

## **2.11 Effects of fiscal policy on foreign aid**

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### **ABSTRACT**

The study investigates the suitability of the government fiscal policy to ensure the efficient use of foreign aid and this is necessary for any developing country like Sri Lanka as it is the main source of external finance. Therefore an outstanding mechanism is needed in order to maximize the benefits of the recipient country. The paper identifies this as a matter of urgent consideration due to heavy corruptions and mismanagement. On the other hand, multinational donor agencies and their policies make a direct impact on fiscal policy formulation. The paper attempts to explore above three factors and recommend the most efficient fiscal policy model for the effective use of foreign aid in Sri Lanka. The paper further highlights the growing trends in fiscal policy formation over the period 1970-2006. with using secondary data. The study concludes that fiscal policy in the country affects the effective use of foreign aid and the continuous and growing flow of it to the economy.

**Key words :** Fiscal policy, Foreign aid, External finance.