

## THE IMPACT OF FOREIGN AIDS ON POVERTY REDUCTION: AN INTERNATIONAL LITERATURE REVIEW

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### ABSTRACT

**Purpose-** Lately after the occurrence of the Covid-19, there has been a substantial wave of the foreign aid funds from developed to developing economies aimed to back up the most effected countries. The concept of the foreign aids with the primary goal to eradicate poverty is not new to economy and social development scholars since it has been researched for decades.

**Methodology-** The poverty eradication was adopted from what so called the Millennium Development goal (1990-2015) and Sustainable development goal that is expected to come to an end in 2030. This study qualitatively accesses the impact and the effectiveness of the foreign aid given to most developing countries with the aim to eradicate the poverty level.

**Findings-** The main objective of this paper is having an empirical conclusion on the effectiveness of the foreign aid through the critical empirical reviews of the both quantitative and qualitative works done by different scholars in different countries.

**Conclusion-** The study concluded that quantitatively it is illogical to conclude weather the foreign aid really contributes to poverty reduction in recipient's country or not. This backed up by the presence of both empirical studies both in favour and against of foreign aids. The study further revealed that the effectiveness of the foreign aid toward eradication of poverty depend on many factors on both recipients' and donor countries. Those factors include conditions attached to aids, allocation of the aids to targeted areas, authority of the states in decision making related to foreign aid and political influence. Finally, the study suggested that for efficient use the foreign aids countries should have a clear stipulated goals and area of prioritization. The countries also should have a clear monitoring mechanism to supervise the progress of the funds expenditure over time

**Keywords:** International review, foreign aid, millennium development goals, poverty reduction, qualitative analysis.

**JEL Codes:** F35, I30, I32

### 1. INTRODUCTION

Foreign aid has been used as the tool to improve life and eradicating poverty since the beginning of the post-colonial era, although its effectiveness is still under discussion. As result recently, number of researches has been done focusing on apprehending the impact and the effectiveness of the foreign aid to economic growth and poverty reduction (Calderón et al., 2006). The discussion about the subject matter goes long way down the history and a lot of researches have been conducted to address the issues. Generally the conclusions of scholars fall under one of the three schools of thoughts. The first school of thought believes that foreign aids definitely guarantee the eradication of poverty in developing countries. The second school of thought contend that the foreign aid is ineffective in eradicating poverty and generally leads to endless cycle of poverty and slow economic growth. The Third school of thought argues that foreign aid is only effective in poverty reduction under certain conditions (Mahembe & Odhiambo, 2019). The conditions that assure the effectiveness of the foreign aids include approaches and methods used by donors to allocate foreign aid to qualified recipient countries. Normally approaches may be determined by looking at term of the governance of the aid, commitment toward the aids, ownership of schemes funded by the aid and institutional capacity of the recipient countries (Riddell, 2014).

The poverty eradication problem is very interesting problem facing the world. To address this issue the international communities and organization through the United Nation came up with the development agenda so called the Sustainable Development Goals (SDGs) which started in 2015 replacing the old development agenda called the Millennium Development Goals (MDGs). The Millennium Development Goals (MDGs) come to an end in 2015 and Sustainable Goals (SDGs) is expected to be concluded in 2030 (Alkire et al., 2021). The persistence of the poverty problem over the decades, made the researchers and scholars to research on possible variable that could be the solution to poverty problem. The economic variables

researched by the scholars depend on the researchers' interest, and differ from region to region, low to middle-income regions. Foreign aid and remittance inflows are one of those crucial variables that seem to play a significant role in helping countries to eradicate and reduce poverty over time (Fayissa & El-Kaissy, 1999).

One among the sources of the economic growth and development in most developing countries and growing economies is foreign aid. Foreign Aid is considered as flow of foreign exchange revenues directed to infrastructural and social development and projects. Basically, some studies argue that foreign aids have positive impact in economy, capital accumulation, human, and welfare of the recipient economies. Foreign aids are vital for developing economies through better utilization of domestic resources and the gap between savings and foreign exchange created due to lack of foreign currency. Therefore one may say that it is proponent believed that, foreign aid has positive effects and helps the developing economies by minimizing the investments and saving gap to achieve economic growth. Normally, foreign aid is expected to enhance economic welfare and support economic growth, however, its effectiveness toward the economic growth is questionable and debatable (Khan et al., 2022).

### **1.1. Overview of Poverty**

Defining the term poverty is very controversial issue. Scholars have tried to define this term in different perspectives in order to provide a clear understanding of the concept. Spicker in his work named as Definitions of Poverty, came up with the twelve clusters of meaning defined the term poverty in twelve angle based on how the concept described by different scholars. These clusters of poverty definition show how diverse the concept of poverty is. Some scholars define the term poverty definitions as a material concept. In this way scholars categorize people as poor because of lacking something they need, or simply by not having resources to enable them to get things they need. This definition poverty focuses on material goods such as food, shelter, clothing, fuel or other needs. Apparently, it should be noted that, these individual material needs tend to change from time to time and from place to place (George, 1988).

Some scholars see the poverty as a pattern of deprivation. In this perspective of defining poverty, the poverty is said to refer not just to lack of material needs, but also deprivation of experienced over a period of time. Under this perspective the particular kinds of deprived needs like hunger and homelessness is considered to be important by some scholars while some scholars focus on the seriousness of the deprivations or lack of these needs. For example, while the food and shelter are often considered to be important than entertainments and transport, in some societies deprivation or lack of access to entertainments and transport may be considered as poverty (Spicker, 1998).

The term poverty can also be defined as the situation in which individuals lack resources, income or wealth needed to secure and consume stuffs they need. In this regard, poor people are considered to have sufficient, but not sufficient enough resources to afford what considered being a decent and independent life. Therefore an individual is considered to be poor when his life means of earning is insufficient to afford a normal standard of life with reference to his community (Fried & Elman, 1969).

The idea of poverty sometimes is perceived as a lack of resources in economic terms. It is one of the most common used approaches to describe the notion of poverty. In this perspective the poverty is describe in term of the income measures to the point where some social scientists believe wrongly that poverty is just having low income (Pascall, 2020).

The concept of poverty may also be described as a standard of living. In this perspective of definition of poverty, the focus is on whether the individual or family level of life in term of consumption and income is below or above particular standards. Again, this perspective too is based on the concept of needs that are defined as material things considered to be vital and necessary to people (Rodgers, 1995).

The poverty as inequality, considers some individuals to be poor compared to other individuals in society. The essence of being unequal doesn't necessary means it is poverty, but to a certain degrees of inequality may be considered to be below the minimum standards that is acceptable in community and hence poverty. Basically, most scholars focused much and seem to be concerned with the level of income required to allow access and attain the minimum standards of living that is considered acceptable in that society at particular time. As a result of that, it can be generalized that, there is a direct relationship between poverty and inequality. In simple words that is to say, if the economic inequality is beyond the minimum level, then that situation is considered as poverty (O'Higgins & Jenkins, 1990).

Some scholars also describe the concept of poverty as economic position. In this perspective of understanding the concept, considers poverty as a 'class' of people or group of people that is identified by their economic situation or position in particular society. The presence of class indicates the inequality. It should be noted that, the inequality represented by class is a matter of the social structure, not of the inequality based on resources or consumption. This is because resources and consumption are not good and worth in indicating social position (Spicker, 1998). The fact is that, the poor people represent the working class in society are identified overtly in terms of classes, based on the lowest wage rates paid to their work people and not based on what so called the 'poverty line' which also measures and indicated the poverty (Fried & Elman, 1969).

The term poverty some time is described in term of social circumstances which is closely related that of social class. In describing the concept of poverty as the social class, scholars identify economic and socio economic status that directly link people classes with their social and occupational roles. The poverty as concept social class and social circumstances commonly used both as the basis for empirical research on the distributive implications of policy and as a means of conceptualizing the position held by the poor people in structural terms (Edgell, 2008).

The poverty phenomenon also described as a state of being dependent. Poor people can be defined as dependent people and therefore receive social assistances to fulfil some of their needs. In this perspective it insisted that, poor people should not be confused with people with inadequate or low incomes. This means people with low income will only be considered to be poor if they are dependent. Therefore, for a person to be poor he should receive a social assistance to fulfil his or her needs. Some scholars in this perspective of defining poverty describe the poverty as structural exclusion and elimination a citizen can experience from certain social participation, which may normally results into a state of being dependence (Spicker, 1998)

The concept of poverty also is described in term of lack of the basic security. In this standpoint, poverty is described as lack of basic securities. It is a state of susceptibility to social threats. By the term the basic securities, it simply means human basic needs (Duffy, 1995). People with certain hardship to obtain their daily necessities are echoed as poor, whereas people that live in a state of chronic and extremely hardship are considered to be very poor people (Fried & Elman, 1969). In this way of understanding the concept of the poverty, the chronic poverty occurs when individual lack basic security and at the same time affects several aspects of individual's life, long enough to be so serious and compromises individual's chances to regain their fundamental rights and responsibilities in the near future. Therefore, state of being poor is identified as a 'lack of basic security', which may be described as factors that enable individuals to fulfil their basic responsibilities and to enjoy their basic rights (Duffy, 1995).

Apart from the concept of poverty being translated in term of deficiency of securities, it can also be defined as lack of entitlement or rights. In this point of view the poverty is defined as both deprivation and lack of resources that in the long run leads to lack of entitlements, and not just the lack of essential needs. For example, being in a homeless situation is a result of not having an access to housing or land, not from lack of housing. Or, famines, is not a result of not having access to food, but it's a result of individual inability to buy the food that available in the market. Therefore, the lack of entitlement is fundamental idea behind concept of the poverty condition, and therefore people who have the necessities and required entitlements are not considered as poor (Drèze, J., & Sen, 1989).

The concept of poverty as the exclusion also is the dominant paradigm in describing the concept of the poverty in most of the European countries to avoid some controversial political ideas. Describing the poverty in perspective of social exclusion may have impacts on groups of people, individuals, and even the geographical areas. The poverty as social exclusion can be in form of access to services, education, health, or even housing and not just in levels of income. In this regard therefore, problems related to social exclusion include that of homelessness, ethnic tension, urban crises, rising long term unemployment, and persistent of poverty level (Tiemann, 1993).

Some scholars as well, describe the concept of poverty as the issue that depends on moral judgment. According this perspective, poverty situation consists severe of deprivation, and individuals are considered to be poor when their material circumstances are considered to be morally unacceptable. Poverty involves not just any kind of hardship, but unacceptable hardship. The term poverty, imply moral and social need that something should be done to adjust it (Piachaud, 1981).

## **1.2. Measurement of Poverty and its Importance**

Evaluating poverty correctly is very important in measuring how big the poverty problem is and facilitating effective formulation of policies and monitoring their implications. However, measuring the poverty is as challenging as defining the concept itself. Therefore, primarily there are differences in motivations and perceptions of scholars who define the concept of poverty and measuring it, although there is some consensus. It is very important to measure the poverty level in order to identify and have a proper records of poor people, identify appropriate programs and interventions against the poverty, being able to evaluate and monitor poverty related projects and policy and last but not least to evaluate how effective the local and international institutions are in coordinating and monitoring policies and projects aimed at eradicating poverty (Haughton & Khandker, 2009). Among the commons measures of poverty include the following:

The Foster-Greer-Thorbecke (FGT) is one among the famous poverty measures commonly known among scholars. It is a generalized poverty measure that was initially developed by Erik Thorbecke, followed by Joel Greer, and James Foster. It involves measures such as the Headcount index (P0), the Poverty Gap index (P1) and the squared poverty gap index (or the Poverty Severity Index, P2). The headcount index (P0) actually measures relatively the proportion of the population that is considered to be poor in society. This measure is the most popular because it is easy to be understood and to be measured. Despite being common and easy to be understood this measure does not indicate extent of poverty a society or an individual has (Haughton & Khandker, 2009).

The Poverty Gap Index (P1) is described as per capital measure of the gap in the welfare of the poor individual from the poverty line. This kind of measure normally is expressed as a ratio of the poverty line. Some scholars consider it to be the per capital cost to be incurred if at all relative poverty is to be eradicated. On the other hand, the Squared Poverty Gap index (P2) is just the averages squares of the poverty gaps relative to the poverty line of the country. It is also called the poverty severity index. It measures how severe the poverty is in a country. By squaring the poverty gap for each household or individual, the squared poverty gap index assumes greater weight to individual that fall far below the poverty line compare to individual that are closer to the poverty line (Haughton & Khandker, 2009).

Another poverty measure is called the Sen-Shorrocks-Thon index. The Sen-Shorrocks-Thon (SST) index is an index of poverty intensity that is also called the modified Sen Index of poverty intensity. This index was named after the scholar who at particular point in time tried analysed the poverty problem. In 1995 Sen-Shorrocks-Thon index was proposed by Shorrocks as an extension of the Sen Index which initially was introduced in 1976. Again it was revised by Zheng in 1997 and came up with the index that was consistent with the limit of another index proposed by Thon in 1979 (Xu, 2020).

Sen-Shorrocks-Thon Index measures the depth of the poverty, the proportion of poor people (poverty incidence), and the distribution of welfare among the poor people in population. These three variables allow grouping the poverty into three components and determining whether there are more poor societies, weather the poor are poorer, and if there is higher inequality among the poor. It is one of the common and widely used measures of poverty by intellectuals (Haughton & Khandker, 2009).

The Sen-Shorrocks-Thon index (SST) index of poverty intensity mathematically is calculated as the product of three poverty measures during a certain period of time which include poverty rate, average poverty gap, and 1 plus Gini coefficient of poverty gaps for the population in particular society (Osberg & Kuan, 2000).

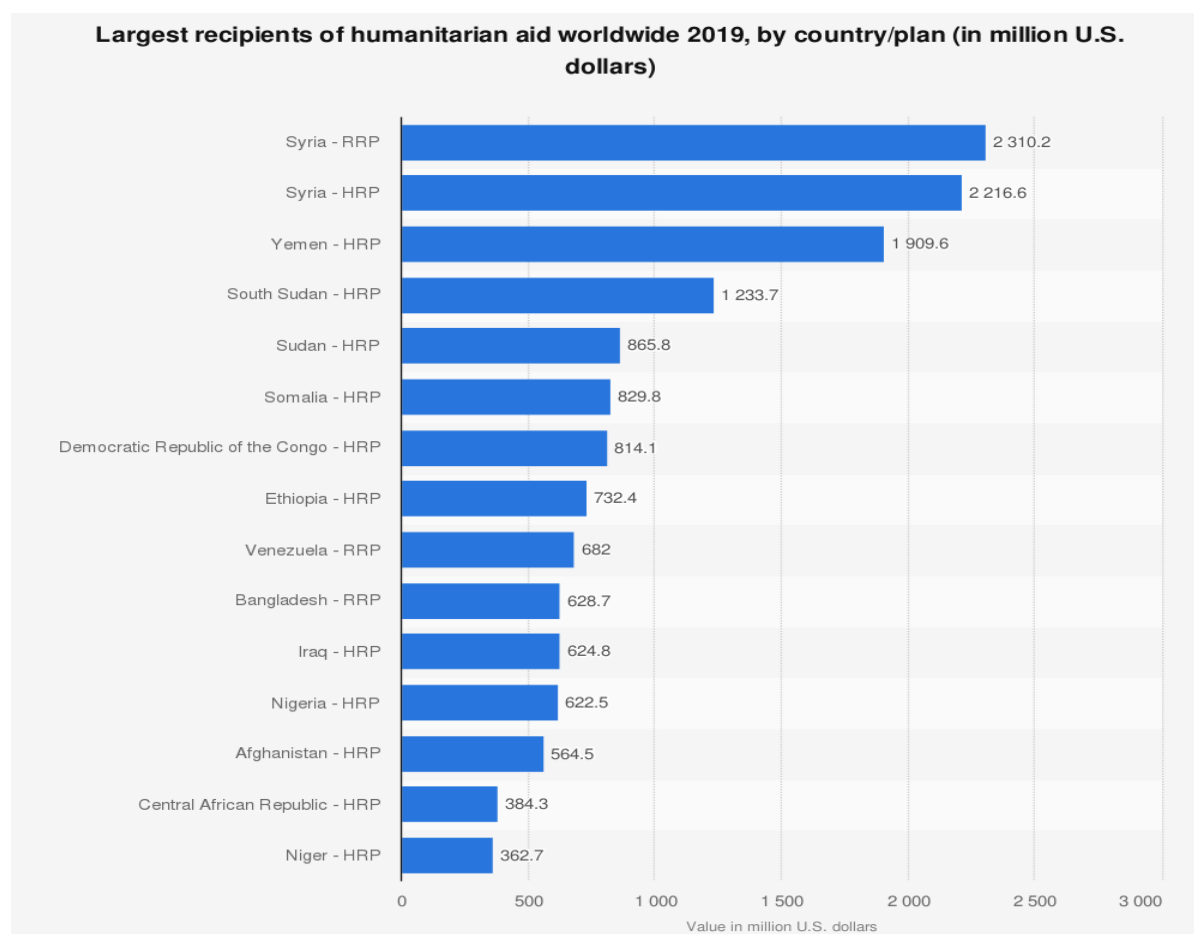
### **1.3. Overview of Foreign Aid**

Foreign aid has been important component of the global development discussion on international economic after the Second World War period. It is claimed that, foreign aid had a significant contribution to the development of the developing countries and establishing good relationship between the developed and developing countries in 1980's (Pankaj, 2005). Most economists started to be interested in foreign aid in 1950s, although the concept of the foreign aid was fairly new concept and economic issue. The concept of the Foreign aid and its importance was officially formalized in 1947 despite the fact that there were not enough empirical studies toward the impact of foreign aid until 1950s (Feeny, 2007).

By definition the foreign aid simply is any transfer of resources or flow of capital made from one country to another country normally from developed to developing countries voluntarily due to having a small robust industrial base followed by having low Human Development Index (HDI). Under normal circumstances, the foreign aid can be in the form of a grant, loan soft or hard loan. If a foreign aid requires repayment in foreign currency, then the foreign aid will be considered as a hard loan, and if the repayment requires domestic or home currency, the foreign aid is considered as a soft loan. The World Bank (WB) usually gives foreign aid in hard loans, while other international organizations provide soft loans (Thapa, 2020).

The distribution of the official development assistance commonly known as foreign aid started after the World War II (Feeny, 2007). The donors or providers of the aid principle motives behind the provision of foreign aid include the aim to provide or fulfill humanitarian needs, help poor countries to achieve economic growth and poverty eradication, bring unity and solidarity, countries political and economic strategic interest, long term and short term commercial and trade interest, reinforcing historical background, and promoting and protecting human rights (Riddell, 2014).

Figure 1: The Largest Recipients of the Aid in 2019

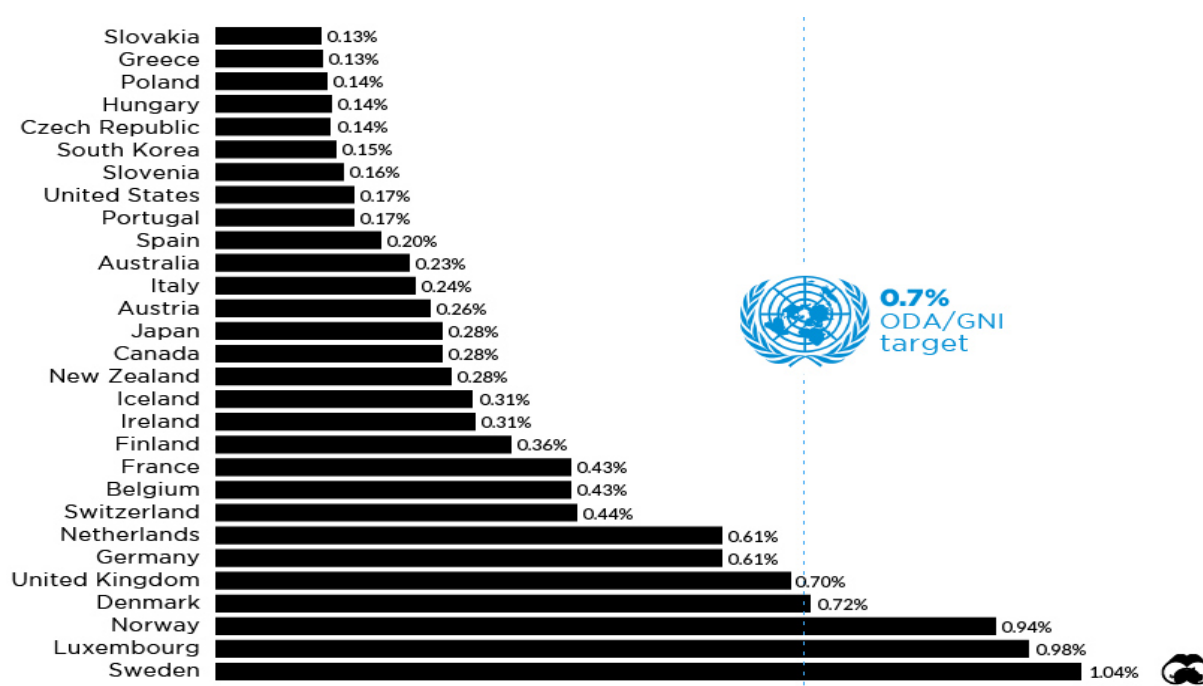


Source: (Statista, 2019)

The figure 1 above demonstrates the countries that have received large amount of foreign aid fund in us dollars in 2019. For 2019 the countries that have received the large portion of foreign aid is Syria followed by Yemen and South Sudan. All these countries have been experiencing chaos for the past few years and needed humanitarian needs. Niger and Central Africa Republic are the last two countries in this chart which counted as recipients of large amount of foreign aid funds. For 2019 Niger was counted to receive approximately 362.3 million US dollar as foreign aid followed by Central Africa Republic which received almost 384.3 million US dollar. This is considerably a small amount compared to the amount received by Yemen which is approximately 2,310.2 mil US dollar. This is because probably for past recent years these two nations have been able to maintain peace and security and therefore able to focus more on production and other economic activities.

The figure: 2 below shows the largest donors of the foreign aid as the percentages of the donor country Gross National Income for the year 2019. 0.7% ODA/ GNI is simply a percentage proposed by United Nation for Developed countries to contribute as Foreign aid from their Gross National income. So far in 2018 based on the **figure 2** only three developed countries managed to reach the 0.7 ODA/GNI target. These countries include Sweden which managed to contribute 1.07% of it GNI, Luxembourg contributed 0.98% and Denmark 0.94% of its GNI.

Figure 2: ODA Grant Equivalent as % of Gross National Income (2018)



Source: (Routley, 2020)

## 2. LITERATURE REVIEW

### 2.1 Foreign Aid and Poverty - Theoretical Review

There are a lot of theories that explain the relationship between the foreign aid and poverty reduction or the importance of foreign aid toward the eradication of poverty in the world. It should be noted that some of these theories practically has been used in estimation of the total amount of the foreign aid needed and how effective should the foreign aid should be allocated to insure the poverty is reduced (Mahembe & Odhiambo, 2017). Some of these theories include the following:

**Big push theory** - According to Big Push theory, in order for a country to move from poverty to development, it requires massive investments in two main sectors which include the infrastructure and education sector. Big push theory focuses on policies related to minimum investment level needed to eradicate poverty and initiate development in evolving nations. The main idea behind the pig push theory is that, only a huge and wide investment projects can encourage and stimulate economic development. That is, definite amount of resources should be allocated and dedicated for development programs for an economy to take off (Umoru, 2018).

On additional to that, the Big Push theory emphasizes that saving and capital is very essential in promoting economic growth and that people are poor because of the vicious circle of poverty. According to the Big Push theory in order to break the vicious circle of poverty, foreign aid is needed to help poor countries escape from common problem known as the poverty trap (Temple, 2010).

**Two gap theory** - Two Gap theory tries to identify indispensable conditions needed for industrialization development and sustainable economic growth to take place. Essentially, this theory is another common model used to justify the requisite of the foreign aid in eradicating poverty. It focuses on the limited economic growth caused by domestic savings and foreign currency reserves. The first gap described by this theory is the savings gap. The savings gap is the gap between the required investment needed to achieve a certain level of growth and domestic saving. The second gap is foreign currency gap which is literally the gap between the import level required to achieve certain production level and foreign exchange earnings. According to the Two Gap theory, what fills the savings gap and foreign currency gap at any moment in time is foreign aid (Papers & Bender, 2005).

### 2.2. Empirical Review

Ugwuanyi et al., (2017) researched on the impact of official aid on poverty reduction by using the empirical data in Nigeria from 1981 to 2014. The study used the autoregressive distributed lag (ARDL) and bound test to come to conclusion with the aim of assessing the impact of official foreign aid on poverty reduction in concerned area. The results of the study concluded that, official foreign aid has insignificant positive influence on poverty reduction. The study recommended that for the foreign

aid to be successful, the donors and international aid organizations should target specific area to allocate their aids followed by appraisal and implementation reports.

Okoronkwo et al., (2016) researched on the nature of the foreign aid and its strategies toward poverty reduction in Lagos State Nigeria. Researchers used the explanatory study to examine and investigate how foreign aid contributes to poverty eradication programs. The study focused on the primary data sources that were collected through interview and reviewing government documents and other secondary data that was collected from journal articles textbooks and library. The results of the study concluded that the foreign aid essentially don't reach the intended goal of eradicating poverty due several challenges. Those challenges include misappropriation of foreign aid funds and lack of information on whom or which sector should benefit with the funds. In order for the foreign aid funds to achieve the intended goal of eradicating poverty the researchers recommended that the government should strengthen the institutional capacity for monitoring and establish the training programs for staffs monitoring the progress and the application of the funds.

Shitile & Sule (2019) researched on the efficacy of foreign aid and grants toward poverty reduction by using time series data from 1999 to 2017 in Nigeria. For the analysis purpose the study used the autoregressive distributed lag (ARDL) bounds testing approach. The study collected foreign aid data related to official development assistance (ODA), technical cooperation grants (TCG), and other grants. The results of the study concluded that, in the short-term official development assistance and technical cooperation grants have positive but insignificant impact on eradicating poverty at national level. However, in the long-term, the impact of these variables is negative. This implies that, poverty reduction impact of the policies based on external and foreign aid and grants is debatable and asserts that externally imposed solutions in form of foreign aid and grants do not really solve local poverty problems in a country.

Calderón et al., (2006) researched on the effects of foreign aid on poverty reduction and income inequality from 1971-2002. The study used dynamic panel data techniques to come to conclusion. The study concluded that foreign aid has weak contribution to the income distribution and poverty reduction. The researchers further concluded that the finding of their study was consistent with other recent empirical research on foreign aid and its effectiveness in achieving economic growth and promoting democratic institutions.

Tsaurai (2021) did a research about the impact of foreign aid on poverty reduction in the Middle East and North African (MENA) Region. The aim of the study was to investigate the effects of foreign aid and examine the influence of the human capital development through foreign aid toward poverty reduction in the concerned region. The study used panel data ranged from 2007 to 2018 and analysed the data by using both econometric estimation methods of fixed effects and dynamic generalized methods of moments (GMM). The results of this study concluded that foreign aid and the human capital development through foreign aid has positive influence and contributes to the reduction of poverty in the Middle East and North African (MENA) Region.

Khan et al., (2022) due to the rise in labour immigration and significant amount of foreign aid, researched on the relationship between economic growth, inequality, poverty, remittances, and foreign aid in the Middle East and North Africa (MENA) region. The aim of this study was to examine the relationship between economic growth, poverty, inequality, remittances, and foreign aid in the Middle East and North Africa (MENA). The study used ordinary least square (OLS) regression and panel random-effect models, and system-GMM with panel data from 1991 to 2019 and findings revealed that, foreign aid, remittances, and economic growth play a substantial role in poverty reduction in Middle East and North African (MENA) Region.

Farahmand (2021) conducted a research about the relationship between economic growth and foreign aid in Afghanistan. The study used time series data of official development assistance and economic growth from 1986 to 2018 as variables. The study used Augmented Dickey–Fuller test (ADF) and Phillips-Perron (PP) unit root tests to determine the stability of the series, the Johansen co-integration test to determine whether concerned variables have long run relationship and the Granger causality test based on the error correction model was used to test the causality between variables. The results of the study revealed that, there is a positive relationship between the foreign aid and economic development and that foreign aid contributes positively in eradicating the poverty.

Mahembe & Odhiambo (2021) conducted a research about the effect of foreign aid on extreme poverty in Sub-Saharan African countries from 1981 to 2013. The study used dynamic panel estimation techniques to come to conclusion. Mahembe and Odhiambo concluded that foreign aid statistically have a significant poverty reduction effects in sub-Saharan African countries and insisted on the importance of foreign aid volume and its allocation for it to be effective.

Nur (2015) did a research on impact of foreign aid on poverty reduction in urban areas of Mogadishu, Somalia. The study used both qualitative and quantitative approaches and collect data from sample size of 242 respondents from Wardhiigley, Hodan and Xamarwayne cities. The study revealed that, despite large amount of foreign aid funds from developed countries to urban areas of Mogadishu Somalia, the poverty level was high as compared to other cities in Africa. Therefore the researchers concluded that there were minimum changes on the poverty level as an impact of the foreign aid.

Akobeng (2020) did a research on the relationship between foreign aid, institutional democracy and poverty level. The main objective of this study was to explore the direct effects of the foreign aid on poverty and quantifies the role of democracy in relation to foreign aid toward the reduction of poverty in Sub-Saharan Africa (SSA). The methodology used to examine the relationship between poverty and foreign aid variable was the two-stage least squares instrumental variable estimator which used Gross Domestic Product (GDP) per capita of the top five Organization for Economic Co-operation and Development countries (OECD) that donate foreign aid to Sub-Saharan Africa countries. The results of the study revealed that, foreign aid reduces poverty level. The study also revealed that, different types of foreign aid have different effects toward poverty level. In that case, grant and multilateral foreign aid kinds of foreign aid are likely to be more effective in poverty reduction compare to bilateral foreign aid and loans.

Farah et al., (2018) did a research on how foreign aid affects developing countries, a case study of Ethiopia. The main objective of this study was to identify the impact of foreign aid to socio-economic development in Ethiopia. The study used time series data collected from World Bank Database, Transparency International and Freedom House and evaluated by using regression analysis. The results of the study indicated that foreign aids don't have a major impact on GDP growth, but it has a substantial influence on unemployment rate and foreign direct investment (FDI) in Ethiopia. Therefore despite the fact that Ethiopia has been receiving a considerable amount of foreign aid it is still poor and it is one of the most authoritarian and corrupt countries in Africa.

Seedee (2018) did a research on the impact of foreign aid on extreme poverty in Liberia. The main objective of the study was to explain ways in which foreign aid contributes to poverty rather than alleviating it. The study used the interdisciplinary research methodology to examine difficulties facing donors in deciding the appropriate kind of development assistance required in Liberia and other West African countries. The results of the study concluded that, despite considerable amount of foreign aid provided, the poverty level in Liberia is not reduced as expected and hence foreign aid don't really achieve the intended goal of eradicating the extreme poverty. The study further revealed that among the reasons leading to the failure of the foreign are not really direct related to foreign aid. These reasons include issues such as the abuse human rights, corruption, and inequalities.

Boye (2019) researched on the impact of foreign aid on poverty reduction in Ghana. The main objective of the study was to examine the trends of foreign aid and determine whether foreign aid funds given to Ghana had any impact on poverty eradication. The study used the time series data from 2008 to 2018 collected from Ministry of Finance and the World Bank (WB). The stationarity of variables was tested and the analysis was done by co-integration to determine the long-run relationship between the variables. The findings of the study concluded that, foreign aid got no significant effects on poverty eradication in Ghana. The study further suggested that developing countries like Ghana instead of depending on foreign aid should focus on trades and foreign direct investments, improve capital markets and strengthen local institutions and individual skills required for poverty reduction.

Ugwuanyi et al., (2017) conducted a research about the impact of official aid on poverty reduction in Nigeria. The main aim of this study was to assess the impact of foreign aid on eradication of poverty in Nigeria from 1981-2014. The study used the Autoregressive-Distributed Lag Regression (ARDL) model and the Error Correction Model (ECM) to estimate the short-run and long-run and dynamics and Bound test to determine the long-run relationship between variables. The results of the study revealed that foreign aid has significant positive impact on poverty reduction within duration under the study.

Feeny (2007) did a research on the impact of foreign aid on the rural sector in Melanesia. The study aimed at examining the effectiveness of the foreign aid in Melanesian countries which involve countries like Papua New Guinea, Fiji, Vanuatu, the Solomon Islands, and New Caledonia. The study used data collected about the foreign aid allocated to the rural sector from 1980 to 2001 and used the econometric analysis to come up with the conclusion. The results of the study concluded that foreign aid has been effective at driving economic growth and hence poverty reduction in Melanesian countries. Therefore the researched concluded that the foreign aid has a positive impact on poverty reduction.

Wrangberg (2018) researched with the aim to explore the relationship between foreign aid and poverty level. The study used the sample size of 31 countries with data set ranging from 1987 to 2010 and used a fuzzy regression discontinuity design and robustness tests to come to conclusion. The results of the study revealed that there was no any significant relationship between foreign aid and poverty. Therefore researcher concluded that foreign aid significantly doesn't have any impact on poverty level of the 31 countries under study.

Charles & Nicholas Attamah (2009) examined the impact of foreign aid on poverty reduction in Nigeria for 36 years from 1981 to 2017. The main objective of this study was to determine the impact of foreign aid and the causal relationship between foreign aid and poverty reduction in Nigeria. The study used the time series data that was collected from Central Bank of Nigeria and the World Bank Development Indicator (WDI) on foreign aid, poverty reduction, trade openness, foreign remittances, and inflation and analysed by autoregressive distributed lag (ARDL) model to reach the conclusion. The results of the study revealed that foreign aid had significant impact on poverty reduction in Nigeria over the studied period.

Bahmani-Oskooee & Oyolola (2009) conducted a study on poverty and foreign aid with the purpose of examining the impact of foreign aid on poverty across countries as the area of interest after the adoption of the Millennium Development Goals



introduced by the UN to the international community. The study used 2SLS panel estimation techniques, pooled time-series and cross sectional data from 49 developing countries. The findings of the study showed that the foreign aid is effective in reducing poverty and further suggested that growth promoting policies intended to reduce inequality are also effective in reducing poverty.

Kabir (2020) researched on the effectiveness of foreign aid: evidence from panel data analysis. This study aimed at investigating the effectiveness of foreign aid in reducing income inequality of the developing countries, sub-samples of countries from Africa, South Asia, and South America, which have socioeconomic and geopolitical similarities. The study used the panel data from eight sub-samples, and used the fixed and random effect estimation to come to conclusion. The study concluded that statistically significant but marginally, foreign aid is effective in reducing the income inequality in most developing countries. The study further suggested that the effectiveness of foreign aid tend to diminish when institutional quality is low.

Alvi & Senbeta (2014) conducted a research on foreign aid, growth, and poverty relationship. The main aim of this study was to examine the relationship between the aid, growth, and poverty by using quantile regression by estimating the impact of growth and growth enhancing policies at different quantile conditional distribution of poverty. The finding of the study concluded that growth in average income and other growth enhancing policies have heterogeneous impact on poverty.

Abiola & Olofin (2008) researched on foreign aid, food supply and poverty reduction in Nigeria. The study aimed at examining the relationship between the foreign aid, food supply and poverty reduction in Nigeria. The researchers used secondary data covered from 1975 to 2005. With the use of econometric analysis the study specified structural model that examines the determinants of poverty reduction. The study concluded that multilateral aid, food supply, public sector spending on health care and education are the major determinants or have impact on of poverty reduction in Nigeria. The researchers insisted that, the effectiveness of foreign aid by its nature depends on the notions and targets of the donors. This implies that foreign aid is not a reliable means of financing food supply and poverty reduction programs.

Edmore & Odhiambo (2018) conducted a research asking whether the foreign aid reduce poverty in Sub-Saharan Africa countries. The main objective of this study was to examine the effects of foreign aid on poverty in Sub-Saharan Africa (SSA) region from 1981 to 2011. The study used dynamic panel estimation techniques, including the ones that deal with endogeneity and simultaneity concerns. The results of the study concluded that foreign aid has statistically significant poverty reduction effects.

Yontcheva & Masud (2005) conducted a research asking whether foreign aid reduce poverty. The study aimed at assessing the effectiveness of foreign aid in reducing poverty by using infant mortality and illiteracy or education as indicator of poverty. The study compared the impact of the two measures of foreign aid that is the official bilateral and projects aid, which is distributed through international non-governmental organizations (NGOs) to developing countries. For analysis purpose the study used two approaches which were the two-stage least-squares (2SLS) regression and the System Generalized-Method of Moments (SGMM) approach. The results of the study concluded that foreign aid through NGO significantly reduces infant mortality compared to bilateral aid although the impact of both types of aid on illiteracy is less significant.

Kaya et al., (2013) researched on the foreign aid and the quest for poverty reduction. The aim of the study was to investigate the effectiveness of foreign aid directed to the agricultural sector in relation to poverty reduction and therefore the study only focused on the agricultural oriented foreign aids. The study used four year averaged cross-country panel data from 46 developing countries receiving foreign aid from 1980 to 2003. The fixed effects panel estimator was used to evaluate the outcomes and the results showed that 1 percent increase in agricultural aid reduces the headcount poverty ratio by 0.2% in the aid recipient countries. Therefore the researchers conclude that the agricultural aid is effective in poverty reduction directly and indirectly through growth.

Arndt et al., (2015) conducted a research on foreign aid long-run contribution to growth and development. The main objective of the study was to assess the impact of foreign aid on economic growth, social welfare indicators focusing on poverty and infant mortality and other variables such as education, health, investment, consumption, and agriculture. The study collected data from 1970 to 2007 and for analysis purposes the study estimated the long-run cumulative effects of foreign aid by using limited information maximum likelihood (LIML) and inverse probability weighted squares (IPWLS) estimators. The researchers concluded that foreign aid stimulates growth, improves social welfare indicators and reduces poverty. Although the results showed that foreign aid effects were insignificant on inequality, it was evident that aids can improve school enrolment, and reduce infant mortality, promote investment and boost life expectancy.

Mosley et al., (2010) conducted a study on foreign aid's long-run contribution to growth and development. The objective of the study was to examine the direct effects of foreign aid on poverty. The study used the generalized method of moments (GMM) and three stages least squares (3SLS) regression to come up with the results and evaluate the variables. The researchers concluded that foreign aid allocations which consider well income distribution, both macro and micro policies,

and GDP per capita, are more effective in reducing poverty. Either, the study concluded that corruption, inequality, and the composition of public expenditure are strongly associated and impact the aid effectiveness.

**Table 1: Comparative Literature Review**

<b>Authors</b>	<b>Year</b>	<b>Main Objectives</b>	<b>Methodologies</b>	<b>Conclusions</b>
Ugwuanyi et. al	20017	Assessing the impact of official foreign aid on poverty reduction in Nigeria.	Autoregressive distributed lag (ARDL) and bound test.	Official foreign aid has insignificant positive influence on poverty reduction
(Okoronkwo et al., 2016)Oronkwo et al.	2016	Investigating how foreign aid contributes to poverty eradication programs in Nigeria.	Qualitative methodology	The foreign aid essentially don't achieve the intended goal of eradicating poverty
Shitile & Sule	2019	Assessing the efficacy of foreign aid and grants toward poverty reduction in Nigeria.	Autoregressive distributed lag (ARDL) bounds testing approach	Official development assistance and technical cooperation grants have positive but insignificant impact on eradicating poverty at national level in short-term, but in the long-term has negative impacts
Calderón et al.	2006	Examining the effects of foreign aid on income inequality and poverty reduction	Dynamic panel data techniques	Foreign aid has weak contribution to the income distribution and poverty reduction.
Tsaurai	2021	Investigating the effects of foreign aid and examine the influence of the human capital development through foreign aid toward poverty reduction	Fixed effects and dynamic generalized methods of moments (GMM)	Foreign aid and the human capital development through foreign aid has positive influence and contributes to the reduction of poverty in the Middle East and North African (MENA) Region.
Khan et al.	2022	Examining the relationship between economic growth, poverty, inequality, remittances, and foreign aid in the Middle East and North Africa (MENA)	Ordinary least square (OLS) regression, panel random-effect model, and system-GMM	The foreign aid, remittances, and economic growth play a substantial role in poverty reduction in Middle East and North African (MENA) Region.
Farahmand	2021	Determining the relationship between economic growth and foreign aid in Afghanistan	Vector error correction model	There is a positive relationship between the foreign aid and economic development and therefore foreign aid contributes positively in eradicating the poverty
Mahembe & Odhiambo	2021	Examining the effects of foreign aid on extreme poverty in Sub-Saharan Africa (SSA)	Dynamic panel estimation techniques	Foreign aid have a significant poverty reduction effects in sub-Saharan African countries
Nur	2015	Assessing the impacts of foreign aid on poverty reduction in urban areas of Mogadishu.	Statistical techniques	There is minimum or small changes on the poverty level as an impact of the foreign aid.
Akobeng	2020	Exploring the direct effects of the foreign aid on poverty and quantifies the role of democracy in relation to foreign aid toward the	The two-stage least squares instrumental variable estimator	Foreign aid reduces poverty level. Either different types of foreign aid have different effects toward poverty level.

		reduction of poverty in Sub-Saharan Africa (SSA).		
Farah et al.	2018	Identifying the impact of foreign aid to socio-economic development in Ethiopia	Regression analysis	The foreign aids don't have a major impact on GDP growth, but it has a substantial influence on unemployment rate and foreign direct investment.
Seedee	2018	Explaining ways in which foreign aid contributes to poverty rather than alleviating it in Liberia	Interdisciplinary research methodology	The poverty level in Liberia is not reduced as expected and hence foreign aid don't really achieve the intended goal of eradicating the extreme poverty
Boye	2019	Examining the trends of foreign aid and whether foreign aid funds given to Ghana had any impact on poverty eradication	Co-integration analysis	Foreign aid got no significant effects on poverty eradication in Ghana.
Ugwuanyi et al.	2017	Assessing the impacts of foreign aid on eradication of poverty in Nigeria	Error Correction Model (ECM)	Foreign aid has significant positive impact on poverty reduction within the duration under the study
Feeny	2007	Examining the effectiveness of the foreign aid in Melanesian countries (Papua New Guinea, Fiji, Vanuatu, the Solomon Islands, and New Caledonia)	The econometric analysis	Foreign aid has been effective at driving economic growth and hence poverty reduction in Melanesian countries
Wrangberg	2018	Exploring the relationship between foreign aid and poverty level	Fuzzy regression discontinuity design and robustness tests	There is no any significant relationship between foreign aid and poverty, therefore foreign aid significantly doesn't have any impact on poverty level of the 31 countries under study
Charles & Attamah	2009	Determining the impact of foreign aid and the causal relationship between foreign aid and poverty reduction in Nigeria	Autoregressive distributed lag (ARDL) model	Foreign aid had significant impact on poverty reduction in Nigeria
Bahmani-Oskooee & Oyolola	2009	Examining the impact of foreign aid on poverty across country as the area of interest after the adoption of the Millennium Development Goals introduced by the United Nations to the international community	2SLS panel estimation techniques	The foreign aid is effective in reducing poverty
Kabir	2020	Investigating the effectiveness of foreign aid in reducing income inequality of the developing world and sub-samples of countries from Africa, South Asia, and South America	Fixed and random effect estimation	Foreign aid is statistically significant but marginally effective in reducing the income inequality in most developing countries
Alvi & Senbeta	2014	Examining the relationship between the aid, growth, and poverty	Quatile regression	Growth in average income and other growth enhancing policies has heterogeneous impact on poverty.

Abiola & Olofin	2008	Exploring the relationship between foreign aid and poverty level	Fuzzy regression discontinuity design and robustness tests	Multilateral aid, food supply, public sector spending on health care and education are the major determinants and have impact on of poverty reduction in Nigeria.
Edmore, & Odhiambo	2018	Examining the effects of foreign aid on poverty in Sub-Saharan Africa (SSA) region from	Dynamic panel estimation techniques	Foreign aid has statistically significant poverty reduction effects.
Yontcheva & Masud	2005	Assessing the effectiveness of foreign aid in reducing poverty	The two-stage least-squares (2SLS) regression and the System Generalized-Method of Moments (SGMM) approach	Foreign aid through NGO significantly reduces infant mortality compared to bilateral aid although the impact of both types of aid on illiteracy is less significant.
Kaya, et al.	2013	Investigating the effectiveness of foreign aid directed to agricultural sector in relation to poverty reduction	The fixed effects panel estimator	The agricultural aid is effective in poverty reduction directly and indirectly through growth
Arndt et al.	2015	Assessing the impact of foreign aid on economic growth, social welfare indicators focusing on poverty and infant mortality and outcomes (education, health, investment, consumption, and agriculture)	Limited information maximum likelihood (LIML) and inverse probability weighted squares (IPWLS) estimators	Foreign aid stimulates growth, improves social welfare indicators and reduces poverty
Mosley et al.	2010	Examining the direct effects of foreign aid on poverty	The generalized method of moments ( <i>GMM</i> ) and three-stage least squares (3SLS)	Foreign aid allocations which take consider well income distribution, both macro and micro policies, and GDP per capita, are more effective in reducing poverty.

### 3. METHODOLOGY

This study conducted literature survey on the macroeconomic level, assessing the effectiveness of foreign aid, by reviewing the conclusions drawn from different studies and reports based on the data collected in a particular targeted time periods. The study also used reports, journal and books related to foreign and poverty for deep entail of the issue. The study pays attention to studies of foreign aids inflows and economic growth by focusing on qualitative information rather than the quantitative information of the subject matter to draw conclusion.

### 4. FINDINGS

Based on this intensive literature review of the studies conducted by scholars in different regions especially in Sub-Saharan African countries, it is evident that, quantitatively it is nearly impossible to conclude weather the foreign aid significantly contributes to poverty reduction in recipient countries or not. This is because empirically some quantitative based studies concluded in favour of foreign aid and while some studies conclude against the foreign aid.

Considering the above fact, it is more logic to conclude that, the effectiveness of the foreign aids depends on many factors from both recipients and donor countries and not just the trend and the volume of the foreign aid funds. The efficient allocation of the foreign aid funds is the leading factor, which literary means that the funds should be distributed efficiently targeting the most strategic areas and sectors based on recipient countries long term strategies, goals and policies. Again, it should also be noted that some of the factors that determines the effectiveness of the foreign aid don't even relate directly to the foreign aid funds rather than political and administrative system of the recipient countries. These factors include countries level of accountability, transparency, financial monitoring system and public servant individual capability.

Conditions that sometimes attached to foreign aid fund which sometime basically serve the donors interests likewise play the significant role in determining the effectiveness of the foreign aid funds on the poverty reduction. A vivid example of such are conditions attached to foreign aids funds aiming at controlling the political influence and affiliations of a countries. The

Political influence based foreign aid funds normally tends not to achieve positive impact on poverty reduction rather than controlling particular decisions and political affiliations of the recipient countries. For efficient foreign aids and possible poverty reduction effects, countries should have free mandate and be able to dictate and decide on better ways to allocate the foreign aids given to them without any external influences.

Accountability plays a very significant role in making sure that the foreign aid funds achieve the intended goals effectively. Developing countries with strict rule of law with a proper accountability system in place is more likely to utilize the foreign aid in more efficient way. With strict financial accountability systems, leaders and staffs in projects funded by foreign aids funds that are associated themselves with corruption and mal utilization of funds can be held accountable in accordance to rules and regulations. It is unfortunate that most developing countries don't have a strict and proper accountable system in place yet. Those with systems in place sometimes they are no strict enough to encounter the corrupt acts.

Political weather of a nation also plays a great role in making sure that the foreign aid funds given by international organizations efficiently used and impacts positively the outcomes of the poverty reduction programs funded. Political instability not only causes the destruction of infrastructures but also it diverts the local and central governments focus from development toward security and stability. This apparently slows down growth even in medium economy countries and not just in least developing countries. Most countries in sub-Saharan countries such as south Sudan can show the vivid example of this factual narration.

Transparency also contributes to effectiveness of the foreign aid in beneficiary countries. Financial transparency literally has a direct relationship with the accountability. When a states have a transparency financial system it is easier to detect any signs of corruptions and mal practice related to development projects and programs. While the accountability makes corrupt personnel accountable for what they have embezzled the transparency makes it easier to track them down and sometime prevent the misuse of the offices. Therefore foreign aid and other public funds effectiveness also depends on how the transparent financial system is.

## 5. CONCLUSION AND RECOMMENDATION

Based on the above findings in referring to differences studies that have been reviewed, it can be concluded that the efficiency of the foreign aid toward poverty reduction depends on both recipients and donor countries commitment. Although the recipients countries which are the beneficiaries of the foreign aid should always be concerned and put efforts toward making sure prior to receiving funds they have fundamental management and monitoring system that will facilitate the efficient use of the funds. Countries should also make sure that, they have accounting and financial systems that are transparent enough to make responsible institutions accountable and prevent any possible attempts of corruption and embezzlement.

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