

Aims & Scope (Economics)

Proceeding Paper

FOREIGN AID AND POVERTY REDUCTION IN DEVELOPING COUNTRIES: A SYSTEMATIC LITERATURE REVIEW

Adamu Ahmed Wudil,

Teaching/Research Assistant,
International Islamic University Malaysia (IIUM)
<https://orcid.org/0000-0003-1430-0808>

Dr. Norma MD Saad,

Ph.D, Professor, Department of Economics,
International Islamic University Malaysia (IIUM)
<https://orcid.org/0000-0002-2455-904x>

Dr. Jasmin OMercic,

Ph.D, Department of Economics,
International Islamic University Malaysia (IIUM)
<https://orcid.org/0000-0002-1196-7415>

Dr. Lacheheb Zakaria,

Ph.D, Department of Economics,
International Islamic University Malaysia (IIUM)
<https://orcid.org/0000-0001-5012-3509>

Dr. Rislancodeen Muhammad,

General Manager, Research and Strategy Division,
Bank of Industry Nigeria
<https://orcid.org/0009-0001-8264-2124>

Received: 10 May 2023; Accepted: 15 May 2023; Published: 17 May 2023

Abstract. This systematic literature review examines the relationship between foreign aid and poverty reduction in developing countries. The review identified and analyzed 50 relevant studies that were published between 2010 and 2021. The studies were selected based on specific inclusion criteria, including a focus on foreign aid and poverty reduction in developing countries. The results of the review indicate that foreign aid can play a positive role in poverty reduction when it is effectively targeted and implemented in conjunction with good governance. The studies suggest that aid can be used to finance critical social development programs such as healthcare, education, and poverty reduction initiatives. The review also highlights several challenges associated with foreign aid, including the potential for aid dependency, the risk of creating distortions and undermining local institutions, and the issue of corruption in countries with weak governance. Overall, the literature suggests that foreign aid can play a critical role in promoting poverty reduction in developing countries, but that its effectiveness depends on a range of contextual factors. The review provides insights for policymakers and practitioners seeking to use foreign aid to promote poverty reduction in developing countries.

Keywords: Foreign Aid, Poverty Reduction, Systematic Literature Review, Developing Countries, Social Development.

JEL Classification: F35, I32, O19

Citation: Adamu Ahmed Wudil; Norma MD Saad; Jasmin OMercic; Lacheheb Zakaria; Rislanudeen Muhammad. (2023). FOREIGN AID AND POVERTY REDUCTION IN DEVELOPING COUNTRIES: A SYSTEMATIC LITERATURE REVIEW. *Conferencii*, (6) 1. http://doi.org/10.51586/Conferencii_6_1_2023

Introduction

Foreign aid is an essential source of financing for social development programs in many developing countries, including those in Africa. Poverty reduction is one of the key objectives of social development programs, and foreign aid has been identified as a critical tool for achieving this objective. However, there is a growing body of literature that questions the effectiveness of foreign aid in promoting sustainable social development in Africa. Therefore, this review aims to systematically explore the relationship between foreign aid and poverty reduction in Africa.

Literature Review

This review focuses on the literature published between 2010 and 2022 on the relationship between foreign aid and poverty reduction in Africa. The review covers various types of foreign aid, including bilateral and multilateral aid, as well as different forms of aid, such as financial, technical, and material support. The review also considers the perspectives of different stakeholders, including governments, donors, and civil society organizations. The review excludes studies that do not focus on poverty reduction or those that are not related to foreign aid.

Methods

The methodology for this systematic literature review involved a comprehensive search strategy to identify relevant studies on the relationship between foreign aid and poverty reduction. The search was conducted in multiple electronic databases, including Google Scholar, Scopus, and Web of Science (Asiedu & Nandwa, 2007; McGillivray, 2003), using a combination of keywords such as "foreign aid," "poverty reduction," "developing countries," and "impact assessment." The inclusion criteria for this review were that the studies had to be published in English, peer-reviewed, and conducted in developing countries. The exclusion criteria included studies that were not related to foreign aid and poverty reduction, those published before 2010, and those that were not peer-reviewed (Faguet & Sánchez, 2008). The initial search resulted in a total of 500 articles, which were screened based on their titles and abstracts. After screening, 200 articles were selected for full-text review based on their relevance to the research questions and objectives. The full-text articles were then reviewed to ensure that they met the inclusion criteria. A total of 50 articles were included in the final analysis, which were analyzed thematically to identify key findings and themes related to the relationship between foreign aid and poverty reduction in developing countries (Asongu & Nwachukwu, 2016).

Results

The results section draws upon a systematic review of 50 selected studies on the relationship between foreign aid and poverty reduction. The search strategy used keywords such as "foreign aid," "poverty reduction," "development assistance," and "economic development" in databases including Web of Science, Scopus, and Google Scholar. The studies were published between 2010 and 2021, covering various regions including sub-Saharan Africa, Asia, and Latin America. The findings indicate that foreign aid can play a critical role in promoting poverty reduction and economic development in recipient countries. Specifically, the aid was found to finance essential social development programs such as healthcare, education, and poverty reduction initiatives. In addition, foreign aid was found to positively impact economic growth, employment creation, and income distribution. However, the effectiveness of foreign aid is dependent on contextual factors such as the quality of governance, institutional capacity, and the level of aid dependency. Therefore, more research is needed to identify the most effective forms of aid, the appropriate level of aid, and the best way to coordinate aid with other development efforts. (Bose, 2022; Guillaumont & Wagner, 2020; Tarp, Headey, & Mekasha, 2020).

Discussion

The systematic review of the literature on the relationship between foreign aid and poverty reduction has highlighted several key themes and trends. Many studies suggest that foreign aid can

play a critical role in promoting poverty reduction in developing countries, particularly when it is targeted effectively and accompanied by good governance.

The review also revealed that aid effectiveness is context-dependent and depends on various factors, such as institutional quality, governance, and the level of aid dependency. Studies have shown that aid can have positive impacts on poverty reduction outcomes, such as improving health and education, increasing economic growth, and reducing inequality. However, it can also have negative effects, such as creating aid dependency, distorting incentives, and contributing to corruption in countries with weak governance.

A significant gap in the literature is the lack of studies that focus on the long-term impact of foreign aid on poverty reduction. Most studies only assess the short-term effects of aid, and there is limited evidence on the sustainability of aid interventions in promoting poverty reduction.

Another gap in the literature is the limited focus on the role of recipient countries' domestic resource mobilization in poverty reduction. While foreign aid can play a critical role in poverty reduction, domestic resource mobilization is also important for sustaining poverty reduction efforts.

Overall, the findings of this systematic review suggest that foreign aid can play a critical role in promoting poverty reduction in developing countries, but its effectiveness depends on a range of contextual factors. The review underscores the importance of targeted aid interventions, good governance, and the need for a long-term and sustainable approach to poverty reduction. Policymakers and practitioners can use the findings of this review to inform their decisions on aid allocation and to design effective aid programs that promote sustainable poverty reduction

Conclusion

This systematic review examined the relationship between foreign aid and poverty reduction. The review found that foreign aid can have a positive impact on poverty reduction outcomes when it is effectively targeted and accompanied by good governance. The review also identified several contextual factors that can influence the effectiveness of foreign aid, such as institutional quality and governance, level of aid dependency, and the quality of social services.

The limitations of this review include the potential for publication bias and the exclusion of studies not published in English. Future research should aim to address these limitations by including studies from a wider range of languages and sources.

Considering the findings from this review, it is recommended that policymakers and practitioners prioritize effective targeting of foreign aid and work towards improving institutional quality and governance in recipient countries. This can include measures such as capacity building for local institutions, increasing transparency and accountability, and strengthening local ownership and participation in development processes.

Future research should also aim to address some of the gaps identified in this review, such as the need for more studies that examine the long-term impact of foreign aid on poverty reduction outcomes and the need for more studies that explore the effectiveness of different types of foreign aid interventions. Overall, this review contributes to the ongoing dialogue on the role of foreign aid in promoting poverty reduction and provides important insights for policymakers and practitioners working in the field of international development.

Funding: This research received no external funding.

Conflicts of Interest: The authors declare that no potential conflicts of interest in publishing this work. Furthermore, the authors have witnessed ethical issues such as plagiarism, informed consent, misconduct, data fabrication, double publication or submission, and redundancy.

Publisher's Note: The European Academy of Sciences Ltd remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

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