

At Issue:

Does foreign aid reliably spur sustained economic growth in sub-Saharan Africa?



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there is growing evidence from independent researchers demonstrating that aid programs have helped spur growth and development in sub-Saharan Africa. Of course, aid programs do not always work, and no one claims they should be the major driver of growth. But there is now lots of empirical evidence showing the positive effects of aid on development and growth.

Aid programs have saved millions of lives in Africa, particularly programs on HIV/AIDS, malaria and child vaccination. Critics of aid tend to overlook the fact that most aid programs are aimed at health, education, food security and emergency relief, which have been very successful. Only a minority of programs focus on economic growth.

Still, the relationship between aid and growth is an important question that has been the focus of much debate over the years. The key drivers of growth are effective leadership in recipient countries and efforts by people in those countries to build strong economic and political institutions, invest in education and health and create more economic opportunities for people.

Aid programs cannot be the centerpiece of growth, but they can help support growth by investing in infrastructure, increasing agricultural productivity (partly through new technologies) and helping build financial systems. Aid has been particularly helpful in spurring growth during post-conflict reconstruction in countries such as Liberia, Sierra Leone, Mozambique and Rwanda.

The empirical evidence on aid and growth was hotly contested a decade ago, but in recent years the preponderance of research has shown a positive relationship between the two. The World Bank Economic Review in October 2016 provided an extensive review of that growing evidence, showing that sustained aid equivalent to 10 percent of GDP raises a country's growth rate by 1 percentage point, on average. For a country growing annually at 3 to 4 percent per capita, that extra growth is an important addition. Even *The Economist* magazine, long skeptical of aid, has changed its tune in recent years, concluding that most evidence shows aid boosts growth.

Aid programs do not always work. Neither do all business investments, diplomatic efforts or military efforts. And much can be done to improve aid programs. They are not a magic bullet to end poverty, but overall they have had a positive impact in spurring growth and development in Africa.



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foreign aid programs are not a reliable tool for spurring sustained economic growth. However, aid can reliably reduce poverty and is a valuable component of a broader development strategy.

The first problem with trying to use aid to increase growth is theoretical: There is no consensus on why economies grow or how to increase growth. Thus, trying to use aid to increase growth is like trying to navigate an expensive car through a city without a map. You might reach your destination, but that will be due largely to luck and clever improvisation. Aid is similar. We lack the theoretical knowledge required to use aid reliably to increase sustainable growth.

Second, we might think we have stumbled into reliable ways to use aid to boost growth if we see historical evidence that aid causes an increase in growth. This evidence exists, but it exists alongside research showing that aid does nothing or even hurts growth. This cacophony of clashing results is typical in research areas where scientists cannot randomize things and it is difficult to find "natural experiments."

The countries or time periods with more aid are not like the countries or time periods with less. Thus, while we can see correlations in the data, it is incredibly hard to understand if aid is causing changes in growth. This means that we lack the information needed to learn how to better use aid to boost growth. And we cannot rely on theory for guidance, because we do not understand economic growth well enough.

But while aid is an unreliable tool for spurring sustained growth, it can be relied upon to lessen many dimensions of poverty. Anti-malarial bed nets, vaccines and anti-retroviral medication have saved tens of millions of lives. And cash transfers directly to the poor look very promising. But there is not much evidence that such effective, reliable anti-poverty work is moving the needle on long-run macroeconomic growth.

While aid can help reduce poverty, my research has shown that aid often does not reach the poorest people in Africa. Rather, it seems to flow to the relatively rich parts of those countries. We should devote more attention to ensuring that aid actually reaches the people who can benefit most from it.

Aid is a useful part of a broader development strategy aimed at combating poverty, even though it is unlikely to boost economic growth.