Bachelor Thesis in
Peace and Development studies

Success or failure?
-A study on the effects of foreign aid in the case of Bolivia

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Abstract

In all types of debates - regardless of topic - research findings, investigations, evaluations and media reports regarding aid will find one prominent question, namely whether there is any clear connection between aid and economic growth in countries that have received high amounts of foreign aid. One argument has been that the connection between a high amount of foreign aid and economic growth is none existing. However, this assumption has been questioned by reports that claims the opposite: that aid, with the right conditions, could have a positive effect on a country’s economic growth.

This study makes an effort to examining the effects of foreign aid in Bolivia by looking at the country’s development process in terms of economic growth. Questions like - who were the main donors that contributed with foreign aid in Bolivia? In what way were this foreign aid applied? How do development agencies asses the macro economic impact of aid? - will be discussed and answered throughout the thesis.

The findings of the study demonstrate the complexity of measuring development within a certain case. It depends on what one chose to include in the term as well as which area is being investigated. Furthermore, the results seems to vary between the different programs evaluated that has been shaped and implemented by foreign donors. However, drawing from the findings presented in this study, the result indicates that foreign aid in general has had a positive effect on Bolivia’s economic growth.

Key words: Aid, Efficiency, Bolivia, Debate, Foreign Aid, Donors, Development, Economic Growth.
List of Abbreviations

CAF- Corporacion Andina de Fomento (Development Bank of Latin America)
CIDA- The Canadian International Development Agency
DAC- Development Assistance Committee
GDP- Gross Domestic Product
IDB- Inter-American Development Bank
IMF- International Monetary Fund
MAS- Movimiento al Socialismo (Movement for Socialism)
MDRI- The Multilateral Debt Relief Initiative
NDP- National Development Plan
NGO- Non-Governmental Organisation
NIR- Net International Reserves
OECD- Organisation for Economic Cooperation and Development
UNESCO- United Nations Educational, Scientific and Cultural Organization
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1. Introduction

When typing in the word ‘aid’ in any search engine, the data output is enormous. Ad ‘debate’ to your search and the number of results remain high. Reading through the literature, scholars seems to have divided opinions whether foreign aid fosters or hampers development of a country. On one hand, according to former director of Development Research at the World Bank, Paul Collier, aid is a part of the solution. In his book The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It (2008), Collier states that:

Aid does have serious problems, and more especially serious limitations. Alone it will not be sufficient to turn the societies of the bottom billion around. But it is part of the solution rather than part of the problem. The challenge is to complement it with other actions. (Collier, 2008, p.123)

The idea of aid does have its challenges, however withdrawing it is not the solution, but complementing with other actions could be. A common argument that aid proponents in general use concerns the importance of good policy environments. In order for aid to be efficient, the receiving country needs to have good institutions and conducive monetary, finance and trade policies. Furthermore, aid supporters emphasize that good policy environments arises from a democratic environment. This is sometimes seen as the Western perspective of looking at the aid debate with the main assumption that democracy will contribute to economic growth. (Moyo, 2009, p.40)

On the other hand, there are others contributing to the debate by strongly emphasising the problems and risks with foreign aid. The author Dambisa Moyo is one of them. In her book Dead Aid (2009) she discuss why aid is not working and that there are other ways for Africa to develop. Her main argument is that aid causes corruption and conflict rather than helping African countries in their developing process. According to her, aid prevent foreign investment and social capital, something that could advance Africa's developing process. The literature regarding aid that are of interest to this study and its purpose will be discussed further in the literature review.
1.1 Research problem
The ongoing debate about foreign aid will work as the frame for this study. The research problem concerns whether or not foreign aid furthers development. This will be explored through a case study on Bolivia, examining the country’s history of receiving foreign aid, its development process, and situation today. Since Bolivia is one of the poorest countries in Latin America that has received relatively large amounts of foreign aid historically: they become a relevant study objective.

1.2 Relevance
Why some countries seem to be able to achieve development through foreign development aid and other countries do not has been a key question for over 60 years (Ridell, 2014, p.12). In order to answer this question, aid have has come to be an important phenomenon. Since there are no clear answers whether aid furthers or hampers development the subject is of great relevance to examine.

Furthermore, due to the debate the gap between reality and rhetoric seems wider than ever in spite of the many attempts to address the critical, structural and systematic problems connected to aid-giving. Despite a strong commitment, these problems remain an obstacle for the potential impact of the aid provided. (Ridell, 2014, p.12)

As contribution to the research field, this study looks at the relationship between aid and development by using three different theories that have not yet been combined. The findings could contribute to knowledge about what seems to be a quite complex relationship between foreign aid and development.

1.3 Objective and Research Questions
Based on what has been stated in previous sections, the objective of this study is to examine foreign aid and to understand its possible advantages and disadvantages for development. This is done through a qualitative and abductive desk study on Bolivia. In order to study the conditions contributing to aid's success or failure, this case study will be analysed by using a method of qualitative content analysis.
The research question that this study aims to answer is: does foreign aid hamper or further development in Bolivia? The research question is in turn broken down into the following sub-questions:

- Who were the main donors that contributed with foreign aid to Bolivia?
- In what way, and with what objectives were foreign aid applied?
- How do development agencies assess the macro economic impact of aid?

1.4 Definitions

Aid has been defined by the donor club OECD/DAC as the transfer of resources according to following principles: 1) gifts and loans on significantly more favourable terms than the commercial market in the countries and territories included in the DAC list of approved recipients and multilateral organizations: 2) its main goal shall be to contribute to economic development and well-being: 3) at least 25 percent of the loans are not refundable and should be considered as subsidy. (Odén, 2014, p.6)

Furthermore, the OECD/DAC has agreed that certain other expenses could be counted as aid such as immigration costs (first year of cost of refugees from receiving countries), debt relief to poor countries included in the international agreements, scholarships for students from countries defined as beneficiaries and certain administrative costs. Aid can be provided to individual projects, the society as a whole and as budget support. It can be delivered from government to government, through Non-Governmental Organisations (NGOs) and business actors in a partner country, and it can be provided to international organizations or to certain areas in these organizations. (Odén, 2014, p.6)

Aid can have various purposes and be supplied in different forms to different actors. The difference between aid and foreign investment, commercial loans, bonds etc. is that aid is given as a gift and the resources are channelled through national and international development agencies. Hence, the institutions and models used to plan, implement and evaluate aid can affect its impact on different areas, including economic growth. (Odén, 2014, p.6)

Development as a term is value-neutral, implying on a change taking place without being viewed as good or bad, but usually requires some sort of purpose. However, development is
often assumed to occur from a lower and more undifferentiated state to a higher, better and more differentiated. (Nationalencyklopedin, 2017)

Furthermore, development as a term in peace and development studies includes a broad scope and a wide range of definitions. In this thesis, development will therefore be defined as *economic growth* in accordance with the literature referred to in this study. One should bear in mind that there are other indicators of development that could be taken into consideration in order to provide a comprehensive picture.

1.5 Theoretical and Methodological consideration

The methodology chosen for this research is a qualitative and abductive desk study. The choice of study object builds on the already existing literature that studies Bolivia’s relationship with foreign aid. Furthermore, it is qualitative since the study aims to go in depth and understand the relationship between aid and development.

The choice of doing an abductive study builds on the assumption that abduction can contribute to a deeper understanding of a particular case through re-contextualization in relation to already well implemented structures and theories. (Danemark et al. 2002, p.88)

The theoretical framework used in this study aims to support the use of qualitative content analysis. Bryman (2012) describes content analysis as an approach to the analysis of texts and documents in order to quantify content in terms of already definite categories. It is supposed to show the same result even during different circumstances. (Bryman, 2012, p.290) Since the findings in this study are based on evaluation reports from different aid agencies that has been providing aid to Bolivia, the use of qualitative content analysis seems relevant as a method in order to examine its effectiveness, and thru that also answer the research questions.

1.6 Limitations and Delimitations

Since the study is a desk study relying on information provided by the Internet to a large extent, inadequate interpretation of the Spanish literature to English is a potential deviation. Henceforth, the research will be based on secondary sources, thus its reliability could be questioned. Lastly, the broad frame of literature sources can make the selection procedure quite complicated due to the amount of possible options (George & Bennett, 2005, p.112).
This research will study the effects of foreign aid on Bolivia’s development process. Since this is done through a case-study, one should be aware of the problematic aspects of drawing any generalising conclusions from a single case (George & Bennett, 2005, p.112). The consequences of receiving aid will most likely differ from country to country, depending on various reasons. The findings presented in this thesis are delimited to the developing process in Bolivia, and should not be seen as representative for aid's effect on development in general. Furthermore, the amount of evaluation reports are limited to the size of the study and not sufficient to give a determined answer.

1.7 Ethical consideration
In relation to the chosen method of the research, this is a desk study with the objective to examine if aid furthers or hampers development in Bolivia and therefore ethical considerations are relatively limited. However, if the desk study concerns certain people or groups that could feel personally affected by the results, one might have to take ethical considerations. (Bryman, 2012, p.680)

1.8 Structure of the thesis

- This study is divided into seven chapters. The Introduction chapter begins by presenting the research topic, problem and objective together with the research questions. After that, the core terms of the thesis are being defined and the study's theoretical and methodological framework are briefly presented. Finally, the relevance of the study is being discussed together with its limitations and delimitations.

- Chapter two, Literature review, begins with a literature overview that present already existing literature related to the subject. After that, it will provide the reader with some background information about the subject such as the national settings for aid together with the Paris Declaration Agenda. In order to understand the different contexts the debate regarding aid will be outlined in chronological order.

- In chapter three, Methodological framework, the methodology and method used in this study will be explained and the choice of sources will be clarified.
• The fourth chapter, *Theoretical framework*, includes an explanation of qualitative content analysis in order to construct the study’s theoretical framework. It explains the different theoretical perspectives together with a summary of each theory.

• *Findings* presents the empirical material gathered for this study. This fifth chapter mainly builds on Country Program Evaluation reports, providing an overview of the developing process in Bolivia. It includes essential aspects related to aid and development such as the question regarding local ownership, donor coordination and the effectiveness of foreign aid that are important in order to answer the research question. The chapter will end with a brief summary of the findings.

• In chapter six, *Analysis*, the indicators deriving from the theoretical framework will be discussed and analysed, together with a summary in order to answer the research questions.

• The seventh chapter presents the *Conclusion* and summarises the main result of the study followed by a discussion that ties back to the research problem and its objective.

2. Literature review

2.1 Literature overview

As previously stated, there is an intense debate about foreign aid and development that have been going on for a long time. What is it about aid that causes such intense political diversity of views? Independent of a left or a right wing political ideology, the aid debate seems to engage them all. A common assumption about the left is that they strive to connect aid with colonialism or neo-colonialism, while the right seems to equate aid with welfare scrounging. (Collier, 2008, p.99-100) In relation to this, there is an extensive amount of literature regarding these subjects. However, the opinions differ and the authors researching this field build their assumptions on theories depending on background, previous working projects and which type of purpose the authors have when researching foreign aid. There is a quite large spread when it comes to academic and professional background, as well as geography.
In order to understand the debate regarding aid, the following part will present the background together with the context of foreign aid today.

2.2 The international settings for aid
Classify a country as either “developed” or “developing” is the traditional way of dividing them into two categories. However, this way of categorising countries becomes more irrelevant every day due to changes in the world order. Today, a majority of the poor people are living in low middle income countries. However misleading, the terms “developed” and “developing” are still used in international policy statements and laws in order to distinguish the two groups. (Odén & Wohlgemuth, 2007, p.5)

Combined with the context of today that emphasise a two-sided approach to cooperation, this results in complications when trying to solve development challenges over borders. Today there are more new actors in relation to traditional bilateral and multilateral donors than before, including the new emerging powers China, India and Brazil. Due to this, new foundations have been created following their own rules built on their own ideas, so called vertical funds. In addition, the world is facing challenges with increased migration that most likely will contribute to an increased amount of remittances. Apart from this, there is an increase of direct investments to the poorest countries. (Odén & Wohlgemuth, 2007)

2.3 The Paris Declaration Agenda
Almost fourteen years ago through meetings convened by OECD/DAC, the question of aid effectiveness become essential. At the first meeting 2003 in Rome, commitments were made by traditional donor countries in order to make their aid procedures more effective. In Paris two years later a large group including bilateral donors, multilaterals, NGOs and recipient countries agreed to the Paris Declaration. This was a commitment to bring development, and not just aid-effectiveness. In order to do this, actions were required from donors as well as developing countries. (The Broker Online, 2011)

The Paris Declaration, later supplemented by the Accra Agenda for Action, is based on the following five principles: **Ownership:** Recipients are expected to engage their national development strategies including their parliaments and electorates, **Alignment:** Donors support these strategies, **Harmonisation:** In order for development policies to be achieved
through clear goals, **Result:** Progress towards these goals to be controlled, and **Mutual accountability:** A shared responsibility for donors and recipients in order to reach these goals. (DAC, 1992)

The donors were aware of the fact that their way of giving aid so far had been highly inefficient. The declaration committed the donors to take action in the following: To reduce the numbers of donors that each recipient were supposed to cooperate with: To minimise overlap in their programmes and double their aid efforts: To harmonise the different aid initiatives: To use recipient government channels to provide aid: To take consideration of the recipient priorities and from that target their aid, and: To work together in order to strengthen the governmental institutions in the receiving country, so that they could coordinate the aid efforts rather than the donors. (Ridell, 2014, p.11)

Donors pledged an increase in the total amounts of aid provided to estimated funding gaps. However, the outcome of all these pledges was that even though some donors made progress in some areas, they failed to meet most of the targets set and only half the increases of the promising aid were forthcoming. (Ridell, 2014, p.12)

**2.4 The aid debate**

The debate on whether there is a causality between aid and development has been going on for a long time and covered a range of perspectives: the effectiveness of aid on micro levels (single projects) and macro levels (the country's economic situation in general), and how aid has an effect on a country's economic growth, poverty, education, democracy and climate among other areas that are necessary in order to achieve sustainable development. (Odén, 2014, p.7)

The methods used to study the connection between aid and development, defined here as economic growth, have shifted from cross country analysis to analysing single countries over a longer period of time. This type of studies often shows different result which have led to a debate among scholars within the area. Furthermore, there have been an increase in data availability and methods in measuring these data which have enabled analysis on a deeper level. Despite this, scholars have divided opinions about which methods are most relevant when analysing the connections between aid and development. Taken into consideration the
previously mentioned difficulties to ensure causal relationships and that the quality of the data varies greatly, research may be regarded as difficult to master. (Odén, 2014, p.7)

With these shortcomings in mind, following is a brief historical summary of the empirical findings about the connections between aid and development that researchers have presented. The review will be chronologically presented, divided into seven phases with each respective different theory on how aid affects economic growth in line with a summary article recently published by Bertil Odén. It should be noted that this summary is brief due to the limitations of this thesis.

2.4.1 The short-term impact of assistance on a micro level
Aid was originally linked to investment and growth, thus many studies in the past assumed that aid had a positive effect on growth. Aid’s role was to fill the gaps and increase opportunities to bring investment. That in turn would increase growth within the receiving country. Development assistance focused on short term projects and how to reach them. When evaluating these projects, the quality of aid was measured by comparing the result with the costs. The next step was to investigate whether the intended operation went as planned, and examine different assistance projects by measuring for example if there had been an increased proportion of children attending school and health indicators. (Odén, 2014, p.7)

The report *Does Aid Work* (1994) by Robert Cassen & Associates discussed the effectiveness of aid in seven countries, including a review of evaluations from eight aid organisations and special studies on the experience of technical assistance, food aid, and a comparison between bilateral and multilateral aid. The overall conclusion from this study was that most of the aid is successful in achieving its own goals. However, the information required to measure the effectiveness of aid in the long-run were missing. Furthermore, the study stressed that aid’s impact on growth and poverty reduction largely depended on the partner country's policies, institutions and social structure. (Odén, 2014, p.8) These comments can be recognized from the aid debate of today in how important it is that the recipients “owns” the aid-financed activities in order to reach long-term sustainability (ibid, p.8).

2.4.2 Micro-macro paradox
The second phase began when Paul Mosley (1986) identified the so-called micro-macro paradox. This paradox explained the complexity in detecting the corresponding positive effects of the total aid in the form of increased economic growth, investment ratio or the
reduction of poverty in the country where the projects were implemented. This despite that many evaluations had shown significant positive effects of individual projects. (Odén, 2014, p.8)

One of the reasons why the positive effects on the micro level did not show up on the macro level was the so called “Dutch disease”. This refers to assistance that rapidly rising earnings are likely to contribute to strengthening the country by allowing increased domestic prices. Additionally, extensive assistance being handled outside the recipient's own systems contribute to weakening domestic institutions. (Odén, 2014, p.8)

2.4.3 Aid does not affect the economic growth - yes, sometimes it does

In the 1990s, increased access to data and computing power made it possible to examine the effect of the aid in a large sample of countries over a long period of time. This created new opportunities for researchers of the third generation. Peter Boone (1994) published a study called *The Impact on Foreign Aid on Savings and Growth* that showed how the effect of aid on growth could not be assured. Furthermore, he argued there to be no significant correlation between aid and (reduced) poverty (Odén, 2014, p.8).

William Easterly (2001) later examined the link between aid and investment as one of the main explanatory factors for growth. The survey covered 81 countries and according to Easterly, only one fifth of these found a positive relationship between aid and investments. (ibid, p.8)

Some years later researchers that related to the World Bank become increasingly active in this field of research. They produced studies concluding that aid resulted in an increased growth, but only under certain conditions, namely if taxa, monetary and trade policies were of good quality. In the end of this third phase one could sense an optimistic attitude about the impact of assistance due to that the receiving country had good policies. The relationship between aid and growth was something that these researchers investigated, and they also looked at the impact on other factors such as external shocks, the quality of institutions and post-conflict. (Odén, 2014, p.8)

2.4.4 Assistance improves growth, but with decreasing marginal benefit

In the early 2000s there was a number of studies, for example Addison et al. (2005) that
examined whether the size of aid in relation to a country's economy affected its efficiency. The conclusion was that aid in general had a positive effect on economic growth up to a certain limit, however if the assistance was too large in relation to the country's GDP it would reduce the positive effect, often referred to by economists as decreasing marginal utility. (Odén, 2014, p.8)

Another way to interpret these results was when aid was too large, creating incentives that weakened the positive effects of assistance. The institutions, agencies and companies in the receiving countries simply did not have sufficient capacity to cope with a rapidly growing assistance. This is something that has been a problem for a long time in the history of aid. (Odén, 2014, p.9)

The relative importance of aid has decreased in the recent years due to capital flows to poor countries in the form of direct investment, remittances and export earnings have increased. This has contributed to development in the receiving countries. However, aid, compared to these flows are still more likely to finance public investment and focus on the poor and vulnerable groups in society. Hence, the potential effect of aid is not always achieved. It can be hampered by weak institutions and bad governance and policies. (Odén, 2014, p.9)

2.4.5 Assistance is not a homogeneous mass
The study Aid and Growth (2005) showed that about half of the assistance did not exist to achieve growth in short term, dividing assistance in three categories: humanitarian assistance, early impact aid and late impact aid. By categorising them, it became easier to target the assistance against the areas where it was most needed. (Odén, 2014, p.8)

2.4.6 There is no connection between aid and economic growth 2.0
During 2005 a new wave of research was introduced, whose perception together with its results were summarized through a study by the International Monetary Fund (IMF) Research Director R. Rajan and his co-authors A. Subramanian. According to this study it was difficult to identify any systematic positive effect of aid on the macro level (Radelet, Clemens & Bhavani, 2005). This was similar to the debate under the micro-macro paradox, but with renewed research models and methods. The study came to be useful among the new generation of aid critics when arguing that aid was a waste of money because the total effect of it was rather negative. One essential argument for this was that the support of
weakened governments made them dependent on donors and their assistance rather than improving the skills of their “own” people. (Odén, 2014, p. 9)

3. Methodological framework

3.1 Qualitative Case Study

This thesis takes the form of a qualitative desk study by examining foreign aid to Bolivia as a specific topic. The choice of doing this type of study derives from the argumentation of Bryman (2012) that states that the qualitative approach is useful when trying to get a deeper understanding and description of a specific phenomenon. This seems like an appropriate method to use, since the objective of this study is to examine the discourse regarding foreign aid and to understand its possible advantages and disadvantages for development.

Furthermore, it is abductive in the sense that the case of Bolivia is examined by a set of different theories, generating criteria’s contributing to understand the phenomenon as a whole and thus hopefully answers the research question. The use of abduction as a method however often differs depending on the literature. According to Bryman it can be described when you analyse or categorise collected data from a high abstraction level in a theory into a lower abstraction level with concepts that derived from the material rather than the theory itself (Bryman, 2012, p. 380).

Case study has as its main objective to find and present the complexity of a single case. It is the study of one case in order to understand its activity within important circumstances. We study a case when it is of special interest in itself. (Stake, 1995, xi) Hence, case study research is not sampling research and a sample of one or a sample of a few should not be considered as a strong representation of others. Case study as a method is used in research when the first obligation is to understand this one case. When selection the case one should strive against maximize learning about this case in order to deepen the understanding. (ibid, 1995, xi)

In this research, the selected case came to be Bolivia, much because Bolivia have received huge amounts of foreign aid and despite this still are considered to be one of the poorest countries in Latin America. Bolivia became a relevant study objective since there was a need to investigate its situation further, and hopefully bring a deeper understanding to the relationship between foreign aid and development. In addition, the reason for choosing
Bolivia as the research objective has to do with personal interest in Latin American history. If the aim of this study was to investigate the outcome of foreign aid in general, it might have been more suitable to choose a number of different cases and compare them to each other. Since there are many other countries that have received huge amounts of foreign aid and still experience poverty, this approach would have been more suitable. However, this study's objective is to see how foreign aid has affected the development in Bolivia in particular, hence case study seems as a relevant method to use.

3.2 Content Analysis

Since this thesis aims to investigate foreign aid's effect on Bolivia’s development by analysing evaluation documents provided by different aid agencies, the method of qualitative content analysis could be useful. In the section below, the concept of content analysis will first be describes in order to explain qualitative content analysis, as the later one will work as the analytical tool when analysing the findings.

Content analysis is an approach that are used when analysing texts and documents in order to quantify content in terms of determined categories. As a method, content analysis is flexible in the sense than it can be used when looking at many different types of material. (Bryman, 2012, p.289) Hence, it is a suitable method to use in this thesis since there are a lot of already existing and available data within the field.

Furthermore, content analysis has as its main objective to analysing data from how the content is conceived and to provide new perspectives and deepen the understanding of a specific phenomenon (Krippendorff, 2004, p.18). It is of great importance that a research technique is reliable and that the findings shows the same outcome, even though the researcher might be working under different circumstances. Furthermore, in content analysis it is extra important that the result are valid and measures the things it is supposed to be measuring. (ibid, 2004, p.18)

To summarize, content analysis has become a method for researchers to understand all kinds of verbal, symbolic and communication data. During the last century there has been an increase in the use of content analysis, much due to the widespread usage of computers when handling all types of text material. (Krippendorff, 2004, p.17)
3.3 Qualitative Content Analysis

In order to describe the meaning of qualitative data, the method of qualitative content analysis could be useful. In most cases, this is done by determine successive parts of the material into already decided categories. (Schreier, 2014, p.170)

The difference between other qualitative methods for analysing data is that qualitative content analysis helps reduce the amount of material rather than add material. Therefore this method requires that the researcher focus on selected aspects of meaning that are related to the research question of the study. (Schreier, 2014, p.170) The variation of aspects can be enormous. Some coding frames contain of more than a hundred categories and subcategories. However, the number of aspects is ultimate when it is manageable for the researcher in order to answer the research question. (ibid, 2014, p.170)

Furthermore, the meaning of the categories should be defined by applying a higher level of abstraction in order to discover patterns that might not be obvious at first. By doing so, one can hopefully see hidden patterns in the material that enable the process of comparing and relating them to each other. (Schreier, 2014, p.170)

When using qualitative content analysis, one of the key features is that it is highly systematic. This method requires that the researcher study every single part of the material that in some way are relevant to the research question. By doing so, one minimize the risk of drawing assumptions from the material that build on expectations. (Schreier, 2014, p.171)

Furthermore, regardless of what type of material or research question, qualitative content analysis requires a certain sequence of steps. This to ensure that the material is being analysed at the same premises. (ibid, 2014, p.171)

3.4 Sources

The data gathered for the case study mainly derives from secondary sources, including reports based on empirical research projects, academic books, journals, peer-review and news articles. Since the framework for this study is based on the aid debate, it is essential to include the different perspectives that are to a certain extent the core for the debate. Therefore, this widespread of sources seems appropriate for the study. However, when studying reports about the development in Bolivia one should be aware of the different perspective between the authors, and that it might influence the text (George & Bennett, 2005). The limited number of documents are considerable and this might influence the outcome of the study.
4. Theoretical Framework

In this paper the method of “Qualitative Content Analysis” will be used in order to construct the theoretical framework of this study (see description in methodology chapter). This study will use three different theoretical perspectives: (i) the first one draws upon classical economics and is called neoclassical development (ii) the second one is based on Paul Collier’s theory about how the least developing countries are stuck in different traps that prevent them from developing, and (iii) the last one builds on dependency theory.

There are different reasons behind selecting these three theories in order to get a deeper understanding on the effectiveness of aid in the case of Bolivia. The use of a neoclassical perspective, building on the classical economic approach, gives us knowledge on how aid emerged and how the approach towards development has looked like throughout history. This is relevant since the policies regarding the debate of foreign aid today arise from the classical economic perspective. These policies will play an important role in the decision making among donor countries whether to provide aid or not. Dependency theory and the traps theory have been chosen to show how the standpoints differs in the aid debate of today.

All theories consider both the possible advantages and disadvantages of foreign aid. This makes them suitable to apply on the same case and compare with each other. However, they differ in some of the most essential assumptions, which will be elaborated further in the following paragraphs.

4.1 Neoclassical development theory

The neoclassical development theory will provide a historical perspective on development and some background information to understand which policies that have created the context of foreign aid today, that DAC, the World Bank, IMF among other builds on (Rapley, 2003, p.3). Even though these institutions have adopted parts of the neoclassical perspective concerning development, the ideas goes way back in history.

Liberal theories of political economy emerged in 18th- and 19th-century alongside the Industrial Revolution with the economist Adam Smith as the leading figures. Liberals emphasize the importance of a free market including free trade. According to this perspective, this is something that will benefit all societies. David Ricardo introduced the theory of
comparative advantage: all nations can benefit from free trade no matter how competitive they are in comparison with other states. (O’Brien & Williams, 2013, p.13) These assumptions came to be the point of departure for liberalism and the global economy of today is governed largely on these liberal principles (ibid, p.14).

In the beginning of 1980 the World Bank decided to take a neoclassical approach against development after years of using the Basic Needs approach. The free market ideology came to play a big role in the donor agencies located in the Western part of the world. As a consequence of the impact from neoclassical theory that had begun to influence the policymakers in the Third World, this led to a situation where the Third World governments started to rethink and change their development policies against a more open-market together reducing the role of the state. Due to the problematic economic situation that they faced, neoclassical theory seemed to have practical solutions to this problems. (Rapley, 2003, p.5)

The main assumption among neoclassical economists are that people in general are self-interested. It should be up to them self to decide what they need and come up with a way to get it. In other words, by giving people the opportunity to reach their goals they will act rationally and efficiently. (Rapley, 2003, p.56) In relation to this, the economic situation in a society will be most productive if its habitants owns the freedom to engage in self-chosen activities to benefit their labour (Ibid, 2003, p.56). Since then, the theory of neoclassical development has had major impact on the decision making in questions concerning development, like the ones of the World Bank and IMF among others, and through this also the policies for aid giving countries in general (Theories of international assistance, 2014).

4.2 Summary of Neoclassical development

The neoclassical perspective provides us with essential background information in order to understand why the developing policies look like they do today. In order for a country to accomplish a successful developing process the key is that the country has a political agenda that allows free market combined with free trade. People are in general self-interested and in order for them to reach their goals they should be free to decide in what way they want to achieve these goals, and thru this experience a successful developing process.

From the historical conclusions drawn by the neoclassical perspective, several ways to reach development within a country are being presented. As mentioned before, the Word Bank have
used the neoclassical approach towards development since 1980, including emphasizing the open market and reducing the role of the state. These could be drawn to the way the donors within the OECD work against effective assistance regarding aid. The five principles: Ownership, Alignment, Harmonisation, Result and Mutual accountability (see detailed description in literature chapter) is aiming to improve the efficiency of aid in general. Based on these, the neoclassical perspective gives greater weight to the role of external factors (in the starting process) in fostering national development.

The neoclassical perspective is of great use in order to understand the policies that stands behind the decisions related to foreign aid today. However, this perspective is solely focused on development in particular and therefore it fails to provide important aspects of foreign aid. Additionally, it is crucial to bear in mind that these policies are under continuous change and that international organisations such as the ones mentioned above works to improve these all the time.

4.3 Collier’s Traps Theory

According to Collier, aid will do most use in order to help poor countries getting out of problems related to poor governance and policies (Collier, 2008, p.108). Due to this, the Bad Governance Trap, discussing the impact of aid to the highest degree, will be in focus in this study rather than the rest of the traps (the Conflict Trap, the Natural Resource Trap and the Landlocked with bad Neighbours Trap).

The reason a country experience the Bad Governance Trap can be summarized by the following scenario: The lack of motivation among political leaders to reform due to their political position. Even though a country is poor, the political elites can be among the richest people in the world and this is usually not a situation they want to change. (Collier, 2008, p.66) Furthermore, the lack of educated people within the country can lead to bad governance. A working political reform requires knowledge and skills in order to accomplish the actual reform. Too often, the situation turns out to be that the few people provided with this necessary education leave the country in order to work somewhere due to better job opportunities. (ibid, p.67)

To create a working reform and improve governance, the donation of foreign aid has been argued as a possible solution. However, Collier argues the initiatives to change has to come
from within the state rather than in the form of donation of foreign aid. (Collier, 2008, p.71)

There are three ways that can potentially make a country that experience bad governance to develop good governance, a so called turnaround: incentives, skills and reinforcement (ibid, p.70). In the following section, each of these will be shortly explained.

4.3.1 Aid as an Incentive

The idea of using aid as an incentive in order to improve policies started in the 1980s and at that time it was known as policy conditionality (Collier, 2008, p.108). Donors were meant to provide aid based on the condition that the receiving government promised to reform, however it did not work. Instead the result came to be that governments (and their societies) created policies that were the opposite of the ones that had been highly beneficial, according to the donors. Political conditionality can also negatively impact the accountability since the government does not want to take responsibility for orders taken by the donor agencies if something goes wrong. (ibid, p.109) According to Collier, the key objective of governance conditionality is to shift power from governments to their own citizens rather than from governments to donors, and in that way achieve a turnaround. (ibid, p.110).

4.3.2 Aid as Skills

Aid as skills is here defined by technical assistance, which in its turn means the supply of skilled people that are paid for by the donor. (Collier, 2008, p.112) In order to achieve technical assistance with a positive outcome, the key is to combine it with something that leads to that the receiving country can take advantages of the technical assistance, regardless of its governance and policies (ibid, p.113). According to Collier, technical assistance has a big favourable effect on the chances that the implemented reforms will be maintained, especially during the first two years. Hence, it substantially decreases the risk that the reforms will collapse altogether and increase the chance for a turnaround. (ibid, p.114)

4.3.3 Aid as Reinforcement

The outcome of providing aid as money to governments in developing countries that are intended for specific projects seems to be quite negative. According to Collier, money early in reform is counterproductive. (Collier, 2008, p.115) Related to aid as skills, technical assistance should be provided in the early stages (when the government needs much help in reforming) while money should be provided in a later stage (when the government need to build their own capacity instead of rely upon outside experts). Hence, money becomes useful and reinforcing the reform process rather than damage it. (ibid, p.116) According to Collier,
aid is not very effective when trying to inducing a turnaround, but if waiting for a political opportunity and quickly provide technical assistance followed by money, the outcome of aid will be positive within a few years (ibid, p.116).

4.4 Summary of Collier’s Trap

Essential about the Bad Governance Trap is that the initiatives should come from within the country before possible assistance in form of aid can be provided from external actors/donors. However, the projects that arise from these initiatives should be under scrutiny and it is therefore important to not force any policies that derive from the external countries agendas upon the receiving country.

Collier emphasize the importance of creating a turnaround in order for the receiving country to see positive effects of the aid provided to them. How this aid is provided in the most effective way is to a certain amount explained above, but to summarize it Collier claims that the donors have to look into what every country specifically need, since it differs depending on the country, and give greater weight to the role of the internal factors in promoting national development. The outcome of positive or negative aid depends on if the assistance in the needed area are supply-driven or demand-driven, and in order for aid to be effective it should be demand driven.

Three key conclusions can be drawn from Collier’s assumptions. Firstly, countries that experience bad governance need support in form of mainly technical assistance, skills and reinforcement, as was explained above. Secondly, it is of huge importance were and in what way the foreign aid is provided. Thirdly, a high degree of scrutiny by civil society is important in order to see how the money is being spent combined with continuous check-ups to see which way that was most effective (Collier, 2008, p.119).

4.5 Dependency Theory

Dependency theory arose in the middle of 1960s in opposition to modernization theory. It started with analysing the situation in Latin America, but extended and came to cover Africa and the Caribbean as well. (O’Brien & Williams, 2013, p.225) According to this theory, the lack of development in a country is not a result of poverty together with a lack of modern values, rather a consequence of economic exploitation. Underdevelopment could be seen as a condition historically created by development. In other words, the development of some
countries has resulted in the underdevelopment of other countries. The reason why some societies are industrially advanced is due to the expropriation of economic surpluses from societies currently underdeveloped. (ibid, p.225) According to dependency theory, a successful development process is only possible if the poor country delink itself from the capitalist international economic system that the already developed countries are a part of. This can be seen as the total opposite against the neoliberal perspective that emphasizes the importance of a global system built on free trade including a free market. (ibid, p.225) Furthermore, dependency theory argues that developing countries do not have a choice when it comes to delinking themselves because they are in one way or another controlled directly or indirectly by external actors (ibid, p.225).

The world today experiences increased globalization, and therefor dependency theory is relevant since it discusses the problems of underdevelopment and development within a global context (Kay & Gwynne, 2000, p.50). Furthermore, there are evidence for an increased gap between the Latin American countries related to the different economic situations (Kay & Gwynne, 2000, p.51).

The Latin American debt crisis of the 1980s illustrate the relevance of dependency theory. Since then, defined by an increase in capital mobility and an availability in the world economy, developing countries become more dependent on foreign capital. This increases their exposure and vulnerability to changes in world capital markets, which leads to less room for making changes in policies. The international financial institutions were able to dictate economic and social policies to the affected countries after the debt crisis. This was done through structural adjustment programs (SAPs) which were mostly directed towards the weaker and smaller economies. However, really poor countries, Bolivia included, were unable to negotiate about better terms with the World Bank and foreign creditors. (Kay & Gwynne, 2000, p.53) The poor Latin American economies had to accept the new neoliberal policies implemented through SAPs, which led to rather negative consequences such as a reduction of social welfare and an increase of unemployment (ibid, p.53).

4.6 Summary of the dependent perspective
Dependency theory claims the main reason for underdevelopment in a country is resulting from economic exploitation. This is not a problem that will be solved by providing aid to the countries affected by this exploitation, and from that expect them to improve their developing
process in order to catch up. According to dependency theory, this way of handling the situation will not improve their developing process, rather contribute to keep them dependent on foreign aid instead of improving policies and strategies within their own society.

According to dependency theory, there is a need for developing countries to delink their economic market from the open and free capitalistic market that the developed world is a part of. By doing this they will eventually reach successful development. One of the most important priorities donors need to take into consideration is how their aid can contribute to an effective way of building country ownership. This is most effectively done through enabling the role of recipients as coordinators of donors and their aid programmes. Furthermore, donors need to highlight initiatives that can contribute to inspire the local ownership regarding development plans and policies. (Riddell, 2014, p.16)

Dependency theory emphasize the importance of local ownership in order for foreign aid to have any positive effect on a country's developing process. What this actually mean in practice is something that differ depending on the country, but one way is to provide long-term funding to locally rooted development projects in areas of political economy and governance. By doing this, the receiving country will learn to use the aid in the most effective way and the dependence on external donors will automatically decrease. (Ridell, 2014, p.16)
5. Aid Effectiveness in Bolivia

Since this is a case study on Bolivia in particular, the following section will provide the reader with necessary background information considering Bolivia’s developing process together with their history of receiving foreign aid between the period 2000 and 2015. Furthermore, in order to answer the research questions in the analysis chapter, summaries from reports that focus on the relationship between development and aid will be presented together with a short summary of the findings.

5.1 Aid in Bolivia

Between 2002 and 2007, Bolivia received more than three billion dollars of aid from multilateral and bilateral agencies. The largest disbursements were from CAF (Corporacion Andina de Fomento, Development Bank of Latin America) (USD 882 million,) the Inter-American Development Bank (USD 574 million) and the World Bank (USD 481.9 million). Amongst the bilateral donors, the largest disbursements came from USAID (USD 314.7 million) and the European Commission (USD 222.4 million). The yearly average share of aid was almost 9 percent of the GDP. (Oxford Policy Management, 2008, p.2)

The aim these multilateral donors had in order to contribute with support Bolivia’s developing process however differs. CAF had as its ambition to do this throughout technical assistance, capacity building and knowledge in different sectors, infrastructure in particular, and their project were mainly based on these goals. (CAF, 2017)

The Inter-American Development Bank promoted a large number of projects that were supposed to improve the development process in Bolivia. Some of them were: Institutional Support to Strengthen Foreign Trade in 2002, Sector Program for Strengthening Institutions and Public Policies to Support Productivity and Competitiveness in 2003, and Market Access and Integration through Technical Standardization in 2003, among many other projects. (Inter-American Development Bank, 2015).

The World Bank funded in 2006 a project called Bolivia Urban Infrastructure Project and its objective was to improve the access to basic services among Bolivia’s urban poor population. This was done through targeting infrastructure investments together with providing technical assistance to cities in particular. According to the evaluation report of this project the outcome were rather positive due to that the targets were considered as achieved (The World Bank,
2017). In what way the bilateral donors mentioned above contributed with foreign aid will be presented in the section *Bolivia Country Program Evaluation* later in the findings, together with two other evaluation reports relevant to the time period.

Furthermore, evaluating Bolivia’s development process the Bolivian economy has since 2005 benefited from a favourable external environment. This has helped the country to maintain moderate growth, regardless of the domestic political uncertainty which has a negative effect on private investments. (Oxford Policy Management, 2008, p.2) The prices for mineral products and hydrocarbons have been relatively high and this has resulted in a strong growth in production volumes. Due to an expansion in the hydrocarbons, manufacturing and financial sector, the GDP grew by approximately 4.5 percent in 2006. Furthermore, the renegotiation of contracts with gas and oil companies made state revenues gain and as a result the fiscal position improved significantly together with a surplus in external current account that was registered in 2006. (Oxford Policy Management, 2008, p.2)

An overview of Bolivia’s GDP growth rate from 2000-2015 is presented in the table below:

**Table 5.1.1**

GDP (Current US$)
Net International Reserves (NIR) registered the highest levels (approximately USD 4.2 billion in 2007). The Multilateral Debt Relief Initiative (MDRI) has contributed to that Bolivia decreased its public debt markedly, from 70 percent of the GDP in 2005 to 35 percent in 2007. (Oxford Policy Management, 2008, p.2) The Bolivian government has since the end of 2005 tried to reduce the dependence on aid from traditional sources, together with the implementation of a changed relationship towards donors. This has been done throughout the National Development Plan (NDP) which agenda builds on the appropriation of natural resource rents by the state in order to address collective rights and social exclusion of the Bolivian indigenous people. (ibid, 2008, p.2)

According to the evaluation done by Inter-American Development Bank (IDB) Bolivia has undergone a process of political, economic, and social transformation in the last couple of years (Inter-American Development Bank, 2015). Due to the Movimiento al Socialismo [Movement for Socialism] (MAS) that took power in 2005, the role of the Bolivian State took a new direction. The new policy emphasized the role of the state, which led to the taking of control of strategic economic sectors through nationalization in order to expand its role in the economy. (ibid, 2015)

With the state gradually growing, and the consequential approval of the Autonomies and Decentralization Framework Law in 2010, government consolidated the functions and responsibilities of subnational levels of government. (Inter-American Development Bank, 2015) The outcome of this was rather positive in terms of political stabilization, however, Bolivia faced challenges in maintaining and strengthening these reforms and the government struggled with administrative capacities of public institutions. (ibid, 2015)

In relation to this new legislation, the Bolivian state channelled Bs 27.484 billion (13 percent of GDP) in institutional royalties and transferred it to different institutions in 2013. This institutional transformation created the need for working coordination mechanisms that are both interagency and multilevel. Furthermore, there was a need in strengthening accountability. (Inter-American Development Bank, 2015, p.6)
5.2 Bolivia Country Program Evaluation

I will now turn to an overview regarding the results of different development programs in Bolivia between the period 2000 and 2015. The ones presented is based on information gathered from evaluations done by USAID and European Commission, together with two evaluation reports from Japan and Canada that could be relevant to this study.

According to the evaluation report done by USAID they have been a working to advance the economic development in Bolivia. To provide health and reproductive services in rural communities USAID support local non-governmental organizations and have done this since 2007. (USAID, 2014) At first glance, the project might not be considering solutions related to pure economic issues, however, a positive result of the project will works as a core stone in the strive towards economic development for Bolivia. Some of the results were following: more than 168,000 antenatal care visits provided by skilled providers; 40,000 new-borns was provided with necessary new-born care; and more than 362,000 cases of child related desires were threated. (ibid, 2014) Furthermore, improvements were made in the environmental sector by reducing pollution through the provision of sustainable sources for local residents. By using skilled technical assistance the local communities could also increase their water provision. (ibid, 2014)

Of all countries in Latin America Bolivia is the biggest recipient of EU, and have received €241 million from 2007-2013 (European Commission, 2013). The EU provides as much as 50% of all foreign assistance to Bolivia and the three priority areas include: Generating economic opportunities and decent work; the fight against drugs and; sustainable management of national resources (ibid, 2013).

Looking on what effect the aid provided by the EU have on Bolivia, the EU present improvements in different areas, indicating on that their assistance has had rather positive results. (European Commission, 2013) Since 2000 there has been over 2,500 projects with focus on an alternative development for the local communities that not includes drugs. This have led to other income opportunities and strengthening social organisations together with local governance. Furthermore, new technical systems were developed to take control over the coca production and thereby reducing it. (European Commission, 2013)
When it comes to improvement of water and natural resources, the assistance provided by the EU has helped to improve supply of drinking water and sanitation. By supporting the governments National Water and Sanitation strategy, 90,000 inhabitants benefitted from improved access to water and around 75,000 people also got access to sanitation. Furthermore, the evaluation estimates 311,477 families to have benefitted from different projects that had as it main goal to reduce Bolivia’s vulnerability against climate change. (European Commission, 2013)

In the *Country Program Evaluation of The Republic of Bolivia* (2001), Japan International Cooperation Agency (JICA) presents their assistance as successful when looking at the sectors at macro level. JICA’s aid were mainly targeted against development issues, however governmental statistics show that the effects of development differ depending on which area that are being examined. The results are comparatively high in the agriculture and infrastructure sector, but not many projects that intended to deal with the reduction of poverty which were effective. Worth bearing in mind is that approximately 80 percent of the evaluated projects were implemented at a time when poverty was not necessarily considered as important development issue in the donor context, including JICA. This could be one of the reasons why the situation in some areas have not improved (related to poverty and gender issues) regardless of various assistance, and have kept Bolivia as one of the poorest countries in South America despite a growth of their GDP (which is due to an increase of agricultural and infrastructure).

The Canadian International Development Agency (CIDA) emphasize in their report *Bolivia Country Program Evaluation* from 2007 the key in strengthening aid effectiveness through local ownership, improved coordination and stronger partnerships among donor countries and their development programs. This is something that many program evaluations focus on, and the following section will present Aid effectiveness through local ownership that builds on the Paris Declaration of 2005.

In general, CIDA projects have been successful in encouraging and ensuring local ownership in Bolivia. An important lesson learned from its development process relates to the importance of local ownership in order to ensure sustainability of different initiatives. However, this has been quite complicated due to the ongoing changes of governmental policies, since the policy direction changes due to changes in the actual government. Since
this is a relatively new approach, the outcome is not clear. The results that can be seen so far however points at a link between local ownership and improved development. (CIDA, 2007, p.16)

The question regarding local ownership is something that has been on the agenda for a long time, but the opinions weather it is desirable differ depending on which perspective one choose. An example of this is the U.S. policy towards Bolivia. Due to the unstable economic situation in Bolivia during the 1950s, the country signed agreements and received different programs to encourage U.S. investment. As a result, like many other countries in Latin America, Bolivia became more or less dependent on the assistance provided through the external policies implemented by the U.S. (Zunes, 2011)

However, this situation is changing as a consequence of the strengthening of regional trade blocs, and increased trade with Europe and China. This has made it easier for South American nations to lessen their dependency on the U.S. (Zunes, 2011)

5.3 Problems Related to Aid

To understand the complexity of projects provided by other donors, the study of the Effectiveness of foreign aid in Bolivia (2003) is an interesting objective. The authors Andersen and Evia state that one of three development projects, implemented by external donors, succeeded in their objectives after local institutions took ownership of them. Complementary, a report from the World Bank in 2005 states that only five of fifteen potential projects were actually approved and conducted. (CIDA, 2007, p.12)

The efficiency of aid depends on how the receiving country choose to use the money. In the case of Bolivia, data shows that the foreign aid has a corresponding positive effect for improving the working conditions among workers. However, those who benefit of the increased amount of money in form of aid are mostly skilled workers that are already among the richest in Bolivia. This group is a minority whereas the rest of the population consist of poor, rural smallholders. In fact, their economic situation becomes worse after every year of receiving foreign aid, which draws to the assumption that despite good intentions, foreign aid seems to increase inequality and deepen poverty. (Andersen & Evia, 2003, p.4)
Even though there have been successful aid projects at the micro level, the effect on a macro level does not have the same positive outcome in the case of Bolivia (Andersen & Evia, 2003, p.4). This might sound paradoxically, but there are possible explanations to this phenomenon:

Aid projects tends to divert resources from other activities that are of great importance for a developing country. These projects are funded by mainly foreign donations, most of them from the US, and are using human resources that could have been applied somewhere else if the project had not taken place. (Ibid, 2003, p.4) In the long-run this could increase the social opportunity cost, something that is important in Bolivia since the public sector, with support of foreign aid, is seen as attractive. In relation to this, few professionals and students are interested of working in the private, productive sector. (Ibid, 2003, p.4)

In addition, there are aid projects that are financed by loans instead of donations and these usually include a donation component that requires counterpart financing. In other words, aid projects intimidate financial resources at the same time as it distracts human resources away from other activities. (Andersen & Evia, 2003, p.4)

Despite the argument above, foreign aid should not be considered as useless. The indications related to basic services, such as education, health, sanitation and water have increased significantly during the period Bolivia received huge amount of foreign aid. (Andersen & Evia, 2003, p.4) However, the real per capita income is similar to what it was 50 years ago, despite of the improvement in basic services as mentioned above. The government of Bolivia therefore put a lot of effort to implement its Poverty Reduction Strategy in order to improve the productive sectors. (World Bank, 2016)

The outcome of this strategy could be questioned, when in 2013, UNESCO considered Bolivia to be one of the poorest countries in Latin America. The wealth and socio-economic services that do exist are mainly centralized to urban areas, while about 90 percent of the rural population lack access to basic needs, such as education and health. These people, which mostly comprises of indigenous populations, still lives in extreme poverty. (UNESCO, 2013, p.73)
5.4 Summary of Findings

The information presented above shows that Bolivia has a history of receiving big amounts of foreign aid from different countries (mostly from the US), actors, donors and organisations between the period 2000 and 2015. Since 2005, their economy has benefited from a favourable external environment, and this has led to a quite stable economic situation with continuous growth of GDP for a long period of time in Bolivia, despite domestic political uncertainty during the years.

What all donors that are mentioned in the findings have in common is that they seem to have as their ambition to improve the process of Bolivia’s economic development. The tools for this however differs, but many of the projects seems to focus on improving the living conditions for Bolivia’s population in terms of health, including access to basic services such as water, sanitation etc. Moreover, there are projects intended to improve the infrastructure in Bolivia to decrease the countries vulnerability against climate change. Furthermore, many of the projects focusing on creating job opportunities for the local population, including new technical assistance. If looking at the results presented by the donors, one could draw the assumption that their aid has been beneficial for Bolivia’s economic development.

Due to this positive result, the country has tried to reduce their dependency on aid from external donors by expanding the role of the state (by a distribution of responsibilities to a subnational government) which has contributed with some positive effects, predominantly a relative stable economy. However, the government experiences challenges in maintaining these new reforms, and as an attempt to improve the situation used different development programs, implemented mainly by external actors. The goal with these programs have been to encourage local ownership, donor coordination and other policies suitable for Bolivia in particular.

There have been successful aid projects at the micro level, however there have been less positive effects on the macro level. The reason for this could be many, however the main assumption according to the findings are that the projects are funded by mainly foreign donations that are using human resources that could have been applied somewhere else. Furthermore, some of the aid projects in Bolivia are financed by loans, not donations. This loans usually include donation component that involves counterpart financing.
Despite improvement in basic services thru Poverty Reduction Strategies that were mentioned above, data from The World Bank also shows that the real per capita income is similar to what it was 50 years ago. This is something that have been discussed and the strategies to reduce poverty could be questioned since Bolivia are considered to be one of the poorest countries in Latin America in 2013 according to UNESCO.
6. Analysis

So far, the study have answered the two first research questions. In the findings chapter we got an overview on who the main donors that contributed with foreign aid to Bolivia were, and what means they used. In the section below, I will analyse the material gathered from the findings in order to answer the third research question of this study, how development agencies assess the macro economic impact of aid in the case of Bolivia. This will be done by the method of qualitative content analysis, since this method can be useful when examining and analysing evaluation documents provided by different aid agencies on foreign aid’s effect on Bolivia’s development.

To deepen the understanding on foreign aid’s effect on Bolivia’s development, I will look at the following indicators and keep going back to them when analysing the evaluation documents: In what way can the different perspectives be applied on the case of Bolivia when measuring aid effectiveness on a microeconomic level? Do these documents actually assess the effectiveness of aid on the macroeconomic level, or more on a project specific level? By doing this, I will hopefully get closer to the answer of the question whether foreign aid hamper or further development in Bolivia.

6.1 The importance of economic growth

All the theoretical perspectives agree on that economic growth is an important factor in order to reach a successful developing process within a country. However, they have divided opinions in how this economic growth is best achieved, but they all agree on that there is a political agenda from external actors that affect the outcome of the developing process.

In the case of Bolivia, this becomes visible when looking at their economic history. The report by Inter-American Development Bank (IDB) states that Bolivia’s economy has benefited from an external environment in order to maintain the achieved degree of development. This is something that has been achieved thru assistance from external actors and their policies, mainly throughout the implementation of aid from the IDB, World Bank, USAID and the European Commission, together with developing programs in order to improve the economic situation in Bolivia, such as The Multilateral Debt Relief Initiative (MDRI). The fact that Bolivia increased its GDP by 4.5 percent in 2006, despite the unstable domestic political situation present at that time indicates that external factors was of great importance for Bolivia’s economic growth.
According to the IDB report, Bolivia experienced economic growth as a result of foreign aid. The report also claims that as an outcome of the development: a switch in the governmental focus from external actors against internal actors took place in order to maintain, and accelerate, the achieved growth. However, related to findings, this decentralization of responsibilities to the government shows rather negative results on Bolivia's development process. The country faced more and bigger challenges due to the increased amount of responsibility, something that indicates the government's administrative capacities of public institutions to be weak and insufficient. Looking at the effectiveness of foreign aid on the macroeconomic level however, the result should be considered as rather positive.

All perspectives emphasizes the importance of economic growth for a country's development process, even though the actual process to reach economic growth might differ. Additionally, all perspectives finds strength in arguing that the outcome of this economic growth is due to the political agenda from external actors.

As shown, foreign aid provided by external donors worked in order to improve the economic situation in Bolivia by the increase of its GDP. Moreover, the donors seems to measure aid effectiveness on a project level. By improving the living conditions for the people in Bolivia in terms of health, improved infrastructure, job opportunities and technical assistance. However, the findings showed that the wealth and socio-economic services in Bolivia are mainly centralized to urban areas. Since as much as 90 percent of the rural population lack access to basic needs and still lives in extreme poverty, much indicates that the evaluation documents do not take into consideration which affect their aid has on the society as a unity.

To summarise, if looking at the results presented by the donors in terms of GDP, one could draw the assumption that their aid has been beneficial for Bolivia’s economic development. However, worth to bear in mind is that this result is based on the limited amount of evaluation programs used in the findings and should not be seen as a generalisation.

6.2 Providing aid where it is needed according to local actors

The theoretical perspectives all agree on that aid as assistance should be provided where it is considered to be most needed according to local actors with help from external donors at the
start up level, in order to reach sustainable local ownership. The donors emphasizing the importance of local ownership with some amount of assistance in form of external actors in their developing programs. This in order to reach a sustainable developing process in the receiving country when the assistance from external actors are being cut-out.

In order to strengthen aid effectiveness in Bolivia, developing programs emphasizes the importance of local ownership, improved coordination and stronger partnership among donor countries. The Canadian International Development Agency (CIDA) present how their developing programs have been successful in encouraging and ensure local ownership in Bolivia. However, there is no clear evidence that this has taken place in their evaluation report. Instead, there are several paragraphs that discuss the complexity of local ownership in a country that experience ongoing changes in their government or experience bad governance. The relationship between local ownership and improved development is stated, but without showing any further analysis of this relationship.

The question of whether foreign aid foster or hamper development in the case of Bolivia by providing assistance to local actors at the start up level address several issues. The report *Effectiveness of foreign aid in Bolivia (2003)* presents that only one of three development projects implemented by external actors did succeed in their objectives after the local institutions took ownership of them. The World Bank states according to this report that only five of fifteen projects that potentially would have improved the developing process in Bolivia were approved and conducted. According to these evaluations, Colliers traps theory fails to address the positive relation between local ownership and development in the case of Bolivia. Even though external actors might provide assistance that contribute to development in the first phase, this seems complicated to maintain in order to reach sustainable development, despite emphasizing local ownership.

According to the evaluation programs, the question regarding donor coordination through governing aid fails to address its own effectiveness. The Bolivian government and donors indicates that donor coordination is still rather informal, much due to political instability in the governmental sector. However, many donors still want to align their programs with the development agenda provided by the Bolivian government. The fact that donors are eager in doing so indicates that they believe in donor coordination to foster Bolivia’s developing process, however this tell us nothing about the actual effectiveness, which is the objective with the thesis.
6.3 Addressing the demand of assistance

The relationship between aid and development looks different depending on which theory one chose to look through when analysing the evaluation documents. The key variable in all perspectives however is the role of the reception of the assistance provided.

The information presented in the finding chapter indicates that it is useful for donors to address the demand of assistance, and from that elaborate suitable policy programs for the area in particular together with local actors, before providing aid. When looking at the evaluation reports from the year of 2000 and later that are presented in the findings chapter, it seems like the external policies have contributed with assistance, some more successful than other, that have in some way contributed to the development in Bolivia.

On one hand, according to the dependent perspective, the assistance provided by the U.S. thought the history seem to have put Bolivia in a so-called dependency trap, which has continued since and caused a rather slow developing process. From that perspective, foreign aid has hampered the development in Bolivia. The fact that they are still, despite their increased GDP, one of the poorest countries in Latin America according to UNESCO, does not change this assumption.

On the other hand, this situation is changing due to external actors like China and Europe that have contributed in strengthening the trade, increasing Bolivia’s economic growth and thereby their development.

However, the failure of attempts in implementing “suitable” external projects and policies indicates that aid provided by external actors do not further Bolivia’s developing process in the long run. As shown, what is suitable for the receiving country versus the donor country sometimes differs, and in the case of Bolivia it seems like the policies of the donor country are the ones that has had the most influence on their development. This shows the importance of external actor’s, that their political agenda is favourable for the receiving country in order to create a sustainable developing process.

Keeping validity in mind, it is important to consider the differences that arise when looking at development on the macro versus micro level. Since Bolivia’s GDP is used in measuring their economic growth, and thereby their development, making general assumptions on weather foreign aid have hampered or furthered the development becomes more complex.
According to the findings, there has been successful aid projects at the micro level, without any “spill-over-effect” to the macro level. Due to this, the evaluation documents seems to assess the effectiveness of aid on a more project specific level rather than on a macroeconomic one. Even though the ambition might be to improve the situation for Bolivia as a country in general, this seems like a hard task through just the implementation of assistance.

All theoretical perspectives indicates the key variable to be the reception of the assistance provided. Since the reception has been different depending on how the receiving area have chosen to use the aid, this could work as one explanation to the different results. Worth bearing in mind is that it is impossible to say how the developing process in Bolivia would have looked like without the huge amount of foreign aid.
7. Conclusion

The objective of this research was to examine the discourse about foreign aid, and to understand its possible advantages and disadvantages for Bolivia’s development. In order to do this, Bolivia was studied through a qualitative and abductive desk study where the findings consisted of different evaluation reports of development programs implemented by external actors.

In these findings, we saw that foreign aid has contributed to increase Bolivia’s economic growth, but that the effectiveness of aid depends on the receiving country (including the quality of local institutions) the ownership and the donor coordination. Furthermore, the findings indicates that there are risks related to foreign aid, such as dependency traps and challenges to maintain the assistance provided by external actors.

When analysing the findings, the different perspectives were all useful to understand the underlying conditions for aid’s success or failure in the case of Bolivia. The neoclassical development perspective showed that economic growth has played an important role for Bolivia’s developing process, and that external actors have contributed to this outcome by providing aid. However, since the judgement seemed to depend on which indicators chosen to include when speaking of, and measuring, economic growth, the neoclassical perspective was strengthened by the other two perspectives in showing how foreign aid could be most effective versus ineffective. Effectiveness was related to the importance of local ownership, providing assistance where it is most needed according to local actors at the start-up level, but later give over the responsibility. The risk of ineffectiveness increased when the receiving country became too dependent on foreign aid and started to rely on the donors instead of improving their own skills.

The analysis tells us that the relationship between aid and development differs depending on perspective, but that a key variable is how aid is being received. This is useful in explaining the outcome of the aid provided to Bolivia, since the outcome seems to differ depending on the context. The evaluation reports seems to have different opinions whether Bolivia have benefited from their assistance or not, depending on which area is being discussed, and therefore these documents asses the effectiveness of aid on a more project specific level than macroeconomic level.
The answer to the main research question of this study: *did foreign aid hamper or further development in Bolivia*, could be presented in the following way: If it is received on the right, most effective way, foreign aid will contribute to economic growth in Bolivia. However, development is so much more than economic growth, and this should be taken into consideration throughout this study. The research problem considered the complexity of determining foreign aid’s effectiveness in general, which seems to correspond with the outcome of foreign aid in Bolivia, since it depends on which context that is being examined. Lastly, the “right” way seems to be problematic to determine, as we have seen in this study. Maybe that is one of the reasons why the debate regarding aid has been, and still is, an occurring one.
8. References


