Zusammenfassung International Aid and Development

| Capability	Functioning
Choice / possibility… (Don't you wear shoes because you're a hippie or because you can't afford them?)	… to achieve an end. (Either you have shoes or you don't have. If you have none, you're considered to be poor.)
Difficult to measure	HDI, MDGs

MDG (Millenium Development Goals)

1. Poverty, Hunger (reduce by 50%), 2. Education (full access), 3. Gender equality (full eq.), 4. Child mortality (reduce by 2/3, 5. Maternal health (reduce by 75%), 6. HIV, Malaria, Tuberculosis (keep level), 7. Water & sanitation (reduce no-access by 50%), 8. Slums (reduce by 100 M)

HDI: x = $\frac{1}{3}$(GDP + Life expectancy + literacy adults); HDI(x) = $\frac{x - \min(x)}{\max(x) - \min(x)}$

History of development aid

- After WW2: Marshall plan (reconstruction), containment, soviet expansion (Big Push => Only money, no conditions). Development = Growth
- 1970s: aid can only complement self-determined development of people. Basic needs of poor. => Bottom-up aid, project based development, NGOs
- 1980s: Debt crisis of dev. Countries => Market policy, Conditional loans, cut-back of social services, less state more market
- 1990s: Aid not so successful => debt relief, strengthen governments
- 2000s: Focus on aid effectiveness, donor harmonization and alignment, aid has never negative impact (empirical evidence)

Simple neo-classical model (economic case for aid)
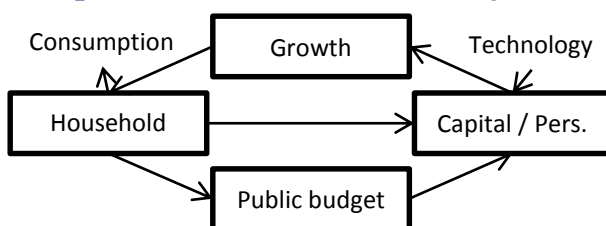
Capital/Pers -> Growth: Output. Output = F(Capital, Labor)
Household Income: consume or save, pay taxes.
Technology increases output (=> growth) at same capital.
Capital/Pers. Is decreased with increase of population.
Idea: Aid =>Savings => Investments => Growth
Growth dependent on: depreciation rate d (negative), population growth n (negative), saving rate s (positive), productivity 1/r (positive)

Problem / Limits of this model: Aid => Investments ? No. Aid => Consumption. Investments => Growth?

3 Poverty traps

- Capital threshold: too low capital increases leads to no growth (need much more aid)
- Saving trap: low incomes lead to zero saving rates = no capital accumulation, no investments
- Demographic trap: low incomes lead to high population growth = less capital / pers.

Role of ODA (Official development assistance) in breaking the poverty trap
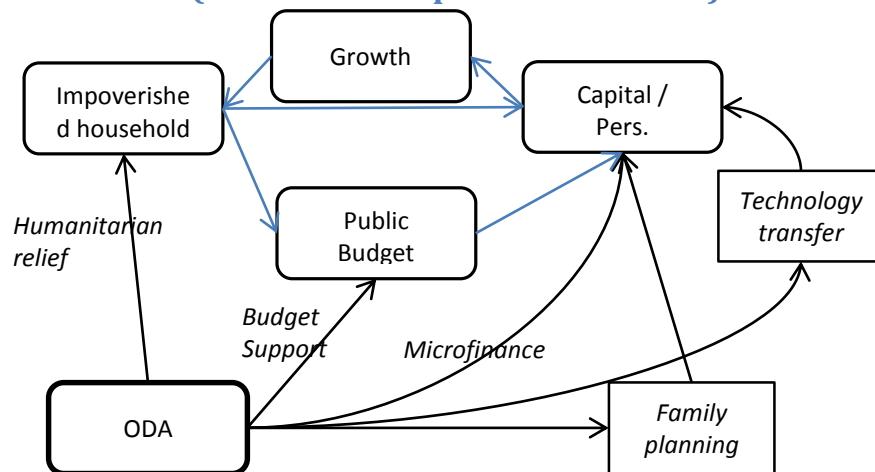
Economic case against aid

- Empirically, the poverty trap doesn't exist
  - ❖ Individuals don't invest because they get nothing in return.
- Aid leads not to increased investment
  - ❖ Fungibility: Money foreseen (in public budget) for health can be used for military, if health is being funded by aid.
  - ❖ Rent-Seeking : Incentive to adopt good policies and to work hard is reduced, because aid will be delivered anyway. Reduces accountability to citizens ("it's not my money").
  - ❖ Principal-agent problem: asymmetric information, no direct control of recipient by donor (tax payer), no feedback, no responsibilities, moral hazard (driving more risky because you're wearing a helmet)
- Increased investment leads not to growth
  - ❖ Planners vs. Searchers: Planned economy is not efficient => doesn't lead to growth

Aid effectiveness

Poverty Labs

Importance, Focus: Need better (scientific) *understanding* of what works and what does not. Test programs in pilot projects.

Macro-Micro-Puzzle: Macroeconomic academic estimates cannot show large impacts of development aid on growth rates. Micro project evaluations show high success rates. Why?

Problems of project evaluations:

- ❖ Evaluation subjective, non-representative cases, correlation measured.
- ❖ Focus on process (not on outcome and impact => 10 schools built, but does the literacy rise?)
- ❖ Confounding bias (influence by another program or another factor)
- ❖ Self-selection bias (if the participation in a project is voluntary, the composition of participants may not be representative)
- ❖ Program-selection bias (Differences in outcomes are due to general differences in target and test group)
- ❖ Sampling bias (Analyzed villages / people are not randomly chosen but by convenience)
- ❖ Recall bias (Individuals often have problems recalling the situation before the intervention)
- ❖ Spill-over bias (Part of the control group is also benefiting from the project)
- ❖ Confirmation bias (Interviewed people have an interest in a positive evaluation of the project)

Internal validity: Whether the results of the study are not biased.
External validity: Whether the results of the study can be generalized.

Copenhagen consensus

Importance, Focus: The most *cost-effective* and efficient interventions should be prioritized. Key question: How much $ return does one get for 1$ investment?

9 development challenges: Air pollution, malnutrition and hunger, conflicts, sanitation and water, diseases, subsidies and trade barriers, education, women and development, global warming

Bottom billion

Importance, Focus: Focus aid on the *poorest countries*. Countries having growth can use their own resources to overcome poverty. Bottom billion: 58 countries, mostly sub-saharan. They have almost no growth.

	Bottom billion countries	Rest of developing countries
Income	x	5x
Life expectancy	50 years	67 years
Child (<5) mortality	15%	5%

Paris declaration

Problem: Aid delivery: There are many, many donors (public and private) => donor fragmentation

Badness of donor fragmentation

- High transaction costs, poaching: Best officials leave state for NGO, as they pay higher wages. => Weakened state.
- Increase of principle-agent problem: reduction of recipient accountability. Donor can't observe well. For the recipient, it is difficult which donor's policy to follow (they may be contradictory)
- Increase of principle-agent problem: reduction of donor accountability. Tax payers are poorly informed. Failures can't be attributed to a single donor (No one's really responsible)
- Aid as public good: free-riding problem (Every single donor can claim only a small share of the total improvements). No incentive to do a really good job.

Goals of Paris Declaration

- Improvement of delivery & management of aid.
- Ownership
- Alignment (national (donor) development targets and strategies), but: recipients know what donors want to hear.
- Harmonization (coordination between donors, joint missions, programs), but: bureaucratic nightmare. Transaction costs shifted from recipients to donors.

Budget support

	Project support	Budget support
Control	Donor government	Recipient government
Targets	Specific project objectives	National budget
Influence on policy environment	Limited	There is a certain influence
Transaction costs	High	low
Objectives		

- Promote national accountability to its citizens
- Strengthen government systems by using them
- Increase alignment of a donor's aid with national targets and systems.

- Easier to disburse large amounts
- Lower transaction costs

Challenges

- Weak (corrupt) governments?
- Increase of principle-agent-problem?
- Aid fungibility?
- Often no short-term results => difficult for marketing purposes.
- Shifting development accountability from donors to recipients?

Governance and Mo Ibrahim Award

Influence of bad governance on development

- Risky returns on investments (if there's no legal security). Few and low credits.
- Inefficient allocation resources / investments

Governance on aid

- Aid only to countries with good governance? (⇔ bottom billion)

Aid on governance

- Rent-seeking
- Reduces incentives to adopt good policies, democratic systems, increase growth rates and tax base.

Problem: How to measure bad governance?

Fair Trade

Trading is good: Ricardo's theory about comparative advantage. A country should always produce the good which it can produce most efficiently.

Why are products from developing countries so cheap? Mostly raw products are exported. Raw products have low income elasticity. With higher income, the need for raw products doesn't rise with the same rate. An increase in price of a raw product has the effect that clients from the first world just buy this product of another country. There is high price elasticity in raw products. An increase of production of a raw product leads to a more severe competition which leads to a decline in prices and eventually to financial ruin.

What is fair trade?

- Social and environmental conditions
- A fair price for a decent life in developing countries
- Usually a higher and more stable price.

Problems of fair trade

- Cannot use economies of scale
- Shift in relative prices (subsidy, distortion of the information about a country's comparative advantage)
- Is it the best mean to achieve environmental / social standards?