



## Reminder

### ReCom - Research and Communication on Foreign Aid<sup>1</sup>

#### First Results Meeting 27 January 2012, 08.30 – 12.00

Chr. Hansen Auditoriet (CSS 34.0.01), Øster Farimagsgade 5, DK-1353 Copenhagen K  
Registration <http://website1.wider.unu.edu/> (Participation is free)

#### Aid, Growth and Macroeconomic Management

**Context:** Debates about foreign aid are highly controversial and excite polarized opinions – in both the press and academic literature, and both internationally and in the Nordic countries. Optimistic views of aid are exemplified by those of top-UN advisor Jeffrey Sachs. He calls for a doubling of worldwide aid flows as a moral obligation of rich countries. In contrast, former World Bank staff William Easterly is a vocal skeptic, highlighting what he refers to as aid's apparent historic inability to buy growth. And in the midst of a serious global economic crisis, where aid is arguably more needed than ever, former Goldman Sachs economist Dambisa Moyo argues for a complete cessation of aid flows to Africa. Bad news about foreign aid is also frequent and examples of incompetence, abuse of funds by corrupt leaders, and distorted incentives get headlines in the press, fueling skepticism of foreign aid; it is suggested that negative effects dominate – and foreign aid is weakening, rather than encouraging, growth and development. But are such assessments well founded?

The ReCom meeting on 27 January 2012 is the first public event that will present and discuss what ReCom found in 2011 about the impact and effectiveness of aid. Key questions to be addressed are:

- **Why are some countries poor?**

"Countries are poor because they do not produce enough. To improve living standards significantly, poor countries must among other things produce more - much more. To produce more, poor countries must initiate and maintain investment to build up physical and human capital, acquire technology, and nurture institutions that facilitate growth. The role of aid for development, broadly conceived, is to support these long run cumulative processes."



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- **How much foreign aid is out there?**

"Aid flows are often referred to as massive - in aggregate they are quite small when seen from the perspective of the size of the development challenges faced."

- **Does aid support or harm economic growth and development?**

"The aid debate is regularly influenced by rhetoric which suggests that aid is a wasted effort. Existing up-to-date empirical evidence does not support this. Aid has on average a moderate positive impact on growth across aid receiving countries that is in line with predictions from economic theory."

- **What do we know about aid, investment, human capital and poverty reduction?**

"Over the long run, aid contributes in a statistically significant way to building up physical and human capital and supports poverty reduction. Aid also contributes to growth and structural transformation and from 1970-2007 had a respectable internal rate of return of about 16% in typical developing countries."

- **Does aid work in Africa?**

"Modern time-series analyses of 36 African countries show that aid has had a long-run positive impact on GDP, investment or both in no less than 34 of these 36 African countries. The evidence is very strong indeed. It also shows that there is considerable heterogeneity but to argue that aid has no impact is in direct contradiction with the empirical evidence."

- **When does aid to export sectors lead to pro-poor growth?**

"The experience of targeting poverty reduction through support to smallholder inclusion in global value chains, which is the commonest form of micro-level 'making markets work for the poor'-type interventions, shows that projects that work best target products with relatively low entry barriers, provide incentives for producers to improve quality in mainstream markets, and closely involve existing importers and exporters in project design and implementation.'

- **What are the challenges in the macroeconomic management of aid?**

"It is often claimed that 'Dutch disease' totally undermines aid's impact. But experience and economic analysis demonstrate that 'Dutch disease' is a manageable challenge - also in Africa."

**For further information and background see**

[www.wider.unu.edu/recom](http://www.wider.unu.edu/recom)

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<sup>1</sup> ReCom is an international research programme supported by Danida and Sida and implemented by UNU-WIDER, DIIS and others studying what works, what could work, what is saleable and what is transferable in foreign aid. Research is organized in five themes, including aid, growth and employment.