



Aid Impact and Effectiveness

Introduction and Overview

Gisselquist, Rachel M.; Tarp, Finn

Published in:
Politics and Governance

DOI:
[10.17645/pag.v7i2.2219](https://doi.org/10.17645/pag.v7i2.2219)

Publication date:
2019

Document version
Publisher's PDF, also known as Version of record

Document license:
[CC BY](#)

Citation for published version (APA):
Gisselquist, R. M., & Tarp, F. (2019). Aid Impact and Effectiveness: Introduction and Overview. *Politics and Governance*, 7(2), 1-4. <https://doi.org/10.17645/pag.v7i2.2219>

Editorial

Aid Impact and Effectiveness: Introduction and Overview

Rachel M. Gisselquist^{1,*} and Finn Tarp^{1,2}

¹ UNU-WIDER, 00160 Helsinki, Finland; E-Mail: rachel@wider.unu.edu

² Department of Economics, University of Copenhagen, 1353 Copenhagen K, Denmark; E-Mail: finn.tarp@econ.ku.dk

* Corresponding author

Submitted: 5 May 2019 | Published: 5 June 2019

Abstract

This editorial provides an introduction to and overview of the thematic issue on “Aid Impact and Effectiveness”. The guest editors put the specific contributions of the nine articles in perspective referring to the wider literature on foreign aid and its allocation, impact, and efficiency, as well as the political and economic processes in which aid operates. They discuss the historical and present-day context for foreign aid and provide summaries of the individual articles, highlighting policy implications and future research needs.

Keywords

climate change; donors; fragile states; foreign aid; growth; impact; institutions; politics; trade

Issue

This editorial is part of the issue “Aid Impact and Effectiveness”, edited by Rachel M. Gisselquist and Finn Tarp (UNU-WIDER, Finland).

© 2019 by UNU-WIDER; licensee Cogitatio (Lisbon, Portugal). This article is licensed under a Creative Commons Attribution 4.0 International License (CC BY).

1. Introduction and Overview

The questions of whether aid has impact and is effective have been the subject of a considerable literature, including attention to the aggregate impact of aid on growth across countries (Arndt, Jones, & Tarp, 2010, 2015, 2016; Burnside & Dollar, 2000; Easterly, 2003; Hansen & Tarp, 2001; Jones & Tarp, 2016; Juselius, Møller, & Tarp, 2014; Rajan & Subramanian, 2008). In this thematic issue, we build upon this literature, paying special attention to the ways in which aid affects development outcomes, including—but not limited to—growth. We pay special attention to work that speaks to aid impact and effectiveness in fragile states and situations, where development outcomes have been the poorest and domestic capacity weakest.

While decreasing in relative terms, foreign aid remains an important financial flow for many developing countries. The topic of aid’s impact on growth, therefore, remains central to the development literature. Overall, a consensus has emerged over the last decade that aid does seem to promote aggregate growth. At the same

time, estimates of the impact vary and many studies focus on different factors that diminish aid’s potential impact. In their study, Mekasha and Tarp (2019) turn to meta-analysis to provide an overall assessment, building on previous work (Mekasha & Tarp, 2013). They are careful to point out the potential weaknesses of this methodology as applied to the impact of foreign aid. That said, their new and updated results confirm the increasing consensus about the positive evidence of aid’s impact on growth. They also show that this result is robust to including more recent studies and for different time horizons.

In turn, Martínez-Zarzoso (2019) considers the impact of aid on recipient income through international trade. She applies a structural gravity model of trade where aid is included, and estimates a set of trade variables for a cross-section of 33 donor countries and 125 recipient countries over the period 1995 to 2016. She furthermore uses a control function approach and instrumental variable techniques to estimate the indirect effect of aid on income. Her results are in line with emerging consensus about aid’s impact on recipient income, highlighting that effects are heterogeneous and vary by region.

Aid is provided for many reasons and to achieve many objectives. Promoting growth and income is only one dimension. Attention to the provision of basic needs has been a recurring theme in development debates for decades. Many have argued that satisfying basic needs is a precondition for broad-based growth. See for example the famous quote by the architect of the Human Development Reports, Professor Mahbub ul Haq: “We were taught to take care of our GNP as this will take care of poverty. Let us reverse this and take care of poverty first as the GNP can take care of itself” (Haq, 2018). For sure, from 1995 onwards, attention to the provision of health and education was central to the Millennium Development Goal agenda. As Banchani and Swiss (2019) note, the G8 placed in 2010 renewed focus on maternal health via the Muskoka Initiative, with increased commitment to support aid interventions in this area, and the Sustainable Development Goals similarly prioritize maternal health. These authors take as their starting point that there is little analytical evidence on the impact of foreign aid on maternal mortality in developing countries. They analyse aid’s impact on maternal health in a sample of 130 low- and middle-income countries from 1996 to 2015. Results show limited effects of total aid, but significant reductions in maternal mortality related to aid allocated to the reproductive health sector. The policy implication is that targeting aid to specific sectors has significant potential.

Climate change has over the last two decades pushed itself into a central position in international development and discussions about the future of the globe. In parallel, climate related aid is on the rise (see Arndt & Tarp, 2014). It is therefore natural to ask, as Kono and Montinola (2019) do, what the relationship is between climate aid and recipient climate policy. They find no evidence that the former is systematically related to the latter. They also qualify their conclusion with reference to the poor quality of both climate aid and climate policy data. It is well established in the literature that great care has to be exercised in avoiding to overextend the use of insignificant statistical parameters in aid debates. To be sure, an insignificant parameter reflects our lack of evidence. Temple (2010) spells this out in the following way: “An insignificant coefficient should usually be seen as absence of evidence, not evidence of absence, at least until the economic implications of a confidence interval have been explored.” (p. 4448). Kono and Montinola (2019) conclude by specifying what is required in the climate change area to arrive at firm conclusions.

Aid is regularly justified with reference to the needs of recipient countries. The group of fragile and conflict-affected states is therefore a clear priority. Carment and Samy (2019) ask whether aid to this group is targeted to where it is most needed. Using the Country Indicators for Foreign Policy (CIFP) fragility index, together with data on aid flows from the Organisation for Economic Co-Operation and Development’s Creditor Reporting System and six country cases, they extend recent and forthcoming work (Carment & Samy, 2017, forthcoming). Con-

sidering the types of aid received against the CIFP framework, the authors conclude that aid is poorly targeted in fragile states. They argue that aid’s impact would be improved through better targeting to address core challenges of legitimacy and authority that are important to understanding why states are fragile.

Domestic ownership of foreign aid programmes is a longstanding topic in relation to foreign aid (see e.g., Tarp & Roland-Holst, 2004), and local ownership is set out as a fundamental principle for aid effectiveness in the Paris Declaration, Accra Agenda for Action, and Busan Partnership. Despite the existing rhetoric among both donor and recipient countries on this issue, Chasukwa and Banik (2019) find that aid continues to be disbursed by donors without proper coordination with national institutional structures. While the early literature on this topic justified such practice with reference to efficiency, more recent justifications have shifted to refer to corruption and weak implementation capacity consistent with Chasukwa and Banik’s findings. The authors study this in the context of Malawi and show that a variety of modalities are used to circumvent national institutions. The implication is fragmentation of aid and lack of coordination that leads to lower potential impact than would otherwise be possible (see also Bigsten & Tengstam, 2015).

Winters (2019) pursues a parallel topic addressing the question of the number of funding streams involved in World Bank projects. He combines data from World Bank projects with project performance ratings and studies within country variation across projects to establish any evidence for reduced aid effectiveness when more participants are engaged. As such, he points to yet another avenue that limits the potential impact of aid. This is very much in line with the traditional debates about the large transactions costs often inherent in providing aid to countries in need (see Paul & Vandeninden, 2012). Too many cooks do indeed often lead to less quality.

Aid effectiveness also may be influenced by donor motivations, and a significant literature on donor motivations in aid allocation exists. A particular strand is focused on how aid is used to buy influence through aid allocation to the Bretton Woods institutions and the United Nations (see e.g., Andersen, Harr, & Tarp, 2006). Reinsberg (2019) examines whether multi-bilateral aid is used to promote countries’ interest in becoming a temporary member of the UN Security Council (see also Dreher, Lang, Rosendorff, & Vreeland, 2018). His analysis draws on new data using media reports to assess donor interest in winning seats in the UN security council, along with data on multi-bilateral aid flows. He demonstrates that multi-bilateral aid is indeed used for geopolitical purposes.

The demand and supply for aid is often couched in economic terms. At the same time, it is widely understood that development assistance is in many ways a political project by donor countries (see Lancaster, 2006). It is also clear that the politics of aid recipient coun-

tries matter to aid effectiveness. Over the past several decades, practitioners have sought to improve aid effectiveness by better taking politics into account, with growing interest and explicit reference to ‘thinking and working politically’ (TWP) in development (Carothers & de Gramont, 2013). Dasandi, Laws, Marquette and Robinson (2019) speak to the need for more systematic attention to the the evidence base on TWP and its impact on aid effectiveness. Although there is not yet a ‘strong enough’ evidence base, they argue, this is not surprising given that TWP is relatively recent in development programming. They discuss evidence in a variety of areas and suggest where future research should be focused.

While much remains to be learned about aid, as is true in other areas of social policy, we argue that future progress needs to take account of what is already known and hope that this thematic issue provides stimulating reading in this regard. At the same time, our ambition is to inspire further study and research on the need, supply, and provision of foreign aid and how to improve aid effectiveness.

Acknowledgments

The guest editors would like to express their appreciation to the editorial team at the *Politics and Governance* journal for being extremely efficient and helpful throughout the whole process of producing this thematic issue. Sincere thanks are also due to UNU-WIDER and its staff for continued support in making this issue possible.

Conflict of Interests

The authors declare no conflict of interests.

References

- Andersen, T. B., Harr, T., & Tarp, F. (2006). On US politics and IMF lending. *European Economic Review*, 50(7), 1843–1862.
- Arndt, C., Jones, S., & Tarp, F. (2010). Aid, growth, and development: Have we come full circle? *Journal of Globalization and Development*, 1(2), 1–27.
- Arndt, C., Jones, S., & Tarp, F. (2015). Assessing foreign aid’s long run contribution to growth and development. *World Development*, 69, 6–18.
- Arndt, C., Jones, S., & Tarp, F. (2016). What is the aggregate economic rate of return to foreign aid? *The World Bank Economic Review*, 30(3), 446–474.
- Arndt, C., & Tarp, F. (2014). *Aid, environment and climate change* (UNU-WIDER Position Paper). Helsinki: UNU-WIDER. Retrieved from http://www1.wider.unu.edu/recomenvironment/sites/default/files/Position%20paper%20on%20Aid%2C%20Environment%20and%20Climate%20Change_0.pdf
- Banchani, E., & Swiss, L. (2019). The impact of foreign aid on maternal mortality. *Politics and Governance*, 7(2), 53–67.
- Bigsten, A., & Tengstam, S. (2015). International coordination and the effectiveness of aid. *World Development*, 69, 75–85.
- Burnside, C., & Dollar, D. (2000). Aid, policies, and growth. *American Economic Review*, 90(4), 847–868.
- Carment, D., & Samy, Y. (2017). Exiting the fragility trap: Rethinking our approach to the world’s most fragile states (UNU-WIDER Working Paper, No. 2017/181). Helsinki: UNU-WIDER.
- Carment, D., & Samy, Y. (2019). Aid targeting to fragile and conflict-affected states and implications for aid effectiveness. *Politics and Governance*, 7(2), 93–102.
- Carment, D., & Samy, Y. (forthcoming). *Exiting the fragility trap: Rethinking our approach to the world’s most fragile states*. Athens, OH: Ohio University Press.
- Carothers, T., & De Gramont, D. (2013). *Development aid confronts politics: The almost revolution*. Washington, DC: Brookings Institution Press.
- Chasukwa, M., & Banik, D. (2019). Bypassing government: Aid effectiveness and Malawi’s local development fund. *Politics and Governance*, 7(2), 103–116.
- Dasandi, N., Laws, E., Marquette, H., & Robinson, M. (2019). What does the evidence tell us about ‘thinking and working politically’ in development assistance? *Politics and Governance*, 7(2), 155–168.
- Dreher, A., Lang, V., Rosendorff, B. P., & Vreeland, J. R. (2018). Dirty work: Buying votes at the UN Security Council. *VoxEU*. Retrieved from <https://voxeu.org/article/buying-votes-un-security-council>
- Easterly, W. (2003). Can foreign aid buy growth? *Journal of Economic Perspectives*, 17(3), 23–48.
- Hansen, H., & Tarp, F. (2001). Aid and growth regressions. *Journal of Development Economics*, 64(2), 547–570.
- Haq, K. (Ed.). (2018). Crisis in development strategies. In *Economic growth with social justice: Collected writings of Mahbub ul Haq*. Oxford: Oxford University Press.
- Jones, S., & Tarp, F. (2016). Does foreign aid harm political institutions? *Journal of Development Economics*, 118, 266–281.
- Juselius, K., Møller, N. F., & Tarp, F. (2014). The long-run impact of foreign aid in 36 African countries: Insights from multivariate time series analysis. *Oxford Bulletin of Economics and Statistics*, 76(2), 153–184.
- Kono, D. Y., & Montinola, G. R. (2019). Foreign aid and climate change policy: What can(’t) the data tell us? *Politics and Governance*, 7(2), 68–92.
- Lancaster, C. (2006). *Foreign aid: Diplomacy, development, domestic politics*. Chicago, IL: University of Chicago Press.
- Martínez-Zarzoso, I. (2019). Effects of foreign aid on income through international trade. *Politics and Governance*, 7(2), 29–52.
- Mekasha, T. J., & Tarp, F. (2013). Aid and growth: What meta-analysis reveals. *Journal of Development Studies*, 49(4), 564–583.
- Mekasha, T. J., & Tarp, F. (2019). A meta-analysis of aid ef-

- fectiveness: Revisiting the evidence. *Politics and Governance*, 7(2), 5–28.
- Paul, E., & Vandeninden, F. (2012). Foreign aid transaction costs: What are they and when are they minimised? *Development Policy Review*, 30(3), 283–304.
- Rajan, R. G., & Subramanian, A. (2008). Aid and growth: What does the cross-country evidence really show? *The Review of Economics and Statistics*, 90(4), 643–665.
- Reinsberg, B. (2019). Do Countries Use Foreign Aid to Buy Geopolitical Influence? Evidence from donor campaigns for temporary UN security council seats. *Politics and Governance*, 7(2), 127–154.
- Tarp, F., & Roland-Holst, D. (2004). New perspectives on aid effectiveness. In B. Tungodden, N. Stern, & I. Kolstad (Eds.), *Toward pro-poor policies—Aid, institutions and globalization* (pp. 43–62). Hensinki and Oxford: World Bank and Oxford University Press. Retrieved from <http://documents.worldbank.org/curated/en/851501468780335344/Annual-World-Bank-Conference-on-Development-Economics-Europe-2003-Toward-pro-poor-policies-aid-institutions-and-globalization>
- Temple, J. (2010). Aid and conditionality. In D. Rodrik & M. Rosenzweig (Eds.), *Handbook of development economics* (pp. 4415–4523). Amsterdam: Elsevier.
- Winters, M. S. (2019). Too many cooks in the kitchen? The division of financing in World Bank projects and project performance. *Politics and Governance*, 7(2), 117–126.

About the Authors



Rachel M. Gisselquist, a political scientist, is a Senior Research Fellow with UNU-WIDER. She works on the comparative politics of developing countries, with particular attention to sub-Saharan Africa. Her research has focused on issues of ethnic politics and inequality; state fragility and peacebuilding, including the role of foreign aid; governance; and democracy and democratic transition. Her work is published in various scholarly journals and edited volumes. She holds a PhD in Political Science from the Massachusetts Institute of Technology.



Finn Tarp is Professor of Economics at the UCPH, Coordinator of the UCPH Development Economics Research Group and, from 2009 to 2018, the Director of UNU-WIDER. Professor Tarp is a leading international expert on development strategy and foreign aid, with an interest in poverty, income distribution and growth, micro- and macroeconomic policy and modelling, agricultural sector policy and planning, household/enterprise development, and economic adjustment and reform as well as climate change, sustainability, and natural resources.