

**T.C.
ISTANBUL AYDIN UNIVERSITY
INSTITUTE OF SOCIAL SCIENCES**



**THE EFFECTIVENESS OF FOREIGN AID TO POVERTY TRAP IN TERMS
OF POOR COUNTRIES – CASE OF AFGHANISTAN**

THESIS

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**Department of Business
Business Management Program**

Thesis Advisor: Dr. Öğr. Üyesi Cigdem OZARİ

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DECLARATION

I hereby declare that all information in this thesis document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results, which are not original to this thesis.

Jalil Ahmad Ghazizada

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ABBREVIATIONS

AAA	:Accra Agenda for Action-
ADF	:Augmented Dickey-Fuller
AIDS	:Acquired Immune Deficiency Syndrome
ANDS	:Afghanistan's National Development Strategy
BPHS	:Basic Package of Health Services
CAREC	:Central Asia Region Economic Cooperation
CASA	:Central Asia South Asia
CSOS	:Child Support Online Services- CSOS
DAC	:Development Assistance Committee
DCD	:Development Co-operation Directorate
FDI	:Foreign Direct Investment
GDP	:Gross Domestic Product
GNI	:Gross National Income
HIPC	:Heavily Indebted Poor Country
HIPC	:Heavily Indebted Poor Country
HLF-3	:Third High Level Forum
IFI	:International Financial Institutions
IMF	:International Monetary Funds
LCU	:Local Currency Unit
MDGs	:Millennium Development Goals
MDGs	:Millennium Development Goals
NAS	:National Academy of Science
NPISH	:Non Profit Institutions Serving Households
NRVA	:National Risk and Vulnerability Assessment
NSP	:National Solidarity Program
ODA	:Official Development Assistances
ODI	:Overseas Development Institute -
OECD	:Economic Cooperation and Development
PBHS	:Basic Package of Health Services
PRSP	:Poverty Reduction Strategy paper
SIGAR	:Special Inspector General for Afghanistan Reconstruction
TAPI	:Turkmenistan-Afghanistan-Pakistan-India
USAID	:United States Agency for International Development
USD	:United States Dollar
WB	:World Bank
WTO	:World Trade Organization
WWII	:World War Second

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THE EFFECTIVENESS OF FOREIGN AID TO POVERTY TRAP IN TERMS OF POOR COUNTRIES – CASE OF AFGHANISTAN

ABSTRACT

Foreign aid as external resources, mostly transfer from developed countries to under developing countries with the aim of boosting economic development. Based on economic theories, foreign aid to developing countries has positive impact and causing increment life standards and poverty reduction in these countries. In the other side, some economists criticize foreign assistances through outcome of these aid flows from the poor countries. These critics state that foreign aids by obtaining corruption and bureaucracy have negative effect rather than positive impact in developing countries. The debate on effectiveness of foreign aid is still ongoing while the consequences of the foreign assistances to the poor countries are under question yet. This research investigates on role of foreign aid in poverty alleviation and economic development of Afghanistan, using time series analyses covering a period of nine years (2006 to 2015). The study using secondary data and Households and NPISHs Final consumption expenditure per capita growth (annual %) has chosen as main variable for measuring poverty.

Afghanistan is one of the poorest countries in the world. The country has received huge amount of foreign assistance after 2001 which named the country one of the biggest recipient in the world, still suffering from poverty. Overall, the study finds that foreign aid has negative or no significant impacts on country situation rather than reducing poverty. The negative and insignificant results could be defined by increasing corruption, misallocation of the aids, donor driven and lack of ownership of the aids by Afghanistan's government.

Secondly for the analysis of how aid can be made more effective in reducing poverty, empirical evidence suggests that institutional quality, control of corruption and trade openness are vital for aid effectiveness. Economic growth and trade openness have been found to be necessary conditions for poverty reduction.

Key Words: *foreign aid, poverty, economic growth, poverty reduction, country development*

YOKSULLUĞU AZALTMADA DIŐ YARDIMIN ETKİSİ: AFGANİSTAN ÖRNEĐİ

ÖZET

Dıő yardım, ekonomik kalkınmayı artırmak amacıyla çoęunlukla gelişmiş ölkelerden gelişmekte olan ölkelere transfer edilmektedir. Ekonomik teorilere dayanarak, gelişmekte olan ölkelere yapılan dıő yardımın olumlu etkileri vardır ve bu ölkelerdeki yaşam standartlarının artmasını, yoksulluğun azalmasını sağlamaktadır. Dięer taraftan, bazı ekonomistler fakir ölkelerden gelen bu yardım akıőlarının sonucu olarak dıő yardımları eleştiriyorlar. Bu eleştirmenler, dıő yardımların yolsuzluk ve bürokrasinin elde edilmesine yardımcı olarak gelişmekte olan ölkeler üzerindeki olumlu etkilerden ziyade olumsuz etkilerinin bulunduęunu belirtiyor. Dıő yardımın yoksul ölkelere getirdięi sonuçlar henüz sorgulanmıyorken, dıő yardımın etkinlięi konusundaki tartışmalar hala devam etmektedir. Bu araştırma, dokuz yıllık bir süreyi kapsayan (2006-2015) zaman serisi analizi kullanarak, Afganistan'ın yoksulluğun azaltılmasında ve ekonomik gelişmesinde dıő yardımın rolü ele alınmıştır. İkincil veri kullanılarak yapılan araştırma hane halkı ve Sosyal hizmetler ve Yardım kuruluşlarının, kiő başına düşen nihai tüketim harcamaları (yıllık%), yoksulluğun ölçülmesinde ana deęişken olarak seçilmiştir.

Afganistan, dünyanın en yoksul ölkelerinden biridir. Ancak öлке, 2001'den sonra çok miktarda dıő yardım aldı. Bu, öлкеyi dünyadaki en büyük alıcılardan biri olarak nitelendirmekte ve hala yoksullukla mücadele etmekte. Genel olarak, araőtırmada dıő yardımın yoksulluęu azaltmak yerine öлке durumu üzerinde olumsuz bir etkisi olduęunu ya da hiç bir etkisi olmadığı tespit edilmiştir. Olumsuz ve önemsiz sonuçlar, Afganistan'ın hükümeti tarafından yolsuzluğun artması, yardımların yanlış dağıtılması, yardımcının yönlendirilmesi ve yardımların mülkiyeti eksiklięi ile tanımlanabilir.

Sonuçta, yoksulluğun azaltılmasında yardımın nasıl daha etkili hale getirilebileceęinin analizi için ampirik kanıtlar; kurumsal kalitenin, yolsuzluğun kontrolünün ve dıőa açıklıęın yardım etkinlięi için hayati öneme sahip olduęunu göstermektedir. Ekonomik büyüme ve ticarete açıklıęın yoksulluğun azaltılması için gerekli koşullar olduęu tespit edildi. Ekonomik büyüme ve ticarete yönelim yoksulluğun azaltılması için gerekli koşullar olduęu tespit edildi.

Anahtar Kelimeler: *dıő yardım yoksulluk ekonomik büyüme yoksulluęu azalması öлке gelişimi*

1. INTRODUCTION

It is widely accepted that domestic capital is insufficient to promote the economic growth and development in developing and especially poor countries who are suffering from lack of internal capital and resources (Trinh, 2014). Foreign aid as one of the most potential external capitals play important role to boost the economic development in under developing countries. Foreign aid as external capital first started with the marshal plan as a post-war assistance in the late 1914s with the aim of reconstructing the war-torn economy of Western Europe (Moyo 2009). A successfully out-come of Marshall plan after the world war second (WWII) was enough to led the development of more optimistic idea about the role of foreign aid and its effects to the developing counties. In addition, the gap models and big push theory discussed that this thinking proposes such as aiding and transferring resources to the low incomes and poor countries could lead them to developing way as led the Western Europe Countries. Furthermore, foreign assistance became an essential prerequisite for economic advancement of the developing countries, especially while economy is moving out of “low-level equilibrium traps” (Hjertholm and White, 2000; United Nations, 2006). These general concepts caused the developed countries and international organization to provide large amount of aid to the low level countries with the aim of developing and reaching the desired level of economic growth. Therefore, developing and low level countries started to receive large amount of aid from both multilateral and bilateral sources. According to the World Bank, these two financial flows present with two main objectives; poverty reduction and promoting long term growth in developing countries and increasing short-term political and strategic interest of donor’s countries (World Bank, 1998).

Fallowing the decades of war, Afghanistan as a developing country received huge amount of developing assistance. After 2001, the country continued to be one of major recipients of international aid in the world (World Bank, 2010). Based on Organization for Economic Cooperation and Development -

Development Assistance Committee (OECD-DAC) statistics, only United State donated net ODA to Afghanistan amounted to USD 118 billion, presenting the country as one of the largest aid recipient among the developing countries. according to the world bank database, net ODA as a percentage gross national income (GNI) is still significant and high relative to many developing countries (13.43% on average from 2000-2010 reaching a peak of 19.15 in 2003). Poverty in Afghanistan is in a severe condition. Among the population, 35.8 percent lived under poverty line in 2011, with 20 percent of the population just above the poverty line, where the risk of falling under the poverty line is dominant. The data in hand belongs to the year 2011, due to lack of data in either national or international level for the recent years. The National Risk and Vulnerability Assessment (NRVA) reported that 53.8 percent of Kuchis (Nomadic people in Afghanistan), 37.7 percent of rural population, and 28.9 percent of people living in urban areas are living under the poverty line.¹ Poverty in Afghanistan defines to be a multi-faceted phenomenon, involving low assets (physical, financial and human), a long period of conflict insecurity and drought, poor infrastructure and public services.²

After the Second World War, foreign aid transfers started to the non-developed countries with aims of economic development and achieving desirable level of growth. Since that time, here is many empirical studies especially from African countries using periodic data, have been conducted on the impact of foreign aid (ODA). However most of these researches tried to investigate on aid-growth relation and consequently they have concentrated on the macroeconomic variables such as investment, saving, government expenditure that present economic growth (Siraj, 2002; Tadesse, 2011; Siraj, 2012). Unlike these researches, this study focuses on investigating aid's effectiveness on its ability to reduce poverty in Afghanistan.

The economic theories are usually consistent to the pivotal role of foreign aid in spurring growth and development (big push theory), also studies conducted by

¹ Afghanistan living condition, National Risk and Vulnerability Assessment 52. Available at: <http://www.af.undp.org/content/dam/afghanistan/docs/MDGs/NRVA%20REPORT-rev-5%202013.pdf>.

² Human Development Report, United Nations Development Program 2017. Available at: <http://hdr.undp.org/en/countries/profiles/AFG>.

Mosley et al. (2004), Gomanee et al. (2003), Asra et al. (2005), Masud and Yontcheva (2005) and Alvi and Senbeta (2011) have shown that aid has a significant result in poverty reduction in poor counties and significantly guided them to economic growth and development.

In contrast, opposing strand of literature argue that here is an insignificant or significant negative relation between aid and economic growth and even foreign aid has negative impact on poverty as well. (Easterly, 2005; Magnon, 2012).

The evidence shows that, many countries are still desperately poor after 50 years of receiving ODA. In many recipient countries the economic development processes were faster before receiving the official developing assistance. Furthermore, the critics state that international aid may support governments who are pursuing specific policies, and by increasing the power of these governments it may cause increment in corruption, tension and inefficiency in the society. Therefore, these factors easily can stop the development process (Salmonsson 2007). Additionally it is argued that if the assistance is free there is no responsibility and no incentive to use the aid productively (Dorn, 2004; Niaz, 2011). However, the debate on why it is not efficient and how aid can be effective and contribute to country's development is still ongoing without consistent conclusion (Estern, 2003).

There has been massive flow of foreign aid to Afghanistan since the inception of the new Afghan government in 2001. The outcome and effectiveness of foreign assistance to economic development of AFG are still under question and undesirable. Afghanistan is still struggling with poverty trap and lower economic growth.

This study investigates to explain the relationship between development aid and poverty reduction in Afghanistan. There are high volumes of literature on the impact of foreign aid on development in Africa and other countries. Studies conducted by (Mosley et al,2004), Gomanee et al. (2003), Asra et al. (2005), Masud and Yontcheva (2005) and Alvi and Senbeta (2011) etc. have shown that foreign aid had high impact on poverty reduction in poor countries and thereby helped significantly to their development progress. But there are only few studies about Afghanistan (Fayaz, 2012).

This study will fill the gap in the literature. In this study we will try to find foreign aid flows and their impact to poverty reduction in Afghanistan from 2001 up to 2016, whether the foreign aid efficient or not to the economic growth and country development in Afghanistan, what the relationship is between them. Furthermore, if it is ineffective, what are the reasons, what the government has done with receiving foreign assistance. Finally, try to propose some alternative ways to make use of foreign aid more efficiently to contribute to country's development and poverty reduction.

1.1 Importance of Research

- Foreign aid and poverty trap is one of the main economic topic especially for developing countries
- To essential reasons why there has been massive flow of foreign aid to Afghanistan since the inception of the new Afghan government in 2001, however the outcome and effectiveness of foreign assistance to economic development of AFG are still under question and undesirable.
- Lack of academic studies and research in this field.
- It's my interested field- related to my education background

1.2 Research Objective

Afghanistan is one of the poorest countries in the world. Mostly foreign aid considered as main external tools to boost economic growth in different countries. It is essential to conduct a scientific research on whether foreign aids have been effective or not in Afghanistan. The main objective of this study is to find the effectiveness of foreign aid on poverty reduction in Afghanistan. What the government allocated the massive foreign assistance, what has been the outcome of the foreign aid for Afghanistan, what are the reasons if it is ineffective, and are that any alternative ways to make use the foreign assistance more effectively to diminish the poverty and promote the country's development.

1.3 Research Questions

- What the effectiveness of foreign assistance to economic development in Afghanistan.
- Does foreign aid alleviate poverty or not in Afghanistan?
- What are the reasons if foreign aid is inefficient in Afghanistan development?
- Does there any other ways to make use of the foreign assistance more efficiently in Afghanistan?

1.4 Research Implications

This study fills the literature gap of foreign assistance and economic development especially for Afghanistan.

This research will find out the reasons if inefficient of foreign aid in AFG to help the country escape the poverty trap.

This study will give policy makers and donors some suggestions to improve the effectiveness of foreign aid with the development goals.

1.5 Research Hypotheses

- First hypothesis

Null H₀: There is no relationship between foreign aid and poverty reduction in Afghanistan.

H₁: There is relationship between foreign aid and poverty reduction in Afghanistan.

- Second hypothesis

Null H₀: There is no relationship between foreign aids and household consumption per capita.

H₁: There is a relationship between foreign aids and household consumption per capita.

2. LITERATURE REVIEW

This chapter is aimed to focus at the theoretical analysis of the most recent literature existence foreign aid and its effectiveness to the poverty reduction and country development. This chapter briefly describes the definitions of aid and Official Development Aid (ODA), the overall history and policies of aid, aid-poverty relations and review the three high level forum (HLF) regarding aid effectiveness. Furthermore, it continues to review the impact of these there HLF regarding aid allocation and its effectiveness on Afghanistan's country development and poverty alleviation by both donors and government. Finally, the chapter ends with Afghanistan's current profile.

2.1 Defining Aid

Before reviewing the history of foreign aid, having a brief explanation on the concept of aid would be meaningful to the subject. Like a nation's foreign policy, this is not easy to define the foreign aid in sample way. Foreign aid, generally defines the nominal value of the indirect and direct financial flow subsequent to the sources provided by the developed countries to the poor or under developing countries. Foreign aid is the term that defines the flow of technical and financial resources to the under developing countries from the rich and developed countries. Foreign aid is the international transfer of goods, capital and services from an international organization or a country in order to benefit the population of the recipient country.

The foreign aid can presents in form of military aid, economic aid, humanitarian aid, or emergency aid to the recipient countries. Generally the type of foreign aid refers to the donor and recipient countries interest. Nowadays, as the developing process is not identical in developing countries, the concept of foreign assistances may change over the time.

Foreign assistance as external resources to the developing countries plays an important role, as Thomas Balogh says that:

from being a voluntary contribution by sovereign nations, is becoming slowly (as it is already within communities organized as states) a civic or human duty to contribute in proportion, or more than in proportion to wealth to the progress of the less privileged populations. Foreign aid will then become a conscious weapon controlled instinctively to combat poverty and inequality in an international framework. (Balogh, 1967)

Word 'Aid' commonly refers to the nominal value of direct and indirect financial recourses and cash flows from developed and rich countries to the poor countries or developing countries. Based on the Tripathi definition, "foreign aid is the expression which mostly used to describe, the flow of financial and technical resources from the developed world to the under developing world" (Tripathi, 1981).

Additionally, foreign defined by Britannica Encyclopedia, as international transfer of cash flows, goods or services from a country or international organization with the aims of increasing life standards and social welfare to the recipient countries. These transfers can be in form of economy aid, military aid or emergency humanitarian aid (Williamson, 2011).

Humanitarian and non-humanitarian aid can be named as two main category of the foreign assistance. Humanitarian aid defined as grant at the time of emergencies or after the emergency situation, donates to the recipient countries in order to protect human dignity, save lives and reduces suffering due to the humanitarian principles which are impartiality independence and neutrality. Prevention of disaster, water food, and sanitation services can be provided as humanitarian aid to save the affected people, in order to lead them toward achieving their normal life back.

In the other hand, non-humanitarian aid includes foreign assistances for development related to the socio economic factors that led to the crisis or emergency such as the debt relief scholarships and administrative costs (Williamson, 2011).

2.2 Official Development Aid

The ODA widely well known as foreign aids in economic literatures, which is aid given to combat poverty and to promote economic development. Official Development Assistances (ODA) named as most common type of foreign aids, which mostly donates with the aims of country development and poverty reduction the non-developed countries (Williamson, 2011). The most accepted definition of aid is defined by the Organization for economic Cooperation and Development (OECD). According to the OECD definition to the aids:

Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount). (George, 2009). ODA can present in form of bilateral agreement between two countries, and multilateral institutions. Furthermore, the ODA can be presented in form of financial resources; merchandise such as machinery and foodstuff; or as training and technical assistances, while it could be present in form of grants, debt relief and credits.

2.3 The History of Official Development Assistance

As the warring parties were looking for an ideal deal and strategically significant in the past, military aid named as the earliest form of foreign aids. In nineteenth and twentieth century, the European powerful countries decided to transfer huge amounts of money to their colonies. It was basically presented with the aims of buildings infrastructure and increasing the economic output of their colonies. (Williams, 2011). Once these cash flows had significant result to the colonies economic, the government of developed countries, interested to find the ways for the international political economy and the economic relations between the least-developed and developed countries. The foreign assistances with the aim of development to the Third-World countries were given more attention as part of the new dimension of economic relations.

Today, the modern scope and structure of the foreign aid can be sketched to the two main developments that took place after the World War II during 1944-46. Firstly, it was the implementation of the Marshall Plan sponsored by USA, to

rebuild the 17 western and eastern European countries' economies. Secondly, to create the significant international organizations such as World Bank, international monetary funds (IMF), and United Nations (Williams, 2011). Promoting the monetary stability was the main for founding the IMF organization, while increment the capital for reconstructions Japan and European countries was the main reason to establish the World Bank. "Aid was viewed as a way of supporting 'developing' country economies to industrialize, attracting large scale investments of capital and technical expertise that would lead to western style industrial development" (Aid Watch, 2011). In 1949, while industrialization and modernization was in progress ahead, the official development assistance mainly focused to dominant economic and political theories of the time. According to the US President Harry Truman, "to jump from poverty trap and economic problems, the underdeveloped countries have to speed up the progress for modernization and industrialization" (Aid Watch, 2011). Even though, the policies for industrialization and modernization were preferred by the under developing countries' elites, cause "it proved largely disastrous for communities and environments mandated for development due to the power imbalanced between the IFI's (International Financial Institutions) and recipient countries in Africa, Asia and the Pacific parties" (Aid Watch, 2011). In 1950-1960 once the decolonization were in progress, and newly formed independent states faced lack of industrialization: nations such as developed and developing countries has appeared (Emmerij, 2002). Once the impacts of foreign aid to the developing countries realized by the World Bank, United Nation and other non-governmental organizations they stated that, however the old format of development assistances positively impacted on economic growth it also had little but significant impact on social indicators such as poverty rate, life standards, sanitation services, infant mortality rate and education level as well (Aid Watch, 2011). Therefore, the donors and ODA organizations decided to concentrate more on effectiveness of the aid to the social indicators such as basic needs, gender quality, health care system, education institutions and income distribution rather than only focusing on indicators at the macroeconomic level. This mechanism is called as 'basic need approach' supported by president of World Bank McNamara as he stated, these mechanisms are against the industrialization/ modernization/ and import

substitution policies of the 1950s-1960s and the structural adjustment policies of the 1980s and 1990s” (Kipping, 2011).

In 2000, the international community founded the organization of millennium development goals (MDGs).³ The MDGs created to analyze the aid allocation failure on poverty reduction in recipient countries. Additionally, it agreed that the donors together set up an international action plan by increasing the amount of ODA to 0,7 % of GNI in 2015, towards reducing poverty in eight non-developed areas. (Aid Watch, 2011).

However, the development cooperation continued to change the form of ODA and it's prospective as key factor toward improving life standards in developing areas to reach global development, while the outcome of ODA was not as desirable as director of DAC stated, “success in aid allocation has not always been evident: ambitious targets by donors and recipient, failure in co-ordination, failure in time management - and fragmentation in donating aid and political self-interest of donors have too often prevented aid from being as effective as desired” (Development Co-operation direction directorate, DAC, 2011). Over 100 developed and developing countries together discovered that, why foreign aids were not generating the development results that they wanted to reach the MDGs. Therefore, guidelines and principles have been made by this corporation to improve aids effectiveness to the recipient countries. These guidelines and principles happened in continuous effort to increase delivery of aid, which marked by three formal events: the High Level Forum on Aid Effectiveness in Rome, Paris and Accra in 2003, 2005 and 2008, respectively” (DAC, Development Co-operation Directorate, 2011).

Nowadays ODA named as main resource for supporting development countries. Annually developed countries donate over 100 billion to under developing countries for boosting the economic development and reducing poverty. However, in the recent years the amount of aid annually donated reached the maximum level of all the history, still many countries suffer from poverty in the world

³ The correspondence data on the eight MDGs can be obtained from appendix.

Based on OECD annually report, US\$ 119 billion dollars donated only in 2008, USD 119.6 billion dollars in 2009, and USD 128 billion dollars in 2010 which presents 6.5 % increment over 2009(OECD annual report, 2011).According to the figures 2.1 below, the largest amount of aid donated by United Kingdom, United States, France, Germany and Japan in 2010. Furthermore, the Norway, Sweden, Denmark, Luxembourg, and the Netherland continued to pass the United Nations ODA target which was 0.7 % of GNI. Additionally, based on figure 2.2 below, the maximum increases in real terms in ODA were recorded by Australia, Belgium, Canada, Japan, Korea, Portugal and the United Kingdom between 2009 and 2011 (OECD annual report, 2011).

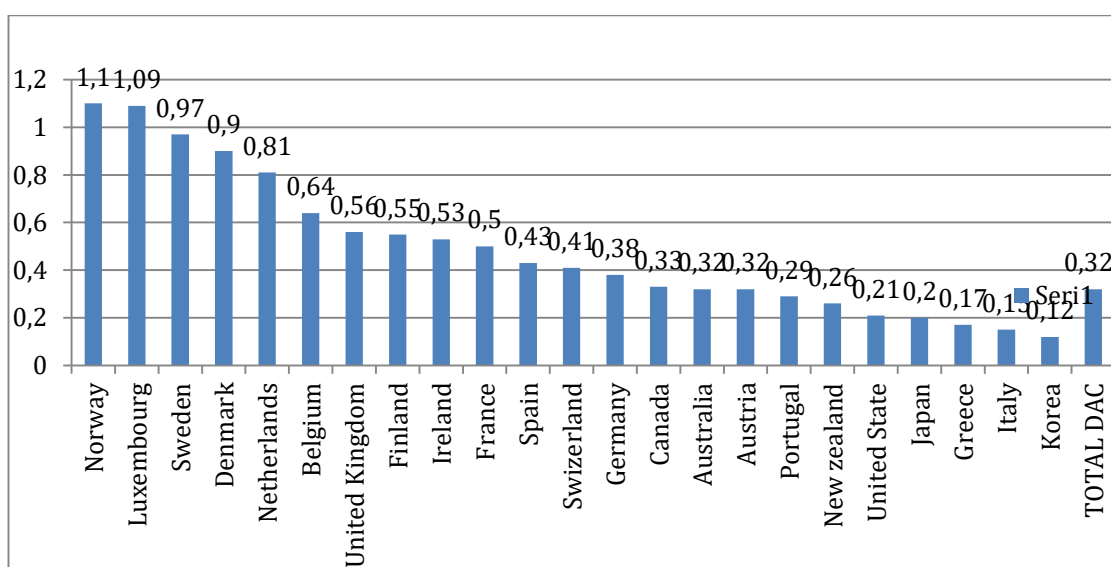


Figure 2.1: net ODA by the donors in 2010- as percentage of GNI

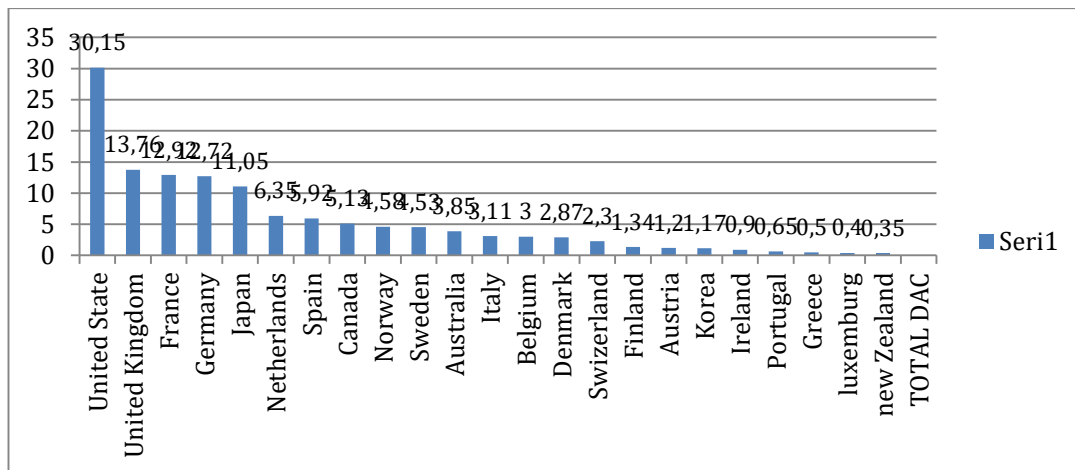


Figure Hata! Belgede belirtilen stilde metne rastlanmadı.2.2: Net ODA in 2010 – amount by USD

Source: OECD 6 April 2011/ (OECD, 2011)

2.4 Paris Declaration on Aid Effectiveness

2005, February, experienced the early changeover phase through the channeling the international aid by donors. The international community joined at the Paris High Level Forum regarding Aid effectiveness, which hosted and organized by French government and “Organization for Economic Co-operation and Development” (OECD), respectively, on the second of March, 2005. The coincidence of the conference and getting attraction of the aid in promoting development, in terms of the time, leads to investigate almost all aspects of the civil society (Organization for Economic Co-operation and Development, 2008). The conference mainly focused on the methods which provide money by donors could simplify easily. Furthermore, try to harmonize the work in developing countries since the existing provided aid was uncoordinated, unpredictable and non-transparent. Additionally, the donor priorities campaigned the aid process also it was administered through the donor channels; therefore; taking the head by developing countries become a problematic issue (Organization for Economic Cooperation and Development, 2008). The countries attended to the Paris meeting discovered a serious requirement for comprehensive reform in implementation of the aid to tackle the poverty.

Furthermore, the Paris Declaration on Aid Effectiveness was an achievement of the Paris meeting which was endorsed by the donors, developing countries, multilateral donor agencies, the regional development banks, and the international agencies (Organization for Economic Co-operation and Development, 2008). The Paris Declaration illustrated a wide consensus in the improving of the efficient aid among the international countries, in addition, it properly symbolized as the valued assistance to developing countries, their goals, and the commitment alignment to the implementation of their national plans applying their own planning and implementation systems. The aforementioned declaration consists of 56 partnership commitments in order to improve the effective of the aid. In order to present a measurable and evidence-based method for tracking the progress of implementation as well as development of aid-based projects, it is based on the 12 indicators. The declaration established five further mutually reinforcing principles that closely secured the effectiveness of aid. In the following subsections, the aforementioned principled are briefly described:

2.4.1 Ownership

In developing countries, taking the lead in development policies and strategies by the governments plays a vital role for maintaining a sustainable development. It is worth to note that the donors have a great share in building up the capacity of the developing countries to exercise the leadership by strengthening the local expertise, institutions, and management systems (Organization for Economic Co-operation and Development, 2008).

2.4.2 Alignment

In Paris declaration it was agreed that, the donors would allocate their assistances in congruous with the priorities outlined in national development strategies in recipient countries. It is clear that for managing the aid, the donors would apply the local institutes and procedures to create sustainable structures. Specifically, to result an efficient applying of the procedures for financial management, accounting, auditing, procurement, and monitoring, the donors would remain committed. Additionally, it agreed that country's institutions and system should be used for it allocation. Using the recipient country's system

provides assurances that foreign aid will be spending for agreed purposes, improve effectiveness of the aid by reinforcing the sustainable capacity to develop in the recipient countries, and increase the government accountability to its citizens and parliament in the recipient countries.(Organisation for Economic Co-operation and Development, 2008).

2.4.3 Harmonization

It is obvious that the harmonization plays a considerable role in order to avoid duplication and the high transaction costs involved with the poor countries; hence; it was committed that the donors would properly coordinate their development work amongst themselves. The coordination would be performed at the country level to priorities the needs of recipient countries. Furthermore, donors should focus more on supporting particular aid allocation strategies led by recipient government, rather than investing in multi individual projects in these countries (Organization for Economic Co-operation and Development, 2008).

2.4.4 Managing for results

The donors are going to concentrate more on the relationship between the aid and the impact which is created via a tangible difference on the lives of poor people. They require to connect the programming and resources of the country to the results after that orient them with performance assessment of the frameworks. To this end, it required development of the proper and efficient tools and systems to measure the impact. Moreover, it was established that the partner countries and the donor agencies would cooperate in a participatory approach in order to strengthen capacities and demand of the country for results-based management (Organisation for Economic Co-operation and Development, 2008).

2.4.5 Mutual accountability

In Paris declaration agreed that, mutual accountability; transparency and responsibility by both donors and recipient towards aid allocation, implementation, outcome and the impact of aid were to be made available to the citizens and parliament of both countries. Furthermore, along with this five

principles and participant of Paris declaration on aid effectiveness, also estimating and measuring the progress of aid allocation agreed to set up through development indicators (Paris declaration on aid effectiveness, 2006). These indicators fall in various categories and summarized as below:

- Operational development strategies for both partners
- Reliable country systems
- Aid flows are aligned on national priorities
- Strengthen capacity by coordinated support
- a. Use of country public financial management systems
- Strengthen capacity by avoiding parallel implementation structures
- Aid is more predictable
- Aid is untied
- Use of common arrangements or procedures
- Encourage shared analysis
- Results-oriented framework
- Mutual accountability

Based on the principles and activities outlined in Paris declaration in 2005, the first round of monitoring was done keeping in account the 12 indicators in 2006 in 34 countries. In 2008, the second survey was arranged in to 54 countries to calculate the progress with the aims targeted at the country level. This survey covered an amount of USD 45 billion dollars official development assistance donated in 2007. Based on the result of this survey, aid positively impacted on one third of developing countries which were surveyed due to the improvement in their government system for managing their funds. Additionally, 90 % of the donors had untied and developed their aid flows while their technical cooperation was adjusted with the developmental programs of recipient countries (Organization for Economic Co-operation and Development, 2008).

However, the improvement in recipient countries were slow and not at expected level, the major of recipient countries created their development strategy and significant effort to strengthen their national system, in many cases these strategy were not supported by the donors countries (Organisation for Economic Co-operation and Development, 2008).

Later these problems increased due to the fragmentation in aid allocation by the donors. Additionally, fragmentation in aid programs negatively affected governmental plan for strengthen the national system. In conclusion, the 2008 survey provided the facts towards problem which avoid improvement in some specific area, presented specific strategy to resolve these problems and to measure and follow up the progress towards development programs in recipient countries. Additionally, based on the evaluations of the some NGOs, the Paris declaration on aid effectiveness was not implemented as planned in the forum (EuroDad, 2008). To resolve this problem, Overseas Development Institute (ODI) stated that, “ a better monitoring must arranged between the Paris principles and development results as a sector level” (Overseas Development Institute, 2008).

2.5 Accra Agenda for Action

This meeting took in action with the aims of making Aid More Effective through the Strengthening and Use of National Systems. Accra meeting which called the Third High Level Forum on aid Effectiveness (HLF-3) was held in Accra city of Ghana in 2008. This meeting was continuing to the previous meeting regarding aid effectiveness which held at Paris and Rome. Mainly the aim of this meeting (HLF-3) was to accelerate the development progress towards the millennium development goals. More than 100 senior minister from the different countries, delegates of aids institutions such as the World Bank, European commission, the head of United Nations, member of non-governmental foundations, was attended the third high level forum.(Accra Agenda for action, 2008). Accra meeting mostly was prepared and organized by developing countries. Therefore, the meeting was more special and interesting for the developing countries. This forum like previous meeting took place against the changing in donors programs and landscape to the aids. Around 80 developing countries and fifty-four developed countries attended to the forum. While most of them participated in OCED’s survey of progress, which were against the Paris declaration targets in 2008. Civil society also took place in this meeting for increasing the aid effectiveness. More than 300 civil society groups like gross roots groups attended to the forum. China and India had counted as

most important donors to the global organizations, as they promised to fight against specific problems such as AIDS, Malaria and Tuberculosis in to developing countries.

Additionally, some private foundations such as Bill and Melinda foundation were stand along the civil society groups actively. These foundations promised to expertise the aid process to decrease the aid complexities, which happened in developing countries, by failover in managing the aid.

Generally, the main aim of HLF-3 was to encourage the constitution of broad foreign aids partnership, supported by the Paris declaration agenda and principals. On the third day of the third high level of forum (HLF-3) after discussions and a series of nine roundtables, the Accra agenda for action (AAA) was endorsed by the ministers of the countries and foundations ‘representatives. Donors recollect and reaffirm their Paris Declaration commitment to provide 66% of aid as program-based approaches. In addition, donors will aim to channel 50% or more of government-to-government assistance through country fiduciary systems, including by increasing the percentage of assistance provided through program-based approaches (OECD, 2008).

Based on the evaluations surveys in 2006 and 2008 regarding monitoring the Paris declaration, and huge contributions from developing countries, the Accra Agenda for Action (AAA) introduced three main areas which improvement towards reform was not desirable, and need to be speed up for a better outcome of the aids (Accra Agenda for Action, 2008). These areas are as follows:

2.5.1 Country ownership

Country ownership of the foreign aids mainly had pointed by the Accra Agenda for Action in 2008.

Based on the AAA agenda “the developing-country governments need to take stronger leadership of their own development policies and engage further with their parliaments and citizens in shaping them” (Accra Agenda for Action, 2008).

The donors promised to provide at least 50% of their development aid through the treasury of recipient government; furthermore, they also concluded the

specific rules apply for fragile countries like Afghanistan. Finally, donors should respect the priorities of recipient countries for investment by allocating the aid on human resources and institutions, great improvement to their system to deliver the aid properly, and lastly predictability of the aid by the recipient should be increased (Accra Agenda for Action, 2008).

2.5.2 Building effective partnerships for development

Based on the AAA, Aid is about to creating partnership for developing. To make this partnership more effective, it needed to harness the whole energy, abilities, skills and experience of all the development players such as bilateral and multilateral donors, global organizations, CSOS, and private sectors. This partnership is needed to support developing countries to build their future, increase economic growth rate and to reduce poverty (Accra Agenda for Action, 2008).

2.5.3 Gaining development results

In third high level of forum regarding aid effectiveness in Accra Ghana, donors and international organizations concluded that, donating aids to the recipient countries should end up with development result and openly accounting for them. These two goals presented as main aims of the donors and international organizations in AAA Ghana. Furthermore, donors promised to demonstrate that, their action will have positive impact on people's life in recipient countries, and both donors and recipient will be accountable to each other, their peoples and to their parliaments for the outcome of the aid. Finally, donors and international comities agreed to accelerate progress on these three challenges: i: to strength country ownership over development in recipient countries, ii: creating inclusive and more effective partnership among the donors and recipient country, iii: increase delivery and accountability of the aid for developing result in developing countries. (Accra Agenda for Action, 2008).

2.6 Important Items of AAA from Afghanistan's Perspective

Going through the outcome of Accra agenda and keeping in mind the situation of Afghanistan; can say that there are still many things need to change and more

to be done. However, the aims which determined by donors in Accra seems to provide great future for the recipient countries, from Afghanistan prospective the important items are those which can develop the country system for aid allocation, to increase the country development and reduce poverty. Following items from Accra agenda can set to the country situation to achieve the above purpose in Afghanistan.

2.6.1 Country's ownership over development

Development aid can be effective to the recipient while its county driven. Ownership of the aid should be to the recipient country rather than donors. By having this, country cans strength its financial management system, priorities capacities need develop in the country and then can allocate the aid through this channel to make it more effective. Therefore, donating the aids by the donors should be through on budget channels in Afghanistan, rather in individually investment. Additionally, by having the ownership of the aid, government can develop the local procurement to encourage private sectors for investing to the country.

2.6.2 Building of country's institution

Afghanistan as recipient should support by donors to build its own institutions such as: institutions for aid allocations, prioritizing the area for investment, and research center to move ahead and led the country to the development activities. The recent conflict made the situations fragile in Afghanistan, creating these kind of institutions will also increase the government performance.

2.6.3 Poverty

Poverty is a phenomenon with multi definition. According to the World Bank, poverty word refers to the people living without access to the basic and necessary resources for covering their basic needs such as food, drinking water and shelter. Poverty line is the measure of absolute poverty related to the \$1.25 or \$2 a day. The 1.25 poverty headcount ratios defined "the percentage of the population living on less than \$1.25 a day at 2005 international prices" (The World Bank Group, 2012). Here is a corresponding definition for \$2 poverty line. The measures are designed for purchasing power parity, which means

people living with the low level of life standard as calculated for all people living on less than equivalent of \$1.25 or \$2 a day in United States. The more comprehensive measurement is poverty gap index which takes into account the depth of poverty not just its incidence and this defined as “the mean shortfall from the poverty line (counting the non-poor as having zero shortfall) as a percentage of the poverty line” (The World Bank Group, 2012). The squared poverty gap also discuss inequality among the poor people, and puts more weight to individuals fall far from the poverty line than people close to it. It means that inequality is punished in terms of higher squared poverty gap. These are the easiest definitions if poverty but in the same time can be useful enough because they make the poverty and poverty reduction to be monitored and evaluated efficiently. Furthermore, the World development indicators (except squared poverty gap) state that, these are the most common measure to calculate poverty and used in lots of empirical studies. Poverty as a multidimensional phenomenon shows that most of the developing and poor countries are not just poor with the economy; they also facing lack of facilities in health sector, facing problem in security sector, poor in education sector, poor in political participation and many other aspects of life (OECD).

2.7 Poverty reduction

Based on poverty definition, people at the far down under the poverty line with \$1 or less a day stay more poor with less access to basic needs of normal life, while people close to the poverty line (but still under poverty line) with \$1.5 - \$2 a day satay in a better situation than the first group however still suffering with poverty, and people above the poverty line, as far as they stay above the poverty line they have better access to the resources and lives' standards. Therefore, poverty reduction can easily define as reduction in poverty measurement such as poverty gap index or poverty headcount ratio. Referring to the head count ratio, poverty reduction is quite easy to achieve by simply moving people closest to the poverty line from direct below it to direct above it (OECD, 2011). Even though, it will not grant giving better live to the people but will help the poverty statistic to look in proper way. This argument means that headcount measurement could be easily arranged or a better word manipulated,

therefore the poverty reduction should be measured with the other methods as well, (Bardar 2009).

In addition to, Bardar argue that the type of poverty reduction needs to be distinct and distinguish the possible trade-offs between current and future poverty reduction, deep poverty reduction and temporary and sustainable poverty reduction, while lots of researches without focusing on this fact of poverty reduction, finding and reasoning through the economic growth and increases in GDP per capita which can be so surface and can't present the poverty reduction in reality (Bardar (2009).

2.8 Aid-Poverty Relations

2.8.1 Theoretical link between foreign aid and poverty

Foreign aid as a new phenomenon to the economic lessons, having been formalized in 1947 while the economists began to search and discuss about it as a new indicator effecting developing countries and its impacts and the relation with the other economic factors in the 1950s. Nurske and Lewis as earlier theorists present the foreign aid as external capital can provide efficient resources to boost developing countries into sustainable economic growth and to achieve a desirable level of economic growth (Nurske, 1953; Lewis, 1954). While McGillivray mentioned that there was no imperial studying which proves the impact of foreign aid and its relation with the poverty reduction in 1947 McGillivray et al. (2006). In this section try to explain the main theories of economic development and justify the importance of the foreign aid, aid-poverty relation and the effectiveness of the aid to poverty reduction and economic development.

2.8.2 Vicious and virtuous cycles

An investigation to find the reason why some developing countries face growth fallover and the reason why poverty seemed to be self-reinforcing has been discussed by some theorists like Rosenstein-Rodan, Murphy et al, and Schaffner. It was argued, that here is one or more vicious circles which make underdevelopment and poverty more sustainable and has the impacts on failing the Economic growth and holding the economy in low income which can be the

reasons for raising poverty traps (1943), Murphy et al. (1993), (Schaffner, 2014), (Clunies-Ross et al., 2009, p. 109). While in the other side, the vicious cycle has been criticized by some theorists such as (Myrdal, 1957; Fujita, 2004; Perry, et al., 2006).and state that, here is the virtuous cycle which is opposing the vicious and argue that, not that this cycle will push the developing country to fail in growth even will lead these countries to economic development by this cycle. Furthermore, Perry discussed that, “virtuous circles’ were thought to be opposing, which promote growth by setting into motion Self-reinforcing income-raising systems that function through ‘circular and cumulative causation” (Perry, et al, 2006). Based on the Clunies-Ross et al. (2009, p. 109) “a typical vicious circle would see initial low productivity levels leading to low per capita income levels ... places a very low ceiling on attainable levels of savings -which, in turn, rule out the new capital investment needed to improve productivity. The economy is stuck in (a) low-productivity and low-income trap”. Thus, the ‘vicious and virtuous cycles’ theory can be termed the “poverty trap model” (Murphy, et al., 1989). This theory explain that here is a wide range of vicious circles, which fail attempts by the poor countries to jump from poverty trap, and even take the national growth performance down (Clunies-Ross et al., 2009, p. 110). Furthermore, it emphasis that the poverty outcome may prevent people to go out of it and cannot have effective attempts. Therefore, many economists argue as solution to jump out from poverty trap “a special effort to push the economy over a threshold into a region where sustained increase in per capital incomes is possible” (Clunies-Ross et al., 2009, p. 111).

Based on the finding of Solow (1970) there is a high demand for “a major burst of investment [to] lift the system into a self-generating expansion of income and capital per head”⁴. to creating a sustainable growth and destroying the poverty, increasing the rate of aid and direct investment was suggested as main solution to the problem. Furthermore, suggesting that developing countries need a ‘big push’ to defeat limitation and rule out from the low-level trap. (Rosenstein-Rodan, 1943; Clunies-Ross et al., 2009). In addition to this, it argued that the outcome of efforts to promote growth is successful if we attempt to reduce poverty and improve income distribution in the same time. Foreign aid as

engine of economy to developing countries would cover the much-needed increase in investment. Therefore, the main argument that foreign aid would “jump-start economic growth, and initiates a virtuous cycle whereby investment generates income and thus raises the economic return to further investment” (Shleifer, 2009, p. 381). Have a look also to (Roser Ortiz-Ospina, 2017) and Niyoncuro (2016) for more details and discussions on the measuring of poverty in the world.

2.8.3 Stages of economic growth theory

The ‘stage of economic theory’ firstly presented by Rostow, and states that If poor countries want to have stable growth and achieve the development goals they should have pass a series of stages as key of success to reach this destiny, (Rostow, 1960;1990). The stages start with the traditional society while low level of economic growth rates presented as main character of the society and agriculture sector as main part of the activities involved 75 percent of the population. Transitional stage as second stage of the theory, emphasis on incensement of efficiency in agriculture sector and more focuses on general modernization of the economic at the macro level. The third stage which is a critical stage in development process called take-off. The theory states, that take-off stage supposed to be resulted as huge increase in the level of saving and investment, and help the society to adopt more with the modern production’s technologies (Clunies-Ross et al, 2009). The fourth, fifth and final stages of the theory are ‘drive to maturing’ and talk about high level of consumption respectively. For long time, this theory was widely accepted as ‘road map’ which means developing countries to achieve the development goals should pass through this road and successfully pass these stages while foreign aid justify as main factor to help poor countries take off, (Clunies-Ross et al, 2009). According to Esterly and Rostow “an increase of \$4 Billion in external aids would be required to lift all of Asia, the Middle East, Africa, and Latin America into regular growth, at an increase of per capita income say, 1.5% per annum”. Easterly (2006, pp. 24-25), Rostow (1960)

2.9 Harrod-Domar and Gap Models

According to Easterly (1997), the Harrod-Domar model is widely presented by development economists and aid policy makers to calculate the amount of aid needed to be allocated to developing countries with the aims of development and increasing the economic growth rate.

This model is mainly inspired from the Keynesian analysis of economic growth model presented by Harrod (1939; 1948) and almost the same but individualistic study by Domar (1945).

Equation [1] shows the Harrod-Domar equation and relationship to the model.

$$g = S/V \quad (2.1)$$

Where g is growth rate of income in the Economy, S as savings rate of economy (available savings) and V is the capital output ratio?

Excess in supply of the labor in economy presented as main assumption of the model, availability and productivity of the capital present as main factors effecting economic growth and level of savings will determine the level on investment to the economy (McGillivray et al, 2006). However, the creators of Harrod-Domar model was not clarifying this as main intention of the model, while development economists to find and specify rate of economic growth was using the Harrod-Domar relationship by estimating the saving-investment rate to the economy. (Clunies-Ross et al., 2009) For example, Hussein argue that once estimate the capital-output accurately, it's possible to predict the growth rate which given the current saving rate. In addition, to achieve a targeted growth rate we can estimate the savings rate which needed for that special level of growth. Therefore, once the capital-output ratio (V) was assumed to be constant, the theory mainly states that, higher the savings- the higher growth rate in economy. (Hussain, 2001). McGillivray defines the foreign aid allocation and state that, with low level of savings (usually exist with poor countries) can have only preferred rate of economic growth, then here is 'financing gap' needs to be solved and led the country to desired rate of economic growth. The different between total required investment and available domestic savings in the society will determine the 'investment gap' and level of

foreign aid need to be allocated to fill the financial gap in the economy. Therefore, foreign aid could be used to eliminate the savings limitation in the society, increase the level of available investment, increase the rate of economic growth and finally will reduce poverty (McGillivray et al., 2006). In 1962-1966 the Harrod-Domar model has extended from the savings-investment gap to foreign exchange gap by Chenery and Bruno. The theory presented as 'two gap model' (or dual-gap model). The foreign exchange gap stated that, developing countries in order to achieve the desired level of growth rate, they have to focus on importing the high quantities of capital goods and other essential inputs to increase the level of production. (McGillivray et al, 2006). Furthermore, it argued as there is no export earning for developing countries, they have to use the capital good for investing and covering the financial gap. (McGillivray et al, 2006). Based on the main assumption of two-gap model, 'the local savings could not easily be turned into foreign exchange, at least in short run'. Therefore, the foreign aid would play two roles: boosting the available resources for investment and supplying the desired level of foreign exchange to the economy. According to Hussain, the World Bank economists by using the Chenery version of Harrod-Domar model and similar updates of this were estimating the economic growth for more than 90 percent of the countries in the World Bank and resource requirement predictions. Hussain (2001, p. 2). In 1990, Taylor and Bacha presented a third gap which called 'fiscal gap'. The fiscal gap mainly argue that some developing country governments to reach the desired level of investment, they don't have the "revenue raising capacity" therefore, foreign aid given directly to the recipient governments can easily cover the fiscal gap and help the countries to increase the level of investment. (McGillivray et al, 2006).

In conclusion, the Harrod-Domar and the gap models were used to explain the importance of foreign aid to the developing countries and to estimate the amount of foreign aid need to be allocated. By Using the three-gap models (the savings-investment, the foreign exchange and the fiscal balance gap), it was argued that foreign aid would supplement the low savings and therefore increase the level of investment funds, provide the foreign exchange needed for the importation of crucial capital goods and inputs, and boost domestic revenues.

The overall objective was to raise savings and investments which were assumed to be the key for sustainable economic growth and poverty reduction. The main assumption of early studies in aid effectiveness and its impacts on savings and investment is that “one dollar of foreign aid will increase savings and investment by one dollar and therefore Lead to increases in growth” (McGillivray et al., 2006, p. 1034). The gap model has been criticized by Easterly for being unrealistic and strict. For example, how the marginal propensity to save and the capital-output ratio can assume to be constant even in the long run. Moreover, he stated that “Domar’s model was not intended as a growth model, made no sense as a growth model, and was repudiated as a growth model forty years ago by its creator” (Easterly, 1997). (Hussain, 2001)

2.9.1 Foreign aids ‘channels effecting on poverty trap

Mosley discuss that, here is three channels which foreign aid can effect on poverty reduction and country development in recipient countries. Firstly, aid can be efficient and have direct effects to the recipient countries while the aid money directly allocate to the projects which has been targeted before and was originally intended. Secondly, the development outcomes can be affected indirectly by foreign aid via impress the spending of public-sector in recipient government. Therefore, Access to the aids and its availability gives the opportunity to the recipient country to reallocate their expenditures regarding their priorities. Lastly, “transfer of aid money raises the prices of some goods, depresses the price of some others, and hence has side-effects on the private sector of the recipient economy through the price system” (Mosley et al., 1987, p. 617). In below the channels are discussed briefly.

Furthermore, Guillaumont and Wagner looking from different angle to the subject and described that here are three microeconomic channels which mainly foreign aid can effect poverty through them. These channels include the effect of foreign aid on poverty through growth, macroeconomic stabilizing effect of aid and social public expenditures, Guillaumont and Wagner (2014). These channels are discussed below.

2.9.2 Growth channel

This is the most common channel or traditional channel which is as main discussion in the theory of foreign aid and usually calculating the effectiveness of aid through this channel. Growth model mostly used by empirical analysis and mainly discuss about the saving and investment. The main assumption of the model states that, the aid will increase the growth through investment, while significant increase in the growth will effect on poverty reduction. Here are two main debates regarding the channel: first, “whether aid has been effective in boosting growth” second, “whether growth translates to poverty reduction” Guillaumont and Wagner (2014). While most of researches concluded that, the foreign aid has significant impact on economic growth, Kraay and Radelet concluded that aid has been successfully effected in some countries and has been unsuccessful to some others, therefore the outcome of the aid effectiveness on growth may depend on the type of aid, donors policies, the way it financed, time horizon and also on the policies and institutional environment of recipient country (Kraay, 2005; Radelet, 2006). Furthermore, it argues that, aid can effect on poverty reduction through the growth in long term and while mostly poverty reduction depends on growth rate, the factors other than aid also can determine the level of poverty alleviation. Furthermore, it argues that, aid can effect on poverty reduction through the growth in long term and while mostly poverty reduction depends on growth rate, the factors other than aid also can determine the level of poverty alleviation.

Based on Kraay finding, “growth is often viewed as the primary driver of poverty reduction. Therefore, inferences of the impact of aid on poverty are commonly drawn from the impact of aid on growth”. Furthermore, Kraay states that “sustained poverty reduction is impossible without sustained growth” Kraay (2005, p. 1). Finally, Guillaumont & Wagner concluded that, if foreign aid has significant effect on economic growth and if significant increase in growth reduces poverty, then aid contributes to poverty reduction (Guillaumont & Wagner, 2014).

2.9.3 Pro-poor public expenditure channel

Burnside and Dollar in their aid-growth regression state that, aid can be effective while good policies are existing regarding budget deficit, inflation and government expenditures in the recipient countries. In addition to this, quality of institution, corruption and governance performance highlighted as other variable which can significantly effect on aid effectiveness (Burnside and Dollar 2000). Mosley mentioned that the variations of policies coming from aid-growth devolutions were strongly controversial and were not able to provide the exact answer for the poverty reduction (Mosley et al,2004). A study by Gomanee shows that, pro-poor public expenditure (PPE) act as efficient tools to reduce poverty while aid is coming to the country. Furthermore, the quality and well planned PPE from recipient country will specify the effectiveness of the aid and poverty reduction. Gomanee et al. (2003). Meanwhile, government expenditures on the social sector is PPE which includes, basic education, health care, sanitation and drinking water, roads for the rural area, and basic agriculture services (Mosley et al., 2004). In addition to this, here are lots of academic studies given high value to PPE performances and state that how this channel is important to reduce poverty in the recipient countries. Studies by: (Gomanee et al,2005a), (Mosley et al,2004), and (Kosack 2003).

2.9.4 Macroeconomic stabilizing effect channel

Guillaumont and Wagner state that, foreign aid expected to stable the growth at the macroeconomic level of recipient countries. The main assumption of this argues is that, growth in the recipient countries are unstable from external shocks such export instability and these shocks avoid the growth to be stable (Guillaumont and Wagner 2014). Though foreign aid criticized of unpredictability and instability, studies by: (Collier and Goderis 2009), (Guillaumont and Le Goff,2010) and (Guillaumont and Kpodar, 2012) focusing on the aid stabilizing impact by using different methods to measure it and through their finding they concluded that, foreign aid has a stable impact on growth. Furthermore, Guillaumont and Wagner stated that, as economic growth is the main factors to poverty reduction, growth instability can have negative effect and offends the recipient countries by influencing the economic income (Guillaumont and Wagner, 2014) Collier and Goderis found that, aid will secure

the growth stability at the macro level and vulnerability of growth will be decreased in recipient countries by receiving aids. Mainly they focus on effect of aid on income volatility and found that, “higher effectiveness of aid in vulnerable countries could be as a result of aid’s stabilizing effect.” (Collier and Goderis, 2009). In addition to this, Guillaumont and Wagner justifies that “if macroeconomic instability generates poverty and if aid has a stabilizing impact, it should be expected that due to this impact, aid contributes to poverty reduction not only by increasing the rate of growth but also by making this growth more pro-poor” (Guillaumont & Wagner, 2014). While most of the studies assert that foreign aid will stabilize the growth, Wagner emphasizing on destabilizing impact of aid at macroeconomic level and state that, aid will unstable the growth in short term and it may change in long term in recipient countries (Wagner,2014).

2.10 Afghanistan country profile

Afghanistan is one of the landlocked and poorest countries in the world. Over the past four decades, a series of natural disasters and war have affected this heart of the Asia country. The current population of Afghanistan ranges from 29.7 million⁴ to 34 million.⁵ More than 70 percent of the population lives in the rural areas, among which almost 50 percent are females. Traditionally, agriculture is the main source of income for most people in Afghanistan. Sadly, the agriculture industry has suffered for more than 4 decades of war and natural disaster, which makes it hard for the people to have a decent income for their livelihood. Investment in such areas mostly in the rural places is also a barrier, since some of the places in Afghanistan are still under the control of Taliban and lack security. Economic growth in Afghanistan is subject to fluctuation. For instance, in 2002 the economic growth was 11.2 percent annually, in 2011 the economic growth decreased to 6.1 percent, in 2012 it increased to 14.4 percent, and in 2016 again it fell to 2.2 percent. The main reason for this fluctuation of economic growth was the influx of international aids in Afghanistan. Apart from

⁴ Country’s Population, Central Statistics Organization, 2017-18. Available at: <http://cso.gov.af/Content/files/%D8%AA%D8%AE%D9%85%DB%8C%D9%86%20%D9%86%D9%81%D9%88%D8%B3/Final%20Population%201396.pdf>.

⁵ World Bank Databank, World Development Indicator, 2016.

that, the agriculture sector; which has been the main source of livelihood, especially for rural population; has steadily increased and contributed to the GDP of Afghanistan from 36 percent to 54 percent in 2007.

Poverty in Afghanistan is in a severe condition. Among the population, 35.8 percent lived under poverty line in 2011, with 20 percent of the population just above the poverty line, where the risk of falling under the poverty line is dominant. The data in hand belongs to the year 2011, due to lack of data in either national or international level for the recent years. The National Risk and Vulnerability Assessment (NRVA) reported that 53.8 percent of Kuchis (Nomadic people in Afghanistan), 37.7 percent of rural population, and 28.9 percent of people living in urban areas are living under the poverty line.⁶ Poverty in Afghanistan appears to be a multi-faceted phenomenon, involving low assets (physical, financial and human), a long period of conflict insecurity and drought, poor infrastructure and public services. The Human Development Index went further and ranked Afghanistan 169th in terms of human development. It further indicates that 89.8 percent of employees receive the salary which puts them under the national poverty line, and population in multi-dimensional poverty counts to 16.94 million which can be estimated as 58.8 percent of entire population of Afghanistan.⁷ Hence, the people of Afghanistan are in much need of assistance in order to jump from the poverty trap.

After decades of conflict the economy of Afghanistan is edging towards recovery and significantly improved mainly due to the international assistances. The recovery of the service and agricultural sectors has started since the fall of the Taliban regime in 2001. Following the economic, security and political instability challenges, the GDP growth rate in 2017 was 2.5 percent and the same 2.5 percent is projected for the year 2018 only slightly higher than 2.2 percent in 2016 and further estimated slowdowns in the economic growth as the economy is mainly driven by foreign aid, heavy investment in infrastructure, and expenditure by international security forces. In 2012 the GDP growth was at

⁶ Afghanistan living condition, National Risk and Vulnerability Assessment 52. Available at: <http://www.af.undp.org/content/dam/afghanistan/docs/MDGs/NRVA%20REPORT-rev-5%202013.pdf>.

⁷ Human Development Report, United Nations Development Program 2017. Available at: <http://hdr.undp.org/en/countries/profiles/AFG>.

14.43 percent, since then it declined right after the withdrawal of foreign troops. As political instability and violence has risen and remain significant with upcoming presidential (April 2019) election, thus undermines economic growth and confidence in Afghanistan. The economy of Afghanistan is closely linked with country's political and security situations. The record high numbers of civilian casualties reported in the previous years have definitely affected the mindset of businesspersons in Afghanistan, resulting low investment into the country. Inflation rate has increased from 4.4 percent in 2016 to 5 percent in 2017 and the same 5 percent inflation rate is forecasted for the year 2018 that will reflect higher depreciation and food prices in vegetables and fruits.

The Afghani currency is depreciated by 4 percent in 2017 against US dollar mainly due to slowly FDI and decline in the foreign exchange inflows. The trade balance has improved in the 3rd quarter of 2016 the trade balance reached to \$-1.6 billion whereas it was \$-1.3 billion in the 3rd quarter of 2015. The trading increased from \$6.1 billion to \$6.8 billion. However, exports and imports increased by 8.9% and 7.8% respectively. Exports are including carpets (45%) and agricultural commodities (31%) whereas imports include petroleum (33%), heavy machinery (15%) and foods (14%). The performance of the revenue continues to grow at 11.9 percent in 2017 which is 8.5 percent more from the year 2014. The government was able to collect Af 90 billion (\$1.3 billion) in revenues in 2016 which is 30 percent higher than 2015, mainly driven by stronger compliance, improved tax administration, and increase taxes on businesses and telecommunication (Central Statistic Organization of Afghanistan, 2018)⁸.

Along with security, economic and political instability, the country is facing the following challenges; corruption, lack of experience in dealing with western companies, and to provide opportunities to an estimated 400,000 individual entering the labor market each year. Beside these issues, Afghanistan has witnessed tremendous achievements in the last year in terms of infrastructure development, economic cooperation, and regional integration.

⁸ <http://cso.gov.af/en/page/economy-statistics>

The Chabahar port agreement signed among Afghanistan, India and Iran, four functioning railways connections with three neighbors, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline project agreement, CASA-1000 project, Afghanistan's formal admission into World Trade Organization (WTO), and passing of significant economic legislations were the significant steps taken in the right direction. Chabahar port has been signed and finalized the provision of trilateral transit and transport port among Afghanistan, Iran and India on May 23, 2016. This is a major step towards regional and economic integration. This route will be used as an alternative for Afghanistan in building relationship with India and other countries. Chabahar will provide more opportunities for the Afghan investors to invest in Chabahar industrial and free trade zone as India plans to build a road that will connect Hajigak region with Chabahar to operationalize the steel and iron project of around \$1.8 billion. Furthermore, this project is likely to be a game changer for the region and will open the gates for Afghanistan to extract and export mines.

The Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline is the biggest project that aims to export 33 billion cubic meters of natural gas and it is planned for 30 years. Afghanistan will take around \$400 million in revenues each year from transit. The project cost is estimated to be around \$9.9 billion. TAPI's objectives are strategically aligned with Central Asia Region Economic Cooperation (CAREC) for ensuring; (1) economic growth through enhanced energy trading, (2) stronger integration of markets and (3) energy security through balanced development of regional infrastructure and institutions. The planned pipeline has a length of 1,814 kilometers; 214 km in Turkmenistan, 774 km in Afghanistan, 826 Km in Pakistan to reach Fazilka on the Indian-Pakistan border. The Turkmen section of the pipeline project has started in 2015. However, the Afghan section was launched in Herat province on Feb 23, 2018. TAPI'S project will have significant impact on the economic growth of Afghanistan as it will enable the environment for developing industrial capacities and will provide more job opportunities during the operation and construction in the area.⁹

⁹ <https://www.khaama.com/tapi-project-benefits-and-challenges-for-afghanistan-04105/>

Alongside TAPI and Chahbahar port, more other project are being implemented, one of them is having functioned railway connections with three neighboring countries; Hairatan's port where the arrival of the first freight train from China via Kazakhstan and Uzbekistan, and Turkmenistan that has connected to an international railway network.

Afghanistan's formal admission into World Trade Organization (WTO) is good news that will ensure reliable, easy, cost effective trade and transit opportunities that will in turn promote the economic growth of Afghanistan. Passing economic legislations is been the best move taken by the Afghan government to ensure an environment where businesspersons are encouraged to invest in Afghanistan. Cutting of bureaucratic red tape; this move is taken to encourage businesspersons to invest which went successful and government collected amounting \$500 million since the beginning of the year. Reducing of regulatory burdens; cutting the cost of obtaining business license from \$440 to only \$1. The other move was to reducing the cost of getting building construction permits and buying electricity connections. Passing these legislations will have significant impact on promoting economic growth in the coming years.

Central Asia South Asia (CASA-1000) is an electricity transmission project bringing Afghanistan \$45 million USD in transmits based on the agreement made between Islamabad and Kabul. Afghanistan shall receive 1.25 cents from each kilowatt power that is passing from Kyrgyzstan and Tajikistan to Pakistan through Afghanistan. Upon completion of the project four countries will be connected with the capacity of 1,300 megawatts with 1,000 kilometers of lines.

The estimated cost of project is going to be \$1.170 billion of which \$208 million will be included

IDC & taxes. However, the final cost will be determined through a competitive bidding process.

Foreign direct investment is major source of investment inflows for developing countries that provides technology, human capital, and managerial skills for the host country Chen (1992). To better explain the effect of foreign direct investment on the economy of the host country, Adams

(2009) have used two core theoretical perspectives; modernization, and the dependency theories.

The modernization theories are based on the endogenous and neoclassical theories which suggest that, economic growth could be promoted by foreign direct investment in the developing countries under the perspectives and principles that growth requires capital investment.

In the year 2016 Foreign Direct Investment (FDI) as percentage of GDP was 0.51 percent. The highest percentage of FDI inflows was at 4.32 percent in 2005. The research study by Noor Rahman Tahiri (2017) has attempted to check the impact of foreign direct investment (FDI) on gross domestic product (GDP) of Afghanistan by employing a time series data for the period of 2001-2014. His results indicated that FDI has positive and significant impact on gross domestic product. Furthermore, he suggested that the government of Afghanistan should focus on attracting more FDI inflows into the country, invest in more latest and advance technology for agriculture and mine sectors for better economic growth. The most important indicators of financial development sector are domestic credit to private sector as % of GDP, domestic credit by banks as % of GDP, and banks per 1000 Adults.

In the year 2016 the number of commercial bank branches per (1000 adults) was 2.2 percent. However, in the last 12 years this indicator reached maximum value to 2.4 percent in 2010 while the minimum value was 0.37 percent in the year 2004. In the year 2016 the domestic credit to private sector was 3.6 percent. However, in the last 56 years this indicator reached to maximum

11.52 percent in 2010 while the minimum value was 3.25 in the year 1967. In the year 2016 the domestic credit by banks as a % of GDP was 3.49 percent. However, this indicator reached to maximum 11.52 percent in 2010 while the minimum value was 2.04 in the year 1977. Looking at these indicators, Afghanistan needs heavy reforms in the financial sector to have positive impact on economic growth.¹⁰

¹⁰ <http://cso.gov.af/en/page/national-strategy-statisticimplementation-plan/national-strategy-for-statistics>

2.11 Afghanistan's National Development Strategy (ANDS)

A country must create the poverty reduction strategy paper (PRSP) to be registered as heavily indebted poor country (HIPC) for receiving the foreign assistance.

Poor countries receive the official development assistances through international conference based on (PRSP). In 2008, Afghanistan government has approved and submitted its PRSP to the ANDS. Based in this paper, supporting the major medium-term development challenges have been presented by ANDS to both Afghanistan government and afghan people (2008/09-20012/13). However this strategy plan basically focus into need of the society in first five years, also cover the country long-term strategy for achieving the millennium development goals (MDGs), improving the self-sustainability, and decreasing the poverty reduction in Afghanistan.

Furthermore, the ANDS organization focus on the main important sectors, priorities and financing need of the society for implementation, to bring the welfare. USD \$ 50.1 billion dollars estimated by ANDS as total financing need for the implementation. While just USD \$ 6.8 million dollars come from domestic revenue and rest USD\$ 43.2 billion dollars as external resources need to be donated by the donors (DFR-MoF, 2008, p. 2). Based on the chapter 10 of Paris declaration on aid effectiveness regarding ANDS declare that.

Key to enhancing aid effectiveness, in support of the national strategy and national budget in that regard, it aims to be fully aligned with Annex Two of the Afghanistan Compact. The ANDS will enable international partners to increase alignment of external aid with Afghanistan priorities, systems and procedures, whilst assisting in building core capacities to enhance formulation and execution of the national budget (Afghanistan National Development Strategy, 2008).

The approved outcome of ANDS focuses on significant progress toward more effective donor harmonization and aid effectiveness. Based on the Paris declaration on aid effectiveness, government expects future assistances by the donor to be more aligned with the ANDS priorities to the country. This will case increment mutual (donor/government) accountability in aid allocation.

Furthermore, ANDS sets-up aid effectiveness policy framework of the government to cover important objectives of the country(ML Totakhail2, 2011).

2.12 The Impact of Foreign Aid in Afghanistan

Effectiveness of the foreign aid generally depends on type of the aid and outcome of the aid allocation to the recipient country. Additionally, foreign assistance empowers the recipient government to invest on human capital and public infrastructure which ends up to the economic growth and country development. However the foreign aid large inflows may induce Dutch disease where the aid increase directly increases the exchange rates that in turns increases the export prices and reduces the amount of competition in the industrial sector. On the other hand the mode of foreign aid also affects the conflict in the area.

According to Dube & Vargas (2013), programs that subsidize wages increase the opportunity which in turn reduces the conflict. The aid that reduces wages will thus increase the conflict ration. Based on the Kirwan& McMillan study, The Food aid automatically decrease the farm gate price, this can cause increment in conflict rate. Foreign aid can be as supporter for policies and politicians to help them in building and developing an institutional development (Kirwan& McMillan,2007).

2.13 Aid Effectiveness in Afghanistan

Majority of the Afghanistan's GDP has been generated by the international assistances in last 10 years (World Bank, 2012).

The sufficient execution of foreign assistance in Afghanistan can provide foster economic development, improve governance and cover need of the civil society. Foreign assistance has played an important role in the building stable conditions for the democratic government in Afghanistan. USD \$ 3.2 billion dollars has been granted by USAID as foreign aid to Afghanistan in 2012. These assistance efficiently improved afghan military and basic afghan capacity (USAID, 2012)

Based on the Guggenheim study, foreign aid efficiently improves the national solidarity program due to the fact that, government role is simply yet strong and the implementation is outsourced to the Afghan local communities where the disbursements are streamlined and transparent (Scott Guggenheim, 2013).

According to the evaluation from Special Inspector General for Afghanistan Reconstruction (SIGAR), the foreign assistance had the most efficient impact on national solidarity program (NSP) due to committee involvement in development activities, has built a sense of ownership in the community (SIGAR annual report, 2012).

The foreign aid significantly created a community infrastructure which helps building of ongoing governance.

In 2003, A Basic Package of Health Services (PBHS) has established in Afghanistan. This can named the very earliest factors of aid effectiveness to Afghanistan. According to the BPHS (basic package of health services) organization, efficiently improved coordination among the afghan government, donors and NGOs caused positively increase in primary health care sector in Afghanistan. (BPHS, 2006)

Additionally, foreign aid has been effective in the shape of Performance Based Governors Fund that empowers provincial governors through supporting their budget to establish relationship between overall management capacity and its constituents.

2.14 Research Gaps

While trying to gather pre-existing researches on the effectiveness of foreign aid on Afghanistan it was noticed that most of researches were analyzing the foreign aid- GDP growth relation in short time and it shows, while aid is coming and charging the economy system easily can see the increasing of GDP growth rate in that year, therefore most researches finding a positive aid-GDP growth relation and concluding the aid effectiveness to the economy while aid can be effective when bring changes to the economic growth in long run.

Available specifically related to the “effectiveness of foreign aid” is limited or almost non-existing. There are several researches that discuss the economic

development of Afghanistan or on the other hand define the obstacles in practical implementation of the foreign aid goals. There is no research that could define the effectiveness of the foreign aid as an overall summary. All of the researches define the impact of the foreign aid based upon sectors.

3. RESEARCH METHODOLOGY

This chapter examines the practical and the standard aspect of the study by reviewing the standard methodology, such as identifying the variables and the data of the study as well as mentioning its sources. Additionally, identifying the variables of the study economically, and then formulating suitable standard model for studying the impact of grants and aids on poverty through measuring the impact of the independent variables which are represented in Subsidies and other transfers in Local Currency Unit (current LCU), Debt forgiveness grants (current US\$), Grants and other revenue (% of revenue), Net ODA received per capita (current US\$), on the dependent variable which is represented in Households and NPISHs Final consumption expenditure per capita growth over a period of time (2006-2015). Furthermore, the chapter reviews the details and the most important statistical, standard, descriptive, and diagnostic methods that were used in obtaining the results of the standard analysis and structuring the model of the study that is most suitable for the study variables.

3.1 Study Model

The present study aims to measure the effect of grants and foreign aid on poverty reduction in Afghanistan. Income and consumption as main indicators to measure poverty has been presented with the high literature in the economic lessons. The debate on either income can have a better definition of poverty or consumption still going on. According to the 3th report of national academy of science (NAS) regarding measuring poverty, consumption has been presented as better resource to determine poverty rather than income. It argue that with a combination of the theoretical and empirical studies its much preferable to look what the families actually consume or spend rather than their income to calculate poverty in the society (Cutler and Katz, 1991). Furthermore Jorgenson state that, "A basic premise of this view is that families and individuals derive material well-being from the actual consumption of goods and services rather

than from the receipt of income per se; hence, it is appropriate to estimate their consumption directly” (Jorgenson and Slesnick, 1987). In this research the consumption selected to estimate poverty and using time series analysis by studying the relationship between independent and dependent variables and determining the effect of each independent variable and its effect on the dependent variable. Furthermore, mathematical models were constructed to study the effect of independent variables which are represented in Subsidies and other transfers (current LCU), Debt forgiveness grants (current US\$), Grants and other revenue (% of revenue) , Net ODA received per capita (current US\$), on the dependent variable which is represented in Households and NPISHs Final consumption expenditure per capita growth. The model function is thus formulated as follows and the study model can be formulated with the following formula:

$$(3.1)Y_t = \alpha_0 + \alpha_1 X_{1t} + \alpha_2 X_{2t} + \alpha_3 X_{3t} + \alpha_4 X_{4t} + e_t$$

Dependent variable:

(Y): Households and NPISHs Final consumption expenditure per capita growth (annual %)

Independent variables:

- (X_1): Subsidies and other transfers (current LCU)
- (X_2): Debt forgiveness grants (current US\$)
- (X_3): Grants and other revenue (% of revenue)
- (X_4): Net ODA received per capita (current US\$)

(e): Error Term

T: time

3.2 Data of the study

The data of the study are quantitative data that describe the independent variable and the dependent variables over a period of time (2006-2015) in form of quarterly data. Thus, the research has 40 observations of the raw data about

four independent variables which are represented in Subsidies and other transfers (current LCU), Debt forgiveness grants (current US\$), Grants and other revenue (% of revenue), Net ODA received per capita (current US\$) and the dependent variable which is represented in Households and NPISHs Final consumption expenditure per capita growth. The data of the study about the economic variables mentioned above, which will be explained in detail, were obtained from the official sources represented by the Afghan national Statistical Center, Organization for Economic Co-operation and Development(OCED) and the World Bank.

3.3 Statistical Methods

This part is relied on a variety of statistical tools to describe the variables of the study and the various interrelated relations between them. Furthermore, covering the statistical description of these variables based on the statistical methods. These include the mean, standard deviation, correlation coefficients, and the minimum and maximum values for each variable in addition to the graphs to illustrate the movements and temporal fluctuations in the study variables during the study period. The standard analysis methods were used to measure the effect of independent variables on the dependent variable. In order to do this, (Eviews) was used for measuring and estimating, and Microsoft Excel program for conducting graphs. Whereas statistical and standard tools and methods were used in research, present as follow.

3.4 Multiple Regressions

The Multiple regressions between a single dependent variable and a number of explanatory variables (more than one) illustrates this relationship as a causal relationship between independent and dependent variables where the causal relationship means that the change in the independent variables is accompanied by a change in the dependent variable (Ataya, 2005, p. 253). In the multiple regression, the dependent variable is required to be quantified while the independent variables can be of the quantitative or qualitative type - nominal or hierarchical (Fehmy, 2005, p. 640). The multiple regression models take many statistical formulas of the independent variables through various statistical

transfers and using the delay periods which will be mentioned later. The model is estimated in many different statistical methods.

3.5 Stationary Tests

This part provides the series of time static tests, which considered s important realization of the condition for stability. These chains are important factor for estimating the quality of standard models and trend analysis. According to various historical data based on The Stationary condition, these strings are achieved by testing the Unit Root Test in the time series by the most common tests such as (Augmented Dickey-Fuller - ADF) and (Phillips Perron- PP). The PP test is better than the (ADF) test because ADF is based on the assumption of time series model which is generated by the autoregressive process. While the (PP) test is based on a more general assumption regarding time series generated by ARIMA-Autoregressive Integrated Moving Average, whose methodology is attributed to Box-Jenkins. This study uses both tests to verify the stability of the time series.

3.6 Co-integration Test

With the aim of achieving the conditions of the standard models for the analysis of time series, we need to check the existence of long-term balance relations between the variables of the study. Therefore, it needed to examine the integration between these chains together after checking the stability of the time series. This integration would be achieved between the variables of the study if there is a contribution in the direction between these variables. The econometrics offers several methods of testing the integration of the variables. The most famous methods are the method of Engel-Granger and the method of Johnson, wherein the first method is used in the case of simple models that contain two variables with many views. While the second one (Johansen and Juselius.1990) is the most common way to test common integration in all models, whether it is simple or multiple. The idea of the Johansson test is to know the number of vectors of the integration between the variables based on the Trace Statistic, where the null hypothesis that stated the number of vectors of the co-integration is at least equal to the vector (r)is tested. This hypothesis is

rejected against acceptance of the hypothesis that states the number of vectors of integration exceeds (r) vector if the value of the statistic is for the maximum value (λ_{max}) Trace Statistic (λ_{trace}) is greater than the critical values at assumed significance level (Brooks, 2008, p351)

3.7 Lagged Variables

In economics, the dependence of the dependent variable on independent variable values is not always instantaneous. It usually involves a time difference. This is called a lag. The regression model or lag variables are necessary to deal with time series data. Regression models sometimes include lagged independent variable within the independent variables in the model, and sometimes it includes lagged variables derived from the same dependent variable. In this case, the dependent variable's response to itself and to the independent variables lagged Overtime. Whereas the models that contain lagged variables known as models of lagging variables in which the present value of the dependent variable depends on the present and past values of the independent variables (Nasr, 1995). The lagged model can be formulated in case of the existence of one independent variable as follows:

$$Y_t = \alpha + \sum_{j=0}^k \beta_j X_{t-j} + \sum_{i=1}^m \gamma_i Y_{t-i} + \varepsilon_t$$

The general formula of the lagged regression model that contains more than one independent variable is written as follows:

$$Y_t = \alpha + \sum_{j=0}^k \beta_{1j} X_{1t-j} + \sum_{j=0}^k \beta_{2j} X_{2t-j} + \sum_{j=0}^k \beta_{3j} X_{3t-j} + \sum_{i=1}^m \gamma_i Y_{t-i} + \varepsilon_t$$

3.8 Ordinary Least Square – OLS

One of the most common statistical estimation methods is the estimation of the parameters of the regression model. The characteristic of this method is that the total number of squares deviations from the observed values of the dependent

variable is low (Attya, 2005, p. 256). Ordinary Least Square has main assumptions that should be existed in any estimated regression model in order to depend on the results of the estimation and reliability. These assumptions are: random errors (residuals) follow the normal distribution, the mean of the model equals zero, the error limits are homogeneous, meaning that the error variation is constant, and the error limits are independent of each other meaning that there is no self-correlation within the error limits. The independence of the independent variables in the multiple regression models, meaning that there is no problem of linear duplication in the model (Gujarati, 2004). This method is used during the estimation of model parameters.

3.9 Justifications for using the Method of Least Squares:

LEAST SQUARE method used to estimate the model because it measures the direct effects of the independent variables on the dependent variable, and because it achieves the minimum level of the sum of deviations of the estimated values from the actual value. Furthermore, it equalizes the sum of the estimated values with the actual values, and also it equalizes the sum of the estimated and actual values that are deviated from the actual values that equal zero

3.10 Data Analysis

After collecting the data of the variables, the researcher conducted preliminary tests on the independent variables which are represented in Subsidies and other transfers (current LCU), Debt forgiveness grants (current US\$), Grants and other revenue (% of revenue), Net ODA received per capita (current US\$), and its impact on the dependent variable which is represented in (Households and NPISHs Final consumption expenditure per capita growth) through the stationary test and the co-integration test as well as the regression test. Then the final model is formulated, which was adopted by the researcher as a basic model for studying the impact of grants and assistance on poverty. The following is a presentation of the practical results of the main model of the study.

4. ANALYSIS

4.1 Descriptive Analyses of the Variables

The researcher used a set of statistical descriptive methods to describe the variables of the study. This was done by using some dispersion measures and measures of central tendency. The mean and standard deviation of each variable was calculated As well as the lowest value and the largest value for each variable. The researcher used the graphs to illustrate the time- series of the variables during the study period. Table below shows the most important statistical measures of the variables of the model.

Table4.1: The most important descriptive statistical measures of the study variables

Variables	Currency type	N	Mean	STD.D	Minimum	Maximum
Y	USD dollar	40	507.03	32.77	438.39	553.82
x_1	Local currency (billion)	40	12.52	5.92	3.00	21.49
x_2	USD dollar(million)	40	18.06	32.60	16.01-	115.43
x_3	USD dollar(thousand)	40	86.94	4.51	74.13	93.68
x_4	USD dollar(thousand)	40	181.82	41.54	102.20	232.21

4.1.1 (y) Households and NPISHs Final consumption expenditure per capita growth (annual %)

Table (4.1) shows that the calculation of per capita final household consumption expenditure in Afghanistan was 507.03 USD with a standard deviation of 32.77 USD and the lowest per capita final consumption expenditure was 438.39 USD

In the first quarter of 2006, while the highest value reached (553.82) USD in 2015, and Figure (4.1) shows the temporal changes in the value of the per capita expenditure of the final consumption of households during the study period.

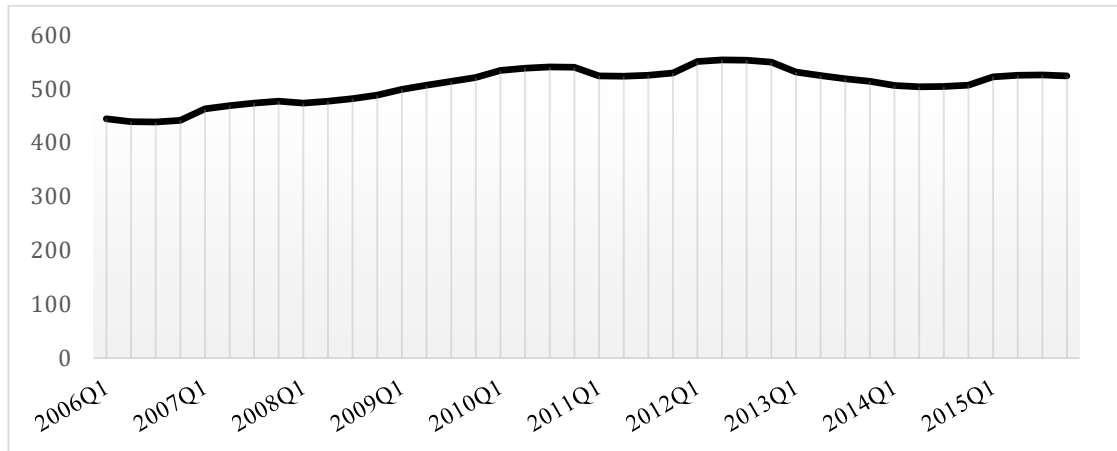


Figure Hata! Belgede belirtilen stilde metne rastlanmadı.**4.1:** Time shift of Households and NPISHs Final consumption expenditure per capita growth.

4.1.2 (x_1): Subsidies and other transfers (current LCU)

As shown in Table (4.1), the calculation of subsidies and other transfers was 12.52 Afghan billion with a standard deviation of 5.92 Afghan billion. The lowest value of subsidies and other transfers was 3.00 Afghan billion in the first quarter of 2006, while the greatest value was 21.49 billion in the fourth quarter of the year 2015. Graph (4.2) shows the temporal changes in subsidies and other transfers during the study period.

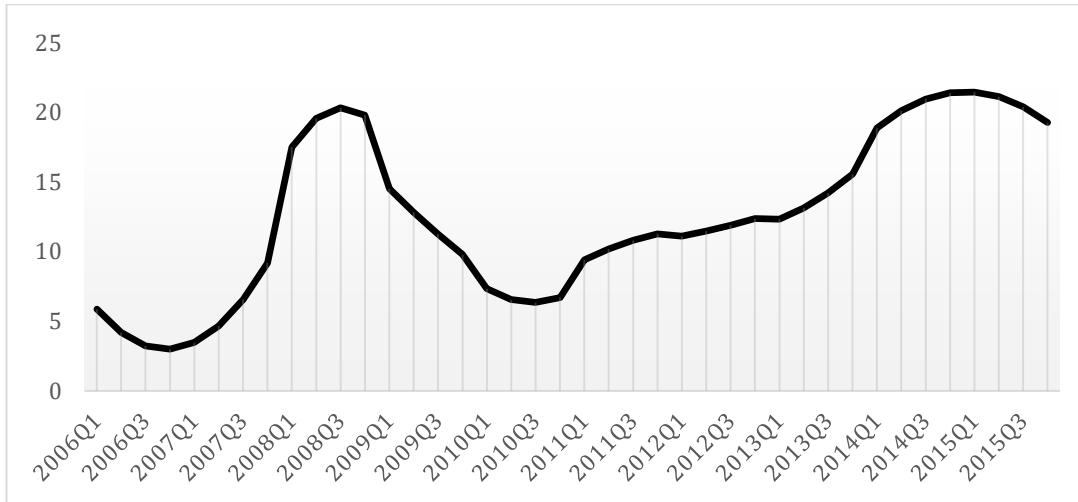


Figure Hata! Belgede belirtilen stilde metne rastlanmadı.4.2: The time shift of subsidies and other transfers during 2006 - 2015

4.1.3 (x_2) Debt forgiveness grants (current US\$)

As shown in Table (4.1), the annual calculation mean of debt forgiveness grants was 18.06 USD with a standard deviation of 32.60 USD and the lowest value which was 16.01 million USD in the first quarter of 2006, while the highest value was 115.43 million USD in the fourth quarter of 2015. Figure (4.3) shows the temporal changes in debt forgiveness grants during the study period.

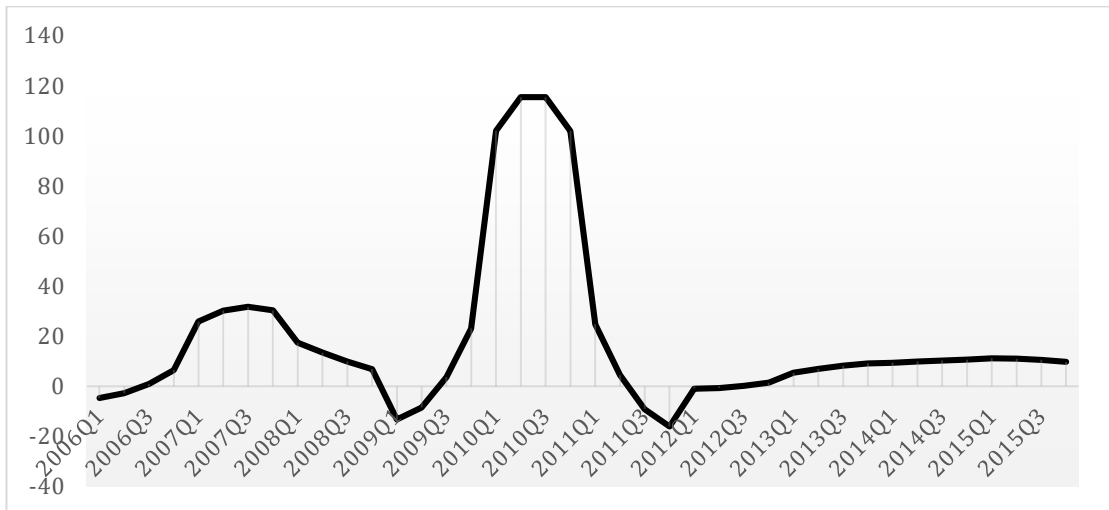


Figure4.3: The time shift of Debt forgiveness grants during 2006-2015

4.1.4 (x_3) Grants and other revenue (% of revenue)

As shown in Table (1), the calculation of grants and other revenue was 86.94 thousand USD with a standard deviation of 4.51 thousand USD and the lowest value of grants and other revenue was 74.13 thousand USD in the first quarter of 2006, The highest value of 93.68 thousand USD in the fourth quarter of 2015. Figure (4.4) shows the temporal changes in the volume of grants and other revenues during the study period.

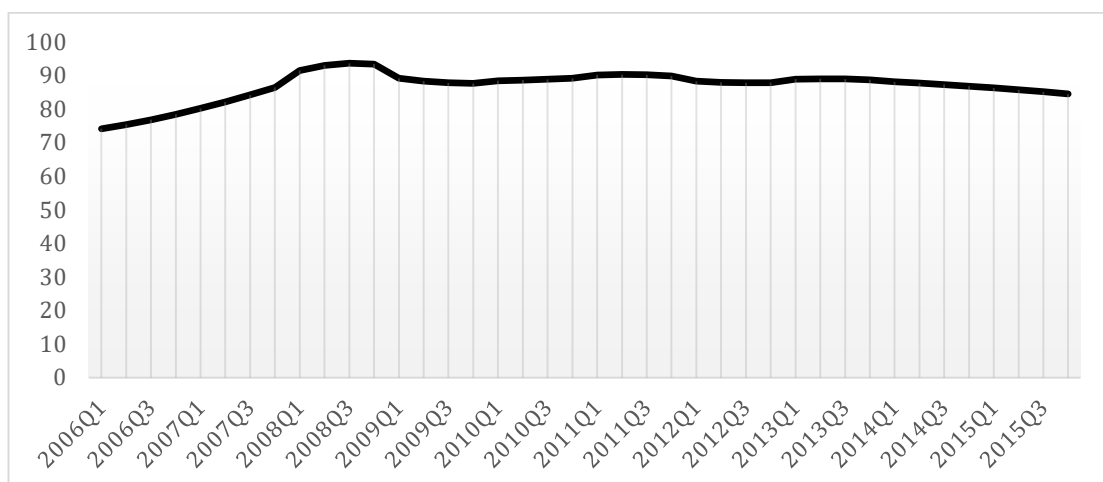


Figure 4.4: Time shift of the value of grants and other revenues during 2006 - 2015

4.1.5 (x_4): Net ODA received per capita (current US\$)

Table (4.1) above shows that the annual calculation mean of Net ODA received per capita was 181.82 thousand USD with a standard deviation of 41.54 thousand USD and the lowest Net ODA received per capita 102.20 thousand USD In the first quarter of 2006, while the highest value was 232.21 thousand USD in the fourth quarter of 2015. Figure (4.5) shows the temporal changes in Net ODA received per capita during the study period.

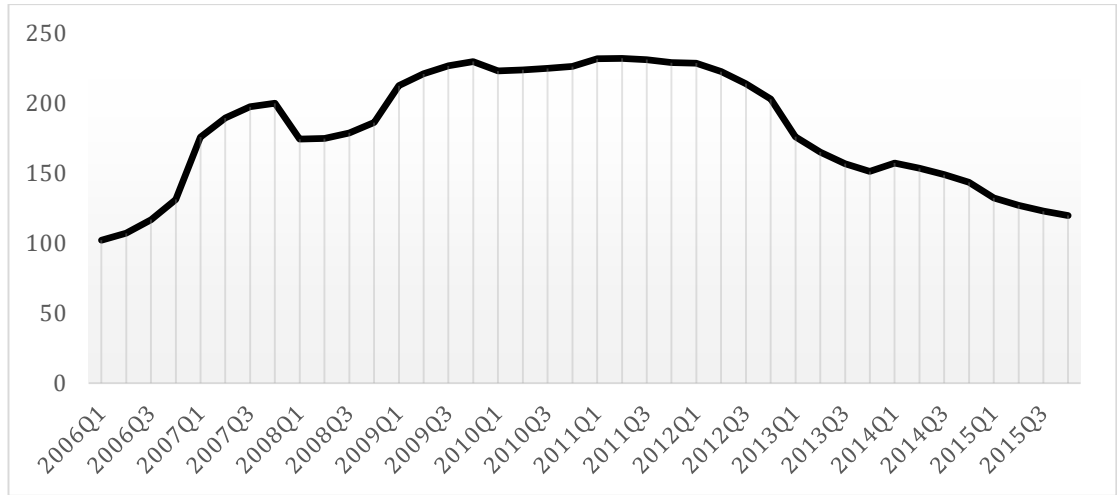


Figure Hata! Belgede belirtilen stilde metne rastlanmadı.4.5: Time shift value of net ODA received per capita during 2006 - 2015

4.2 Time series Statistic Test

The following table 4.2 shows the results of the static tests using Augmented Dickey-Fuller (ADF) and (Phillips Perron -PP) to test the stability of the time series based on the level and on the first difference and the second difference. The study variables were static at significance level of 5% after taking the second differences according to the ADF test. According to the PP test, all the study variables are static at 5% of significance level after taking the first differences. We conclude from this that the time series are still static in the first class ($CI \sim (1)$) because it became stationer after the first differences according to the PP test.

Table Hata! Belgede belirtilen stilde metne rastlanmadı.4.2: Unit Root Test results of the study variables

Variables	ADF			PP		
	Level	1 st df	2 ^{ed} df	Level	1 st df	2 ^{ed} df
Y	-2.92	-0.73	-4.97*	-1.88	-3.91*	---
X1	-1.16	-1.40	-6.22*	-1.56	-3.42*	---
X2	-1.60	-2.10	-4.25*	-2.49	-3.96*	---
X3	0.99	-3.73*	---	-2.98*	---	---

X4	-2.13	-1.70	-9.83	-1.67	-3.41*	---
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Significant at 5%, according to the table values of Mackinnon (1996).

4.3 Co-integration Test of Study Variables

Table 4.3 shows the results of the Johansson tests for the co-integration that are represented in Trace. The result of the Trace test was that the number of vectors of integration ($r = 0$) and significant at 5% and thus we reject the null hypothesis and we noticed the presence of more 0 ($R > 0$) tend to be integrated, while the result of the null hypothesis test, which assumes that there is a single integration vector at most ($r \leq 1$), is not significant. Thus, this hypothesis is accepted and we noticed the existence of a single integration vector ($r \leq 1$). Therefore, we ensure that there is at least one co-integration vector between the model variables. The calculated values of the tests were greater than the critical values at 5% when testing the first null hypothesis ($r = 0$), while the calculated values of the tests were less than the scale values at 5% when testing the second null hypothesis ($r \leq 1$).

Table 4.3: Results of the co Integration Test according to Johansson method

Trace Test			
Trace Statistics	Critical value %5	Hypothesis	Null Hypothesis
71.93	69.82*	$r > 0$	$r = 0$
44.78	47.86	$r > 1$	$r \leq 1$
21.55	29.80	$r > 2$	$r \leq 2$
9.43	15.49	$r > 3$	$r \leq 3$

*Trace test indicates 1 co- integrating eqn(s) at the 0.05 level

4.4 The Result of the Study Model

We show a detailed presentation of the results of the statistical estimation of the study model, which examines the relationship and effect of independent variables such as Subsidies and other transfers (current LCU), Debt forgiveness grants (current US\$), Grants and other revenue (% of revenue), Net ODA received per capita (current US\$), on the dependent variable which is represented in Households and NPISHs Final consumption expenditure per capita growth. Whereas the largest variable were used to estimates the effect of independent variables in the previous years on the dependent variable in subsequent years. The length of the lag periods was determined by one time backward using the Akaike info criterion (AIC). According to that, the model was estimated by one lag period for the independent variables and the dependent variable, and then the insignificant limits were deleted and the model retained in its best form. Table 4.4 below shows the results of the estimation. The table includes the regression coefficients of the variables included in the model in their raw form and due to the difficulty of being interpreted. The economic elasticity of all the variables was calculated and included in the table below.

Table Hata! Belgede belirtilen stilde metne rastlanmadı.4.4: Estimation of the regression model by the inclusion of lagged variables (one lag period)

Independent variables	Coefficients	Elasticity	Std. Error	T	p-Value	VIF
x_1	1.71*	0.043	0.41	4.165	0.000	5.95
x_2	0.08**	0.003	0.04	2.240	0.032	1.37
x_3	-2.34*	-0.401	0.61	-3.806	0.001	6.29
x_4	0.29*	0.104	0.06	4.994	0.000	5.43
Y_{t-1}	0.85*	0.847	0.04	22.466	0.000	1.59
Constant	205.90*	0.405	43.23	4.763	0.000	---

R-Square = 0.967, Adjusted R-square = 0.962, DW = 1.51

F-statistics = 195.662, Prob(F) = 0.000, Mean (VIF) = 4.13

*significant at 1%, ** Significant at 5%,

It is clear from the results of the previous table that the value of the modified limiting factor of the model was (0.962). This value means that the independent variables included in the model accounted for 96.2% of the change in the dependent variable (Households and NPISHs Final consumption expenditure per capita growth) Or 96.2% of the changes in the dependent variable are due to the independent variables included in the model in the table above. Concerning the effect of subsidies and transfers, the results show a positive and statistically significant at 1% where the regression coefficient is (1.71) and has a positive economic elasticity (0.043), which means that the per capita response to the final expenditure of household consumption for subsidies and transfers is positive So if a 100% increase in the size of subsidies and transfers, this will result in a change in the per capita per capita final expenditure of household consumption by 4.3%.

Concerning the effect of the debt forgiveness grant, the results indicate a positive and statistically significant at 5% where the regression coefficient is 0.08 with a positive economic elasticity of 0.003. This means that the final per capita expenditure of household consumption to grant debt forgiveness is a positive response, so if the value of granting debt forgiveness changed by increasing 100%, the size of per capita final expenditure of household consumption would change by this increasing by 0.3%.

Concerning the effect of grants and revenues, the results indicate a negative and statistically significant at 1% where the regression coefficient is (-2.34) with a negative economic elasticity of (-0.401), which means that the per capita response of the final expenditure of household consumption to grants and revenues is an adverse response , So if the value of grants and revenues increased by 100%, this would lead to a change in the size of per capita final expenditure of household consumption decreased by 40.1%.

Regarding the Net ODA received per capita, the results show a positive and statistically significant at 1% where the regression coefficient is 0.29 with a positive economic elasticity of 0.104, which means that Net ODA received per capita has a positive response, so if Net ODA received per capita increased by 100%, this would result in a 10.4% change in per capita final household consumption expenditure

Finally, regarding the effect of per capita final expenditure of household consumption, which is lagged for one period of time (three months), the results showed a positive and statistically significant at 1%. whereas the regression coefficient is 0.85 with positive economic elasticity 0.847 This means that the final per capita expenditure of households' self-consumption after three months is a positive response, so if the per capita value of the final expenditure of household consumption changed by 100%, this would be increased by 10.4% after three months.

4.5 Diagnosis Results of the Estimated Study Model

4.5.1 The coefficient of determination and the significance of the model

The adjusted mean factor for the model as a whole is 0.962. This indicates that the independent variables account for 96.2% of the change in the dependent variable (the per capita final household consumption expenditure). The remaining value is due to random error and other factors are not included in the model, whereas all of the model's variables were significant. In general, the regression model was statistically significant at 1%, where the value of the test ($F = 195.662$) with a probability of ($\text{Prob} = 0.000$). This indicates the quality of the estimated model. (See results of model estimation, table 4.4).

B. the Independence of error limits (residuals)

The independence of the error limit or the absence of the model from the problem of self-correlation, where it was confirmed that the model is free of this problem using the test DW, the value of the Drabbon Watson test ranges between 0 and 4, and the closer it gets to zero there is a positive self-correlation, whereas if it gets closer to 4 there is a negative self-correlation. When it gets closer to 2, there is no a self-correlation (Diebold, P51, 2018). In this model, the value of the measured test (1.51) which is a close value to 2, which supports the acceptance of the research hypothesis that there is no problem of self-correlation in the model residuals (see the results of the model estimate, Table 4.5). This confirms that the result of the (LM) test that reached (1.381) with a probability of (0.266=P-value) and greater than the level of 0.05 and it may

confirm that there is no problem of self-correlation in the model residuals. Table 5 shows the results of the LM test of self-correlation.

Table Hata! Belgede belirtilen stilde metne rastlanmadı.**4.5:** LM test results of self-correlation

Test	Test Value	Prob.
LM	1.381	0.266

4.5.2 Autocorrelation test

As one of the main assumption of the OLS model we need to check the errors and find if the errors are independent to support our model and get sure about the model which has been selected for the research. The following Figure 4.6 shows Test (Correlogram) for Residual, by drawing up the two attributes (Autocorrelation) & (Partial Autocorrelation), All test coefficients were not significant at level 0.05, This means that there is no Autocorrelation in model's Residual.

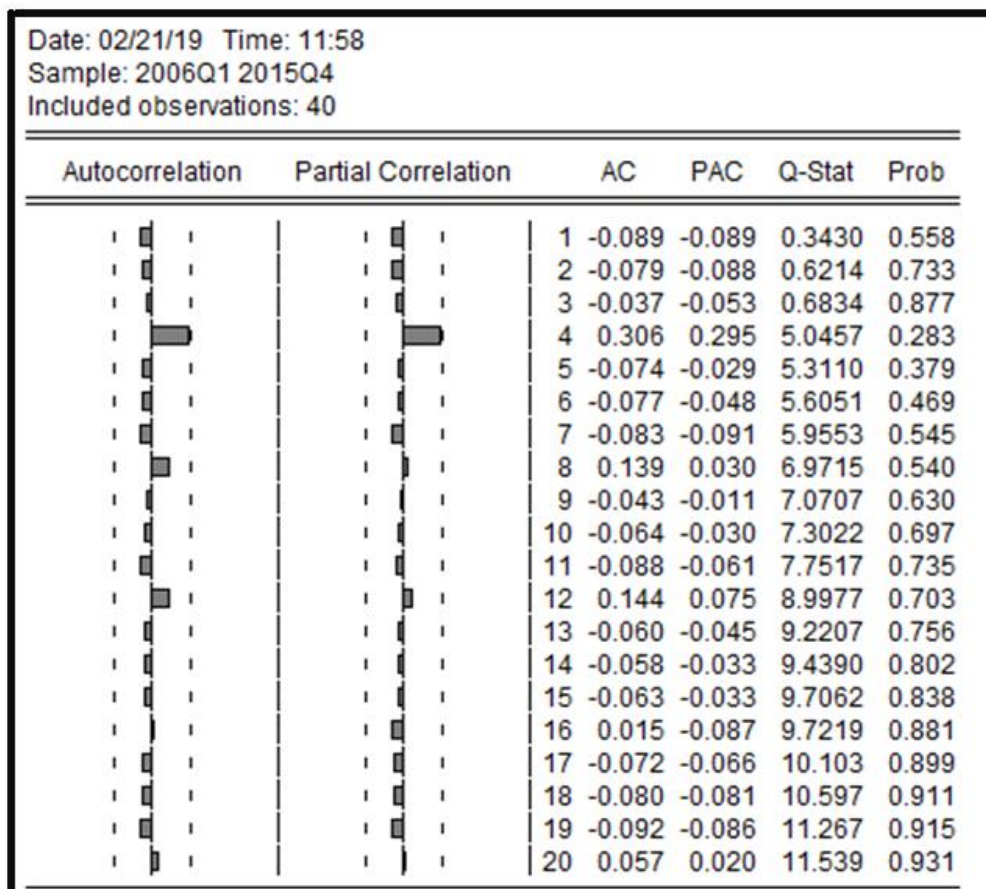


Figure 4.6: Autocorrelation and Partial Autocorrelation result.

4.5.3 Equal average error limits for zero

The mean of the error limits for zero was tested using the One Sample T-test. The results indicated that the test value is equal to (T = 0.000) with a probability of P-value = 1.000 which is greater than 0.05, which supports the acceptance of the null hypothesis that states that the average of the error limits is zero. Table 4.7 shows the test results.

Table 4.6: T-test results of the mean of the error limits of zero

Test	Test Value	Prob.
One Sample T-test	0.000	1.000

4.5.4 Normal distribution of the error

The normal distribution of the random error variable was verified using the Jarque-Bera test. The results indicated that the test value was 3.993 with P-value = 0.136, which is greater than 0.05 indicating acceptance of the null hypothesis which states that the random error limits are distributed naturally. Figure 4.6 below shows the results of the normal distribution test of error limits.

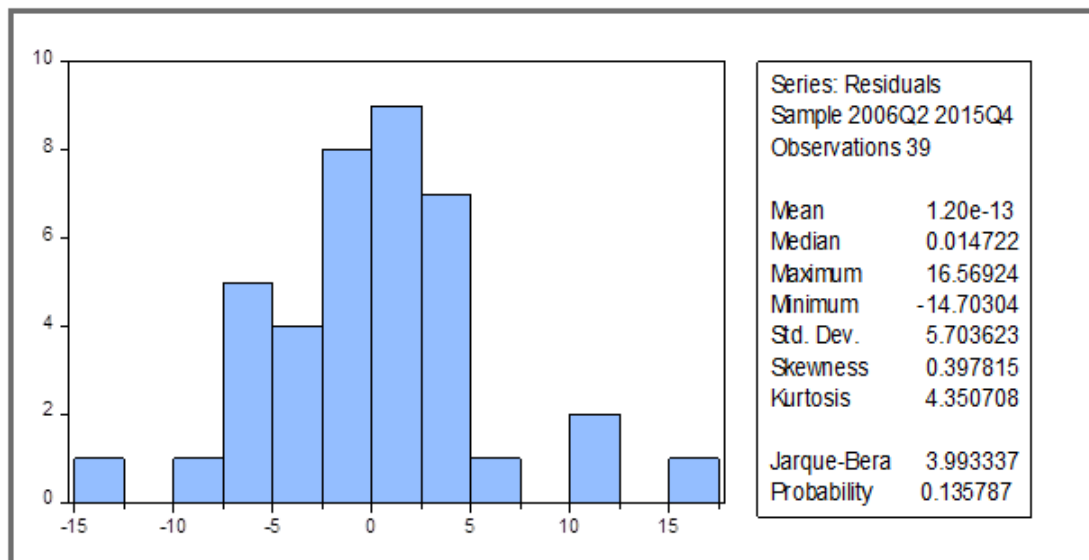


Figure 4.7: Normal distribution test of error limits.

4.5.5 Homogeneity of error limits

The requirement of homogeneity of the error limits is intended to determine the variability of the error limits. This was verified by using the white test. The results indicated that the test value is equal to $F = 0.871$ with a probability of $P\text{-value} = 0.619$, which is greater than 0.05 indicating acceptance of the null hypothesis which states that the error limits are homogeneous. Table (4.9) Shows the results of the Homogeneity of Error Limits test.

Table 4.7: White test results of the homogeneity of error limits.

Test	Test Value	Prob.
White	0.871	0.619

4.5.6 The Independence of independent variables from each other

The condition of independence of variables from each other means that there is no high correlation between the independent variables among them and the imbalance of this condition causes the problem of double-linearity, and this condition was verified using Variance Inflation Factor (VIF) which equals (4.13) and less than 5. Generally, the coefficients of the variance Inflation of the independent variables did not exceed the value 10. This indicates that there is no linear duplication problem in the model, which supports the quality of the estimated model (see the model estimation results, table 4.4).

5. CONCLUSION AND RECOMMENDATIONS

Despite the previous researches, which mostly focused on aid- growth relation in the country, this research has shed light on foreign aid and its impact on poverty reduction in Afghanistan. The current research intends to find out how foreign aids impact on poverty reduction, and which tools can be used to make aids more effective, push the country to reach the desirable level of economic growth and country development. Furthermore, the current chapter tries to discover the foreign aids impact on the government expenditure and their side-effects on the government performance. A new policy implication is suggested to the government and donors on how to distribute the foreign aids in future by utilizing them in most efficient way and decreasing the negative side-effects of aids to the society. Finally, the chapter ends with the recommendations to the future studies to have different standard realization for analyzing foreign aids and their impacts on poverty reduction in Afghanistan.

5.1 Findings and Conclusion

According to the findings of the research, the relationship between variables has been approved following:

- The impact of Subsidies and other transfers on Households and NPISHs Final consumption expenditure per capita growth is (1.71).
- The impact of Debt forgiveness grants on Households and NPISHs Final consumption expenditure per capita growth is (0.08).
- The impact of Grants and other revenue on Households and NPISHs Final consumption expenditure per capita growth is (-2.34).
- The impact of Net ODA received per capita on Households and NPISHs Final consumption expenditure per capita growth is (0.29).

Income and consumption, as main indicators for measuring poverty, are widely presented by the economic researches and as it is discussed in previous chapter.

Most of economists believes that consumption present a better picture of well-being of the society and provides a more appropriate measurement of poverty for the long-term rather than income (Cutler and Katz 1991; and Slesnick 1993). Furthermore, Poterba argues that a significant increment in per capita consumption causes welfare in a society and shows how a society is close to reach the standards of living (Poterba 1991). Research finding shows that subsidies and the other transfer, debt forgiveness grants and Net ODA received per capita as independent variables have significant and positive impact on dependent variable, which is Households and NPISHs Final consumption expenditure per capita growth. The findings state that an increase in the size of aids will cause an increase in amount of consumption in a society, while decrement in the size of aids will have negative impact on final consumption per capita in a society. Based on the main finding of study, the **Null H_0** hypothesis, which express there is no relation between foreign aid and poverty trap, has been rejected, and hypothesis **H_1** , which shows a relationship between foreign aids and poverty trap has been accepted through the positive impact of foreign aid on household final consumption per capita growth. According to the Burnside and David Dollar's study, foreign aids has a positive impact on economic growth if the aids are spent in intact policy environments, and they target the needs of the country. Additionally, Burnside and David proved that aids with the well-organized plans cause economic growth. It also decrees poverty, enhances health services and education, and transfers technology from developed countries to under developing countries. In contrast, the aids desperately cause bad governance, corruption and bureaucracy in developing countries (Craig Burnside and David Dollar, 2000). A study by Alberto Alesina and Beatrice Weder investigated on aid-corrupt governments. This study explained that there is no proves that governments with less corruption receive more foreign aids, while mostly aid flow goes to more corrupted governments. It is also argued that no evidence has been found that significant increase in size of aids will reduce corruption in developing countries (Alberto Alesina & Beatrice Weder, 1999).

United States, the primary donor to Afghanistan, has donated \$122 billion since 2001.¹¹ However, the GDP growth rate was 2.5 percent in 2017 and slightly higher than 2.2 percent in 2016, while unemployment and poverty rate have increased and corruption has risen.¹² A survey done by (CSO.gov.af, 2016-2017) stated that poverty rates have increased from 36 percent in 2012 to 39 percent in 2014. This means that around 1.3 million fell under the poverty line. Furthermore, the survey shows 1 percent increment in unemployment rate over the last two years, which means the unemployment severe amongst illiterate and low-skilled workers have the greatest risk to be fell under the poverty line as well.¹³ According to researches 66 percent of the Afghan budget has been funded by international community and just 33 percent by the domestic resources in 2018. The problem has emerged from careless spending of aids, lack of ownership by Afghanistan's government, fragmentations in donor programs and poor donors adjustment to the country. According to Feyaz research, Afghan citizens believe that lack of aids ownership by government and public of Afghanistan made foreign aids less effective to the country, and people were mostly passive subject of aids rather than being active to have more power on aids distribution to the country (Fayaz, 2017). Donors 'funds, especially U.S. flows in from of military and bribe aid with political aims and their self-interest oriented strategy to the country. Therefore, this increased level of the corruption, and decreased GDP growth rate and, aid effectiveness to the country.

Finally, foreign aids have brought corruption, bureaucracy and bad governance rather than increasing economic growth and reducing poverty in Afghanistan. The main reasons for the foreign aids failure could be speculated as the political-oriented expenditure aids by donors, and lack of Afghanistan's government control and supervision on spending. In order to avoid future unsuccessful allocation and expenditure of foreign-aids, it is recommended that

¹¹ Special Inspector General to Afghanistan Reconstruction, Private Sector Development and Economic Growth, April 2018, p. 13, (Accessed) <https://www.sigar.mil/pdf/lessonslearned/SIGAR-18-38-LL.pdf>, 5 July 2018.

¹² ATR Consulting, Aid Effectiveness in Afghanistan, Swedish Committee for Afghanistan (SCA) Oxfam, 2018, p. 7, (Accessed) https://swedishcommittee.org/sites/default/files/media/aid_effectiveness_in_afghanistan_march_2018_0.pdf, 3 July 2018.

¹³ <http://cso.gov.af/en/page/1500/4722/2016-17>

aids should be donated in form of development assistance and country driven rather than donors driven, military type aids, and political-oriented aids. It is expected that the Government of Afghanistan, with long-term developing strategies, can allocate the aids to cover short-term needs of the society, and in long term economic development. Additionally, decreasing corruption, as key of success to make the aids more effective, should be well planned by both donors and recipient countries.

5.2 Recommendations

The main aim of the research is to shed light on foreign aids and their impact on poverty reduction in Afghanistan. This section provides recommendations to improve aid effectiveness for poverty reduction and to prevent the crises, which have been made by foreign aids in Afghanistan. Additionally, a few suggestions are recommended to decrease corruption, and enhance foreign-aids efficiency.

Afghanistan, as one of biggest recipient in the world, started receiving vast amount of aids since 2002 and it reached its highest peak in 2011(world bank2012). The donors, especially U.S, donated most of its aids in type of military and donor driven for political and strategic aims with no accountability to the country. Irresponsible spending aids caused increment corruption and empowered local leaders, who were assessed as friends with foreign alliances. In 2018, Afghanistan's budget was founded just 33 percent by domestic income and 66 percent relied on the donor's assistances. However, foreign aids have been donated in both on-budget and off-budget channels by the donors. The provided development assistances through off-budget channels were more fragmented. This fragmentation and irresponsible spending significantly decreased effectiveness of foreign aid to Afghanistan. To avoid these problems, firstly, the donors rather than focusing on military type aids they should focus more on development assistances, reduce fragmentation and through on-budget channel let the government of Afghanistan to prioritize its own needs for sustainable development. Secondly, Afghanistan's government should take a firm stance toward ownership of foreign aids to increase aids effectiveness. As mentioned in previous chapter, rather than central provinces, the urban areas of Afghanistan are struggling more with poverty. Therefore, a long-term efficient

national development strategy should be made by Afghanistan's government to lead both provinces and urban areas for symmetric development. Foreign aids have increased corruption in Afghanistan, so it has reduced the government's accountability to its citizens and frustrate economic development. To solve this problem, both international community and government of Afghanistan must promote reducing corruption policies as a key factor to aid's effectiveness, and develop programs by distributing foreign assistance with transparency, and it should put more significant efforts to develop a national development strategy based on a mechanism, where greater engagements of ordinary citizens are encouraged. Final recommendation goes to future studies. Due to lack of data regarding poverty in Afghanistan, this research focused on estimating poverty through Households and NPISHs Final consumption expenditure per capita growth.

This research suggests for Future studies to choose other indicators of poverty other than consumption that may find out a better aid-poverty relation. Furthermore, future studies should more focus on aid-corruption relation to find out solution for decreasing corruption in Afghanistan.

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RESUME

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Education:

- **Master of business administration (MBA)** : 2019, Istanbul Aydin University, Faculty of Social Sciences, Istanbul, Turkey.
- **BA Economics and management** : 2009-2012 Herat University, Afghanistan
- **High school diploma** : 2008, Ustad Reyaz, Herat, Afghanistan
- **Advance English diploma** : 2014, American University of Afghanistan, Kabul, Afghanistan

Work Experience:

- Finance Assistant as a part time basis : 2010-2012, Herai Ariana Company, Herat, Afghanistan
- financial manager : 2012- 2013, Ghazizada Trading Company, Herat, Afghanistan
- Assistance Maneger : 2017-2018, Asila Zeltex Trading Company, Istanbul, Turkey

Skills:

- Excellent communication skills
- Able to work and adapt to different situations.
- Good translating skills
- Very good interpersonal skills

Languages	UNDERSTANDING		SPEAKING	WRITING
	Listening	Reading		
Persian	C2	C2	C2	C2
Pashto	B2	B2	B2	B2
English	C2	C2	C2	C2
Turkish	B2	B2	B2	B2

Levels: A1, A2 basic – B1,B2 Independent user- C1,C2 proficient user