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Srđan Amidžić, PhD[1]
Siniša Kurteš, PhD[2]
Perica Rajčević, PhD[3]

THE IMPACT OF FOREIGN AID ON ECONOMIC GROWTH AND COMPETITIVENESS OF THE COUNTRY

Summary: *Healthy economic logic implies that countries recipients of foreign aid should, as early as possible, create conditions by means of which they would free themselves from this type of external influence and conditioned funding sources, which would in return result in unconditioned funding sources. This implies the possibility of funding at the international capital market, but also the existence of an appropriate credit rating. It is evident that such trends are conditioned by strengthening of the economy competitive position, as well as by setting up its production base as a sound one. Empirical data point out to the case of Bosnia and Herzegovina as a country which received more aid per capita than any other European country under the Marshall Plan, and which did not produce expected results in terms of accelerated economic growth. The very dependence on aid inflow signifies the loss of political and economic sovereignty of the recipient country and represents a crucial impact on the direction of its further economic development. On the other hand, a significant share of such financial flow components indicates the presence of certain disturbances in the economy of aid recipient countries, but at the same time enables such economy to be isolated from the trends at the global market. The process of creating re-*

[1] Associate professor, Faculty of Economics University of Banja Luka, Majke Jugovića 4, Banja Luka, srdjan.amidzic@efbl.org.
[2] Associate professor, Faculty of Economics University of Banja Luka, Majke Jugovića 4, Banja Luka, sinisa.kurtes@efbl.org.
[3] PhD, Deposit Insurance Agency of Bosnia and Herzegovina, Vase Pelagića 11a, Banja Luka, prajcevic@yahoo.com.

serves takes place independently from the competition, i.e. performance of the recipient country economy, and which as a consequence leads to the increase of cost of labor at the labor market, and thus to the appreciation of real exchange rate and appreciation of nominal exchange rate at the foreign exchange market. The effects of aid intended for education and health care represent a special area within the foreign aid, where the above effects influence the GDP growth rate, which is different across countries depending on the level of their development.

Key words: *aid, economic growth, competition, dependence, foreign exchange inflow*

JEL classification codes: *H62, H63, H69*

INTRODUCTION

A special segment of financial flows of particularly small, transitional and underdeveloped countries makes the movement of foreign aid as a very important segment of their capital account. The growing attention concerning the aid flows emphasizes their complex nature and insufficient activation of the potential for economic development, which they have. This is particularly important for public policy in countries that have a particularly high influx of aid, which as a kind of a rule are countries to whose group in terms of the level of development belongs also our economy. What stands out as a problem, despite the extensive and constant inflow of these funds in the aforementioned group of countries, is that very little of money received is invested in the development, respectively basic forms of use are current consumption, unproductive investments and immobilization in from of cash ("under the pallet"). Investments are mainly focused on housing construction and development of agricultural production, while on the other hand, aid influence on improvement or reduction of poverty and raising household disposable income that they received.
After the collapse of communism in early nineties, donor countries changed the way of assistance, with emphasis on stabilization programs and structural adjustment with the assistance of the IMF and the World Bank. This support became conditional on the achievement of the set of macroeco-

nomic targets; therewith some donor countries have placed emphasis on overall programs, respectively support to budgets or specific sectors. Users are thus given the option of using aid for various purposes, including those concerning the periodic expenditures or institutional development. On the other hand, we also have an approach that included creation of funds at the global level that could contribute to resolving certain issues having a global character.

The mere reliance on aid inflow means losing political and economic sovereignty of the recipient country, so that each country should get rid of external influences of this kind as soon as possible and turn to "conventional" sources of funding. For this group of countries raised is a question of estimates of net income in the sense of both the international credit rating, as well as direct financial conditions, when comparing the international financial institutions and international financial markets as potential sources of funding.

On the other hand, a significant share of these components of financial flows indicates the existence of a certain disturbance in the economy of the aid recipient countries, but at the same time allows these economies to be isolated from developments on the world market. Essentially the process of creating foreign exchange reserves of the country there is a significant percentage share of these funds, so that the very process of creating reserves takes place independently of the competition, i.e. the performance of the economy of the recipient country. The primary impact is reflected in the growth of labour costs in the labour market and thus the appreciation of the real exchange rate and the appreciation of the nominal exchange rate in the foreign exchange market. When it comes to the overall effects of foreign aid on the economic growth of developing countries, most of the studies indicate the absence of a positive or a negative effect. This indicates the need for studying further the factors that limit use of this form of transfers for financing economic development.

1. The impact of foreign aid on the economy of the country

While, on the one hand, increasingly developing countries become able to borrow on international financial markets, including the bond market, under favourable conditions, at the same time in this market appear also government respectively non-government organizations to provide assistance under more or less precisely defined programs for specific purposes (Harford and Klein and Tilmes 2005, 284). There is noted a tendency of reduced assistance from public sources in regard to the increased aid from private sources and remittances, given that even the gifts by the side of non-government organizations exceed the non-concession loans by the government already since 2002. (According to data from Development Assistance Committee (DAC) - OECD) ((Nikolić, 2006).

The very process of donation took place in two directions, where both channels of aid movement imply the existence of certain conditions and standards that must be respected and that are defined by the donors. The first way of aid distribution includes assistance with emphasis on stabilization programs and structural adjustment with the help of the IMF and the World Bank. By this aid became conditioned with the achievement of the set of macroeconomic targets; therewith some donor countries have placed emphasis on overall programs, respectively support to budgets or specific sectors. Users are thus given the possibility of using aid for various purposes, including those concerning the periodic expenditures or institutional development. The other approach comprise of creation of funds for specific purposes on a global level, such as, for example, the prevention of certain diseases (Jameson and Radelet 2005, 2).

The problem with providing aid is that it increasingly appears as an instrument of foreign policy, instead of being directed to the poorest countries and segments of population, or to achievement of certain economic objectives, as reflected in the reduction of multilateral in favour of bilateral forms of aid, since it is easier to control and condition the aid through them than through international institutions. Thereat, governments in the role of bilateral donors may have greater freedom in the choice of supplier, which has an unfavourable impact on competition between them. This is to some extent compensated by the appearance of new aid donor countries (China, India and Russia).

As required by sound economic logic, the recipient countries of foreign aid should as soon as possible create conditions in which they could get rid of this type of external influence and the conditioned funding sources

towards unconditional funding sources. This includes the possibility of funding in the international capital market, but also the existence of an appropriate credit rating. It is clear that such trends are conditioned by strengthening the competitive position of the economy, as well as setting up its production base on a stable basis (Ristić and Ristić 2015, 213-229).
Special areas in the context of foreign aid are the effects of the aid for education and health care to the GDP growth rate, which varies by country depending on the level of their development (Baldacci et al. 2005, 42). In many ways are higher in countries with low GDP per capita compared to countries with medium level, where there is a strong correlation between capital invested in education and those invested in healthcare.
Aid for education has increased significantly by leading donor countries in the framework of their official development assistance, especially from the nineties (Jamison and Radelet, 2005). According to IMF experts who have studied ways of using aid (Baldacci et al, 2005), the effects of aid for education and health to the GDP growth rate are very different by country, depending on the level of their development, i.e. in many ways are higher in countries with low GDP per capita compared to countries with medium level, where there is a strong correlation between capital invested in education and those invested in healthcare.
However, the impact of these two types of aid as a way to improve human capital on economic growth does not have to, according to the authors, be always positive, since it would be reduced to the extent that these forms of public spending contribute to excessive public spending and thus the fiscal deficit and vice versa, if they are perceived as a form of reducing the fiscal burden and stimulation of domestic demand. Their research (Baldacci et al, 2005) in developing countries have shown that a positive impact with education is based on both the current as well as on earlier investments, since the effects are realized in the long term, while as for the investment in healthcare this impact can be set in correlation only with current investments, bearing in mind that there is no deferred effects. Increasing healthcare expenditures can be attributed to one-third of GDP growth, with the increase in life expectancy of one year is associated with an increase in GDP growth by four percentage points in both the developing countries and also developed countries (Bloom and Canning and Sevilla 2004, 1-13).

The positive impact of aid for education to economic growth was confirmed on the basis of the high degree of correlation rates of students enrolled, respectively duration of education, expressed as the number of years of schooling and GDP growth, with about two-thirds of the direct effects is realized during the first five years, and the remaining third in the next five years (Baldacci et al. 2005, 42). At the same time, the simulation found that the increased investment in education in the amount of one percentage point of GDP increases the number of years of education for three years and GDP growth of 1.5 percentage points over 15 years, thus reducing the rate of poor by about 17%. At the same time, a corresponding increase in expenditure on health care increases the survival rate of children by 0.5 percentage points with the same GDP growth rate per capita, which would result in a cumulative reduction of poverty rate by about 12%.

2. Efficiency and effectiveness of foreign aid

The issue of efficiency of foreign aid to developing countries, in terms of its contribution to their economic growth is controversial for many years, with crystallized three basic standpoints (Jameson and Radelet 2005, 2). According to the first, aid has no positive effect on economic growth, and can have a negative effect, since it wastes resources on bad projects, undermines private entrepreneurship and encourages corruption. According to second, aid has a positive effect in average on economic growth, but with decreasing returns. According to the third and the most common view, the aid can have a positive impact on economic growth only in countries with appropriate policies and institutions.

On the other hand, starting with a more elaborate aid categorization to three sectors (social, economic and food, whereas healthcare, education and water supply and sanitation services belong to the first one, and energy, transport and communications to second), and taking into account the time of influence (short and long term, whereas the first is linked to the economic and the second to social aid) and type of donor (multilateral and bilateral), drawn are the following conclusions (Rajan and Subramanian 2005). Firstly, the long-term impact is more difficult to identify than the short term. Secondly, long-term economic growth responds to the social and economic aid through their impact on the physical and human capital, but not on food aid, while multilateral aid has a different conditionality in relation to bilateral and should be less tied to suppliers from donor countries, and more to meeting the macroeconomic conditions. Thirdly, there were no significant correlation of any kind of aid and economic growth.

The question of whether aid actuates economic growth is considered to be controversial and open, bearing in mind that, in contrast to the regression analysis, which has not established a link between the aid and economic growth, recent theory holds that the impact of aid on economic growth exists, but it is significantly smaller than supervening on the basis of earlier studies. In fact, a number of studies indicate that, in addition to mismanagement and corruption, there must be additional reasons why aid doesn't have expected effectiveness (such inefficiency is specially expressed in the tropical area countries) in stimulating economic growth. Rajan and Subramanian showed in a study which included a larger number of developing countries that, for example, the current situation in the country has an impact on the volume of aid also when a natural disaster influence increase in aid, causing a negative correlation between the aid and economic growth in the same period. Their study found that there is insufficient evidence of a strong positive effect of aid on economic growth (such relationship exists only for a period of two decades covering the eighties and nineties of the last century, but only if extreme data is also included (outliers)). In the long run of forty years it established a significant negative correlation between them, while the other three out of five periods observed also negative, but insignificant, it does not give rise to definite conclusions. At the same time, there is not established even any evidence that aid works efficiently in terms of better economic policies and better institutional or geographical framework, or that some types of aid are more effective than others. Hence they conclude that in order to increase effectiveness of aid one should determine what is in the form of transfers, respectively subsidized loans which prevents a positive impact on economic growth, given, among other things, the fact that various types of assistance, speaking to the sources and the purposes, have similar effects, since the government of the beneficiary countries considered them as part of the same funding sources and thereto adjust their public spending. This means that we can talk about long-term negative effects of aid by reducing the need to increase fiscal revenue, thus the need to increase aid is incorporated in the longer term in the fiscal balance, creating long-term dependency on aid (Azam et al. 1999).

Rajan and Subramanian's (Rajan and Subramanian 2005) regression analysis, which start from the average GDP growth per capita as a dependent variable, and the average share of the annual aid in GDP, as the primary independent variable, with data from several countries, may not take sufficiently into account all the differences between countries. In doing so, out of plenty of possible regressors they used the initial level of income, the average life expectancy, a measure of the quality of institutions, a measure of the quality of policy, measure of the impact of geographical location, external shocks expressed through average growth and variability of ratio of exchange, public expenditure and revolution. The results showed that in four of the five cases the coefficient got for aid is of a negative sign, and also that it is important only in the case of the longest period (1960-2000), indicating that an increase in aid to GDP by one percentage point reduces the long-term economic growth rate by about 0.07 percentage points. However, this result should be taken with caution due to endogenous issue, as in the case when increase in aid reflects the desire of donors to offset poverty caused by low economic growth, which implies a negative correlation if it does not take into account the time lag of the aid effects.

In contrast to this negative correlation, the positive, according to the authors, can be expected to the extent that donors are motivated primarily by the efficiency of the use of aid, as opposed to desire to curtail the suffering of the population. However, they conclude that impact of aid on economic growth measured like this is negligible. Also, putting the production growth rate per worker in the relationship with the participation of aid to GDP, Rajan and Subramanian suggest that this ratio should be equal to the product of capital share in income, the share of invested aid in total aid, and the coefficient of production to capital. Assuming that the entire amount of funding is invested, the share of capital in income is 0.35 (Bosworth and Collins 2003, 2) and taking that the average coefficient production to capital is calculated by 0.45 regression, they got the coefficient of 0.16, concluding that increase of aid share in GDP by one percentage point would increase the long-term economic growth rate by 0.16 percent, or if the part of the aid was spent or lost, instead of being fully invested, this growth would be around 0.1. In principle, according to the authors, this ratio should be similar to the share of investment in GDP, although there are views (Barro and Martin 1995) that it is significantly lower for investment and amount 0,03, respectively that increase of the investment share in GDP by one percentage point should lead to an increase in the rate of economic growth per capita by 0.03 percentage points.

Importance of the export sector (that is, as a rule, the holder of productivity growth and technological innovation, and their lagging behind is reflected on overall economic growth) is pointed out by some authors indirectly, through the impact of overvaluation of the exchange rate on the long-term economic growth.

Possible negative effects of foreign aid takes place in two directions which ultimately means a drop in export competitiveness and therefore economic growth. First, the inflow of foreign assets that are not the result of the competitive position of the country but is occurring independently, creates an unjustified appreciation of the nominal exchange rate that leads to appreciation of the real exchange rate and further decline in the competitive position of beneficiary countries. This applies if we start from a flexible exchange rate regime, while in terms of a fixed exchange rate there is initially no appreciation of the nominal exchange rate due to responsibility of monetary authorities to preserve the stability of the exchange rate; but the question how long fixed exchange rate system viable is raised in terms of the permanent loss of foreign exchange reserves and falling competitiveness with a defined level of aid. Secondly, based on the foreign aid there is increase in demand in domestic market of production factors, especially labor, which leads to increases in the prices of these factors, the appreciation of the real exchange rate and declining competitiveness in the world market. If we add the negative Ballas-Samuelson's effect, we have an additional decline in the competitiveness and profitability.

On the other hand, the negative impact on the export sector is lacking to the extent that the aid received is spent on the import of capital goods and consulting services or domestic goods whose offer is not limited so there is no increase in these prices (e.g. unskilled labour). The more the aid is spent on imports, there is less aid effect either the foreign exchange rate, respectively increase in the value of the local currency, or the increase in value of the local workforce, and as much of the aid is spent on labour-intensive products or services, it will be more effective to increase the value of the labour force. In short, all factors that lead to creating conditions for a more stable future growth, being financed from foreign aid funds, are considered to be factors that contribute to increased competitiveness and profitability.

Rajan and Subramanian suggest evidence of a direct link between aid, the exchange rate appreciation[4] and the reduction of competitiveness on the basis of the growing positive correlation between aid and the exchange rate appreciation in a number of developing countries, but warn that weaker macroeconomic performance of the country may be the result of exchange rate appreciation per se, rather than aid, which would mean that the aid unduly attributed to what is, in fact, the fault of exchange rate policy. However, they conclude that the main problem is how to disable aid effect to the exchange rate overestimation, given that a positive correlation between aid and the overvaluation of the exchange rate becomes stronger, as the effects of overvaluation is accumulated over the long term. It represents a common characteristic of aid and remittances, but as for aid, as opposed to remittances, there occurs also an additional effect to the fiscal balance.

3. Movement of the foreign aid in Bosnia and Herzegovina

After the signing of the Dayton Agreement the international community has invested enormous financial resources and provided significant logistical support to Bosnia and Herzegovina. Empirical data indicate that Bosnia and Herzegovina has received more aid per capita than any European

[4] For measuring the impact of overvaluation of the exchange rate authors use regression of the real exchange rate to the level of per capita income at purchasing power parity (PPP), reflecting the ratio of the Balass-Samuelson, according to which the real exchange rate of the currency of a country shall appreciate with productivity growth of its sector producing goods to participate in international trade, respectively income growth in accordance with Frenkel's method (2004). Measures of the exchange rate overvaluation would be residuals of this regression as a difference between the equilibrium predicted by regression and actual exchange rates.

country under the Marshall Plan.[5] Despite these significant amounts of foreign aid in the years immediately after the war, Bosnia and Herzegovina didn't make significant economic or institutional shift, while since 2000 evident is gradually reducing intensity of these flows.

Within the policy of regulating external balance, aid and remittances are of great importance to cover primarily the deficit in the balance of current transactions, that in order to maintain macroeconomic stability, according to the criteria of the European Bank for Reconstruction and Development (EBRD), should not exceed 7% of GDP. Achieving external balance in the case of Bosnia and Herzegovina proved to be more difficult to achieve then the fiscal balance, given that the fiscal deficit, according to the criterion of the same institution should not exceed 5% of GDP.

If we consider now the very net flows of development aid in the region, one should know that it includes grants of the official member agencies of the Development Assistance Committee (DAC), multilateral institutions, as well as a non-DAC institutions, and also loans disbursed by significantly more favorable terms for the promotion of economic development, growth and the realization of the objectives from the social field in the countries that are on the DAC's list of recipients of this aid. Initially, aid was intended to neutralize the effects of wars and raise the level of domestic consumption in support of the new government.

During the implementation of assistance expressed was a tendency to change its structure, where by the end of 2000, the focus has shifted from humanitarian, through the resources to rebuild destroyed infrastructure and after this period has become primarily a development aid, from grants to loans with favorable conditions (in order to qualify a loan as aid, it needs to have an appropriate level of so-called element of gift as relation between the differences of the nominal value of the loan and the sum of the current value of future repayment flows calculated using the representative interest rate and the nominal value of the loan). The aforementioned loans imply the existence of grant portion of not less than 25% (calculated at the rate of 10 per cent discount). Concessionary loans that meet this criterion relate to development aid, primar-

5 The Marshall Plan, officially called the Plan of European reconstruction, was the official plan of the United States on the reconstruction of post-war Europe and combating the influence of communism after World War II. Task for drafting the plan was given to George C. Marshall and his colleagues from the State Department and along the Marshal particular contribution was made by William Clayton and George Kennan. The Reconstruction Plan was drafted at a meeting between the participating countries of the Plan on 12 July 1947.

ily in the context of structural adjustment and reconstruction of infrastructure, while grants relate to technical assistance and support for humanitarian or social purposes. The decline in the share of grants follows the growing importance of its segments, technical, and development assistance at the expense of charity, which in the future can be expected only for emergencies.

Table 1. Absolute amounts of official development aid net ($) (The World Bank)

Year	Recipient country					
	Albania	Bosnia and Herzegovina	Croatia	Serbia	Macedonia	Monte Negro
1992	409,640,000	15,690,000	10,000			
1993	270,680,000	70,240,000			3,320,000	
1994	163,100,000	408,570,000	109,660,000	49,220,000	104,260,000	
1995	180,600,000	965,800,000	53,280,000	95,060,000	78,800,000	
1996	226,550,000	851,810,000	133,310,000	69,510,000	105,390,000	
1997	168,110,000	862,050,000	40,360,000	97,360,000	98,290,000	
1998	268,620,000	914,970,000	39,380,000	108,230,000	104,910,000	
1999	488,150,000	1,286,240,000	48,470,000	707,400,000	276,830,000	
2000	317,850,000	737,930,000	65,510,000	1,134,270,000	250,190,000	
2001	268,530,000	640,080,000	123,810,000	1,304,180,000	247,200,000	
2002	307,420,000	555,780,000	142,720,000	2,084,640,000	273,530,000	
2003	354,500,000	541,920,000	120,700,000	1,320,180,000	265,730,000	8,140,000
2004	299,950,000	686,220,000	119,660,000	1,157,710,000	263,440,000	20,130,000
2005	319,140,000	548,520,000	123,460,000	1,066,360,000	227,300,000	3,860,000
2006	321,780,000	534,980,000	203,820,000	1,577,620,000	205,250,000	95,590,000
2007	307,450,000	599,890,000	162,910,000	840,870,000	200,920,000	105,720,000
2008	363,270,000	466,930,000	241,580,000	973,150,000	204,710,000	104,860,000
2009	356,960,000	414,310,000	168,820,000	614,040,000	192,470,000	75,030,000
2010	340,700,000	510,370,000	150,710,000	659,870,000	187,170,000	80,280,000
2011	349,000,000	624,200,000	280..	1378,200,000	193,100,00	124.100,00
2012	341,620,000	571,130,000	-	1,089,870,000	148,940,000	103,220,00

If we look at the absolute value relating to net official development assistance, we can notice that Bosnia and Herzegovina has the largest share in the total value compared with the region countries, which is even more significant when relative relations are observed. In this paper we will look at a twenty year period from 1992 to 2012, because in that period Bosnia and Herzegovina has made the biggest foreign aid inflows and it was to make a comparison with region countries in this period.

Table 2. Per capita amounts of official development aid net ($)(The World Bank)

Year	Recipient country					
	Albania	Bosnia and Herzegovina	Croatia	Serbia	Macedonia	Monte Negro
1992	125	4				
1993	84	19			2	
1994	51	118	24	6	53	
1995	57	290	11	12	40	
1996	73	258	30	9	53	
1997	54	256	9	13	60	
1998	87	263	9	14	33	
1999	159	357	11	94	24	
2000	103	200	15	151	21	
2001	87	171	28	174	23	
2002	99	147	32	278	135	
2003	114	143	27	176	131	13
2004	96	181	27	155	130	32
2005	102	145	28	143	112	6
2006	102	141	46	213	100	152
2007	97	159	37	114	98	168
2008	114	124	54	132	100	167
2009	112	110	38	84	94	119
2010	106	136	34	90	91	127
2011	111	162	0	190	92	200
2012	122	149	0	151	71	166

As we can notice, the maximum amounts of net official development aid per capita has been made in Bosnia and Herzegovina in 1999 and increased by as much as 28.42% compared to the next highest value. Also, it is noticeable that there are rare years in the observed time series when any of the countries in the region had a greater influx of foreign aid in regard to Bosnia and Herzegovina. The only major deviation we have in 2002 and 2003, when Serbia stands as the largest recipient of foreign aid, as a result of the war in Serbia. In 2011 and 2012, Serbia and Montenegro receive slightly higher amounts of aid, which is the result of somewhat slower withdrawals by Bosnia and Herzegovina because of the political issues which is why the budget of Bosnia and Herzegovina was not passed in that year and the formation of the Council of Ministers took 16 months. If you would observe the entire series, with the exception of such drastic circumstances, evident is high dependence of Bosnia and Herzegovina from this type of aid, while the volume of aid that arrives does not reduce at expected pace, which indicates the inefficiency of the transitional process in Bosnia and Herzegovina and in general the economy of our country.

Looking at Bosnia and Herzegovina in peacetime, with its complex internal organizational structure and efforts to become part of the European Union, and a foreign aid inflow, it is necessary to analyze the effects of foreign aid on the economic life of our country. Below we look at some of the segments of the socio-economic life of our society which should have been improved, based on the received foreign aid in the past.

According to the findings of the World Bank (World Bank 2010 World Development Indicators) Bosnia and Herzegovina has the potential to achieve GDP growth in the amount of 6%, by encouraging the reform process towards a free market and the financial and economic liberalization. Business regulation has been changed and improved. Also, the time necessary to resolve bureaucratic issues, such as licensing and registrations has been reduced, although the process remains relatively lengthy for "ordinary citizens" and foreign investors and thus does not encourage investments. We point out that this problem is widespread and present in all the countries of the region. Furthermore, there is significant progress in the field of harmonization of taxation and stable growth of foreign direct investment.

However, on the other hand, foreign direct investments in Bosnia and Herzegovina are at the lowest level, not only in the region but among all the countries that are in transition. Furthermore, there are a number of socio-economic issues that remain unresolved and whose improvement in principle implies a complex and demanding solutions. For example, the existence of high unemployment of 27.9% (ILO), with significant deviation of youth in relation to standards, is specifically four times higher than the EU average. Furthermore, in 2004 almost 20% of the population lived below the poverty line, while another 30% was very close to the poverty line (IMF), and according to the UNDP's Human Development Report, Bosnia and Herzegovina is ranked on the 85^{th} position in the world since 2015. Another indicator is clearly linked to the high unemployment rates and significant levels of poverty which refers to the number of citizens who expressed a desire to leave their country. This figure is constantly increasing, so that in 2012 there were 81% of persons belonging to the younger population who wanted to leave the country.

Another concern common for entire region is related to the fact that Bosnia and Herzegovina still has problems with extremely high levels of corruption. According to Transparency International's Corruption Perceptions Index 2014, Bosnia and Herzegovina is on the 80 place out of 174 countries, which is a deterioration compared to 2013 when it stood at 72 place. For the average citizen of Bosnia and Herzegovina billions of Euro of foreign aid intended for the process of reconstruction and development strategy in the post-war years did not bring a lot of progress. The average citizen of Bosnia and Herzegovina is unemployed, and if he's lucky to work, then he's probably poorly paid and subsisting three family members. As long as the problem of unemployment, socio-economic inequality and corruption does not take appropriate positions in our society, Bosnia and Herzegovina will fall behind neighboring countries. We conclude that the need for better coordination of international assistance and greater complementarities and selectivity of individual aid programs, taking into account the reduction of aid with the transition from the so-called post-conflict to one that is focused on increasing growth and reducing inequality.

CONCLUSION

From the aspect of economic developments, we can conclude that the aid is a certain form of isolation and indicator of structural economic disorder, because the country's economy, which significantly relies on foreign aid receipt, is showing their own inability to function independently and undergo inclusion in the global economic flows. The influx of foreign aid leads to a situation where the recipient country generates foreign exchange inflows and the growth of foreign exchange reserves of the country irrespective of the country's competitiveness. Consequently, this leads to the appreciation of the nominal exchange rate and thereby creates a pressure on the appreciation of the real exchange rate, and a decline in global competitive position and gives a false picture of the actual level of external imbalances. Also, due to increased demand for goods and services, we have a rise in prices for goods and services, as soon as the pressure on the appreciation of the real exchange rate is a two-side.

In theory, these negative effects of the aid could be counteracted through the correction of exchange rate policy, as well as wage policy, which essentially meant to be a non-market activity wants to cancel other non-market action, which is practically very questionable. The question of adequate policy and intensity of these activities, which should be sufficient to overcome the cognitive gap, as well as economic policy gaps in decision-making, implementation and realization.

Essential aid effects among countries correspond to the effects of the state aid or subsidies. State aid or subsidies is one of the widely used and legitimate instruments of strengthening the economy of each country and strengthening the competitiveness of local companies and stimulating growth and development. But the experience of many countries shows that this is an instrument that many governments use to support companies and/or sectors which in the long run cannot have positive effects on the economy of the country. Exactly this reality is the reason why the system of state aid in the EU is centralized and state aid monitoring in all Member States is delegated to supranational institution. The Action plan of EU state aid is for these reasons also focused on long-term decrease in the share of subsidies in GDP of each country and the transition from vertical assistance which is targeting specific industries on a horizontal support that targets small and medium businesses, research and development, investments in innovative technologies, as well as environmental programs.

It is clear that the literature dealing with this issue did not give an unambiguous answer to what are the factors that suppress the positive effects of international aid to the very economic growth and development in order to adjust the flows and character of international assistance. International development assistance programming is a complex process of identifying needs and priority objectives within the individual sectors, defining the activities, procedures and time horizons in the preparation and selection of project proposals which should contribute to the realization of set goals. Hence, the aid should be directed to investments or humanitarian purposes which, for a limited period of time, compensate or neutralize the consequences of certain one-time non-market factors such as natural disasters, wars, sanctions, greater political and social disorders etc., respectively reduce human suffering during the certain period. Aid should not have a permanent or even long-term character in order to avoid creating dependency, political conditionality or connection to the delivery of certain countries.

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