Aid Addiction

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My 15-Minute Agenda



What exactly is aid and does it matter?



Addiction to aid and side effects



What to do next?

What exactly is Aid?

Official Development Assistance (ODA), computed by the Development Assistance Committee (DAC) of the OECD.



Grants and loans.

- **Undertaken by the official sector of the "donor" country.**
- **Objective: "promotion of economic development and welfare" in "recipient" country.**
- **Concessional terms.**

Technical Cooperation Costs.

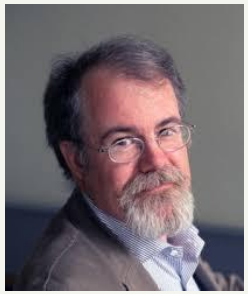
Are included in ODA (foreign aid).

Excluded from aid:

- **Loans and credit for military purposes. Donations from the public.**
- **Donations from foreign NGOs.**

Does Aid Make a Difference?

No!



William Easterly *(NYU)*
"Foreign aid cannot buy growth."

Yes!



Jeffrey Sachs *(Columbia)*
"Not enough aid."

Yes if…



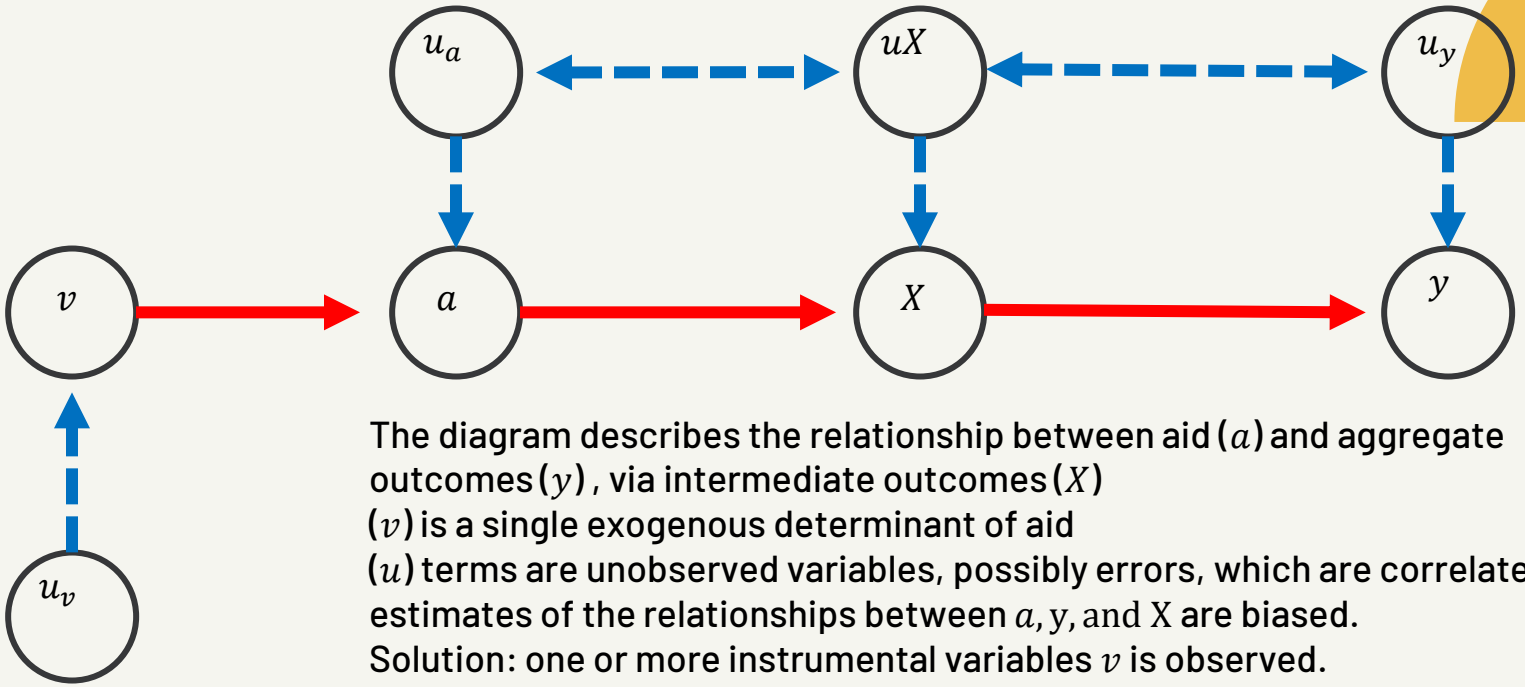
Finn Tarp *(Copenhagen)*
"with a broader assessment."

It depends…



Justin Yifu Lin *(Peking University)*
"where the money goes."

Impact: Measurment Challenges



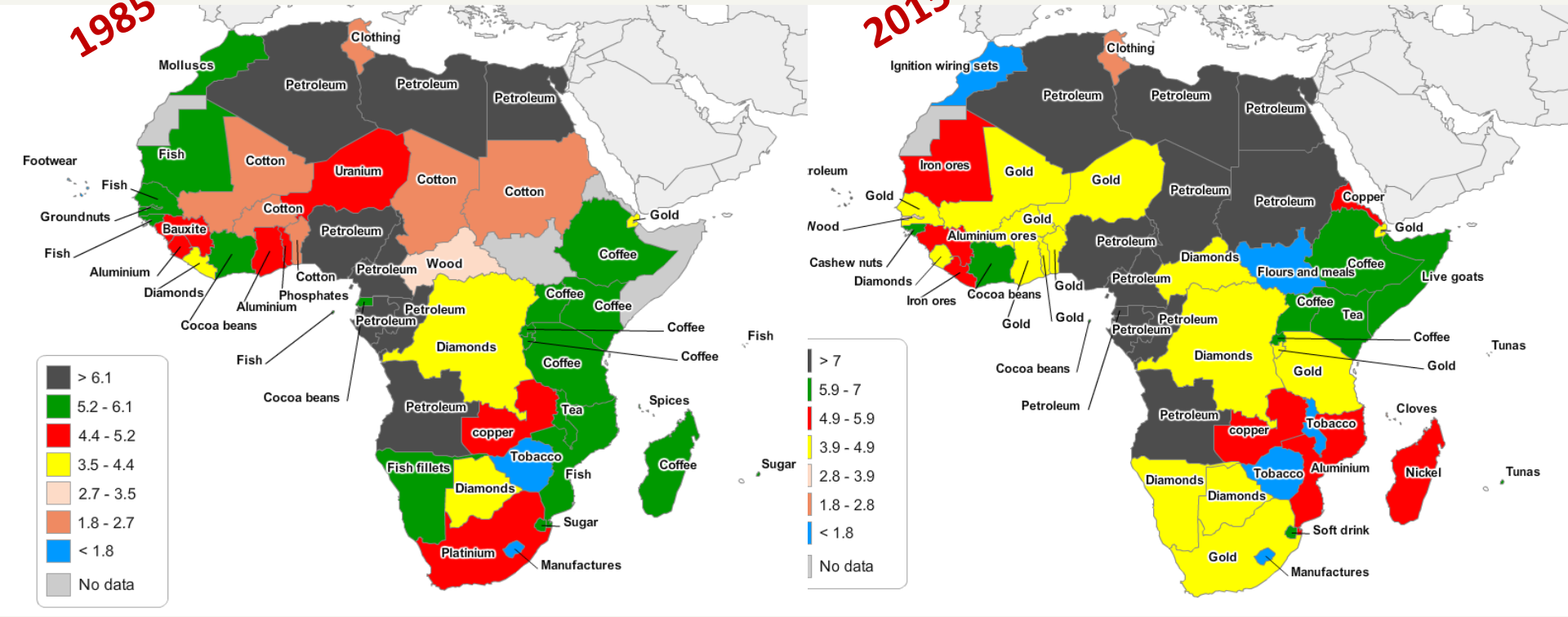
The diagram describes the relationship between aid (a) and aggregate outcomes (y), via intermediate outcomes (X)
(v) is a single exogenous determinant of aid
(u) terms are unobserved variables, possibly errors, which are correlated and estimates of the relationships between $a, \mathrm{y}, \mathrm{and}\ \mathrm{X}$ are biased.
Solution: one or more instrumental variables v is observed.

Source: Arndt, Jones, and Tarp (2015)

Addiction and Side Effects



A. Addiction to Ineffective Development Ideas



B. Romanticizing Poverty...



“...The Soft Bigotry of Low Expectations”





C. “The Tyranny of Experts” (Bill Easterly)

“In much of Africa, it is still much easier to find a bottle of beer than a bottle of fresh water.” (Ali Mazrui)



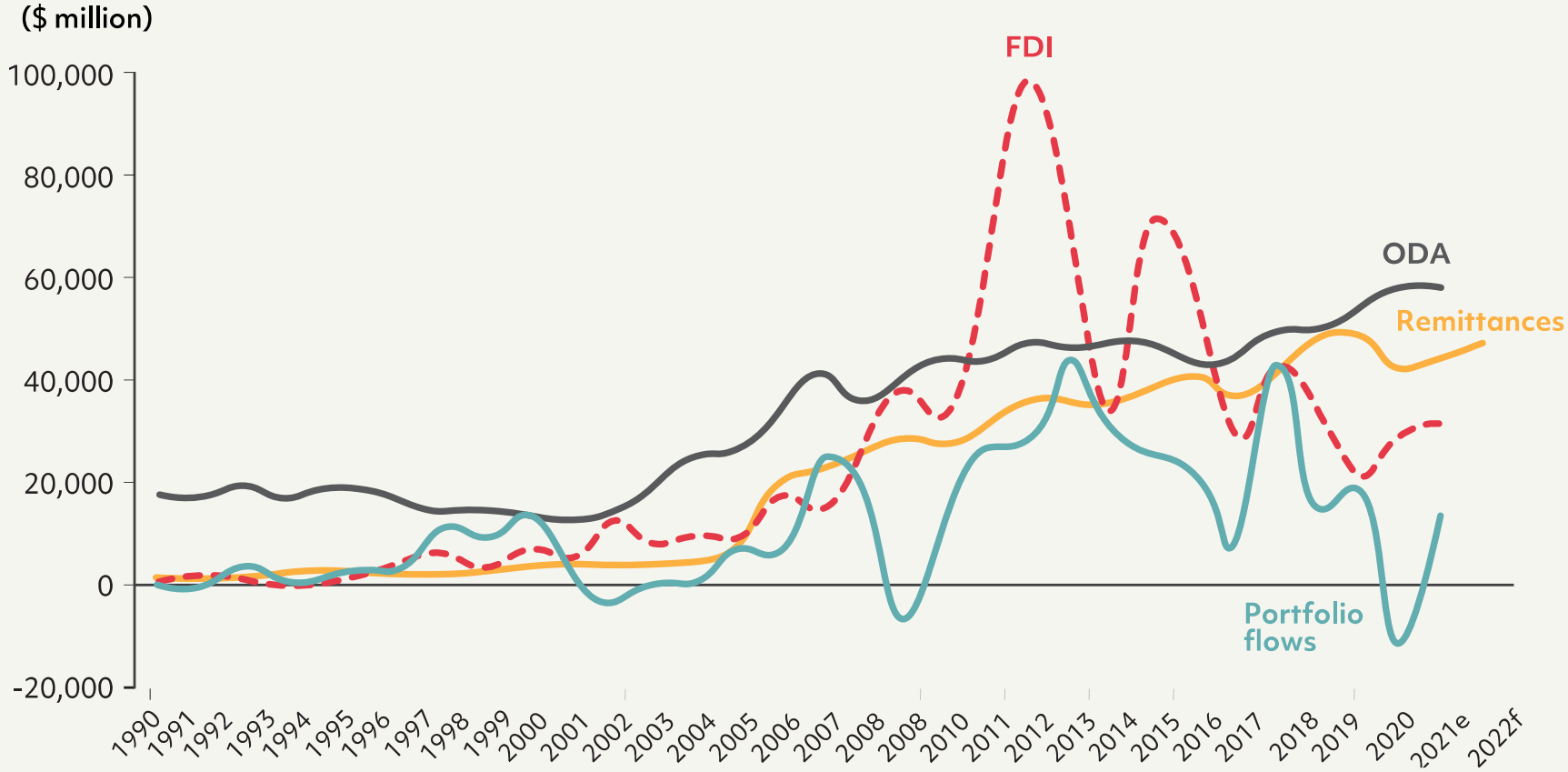




D. Aid Flows: Conditionality and Incentives

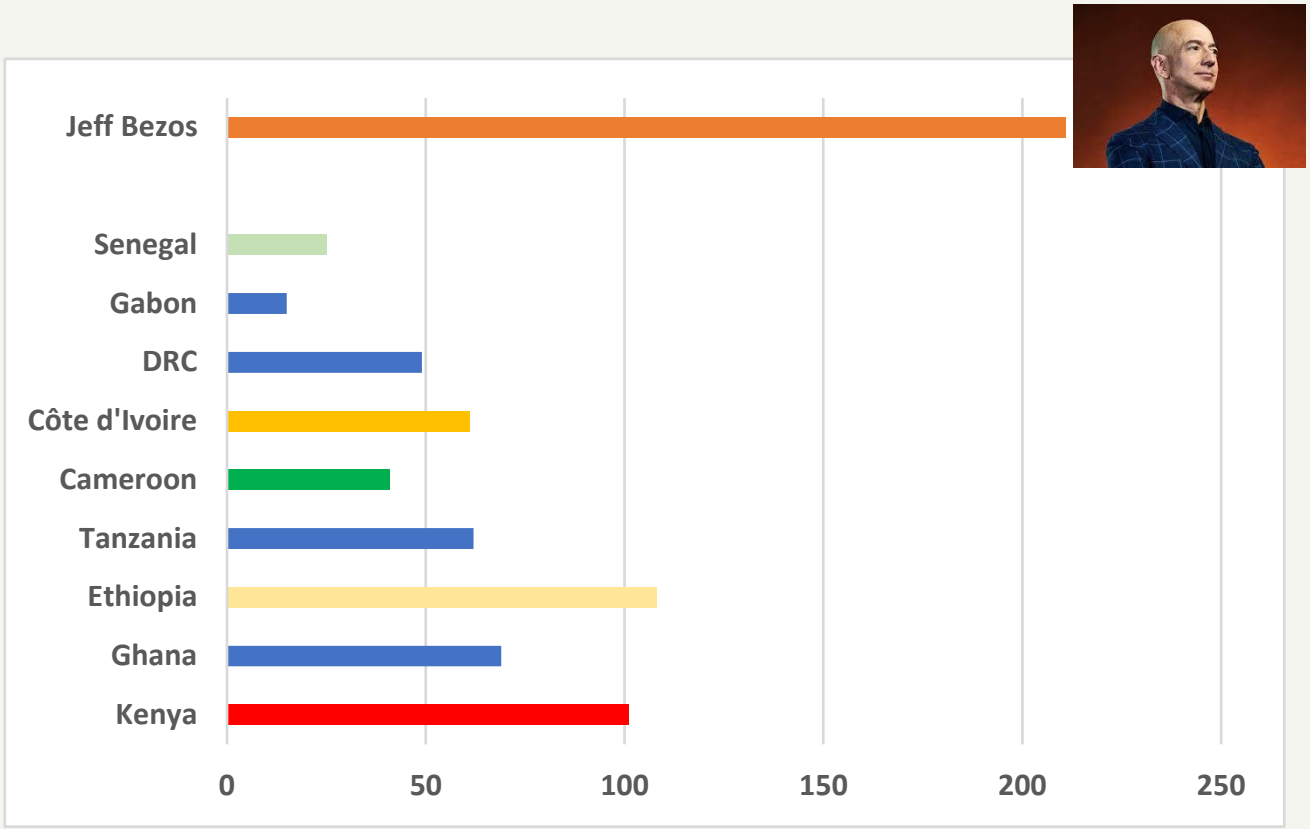


E. Aid Flows: Too much energy for peanuts?

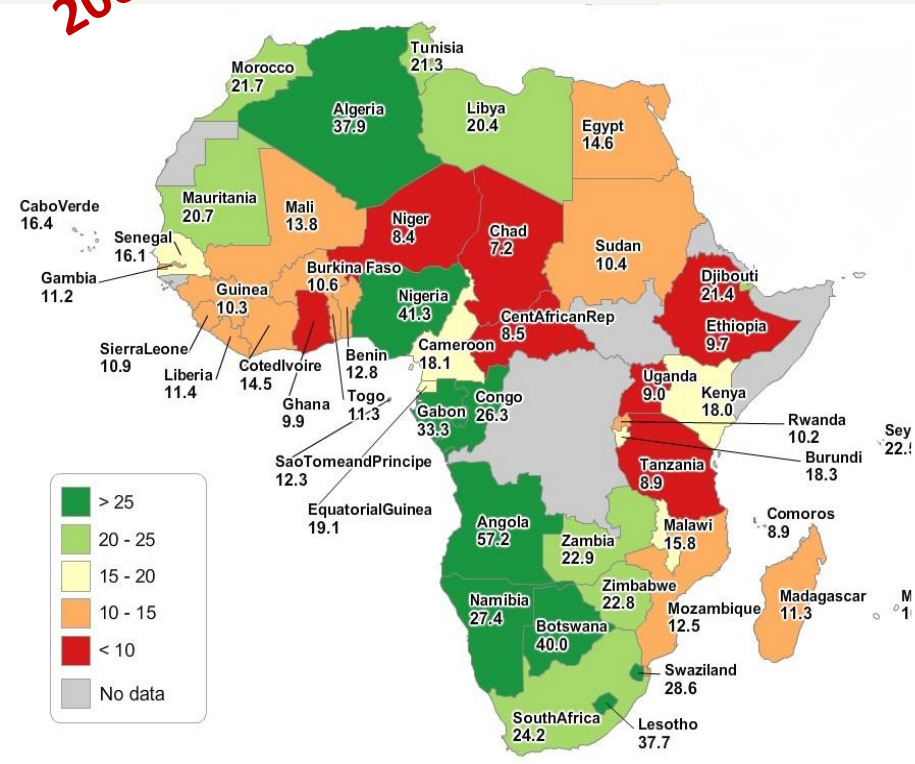


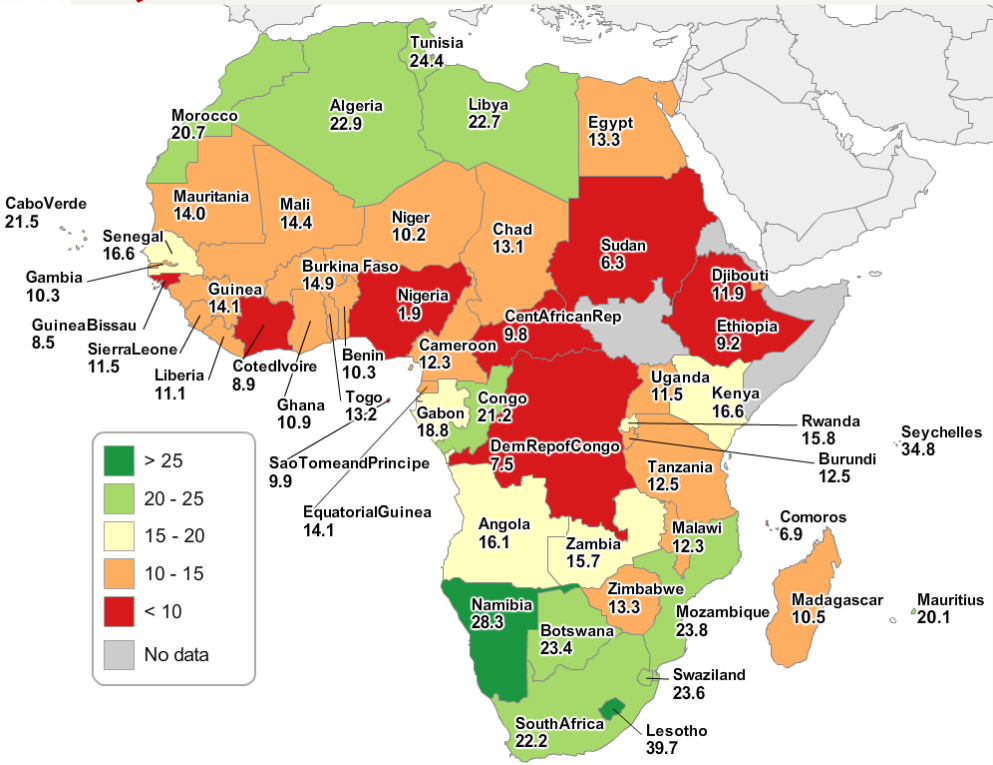
Source: Ratha et al. 2020

2020 GDP in $billion versus the Nest Worth of Jeff Bezos in 2021



F. Poor Governance: Low Fiscal Revenues





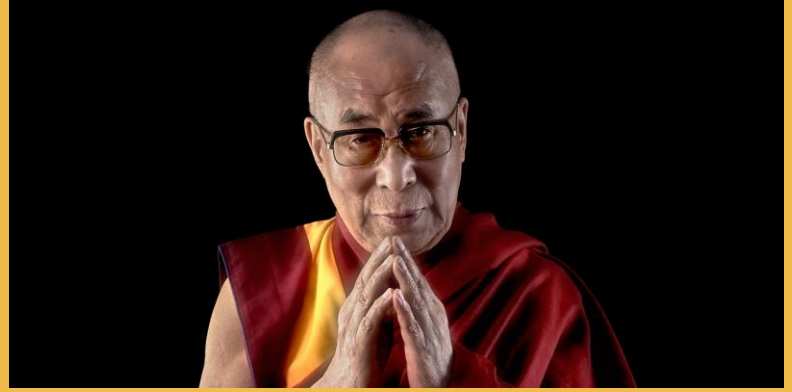
What to do Next?





The whole secret of existence is to have no fear. Never fear what will become of you, depend on no one. Only the moment you depend on no one are you freed.

SWAMI VIVEKANANDA

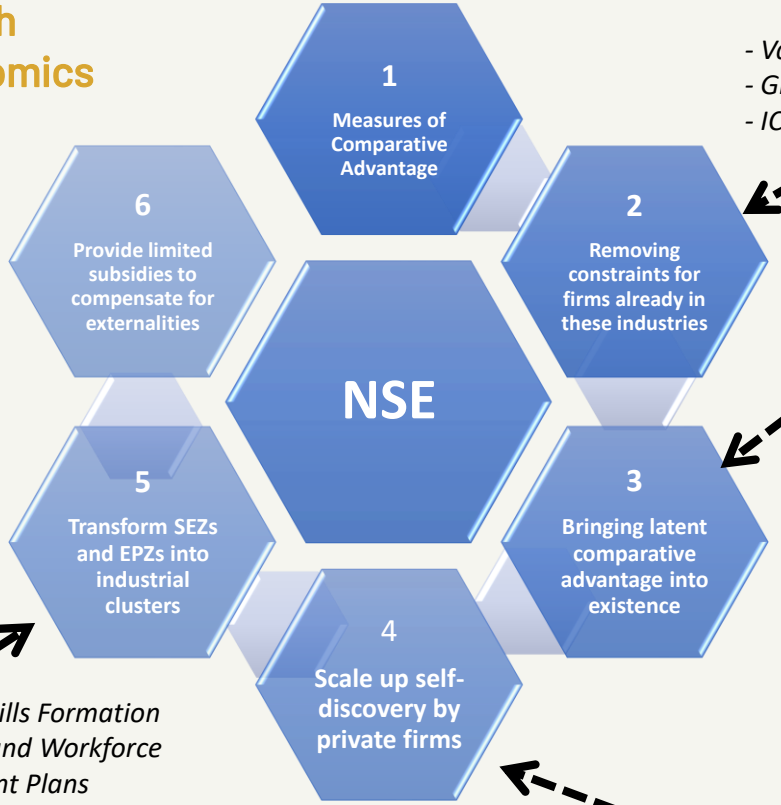


Our prime purpose in this life is to help others. And if you can’t help them, at least don’t hurt them.

THE DALAI LAMA



A Pragmatic Approach
New Structural Economics



- Value-chain analyses
- Growth Diagnostics
- ICAs

Finding non-distortive policy measures through which the state can support the establishment or development of competitive industries (Step 1) that may be completely new to domestic firms

Targeted Skills Formation Strategies and Workforce Development Plans

Incentives provided to the first movers are to be temporary (and small, solely for the purpose of compensating for their information externality), targeted, and transparent.

Thank you!

Write a closing statement or call-to-action here.