Is Foreign Aid an Effective Development Strategy for Africa? The Case of Ethiopia

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By Fobete Dingha
1.0 Background: Evolution of Foreign Aid as a Development Strategy

Africa as a continent has been on the path of achieving economic growth especially after independence. Growth according to Thorbecke (2000) would eliminate social inequalities that plaque the society. Thus, the road to economic growth had seemed viable as some African countries have experienced 5 percent annual growth while a number of countries have achieved democratic elections. Even these recent successes in the economic and political landscape, the overall picture in Africa is gloomy and remains a major challenge. Sub-Saharan Africa (SSA) in particular remains the poorest region in the world with an estimate of US$ 1 a day as average per capita income and over 700 million people live on a dollar a day. Life expectancy is deteriorating causing a drop to fifty years as a result of the HIV/AIDS pandemic. The literacy rates, health indicators and income inequalities have remained major causes for concern. Politically, 50 percent of the continent remains under non-democratic rule, corruption has become a norm and African countries have become the least peaceful in the world (Moyo, 2009).

What is it that holds Africa behind that it cannot compete with the rest of the world? What can be done to enhance socio-economic development in the continent? How can Africa come out from the poverty trap? Does the answer to these questions lie in foreign aid? Despite controversies in foreign aid discourses in achieving economic and social growth, it sometimes remains pivotal in renewing economic and social growth which may promise a new and prosperous economy and a better social standard for the African continent. Given that African countries depend on foreign aid; this paper seeks to explore if foreign aid can be seen as a strategy to enhance development in Africa through the lens of Ethiopia. In doing so, this paper shall examine foreign aid; in assessing the role of foreign aid as a development strategy, this paper shall examine the various conditions attached to foreign aid and try to answer if those conditions are beneficial to recipient or donor countries, and how effective is foreign aid and its conditions in enhancing development in Ethiopia. From a traditionally perspective
Richards (1977) argued that foreign aid is “an external source of public capital without which economic growth would be much slower or perhaps nil” (p. 44). Kanbur (2003) traced the history of foreign aid from the 19th and 20th century when Western powers consider their colonies and poor countries. In the United Kingdom, the Colonial Development Act of 1929 was the climax of moving from laissez faire to economic assistance in the operation of colonies. The British government made provision as a means to help colonial governments develop their economy by allocating loans and grants for the improvement of transports, infrastructures and water supplies. Ehrenfeld (2004) traced today’s aid to the Second World War (SWW) and the creation of financial institutions to contribute to post war reconstruction. The development work of the United Nations (UN) began with the United Nations Relief and Rehabilitation Agency (UNRRA) that was founded during the SWW, with the financial assistance of the World Bank (WB) to recover the war-ruined Europe. As a consequence of the SWW, the international economic system collapse causing a shortage in capital and the need for physical, social and legal infrastructures was imperative. In response to this, the European Recovery Program alias the Marshall Plan was enacted (Tarp, 2006).

The Marshall Plan was a bilateral development assistance championed by the United States (US) to European countries to help them recover from the economic destruction caused by the SWW (Kanbur, 2003). Moyo argued that the Marshall Plan was drafted by US secretary of state George Marshall in 1947 in which America was to provide a rescue package worth US$ 20 billion to the devastated Europe. Coming out from a devastating war, General Marshall argued for financial assistance by the US to Europe and in return European countries were to draw an economic revival plan. As a result the US transferred 2-3 percent of its national income to rebuild Europe as part of the Marshall Plan with the motive of gaining a leading role in global trade and investment (Tarp, 2006). The Marshall Plan was then administered by the Organization for European Economic Corporation (OEEC) in which its successes raised eye brows to the positive effects of foreign aid. Thus, the Marshall Plan was instrumental in bringing
Western Europe back to a strong economic footing, political stability and hope. This gave the US a strong influence on foreign policy, winning its allies in Western Europe and establishing a strong US multilateralism.

After a successful administration of the Marshall Plan, attention was focused on developing countries with the main objective of revitalizing and restructuring their economy in other words to enhance growth (Tarp, 2006). Thus, President Harry Truman’s inaugural address in 1949 which contained the famous Point Four program with the objective of “making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas” was a key of transferring foreign aid to developing countries (Kanbur, 2003, p3). As a result, the international development act was established in the 1950s and was reaffirmed by the US policy to aid the efforts of people in the economically underdeveloped region to develop their resources and improve their living standards. Thus, Africa was ripe for aid.

This paper addresses the following questions (i) what factors if any account for foreign aid and (ii) to what extent is foreign aid responsible for social and economic growth in Ethiopia. Before engaging these questions, the paper unfolds with a definition of foreign aid, examines the various types of aid, foreign aid in the context of development in Ethiopia, and the strategies and pathways for foreign aid manifestation in Ethiopia. A conclusion is drawn as to the effectiveness of foreign aid as a development strategy.

2.0 Definition and Types of Foreign Aid

The definition of foreign aid varies widely with scholars of economic development and international political economy. However, the main purpose of foreign aid is to accelerate economic development plans to acquire a satisfactory growth rate. According to Therien (2002) foreign aid which must come from the public sector has as objective of fostering economic growth. For a precise definition of foreign aid, the paper looks at the Development Assistance Committee definition, the main body through which the Organization for Economic Cooperation and Development (OECD) which
handles issues related to cooperation with developing countries. Foreign aid or
development assistance according to Tarp (2006) refers to financial flows that are
qualified as Official Development Assistance (ODA). ODA are the sum of “grants and
loans to aid recipient that are: (a) undertaken by the official sector of the donor country;
(b) with promotion of economic development and welfare in recipient countries as the
main objective; and (c) at concessional financial terms, where the grant element is equal
to at least 25 per cent” (p.13).

Radelet (2006) asserts that foreign aid consist of financial flows, technical assistance
and commodities with objectives of promoting economic development and welfare to
their recipient state and are provided as either grants or subsidized loans. Grants and
subsidized loans are concessional financing whereas loans that carry market terms are
non-concessional financing. A loan is considered as an aid if it has a grant element of
25 percent which means the present value of the loan must be at least 25 percent below
the present value of a comparable loan at market interest rate.

Examining the categories of foreign aid, Radelet (2006) and Moyo (2009)
classify foreign aid into three main categories. While Radelet (2006) examined foreign
aid as, Official development assistance, Official assistance and Private voluntary
assistance, Moyo (2009) contended that foreign aid comprised of charity aid,
humanitarian or emergency aid and systematic aid. Official development assistances
according to Radelet 92006) is aid provided by donor governments to low and middle
income countries, Official assistances is aid provided by government to richer countries
with higher per capita income of approximately $9000 and to countries that were part of
the Soviet Union. Private voluntary assistance is grants from non-government
organizations, charities and religious groups to countries in need. Charity-based aid
according to Moyo (2009) is aid disbursed by charitable organizations to people;
humanitarian or emergency aid is aid mobilised because of catastrophes and calamities
such as the 2004 Asian Tsunami and Systematic aid is aid payments made directly to
governments through government-to-government transfer (bilateral aid) or transfer
through institutions such as the World Bank (multilateral aid). However, most long term aids are concessional loans and grants, either bilateral or multilateral aid. Multilateral aid comes from different countries which are distributed through international institutions such as the World Bank and UN agencies. Bilateral aid is direct government-to-government transfer of capital, goods and services including technical cooperation. Non-governmental aid comes from international charities and aid agencies such as UNICEF which is funded by private donations and government contributions. This type of aid is often targeted for improving sanitation conditions, the provision of wells for water in rural areas, with strong participation of locals in project implementations. Barett and Maxwell (2005) highlight humanitarian relief aid in the form of food which is donated during disasters and resource shortages. Lastly, Syed et al. (2005) elaborated on commodity aid which relates to agricultural products, and consumer goods. This type of aid helps in controlling famine and maintaining industries by providing raw material to the industrial sector. Technical aid is another type of foreign aid which helps increase the pace of economic development by using modern technology in certain sectors of the economy. With technical aid, training facilities are provided by donor countries.

3.0 Foreign Aid in the context of Development in Ethiopia- Overview of Social and Economic Environment that Informs Foreign Aid Strategy

Ethiopia according to Dowa et al. (2007) is a landlocked country located in the horn of Africa. A UNDP (2006) publication confirms that Ethiopia is the third largest populous country in Africa with an estimated population of 70 million inhabitants, 45 % of its population are below the age of 15 years, there is an annual growth rate of 1.8 percent, and over 80 different languages are spoken. Being predominantly rural and emerging society, the African Development Bank (ADB) (2010) upholds agriculture as a dominant factor in economic growth, employing 80 percent of the total population. Agriculture, accounts for half of the GDP (Geda and Degefe, 2005) as well as 90 percent of export earnings with coffee as the main export commodity (Dowa et al.). Becker et
al. (2005) assessed Ethiopia as the lowest in per capita income in Sub-Saharan Africa (SSA) with average food consumption less than 70% of international standards. Poverty, and in particular rural poverty, is severe causing the country to be one of the poorest in the world. Ethiopia faces high rates of food insecurity as a result of droughts, low levels of agricultural production and humanitarian emergencies. This caused the Prime Minister Meles Zanawi in an interview with the Dailymail to announce that “there was no possibility that Ethiopia could cope without international aid”. Worst of all, Prime Minister Meles announced that “we can’t cope on our own” indicating that Ethiopia was at the brink of a major collapse if help was not available. In this section, this paper examines some of the causes of aid intervention in Ethiopia looking at the socio-economic situation of Ethiopia.

Despite diverging views and debates on foreign aid to developing countries, pro-aid countries view aid given to poor countries as a means to stabilize their economies and social upheavals. According to a USAID (2012) report, Ethiopia is a country where poverty and famine are chronic and persistent. Democracy is still developing; wars and civil unrest were at its peak causing a hindrance to economic and social development. In a poverty assessment study, Dercon (1999) argued that Ethiopia is desperately poor especially in rural areas. Ethiopia has one of the lowest per capita incomes in the world with an estimate of $110 which is less than one-fourth the average of SSA. Poor weather conditions caused crop pests and animal diseases, killing many animals and causing millions of Ethiopians to be in need of food (Dercon, 1999). This led to a poor annual growth rate of the agricultural GDP to -1.4 percent (OECD, 2002) and real per capita income output per person stood at 0.68 percent.

The government took over ownership of land programs did not meet the organizational, technological and incentive constraints which the agricultural sector had faced. This led to short term survival agricultural practices that forced peasant farmers to resort to narrow agricultural system of intensification, and the adopting of ox-plough technology (Berhanu, 2004). Worst of all, the ability of Ethiopians themselves to
improve their level of investment and promote economic growth through domestic and private capital inflow was inadequate. This pressurized the necessity for foreign aid thereby making it indisputably necessary to the performance of the economy (Tadesse, 2011).

The deteriorating social standards in Ethiopia were unquestionably causing an emergency for aid to relieve the population. Reinert (2007) argued that one in six children in Ethiopia do not live to the age of five. A UNDP (2006) study also identifies high infections and epidemics in rural areas. Water borne diseases such as dysentery, cholera and malaria and respiratory infections were rampant. The health conditions of women and children in remote areas were poor, with an estimate of 15 percent had access to potable water, and 18 percent used adequate sanitation facilities. The child death rate was alarming as Dowe et al. (2007) acknowledge a 17 percent child death rate under the age of five. With the high rate of diseases child malnutrition was alarming and most Ethiopians according to Christiaensen and Alderman (2001) depended on medical plants as a source of treatment especially in rural areas where access to health care facilities was absent due to poor road. The Food and Agricultural Organization (FAO) (2002) in a press release announced that millions of Ethiopians are suffering from hunger and malnutrition as a consequence of the drought.

The recurrent droughts and extensive food shortages had caused an internal displacement of people, food insecurity and an increased mortality rate. In early 1999, many regions in Ethiopia indicated that the food security and nutrition situation was deteriorating. The World Food Programme estimated that 10 million people were in need of food assistance (Salama et al; 2001).

Pastoral areas experienced massive death of livestock. The political instability resulting from conflict with neighboring Eritrea caused large numbers of refugees disrupting food production and displacing many civilians. Subsistence farming that was introduced resulted in a higher rate of malnutrition and a hunger crisis. Over 60 percent of children suffered from stunted growth because of malnutrition and hunger. Famine
was tragic in Ethiopia and resulted in massive loss of life that led to no access to tools and skills necessary to get the economy going (Flynn, 2005).

The educational system in Ethiopia was below standard, causing a low literacy rate. According to Perenznieto and Jones (2006) the enrolment rate for schools was too low; Berhanu (2004) argued that of the 40 percent of enrolled school age children in primary schools only 15 percent attended school. This has caused Ethiopia to be rated among the countries with the highest illiteracy rates in the world (Perenznieto and Jones, 2006). Despite government efforts to expand access to education, especially in rural areas, inadequate resources were a major setback.

Access to potable water was difficult in Ethiopia. In a World Bank (2006) survey, there has been a struggle to reduce the destructive effects of water. Water in Ethiopia was scarce and the management of water resources was poor. The characteristics of Ethiopia’s water resources are inter-annual and intra-annual rainfall variability. The variability of water is manifested in devastating droughts and floods with negative impacts on the economy.

3.1 Foreign Aid into Ethiopia

Scholars have argued and expressed skepticism about the role of foreign aid in promoting socio-economic development in recipient countries. Some consider aid as harmful; however, Tadesse (2011) argued that foreign aid is pivotal in the development process in Ethiopia as it is instrumental in bridging the country’s savings, investment and foreign exchange gaps. In this section, this paper examines foreign aid into Ethiopia from a socio-economic perspective, the origin of aid and its purpose.

The era of inflow of foreign aid from the US to Ethiopia started in the 1950s which was at the peak of bilateral relations between Ethiopia and the US. For example, before 1975, 75 percent of the total investment that was required during the series of five year development plan periods (1953-1975) was covered by external capital. More so, the volume of loans and grants received by the government of Ethiopia in the years of the revolution (1974-1983) was considerable. During the post-revolution era, 37
percent of total investment expenditure came from foreign aid. Ethiopia had also received development assistance from the Soviet Union and East Germany (1975-1990) of Birr 1.11 billion per year equivalent to US$ 60,000000. In the 1990s, the adoption of market oriented economic system caused an increase in aid flow that amounted to Birr 10.8 billion leading to a rise in the GDP to 13 percent from a 4.8 percent. Overall, the aid to Ethiopia was meant to reduce poverty, enhance economic growth and improve social indicators like access to education and health (Tadesse, 2011). Table 1 below shows the flow of foreign aid into Ethiopia from 1970-2009

<table>
<thead>
<tr>
<th>Period</th>
<th>ODA as share GDP</th>
<th>Growth rate of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-1980</td>
<td>2.1</td>
<td>2.7</td>
</tr>
<tr>
<td>1981-1990</td>
<td>5</td>
<td>2.23</td>
</tr>
<tr>
<td>1991-2000</td>
<td>12.5</td>
<td>2.8</td>
</tr>
<tr>
<td>2000-2009</td>
<td>18.6</td>
<td>8.2</td>
</tr>
</tbody>
</table>


Following the adoption of the Structural Adjustment Program (SAP) initiated by the World Bank and the IMF, Ethiopia had benefitted from a large amount of concessional loans and grants from multilateral and bilateral sources. According to Alemu (2009) Official Development Assistance (ODA) to Ethiopia amounted to US$ 1.94 billion in 2006 thus making it the 7th largest recipient of aid among developing countries. In absolute terms the ODA increased from US$881 million per year in the 1990s to US$1574 million per year in the 2000s. From 2000-2007, ODA stands at US$1683 million per year, the average contribution of bilateral donors over eight the year period was US$322.4 million per year accounting for 31 percent of ODA. The driving force for aid from donor countries was as a result of the acceptance of the Structural Adjustment Program (SAP). However, according to the African Development Bank (ADB) (2000) the premise behind the SAP was to encourage private sector development, provide support for macroeconomic stabilization and stimulate strong private sector production so as to provide employment and increase economic
opportunities for the population. Between 2005 and 2008 on average, Ethiopia was a major receiver of aid that has amounted to US$2.61 billion. OECD statistics show that net aid to Ethiopia amounted to US$3.33 billion in 2008 thus making it the largest recipient in developing countries.

The health sector enjoyed a larger share of ODA inflows following the development of the Health Sector Development Plans (HSDP) by the Ministry of Health. Aid was delivered by ten multilateral sources, 22 bilateral sources and 50 international NGOs with their main target the big three diseases, HIV/AIDS, TB and malaria. The HSDP, according to Pereira (2009) also addressed maternal and child mortality issues while fighting HIV/AIDS, Tuberculosis (TB) and Malaria. The Health Sector Development Plan extended basic health coverage through the Health Extension Plan (HEP) which was implemented in 2003 to improve access to preventive health care. Graduates from HEP worked as health educators especially in rural areas to educate the rural population on diseases prevention. The health care system was a major priority because according to Wamai (2009) Ethiopia had no national health care policy and was comprised of a weak health care infrastructure. The lack of infrastructures was not beneficial on the population as 82 percent were living under a dollar a day and 44 percent below the national poverty. The Japanese government according to United Nations International Children Emergency Fund (UNICEF) press release (2004) also donated the sum of US$ 20 million between 1999 and 2004 to UNICEF for the prevention of infectious diseases and disease eradication in children in Ethiopia such as polio and maternal tetanus.

The Chinese government through the Forum on China Africa Cooperation (FOCAC) donated foreign aid to Ethiopia. According to Davies et al; (2008) this forum elevated China’s relations and coordinated Chinese policy towards Africa. As a result, doors were opened for China to donate aid packages to Ethiopia towards its economic and social development. In continuation of its policy towards Africa, China established diplomatic relations with Ethiopia in 1970s. As a result, Chinese humanitarian assistance of 120,000 tonnes of maize was donated in 1984 to Ethiopia during the drought crisis. In
1988 a Joint Ethiopian-China Commission (JECC) was created through which economic, technological and cultural aid assistance were channelled. Aid from China included soft loans, grants, technical cooperation, human resource development and urban planning. Through JECC, a $12 million occupational training college in Addis Ababa was agreed upon between both countries. In 2006, the Ministry of Finance and Economic Development of Ethiopia signed with the EXIM bank of China a concessional loan for the purpose of power generation, road construction and industries. As such, EXIM bank financed 85 percent of development projects while the government of Ethiopia provided 15 percent. However, the condition of the loan was tied to the use of Chinese companies provided by the government of China. In 2007, a loan agreement was signed between the Commercial Bank of Ethiopia and the EXIM bank of China to finance the Mugher Cement Enterprise and the construction of multi-purpose project including a hydro-power generation and irrigation. These projects were worth $276 million: $206 million from EXIM bank and $70 million from the government of Ethiopia (Davies et al. 2008).

In continuation towards achieving potable water supply, the World Bank (2004) approved US$ 100 million for water supply and sanitation improvement in Ethiopia. This aid was divided into US$ 75 million as credits and US$ 25 million for grants with the purpose to increase access to sustainable safe drinking water supply and sanitation services in Ethiopia. These gave towns and rural communities the ability to plan, construct, maintain and improve water facilities within their rural communities. This project would further build the capacity for local government and private sector agents to manage water supply and sanitation delivery. As a result 5,500 water supply schemes would benefit some 3million people in about 3500 communities and 50 towns. Teressa (1997) acknowledge International Development Assistance (IDA) in the agricultural sector as part of development strategies. The purpose was to transform the agricultural sector by providing agricultural inputs, establishing and improving rural infrastructure such as roads, water supply and agricultural resources. By doing so, the problems of
traditional agricultural patterns and poor performances of the agricultural sector would be overcome and increase food security.

The European Union (EU) through the Lome convention donated aid to Ethiopia. According to Maxwell (1996), the EU held a meeting in Lome to discuss strategies for EU foreign aid to Ethiopia. The outcome of the meeting was divided into Lome I, Lome II, Lome III and Lome IV with the sum of USS$ 2.5 billion disbursed by the EU as aid to Ethiopia. The disbursed aid touched almost all the sectors in Ethiopia particularly relief and development. Under Lome I and II, infrastructure was the major objective; agriculture was the priority in Lome III and program aid in Lome IV. Food aid grew rapidly for emergency purposes although some was used for development projects and for sale to support the market and generate funds. The EU also supported large agricultural projects, like the Shoa Peasant Area Development Project (PADEP) and the Coffee Improvement Programme; infrastructural projects like water supply for Addis Ababa; hospitals and roads, fertilizer imports and NGO co-financing projects. The diagram below shows the inflow of EU aid into Ethiopia from 1976-1993 under the Lome agreement.
Figure 1

Aid Flow to Ethiopia, 1976-1993
Average Annual Commitments by Lomé Agreement (at constant 1990 ECU)

EU aid under Lome agreement; Source Maxwell, 1998
3.2 Assessment of Foreign Aid into Ethiopia

The effectiveness of foreign aid has been a subject of controversy and intense debate as scholars and observers have expressed skepticism to the benefit it renders to recipient countries in promoting socio-economic development and growth. Much of the blame has been focus on donor countries as aid is tied to conditions which profit the North. Nonetheless, Ekanayake et al. (2010), Moyo and Berthelemy (2011) raised mixed feelings as to the positive effects of foreign aid to developing countries. Chinese aid in particular represents strategic interest for the Chinese economy. Brautigam and Tang (2012) find evidence of positive impacts of foreign aid and growth while Penhelt (2007) argued that there were negative effects of foreign aid. This section shall assess foreign aid to Ethiopia examining the benefits and negative effects to the country. Specifically, this section shall examine aid with a focus on health, and the conditionalities to which aid was assigned. The questioned argued is; have those conditions been of benefit to Ethiopia or are they for the interest of donor countries. These conditions are rules set by donor countries under which aid is disbursed and some conditions can determine the success or failures of aid in recipient countries.

With huge amounts of aid into the health sector in Ethiopia, Wamai (2009) and Pereira (2009) acknowledged a significant growth and benefits. According to Pereira, there is progress in the health sector in Ethiopia as maternal mortality rates decreased from 871 deaths per 100,000 in the 1990s to 673 per 100,000 in 2005/2006. The national under-five mortality rates dropped from 180 in 1992/93 to 123 in 2004/2005 and HIV/AIDS rates are low compared with other African countries. According to Wamai the health care system has experienced an expansion with an increase in the number of human resources for health. Between 1997 and 2007, the number of nurses increased from 2,800 to over 18,000 thus moving Ethiopia away from the
worse nurse-patient ratio in the world. Child immunization coverage has increased from 30 percent in 2002 to 53 percent in 2007 with an increase in antenatal coverage from 34 percent to 52 percent in the same year and a steady decrease in child malnutrition. Health care infrastructure has grown significantly with an overall increase in health facilities by 55 percent during 1996-2007 especially with NGOs. A World Bank (2004) report acknowledges an expansion in government health facilities with 71 percent of hospital, 94 percent of health centers, and 82 percent of health stations run by the government. However, the pharmaceutical sector is controlled by the private sector: 85 percent of pharmacies, 81 percent of drug shops and rural drug retailers are privately-owned. The numbers of private health care providers have increased between 1996 and 2002 from 541 to 1,235. Outside urban areas, only private drug retailers can be found. Between 1996 and 2000, the number of pharmacies increased from 541 to 1,235, drug shops by 108 percent from 148 to 309, and rural drug vendors by 27 percent from 1,460 to 1,856. Table II below shows the growth of health facilities in Ethiopia from 1996-2002.

Table 3 Growth of functioning health facilities in Ethiopia (1996/97–2001/02)

<table>
<thead>
<tr>
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<th></th>
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<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Number of hospitals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>46</td>
<td>59</td>
<td>55</td>
<td>64</td>
<td>68</td>
<td>68</td>
</tr>
<tr>
<td>NGO</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Number of health centers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>241</td>
<td>262</td>
<td>294</td>
<td>344</td>
<td>369</td>
<td>384</td>
</tr>
<tr>
<td>NGO</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>23</td>
<td>17</td>
<td>26</td>
</tr>
<tr>
<td>Number of health stations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>2,202</td>
<td>2,173</td>
<td>2,118</td>
<td>2,031</td>
<td>2,019</td>
<td>2,019</td>
</tr>
<tr>
<td>NGO</td>
<td>13</td>
<td>14</td>
<td>15</td>
<td>268</td>
<td>374</td>
<td>312</td>
</tr>
<tr>
<td>Number of health posts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,600</td>
<td>2,694</td>
<td>2,878</td>
<td>3,640</td>
<td>3,927</td>
<td>4,020</td>
</tr>
<tr>
<td>Number of health facilities per 100,000 population</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>5.7</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>


The implementation of the HSDP program between 1998 and 2005 witnessed a remarkable improvement in results, including mortality rates. Significant improvements were made in child and maternal health between 2000 and 2005. Infant mortality and child mortality decreased with increase use of child health services such as an increase in child immunization. The increased use of immunization was as a result of increased access to health facilities and services. Health aid also increases health infrastructures in Ethiopia as coverage was possible by many. Estimates show that by 1998 only 45% of Ethiopians had access to health facilities but by 2005, 72.1 percent had health coverage (El-Saharty et al, 2009). Table III shows the trend in the growth of health facilities in Ethiopia from 1997-2005.
Table 3: Trends in growth of selected categories of health facilities, 1997-2005

<table>
<thead>
<tr>
<th>Category</th>
<th>Number in 1997/8</th>
<th>Number in 2004/5</th>
<th>Increase/Decrease</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
<td>96</td>
<td>131</td>
<td>35</td>
<td>+36%</td>
</tr>
<tr>
<td>Health centers</td>
<td>282</td>
<td>600</td>
<td>318</td>
<td>+113%</td>
</tr>
<tr>
<td>Health posts</td>
<td>802</td>
<td>4,211</td>
<td>3,409</td>
<td>+425%</td>
</tr>
<tr>
<td>Health stations</td>
<td>2,331</td>
<td>1,662</td>
<td>(669)</td>
<td>-29%</td>
</tr>
</tbody>
</table>


By investing in health care, Ethiopians have the chance to live more productive lives and participate in the global economy. The above statistics and data projected reveals positive remarks in health care development and improvement as a result of foreign aid injected into Ethiopia. As a result, the paper argues that aid targeted towards the health sector has been pivotal towards the development and improvement of the health conditions in Ethiopia. More so, the increased number of health care facilities and practitioners have enable Ethiopians to have access to health care services.

Conditions attached to foreign aid have acted as a setback towards achieving development. The emergence of these conditions came into play during the 1979 world bank presidential speech in which donor countries were encouraged to consider the need for Structural Adjustment Program as a means for export promotion (Rabei, 2010). These conditions have negatively impacted recipient countries especially SSA because most of the conditions are constructed in the interest of donors countries while ignoring the recipient countries. China for example has become a powerful force in SSA and as a major donor of development aid has raised contentious debate among scholars and observers. Despite China’s growing supremacy
over SSA, Pehnelt argued that China’s behaviour is because of economic, social, and political goals and needs as well as the comparative advantage over the continent of Africa. This is seen in 2006, when the EXIM bank of China with the government of Ethiopia signed a concessional loan agreement for the purpose of road construction, power generation and industries with the use of Chinese companies provided by the Chinese government as a condition for the loan (Davies et al.). These are good economic development indicators, especially as infrastructures will facilitate the efficiency of economic activities. Nevertheless, the bigger question is does the condition help Ethiopia to maximise its development potentials? The answer to this question is no because as Pehnelt, Gill and Reilly (2007) argued, it is one of China’s economic goals to acquire business possibilities for Chinese companies, to capture new export markets for Chinese manufacturers, and look for African resources to establish China’s growth. More broadly, China foresees an economic reawakening in Africa and wants to be part of the process. In a study conducted for the Institute of Development Studies, Brighton, Kaplinsky et al. (2007) report that although competition from Chinese shoe has brought about an upgrading of processes and design by local firms in Ethiopia, it has simultaneously had a negative effect on employment and domestic output. Some 96 small and medium domestic producers reported that as a consequence of Chinese competition, 28 percent of their producers were forced into bankruptcy, while 32 percent reduced their production activities. The overall average size of microenterprises fell from 7 to 4.8 employees and of Small and Medium Enterprise from 41 to 17. Egziabher (2006) argued that Chinese shoes are in the market at cheaper prices as compared to domestic shoes with the inability to compete with Chinese shoes.

By virtue of the condition attached to the loan whereby Chinese firms are part of the contract, it implies that there will be significant reparation of revenues generated from Ethiopia through
investment and the expansion of markets, a drain on investment capital and loss of state sovereignty. This also brings about balance of payment difficulties which arises from the remittances of Multinational Corporations to pay dividends to shareholders and rents to parent companies for the use of technology. When such external flows exceed incoming investments, there will be balance of payment difficulties for host countries.

EU aid to Ethiopia through the Lome convention comes with short term benefits, but the long term effects on weaker countries like Ethiopia are far reaching and cannot be ignored. The Lome convention is an international aid and trade agreement between the ACP (African, Caribbean and Pacific Countries) and the EU to support ACP countries achieve self reliant and self-sustainable development signed in the Togolese capital of Lome in 1975. Four such Conventions have been signed with the main goal of partnership, aid, trade and democracy. According to Olsen (2001), the Lome convention advocated for a non-reciprocal trade with Ethiopia and by virtue of the fact that Ethiopia is a developing country it has hindered the possibility for quick and sustained economic and social growth. Nalunga and Kivumbi (2004) in a study of Africa and World Trade postulated that ACP countries performed poorly under the Lome convention as their share of export to the EU fell more than half, from 8% in 1975 to 2.8% in 2000. Most of their goods were highly taxed and that caused a fall in the demand. Moreover, trade preferences play a pivotal role in Ethiopia’s development and they will eventually face increased competition in the export market which will disrupt growth. The non-reciprocity agreement between EU and the ACP countries, including Ethiopia, is bound to benefit the stronger party. This agreement is not about ACP countries increasing their export to EU but EU increasing their market to ACP countries.
4.0 Conclusion

Foreign aid has been on debate and will continue to be debated as to its effectiveness as a strategy for development in developing countries. Proponents of foreign aid advocate aid as a mechanism to eliminate poverty and reduce social inequality affecting developing countries. Moreover, foreign aid could boost economic development and growth in developing countries. However, critics argue that foreign aid has been more of a bane than a blessing to developing countries. Foreign aid is acting as a condition sine-qua-non for markets for donor countries through which profits are being maximised. Inflows of aid into developing countries have in one way or the other hindered the expansion and development of local markets in developing countries while aid conditions have not only negatively affected economic development but have destroyed local markets and their purchasing power. Foreign investors tend to have full control of the market while imposing market prices which have negatively affected small businesses and consumer taste and choice. In Ethiopia, foreign aid has not only been a blessing but it has had some negative effects in the social and development perspectives. Through foreign aid, Ethiopia is witnessing an increase in medical experts, health institutions, centres and access to medical treatment has been made possible. However, the influx of Chinese companies is aimed at export, which poses a threat to local producers and consumers. The increasing circulation of Chinese products into the market has forced many local producers to quit and many stores to cease being. Thus, the circulation of Chinese products in local markets determines prices and affects consumers taste and choice. In the long run, local producers and small businesses are forced to close because of the lack of subsidies to compete with foreign products in the markets.

In this regard, although foreign aid has both positive and negative aspects, this paper argues that for foreign aid to be accepted as a development strategy there should be no conditions attached to
it. Aid should act as a prerequisite to stimulate growth and development in recipient country not
the donor country. Foreign aid should be an investment which gives local producers a key role in
the production of goods and services and at the same time giving them control of their resources.

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