

Topic 2: Foreign Aid to Fight Poverty?

Topic 2.1: Poverty and Aid, the debate



Plan for this 1h25

- 0. Brief recap from lecture 1 – 5'
- 1. Topic 2.1: Foreign Aid to Fight Poverty? The debate – 30'
- 2. Topic 2.2. Foreign Aid to Fight Poverty? Research and data – 30'

Recap and main points from lecture 1

- 1. Introducing ourselves.
- 2. Introducing the course.
- 3. The assignments.
- 4. Topic 1: introducing development economics

Understanding how to contribute to improving the living conditions of those in poverty.

Research

Guinea-Bissau and Moçambique

Information and rural development



Traditional medicine and health



Support policies to SMEs



Group composition and performance










Enrolling to the course in Moodle

2738-Development Economics I-2425_T3

Home / Courses / 2024/25-Masters / 2Sem / 2Sem-1st / 2738-2425_T3



This course provides an overview of development economics, emphasizing its distinct features within the broader field of economics. Beyond theory and empirics, it aims to equip students with the skills to critically assess scientific research and policy briefs, enabling them to apply evidence in policymaking and analysis.

We will take the perspective of researchers and analytical policymakers, focusing on how economic research informs real-world decisions. A key component will be learning impact evaluation methods, covering experimental and quasi-experimental approaches to measure development interventions effectively.

Course ENROLMENT key: dev_midpp_i_2025

Announcements

Course Syllabus v1

Enrollment in Moodle opened until the 14th of October

Please use **Moodle or email for communication** – need for Teams group?

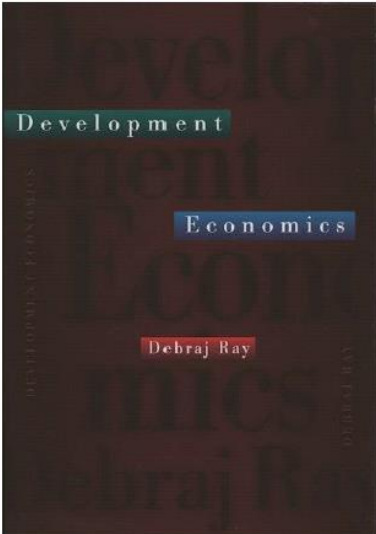
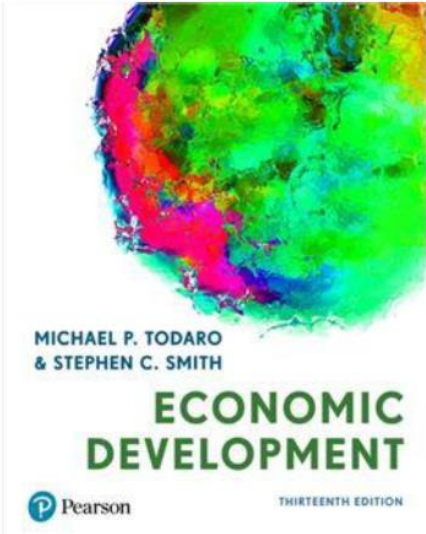
When each material in Moodle is considered final it will say so in the file's name.

Weekly readings

Everyone should read (in advance) the paper and policy brief discussed every week in class.

It is highly advised to read the papers covered in the lectures in advance, with (P) in the syllabus, *to be updated*.

The course is based on research papers, for complementary background and information




DEVELOPMENT ECONOMICS I | LECTURE 1 – 1. PERSONAL INTRODUCTIONS

NOVAFRICA Internships / Research Assistantships



Link in the figure above

- Great – first- step to get experience working in international development.
- Frequently 2 to 9 months in Guinea-Bissau, Mozambique, Cabo Verde...
- Steep learning curve: varied complex tasks and high responsibility in a –often- completely new context.
- Outside of the academic year.
- You can start by joining [NOVAFRICA Student Group](#):
 - Pizza&Topic, Podcast and Blog.



The Discovery of Guinea-Bissau in Guinea-Bissau

- A completely safe country, with a cohesive, supportive, and very welcoming society.
- A country with great natural wealth.
- A country with terrible institutions – poorly managed.
Wealth is extracted: elites and other countries.



Topic 2.1: Poverty and Aid – the debate



Picture created by AI

2.1.1. Poverty and Welfare Measurement



Poverty and Welfare Measurement

DEFINING POVERTY AND WELFARE

Welfare: **level** of prosperity and standard of living, for an individual or group of persons:

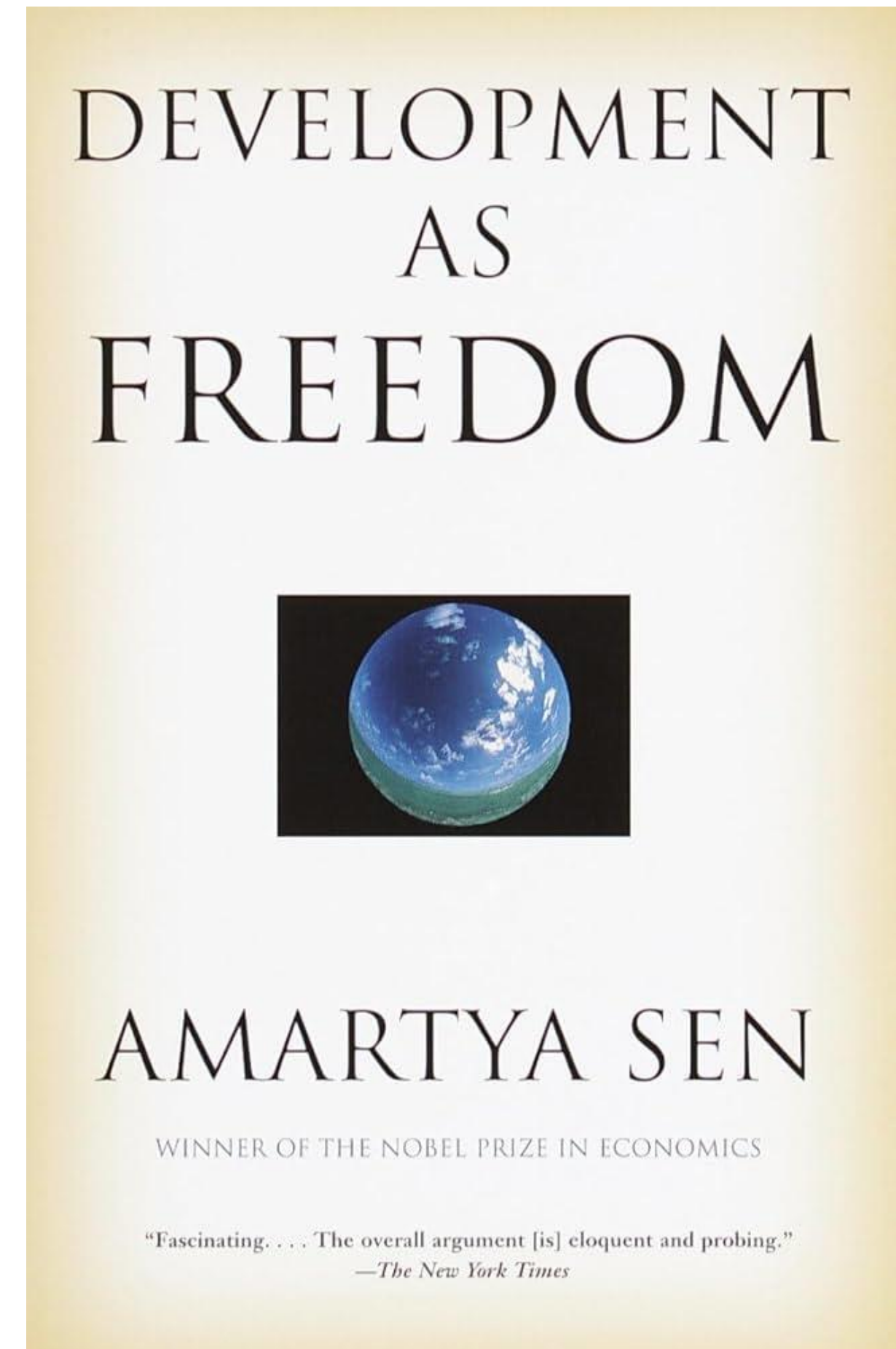
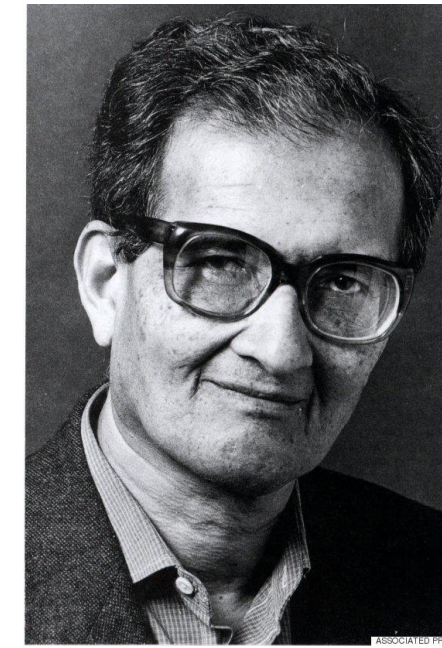
- GDP at the macro level and household consumption at the micro level.

Poverty: **lacking** the resources necessary to meet a minimum standard of living:

- Typically, also measured through income or consumption.
- Measuring poverty is a difficult endeavor: typically boiling down to poverty lines.

- **Amartya Sen's capability approach – Development as Freedom:**

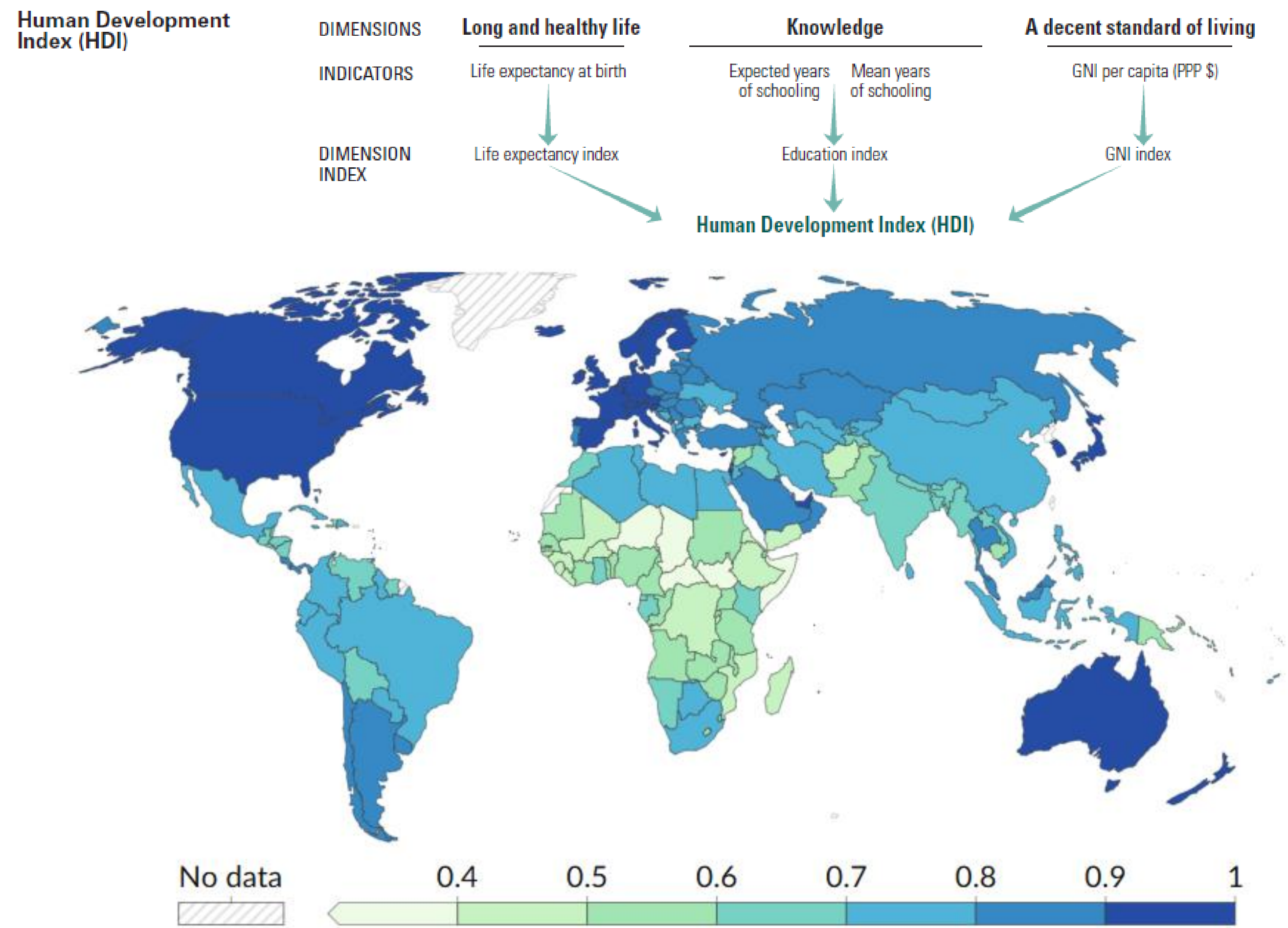
- Capabilities: the real freedoms or opportunities to achieve the functionings (or achievements) – access to education, healthcare and employment, to get to being healthy, educated and well-nourished.
- 5 main human freedoms: political, economic, social, transparency and security: allow humans to develop and become the best they can be.
- Increasing capabilities / freedom better for society than directly increasing productivity, in the long run.
- **Main implication: inclusion of education and health in the measurement of welfare / poverty.**



Summary video in the figure

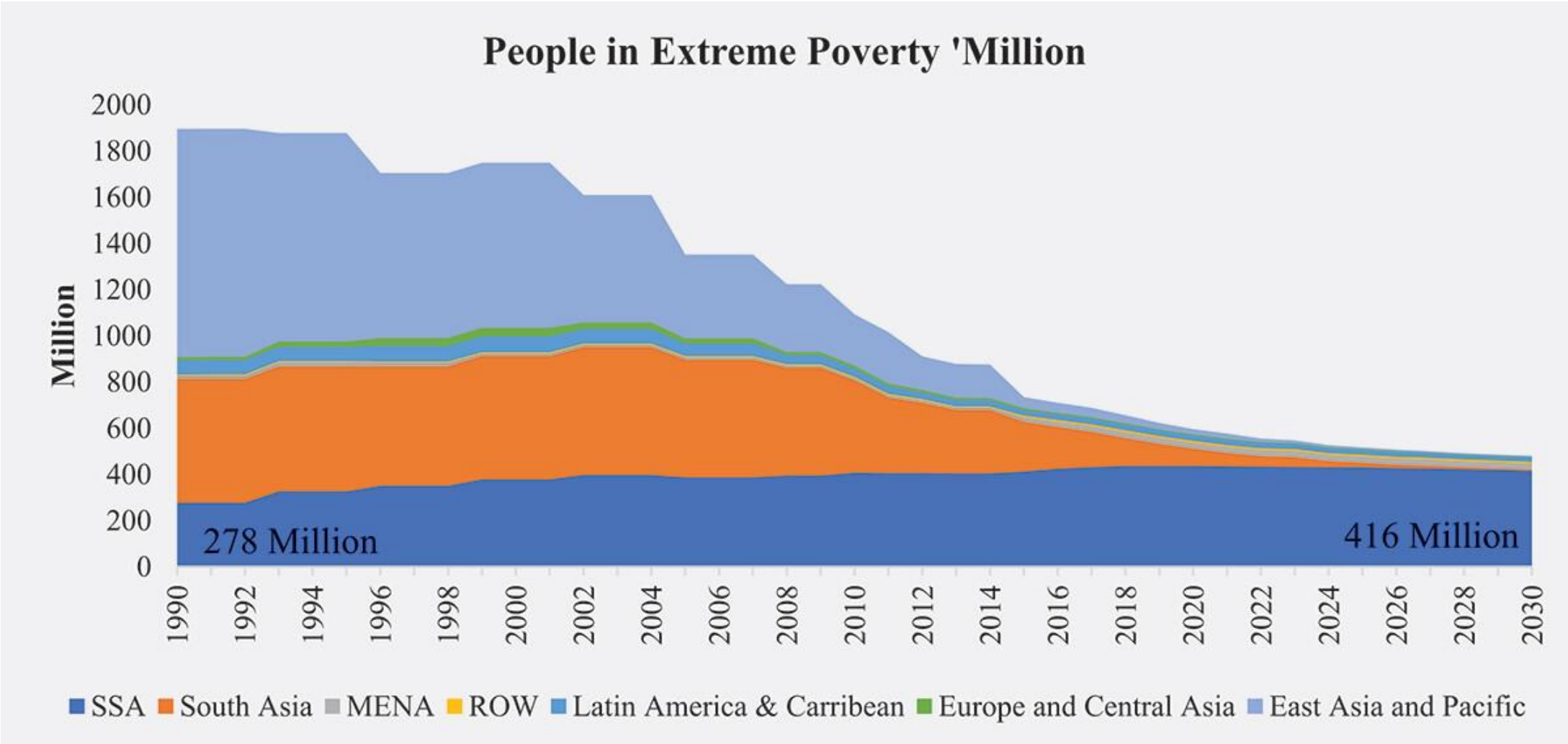
Measures of poverty

From the capability approach to UN Human Development Index (HDI)



Not just GDP per capita... But also based on averages: none of them directly measure inequality

Poverty lines, from household surveys
From \$1.9 to. \$2.15 in Sept 2022, based on 2017 PPP data (per person per day)



44% of the global population or 3.5 billion people below \$6.85/day threshold - [WB](#)

Poverty Measurement through Household Surveys

Deaton’s Nobel press release - *adapted*:

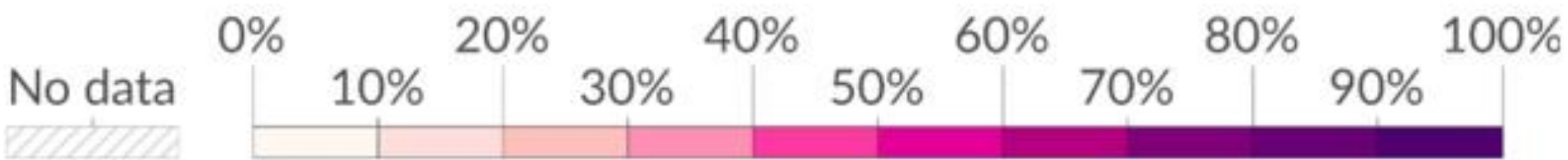
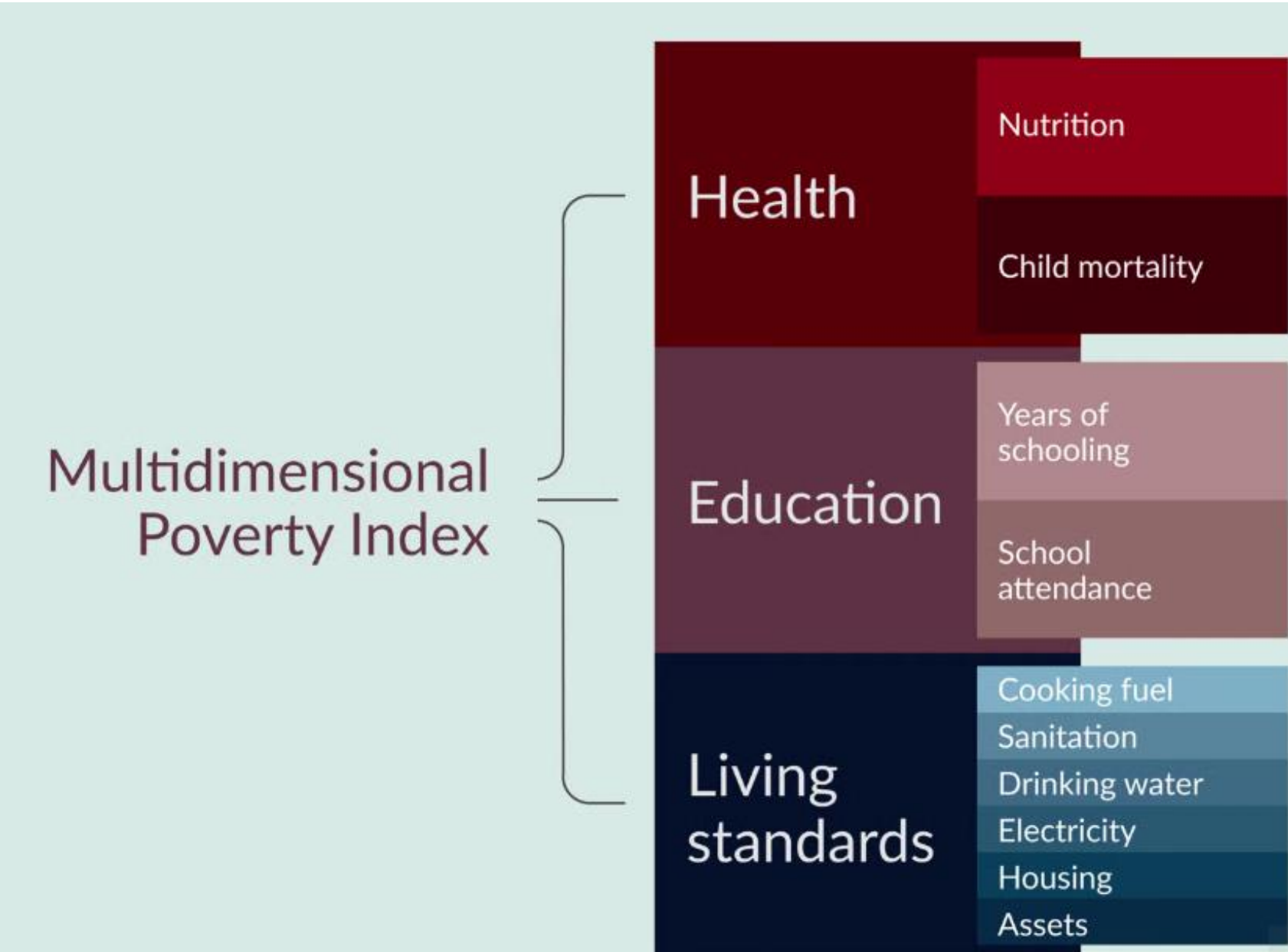
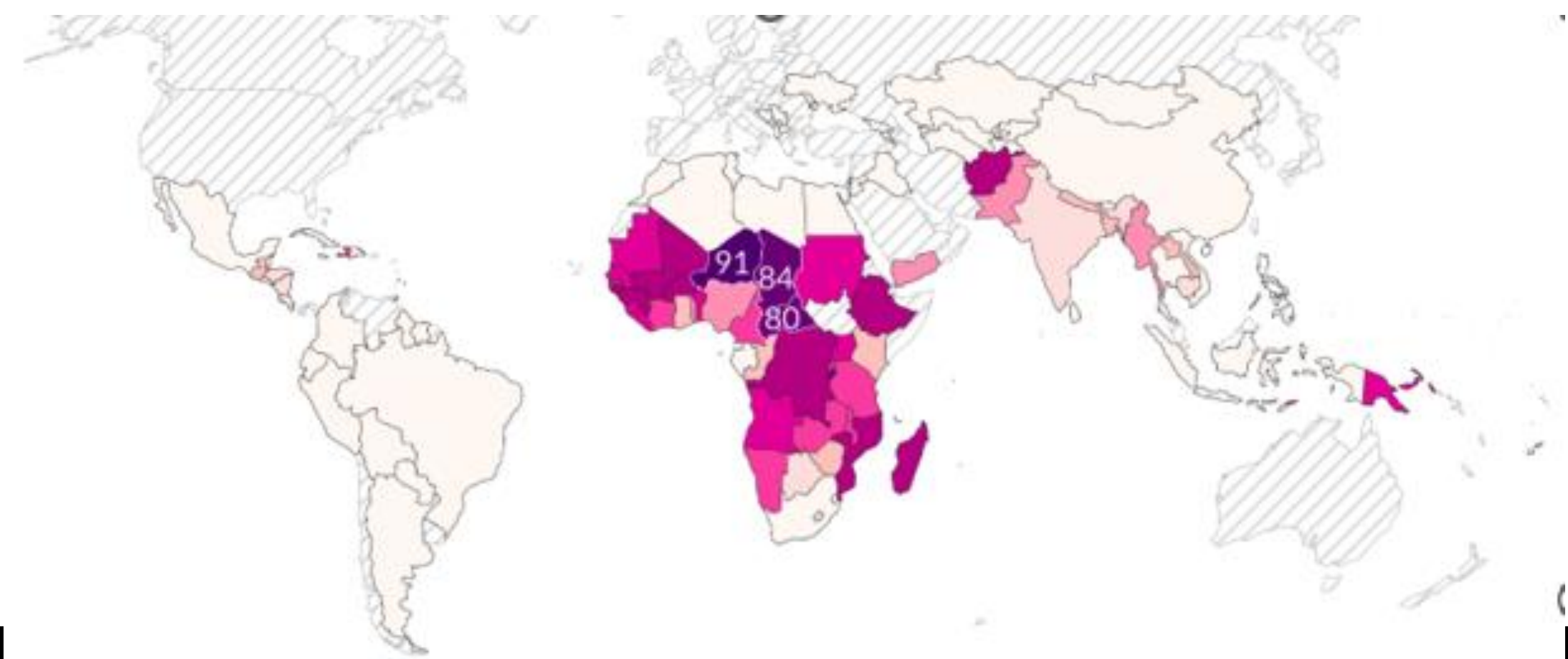
Deaton highlights how reliable measures of individual household consumption levels can be used to discern mechanisms behind economic development.

Deaton's focus on household surveys has helped transform development economics **from a theoretical field based on aggregate data to an empirical field based on detailed individual data**.

His findings highlighted how countries with similar GDP per capita could differ drastically in well-being: non-monetary deprivation, calorie intake, gender inequality... **multidimensional poverty**: understanding individual choices key to improving societal welfare.



Angus Deaton
Nobel Prize, 2015



Individuals classified as living in multidimensional poverty if they are deprived in at least 1/3 of the indicators.

Living Standards Measurement Study (LSMS)

The Living Standards Measurement Study (LSMS) is a household survey program housed within the **Survey Unit of the World Bank's Development Data Group** that provides **technical assistance to national statistical offices** in the design and implementation of multi-topic household surveys.

Since its inception in the early 1980s, the LSMS program has worked with **most statistics offices around the world**: generating high-quality data, incorporating improved survey methodologies, and building technical capacity.

The LSMS team also provides technical support across the World Bank in the design and implementation of household surveys and in the measurement and monitoring of poverty.

Challenges in a concrete –rural- context.

Countries/Economies

1 selected ✕ Clear

Filter...

- ☐ Ghana (9)
- ☐ Guatemala (2)
- ☒ Guinea-Bissau (4)
- ☐ Guyana (2)
- ☐ India (2)
- ☐ Iraq (6)
- ☐ Jamaica (28)
- ☐ Kazakhstan (2)
- ☐ Kosovo (3)
- ☐ Kyrgyz Republic (8)

License

Inquérito Harmonizado sobre as Condições de vida dos Agregados Familiares, 2021-2022

Guinea-Bissau, 2021-2022

Instituto Nacional de Estatística (INE)

Collection: [Living Standards Measurement Study \(LSMS\)](#) | [Fragility, Conflict and Violence](#)

ID: GNB_2021_EHCVM-2_v01_M Last modified: Aug 02, 2024 Views: 19850

[Public use data files](#)

Inquérito Harmonizado sobre as Condições de vida dos Agregados Familiares 2018-2019

Guinea-Bissau, 2018-2019

Instituto Nacional de Estatística (INE)

Collection: [Living Standards Measurement Study \(LSMS\)](#) | [Fragility, Conflict and Violence](#)

ID: GNB_2018_EHCVM_v02_M Last modified: Sep 01, 2022 Views: 89705

[Public use data files](#)

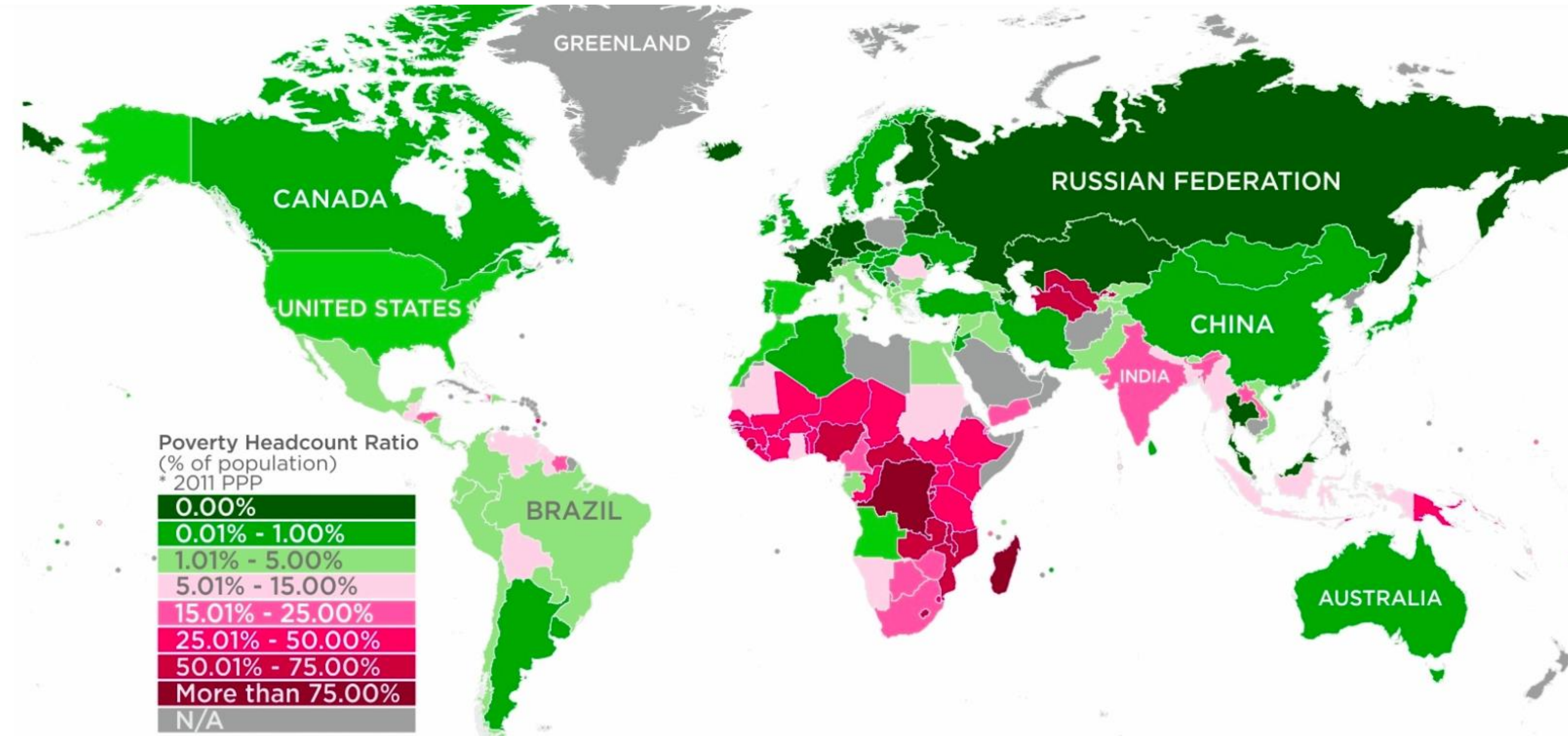
<https://www.worldbank.org/en/programs/lsms#>



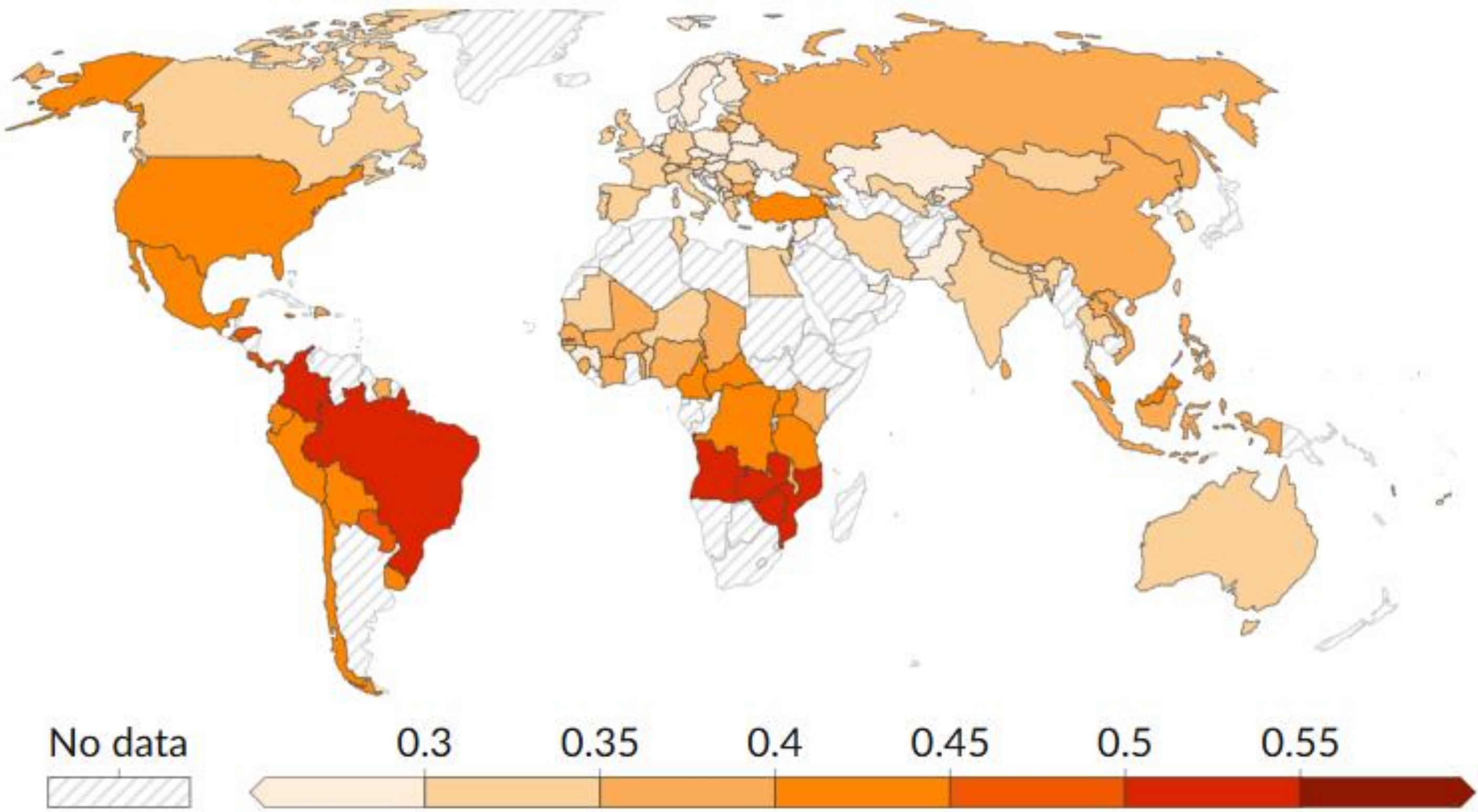
Picture created by AI

LSMS: Absolute poverty lines

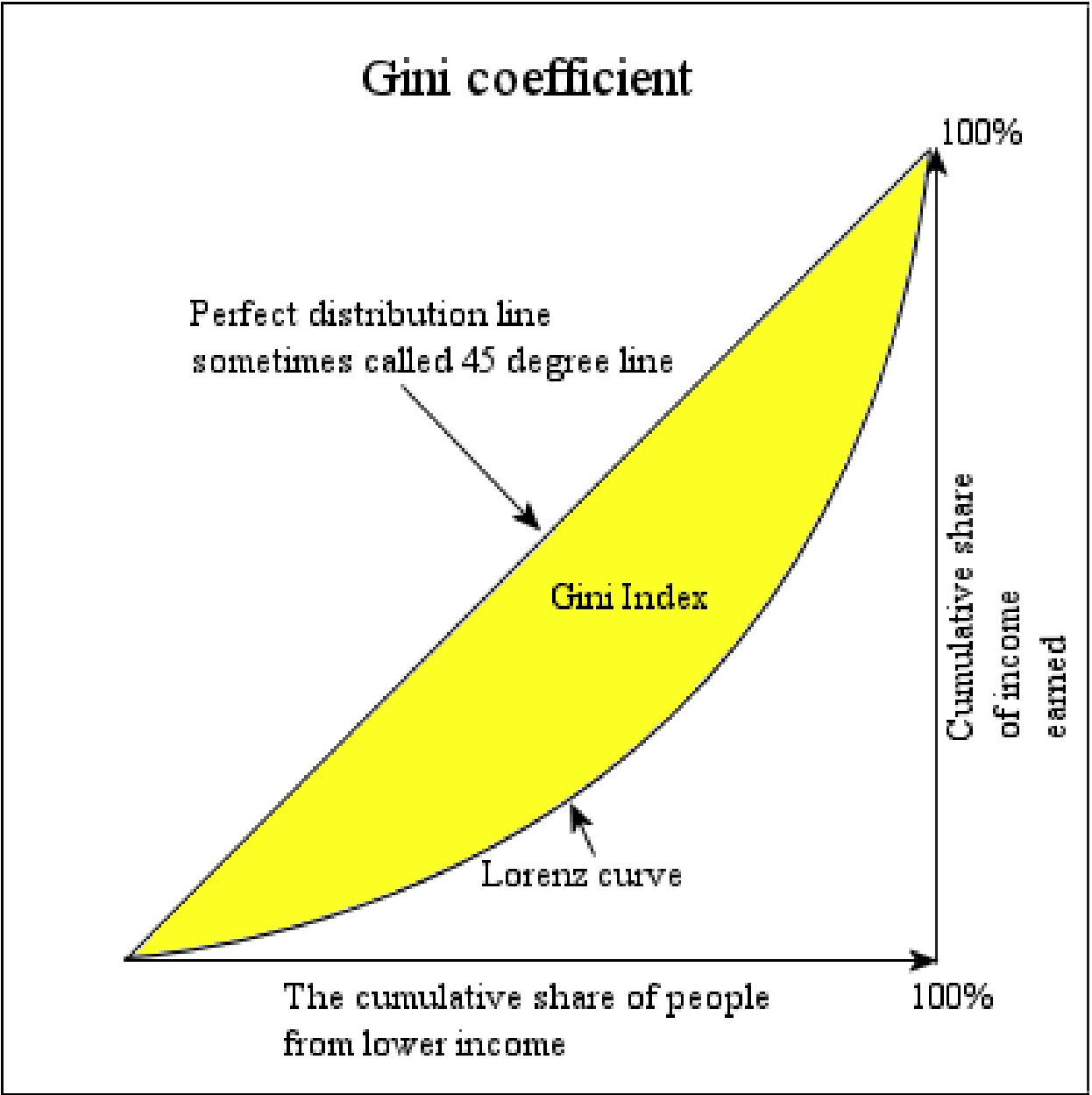
People living in extreme poverty – percentage on less than \$1.9 a day - 2018



Measuring inequality

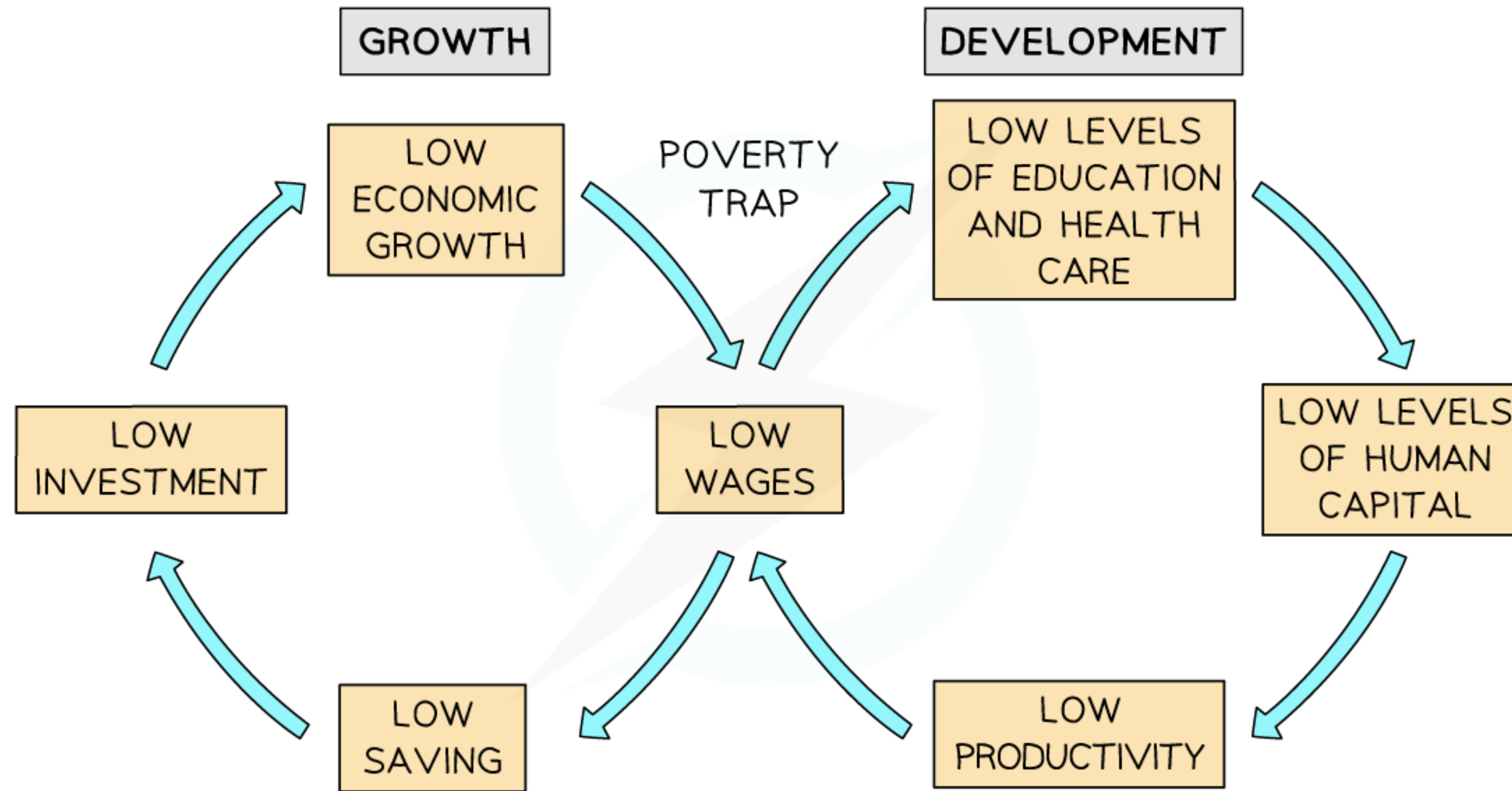


<https://ourworldindata.org/grapher/economic-inequality-gini-index>



Tuca Vieira

Poverty traps



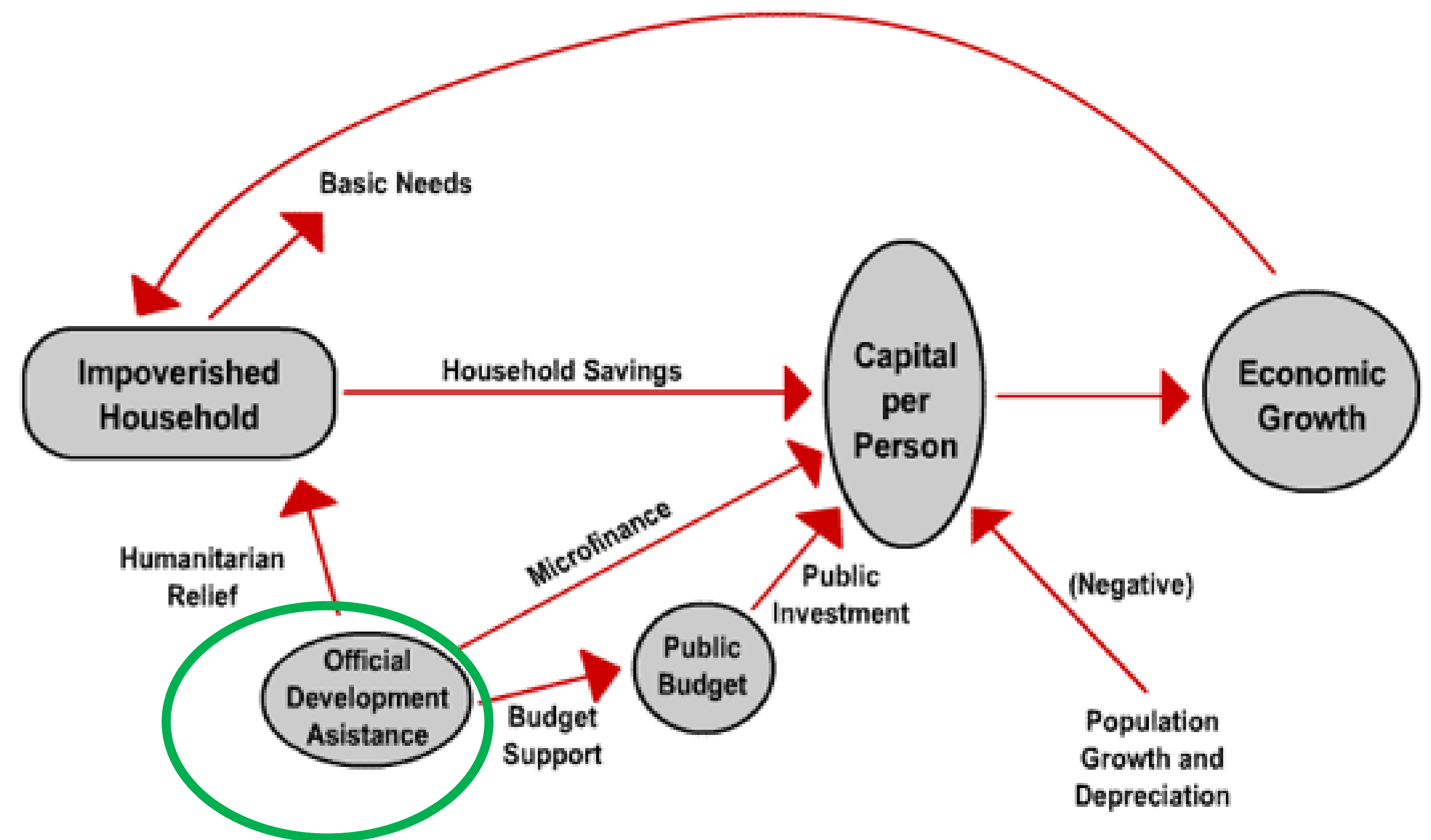
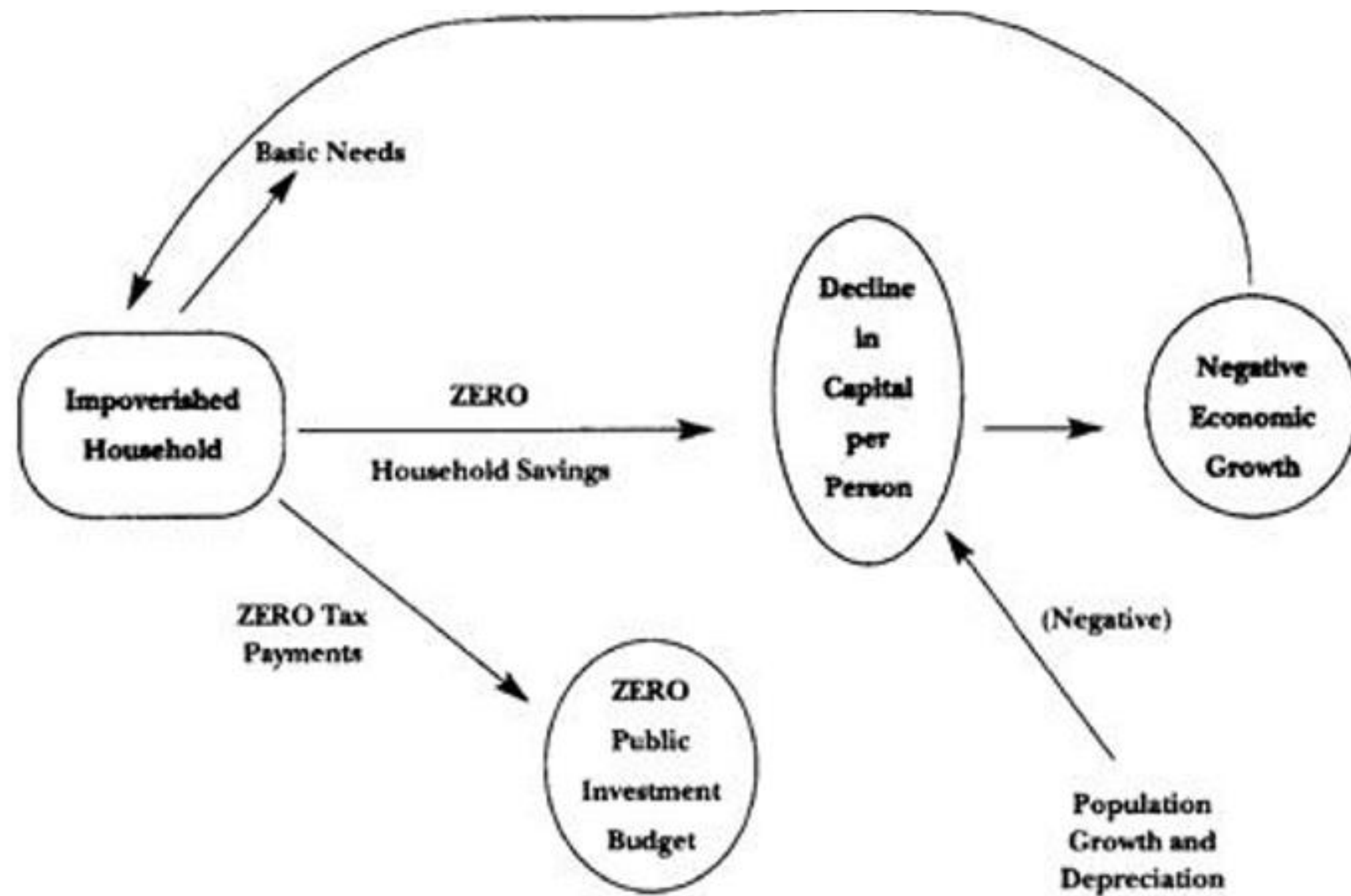
Topic 2.1.2 : Poverty and Aid: the debate



Picture created by AI

The role of ODA in breaking the poverty trap

THE THEORY



What is Foreign Aid?

OFFICIAL DEVELOPMENT ASSISTANCE

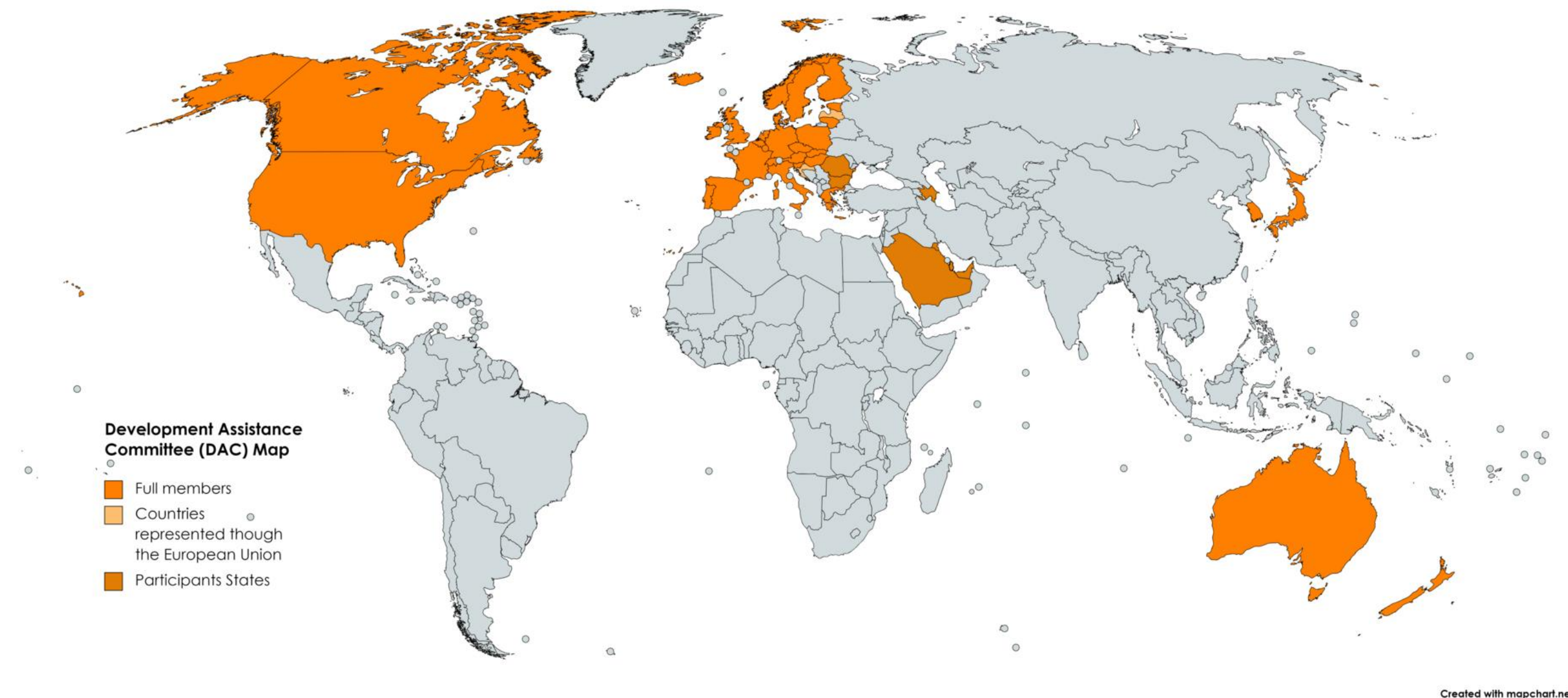
The Development Assistance Committee (DAC) of OECD defines **Official Development Assistance (ODA)** as

‘those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are:

- i. provided by official agencies, including state and local governments, or by their executive agencies; and
- ii. each transaction of which:

a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and

b) is concessional in character and conveys a **grant element** of at least 25 per cent.’



Bilateral and multilateral aid agencies



The Millenium Development Goals (MDGs) 2000 – 2015

8 goals targeting extreme poverty, education, gender equality, health, and sustainability.

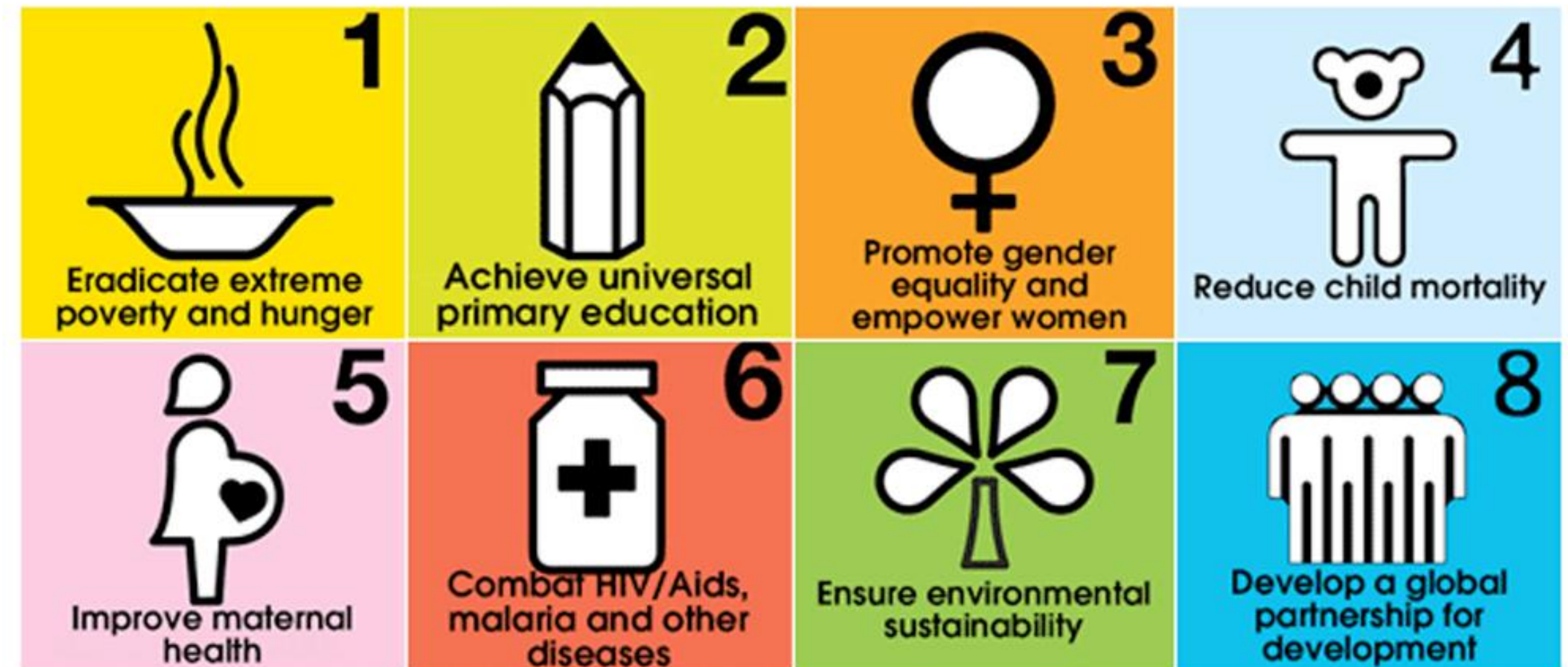
Key achievements:

- Extreme poverty halved (1.9B to 836M people).
- Global primary education enrollment reached 91%.
- HIV infections fell by 40% (2000–2013).

Shortfalls:

- Child/maternal mortality reduced by <50% (missed two-thirds target).
- Sanitation and environmental goals unmet.

Overall: 3.5 of 18 targets achieved globally



The Sustainable Development Goals (SDGs) 2016 – 2030



17 goals expanding MDGs to include climate action, inequality, and sustainable cities.

2025 progress:

- Only 17% of targets on track.
- Stagnation since 2020 due to COVID-19, conflicts, and funding gaps (\$4T annual shortfall).

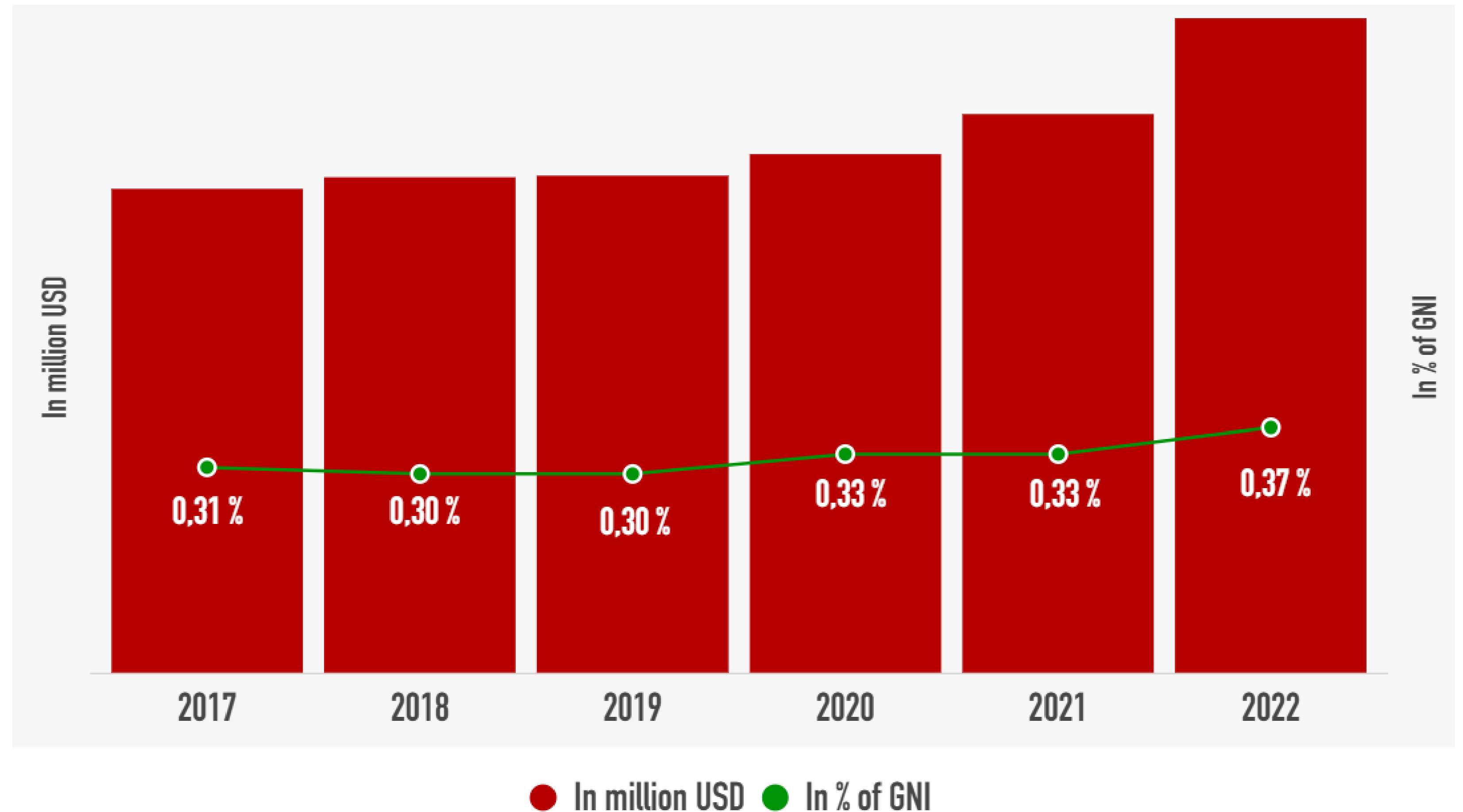
Bright spots:

- Nordic nations (Finland, Sweden) lead SDG rankings.
- BRICS+ countries progressing faster than global average.

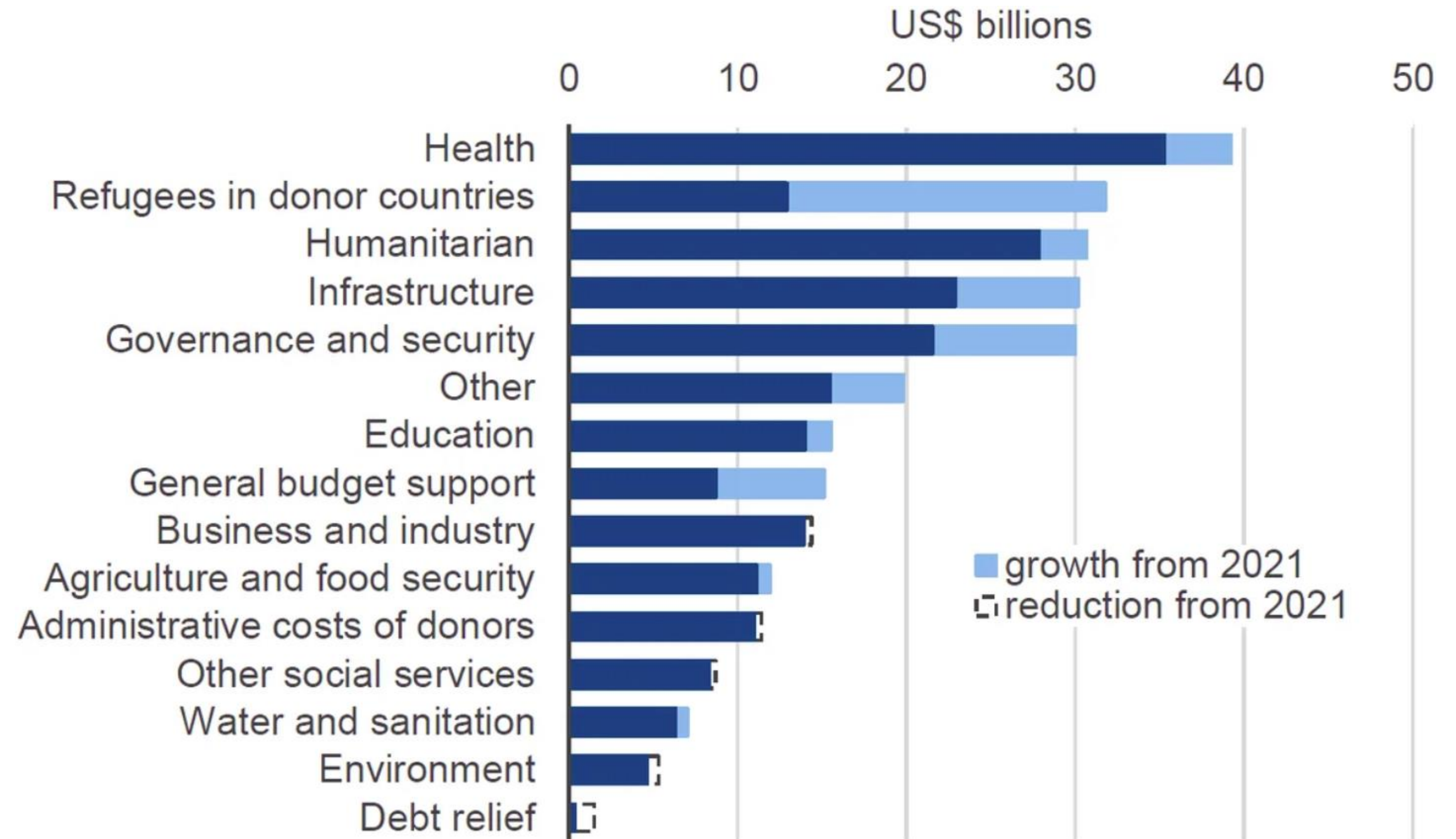
Urgent priorities: Climate resilience, debt relief, and equitable resource mobilization

ODA over time

*Grant-equivalent measure
In million USD (2021 constant prices) and as a proportion of total Gross National Income (GNI)*

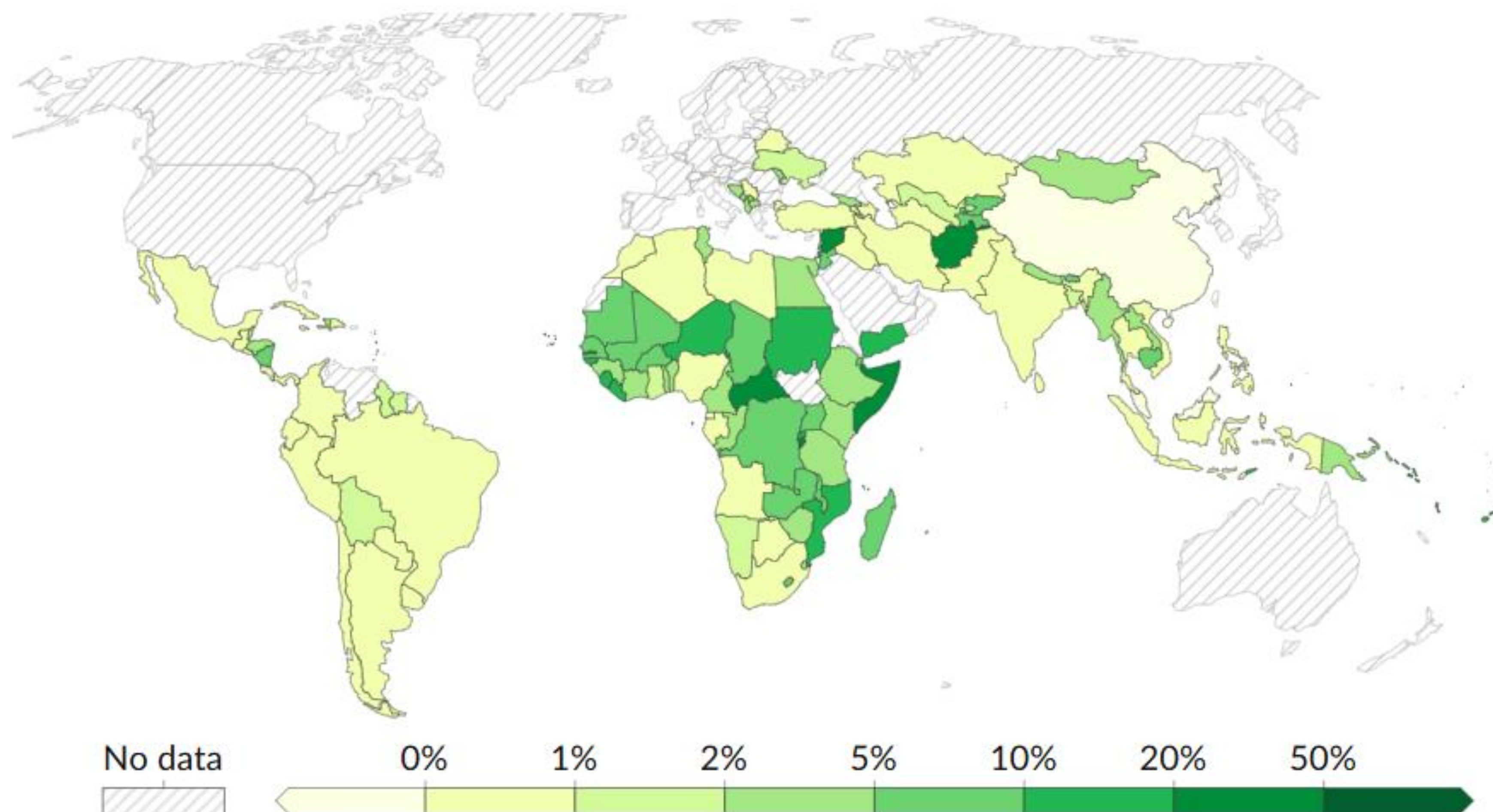


ODA by sector – 2022

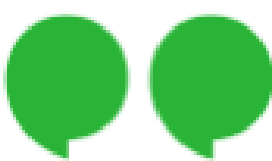


ODA recipients

ODA AS PERCENTAGE OF GNP



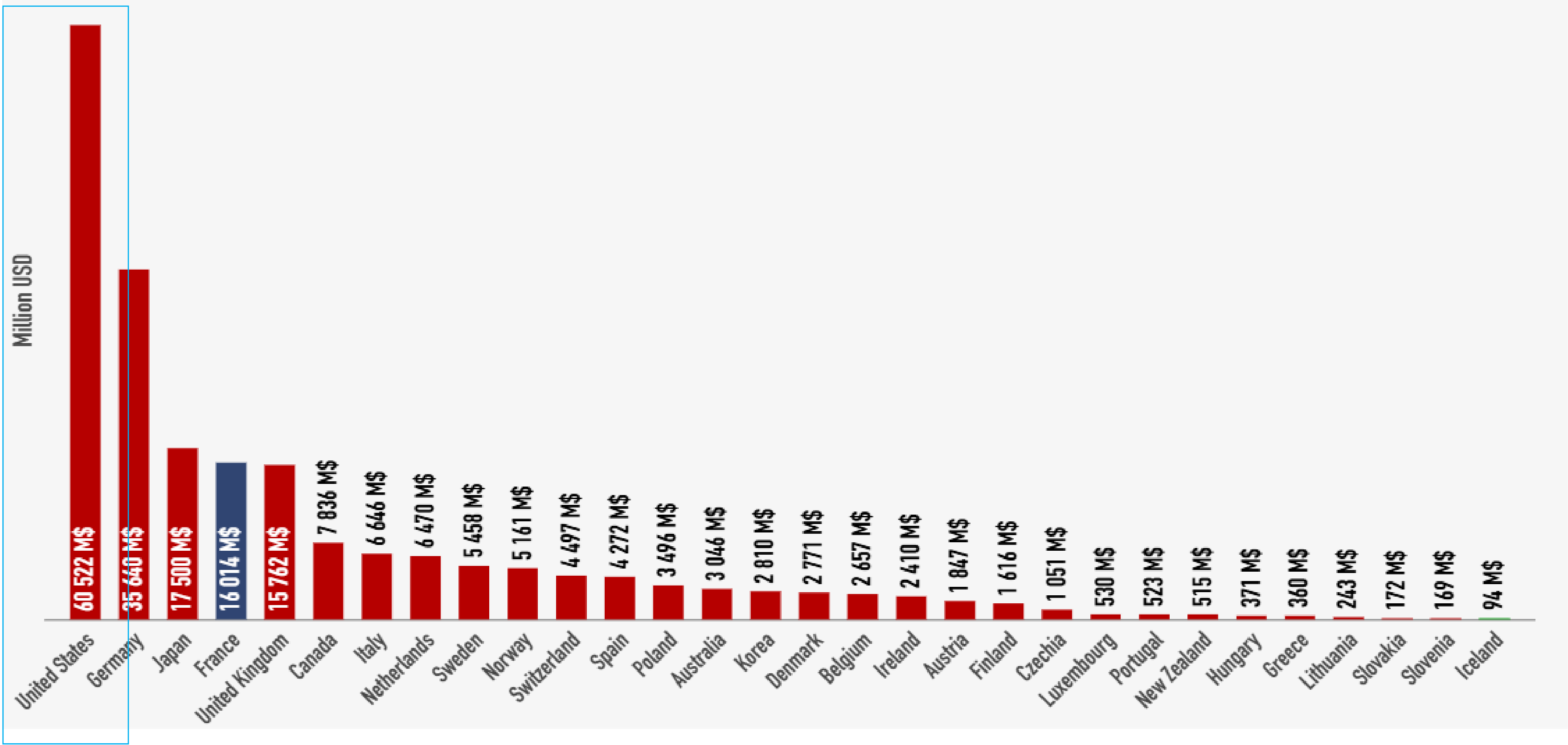
ODA by donor country – absolute values



OFFICIAL DEVELOPMENT ASSISTANCE (ODA) BY THE OECD DEVELOPMENT ASSISTANCE COMMITTEE



Grant-equivalent
Million USD, 2022



Source : OECD (2024).

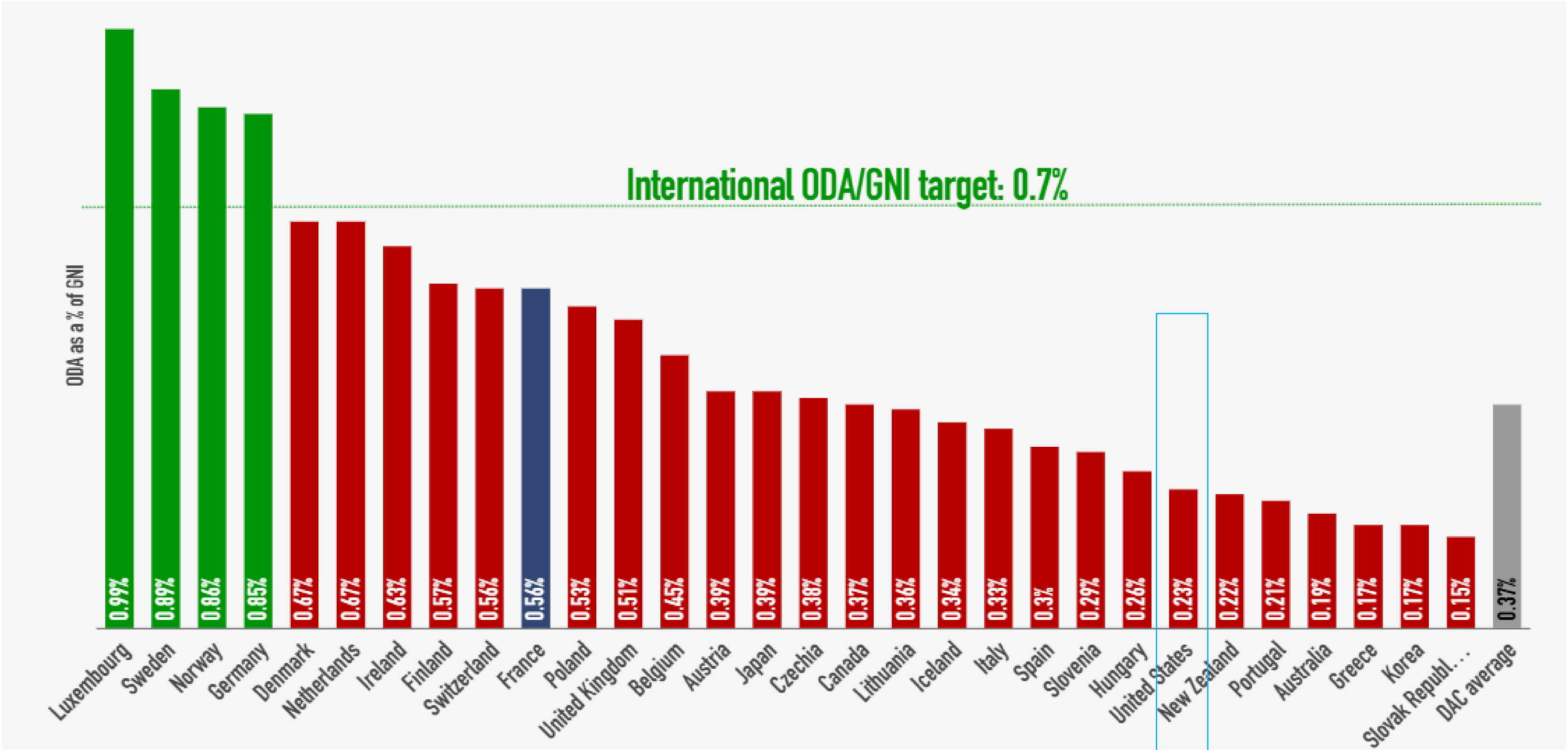


ODA by donor country – relative values



OFFICIAL DEVELOPMENT ASSISTANCE (ODA) BY THE OECD DEVELOPMENT ASSISTANCE COMMITTEE

As a proportion of their Gross National Income (GNI), 2022



Source : [OECD](#) (2024).



Trump and foreign Aid

US issues broad freeze on foreign aid after Trump orders review

By Humeyra Pamuk and Daphne Psaledakis

January 24, 2025 10:27 PM GMT · Updated 4 days ago



[1/2] The State Department Building is pictured in Washington, U.S., January 26, 2017. REUTERS/Joshua Roberts/File Photo [Purchase Licensing Rights](#)

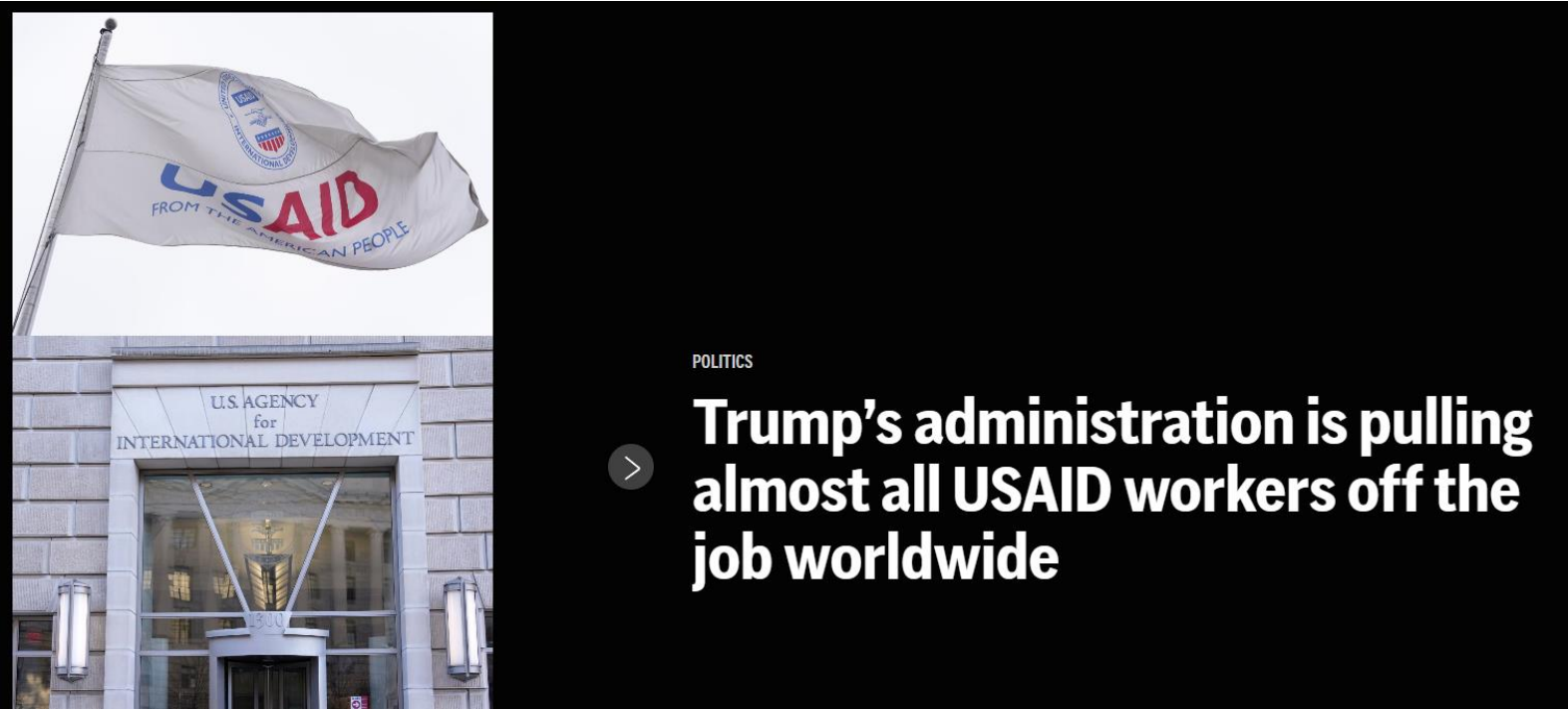


Trump's strict foreign funding freeze sparks panic among international aid groups

Nearly 60 senior USAID employees were placed on leave, sources said.

By [Shannon K. Kingston](#), [MaryAlice Parks](#), and [Karen Travers](#)

January 28, 2025, 2:33 PM



About 10.000 employees

Perceived vs. actual aid provided

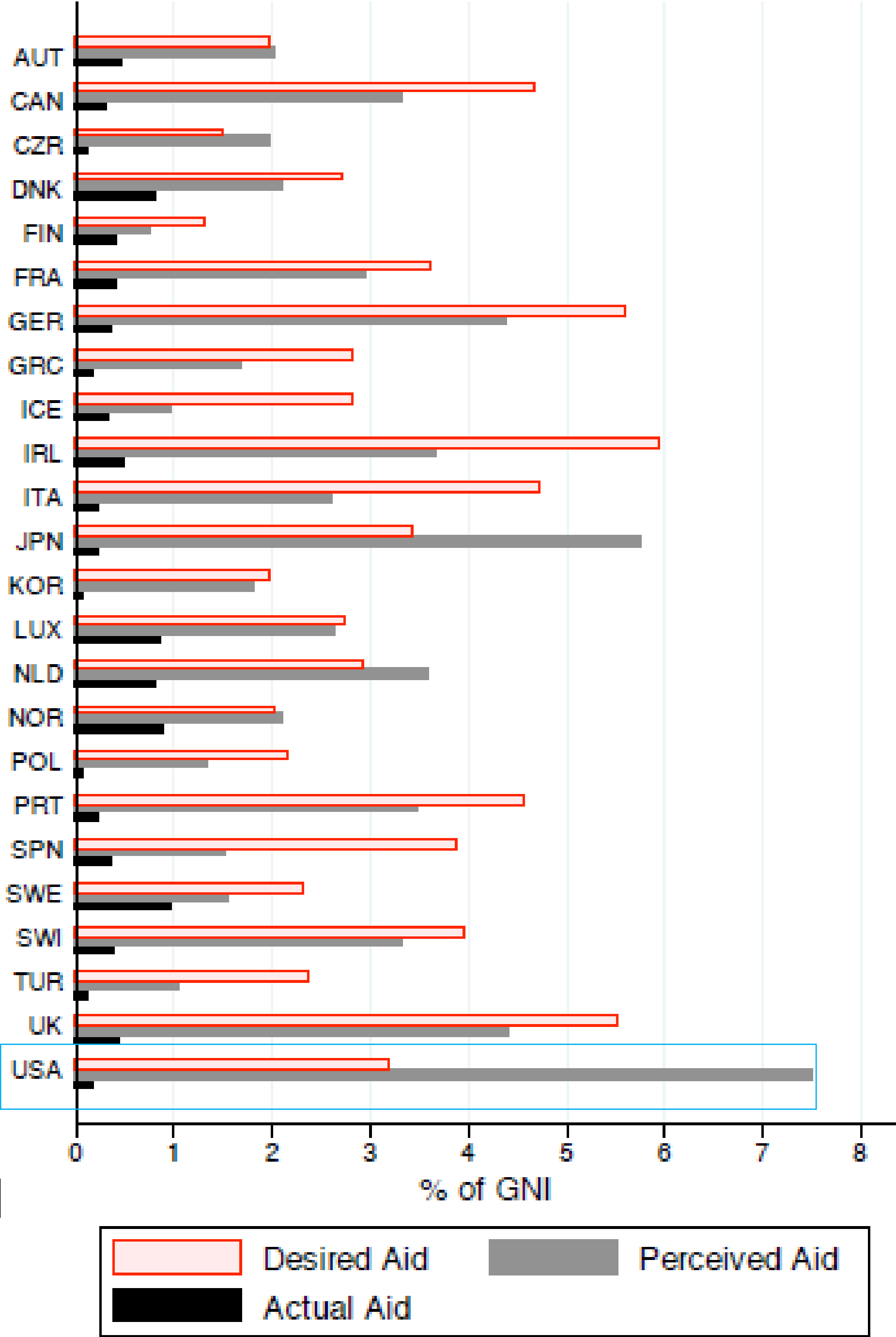
Kaufmann, McGuirk, and Vicente (2017), Gallup and OECD data

CNN

Politics

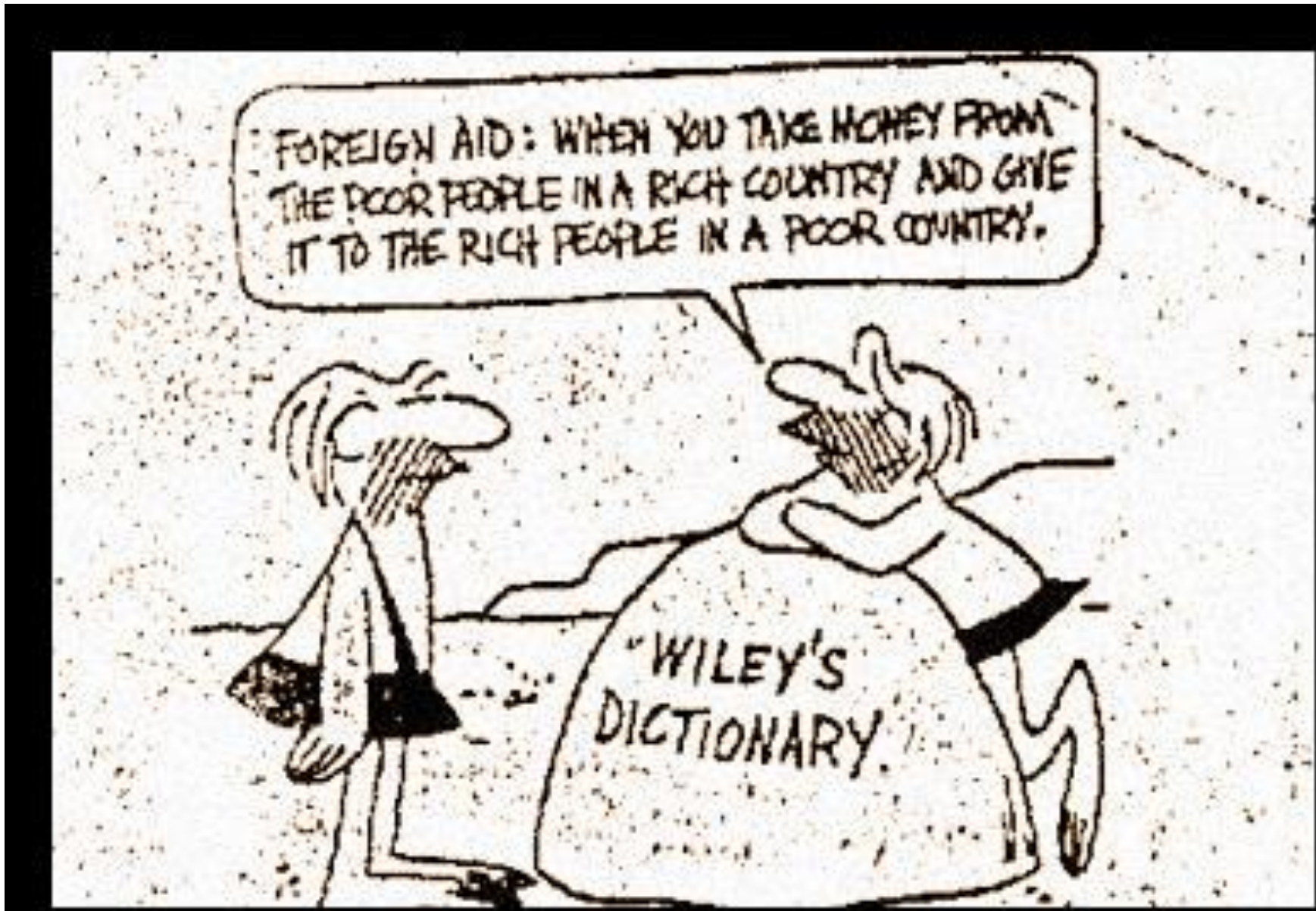
About 9 in 10 Republicans and 55% of Democrats agreed that the country was overspending on foreign aid. At the time, about 6 in 10 US adults said the government was spending “too little” on domestic issues that included education, health care, infrastructure, Social Security and Medicare.

Polling has shown that US adults tend to overestimate the share of the federal budget that is spent on foreign aid. Surveys from the Kaiser Family Foundation have found that on average, Americans say spending on foreign aid makes up 31% of the federal budget rather than closer to 1% or less.



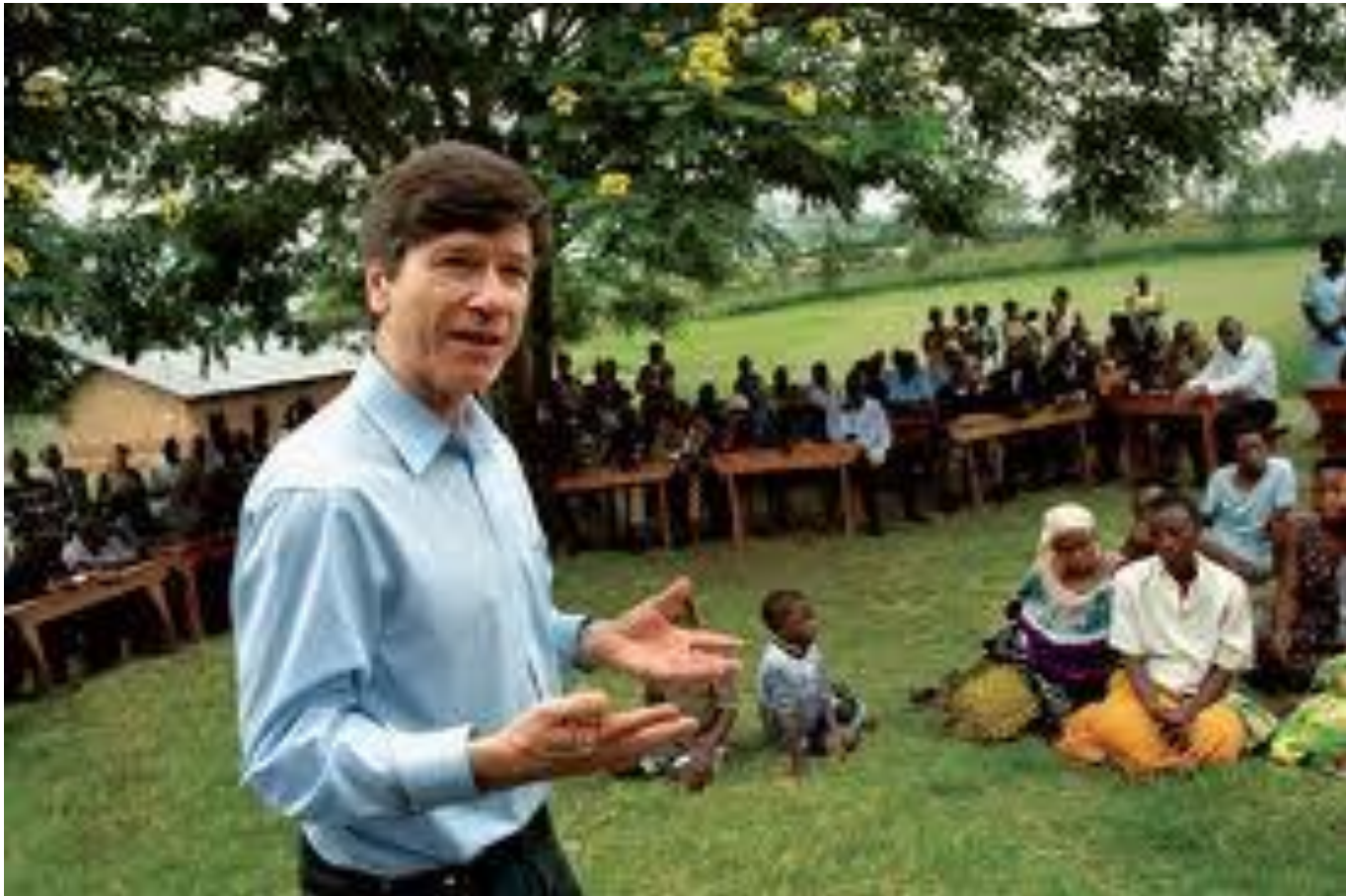
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2.1.3: The Aid Debate



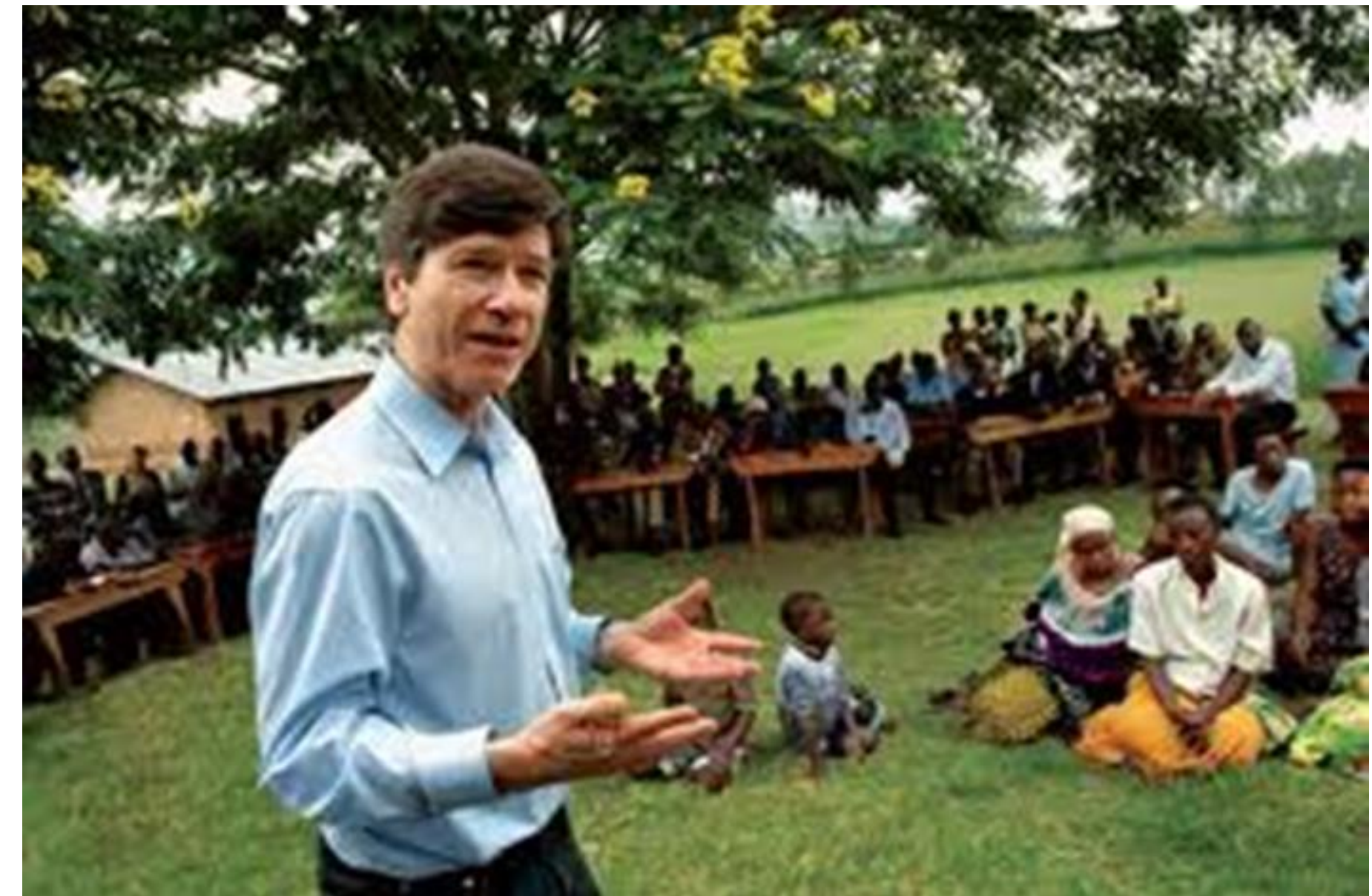
Making foreign aid work – Oxfam America

The Aid Debate



Jeffrey Sachs, enthusiasm: aid as the solution

- **Firm Advocate:** Believes that international aid is key to breaking the "poverty cycle" (poverty traps) and fostering economic development in the poorest countries.
- **Systemic Approach:** Argues that aid must be strategic, technology-based, and focused on key areas such as health, education, and infrastructure. **MDGs and SDGs.**
- **Global Interest Argument – beyond charity:** Presents aid not just as charity, but as a mechanism to ensure global security and stability, benefiting both donor and recipient countries.
- **Empirical optimist:** attributes empirical failures (of aid having positive impacts) to insufficient aid reaching relatively well-governed countries and issues with poor governance in others.



Professor at Columbia
Policy adviser for most of his career, namely for the UN
Aid enthusiast – talking to the masses

William Easterly – Aid skepticism

- **Critic of –current- International Aid:** William Easterly argues that foreign aid is often counterproductive, reinforcing corrupt and ineffective regimes in poor countries.
- **Advocate for Local Solutions:** Proposes replacing centralized and ambitious plans with decentralized, recipient-led approaches, promoting greater effectiveness.
- **Skepticism of Global Institutions:** Criticizes the IMF, World Bank, and other institutions for insisting on flawed policies, such as the notion that foreign aid always stimulates investment.
- **Focus on Self-Determination:** Argues that the rights of the poor should be ends in themselves, rejecting the imposition of external conditions as a form of neocolonialism.

Professor at NYU

After a long spell working at the World Bank
Left after writing 'The elusive quest for growth'

Aid skeptical – the cold view

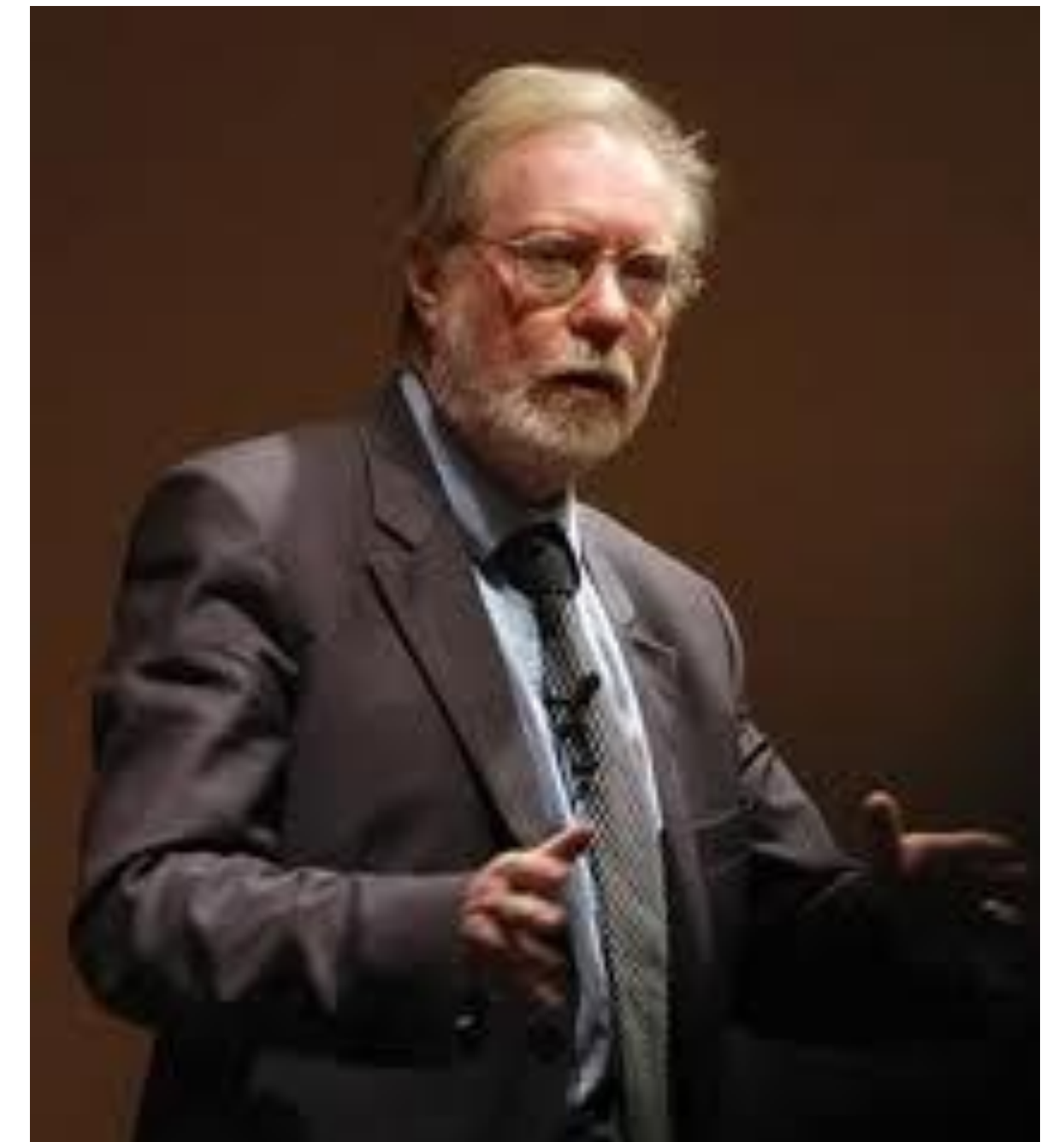


Paul Collier – Aid as part of the menu

- **Advocate for Selective Aid:** Argues that aid has kept many African economies afloat but has not transformed them; supports targeted aid conditioned on specific policies.
- **Policy-Centered Approach:** Emphasizes the importance of good governance and economic policies in recipient countries for aid effectiveness.
- **"Bottom Billion" Concept:** Identifies around 58 countries with 980 million people trapped in poverty, advocating for tailored assistance strategies.
- **Multifaceted Solutions:** Proposes a combination of aid, policy reforms, technical assistance, and international interventions to tackle the complex challenges of development.
- Focuses on post-conflict settings.

Professor at Oxford
Director of the Development Research
Group at the World Bank
Founded the CSAE - Centre for the Study
of African Economies

Aid as part of the menu – talking to
politicians



Dambisa Moyo – Aid as the problem

- **Critique of Foreign Aid:** Argues that international aid to Africa has been counterproductive, perpetuating poverty and dependency instead of fostering economic growth.
- **"Dead Aid" Concept:** Maintains that aid creates a vicious cycle of corruption, market distortions, and discouragement of local entrepreneurship—similar to the "resource curse."
- **"Focus on Self-Sufficiency:** Promotes the idea that Africa must take responsibility for its own development, reducing dependence on foreign aid and strengthening local institutions.
- **Advocate for Market-Based Solutions:** Calls for replacing aid with foreign direct investment, trade, and access to financial markets to drive Africa's development.

PhD at Oxford
Member of the House of Lords
Private investor and Member of
Boards of Directors



Topic 2: Foreign Aid to Fight Poverty?

Topic 2.2: research and data

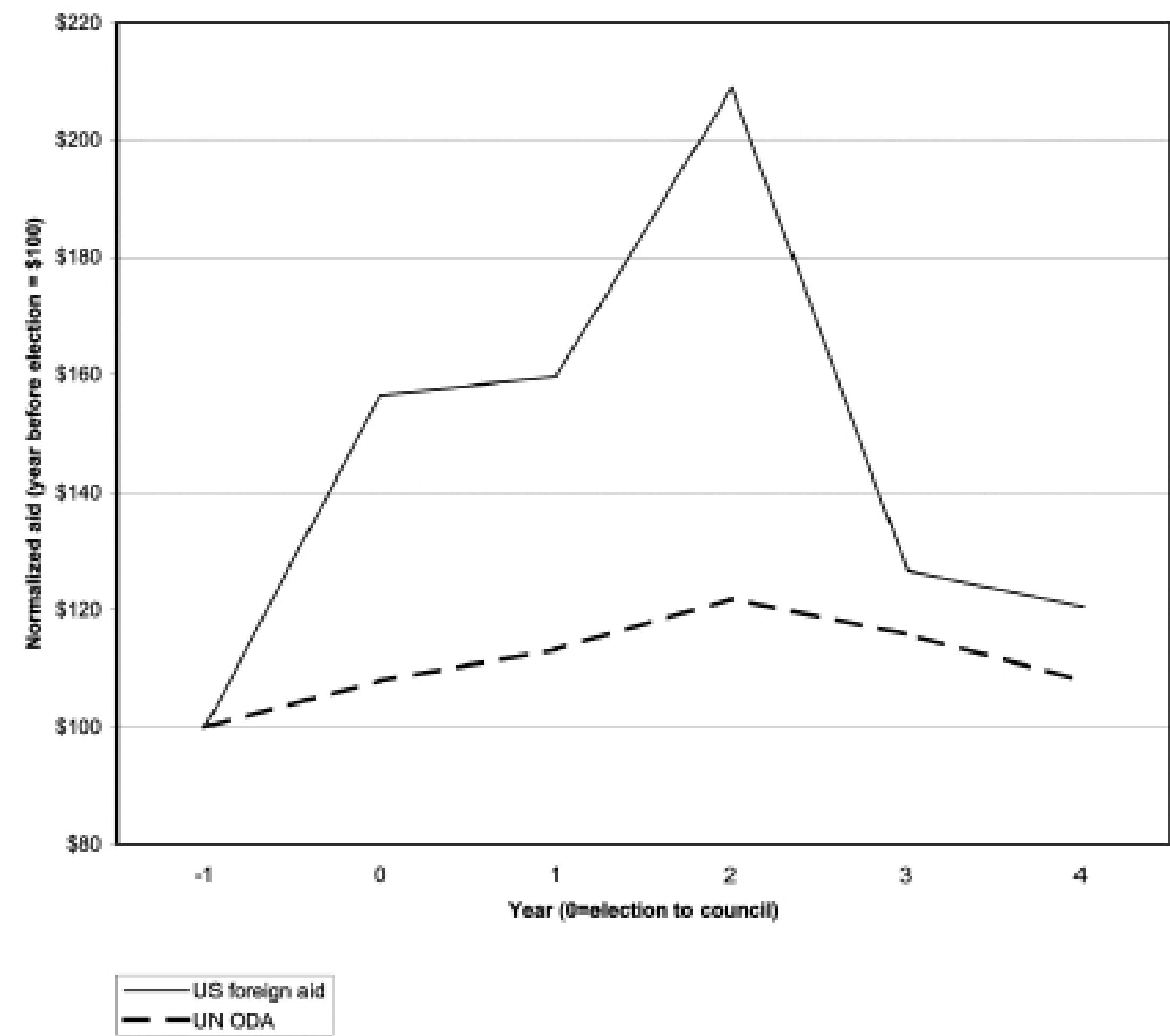


FIG. 2.—Aid to nonpermanent Security Council members in event time

The Big Push

Economists Evsey Domar and Roy Harrod formulated a theory that related investment to income growth as a deterministic proportion in the 1940s.

We economists applied it (and still do) to poor countries to determine **‘required’ investment for a target growth rate**.

The **difference between the required investment and the country’s own savings** is called the **financing gap**; private financing is assumed to be unavailable to fill the gap, so **donors fill the financing gap with foreign aid** to attain target growth.

This is a model that **promised poor countries growth right away through aid-financed investment**: it was aid to investment to growth.

William Easterly: Disavowing the Big Push 1

Aid to investment?

Easterly uses data from 88 countries, 1965 to 1995.

The aid to investment has to pass two tests for us to believe it:

1. There should be a **positive statistical correlation between aid and investment**.
2. Aid should pass into investment at least one for one: an additional 1% of GDP in aid should lead to 1% of GDP in investment.

In the first test, only 17 of 88 countries show a positive statistical association. Just 6 of these 17 countries also pass the test of investment increasing at least one for one with aid.

Recipients use aid to buy more consumption goods.

William Easterly: Disavowing the Big Push 2

Investment to growth?

There is no statistical correlation between growth in one four-year period and investment in the previous four-year period.

Aid to investment to growth?

We can construct a scenario of what income a country would have achieved if the financing gap approach had been correct and then compare the prediction to the actual outcome:

The financing gap model predicts that aid goes into investment one to one.

(ii) Then this investment will increase growth in the next period; this predicts total GDP growth (Zambia next slide).

William Easterly: Disavowing the Big Push 3

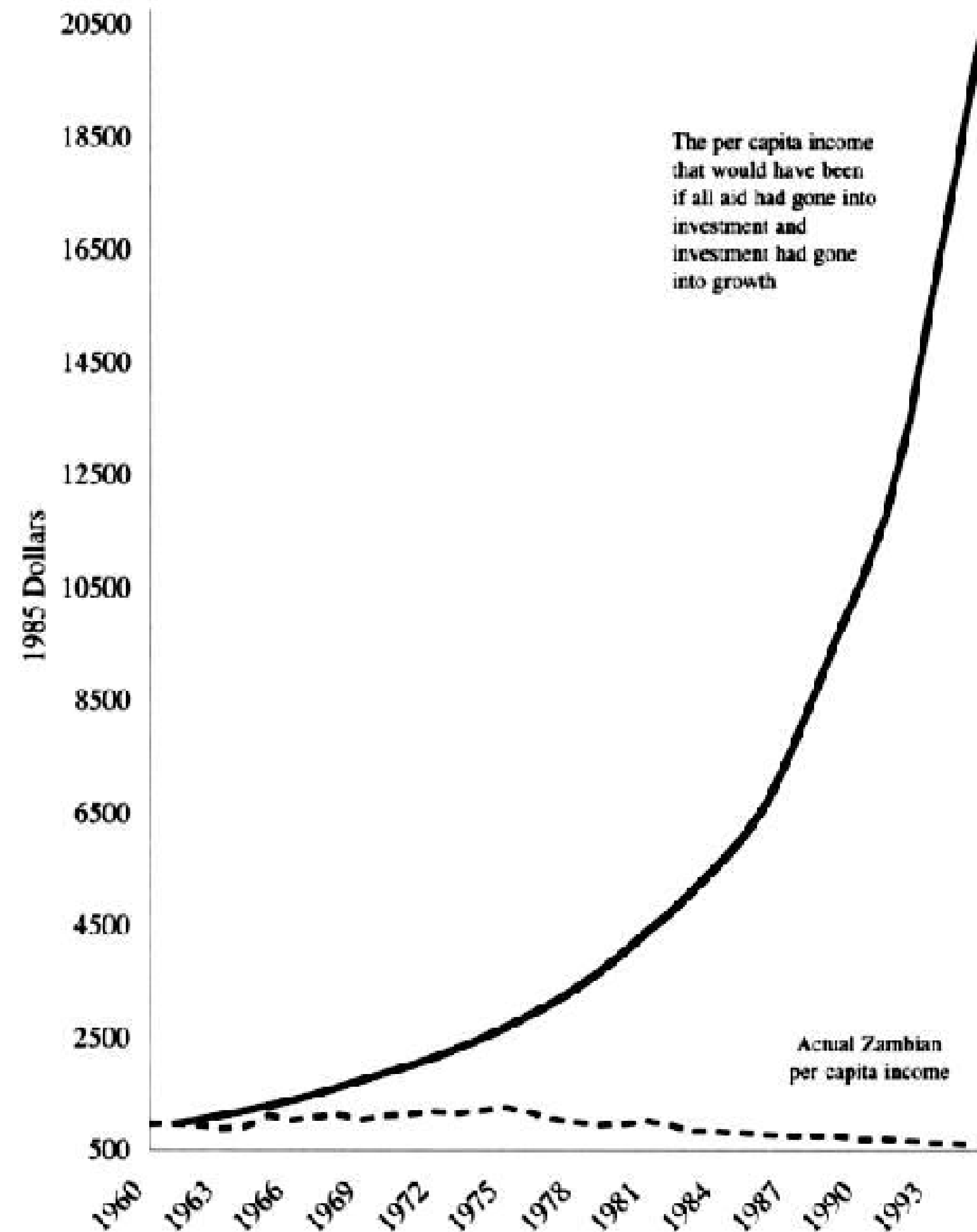


Figure 2.1
The gap between the financing gap model and the actual outcome in Zambia

Boone (1996)

Paper uses a panel of 96 countries, 1971-1990, OCDE data.

Aid does not significantly increase investment and economic growth.

Aid does not benefit the poor as measured by improvements in human development indicators (such as infant mortality).

Aid does increase the size of government.

First serious study of aid effectiveness employing methods trying to distinguish correlation from causation (using political ties and relative size between donor and recipient countries).

Giving aid to liberal / democratic countries such that their regimes are more stable seems a potentially effective strategy, as they have lower infant mortality – *ceteris paribus*.

Burnside and Dollar (2000) –1

Paper uses a panel of 56 countries in 6 four-year periods from 1970-1973 to 1990-1993), World Bank database on foreign aid.

Hypothesis that aid influences economic growth, but only in the presence of the (good) policies that promote growth.

Policy variables used include the budget surplus, the inflation rate, and an openness dummy – these are aggregated into an index.

An equation explaining aid as a ratio of GDP is also estimated

Burnside and Dollar (2000) – 2

Main result: **only associated with good policies aid has an effect on growth of income.**

Bilateral aid seems to rely importantly on strategic interest and has a strong effect on government consumption.

Easterly et al. (2004) – 1

Paper expands the sample used in Burnside and Dollar (2000), from 56 to 63 countries, and their data time span from 1993 to 1997.

The methodology is the same as in the reference paper.

It is found that the aid * good policy interaction effect on growth turns insignificant and negative with the expanded dataset, both by adding countries or by adding time to the original dataset.

This is also the case when restricting attention to low-income countries, where relations were strongest in Burnside and Dollar (2000).

TABLE 1—TESTING THE ROBUSTNESS OF BURNSIDE AND DOLLAR PANEL REGRESSIONS 5 AND 8 TO MORE DATA (DEPENDENT VARIABLE: GROWTH OF GDP/CAPITA)

	(1)	(2)	(3)	(4)
Sampling universe: Burnside-Dollar regression:	All developing countries, outliers omitted Regression 5, OLS		Only low-income countries, outliers omitted Regression 8, 2SLS	
Right-hand-side variable:	BD data, BD sample, 1970–1993	New data set, full sample, 1970–1997	BD data, BD sample, 1970–1993	New data set, full sample, 1970–1997
Aid	−0.02 (0.13)	0.20 (0.75)	−0.24 (−0.89)	−0.16 (−0.26)
<u>Aid*policy</u>	0.19** (2.61)	−0.15 (−1.09)	0.25* (1.99)	−0.20 (−0.65)
Log initial GDP per capita	−0.60 (−1.02)	−0.40 (−1.06)	−0.83 (−1.02)	−1.21* (−2.02)
Ethnic	−0.42 (−0.57)	−0.01 (−0.02)	−0.67 (−0.76)	−0.74 (−0.82)
Assassinations	−0.45 (−1.68)	−0.37 (−1.43)	−0.76 (−1.63)	−0.69 (−1.68)
Ethnic*Assassinations	0.79 (1.74)	0.18 (0.29)	0.63 (0.67)	0.69 (0.78)
Sub-Saharan Africa	−1.87* (−2.41)	−1.68** (−3.07)	−2.11** (−2.77)	−1.20 (−1.79)
Fast-growing E. Asia	1.31* (2.19)	1.18* (2.33)	1.46 (1.95)	1.01 (1.40)
Institutional quality	0.69** (3.90)	0.31* (2.53)	0.85** (4.17)	10.38* (2.46)
M2/GDP lagged	0.01 (0.84)	0.00 (0.16)	0.03 (1.39)	10.02 (1.00)
Policy	0.71** (3.63)	1.22** (5.51)	0.59 (1.49)	1.61** (2.93)
Observations	270	345	184	236
R ²	0.39	0.33	0.47	0.35



Notes: These partial scatterplots are from regressions 1 and 3 in Table 1. The top graph represents Burnside-Dollar original results; the bottom graph shows results using the new data set. The partial scatterplot involves the two-dimensional representation of the relationship

Rajan and Subramanian (2008) – 1

Abstract—We examine the effects of aid on growth in cross-sectional and panel data—after correcting for the possible bias that poorer (or stronger) growth may draw aid contributions to recipient countries. Even after this correction, we find little robust evidence of a positive (or negative) relationship between aid inflows into a country and its economic growth. We also find no evidence that aid works better in better policy or geographical environments, or that certain forms of aid work better than others. Our findings suggest that for aid to be effective in the future, the aid apparatus will have to be rethought.

Comprehensive coverage of all variations of the aid-growth relationship under one framework:

Conditional on the quality of economic policy (Burnside and Dollar, 2000).

In a panel framework (Hansen and Tarp, 2001).

Conditional on geography (Dalgaard et al., 2004).

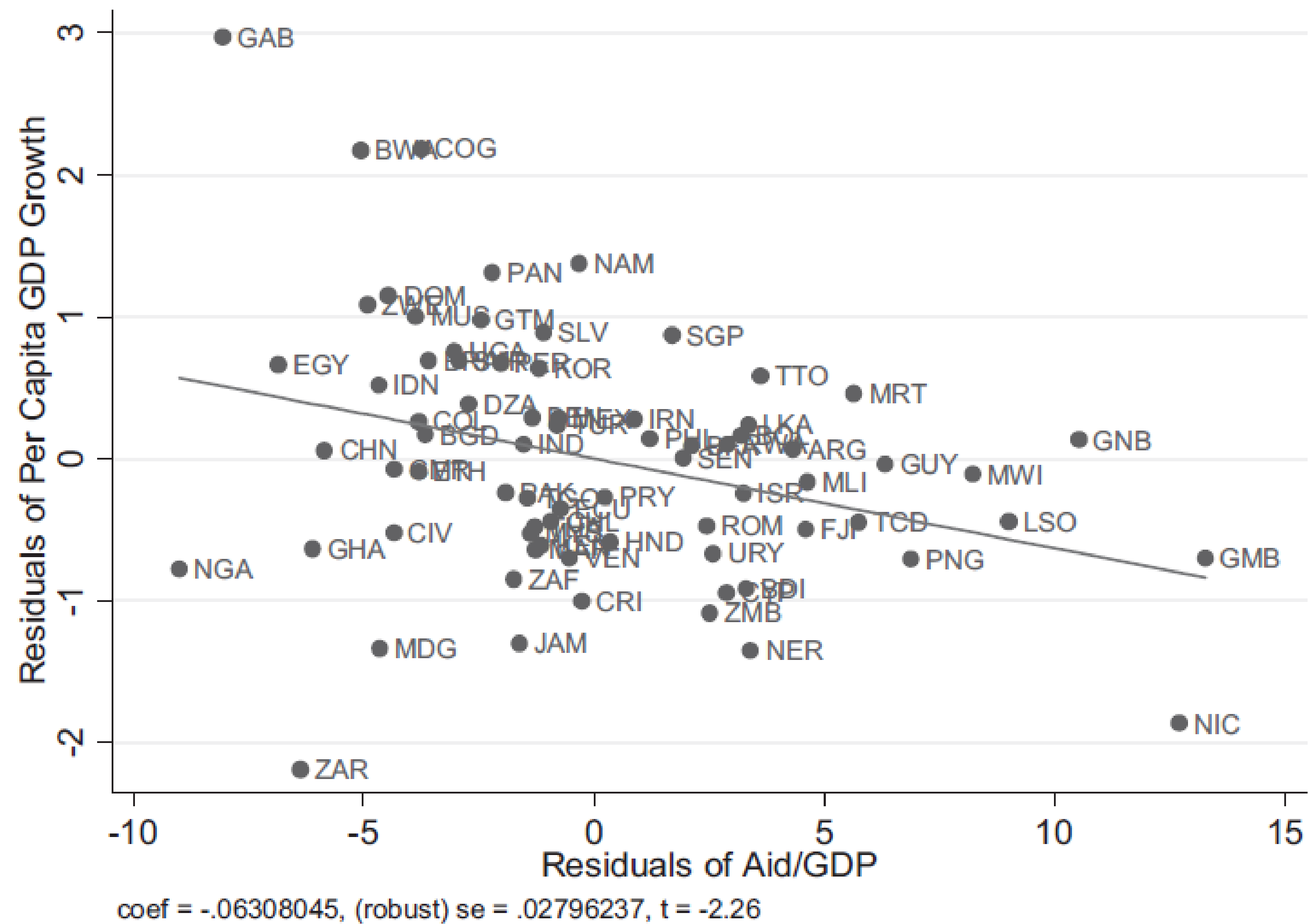
Disaggregating aid into short- and long-term impacts of aid (Clemens et al., 2004).

And across time-horizons and periods (1960s through 1990s), sources of aid (multilateral and bilateral), types of aid (economic, social, food, and so on), and samples (including and excluding outliers).

Instrument: influence – relative size * colonial links.

Rajan and Subramanian (2008) – 2

FIGURE 1.—CONDITIONAL CORRELATION BETWEEN GROWTH AND TOTAL AID, 1960–2000



Rajan and Subramanian (2008) – 3

Careful about distinguishing causation from correlation, with only a slight departure from the previous contributions.

Main results:

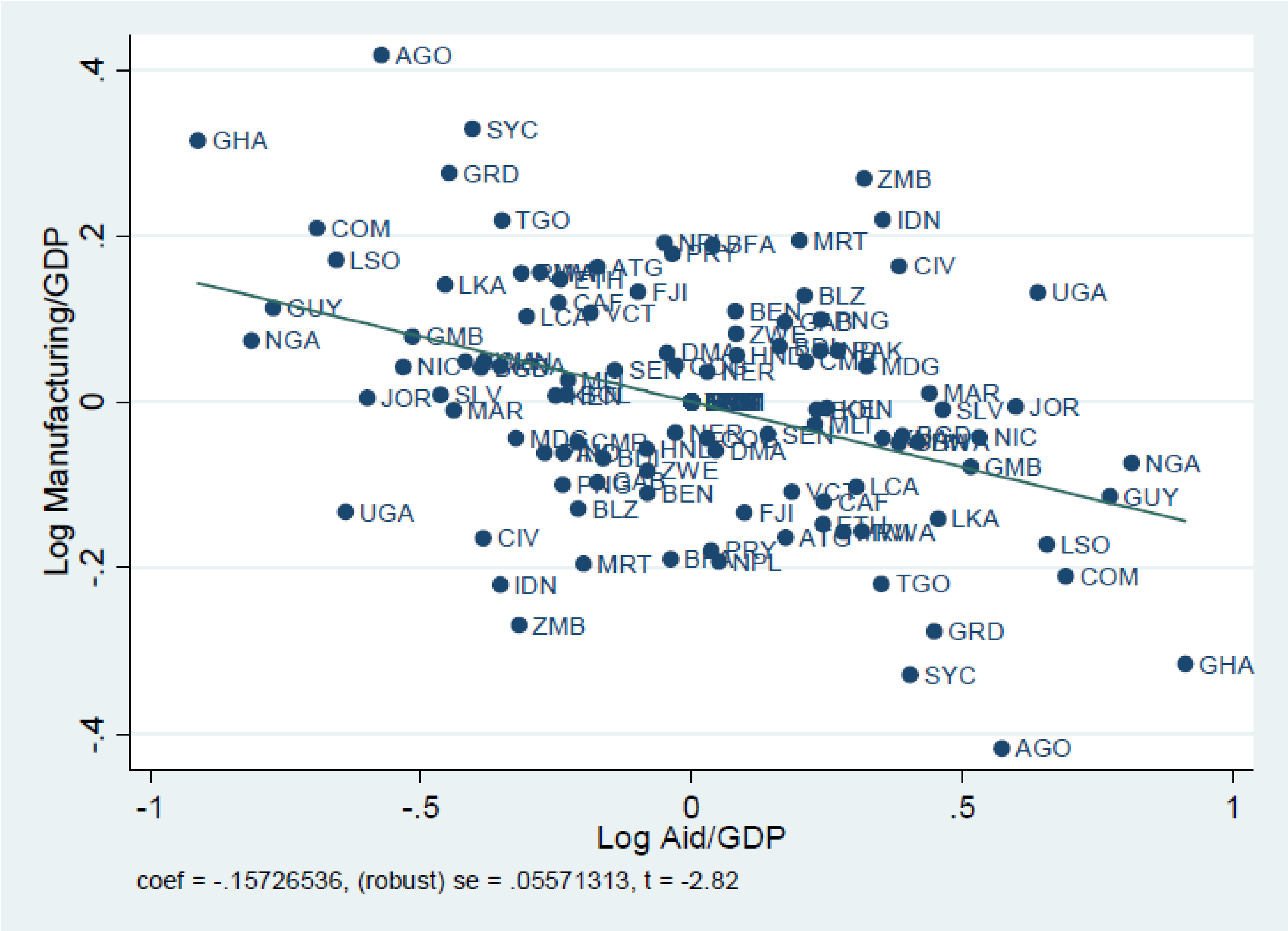
Little robust evidence of a positive relationship between aid inflows into a country and its economic growth.

No evidence that aid works better in better policy or geographical environments, or that certain forms of aid work better than others.

Rajan and Subramanian (2011) propose that aid may include an offsetting effect on a country's competitiveness, as reflected in the lower relative growth rate of exporting industries, analogous to the Dutch Disease.

Rajan and Subramanian (2011)

Chart 1: Manufacturing and Aid between 1980 and 2000



United Nations

UN's Security Council (UNSC): entrusted power to authorize multilateral sanctions and military action.

While five of the council's 15 seats are held by permanent members, the remaining 10 are reserved for countries serving two-year terms (rotating non-permanent members).

That there might be a link between membership on the UNSC and received foreign aid is a serious charge; article 24 of the UN Charter:

‘[UN Member nations] agree that in carrying out its duties [...] the Security Council acts on their behalf.’

Kuziemko and Werker (2006)

Study investigates whether the pattern of aid payments to rotating members of the council is consistent with vote-buying.

Alternative possibilities:

Being a rotating member of the UNSC brings international attention to this country's needs, and so more foreign aid.

There could be an omitted variable (international integration?) driving both rotating membership of the UNSC and foreign aid.

Research employs country-level data over time.

Kuziemko and Werker (2006) – Results 1

Study finds a large positive effect of UNSC membership on foreign aid receipts: on average a non-permanent member enjoys a 59% increase in total aid from the US and an 8% increase in total development aid from the UN (primarily through UNICEF).

Results confirmed by checking loans from the IMF and from the Asian Development Bank, favorable treatment by the World Bank, and aid from the European Union (Dreher, Sturm and Vreeland, 2009, 2015; Lim and Vreeland, 2013; Mazumder, McNamara and Vreeland, 2013).

Kuziemko and Werker (2006) – Results 2

Aid to UNSC rotating members is significantly larger during key diplomatic years for the US.

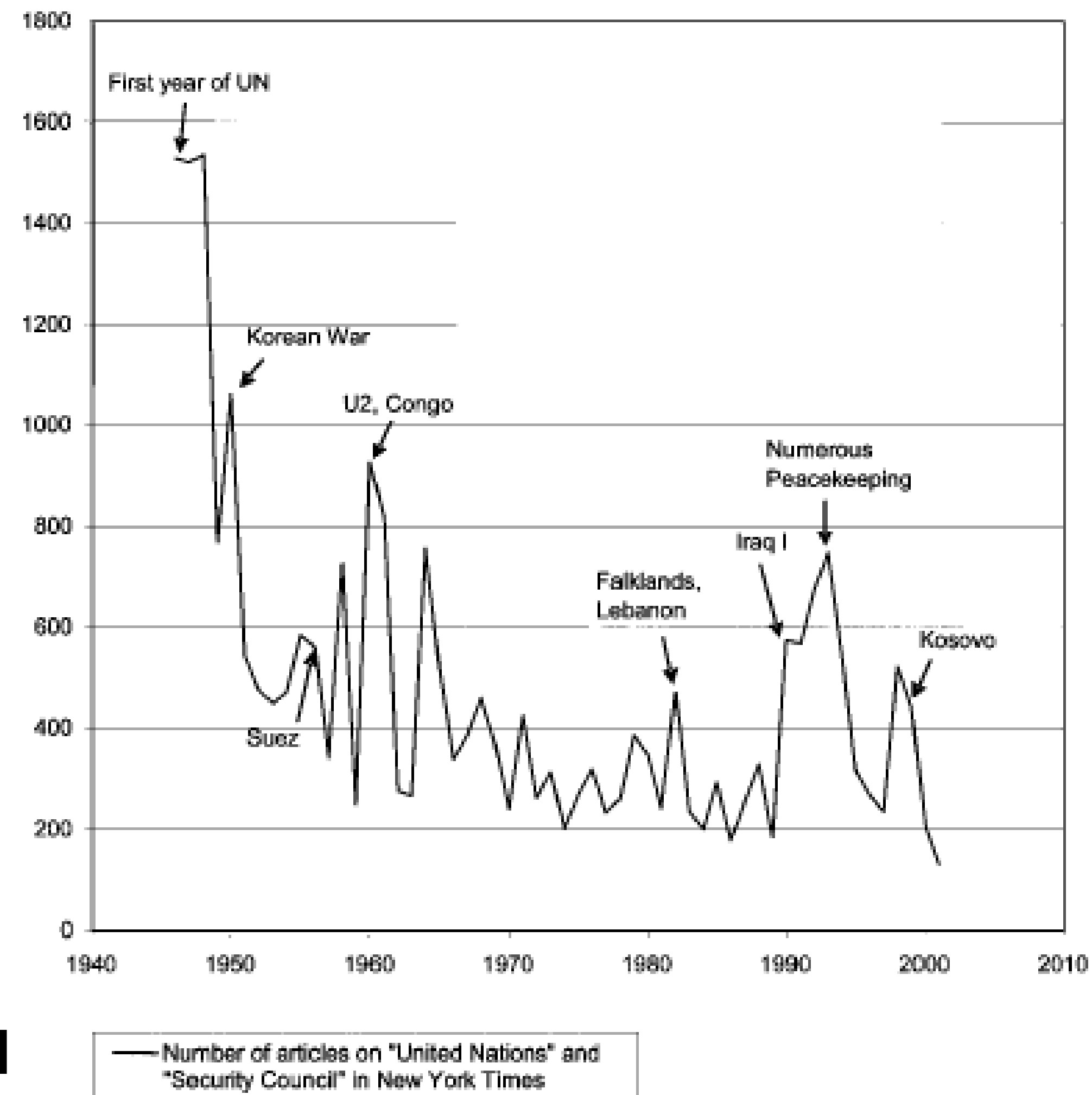


FIG. 1.—The *New York Times* variable

Kuziemko and Werker (2006) – Results 3

Time pattern: Aid sharply increases in the year in which a country is elected to the UNSC, remains high throughout the two-year term, and returns to earlier level almost immediately after completion of the term.

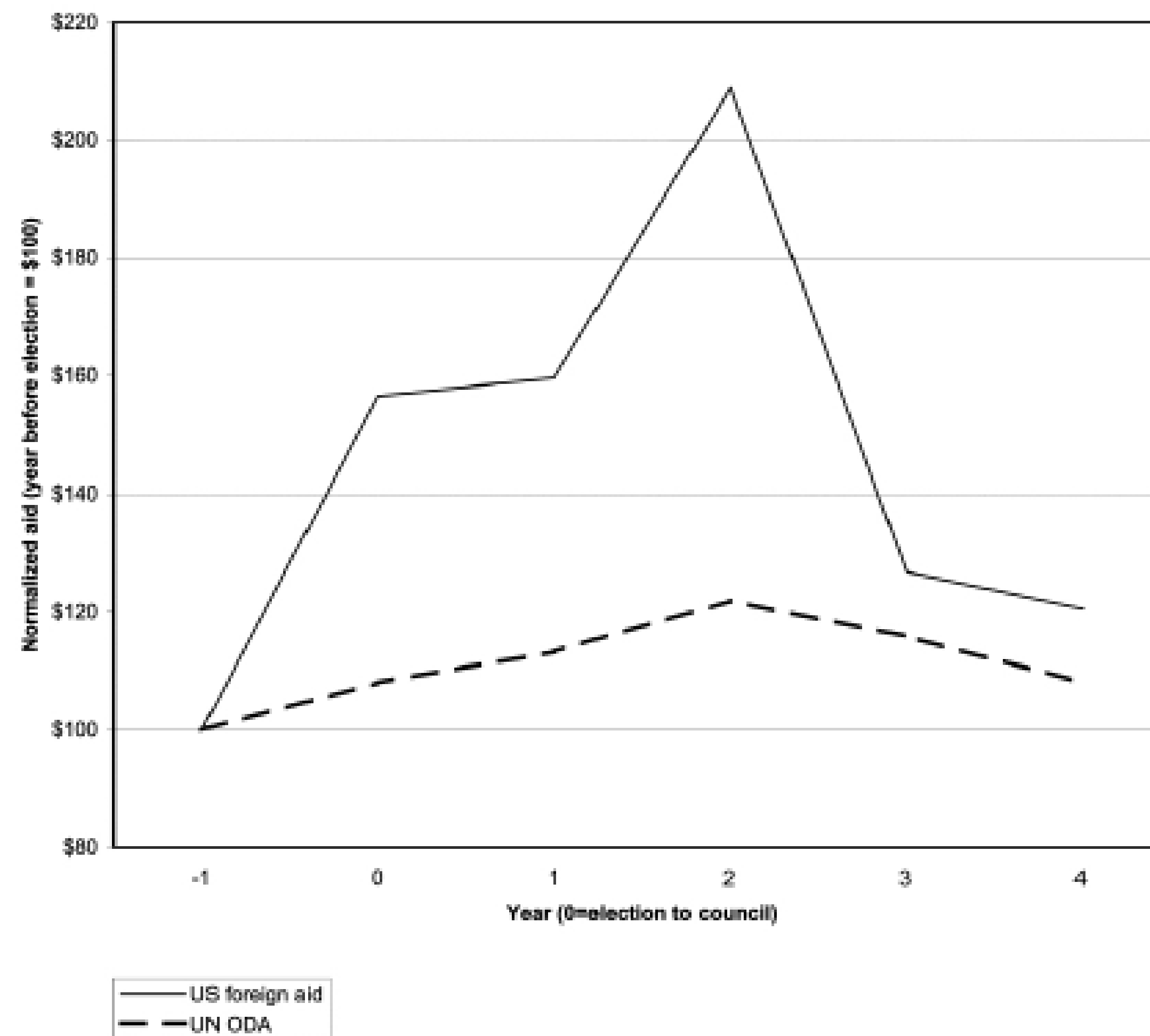


FIG. 2.—Aid to nonpermanent Security Council members in event time

Kuziemko and Werker (2006) – Potential implications

Evidence on corruptibility of the UNSC decisions adds to the range of evidence on the political/strategic motivations of aid allocation.

Consistent with little evidence on macro effectiveness of foreign aid for development outcomes.

Call for reforms that help insulate rotating members from the financial influence of most powerful nations.

What the literature says about aid effectiveness – a summary

- Boone (1996): Foreign aid does not significantly increase investment or economic growth – based on data from 96 countries between 1971-1990 (OECD data). Aid leads to an expansion of the public sector but does not improve the situation of the poor.
- Burnside and Dollar (2000): An initial relationship between better policies in recipient countries and the effectiveness of foreign aid on income does not hold when controlling for country characteristics such as income, population, and strategic interest. Aid mainly increases public sector consumption (World Bank data).
- Easterly et al. (2004): Expands the sample of Burnside and Dollar (2000) in terms of the number of countries and years. Finds no significant results in the new sample.
- Rajan and Subramanian (2008): Covers all variations in the relationship between foreign aid and growth, the quality of economic policies (B&D 2000), using panel data (Hansen and Tarp 2001), geography (Dalgaard et al. 2004), short- and long-term impacts (Clemens et al., 2004), and across different periods (1960s-1990s), sources, types of aid, and samples. Finds no evidence that aid is related to economic growth.
- Rajan and Subramanian (2011): Aid can impact the competitiveness of countries, as there is a correlation between foreign aid received and a lower growth rate of export industries – similar to the Dutch disease effect.
- Kuziemko and Werker (2006): Finds a relationship between being a temporary member of the United Nations Security Council and an increase in total foreign aid received (59% from the U.S. and 8% overall) – suggesting strategic reasons for the distribution of foreign aid.

A dead end?

It seems we reached a dead end.

We cannot prove that ODA is effective...

But we know many projects have improved people's lives.

(Sachs's preferred example: Green Revolution)

Foreign Aid Effectiveness or Policy Evaluation?

Banerjee and Duflo (2011) argue that there is need for a ‘radical rethinking of the way to fight poverty.’

They defend that the aid-growth controversy cannot be solved in the abstract, by using aggregate data and cross-country regressions.

The evidence, in their view, is quite simple: **some projects financed by official aid work and are effective** in reducing poverty and moving populations towards prosperity, **while other** projects (and programs) **fail** miserably.

The question is **how to evaluate whether specific programs and policies are effective.**

Summary

Poverty traps probably exist.

Foreign Aid: relevant flow of resources from rich to poor countries, to fight poverty but also to secure rich-country economic interests.

Aid Debate: heated exchange between Sachs, Easterly, Collier, and Moyo.

Research: nothing to show for aid effectiveness at the macro level, possibility of Dutch Disease –type effect.

Way out: micro policy effectiveness?

Thanks for your attention and contributions!