

## **Foreign Aid and the Environment: A Critical Analysis using MRIO**

Topic: Input-Output Analysis for Policy Making

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### **Abstract**

While classical economist would argue for an increase in trade between nations because production and consumption drives the creation of wealth and economic development; ecological economist are concerned with preserving ecosystem services and the earth's natural capital which is placed under pressure because of economic activities and drivers such as trade, production and consumption. As a result, a creative conflict and tension is created between the economic and environmental sustainability principles. Other studies also posit that trade flow which is driven by production and consumption trends create an imbalance in the ecological exchange between two countries and/or regions. Understanding the implications of these is therefore very important in formulating effective policy measures. This is particularly so in developing economies where foreign aid from developed nations are used as a policy instrument to support development and economic activities such as production.

Using multi-regional input-output (MRIO) analysis, the linkage between environmental impacts of production and consumption patterns as a result of trade and foreign aid between the UK and the countries in the African region are assessed. It is envisaged that the analysis would shed light into the discourse of foreign aid and the environment since there is a noticeable gap in research on how aid flows are linked to the environment in developing economies. A review of extant literature suggests that there is a strong body of evidence of the effects of foreign aid on poverty reduction, social justice, economic growth, human capital accumulation. The paper therefore attempts to use the theoretical constructs of MRIO analysis to inform policy discussions by extending the knowledge base in critically understanding the casual linkages between foreign aid and environment particularly in developing economies.

Keywords: Environmental Impacts, Foreign Aid, MRIO, Production, Consumption