

however, aid is primarily used to transfer additional resources to a recipient country, which can have a positive impact on growth through a number of areas. Aid could possibly provide extra resources to supplement domestic savings, or could ease a specific constraint within an economy such as a balance of payments constraint. Aid could also be used to increase investment in a specific country. In addition, aid may be used to lay a foundation for the growth of exports, which statistically has been shown to improve economic growth, albeit with the caveats mentioned above. The contribution of aid can either be quantitative (i.e., through infrastructure investment) or qualitative, by improving the relative inputs in the production function. This could take the form of improving labour skills through education or technical assistance, or efficiency gains by implementing new technological processes.

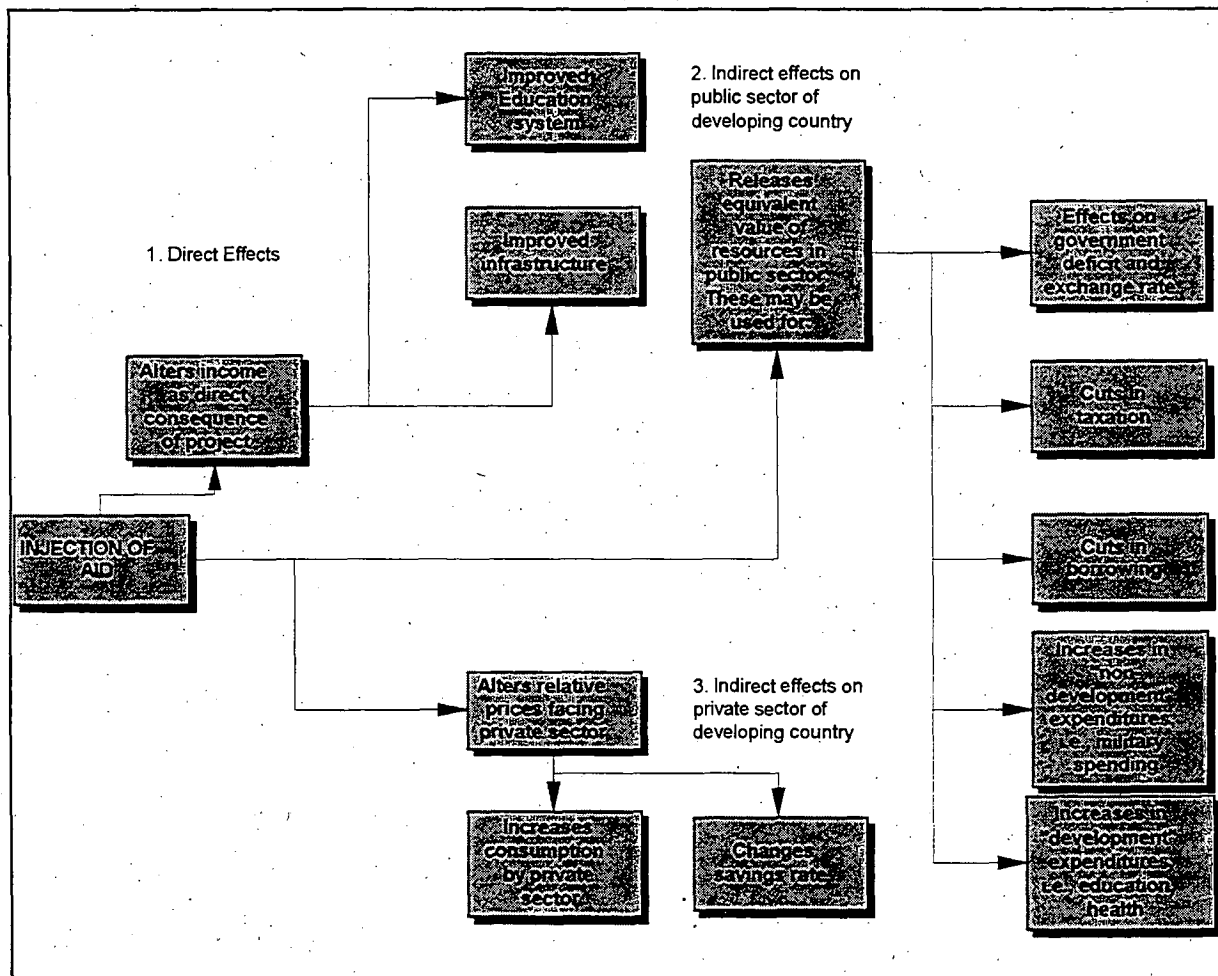


Figure 2 Channels Through Which Aid Inflows May Affect the Recipient Economy (adapted from Mosley; for full citation see footnote 22 below)