

of investment criteria, quality control and the monitoring of lending, foreign assistance has not represented an efficient method of public infrastructure investment. They point to aid programmes to Sub-Saharan African countries that led to severe levels of indebtedness as the clearest example of the failure of foreign assistance to cause growth.

The Boone and Faguet paper further argues that political circumstances are key to the success of foreign assistance programmes, particularly during and after periods of political or economic crisis. In these situations, the government can exploit its mandate to carry out rapid, self-sustaining economic changes before more stable political patterns are entrenched and their ability to introduce major reforms is diminished. Aid should therefore be highly conditional and used as an incentive for change. They also suggest major infrastructure programmes should be phased out of aid activity. Programmes should be more short and medium term in range and aimed directly at reducing poverty, particularly during periods of revolution and crisis. Aid donors should take a more passive role in selecting investment projects, allowing market conditions to figure more significantly in the flow of foreign private investment.

As Mosley and others note, inter-country statistical analyses show conflicting results about the impact of aid on growth. What does seem to hold, in a variety of studies, is that if the proper policy environment exists, and there is a political will to tackle questions of debt, appropriate exchange rates and tariff regimes, then aid and growth have a positive correlation. On the question of causality, the literature is less clear. Finally, other studies have shown, in a single country case, that aid may have an impact, but only when the aid effort is large, and the recipient country possesses some of the attributes mentioned above.²⁷

Thus, on examination of the empirical evidence, where admittedly the technical problems of modelling the impact of aid on a macroeconomic basis can bias the results, the jury remains out. What does seem clear, however, is that as an input in the basic neoclassical model, aid is probably "wasted" in many cases, either because it is not targeted properly, cannot be absorbed efficiently or the requisite policy environments do not exist in the recipient countries. Endogenous growth theory seems to suggest that aid would be better used in concrete technical assistance programmes to enhance skills through investment in education and training, and perhaps most importantly in assisting the transfer of technology.

²⁷ For a more detailed examination of the literature, see Cassen and Associates, Does Aid Work?, Clarendon Press, Oxford, 1986, Mosley, op. cit., and Boone, op. cit.