

**THE EFFECTIVENESS OF OFFICIAL DEVELOPMENT  
ASSISTANCE: A CASE STUDY OF MALI.**

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**Abstract**

This paper is an attempt to analyze the official development assistance effectiveness in Mali. Mali is one of the world's poorest nations, ranking 182 out of 186 according to Human Development Index (HDI) 2013, a country with limited natural resources. The paper does not only evaluate the efficacy of official development effectiveness but also an endeavor to find out the ways to make the aids more effective and efficient in the Mali. Despite receiving an increasing amount of aid from the donor countries, the poverty rate in Mali has not been declining since 1960. So the paper attempts to highlight the weak areas of official development assistance and lastly it provides some constructive recommendations for the effectiveness of official development assistance.

Key Words: Foreign Aid, Efficient ODA, OECD, HDI, Millennium Development Goals

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## Introduction

The term Official development assistance (ODA) is defined as government aid designed to promote the economic development and welfare of developing countries. This term was first time coined by the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) to measure aid in the developing countries in 1969. It is broadly used as an indicator of international aid flow. The OECD maintains a list of developing countries and territories; only aid to these countries counts as ODA.

Mali is one the countries which receive a substantial amount of aid from OECD donors. The main objective of this aid is to help Mali in developing its economy by minimizing the poverty rate. Since 1969, Mali has been receiving more and more aid but unfortunately the rate of poverty has been rising rather than declining. According to the statistical figures more than half of the population of Mali is still living below the international poverty line of 1.90 dollars per day. The poverty rate Mali was estimated 43.6% in 2010, and it jumped to 45% in 2013., The health and development indicators rank among the worst countries in the world., only 36 percent of the people of Mali are estimated to have access to health services within a five-kilometer radius. The value for Mortality rate, under-5 (per 1,000 live births) in Mali was 104.34 as of 2014. The unemployment rate increased from 5.1% in 1960 to 10.8% in 2014.

The main objective of official development assistance was to diminish extreme poverty by half in 2015 but the result seems quite opposite in Mali. Gross official development assistance to Mali averages around USD 400-450 million per year from multitude of bilateral and multilateral donors.

This paper presents a detailed analysis of the paradox, that the foreign aid of Mali is increasing but the country couldn't benefit from it. In addition to the extreme poverty focused in this paper, some other indicators like unemployment rate, under 5 children mortality rate, health etc are also presented. The historical data about the aid in Mali by main donor countries since 1980 has also been elaborated in the paper. Broadly, the study attempts to answer the question, why Official Development Assistance does not work in Mali?

## Literature Review

A research of World Bank was used to develop an argument in favor of the fact that aid works, but only when policies are right<sup>1</sup>. According to the World Bank (1998) aid does help to increase growth, but only in countries with sound economic management or good governance. Burnside and Dollar (2000) concluded that aid had a positive impact on growth for developing countries with good fiscal, monetary and trade policies in place, but had little impact for those countries with poor policy.

Addison et al (2005) argue that one can be more certain that aid will reduce poverty through growth when aid itself is used to invest in the livelihoods of the poor thereby raising the poverty-elasticity of growth.

Aid and Economic Growth in Developing Countries<sup>2</sup> A literature review savings. In his empirical analysis using cross-country data, Griffin (1970) supported this argument, reporting a negative association between capital inflows and domestic savings.

Boone (1996) provided the stimulus for the aid effectiveness debate in mid 1990s using panel data for 91 countries covering the period 1971-1990, Boone investigated the impact of foreign aid on investment, consumption and measures of well-being. He also examined whether aid effectiveness was conditional on the political regime. Results indicated that foreign aid leads to increases in government consumption rather than increasing investment or benefiting the poor.

Swenson (1999) concludes that foreign aid has a positive long-term impact in democratic countries, but in countries with authoritarian regimes, aid has often dissipated into unproductive activities. Ranis and Mahmood (1992) claims that foreign aid retard a country's ability to adhere to responsible economic policies.

Mosley (1980) observes a positive relationship between foreign aid and economic growth for UK

<sup>1</sup> Alberto Paloni and Maurizio Zanardi, The IMF World Bank and policy Reform, Routledge ; 1 edition ,January 13,2006

<sup>2</sup> Pauline Mercieca, Aid and Economic Growth in Developing Countries : A Literature Review Bank of Valletta Review, No.41, Spring 2010

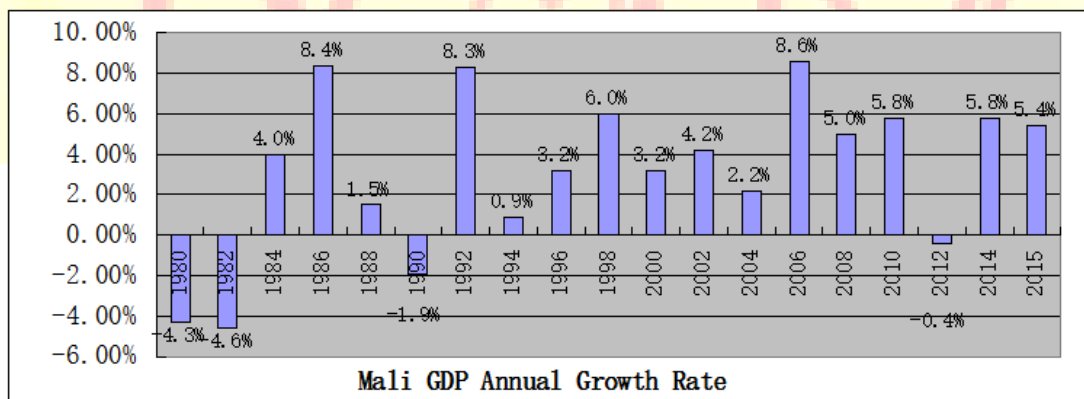
aided countries and negative for French and Scandinavian aided countries. However, he concludes that aid could not improve the economic conditions in Bangladesh, India and countries like Korea, Malawi and Kenya

I do support the point of view of Mosley, Boone. Since Mali began having official development assistance, the rate of poverty has been still increasing, most of the population lives with less than one dollar a day. In early 1980s Mali has adhered to structural adjustment programs, since then, public service restructuring and efforts to decentralize the economy have deeply reshaped Mali's public sphere .The county's chronic budget deficit is nearly 85 percent financed by external sources. Aid does not have a positive impact on Mali's poverty reduction; because Mali is today more poorer than 40 years ago, aid is not consequently the perfect manner to help Mali.

### The Analysis of Official Development Assistance in Mali from 1980 to 2015

Mali is one of the poorest countries in sub-Saharan Africa, ranking 177 out of 188 on the 2013 Human Development Index (HDI), 34 out of the 45 countries in sub-Saharan Africa in terms of Gross Domestic Product (GDP, purchasing power parity (PPP), per capita, and has a negative real GDP growth rate on 2012. Mali is heavily dependent on foreign aid, the Organization for Economic Co-operation and Development (OECD) estimating in 2008 that donors provided 60 to 80 percent of Mali's special investment budget.

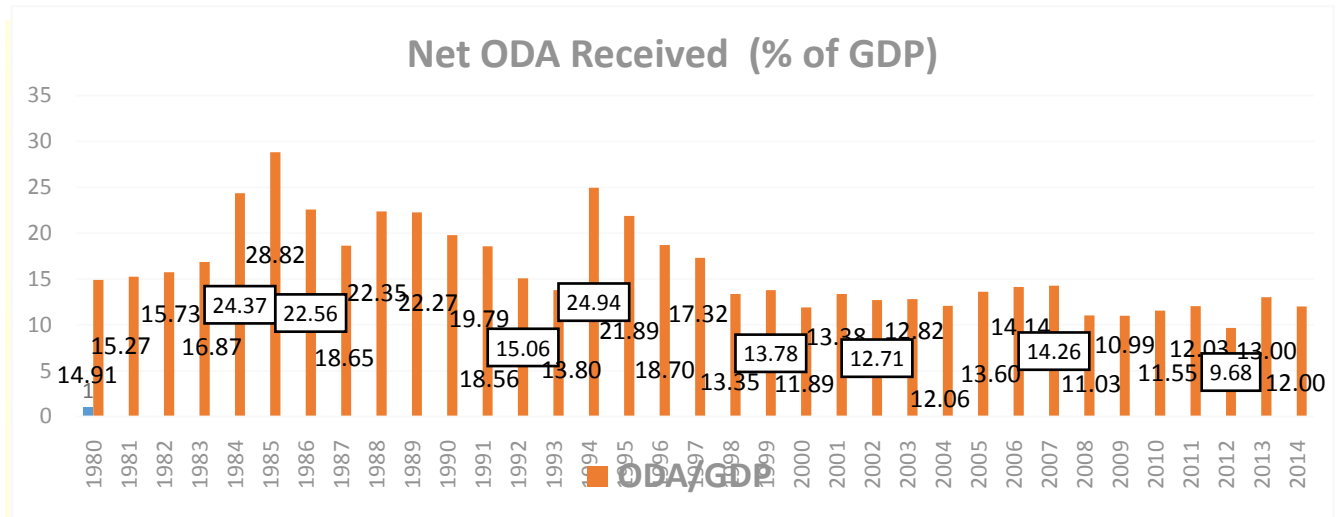
Figure 1: Annual GDP Growth Rate of Mali



Source Word Bank (2014)

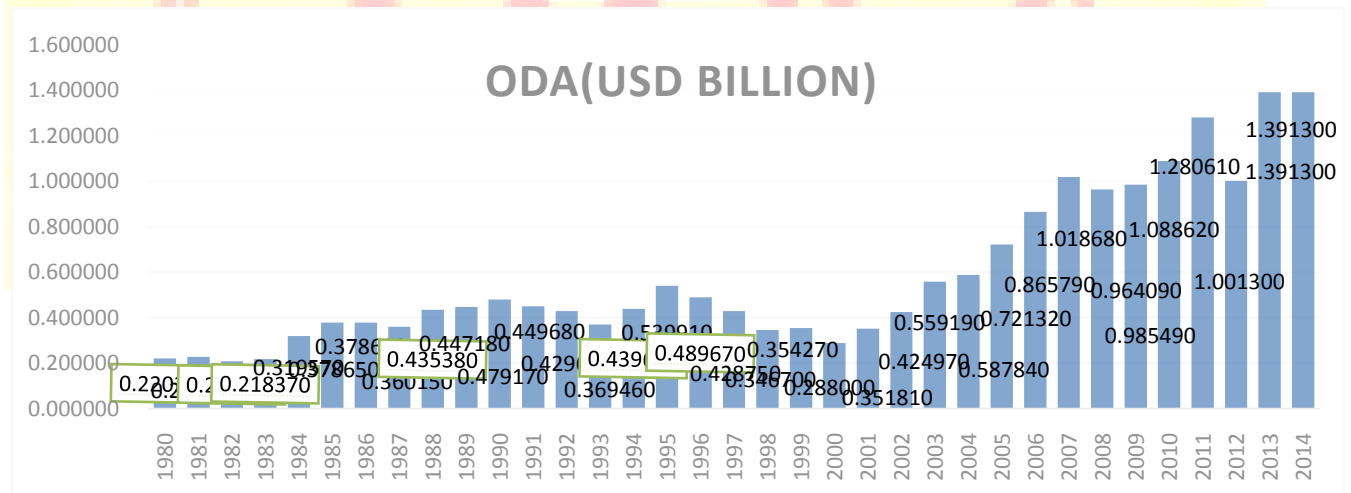
Since the beginning of its independence, Mali has been receiving aid, during this period aid has been significantly increased from 10 million dollar in 1960s to 558million dollar in 2007, 940 million in 2009 .By percentage of GDP, Foreign aid increased from 11.55% in 2010, 13 % in 2013 and 12 % in 2014.

Figure 2: Net ODA Received (% of GDP) by Mali



Source Word Bank (2014)

Figure: 3 Mali's ODA (USD BILLION)



Source: Word Bank (2014)

## Bilateral Donors

Following are some important bilateral donors for aid in Mali. Austria, Belgium, Canada, Spain, France, Denmark, Italy, Japan, Libya, Luxembourg, Netherlands, Sweden, Switzerland, USA, Basil, China, Cuba, Indian, Venezuela, Russia, Finland, Norway, Ireland, England and some Arab countries are included.

In the year 2009-2010 more contribution in the aid was made by USA, European Union, African Development Bank, World Bank and China. They donated about 60% of the whole aid to Mali. There are many reasons for Mali to be beneficiary of aid such as moral, humanitarian motive, political or diplomatic motive and economic motive. In 2012 Mali had undergone one of the most serious crises in its history since independence. This crisis, involving the occupation of the part of Mali by terrorist groups, and large scale abuses against the civilian population, plus a military coup followed by the opening of a period of transition towards a full return to constitutional order, has had major humanitarian and economic consequences.

An International Donors Conference in Brussels on 15 May 2013 brought together the International community to help in rebuilding Mali by raising this slogan "Together for a New Mali". The delegations from 108 countries participated in Brussels Conference. This conference promised an aid of 3.25 billion euro from 56 bilateral and multilateral donors.

In 2013, the European Commission's humanitarian department allocated €42 million to assist victims of the conflict in Mali and the neighboring countries, where fighting forced more than 160,000 to flee. Since the beginning of 2012, the European Commission had mobilized a total of €115 million in humanitarian aid for Mali. That includes a total of €100 million from the European Commission's humanitarian department (ECHO) in 2012-13 and €15 million from the European Development Fund used for emergency food assistance. In addition, EU Member States committed an additional €50 million of humanitarian aid to Malians in 2012-13.

Sixteen donors provided aid for education in Mali between 2005 and 2007: Belgium, Canada, Finland, France, Germany, Ireland, Japan, Luxembourg, Netherlands, Norway, Spain, Sweden, UNDP, UNICEF, USA, and the World Bank. The majority of aid tends to come from a very few of these: in 2006, Canada and the Netherlands together provided 76 per cent of all education aid

and 95 per cent of the aid for basic education; in 2007, France alone provided 40 per cent of education aid. In 2007, just 8.5 per cent of all aid flows (\$111million, FCFA 53billion, €81million) allocated to Mali in 2006 was directed to the education sector, with just under half of this going to the basic education (including primary education). The health sector, in comparison, received less than 3 per cent of aid flows. Transport and storage, on the other hand, received 18 per cent of the aid.

## **Root Causes of the Failures of ODA in Mali and Its Prospects for Improvement**

### **Theoretical Causes of Failure of Official Development Assistance**

Aid to Mali is composed of various loans which brings Mali under heavy debts. For example, 36% of aid promised by France is loans. The aid provided by the donors is in the form of loans. The conditions of these loans violate the sovereignty of the Mali and they act as hindrance in the way of development. In 2013, in order to benefit \$46 million from the IMF, Mali's government promised to implement a Structural Adjustment Program for a period of 3 years (2014-2016) under the supervision of IMF. IMF evaluates its application after every 6 months. Consequently Mali needs to bring some major changes in its economy to pay off the debt by privatizing some important sectors of the economy which are strategic in nature such as water and power.

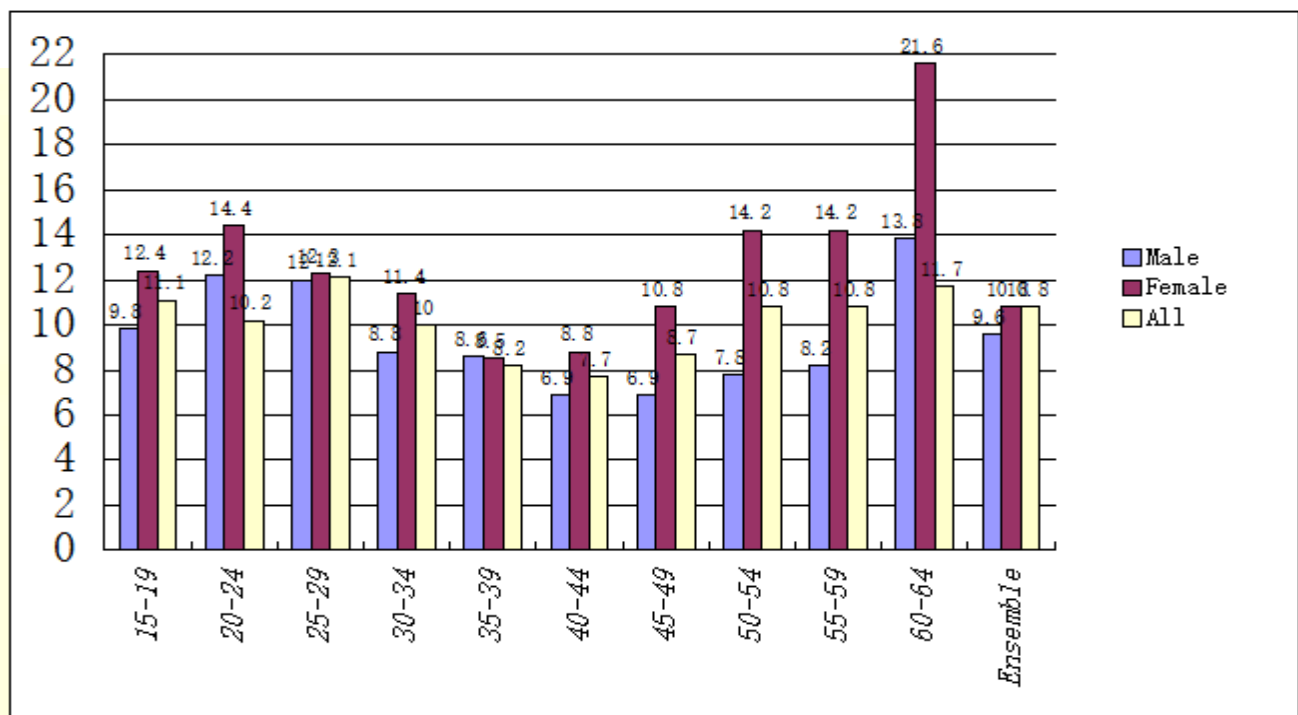
Despite the increase in Official Development Assistance, Mali has not experienced any significant improvement in micro and macroeconomic aspects. In 1996, several donor agencies introduced poverty reduction as a major goal of their aid. The recent experience of Mali exposes the majority of the donors' unethical behavior and weak commitment with respect to their previous promises. Some donor agencies put money directly into the project without going through the governmental channel; committees formed to drive the program independently.

Beside abovementioned study, other important economic indicators are also not seen very favorable. For example: GDP growth rate has decreased and unemployment rate increased from 8.2% (2010) and still increasing in the recent year.

The figure given below shows the distribution of unemployment according to the age and the sex.

We can notice that the young male from 20 to 24 years and the women of each age are more affected, this is why young people are immigrating to Europe and other developed countries for better lives.

**Figure 4: The unemployment rate by sex and age in Mali**



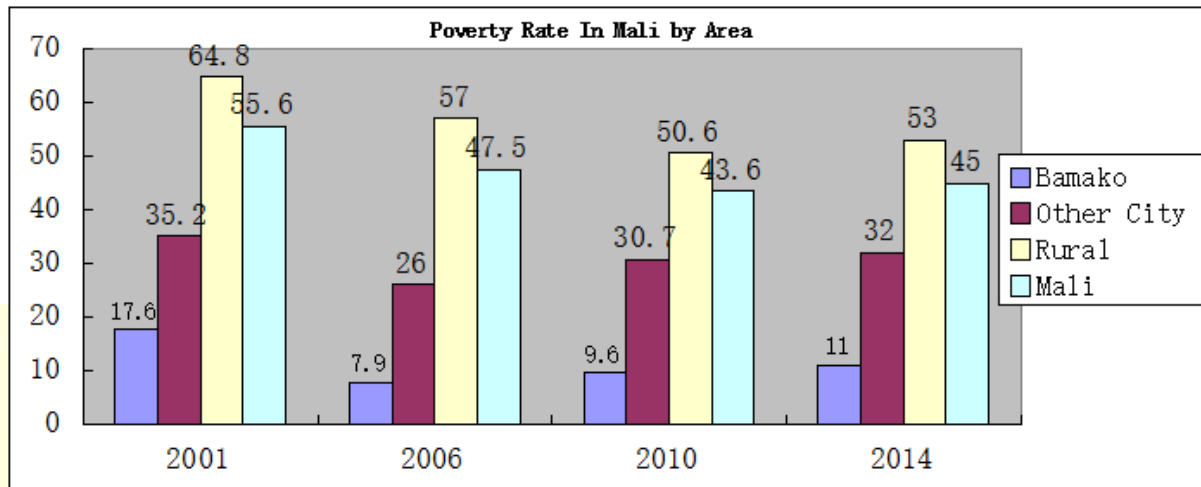
Source: National Institute of Statistic of Mali 2014

Furthermore, the population below poverty line is 36.1% approximately. According to the national data, poverty declined from 55.6% in 2001 to 43.6% in 2010, before rebounding to 45% in 2013. Prior to the political and economic crisis in 2012, poverty incidence is high and most poor live in rural areas. In 2010, more than half the population (51%) lived below the poverty line of \$1.25 a day. Since then, drought and conflict have increased the incidence of poverty. Poverty is much lower in urban areas (14%).

Mali does not have a better infrastructure. The country is very enclave, only 5953km of road are tarmac road, 643 km of railway and 6 international airport.



Figures 5: The poverty rate in Mali by area



Source: INSTAT 2011 -2014

About 57% of the people living in Mali had no access to sanitation, 40% of Malian under the age of 5 are underweight or starving, and this is because the aid is not used where it should be used. In 2000 only 62–65 percent of the population was estimated to have access to safe drinking water and only 69 percent to sanitation services of some kind; only 8 percent was estimated to have access to modern sanitation facilities. Only 20 percent of the nation’s villages and livestock watering holes had modern water facilities. Medical facilities in Mali are very limited, especially outside of Bamako and medicines are in short supply. There were only 10 physicians per 100,000 inhabitants in the 2010 s and 10 hospital beds per 100,000 in 2014 (CIA World Fact book ). Only 36 percent of Malians are estimated to have access to health services within a five-kilometer radius. The under 5 mortality rate, per 1,000 births was 123 in 2013 and the neonatal mortality as a percentage of under 5's mortality was 26<sup>3</sup>.

In 2007, just 8.5 per cent of all aid flows (\$111m, FCFA 53bn, €81m) allocated to Mali in 2006 was directed to the education sector, with just under half this going to basic education (including primary education). The health sector, in comparison, received less than 3 per cent of aid flows.

<sup>3</sup> Unicef , The under five mortality rate in Mali,UN Inter-agency Group for Child Mortality Estimation,September 2013

Transport and storage, on the other hand, received 18 per cent<sup>4</sup>.

For years, the Malian government announced major infrastructure and development projects in the north, but channeled funds through local elites who did not invest these funds in services for the population. “The government and international partners didn't work through civil society associations or local government, but with nefarious individuals based upon their personal relationship. Much of the funding was not transparently monitored, empowering corruption and deteriorating Malians’ faith in their leadership<sup>5</sup>.

## Methodology

The data of this study has been gathered from World Bank, International Monetary Fund, and the ministry of economy and finance of Mali, UNDP, UNICEF, INSTAT and various relevant research studies. Annual time series data analysis method has been used in the study. The data covering the period of 1980 – 2014 has been chosen for the research.

## Regression Model

**a) Poverty Reduction**=  $\beta_0 + \beta_1 \text{Aid} + \beta_2 \text{Policy} + \beta_3 \text{Institution Quality} + \beta_4 \text{Aid} * \text{Policy} + e$  Dependent Variable

The variables of interest are foreign aid, policy and institutional quality, this case aspires to investigate whether, on average, foreign aid has a positive or negative effect on the poverty reduction of Mali.

**b) Economic Growth**=  $\beta_0 + \beta_1 \text{Aid} + \beta_2 \text{Policy} + \beta_3 \text{Institution Quality} + \beta_4 \text{Aid} * \text{Policy} +$  Dependent Variable

The GDP growth rate is driven by retail expenditures, government spending, exports and inventory levels. Rises in imports will negatively affect GDP growth. The GDP growth rate is the most important indicator of economic health (World Bank 2008).

The variables of interest explored are foreign aid, policy and institutional quality. In this study,

<sup>4</sup> J Caroline Pearce, Sebastien Fourmy, and Hetty Kovach , Delivering Education For All in Mali, Oxfam International, 15 Jun 2009

<sup>5</sup> Kathmandu , Getting it Right in Post Conflict in Mali ,Irin Africa ,BAMAKO/MOPTI, 9 August 2013

aid is represented by the annual receipt of ODA divided by the mid-year population estimate divided by GDP per capita. The policy variables are the weighted average of the trade openness measure, the inflation rate, and the budget surplus (Burnside and Dollar 2000). The purpose of this variable is to assist in the discussion of the effectiveness of aid "works" and "does not work" policy environments.

**c) Results and Analysis**

**Table 1**

Variable	1		2	
	ols	robust	ols	robust
Gdp growth	0.046*** (0.013)	0.046*** (0.01)	0.046*** (0.013)	0.046*** (0.01)
Political rights	-0.041** (0.015)	-0.041*** (0.014)	-0.041** (0.015)	-0.041*** (0.014)
Civil liberties	0.028 (0.026)	0.028 (0.024)	0.028 (0.026)	0.028 (0.024)
m2/gdp	0.217*** (0.042)	0.217*** (0.051)	0.217*** (0.042)	0.217*** (0.051)
Aid/gdp	-0.0234 (0.022)	-0.0234 (0.016)	-0.067 (0.048)	-0.067* (0.038)
policy	0.043 (0.047)	0.043 (0.034)	(omitted)	(omitted)
Aid/gdp*policy			0.043 (0.047)	0.043 (0.034)
_cons	2.035*** (0.268)	2.035*** (0.159)	2.035*** (0.268)	2.035*** (0.159)
Observations	35	35	35	35
r-squared	0.9590	0.9590	0.9590	0.9590

Notes: The dependent variable is poverty reduction

legend: \* p<.1; \*\* p<.05; \*\*\* p<.01

P-value of t-statistics are in parentheses

\*Significant at 1% level; \*\*Significant at 2% level;

\*\*\*Significant at 5% level

## Empirical Results

The hypothesis, holding all other factors constant, argues aid has no significant effect on poverty reduction. Interacting aid with policy and institutional quality variables may once again yield a statistically significant impact. Additional independent variables acting as controls for this case include internal economic indicators such as initial GDP and liquidity or money available.

Variable	1		2	
	ols	robust	ols	robust
Trade openness	1.349 (1.45)	1.349 (1.54)	1.262 ( 1.518 )	1.262 ( 1.58 )
invest	0.263* (0.135)	0.263* (0.143)	0.259* ( 0.139 )	0.259* ( 0.137 )
inflation	0.0463 (0.137)	0.046 (0.13)	0.056 ( 0.144 )	0.056 ( 0.131 )
m2/gdp	-3.334* (1.641)	-3.334** (1.478)	-3.328* ( 1.679 )	-3.328** ( 1.487 )
Civil Liberties	-1.66* (0.828)	-1.66 (0.974)	-1.566* ( 0.9 )	-1.566* ( 0.882 )
Political rights	1.359* (0.664)	1.359* (0.767)	1.365* ( 0.68 )	1.365* ( 0.757 )

Aid/gdp			-0.229	-0.229
			( 0.741 )	( 0.584 )
_cons	2.474	2.474	3.343	3.343
	(6.116)	(6.532)	( 6.86 )	( 7.486 )
Observations	27	27	27	27
r-squared	0.2583	0.2583	0.2621	0.2621

Notes: The dependent variable is economic growth

legend: \* p<.1; \*\* p<.05; \*\*\* p<.01

P-value of t-statistics are in parentheses

\*Significant at 1% level; \*\*Significant at 2% level;

\*\*\*Significant at 5% level

### Empirical Results

The results from Column 7 of Table 2 show no statistical significant relationship between foreign aid and economic growth in Mali. The direction of the relationship between aid and growth suggests that the effects of aid on economic growth are negative. Burnside and Dollar suggest that the impact of aid on economic growth is in fact conditional on the policy environment in which that aid is received.

### Recommendations for Effective Official Development Assistance in Mali

For effective Official Development Assistance in Mali, there should be a serious fight against corruption in every department. To bring effectiveness and the donors should make sure that their money is transparently used for the desired purposes in Mali. The donors should do efforts for the industrial development of Mali. The donors must not transfer money directly to Mali but they should develop and build various industrial sectors that could play a direct role in the economic

development of the country. When provided the industry, as opposed to the money to build industry, those people will have physical capital<sup>6</sup>.

Donors should agree on adopting a standardized format for providing information on volume, allocation and results, such as the International Aid Transparency Initiative (IATI), or other similar standards, and commit to improve recipient countries' data bases with technical, financial and informational support. The format should be easily downloadable and with sufficient disaggregation to enable comparison with other data. Making aid data public and comparable among donors would be likely to encourage a process of positive emulation towards a better usage of public funds<sup>7</sup>.

To improve aid efficiency in Mali, the government should create a good investment climate one that encourages firms and farms, both small and large, to invest, create jobs, and increase productivity. It should empower and invest in poor people by giving them access to health, education, infrastructure, financial services, social protection, and mechanisms for participating in the decisions that shape their lives.

The private sector and agriculture are the main drivers of development in Mali but aid is still largely oriented toward the public sector. Mali's government should develop seed sector, it should adopt a policy of supporting farmer education and extension; integrated approaches to soil fertility management; investment in irrigation and rural infrastructure for processing, storage and transport, promotion of private sector and improve educational system.

Development aid should be an important source of investment for poor and often insecure societies, unfortunately it is vulnerable to corruption, donor countries should not spend too much

<sup>6</sup> Anup Shah, Foreign Aid for Official Development, Global Issues, April 08 2012

<sup>7</sup> Gennifer collins , Aid Effectiveness vs. Development Effectiveness – Is There A Difference? Oct 25, 2011

money on development aid ,withdraw all aid to countries that are not pursuing sound economic policies and that fail seriously to build institutions for good governance and transparency

## Conclusion

Although the role of Official development assistance (ODA) is very important in the developmental process and poverty alleviation in every poor country like Mali but it has incited animated debates about the underlying reasons which lead rich countries to provide assistance to poor countries. Realists consider that all States seek first and foremost to enhance their wealth and power, according to them, aid as a foreign policy instrument is guided by self-interest whereby donors consent to providing aid to enhance their sphere of influence, to broaden their access to markets and to promote the interests of their ruling class<sup>8</sup>.

Poverty reduction has been a success story among the United Nations' Millennium Development Goals. The target of decreasing extreme poverty by half was met five years ahead of the 2015 deadline. However, the progress has been uneven. On the other hand, widespread poverty still exists in Mali, sub-Saharan Africa and Southern Asia. At the moment, 1/3 of Malian people live in extreme poverty, and according to World Bank estimates, approximately 1 billion people will still be living on less than \$1.25 a day in 2015

Mali's government has an important role to play in improving aid effectiveness by passing and implementing important anti-corruption reforms.

For aid to be maximized efficiently and most optimally, donors should look for new ways to

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<sup>8</sup> Katharine Mann Jackson, L'aide au développement une fois de plus sous le feu de la critique, Revue International de Politique de Developpement p. 137-142

improve aid effectiveness including conditionality, capacity support for improved developing countries governance. The study shows that both donors and government are equally responsible for the poor performance of Official Development in Mali. To insure its effectiveness, donors should be transparent on providing their assistance, eliminating unnecessary conditionality to Mali. Mali's political instability, massive corruption, unaccountable and nontransparent government mechanism are the major constraints that often hinder the effectiveness of foreign aid.

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