CRIPPLING AID: CASE STUDY OF AFRICAN ECONOMY AND POLICY IMPLICATION

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Abstract : Time and again many developing economies like Africa have excessively relied on aid as their main source of income and growth. While foreign aid is thought to contribute to any country's economic growth, the experience of African economy states otherwise. Over the past 30 years the most aid dependant countries of Africa have registered growth rates averaging minus 0.2 % per annum. This study therefore examines the case of 'Aid in Africa' and how it is slowly crippling the African economy. The study aims to put forward alternatives like- issuing of bonds, micro-financing, saving and remittances as more progressive measures for ensuring growth in Africa than relying on foreign aid.

Key words: Africa, Alternatives, Crippling , Foreign aid

INTRODUCTION

"For many people in other parts of the world, the mention of Africa evokes images of civil unrest, war, poverty, disease and mounting social problems. Unfortunately these images are not just fiction. They reflect the dire reality in some African countries, though certainly not all"
-UN secretary-general, Kofi Annan

Over the years the economic condition of Africa has raised severe concerns among economists worldwide. On one hand where Africa holds the status of being one of the most resource endowed countries in the world (holding about 10% of the world's oil reserves) it simultaneously holds the status of being one of the poorest country as well. Poverty is one of the most highlighting characteristic of the economy and thus is considered as the heart of Africa's problems. Most of the countries in Sub-Saharan Africa are in the World Bank's lowest income category of less than $765 Gross National Income (GNI) per person per year (Dambisa Moyo, 2009). Furthermore even though the country covers 20% of the world's land area and 13.61% of the world's population, its contribution to the world output sums up to only 1% (Dambisa Moyo, 2009). Even today like several developing countries, two-thirds of sub-Saharan Africa's people still continue to live in rural areas and rely majorly on agriculture and other natural resources as a means of income and trade.

Economists assert that geographic conditions, historical development, cultural beliefs, tribal societies and institutional framework are among some of the key factors that contribute towards the explanation of the country's slow growth. However dwelling deeper into analysis of different factors that restrict growth among African countries one finds that for most part African countries have one thing in common- they all depend on AID. Aid endemic is highly underestimated and over the years the 'AIDS' solution in Africa has been described as "EXPLOSIVE" as it is criticized by various economists globally.

African countries have long been associated with aid. Being a developing country with very scarce means of utilising their resources, it has relied immensely on aid resources to finance their development projects as well as import critical commodities. In the past fifty years over US$ 1 trillion in development- related aid has been transferred to Africa from the rich and developed countries (Dambisa Moyo, 2009). In contradiction to the high expectations from aid, it has failed to deliver the promise of sustainable growth and reduction in poverty in Africa. Instead aid has led to the poor becoming poorer and lower growth levels throughout the nation.

Aid has not only in the past but even today continues to be a political, economic and humanitarian disaster. During the time period of 1970-98, when aid flows to Africa were at their peak, the poverty rate rose from 11 per cent to 66 per cent (Dambisa Moyo, 2009). Africa's dependence on foreign aid has not matched its development needs in particular regarding the development of physical and human capital. Aid has in turn led to the increasing indebtedness of the continent which has diverted the resources away from development projects.It is believed that 30 aid-dependant developing countries in sub Saharan Africa have failed to generate consistent economic growth and have degenerated.

Time and again many developing economies like Africa have excessively relied on aid as their main source of income and growth. While foreign aid has contributed to economic growth of some developing nations, the experience of African economy states otherwise. Over the past 30 years the most aid dependant countries of Africa have registered growth rates averaging minus 0.2 % per annum. This study therefore examines the case of 'Aid in Africa' and how it is slowly crippling the African economy. The second sections look deeper into the trade-off that has been witnessed by African nations where the dependency on aid has been growing while the growth rates of various nations have been dwindling. After establishing this trade-off section three puts forward various alternatives other than aid that may be used by the African economies to help restore their growth patterns. The study aims to put forward alternatives like- issuing of bonds, micro-financing, saving and remittances as more progressive measures for ensuring growth in Africa than relying on foreign Aid. Finally in section four the study concludes that aid dependency of African nations has resulted in more damage than growth for the economy. The illusion of induced growth created by aid extended by foreign institution is a folly and African state should work towards establishing sound polies where anti-corruption, efficient budgeting, benefits from remittances and many more alternatives may reduce the dependency of Africa on aid and ensure sustainable development of the nation.

TRADE-OFF BETWEEN GROWTH AND AID THE AFRICAN EXPERIENCE

Helping Africa is a noble cause, but the campaign has become a theatre of the absurd – the blind leading the clueless. Every decade or so, a group of Western donors, African governments, and international organizations gathers to announce grand initiatives to pull the world's poorest continent out of its economic backwardness (Greenaway, 1998). Assurance to extend all possible help to African economic growth is time and again exchanged at these meeting tough nothing substantial is truly witnessed. Delegates return home and then nothing much is heard after that. Back in 1985, the United Nations held a Special Session on Africa to boost aid to Africa. In March 1996, the United Nations launched a $25 billion Special Initiative for Africa. All these policies have now fizzled with no sustainable effect in the African economy (Norimitsu Onishi, 2002).

"I've never seen a country develop itself through aid or credit. Countries that have developed — in Europe, America, Japan, Asian countries like Taiwan, Korea and Singapore — have all believed in free markets. There is no mystery there. Africa took the wrong road after independence.

-President Aboulaye Wade of Senegal

Most of African countries show that even with substantial international aid economic success among these economies is not necessarily guaranteed (Collier, P. and D. Dollar, 1999). During 1960 and 1997 more than $500 billion in foreign aid which is equivalent of four Marshall Aid Plans, was pumped into Africa. However instead of increasing development and pushing the economy towards higher growth standard aid only created dependency among counties across the continent. The budgets of Ghana and Uganda, for example, are more than 50 percent aid dependent (World Bank, 2010).Tables 1 and 2 lists those countries having over certain threshold values of aid flows, where aid flows are normalised by both GNP and population. It can be clearly seen that majority of African nations fall under this category.The data shows that countries like Somalia, Nigeria, Zambia, Congo etc are among the few African nations where the number of countries receiving aid in excess of the threshold values has been increasing over time.

TABLE 1: Aid levels classified beyond threshold levels by aid by per capita

	1975-79	1980-84	1985-89	1990-95
A/P>$250	New Caledonia (670), French Polynesia (641), Jordan (303), Antilles (270), Bahrain (264)	New Caledonia (1150), French Polynesia (1018),Bahrain (433), Netherlands Antilles (411), Jordan (397), Seychelles (273), Kiribati(258), Israel (254), Vanuatu (253)	New Caledonia (1487), French Polynesia (1457), Grenada (381), Israel (349), Seychelles (348), Netherlands Antilles (326), Cape Verde (276), Vanuatu (257)	New Caledonia (2090), French Polynesia (1614), Sao Tome and Principe (472), Netherlands Antilles (386), Micronesia (352), Cape Verde (321), Western Somoa (310), Tonga (304), Seychelles (294), Vanuatu (281), Israel (263), Kiribati (254)
A/P>$100	Suriname (225), Israel (219), Seychelles (218), Vanuatu (217), Djibouti (198), Kiribati (129), Western Somoa (126), Oman (1998), Mauritania (116), Syria (112), Solomon Islands (107), Malta (106), Tonga (104), Belize (100)	Djibouti (225), Dominica (207), Cape Verde (198), Tonga (180), Suriname (161), Western Somoa (153), Solomon Islands (123), Syria (123), Comoros (119), Mauritania (114), Oman (113), Botswana (106), Papua New Guinea(101)	Kiribati (228), Dominica (224), Djibouti (220), St Kitts and Nevis (209), Sao Tome and Principe (205), Tonga (202), Western Somoa (176), Jordan (169), Solomon Islands (146), Belize (140), Comoros (122), St. Vincent (119), Equatorial Guinea (116), Botswana (114), Mauritania (113), Gabon (108), The Gambia (105), Maldives (100)	Djibouti (236), Dominica (224), St. Lucia (174), St Kitts and Nevis (165), Suriname (165), St. Vincent (165), Jordan (159), Grenada (151), Maldives (148), Nicaragua (141), Bahrain (138), Equatorial Guinea (137), Guyana (137), Solomon Islands (131), Gabon (127), Belize (124), Guinea-Bissau (123), Zambia (118), Mauritania (116), Namibia (107), Comoros (106)

SOURCE: World Bank World Development Indicators 1997

TABLE 2:Aid levels classified beyond threshold levels by aid by per capita

	1975-79	1980-84	1985-89	1990-95
A/Y> 0.5	-	Cape Verde (57), Somalia (56)	Guinea-Bissau (57), Cape Verde (56), Somalia (50)	Sao Tome and Principe (132), Mozambique (98), Somalia (59), Guinea-Bissau (52)
A/Y> 0.3	Cape Verde (41), Vanuatu (38), Solomon Islands (35), Mauritania (33), Guinea-Bissau (33)	Guinea-Bissau (44), Comoros (37), Kiribati (36), Vanuatu (32)	Mozambique (48), Sao Tome and Principe (48), The Gambia (39), Equatorial Guinea (37), Kiribati (33)	Nicaragua (43), Equatorial Guinea (38), Cape Verde (37), Guyana (37), Rwanda (36), Western Somoa (31), Zambia (30), Kiribati (30)
A/Y> 0.2	Somalia (29), Comoros (28), Kiribati (20)	The Gambia (28), Mauritania (26), Tonga (26), Sao Tome and Principe (25), Solomon Islands (25), Western Somoa (22), Dominica (22), Mali (20)	Comoros (29), Vanuatu (28), Mauritania (27), Chad (26), Western Somoa (25), Mali (25), Solomon Islands (24), Maldives (23), Malawi (22), Tonga (21)	Malawi (29), Tanzania (29), Dijbouti (26), The Gambia (25), Mauritania (25), Vanuatu (25), Burundi (25), Bhutan (24), Sierra Leone (23), Marshall Islands (23), Micronesia (23), Chad (22), Albania (21), Tonga (20)

SOURCE: World Bank World Development Indicators 1997

As Africahas become increasingly more aid dependant over the years the standard of living in the country has declined. Per capita GDP of Africans living south of the Sahara declined at an average annual rate of 0.59 percent between 1975 and 2000. Over that period, per capita GDP adjusted for purchasing power parity declined from $1,770 in constant 1995 international dollars to $1,479 (Thompson et al, 2005).

Similarly in Mozambique as aid support increased the capacity and democracy of the state suffered a great setback. Many renowned economists conclude that budget support has had some positive effects but the consequences for Mozambique have majorly been negative in nature. They assert that given the weak opposition, flawed elections and executive dominance in Mozambique the trade-off between governance and democracy has been unavoidable and the situation has been worsened due to excessive aid dependency. Furthermore, Tanzania's received huge Western support of $10 billion over a period of 20 years. On one hand the aid donors extended enthusiastic backing to Tanzanian economy between 1973 and 1988 while on the other the economy contracted at an average rate of 0.5 percent a year, and average personal consumption declined by 43 percent. Today, Tanzania's largely agricultural economy remains devastated. Some 36 million Tanzanians are attempting to live on an average annual per capita income of $290—among the lowest in the world. Other African countries that received much aid between 1960 and 1995 – Somalia, Liberia, and Zaire – slid into virtual anarchy (Thompson et al, 2005).

Nigeria is often addressed as the most mismanaged economy in Africa. Nigerian economy has failed to reap any fruits from the staggering aid that has been poured into its economy. The high level of corruption and malpractices like that of money laundering (four of Obasanjo's state governors, were probed for the same in London during 2005) has been an important reason as to why aid in Nigeria has not brought about any significant growth in the economy (Peter Goodspeed, 2005)..In July 2005, Nigeria's Economic and Financial Crimes Commission revealed that a succession of military dictators stole or squandered $500 billion – equivalent to all Western aid to Africa over the past four decades (Peter Goodspeed, 2005).

Several reasons have been offered as to why African countries are not responding to aid. Most of these reasons revolve around geographical conditions, historical evolution of the nation, cultural phenomena and institutional framework that are found in Africa. The evidence that foreign aid underwrites misguided policies and feeds corrupt and bloated state bureaucracies is overwhelming in African economy **(**Sunwabe et al, 2005). The World Bank report 'Assessing Aid' assumes that aid is more effective only when it is given to countries where polices and role of state is sound. Moreover, it assumes that an inflow of aid, above a certain level, starts to have negative effects on growth levels of any economy. Such has been the case for African countries. With low standard of living, high poverty, significant corruption among bureaucrats and unending aid flows the African economy has witnessed great setback rather than registering staggering levels of growth.

SECTION 3: ALTERNATIVE'S TO AID- PATH TOWARDS GROWTH

Over the past 60 years African countries have been feeding on aid. Therefore the country now finds it hard if not impossible to exist without it (Dambisa Moyo, 2009). It needs and depends on aid for its regular working not because it cannot do without aid but because it does not want to make an effort. Various economists have put forward serious concerns around such aid dependency among African nations and believe that it is essential for Africa to let go of this addiction and adopt other alternatives which are more growth enhancing. This section illustrates various measures other than 'AID' that may lead African countries back on the path towards growth.

ISSUE OF BONDS

For a country to raise funds through bonds it has to go through various stages. Firstly, it must acquire a rating from a reputable internationally recognized rating agency. Presently there are three major agencies that investors look to: Standard & Poor, Moody's Investor Service and Fitch Ratings. Secondly, it has to attract investors who would be willing to lend their capital (The Economist, 2011). For this the country will have to give reasonable facts as to why the people should invest in the country. If the country is able to convince the investors of their creditability, the country gets its cash (Martin Paldam et al, 2006).

For several lesser developed countries the issuing of bonds to international investors is a good way to finance their development programmes like infrastructure, education and healthcare. This received money can then be utilised by the government for its current expenditure on military, civil and trade. Over the years due to better spread of information and globalization, the narrow base of supply of money has broadened. Further as economies have stabilized, the investors are more induced to involve themselves in long term bonds (Martin Paldam et al, 2006). It has also been noticed that choosing to invest bonds of an underdeveloped country has paid off, as many developing economies have been able to register high level of growth from the funds generated. The investors make higher returns on bonds by lending to a foreign economy than they do by investing in their home country.

Though the market to issue bonds exists in Africa, it only exists in countries that are serious in transforming their economies for the better. In September 2007, Ghana issued a US$750 million bond in the international capital market. In the same year, the Gabonese Republic followed them by issuing US$ 1 billion worth of ten year bonds (Dambisa Moyo, 2009). One of the major problems with African countries is that after a financial crisis they did not chose to revive their position again but instead chose the deceptive and easier road of aid. Of the 35 African countries that had issued bonds during the mid-1990 in the international capital market, nearly all of them defaulted (The Economist, 2011). None of them returned in the following years. Africa so far has not issued bonds not because they do not wish to but because they have largely been dependent on funds from aid.

The amount of bond issuance globally has jumped by 52% from 2004 to 2007. It rose from US$152 billion to US$ 230 billion. Currently the total amount of bonds from government and companies stands at US$ 1.5 trillion of which Africa's contribution is only US$ 10 million. In the past ten years, forty three developing countries have issued international bonds out of which only three were African: South Africa, Ghana and Gabon (The Economist, 2011). What African countries need to realise is that establishment and development of local bond markets has benefits to the poorest of countries. Therefore, stronger local bond currency market which lowers the cost of borrowing and reduces financing and investment mismatches can be one of the key factors that may enhance growth among African nations without pushing them towards aid dependency.

MICRO-FINANCING

In 2006, Muhammad Yunus, a Bangladeshi national introduced structural financing in Bangladesh to lend to the poor, mostly of rural areas- through 'Grameen Banking' system. It was a way to lend to the poor who have no house, car or other tangible asset to use as collateral against which they can borrow (V.Swaroop, 2009). The working of Grameen Bank is very simple. Through its micro-lending programme, the bank lends a specific sum to a trader of a group of a certain village; say trader A receives US$100 for a pre-specified time period. At the end of the period, A would have to return the sum along with an interest which varied between 8-12%. Trader A is solely responsible for repaying his load. When the loan is repaid, the same sum is handed over to the next member of the group. However if A fails to repay the loan, the group is extended no further loans. Thus though there exists no joint liability, the group is implicitly liable as the default of one member affects the entire group. Often when one member finds it difficult to repay the loan, the group as a whole come to his rescue (V.Swaroop, 2009).

Today micro-finance for the first time has brought several groups of poor people into the economy by providing them with a range of tools. Economic surveys have found that even small loans have the capacity to boost business productivity gains and contribute to job creation and raise the standard of living. The Grameen model has experienced success with 43 countries adopting some version of it. In 2008 Grameen Bank not only provided micro-enterprise loans for power-tillers, irrigation pumps, motor vehicles and river craft but also provided education scholarships amounting to US$ 950,000 to over 50,000 children. Also scholarships for higher education in medical, engineering and professional certificates were given to 23,000 students (V.Swaroop, 2009).

The Zambian economy with a total population of 10 million has only 500,000 people who are formally employed. This leaves a staggering 9.5 million people ignorant of the banking sector and its operations. Thus the need for micro-finance to spread education, housing and self-employment opportunities among majority of Zambian population became a necessity. Through micro-finance several thousand aspiring Zambian entrepreneurs found a way of securing funds for their businesses. In most African countries, the popularity of micro-finance gained momentum majorly due to the reduction of risk by joint liability. Joint liability boosted the moral of the borrowers as the probability of getting cheated by their group members reduced significantly (V.Swaroop, 2009).

Even though micro-finance organizations have developed all across Africa, most Africans even today have limited access to finance. Studies find that in Tanzania, around 80% of the total population holds the willingness to save if they had access to appropriate saving mechanisms. Hoever,due to the poor banking sector, a maximum of only 5-6% of the population are able to do so (V.Swaroop, 2009). Estimates show that around 10,000 organizations provide over US$ 1 billion worth of micro-finance loans annually to several million customers all around the world. Unfortunately African countries have not yet been able to reap the fruits of micro-financing. Therefore, it may not be wrong to ascertain that where most of the developing nations are benefiting from micro-financing techniques, developing a sound micro finance system in Africa may be one of another key alternative that may put Africa on the growth path.

REMITTANCES

Liquid money sent home by Africans living outside their country can be considered as one of the most economical means of raising funds. As per the UN estimationnearly 33 million Africans live outside their country of origin consisting majorly Nigerians and Ghanaians who prefer to shift to the United States whereas Malians and Senegalese opt for France. (Meredith and Martin, 2006). Remittances play an important role in improving a country's external balance as they can be considered a more stable source of income in comparison to other capital flows.

Though in actuality the remittance received by each individual citizen would account to very nominal sum, the collective figureof the entire country is enormous. In 2006 the earning of Africa through remittances' totalled US$20 billion (Broadman , Harry G, 2007). Nevertheless at the household level the major part of the allowance is used to finance basic consumption needs of housing, education and health, a very minor part may also be used for small investment purposes. This directly increases the capacity of banks to lend for various development projects, import payments and to repay foreign debt

Moreover remittances are also considered as a tool for the reduction of poverty. As per various studies by economists, evidence shows that a 10% increase in per capita remittance leads to a 3.5 % decline in poverty (World Bank,1998). The direct influence of such inflows can be seen in improved school admission and attendance, reduction in child labour and growth of entrepreneurial activities.

In order to encourage the growth in remittances the African Government needs to work on crafting cheaper and friendlier means to the end. This is because almost 20% of the remittance sent home to Africa is deducted as taxation which reduces the incentive for the people transfer money home. Taking the example of United States they should make use of innovative mobile phone technology which makes it quicker and cheaper to transfer funds (Broadman and Harry G, 2007).In April 2007 the government launched a money transfer system called M-PESA in Kenya which enabled subscribers to send money instantly. Within two weeks over 10,000 account holders were registered and US$ 100,000 had been transferred (Broadman and Harry G, 2007). A major setback faced by this system was that, the money transfer can only take place within the country borders which imposes a great restrictionon the income flow.

Therefore, it can be clearly seen that the African economy is capable enough to generate funds through international transfers which can then be used for developmental purposes in place of foreign monetary aid. However, the Government needs to put forward efficient polices that induce the people to make such transfers which through its forward and backward linkages will result in growth in the African economy.

FREE MARKET

Liberalisation in the agricultural sector significantly helped in increasing the export of tea and coffeein Rwanda. This was one of the main reasons for the economic growth in Rwanda(CNN News, 2002). Rwanda's coffee sector is the best example of the benefit of economic liberalization, on which more than half a million families are dependent even today. Until two decades ago the coffee sector in Rwanda was highly regulated and controlled by the government. Being the main source of revenue for farmers, they were forced to submit at least a quarter of their land to growing coffee, which a government agency would buy at a below-market price. The government then sold the coffee at the higher price and kept the difference (Dambisa Moyo, 2009).

It was only in 1990s that under Paul Kagame's government the coffee sector obtained liberalisation which enabled the farmers to freely trade with buyers in other parts of the world. This stimulated investment to a gigantic magnitude. Due to better faith in the government and free trade policy, the farmers began to focus on increasing quality rather than quantity and raising efficiency and productivity. This lead to soaring prices and over 50,000 households saw their income from the coffee sector double (Dambisa Moyo, 2009). Witnessing the enhancement in the economic opportunities and potential of the people through the liberalization of just one sector, steps can be taken to liberalise the other sectors of Africa too.

BUDGET

Efficient budgeting can be considered as one of the most powerful instruments with the government that can curb the nation's dependency on foreign aid. Proper implementation of revenue as well as expenditure policiescan solve many financial problems of a country. On the revenue side, there is room to broaden the tax base by roping into the tax net informal operators and the self-employed, reducing exemptions, and enforcing compliance and on the expenditure side prioritizing expenses by curtailing non-essential spending can help raise funds with the state for developmental purposes (Peter, 1994).

Over the years reasons such as the narrow tax base, tax evasion, administrative inefficiencies and corruption has crippled the African revenue system.Even though the government has levied high personal and corporate tax, due to the above reasons direct tax earned is low. The exclusion of the informal and self employed sectors from the payment of taxes has led to a setback in the vast tax potential. There is a need to find innovative ways to include these income means into the tax net. Indirect taxes tend to contribute a disproportionately larger share of total tax receipts in African countries. There is a significant overreliance on indirect taxes which stems due to the fact that they are easier to levy and collect. As a result, indirect tax rates have been relatively high in many African countries, with VAT rates, for example, going up to 17 ½ per cent and beyond in many countries (Nathan Andrews, 2009). Besides these actions and as importantly the Government needs to undertake measures to curb wasteful expenditure and aim at increasing efficiency in public spending.

Resource mobilisation through "Reverse Capital Flows"and anti-corruption policies

Many African countries have been blessed with abundant natural resources like oil and minerals. However the past history of the consumption pattern of these resources has been abysmal. Over the years economists have witnessed that the natural resources immensely assisted small section of the elite African society, while majority of population still lives in poverty. The unjust distribution of oil among the different sections of the continent has led to several conflicts which in turn led to the retardation of development and growth.

The transfer of these valuable resources in the hands of corrupt politicians has resulted in great deprivation of the country. From Nigeria to Congo DR to Angola to Equatorial Guinea, vast oil endowments have led to prolonged conflicts and corruption that have impoverished the population.(Menon E, 2005). There exist numerous examples of the large scale abuse of African resources for the gain of a restricted few. Scholars have been of the view that if the oil resources had been efficiently utilised, a total sum of $200 billion would have accrued to Africa between the years of 2000-10 (The Economist; 2011)

An estimation by the United Nations Office of Drugs and Crime (UNODC) and World Bank in 2007 reflected that the cross-border flow of the global proceeds from illegal activities, corruption and tax evasion are estimated to be more than $1 trillion annually. Around $20 billion to $40 billion of capital acquired by corrupt leaders of poor countries, mostly in Africa, are kept overseas, majorly in Switzerland. This reflects the scale of misappropriation of African natural-resource wealth. Thus Africa is in urgent needensure that it's natural-resource wealth stays in Africa for use for the continent's development which should be undertaken in two ways: curtailing its outflow and recovering stolen wealth.

Anti-corruption institutions to check financial abuse by political leaders should be strengthened and strong punishments should be introduced for such offenders. Measures similar to that of World Bank and UNODC should be undertaken. The Stolen Assets Recovery (STAR) initiative by them was a great step forward to help countries recover their stolen assets. This initiative will also helped countries establish institutions that could detect and prevent illegal flow of funds and also participate in the activities of Economic Cooperation and Development (OECD) countries in ratifying the Convention Against Corruption (CAC). The recovered assets in this way would provide more than sufficient financial help for the development of the African countries.

Savings

Savings and investment share a directly proportional relationship. In order to boost the investment of a country savings play an important part of a country's growth and development. Domestic saving is the most important source of financing investment. Thus Africa desperately needs a more innovative financial sector to jumpstart its economic growth and reduce poverty.

A Peruvian economist Hernando De Soto noted that the value of savings of money among the poor of Asia and Africa is as much as forty times all the foreign aid received throughout the world since 1945.(Dambisa Moyo,2009). In the absence of a credible and well formalized banking system, the owners of the cash have no alternative other than to store the money at home ideally. This is sole waste of resources as the capital could be utilised for several growth activities and projects.

CONCLUSION

The study has successfully established that even with increasing inflow of aid most of the African nations have not been able to ensure sustainable economic growth in their economies. In the past the economic success of some African countries was undoubtedly aid induced. However, today only 3 countries out of fifty four - Botswana, Swaziland and Equatorial Guinea support this tenet. Of all the nations in African continent only these countries have shown lowered poverty rate, increase in income and a higher standard of living due to the large aid-driven interventions.

Therefore it may be safe to conclude that there has never been an example of any country that has solely developed with the help of aid or credit. Most countries like Europe, America, japan, Korea and Taiwan have all believed in free markets for their progress. Therefore it's time for the African state to stop pretending that aid based development model will generate long term economic growth in one of the world's poorest country. Like South Africa and Botswana, the other countries of Africa too need to voluntarily abandon aid. Using the aid alternatives like issuing of bonds, stronger anti-corruption policies, benefits from remittances, induced savings etcwill not only raisethe sources of income available at the same level of spending but will also encourage economic growth.

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