



Aid, Growth, Poverty and the Global Context

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World Institute for Development
Economics Research

Overview

- **Introduction**
- **Aid, growth and development**
- **Poverty and human development**
- **The changing global context**
- **Conclusions: a post 2015 perspective**

Recent UNU-WIDER research on foreign aid



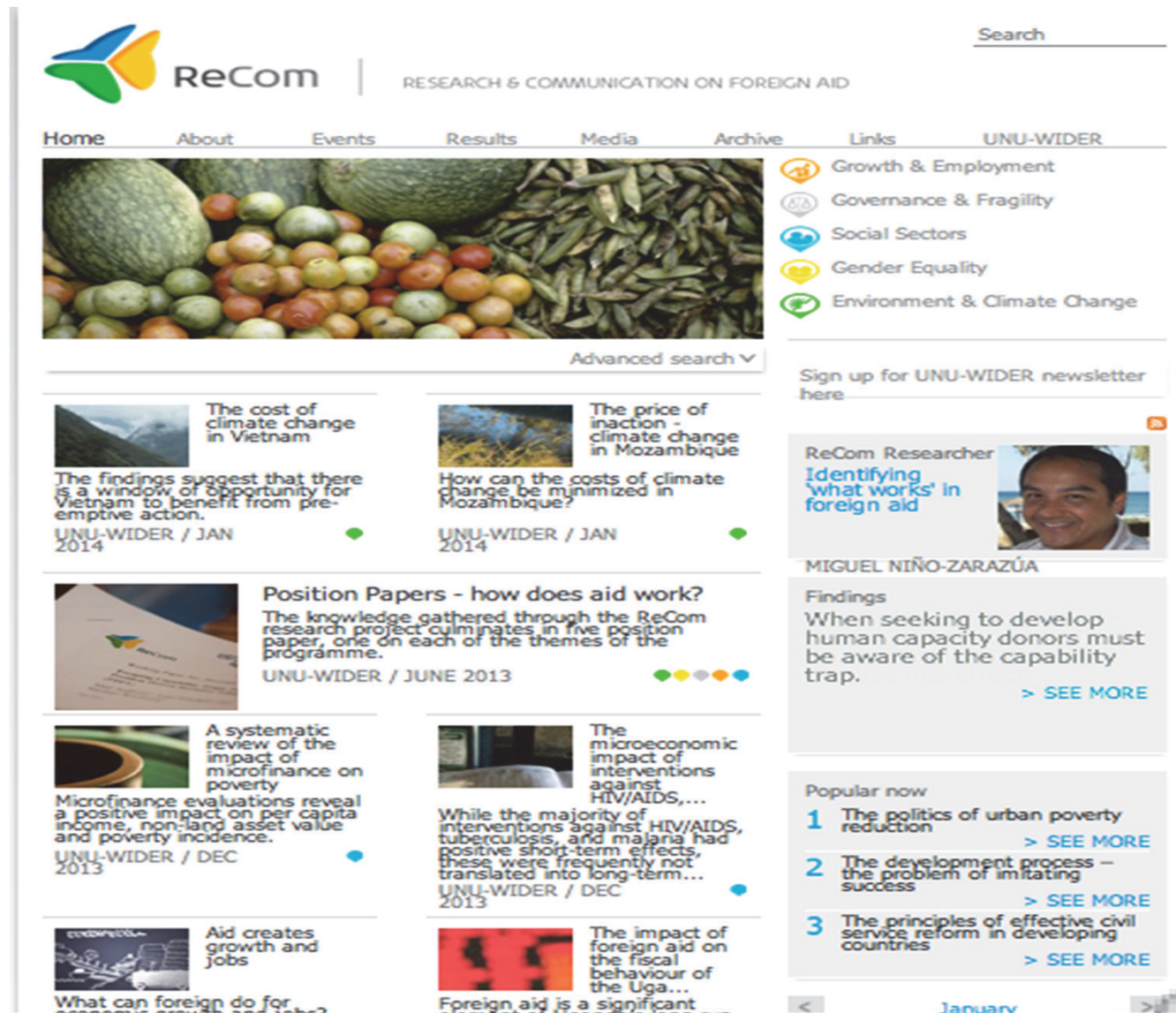
ReCom

- : A comprehensive research, documentation and communications initiative (initiated in early 2011)
 - Motivated by our desire to understand better four key questions about aid:
 - What works?
 - What could work?
 - What is scalable?
 - What is transferrable?

Point of departure

- **Aid is diverse and complex**
 - No single individual can encompass it all => Rely on:
 - Global network of researchers and policy practitioners + strong and committing research agreements
 - UNU-WIDER's active presence on the ground – for example in Mozambique, Tanzania, Ghana, South Africa and Vietnam (300 researchers from 60 countries)
- **A sizeable research output available under 5 core themes (including > 225 WIDER WPs)**
 - See <http://recom.wider.unu.edu/>
- **We are drawing on this in preparing a variety of papers, statements and lectures – see summary overview:**
http://www.wider.unu.edu/home/news/news-archive/2014/en_GB/21-03-2014-recom/

ReCom web-site: <http://recom.wider.unu.edu/>



The screenshot shows the ReCom website homepage. At the top, there is a logo for ReCom (Research & Communication on Foreign Aid) and a search bar. Below the logo, a navigation menu includes links for Home, About, Events, Results, Media, Archive, Links, and UNU-WIDER. A large banner image of various fruits is displayed. To the right of the banner, there is a list of research themes: Growth & Employment, Governance & Fragility, Social Sectors, Gender Equality, and Environment & Climate Change. Below the banner, there is an 'Advanced search' link. The main content area features several article teasers. On the left, there are teasers for 'The cost of climate change in Vietnam' and 'The price of inaction - climate change in Mozambique', both dated January 2014. In the center, there is a teaser for 'Position Papers - how does aid work?' dated June 2013. On the right, there is a section for 'ReCom Researcher' featuring Miguel Niño-Zarazúa and his work 'Identifying 'what works' in foreign aid'. Below this, there is a 'Findings' section with the text 'When seeking to develop human capacity donors must be aware of the capability trap.' and a 'SEE MORE' link. At the bottom right, there is a 'Popular now' section listing three articles: 'The politics of urban poverty reduction', 'The development process - the problem of imitating success', and 'The principles of effective civil service reform in developing countries', each with a 'SEE MORE' link. The bottom of the page shows a navigation bar with a left arrow, the word 'January', and a right arrow.

ReCom | RESEARCH & COMMUNICATION ON FOREIGN AID

Home About Events Results Media Archive Links UNU-WIDER

Search

Advanced search

The cost of climate change in Vietnam
The findings suggest that there is a window of opportunity for Vietnam to benefit from pre-emptive action.
UNU-WIDER / JAN 2014

The price of inaction - climate change in Mozambique
How can the costs of climate change be minimized in Mozambique?
UNU-WIDER / JAN 2014

Position Papers - how does aid work?
The knowledge gathered through the ReCom research project culminates in five position papers, one on each of the themes of the programme.
UNU-WIDER / JUNE 2013

A systematic review of the impact of microfinance on poverty
Microfinance evaluations reveal a positive impact on per capita income, non-land asset value and poverty incidence.
UNU-WIDER / DEC 2013

The microeconomic impact of interventions against HIV/AIDS,...
While the majority of interventions against HIV/AIDS, tuberculosis, and malaria had positive short-term effects, these were frequently not translated into long-term...
UNU-WIDER / DEC 2013

Aid creates growth and jobs
What can foreign aid do for economic growth and jobs?

The impact of foreign aid on the fiscal behaviour of the Uga...
Foreign aid is a significant

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ReCom Researcher
Identifying 'what works' in foreign aid
MIGUEL NIÑO-ZARAZÚA

Findings
When seeking to develop human capacity donors must be aware of the capability trap.
[> SEE MORE](#)

Popular now

- 1 The politics of urban poverty reduction
[> SEE MORE](#)
- 2 The development process - the problem of imitating success
[> SEE MORE](#)
- 3 The principles of effective civil service reform in developing countries
[> SEE MORE](#)

< January >

Poor nations: some questions and answers

Q. Why are some countries poor?

A. Poor countries produce very little.

Q. Why do poor countries produce so little?

A. Poor countries employ rudimentary technology, possess limited stocks of human and physical capital, and weak institutional structures.

Q. Why do poor countries lack the wherewithal to produce?

A. Poor countries have not managed to accumulate over time.

-> Growth is a long run and fragile process of accumulation.

-> What does this mean for our analytical approaches?



Aid, growth and development: what do we know?

ReCom – where to begin?

- The macro aid and growth literature, probably the most controversial theme
- Many critical voices: They often frame and strongly influence the development debate and there is frequently talk of a **micro-macro paradox**?
 - What do we mean by that?
 - Aid and macroeconomics (Dutch disease)
 - Aid, political economy and institutions
- But is it true that the impact of aid “evaporates” as we move from the project (micro) level up to the macro economy?
- What can we say on balance about aid’s aggregate impact?

It is difficult...

- **Aside from ideological debates.....**
- **A thorny econometric challenge: attribution somewhat elusive**
 - Progress typically associated with less aid
 - Causality not easy to establish, so debate ripe with rhetoric:
 - Africa, aid, Africa still not developed.....
 - Anecdotes....
 - We need a credible counterfactual (what would have happened without) -> we use statistical methods

Back to basics

- What does lack of statistical significance mean?
- Absence of evidence \neq evidence of absence
- Just because economists have – over the years – had a hard time at the macro level does not in and by itself prove aid impact is not there
- And time has been passing – 5 generations!
 - Macro-evidence has been piling up – and yes we can by now say quite a lot
- Now to a brief up-to-date summary (skipping a lot)

From Rajan and Subramanian (2008) onwards

- Rajan and Subramanian (analytical innovation – but...)
- 16 published estimates post 2008 studying aid impact over the long run
 - 14 find positive effects (the two outliers are ...)
 - Results suggest: a 10% increase in aid/GDP leads to 1% increase in rate of growth
 - Channels identified: investments in physical capital, health & education (a comment about Dutch disease – next slide)
- Overall, aid has had impact – annual rate of return 7.3% (without welfare weighting)
- Time horizon of analysis important and significant heterogeneity
 - evident from cross-country, time-series and case studies
- See WIDER position paper on aid, growth and employment

A comment about Dutch disease

- **Inevitable?**
 - Not inevitable, depends on how aid is used
 - Infrastructure investment: reduces costs – export supply curve shifts to the right (Dutch vigour)
 - If aid deepens domestic financial markets: sterilization instruments become more effective
 - Forthcoming WIDER special issue of *World Development*

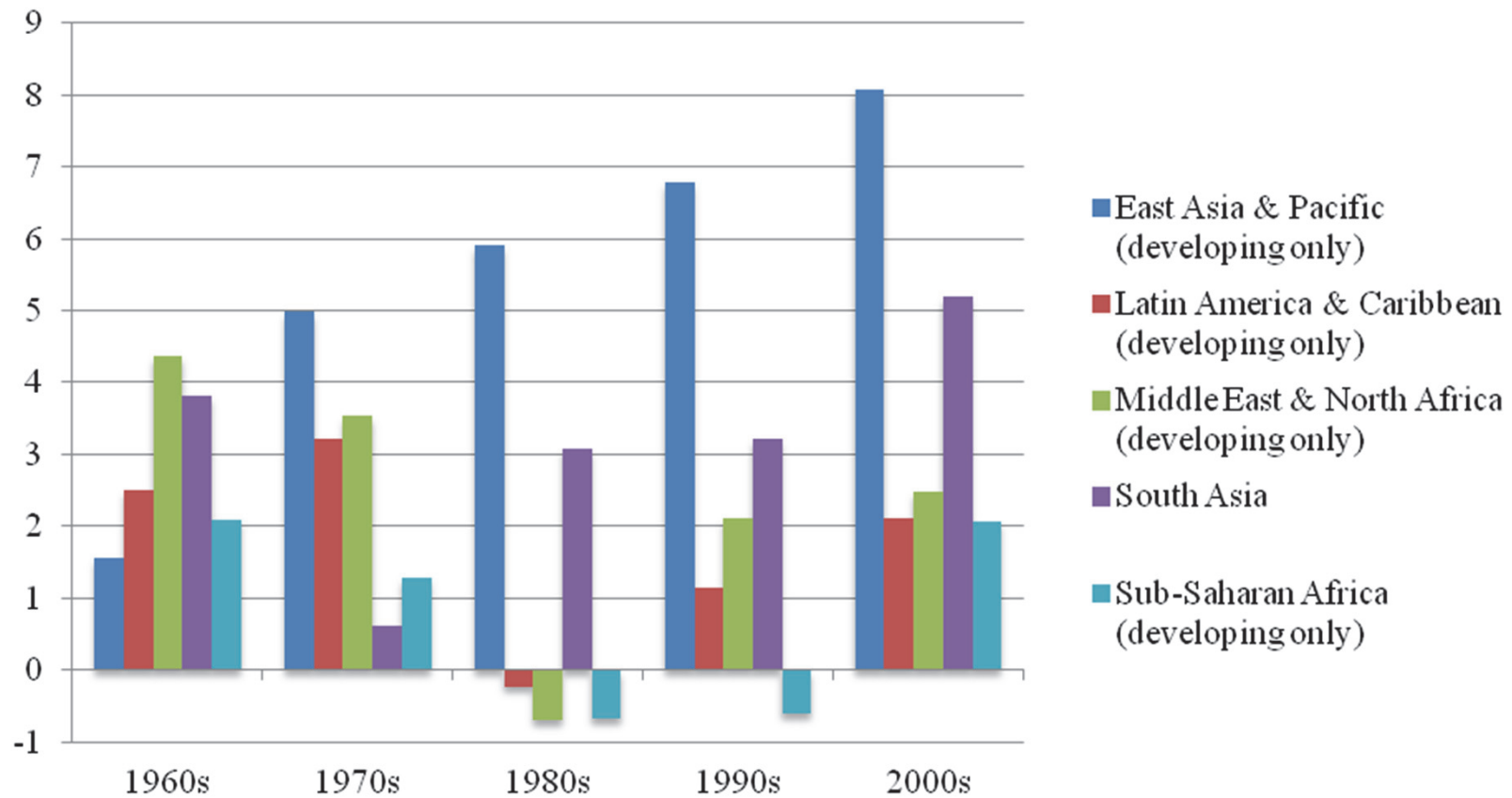
So...

- In sum: the weight of the available evidence suggests that aid has worked in promoting growth
- Much has been achieved – many countries (including former fragile states) have “graduated” and new donors have emerged
- But continued success cannot be taken for granted: no sensible person.....
- And what about human development?

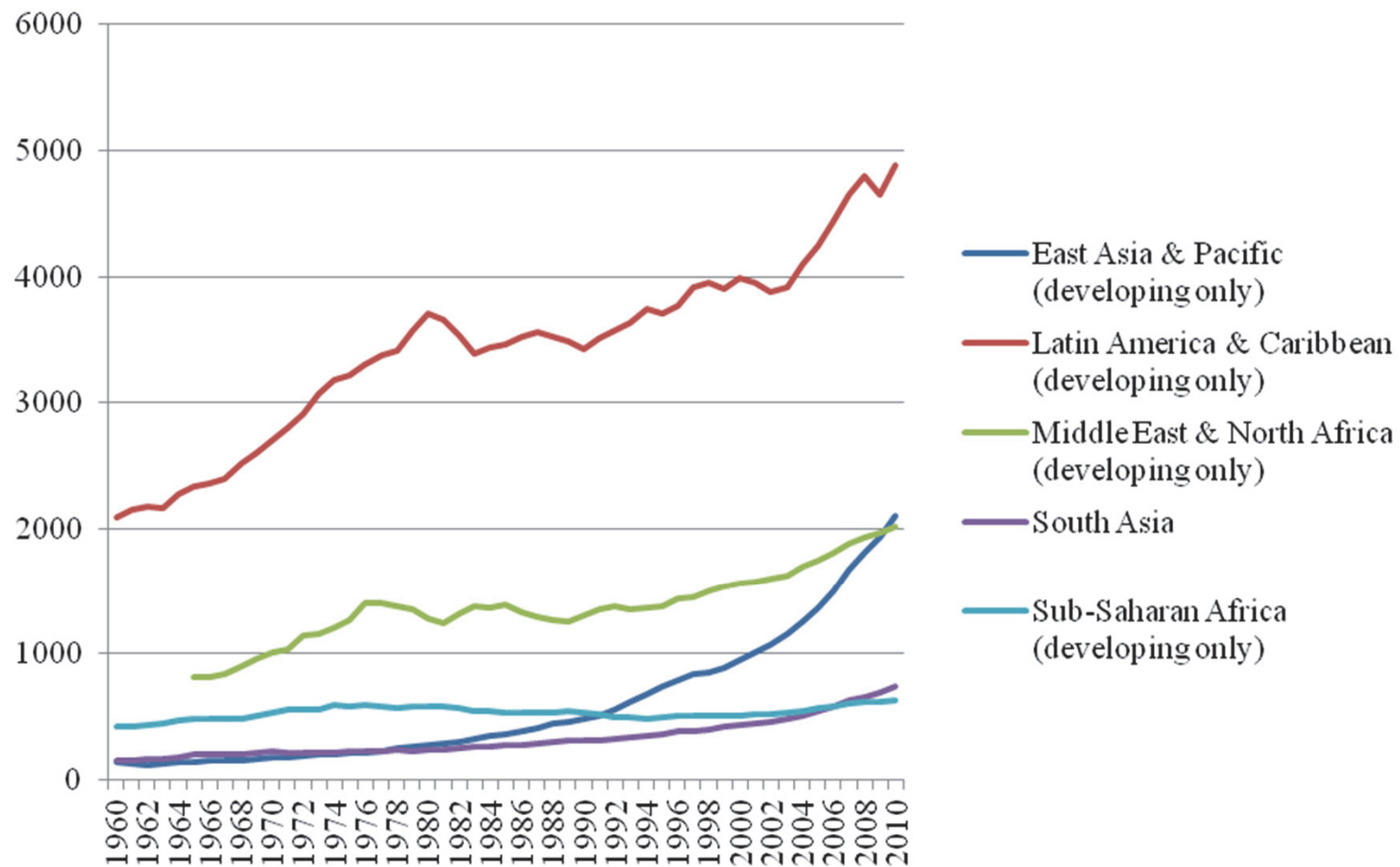


Poverty and human development: what do we know?

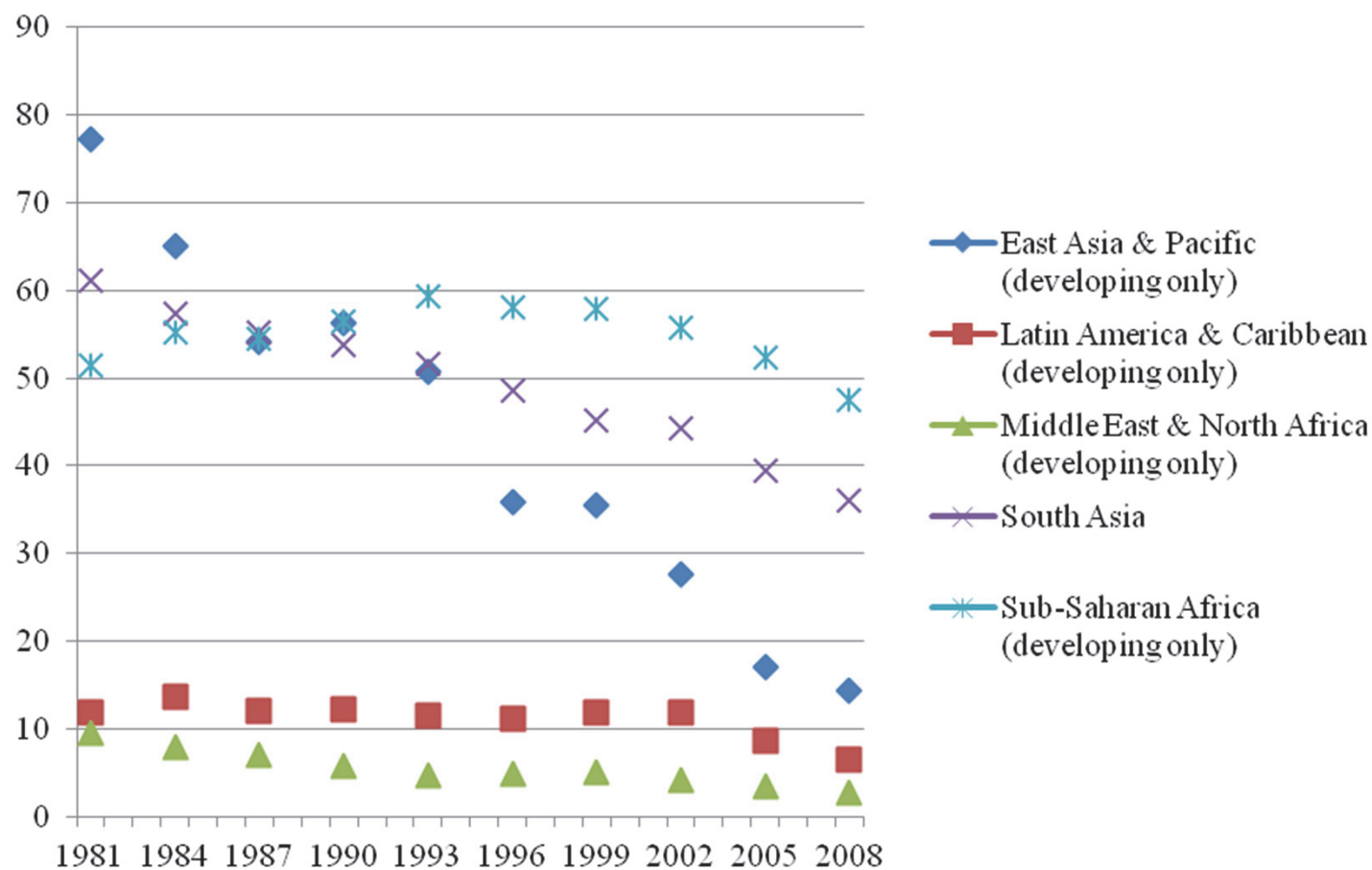
Growth in per capita GDP



GDP per capita increasing (real USD2000)



Poverty headcount ratios falling (USD 1.25 per day)

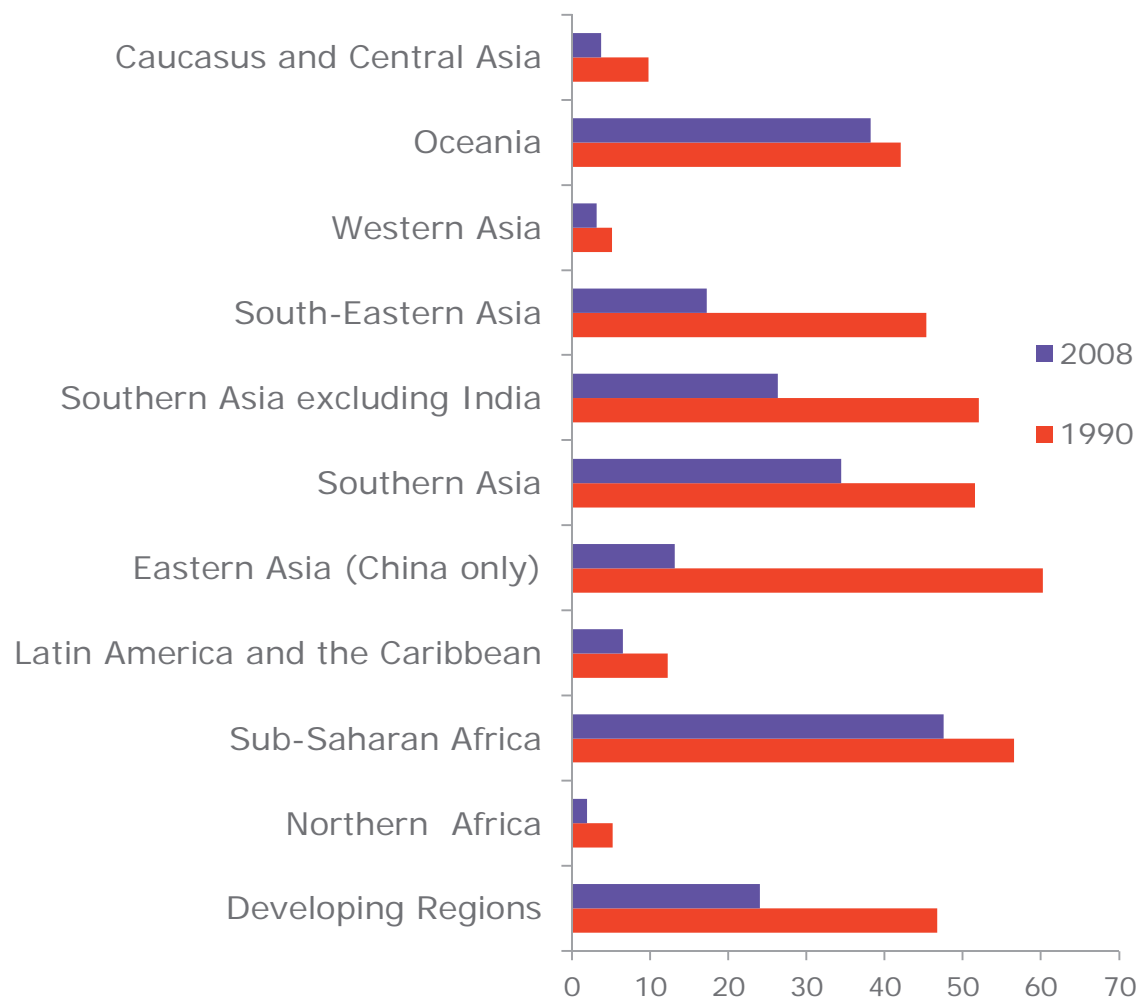


Poverty is falling

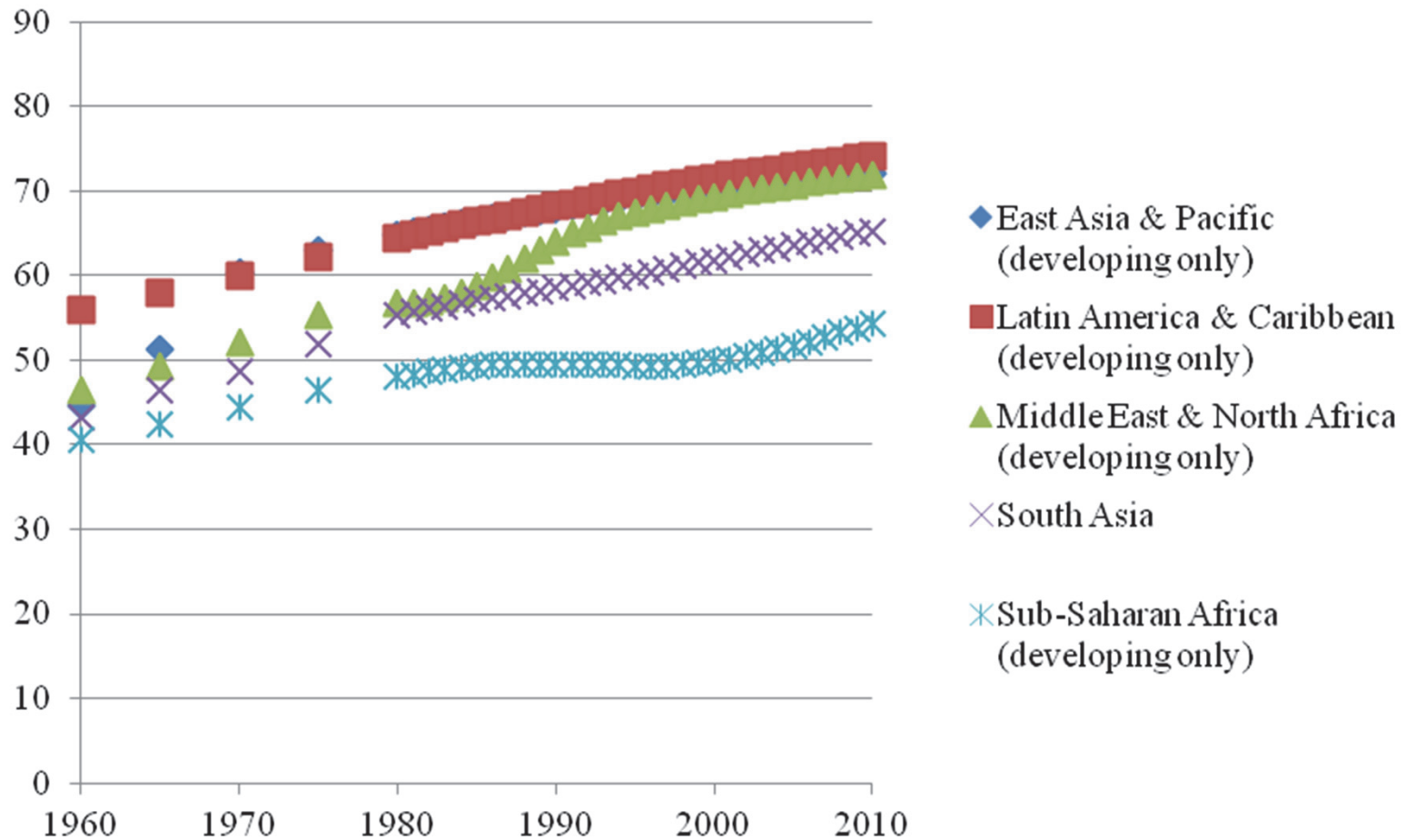
- **Since 1990: people living on less than \$1.25 has fallen in every region, including sub-Saharan Africa:**

- In 1990 $\approx 46\%$ (or ≈ 2 billion people) were extremely poor
- Estimates predict that that the MDG target of cutting extreme poverty by half will be achieved by 2015
- Number of countries categorized as low income has fallen from 63 in 2000 to 36 today
- Still: ≈ 1 billion people ($\approx 14\%$) remain in extreme poverty

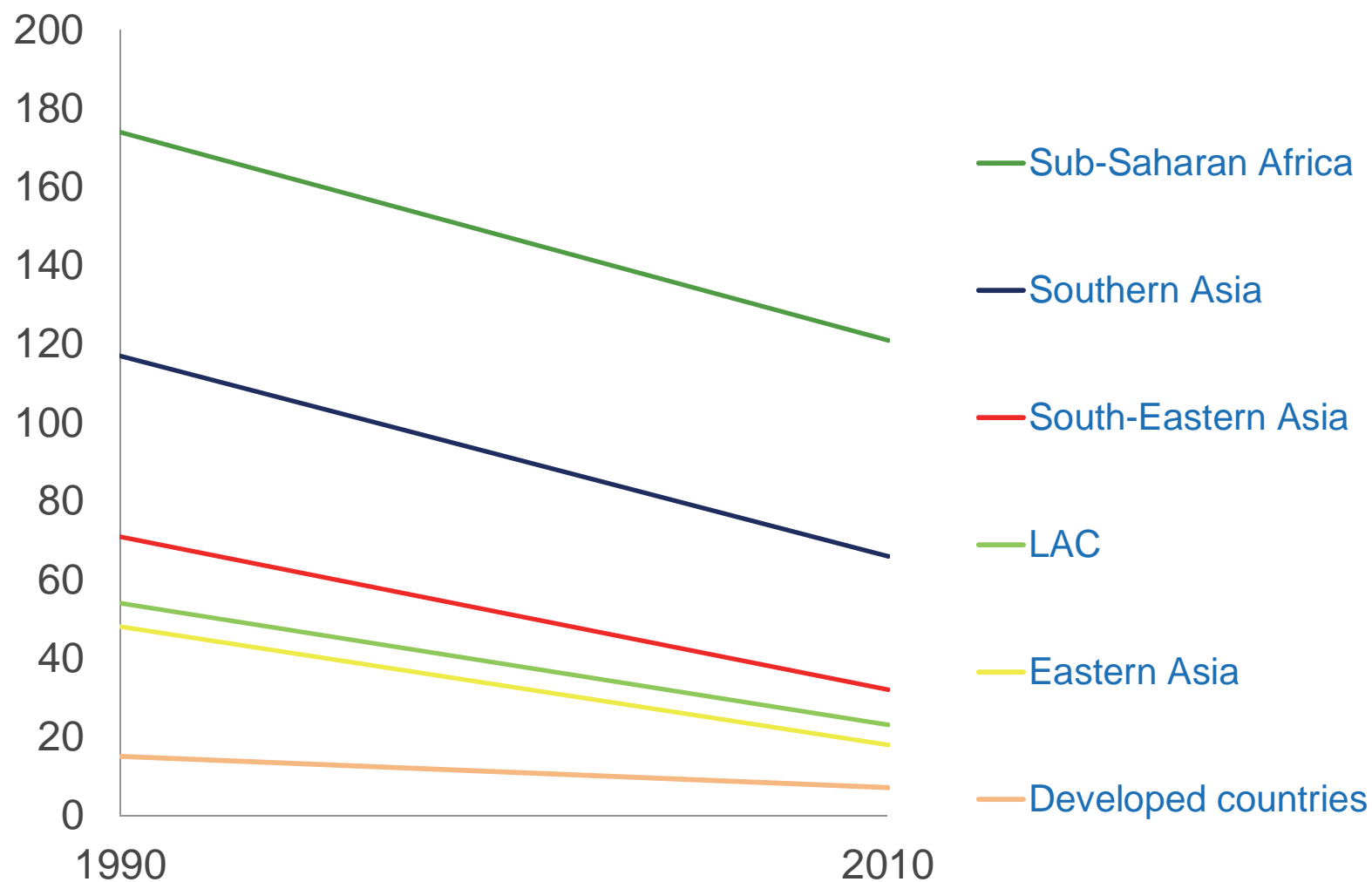
% of people living on less than \$1.25 USD
(2005 PPP)



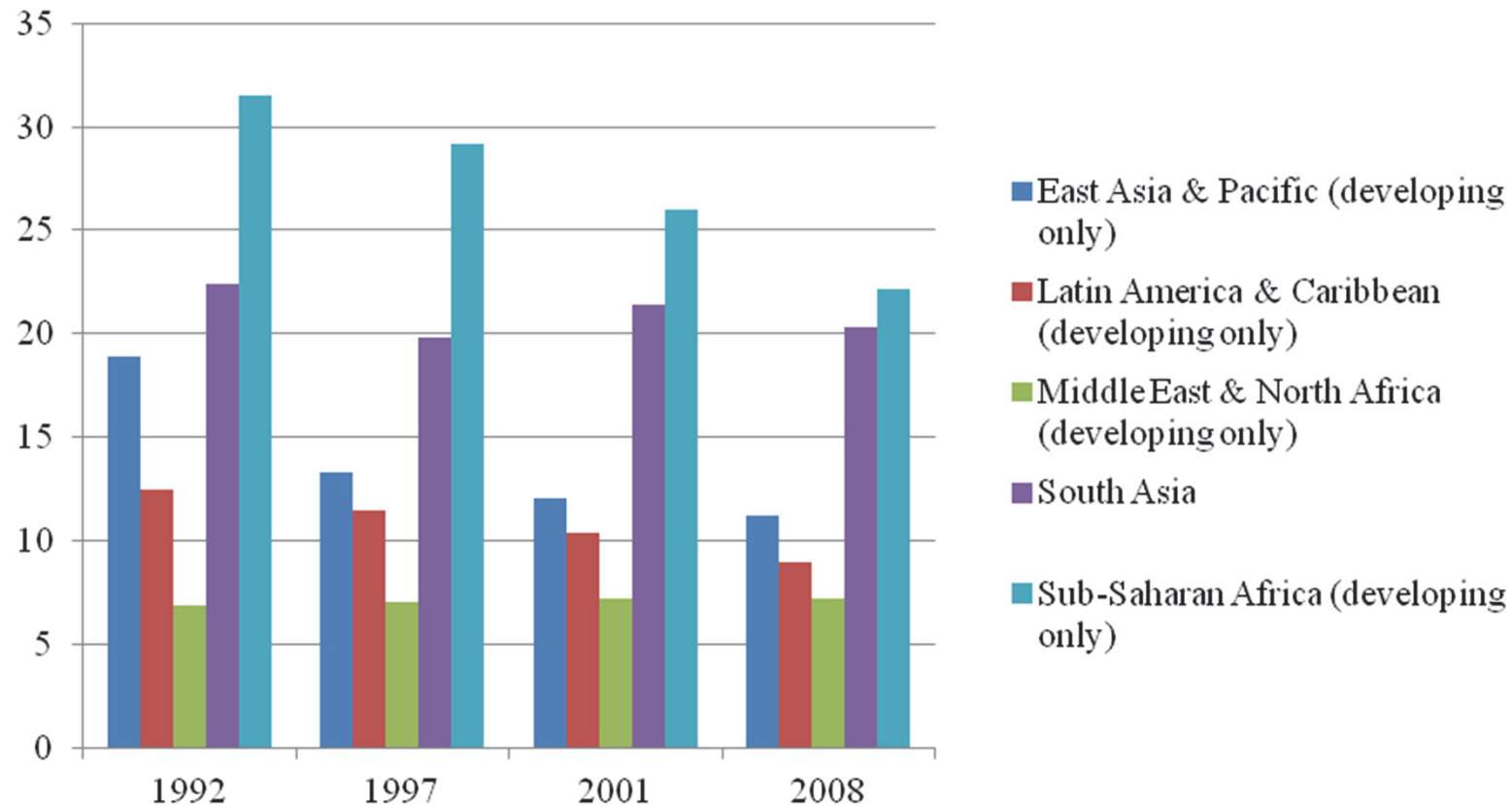
Life expectancy rising



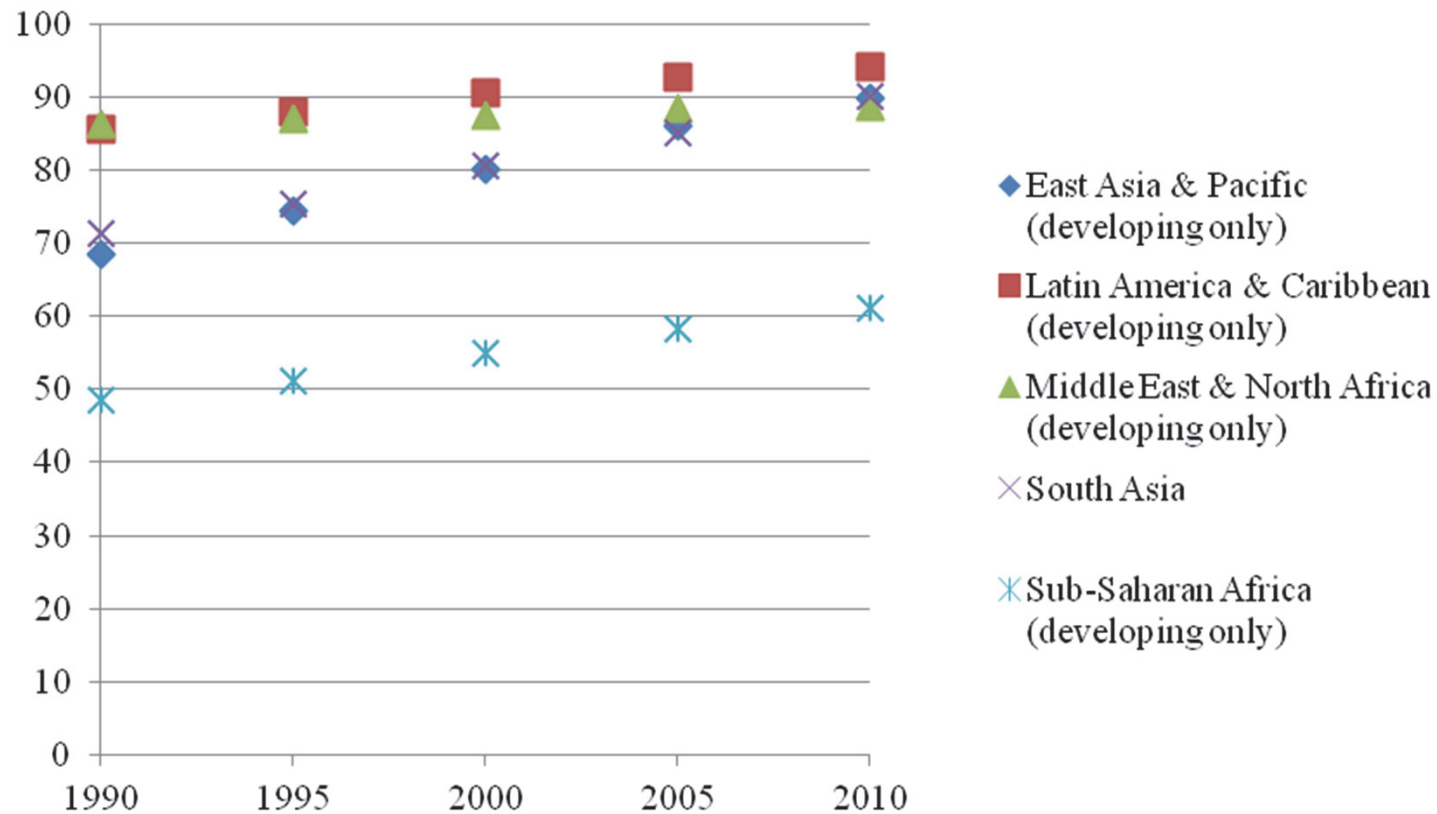
Under-five mortality rate: 1990-2010



Prevalence of undernourishment



Percent of population with access to a safe water source



Primary school enrolment, 1990-2010 (%)

	1990		2010	
	Boys	Girls	Boys	Girls
Developing world	84	75	91	89
Sub-Saharan Africa	57	50	78	74
Latin America and the Caribbean	88	84	96	95
Eastern Asia	99	96	97	97
Southern Asia	83	66	94	91
South-Eastern Asia	94	91	95	96
Western Asia	87	79	94	89
Developed Regions	95	95	97	97

So...

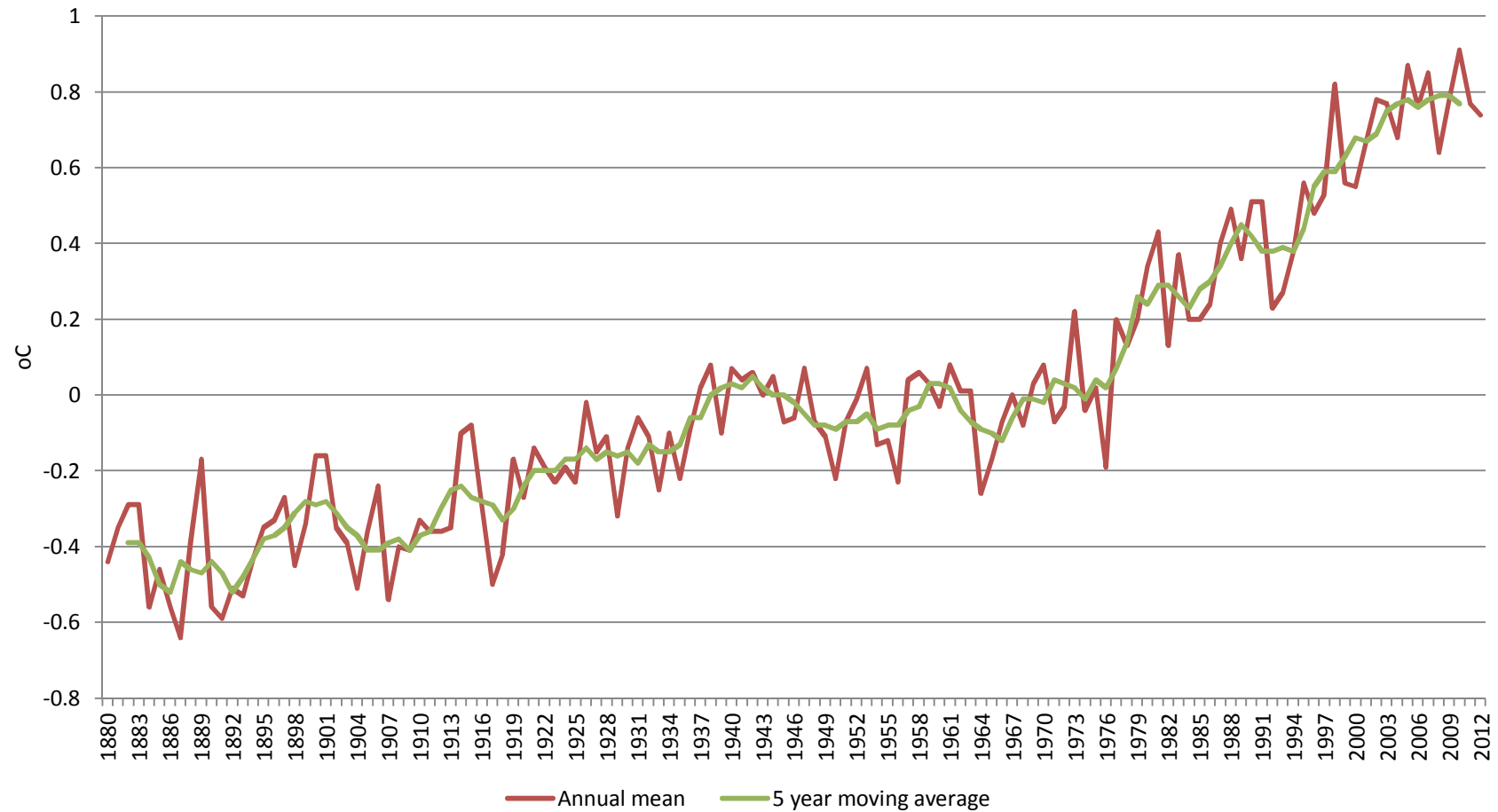
- In sum: the weight of the available evidence suggests much progress in promoting human development
- See WIDER position paper on the role of aid in supporting these advances (includes more background, examples and case studies of countries where UNU-WIDER is active)
- Aid has worked to deliver development as traditionally measured
- But don't ignore remaining issues – and note that the contours of the development challenge is changing



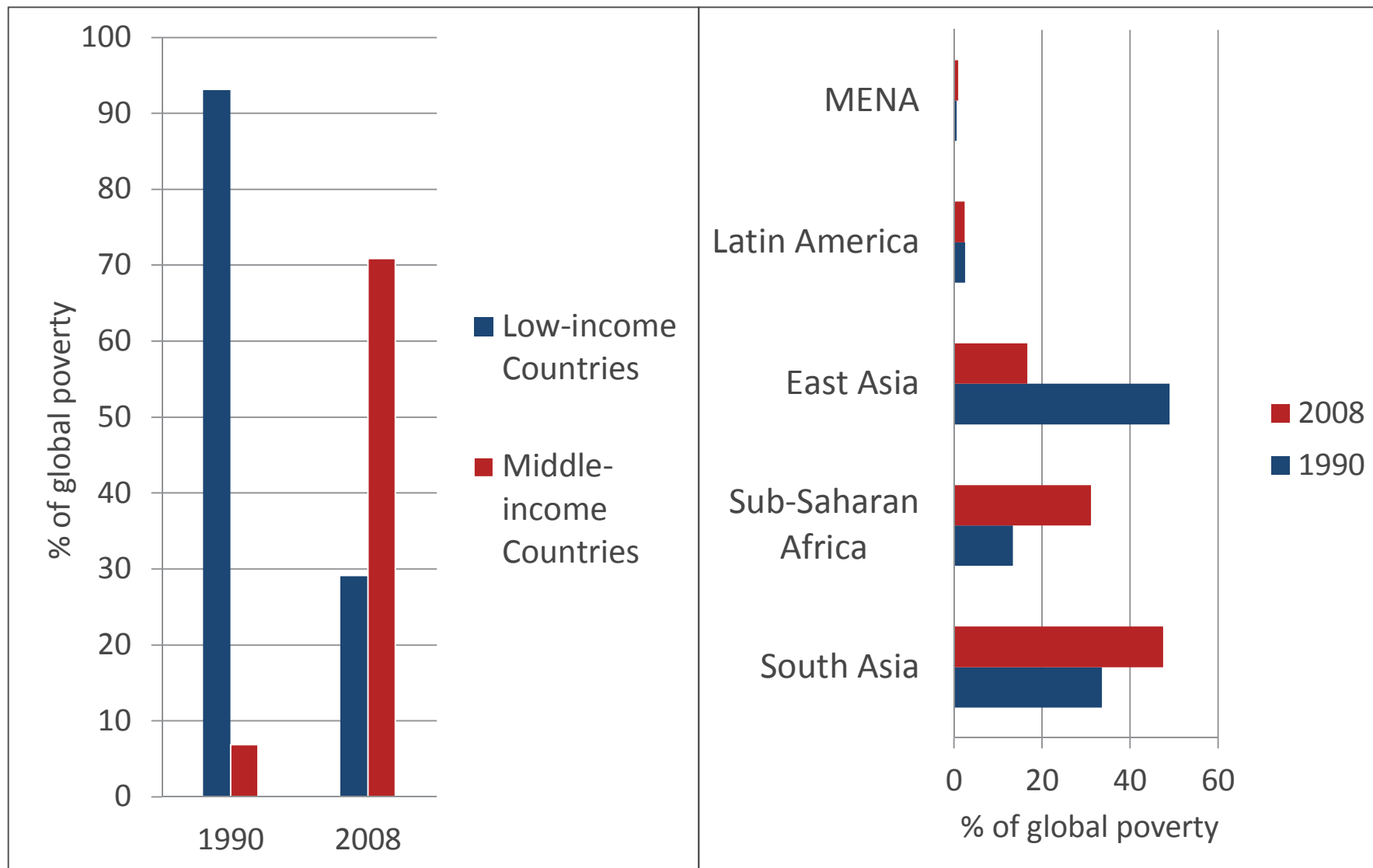
Changing global context: challenges and opportunities for aid



The 'anthropocene': global mean surface temperature anomaly



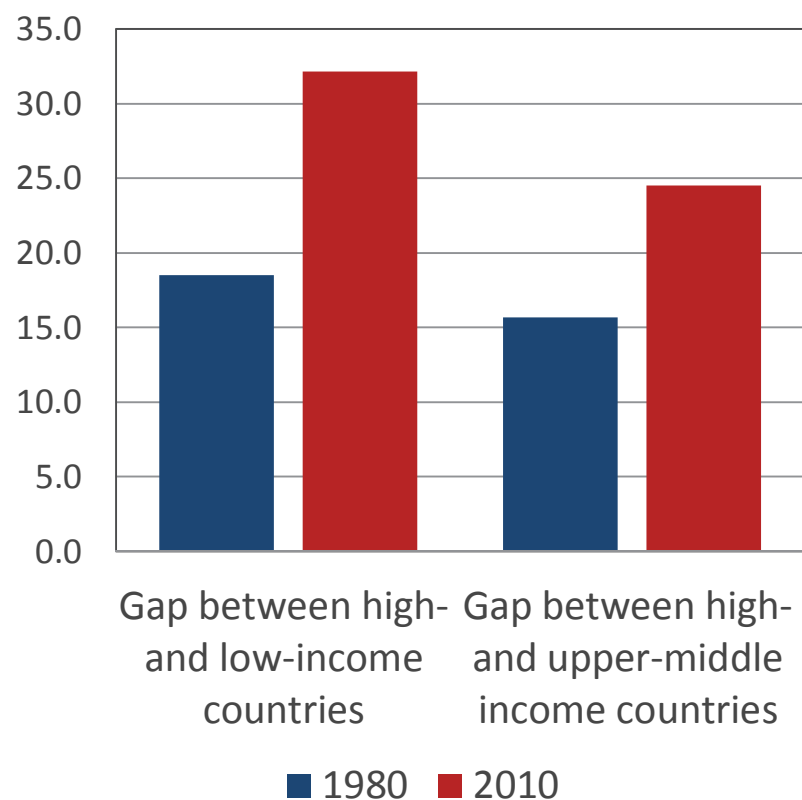
Poverty increasingly associated with middle-income countries (often with high levels of inequality)



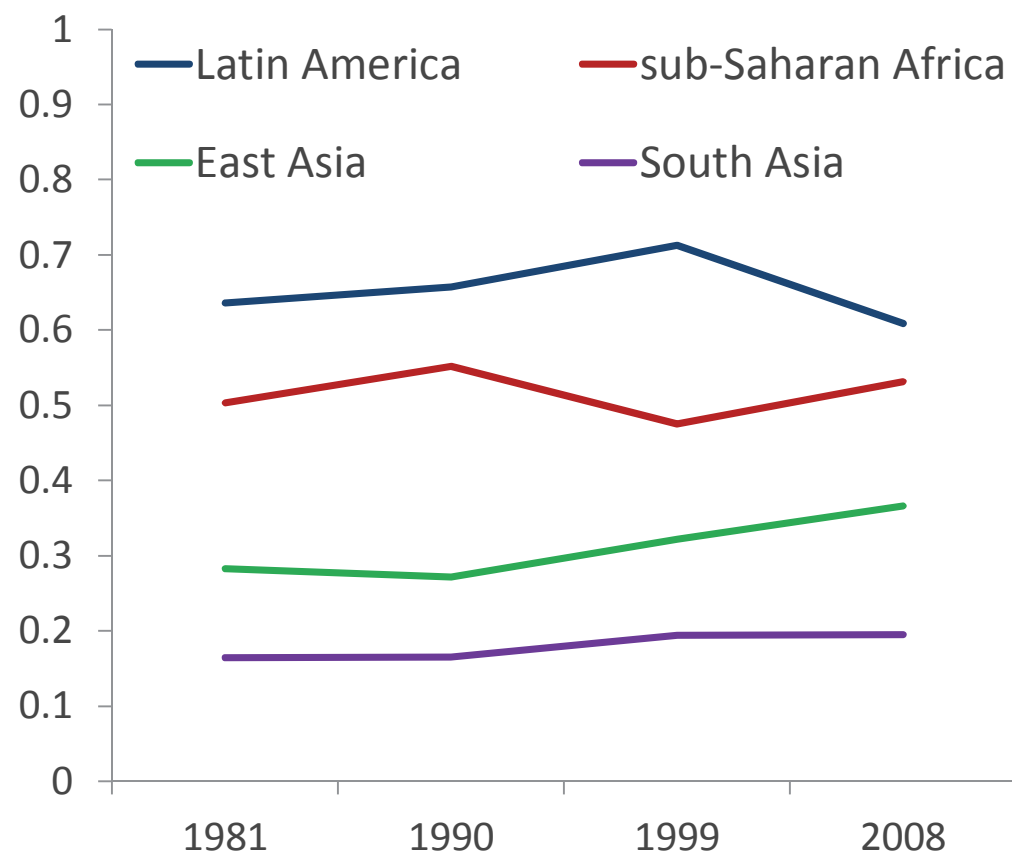
People living on less than \$1.25 USD a day (2005 PPP)

Inequality a major challenge

Income gap between country groupings
Constant 000 US\$ (2005 PPP)



Inequality measured by mean-log deviations of income



The structural transformation challenge

Decomposition of productivity growth, 1990-2005

	Labor productivity growth, %	Due to within sector productivity growth, %	Due to structural change, %
Asia	3.87	3.31	0.57
High Income	1.46	1.54	-0.09
LAC	1.35	2.24	-0.88
Africa	0.86	2.13	-1.27

So...

- Currently, in Africa labour moving from high productive sector (manufacturing) to low productivity activities
- Perverse structural change hampering productivity growth (Mozambique as case)
- Happening in parallel with MDG progress (see WIDER draft position paper on aid and social sectors)
- Three key challenges identified in UNU-WIDER's 2014-18 work programme:
 - Transformation
 - Inclusion
 - Sustainability

Key issues of the 21st century

Development:

- >1 billion absolutely poor people on the globe
- 36 low income countries
- 47 fragile states
- Continued vulnerability to trade (dependence on commodities) and financial shocks

Environment:

- Global warming
- Fish stock declines
- Biodiversity and mass extinctions
- Deforestation and
- Land degradation
- Etc.

Climate change is of potentially transcendent importance

What can aid do – a few examples (1)

- Agriculture's share down: 6% of OECD-DAC aid in 2011 (\$1.7 billion)
 - But 2/3 of population relies on agriculture and critical for food security
 - Need increase in agricultural productivity & movement up the value chain
- So: aid can support rural transformation, i.e.
 - Small farm agriculture (seeds and much more)
 - Rural non farm enterprises/processing
 - Social protection policies that stabilize consumption
 - And infrastructure
 - Recall UNU-WIDER's Mozambique-Vietnam comparison

What can aid do – a few examples (2)

- In industrial policy focus required on constraints that prevent enterprises from growing:
 - Capabilities, Credit, Energy, Transport & Communications etc
- Dilemma of small/medium versus large enterprises – how best create growth and high productivity jobs?
- Attracting private investment: not just regulatory reform (e.g. “doing business” indicators)
- Recall UNU-WIDER’s L2C

What can aid do – a few examples (3)

- Untapped potential in regional integration
- Aid can support
 - Inter country trade accounts for only 11% of Africa trade flows
 - Underinvestment in regional transport infrastructure is characteristic and it prevents positive externalities from accruing to landlocked neighbours (these externalities are not internalized)
 - But countries do need to reduce barriers to trade

What can aid do – a few examples (4)

- Aid can help accelerate adaptation to climate change in Africa
 - Long-term planning and analysis required for effective adaptation
 - Current stock of infrastructure requires maintenance (flooding etc)
 - Africa's renewable energy resources untapped: high cost of financing capital for green energy suggests aid may have a supportive role
- Recall WIDER's DUCC + ReCom work
 - Aid, environment and climate change (e.g. Stockholm results meeting + Vietnam climate report)

What can aid do – a few examples (5)

- Aid has an obvious role to play in fragile states, for example:
 - Reduce integration to global economy via bad ways: piracy, narcotics, human trafficking
 - Increase control over revenue (i.e., reduce corruption)
 - Encourage transparent fiscal processes & inclusive growth
 - Programme support for state building – in addition to project support
- See WIDER draft position paper on aid, governance and fragility



Looking post-2015

UN High-Level Panel report on the post-2015 development agenda

- Calls for:
- “..A quantum leap forward in economic opportunities and a profound economic transformation to end extreme poverty and improve livelihoods...”
- How could aid best feed into this endeavour?

Aid post-2015

- Must deal with:
 - Increased complexity (on supply side)
 - The new geography of poverty (middle income countries)
- In addition to:
 - Helping preserve the gains made in peace & stability
 - Addressing challenges in a “hard core” of fragile states
- And help underpin ongoing efforts towards ensuring:
 - Transformation (agriculture and industry)
 - Inclusion (including gender – see ReCom aid and gender position paper)
 - Sustainability (mitigation, adaptation, energy)

Roles for aid post-2015

- Reiterate: aid will clearly continue to have a key role in fragile, resource-poor countries:
 - They need to “accumulate” (physical, human and institutional capital) + grow as other countries have done
- The aid system should also devote attention to middle-income countries, for example due to:
 - The concentration of absolutely poor people in middle-income countries + the key role that middle-income countries have in combating global environmental problems
 - This assistance will mainly have to take the form of demand driven “soft assistance” that enhances local capacities

Roles for aid (cont.)

- The role of aid and aid institutions in the provision of global/regional public goods could also be enhanced
 - Examples: the provision of information (health, agriculture, water and transboundary river basins, technology, research)
- Aid could also prepare to assist with the transformations required to confront global environmental issues while providing inputs for the development of appropriate public policies at global and national levels
 - Fundamental ideas behind REDD, CDM, GEF, and GCM remain valid and appealing (see WIDER position paper on Aid, Environment and Climate Change)
 - **BUT** development will only be possible if the most vulnerable are protected against the impact of climate change
 - **NOT** saying “development” aid money should be spent on the “environment”

An example

- **Independent tracking of emissions at the country level**
 - Global greenhouse gas emissions should peak at or before 2030 and then decline thereafter
 - Difficult to achieve without adequate monitoring
 - This is an auditing function best placed in a newly created, specialized, independent and technically competent institution (maybe difficult to “sell” at the moment – but...)

In sum

- Aid must post-2015 adapt to emerging national and global contexts, including how to deal with:
 - Increased complexity (on supply side)
 - A “hard core” of fragile states (including building state capability)
 - The new geography of poverty
 - Global public goods (climate, health)
- Much of this is unknown territory -> the need for high quality development policy research
- ReCom has taken a first step with sizeable output – but efforts need to be continued

Some questions for further reflection

- What does the emerging distribution of global poverty mean for the new global development agenda – and for aid?
- Should focus in aid be on poor countries or on poor people?
- Should aid confine itself to social sectors in the fight against poverty?
- What is aid's role in growth and employment generation?
- How should the international community address the concerns with inequality?
- Should aid be allocated to address climate change?
- How can aid promote inclusive development?



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