



# Development Aid: Analysis, Critique, Direction

*Fredrik Erixon*

*European Centre for International Political Economy (ECIPE)*

*Presentation, Templeton Foundation, June 30, 2008*

# Four propositions

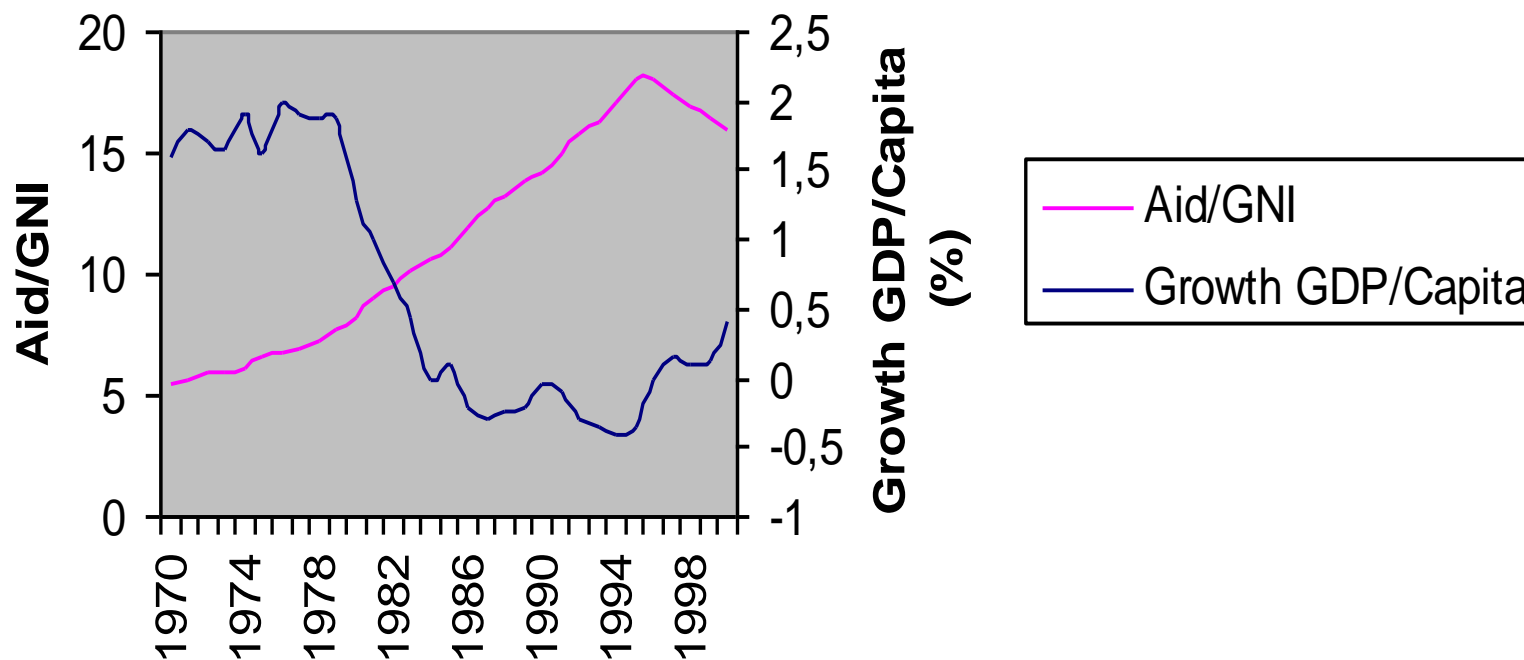
1. Development aid cannot “buy” development
2. When development occurs, aid plays an insignificant role
3. Aid is not only here to stay – it is key source of growing income for 50-plus countries
4. Healthcare and agriculture will dominate development/aid debate and donor activities

# Proposition one

- Fifty years of development aid
- Various profiles of aid
  - “Big push”
  - Structural adjustment
- Current drive for aid: the Millennium approach
- What empirical evidence says

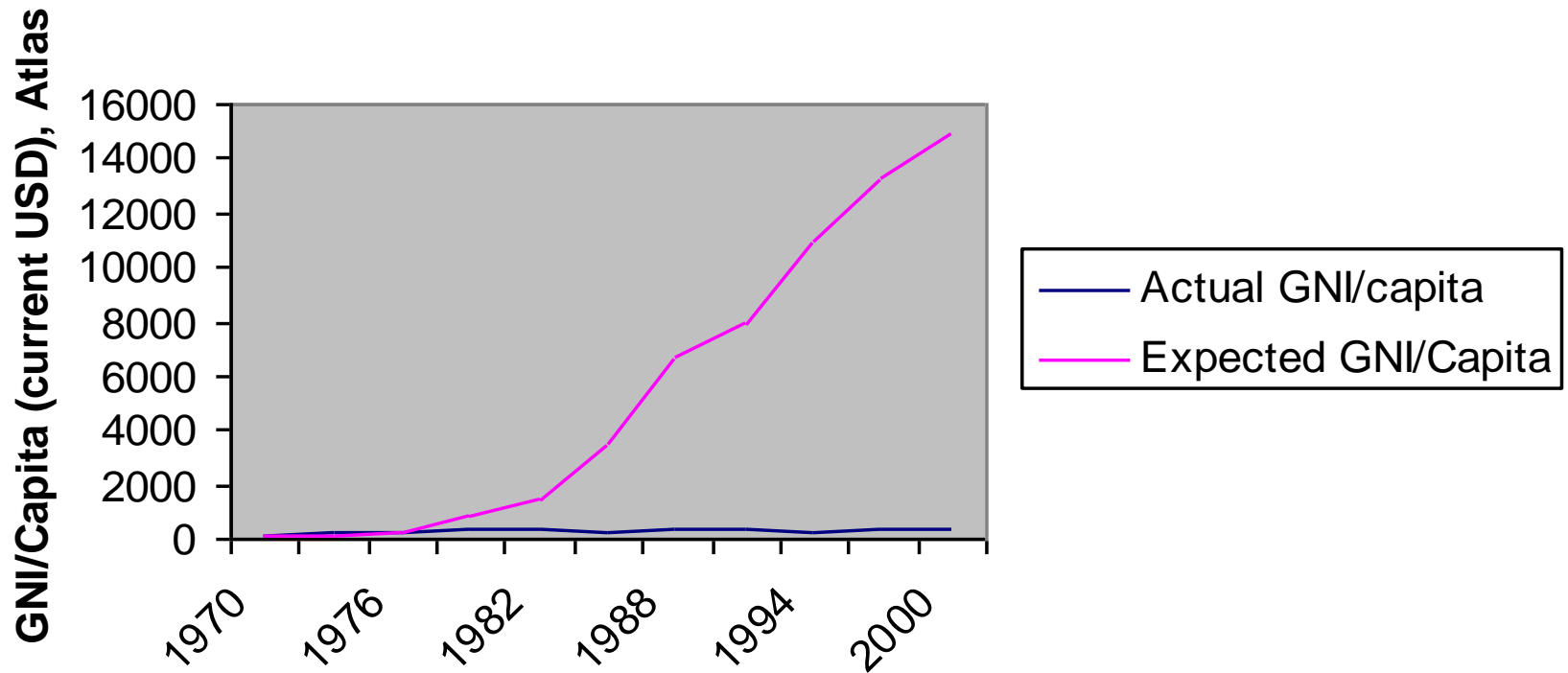
## Aid and Growth in Africa (10-year moving average)

Source: World Development Indicators Online



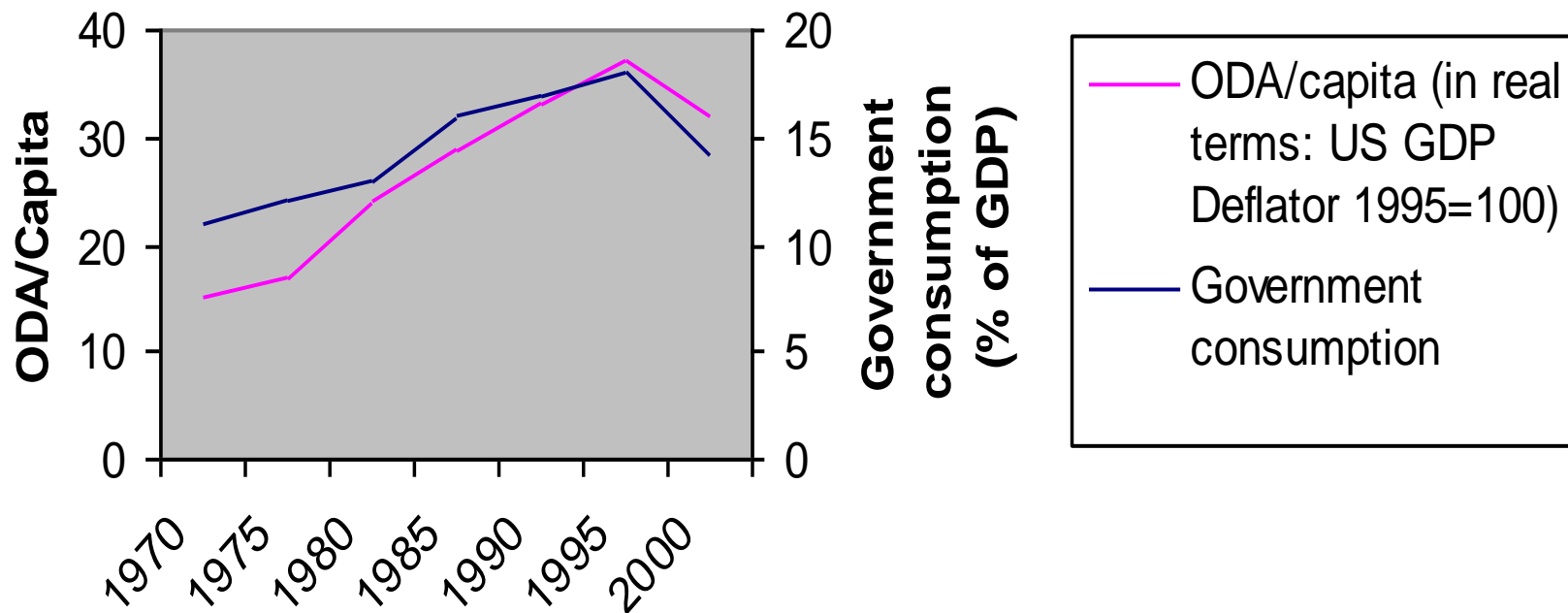
## Actual and Expected GNI/Capita in Kenya

Source: World Development Indicators



## Aid and Government Consumption in SSA (10 year average)

Source: World Development Indicators Online



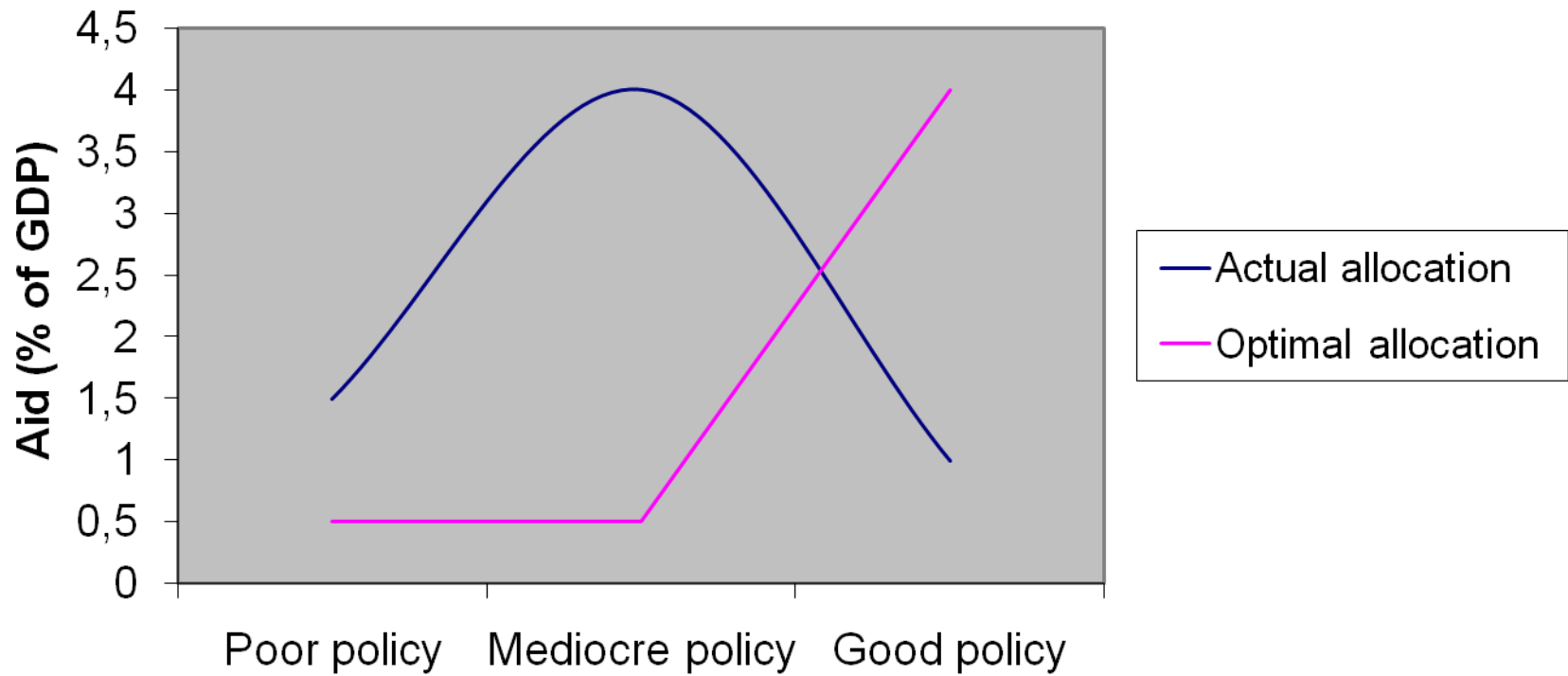
# Policy reforms and entrepreneurship

- IMF and Worldbank approaches – “Washington consensus”
- Not much has been structurally adjusted
- Aid and institutional reforms
- “Doing business”-reforms in aid-dependent countries
- Trade-enabling environment in aid-dependent countries
- Culture of dependency
- Marginal analysis: why undertake reforms?

Table 1 **Successes and failures of repeated adjustment lending** (all data refers to averages for period from first adjustment loan until 1999 for the top 20 countries receiving adjustment loans)

	<i>No. of adj. loans 1980–1999</i>	<i>Growth/ capita (%)</i>	<i>Current account balance/ GDP</i>	<i>Government balance/ GDP</i>	<i>Black market premium (%)</i>	<i>Inflation rate</i>	<i>Real over- valuation (+)/ under- valuation (-)</i>	<i>Real interest rate (%)</i>
<i>Africa</i>								
Niger	14	-2.3	-7.6		2	2	19	15
Zambia	18	-2.1	-12.3	-13.4	77	58	135	-10
Madagascar	17	-1.8	-7.3	-3.5	21	17	-25	9
Togo	15	-1.6	-6.3	-3	2	5	5	10
Cote d'Ivoire	26	-1.4	-6.7	-1.3	2	6	62	13
Malawi	18	-0.2	-11.1	-7.8	38	23	1	3
Mali	15	-0.1	-9.9	-6.5	3	4		11
Mauritania	16	0.1	-9.4		85	7	94	3
Senegal	21	0.1	-8.5	-4.5	2	5	20	9
Kenya	19	0.1	-3.5	-4.5	15	14	9	8
Ghana	26	1.2	-4.2	-1	36	32	-48	-16
Uganda	20	2.3	-7.4	-3.1	96	50	-47	-18
<i>Other developing countries</i>								
Bolivia	17	-0.4	-6.8	-1.6	31	91	36	-20
Philippines	19	0	-2.8	-2	6	11	-21	6
Jamaica	18	0.4	-5.4	-12.6	20	20	-2	7
Mexico	20	0.4	-1.9	-3.9	10	41	-36	3
Argentina	30	1	-2.4	-1.8	23	164	11	-5
Morocco	22	1.1	-3.3	-5.7	4	6	-4	2
Bangladesh	18	2.4	-2.8	0	93	6	-41	7
Pakistan	20	2.7	-3.4	-6.9	12	8	-48	1
Min top 20	14	-2.3	-12.3	-13.4	2	2	-48	-20
Average top 20	19	0.1	-6.1	-4.6	26	24	-3	1
Max top 20	30	2.7	-1.9	0	96	164	135	15
Average all developing countries	7	0.3	-6	-4.6	32	32	1	0

## Actual and optimal allocation of aid



# Proposition two

*When development occurs, aid plays an insignificant role*

- Take-off's more likely in less-dependent countries
- Home-grown reforms: sustained reforms
- Investment is *not* the problem: it's the return on investment



## Proposition three

*Aid is not only here to stay – it is key source of growing income for 50-plus countries*

- Largely a SSA problem (non-fuel/commodities)
- The vicious logic of aid dependency

# Proposition four

*Healthcare and agriculture will dominate development/aid debate and donor activities*

What do they have in common?

- 1) Heavily distorted markets
- 2) Autarkic policy paradigm
- 3) Insufficient domestic integration
- 4) Little regional integration
- 5) Aid spending targets – since...
- 6) Export of policy model (Europe)
- 7) Export potential
- 8) Aid-created dutch disease problems