



Aid, Growth and Africa: the Changing Context

By

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World Institute for Development
Economics Research

Overview

- Introduction
- Aid, growth and development: what do we know?
- The changing global context: challenges and opportunities for aid
- Conclusions – a post 2015 perspective

Introduce recent 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
- **A sizeable research output now available under 5 core themes (incl. 200 WIDER WPs)**
 - see <http://recom.wider.unu.edu/>
- **We have drawn on this in preparing, for example, our Oxford Handbook paper**

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

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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**
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- 3 The principles of effective civil service reform in developing countries**
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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 do for economic growth and jobs?

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



Aid, growth and development: what do we know?

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
 - 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 so 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!
 - The macro-evidence has been piling up – and yes we can by now say quite a lot
- To a brief summary (skipping a lot)

From Rajan and Subramanian onwards

- Rajan and Subramanian
- 14 published papers post 2008 studying aid impact over the long run
 - 13 find positive effects (the outlier is ...)
 - Results suggest: a 10% increase in aid/GDP leads to 1% increase in rate of growth
 - Channels identified: investments in physical capital, health & education
- Overall, aid has had impact – IRR of 7.3% (without welfare weighting)
- Time horizon of analysis important and heterogeneity!
- See WIDER position paper on aid, growth and employment

So...

- To the extent the existing aid system was designed at all, it was designed to improve the livelihoods of poor people in poor countries.
- Much has been achieved. Many countries (including former fragile states) have “graduated” and new donors have emerged (Republic of Korea).
- And looking beyond 2015: in 10 years 36 of 68 current IDA recipients will graduate out of IDA (CGD study)
 - Especially the large countries will graduate: India, Vietnam, Pakistan, Nigeria, Ghana and Kenya
 - Population in IDA eligible countries will fall from 3 to 1 billion)
- But success of course not always guaranteed: no sensible person.....



Africa and the Global Economy: Challenges and Opportunities



Risks of shocks

- **Trade Shocks**

- Export markets have diversified: emerging economies 25% of Africa's export
- But 80% export revenue from commodities
- And vulnerabilities to *global* shocks still exist

- **Financial Shocks**

- Affect supply of trade finance

- **Do away with aid?**

- In this environment?
- Public versus private (FDI other) flows!

What 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*

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
- Happening in parallel with MDG progress (see WIDER draft position paper on aid and social sectors)
- Donors could recalibrate efforts towards:
 - Agriculture?
 - New industrial policy?

What can aid do – a few examples (1)

- Agriculture's share: 6% of OECD-DAC aid in 2011 (\$1.7 billion)
 - But 2/3 of population still relies on agriculture and critical for food security
 - Need increase in agric 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!!

What can aid do – a few examples (2)

- In industrial policy focus required on constrains 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)

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 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 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
- See WIDER's ReCom work
 - aid, environment and climate change (e.g. Stockholm results meeting)

What can aid do – a few examples (5)

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



Looking post-2015

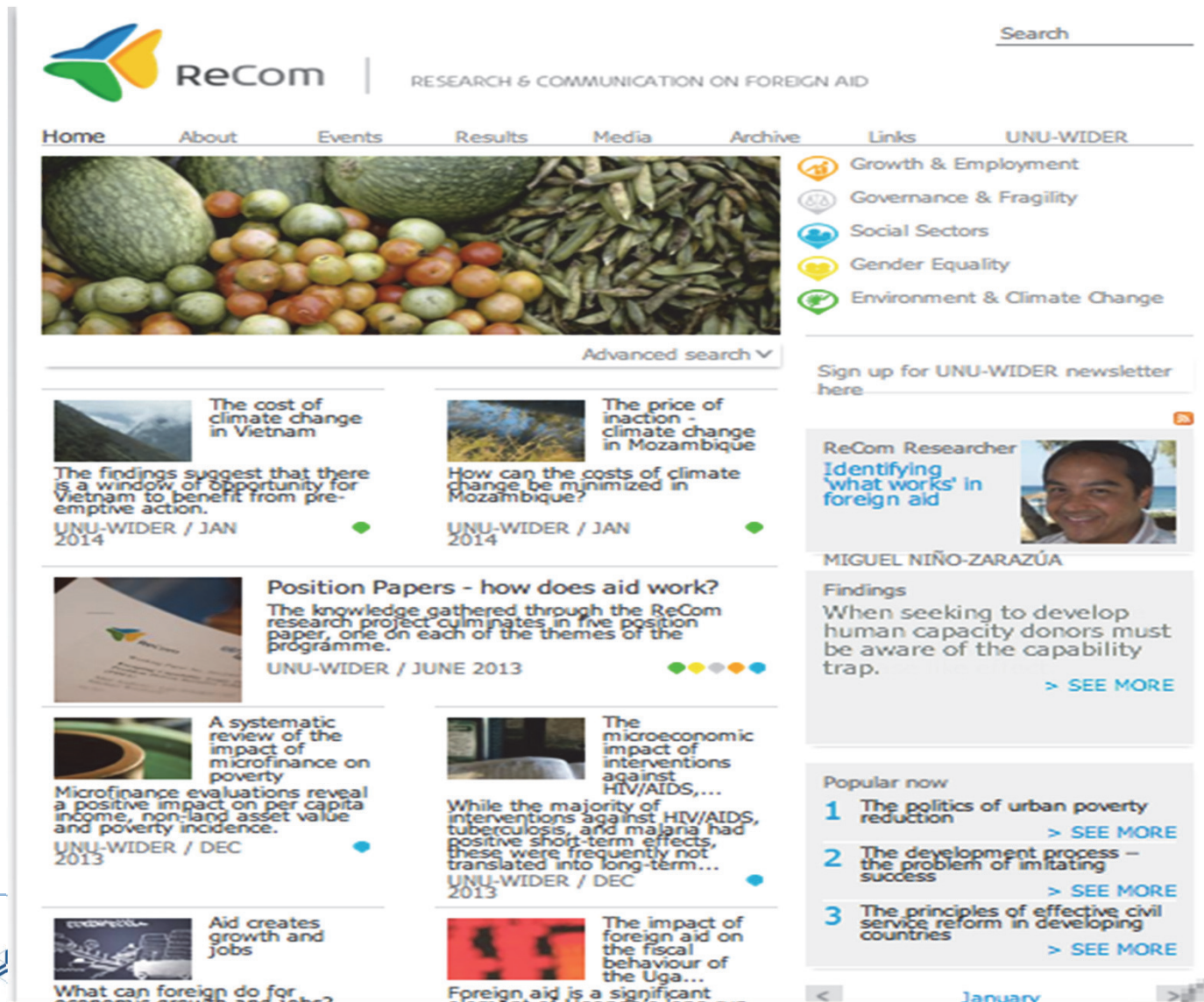
UN High-Level Panel report on the post-2015 development agenda

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

The Relevance of Aid

- 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

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



The screenshot shows the ReCom website homepage. At the top left is the ReCom logo, a stylized bird-like shape in blue, green, and yellow, followed by the text "ReCom" and "RESEARCH & COMMUNICATION ON FOREIGN AID". To the right is a search bar. Below the header is a navigation menu with links for Home, About, Events, Results, Media, Archive, Links, and UNU-WIDER. A large banner image of various fruits and vegetables is displayed. Below the banner is an "Advanced search" dropdown. The main content area features several article teasers with images and text. On the right side, there is a sidebar with a list of categories: Growth & Employment, Governance & Fragility, Social Sectors, Gender Equality, and Environment & Climate Change. Below the categories is a sign-up form for the UNU-WIDER newsletter. Further down, there is a "ReCom Researcher" section featuring a profile for Miguel Niño-Zarazúa with the title "Identifying 'what works' in foreign aid". Below this is a "Findings" section with a quote: "When seeking to develop human capacity donors must be aware of the capability trap." and a link to "SEE MORE". A "Popular now" section lists three items: 1. The politics of urban poverty reduction, 2. The development process - the problem of imitating success, and 3. The principles of effective civil service reform in developing countries. At the bottom, there is a calendar navigation showing "January".

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