

Did Foreign Aid Work in Africa?

The Legend of the Big Push

- Countries were in a Poverty Trap
- Could not escape without foreign aid
- The Big Push of aid would cause countries to escape the Poverty Trap
- Assumptions:
 - Aid goes into Investment
 - Higher Investment causes Higher Growth – Escape from Poverty Trap

Facts that Influenced Debate on the Big Push

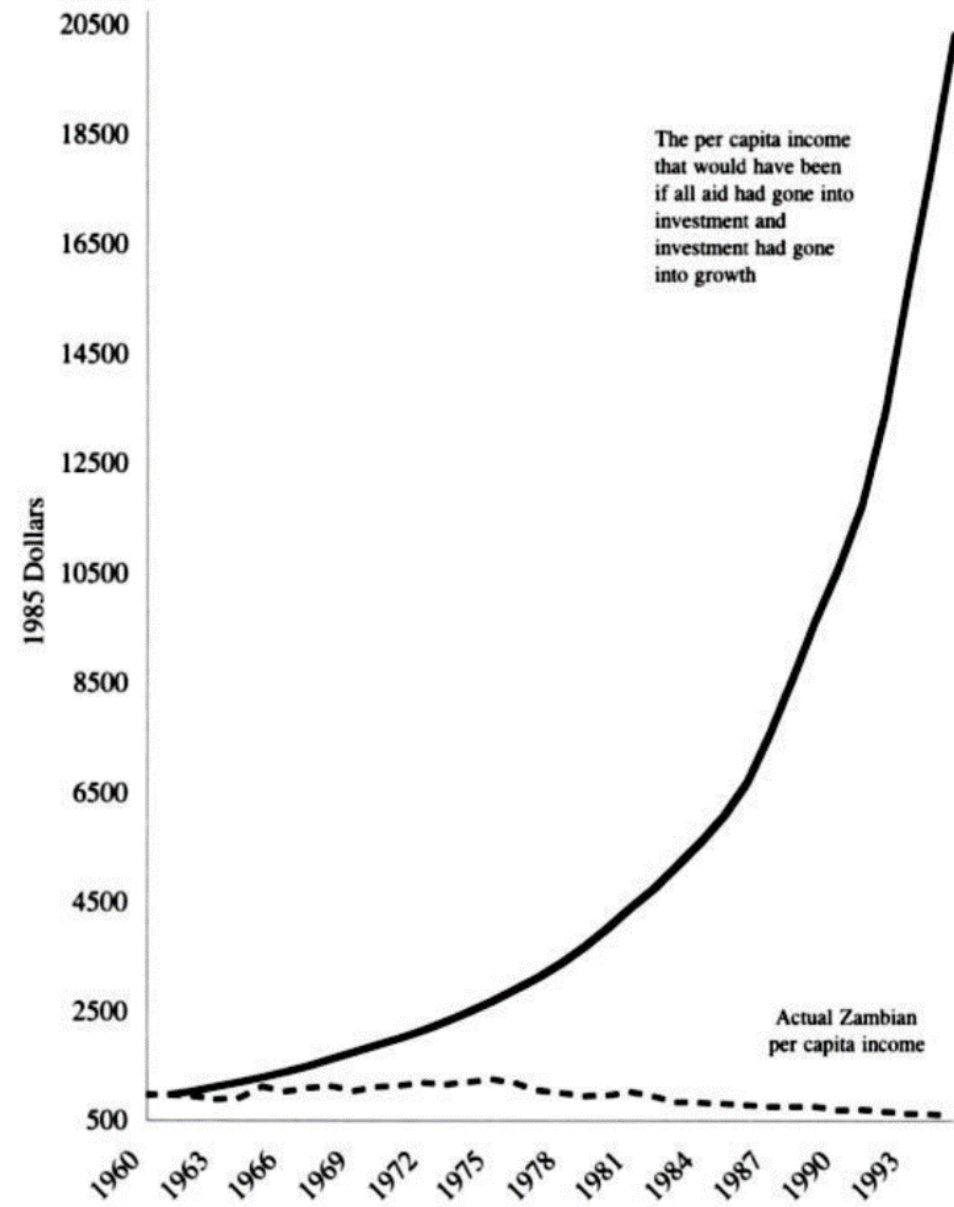


Figure 2.1
The gap between the financing gap model and the actual outcome in Zambia

Fig. 2. Aid and Growth in Africa (ten-year moving averages)

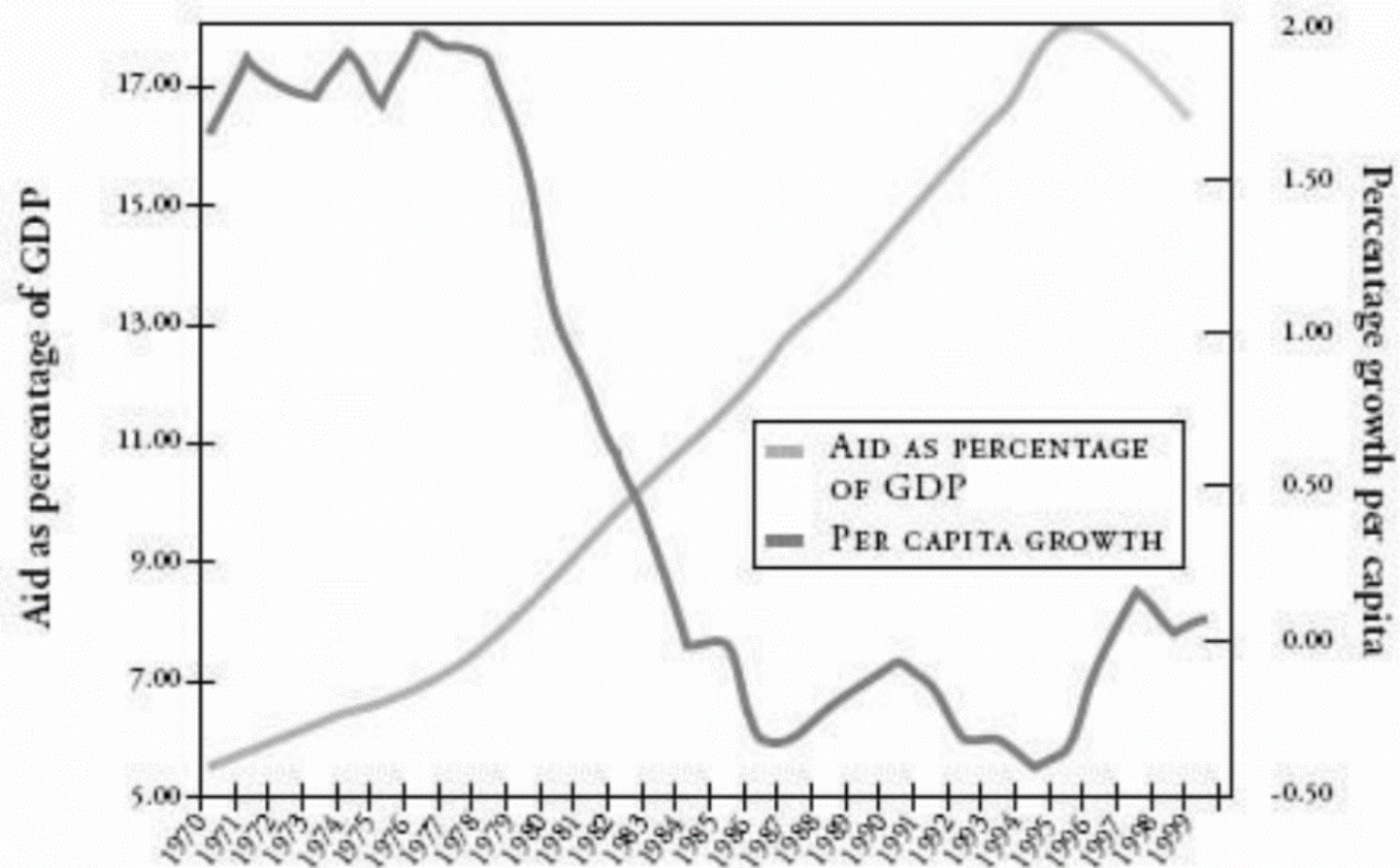


Fig. 2. Aid and Growth in Africa (ten-year moving averages)

Cumulative Aid Over Time

- Total flow of aid to Sub-Saharan Africa over 1960-2019 was **\$1.5 Trillion** in Today's Dollars
- If aid had been invested at an interest rate of 7%, today each resident of Africa would have **\$9,719**.

Why did the Big Push fail?

- Poverty Trap Model versus Incentives Model
 - Political and Economic Freedom determines Incentives for Development
- Lack of Accountability of Donors for Results (also an Incentives story)
- Self-Interest of Donors
 - Aid to unfree allies (War on Terror)

Foreign Aid Increases and Political and Economic Freedom			
	2015 US\$ in Billions, Sum by		
<i>Quartiles of Countries Ranked by Freedom</i>	<i>Annual Average Aid, 1996-2001</i>	<i>Annual Average Aid, 2002-2018</i>	<i>Percent Increase</i>
Least free fourth of countries	\$ 7.1	\$ 28.3	300%
Second least free fourth	\$ 16.4	\$ 22.5	37%
Second most free fourth	\$ 16.1	\$ 20.9	30%
Most free fourth of countries	\$ 9.6	\$ 13.5	41%
<i>Quartiles 2-4</i>	\$ 42.1	\$ 56.9	35%
<i>Total all</i>	\$ 49.2	\$ 85.2	73%

*Least free countries that were US AFRICOM allies: **Burundi, Central African Republic, Chad, Ethiopia, and Somalia***

Conclusions

- Almost nobody believes in the Big Push anymore
- Foreign Aid Donors overestimated their own competence, and underestimated homegrown development
- Aid could still work for more modest objectives (health for example)