



LIVE L BBC NEWS CHANNEL

News services
Your news when you want it



- News Front Page
- World
- UK
- England
- Northern Ireland
- Scotland
- Wales
- Business
- Politics
- Health
- Education
- Science & Environment
- Technology
- Entertainment
- Also in the news

Last Updated: Sunday, 11 September 2005, 10:54 GMT 11:54 UK

E-mail this to a friend

Printable version

Why Aid Doesn't Work



Viewpoint
By Fredrik Erixon
Chief economist, Timbro

The aid sector is booming. In the last three years, foreign aid has risen by one third and today stands at US\$78.6 bn. In 2010, government spending on aid is projected to be above US\$125 bn a year.



“ Sound economic policies, not aid, have lifted millions of Asians out of poverty ”

Fredrik Erixon

The case for aid: Jeffrey Sachs

- Video and Audio
- Have Your Say
- Magazine
- In Pictures
- Country Profiles
- Special Reports

- RELATED BBC SITES
- SPORT
- WEATHER
- CBBC NEWSROUND
- ON THIS DAY
- EDITORS' BLOG

What are we to expect from this new wave of aid spending? Will it, once and for all, lift people out of poverty or will it most likely achieve very little - perhaps even be counterproductive?

These are the core issues. Hardly anyone opposes the idea that first-world countries should assist developing countries, if that assistance helps countries to develop. The question is: does it?

I am afraid it does not.

Failure of the big push

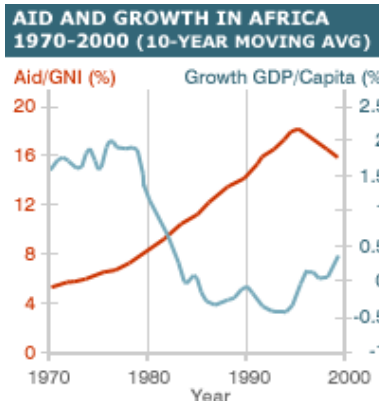
The new 'big push' of development aid has been tried many times before but always with dismal results. The call for redoubling aid to eradicate poverty has been responded to many times over, but it has never delivered what it promised.

In spite of more than US\$1 trillion in aid to Africa over the last 50 years, the big push in development has yet to occur.

Between 1970 and 1995 aid to Africa increased rapidly and aid dependency (measured as the aid-to-GDP ratio) stood at nearly 20% in the early 1990s. Measured differently, the mean value of aid as a share of government expenditures in African countries was well above 50% between 1975 and 1995.

During the same period, GDP per capita growth in Africa decreased and was for many years even measured in negative figures. The unfortunate fact is that most African countries are poorer today than they were at the time of their independence from colonial powers.

If the idea of aid had been true - in particular the alleged link between aid, investment, and

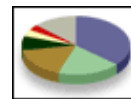


UN WORLD SUMMIT

KEY STORIES

- Summit agrees reform document
- Support for emergency fund
- India, S Africa demand UN reform
- Blair throws down gauntlet to UN
- Kofi Annan urges bold UN reform

IN GRAPHICS



Poverty goals

A look at how close the UN is achieving its 2015 targets

OPEN

Aid and development

ANALYSIS

- Reforms receive mixed response
- Where are the green goals?
- No single vision for future
- Leaving some aid goals behind
- UN staggers on road to reform

CASE STUDIES



Poverty divide

Social divisions abound in Manila

Helping Peru's 'invisible' women

- Ethiopia strives to feed itself
- An experiment in Kenya

OPEN

8 ways to fight poverty

DEBATE

- Why aid does work
- Why aid doesn't work

VIDEO AND AUDIO

Watch Reports and speeches

HAVE YOUR SAY

- Is the UN a spent force?
- Should we help the world's poor?

RELATED INTERNET LINKS:

- UN World Summit 2005
- Timbro
- International Policy Network
- World Development Indicators Online (World Bank)
- New Partnership for Africa's Development (NEPAD)

The BBC is not responsible for the content of external internet sites

TOP SCIENCE & ENVIRONMENT STORIES

- Night-sky image is biggest ever
- Phantom Eye 'spy plane' unveiled
- Higgs discovery rumour is denied

News feeds

growth - many of those countries would today have eradicated extreme poverty and have a GDP per capita similar to that of New Zealand, Spain or Portugal.

As African aid rose, growth slowed.
World Development Indicators Online

If nothing else, aid to Africa seems to have lowered rather than increased economic growth.

Corruption and bad decisions

Why has aid failed to deliver higher economic growth for developing countries?

Partly because aid has not been spent in the way it was intended. Instead of gearing up investments, money was spent on current spending and public consumption - which, in turn, led to a rapidly growing public sector in the economy.

AID AND DEVELOPMENT

Who are the biggest donors and who are the biggest recipients?

[OPEN](#) In graphics

Needless to say, this strengthened other socialist tendencies in the economy and investment became, in many developing countries, mainly a government activity.

In addition, aid boosted fiscal budgets and led to a rapidly growing number of parastatals and state-owned enterprises. Largely supported by the donor community at the time, these soon became arenas of corruption and this corruption spread like wildfire to other parts of the society.

The tragedy of aid, as been shown in numerous evaluations and by World Bank research, is that donors are part of the problem of corruption; aid often underpins corruption, and higher aid levels tend to erode the governance structure of poor countries.



Mozambique and other African countries adopted Socialist policies

In other words, donors have failed to follow the chief principle of the Hippocratic oath: do no harm!

However, the major reason for the low effect of aid has been policies detrimental to economic growth in the recipient countries.

Closed African doors

It is sound economic policies, not aid, that in the last decades have lifted millions - even billions - of Asians out of extreme poverty, and provided the resources to limit the extent of (or in some countries, eradicate) starvation, diseases, and other visible signs of poverty.

Inversely, it is bad economic policies that still keep millions of Africans in deadly poverty.

When several Asian countries started to open up for trade and foreign direct investment, the policies that created the 'Asian Tigers' and the 'Asian Miracles', many African countries headed for a model of economic autarky, closed the borders, and regulated the domestic economy to absurd degrees.

It is hardly surprising that this strategy of development has failed bitterly.

What is more, donors supported these policies. And many donors are still pouring money into countries with policies detrimental to growth.

Instead of focusing on the quality of aid and how to raise the output through a more productive use of aid, donor countries and others are solely occupied by increasing the quantity of aid.

Regrettably, caution is therefore warranted. Aid to countries that are not performing well tends to strengthen the factors of under-development, and increased aid to countries that have entered the economic reform route runs the risk of derailing the reform process.

Trade in the aid

The question then is not if rich countries can afford to give more aid to developing countries. It is obvious that they can.

The question is whether this aid can reduce poverty by promoting economic growth.

Sadly, the history of aid does not show that it can. Nor does it seem that world leaders, not to mention Bob Geldof and other campaigners, have any real idea how the aid given can be made more effective.



Do Bono and Sir Bob know how the extra aid should be spent?

So, here is what donor countries should do.

- do not spend any more money on development aid
- withdraw all aid to countries that are not pursuing sound economic policies and that fail seriously to build institutions for democracy and transparency
- countries that meet these high standards should, within a limited period of time, be assisted with 'locking-in' already accomplished reforms and, in particular, with pursuing additional reforms
- rich countries should immediately open up their markets for exports from poor countries

Trade has proven to be instrumental to poor countries development. Aid has not.

*Fredrik Erixon is the chief economist of Timbro, a Swedish think-tank, and author of *Aid and Development: Will it Work this Time?* (International Policy Network, 2005)*

 [E-mail this to a friend](#)

 [Printable version](#)

PRODUCTS AND SERVICES

[E-mail news](#) [Mobiles](#) [Alerts](#) [News feeds](#) [Interactive TV](#) [Podcasts](#)

MMIX

[Back to top](#) ^^

[Help](#) | [Privacy and cookies policy](#) | [News sources](#) | [About the BBC](#) | [Contact us](#)