The Impact of Foreign Aid on Economic Growth: A Continental Analysis of Developing Nations (2013–2022)

Suryaansh Gupta
Student, Genesis Global School

Research Question: To what extent does Official Development Assistance (ODA) contribute to economic growth in developing countries across different continents, and how do factors such as governance, institutional quality, and absorptive capacity mediate this relationship?

Abstract

This study examines the intricate relationship between foreign aid, specifically Official Development Assistance (ODA), and economic growth in developing countries across Asia, Africa, South America, and Europe. Drawing on World Bank data from 2013 to 2022, the research employs Pearson's correlation analysis to examine the correlation between aid inflows and GDP growth rates in randomly selected countries from each region. The findings reveal considerable variation: Asia exhibited a strong positive correlation, Africa a moderate one, while South America and Europe demonstrated weak correlations. These results underscore that ODA's effectiveness is highly context-dependent, influenced by governance quality, institutional capacity, and the broader economic environment. While foreign aid can contribute to economic growth, its impact is not uniform and cannot be generalized across regions. The study highlights the importance of local absorptive capacity and institutional strength in mediating aid effectiveness, while acknowledging limitations related to sample size and external shocks, such as the COVID-19 pandemic, during the study

Key Words: foreign aid, economic growth, developing countries, governance, regional analysis

Introduction

Can the promise of foreign aid truly unlock the doors to economic prosperity, or does it risk becoming an obstacle that hinders sustainable development?

Foreign aid has long been considered an integral part of the global efforts to uplift developing nations and expedite the process of development and innovation. Emerging in its modern form after the Second World War, most notably with the launch of the Marshall Plan in Europe (Kenton, 2023), foreign aid has since become a

central feature in international development. Typically, it exists in various forms, including bilateral and multilateral aid, grants, and concessional loans, and is often mediated by institutions like the World Bank or the United Nations. These resources are designed to strengthen healthcare systems, improve infrastructure, enhance education, provide subsidies, and build institutional capacity, particularly in Less Economically Developed Countries (LEDCs).

The topic of foreign aid remains highly relevant within the broader landscape of economic disparities and sustainable development, both economically and environmentally. While aid has undoubtedly played a crucial role in addressing immediate needs in terms of humanitarian, economic, or other public services, its long-term effectiveness in driving economic growth has yielded mixed results across regions, countries, and ethnicities, with external factors also potentially influencing the results. These contrasting outcomes raise pressing questions about the actual developmental impact of foreign aid on the recipient country and the conditions that may affect its success or failure.

In line with the aforementioned, this research paper intends to answer the following research question: **To what extent does Official Development Assistance (ODA) contribute to economic growth in developing countries across different continents, and how do factors such as governance, institutional quality, and absorptive capacity mediate this relationship?**

The objective of this paper is to examine the extent to which foreign aid contributes to economic growth in developing countries in different continents. It will use the Official Development Assistance (ODA) as a measure of aid inflows and GDP growth rates as the indicator of economic performance. The analysis will focus on a sample of 20 developing nations across four continents over a ten-year period (2013-2022). It will incorporate cross-continent comparisons to account for regional variations, concluding accordingly. In doing so, the study also aims to assess how external factors, such as governance, institutional quality, and absorptive capacity, influence the relationship between aid and growth.

Literature Review

The concept of foreign aid, although practiced in various forms through different mediums across the globe for centuries, actually took shape and became formalized in the aftermath of World War II. Before this period, colonial powers often engaged in resource transfers to their territories; however, these were largely extractive or strategic rather than developmental. The turning point came in 1948 with the introduction of the Marshall Plan in Europe, which, in summary, was a plan by the United States Congress to support the Western European economies devastated by the war and make amends for its catastrophic consequences. According to this plan,

the United States provided over $13 billion in monetary support to Europe, which, in modern times, would translate to approximately $158 billion, given an average inflation rate of 3.7% (Kenton, 2023). The success of the Marshall Plan not only accelerated Europe's recovery but also established a framework for future aid and strategies revolving around economic reconstruction and modernization.

Since then, foreign aid has evolved into a multi-faceted, versatile instrument serving various objectives. Initially motivated by post-war reconstruction and geopolitical rivalry during the Cold War, foreign aid, once officialized, became a strategic tool for winning influence in newly decolonized states as well as supporting countries in dire need. Donor countries, particularly the U.S. and the Soviet Union (modern-day Russia), utilized aid to expand their ideological influence. Over time, additional motives, such as humanitarian assistance, poverty reduction, infrastructure development, and, more recently, environmental sustainability, have emerged as dominant themes in the aid landscape.

Furthermore, the evolution of foreign aid has also witnessed the rise of key global institutions, which have paved the way for a more diplomatic and formal exchange of aid. Established in 1944, the World Bank and International Monetary Fund (IMF) have played pivotal roles in shaping the global aid architecture. The World Bank provides long-term development loans and technical assistance, while the IMF concentrates on macroeconomic stabilization, particularly during financial crises. In fact, both of these organisations were established in the aftermath of World War II and the Great Depression to mitigate the economic risks of such situations in the future (IMF, 2025). These institutions, along with multilateral organizations such as the United Nations and regional development banks, coordinate a significant portion of global aid flows.

To understand the diverse applications of foreign aid, including its different types and forms, it is essential to distinguish between the following terminologies:

Key Terms	Definition
Bilateral Aid	A type of aid where the form of support is provided directly from one country to another without the involvement of any third party.
Multilateral Aid	A type of aid where the form of support is distributed across three or more countries through international organisations such as the World Bank or other UN agencies.
Grants	A type of aid where a non-repayable aid is transferred for specific projects or support.

Concessional Loans	A type of aid where a loan is made on more favorable terms than the borrower could obtain in the marketplace, typically with lower interest rates and longer repayment periods..
Developmental Aid	A type of long-term aid that aims to improve the living standard in the poorest regions of the world.
Humanitarian Aid	A type of aid where emergency relief is provided in response to crises such as natural disasters, conflicts, or famines.
Donor Fatigue	A phenomenon where there is a decline in donor commitment to providing foreign aid, often due to the perceived inefficiency, corruption, or lack of visible/tangible impact in the recipient country (Elsey, 2023).
Aid Fragmentation	A phenomenon where numerous aid donors operate in the same country or region, possibly leading to coordination challenges, increased transactional costs, and eventually a slower process (Gehring et al., 2017).

Understanding the relationship between foreign aid and economic growth necessitates an examination of foundational economic theories and a rigorous analysis of empirical studies.

Various models offer contrasting perspectives on the effectiveness of aid, often shaped by the assumptions they make about development, policy environments, and institutional quality (Tang and Bundhoo, 2017). These theoretical concepts form the backbone of the academic analysis of aid effectiveness and its eventual impact on economic growth. At the same time, empirical studies test their real-world validity across countries, ethnicities, and contexts. These models and studies include:

Harrod–Domar Growth Model

One of the earliest and most influential models in development economics is the Harrod-Domar Growth Model, which posits that economic growth is a function of both capital accumulation and the productivity of investment (S, 2024). According to this model, many developing nations experience a savings-investment gap, where domestic savings are insufficient to finance the level of investment needed for sustained growth. This sustained

growth isn't specific to any particular sector, but rather spans various fields, including infrastructure development, service improvements, and sustainable development. Foreign aid, in this context, acts as a supplementary resource to bridge this gap. It can address the issue of a lack of funds, thereby enabling uninterrupted growth. It is assumed that with adequate capital infusion, developing countries can escape low-growth equilibria and achieve a higher level and speed of development.

While this may be true, empirical studies, such as those by Boone (1995), challenge this assumption. Boone found that aid often increases government consumption rather than investment, resulting in limited or no impact on long-term growth. While, of course, the aid is meant to be invested in the nation or area, the idea of having extra money may lead to unnecessary consumption by the governments. His analysis of cross-country data revealed that aid flows often bypass productive sectors and instead are absorbed into unproductive expenditures, thereby undermining the growth potential anticipated by the Harrod-Domar model. These unproductive expenditures are typically counted as miscellaneous, and while they may have some positive impact in the long run, other sectors, such as the availability of food, water, or medicines, far outweigh those in terms of urgency.

Two–Gap Model

Expanding on this idea came the Two-Gap Model (also referred to as the Chenery-Strout Model) (Xiaolei, 2025). This model introduces a second constraint, namely the foreign exchange gap (Bender and Löwenstein, 2005). It argues that, in addition to the shortage of savings (constraint 1), many developing countries lack sufficient foreign currency (constraint 2) to import capital goods, which are essential for development. Aid, particularly in the form of concessional loans or grants, is authorised to fill both the savings and the foreign exchange gap simultaneously; however, the effectiveness of this system depends heavily on how well the trade aid is allocated and absorbed in the region.

A widely cited study by Burnside and Dollar (1997) supports this conditional effectiveness. Their research, using data from 56 developing countries, was thus reliable and found that aid promotes growth only in environments with sound fiscal, monetary, and trade policies. In countries with poor policy frameworks, aid was found to have negligible or even negative effects. This empirical insight stresses that aid's role in bridging the development gaps is dependent, and possibly likely to change, on the recipient's policy regime and governance quality.

Dependency Theory

In contrast to these optimistic views, the Dependency Theory provides a more critical perspective. Originating from neo-Marxist thought, this theory posits that foreign aid serves as a mechanism through which developed nations maintain economic and political control over developing countries (Munro, 2018). This theory does not focus on the functioning of the aid landscape, but rather the hidden purpose behind it. It argues that aid leads to

extreme dependency, disrupts domestic markets, and sustains elite-dominated structures that serve donor interests by giving them power and incentives more than those of the recipient population.

Empirical support for this perspective is found in case studies where aid dependency has led to a stagnant, and rather rent-seeking behaviour in countries For instance, research has shown that in LEDC's like Haiti (Labrador and Roy, 2024), or the Democratic Republic of Congo, decades of aid inflows have failed to trigger sustained economic growth, instead entrenching weak institutions and governance failures. Hansen and Tarp (2001) offer a more nuanced and diverse perspective, suggesting that while aid may exhibit diminishing returns, it can still be effective when targeted appropriately. Their meta-analysis (combining data from multiple distinct independent studies) of over 100 studies concluded that aid, on average, has a positive effect on growth, particularly when combined with complementary investments in human capital and infrastructure.

Aid Conditionality Model(s)

In addition to macroeconomic models and theories, the Aid Conditionality Model emphasizes the role of governance and institutional quality in determining and analysing aid outcomes (Morrissey, 2013). These models argue that without strong institutions, a stable government, and such factors, aid may be misallocated or lost to corruption. Recent empirical studies align with this framework as well. For example, a 2024 World Bank review found that while 13 out of 19 countries receiving increased aid saw improved public sector investments, others saw a rise in inefficiencies and governance-related setbacks (World Bank, 2024). This highlights that institutional capacity and transparency significantly shape whether aid translates into meaningful economic outcomes.

Additionally, research focused on specific sectors introduces more complexity. Research shows that assistance given to the health and education sectors typically produces more favorable results than aid aimed at general budget support. Nations such as Rwanda and Bangladesh have successfully utilized foreign aid to enhance healthcare access, increase literacy levels, and improve human development indices, factors that indirectly lead to economic growth. On the other hand, nations that have mainly directed aid towards defense or administrative costs demonstrate weaker or even negative growth connections.

In summary, theoretical models provide valuable insights into the potential mechanisms through which foreign aid can support economic growth. However, empirical evidence consistently shows that outcomes are highly variable and dependent on numerous factors, including policy environment, governance quality, sectoral allocation, and institutional capacity. While models like Harrod-Domar and the Two-Gap offer optimistic pathways, critiques from Dependency Theory and mixed empirical results caution. It is, therefore, the context and conditions of aid's delivery and use that ultimately determine its developmental impact. This paper will now transition to an analysis of the countries and timelines using ODA and GDP growth to understand and draw conclusions.

Methodology

This research analyzed the relationship between foreign aid inflows and economic growth across a diverse sample of developing nations, focusing on 10 years from 2013 to 2022. A total of 20 countries were selected from four different continents – Africa, Asia, South America, and Europe – to ensure regional diversity in the data and represent a wide spectrum of aid recipient profiles and economic contexts, rather than a specific geographical area. The objective was to determine whether foreign aid, measured in financial terms, had a consistent and observable impact on economic growth, and to what extent regional factors influenced this relationship.

To quantify foreign aid, the study utilized the Net Official Development Assistance (ODA) and Official Aid Received (in current US dollars) as indicators to augment and support its findings. Annual GDP Growth Rates (in %) were used to measure economic growth. Both datasets were entirely obtained from a reliable and credible source, i.e., the World Bank Open Data platform, ensuring consistency and comparability across all observations and periods.

The data analysis involved a correlation analysis performed using Pearson's correlation coefficient (GeeksforGeeks, 2022), which measured the strength and direction of the relationship between the two variables – aid and economic growth – for each of the continents. This allowed the study to conduct a cross-continent comparison to detect patterns and variations in the aid growth relationship across various regions, in addition to comparing them with each other, ultimately helping to identify areas where aid may be more or less effective.

Overall, the rationale for this approach lies in its ability to strike a balance between depth and breadth within the context. The ten-year timeframe ensured that long-term trends were captured rather than short-term fluctuations, which may be rare or circumstantial. Additionally, the inclusion of 20 countries provided a sufficiently large sample size for both global and regional analyses (within and across continents). Moreover, the use of continental differentiation enabled this study to gain a vast understanding of the contextual variables and factors that might mediate aid effectiveness, such as governance quality and geopolitical events. This methodological design ensured that the study was equipped to explore both general and localized dynamics within the setting of foreign aid and economic growth.

Data Collection

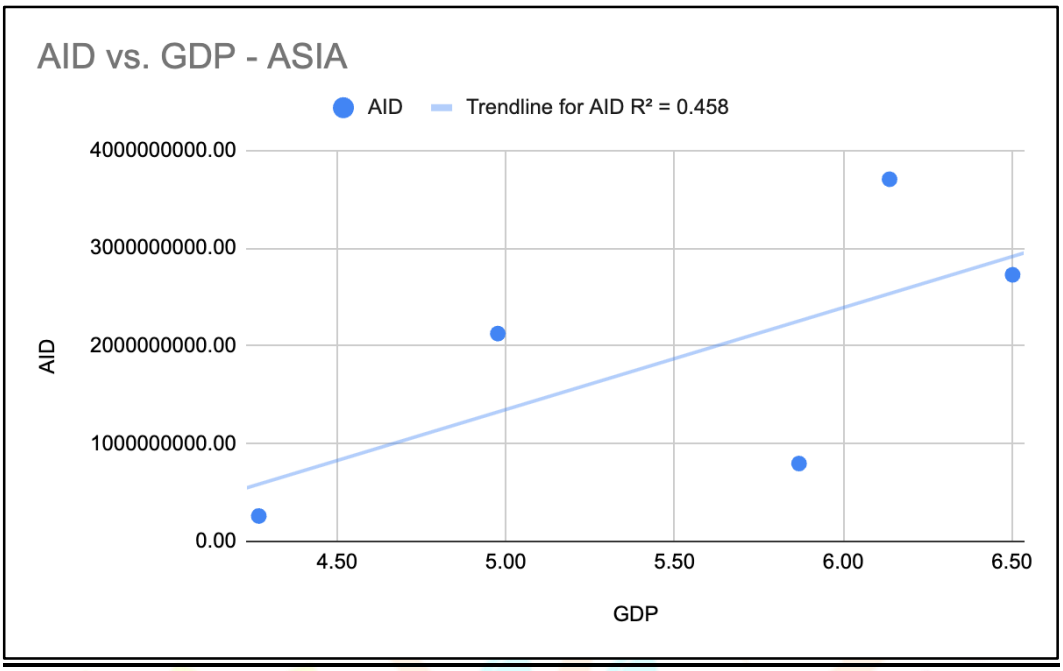
GDP

ASIA											
Country Name	2013 [YR2013]	2014 [YR2014]	2015 [YR2015]	2016 [YR2016]	2017 [YR2017]	2018 [YR2018]	2019 [YR2019]	2020 [YR2020]	2021 [YR2021]	2022 [YR2022]	AVERAGE
Indonesia	5.56	5.01	4.88	5.03	5.07	5.17	5.02	-2.07	3.70	5.31	4.27
India	6.39	7.41	8.00	8.26	6.80	6.45	3.87	-5.78	9.69	7.61	5.87
Philippines	6.75	6.35	6.35	7.15	6.93	6.34	6.12	-9.52	5.71	7.58	4.98
Viet Nam	5.55	6.42	6.99	6.69	6.94	7.47	7.36	2.87	2.55	8.54	6.14
Bangladesh	6.01	6.06	6.55	7.11	6.59	7.32	7.88	3.45	6.94	7.10	6.50
EUROPE											
Country Name	2013 [YR2013]	2014 [YR2014]	2015 [YR2015]	2016 [YR2016]	2017 [YR2017]	2018 [YR2018]	2019 [YR2019]	2020 [YR2020]	2021 [YR2021]	2022 [YR2022]	AVERAGE
Albania	1.71	2.24	2.23	3.91	3.28	3.67	2.06	-3.31	8.97	4.83	2.96
Armenia	3.30	3.60	3.20	0.20	7.50	5.20	7.60	-7.20	5.80	12.60	4.18
Azerbaijan	5.84	2.80	1.05	-3.06	0.15	1.50	2.48	-4.20	5.62	4.71	1.69
Belarus	1.00	1.65	-3.83	-2.53	2.53	3.15	1.45	-0.67	2.44	-4.66	0.05
Bosnia and Herzegovina	2.35	1.15	4.31	3.24	3.24	3.83	2.89	-3.02	7.39	4.23	2.96
AFRICA											
Country Name	2013 [YR2013]	2014 [YR2014]	2015 [YR2015]	2016 [YR2016]	2017 [YR2017]	2018 [YR2018]	2019 [YR2019]	2020 [YR2020]	2021 [YR2021]	2022 [YR2022]	AVERAGE
Cote d'Ivoire	10.76	9.37	7.19	7.17	7.41	4.84	6.72	0.70	7.06	6.40	6.76
Rwanda	4.72	6.17	8.86	5.97	3.92	8.52	9.45	-3.37	10.86	8.16	6.32
Senegal	2.41	6.22	6.37	6.36	7.41	6.21	4.61	1.34	6.54	3.85	5.13
Kenya	3.80	5.02	4.97	4.21	3.84	5.65	5.11	-0.27	7.59	4.86	4.48
Ethiopia	10.58	10.26	10.39	9.43	9.56	6.82	8.36	6.06	5.64	5.32	8.24
SOUTH AMERICA											
Country Name	2013 [YR2013]	2014 [YR2014]	2015 [YR2015]	2016 [YR2016]	2017 [YR2017]	2018 [YR2018]	2019 [YR2019]	2020 [YR2020]	2021 [YR2021]	2022 [YR2022]	AVERAGE
Suriname	2.93	0.26	-3.41	-4.91	1.57	4.95	1.17	-15.98	-2.44	2.41	-1.35
Guyana	3.65	1.69	0.69	3.81	3.73	4.44	5.35	43.48	20.06	63.33	15.02
Bolivia	6.80	5.46	4.86	4.26	4.20	4.22	2.22	-8.74	6.11	3.61	3.30
Peru	5.85	2.38	3.25	3.95	2.52	3.97	2.24	-10.93	13.36	2.81	2.94
Ecuador	7.21	4.23	0.12	-0.69	5.97	1.04	0.17	-9.25	9.42	5.87	2.41

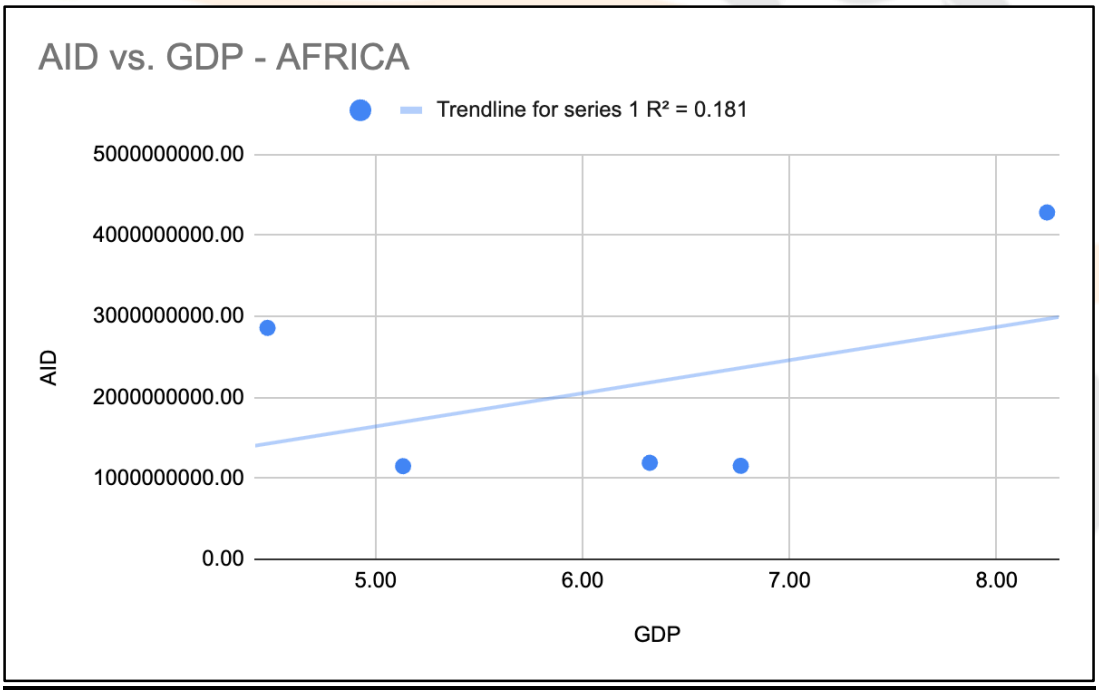
AID

ASIA											
Country Name	2013 [YR2013]	2014 [YR2014]	2015 [YR2015]	2016 [YR2016]	2017 [YR2017]	2018 [YR2018]	2019 [YR2019]	2020 [YR2020]	2021 [YR2021]	2022 [YR2022]	AVERAGE
Indonesia	69470001.22	-381940002.4	-28459999.08	-108279998.8	280190002.4	962690002.4	-693369995.1	1210020020	625900024.4	662700012.2	259892006.72
Philippines	192059997.6	677440002.4	514950012.2	283649993.9	160479995.7	547400024.4	886270019.5	1456359985	1633859985	1612479980	796494999.57
Viet Nam	4085600098	4215620117	3167389893	2906070068	2407489990	1644829956	1088040039	1171109985	526520019.5	48919998.17	2126159016.37
Bangladesh	2633590088	2422639893	2592909912	2532820068	3781770020	3044760010	4381589844	5374779785	5089109863	5192790039	3704675952.20
India	2456340088	2991820068	3174350098	2679040039	3198139893	2461989990	2550320068	1794530029	3135310059	2831239990	2727308032.20
EUROPE											
Country Name	2013 [YR2013]	2014 [YR2014]	2015 [YR2015]	2016 [YR2016]	2017 [YR2017]	2018 [YR2018]	2019 [YR2019]	2020 [YR2020]	2021 [YR2021]	2022 [YR2022]	AVERAGE
Bosnia and Herzegovina	521210022	630200012.2	356390014.6	446119995.1	440540008.5	356070007.3	460519989	438649993.9	564419982.9	283899993.9	449802001.94
Belarus	107139999.4	120610000.6	104580001.8	-22309999.47	-250169998.2	119169998.2	211910003.7	325859985.4	139710006.7	16309999.47	87280999.76
Azerbaijan	-70830001.83	216740005.5	69580001.83	79430000.31	123529998.8	87419998.17	119089996.3	122879997.3	9760000.229	47169998.17	80476999.48
Armenia	280359985.4	267429992.7	347480011	326429992.7	257540008.5	141820007.3	417299987.8	126580001.8	161949996.9	300350006.1	262723999.02
Albania	269980011	281170013.4	335160003.7	171039993.3	168350006.1	344519989	27069999.69	309579986.6	633419982.9	315510009.8	285579999.55
AFRICA											
Country Name	2013 [YR2013]	2014 [YR2014]	2015 [YR2015]	2016 [YR2016]	2017 [YR2017]	2018 [YR2018]	2019 [YR2019]	2020 [YR2020]	2021 [YR2021]	2022 [YR2022]	AVERAGE
Cote d'Ivoire	1273439941	925039978	651770019.5	615780029.3	829150024.4	960070007.3	1173609985	1562640015	1576310059	1974449951	1154226000.95
Rwanda	1086290039	1035030029	1089119995	1150469971	1231329956	1119699951	1168280029	1625010010	1330319946	1076819946	1191236987.20
Senegal	994419982.9	1108680054	869400024.4	731159973.1	908150024.4	999020019.5	1438099976	1612020020	1389400024	1451839966	1150219006.43
Kenya	3306840088	2661030029	2463560059	2188389893	2480219971	2491010010	3171919922	3989209961	3176919922	2652010010	2858110986.50
Ethiopia	3885540039	3583959961	3238889893	4084370117	4124750000	4940959961	4676649902	5305140137	4070649902	4925600098	4283651001.00
SOUTH AMERICA											
Country Name	2013 [YR2013]	2014 [YR2014]	2015 [YR2015]	2016 [YR2016]	2017 [YR2017]	2018 [YR2018]	2019 [YR2019]	2020 [YR2020]	2021 [YR2021]	2022 [YR2022]	AVERAGE
Suriname	30819999.69	13390000.34	15979999.54	16530000.69	20129999.16	14180000.31	23469999.31	27190000.53	28780000.69	54779998.78	24524999.90
Guyana	101239997.9	160610000.6	32139999.39	70019996.64	51130001.07	104180000.3	111519996.6	52169998.17	138809997.6	198979995.7	102079998.40
Bolivia	702299987.8	674559997.6	791309997.6	696510009.8	949159973.1	728869995.1	708200012.2	338970001.2	506820007.3	334109985.4	643080996.71
Peru	363660003.7	328299987.8	334829986.6	320200012.2	-1259999.99	450829986.6	458910003.7	488739990.2	303670013.4	829349975.6	387722995.98
Ecuador	150520004.3	165050003.1	318160003.7	243710006.7	211110000.6	404079986.6	506850006.1	343750000	300779998.8	376179992.7	302019000.26

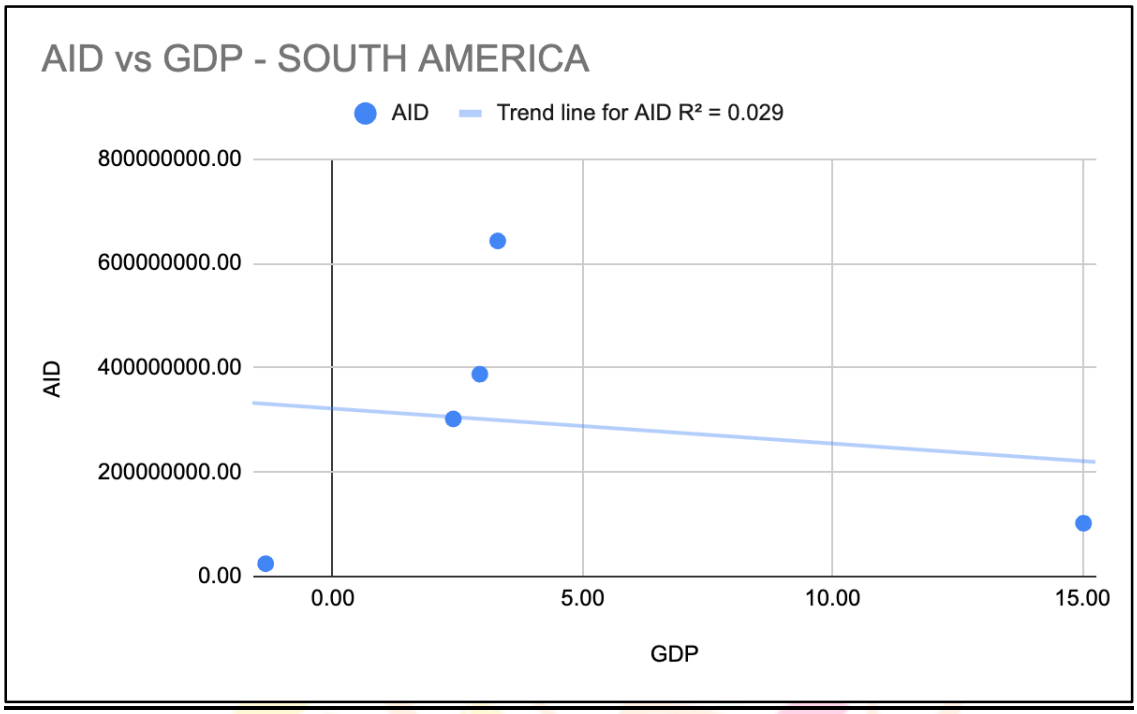
Data Analysis



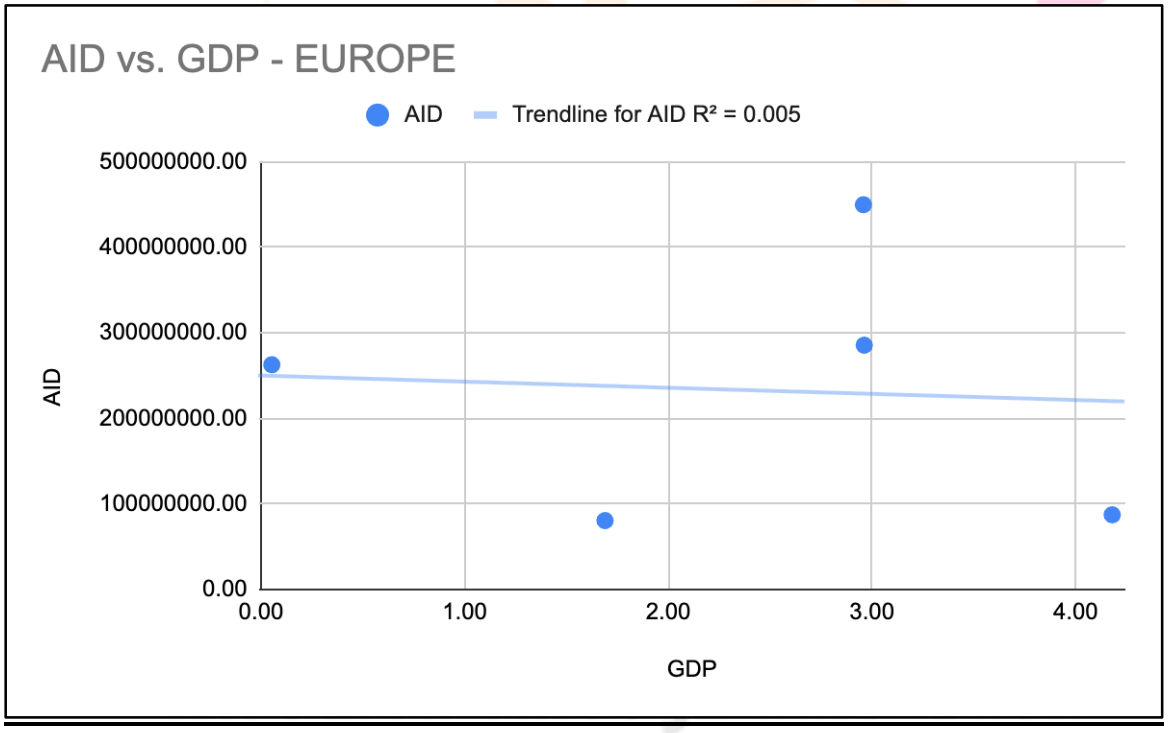
r value obtained → 0.68 (STRONG CORRELATION)



r value obtained → 0.43 (MODERATE CORRELATION)



r value obtained → 0.17 (VERY WEAK CORRELATION)



r value obtained → 0.07 (VERY WEAK CORRELATION)

Discussion

The findings of this study reveal a rather complex, multifaceted, and regionally varied relationship between the two variables explored (i.e., foreign aid inflows and GDP growth) in developing nations from 2013 to 2022. By calculating the correlation coefficients (R) for the four regions – Asia (0.68), Africa (0.43), South America (0.17)

and Europe (0.07) – the analysis confirms that aid effectiveness is far from universal and is dependent on a variety of factors, some of which were possibly beyond the scope of this research. These regional discrepancies necessitate a more in-depth examination of theoretical models, empirical literature, and geopolitical context to comprehend why aid appears to stimulate growth in some settings but fails to do so in others.

Firstly, the strong positive correlation in Asia aligns with the predictions of the Harrod-Domar Growth Model and the Two-Gap Model, both of which suggest that aid can influence and promote growth by fuelling domestic savings and easing the foreign exchange constraints. As an example, countries such as Vietnam, Bangladesh, and India have demonstrated consistent economic growth over the past decade, accompanied by relatively high and evidently well-utilized aid inflows. These nations have, without a doubt, invested aid in critical infrastructure, human capital development, and export-oriented growth strategies (Philipp, 2023). Furthermore, many Asian countries benefited from structural adjustments in the 1990s, which strengthened institutions and promoted market freedom. Both of these made these countries more receptive to the development and utilisation of finance. Not only this, but the findings of Burnside and Dollar (2000) also resonate here – their work concluded that aid is more effective in environments with sound fiscal and trade policies, conditions increasingly characteristic of emerging Asian economies.

In contrast, Africa exhibits a moderate correlation, suggesting that while aid may have contributed to growth, its impact has been uneven and highly contingent upon internal governance structures. Countries such as Rwanda and Ethiopia have made significant strides in utilizing aid to invest in healthcare, education, and digital infrastructure. Rwanda, for example, has become a model for aid utilization, often using funds through transparent institutions; however, credibility and weak institutional frameworks have hindered effective aid absorption. The Aid Conditionality Model, which shows that institutional quality and governance are important mediators of aid effectiveness, is echoed by this division (BIGSTEN and LUNDSTRÖM, 2004). This nuanced perspective is supported by empirical research, such as Hansen and Tarp (2001), which shows that although aid can spur growth, its effectiveness is neither assured nor automatic, particularly in nations struggling with administrative inefficiencies or corruption.

Additionally, concerns exist over the dynamics of development in South America, given the extremely weak correlation observed. Even though nations like Ecuador and Peru have benefited significantly from aid, most of it has been allocated toward post-disaster recovery, indigenous rights, and environmental preservation rather than investment that promotes growth (ReliefWeb, 2024). These nations, as of this date, do not even classify as one of the leading nations within the developing segment, and that is perhaps the reason for this low value of R. Furthermore, these countries frequently have abundant natural resources, which lessens the proportional significance of aid in their economy. In fact, the "resource curse" in several Latin American countries has limited

the impact of external aid by diverting attention away from long-term development plans. Additionally, aid flows in this region have been more politicized and fragmented.

Lastly, the European sample presents the weakest correlation in the entire study, which clearly reflects the unique geopolitical position of the Eastern European and post-Soviet states. Countries involved in the study, such as Armenia, Albania, and Bosnia, have received aid primarily for post-conflict reconstruction, democratization, and reforms (Panić, 2008) – both institutional and governmental. Unlike Asia or Africa, where aid is targeted at the economic infrastructure, much of the aid in the European context has been non-economic or political in nature. Moreover, many of these nations have received the EU accession support, which, while valuable, may not directly translate into tangible GDP growth (European Commission, 2019). The low correlation here may also indicate a time lag in the effectiveness of aid or the fact that such aid addresses structural transformation rather than immediate economic expansion.

Overall, these cases demonstrate how the purpose of foreign aid, whether developmental, humanitarian, or geopolitical, and the absorptive capacity of the nation, i.e., its ability to utilize aid effectively, can affect its apparent economic impact.

Conclusion

In summary, foreign aid has long been regarded as a cornerstone of international development efforts, designed to accelerate economic growth and reduce poverty in developing nations. Its historical roots run deep - from the post-war Marshall Plan to contemporary aid frameworks administered by global institutions like the World Bank and the IMF. While some theorists, including those who coined the Harrod-Domar and Two-Gap models, support the idea that aid can help bridge financing gaps and fuel growth, others, such as advocates of Dependency Theory, argue that it often reinforces systemic dependency and inefficiency. This paper aimed to examine this argumentative and complex terrain by conducting a correlation-based continental analysis of the relationship between aid received by developing countries and their respective economic growth, as measured by GDP growth rates.

To achieve this, a random generator was used to select five developing countries from each of four continents: Asia, Africa, Europe, and South America. Data for net official development assistance (ODA) and annual GDP growth rates (expressed as percentages) were retrieved from the World Bank's Data Bank for the period 2013-2022. By doing so, the study ensured the usage of only authentic and verified data. Using this dataset, a Pearson's correlation analysis was conducted for each continent to examine the relationship between aid inflows and economic growth. The results demonstrated significant variation in correlation strength across regions: Asia exhibited a high positive correlation (R = 0.68), Africa showed a moderate correlation (R = 0.43), while South America (R = 0.17) and Europe (R = 0.07) reflected very low correlations.

Ultimately, these findings clearly point toward a context-dependent view of foreign aid, consistent with both theoretical predictions and empirical literature. While aid has contributed positively to growth in some regions, particularly Asia, its effectiveness is far from uniform. A variety of factors, including governance quality, institutional strength, sectoral targeting of aid, and broader geopolitical events, heavily influence it. These results suggest that foreign aid is neither inherently effective nor inherently ineffective - it is how, where, and under what conditions it is delivered and managed that truly determine its impact. Thus, in response to the guiding research question - *To what extent does foreign aid contribute to economic growth in developing countries?* - The answer is: to a varying extent, shaped significantly by the context.

Although the study proved to be highly valuable in depicting the diverse relationship between the variables, it was inherently subject to several limitations. Firstly, the sample size was limited to five countries in one continent, which offers only a snapshot of the regional trends. This may not be an entirely accurate representation of the trends within each region. A larger and more diverse list of country samples could provide a more statistically accurate, holistic, and robust analysis while also reducing the influence of region-specific outliers. Moreover, the ten-year period (2013-2022), although deemed sufficient for trend observation, included unexpected and huge-scale global events - most notably the COVID-19 pandemic, which had widespread economic consequences and potentially distorted the entire economic landscape, including aid inflows and GDP growth rates. Future studies may account for such anomalies in the data to derive more accurate findings.

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