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The Effectiveness of Foreign Aid on Economic Development in Developing Countries: A Case of Zimbabwe (1980-2000)

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ABSTRACT This paper focused on the effectiveness of foreign aid in the developing countries with particular emphasis on Zimbabwe. The background of the paper is that, Zimbabwe as a developing country received and continues to accept foreign aid but is still underdeveloped. The investigation was based on a historical narrative of foreign aid in Zimbabwe between 1965 and 2000. It argued that the idea of granting and withholding of aid were and is still being used to influence the macro-economic policies of developing countries. This paper is essential largely due to the fact that many developing countries clamor for more foreign aid yet little economic growth is being achieved. The paper argues that foreign aid's effectiveness can only be seen if people's livelihoods are changed for the better. The paper discovered that, foreign aid was granted to the Zimbabwean government and it made tremendous contributions to the economy although it was largely tied to certain stipulations by donors which impacted negatively to its purpose resulting in the Zimbabwean government becoming dependent on foreign aid. The authors concluded that foreign aid is beneficial though its effectiveness is prejudiced by donor's control.

INTRODUCTION

Among African experts, the belief is that the more the developed north co-operated with the south, the poorer Africa became. Increasingly, even tangible western generosity has failed to impress development experts and academics. Foreign aid to Africa has generally benefited the ruling elites, enabling and perpetuating corrupt governments' hold on power, thereby entrenching the pervasive under-development that has ravaged the continent. Over the past five decades, emergency assistance from the developed west, has helped avert hardships for many of Africa's poor, but failed to promote any significant economic development. Foreign aid is provided with sincerity that real economic development begins when aid is directed to poor and vulnerable communities in Africa.

Zimbabwe (formerly known as Rhodesia) is a developing country in Sub-Saharan Africa which has evolved from a colonial government to a fully independent state. The British South African Company (BSAC) had ruled Rhodesia from 1899-1923 under an assumption that Africans would eventually assimilate into white society. The belief in eventual assimilation ended when Rhodesia became self-governing with loose ties to Great Britain in 1923, an arrangement they termed Responsible Government. Almost immediately, the relationship between the government and Africans changed as separate development became the rule between whites and blacks (Kriger 1992).

Zimbabwe's struggle to attain its independence was spurred by self-determination and a desire to bring development to majority of the people. The liberation struggle (also known as the Chimurenga) brought together the Zimbabwean people to fight against a system which oppressed them. The war was fought on several fronts by the military wings of ZAPU and ZANU during the 1970s. The Zimbabwe African People's Union (ZAPU), led by Joshua Nkomo, was formed after the Government banned the National Democratic Party (NDP). The Zimbabwe African National Union (ZANU), founded and led by the Reverend Ndabaningi Sithole, split off from ZAPU in 1963 when a group of nationalists became unhappy with Nkomo's leadership and policies. Robert Mugabe replaced Sithole as leader of ZANU in 1975. The two armies remained at odds until 1976, when they joined forces against the Rhodesian Front. They named the unified party the Patriotic Front (PF). This united front renewed its attacks with vigor and, for the first time, their efforts began to have a demonstrable effect in Rhodesia.

The greatest challenge for the freedom fighters was how to adequately equip, feed, clothe and provide health services to thousands of potential freedom fighters languishing in refugee camps in neighbouring countries. The solution lay in taking maximum advantage of the bipolar conflict and appeal for military assistance from whoever was willing to assist in the war of liberation. Military offers with strings attached to them were declined. Some countries offered troops to fight on behalf of the freedom fighters but such offers were not entertained in fear of internationalizing the conflict. In addition, the political leadership successfully avoided swooping colonial masters by adoption of the slogan 'we are our own liberators' (Mandaza 1978).

The Rhodesian conflict was waged against a background that African colonies had participated in the two World Wars in defence of British, Belgian and French independence against German domination. World War II had a particularly significant impact on the colonized Africans. They participated in some of the bloodiest campaigns where they witnessed for the first time their white colonial masters in a state of shock and fear. Seeing the white soldiers dying in large numbers was hitherto unimaginable to the colonized Africans. The long-term significance of this experience was that the Africans also demanded independence from their colonial masters. Where this was not granted, the resort to armed struggle was considered a viable option. This was in line with Clausewitzian thought which stated that:

"Armed conflict is adopted as a means to impose our will on the enemy" (Mandaza 1978).

Zimbabwe gained its independence in 1980 and this was a critical turning point not only for the country but for other struggles in the region. During the armed struggle, approximately 80,000 Zimbabweans died in the fight for freedom and Zimbabwe's continuing solidarity with the struggles in South Africa and Namibia claimed many lives and partly contributed to economic hardships. It is therefore, against this background that foreign aid was granted in Zimbabwe.

Literature Review

The developing countries (especially Africa) are struggling with chronic poverty since the advent of political independence for more than fifty years, and many Africans view this chronic problem as Africa's own making. African development experts and academics have blamed foreign aid for the continued and seemingly intractable crisis of poverty that is confronting the continent. Africa's war on poverty, funded principally by foreign aid, has led to reforms which have made Africans poorer. Africa presents a glaring paradox. It has received around $1 trillion of aid in the last half century, equivalent to $5,000 for every African living today if distributed in today's prices. However, it is the only continent in which the proportion of poor inhabitants has grown over the past thirty years, and is expected to increase by 100m by the year 2015. Nearly eighty percent of the world's heavily indebted poor countries are to be found in the African continent (Commission for Africa Report 2005: 174).

However, it is in comparison to Eastern Asia that the most glaring of disparities comes to light. In 1975, the average income in Africa was twice that of East Asia. In spite of having a much larger population and receiving of aid worth only one-fifth of that received by Africa over the same period of time, average incomes in East Asia are now more than twice those of their African counterparts. The pursuit of economic growth in East Asia has lifted countless millions out of absolute poverty, especially in countries like China where output per head has boomed (OCED 2001).

Foreign Aid

It is a form of assistance by a government or financial institutions to other needy countries, which could be in cash or kind (Ajayi 2000: 117). Lancaster (2007:9) defines foreign aid as a voluntary transfer of public resources, from one government to another independent government, or a Non-Governmental Organization (NGO), or to an international organization (such as the World Bank or The United Nations Development Program (UNDP)) with at least a 25 percent grant element, with the goal of which is to improve the human conditions in the country receiving the aid. Such a definition is inclusive since it includes activities intended primarily to address global issues such as Human Immune Virus/ Acquired Immune Deficiency Syndrome (HIV/AIDS) and global climate change, democracy promotion, and support for economic and social transitions in former socialist countries. Moreover, the definition is more expressive in what it embraces.

Foreign aid refers to the transfer of real resources from governments or public institutions of the richer countries to governments of less developed countries (LDCs) in the Third World (Riddell 2007). Foreign aid is an important foreign capital in developing countries (Chenery and Strout 1966). The Organization of Economic Cooperation and Development (OECD) define foreign aid as flows to countries and multilateral institutions provided by official agencies and governments. Foreign aid must be developmental (which excludes military and private investment). It is also concessional that is the terms and conditions of the finance package must be softer than those available on a commercial basis.

Development Assistance Cooperation (DAC) defines as Official Development Assistance (ODA) official flows with a grant element of greater than 25 percent at a 10 percent discount rate (Grant, 1999). Aid is defined as official development assistance (ODA). ODA consists of flows of resources to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following criteria:

a) *If it is administered with the promotion of the economic development and welfare of developing countries as its main objectives and;*
b) *If it is concessional in character and contains a grant element of at least 25 percent*

Foreign aid can also be in the form of economic assistance such as:

a) *Investment in the economy of the needy country.*
b) *Loan.*
c) *Infrastructural development, etc. (Fuhrer 1994:11-12).*

In terms of the International relations theory, foreign aid is defined as voluntary extension of resources from one individual or society to another (Mauss 1967). This comprises economic exchange. This includes social relations which are narrowly defined by contractual agreements, with redistribution and it is defined by political rights (Sahlins 1972). Foreign aid is viewed as a useful policy instrument because it is relatively benign, flexible and multi-purpose (Grant 1998).

Aid can be provided as cash grants, concessional loans, debt cancellation or relief or in the form of commodities such as road construction (Lancaster 2007). It can be used to finance research, technical assistance and training for individuals in recipient countries or it can be provided as an incentive from recipients to adopt policies favoured by the donor. Loan is money or other valuable item that an organisation, individual or a country lends out usually with interest. However, it is important to appreciate that loans granting is connected to debt servicing (Oyejide et al. 1985: 9).

Aid can be multilateral or bilateral. Bilateral aid is when one state (such as a Britain or Australia) gives directly to another state (Kanbur 2003: 2). Multilateral aid is when assistance is given by an organization consisting of more than one state such as the World Bank, IMF (International Monetary Fund), or assistance provided by development agencies of the United Nations such as UNDP and the World Food Programme (WFP), as a concessional assistance provided by limited membership multilaterally established by the European Community and members of the Organization of the Petroleum Exporting Countries (OPEC) (Kruger and Ruttan 1989: 33). Multilateral aid is preferred to bilateral aid. The latter is, more often than not, tied to specific conditions, which invariably result in a dependent relationship by the receiving country. However, multilateral aid may not be either in terms of meeting certain conditions by the recipient countries. For example, the IMF and World Bank have very stiff conditions that borrower-countries must satisfy to be able to enjoy their credit facilities. This investigation focuses on foreign aid granted for developing purposes irrespective that it is bilateral or multilateral. Therefore, the project looks at the macro- economic impact of foreign aid.

Objectives of Foreign Aid

According to the US Congress Budget Office Report (1999) before World War II, the basic objective of foreign aid was for political and military support. After the war, attention turned to the provision of immediate disaster relief to the countries devastated by war to help Western European countries to rebuild their shattered economies. During the 1990s most countries changed their primary objectives of giving aid to improvement of the lives of the poor (Sogge 2002). Sogge (2002) identifies three basic objectives of the World Bank and OECD countries in giving aid, namely:

a) *Reducing material poverty, chiefly through economic growth, but also through the provision of public infrastructure and basic social services*
b) *Promoting good governance, chiefly in effective, honest and democratically accountable institutions to manage the economy and the legal order, but also in promotion of civil and political rights*
c) *Reversing the negative environmental trends* (Sogge 2002).

Foreign aid is seen as motivated by the disparities that exist between the living standards across countries in the world which have become spectacularly large. The disparities have been promoted by the following four factors:

a) *Productive capacity – poor countries do not produce very much.*
b) *Lack of physical capital*
c) *Lack of human capital*
d) *Lack technology and functioning institutions* (Tarp 2009: 20).

As a result of the lack of these four attributes, the mass of unskilled labour present in the country is highly unproductive with negative implications for nearly all aspects of well-being. In addition, accumulation of the above mentioned attributes relies on public-private partnerships. Even strong market oriented economies, such as the United States, rely on the public sector to supply basic economic infrastructure such as roads, bridges, education, to fund research and development for new technologies. This highlights the important role of institutions both for current and future production levels (Tarp 2009: 20). However, Rakner and Mulaisho (1999) show that some foreign aid donors have provided aid with the sole objective of having influence on the recipient countries. They refer to this as conditionality-based foreign aid.

Foreign aid's main role was to improve living standards significantly so that poor countries can produce more. To produce more, poor countries must initiate and maintain long run cumulative processes to build physical capital and human capital. This is done by acquiring technology, and cultivating institutions that facilitate growth. The role of aid for development, broadly conceived, is to support these long run cumulative processes. The success of the aid enterprise in accomplishing this objective is the focus of this message (Tarp 2009: 21).

Economic growth and social distribution is often viewed as the primary driver of poverty reduction and therefore assumptions of the impact of aid on poverty are commonly drawn from the impact of aid on growth. However, foreign aid can reduce poverty through other channels than growth. For example, foreign aid can finance projects which directly benefit the poor. Alternatively, aid can have an indirect effect by financing areas of government spending which are likely to benefit the poor. Kosack (2003) noted that aid can directly increase welfare but only in democratic countries. This line of thinking stems from the work of Burnside and Dollar (2000) who stated that "good policy countries can achieve economic growth while maintaining accountability of the government to its people". However, there is strong evidence that foreign aid has an indirect impact on poverty and well-being through its impact on pro-poor expenditures of recipient countries (Mosley and Hudson 2001).

Since foreign aid therefore supplements government revenue, it is very hard to isolate the effects of aid from the impact of other government expenditures. The general perception is that foreign aid has little impact on growth and poverty reduction since successive governments directed little expenditure towards the social sectors. Foreign aid can boost development and growth by funding the expansion of crucial investments, such as in education, health or infrastructure (Roberts 2003). Aid can even fund expanded consumption, which again, under the right circumstances such as wages or salaries for teachers and health workers can foster economic progress.

According to OECD (2002), approximately one third of all foreign aid from Development Assistance Committee (DAC) members was used for social and administrative infrastructure in 2000. This includes education, health, population, and other social expenditures. About 16 percent went towards economic infrastructure, and the remaining amount was divided fairly equally among production, multi-sector program assistance, debt relief, emergency aid, administration, and other sectors.

Foreign aid is something which is supplementary on to something which increases and is extra to what the aid-recipient country has been providing in resources (Riddell 2007). Foreign aid can be considered as a subsidy. As such, aid is supposed to provide temporary financial assistance in order to encourage certain long-term behaviours: revenue collection, investment in physical and human capital, and establishment of institutions of a developmental state (Moss et al. 2006).

The importance of foreign aid can be seen in bringing transformation in the livelihoods of the recipients. Effectiveness cannot be measured only by the change of the Gross Domestic Product (GDP) without emphasizing the need to develop the once underdeveloped nations. According to the United Nations the quality of aid is important as its quantity (United Nations 2006).

The paper takes the reasonable position that aid is helpful unless evidence renders it to be ineffective.

Economic Impact of Foreign Aid

Most studies show that where aid has dominated, pride and ambition have given way to dependence and deference, and where it has been targeted, public management and services have either decayed or collapsed, poverty and inequality have worsened, and insecurity has prevailed (Sooge 2002).

Rwanda as an example where many developed countries helped to position the country at the edge of the abyss of genocide only to disclaim any responsibility in the aftermath. With a few exceptions, Korea, Botswana and Honduras where aid has had a significant impact on poverty reduction, improved social services and competent public institutions, in a much larger number of countries (Cuba, Zambia, Democratic Republic of Congo, Haiti, Sierra Leone, Somali) western aid has played a minor role in building efficient public sector and in lifting millions out of poverty. In some cases, states that were major recipients of aid are today collapsed states (for example Congo DR, Sierra Leone, Somali), (Sooge 2002).

Empirical evidence is mixed, with different studies reaching different conclusions depending on the time frame, countries involved, and assumptions underlying the research.

Four broad views have emerged to disentangle the complex relationship between aid and growth. Aid has a positive relationship with growth on average across countries (although not in every country), but with diminishing returns as the volume of aid increases (Radelet 2006). These four broad views on the effect of foreign aid on economic growth as follows:

(a) Aid increases investment finances investment, and adds to the capital stock

(b) Aid increases the capacity to import capital goods or technology.

(c) Aid does not have an adverse impact on investment and savings.

(d) Aid increases the capital productivity and promotes endogenous technical change (Mavrotas 2010)

Singh (1985) also found evidence that, foreign aid has positive and strong effects on growth when state intervention is not included. Burnside and Dollar (2000) pointed that, aid works well in a good-policy environment. This has important policy implications for donor community, multilateral aid agencies and policymakers in recipient countries. Good policies are low inflation, zero or low budget deficits with an open trade regime, a liberalised financial sector and a private sector friendly government. Developing countries with sound policies and high-quality public institutions have grown faster than those without them, 2.7 percent per capita GDP and 0.5 percent per capita GDP respectively (Burnside and Dollar 2000). One percent of GDP in assistance normally translates to a sustained increase in growth of 0.5 percent per capita. Some countries with sound policies received only a small amount of aid yet still achieved 2.2 percent per capita growth. The good management, high-aid groups grew much faster, at 3.7 percent per capita GDP (World Bank 1998).

However, it must be noted that, large aid inflows do not necessarily result in general welfare gains and high expectation of aid may increase rent-seeking thereby reducing the expected public goods quality. Moreover, there is no evidence that suggest donors take corruption into account seriously while providing aid (Svensson 1998). A permanent rise in foreign aid reduces long-run labour supply and capital accumulation. Furthermore, it increases long-run consumption and has no impact on long-run foreign borrowing. Gong and Zou (2001: 118) noted that foreign aid depresses domestic saving; it is mostly channelled into consumption and has no relationship with investment and growth in developing countries. Gong and Zou (2001: 105) also pointed a negative relation between aid and growth. While it is acknowledged that aid have both positive direct and negative indirect effects on growth.

This paper will attempt to assess if foreign aid is effective by stimulating economic growth in Zimbabwe.

METHODOLOGY

Participants

The paper did not use any participants since it was a content analysis based research, which evaluated relevant information.

Instrument

The instrument used in this paper was historical research approach. This approach will look at the historical development of foreign aid in general and will investigate its effect on recipient countries. The paper will look at how foreign aid was received in Zimbabwe and how the economy evolved.

RESULTS AND DISCUSSION

Foreign Aid Inflows in Zimbabwe

Foreign aid is an important source of finance to a majority of developing countries since it supports the budgetary process and therefore enhances the development of these countries. Foreign aid is attractive to the developing countries because of the benefits it bestows on them. The most vital benefit of foreign aid is the transfer of technology which facilitates developing countries to exploit their natural resources and transform them into useful products (Lyanda 2001).

Zimbabwe at independence saw an increase in development assistance particularly within the frame work of the 1980 UN decade for development in the Third World. Individual states had supported the new government on various fronts. Both IMF and World Bank have been foreign aid donors to Zimbabwe. The World Bank has been the largest donor to Zimbabwe since 1980. Between 1980 and 1981 Zimbabwe received 14 Bank loans and four IDA credits totalling US$657 million (Dashwood 2000). During that period, US$51 million went towards promoting agricultural development in the communal areas, US$136 million to the rehabilitation and expansion of exports of the manufacturing sector, US$150 million to the energy sector, US$141 million to the transport sector, as well to the other smaller projects, such as urban development and support to small scale enterprise (Dashwood 2000: 68).

Table 1 shows the foreign aid inflows enjoyed by the Zimbabwean government from multilateral institutions (World Bank, International Monetary Fund and African Development Bank). From Table 1, Zimbabwe has received high levels of foreign aid for a long period. Table 1 also shows that the granting of aid was stopped after 2000 largely because of the deepening crisis in Zimbabwe. Lancaster (1999: 67) states that any disruption of foreign aid can disrupt the growth of the economy. The country's land reform programme in 2000 triggered, declared and undeclared sanctions against Zimbabwe. These sanctions were imposed on Zimbabwe by multilateral financial institutions. The sanctions meant that Zimbabwe was ineligible for access to financial, technical assistance, suspension of voting rights and suspension of balance of payments. This meant that after 2000 Zimbabwe was isolated and which precipitated the economic crisis in that country. Dependency is regarded as impacting on the initiative and accountability of recipient government (Lancaster 1999). Therefore, the crisis of Zimbabwe can be viewed as a break of ties between multilateral financial institutions and Zimbabwe.

The introduction of foreign exchange rationing in Zimbabwe was ill-advised. This came about with the devaluation of the dollar and other measures of austerity. According to Tandon (2008) this was the first step on the slippery road to dependence. The structural adjustment programs made Zimbabwe to be accountable to the multilateral financial institutions. This is regarded as creating a mentality of entitlement (Lancaster 1999). This is when foreign governments and international institutions finance a significant proportion of government expenditures, particularly investment expenditures, and where

Table 1: Foreign aid inflows by multilateral financial institutions (US$)

Year	*Imf*	*World Bank*	*African Development Bank*
1980	0	0	0
1981	0	104,917,535,8	0
1982	0	45,478,573,51	25,342,914.53
1983	0	133,760,761,05	57,22,913,63
1984	2,058,441.000	36,467,113,09	0
1985	0	9,668,219,07	67,798,983,37
1986	0	10,000,000,00	0
1987	0	0	0
1988	0	130,121,817,97	28,612,977,32
1989	0	0	19,286,995,95
1990	0	127,243,010,98	145,027,034,56
1991	0	62,386,243,86	15,218,604,29
1992	216,150,000,00	299,810,150,15	180,428,222,49
1993	65,656,168,00	226,592,641,86	37,966,823,,47
1994	76,642,125,00	0	11,090,644,2
1995	75,492,900,00	0	11,686,232,22
1996	0	32,99,074,25	0
1997	0	4,037,287,79	1,940,910,99
1998	53,802,392,00	5,796,928.56	39,074,27
1999	32,233993.40	88,856,697,27	0
2000	0	0	0
Total	**522,036,019,40**	**1,348,062,768,39**	**524,789,416,76**

many decisions on governments are left to those foreign governments and institutions. The structural adjustment programmes which had conditions reduced responsibility and accountability of Zimbabwean government to its own population. It meant that external forces were to solve national problems (Tandon 2008).

Zimbabwe received a lot of development assistance mainly within the framework of the 1980 UN decade for development in the Third World. Zimbabwe had been supported also by independent states on various fronts. It is mentioned that at launch of Zimbabwe on Reconstruction and Development (ZIMCORD) in March 1981 the United States pledged $225 million over a three-year period towards government goals of post-war reconstruction, distribution and development of land, and the development of skilled manpower. It is stated that of the amount contributed 94 percent came from western countries. By the end of 1986 the US had contributed $380 million, the majority in grants, with some loans and loan guarantees. Such evidence shows that Zimbabwe received foreign aid and was directing it towards its reconstruction and development. The question remains whether foreign aid that was received in Zimbabwe was able to meet its expectations (Chigora and Dewa 2009: 1-2).

Despite the constraints which restricted growth rate, Zimbabwe had been just successful enough from 1984 to 1987 to do without the IMF programme and therefore remain resistant to IMF leverage. The Zimbabwean economy was in a dilemma. At one side it had to provide for the majority of its disadvantaged peasants and at the same time comply with the demands of the International Financial Institutions (Colin 1988). Despite experiencing internal and external imbalances the economy was manageable. Zimbabwe had a good credit rating, and that it was not reliant on a single primary commodity export, reduced its external vulnerability. Zimbabwe was thus in a better position to resist the leverage of foreign donors than most other developing countries. One of the examples was when the World Bank refused to refinance an extended Export Revolving Fund (ERF), originally set up in 1983, unless Zimbabwe agreed to adopt trade liberalization.

However, the Zimbabwean government was not prepared to liberalize in 1987; it secured commercial credit from Barclays Bank and Standard Chartered, both British banks, to finance ERF. This remained the situation until it succumbed in 1991 through implementation of the structural adjustment programme in dealing with the World Bank which has been the largest world donor (Colin 1988). The total amount of aid could be seen from the debt structure. Zimbabwe by 1992 had accumulated a debt of Z$14.2bn including the Z$1.2bn inherited at independence under the

Lancaster House commitment. Tied to the aid that has continued to flow to Zimbabwe particularly in the first decade of independence, it is argued that despite dramatic changes of regime goals and values the newly emergent Afro-Marxist regimes find themselves not capable of breaking out of a structure of dependency and unequal exchange (Schwartz 1999).

It is important to note that Zimbabwe's dependency was defined by aid which had conditions attached to it. The structural adjustment program conditions did not favour the Zimbabwean government but rather the donors. The idea that no issues are purely technical holds ground. Hayter (1971) argued that the policies of the World Bank, International Monetary Fund responded to the political interests of the United States and other developed countries (Hayter 1971:151). This meant the Zimbabwean government became more accountable and responsive to its donors rather than to its people.

The economy of Zimbabwe was better compared to its African counterparts in its ability to manage its debt. In addition to Zimbabwe's trading position, the government was not overwhelmed by the global crisis in the early 1980s. It is argued that because the Zimbabwean economy was sound in the late 1980s it came to consider market based reforms. However, it can be pointed out that this makes it implausible the argument that there was pushed in to implementing reforms by the International Financial Institutions. Rather the government was motivated to promote faster economic growth and to make the economy respond better to changing international conditions (Dashwood 2000). Nziramasanga (1998) states that during the 1980s productivity was generally low in Zimbabwe. Hence capital formation was the main factor driving economic growth.

The dependence of foreign aid on developing countries has led them to seek more aid without any development (Lancaster 1999). It is argued that although more foreign aid has been received in developing countries, it has not been effective. This has led many to view foreign aid with scepticism of its role in promoting economic growth. Zimbabwe is no exception to this since it has received foreign aid, the gap between the poor and the rich has not been closed but instead it has widened. Effective foreign aid will promote growth and hence create opportunities for the poor. This line of thinking is borrowed from the modernisation theory which perceives capitalist development as possibility for all nations. Despite this, many developing countries are yet to experience the tide of economic growth.

Foreign aid to Zimbabwe in the late 1980s averaged about US$200 million (Lundahl 2001: 203). When ESAP was launched foreign aid started to flow in, raining the value to close to US$500 million in 1991 and to over US$800 million in 1992. The Zimbabwean government had defended it policies of being home grown although close involvement of the World Bank in its formulation (Gibbon 1995). Pledges were made after its first donor Paris conference in March 1991, including US$125million from the World Bank (Bond 1998).

These pledges of finance seemed to signify donor approval of the pace and content of Zimbabwe's reform programme. However, it is outlined how increasing reliance on donor funds, as ESAP began to be implemented, led to the control of the program being transferred to the World Bank and IMF (Stoneman 1991). Donors had become reluctant to release the support pledged in March 1991 on the argument that government monetary policy was too wayward, although a desire to have the IMF involved in the programme was also evident (Gibbon 1995). By June the World Bank was pressing for faster implementation of the reforms and by mid-1991 slow disbursement of the donors' financing was causing serious Balance of Payments problems (Bond 1998).

In October 1991 the government was forced to seek balance of payments support from the IMF. In November the World Bank, which had not released money pledged in March, now made its US$125m conditional on an IMF loan and the United States and United Kingdom refused to release funds until the World Bank did (Stoneman 1991; Zwizwai 1991; EIU 1992: 1). Following an IMF mission in November 1991, IMF funding was finally agreed in late January 1992, worth US$484m over three years. The extra conditions were necessary for this was not made public although they included devaluation, further budget deficit cuts, trade liberalisation and parastatal reform (EIU 1992: 2). The US$700m already pledged in March 1991 now began to be released to Zimbabwe (EIU 1992). This in effect transformed support for a home-grown adjustment programme promised in March 1991 into support for an IMF programme in 1992 (EIU 1992; Africa Economic Digest 1991).

Through 1992-94 the reform programme continued with a third round of Paris talks in

December 1992 at which US$1.4bn was pledged for ESAP support (Gibbon 1995) and a fourth round in December 1993 (EIU 1994: 1). Throughout this period donors urged an acceleration of the reforms including more rapid liberalisation of imports, liberalisation of foreign exchange regulations and liberalisation of profit remittances by foreign companies in early 1994 (EIU 1994: 1). However, a persistently high government deficit led to the suspension of Zimbabwe's IMF agreement in June 1995 with disagreement continuing until 1998. In 1995 the IMF declared Zimbabwe off–track because the fiscal deficit had risen.

It is viewed that the effectiveness of foreign aid can only be present if there is good governance. Good governance and external factors influence aid's effectiveness (Lundahl (2001, 204). According to the UNDP (2008) recipient countries such as Zimbabwe need to manage their aid flows carefully in order to benefit in poverty reduction and growth. Political factors which undermine governance have disrupted the economy of Zimbabwe making it impossible to promote growth (Lundahl 2001). The Zimbabwean government benefited from substantial inflows of foreign aid after 1980 for reconstruction and development these inflows were not sufficient to prevent a huge increase in foreign borrowing, which created another burden in the form of a radical jump in the debt service after 1982 (Dashwood 2000).

However, other views show that the foreign aid regime perpetuated dependency to the multilateral financial institutions. Tsvangirai the leader of the opposition states that:

"...if we want to be a government our philosophy would be based upon defining our own priorities and going to our international aid. I realised this when Zimbabwe attained its independence. It actually became, dependent rather than independent. For 15 years the Smith regime, let's forget about the horror of it all for a minute, there was not a single item of foreign aid to this country. Yet, during that period, the country was able to develop although only in the minority sense. But the infrastructure was laid, not because of aid but because of the ingenuity, the entrepreneurship, that was demonstrated and developed, during that period. What l am trying to say is that, based on aphilosophy that was proven, Aid dependence can be a hindrance, if not properly administered it can actually damage" (Extracted from: Chan 2000: 65).

Development assistance resulted in dependency as it induces a lazy, slavish, dependent mentality and culture across society from governments to villagers. Moreover, this undermines the peoples' faith in themselves and the fact that they can make it on their own. It is also viewed that development should be situated within the context of the country concerned (Karikari 2002). It is argued that people can best develop from the foundations of their indigenous knowledge which is embedded in the culture of the people, adding that imposing a notion of modernity on Africa will not yield desired results. It is also argued that the African elites who are regarded as surrogates of the Western culture to fashion indigenous development plans (Prah 2002).

Evaluation of Foreign Aid and its Effectiveness in Zimbabwe

The Zimbabwean economic policy and social goals believed that the economy would grow at a fast rate enough to generate sufficient revenue to fund development. Such hopes were not speculative at the beginning of the independence decade. In the immediate post-independence period growth in Growth National Product (GNP) was achieved, mounting to 11 percent in 1980 and 12 percent in 1981 in real terms (Mlambo 1997: 40). However, the economy's boom ended in 1982 when the nation plunged into an economic crisis. This was largely contributed by the severe drought which incapacitated the economy; this resulted in many people facing death because of lack of drinking water, hunger, malnutrition and disease. This disaster led to the diversion of considerable financial resources from economic development towards drought relief, spending an estimated US$209 million on food imports. Mlambo (1997 estimates that the total financial costs of the 1982-83 drought to Zimbabwe was approximately US$479 million. It is noted that such expenditure, coupled with loss of export earnings due to the drought, increased the country's balance of payments deficits over 30 percent. Zimbabwe battled battling with negative impact of the drought; a world recession compounded the country's woes by reducing the volume of Zimbabwe's exports (Mlambo 1997: 43).

According to UNDP (2008: 59) the effectiveness of official development assistance in achieving economic development and broader development objectives can be divided into the process of delivering aid and the impact of aid in achieving development objectives. The process or efficiency of delivering aid relates to how various actors especially the recipient and donor countries can strengthen coordination mechanisms, reduce transaction costs for partner countries, improve aid predictability, and support home-grown development plans. The impact of aid relates to the current evidence of the efficacy of aid in achieving intended objectives and outcomes.

The effectiveness of foreign aid in Zimbabwe was largely influenced by economic reforms which were not internally oriented. Collier (2007: 109) states that when the government of Zimbabwe launched economic reforms in the early 1990s, the Minister of Information told the local press,

'They're not our reforms, and they're the IMF's. We had to do them'.

Such a statement made the government deny responsibility if they fail to achieve the desired objective. In terms of economic results in Zimbabwe, the reforms have been disappointing. By the government's own targets set out in the 1991 Framework document, ESAP was seen to be failing, one commentator dismissing the economic targets as ESAP's fables (Gibbon 1995). Growth averaged 1.7 percent per year from 1991-1995 (over the period of IMF support) compared to the ESAP target of 5 percent per year. Despite a recovery to 7.3 percent in 1996 growth was down to 3.5 percent in 1997 with projected further falls in 1998 (World Bank 1998; IMF, 1998a). IMF (1988b) states that per capita income was estimated to have fallen by 9 percent over the period 1990-1996.

The budget deficit remained stubbornly high at an estimated 13.4 percent of GDP in 1995 and still over 10 percent in 1998 (EIU 1995:4; Gibbon 1995: 123). Inflation was an estimated 18 percent in 1997 rising to over 30 percent by the summer of 1998 with interest rates similarly high (World Bank 1998). Yet this poor economic performance has been on the basis of hugely inflated foreign borrowing. The original ESAP target of a fairly low proportional level of foreign financing for the reforms (US$3.5bn out of US$16bn) and the maintenance of a fairly low debt service ratio of 20 percent, has in fact seen Zimbabwe turn into one of the most indebted countries in Africa (Government of Zimbabwe 1991).

Table 2 demonstrates the contributions of the three factor inputs to GDP growth from 1960 to 2007. The analysis reflected that the growth in labour and capital were the main sources of GDP growth in this period. The first decade marks the strongest growth in real GDP for Zimbabwe, Total Factor productivity (TFP) contributed significantly to output growth in this period increasing by 2.7 percent year for the decade as a whole. In the subsequent decades, the growth in the labour force made an increasingly significant contribution to real GDP growth. In other words, Zimbabwe's GDP growth during this period has been achieved largely by adding labour to the production. The decline in the contribution of capital in the post-independence period reflected the earlier-mentioned declining levels of investment that stemmed from the generally poor investment climate, consecutive droughts, and weak demand for Zimbabwean exports. During the 1990s, the small increase in capital's contribution to growth in the 1990s was most likely the result of policy reforms at that time which were aimed at increasing private investment.

Table 2: Zimbabwe: Sources of Growth, 1960-2007 (in % per annum)

	1960-1970	*1971-1980*	*1981-1990*	*1991-2000*	*2001-2007*
Real GDP growth	6.1	3.1	4.3	0.9	-5.0
Factor growth rates (pcecent)					
Capital	4.7	4.9	0.4	1.5	0.4
Labor	2.7	3.2	4.2	2.4	2.3
TFP	2.7	-0.7	1.4	-1.1	-6.6
Trend TFP growth	0.9	-0.2	-0.5	-0.9	-1.8

Table 3 shows the change of production in the GDP of the Zimbabwean economy. There is a sharp decline of the agriculture and manufacturing sector which are the main sources of employment. It contributed 18 percent in 1985, 19 percent in 1990 19 percent again in 2000 and finally 11 percent in year 2010. Construction contributed 2 percent in 1985, 3 percent in 1990, 2 percent in 2000 and 1 percent in 2010. Manufacturing contributed 21 percent in 1985, 20 percent in 1990, 18 percent in 2000 and 15 percent in 2010. Services show a respectable increase with 48 percent in 1985, 47 percent in 1990, 53 percent in 2000 and 55 percent in 2010.

Table 3 : Zimbabwe Structure of Production, 1970-2009 (Percent of GDP)

	1985	*1990*	*2000*	*2010*
Construction	2%	3%	2%	1%
Agriculture forestry and fishing	18%	19%	19%	11%
Manufacturing	21%	20%	18%	15%
Services	48%	47%	53%	55%

In his arguments pertaining to foreign aid, Moyo (2009) perceives that foreign aid for alleviating poverty is a myth since it has been and continues to be, an unmitigated political, economic and humanitarian disaster for most developing countries (Moyo 2009). The vicious cycle of aid is viewed as one that chokes off investment, encourages dependency and facilitates corruption. In addition this cycle perpetuates underdevelopment and guarantees economic failure in poor regions. Moyo (2009) also touches on the paradox of plenty, insisting that aid instigates conflicts in Africa. This raises questions as to why the same continent that receives the largest amount of aid is the most conflict ridden place in the world. Knack (2000) estimates the costs of armed conflicts in Africa between 1990 and 2005 exceeded US$300 billion an amount which is almost equal to overseas development assistance in the same period (UNDP 2007). This raises a lot of questions for example the crisis in Zimbabwe. It can be argued that foreign aid should work since it supposed to be given in a good policy environment (Burnside and Dollar 2000).

However, it can be argued that Zimbabwe was given foreign aid when its policies were regarded as good but this escalated into a crisis rather than development. Moreover, the crisis was caused when Zimbabwe became responsive to the peoples demands and which led to fallout with the multilateral institutions.

It is viewed that the fiscal policy of Zimbabwe never supported growth. Instead of being supportive of growth and poverty reduction, the government's macro-economic policies have often constituted the main binding constraints. During 1980s, Zimbabwe's record of social service delivery (education, health, basic services and infrastructure) and public sector growth (civil service, parastatals) was ostensibly impressive. However, this was achieved at a high cost in terms of unsustainably high budget deficits, whose harmful effects were high inflation and the crowding out of private sector credit. With the drying of capital flows since 1997, this has led to low economic performance of Zimbabwe (UNDP 2008).

The question on effectiveness of foreign aid becomes important when one looks at the reasons it is being granted. Foreign aid is viewed as a medium that promotes economic growth hence promoting development. In other words foreign aid is seen as a tool to modernization. Mosley and Hudson (1992) suggest that there are four stages of foreign aid effectiveness:

a) *low aid, low growth stage where a near subsistence economy is cut off from aid because of war, political instability, or economic mismanagement,*
b) *high aid, low growth stage in which increased aid flows have no immediate impact because of gestation lags;*
c) *high aid, high growth stage in which aid flows remain high, and became more effective as lags unwind and,*
d) *Low aid, high growth stage in which aid diminishes but growth continues at a high pace (Botswana and Mauritius as examples of countries that have recently entered this stage)* (Mosley and Hudson 1992).

From the above suggestions by Mosley and Hudson (1992), Zimbabwe received high aid but experienced low growth. At the same time Zimbabwe has been cut off from aid since 2000. This isolation from the multilateral institutions has led to the economic meltdown of the country. The effectiveness of aid is important because it gives the justification of giving it. Thus many writers like Cassen (1994) and Riddell (2007) have tried to provide a meaningful reason of granting aid. Aid works much better where the reform is initiated or internalized by local government rather than when it is imposed by outsiders. Therefore, aid is normally more effective when it facilitates efficiently and timely reforms triggered by the local authority (World Bank, 1998). However, despite World Bank Zimbabwe's involvement, the structural adjustment programs show the non-existence of the neutrality of the multilateral institutions. The IMF adoption of their policies seal was necessary to attract foreign capital. The structural adjustment programmes shifted the focus from relying on the people to relying on donor funds. This was largely because of the need to solve the temporary balance of payments problems. Foreign aid is regarded to be available to countries whose internal political arrangements, foreign policy, alignments, treatment of foreign private investment, debt alignment, treatment of private investment, debt servicing record, and export policies are considered desirable (Hayter 1971: 72).

It must also be noted that, large aid inflows do not necessarily result in general welfare gains and high expectation of aid may increase rent-seeking and reduce the expected public goods quality. Moreover, there is no evidence that suggest donors take corruption into account seriously while providing aid (Svensson 1998). A permanent rise in foreign aid reduces long-run labour supply and capital accumulation. Furthermore, it increases long-run consumption and has no impact on long-run foreign borrowing. Gong and Zou (2001) show that foreign aid depresses domestic saving, mostly channels into consumption and has no relationship with investment and growth in developing countries. Gong and Zou (2001) show a negative relation between aid and growth using an optimal growth model.

Pedersen (1996) asserts that it is still not possible to conclude that aid affects growth positively. Pedersen argues that the problems lie in the built-in incentive of the aid system itself. The aid conditionality is not sufficient and the penalties are not hard enough when recipient countries deviate from their commitments. In fact, there are incentives for aid donating agencies to disburse as much aid as possible. This hinders the motivation of recipient countries and raises the aid dependency, which in turn distorts their development. Easterly et al. (2003), using a larger sample size to re-examine the works of Burnside and Dollar (2000), found out that the results are not as robust as before in terms of foreign aid linking with good policy governments.

Prior to 1990, Zimbabwe experienced periods of strong and weak economic performance. Real GDP growth rates averaged nearly 4.5 percent a year during 1960-80, reflecting deliberate policies that promoted large-scale investment in domestic manufacturing and agriculture. The latter policies were motivated in large part by a need to achieve self-sufficiency following international sanctions against the Unilateral Declaration of Independence (UDI) government. Since 1980, Zimbabwe's performance has been mixed, reflecting policy lapses and adverse weather conditions that affected agricultural output. The country recorded its strongest post-independence growth performance during 1980-90 with gross domestic product (GDP) growing by an average of around 5.5 percent, higher than the average for sub-Saharan African) countries, while the population grew at about 3 percent.

Real GDP growth was, however, characterized by considerable volatility influenced by weather conditions and high levels of foreign capital inflows at independence in 1980. It was also driven by redistributive fiscal policies that focused on increased government spending on health, education, and other social welfare programs within the framework of a command economy. Since 1990, the poor policy environment, government controls, droughts, and measures to address social inequalities through the provision of basic and social services at the expense of production, combined to cause the poor performance of the economy.

The fundamental objective of introducing economic reforms has not been met. According to the CSO (1998) the incidence of poverty in Zimbabwe increased from 40.4 percent in 1990-91 to 63.3 percent by 1995-96. This shows that the situation has deteriorated rendering the targets of ESAP seem ambitious. The structural adjustments programs were conditional. This meant for Zimbabwe to get the foreign aid it required to cut back on government's unnecessary spending.

The notion of leverage leads to foreign aid being ineffective for donors often use foreign aid, especially developmental aid, as leverage to induce an aid recipient to follow a certain course of action. It is argued that the motives behind leverage can be broken into three broad categories: for donor self-interest, for recipient interest, and for efficiency and good management. Donor self-interest, commonly seen in bilateral aid, refers to the distribution or withholding of aid for political, strategic or economic means. This practice is perhaps the most inefficient and unscrupulous form of aid. In his analysis, McNeil (1981) describes the construction of a new metro system, which is described as a new metro. This is financed not because it is economically feasible, but because such a project is in the commercial interest of the donor (McNeill 1981).

Donors are in a position to demand certain policies and practices in return for aid, penalising recipients by withholding aid if these conditions are not met. The practice of attaching policy conditions to development finance is a major barrier to implementing the ownership principle. Conditions mean that aid is disbursed only if recipient governments implement particular policies. This denies governments and citizens in developing countries the right to freely choose the policies best suited to their economic, political and social situation (McCann and McCloskey 2009: 75). Conditionality takes policy decisions away from sovereign governments and places them in the hands of unelected donor officials. This makes recipient governments accountable to donors instead of their citizens. Conditionality also imposes huge transaction costs on often already over-burdened government administrations. It is observed that accountability in the current aid system flows upwards, with Southern governments accountable to donors, as opposed to being accountable to their own citizens on whose behalf aid is accepted (McCann and McCloskey 2009: 76).

CONCLUSION

This paper found out that, Zimbabwe has received foreign aid since independence up to 2000. The empirical data shows that even though Zimbabwe has been able to receive large quantities of foreign aid this has not been effective. It was also evident that, although Zimbabwe was able to have considerable growth in the 1980s it experienced a sudden decline in economic growth in the 1990s. The paper went on to show that Zimbabwe's crisis which was guided by populist policies led to the stopping of granting of aid by donors. The stopping of foreign aid led to Zimbabwe's economy collapsing since it was dependent on foreign aid. Social indicators show that Zimbabwean economy was collapsing at the same time there were no foreign aid inflows coming in which exacerbated the economic situation.

The dependency of foreign aid renders it ineffective largely due to the fact that Zimbabwe could not control its policies. Instead, as the IMF and World Bank's structural adjustment programmes show, donors dictate economic and financial policies, based on their own world views and interests. The structural adjustment programmes, imposed by the IMF and World Bank, are a reflection of that reality. As already indicated this has worsened the economic crisis and deepened external dependency, while the conditions attached to such multilateral aid are the principal cause of the abject poverty affecting more than half of the African population. It is crystal clear that, much of the so-called aid given by Western countries and the loans made by multilateral institutions are not based on developing countries real needs, nor on any performance criteria, but primarily on the interests of donors.

RECOMMENDATIONS

From the findings of this paper and also based on the observation of the researchers, the following recommendations can be made. Zimbabwe must not be solely dependent on donor fund from one organisation nor develop policies that are favourable to a specific funder. It is however noteworthy that, in as much as foreign aid caused dependency in Zimbabwe it was also beneficial hence the recommendation that its effectiveness has to be further investigated. The researchers also recommend policy formulations that are donor friendly coupled with the development of political conditions that are favourable for foreign investment. It is also imperative that the researchers recommend foreign aid free from rigorous conditions for it hinders independent economic development of the developing nations. Furthermore, the funded or beneficial nations must be left to decide on how to utilise the aid given to them although there is a need for continuous monitoring to ensure accountability and transparency distribution of funds to the general populace. Finally, the researchers recommend that the beneficial governments must not develop a dependence tendency for this has a way of backfiring in the event of the funding nations deciding to pull out their funding or becoming hostile.

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