

T.C.
UNIVERSITY OF GAZİANTEP
GRADUATE SCHOOL OF SOCIAL SCIENCES
DEPARTMENT OF BUSINESS ADMINISTRATION

**THE EFFECT OF FOREIGN AID ON FINANCIAL AND
ECONOMIC GROWTH IN MIDDLE EAST AND
TURKEY**

MASTER'S OF ART THESIS

SAMER, ALFAKIANI

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JANUARY 2021

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Assist. Prof. Dr. Şükriye Gül REİS

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ABSTRACT

THE EFFECT OF FOREIGN AID ON FINANCIAL AND ECONOMIC GROWTH IN MIDDLE EAST AND TURKEY

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M. A. Thesis, Department of Business Administration

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Relieving humanitarian needs and contributing to the recipient countries' financial and economic growth are foreign aids' main goals and objectives. This study assesses foreign aid's impact on financial and economic growth in the middle east (excluding high-income countries) and Turkey. Secondary sources of data were used in this study. The duration of the study covered 48 years from 1970 to 2017. The statistical method used to analyze the data was multiple regression analysis. A Pearson correlation pre-test was also conducted to detected and avoid any possible multicollinearity between the independent variables. Dependent variables used are financial growth measured by foreign direct investment net inflows (% of gross domestic product) and economic growth measured by the gross domestic product growth Annual percentage. The independent variables are foreign aid measured by net official aid received as a USD currency. Gross domestic saving (% of gross domestic product) is used as an independent control variable. The results of this study show that there is a positive and significant relationship between foreign aid and financial growth in both Turkey and the Middle East. They also show a negative (but weak) relationship between Turkey's gross domestic savings and its financial growth. On the other hand, the results show a positive yet weak relationship between MENA's gross domestic saving and its financial growth.

Key words: Foreign aid, foreign direct investment, economic growth, and gross domestic saving.

ÖZET

MENA VE TÜRKİYE'DE DIŞ YARDIMIN FINANSAL VE EKONOMİK BÜYÜMEYE ETKİSİ

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Yüksek Lisans Tezi,
İşletme Ana Bilim Dalı

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İnsani ihtiyaçların giderilmesi ve alıcı ülkelerin mali ve ekonomik büyümesine katkıda bulunmak, dış yardımların temel amaç ve hedefleridir. Bu çalışma, dış yardımın MENA (yüksek gelirli ülkeler hariç) ve Türkiye'deki mali ve ekonomik büyüme üzerindeki etkisini değerlendirmektedir. Bu çalışmada ikincil veri kaynakları kullanılmıştır. Çalışmanın süresi 1970'den 2017'ye kadar 48 yılı kapsamaktadır. Verileri analiz etmek için kullanılan istatistiksel yöntem çoklu regresyon analizidir. Bağımsız değişkenler arasındaki olası çoklu bağlantı noktasını tespit etmek ve önlemek için bir Pearson korelasyon ön testi de yapıldı. Kullanılan bağımlı değişkenler, doğrudan yabancı yatırım net girişleri (gayri safi yurtiçi hasıla yüzdesi) ile ölçülen finansal büyüme ve gayri safi yurtiçi hasıla artışı Yıllık yüzde ile ölçülen ekonomik büyümedir. Bağımsız değişkenler, USD para birimi olarak alınan net resmi yardımla ölçülen dış yardımlardır. Gayri safi yurtiçi tasarruf (gayri safi yurtiçi hasılanın yüzdesi) bağımsız bir kontrol değişkeni olarak kullanılmaktadır. Bu çalışmanın sonuçları, hem Türkiye'de hem de MENA'da dış yardım ile finansal büyüme arasında pozitif ve anlamlı bir ilişki olduğunu göstermektedir. Ayrıca, Türkiye'nin gayri safi yurtiçi tasarrufları ile finansal büyümesi arasında negatif (ancak zayıf) bir ilişki olduğunu gösteriyor. Öte yandan, sonuçlar MENA'nın gayri safi yurtiçi tasarrufları ile finansal büyümesi arasında pozitif ancak zayıf bir ilişki olduğunu gösteriyor.

Anahtar kelimeler: Dış yardım, doğrudan yabancı yatırım, ekonomik büyüme ve gayri safi yurtiçi tasarruf.

TABLE OF CONTENTS

	Page
ABSTRACT	i
ÖZET	ii
TABLE OF CONTENTS	iii
TABLE OF TABLES	v
TABLE OF FIGURES	vi
INTRODUCTION	
A. Background	2
B. Statement of The Problem.....	3
C. Objectives of The Study	5
D. Hypotheses of The Study	6
E. Importance of The Study.....	7
F. Limitations of The Study	7
I.CHAPTER	
CONCEPTUAL FRAMEWORK	
1.1. Literature Review	10
1.2. Foreign Aid Types	16
1.2.1. Types of Foreign Aid According to Source	17
1.2.1.1. Bilateral Aid.....	17
1.2.1.2. Multilateral Aid.....	17
1.2.2. Types of Foreign Aid According to Freedom of Use	18
1.2.2.1. Restricted Aid.....	18
1.2.2.2. Unrestricted Aid.....	18
1.2.3. Types of Foreign Aid According to Purpose	18
1.2.3.1. Emergency and Disaster Aid.....	19
1.2.3.2. Food Aid	19
1.2.3.3. Military Aid.....	20
1.2.3.4. Development Aid	20
1.2.3.5. Project Aid	20
1.2.3.6. Program Aid.....	21
1.2.3.7. Budget Support Aid	21
1.2.3.8. Technical Assistance.....	21
1.3. Defining the Concept of Development	22
1.4. Sustainable Development.....	24
1.5. Development Theories	25

1.5.1. The Modernization Theory	26
1.5.2. The Dependency Theory	27
1.6. Foreign Aid Theories	30
1.6.1. Saving-Investment Gap Approach	32
1.6.2. Foreign Exchange Earning Expenditure Gap Approach.....	32
1.6.3. Capital Absorptive Capacity Approach	33
1.7. Foreign Aid and Foreign Direct Investment	34
1.8. Foreign Aid and Economic Growth	36
1.9. Relationship Between Foreign Aid and Domestic Saving.....	38
1.10. Relationship Between Domestic Saving and Economic Growth.....	39
1.11. Relationship Between Gross Domestic Saving and Financial Growth.....	40
II.CHAPTER	
METHODOLOGY	
2.1. Variables of The Study.....	42
2.2. Data Source	43
2.3. Statistical Method: Multiple Regression Analysis.....	45
2.3.1 Multiple Regression Assumptions	45
III.CHAPTER	
ANALYSIS AND FINDINGS	
3.1. Descriptive Statistics.....	50
3.2. Pearson Correlation Coefficients Results.....	51
3.2.1. Turkey Correlation Coefficients Results.....	51
3.2.2. MENA Correlation Coefficients Results	51
3.3. Multiple Linear Regression Results	52
3.3.1. Turkey Multiple Linear Regression Results	52
3.3.2. MENA Multiple Linear Regression Results	54
CONCLUSION	
REFERENCES.....	59

TABLE OF TABLES

	Page
Table 1 Previous Studies Review.....	11
Table 2 List of Variables.....	43
Table 3 Turkey Descriptive Statistics	50
Table 4 MENA Descriptive Statistics	50
Table 5 Turkey Correlation Analysis Results	51
Table 6 MENA Correlation Analysis Results	52
Table 7 Multiple Regression Results for Economic Growth in Turkey.....	52
Table 8 Multiple Regression Results for Financial Growth in Turkey.....	53
Table 9 Multiple Regression Results for Economic Growth in MENA	54
Table 10 Multiple Regression Results for Financial Growth in MENA.....	55

TABLE OF FIGURES

Figure 1 Example of Linear Relationship and Curvilinear Relationship with Standardized Residuals	46
Figure 2 Example of Homoscedasticity Standardized Residuals Plot	47



INTRODUCTION

The term under-developed came to light in 20 January 1949, when it was first used by the president of the United States Harry S. Truman. The term divided the world into two categories. On the upper hand we have the global north or what is so called the first world. On the other hand, we have the global south or so called the third world. Classifying countries into developed or developing encouraged the arrogant interventionism of the global north and the self-pity of the south. In their demand to equity the global south stepped on the gas, but still fall behind the north (Saches, 2010). In the same speech president Harry S. Truman mentioned the need to collaborate and support what he has described as under-developed countries, stressing that all countries including his own will benefit if those countries economy were to be developed (Williams, 2010: 1-5). Foreign aid assisted the US to build and develop new exporting markets which contribute to its economic growth and development. On the other hand, foreign aid received by under-developed countries helped those countries to fill their saving gaps and paved the way toward economic and financial development (Helleiner, 2006: 5).

International organizations were established such like the world bank of reconstruction and development (Now the World Bank), that facilitated international foreign aid for under-developing nations. The American foreign aid to non-European countries started increasing with 1950 act of international development. The Secretary of State, Dean Acheson stated that the act is a 'security measure' to protect the political and economic dominance at the time (Husein, 1998).

Foreign aid inflows to MENA region are on an increasing trend. In 2017 alone MENA region has received 28 billion dollars. However, the region's GDP per capita for the same year hovered low at 3,793 \$. Similarly, Turkey is also witnessing an increase in received foreign aid. That increase could be witnessed by comparing foreign aid received in 2000 and 2017. In 2000 Turkey received 328,570 million USD, while in 2017, the country received 3.147 billion USD. The per capita GDP for 2017 was 10,513 USD, way higher than its MENA counterpart at 3,793 USD (Worldbank, 2020).

Foreign aid has many goals and objectives. A few of those main objectives are to stimulate financial growth, economic growth, poverty reduction, and human rights improvements (Ekanayake, 2010). During the past few years, foreign aid and its implication have been under the spotlight for many economist and researchers. Many empirical studies have tried to answer whether foreign aid stimulates financial and economic growth in developing countries. The results and findings of those studies are divided into three prominent opinions. Senbet (2009), Dalgaard et al. (2004), Ndambendia (2010), and Malawi (2013) stated that foreign aid has a positive influence on financial and economic growth. Other researchers like Jean (2012), Burnside and Dollar (2000), Brautigam (2004), and Elzubear (1983) stated that foreign aid has a negative influence on financial and economic growth of the receipt country. Alhamad (2018) and Amusa et al. (2016) results suggested that under certain circumstances foreign aid will have a positive influence on economic and financial growth.

Given foreign aid essential role in the development of developing countries' economies, it is essential to improve our understanding of its contributions to the financial and economic growth of those countries. This thesis studies the impact of foreign aid on economic and financial growth of MENA region (excluding high-income countries). It also analyzes foreign aid's impact on financial and economic growth in Turkey. Turkey enjoys better economic, financial, and governmental policies and environments. Comparing the results of MENA and Turkey will help answer whether foreign aid's impacts are related to the countries' pre-existing capacity and resources. The first chapter of this thesis is an introduction to the study of the relationship between foreign aid with financial and economic growth. First, a background is presented to explore the historical heritage and origin of foreign aid, then the statement of the problem will follow. The

theoretical framework is then developed, followed by the research's questions and the study's hypotheses. The significance of the study was then presented. The chapter concluded with the study limitations. The second chapter is the study conceptual framework. It included the literature review in addition to the study's theory. The third chapter explains the study's methodology. The fourth chapter demonstrate the empirical analysis and results. The final chapter of the study is the conclusion and recommendations.

A. Background

For the past decade's foreign aid and foreign direct investment have been an important element in improving the world's development. It is believed that the first instance of foreign assistance occurred in the 1800s when the US Congress passed an act of relief for the citizens of Venezuela. The act included distributing food assistance to those affected by the First World War. During World war II on the 1st of January 1943, 26 nations came to gather and declared the United Nations' creation. In October 1945, the United Nations officially came into existence and supported the European union in cleaning up the destruction caused by World War II (Irwin, 2006).

After World War II ended in 1945. the tradition of giving aid to war devested countries began. Initially, aid was targeted toward rebuilding war-torn countries' economies. In the 1950s, aid was used to improve allies' military capabilities and to empower the outspread of the United State and the Soviet Union's political ideologies. The United States provided aids and support to Europe for disaster relief. The main aim of the USA was to build a good relationship with Europe by reconstructing its economy. The US also aimed to prevent the Soviet Union expansion and communism. In 1947 general George Marshal published the Marshal plan. The plan mainly aimed to assist European countries to rebuild their economies. The Marshal plan continued for three years and ended in 1951. The total donation was \$13 billion. The results of the marshal plan were tremendous. Moreover, the plan Model is still adopted in variance aid programs in our current times (DeLong and Eichengreen, 1992).

In the 1950s, aid programs were target more toward food aid instead of monetary aid. The US provided two-thirds of all aids, which attracted some attention and opposition

who argued on foreign aid ineffectiveness. The logic behind the argument was that foreign aid is provided to governments, which will increase communism. Also, political support could not be purchased by providing foreign aid. Above all, since foreign aid benefits will be reflected in the world as a whole, the cost should be distributed equally across the world (White, 2000).

After the United States withdrawal from South Vietnam in the 1970s, U.S. foreign aid programs nature changes. Programs became more comprehensive, driven by large assistance packages, and target toward the middle east as a whole (Lewarne, 2004).

1989 witnessed the end of the cold war, which impacted foreign aid and its channel. Aid was now given to developing countries to stimulate its economic development and growth, public well-being, the development of democratic institutions, and meet their humanitarian needs instead of imposing political agendas. The end of the cold war led to a shift in aid distribution channels toward more multilateral channels. It started to be channeled through international financial institutions like World-bank, International Monetary Fund (IMF), and the OECD (Jean, 2012).

B. Statement of The Problem

During the 1950s, the United States started supporting less-developed countries through its aid programs. The programs aimed to prosper those counties' economies and living standards. The US aid programs' failure to bring development and prosperity to its receipt counties sparked a debate about foreign aid effectiveness. Economists and policymakers from developed and under-developed countries alike argued the effectiveness and role of foreign aid (Husein, 1998).

Writers like Griffin (1970), and Weisskopf (1972) believed that foreign aid is a way to extend and empower the existence of international capitalism. Their beliefs were fueled by the following assumptions: 1. Foreign aid is a substitute for domestic resources (Gross domestic saving), 2. Foreign aid allows importing redundant and unnecessary technology, 3. Foreign aid disturbs income distribution, 4. It is mostly provided to the governments of under-developed countries, who are, in most cases, are corrupted and

inefficient. They also argued that foreign aid impact consumption positively (reduces gross domestic saving).

On the other hand, Chenery (1966) and Papanek (1972) believed that foreign capital inflows have many significant beneficial effects on the receipt countries. Foreign aid plays a complementary role in domestic resources, especially in countries suffering from capital deficiency. Foreign aid also allows the import of new technology, access to foreign markets, and improves senior management employees' experience. All of which results in economic growth and development of receipt countries.

Like other developing countries (excluding high-income countries), MENA needs external resources inflows (foreign aid and foreign direct investment) to fill the savings gap resulting from the fast-growing rates of capital accumulation to stop the spreading poverty and to improve the living conditions above the minimum accepted line. High-income countries were excluded from the study for several reasons. First, high-income countries of MENA are not the main foreign aid receivers; on the contrary, they occasionally provide aid for other neighboring countries in the region. The economic and income growth witnessed in these countries are self-sustained from internal resources (like oil), not from external capital that is the center of this study. Excluding high-income countries from the study will guarantee not to account for their growth in the impact of foreign aid inflows.

After the United States withdrawal from Vietnam in 1970, a drastic increase in U.S. foreign aids to MENA region was witnessed. 39% of US foreign aids were delivered to MENA region in 2006 alone. A trend that continued until today. However, the region's development indicators still suffered as the annual GDP growth rate for the year 2007 was 2.9%. The GDP per capita for the same year was 3,825 \$ (Sharp, 2010).

On the other hand, Turkey is a great example of a country that is considered both developed and developing nation. Turkey has been classified as a developed nation by many organizations such as CIA World Factbook. On the other hand, Turkey has been classified as a developing nation by other organizations and groups such as Dow Jones, FTSE, and MSCI. The reasons being behind the contradicted classification of the country is Turkey's development indicators. As an example, Turkey's GDP per capita, life

expectancy, and infant mortality rate, all of which hover in the gray area (International Monetary Fund, 2019).

In 2015 Turkey's per capita GDP was 19,618\$, hovering between the bare minimum of 12,000\$ and the developed status figure of 25,000\$. The country infant mortality rate was 0.012, which is considered relatively high for a developed country. However, at the same time, it is very low to be considered as a disqualifying factor. Turkey is also facing a similar position with its life expectancy at 75 years (Worldbank, 2020).

This study's main aim is to explore the relationship between foreign aid with financial and economic growth to determine whether or not foreign aid had any positive impact on financial and economic growth in MENA and Turkey. The reason Turkey was added to the study is to allow a better interpretation of the results. It will help answer whether foreign aid has different impacts on developing and developed countries. The duration of the study covers the period of 1970 to 2017. Foreign aid inflows to less-developing countries started in the 1950s when the international development act was founded. Unfortunately, data were not available from 1950 onward for MENA. The earliest that I could found was 1970. Similarly, the most recent data available for MENA and Turkey was 2017.

C. Objectives of The Study

Foreign aid inflows are assumed to influence financial and economic growth and improve the living conditions of the recipient country. The objective of this thesis is to examine foreign aid's participation to MENA and Turkey's financial growth and economic growth between the years 1970 and 2017.

Throughout this thesis, the term MENA will refer to the Middle East and North Africa, excluding high-income countries. The list of countries included Algeria, Djibouti, Egypt Arab Republic, Iran Islamic Republic, Iraq, Jordan, Lebanon, Libya, Morocco, Syria Arab Republic, Tunisia, West Bank and Gaza, and Yemen Republic.

The study questions were formulated as the following:

- A. What, if any, was the relationship between total foreign aid and economic growth in Turkey between the years 1970 and 2017.

- B. What, if any, was the relationship between total foreign aid and financial growth in Turkey between the years 1970 and 2017.
- C. What, if any, was the relationship between total foreign aid and economic growth in MENA between the years 1970 and 2017.
- D. What, if any, was the relationship between total foreign aid and financial growth in MENA between the years 1970 and 2017.

D. Hypotheses of The Study

Promoting the recipient countries' financial and economic growth is one of foreign aid's main goals. Foreign capital inflow (foreign aid, foreign direct investment) plays as a complement resource to domestic resources (domestic saving, for example). Foreign aid also allows for importing new and modern technology, easier access to foreign markets, and improving managerial skills. Researchers like Husein (1998), El-Kaissy (1996), Ndambendia (2010), and Selaya (2012) found that foreign aid did actually had a positive impact on both financial and economic growth of the recipient countries. Other studies also found that foreign aid has vanguard effects in attracting foreign direct investment. Kimura (2010) found that Japanese foreign aid had the vanguard effect, meaning that it attracts foreign direct investment only from Japan.

This study's hypotheses were presented to test whether foreign aid positively impacts economic and financial growth in Turkey and MENA region through the years 1970 and 2017.

H1. There is a significant relationship between foreign aid and economic growth in Turkey between 1970 and 2017.

H2. There is a significant relationship between foreign aid and financial growth in Turkey between 1970 and 2017.

H3. There is a significant relationship between foreign aid and economic growth in MENA between 1970 and 2017.

H4. There is a significant relationship between foreign aid and financial growth in MENA between 1970 and 2017.

E. Importance of The Study

Since 1950, annual inflows of foreign aid to MENA and Turkey have increased. It is expected to keep growing for the upcoming years, highlighting the need to study and develop better efficient ways to utilize foreign aid (Lewarne, 2004).

This study contributes to the existing literature on the relationship of foreign aid with financial and economic growth and it focuses on MENA (excluding high income) and Turkey. The reasons MENA and Turkey were chosen for this study are the difference in their economic, financial, and internal resources between the two areas. Comparing the results of MENA and Turkey will allow for an in-depth understanding of the results and will answer the question of whether the country pre-existing resources foreign aid's positive impact on economic and financial growth. To my knowledge, no previous empirical studies have studied the relationship of foreign aid to economic and financial growth in Turkey and MENA for the years 1970 and 2017.

This study will show just how important foreign aid is to MENA and Turkey and what is likely to happen to the economy in the event of its stoppage. Therefore, this study will show the importance of foreign aid in boosting its economy. The study will give foreign aid donors and governmental policymakers a new tool when investigating how to allocate foreign aid to developing countries' governments.

F. Limitations of The Study

There are three major limitations of this study. The first one is common for studies that are carried out in developing countries regarding the quality and reliability of data. Alhamad (2018) states that it is extremely difficult to obtain accurate data in any developing country. Developing or under-developing nations usually suffer from lack of proper economy monitoring and recording. Besides, data were only available for the years 1970 and 2017; no other inputs were available at the time of this study.

The second problem arises from how the concept "foreign aid "is defined- Different writers define this concept differently to suit their own purpose. This study and the findings thereof will be subjective and dependent on the definition of the concept

"foreign aid" adopted. The third limitation is that other variables like quality of governance may affect or be affected by foreign aid other than those used in this study. This might affect the study; hence, it is recommended that future studies expand and examine a different set of variables and time periods.



I. CHAPTER

CONCEPTUAL FRAMEWORK

Foreign aid first appearance could witness in antiquity and through the Middle Ages, even though it could be difficult to find supporting evidence for such statements (Kanbur,2006). However, in the modern era, historians can easily date foreign aid from the 19th and 20th centuries with the growth of colonial powers and their colonies (Mosley, 1987). Although evidence of international aid may not well be found in antiquity studies, foreign aid was provided by Western powers to their colonies in the modern era. There was no question concerning promoting development or having a moral obligation towards these colonies (Jean, 2012: 37-42).

For example, in 1812, the United States Congress passed a relief act for Venezuela's population. At the end of the 19th century, the U.S. government deployed food surpluses for tied aid. In 1870, in its quest of colonization, the Japanese government sought technical and financial assistance from the United States by sending General Kurado Kiyotak to America to select a chief agricultural advisor (Radelet, 2006).

The United States provided large transfers of aid even before the British Colonial Act of 1929. Moyo (2009) reported that the origins of large-scale aid transfer date to 1896 when the United States donated aboard assistance in the form of food. The development of an aid doctrine followed World War II. The birth of the concept occurred at Breton Woods in the 1940s with the creation of the IMF and international development bank, known specifically as the Marshall Plan, which eased Western Europe's constructive woes.

The beginning of the expansion and crystallization of a real aid doctrine, particularly in the United States and other countries around the world. Indeed, two major events propelled developed countries to start channeling foreign aid flows into the developing and underdeveloped world: the Marshall Plan of Reconstruction of Europe and the setup of the United Nations and the Bretton Wood conference, which facilitated the creation of the World Bank and the I.M.F (Moyo, 2009). In reality, foreign aid inflows to developing countries gained momentum based on the Marshall Plan's success or the European Recovery Program in Western Europe in the 1950s. The Marshall Plan's success in reconstructing the devastated Western Europe nations provided a stimulus for foreign aid or foreign development assistance to poor and developing countries to successfully develop their sluggish economies. Indeed, Puri (2005) noted widespread calls for a major push or Marshall-type plan for Africa.

The effects of foreign aid on the reconstruction of Western Europe created enthusiasm for other developing countries to embark on the same route or to replicate the Marshall Plan. The Marshall Plan's success raised high levels of expectations about the effectiveness of the FDA (foreign development assistance) in the future (Puri, 2005). Based on that optimism, developed nations have donated more than one-trillion in U.S. dollars to Africa since 1960. Since the beginning of the 21st century, foreign aid to developing countries has increased significantly. The total foreign aid from richer to poorer countries rose to \$78.6 billion between 2001 and 2004 (Erixon, 2005).

This history of countries helping other countries existed long before the modern era, but the official period of aid to developing countries grew rapidly following World War II. The history of modern foreign aid has its roots in the Marshall Plan's success and the reconstruction of Europe. Indeed, development cooperation began with the Marshall Plan, and development policies or ideas that prevailed at particular times have always affected foreign aid (Jean, 2012).

1.1. Literature Review

Aid has diverse developmental goals that include stimulating financial and economic growth, strengthening important sectors such as health and education,

supporting basic consumer goods, and stabilizing the economy after economic shocks. However, financial and economic growth has always been one of the main criteria for measuring aid effectiveness.

Since the 1990s, foreign aid and its effects have been receiving increasing attention from the economic development literature. Many studies like Cheng (2016); Husein (1998); and Herrera (2015) concluded that foreign aid stimulates positive financial and economic growth of the receipt countries; other studies like Burnside and Dollar (2000), and Brautigam (2004) stated the exact opposite that foreign aid negatively impact financial and economic growth. As recipients of significant aid, some countries experienced noteworthy economic growth, whereas other countries failed to shown similar results. In contrast, some countries have received little aid yet have performed well, while others have not. The effectiveness of aid on growth might depend on the type of aid received, good policies, or the receiving country's institutional environment.

Table 1 Previous Studies Review

#	Author	Period	Variables	Methodology	Results
1	Jean (2012)	1970-2010	foreign aid (ODA), gross domestic savings, gross domestic investment, and GDP growth rates	multiple linear regression analyses	The study results state that Haiti's foreign aid has failed to stimulate any economic growth or development.
2	Cheng (2016)	2000-2013	GDP, foreign aid, level of income, trade, population, CPI, government consumption, natural resource rents, and governance.	two-stage least-squares regression	The study results show insignificant relationship between Chinese foreign aid and African GDP growth.
3	Chheang (2009)	1986-2005	Foreign aid, GDP growth rate, foreign aid, population growth, inflation rate, capital investment, and GDP.	Fixed effect models	The results of the study state that there is no relationship between foreign aid and economic growth if other factors remained constant. It also shows a positive relationship between aid and corruption ranking.
4	Moses (2007)	1976-1996	foreign aid (ODA) and FDI (foreign direct investment), personal	ordinary least-squares regression	The study shows that there is no significant relationship between

#	Author	Period	Variables	Methodology	Results
			integrity, civil and political, and subsistence.	analyses with panel-corrected standard errors	ODA, FDI, and human rights. The results also state that there is a tendency toward a negative relationship for the majority of the analyses.
5	Kimura (2010)	1990-2002	Foreign direct investment, Foreign aid, and GDP	gravity equation	The study finds that in general foreign aid, ODA has no significant impact on foreign direct investment FDI. The study also found that Japanese aid has vanguard effects meaning that it can attract foreign direct investment from Japan only and not any other countries.
6	Amusa et al. (2016)	1995-2012	Net foreign direct investment FDI, productive infrastructure aid, Inflation rate, population, Mobile and fixed-line subscribers,	panel data estimation techniques	Infrastructure aid is necessary for foreign direct investment inflows. The results of the study also state that there is no relationship between socio-economic infrastructure aid and foreign direct investment inflows.
7	Alhamad (2018)	1990–2010	Poverty reduction. Aid. Poverty. Infant mortality, Life expectancy, Openness to trade. Government Expenditure. Gross Enrollment. Inflation rate. Quality of governance	Pearson correlation, scatter diagram with a fitted line, and multiple linear regressions with or without interaction factors.	The results indicate that foreign aid has a significant effect on poverty reduction while controlling the effects of other factors. The effectiveness of foreign aid also depends on government administration variables
8	Husein (1998)	1964-1995	Gross domestic saving, and foreign aid.	Time-series analysis. The study also utilizes a nonlinear three-stage least square estimate.	This study indicates that foreign aid has a short-term positive impact on the Jordanian growth rate.
9	Lockwood (1990)	A. (1970-1978) B.	Gross net product, and foreign aid	multiple regression analysis	The study found that foreign aid has a short-term negative effect on economic growth rates in both time periods.

#	Author	Period	Variables	Methodology	Results
		(1978-1986)			However, in the later period, foreign aid was found to have a positive long-term effect on economic growth.
10	Herrera (2015)	1976-2010	Remittances, FDI, ODA, and economic growth. Control Variables: Log of initial real GDP per capita, educational, Population growth rate, Inflation rate, openness to trade, Log of government spending to GDP ratio, and Financial development.	panel GMM model	The study found that both foreign direct investment and remittances positively impacted economic growth rates.
11	El-Kaissy (1996)	1971-1980, 1981-1990, the total period 1971-1990.	Annual GDP rate, foreign aid; Gross domestic saving; Average percentage of exports; labor forces; Percentage of pupils enrolled in vocational and an index of political and civil stability.	Regression	The study shows a positive relationship between foreign aid and economic growth. The study also found that foreign aid significantly contributes to foreign direct investment.
12	Kalpana Sahoo (2013)	1975-2010	Foreign aid, per capita national income, trade openness, money supply, (GDP), Gross domestic capital formation, Gross domestic saving.	Regression	The study found that foreign aid's impact is higher economic development rather than growth.
13	Godfrey (2003)	1980-2000	Foreign aid, Economic Growth GDP, investment, and saving	Regression	Projects should be properly appraised before the channeling of funds is affected. Incoming foreign aid should be closely monitored and accounted for. Transparency and accountability should be in place to ensure that funds received from external sources are properly used in conjunction with local resources such as human

#	Author	Period	Variables	Methodology	Results
					resources and raw materials.
14	Zhang (2002)	1949–2000	Soviet aid-related, investment, Total social product, and Population	regression model	The short-term impact of large-scale foreign aid in a command economy maybe positive (as in the case of the Soviet aided First FYP), or negative (as the central planners' increase in importing Soviet capital goods during the GLF). It's long-term impact, however, is bound to be negative, or at best allows postponement of the day of reckoning on the command economy
15	Selaya (2012)	1970–2001	Foreign direct investment, income per capita, population growth rate, and savings per capita. The independent variable is foreign aid	Multi regression analysis	Foreign aid has a positive impact on foreign direct investment. The results also state that aid invested in physical capital tends, in turn, to crowd out foreign direct investment and that the net effect is small but always positive.
16	Thangamani (2010)	1995-2007	Foreign aid for physical capital, human capital, infrastructure development, and foreign direct investment.	Co-integration analysis, and Granger Causality analyses	The study results state that aids in the shape of physical capital, human capital, and infrastructure development serve as complementary factors for foreign direct investment. Therefore, the study concluded that foreign aid received in South Asian countries attracts foreign direct

#	Author	Period	Variables	Methodology	Results
					investments into those countries.
17	Ndambendia (2010)	1980-2007	n foreign aid, foreign direct investment, employment, domestic saving, and economic growth	Panel unit root tests, and The MG and PMG estimation methodology	The study results suggest a positive relationship between foreign aid, foreign direct investment, and economic growth.
18	Quazi et al. (2014)	1995–2012	Lagged Changes in FDI, Corruption Control, Economic Freedom, Return rate of Investment, Infrastructure, Human Capital, Market Size, and Political Stability.	panel estimation methodology	this study claim that foreign aid has a significant positive influence on foreign direct investment. The results also suggested that foreign direct investment is affected by the following factors: corruption control, market potential, infrastructure, human capital, and political stability.
19	Wang (2011)	1995-1999	Foreign Direct Investment, Gross Domestic Product, Growth rate of GDP, Infrastructure Facility	Correlation & Multi regression	The statistical analysis of this study suggests that foreign aid attracts foreign direct investment inflows. The results also found that foreign aid complements foreign direct investments in promoting economic growth.
20	Malawi (2013)	1976-2007	GDP, amount of capital, labor, Foreign aid, and foreign direct investment.	Autoregressive distributed lag model	The study state that both foreign aid and FDI has positive impact on economic growth. However, the study is in conclusive when it goes to the short-term.
21	Irwin (2006)	1980-2001	Foreign aid, Millennium development goals, education, income, immunizations, physicians, and rural areas.	ordinary least squares regression	The results show a positive relationship between aid and poor conditions in developing nations. When measuring the effect of aid on the change in development variables over two time periods, results still determined a positive the

#	Author	Period	Variables	Methodology	Results
					relationship between aid and the MDGs.
22	Elzubear (1983)	1960-1980	GNP, investment, consumption, saving, capital stock, imports, exports, and foreign aid.	two-gap approach to the theory	This study states a negative relationship between foreign capital and domestic saving.
23	B. Ang (2010)	1966–2005,	Economic development, The initial capital stock, Foreign aid, the composite index of financial liberalization consists of six interest rate control dummies, cash reserve ratio, statutory liquidity ratio, and directed credit programs., The quality of institutions in this study is measured by the protection of intellectual property rights bank credit to commercial sector divided by nominal GDP, Stock market development, Stock market volatility.	principal component analysis	The relationship between foreign aid and output expansion is negative. however, foreign aid has an indirect positive relationship with financial liberalization.
24	Mohamed (2014)	1998-2010	foreign aid (ODA), foreign direct investment (FDI), and economic growth	Correlation & Multi regression	This study demonstrates that even though foreign aid has a negative effect on economic growth, its effect on foreign direct investment is positive but insignificant.

Source by The Author

1.2. Foreign Aid Types

Foreign aid could be classified into three main categories: official development assistance (ODA), official assistance incorporation, and private voluntary assistance. Official development aid is considered the largest flow of foreign aid. Developed nation's government provides official development aid to under and developing nations. Richer

nations receive official assistance incorporation. Private assistance is given in grants to non-governmental, charity, and religious organizations (Radelet, 2006). The OECD (2007) disaggregated foreign development assistance into bilateral and multilateral aid and tied and untied aid. A comprehensive classification among the various categories of foreign aid can be found in the aid literature.

1.2.1. Types of Foreign Aid According to Source

1.2.1.1. Bilateral Aid

The term bilateral aid implies aid between two governments (Shah, 2005); Bilateral aid transfers financial resources from a donor nation to an aid recipient country. It is a one-on-one relationship between two states, given by one country directly to another. Another definition of bilateral aid in the flow of ODA (Official Development Aid) that involves only two entities, a donor government and a recipient country (OECD, 2007). Bilateral aid is provided through the government's official national aid agencies directly to the recipient country's government. Bilateral aid represents nearly three-fourths of the total amount of aid (Contreras, 2009).

1.2.1.2. Multilateral Aid

Multilateral aid derives through the intermediary of an international organization, which pools donations from several countries' governments and distributes the funds to recipients (OECD, 2007). Flows of multilateral development assistance are channeled through an international organization, for example the World Bank, USAID, and others, which may be involved in development. Multilateral transfers are transactions to a recipient institution that conducts all or part of its activities in favor of development (OECD, 2007). Multilateral aid was less strategic than bilateral aid, which might have a political motive. Unlike bilateral aid, "Multilateral aid is often distributed in a fair manner to raise the pace of economic development" (Shah, 2005).

1.2.2. Types of Foreign Aid According to Freedom of Use

Official development assistance (ODA) to recipient countries may be restricted or unrestricted. If the donor nation or nations specify a particular purpose for the aid, it is differentiated by the literature as restricted aid.

1.2.2.1. Restricted Aid

Restricted aid is ODA used to purchase items only from the donor country or other locations limited by the donor. In other words, restricted aid is given under preset conditions that allocate the funds to very specific projects. Those conditions usually take the form of specifying the purpose of the funds, such as buying technology or agriculture goods and services from a predetermined country. The aid recipient cannot use the funds for other than the designated purpose. Most foreign aid studies state that bilateral aid is usually restricted aid because the donor normally places regulations and conditions on the aid's disposal.

1.2.2.2. Unrestricted Aid

In contrast, unrestricted aid does not place conditions or constraints on the aid recipient. Unrestricted aid is any type of foreign development assistance that the recipients can spend freely. It is up to the officials in the developing countries to allocate the aid for any needed purpose, and aid recipient countries can freely use the funds to purchase necessary items from all countries. Compared to restricted aid, unrestricted aid is the most preferred type because the recipient is not forced to use the aid in specific areas or commodities from the donor country (Shah, 2005).

1.2.3. Types of Foreign Aid According to Purpose

Another classification of foreign development assistance is according to its purpose. The literature groups aid to developing countries in two general categories: humanitarian or emergency aid and development aid.

For this thesis's purpose, developmental aid covers foreign aid geared towards promoting development in recipient countries, while non-developmental aid includes foreign aid not targeting specific development projects. Non-development aid that does not meet development aid characteristics includes any transfer of financial resources or other in-kind donation to developing countries. Non-development aid does not target long-term growth or development of welfare in recipient countries; instead, the designation is for specific short-term cases, situations, or projects. Included in this category are emergency and disaster aid, food aid, military aid, development aid, project aid, program aid, budget support aid, and technical assistance.

1.2.3.1. Emergency and Disaster Aid

The first category of non-developmental aid to developing and least developed countries covers humanitarian, disaster, or emergency aid. Humanitarian development assistance is the aid mobilized in response to catastrophes and calamities. Humanitarian aid aims to curb the immediate suffering of individuals in a disaster or crisis (Shah et al., 2005). According to (Barrett, 2008), humanitarian aid is the most effective type of aid in aid recipient nations' dollars. Humanitarian aid may flow into a country affected by crises, such as poverty, hunger, natural or humanmade disasters, epidemics, and wars. In humanitarian aid, assistance may come from developing nations. For instance, neighboring countries may offer humanitarian aid to an area devastated by a hurricane, drought, or war. This type of assistance is non-developmental aid given for specific situations and for a short time.

1.2.3.2. Food Aid

Food assistance provided to countries to fight hunger in emergencies or alleviate longer hunger conditions and achieve food security. It goes to countries in urgent need, especially countries that recently experienced a natural or humanmade disaster. Countries offer food assistance when there are food deficits or deficiencies in the recipient

nations. In general, food aid can be categorized as humanitarian or emergency aid because it goes to countries experiencing natural disasters and in need of basic supplies and resources (Jean, 2012).

1.2.3.3. Military Aid

It involves the supply or transfer of military equipment and services from a national government to another country's government for military purposes (Shah, 2005). Military aid can also occur as forgiveness of one country's debt by another country if that debt was military in nature. Military aid is non-development ODA. However, some military aid counts as development aid.

1.2.3.4. Development Aid

Development aid is the transfer of grants to countries on the DAC list of ODA recipients. This aid has development as the main objective. A combination of concessional loans and grants can form the total development assistance transferred to developing countries. Development aid refers to any money or resources transferred from developed nations to developing or least developed countries (LDCs). Foreign aid is referred to as ODA when the capital inflows, including all grants and concessional or soft loans, developed countries to less developed countries are given to foster economic development (OECD, 2007). Concessional loans or soft loans are those monetary flows to developing nations with a grant element of 25% or more and with an interest rate below the average market rate and have to be repaid over longer periods than commercial bank loans (Shah, 2005; OECD, 2007).

1.2.3.5. Project Aid

Project aid is the aid linked to specific projects, for example rehabilitating a new school. In the case of project aid, the donor country usually examines the project's economic and technical feasibility before it disburses funds for project financing. Project aid goes towards short-term

development projects and generally produces substantial results; thus, project aid becomes more desirable to donors (Hoy, 1998).

1.2.3.6. Program Aid

Program aid is the sum of the aid provided to a specific country with development being its main aim, such as the balance of payment support, but not linked to specific project activities (OECD, 2007) Program aid is not intended for a specific sector or program and can be freely spent in a sector or for a program. If a country receives program aid, it may be specifically for the funding of some specific economic sectors. Program aid in the form of aid offered to an underdeveloped country's economic sector to fix economic problems with the hope of promoting economic development. In most cases, program aid has been tied aid given with specifications and terms with which the receiver must comply.

1.2.3.7. Budget Support Aid

Direct budgetary support (DBS) is financial support provided to an aid-recipient to support macro-level policies and assist the recipient through a policy and institutional reforms that promotes economic growth and achieves reductions in poverty (OECD, 2007). Budget support aid is a form of program aid directly channeled into the recipient country's financial system. In this case, aid donors provide direct financial support to a recipient country through its budget. Thus, budget support aid goes to a country to support its annual budget, thereby supporting the recipient nation's financial system. Budget support aid allows greater flexibility for the recipient because the intent is not for specific projects. The recipient country can use the funds according to its own allocation, procurements, and accounting systems.

1.2.3.8. Technical Assistance

Official development assistance in the form of technical assistance occurs (takes place) when developed countries dispatch skilled workers,

well-trained professionals, and experts to provide help to developing countries (Riddell, 2008; Shah et al., 2005). Such professionals as doctors, government officials, teachers, academicians, and others travel to developing or third-world countries to assist, train, or implement new techniques or new technology (OECD, 2007). Technical assistance can also, be development aid; thus, it includes both program and project aid.

1.3. Defining the Concept of Development

Most empirical development studies research and evaluate foreign aid's impact on developing-countries, through investigating the relationship between foreign aid and development. However, the literature remained ambiguous when it comes to providing a solid understanding of the term development. It is not difficult to see why the term development is essential for economics in general. After all, economic is the science of dealing with scarce resources and employing those resources. The object of economic is to improve the leveling standards of mankind and to bring development (Sen, 1988).

The term development came to light with speech president Harry S. Truman gave in 1949. However, and due to the failure of the US aid program to bring development and equity to the recipient countries the term was challenged by researcher and politician alike. In November 1989 over the Atlantic the events that brought down the Berlin wall were taking place, and with a new era of globalization had started. Globalization opened the gates for wealth maximization and encouraged the will of exploring and creating new markets. All eventually lead to give life to the development creed. The cold war division faded away, the borders were opened, and population and population of many countries fixed their eyes on the western consuming life style. Many countries managed to score high economic growth rates that were not recognized before. The world witnessed the transformation of many southern countries into industrialized countries located on the same bar as northern countries (Sachs, 2015).

With time the age of globalization have superseded development. Mainly due to the reason that national states could no longer contain their economic and culture forces. Keeping in mind that development was centered around the state and that the primary target of

development were the national population. With those two being withdrawn away development started to lose its core meaning. As a result the meaning of development started to change in attempted to adjust to the changes in the global scene. Development became concerned with creating a global middle class instead of national one. (Lalountas et al., 2011).

IUCN, 1980 defined development as “the modification of the biosphere and the application of human, financial, living and non-living resources to satisfy human needs and improve the quality of human life”. (Ghatak, 2003) tried to define development by identifying the characteristics of underdeveloped or so-called developing countries. He stated that one of the most common trades for a developing country is its income. The per capita income is used as an indicator of the socio-economic reality of a developing country. A low per capita income means a low-income level or a high population. If we compare the per capita income for the United States, Syria, and Turkey which were 47,976, 2032, and 9711 USD respectively in 2007 gives us a clear indication of each country's socio-economic reality (Worldbank, 2020). In addition, a low per capita income is a reflection of low saving, productivity, and investment. Ghatak also stated that developing countries usually experience high population growth rates when compared to developed countries. In the case where the rate is low usually the size of the population is high as in the case of China or India. The unemployment level is also a distinguishing indicator in developing countries, high unemployment levels are related to the demand and production structure of a country. The young population is mostly the most affected segment of society by unemployment (Erşan and Igdeli, 2018). Inequal income disbursement is also a common issue in developing countries. A study from forty-six countries shows that only 6% of the countries income accrues for the poorest 20% of the population; while 30-56 percent usually goes to the highest-paid 5-20 percent of the population (Ahluwalia, 1976). Foreign trade forms a small portion of the national income in a developing country, with some exceptions like Hong Kong or Taiwan. Ghatak also states that the form of foreign trade in a developing country is influenced by the economic history of the country as most developing countries were once dominated by today's developed countries.

1.4.Sustainable Development

In the mid-eighteenth century, wood was the primary material used as a fuel and for construction. Even though wood supply is a renewable resource the European nations were harvesting more than what they could plant. European governments such as Germany, France, and Great Britain recognized that the high consumption levels of wood have brought unsustainability. European nations realized that the basis of their consumption should be limited to the true capacity of forests. It was at the moment the science of ecology, and sustainable development emerged (Blewitt, 2008).

In the 1960s and 1970s, new concerns started rising both in the United States and Europe. Both feared that the current developed lifestyle and consumption behavior is negatively impacting our sustainability of the economy and the ecological balance of the planet. 1970 witnessed the first major environmental event that had a cultural and social impact. The term Eco-development first appeared in the year 1968. Eco-development emphasized sustainability of the resources and the balance of the ecological systems over the anti-poverty and economic growth approaches followed in previous years. It also paved the way for the emerging of the sustainable development concept (Barrow, 1995).

The world commission on environment and development in 1987 defined sustainable development as the ability to meet the present needs without affecting future generations' ability to meet the needs of tomorrow. In addition to economic growth as the main objective of development; sustainable development had two further purposes. The first is social development, and the second is environmental protection. To achieve sustainable development goals, sufficient environmental and management practices must be put in place. Those practices should ensure the optimal utilization of what nature had to offer (Barrow, 1995).

Sustainable development was promoted by the UN as integrated part of the Millennium Development Goals (MDGs). The MDGs were adopted by the UN general assembly in the year 2000. It consisted of eight ambitious goals and high moral commitments. The MDGs were set to be achieved in 15 years. In a nutshell, the goals were as following: 1. Relieving extreme poverty from all parts of the world, 2. Universal

education, 3. empower women and women's rights, and achieving gender equality, 4. Reducing the rates of child mortality, 5. Improve and strengthening mental health, 6. Fight HIV and similar diseases, 7. Reaching environmental sustainability and awareness, and 8. Develop a global partnership and networking for development (World Health Organization, 2015).

In September 2015 the world leaders gathered to endorse the sustainable development goals. Ban Ki-moon stated that the SDGs are a 'Paradigm shift for the people and the planet' (Scheyvens et al, 2016). The SDGs framework consists of "17 goals, 169 targets, and 232 indicators build on the success of other target and indicator-based frameworks such as the Millennium Development Goals (MDGs)" (Allen et al, 2018). The SDGs agenda also introduced the shared responsibility concept, A concept that came with the expectations that businesses, governments, and civil societies share equal responsibility of effectively implementing the SDGs. In an attempt to ensure the private sector's role in achieving SDGs, it had been allowed an essential role in influencing the formulating of SDGs (Scheyvens et al. 2016).

Adequacy of literature did critic the formulation of the SDGs. Sexsmith and McMichael (2015) Stated that the idea of "Development as usual" through global goal setting is in question. The Millennium Development Goals were state-centered, Donor led, and OECD-focused, to begin with. Assigning the principle responsibility to the states for the post-2015 development agenda is troubling. It is a missed opportunity to re-invent development planning and to reimagine development from a global political-economic perspective. Allen et al (2018) reviewed the literature on post-2015 SDGs implementation in 26 countries. The study highlighted key gaps in assessing the interlinkages of SDGs and targets which call attention to the need for systematic thinking approaches and tools to prioritize goals and targets. It will also allow the optimization of different interventions' impacts.

1.5.Development Theories

Hout defined two main approaches that dominated the political and social change in the developing world. those approaches are modernization and dependency. Hout's

works have been described as the classical development theories of the global south that lay down the foundation for coming international development research. The importance of modernization and dependency theories comes from the influence they had on current theories. When comparing the two theories together, one could state that each theory represents the opposite end of the international development spectrum. Each theory comes with a different set of strategies and ideologies to improve situations in developing countries. Yet, the two opposing theories have a common ground. Both theories agree upon the necessity to bring development to less developed countries. Both theories follow a macro-base to explain development, its processes, and its barriers (Hout, 2016).

1.5.1. The Modernization Theory

The modernization approach is influenced greatly by Western's thoughts and ideologies that included social, economical, and political aspects. This approach encourages a transformation that follows the West's footsteps toward development. One of the roots of the modernization theory could be found in the work of Talcott Parsons. Parsons is the creator of the structural-functionalist theory. In his theory, Parsons concentrated on what he called the development of societies from a traditional to a modern society (Parsons, 1964). The development of society from traditional to modern became a trademark for the modernization theory. Many researchers who analyzed the modernization theory trademark started drawing attention to similarities between what is so-called modern (or complex) society and Western societies. On the other hand, traditional societies resembled non-Western societies. Hence, modernization theory was and still until our day criticized for its normativity and for being a reflection and representation of Western values (Pieterse, 2010).

Economist Walt W. Rostow is one of the pioneer contributors to the modernization theory. Rostow connected the theory with economic growth. He specified five stages of transformation between traditional and modern. He based his model on a structural analysis that was centered around income distribution. The first stage is a traditional society with agriculture production being the dominant economic activity. Which is linked to one of the distinguishing characteristics of under-developed countries. The third stage is take-off, to achieve this stage Rostow states that society should first attain a set of pre-

requirements (second stage) that result from scientific advancement. A defining quality of the take-off stage is self-sustained growth. The fourth stage is 'drive to maturity'. In this stage, the society would witness a shift toward new growth elements such as heavy industry. The final stage is modern society also called the mass-consumption stage (Rostow, 1960). Bert F. Horlitz believed that the true reflection of economic development is the increasing complexity in the division of labour. This approach is called the pattern variables (Frank, 1969).

Many politicians also participated in shaping the modernization era. Almond (1960) wrote an edited volume on the politics of the developing areas. The volume stated that functions performed by the political structure could vary regardless of the structure in place. Yet, the volume argues that modern political systems have a high level of structural differentiation and each structure tends to perform a certain role in the political system overall.

In the late 1960s, the second wave of modernization sprang. The focus of the second wave was the prospects of democracy and political stability. A clear example could be observed in Huntington's (1968) work on political order. He examined the political gap in developed nations in terms of the differences between the political facilities and levels of economic growth. The results of his work affirmed that political violence was the product of a fast social change in addition to the slow adaption of the political facilities and institutions (Huntington, 1968). On the other hand, Huntington stated that developing countries experience a problem with increasing institutionalization caused by social mobilization movements and economic development. Developing countries' nations are aspiring to reach unrealistic goals to follow their counterparts in developed countries. However, due to the insufficient economic growth rate; the pressure is being transferred to the political system who is falling short on resources to achieve those goals. The increasing criticism of the modernization theory in the late 1960s paved the way for a new understanding and the start of a new theory called the independence theory.

1.5.2. The Dependency Theory

Dependency theory followed its predecessor footsteps in taking inspiration from the 19th and 20th centuries social theories. Dependency theory was also influenced by the

work of Marxist and neo Marxist. It centered around the notion that capital accumulation is the center of political and economic capitalism. Constructing the dependency theory began in the 1940s and 1950s. Many development pioneers of the economic commission for Latin America associated in establishing the theory. the theory arose in the late 1960s around the same time the modernization theory was under attack from the critics (Kay, 2011).

Kay analyzed the classical structure of the Latin American development theories. According to Kay's work, the Latin American dependency theory possesses two positions. First is the reformist position, which is more significant for academic aspects. The second is the Marxist position which received more international attention than the latter. The work of scholars like Samir Amin contributed to generalizing the Marxist position by adding African and Asian perspectives to it. The dependency theory was further outlined by the work of Cardoso's (1972) and Cardoso and Faletto's analyses on development and dependency in Latin America. Instead of focusing on exchanging primary products for manufactured products; the analysis of the reformist position centered around dependency change. Cardoso stated that regardless of the economic development, countries are bound to international capitalism and it is because of that connection they remain economically dependent. He explained further, the manufacturing of advanced productions means are still located in developed countries mainly in the United States. The linkage between the international capitalist development, production, and consumption good are recreating the links to dependency (Cardoso, 1972: 91).

A key element to understand is that dependency is not solely related to developing countries' external environments, but also the dynamic of their internal environments as well. Recognizing the social disciplines of the local group is also necessary. Local group behavior might enforce foreign interest if the groups are practicing foreign values and pretending that those values are their own. The Marxist position is the dominant position when it comes to the dependency theory. This position is centered around the outward-oriented nature of developing nations. Andre Gunder Frank is one of the leading personalities to adopted and emphasize the difference between the western experience and the developing nation experience. (Frank A., 1969).

Frank analyses development and underdevelopment as two faces of the same coin. The coin is created by a history of capitalism. The exploitation of the workers by the capital owners and the center countries by the peripheral countries have always been the driving force to global capitalism. He also added the bourgeoisie in peripheral countries might share some benefit with the countries in the center. However, the bourgeoisie is fully dependent on the forces in the center of the world. (Frank, 1979: 13-14).

The capitalist world system revolves around the logic of capital accumulation. Through unequal trade, investment, and labor relations, the center has been able to siphon off economic surpluses from the periphery. A means of surplus extraction was investments. The benefit of investment was following back to the center of capitalism. Labour of developing countries (center Countries) has been exploited in the production process. Forced labor spread including slavery during the first few centuries of capitalism. Many researchers have concluded dissociation of the developing countries from the world system. As the linkage between the developing countries and the world system could only benefit developing countries in case they achieved an auto-centric status. Developing countries should revise their export orientation to produce capital goods instead of primary goods. The delinking included a political agenda to transform from capitalism toward socialism (Amin, 1990).

In the 1970s, dependency theorists attempted to develop a social scientific prospect of the dependency theory. Their efforts fruited in the shape of the world system theory. The world system theory managed to take the place of the dependency theory over time. This theory used the social system as a unit of measurement. Wallerstein's interpretation was as the following 'My own unit of analysis is based on the measurable social reality of interdependent productive activities, what may be called an "effective social division of labor" or, in code language, an "economy" (Wallerstein, 1984).

The history of the capitalist world economy, in Wallerstein's view, is the history of the expansion of the global division of labor, which has integrated all parts of the world and reached its peak in the period of neoliberal globalization (Wallerstein, 2000). Capital accumulation has always been the main drive of capitalists worldwide, and the main political strategy to continue the deepening of this process has been 'the relocation of given sectors of production to other zones of the world economy that are, on the average,

lower-wage areas' (Wallerstein, 2000: 261). Dependency and world-system theories have been criticized for their emphasis on the material and economic dimensions to explain development. future theories were heavily influenced by dependency and world-system theory but they also add more soft components like culture and human development.

1.6. Foreign Aid Theories

Foreign aid theories are highly associated with a logical framework for development and growth theories. The interlinkage between the two theories leads development economics to recognize foreign aid theories as independent and it is usually considered as an integrated part of a larger entity which is development and growth theories. This notion could be observed explicitly when examining foreign aid theory's criticisms. As most of the theory's criticisms are driven from development and economic growth theories' criticism. Since both theories share the same foundation, reviewing the development and growth theories' principles would help build a solid platform for foreign aid theory principles. Even though, Land, trade, and specialization are important factors to development and growth. Classical economists have always recognized capital as the key determinant for growth and development. Adam Smith, for example, stressed the significance of trade, capital accumulation, and productivity increment in shaping development and economic growth. However, He stated that increment or decrement in the capital is directly related to change in the country's annual product. Meaning that any changes in the country's capital would influence a similar change in the wealth and revenue of the population (Smith, 1961).

David Ricardo stated that capital accumulation is the answer to achieving economic growth. When growth picks up, wages, prices, and population will increase accordingly. As a result, the profit will decline. The whole situation could be explained through the application of the law of diminishing returns (Ricardo, 1966).

Alfred Marshall is remembered for highlighting the role of both capital and free trade in boosting growth and development. He stated that there are several factors (economic and non-economic) that influence economic growth. For example, in addition

to savings and market factors, Marshal also included climate conditions, and political freedom (Mikesell, 1968: 29).

Joseph Schumpeter underlined the role of entrepreneurship in growth and development. He claimed that it is the primary determinant of growth. Schumpeter illustrates development as carrying out new products, services, methods of productions, and finding new sources of raw materials. Schumpeter advocated for foreign aid only if it carries one with new skills or innovations. His work influenced the capital-absorptive capacity approach. After the end of world war II, many aspects of the way we perceive the world change. Development economics was also a subject of change. The general approach of development quickly to a more specific and variables focused approach. A new model was constructed by R.F. Harrod and Domar. The model identified capital as the key element for promoting economic growth and it plays a major role in modern aid theories. it also contributed significantly to Rostow's stage theory. The critical growth rate and minimum effort theory states the there is a minimum level of per capita income that should be obtained to achieve a sustainable growth level (Nelson, 1956: 894-908). This could be attained with the help of added investments either in the shape of foreign aid or other investment classes. Ragnar Nurkse also argued in favor of massive capital investment to break the under-development cycle. He elaborated, underdeveloped countries are trapped in an endless loop of poverty, low income, and low investment. this loop could be ended by a significant push of capital investment. Foreign aid as one of the main resources of foreign capital contributes greatly to this so-called push (Nurkse, 1953). Other factors were also added to the theory such as foreign trade and investment. In his research, Prebisch found that one of the causes of the underdevelopment of Latin America is a combination of external factors like exports, foreign trade, and capital import (Prebisch, 1950). The review of the foreign and development theories from the post-world war II era till today's modern theories shows the connection between foreign capital growth levels. Since foreign aid is considered one of the main forms of foreign capital and foreign investment, its supporters argue that it is a source for development and growth for underdeveloped countries. To support their case they also named three approaches in which foreign aid has a positive correlation with growth and development.

1.6.1. Saving-Investment Gap Approach

Many researchers like Rostow (1960) explained that one of the principal challenges for developing countries to achieve higher growth rates (thus development) is the low saving and investment levels. In the short run, developing countries are rendered unable to increase their saving and investment due to internal and external institutional difficulties. Here comes the role of foreign aid as an external increment to the economy, allowing for the realization of higher growth levels than what is possible by their own savings and investments. According to Keynesian the marginal propensity to savings is greater than the average propensity (MPS>APS) which will allow the foreign aid recipient countries to sustain a high growth level. Another assumption is that developing countries are functioning and producing at low capacity levels due to capital gap issues. Foreign aid injections will help to reduce the capital gap which will allow developing countries' to produce at a more optimum level. A simplified of this model goes as the following:

$$\text{Output/Growth Rate} = \text{Rate of Investment}/(\text{Incremental Capital} - \text{Output Ratio})$$

It also essential to keep in mind that the savings-investment gap approach is based on several assumptions. First, it is based on the growth model of Harrod Domar and Cobb-Douglas production function. It also assumes that developing countries are characterized by low capital formulation. Domestic and foreign capital are connected by perfect substitutability. Last but not least this approach assumes that MPS are greater than APS (Pankaj, 2005).

1.6.2. Foreign Exchange Earning Expenditure Gap Approach

This approach argues that foreign aid could have a more substantial role if it is used for the purchasing of international goods and services that are strategic for the growth of the developing country. This approach is based on the notion that developing countries are unable to produce in optimum capacity due to the lack of those international goods and services. Moreover, developing countries are not able to import those goods and services due to a shortage in their foreign exchange reserve. Prebisch suggested that developing countries should shift from the production of primary goods to importing massive substitution to allow a self-sustainable growth stage (Pankaj, 2005).

The foreign exchange earning expenditure gap approach has several assumptions. The first assumption is that there are key goods and services of significant value to growth and development. It also assumes the non-availability of those goods and services for developing countries. The imperfect substitutability between foreign and domestic resources. Last but not least, the secular decline in terms of trade of primary commodity-exporting countries (Prebisch, 1950).

1.6.3. Capital Absorptive Capacity Approach

This approach is based on the notion that there is an absolute end to the amount of capital that could be employed and still gives back net return over depreciation. It has been stated that developing countries have a low capital absorptive capacity level. As a result, it lowers their optimum utilization of domestic and external resources.

Foreign aid, especially if it is directed towards skill-building or human capital development will allow the developing countries to improve their growth rate and their capital absorption capacity. Chenery (1966) argued that capital absorptive capacity is similar to a skill limitation. Its role is more significant in the early stages of the development process. The capital absorption capacity will limit the level of investments needed to generate the desired growth output.

The capital absorption capacity approach is built on several main assumptions. First, it assumes that non-economical elements constrain the growth of developing countries. Examples of non-economical elements could include factors like high growth level population, low education level, institutional challenges, and the inability to mobilize production means to the optimum. These factors result in a shortage of skilled managers and technical personnel which heavily impact the early stages of development and reduce the limit of investment that could be observed. This approach also assumes that implementing capacity and skills building projects in addition to establishing technical institutions will generate skilled managers and personnel. Simultaneously, the level of investment in developing countries will increase. Since developing countries lack the capital necessary to make such investments, the advocates of this approach promote that foreign aid should be capitalized in such endeavors which will allow developing countries to overcome these deficiencies.

1.7. Foreign Aid and Foreign Direct Investment

Foreign direct investment is defined as a long-term investing relationship between the source country (the owner of the investment) and the destination country (the recipient of the investment). From an accounting point of view, Foreign direct investment is defined as an investment with at least 10% of its capital from foreign sources. It is worth highlighting that the 10% mark differs from one country to another according to the accounting practices followed in that country (Assaf, 2007).

Even though there is no consensus among scholars on a definition for foreign direct investment (FDI), several studies, and researches defined foreign direct investment as an investment made by an investor (Company, or individual) to a company located in another country. They also distinguished foreign investment from portfolio investment in which a portfolio investment is purchasing equity in a foreign country while foreign direct investment is investing intending to establish control or an influence over the decision making of the company (Heshmati, 2018).

The distinguishing notion is also made clear in the definition of foreign investment, the world investment report pronounced that foreign investment is an investment with the intention of long-term management interests. The world development report in 2016 stated that foreign direct investment has increased by 40% to reach almost 1.8\$ trillion which is the highest level reached since the 2008 economic crisis. However, that increase was not translated in terms of increasing productivity in developing countries. The report goes on to declare that such results are worrisome, as the sustainable development goals (SDG) require enormous amounts of foreign direct investments to reach sustainability and now the results might be questionable, to say the least. Different studies show different results; Some researchers justify the inconsistent results to the different methods used in each type of study. For example, estimation methodology, type of data used, and control variables all affect the result of a study. It is worth noting that cross-sectional studies usually report a positive linkage between foreign investment and economic growth. they even reported a positive effect on domestic firms. On the other hand, panel data studies accounting for countries level are not able to find a shred of robust

evidence that there is a positive relationship between FDI and economic growth (Heshmati, 2018).

Foreign direct investments have many forms and classifications. It could be divided into two main types. First are the greenfield investments. The greenfield investment is when an investor invests in a foreign country from scratch. For example, if the investor builds a new company in a foreign country instead of investing in an already existing company. The second type of foreign investment is the cross-border mergers. It happens when a foreign firm merges with a local firm (keeping in mind the 10% mark). Comparing the two types of foreign investment makes it clear that greenfield investment offers a higher degree of interest and control over the investment, but it also has a higher risk level. Another classification of foreign investment is horizontal and vertical investments. A horizontal investment is an investment that is extended to its home country activities. In comparison, vertical investment happens when the investor company locates a different production level at different locations (Selaya, 2012).

Foreign capital (Foreign aid and foreign direct investment) is considered a complementary source to internal capital. Nevertheless, many governments and development organizations are skeptical of the idea. In 2002 the UN's consensus of international finance for development stated that foreign aid has an essential complementary role to other internal financial resources. Foreign aid role is increased in countries that cannot attract private direct investment. There is no clear coefficient between foreign aid and foreign direct investment. The results of previous studies varied. Researchers like Karakaplan et al. (2005) reported a negative coefficient between foreign aid and foreign direct investment. He also found that other factories, like financial market development and governance quality, could improve foreign aid impact on foreign direct investment inflows.

Harms and Lutz (2006) stated that foreign direct investment and foreign aid complement each other if the host country's regulatory-burden was controlled. The catalyzing effect of foreign aid could be witnessed clearly in countries that suffer from poor institutional environment. Kimura (2010) and Blaise (2005) conduct many studies on Japanese foreign aid and foreign direct investment. Kimura (2010) reported a positive vanguard effect (meaning that receiving foreign aid from a specific donor country will

attract foreign direct investment from the same country). The high level of aggregation used for the foreign aid variables might be responsible (and could explain) for this type of mixed results.

1.8. Foreign Aid and Economic Growth

Empirical macroeconomics assumes that a typical worker in a developed country is 20 to 30 times more productive than a similar worker in a developing country. In comparison, the in-country differences are also greater than the difference between countries. A common approach in growth literature is to justify the difference in productivity through the differences in income per capita. Sometimes, the natural resources of a country are used to explaining the income gap between developing and developed countries. Some countries are rich due to the availability of oil and the relatively small population. Capital per worker is also a determining factor in explaining the difference in productivity between developing and developed countries' workers. However, capital per worker failed to explain the whole difference in productivity (Prescott, 1998).

Economic growth literature has highlighted the significance of productivity growth as a key factor for delivering sustainable capita growth (Hall and Jones, 1999). Several researchers studied elements that account for the difference between countries' productivity. The results highlighted the importance of macroeconomic factories, trade openness, and human capital (Acemoglu, 2006). The debate about what elements is contributing to productivity growth is still going on until this moment.

Waweru (1995) stated that there is no clear correlation between foreign aid and economic growth because aid is heterogeneous. The relationship between the two could take any form, depending on various factors like the study's location and duration. In different countries, aid managed to partially explain growth rates, and even though the impact of foreign aid seems weak it is proven to consistent. The OECD stated that aid contribution to growth depends, among other things, on its size. In some countries, aid has played quite a critical role, in other countries however, it played a minor or a less significant roles. In the early 1980s, aid was almost equal to 9% of the least developed

countries' GNP and 3% of low-income countries. For China and India, the largest low-income countries, the ratio was about 0.2% and 1% respectively. For individual countries, aid varied from less than 1 percent to more than 20 percent. In general, the ratio tended to be lower than 3 percent for many Sub-Saharan economies; for most other low-income countries, it was around 7 to 8 percent. The research conducted by the Congressional Budget Office CBO (1997) found that the effectiveness of foreign aid depends on economic policies in place. It also found that foreign aid is more likely to be productive and contribute to long-run development in countries whose environment is favorable to growth.

According to the OECD (2007), economists' focus on the foreign aid concept came after the successful implementation of the Marshall Plan in western European countries after World War II. Under the Marshall Plan, the United States transferred capital resources to help rebuild Western European countries seriously ravaged by World War II. The plan is hailed as having been remarkably successful. USA transferred about \$17 billion, US, equivalent to 1.5% of the USA's GNP over a four-year period (Defourny and Nyssens, 2006).

Several economists are of the opinion that the recovery of western European countries after the Second World War was largely due to the aid provided under the Marshall Plan. Questions arise about why LDC's, which have been a foreign aid recipient for the past 30 years, is still considered as a developing nation. Many justifications have been advanced, explaining why Marshall Plan scenarios succeeded within a short time while the long-lived case of foreign aid flows to LDCs seems not to yield much (Kanbur, 2006). One of the reasons given for the Marshall Plan's remarkable success is that the western European countries had the necessary "know-how" and well-organized infrastructural facilities. There were already co-ordinate plans to employ the incoming capital productively and efficiently. This is unlike what happens in LDCs, particularly in Africa, where coordination of plans is judged to be poor. Furthermore, the amount of capital transferred under the Marshall Plan was by all standards large (Burnside & Dollar, 2000). The foreign capital transferred was enough to fill both savings and foreign exchange constraints, which were dominant in most western European countries during this time and was thus responsible for the high productivity of the capital extended.

1.9. Relationship Between Foreign Aid and Domestic Saving

According to Waweru (1995), several previous studies done in different countries show a negative relationship between aid and savings ratio. However, some estimates are improbably large, given that for many countries, aid is only a small proportion of savings. Even though, countries with low saving attracts foreign aid as a main to fill the saving gap; few studies showed foreign aid has a negative influence on domestic saving is negative. Advanced economies like of South Korea and Taiwan, received large amount of foreign aid at earlier stages, show high domestic savings rates.

Chenery (1966) showed a positive relationship between savings and foreign aid. These researchers assert that in 1950, Greece was by all standards a poor country, as evidenced by poor savings, low investment, and low standard of living, dependent on imports and low per capita GDP. However, following foreign aid inflow in the 1950s, Greece was able to transform its economy by increasing domestic savings, investments, and the supply of commodities needed for domestic consumption. Papanek (1972), while not giving his specific stand, argues that foreign aid impact on gross domestic savings could go either way depending on a number of factors. He argues that it was highly important to specify the type of savings functions one was using because a given type of savings function may yield results showing that foreign aid inflows increase savings and investment while some other specification may yield opposite results. Papanek (1972) particularly cites two cases in support of the claim above.

- i) Where savings were a function of the foreign capital goods and other inputs to keep installed capacity functioning, the savings and investment would increase with the inflows of assistance; and
- ii) Where savings were a function of the level and rate of growth of a country's per capita GDP, savings might fall or rise with available foreign aid.

However, Rahman (1967), one of the earliest writers, selected 31 LDCs, and carried out empirical studies to establish the relationship between domestic savings and foreign aid inflows. Rahman (1967) stated that receiving foreign aid cause the recipient governments

to become more aid dependent. The result would be lack of saving efforts and a reduction in saving rates.

Griffin (1970) advances the argument that in some cases, capital imports might have retarded development rather than accelerating it. He argues that foreign aid inflow reduces domestic saving. Griffin (1970) tested the proposition that foreign aid inflows reduce the domestic saving rate. He estimated his equation for 32 LDCs using cross-section data. He further argues that some of the aid allocated toward investment might be spent on consumption. The incremental capital-output would rise with aid, given the donor country's bias towards capital-investment projects that were not the most productive form for the recipient's countries.

Reicher (1995) used two stage-Least-squares to estimate a model consisting of three variables growth, aid, and domestic saving. The study found negative coefficient between foreign aid and gross savings. Hadjimichaei et al. (1995) found that the relationship between foreign aid and saving varied depending on the growth level and the degree of sustainability efforts of the recipient country. In countries where sustainability efforts were high, foreign aid had a positive impact on saving rates. However, in other countries where the growth rate is negative and sustainability efforts are low, foreign aid had a negative impact on the saving rates.

1.10. Relationship Between Domestic Saving and Economic Growth

Reducing poverty, increasing national income, improving living conditions, and achieving economic growth are the main goals of any nation and country. to achieve those goals governments around the world, implement variance types of policies and regulations. Some policies are meant to encourage gross domestic saving of the country, others are to attract foreign capital and investments. All of which eventually lead to economic growth of the country.

Gross domestic saving has been identified by many sources as the GDP of a country minus its consumption expenditure. The gross domestic saving consists of three main components which are saving per household, saving from the private sector, and saving from the public sector.

When savings are increased the domestic investment is increased as well. It also means that the consumptions level is reduced simultaneously. Thus, savings play important role in supporting the countries capital which will impact its ability to grow and develop its economy. In general, we could say that an increase in the overall saving of a country will be reflect on its consumptions and investment levels and will lead to a higher GDP growth in short-term. However, some empirical studies state that when the economic grow it will be reflected as a growth in the countries per capita income which will encourage an increase in the consumption behavior and expenditure of the country.

Serval writers and researchers have studied the relationship between gross domestic saving and economic growth. The results of their research varied and contradicted leaving the relationship between gross domestic saving and economic a question that require additional researching and investigation. Researchers like Bacha (1990), and Stern (1991) stated that there is positive relationship between domestic saving and economic growth. Meaning that higher level in domestic saving is expected to generate higher level in the country economy and per capita GDP. The explanation behind their statement is that gross domestic saving is expected to generate economic growth though increasing the country domestic investments.

Other researchers like Singh (2010), and Székely (2015) state that gross domestic saving might have a neutral impact on the country's economic growth. Same as the case Mexico where the country continued to show lower the average economic growth rate even though it enjoys high level of gross domestic saving.

1.11. Relationship Between Gross Domestic Saving and Financial Growth

Most developing nations especially those who are poor in natural resources depend heavily on investment both internal and foreigner. Those nations tend to invest their domestic gross saving to attract foreign direct investment to realize economic growth and development (Al-Sadaee, 2020).

Gross domestic saving and foreign direct investment complement each other in a relationship that aims to economic development. The main role of foreign direct investments is to support the local capital and saving by providing a foreign saving and

capital and increasing the recipient counters' capacity to invest and realize economic growth (Osakwe, 2006). A study conducted by Nigar (2011) investigated the relationship between foreign direct investment and gross domestic saving in Turkey, which an attractive investing environment for local and foreign investors alike. The results of the study showed that the combination of domestic saving and foreign direct investment had a positive and significant impact on Turkey's income and economic growth. Verma (2008) researched the short- and long-term effect of the relationship between saving and foreign direct investment. The results of the research showed that gross domestic saving and foreign direct investment have no positive effect on the economic growth in the country. It also shows that only foreign capital inflows have a positive impact on the country's economic growth.

II. CHAPTER

METHODOLOGY

In this chapter, the methods used for data analysis are presented. The chapter contains a list of selected variables, the data sources used for the analysis, and the analysis's statistical methods for the topic.

2.1. Variables of The Study

To analyse the models of the study, four variables were used. The dependent variables of the study are economic growth and financial growth. Economic Growth is measured by the GDP annual growth percentage. Financial growth is measured by foreign direct investment net inflows as a percentage of GDP. The independent variables of the study are foreign aid and gross domestic savings. Foreign aid is measured by net official development assistance received. While, gross domestic savings are measured as a percentage of the GDP.

Foreign aid: Measured by Net Official development aid received in USD. Net official development assistance (ODA) consists of two main components. The first is concessional loans. Second are grants made by official Development Assistance Committee (DAC) member agencies, multilateral institutions, and non-DAC countries. The purpose behind those loans and grants is to promote economic development and welfare in DAC countries and nations. the ODA could also include loans with grants and awards elements up to 25% (the rate of discount should be 10%) (Worldbank, 2020).

Gross domestic saving: Used as an independent variable. Measured as a percentage of the GDP. Gross domestic savings, or national savings, are the sum of private and public savings (DeLong, 1992). It is calculated as the gross national income minus the total consumption, and then we add the net transfer.

Economic growth: Used as a dependent variable. Economic growth is an increase in the production of economic goods and services, compared from one period to another (Worldbank, 2020).

Financial growth: Used as a dependent variable. To measure financial growth, I used a foreign direct investment index. Foreign investment happens when an investor wants to invest in 10 percent or more of voting stock in an enterprise that operates in a foreign economy. To calculate foreign direct investment, we need to sum equity capital, short and long-term capital, and reinvestment of earnings according to the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors and is divided by GDP (Worldbank, 2020).

2.2. Data Source

Table 2 List of Variables offers information about variables of the study, used codes throughout the study, unit of measure, and references of the variables.

Table 2 List of Variables

#	Variable	Measured By	Code	Type	Unit	References	Source
1	Foreign Aid	Net ODA received Current \$	ODA	Independent	\$ (converted into its logarithmic form)	Alhamad (2018); Husien (1998); Jean (2012); Elzubear (1983), Lockwood (1990), Herrera (2015), El-Kaissy (1996), Moses (2007), Kalpana Sahoo (2013), Ang (2010), Selaya (2012), Kimura (2010), Ndambendia (2010), and Mohamed (2014).	World bank
Net official development assistance is disbursement flows (net of repayment of principal) that meet the DAC definition of ODA and are made to countries and territories on the DAC list of aid recipients.							

#	Variable	Measured By	Code	Type	Unit	References	Source
2	Gross domestic saving	Gross domestic savings (% of GDP)	GDS	Independent (Control variable)	%	Jean (2012); Husien (1998), Elzubear (1983), El-Kaissy (1996), Kalpana Sahoo (2013), Selaya (2012), Ndambendia (2010), and Mohamed (2014).	World bank
Gross domestic savings, or national savings, are the sum of private and public savings							
3	Economic Growth	GDP growth (annual %)	GDP	Dependent	%	Jean (2012), Elzubear (1983), Cheng (2016), Herrera (2015), Chheang (2009), El-Kaissy (1996), Ang (2010), Kimura (2010), Ndambendia (2010), Wang (2011), and Mohamed (2014).	World bank
Economic growth is an increase in the production of economic goods and services, compared from one period to another.							
4	Financial Growth	Foreign direct investment, net inflows (% of GDP)	FDI	Dependent	%	Herrera (2015), Moses (2007), Selaya (2012), T. Bhavan (2010), Kimura (2010), Ndambendia (2010), Quazi et al (2014), Amusa et al (2016). and Wang (2011).	World bank
Foreign direct investment is the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.							

Source by The Author

2.3. Statistical Method: Multiple Regression Analysis

The multiple linear regression analysis is an extension of the simple linear regression analysis that includes more than one independent variable. The multiple regression analysis is a statistical technic that allow the prediction of the relationship between the dependent variable and two or more independent variables. The relationship between the variables should be a cause-effect relationship (Uyanik and Guler, 2013).

The general form of a regression model for the K independent variable is:

$$Y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \dots + \beta_kx_k + \varepsilon$$

Where Y is the dependent variable and $\beta_0, \beta_1, \beta_2 \dots \beta_k$ are the regression coefficients. The independent variables are x_1, x_2, \dots, x_k and the residual is ε .

2.3.1 Multiple Regression Assumptions

Most statistical tests rely on variance assumptions. Multiple linear regression is no exception. If a statistical test's assumptions are violated the reliability of the test is doubted. The chance of getting a type I or type II errors is increased. Multiple linear regression analysis has many assumptions some of which might be violated when the analysis is conducted. In such cases the researcher might be able to correct and deal with the situation and the multiple linear regression analysis could still be used. Other violations might leave the multiple regression analysis unusable and the research will be forced to use another analysis (Williams, 2013).

1. Linear relationship between dependent variable and independent variables

Multiple linear regression can only accurately predict the relationship between dependent variable and independent variables is the relationship is linear. In case of non-linearity, the analysis could underestimate the relationship between the dependent variable and independent variables. It also increases the chance of Type I and II errors with the independent variables. There are many ways to test and account for non-linearity. First, checking the relationship nature from previous literature. However, this method is the least reliable other statistical methods are

preferred. Other preferable method is scatter plot. residual plots are plots of the standardized residuals as a function of standardized predicted values. This kind of plot is available and easy to run in most statistical software's (Pedhazur, 1997).

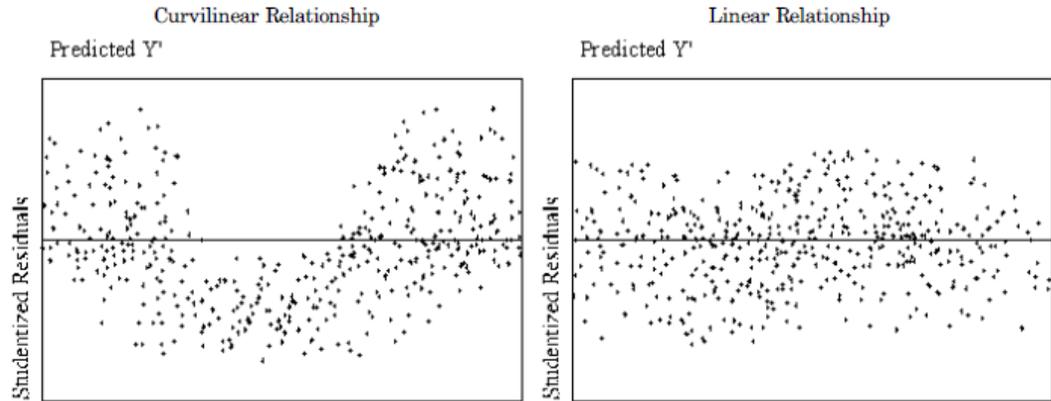


Figure 1 Example of Linear Relationship and Curvilinear Relationship with Standardized Residuals

In case of non-linearity, a non-linear regression could be utilized, which is an option available in most statistical software's. not accounting for the linear relationship between variables will result in inaccurate assumption of the relationship bet variables (Tabachnick, 1996).

2. Normality

Multiple linear regression requires the errors of the variables to be normally distributed. In regression analysis, error could be defined as the variance between observed values on the response variable and values predicted by the regression model for the whole population. This assumption is usually checked by examining the distribution of residuals which is available in most statistical packages (Williams, 2013).

3. Reliability

Social science variables are mostly difficult to measure. Making measurement errors a concern. In regression and correlation measurement errors might led under estimating the relationship and it also increase type II errors. On the other hand, in

multiple regression measurement errors might lead to over estimating the relationship between variables (Nunnally, 1978).

In multiple regression with each independent variable added to the model will lower the reliability and the test's results become more questionable. This can result in enormous findings and increase the chance of type II error for variables with low or poor reliability. On the other hand, it increases the chance of type I error for other variables (Williams, 2013).

4. Homoscedasticity

It means that the variance of errors is the same in all different levels of the independent variables. On the other hand, when the variance is not the same this is called heteroscedasticity. Berry (1985) stated that slight heteroscedasticity might not affect the analysis results. However, if a case of heteroscedasticity is identified then it can result in serious errors in the analysis and it could increase type I errors. There are many ways the homoscedasticity could be checked, most commonly homoscedasticity is checked visually through the standardized residuals. (Tabachnick, 1996)

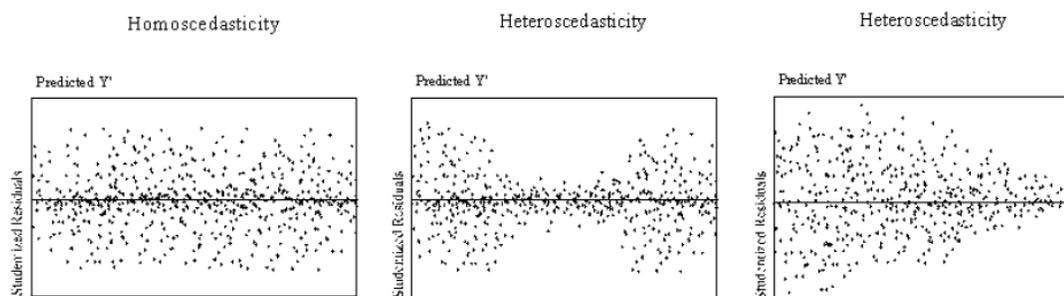


Figure 2 Example of Homoscedasticity Standardized Residuals Plot

Ideally, residuals are scattered randomly around Zero. If the residuals are not evenly scattered around the line that indicates heteroscedasticity. In case of possible Heteroscedasticity, a Goldfeld- Quandt test could be used (Berry, 1985).

5. Multicollinearity

Independent variables as could learned from their name should be independent.

When the independent variables are highly correlated it is called multicollinearity. The existence of multicollinearity could be examined through conducting a correlation test. If the correlation coefficient between two independent variables is high that indicates a potential multicollinearity. Multicollinearity could also be detected through the Variance inflation factor (VIF) test (Haitovsky, 1969).

6. Autocorrelation

is the degree of similarity between the different observations in the same variable data. Mostly common in time series data. Time series data is a data that occurs over a period of time. It could also occur in cross-sectional data as well. For example, surveys that are from the same geographical area are expected to carry similar results. One of the common ways to test for autocorrelation is the Durbin-Watson test. The test value will range from 0 to 4. Values closer to the middle (2) indicate lower autocorrelation levels. While values closer to 4 or 0 indicate higher autocorrelation levels. Autocorrelation could be fixed using methods like Newey-West (Newey-West, 1995).

III. CHAPTER

ANALYSIS and FINDINGS

Developing countries need foreign capital inflows (Foreign aid and foreign direct investment) to reduce their savings gap. In 2017 alone MENA region received 28\$ billion of foreign aids. A figure that continued to grow until today. However, MENA's countries remained underdeveloped and suffering from the worst living conditions and standards worldwide. MENA GDP per capita for 2017 was 3793\$ compared to Turkey's GDP per capita, which was 9042\$ (Worldbank, 2020). The purpose of this study is to examine whether foreign aid has been able to stimulate growth in economic and financial growth of MENA and Turkey.

To answer the questions of the study the following models are introduced:

$$GDP_{Turkey} = \beta_0 + \beta_1 * ODA_{Turkey} + \beta_2 * GDS_{Turkey} + \varepsilon$$

$$FDI_{Turkey} = \beta_0 + \beta_1 * ODA_{Turkey} + \beta_2 * GDS_{Turkey} + \varepsilon$$

$$GDP_{MENA} = \beta_0 + \beta_1 * ODA_{MENA} + \beta_2 * GDS_{MENA} + \varepsilon$$

$$FDI_{MENA} = \beta_0 + \beta_1 * ODA_{MENA} + \beta_2 * GDS_{MENA} + \varepsilon$$

Data were extracted from the World bank's Data Bank (Link: <https://databank.worldbank.org>) on a spreadsheet. The data were then processed to ensure that the format is compatible with the statistical software before importing the data to the software. Foreign direct investment was converted into its logarithm forms.

3.1. Descriptive Statistics

Table 3 Turkey Descriptive statistics showed that Turkey's foreign direct investment mean is (0.778788). On the other hand, Table 4 MENA Descriptive statistics showed that MENA's received higher foreign direct investments throughout the duration of the study. Similar conclusion could be drawn about foreign aid received. However, Turkey realized higher GDP growth rate on average as its growth rate mean was 4.629 while MENA's growth rate mean was 3.554.

Table 3 Turkey Descriptive Statistics

	FDITR	GDPTR	GDSTR	ODATR
Mean	0.778788	4.629366	25.72139	8.05E+08
Median	0.410951	5.366693	24.71695	3.34E+08
Maximum	3.653480	11.11350	38.45002	3.61E+09
Minimum	0.019501	-5.962311	16.97944	6760000.
Std. Dev.	0.868173	4.094817	5.217825	1.03E+09

Table 4 MENA Descriptive Statistics

	FDIMENA	GDPMENA	GDSMENA	ODAMENA
Mean	1.031557	3.554831	27.31905	9.75E+09
Median	0.788923	3.096518	27.94644	5.96E+09
Maximum	3.765554	15.78215	40.21310	3.25E+10
Minimum	0.142208	-11.87273	14.20695	8.79E+08
Std. Dev.	0.854387	5.132971	6.567964	8.07E+09

3.2. Pearson Correlation Coefficients Results

Before running a multiple regression analysis, a correlation analysis must be done. The correlation analysis will show the correlation coefficients between dependent and independent variables. It will serve as tool to detect and avoid any possible multicollinearity between independent variables.

3.2.1. Turkey Correlation Coefficients Results

Table 5 Turkey Correlation Analysis Results showed that the correlation coefficient between Turkey's GDP and gross domestic saving (GDS) is (0.035) indicating there is a positive yet marginal relationship between Turkey's GDP and GDS. The correlation Coefficient between foreign aid (ODA) and gross domestic saving (GDS) is (0.134) which also indicate a positive yet weak relationship. The correlation coefficient between foreign direct investment (FDI) and gross domestic saving (GDS) is (-0.288) meaning that a one unit decrease in GDS is associated with a 0.288 increase in FDI.

Table 5 Turkey Correlation Analysis Results

	FDITR	GDPTR	GDSTR	ODATR
FDITR	1.000000			
GDPTR	0.052026	1.000000		
GDSTR	-0.288694	0.035953	1.000000	
ODATR	0.477344	0.134621	-0.169599	1.000000

3.2.2. MENA Correlation Coefficients Results

Table 6 MENA Correlation Analysis Results showed that the correlation coefficient between MENA's GDP and gross domestic saving (GDS) is (0.096) indicating there is a positive yet marginal relationship between MENA's GDP and GDS. The correlation Coefficient between foreign aid (ODA) and gross domestic saving (GDS) is (0.380) which also indicate a positive moderate relationship. The correlation coefficient between foreign direct investment (FDI) and gross domestic saving (GDS) is (0.754) meaning that a one unit increase in GDS is associated with a 0.754 increase in FDI.

Table 6 MENA Correlation Analysis Results

	FDIMENA	GDPMENA	GDSMENA	ODAMENA
FDIMENA	1.000000			
GDPMENA	0.018884	1.000000		
GDSMENA	0.754826	0.096369	1.000000	
ODAMENA	0.444469	-0.061884	0.380919	1.000000

3.3. Multiple Linear Regression Results

To address the study questions four multiple linear regression analyses were conducted.

3.3.1. Turkey Multiple Linear Regression Results

First, I ran multiple linear regression analysis to answer the first hypothesis of the study “There is a significant relationship between foreign aid and economic growth in Turkey between 1970 and 2017.” Table 7 Multiple Regression Results for Economic Growth in Turkey showed R-square value equal to (0.023) and a significance level of (0.569) Hence, the model is not significant.

Table 7 Multiple Regression Results for Economic Growth in Turkey

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.000490	9.269694	-0.539445	0.5922
GDSTR	0.041646	0.093312	0.446312	0.6575
LNODATR	0.434480	0.407469	1.066288	0.2920
R-squared	0.023595	Mean dependent var		4.629366
Adjusted R-squared	-0.019801	S.D. dependent var		4.094817
S.E. of regression	4.135159	Akaike info criterion		5.737390
Sum squared resid	769.4793	Schwarz criterion		5.854340
Log likelihood	-134.6974	Hannan-Quinn criter.		5.781586
F-statistic	0.543714	Durbin-Watson stat		1.940656
Prob(F-statistic)	0.584354	Wald F-statistic		0.569791

Prob (Wald F-statistic) 0.569671

The first hypothesis of the study was rejected and the null hypothesis was accepted; meaning that there is no significant relationship between foreign aid and economic growth in Turkey for the duration of the study.

Second, I ran multiple linear regression analysis to answer the second hypothesis of the study “There is a significant relationship between foreign aid and financial growth in Turkey between 1970 and 2017.” Table 8 Multiple Regression Results for Economic Growth in Turkey showed R-square value equal to (0.375) and a significance level of (0.001) Hence the model is statistically significant and it could explain 37.5% of the changes in Turkey’s FDI. The table also showed a negative, yet significant relationship between GDS and Turkey’s FDI. The coefficient of the relationship was (-0.109). It also indicated the existence of autocorrelation which violate one of the multiple regression assumptions. To correct the issue a newey-west was used. The second model of the study is as follows: $FDI_{Turkey} = -4.450 + 0.323 * ODA_{Turkey} - 0.109 * GDS_{Turkey}$.

Table 8 Multiple Regression Results for Financial Growth in Turkey

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.450487	2.278249	-1.953468	0.0570
GDSTR	-0.109190	0.038531	-2.833823	0.0069
LNODATR	0.323103	0.112843	2.863288	0.0063
R-squared	0.375656	Mean dependent var		-0.894313
Adjusted R-squared	0.347908	S.D. dependent var		1.256946
S.E. of regression	1.015012	Akaike info criterion		2.928139
Sum squared resid	46.36122	Schwarz criterion		3.045089
Log likelihood	-67.27534	Hannan-Quinn criter.		2.972335
F-statistic	13.53785	Durbin-Watson stat		0.860341
Prob(F-statistic)	0.000025	Wald F-statistic		7.766925
Prob(Wald F-statistic)	0.001266			

The second hypothesis of the study is accepted meaning that there is a significant relationship between Turkey's foreign aid and financial growth throughout the duration of the study.

3.3.2. MENA Multiple Linear Regression Results

I ran a third multiple linear regression analysis to answer the study's third hypothesis. "there is a significant relationship between foreign aid and economic growth in MENA between 1970 and 2017". Table 09 Multiple Regression Results for Economic Growth in MENA showed R-square value equal to (0.090) and the significance level for the model is (0.119) hence, the model is not significant.

Table 9 Multiple Regression Results for Economic Growth in MENA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	41.98177	20.47643	2.050249	0.0462
GDSMENA	0.177109	0.122220	1.449103	0.1542
LNODAMENA	-1.907385	0.953459	-2.000491	0.0515
R-squared	0.090198	Mean dependent var		3.554831
Adjusted R-squared	0.049762	S.D. dependent var		5.132971
S.E. of regression	5.003627	Akaike info criterion		6.118665
Sum squared resid	1126.633	Schwarz criterion		6.235615
Log likelihood	-143.8480	Hannan-Quinn criter.		6.162860
F-statistic	2.230653	Durbin-Watson stat		1.674506
Prob(F-statistic)	0.119208			

The third hypothesis of the study was rejected and the null hypothesis was accepted; meaning that there is no significant relationship between foreign aid and economic growth in MENA for the duration of the study.

A fourth multiple linear regression analysis was run to answer the study's fourth hypothesis "There is a significant relationship between foreign aid and financial growth in MENA between 1970 and 2017". Table 10 Multiple Regression Results for Financial Growth in MENA showed R-square value equal to (0.600) and the significant level of the model is (0.000) hence, the model is statistically significant and it could explain 60% of the changes

in MENA's FDI. The table also showed a positive, yet significant relationship between GDS and MENA's FDI. The coefficient of the relationship was (0.084). The test also showed that the assumptions of heteroscedasticity and autocorrelation were violated. Both were corrected by using Newey-West. The fourth model looks like follows:

$$FDI_{MENA} = -6.533 + 0.175 * ODA_{MENA} + 0.084 * GDS_{MENA}.$$

Table 10 Multiple Regression Results for Financial Growth in MENA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.553624	1.774005	-3.694253	0.0006
GDSMENA	0.084051	0.013336	6.302791	0.0000
LNODAMENA	0.175317	0.082447	2.126423	0.0390
R-squared	0.600202	Mean dependent var		-0.280689
Adjusted R-squared	0.582433	S.D. dependent var		0.810615
S.E. of regression	0.523814	Akaike info criterion		1.605103
Sum squared resid	12.34717	Schwarz criterion		1.722053
Log likelihood	-35.52247	Hannan-Quinn criter.		1.649299
F-statistic	33.77841	Durbin-Watson stat		1.630765
Prob(F-statistic)	0.000000	Wald F-statistic		31.57566

The fourth hypothesis of the study is accepted meaning that there is a significant relationship between MENA's foreign aid and financial growth throughout the duration of the study.

CONCLUSION

The relationship of foreign aid with financial and economic growth is controversial to say the least. Many previous studies like Senbet (2009), Dalgaard et al. (2004), Karras (2006), Ndambendia (2010), and Malawi (2013) found that foreign aid managed to stimulate economic or financial growth in recipient countries. Other researchers like Jean (2012), Burnside and Dollar (2000), Brautigam (2004), and Elzubear (1983) found that foreign aid had a negative impact on economic and financial growth. This Study analyzed the effect of foreign aid on financial and economic growth in Turkey and MENA. The duration of the study was 1970 to 2017. The data were extracted from the world bank data bank website and processed on spreadsheet software to ensure its compatibility with the statistic software. A multiple linear regression approach was used to analyze the data. A Pearson correlation analysis was also conducted as pre-test to examine the correlation coefficient of the variables and to avoid any possible multicollinearity between independent variables.

Despite a broad consensus on the relationship between foreign aid and economic growth in the literature, the multi regression analyses for Turkey and MENA were not significant. In a result, both hypotheses were rejected and the null hypotheses were accepted; meaning that there are no significant relationships between foreign aid and economic growth in Turkey and MENA. However, it is worth highlighting that lack of data of the studied regions might have contributed to the insignificant results. At the time of the study, only data from 1970 to 2017 were available. Besides, a lack of data on other independent (control) variables such as quality of governance might have contributed to the insignificant results. I recommend that future studies consider micro country-specific approaches, as using primary data like surveys or official country statistics will help avoid

the limitations of this study and enhance the understanding of the foreign aid and economic growth relationship in precise contexts.

The multiple regression analyses results showed that there is a positive significant relationship between Turkey's foreign aid and financial growth. Which mean that an increase in the country received foreign aid influence an increase in its financial growth. It also showed that there is a positive significant relationship between MENA's received foreign aid and financial growth. Which mean that an increase in the region's foreign aid will lead to an increase in its financial growth. These findings are in line with researches like Ndambendia (2010), Quazi et al (2014), Wang (2011), and Mohamed (2014). It also contradicted other researches findings like Karakaplan et al. (2005) that reported a negative coefficient between foreign aid and foreign direct investment. He also found that other factories, like financial market development and governance quality, could improve foreign aid impact on foreign direct investment inflows. Which might explain why foreign aid has a positive impact on foreign direct investment in Turkey which is an attractive investing environment for local and foreign investors alike (Taspinar, 2011).

The statistical analyses also showed a negative (but weak) relationship between Turkey's gross domestic savings and its financial growth. This finding is in line with research like Elzubear (1983). Building up the gross domestic saving of the country instead of investing it to attract foreign investment might explain the negative findings (Al-Sadaee, 2020). On the other hand, the results showed a positive yet weak relationship between MENA's gross domestic saving and its financial growth. This finding is similar to other researches like Husein (1998), El-Kaissy (1996), and Kalpana Sahoo (2013).

In comparison, foreign aid has a positive impact on both Turkey and MENA financial growth. However, the results showed that foreign aid contribution to Turkey's financial growth is greater. Which, could be explained through Turkey's developed financial market (Karakaplan et al, 2005).

I recommend future studies to further investigate the foreign aid and economic growth nexus in developing countries, using different approaches and data sources. Even though Turkey and MENA have different economic and financial realities, the finding of this study revealed that foreign aid has a similar impact on financial growth for both. This

might indicate that foreign aid attracts foreign investment regardless of the country's internal condition. Further researches should investigate this relationship to provide a better understanding of its mechanism.



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