



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

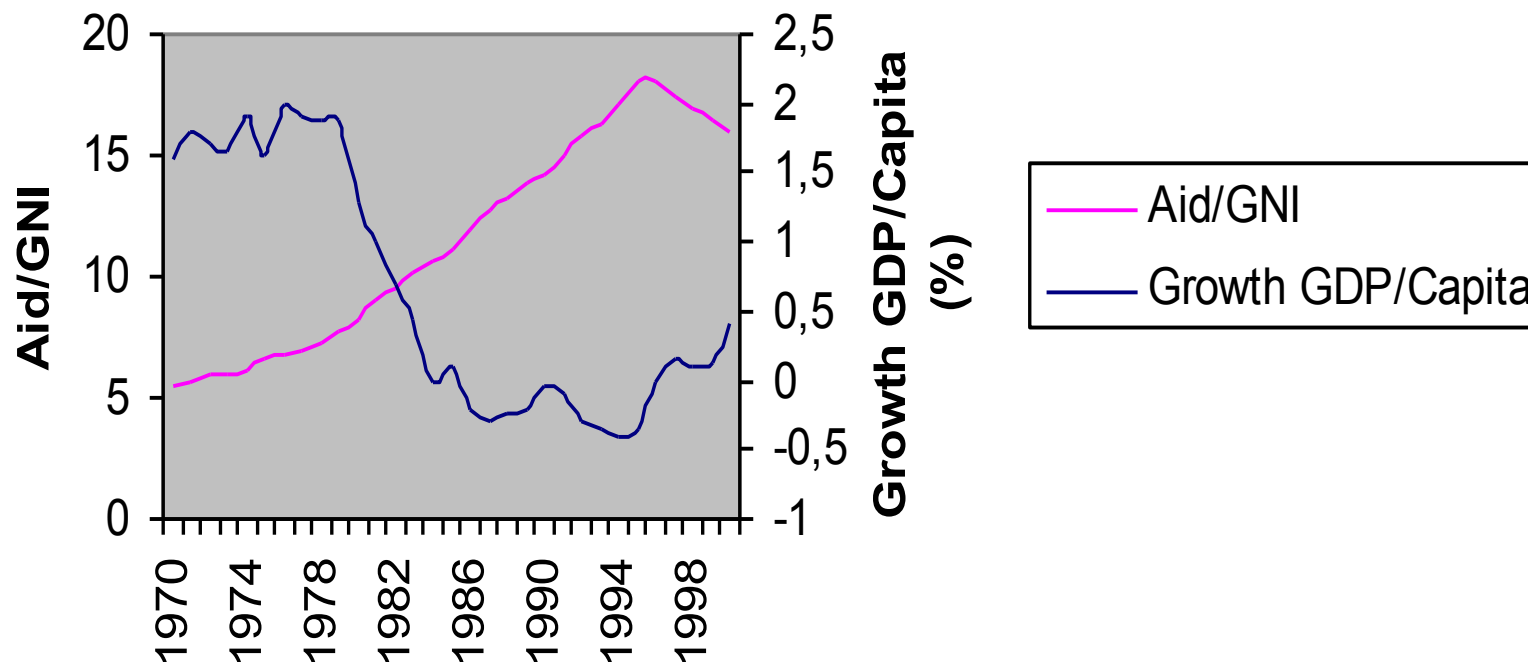


Proposition one

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

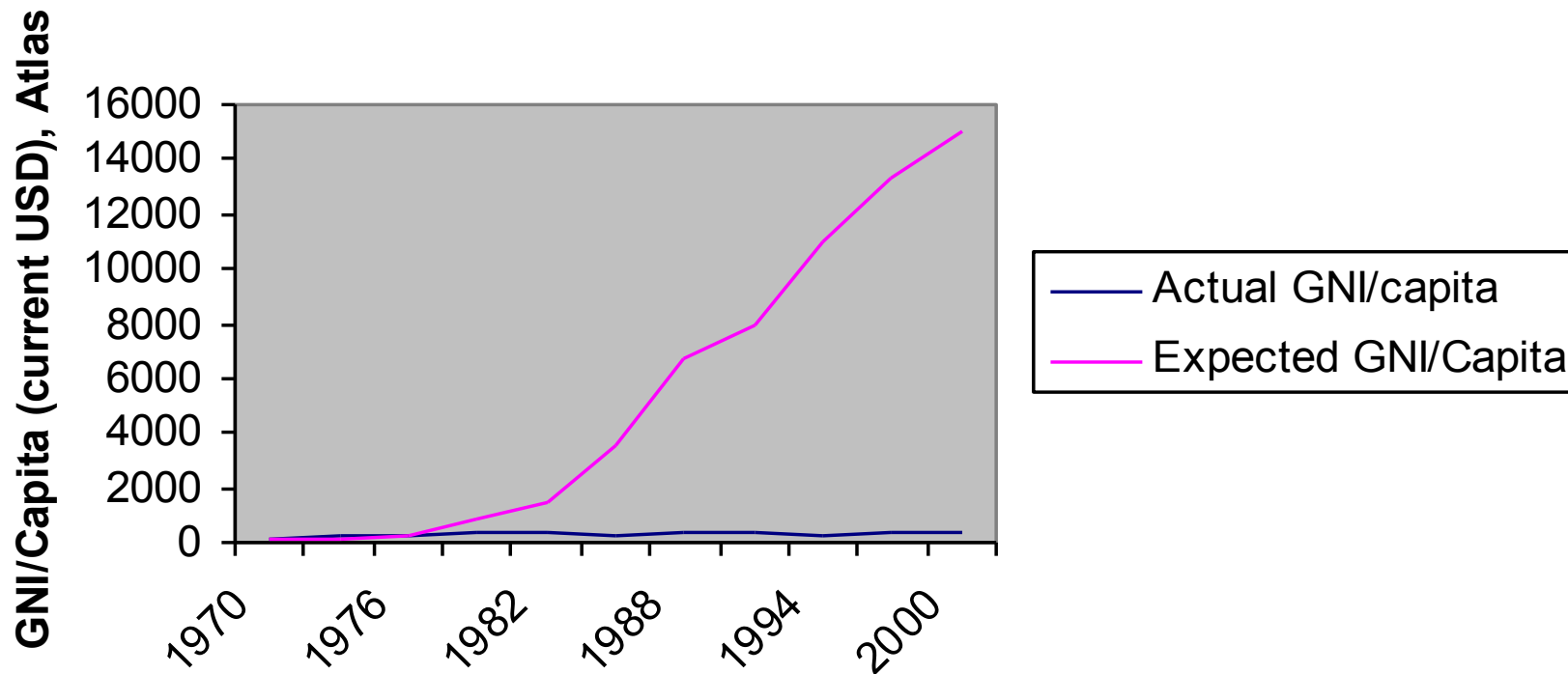
Aid and Growth in Africa (10-year moving average)

Source: World Development Indicators Online



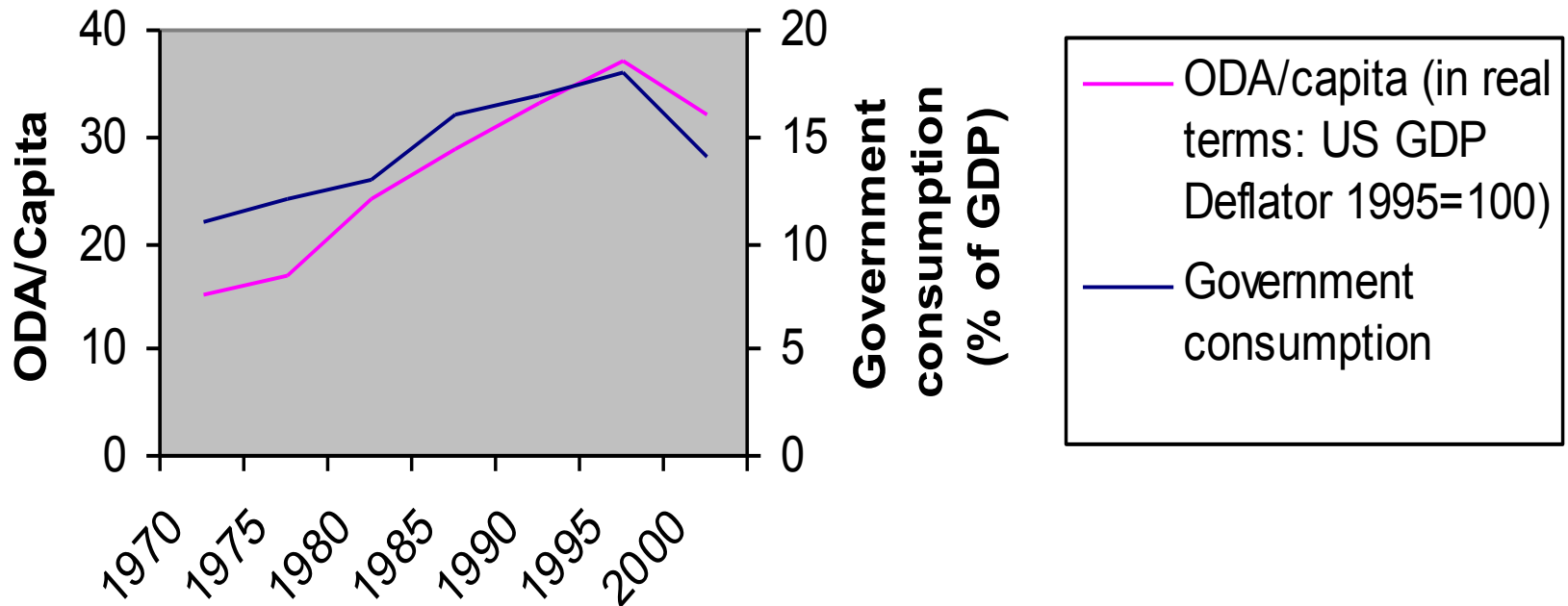
Actual and Expected GNI/Capita in Kenya

Source: World Development Indicators



Aid and Government Consumption in SSA (10 year average)

Source: World Development Indicators Online





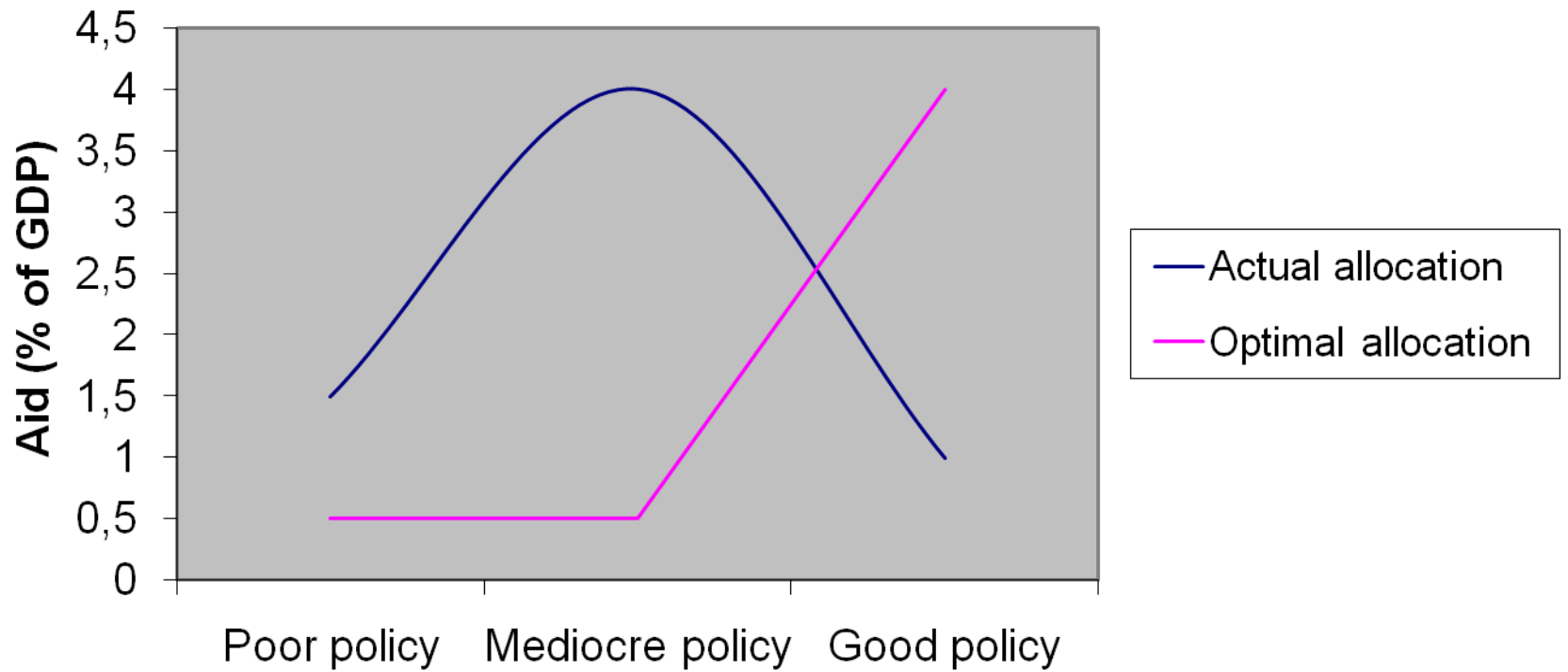
Policy reforms and entrepreneurship

- 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