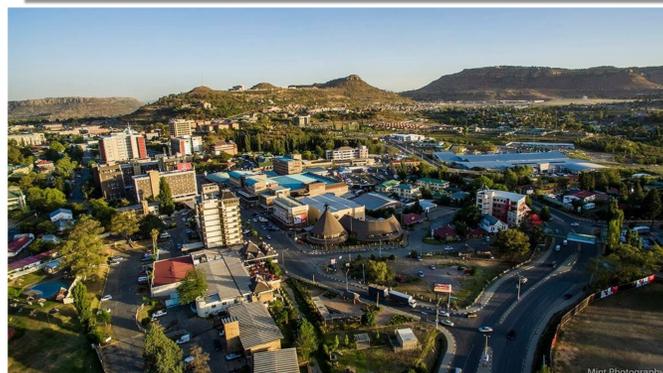


The Paradox of Foreign Aid: Lesotho as a Case Study of the Impact of Foreign Aid on the Growth of Africa

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ABSTRACT



Mint Photography, 2016. <https://twitter.com/lesothobrand/status/702187170111614977>

The purpose of the paper is to determine the key institutional factors that could make Foreign Aid more effective on the economic growth of Lesotho. The aim of the research is to identify the key institutional factors that lead to sustainable economic growth. The “paradox of aid,” according to Bauer (1971), refers to the “ineffectiveness of foreign aid to achieve a substantial improvement in living standards in the absence of the right institutions.” In this paper, the Paradox is tied to what has currently made aid ineffective in regards to economic growth in African countries like Lesotho and how we can find a solution to this.

INTRODUCTION

Globally, Africa is noted as the world's largest beneficiary of foreign aid (Izobo, 2020), however, in acknowledgement of the Paradox of Aid, Izobo (2020), argues that little to no improvements have been made in terms of socioeconomic or political development. In the absence of strong, accountable democratic or financial institutions, aid has been shown to have the opposite effect of positive economic growth, usually leading to a position of aid dependence, and in some instances halting socio-economic growth altogether (Izobo, 2020). Unlike most African countries, Botswana, however has had success in terms of leveraging aid support to grow the country's economy (Debating Africa, 2021).



https://planckconstant.org/blog/2014/04/would_you_stop_aid_to_africa_if_it_were_the_best_t.html

BACKGROUND

The country of Lesotho has historically depended on foreign aid. According to Thamae (2013), a large component of the country's economic growth is driven by the African Growth and Opportunity Act (AGOA), an American trade act that enhances market access to the United States of America (AGOA.INFO, 2018). Through this act, over 36 000 Basotho have found jobs in the textile manufacturing industry as Lesotho is able to export its manufactured goods, mostly jeans and clothing apparel, to South Africa and the United States (Thamae, 2013). Despite this, the United Nations still classifies Lesotho as one of the most underdeveloped nations in the world, with almost 60% of the population living under the poverty line (Callender, 2017). This then goes to question the impact of aid in Lesotho in terms of economic growth. What could be the factors that contribute to the lack of economic growth in Lesotho despite aid support?

Rakhorro and Coetzee (2020) acknowledge that governance in Lesotho has been characterized by an unstable democracy since independence in 1966. Moreover, civil society has been criticized for not maintaining high standards of legitimacy, transparency and accountability. It is the author's view that such instabilities lead to general accountability issues and weak financial institutions necessary in the successful conversion of foreign aid to economic growth.



Apparel Resources Newdesk, 2019. <https://apparelresources.com/business-news/sustainability/cy-garment-factory-initiatives-workers-win-applause-french-ambassador-south-africa/>

HYPOTHESIS

Strong institutions lead to economic growth and decreased aid dependency. Analysing successful countries' path to development can help to broaden the scope of development for other nations as well (Talesco, 2015).

Using Foreign Aid to Bolster Economic Growth: Botswana as a Case Study

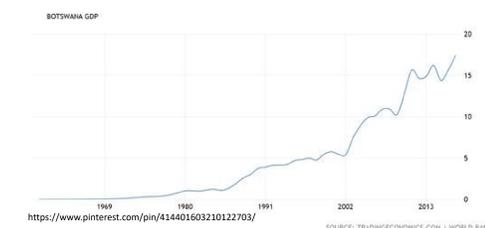
“Botswana achieved its extravagant growth due to the country's ability to adopt and incorporate good governmental and economic policies” (Ukessays, 2003). For instance, the country has proactively sought to reinforce its legal and institutional frameworks to actively fight against corruption. With the use of efficient anti-corruption agencies, the government has been able to stop corruption in its tracks (Transparency International, 2014). The author thereby advocates the use of efficient and strong anti-corruption agencies to direct the proper use of aid. Annalisa Prizzon (2019) infers that part of Botswana's success that has led to leveraging aid to grow the economy lies in strong institutions that are able to put in place accountability practices for the use of aid. This helps in checks and balances and the tracing of funds used for the benefit of the country.

SOLUTIONS

- The establishment of efficient anti-corruption agencies
- Institutions that put in place accountability practices to ensure proper checks and balances

ANALYSIS

The graph below shows the economic growth of Botswana since independence. This economic success has been partly credited to its strong institutions which have been able to leverage aid to assist economic growth (Annalisa Prizzon, 2019).



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