

# Development aid

February 26, 2018

## Many questions

1. What is it?
2. Who?
3. How?
4. How much?
5. Who gets?
6. Why is it given?
7. Does it work?

## What is development aid

- ▶ Transfer of resources (money, capital, concessional loans) from rich countries to poor countries.
- ▶ Trade (access, subsidized)
- ▶ Knowledge (technology transfer)

## Who and How

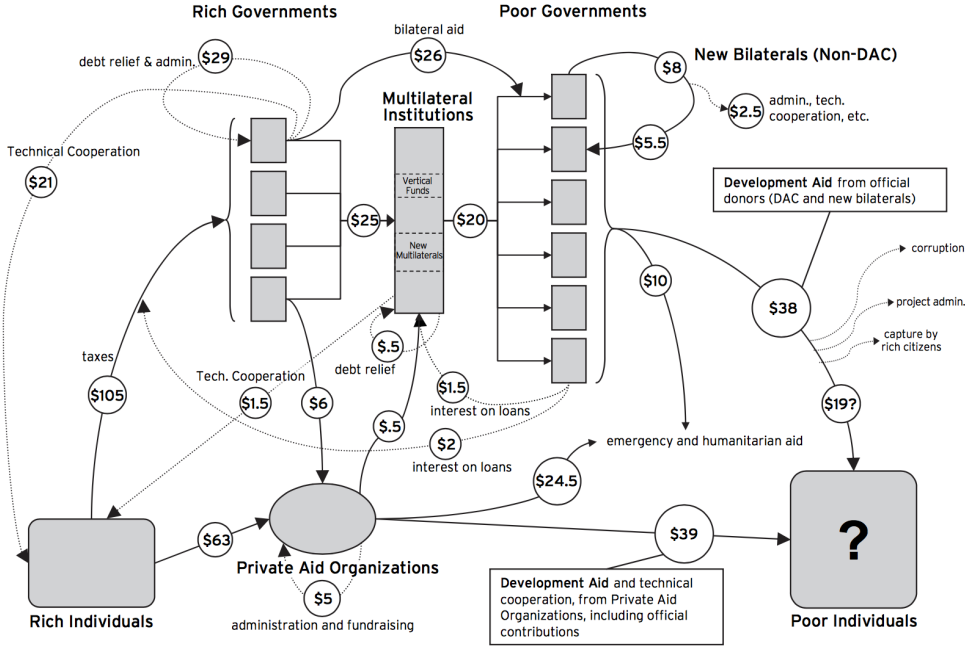
**Who?** Ultimately it is the citizens of rich countries that give development aid to poor countries.

Either through the tax bill, and the government in the rich country transfer the resources, or by giving money to private or organizations that provide support to poor countries (charity).

# Who and How

Very complex aid architecture.

Figure 7: New aid architecture



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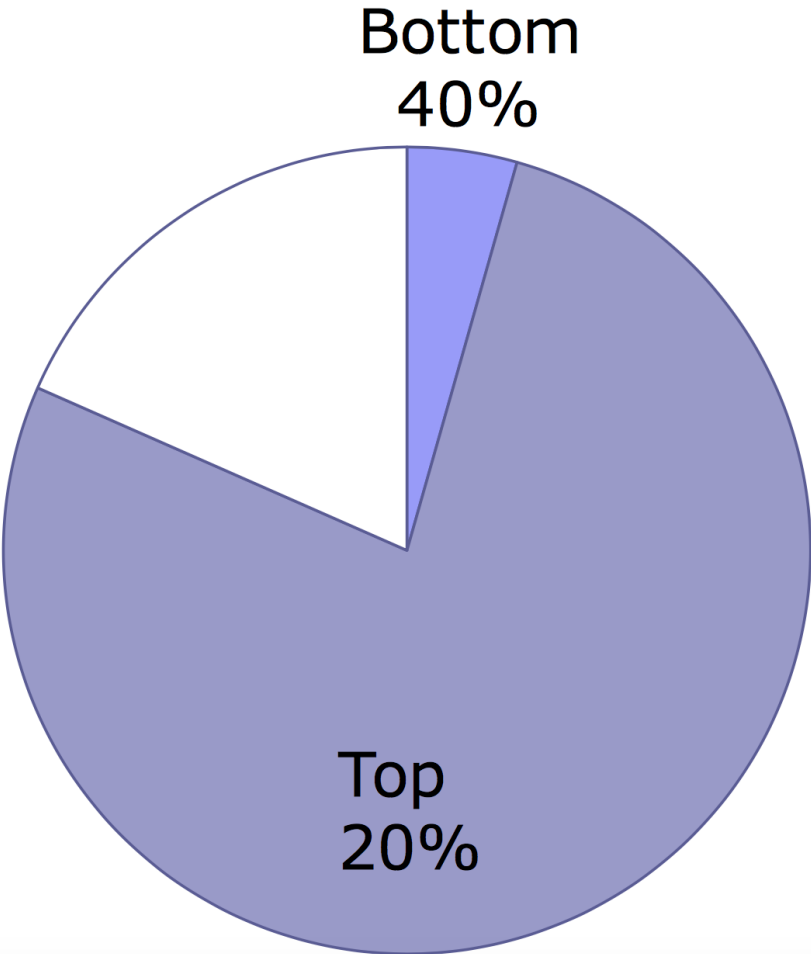
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1. Conditions for aid: In order to get financial support the donors request that recipient government has to do X. The X has changed over time. Big question is credibility. "Over the past few years Kenya has performed a curious mating ritual with its aid donors. The steps are: one, Kenya wins its yearly pledges of foreign aid. Two, the government begins to misbehave, backtracking on reform and behaving in an authoritarian manner. Three, a new meeting of donor countries looms with exasperated foreign governments preparing their sharp rebukes. Four, Kenya pulls a placatory rabbit out of the hat. Five, the donors are mollified and the aid is pledged. The whole dance starts again." (The Economist, August 19, 1995)



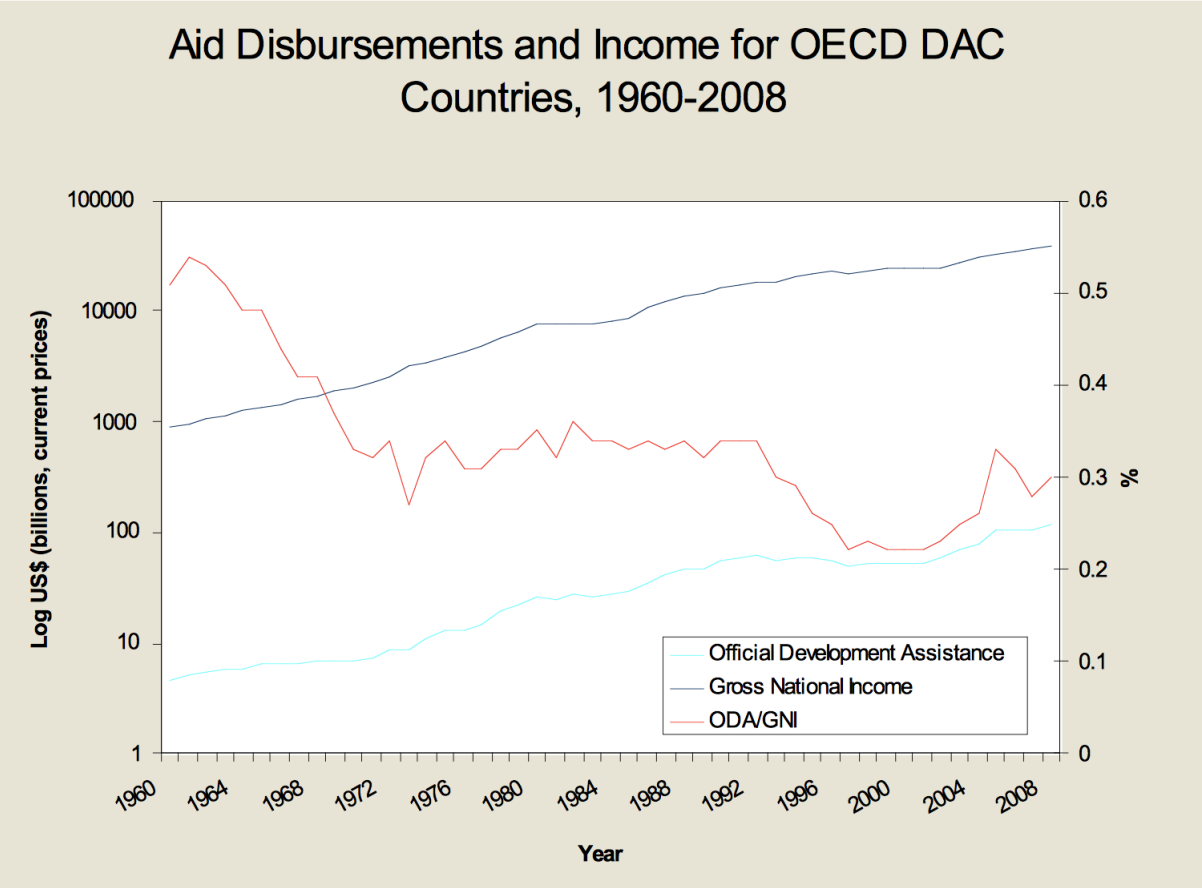
# How much?

Can afford to give...



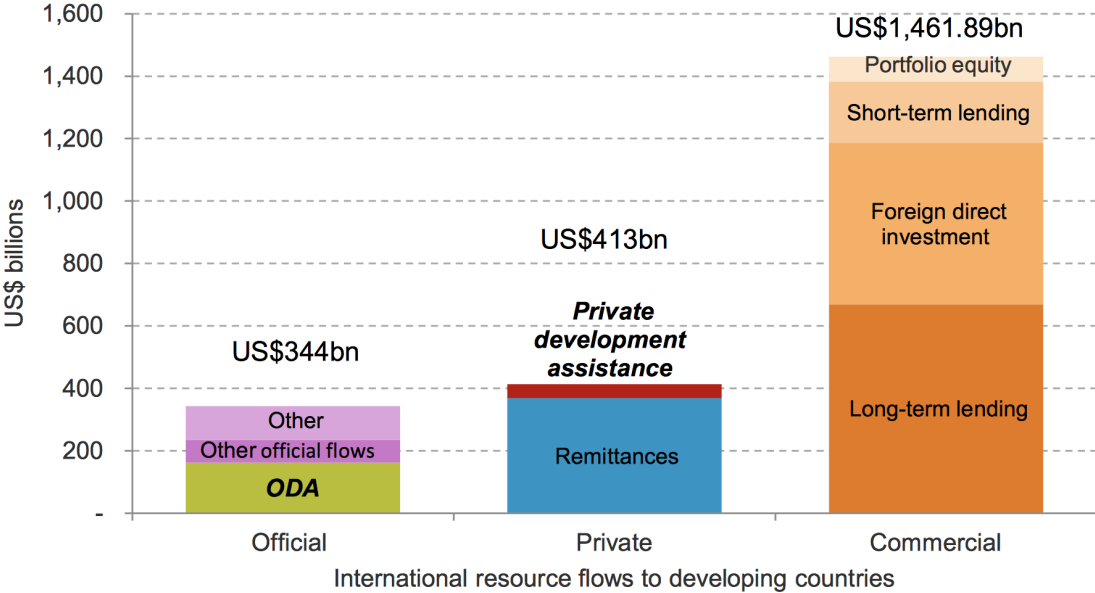
# How much?

On average around 0,3 of GNI in the DAC countries are given in Official Development Assistance (ODA)



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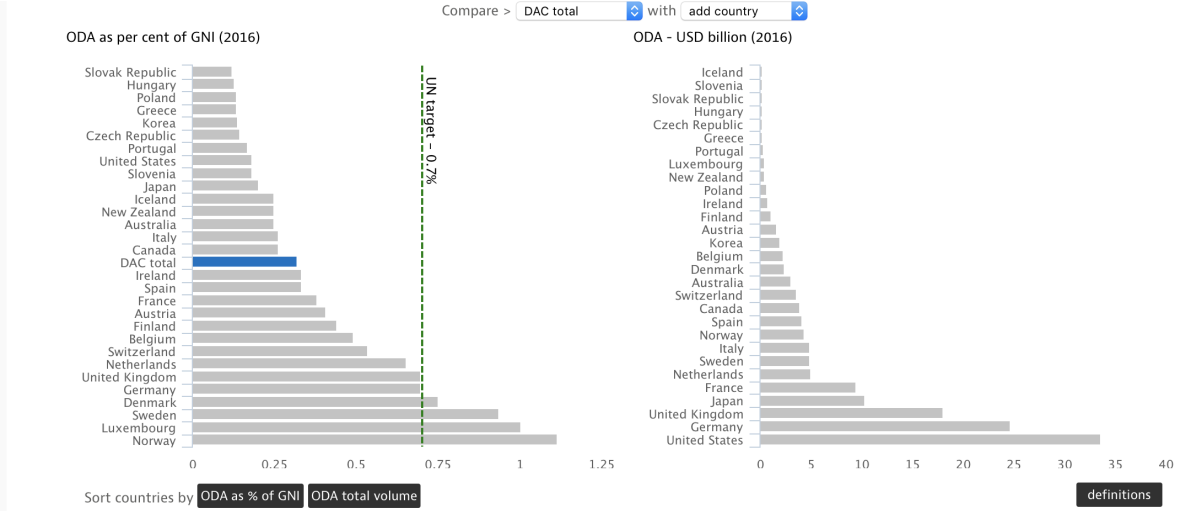
Figure 1: Private development assistance is equivalent to over a quarter of ODA



Source: Development Initiatives, *Investments to End Poverty 2015*

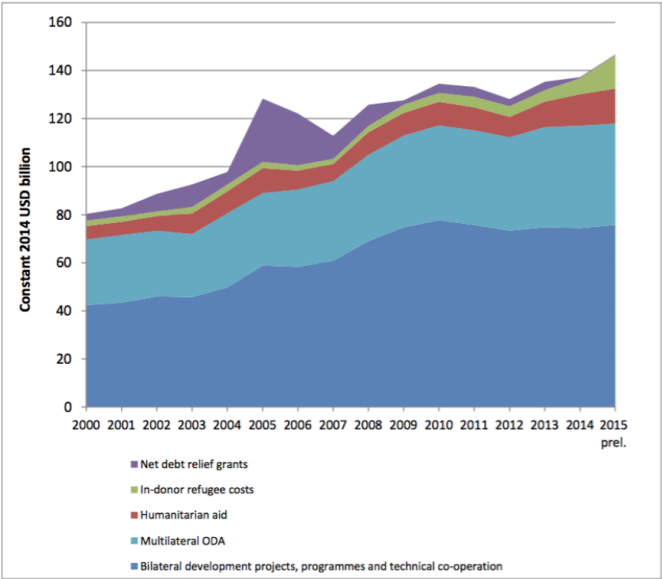
# How much?

## Large variation between countries

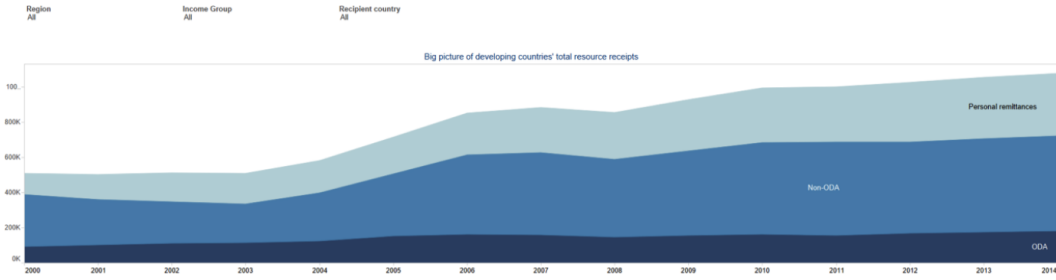


# How much?

## development aid over time



Source: OECD, 13 April 2016.



ODA: Official Development Assistance. ODA in the chart includes bilateral ODA and multilateral concessional flows.  
 Non-ODA flows include: other official developmental flows, officially supported export credits, FDI, other private flows at market terms and private grants.  
 Adjusted gross disbursements, three-year moving average, USD million, 2012 constant prices.  
 Sources: Remittances, World Bank; Other resource flows, DAC statistics; NB: Data on flows to MADCTs are only available up to 2010.  
<http://www.oecd.org/dataoecd/16/50/45222222.pdf>

# How much?

More than aid that matters ( Center for Global Development)



# Who gets?

## Top ten

### 1.2.7. Top 10 ODA recipients

USD million, receipts from all donors, net ODA receipts

	2013	2014	2015	3-year average	% of all recipients
1 Afghanistan	5 153	4 945	4 239	<b>4 779</b>	3%
2 Syrian Arab Republic	3 638	4 198	4 882	<b>4 239</b>	3%
3 Egypt	5 513	3 538	2 488	<b>3 846</b>	2%
4 Viet Nam	4 086	4 216	3 157	<b>3 820</b>	2%
5 Ethiopia	3 886	3 585	3 234	<b>3 568</b>	2%
6 Pakistan	2 194	3 615	3 790	<b>3 200</b>	2%
7 Tanzania	3 434	2 649	2 580	<b>2 888</b>	2%
8 India	2 457	2 992	3 163	<b>2 871</b>	2%
9 Kenya	3 308	2 661	2 474	<b>2 814</b>	2%
10 Turkey	2 848	3 447	2 145	<b>2 813</b>	2%
Other recipients	114 650	125 851	120 374	<b>120 292</b>	78%
<b>Total ODA recipients</b>	<b>151 166</b>	<b>161 697</b>	<b>152 526</b>	<b>155 130</b>	<b>100%</b>

## How much?

For some recipients ODA is a very important source of income

Enough to transform them to middle income countries

*Table 15.1 Top ten recipients of net Official Development Assistance (ODA), 2012*

Country	ODA/GNI (%)	Country	ODA per capita (current USD)
Solomon Islands	43.6	Tuvalu	2484
Tuvalu	42.3	Marshall Islands	1446
Liberia	36.1	Micronesia, Fed. Sts.	1113
Marshall Islands	34.7	Tonga	746
Micronesia, Fed. Sts.	33.5	Palau	723
Afghanistan	32.8	Kiribati	642
Malawi	28.4	Samoa	639
Kiribati	25.0	Solomon Islands	555
Burundi	21.2	Cabo Verde	498
Sao Tome and Principe	18.7	West Bank and Gaza	495
Memo		Memo	
Low income	8.0	Low income	49
Least developed	6.2	Least developed	49
Middle income	0.2	Middle income	11

Important for low income countries, not for middle income

Kilde: Hagen (2015)



## Why give?

1. Other regarding: To help the poor (moral ethical obligation, fairness, altruism)
2. Self regarding: To build alliances, security, to help own industry

## Does it work?

Two camps:

1. **Hope:** Aid can substitute for lack of domestic saving and investment. Aid can be a big push that leads the economy out of poverty ( Sachs & Bono)
2. **Fear:** Aid will lead to corruption, to rent seeking, passivity and stagnation...(Easterly & Moyo)  
<https://www.youtube.com/watch?v=HIPvIQOCfAQ>
3. Rason: <https://www.youtube.com/watch?v=3yFNFt8LDX4>

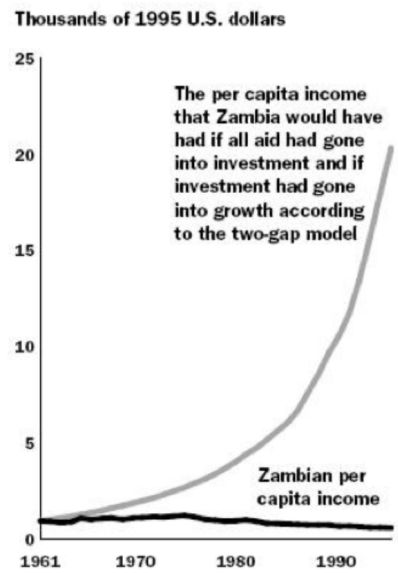
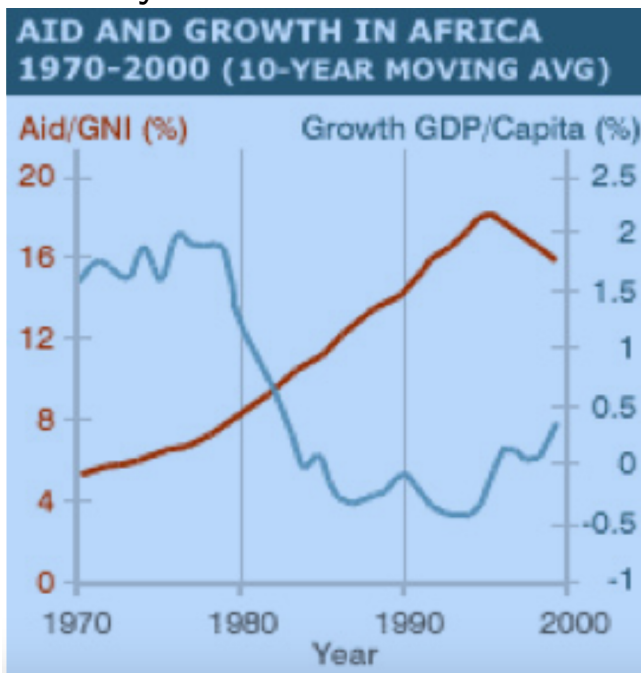
## Does it work?

### Easterly:

- The first tragedy is no growth.
- But “Brown, Sachs, Bono, and Jolie are silent about the **other tragedy** of Africa’s poor.
- “This is the tragedy in which the West has spent \$2.3 trillion on foreign aid over the past four decades and has still not managed to get 12-cent medicines to children to prevent half of all malaria deaths;
- “The West has spent \$2.3 trillion on foreign aid and still has not gotten \$4 bed nets to people to prevent malaria.
- “The West has spent \$2.3 trillion on foreign aid and still has not got around to spending the \$3 per new mother that would prevent millions of child deaths from diarrhoea”

Does it work?

Easterly:



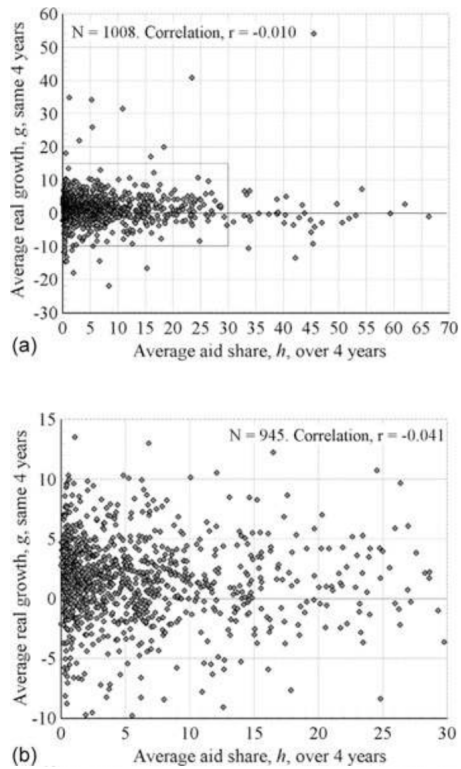
Source: World Bank, The (1998d). "Assessing aid: what works, what doesn't, and why." Oxford: Oxford University Press.

## Does it work?

Does aid have an effect on economic growth? No correlation.

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DOUCOULIAGOS AND PALDAM



**Figure 1.** (a) Scatter Plot of Growth and Aid. (b) The Enlarged Box from Figure 1(a).

Notes: (a) The densely packed observations in the 'box' are enlarged in Figure 1(b).  
(b) An Appendix with similar graphs lagged to both sides is available; see Paldam (2005).

## Does it work?

- ▶ Correlation is not causation (Even if there is no correlation between growth and aid there could still be a causal average effect of aid on growth)
- ▶ Use instruments - hard to find good instruments
- ▶ Heterogeneity
  - ▶ good governance (Burnside & Dollar)
  - ▶ not all aid will lead to growth, and the aid that may give a boost to growth will not have an immediate effect (Clemens et al).