

# Foreign aid effectiveness in the global arena and South Asia

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## **ABSTRACT**

The true effectiveness of foreign aid is an important issue that encompasses a wide variety of academic fields but fails to provide an underlining general consensus. We thus attempt to pose our own analysis on the matter by examining the effect of foreign aid on within country income inequalities. The study constitutes of an overall sample of 93 developing countries and a sub-sample of 73 countries characterized as being net aid receiving. Given the nature of our study, we use panel data techniques to account for potential problems of simultaneity and heterogeneity. The dynamics of the data necessitated the use of a two-way fixed effect model as our variables exhibit strong time sensitivity. We broaden our study by including another sub sample of South Asian countries that demonstrate significant socio-economic and geopolitical similarities. The paper introduces a new variable, infrastructure, which is of considerable theoretical significance. As far our statistical tests go we found compelling evidence of foreign aid being detrimental to the income distribution structure of most developing countries. The South Asian sub-sample, on the other hand, show signs of improvement over the generic model. In addition, an array of variables specific to South Asian countries, such as natural calamities that frequently befall upon the region, are also looked at.