to any other examination body. No part of this research should be reproduced without my consent or that of the University of Nairobi.

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The project has been submitted with my approval as university supervisor.

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**Date.....**

**MR. GERRISHON IKIARA**

## **DEDICATION**

As a modest tribute, this work is dedicated to my family for their undying support.

## **ACKNOWLEDGEMENT**

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## ABSTRACT

This study presents an assessment of the role of foreign aid in developing countries, having Kenya as the case study for the period between 1990-2010. Towards this assessment of the role of foreign aid, the study outlines three main objectives. The first objective is on finding out the role of foreign aid in Kenya's economic development. Secondly, is on examining the contribution of foreign aid towards good governance, and thirdly, to find out the influence of foreign aid on foreign policy. In order to achieve this, the study is sub-divided into five chapters.

Chapter one begins with giving an insight into foreign aid, giving a background on foreign aid operations in Africa. The chapter also, defines the research study and puts it into context through the introduction and background of study. This chapter also presents the Research Questions, the dependent variables, thesis, and hypothesis and the methodology and the literature review sections. The literature review was done with a wealth of extractions from well-known authors and rich sources of publications to re-emphasize the fact that their ideologies were in line with the study objectives. This strengthened the study. The literature review focused a lot on the research questions and objectives. Thus, the areas largely explored in the literature review were foreign aid and economic development, good governance and foreign policy.

Chapter two examines foreign aid in Africa, highlighting the major donors in Africa's foreign aid and tracing back the history of foreign aid. In addition, this chapter examines the impacts of foreign aid on Africa's economic development, governance and foreign policy.

Chapter three focuses on Kenya. It therefore examines foreign aid in Kenya, its impacts on Kenya's economic growth and governance. In addition, this chapter examines evolution and trend of foreign aid in Kenya, throughout the period under study that is between 1990-2010. This chapter also gives an in-depth discussion of foreign aid in different sectors of the Kenyan economy, such as Education, Agriculture and Infrastructure.

In chapters four and five the researcher presents data analysis, presentation of data and interpretation of the collected data. This is done in form of graphs, tables and charts that clearly show correlation between the variables in chapters four and five. These are accompanied by brief notes to explain each figure and chart, to further enhance the understanding of the data. Finally, the study gives the recommendation and conclusion. The study findings indicated the impact of foreign aid on the economic growth of developing countries. These impacts were analyzed using time series data for foreign aid which shows that there is a positive impact on the economic growth of Kenya. Thus, this study found out that there is a positive relationship between foreign aid and economic growth and thus the impact of Foreign aid on the country's economy cannot be ignored.

## **LIST OF ACRONYMS AND ABBREVIATIONS**

<b>AIDS</b>	-	Acquired Immune Deficiency Syndrome
<b>AFDB</b>	-	Africa Development Bank
<b>BISS</b>	-	Bura Irrigation Settlement Scheme
<b>BOP</b>	-	Balance of Payments
<b>CPIA</b>	-	Country Policy and Institutional Assessment
<b>EU</b>	-	European union
<b>DAC</b>	-	Development Assistance Committee
<b>DFID</b>	-	Department for International Development
<b>EEC</b>	-	European Economic Community
<b>ESAF</b>	-	Eastern and Southern Africa
<b>EIB</b>	-	European Investment Bank
<b>EFA</b>	-	Education for All
<b>EAf</b>	-	East Africa Federation
<b>EPI</b>	-	Expanded Program on Immunization
<b>FPE</b>	-	Free Primary Education
<b>FI</b>	-	Foreign Investment
<b>FDI</b>	-	Foreign Direct Investment
<b>FTI</b>	-	First Truck Initiative
<b>GNI</b>	-	Gross National Income
<b>GDP</b>	-	Gross Domestic Product
<b>GNP</b>	-	Gross National Product
<b>HIPC</b>	-	Highly Indebted Poor Countries

<b>HIV</b>	-	Human Immune Virus
<b>IBRD</b>	-	International Bank for Reconstruction and Development
<b>IMF</b>	-	International Monetary Fund
<b>INGOS</b>	-	International Non-Governmental Organizations
<b>ICT</b>	-	Information and Communications Technology
<b>JFA</b>	-	Joint Financing Agreement
<b>KEP</b>	-	Kenya Educational policy
<b>KESSUP</b>	-	Kenya Education Sector Support Program
<b>KTCIP</b>	-	Kenya Transparency Communication Infrastructure Program
<b>MHC</b>	-	Mother to child Health
<b>MDG</b>	-	Millennium Development Goal
<b>NGO</b>	-	Non-Government Organization
<b>NARC</b>	-	National Alliance Rainbow Coalition
<b>OCED</b>	-	Organization for Economic Cooperation and Development
<b>ODA</b>	-	Official Development Assistance
<b>PARPA</b>	-	Action Plan to Reduce Absolute Poverty (Mozambique)
<b>PIP</b>	-	Public Investment Program
<b>PSNP</b>	-	Productive Safety Net Program
<b>PRSP</b>	-	Poverty Reduction Strategy Paper
<b>SDR</b>	-	Speed Drawing Rights
<b>SSA</b>	-	Sub-Saharan Africa
<b>SFP</b>	-	School Feeding Program
<b>SWAP</b>	-	Sector Wide Approach

<b>SAP</b>	-	Structural Adjustment Program
<b>TB</b>	-	Tuberculosis
<b>UN</b>	-	United Nations
<b>US</b>	-	United States
<b>UNESCO</b>	-	United Educational Scientific and Cultural Organization
<b>UNICEF</b>	-	United Nations International Children's Emergency Fund
<b>UK</b>	-	United Kingdom
<b>WB</b>	-	World Bank

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

Over the years, foreign aid has been channeled to developing countries. However, the fundamental role of foreign aid in improving the lives of these countries, its contribution to poverty reduction and development continue to be a passionate debate. The U.S, Canada, Australia, Japan, New Zealand and the countries of Europe are classified as developed while other nations are usually classified as less developed. The UN has classified a subset of 49 countries as the least developed, to which majority are in Africa. The least developed countries have extremely low levels of income, low levels of life expectancy at birth, low literacy and school enrollment and low levels of economic diversification<sup>1</sup>.

On the other hand, the World Bank has classified countries into four groups, using Gross National Income (GNI) per capita. Based on their GNI, every economy is classified as either low income, middle income (subdivided into lower middle and upper middle) or high income<sup>2</sup>. Moreover, Africa, Latin America, South East Asia are popularly referred to as the South. These regions are characterized by high degree of debt, unemployment and the majority of their populations live below a dollar a day<sup>3</sup>.

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<sup>1</sup> Mauro F. Guillén "Multinationals, Ideology, and Organized Labor". *The Limits of Convergence*. (Princeton, 2003). University Press.

<sup>2</sup> Boughton, James M., , *Silent Revolution: The International Monetary Fund 1979–1989* (Washington: International Monetary Fund, 2001).

<sup>3</sup> Horsefield, J. Keith, *The International Monetary Fund 1945–1965: Twenty Years of International Monetary Cooperation* (Washington: International Monetary Fund), 1969.

The Development Assistance Committee (DAC) of the organization for Economic Cooperation and Development (OECD) states that foreign aid (or official development assistance) is the transfer abroad of public resources on concessional terms (having a 25 per cent grant element), with an objective towards improvement in the economic, political or social conditions in developing countries.

According to Lancaster, foreign aid is an official assistance where concession public resources are transferred to promote economic and social progress in countries with low income.<sup>4</sup> Foreign aid involves transfer aimed at bringing about sustained beneficial difference in another. This aid can be categorized into three types: humanitarian, grants and loans and systematic cash transfer disbursed to governments by rich countries. Foreign aid can be multilateral or bilateral arrangement. Bilateral aid is provided from state to state in most cases from developed to developing but, even though aid within developing countries is also currently on the rise (South-South framework). On the other hand, multilateral aid is from an intergovernmental organization such as the World Bank (WB), International Monetary Fund (IMF), and African Development Bank (AfDB), European Union (EU) etc<sup>5</sup>.

Foreign aid is also given by other International Financial Institutions which include , the transfer by the private institutions, taking the form of technical assistance, donations and interest loans. The core objective of foreign aid is to promote political, social and economic development of a country. This is despite the revolving debate that has been put forth on the motive of the donor.

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<sup>4</sup> Carol Lancaster, Foreign aid: Diplomacy, Domestic politics, University of Chicago press, 2007, chapter 1, page2

<sup>5</sup> United Nations, Report on International Definition and Measurement of Standards and Levels of Living, (New York: Oxford University Press, 2010).

However, the relationship between foreign aid and development is still debatable. To ascertain this relationship, it requires examining foreign aid in relation to development in the recipient countries. During the height of the Cold War foreign aid, as a tool of foreign policy took center stage and got prominence as an agent of perpetuating the ideals and ideologies of the two competing sides that is the Communist East led by the USSR and the Capitalist West led by the USA. Foreign aid arrangements were championed by the Bretton Woods Institutions and Marshall Plan that led to successful reconstructions of Western Europe and East Asia i.e. Japan and South Korea are other beneficiaries.

By early 1950s, many countries in the Western and Central Europe had undergone revitalization to which the program was considered a success. The Marshall Plan's achievement as a development strategy was later adopted for development purposes as it had positive results in Europe, which had been devastated by war. Foreign aid was used by the West as part of the containment policy to check against the spread of communism. After the fall of Berlin Wall and the end of Cold War, it ushered in the New World Order that also changed the objectives of foreign aid. To the end, foreign aid has been tied to Human Rights, democracy and rights and liberties<sup>6</sup>.

Some scholars like Dambisa Moyo and William Easterly, have debated on the role of foreign aid, seen to have other impulses beside that of economic development. According to them, donors have hidden motives of advancing their foreign policy in the developing countries. Dambisa Moyo, cites that foreign aid instills a culture of dependency where the recipient country relies on

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<sup>6</sup> Bell, Clive, 1989, *The New Palgrave: Economic Development* (New York: W.W. Norton & Company, Inc.)



the donor country for aid.<sup>7</sup> However, despite this skepticism, the onset of foreign aid has led to development albeit having numerous challenges.

## **1.2 Statement of Research Problem**

The role of foreign aid in the growth process of developing countries has been a topic of intense debate. Foreign aid is an important topic given its implications in poverty reduction in developing countries. Previous empirical studies on foreign aid and economic growth generate mixed results. There are evidence of positive impact of foreign aid on growth; However, as much as in some areas, foreign aid has recorded success in helping develop the poor nations, there are also large evidence of negative impact of foreign aid in economic growth, especially in African countries<sup>8</sup>, while in some areas there is evidence to suggest that aid has no impact on growth. For those who conclude that foreign aid lead to economic growth and development, it is important to note that this conclusion applies only to economies in which it is combined with good fiscal, monetary, and trade policies.

Countries in Sub-Saharan Africa have been characterized by a high degree of indebtedness, unemployment, poverty and poor economic performance<sup>9</sup>. The average per capita income in the region has fallen since 1970 despite the high aid flows. Developing countries like Kenya, having become highly dependent on foreign aid, face huge foreign debts and cry out for debt relief and more aid. Between 1970 and 1999, the flow of donor funds to Kenya averaged about 9% of

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<sup>7</sup> Dambisa Moyo, *Why aid is not working and how there is another way for Africa*, penguin books ltd London, 2009, Page 49.

<sup>8</sup> Jensen, P. S., M. Paldam (2003), "Can the New Aid-Growth Models Be Replicated?," Working

<sup>9</sup> Hansen, H., F. Tarp, and S. Vikkelso "Aid Effectiveness: A Survey of 30 Years of Literature on Aid-Savings, Aid-Investment, and Aid-Growth Linkages," Development Economics Research Group. (1998).

GDP, accounting for about 20% of the annual government budget and financing slightly over 80% of development expenditures<sup>10</sup>.

Kenya's economy is market-based, with a few state-owned infrastructure enterprises, and maintains a liberalized external trade system. The country is generally perceived as Eastern and Central Africa's hub for Financial, Communication and Transportation services. With the expansions in tourism, telecommunications, transport, construction and a recovery in agriculture, a 4.-5% of growth has been expected by May 2010<sup>11</sup>. Therefore in this study, the areas of examination shall include levels of poverty, economic growth and negative and positive impacts of foreign aid.<sup>12</sup> There are two sides of the aid coin in Africa like other aid recipient countries. On one hand, donors are willing to give money but on the other the recipient countries have to do as the donors say.<sup>13</sup> Thus the study seeks to answer the question as to whether or not aid has contributed to economic development in Kenya, narrowing its scope to the period, 1980-2012. The study also tries to fill the gap by looking at the impact of financial aid in Kenya's economy and development.

### **1.3 Objective of study**

#### **1.3.1 General Objective**

To find out the role of foreign aid in developing countries.

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<sup>10</sup> Njeru, J., The impact of foreign aid on public expenditure: The case of Kenya, 2003, African Economic Research Consortium. P. 8

<sup>11</sup> IMF, World Bank, Symbiotics, Bloomberg.

<sup>12</sup> Lensink, R., and H. White (2001), "Are There Negative Returns to Aid?" *Journal of Development Studies*, 37, 42-65.

<sup>13</sup> Jonathan Glennie, The Trouble with Aid, Why less could mean more for Africa, International African Institute, Royal African society, Social Science Research Council, 2008, Chapter 4 Page 36

### **1.3.2 Specific Objective**

1. To examine the role of foreign aid in economic development in developing countries.
2. To find out the contribution of foreign aid towards good governance in developing countries.
3. To find out how foreign aid affects the foreign policy of developing countries.

### **1.4 Research Question**

1. What roles do foreign aid play in the economic development in developing countries?
2. What are the contributions of foreign aid towards good governance in developing countries?
3. How does foreign aid affect the foreign policy of developing countries?

### **1.5 Hypothesis**

My main thesis is that foreign aid plays an important role not only in promoting economic growth in developing world but also as a tool used by the Western countries to put pressure on the African leaders to embrace good governance and democratic principles. It is undoubtedly true that there can never be economic growth without good governance and human rights. All these go hand in hand.

I therefore advance the following hypotheses.

Hypothesis 1: foreign aid plays a positive role in the economic development of developing countries.

Hypothesis2: Foreign aid contributes negatively to economic development of developing countries.

Hypothesis 3: There is no relationship between foreign aid and economic development of developing counties.

## **1.6. Limitation of the Study**

### **1.6.1 Confidentiality**

The researcher could not gather some data as expected due to the fact that some of the information was considered top government secret which could not be easily relayed to the public.

### **1.6.2 Accessibility**

Both the top management and the general staff had limited time during their working hours. This almost made it impossible to get their full attention. The researcher at one point had to drop the questionnaires and come back to collect them later.

Due to their busy schedule, also, the researcher could not gather the data from some of the respondents.

## **1.7. Scope of the Study**

This study focuses on Kenya's socio-economic development over the past two decades .Even though it aims at finding out the role of foreign aid in the development of third world economies, the study focuses on Kenya as a case study. The research was carried out within Nairobi town. Nairobi town is the capital city of Kenya and is currently the hub of all activities in Kenya. Even though, Kenya's new constitution is moving the country towards a devolved government, this

has not been achieved yet, and therefore, all the important matters in the country such as economic planning and important data are still centralized, to a large extent in Nairobi. Also, most government ministries, key to this study, such as the ministries of foreign affairs, planning, and trade all have their headquarters in Nairobi.

### **1.8 Significance of the Study**

Many previous researches on foreign aid have tended to over-emphasize on its role on economic growth. As such, they have put so much focus on such visible aspects of economic growth like GDP, balance of payments, trade and infrastructure. While this study acknowledges the importance of such studies, my research aims at shifting focus to economic development. As opposed to economic growth, development lays emphasis on significant and measurable changes in the lifestyles of a country's citizens.<sup>14</sup>

To the governments, of Kenya and other developing nations, this study shall be unique, as it challenges the long-held belief that economic growth is synonymous to economic development. Therefore, the study shall enable the governments understand what economic development is, and most importantly, it shall offer recommendations on how to achieve such development.

This information will indeed, be important when formulating public policies since the government will see the need of formulating policies that will make the benefits of economic growth trickle down to the citizens.

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<sup>14</sup> Chenery. H. and A.M. Strout. 1966. "Foreign assistance and economic growth". American Economic Review, LVI (September), Vol 56:679-73

The Kenyan citizens themselves, no doubt, shall be interested in knowing how best they can gain from economic growth that has continually been witnessed in Kenya, especially in the last decade. Therefore, this study will be an “eye-opener” to many Kenyans who still do not know that they can indeed benefit from this growth. In addition, the study shall enlighten the Kenyan public on some of the policies that have been pursued by the government and its pros and cons.

Finally, to the Non-Governmental Organizations, such as the media and the civil society, which the main pressure group in good governance and public policy, and the strongest force to keep the government in checks will also come face to face with the recommendations on how economic development can be achieved, to ensure every Kenyan citizen gains from economic growth. This will strongly inform their decisions, even as they play their role of “pressure groups”.

## **1.9 Literature Review**

In order to better understand and analyze the existing literature on this issue, it is necessary to clarify the meaning of the word development. The term development has remained puzzling, ambiguous and in-definitive. It has carried both the concept of growth and modernization, which have both been equated with the concept development.<sup>15</sup>

The term development must be concerned with the economic, cultural, social and political requirements which are needed to steer up the transformation of the entire society in order to

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<sup>15</sup> Samuel A Ochola, Leadership and economic crisis in Africa, Kenya Literature Bureau,2007, Pg 111-112

effectively cause development.<sup>16</sup> However, the word development could also bear the meaning of making a better life for everyone. This better life essentially means, meeting basic needs, housing, affordable services available for everyone and sufficient food to maintain good health. Development is thus measured by the level of development seen in terms of the Gross National Income (GNI) of a nation's economy.<sup>17</sup> Individual authors have different meanings to explain this concept, and therefore, throughout the text, as a working definition, the term development will revolve around their different ideas. Today, also, growth is measured to a large extent by the Human Development Indices. This includes aspects like access to water, food and proper housing facilities to all the citizens.

Aid effectiveness does not explicitly address the question of transparency and accountability<sup>18</sup>. The policy conditions attached to foreign aid are more controversial, having had a greater consequence in the lives of Africans than the direct consequences of the way money has actually been spent. The shortcomings in the accountability and effectiveness of African governments in recent decades have been a major part of the problem of low or negative growth and insignificant poverty reduction.<sup>19</sup>

African governments thus, have an obligation of making sound policy decisions, since it has proved impossible for donors to force countries to adopt policies they oppose. For instance, the

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<sup>16</sup> Todora and Smith, *Economic Development*, 2005, Page 47

<sup>17</sup> Susan Engel, *The World Bank and The Post-Washington Consensus In Vietnam And Indonesia (Inheritance and Loss)*, Rutledge Publishers, 2010, Chapter 2, Page 23

<sup>18</sup> Collier, P., and J. Dehn "Aid, Shocks, and Growth," World Bank Policy Research Working Paper No. 2688. 2001.

<sup>19</sup> Jonathan Glennie, *The Trouble With Aid, Why Less Could Mean More For Africa*, International African Institute, Royal African Society, Social Science Research Council, 2008, Chapter 1, Page 5

government of Mozambique used delaying tactics and resisted pressure from donors on land reforms and government corruption.<sup>20</sup>

On the other hand, there is the debate on good policies and institutions whereby, foreign aid has been argued to be beneficial when it is given to countries with good policies in place. Studies show that aid has on average had little impact on economic growth. It has a more positive impact in recipient countries with good fiscal, monetary and trade policies compared to countries with poor policies, where it has little effect<sup>21</sup>. Donors among Nordic countries have been seen to respond to channeling aid to countries with “correct incentives”, good institutions and policies.<sup>22</sup> However, Rajan and Subramanian in their 2005 paper “Aid and growth” find little robust evidence of a positive or negative relationship between aid inflows in a country and its economic growth as well as, virtually no evidence that aid works better in better policy or institutional or geographical environment.<sup>23</sup> Certain findings tend to point out that, it does matter whether aid is given to countries with good institutions and policies when it comes to economic growth. That aid would yield better results in countries with good policies and institutions than those with poor policies and governance<sup>24</sup>.

However, Dambisa Moyo challenges this finding and argues that countries with good policies will be in position to make progress unassisted and that aid is supposed to assist those with bad

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<sup>20</sup> Jonathan Glennie, *The Trouble With Aid, Why Less Could Mean More For Africa*, International African Institute, Royal African Society, Social Science Research Council, 2008, Chapter 4, Page 45

<sup>21</sup> Craig Burnside and David Dollar, *The American Economic Review*, Vol. 90, No. 4 pp. 847-868. (2000).

<sup>22</sup> Alberto Alesina, David Dollar, *Who gives foreign aid to whom and why?*- Working paper 6612, National Bureau of economic research, 1998, page 1-2

<sup>23</sup> Jonathan Glennie, *The Trouble with Aid, why less could mean more for Africa*, International Africa Institute, Royal African Society, Social Science Research Council, 2008, Chapter 6, Page 83

<sup>24</sup> Boone, Peter. "The Impact of Foreign Aid on Savings and Growth." Working paper, London School of Economics, 1995.



policies. Moyo claims that far from making any improvement, aid could make a good policy environment bad, and a bad policy environment worse.<sup>25</sup> Hence, scholars disagree on the link between aid and policy and whether this should influence how aid should be given. This clearly shows the mystery that has continued to surround foreign aid in Africa, and its role in development of African economies.

Nevertheless, developing countries have had to cope with several obstacles ranging from civil wars, diseases, food insecurity, famine and drought, in ability to access clean water etc. Even with the assistance of donors, policies and institutions are simply not the underlying issues affecting growth and development in these countries. Brautigam and Knack have credited development on good policies and institutions but paid less attention to internal factors that have either slowed down or hindered development especially in Sub-Saharan Africa, despite the increase of foreign aid in these countries.<sup>26</sup> There is also the aspect of the relationship between foreign aid and development which has been a studied topic in international development where economic growth is considered to be a prerequisite for the reduction of poverty. Proponents of aid such as Jeffery Sachs, argue that it will lead to growth.

Britain Prime Minister, Gordon Brown states that, “the success of aid cannot be measured in pounds spent by donors but by the rate of growth and poverty reduction achieved by recipient’s countries”.<sup>27</sup> However, this statement is opposed by Glennie. According to him, the relation

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<sup>25</sup> SA Globalist, Future Of Foreign Aid, June 28, 2011, The Burnside and Dollar findings

<sup>26</sup>

<sup>27</sup> Jonathan Glennie, The Trouble with Aid, Why less could mean more for Africa, International African Institute, Royal African Society, Social Science Research Council, 2008, Chapter 6, page 78

between aid, growth and poverty reduction is complex and that growth does not automatically mean a reduction in poverty.

Glennie's argument takes us back to the previous section, where we stated that economic growth does not automatically mean economic development as has been construed by many governments and donors. Instead, development goes beyond visible aspects like GDP, economic multiplication, balance of payments and the overall financial status of a country. In addition, the evidence that suggests aid foments growth is riddled with methodological problems with similar amounts of conflicting evidence.<sup>28</sup>

For instance, economic growth is an essential ingredient in the reduction of poverty but it is not the only requirement. A country's economy can grow having minimal changes in the poverty rate. For instance, "Tanzania's GDP grew by an average of about 4 percent (1990-2000), yet, the proportion of those living below the national poverty line fell slightly<sup>29</sup>" Thus the argument is that there is a possibility of growth over a period of time that may lead to poverty reduction but it does matter as to where growth takes place.<sup>30</sup> This is the dilemma where growth does not equal poverty reduction hence more academic resources are not spent analyzing the relationship between aid and poverty reduction, rather on aid and growth<sup>31</sup>.

For a long time, aid has been given to cater for the short term needs of recipient countries. This has with created an aspect of dependency which is especially noticeable in food aid. However, if

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<sup>28</sup> Jonathan Glennie, *The Trouble with aid, why less could mean more for Africa*, International African Institute, Royal African Society, Social Science Research Council, 2008, chapter 6, page 79

<sup>29</sup>. *ibid*

<sup>30</sup> *ibid*

aid is spent on long term goals such as improving on the key sectors like infrastructure, the education system, agriculture and healthcare etc. then development is more achievable. According to Jonathan Glennie “Improving the roads and ports will reduce the cost of transport and communication, thus creating an attractive and conducive environment for investors”.<sup>32</sup> Furthermore, the study holds two assumptions, that foreign aid is essential in the growth and development of developing countries while at the same time, aid undermines growth and development in these countries. With regard to these assumptions, the literature review will be divided into two parts; the aid optimists and aid pessimists.

Jeffery Sachs is one of the proponents of foreign aid who argues that, extreme poverty would be a thing of the past if aid to developing countries would be doubled over the course of the next decade. His argument is based upon the coming together of the richest countries such as Japan, Canada, and U.S, E.U and Australia and further donating 0.7% of their GNP to the impoverished nations of Africa, South America, Asia and the Caribbean.<sup>33</sup> Sachs makes strong arguments which are based on a sudden boost of wealth to developing countries as a means to escape from poverty. Accordingly, new wealth should be invested in the education, infrastructure, health and technology so as to increase productivity of workers and at the same time, attract more aid that will boost creation of additional wealth<sup>34</sup>.

He argues that as a result of this creation of wealth a country will be in a position to enter a “cycle of prosperity” and continue in this cycle until it becomes rich. He gives examples of

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<sup>31</sup> ibid

<sup>32</sup> Ibid, page 85

<sup>33</sup> Wallis William, “Foreign Aid Critics Spreads theory far and fast” financial times, May 26, 2007: poverty education organization, chapter 5: The foreign aid debate

South Korea and Taiwan where positive results have been recorded.<sup>35</sup> However, countries in Africa are often disadvantaged by several factors such as prevalence of diseases, civil wars, and lack of infrastructure, poor governance and corruption. Many African leaders, instead of channeling aid money for economic development, see foreign aid as a tool for making themselves rich. This has led to wide gaps between the few rich African elites and the majority poor.

However, Sachs still believes the answer to the African continent lays on a surge of foreign aid in these recipient countries. He states that African countries have not been able to achieve a boom in agricultural productivity or foreign investments thus have never been able to enter the “cycle of prosperity”.<sup>36</sup> He thus outlays investments which are required by the African countries in propelling it to enter the cycle of prosperity. For instance, rich countries could give a boost in the agricultural sectors, donate money to build and fund education, invest in infrastructure i.e. roads, airports, seaports while at the same time develop rural areas in order to offset the rural to urban migration.

Nonetheless, despite the arguments in support of aid, those scholars that are pessimistic about the effectiveness of foreign aid still oppose it. Easterly, for example, argues that the large amounts of aid channeled to developing countries has generally been wasted and embezzled by corrupt leaders<sup>37</sup>. He blames foreign aid to have promoted a phenomenon known as the “Dutch

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<sup>34</sup> Sachs, Jeffrey. *The End of Poverty: Economic Possibilities of Our Time*. New York: Penguin Group, 2005

<sup>35</sup> Jeffery Sachs, *The End of Poverty: How we make it happen during our lifetime*, penguin press, 2005

<sup>36</sup> Jeffery Sachs, *The End of Poverty: How we make it happen during our lifetime*, penguin press, 2005

<sup>37</sup> Mosley, P., and J. Hudson), “Aid Effectiveness: A Study of the Effectiveness of Overseas Aid in the Main Countries Receiving ODA Assistance,” University of Reading and University of Bath, 1995.

Disease’’ which should be a concern to African countries receiving aid.<sup>38</sup> Impacts of large inflows become as a result to a national currency, which makes exports less competitive and imports cheaper. People depending on export industries and sectors of the economy that compete with imports may suffer due to the situation created by Dutch disease.

In support of this is a report by Raghuram Rajan where he argues that, when amount of aid are sent overseas, the currency of the receiving country tends to rise, and this rise in the value of the currency makes it more expensive for foreigners to purchase exports from developing countries thus discouraging foreign investment. This automatically undermines foreign investment.<sup>39</sup> Easterly argues that more than \$2.3trillion of aid money has been channeled to developing countries over the last 50 years. According to his argument aid by now would have promoted development if it was truly successful<sup>40</sup>. He further states that aid has been wasted on projects that are deemed to glorify aid organizations instead of improving the state of these developing countries, and that aid money is wasted on propping dictators supporting the rich countries interest.<sup>41</sup>

In support of Easterly’s argument is Dambisa Moyo who reinvigorated the debate of aid to Africa. She calls for a total cut off all aid money as it encourages corruption, ultimately perpetuating poor governance, poverty and fostering dependency. Moyo illuminates the way in

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<sup>38</sup> Jonathan Glennie, *The Trouble With Aid*, why less could mean more for Africa, International African Institute, Royal African Society, Social Science Research Council, 2008, chapter6, page 84

<sup>39</sup> Wallis William, “A Foreign Aid Critic Spreads Theory far and fast ’’, financial times, May 26, 2007: poverty education organization, chapter 5: the foreign debate

<sup>40</sup> Easterly, W., Levine, R. & Roodman, D.). *New Data, New Doubts: A Comment on Burnside and Dollar’s ‘Aid, Policies, and Growth. American Economic Review*, 94 (3), 774-780. 2004.

<sup>41</sup> William Easterly, *The White Man’s Burden: Why The West’s Efforts To Aid The Rest Have Done So Much And So Little Good* ,Penguin Press,2006

which aid to developing countries has propelled it to a vicious cycle for the “need” for more aid.<sup>42</sup>

Nonetheless, looking at these arguments, literature research up to date widely corresponds to the debate of the effectiveness of foreign aid to developing countries. Foreign aid certainly has many challenges associated with it, much of it wasted by corrupt leaders, and aid contributing to “Dutch disease” which discourages foreign investment. Yet still, aid has been attributed to the successful eradication of many serious illnesses such as polio and small pox and is also contributing to the HIV/AIDS pandemic that has greatly infected and affected many lives in Africa. It has also played a critical role in the economies of those countries where development has occurred for instance, South Korea and Taiwan<sup>43</sup>. All in all, arguments have been advanced by both the optimists and pessimists of foreign aid.

### **1.10 Theoretical Framework**

Does foreign aid stimulate economic development or is it a tool to manipulate the Third World. This is the question that has arisen over time concerning aid and, opinions are divided on this issue. Two schools of thoughts have emerged in expounding the debate of the role of aid in developing countries. These schools of thoughts are the dependency and the modernization theories.

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<sup>42</sup> Dambisa Moyo, *Why Aid Not Working And How There Is Another Way For Africa*, Penguin Books Ltd London, 2009, Page 49

<sup>43</sup> Sachs, Jeffrey D. and Warner, Andrew M. "Eco-nomic Reform and the Process of Global Integration." *Brookings Papers on Economic Activity*, 1995, (1), pp. 1-1 18.

Dependency theory emerged in 1949 with works by Raul Prebisch and Hans Singer who put emphasis on the periphery's loss of natural capital to the core.<sup>44</sup> During the Post-World War II, the former European core and U.S (emerging global hegemon) expanded global capitalism to former colonial settings outside the centre, controlling natural capital and benefiting the centre at the periphery's expense<sup>45</sup>. The dependency theory further states that donor aid basically is an exploitative instrument that increases external dependency and internal underdevelopment in the developing countries. Theotonio Dos Santos, one of the proponents of this theory argues that foreign aid has reduced developing nations to a state of dependency. This has been perpetuated through financial dependency where the developing countries cannot undertake any projects on their own, without capital from the donors. Thus developing countries have been unable to develop their own technologies while technological transfers from the developed to the South have been minimal due to strict intellectual copy rights. This has made the South to remain recipient of technologies of the West. The consequence has been cost effects, rigid and less adaptive to local environments<sup>46</sup>.

However, critics of this theory like Carl Max argue that the dependency theorists do not offer a solution to the state of underdevelopment of developing countries. They shift blame to the developed nations as being responsible for the situation of underdevelopment in these countries while ignoring the internal factors that have contributed largely to this degrading state.<sup>47</sup>

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<sup>44</sup> Salvatore J. Babones and Christopher Chase-Dunn; Routledge International Handbooks of World Systems Analysis, Individual Chapters, Routledge Publishers, 2012, Chapter 5

<sup>45</sup> Similarly, James Ferguson suggests that research should explore the 'kinds of flows [...] linking academic theories and knowledges to the world of agencies, policies, and practical politics.' (1997:152)

<sup>46</sup> Alcalde, Javier Gonzalo The Idea of Third World Development. Emerging Perspectives in the United States and Britain 1900-1950. Lanham: University Press. (1987).

<sup>47</sup> White, H. "The macroeconomic impact of development aid: A critical survey" Journal of Development Studies, 1992, vol. 28: 163–240.

According to Ochola:2007, bad leadership has propelled underdevelopment in developing countries of which most of the problems facing Africa today could have been contained had leadership not pursued a personal agenda.<sup>48</sup> However despite its failure to give alternatives, one cannot fully dismiss the valid arguments of the dependency theory.

On the other hand, the modernization theory views foreign aid as fundamental to the economic development of the developing countries. The theory summarizes development in terms of literacy, communication, reliable road networks, high levels of industrialization and increased urbanization in the economy.<sup>49</sup> In order to achieve development, modernization theorists argue that donor aid is necessary as it accelerates investments and helps improving the structural problems in developing countries<sup>50</sup>. According to modernization theorist's, development is linear progression as it follows a predetermined pattern. For instance Rostow:1960, a key proponent of this theory, argued that development follows these paths: traditional stage, the pre-condition for takeoff, drive to maturity and the age of mass consumption.<sup>51</sup>

Modernization theory was pronounced during the Cold War and was advanced by the Western capitalist's nations. It was believed that development model was uniform across the world and Western values were a part of the prerequisite for development. This theory was used as a justification of Western aid and the conditions attached to it. However, it has been criticized to be insensitive and uncentric as foreign values and cultures are not recognized. Based on the arguments of modernization theory, developing countries require taking stages in order for them

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<sup>48</sup> Samuel A Ochola, Leadership And Economic Crisis In Africa, Kenya Literature Bureau, 2007, Chapter 1,Page13

<sup>49</sup> Walt Rostow, *Theorists of Economic Growth from David Hume to the Present: With a Perspective on the Next Century* (New York and Oxford: Oxford University Press, 1990).

<sup>50</sup> Baran, P. 1957. *The Political Economy Of Growth*, ( 1968 edition ) New York : Monthly Review Press.



to attain the age of mass consumption. For this stage to be effective, aid is required to boost the developing countries<sup>52</sup>.

Hence, according to Jeffrey Sachs, economic development is a path from poverty and hunger to economic well-being. A majority of people still live in deplorable conditions to even cater for their basic needs. The challenge he asserts, is to assist the poorest of the poor to escape the misery of extreme poverty so that they can begin their ascent to full humanity.<sup>53</sup>

In looking at both the dependency and modernization theories of development, each has its own strengths and weaknesses. The fact that there exist disagreements on these theories makes the study of development both challenging and interesting at the same time. However, despite the disagreement, something significant can be extracted from each theory.

This study however, shall be based on the modernization theory which argues foreign aid is important for the developing countries to achieve economic development.

### **1.11. Research Design and Methodology**

In this section, the researcher will discuss the research design, gathering the information, study population, sampling design, data collection instruments, reliability and validity of data and data analysis.

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<sup>51</sup> Walt W. Rostow, *The Stages Of Economic Growth: A Non-Communist Manifesto*, London Heinmann, 1960

<sup>52</sup> Walt Rostow, *Theorists of Economic Growth from David Hume to the Present: With a Perspective on the Next Century* (New York and Oxford: Oxford University Press, 1990).

### **1.11.1 Research Design**

The researcher used descriptive research design in an attempt to identify the various ways through which foreign aid has fostered or impeded development in the third world countries, with a focus on Kenya as one of the third world economies. The main mode of data collection was through questionnaires. This was complemented with verbal interviews in cases where the respondents needed further clarifications. In addition, the researcher used secondary data such as journals, books by different authors, and other relevant literature for the purposes of comparison so as to get the most accurate data possible. Also, the general public was engaged in data collection through random sampling, which enabled the researcher to get the overall population response desired.

### **1.11.2 Target Population**

The target population of this study was middle-level employees at various ministries. The study was carried out at the Ministry of foreign affairs, Ministry of finance, Ministry of planning and development, Ministry of trade and some questionnaires distributed to the public for their general opinion. About 300 respondents were targeted. However, 100 were interviewed and questionnaires administered successfully. Of the 100 questionnaires, 83 were returned by the respondents while 17 were not returned.

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<sup>53</sup> Jeffrey Sachs, *The End Of Poverty: How Can We Make It Happen During Our Lifetime*, Penguin Press, 2005, Chapter, 9, Page 135

**Table 1: Target Population**

Population Category	Population frequency	Percentage (%)
Min.of finance	60	20
Min.of planning and devt	80	27
Min.of Foreign Affairs	60	20
Min.of Trade	50	16.5
The general public	50	16.5
Total	300	100

Source: survey data (2013)

### **1.11.3 Data Collection**

The main tool for primary data collection was the questionnaire which had both open and closed-ended questions. The questionnaire was structured in three parts as follows: Part A: General information; Part B: focused on objectives which was to establish the role of foreign aid in Kenya's development and Part C which focused on objectives 1-3 which aims at finding out other key forces that may also play a role in shaping public policy, the benefits of globalization and additional opinions of the respondents. Drop- and- pick- later method was deemed cheaper and convenient, especially for those top government officials who found it hard to afford time to sit down with the researcher. The researcher was also present physically to respond to any concerns that may be raised by the respondents. Thus, questionnaires were the main tool of primary data collection for the study. Oral interviews were also used to supplement the questionnaires as was considered necessary by the researcher.

Use of secondary data was also important in this study. There were extracts from relevant research reports and database from, Institute of Economic Affairs-Kenya, OECD-DAC statistics and Kenya Economic Survey Reports. Additional information was gathered from donors, government selected ministries and organization like Kenya National Bureau of Statistics Annual Economic Reports from 1980-2011.

#### **1.10.4 Data Analysis and Presentation**

After the field work and before analysis, checking for reliability and verification of all the questionnaires was done; the data was analyzed using descriptive methods. In addition, quantitative data also contributed significantly to the drawing of conclusions and inferences.

### **1.12 Chapter Outline**

#### **Chapter I**

This chapter defines the Problem, the Research Questions, the Dependent Variables, the Thesis, and Hypothesis and the Methodology. It introduces our research study first by setting the broad context of our research study. It gives the statement of the problem, justification of the study, theoretical framework, hypotheses plus the methodology of study.

The chapter also presents the literature Review on the role of foreign aid in developing countries and their economies.

#### **Chapter II**

This chapter looks at an overview of foreign aid in Africa in depth. The chapter discusses foreign aid in its historical context, and its evolution to date.

### **Chapter III**

This chapter focuses on the role of foreign aid in Kenya. The chapter looks at the role of foreign aid in promoting education, health, infrastructure and agricultural sectors all that are key to a country's economic growth and development.

### **Chapter IV**

This chapter will analyze the data collected in the light of the hypotheses and theoretical frameworks already stated.

### **Chapter V**

This chapter gives the conclusion, recommendations of the research and suggestions for further study

## CHAPTER TWO

### OVERVIEW OF FOREIGN AID IN AFRICA

#### 2.1 Introduction

This chapter discusses foreign aid in Africa. It gives the general overview of African countries in relation to how aid has been channelled to these countries and the impacts that aid has had so far on African countries.

#### 2.2 Historical Overview of Foreign Aid

The late 1950s saw African countries begin to win their independence from colonial masters and thus the birth of foreign aid to Africa.<sup>54</sup> Following the end of the Second World War, the World Bank and the International Monetary Fund were set up by major world powers to assist countries dealing with severe developmental problems. In 1964, the African Development Bank was founded with a supporting role to WB and IMF. The OECD launched its Development Assistance Committee (DAC) being accountable for around 90 per cent of global aid flows.<sup>55</sup>

In the second half of the 1970s, Africa was in need of assistance due to the high cost of living and high illiteracy levels that led to development of poor economic policies among many African nations. Indeed, most countries' economies were not doing well. This was coupled with a drop in the international prices of main African exports, largely, primary goods. Africa therefore sought help in form of grants and cheap loans in order to cover shortfalls in their access to foreign exchange.<sup>56</sup> Therefore Africa replaced South and Central Asia as the primary beneficiary of aid moving from receiving around 21 per cent of global aid in 1960 to receiving around 35 per cent

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<sup>54</sup> Jonathan Glennie, *The Trouble with Aid: Why less could mean more for Africa*, International African Institute Royal African Society, Social Science Research Council, 2008, Chapter 2, Page 10

<sup>55</sup> Ridell, R.C. *Foreign Aid Reconsidered*. Baltimore: The Johns Hopkins University Press, 1987

<sup>56</sup> *Ibid* 2008, Chapter 2, P.10

by 1980. However, highest point of Official Development Assistance to Africa was in 1990, a period just after the Cold war. However, aid began to decline in the 1990s. This decline in foreign aid, one may argue, was due to the fall of USSR, while the United States and Europe were also busy with reconstruction of their own economies. The history of aid to Africa over the last years has witnessed a gradual rise of donors pumping aid money.<sup>57</sup> At the turn of the millennium, Africa embraced a new aid era, characterized by more aid and the optimism of the impact of foreign aid. This optimism was echoed by the UN Millennium Summit in 2000, which spelled out the Millennium Development Goals, with a clear focus on reducing poverty in Less Developed Countries. For almost a decade now, the global aid has been on the rise. Even though, less is stated on what is happening but a look at data by regions show how aid in Africa in overall is experiencing an exceptional rise.

### **2.3 Main Donors**

Below is a list of the top donors in terms of foreign aid funding in 2011 in Djibouti, Ethiopia, Kenya and Somalia; the figures in brackets indicate additional pledges that have not yet been committed as of 26 July 2011.

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<sup>57</sup> Delfin S. Go & John Page, *Africa at a turning point?, Growth, Aid, and external shocks*, The World Bank, Washington D.C, Chapter 3

	CONTRIBUTOR	CONTRIBUTION
1.	United States	\$448,017,213(\$46,704,961)
2.	European Commission	\$167,237,380(\$8,111,588)
3.	Japan	\$90,386,480
4.	UN Central Emergency Response Fund	\$86,298,912(\$11 million)
5.	United Kingdom	\$65,334,968(\$122,734,183)
6.	Canada	\$26,050,674(\$3,902,440)
7.	Denmark	\$22,754,682
8.	Sweden	\$20,175,100
9.	Norway	\$22,187,271
10.	Brazil	\$22,095,646
11.	The Netherlands	\$13,635,563
12.	Germany	\$13,159,162
13.	Spain	\$12,194,066(\$4,977,729)
14.	Switzerland	\$10,767,113(\$572,738)
15.	Finland	\$7,701,130
16.	Australia	\$7,455,698(\$47,169,811)
17.	France	\$5,564,352(\$1,353,276)
18.	Ireland	\$4,852,895(\$569,801)
19.	Italy	\$3,012,512(\$1,430,615)
20.	United Arab Emirates	\$1,927,649
21.	Sudan	\$1,788,000
22.	Islamic Development Bank	\$1 million
23.	Russian Federation	\$1 million
24.	New Zealand	\$762,777
25.	Saudi Arabia	\$738,487
26.	African Development Bank	\$507,898
27.	Luxembourg	\$276,578
28.	South Africa	\$146,199
29.	Czech Republic	\$112,676
30.	Estonia	\$42,254

Source: UNOCHA Financial Tacking Service

The United States has over the decades, been the world's biggest donor. This role, it assumed especially after the WWII when most European countries got devastated as a result of the war.

The Second World War left the US, the only country, economically strong to give aid and grants to not only Africa but also most European nations. However, soon, the USSR would re-gain its economic power and rival US in terms of aid and grants spent abroad. This more so, became an



increasingly the order of the day in both US's and USSR's foreign policies during the cold war when each tried to counter and contain the spread of ideologies held by the other. The cold war thus saw the United States and Russia both spend hugely abroad. However, after the cold war, the US spending, and especially after the advent of the 9/11 terrorist attack, the US focused more of its spending abroad on war on terror. Foreign Aid therefore became a tool used to fight terrorism in countries under threat of terrorism such as Afghanistan, Pakistan, and Jordan which were not among the top recipients of aid.<sup>58</sup> This shift of focus from aid for development to aid for fighting terror leads to the question whether foreign aid today can still effectively contribute towards development. While one may argue that foreign aid for fighting terror is not channelled to development projects, we can as well argue that there can never be development without international peace and national security.

During the cold war, foreign aid was used by the two opposing sides of US and USSR mainly as a way of deterring each other from getting the support of other nations. The US, under the Marshall Plan used foreign aid to help reconstruct Europe, and hence keeping USSR influence at bay. Besides, any foreign aid that was sent to Africa and the rest of developing world was sent to further cement the ally-status. Thus most countries that received foreign aid during that time, was considered allies of the two super-powers.

After the dissolution of the Soviet Union in 1991, aid programs lost their Cold war underpinnings as aid reflected more on regional issues such as: Middle East peace initiatives, the

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<sup>58</sup> Woods, Ngaire . *The Shifting Politics of Foreign Aid*. International Affairs, 2005

transition to democracy of Eastern Europe and the illicit drug trafficking in the Andes.<sup>59</sup> The U.S has also lend a hand in developmental related assistance including humanitarian, food aid and supported countries transiting to democratic societies and market oriented economies. However, this was still in line with the US's ideology during the cold war of democracy and free market capitalist world. While the Soviet Union championed socialist ideals, the ideals seemed to have sunk with the dissolution of the USSR in the late 1990s. However, apart from supporting programs geared towards promotion of democracy and free markets, the US, through the USAID has supported HIV/AIDS programs in most developing countries like Ethiopia, Kenya, Nigeria and South Africa. Therefore, foreign aid has also been used largely to support healthcare and other development initiatives.

The first major pledging round of the new aid era was in the development conference in Monterrey in 2002. President George W. Bush promised a 50 per cent increase by the U.S development assistance by 2007. Between 2001 and 2006, the Bush administration quadrupled aid to Africa from \$ 1.4 billion to \$ 5.6 billion a year. The U.S again increased ODA to Africa by 4.4 per cent in 2007.<sup>60</sup> On the other hand, the UK is taking a lead in Europe although the Nordic countries, the tiny Luxembourg and Netherlands remain the only donors meeting 0.7 per cent target of their GNI in aid. In fact in October 2007, Alistair Darling, the UK chancellor recommitted his government to doubling aid to Africa from the 2004 levels by 2010. He also confirmed of UK's goal to reach 0.7 per cent target by 2013.<sup>61</sup>

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<sup>59</sup> Christopher David Linebarger, Foreign aid and democracy: A quantitative analysis of the determinants of development assistance, University of Nevada, 2008

<sup>60</sup> Jonathan Glennie, The Trouble with Aid: Why less could mean more for Africa, International African Institute Royal African Society, Social Science Research Council, 2008, Chapter 2, Page 11

The EU as a main donor, agreed to double aid by 2010 even as Japan appears to be the only major donor lowering its aid, as Korea (a new OECD member) pledging to raise aid to 0.1 per cent of GNI, around \$ 1 billion by 2010. However, in 2007, the EU increased its aid by 43 per cent. Consequently, the African Development Bank has been a beneficiary of aid increases having donors pledging to raise their contributions by over 50 per cent between 2008 and 2010.

According to J. Glennie, countries such as China have increased their aid to African countries. China's interest to Africa has somewhat been regarded as unclear as it appears to prefer to keep the deals secret and does not share OECD's strict insistence on separating aid from other flows.<sup>62</sup> However, in 2008, China's President Hu Jintao, at a summit with African leaders, outlined his eight point plan that stated of China's intention to Africa, a cancellation of debts of these developing countries and a pledge to double aid to Africa by 2009. China also stated that in a period of 3 years, it would provide \$ 20 billion to Africa in a bid to finance trade and infrastructure. Nonetheless, hot on Chinese heels is India pledging billions to Africa in loans.<sup>63</sup>

**Table 2. China's aid to Africa in the 1980s (US \$ million)**

Year	1980	1981	1982	1983	1984	1985	1986	1987
Amount	157	412	390	309	222.5	262	230	306

*Figures adapted from: The agreements of the People's Republic of China with foreign Countries, 1949-1990, see Ian Taylor's China's Foreign Policy towards Africa in 1990s.*

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<sup>61</sup> Ibid.pg.10

<sup>62</sup> Ibid. Pg 11

<sup>63</sup> Emma Mawdsley & Gerard McCann, India in Africa: Changing geographies of power, Pambazuka Press, 2011, Chapter 3

The WB and IMF are also major donors in Africa, apart from policy advice and capacity building. The WB finances loans which are used to build infrastructure: roads, electric power plants etc. It also finances projects such as drinking water, health care, education, and housing all aimed towards poverty reduction and improvement of living standards, especially in the third world countries. In addition, the bank provides technical assistance. The WB comprises of the International Bank for Reconstruction and Development (IBRD) and the International Development Association which gives interest free loans with a maturity of 35 – 40 years to the World’s poorest countries. For instance, in 2008 countries with a GNI per capita below \$ 1,065 were given these loans. About 50 per cent of these loans went to African nations.<sup>64</sup> The IBRD makes the bulk of its 12 – 15 years low interest rate loans to “middle income” countries with per capita incomes above \$ 1,065 per year. However, as the WB points out, over 70 per cent of the World’s poor; those who live on less than \$2 per day live in these middle income countries”.<sup>65</sup>

On the other hand, the IMF’s purpose is to promote international monetary co-operation and to facilitate the growth of international trade. The IMF also aims assist its members experiencing balance of payment difficulties under adequate safeguards and to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members. Therefore, it is true that both IMF and WB have contributed significantly towards economic growth and development in the third world countries. (Table 1 shows the countries pledge of aid to developing countries and the 0.7% agreed target of their GNI in aid).

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<sup>64</sup> Maureen Burton, Reynold Nesiba, Bruce Brown, An Introduction to Financial Markets and Institutions- Second Edition, M. E. Sharpe Inc. , 2010.pg.615

<sup>65</sup> Ibid,pg. 625

**Table 3: 2011 International Aid Donated (Official Development Assistance)**

<b>2011 International Aid Donated (Official Development Assistance)</b>			
<b>COUNTRY</b>	For each \$100 earned in the country, how much is donated in aid	Aid as % of income	How close the country is to reaching the 0.7% goal
<b>Sweden</b>	102 cents	1.02	Already reached goal
<b>Norway</b>	100 cents	1.00	Already reached goal
<b>Luxembourg</b>	99 cents	0.99	Already reached goal
<b>Denmark</b>	86 cents	0.86	Already reached goal
<b>Netherlands</b>	75 cents	0.75	Already reached goal
<b>United Kingdom</b>	56 cents	0.56	Scheduled to reach in 2013
<b>Belgium</b>	53 cents	0.53	Scheduled to reach in 2015
<b>Finland</b>	52 cents	0.52	Scheduled to reach in 2015
<b>Ireland</b>	52 cents	0.52	Scheduled to reach in 2015
<b>France</b>	46 cents	0.46	Scheduled to reach in 2015
<b>Switzerland</b>	46 cents	0.46	No schedule yet
<b>Germany</b>	40 cents	0.40	Scheduled to reach in 2015
<b>Australia</b>	35 cents	0.35	No schedule yet
<b>Canada</b>	31 cents	0.31	No schedule yet
<b>Portugal</b>	29 cents	0.29	Scheduled to reach in 2015
<b>Spain</b>	29 cents	0.29	Scheduled to reach in 2015
<b>New Zealand</b>	28 cents	0.28	No schedule yet
<b>Austria</b>	27 cents	0.27	Scheduled to reach in 2015
<b>United States</b>	20 cents	0.20	No schedule yet
<b>Italy</b>	19 cents	0.19	Scheduled to reach in 2015
<b>Japan</b>	18 cents	0.18	No schedule yet
<b>Greece</b>	11 cents	0.11	Scheduled to reach in 2015

Source: OECD 2011

## 2.4 Types of Aid

Most scholars have identified two major types of aid that most donor countries give to recipient countries. These may be emergency aid or development aid. Emergency aid, as the name suggest, are aid given to recipient countries in order to overcome unpredicted calamities such as floods, earthquakes, terrorist attacks, and so on. However, development aid is aid geared towards

a long term development plan, such as building roads and railway system, construction of airports and other infrastructure, building hospitals to improve healthcare, and so on. This study shall examine each of these two types of aid, and how they have contributed or impeded economic growth and development in Africa.

It is common for countries whether rich or poor to respond charitably to natural disasters. However, Africa is the best known recipient of disaster relief in famine although other tragedies have affected the continent too. For instance, in 2007, floods swept over Central Africa leaving a trail of destruction, from destroyed property, homes and schools, crops and livestock, to leaving thousands homeless. The global community was quick to respond by providing assistance in form of food, shelter and basic service to those affected by the misfortune.<sup>66</sup> Emergency aid also known as humanitarian aid is the fastest growing type of aid because natural calamities have been on the rise. This aid is different from development aid although it contributes to development objectives.

This aid targets the short, medium and long term, thus promoting economic growth and reducing poverty. Its goal is on improving the health care, in terms of the services provided, the education system i.e. spent on schools and teacher's salaries, the infrastructure, for instance, improving the roads and ports to ensure the private and public sectors work efficiently. Aid is also spent on large development projects such as oil pipelines, hydroelectric pumps which are considered vital by investors to the long term economic prospects of the recipient countries.

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<sup>66</sup> Ibid. Pg 15

However, on the issues that require a holistic approach, there can be unclear lines between development and emergency aid. Problems such as the malaria pandemic in Africa need long term intervention. Short term interventions like vaccinations and mosquito nets distribution do not deal with the malaria pandemic completely. For example, instead of the intended purpose, residents in Nyanza province have been accused of using mosquito nets as fishing nets and thus sustainable solution needs to go beyond immediate responses to focusing on a system that works for the long term. Aid is intended for development, long term objectives of poverty reduction and economic growth. In some instances, aid is important for supporting education, improving on the health care, public infrastructure development, agriculture and rural development to enhance food security. Proponents of aid advocate for more development aid as a tool of lowering the high rates of poverty and enhance sustainable growth in African economies. According to them, more aid is necessary in order to jump start growth. This study focuses more on development aid.

## **2.5 Aid to Africa**

Recent years have seen a surge in calls for more foreign aid to Africa in order to eliminate the continent's poverty. There have been renewed pleas for increase in aid to developing countries. Two arguments have been put forth to justify more foreign aid to Africa. The first argument aims to establish the essential rightness of foreign aid and the West's moral obligation to provide it. Helping Africa through foreign aid is not only charitable but morally correct, and repairs the conditions of injustice and inequality that permeate the international political economy.

The second argument also calls for more aid to Africa. Aid provides governments with a resource for making the multiple investments in health, education and economic infrastructure needed to break cycles of deprivation. These two arguments justify the need for more aid to Africa. While most scholars disagree on the effectiveness of foreign aid in general, the irrefutable fact remains that during a period when aid has risen over time as a percent of income in Africa, Africa's growth rate has concurrently fallen. One wonders why this paradox. Scholars have attempted to explain this through the 'aid quantity argument'.<sup>67</sup> Aid advocates argue that it is unfair and misleading to cite aid amounts in aggregate terms. The World Bank points out that while aggregating decades of aid provided to Africa may make that amount of aid sound significant, the average "receipts" per African per week or day are negligible. For example, a claim that Africa has received \$500 billion in aid over a fifty year period averages to only about ten dollars per person per year or twenty cents per person per week<sup>68</sup>. With proponents of aid even pushing harder for more aid to be channelled to Africa, it is largely expected that this may happen. But despite this call for more aid, this culture of aid seemingly has left Africa more debt – laden, more vulnerable, inflation prone to the vagaries of the currency market and more unattractive to investment of higher quality.<sup>69</sup> While it might be true that aid has increased the risk of civil conflict and unrest in sub Saharan Africa and distorted leadership in Africa, there is a clear moral urgency for humanitarian and charity based aid to assist when disaster strikes.

Corruption, however, has been cited by many scholars as the main factor that impedes economic growth and development in Africa, despite receiving huge sums of money in foreign aid. Aid

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<sup>67</sup> Thirlwall A.P., *The Economics of Growth and Development Selected Essays*, Edward Elgar Publishing Limited, 1997. Pg260

<sup>68</sup> Martin Meredith, *The fate of Africa: from the hopes of freedom to the heart of Despair* (2005).

<sup>69</sup> Ibid.



money has been used by African leaders to make themselves and their close families rich, while widening the gap between the rich African elites and the poor African citizens. Additionally, foreign aid has been used by most African leaders to perpetuate sycophancy, using such cash to reward the sycophants. As such, one can argue that it has been difficult for democracy to entrench its roots in Africa. As a result, what Africa has witnessed is dictatorship, poor governance, corrupt leaders and serious poverty cycles characterised with many unending calamities such as drought and famines. For instance, in Zambia, the former Head of State of Zambia, Fredrick Chiluba, was charged with theft of states funds. This is a major problem as aid flows meant to help average Africans end up supporting the ruling class with their families and friends and continue perpetuating poor governance in Africa. International donors have turned a blind eye that aid money is fuelling graft and it has made it easy for funds to be used for anything except for the purpose of development. Thus, foreign aid has been regarded more as a free pot of money from where the African leaders and their cronies continue to draw their riches, in spite the suffering of the common citizens for whom foreign aid is intended.

However despite this negative aspect, in cases where aid money is channelled to development based projects, such as investment in new technologies, improvement of health sectors, building of roads and improving the agricultural sector, it has no doubt been a big contributor to economic growth and development in Africa. The best example here is the Free Primary Education (FPE) in Kenya, which began when Mwai Kibaki took over power, with the main promise of fighting corruption. This programme recorded huge success records in the beginning, before corruption set in. Several years later, corruption slowly crept back into the government and soon, it was in

the media that close to 4 billion had been embezzled. Soon donors were crying foul, with Britain, a major donor of the programme threatening to pull out of the program.

## **2.6 From Independence to Dependency**

In analysing aid in Africa, the concept of aid dependency, and whether foreign aid perpetuates neo-colonialism or not is fundamental. Aid condition has been one of the leading topics that have received a lot of criticism especially in Africa. Aid dependency can be measured by looking at aid as a percentage of a recipient country's GDP and seeing how that ratio changes over time.<sup>70</sup>

With the increase in the level of aid sent to Africa from donor countries, it became apparent that the developing countries were slowly losing their grip on the sovereignty that they fought so hard to acquire from their colonial masters. This led to a new form of colonialism, which became known as neo-colonialism. Indeed, neo colonialism manifested itself especially in the last two decades among the developing nations in many ways such as conditional ties. Thus conditional ties, which were largely tied to aid, were the main tools of colonial perpetuation in Africa and the rest of developing world.

This made Africa be seen largely as still dependent nations whose leaders continued to dance to the tunes of their colonial masters and policies made to deliberately reflect the wishes of the donor countries. Indeed, the African leaders reaped a lot from the donor nations and did not wish to cut off the 'hand the fed them'. At first, the donors themselves seemed not bothered by the poor policies that perpetuated poverty and wide gap between the rich and the poor. To them, their interests were taken care of and that was all that was important. With lack of accountability,

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<sup>70</sup> Jonathan Glennie ,The Trouble with Aid: Why less could mean more for Africa, International African Institute Royal African Society, Social Science Research Council, 2008,Chapter 2, Page 22

corruption dug its root with the main target being the foreign aid. This made Africa even poorer, encouraging more debt and inflow of foreign aid at the expense of their own independence.

## **2.7 Direct Impacts of Foreign Aid**

The most direct and positive impact of foreign aid is aid for relief and emergencies. Most developing countries, like Kenya, lack the capacity and financial might to meet their objectives when disasters strike. In such cases humanitarian agencies come in handy with their aid to help stabilise situations. In addition, there are programmes and projects whose main objectives are to improve livelihood of impoverished communities especially in developing countries. The projects cut across various sectors ranging from health, agriculture, infrastructure to education. Donor countries have channelled foreign aid towards health programmes such as immunization, creation of awareness on breast cancer, HIV/AIDs, water and sanitation. Medicines especially AIDS drugs are paid for with aid money. Aid money has also played a leading role in the education system. This has been witnessed here in Kenya, where aid money has helped fund free primary education.

Another crucial area is the infrastructure sector where aid money has been channelled in this sector in order to improvement on it i.e. roads, ports etc. In Kenya again, the country currently boasts of a wide range of infrastructural development, ranging from the Thika super highway to the Lamu Port. All these projects could not be funded by the government of Kenya alone. Thus, donor aid and grants were important for the achievement of all these projects. On the other hand, aid has its own demerits, such as encouraging dependency, widening the gap between the rich

and poor, especially in the Less Developed Countries, encouraging corruption, conditional ties, and so on.

There are a number of countless examples of aid projects whose benefits are disputed. In Uganda, the Bujagali hydroelectric dam is set to receive around \$ 750 million from donors, including the European Investment Bank, WB, and AfDB. This will be one of East Africa's largest projects, however, Ugandan's and civil society groups have expressed concern over the impact of the dam considering the declining water level of Lake Victoria and over the lives of the people who will be displaced in that area. This people live on fishing and agriculture<sup>71</sup>.

### **2.7.1 Policy Impact**

Provision of foreign aid is characterized by measures and regulations which recipient countries have to conform to. African governments have been compelled to comply with donor conditions. For instance, the IMF's introduction of conditions on aid in the mid-1950s imposed terms on the use of aid and pressurized countries to make reforms. Such reforms ranged from economic reforms to political reforms in some countries. Of course, such reforms were resisted by many African leaders, as was the case of Structural Adjustment Programmes in Kenya. The IMF's official justification for its interference in sovereign governments' domestic policies is that, it has a duty to its shareholders to ensure that borrowers make the tough decisions needed to get their economies in a good enough shape to make adequate repayment of IMF loans.<sup>72</sup>

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<sup>71</sup> Jonathan Glennie, Jonathan Glennie, *The Trouble with Aid: Why less could mean more for Africa*, International African Institute Royal African Society, Social Science Research Council, 2008, PP 33

It is clear that most African countries have changed greatly, evident in the African policy choices and economic structures of today compared with those at the beginning of the 1980s along the Washington Consensus. The Washington Consensus set out policies in the 1980s which the WB, IMF and U.S Treasury Department agreed to be a necessity for poor African countries to adopt in order for them to develop<sup>73</sup>.

Conditional ties of aid ranged from imposing ideologies, to the restructuring of African economies. Primary among these has been trade liberalization which entails reducing and eliminating import and export tariffs and quotas. Consequently in Kenya, the government reduced restrictions on imported clothes and as a consequence, cheap ones from Europe and Asia made their way into the country, benefiting the consumers in the short term but devastating Kenya's most established industries, such as the Kisumu Cotton Millers (KICOMI).

Donors have also put conditional ties on aid money to force African governments to follow IMF approved public spending regimes. IMF insists that countries that it is lending should remain within tight public spending budgets. Governments are thus prevented from spending revenue as they please and at times aid money piles up waiting for IMF to give a directive on its spending.

Moreover, today's conditional ties are shifting in other areas for instance, political decision making. Donors focus is on how recipient countries are governed and therefore, having an

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<sup>72</sup> Jonathan Glennie, Jonathan Glennie, Jonathan Glennie, *The Trouble with Aid: Why less could mean more for Africa*, International African Institute Royal African Society, Social Science Research Council, 2008, Chapter 4, Page 37

<sup>73</sup> Organization for Economic Corporation and Development (OECD) (2009a), *Development Aid at a Glance 2008: Statistics by Region*, January 2009.

influence in the decisions made by African governments. Donor conditionality on recipient countries has put pressure on African governments to embrace democracy and fair elections, to reduce human rights violations and to transparency in the use of aid money as a way of curbing misappropriation of funds and corruption. Institutional impact entails the donor recipient relationship which has characterized aid to Africa for many years. Foreign aid has affected the choices and decisions made, and how recipient countries are run.

The aspect of accountable and structured institutions was not seen as an important part in the growth and development among the developing countries. Today, accountable and structured institutions are viewed as an essential prerequisite for development and poverty reductions in the long term. In the present day, institutions carry the outmost weight for development in Africa and the idea is to make the state more accountable and effective.

Over the last 50 years, Africa's history has been blighted by two areas of limitation. These have been the inability to design and deliver effective policies, and the unaccountability to the state or the people that elect them into office. Lack of accountability is seen as the primary cause of slow development especially in Africa where leadership has been a major let down in the area of development. African leadership has been for decades now, driven by a desire for rapid personal wealth at the expense of the majority poor. Poor governance has greatly contributed to this greed of African leaders. Lack of accountability and bad governance are some of the major root causes of socio-economic crises facing Africa today. This has increased the propensity for corruption.

Good governance is epitomized by predictable and open policy making, a bureaucracy imbued with professional ethos acting in furtherance of the public good, the rule of law, transparent processes, and a strong civil society participating in public affairs.<sup>74</sup> Whereas, poor governance is characterized by unaccountable bureaucracies, unjust legal systems, widespread corruption, arbitrary policy making and an unengaged civil society in the public life. The challenge is to improve governance on African governments and the entire population. Donors are using their power to push on the governance in Africa by increasing the governance content of the conditions attached to aid<sup>75</sup>.

Government capacity and its ability to plan and develop rational policies are undermined by dependence on aid. The need for accountability is less clear especially where countries have developed under authoritarian rule. Singapore and Korea are the best examples while, China whose economy is growing rapidly remains highly authoritarian. Matthew Lockwood remarks that authoritarian rule does produce developmental outcomes that can either be very good or bad. The relationship between aid and corruption has been an area under discussion where donors have highlighted the fight against corruption. In most African countries, corruption is a persistent problem where aid funds have been embezzled. Aid has fuelled corruption and an example is that of Zaire's Mobutu Sese Seko's regime who used aid money to enrich himself and his family. Most of the money was siphoned off to Mobutu, his family and top political and military leaders. Marshal Mobutu was known to charter a Concorde from Air France for personal use, including shopping trips to Paris for himself and his family. He had an airport constructed in his hometown

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<sup>74</sup> Jonathan Glennie *The Trouble with Aid: Why less could mean more for Africa*, International African Institute, Royal African Society, Social Science Research Council, 2008, Chapter 5, Page 57

<sup>75</sup> The World Bank Group, *Millennium Development Goals, Sub-Saharan Africa*, 2007.

of Gbadolite with a runway long enough to accommodate the Concorde's extended take off and landing. This clearly shows how aid money was mismanaged.<sup>76</sup>

Foreign powers have as well played the role in African democracy, where they use aid to get their favored leaders into power and still keep them into power regardless of whether they are benefiting the country. The stay in government of Mobutu Sese Seko was only because of the constant support from the West as part of the Cold War struggles. However, on a positive side, the power of aid can also boost democracy. For example, structural adjustment programs regardless of the harm they may have caused, played a big role in the democratization process in a country like Kenya.

## **2.8 Trade rather than Aid**

Trade, not aid, became a popular aphorism in the developing countries during the first development decade and continues to do so in the second development decade.<sup>77</sup> There are a range of achievement indicators used for trade development and aid for trade strategies. Partner states described this array of achievement indicators for their trade for development and aid for trade strategies, often developed in consultation with donors are sometimes subject to frequent review.<sup>78</sup>

A country like China and even development practitioners have recommended the need for more grants than loans, less technical aid, cheap loans and aid without conditional ties and have as

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<sup>76</sup> Dambisa Moyo, *Dead Aid, Why aid is not working and why there is a better way*, Penguin books limited, 2009

<sup>77</sup> A. P. Thirlwall, *The Economics of Growth and Development selected essays*, Edward Elgar Publishing Limited, 1997, Chapter 14, Page 260

<sup>78</sup> OECD, *Aid for Trade at a glance*, 1st Global review, 2007



well called for more trade rather than aid to Africa. In fact, China shares a similar history with Africa in terms of exploitation and domination by the West. However, China had not depended on aid to the same measure as Africa and has thus achieved impressive development in the past 50 years. That is why Africa is eager to embrace engagement with China, as it considers it to have crucial experiences to which Africa can learn and adapt. China chooses to concentrate on investment in infrastructure, production and trade.

## **2.9 Conclusion**

This chapter has discussed foreign aid in the larger Africa, and in some cases, the rest of the world. It has discussed both the pros and cons of foreign aid. Therefore, what the study seeks to find out is whether or not foreign aid contributes positively to economic growth and development.

## CHAPTER THREE

### AID IN KENYA

#### 3.1 Introduction

This chapter discusses foreign aid in Kenya, and investigates its effectiveness to the country's economic growth and development. The chapter also examines the impacts of Foreign aid on the Kenyan economy.

A major goal of many African countries, Kenya included, is to increase literacy levels, decrease poverty levels, and improve economic growth and development. Since independence, Kenya has been receiving financial support from donor community aimed at economic growth and poverty reduction. However, despite the significant amount of donor remissions in Kenya, poverty rates have remained high with very low economic growth rates recorded. This was especially during the regime of president Moi.

The high inflows of money during Kenya's post-independence era made the country highly dependent on foreign aid, averaged at US\$205 million annually in 1970s to slightly over US\$1 billion annually in the 1990s before the standoffs with the donor community. A case which is proved by the high budget deficit of the 1990/91 fiscal year and between years 1997 to 2000 yearly. During these two periods, aid to Kenya was frozen by the donor community because of the high rate of mismanagement and poor governance in the country. Kenya has continuously been facing budgetary constraints and has been using aid inflows to bridge the deficits.<sup>79</sup>

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<sup>79</sup>ibid 2008, pg.727

This significantly slowed down economic growth in the country for the period through the 1990s, until the time that Kibaki came into power, re-igniting donor enthusiasm in the country. In fact, according to the table below, data from the Republic of Kenya, Economic Survey and the Institute of economic affairs, Kenya, employment in Kenya has moved from the formal sector in the 1990s, and made a significant shift towards informal employment.

Even though no reliable statistics are available on the dynamics of the jobs, it may as well be true that much of the informal sector jobs may have been accounted for by relocation or switching of workers from formal to informal sectors of the economy due to the negative effects of Structural Adjustment Programmes (SAPs), which were implemented in the 1980s; liberalization policies, which were deepened in 1990s; and increased globalization.<sup>80</sup>

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<sup>80</sup> Institute of Economic Affairs, Kenya. The Dynamics and Trends of Employment In Kenya. IEA Research Paper Series No.1/2010

**Table 4. Trends of Employment and GDP Growth in Kenya (1986-2008)**

YEAR	Total Employment (Millions)	Proportion of Total (%)		Employment Growth (%)		Real GDP Growth (%)
		Formal	Informal	Formal	Informal	
1986	1.537	79.4	20.6	4.00	9.72	4.8
1987	1.615	78.3	21.7	3.60	10.76	5.5
1988	1.736	77.5	22.5	6.40	11.43	4.9
1989	1.796	76.2	23.8	1.63	9.74	5.1
1990	1.894	74.4	25.6	3.07	13.08	5.0
1991	2.557	56.4	43.6	2.27	130.37	4.3
1992	2.753	53.1	46.9	1.39	15.78	2.3
1993	2.998	49.2	50.8	0.96	17.89	0.4
1994	3.356	44.9	55.1	2.03	21.55	3.0
1995	3.859	40.3	59.7	3.39	24.43	4.8
1996	4.314	37.3	62.7	3.21	17.59	4.6
1997	4.707	34.9	65.1	2.22	13.20	2.4
1998	5.100	32.9	67.1	2.17	11.66	1.8
1999	5.493	30.7	69.3	0.63	11.18	1.4
2000	5.912	28.7	71.3	0.36	10.86	0.2
2001	6.367	26.3	73.7	-1.06	11.22	1.2
2002	6.852	24.8	75.2	1.37	9.85	0.5
2003	7.330	23.6	76.4	1.65	8.73	2.9
2004	7.999	22.1	77.9	2.14	11.28	5.1
2005	8.505	21.3	78.7	2.66	7.36	5.7
2006	8.993	20.7	79.3	2.54	6.60	6.1
2007	9.479	20.1	79.9	2.80	6.08	7.1
2008	9.946	19.5	80.5	1.78	5.72	1.8

Source of Data: Republic of Kenya, Economic Survey (various)

### 3.2 Foreign Aid and Kenya's Economic Growth and Development

In this section, the study will examine the role that has been played by foreign aid in different sectors of the Kenyan economy, and its contribution to the economy in general.

### 3.2.1. Education Sector

Given the problems faced in the Kenyan education system, donor aid was necessary to ensure the improvement of education in Kenya. After independence, it was clear that the new government was committed to improve education in Kenya. However, this was not the case, as the government lacked the capacity of the Kenyan government to establish more schools was limited, especially after the 1975 oil crisis and 1980s recession<sup>81</sup>. However, foreign aid was focused on skill development evidenced by the increase in university enrollment from 2000 in 1970 through to 40,000 in 1989. High student subsidies and low school fees facilitated this. In contrast, more than 200,000 primary teachers remained untrained while the pupil to school ratio was increasing<sup>82</sup>.

Although Aid remained modest during this time, it played a key role in the development of the education system in Kenya. The main educational donors at this time were UNESCO, UNICEF, and World Bank. The three organizations placed an emphasis on basic education unlike the policy in Kenya<sup>83</sup>. The Kenyan government was slow in responding to this help as it was concentrating on development of Harambee Schools. As from 1980, foreign monetary assistance was focused on economic development<sup>84</sup>. Since independence, public expenditure on education had quadrupled and world economic downturn of 1980 did not make it easier. There was a return to community based development where parents were to cater for tuition fees, teaching materials and also cover the costs for new building new materials. The rising costs and reduced donor assistance led to a decline in school enrollment in the eighties and early nineties

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<sup>81</sup> Jonathan Glennie *The Trouble with Aid: Why less could mean more for Africa*, International African Institute, Royal African Society, Social Science Research Council, 2008, Chapter 2, Page 10

<sup>82</sup> Eshiwani, G. *Education in Kenya since independence*. Nairobi: East African Educational Publishers, 1993

<sup>83</sup> World Bank. *World Development Report*. New York: Oxford University Press (various years).

After 2002, the, with the new NARC government was keen to improve the level of education in Kenya thus the Kenya Education Sector Program was formed as a new way to channel donor funds to education. In fact for more than four decades FPE had been elusive and it's attainment in 2002 was a stern show of intent by the new government. The NARC government slowly gained support from donors and this became evident of the increased interest by the international community to contribute to educational reforms and expansion. In 2004, senior education officers attended several training sessions organized by the World Bank with the aim of training and teaching educational officials about Sector Wide Approach (SWAP) and the outcome of this training was KESSP. KESSP came at a time when MDG goals and EFA were internationally agreed. The commitment that the NARC government had to free primary education was enough to convince donors to invest in primary education.

KESSP is an education development tool with an emphasis on primary education which also covers other sectors apart from primary education. Roughly ten percent of its budget comes from foreign donors. The major donors to this program have been the Fast Track Initiative and DFID. In the year 2005, the Kenyan government signed a JFA (Joint Financing Agreement) with DFID and the World Bank. Proceeds from this agreement and from UNICEF are added to the KESSP pool. KESSP mandate is to produce occasional and satisfactory financial reports to the foreign donors<sup>85</sup>.

However, most foreign donors (DANIDA) want the ministry of education to report aid usage through their own way and not that of the government of Kenya. In some cases, the World Bank

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<sup>84</sup> ibid

takes too long to sign off reports prepared by the Ministry of Education for the donors. This causes delay in the disbursement of funds by the donors, which in turn hampers the education system in Kenya. However, still with allegations of wide-spread corruption, the FPE fund has suffered major setbacks in the recent years, with some donors even threatening to pull out. But despite all these, one can still argue that donor aid has been largely responsible for the swift development of the education system in Kenya since President Kibaki took power.

### **3.2.2 Health Sector**

In Kenya, proliferation of aid to the health sector is higher than any other sector. However, the development of the health systems is hard to reconcile because many aid organizations do not have a clear mandate role for the aid in the health sector. Therefore, for effective financing of the health sector, a balance between health systems strengthening and providing resources for health programs is necessary. Harmonization and coordination of the aid in the health sector is necessary and it should be in a way to enhance inter-sectorial development in the health sector<sup>86</sup>. The health sector finances in Kenya are from various sources: firms, foreign aid, the government, and households. Foreign aid takes a substantial share in the funding of the health sector. On average, the donor funding to the health sector is 10% of the total funding. Donor aid is responsible for the development of health facilities, prevention, education, and cure<sup>87</sup>. The donor funding is in both the public health sector and the private health sector. In the early 2000s, more than 17 agencies were involved in funding of the health sector in Kenya. Donors are most intensive in the funding of HIV/AIDS programs. The donors fund more than half of the total

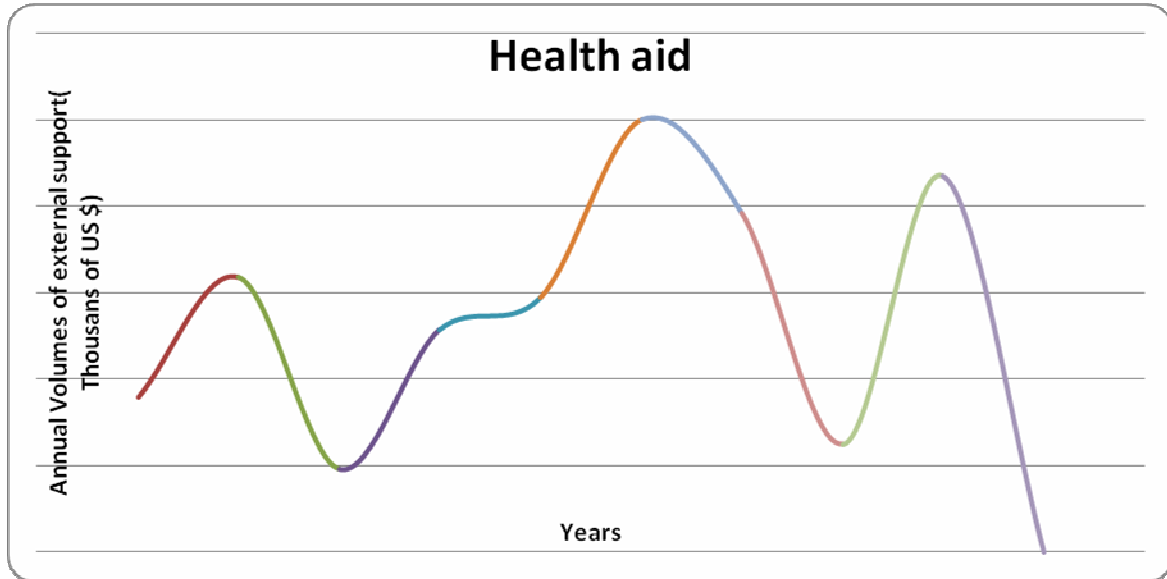
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<sup>85</sup>Somerset, A. Universalising primary education in Kenya: the elusive goal. *Comparative Education*. 2009, 45, no.2: 233-250

<sup>86</sup>David Dollar . "Aid, Policies, and Growth," *American Economic Review*, 2000, Vol 90: 847-868

expenditure on the HIV/AIDS subsector. Kenya ranks high on the countries receiving the largest amount of aid in the health sector<sup>88</sup>. In 1996, Kenya ranked 11th, 6th between 1999 and 2001, and 9th between 2002 and 2004.

**Figure 1: Trends of foreign aid in health sector**



Source: Agricultural Sector Development Strategy 2009-2020

After independence, the country was keen to produce a healthy working nation. Jomo Kenyatta’s government embarked on developing programs aimed at improving the health sector. However, the development of the health sector in the country together with the provision of medical care to its citizens required funds. Bilateral donors such as the British and the U.S played a major role in the funding of the health sector in the young nation. With health policies such as the NHIF, the government showed its commitment to the donor community towards having a healthy nation.

<sup>87</sup>Mwega, Francis. (2009). A Case Study of Aid Effectiveness in Kenya: Volatility and Fragmentation of Foreign Aid, with a Focus on Health. University of Nairobi

<sup>88</sup>Carlsson, Jerker, Gloria M. Somolekae, and Nicolas Van de Walle. Foreign Aid in Africa: Learning from Country Experiences. Effectiveness of donor aid in Kenya’s Health Sector. Uppsala: Nordiska Afrikainstitutet, 1997.



The donors therefore, financed most of the developments in the health sectors by building health facilities and providing medicine for the country.

In the 1980s, the support from donors continued to increase because of the challenges in the health sector and the awareness of the global community to these challenges. The aid increased with a high factor compared to the increase factor of the other aid in the country. The increase in aid during this time was especially due to the emergence of HIV/AIDS. Consequently, over time, the HIV/AIDS prevalence rate increased and the aid to Kenya on the sector consequently increased. Other challenges that led to the increased aid during this time were the malaria challenge, which claimed many lives in the 1980s and the 1990s. Other challenges included the polio challenge and influenza among others. Donors specifically funded the immunization programs.

Moreover, in the Kibaki era, between the year 2004 to 2005, Kenya received the highest foreign aid in the health sector. The streamlining of the governance in the new regime and the promise to end corruption attracted the donor community to the country, which consequently increased donor funding to the health sector. During this time, the number of donors to the country also increased significantly, reaching a record of 18 donors in the year 2004 and the year 2005.

### **3.2.3 Infrastructural Development in Kenya**

The Vision 2030 initiative recognizes the role that infrastructural development plays in ensuring that Kenya remains an attractive nation to foreign investors. The Vision visualizes a Kenya with modern cities, towns, and municipalities that are at par with international standards to keep the

country attractive. There is a need to increase the pace at which infrastructural projects are being done. The government of Kenya has been committed to funding infrastructural development projects. The recurrent expenditure on infrastructure has risen from 32B in 2008 to 40B in 2011. Expenditure on the road network constitutes more than 50% of the public expenditure on infrastructure. The budgeted amount on expenditure has also increased from 52B in 2007 to a record high 109B in 2011<sup>89</sup>. All this has been possible with the help of external donors.

Budgeted external funding stood at 28B in 2007/08 and rose to 41B by 2009/10. Actual external funding rose to 24B in 2010 up from 15B in 2007. The funding has been mainly for the improvement of the road network. Foreign aid is responsible for the existence of several major projects in Kenya. The Bura Irrigation and Settlement Scheme (BISS) were funded by the European Development Bank and the World Bank. Japan, Holland, Finland, and Britain also provided soft loans and grants to ensure the project was a success. The total cost to complete BISS took a staggering 800 Million, almost a whole year's Kenyan Budget<sup>90</sup>. To date, the project remains one of the most capital-intensive projects in the world. The Tana River Development Project was completed with donor funds especially from the Japanese government. The Japanese devoted 6,120 Billion Japanese Yens to the Tana River project and other projects in Kenya<sup>91</sup>.

The Nyeri Town Water Supply System was funded by several development agencies in Germany. This was a commercialization project where the funders have some autonomy in the decision making process concerning the projects. As a result, water supply and sanitation in the town has massively improved. The Nairobi Water Supply Project could not have been possible

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<sup>89</sup>World Bank . Assessing Aid. Oxford University Press, 2008, pg 3

<sup>90</sup>Terry Ryan. Kenya in Aid and reform in Africa: A report from ten countries. Macmillan, 2001

without the help of donors. The aim of the project was to increase water supply to Nairobi from 192,000 meters cubed to 492,000 meters cubed by the year 2002<sup>92</sup>. The World Bank, African Development Bank and the EIB funded the project<sup>93</sup>. However, all the funds were channeled through the World Bank. Perhaps the biggest role of the donor market has been in the construction of the recently completed Thika Road Project. Commissioned in December 2009 by President Mwai Kibaki, the 32 Billion projects have revolutionized the way road projects in Kenya are done. The African Development Bank funded the project. The Kenyan government only contributed 8B of the total expenditure<sup>94</sup>. The Japanese Government also recently funded the expansion of the Port of Mombasa and development of surrounding areas to the tune of Kshs. 29 Billion.

In addition to development in information communication and technology (ICT) donors are also funding ICT education programs especially in rural areas. This is in line with the ICT targets of the Millennium Development Goals, which relate to easy access to fixed and mobile telecommunication and the internet<sup>95</sup>. The aim of the government is to have a stable telecommunication industry, which is only possible with the help of donors. Some of the projects that have been initiated with the help of donors are Kenya Transparency Communication Infrastructure Program (KTCIP), Rural ICT Enterprises, Multimedia Development Parks, the Film Industry, and the National Terrestrial Fiber Optic Network Project.<sup>96</sup>

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<sup>91</sup>Ecosystems Ltd, "Tana Delta Ecological Impact Study". Nairobi, Kenya, 2008, pg 1

<sup>92</sup>United Nations. The Millennium Development Goals Report . New York, 2007.

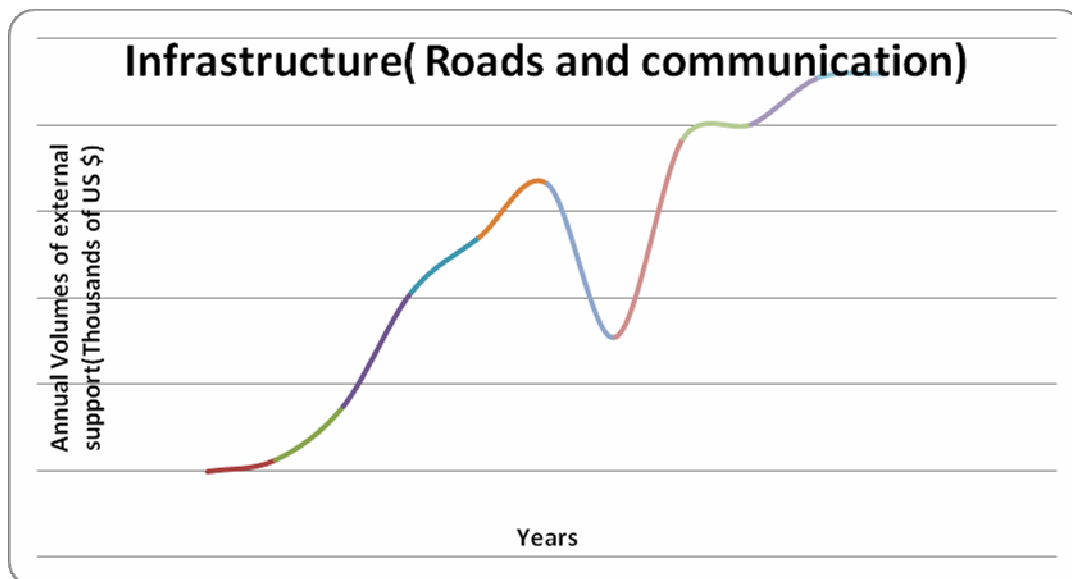
<sup>93</sup>World Bank , "Kenya: Nairobi Water and Sewerage Restructuring Project: Project Appraisal Document 28825-KE". Washington D.C, 2008 pg 2

<sup>94</sup>Ndun'gu A.G, "Ndaka-ini Dam and Drainage Basin: Impact Within, Without and Beyond". Mimeo, 2003

<sup>95</sup>United Nations. The Millennium Development Goals Report . New York, 2007

<sup>96</sup>Terry Ryan. Kenya in Aid and reform in Africa: A report from ten countries. Macmillan, 2001

**Figure 2: Trends of foreign aid in Infrastructure**



Source: Agricultural Sector Development Strategy 2009-2020

### **3.2.4 Agriculture**

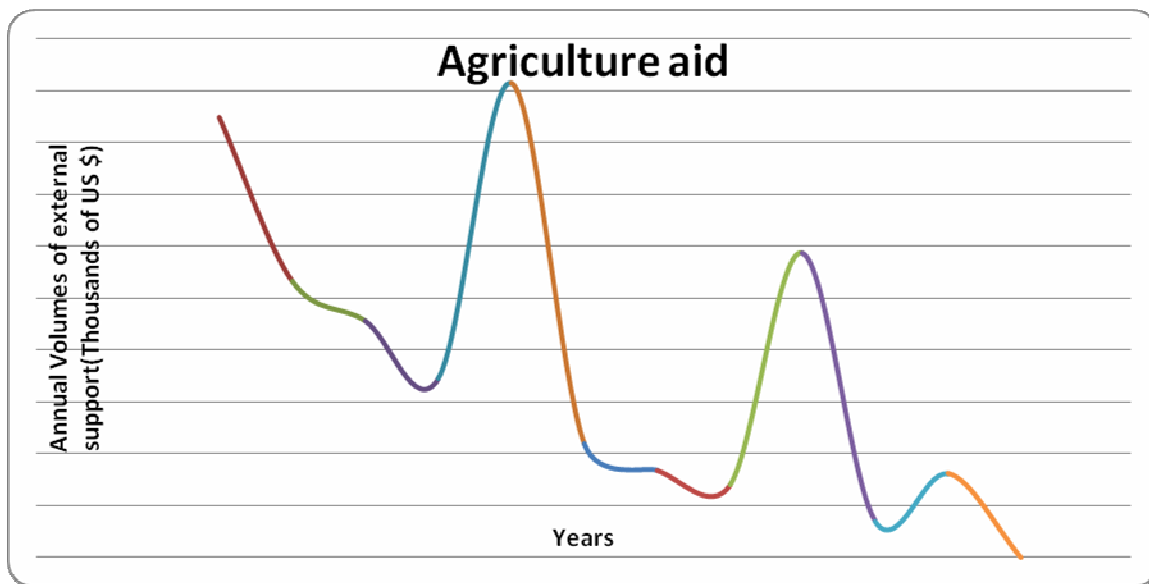
Agriculture is critical for the economic development and poverty reduction of a country. In Kenya, it contributed to about 25 to 30 per cent of the GDP of the country as the rural areas depend upon agriculture for their livelihood<sup>97</sup>. Agriculture is essential in the economic development of a country by providing food to the rapidly expanding population, providing employment, improving the welfare of rural people, increase of rural income, foreign earnings for imports of capital goods through the increase in agricultural exports and increase of agricultural products. The expansion of the agricultural output and productivity will tend to raise the demand for manufactured goods, extend of the market and the expansion of the industrial sector. In Kenya, 80 per cent is arid and semi- arid, thus suitable agriculture can only be achieved

<sup>97</sup> Agricultural Sector Development Strategy 2009-2020

through irrigation. This therefore factors in the financial aspect where the government is compelled to seek donor support.

Donors particularly the World Bank, EU and USAID have long been involved in policy dialogue with government. Kenyans outside of government normally have not. Formal discussion with government on the policy issues of the day does not take place at the village level, in research or even in parliament.

**Figure 3: Trends of foreign aid in Agriculture**



Source: Agricultural Sector Development Strategy 2009-2020

Policies get passed in a matter of minutes. This allows government to use donors as a convenient whipping boy whenever unpopular policy reforms are undertaken. A large but silent majority of Kenyans benefit from the ongoing structural reforms. Over the years, various donors have given aid to the government of Kenya, for instance Kenya received 80 billion in 2008 when it was in

dire need for food.<sup>98</sup> Food and Agricultural Organization (FAO) donated 2.4 billion for the purchase of fertilizers, new seeds, livestock feed and vaccine. This is to name a few of projects that donors have supported. WFP has also been influential in funding food to schools through the school feeding program so as to ensure that children in the drought struck areas are able to go to school. The role of foreign aid has also assisted in irrigation programs and the construction of dams in parts of Ukambani and Turkana regions. Consequently, the agricultural sector has greatly contributed to the economic growth of the country. In 2006, the GDP expanded by 6.1% compared to 5.7% in 2005. This is despite of the drought experienced during this time. These tremendous results can be credited to the agriculture and infrastructure sectors. Coffee production in Kenya also recorded a significant increase of 6.9% to stand at 48.3 thousand tons from 45.2 thousand tones in 2005. In addition, maize production also grew from 32.2 million bags in 2005 to 36.1 million bags in 2006.<sup>99</sup>

With the donors advancing aid in this sector, it has generated positive results by increasing foreign earnings in Kenya hence contributing to economic development. Farmers have as well benefited from the sale of their produce therefore improving on their lives.

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<sup>98</sup> Agricultural Sector Development Strategy 2009-2020

<sup>99</sup> Kenya Economic Survey, 2007

**Table 5: Sector Focus Area**

Sector/Focus Area	Annual Volumes of External Support (thousands of US \$)												
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2005	2010
Agriculture	169,809	106,680	106,699	55,503	91,388	99,170	68,842	119,121	183,081	58,247	43,609	28,045	32,194
Civil Society Development	3,259	6,872	5,369	1,307				6,519	6,576		2,798	3,924	6,387
Conflict Resolution											710	143	1,170
Economic Management & Policy	766,050	142,389	360,078	403,619	122,457	78,646	122,671	38,230	30,294	8,773	19,781	4,983	4,988
Education	70,947	46,380	66,976	21,583	16,606	57,748	72,222	41,915	39,023	42,919	27,136	36,873	15,840
Emergency Response/Disaster Management	5,695	8,586	97,559	145,845	55,617	66,712	48,360	62,823	73,784	73,159	215,113	129,359	71,294
Energy	28,305	26,505	20,479	899	1,906	2,321	1,951	475	26,752	44,581	14,731	91,936	48,559
Forestry and Environment	3,084	9,008	6,650	17,516	2,021	13,038	4,240	7,397	3,319		7,187	5,988	5,556
Governance and Public Administration	13,147	14,492	23,541	11,127	9,122	6,959	6,129	9,777	10,755	9,258	28,608	78,149	36,226
Health & HIV/Aids	72,608	70,859	57,037	16,354	35,682	68,365	63,637	68,241	101,705	93,738	51,372	63,054	87,010
Housing/Shelter(Rural Urban Development)	7,195	6,662	2,645	518	2,141	9,809	10,351	21,345	10,575	7,521	8,294	36,181	24,921
Infrastructure(Road and Communications)	120,633	183,390	61,395	22,539	55,012	119,838	61,289	99,162	43,997	78,104	56,329	36,773	11,705
Multisector	43,722	22,894	16,990	13,569	3,035	29,774	23,925	37,752	43,333	34,570	22,751	31,673	25,812
Natural Resource Management	27,528	33,232	43,098	37,655	44,168	4,279	22,618	26,207	34,675	7,013	2,446	4,104	3,121
Other sectors			1,032		35,361		406	365	1,590	4,399	23	33	574
Private Sector Development/Finance	30,107	32,572	13,587	4,516	12,869	74,004	10,618	21,375	10,271	10,646	19,920	6,878	16,638
Sanitation/Water	47,751	47,601	12,870	2,596	19,885	30,025	49,300	26,502	12,345	26,986	10,516	9,775	7,125
Social Protection	1,588	729	1,385	61		604	29,489		195		4,007	5,086	6,054
Vocational Training	1,536	11,448	3,712	3,604	5,632	7,383	4,600	4,277	3,921	2,803	55	112	58
Wildlife, Trade Hotels & Tourism	44,995	71,318	96,636	98,124	8,038	3,215	21,233	36,776	18,960	23,747	379	1,641	230
<b>TOTALS</b>	<b>1,457,959</b>	<b>841,617</b>	<b>997,738</b>	<b>856,935</b>	<b>520,940</b>	<b>671,890</b>	<b>621,881</b>	<b>628,259</b>	<b>655,151</b>	<b>526,464</b>	<b>535,765</b>	<b>574,710</b>	<b>405,462</b>
Sources: Development Cooperation Reports (various years)													

Table above shows a distribution of foreign Aid in different sectors from 1990 to 2010. The result shows that emergency response and disaster management was the leading sector in the years 2000 and 2001. The infrastructure, health (including HIV/Aids) and agricultural sectors, in that order in 2000 while in 2001, the order was energy, governance and health. The table also indicates that economic management and policy had the highest Aid in the 1990s. The extended drought in those two years had a direct bearing on the proportion of external assistance received as emergency response and disaster management.

### **3.3. Impacts of Foreign Aid in Kenya**

According to the respondents from the ministries, foreign aid plays very important role at the micro levels policies of the host countries however; at the macro level the evidence is much more ambiguous<sup>100</sup>. Foreign aid plays very important role in the development of a country and its benefits. Foreign aid/loans supplement domestic saving and help in bridging the resources gap. The flow of technical knowledge improves the quantity and quality of manufactured goods and makes them available at lower prices to the domestic consumers. The firms avail of the benefits of external economies like that of training of labour, introduction of new technology, new machinery Foreign aid plays very important role in the reduction of poverty and other socio-economic problems and efficient economic institutions and macro-economic and fiscal policies in the developing world are the key to utilize the flows of foreign aid properly. Good governance and quality economic policies may increase the chances of bright future the future that will be free from poverty, economic dependency, political exploitation, and scarcity of the resources.

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<sup>100</sup> Mrs. Anjuly Chib Duggal, personal interview, ministry of livestock and fisheries development, October 2012



**Table 6: Public Expenditure and Aid (Education and Total) in Kenya, constant 2005 Kenyan Shillings in millions**

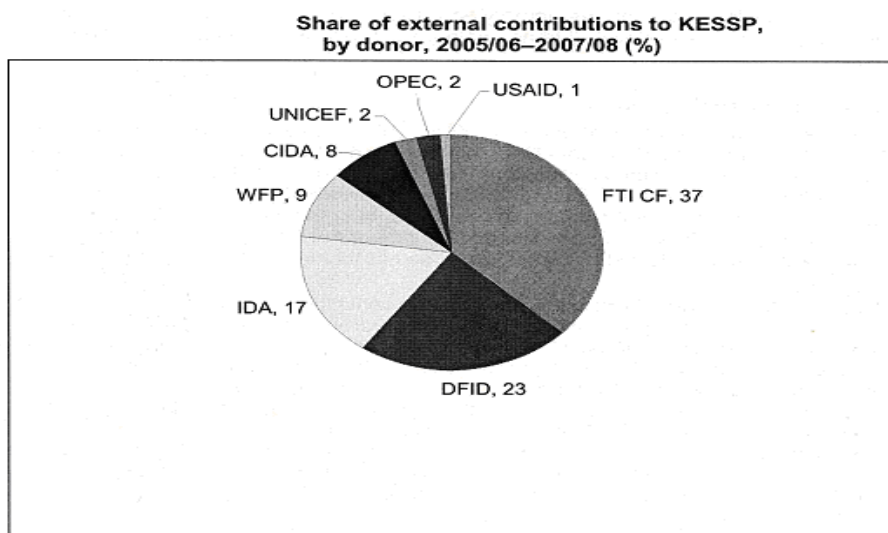
Year (1)	Public Expenditure (2)	Public Expenditure on Education (3)	ODA total (4)	ODA to education (5)	ODA to primary education (6)	Education expenditure as a percentage of total (7)	ODA as percentage of public spending (8)	ODA to education as percentage of public expenditure on education (9)	ODA to Primary as percent age of ODA to Educa-tion (10)
1970/71	36178.14	6363.07				17.6			
1980/81	237874.82	43147.63	35720.50			18.1	15.0		
1990/91	422763.98	70723.71	146452.54			16.7	34.6		
1995/96	429435.82	74413.83	64923.93	1884.39	982.97	17.3	15.1	2.5	52.2
2000/02*	335978.80	62417.09	60817.83	2788.88	1150.28	18.6	27.9	7.7	48.3
2003/04	379475.32	81561.29	35571.78	2474.03	395.92	21.5	9.4	3.0	16.0
2005/06	403691.60	90049.02	56198.97	4591.92	2531.55	22.3	13.9	5.1	55.1
2007/08	475196.91	102015.30	66219.37	3892.64	700.99	21.5	13.9	3.8	18.0
2009/10						19.6	15.4	5.7	42.6

**Sources: Development Cooperation Reports (various years)**

Following years of decline in rates of educational enrolment, retention and completion, the NARC government was keen to see major reform of education early in their term. A new Economic Recovery Strategy established Free Primary Education as a priority<sup>10</sup>, and gave a commitment to increase spending on the social sectors. Although the attainment of UPE had been an elusive goal for the Kenyan government since independence, early actions by the new administration suggested that lessons from earlier failures were being learned. The commitment to free primary schooling was reaffirmed in the government's first policy paper on education (Sessional Paper No 1 of 2005), and it identified its proper implementation as the key to attaining UPE.

As indicated, the new political dispensation had gained the support of aid donors, and it became evident that there was substantial international interest in contributing to educational expansion and reform. In 2004, senior Kenyan education staff attended a series of training sessions and workshops run by a former leading World Bank education official, aimed at developing an understanding amongst education officials in Kenya of the principles underlying a Sector Wide Approach (SWAP)<sup>101</sup>.

**Figure 4: External assistance flows by sector**



Source: Thompson et al 2010:26

The tying of aid to the international targets and goals may not always be consonant with the policies and priorities of the recipient governments. But vehicles such as FTI are clear on what the funds are to be used for, and the conditions that countries have to meet before applying for the funds' (Interview 4, Government official).

<sup>101</sup> Thompson, A., E. Woods, C. O'Brien and E. Onsomu. 2010. *Mid-term evaluation of the EFA Fast Track Initiative; Country Case Study: Kenya*. Cambridge Education, Mokoro and OPM, 2010, (mimeo).

Indeed, interviewees from the Ministry of Finance indicated that the initial desirability of accepting aid from the Arab countries, the volume of which had increased significantly since 2000, had been their lack of insistence on conditionality. Nevertheless, the Ministry of Education ‘accepts that some conditionality is necessary – after all, it is a partnership and if the government does not listen, the donors will move away’ (Interview 22). Evidence for increasing ownership is clear from Ministry officials, one of whom suggested, ‘There is really no pressure to focus on the MDGs from donors, as the government is conscious of the MDGs in the planning of education’ (Interview 19, Government official). This is also reflected by donor interviewees, who remained positive about the direction that dialogue was taking, and the participants involved within the Kenyan government. Almost all aid resources for education have been channeled via one or more of the KESSP investment programs. However, over its first three years (2005-8) only 6% of KESSP expenditures were financed by aid, and the programs as a whole accounted for only some 13% of total Aid.

Between 1990 and 2010, Kenya received a cumulative total of US\$9.3 billion in external development assistance. Bilateral aid, received by Kenya from external governments, made up about 49 percent of the total aid inflows. Multilateral donors, comprising intergovernmental organizations contributed 48 percent. International NGOs active in the country contributed the balance. Of the multilateral donors, the UN system contributed 35 percent of the total inflows during this period.

### 3.4 Donor Freezes to Kenya

Donor funding in Kenya was higher in the 1970s because of her maintenance of a capitalist and open government. Other African countries had their economy under state control against the requirements of majority of donors. In addition, Corruption was existent in Kenya at the time, but on a lower scale compared to other African countries. Kenya's political system was perfectly aligned with the OECD countries, in particular the United Kingdom. By 1990, more than \$1 Billion was donated to Kenya<sup>102</sup>. In the same fiscal year Kenya benefited from debt cancellations and rescheduling in fact, Kenya was the eighth largest aid recipient amounting to 10% of her GDP<sup>103</sup>. Despite all the success in receiving donor aid, Kenya has repeatedly been at a standoff with the donor community leading to freezing of funds by development partners. The good relationship with a majority of foreign donors was short-lived after donors became dissatisfied with the way the Kenyan government was implementing the funds.

In 1982, the World Bank withheld a \$50 Million grant to Kenya because of a lax in policy reforms. The grant was to be released two years later after signing of a new agreement related to increased drought in the country. The foreign exchange boom of 1989/90 was to be cut short in the fiscal year of 1990/1991 by the Consultative Group of the donor community. The group report indicated that Kenya was slow in the efforts to tackling on key issues of corruption, democracy and good governance. In response to this, the group decided to withhold any granted and undisbursed aid to Kenya until the government addressed the ongoing economic and political reforms in the country<sup>104</sup>. This decision, coupled with the first multi-party elections in

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<sup>102</sup>World Bank Assessing Aid. Oxford University Press, 2008

<sup>103</sup> Feyzioglu, T., V. Swaroop and Min Zhu.. "A panel data analysis of the fungibility of foreign aid". *World Bank Economic Review*, 1998 vol. 65: 429–45.

<sup>104</sup>Woods, Ngaire . "The Shifting Politics of Foreign Aid," *International Affairs*, 2005

Kenya, dented her budgetary position and therefore the government resorted to internal borrowing which rose by 60% from the previous year. However, despite the freezes, disbursements for ongoing projects in the country did not stop and after a series of meetings with the donor community and much lobbying with Kenya's bilateral traders, aid flow resumed in November 1993.

Kenya was to successfully implement the new conditions for three years until 1996. However, a new feud emerged in 1996/97 fiscal year after the government again lagged in her agendas. "A meeting between Kenyan officials, officials from the World Bank and the IMF (International Monetary Fund) and the Consultative Group of the donor community resolved to nullify the \$200 Million ESAF program in July of 1997<sup>105</sup>".

Both the African Development Bank and the World Bank withheld their aid programs and this negatively affected the Kenyan economy as the government was once again forced to borrow domestically. Interest rates on treasury bills increased to 27% up from 18% while interest payments countrywide increased by 45%. Taxes also increased raising revenue collection from Kenya Revenue Authority while development expenditure was reduced by 25%, but unplanned expenditure increased by 16 percent mainly due to increased salaries for teachers and the El-Nino calamity<sup>106</sup>. Consequently, with the help of the World Bank, a team known as the Dream Team was recruited into the civil service, to ensure reforms and good governance especially in the civil service. Due to this, the consultative Group released the amounts help up in 1997 and 1998 on July 2000. However, six months later the IMF refused to release a \$198 Million Grant.

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<sup>105</sup>O'Brien, F.S and T.C.I. Ryan. 1999. "Aid and reform in Africa: Kenya case study". World Bank project on Aid and Reform in Africa. Washington, D.C.

In the same year, the World Bank, AfDB, EU and the Department of International Development in the UK also withheld a total of \$300 Million in donor funds, to which the government also lost \$366 Million in savings. Thus the anticipated budgetary constraint led to a reduction in spending in the judiciary, police, health sector, and the department of defense. All these sectors were previously free from budgetary constraints.

The table below traces back, evolution and pattern of foreign aid in Kenya all through from the 1980s-2006, after president Kibaki had taken over power in Kenya.

**Table7: Evolution and pattern of total aid to Kenya**

YEAR	ODA at 2006(Prices in US\$ millions)	ODA at current prices, US\$ million	Kenya's share of developing countries ODA, percent	Kenya's Share of Africa's ODA, percent	ODA as share of GNI, percent	Bilateral as share of total ODA, percent	Budget as share of total ODA, percent
1980	836.72	393.44	1.2	3.8	5.84	70.1	4.1
1981	1015.62	446.48	1.4	4.3	7.85	80.0	0.0
1982	1115.87	481.59	1.6	4.6	9.00	70.1	17.4
1983	915.24	396.1	1.4	4.0	7.40	85.8	11.1
1984	988.02	402.93	1.3	3.7	7.38	81.0	4.7
1985	1016.97	426.66	1.3	3.5	7.16	82.0	12.2
1986	880.38	442.96	1.2	3.3	6.27	87.9	6.4

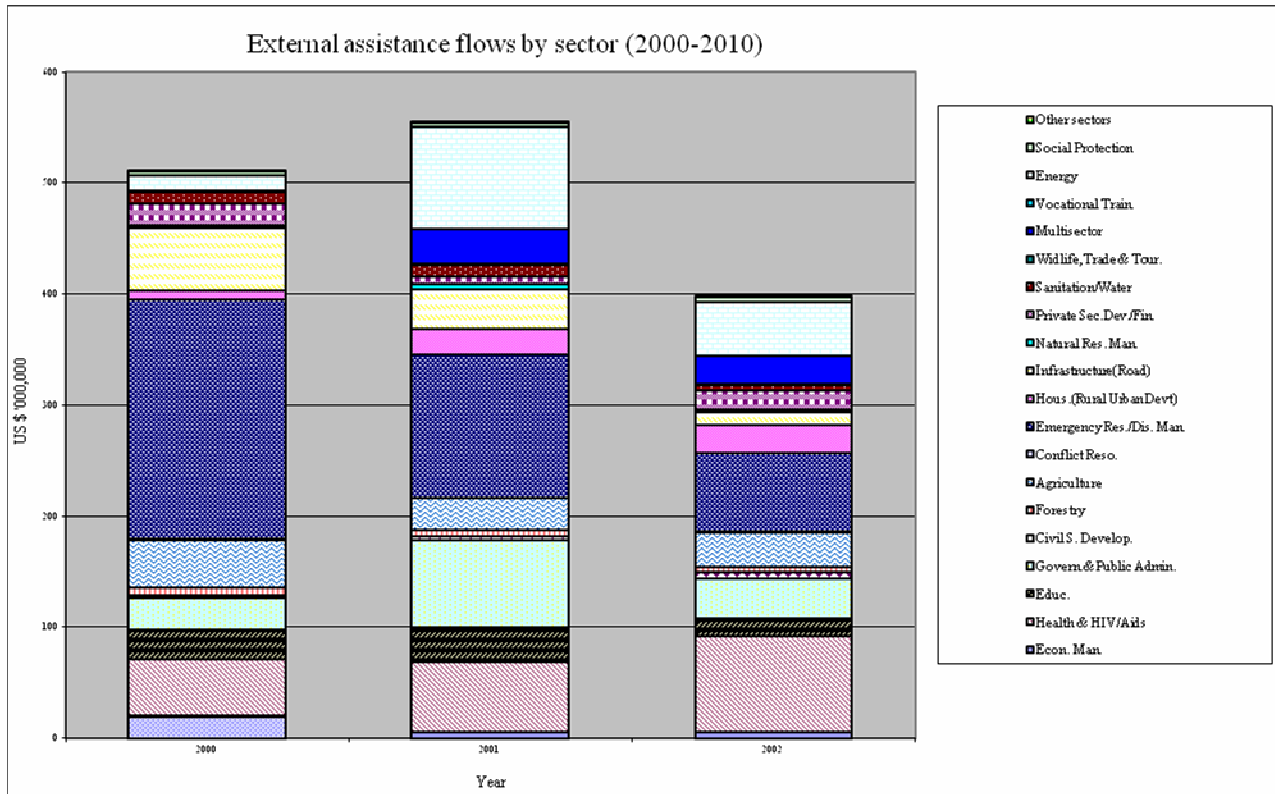
<sup>106</sup>UNDP. Kenya Development Cooperation 2005, available on internet, 2012

1987	926.21	557.18	1.3	3.6	7.29	80.5	4.1
1988	1263.78	832.03	1.9	4.9	10.69	73.0	14.9
1989	1623.18	1059.69	2.3	5.9	13.92	58.2	7.9
1990	1608.11	1181.29	2.1	4.7	15.35	62.6	3.2
1991	1168.68	916.46	1.5	3.7	12.33	65.8	9.0
1992	1083.52	883.02	1.5	3.6	12.67	57.7	3.3
1993	1132.17	906.02	1.6	4.3	19.97	45.3	0.0
1994	811.47	675.32	1.1	2.9	8.02	57.9	0.0
1995	766.48	731.36	1.2	3.4	9.18	61.1	4.3
1996	675.28	594.68	1.1	3.0	6.39	57.8	21.9
1997	555.74	447.78	0.9	2.5	4.60	67.1	0.0
1998	522.9	414.74	0.8	2.3	3.77	66.3	0.0
1999	379.76	309.85	0.6	1.9	2.52	82.3	0.0
2000	659.5	509.94	1.0	3.3	4.16	57.8	22.2
2001	642.17	461.55	0.9	2.8	3.56	58.6	0.0
2002	508.2	391.04	0.6	1.8	2.94	75.3	0.0
2003	603.46	521.45	0.7	1.9	3.51	62.2	0.7
2004	682.12	654.42	0.8	2.2	3.97	71.6	10.9
2005	785.98	767.08	0.7	2.2	3.86	68.1	0.0
2006	943.4	943.4	0.9	2.2	4.00	82.4	0.0

Source: OECD-DAC database; IMF, International Financial Statistics.

The figure below shows external assistance in-flows by sector.

**Figure 5. External assistance flows by sector**



Source: OECD-DAC database; IMF, International Financial Statistics.

According to the above figure the Office of the President remains the largest recipient of ODA. This arises from its mandate for managing emergencies and related activities. The Ministry of Lands and Settlement is the smallest beneficiary. Other Ministries that have continued to receive substantial shares of external assistance include those of Energy, Health and Roads and Public Works.



## **CHAPTER FOUR**

### **DATA ANALYSIS, PRESENTATION AND INTERPRETATION**

#### **4.1 Introduction**

This chapter presents the data that was found on the role of foreign aid in Kenya. The research was conducted among interviewees were from ministry of foreign affairs, ministry of finance, ministry of planning and development, ministry of agriculture and livestock, ministry of roads, ministry of health and finally ministry of education. In this chapter, data is presented using non-text approaches such as tables, pie charts and graphs. The data was analyzed quantitatively using the Statistical Package for Social Sciences (SPSS). The analysis was done as per questionnaires that were used to the collect data. Data was categorized in terms of demographic information and the role of foreign aid in Kenya, Kenya's development and impact of foreign aid on Kenya's foreign policy.

#### **4.2 Response Rate**

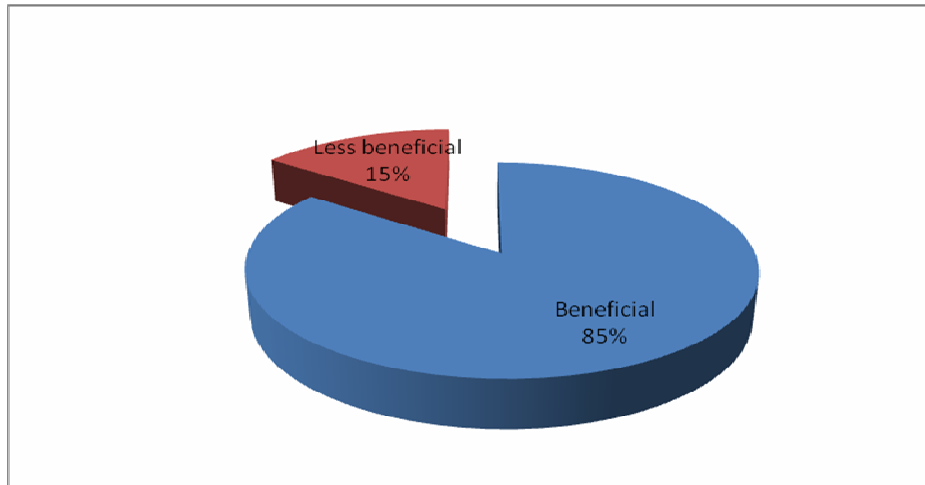
The research was conducted on a sample of 120 respondents from different selected departments in the Ministries to which questionnaires were administered. Out of the issued questionnaires, only 100 were returned duly filled in making a response rate of 83.3% which is an adequate response rate for statistical reporting.

#### **4.3. Data Analysis**

##### **4.3.1 Foreign Aid in Kenya**

This area of the study sought to assess the role of foreign aid in Kenya.

**Figure 6. Analysis on the role of foreign aid in Kenya**

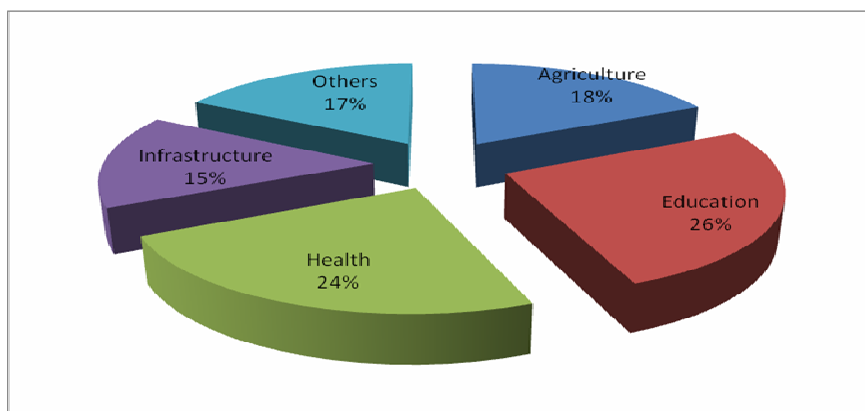


Source: Researcher (2012)

The respondents were asked to give their opinion on the role of foreign aid in Kenya. This was expected to guide the researcher on the conclusions, regarding the congruence of responses to the role of foreign aid in Kenya. The results as shown in figure 6 indicate that a majority of the respondent (85%) believed that foreign aid is beneficial to Kenya's economy.

#### **4.3.2. Foreign Aid according to Sectors**

**Figure 7. Respondent on major sectors that receive foreign aid**



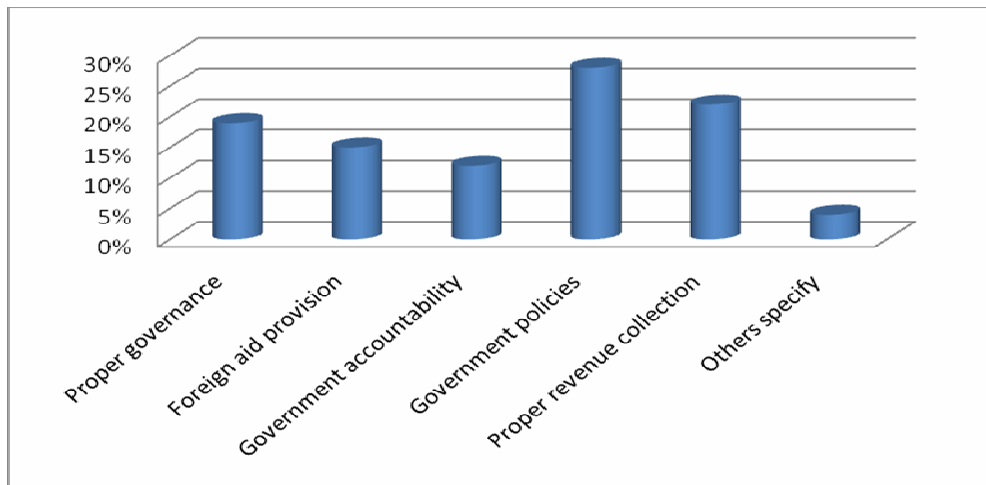
Source: Researcher (2012)

The study sought to assess the respondent’s opinion on major sectors that receive foreign aid in Kenya as shown from the figure 7. Majority of the respondents (26%) had agreed that Education received most donor funding followed closely by Health with 24%. Agriculture comes third with 18% while infrastructure and others had 15% and 18% respectively. Since the introduction of free primary education in 2002, most donor funding have been channeled there since it is the basic education level that can reduce poverty and help the poor of part the community in long term strategy and also in fulfilling vision 2030.

### 4.3.3 Kenya’s Economic Policies and Foreign Aid

This area of the study sought to assess the role of foreign aid in Kenya’s economic development and the country’s economic policies.

**Figure 8. Respondent on Foreign aid and Kenya’s economic policies**

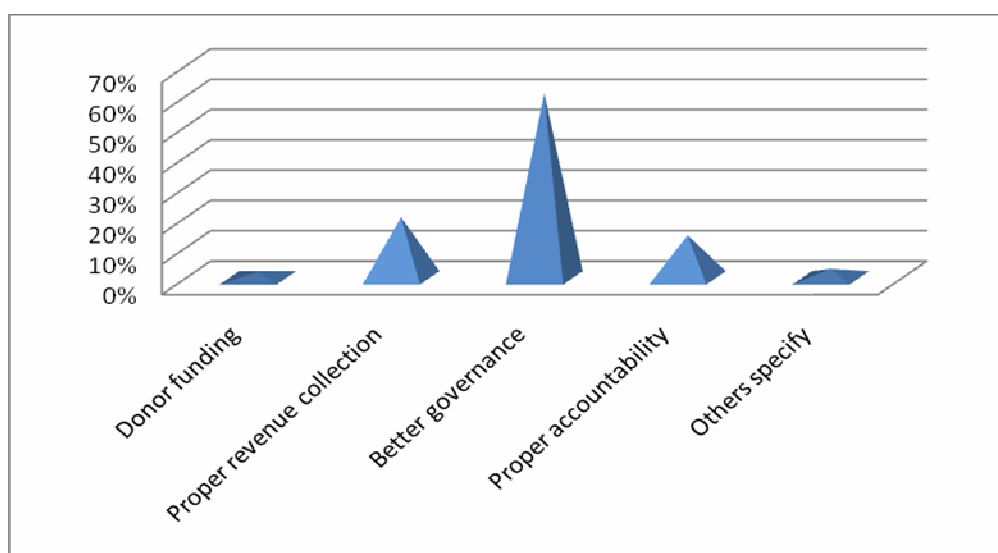


Source: Researcher(2012)

From the figure 8, majority of the respondents (27%) said that government policies is the reason for Kenya' development, while 22% believed that development is through proper revenue collection by KRA which is governments own organization. 18% agreed that proper governance is the reason behind Kenya's development while only 14% believed that foreign aid provision is the reason behind Kenya development. Only 12% and 7% of the respondents agreed that government accountability and others is the reason for Kenya's development respectively.

#### 4.3.4 Impacts on Kenya's development

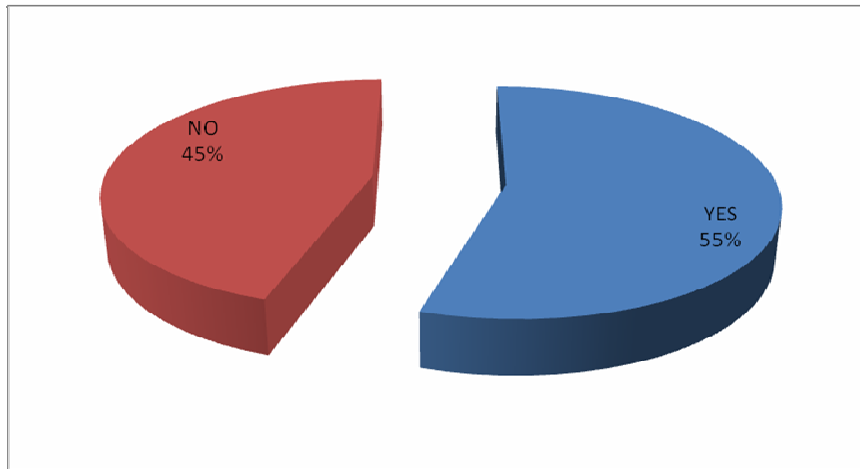
**Figure 9. Respondent on conditions that lead to Kenya's development**



Source: Researcher (2012)

From the figure 9, better governance (61%) was the most chosen condition that can lead Kenya to more development followed by proper revenue collection (11%) while proper accountability and doing away with corruption stood at 19%. Only 3% of the respondents believed that donor funding can lead to Kenya's development while 6% of the respondents agreed on other conditions that can lead to Kenya's development.

**Figure 10: Respondent's on impact of foreign aid on Kenya's economic growth and development**



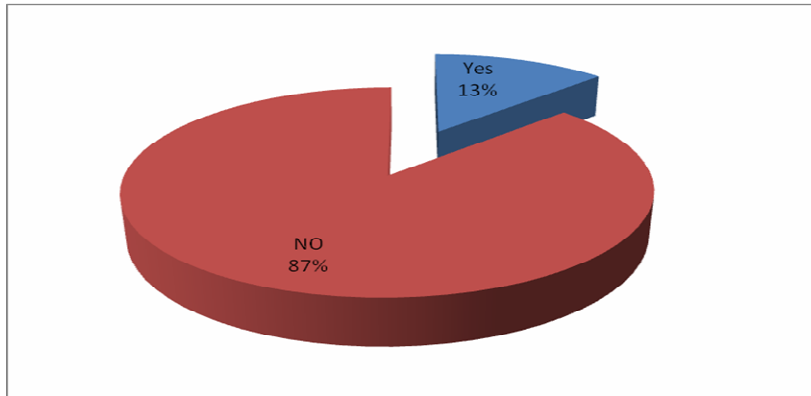
Source: Researcher (2012)

The study aimed at assessing on whether foreign aid has impacted in any way, on Kenya's economic growth and development. 55% of the respondents agreed, while 45 percentages denied this, thus the majority of the respondents in the selected ministries have the perception that donor funds have had an impact on the development of Kenya's economy.

#### **4.3.5 Impact of Foreign Aid on Foreign Policy**

The study in this part aimed at assessing on the impact of foreign aid in Kenya.

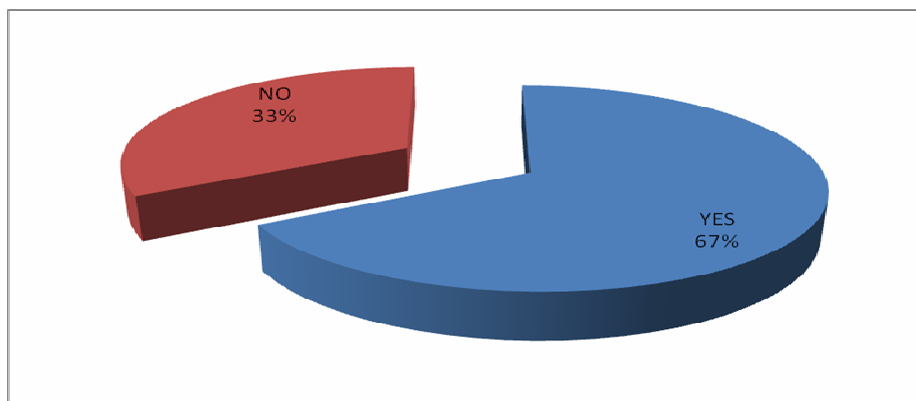
**Figure 11. Respondents on foreign aid on Kenya's foreign policy**



Source: Researcher (2012)

From figure 11, majority of the respondents (87%) disagree with the statement that foreign aid leads impacts on Kenya's foreign policy development, while only 13% agree. This is because most respondents believed that most donor funds come with restrictions or condition which usually favour the donor countries, and that Kenya must formulate its foreign policies in a way that seek to encourage good relations with the donor countries.

**Figure 12. Respondents on foreign aid and Kenya's relations with the West**



Source: Researcher (2012)

In this area, the study aimed at assessing whether foreign aid has in any way, affected the relations between the West, being the major donors over the years and Kenya. 67% of the respondents agreed that foreign aid has an impact on this relation, while 33% denied this, thus the majority of the respondents in the selected ministries have the perception that donor funds have in a way, led to more close relations between Kenya and the West.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION**

#### **5.1 Introduction**

The main objective of this study was to investigate the role of foreign aid in developing countries, with Kenya as its case study between the period 1990-2010. This chapter presents the summary of the major findings, answers to research questions, conclusions and recommendations of the study. It also presents suggestions for future studies.

#### **5.2. Summary of Findings**

What emerges from the data collected and analyzed in the previous chapter is that foreign aid has positive impact on the economic growth and development, and by extension Kenya's foreign policy.

According to the data gathered and analyzed in the previous chapter, 85% of the total respondents agree that foreign aid has been beneficial in to Kenya and has promoted growth in various sectors of the economy. Only 15% say foreign aid has not been beneficial at all to Kenya. Also, according to the respondents, among the sectors that have benefited from foreign aid are Education at 26%, Health at 24% and Agriculture at 18% and Infrastructure at 15% and others at 17%.

Therefore, education has been on the lead, among sectors that have benefited from foreign aid. This is majorly because of the Free Primary School, which re-ignited the donors' enthusiasm in giving aid to Kenya, after several years of low aid. Additionally, one can argue that increasing



literacy levels has been one of the major goals of the subsequent governments, thus high aid investment in Education sector.

On Kenya's economic policies and good governance, 14% of the respondents agree that foreign aid has contributed to good economic policies in Kenya and good governance. 27% however, believe that good governance and good economic policies are as a result of government's own efforts. On Kenya's economic development, a majority of the respondents at 55% believe that foreign aid contributes positively on Kenya's economic growth and development. However, 45% believe that foreign aid impedes economic growth in Kenya, citing the many retrogressive conditional ties.

Finally, on foreign policy 67% of the total respondents agree that foreign aid affects Kenya's relations with the West, albeit positively. However, 33% refute the notion that foreign aid has improved Kenya's relations with the West. Those refuting, again referred to the period when Kenya was put under the Structural Adjustment Programs and the numerous conditional ties that come with them. However, only 13% of the respondents believe that foreign aid influences the way Kenya formulates its foreign policy.

### **5.3. Conclusion and Recommendations**

The current study shows both positive as well as the negative effects of foreign aid on the economic development. Foreign aid, on positive side, has helped in transformation of the economy, laid foundations of the industrial and agricultural sectors, provided technical assistance, policy advice and modern technology, assisted in overcoming the budget deficits and

the BOP deficits and has also funded the projects for the social sector development projects. Foreign aid contributes to new ideas about development policy, and training facilities for public policymakers, and finance to support financial and social reforms and an expansion of public services. Foreign aid is granted to reduce the budget deficit, trade promotion and strategic considerations. Foreign aid is also granted on the account of environmental spending, humanitarian relief, peacekeeping and the promotion of political transitions to democracy. It has also led to free trade thus giving the private sector of the LDCs an opportunity to expand and flourish. Thus, the overall impact of the aid on the economic development is positive.

Additionally, foreign aid has a more positive impact on growth with good fiscal, monetary, and trade policies. In the presence of poor policies, on the other hand, aid has no positive effect on growth. Accordingly, there is a need of not only good policies but also the implementation of these policies as well as the proper monitoring of the aid-utilizing projects is necessary in order to avoid the lack of utilization and the mismanagement of the foreign capital resources. Consequently we can say, the aid may be helpful in boosting economic growth only under the presence of appropriate monetary, fiscal and the trade policies.

However, on the negative side, Foreign aid fails as a development policy because it destroys the incentives of the marketplace and extends the power of ruling elites. As discussed before in this study, foreign aid has been used by Western powers and donors over the years to perpetuate autocracy and bad governance, by using aid money to support dictators in Africa. In addition, foreign aid has been used by most African leaders as a tool of making themselves rich, perpetuating sycophancy and corruption.

The study concludes therefore that, foreign aid contributes significantly and positively on economic growth and development of developing countries, Kenya being one of them. As the regression analysis of the GDP and the ODA confirms the positive affect of Official Development Assistance (ODA) on the GDP. GDP increases at the decreasing rate, as the flow of foreign capital increases. Thus, the overall impact of the aid on the economic development is positive. The empirical results indicate that the flow of foreign aid does influence government spending patterns. On average, an increase in foreign aid stimulates development spending by a higher proportion than does an increase in domestic resources.

In the presence of poor policies, on the other hand, aid has no positive effect on growth. Accordingly, there is a need of not only good policies but also the implementation of these policies as well as the proper monitoring of the aid-utilizing projects is necessary in order to avoid the lack of utilization and the mismanagement of the foreign capital resources. The results strongly suggest that economic policies and their implementation are instrumental in attracting FDI and donor funding. The decreasing trends in foreign aid at some periods in the country may be due to the country having not pursued the requisite policies to facilitate the capital flows. The policy implication is that the country should redouble its efforts to create a liberal environment in which capital markets will behave as they should. The role of foreign aid to Kenya's future development will be that of alienating the average Kenyan further from the country's economy and natural resource. Ultimately Kenyans will remain but servants of donors' interest. Clearly Kenyans will not be in a position to plan for and implement anything if aid still dominates the affairs of the country.

In Kenya, there is a positive relationship between foreign aid and economic growth and thus the impact of foreign aid on the country's economy cannot be ignored. Since there is a positive and strong relationship between foreign direct investment and economic growth in Kenya, to effectively manage these foreign investments so that the masses can feel the impact, the following measures can be taken:

The government of Kenya should divert a larger portion of foreign aid to investment in agriculture because about 70% of its population depends on agriculture. Agricultural trade liberalization is particularly important and growth in agriculture has a proportionate effect on economic growth.

Aid donors and foreign investors should provide a framework for the implementation of aid funds. Foreign investment can and does have an impact when provided within a framework that acknowledges the drivers for broad based growth. Well-targeted investment increases the ability of Kenya to maximize the benefits of trade liberalization, improve the environment for investment and ensure that the poor have the ability to contribute in achieving growth.

From the study, the government of Kenya should make use of monetary, fiscal and exchange rate policies aimed at harnessing inflow of foreign capital. First, the government should aim at boosting economic growth. A growing economy (characterized by accelerating GDP growth rate) indicates a favorable environment for FDI. Firms choose to invest in countries that have a higher rate of return. Thus, a steady growing economy will attract more FDI. Similarly,

investment is needed to spur economic growth, which shows a two-way causality between growth and investment

Finally, foreign aid in the form of loans can play a vital role in promoting growth directly or indirectly through private investment. It can be made even more productive if used to finance productive activities such as export promotion, infrastructure development, and domestic resource mobilization. In a similar fashion, foreign aid could be disaggregated into project loans, program loans, and any other appropriate classification. The findings discussed in this paper provide a starting point to understanding factors influencing growth in Kenya. Additionally, a combination of both fiscal and monetary policies aimed at raising the aggregate demand such as narrowing of tax base or increasing government expenditure should be pursued. In addition, the government should enter into trade agreements which favor free trade as opposed to protectionism. With less controls put in place the degree of openness of the economy to international trade will increase hence more foreign capital inflows.

#### **5.4 Suggestions for Further Research**

This study focused more on the role of foreign aid in developing countries, with Kenya as the case study. It therefore examined contributions of foreign aid to economic development, foreign policy and by extension, to good governance in the developing countries. However, future studies should be carried out to find out the impact of social-political factors on foreign aid inflows in the country. It would also be interesting to find out the relationship between foreign aid and poor governance, which has been the case witnessed in many African countries.

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## APPENDIX I

### Questionnaire

#### Section A: Demographic information of the respondent

1. Sex: Male

Female

2. Age: 30-39

40-49

50-59

Above 60

#### 3. Educational Level

Certificate

Diploma

Undergraduate

Postgraduate

#### 4. Length of service (Work experience)

3 yrs and below

3-5 years

5-7 years

Over 7 years

#### 5. Years worked in the Ministry/Government Department

1-3 years

3- 5 years

6-15 years

Over 15 years

**Section B: Foreign aid in Kenya**

6.What is your opinion on the role of foreign aid in Kenya?

(Please tick  $\surd$  appropriately)

Beneficial            [ ]

Less beneficial    [ ]

	<b>Statement</b>	
7.	From which countries and organization does Kenya receive aid from? (circle all that apply)	1.United States 2. Britain 3.Japan 4. China 5. IMF (international monetary fund) 6. World bank Others specify.....
8.	What type of foreign aid does Kenya receive? (Circle all applicable)	1. Grants 2. Concessional loan 3. Relief (government loan cancellation) 4. Commodities (food & medicine) 5. Project funding i.e. free primary & secondary education funding.
9.	Which are the major sectors that receive foreign aid in Kenya and by what percentage?	Agriculture            [ ] Education              [ ] Health                  [ ] Infrastructure         [ ] Others                    [ ]

**SECTION B: Kenya's development**

	Statement	
10.	What do you think are the reason for Kenya's development? (circle all that apply)	1. Proper governance 2. Foreign aid provision 3. Government accountability 4. Government policies 5. Proper revenue collection 6. Others specify.....
11.	Which conditions do you think will lead to Kenya's development?	1. Donor funding 2. Proper revenue collection 3. Better governance 4. Proper accountability 5. Others specify.....

**SECTION D: Impact of Foreign Aid**

12.	Do you think foreign aid has lead to Kenya's economic development?	1. Yes 2. No
13.	Do you think Kenya's development policies have been influenced by the donor governments?	1. Yes 2. No
14.	Do you think donor funds have helped Kenya develop?	1. Yes 2. No
15.	What do you think can be done to ensure accountability?	