

Is Economic Development an Appropriate Central Focus for an Aid programme? (a tale told by graphs)

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Definitions:

Economic development: economic change in countries and regions leading to increased material prosperity (\approx Growth in GDP/GNI)

Development: a process through which human suffering is reduced, and through which human welfare and wellbeing is increased.

A Central Focus

“Sustainable economic development is a central focus for the New Zealand Aid Programme mandate of supporting sustainable development in order to reduce poverty and contribute to a more secure, equitable and prosperous world.” [ref](#)

What does that mean?

Ultimate Goal

Development / Poverty Reduction

Intermediate Goal

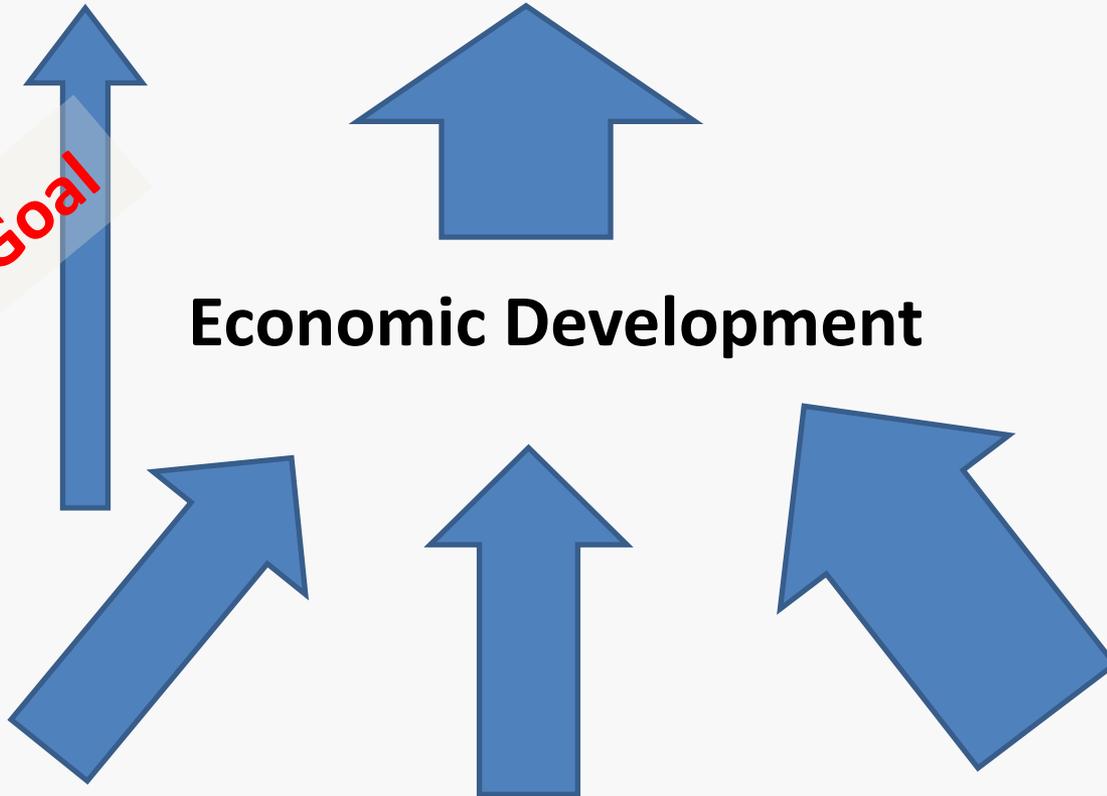
Economic Development

Aid work

Human Capital

Governance

Productive Sector



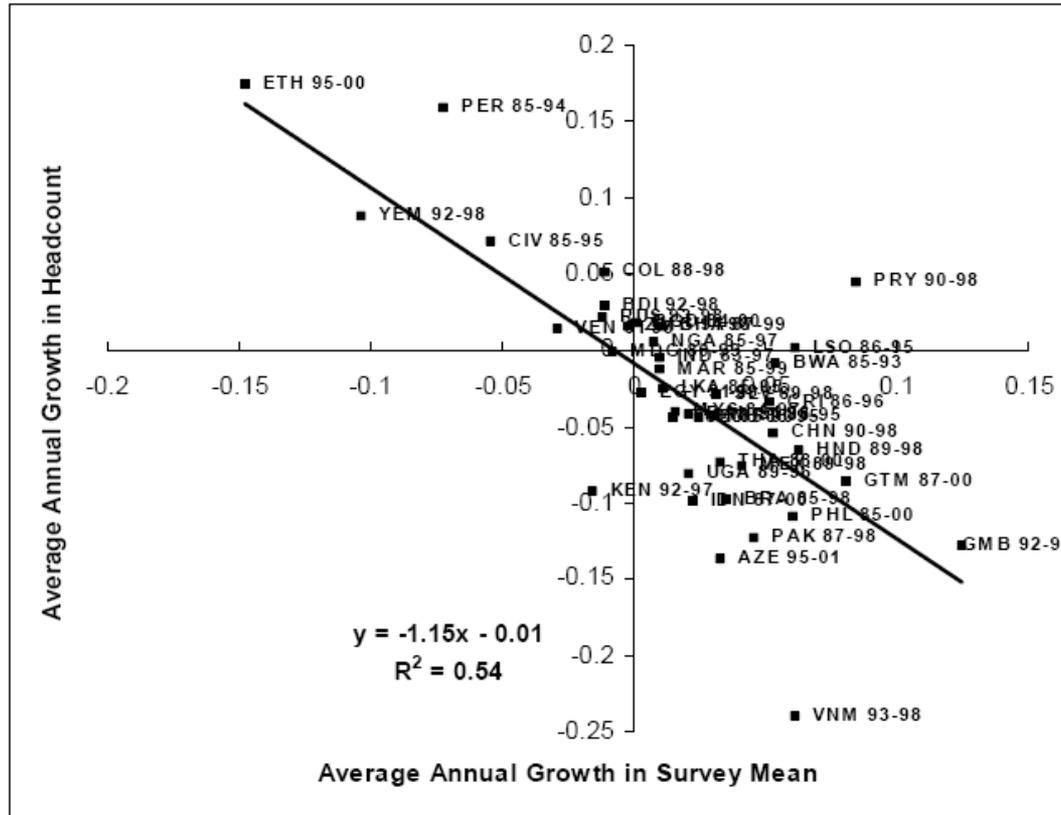
Three Questions:

- 1. Does economic development lead to development?**
- 2. Can aid promote economic development?**
- 3. Is aid more effective in promoting other aspects of development?**

Question 1: Does Economic Development Lead to Development?

- Poverty
- Health

Poverty?

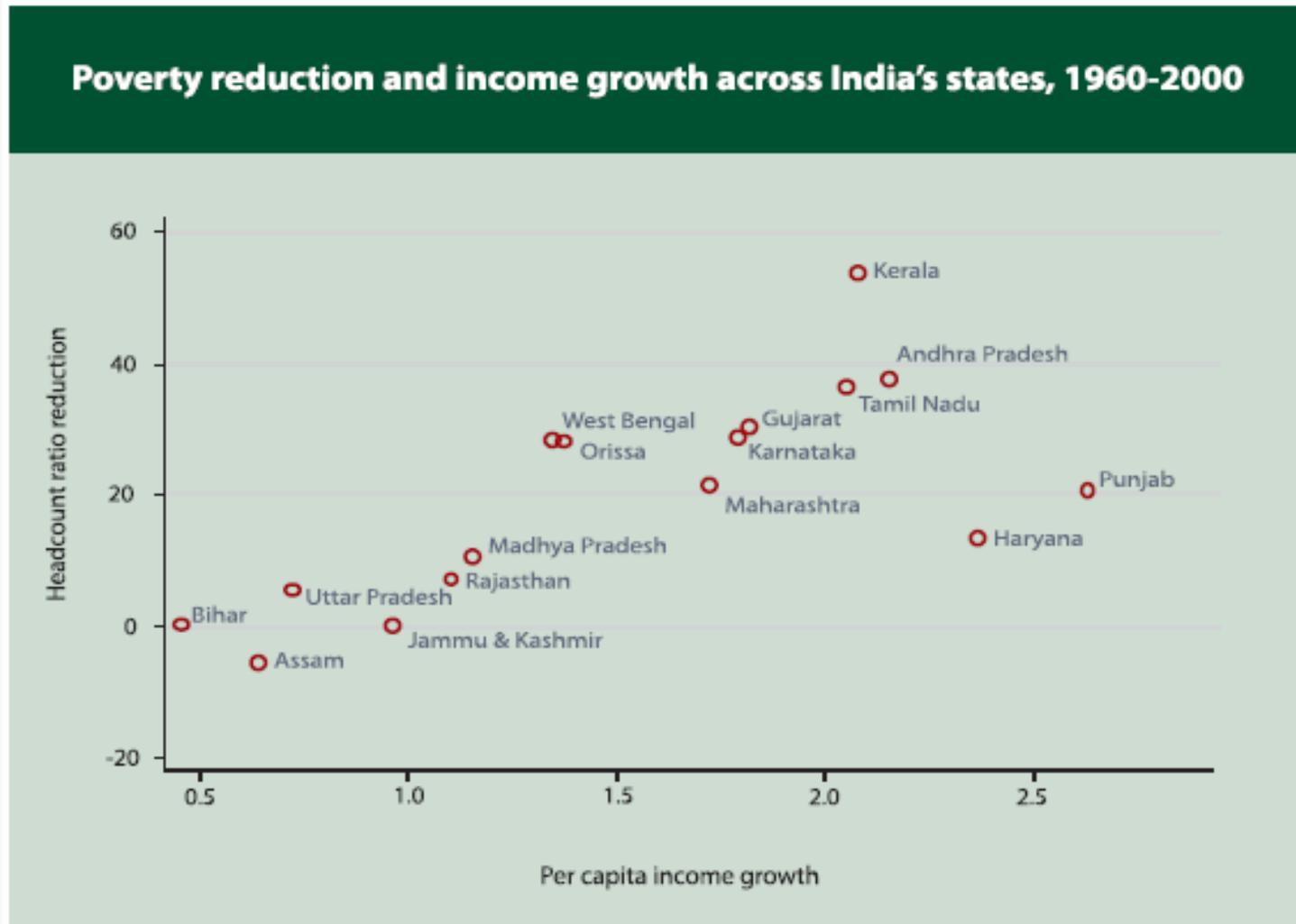


Kraay, A. (2006). "When is growth pro-poor? Evidence from a panel of countries." Journal of Development Economics **80**(1): 198-227.

“[T]he paper's main finding – that there is generally a positive correlation between economic growth and the income of the poor – is no surprise. In fact, it is difficult to imagine who would argue that there were no such correlation.” Weisbrot and Baker

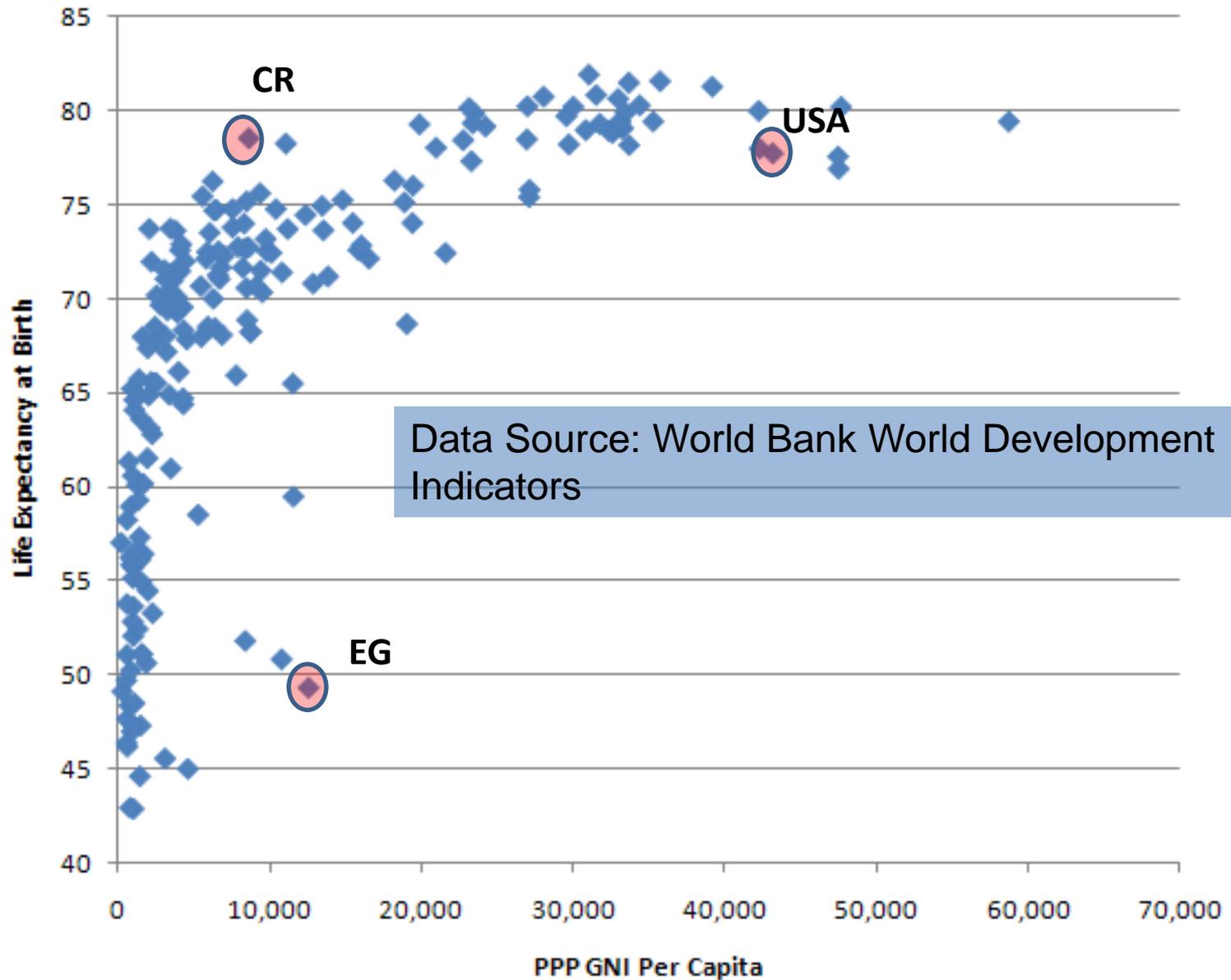
Weisbrot, M., D. Baker, et al. (2001). "Growth May Be Good for the Poor – But are IMF and World Bank Policies Good for Growth?" Center for Economic and Policy Research Briefing Paper.

On average?



Besley, T., R. Burgess, et al. (2006). *The Policy Origins of Poverty and Growth in India*. T. Besley and L. J. Cord. Washington DC, World Bank: 59-78

Health?



**“We can say with confidence that economic growth improves health.”
Spence and Lewis**

Spence, M. and M. A. Lewis (2009). Health and growth. Washington, DC, World Bank.

“Economic growth frequently needs help to guarantee an improvement in population health.” Deaton

Deaton, A. (2006). "The Great Escape: A Review of Robert Fogel's The Escape from Hunger and Premature Death, 1700–2100." Journal of Economic Literature **44**(1): 106-114.

And so...

**Economic Development does on average lead to
better development outcomes**

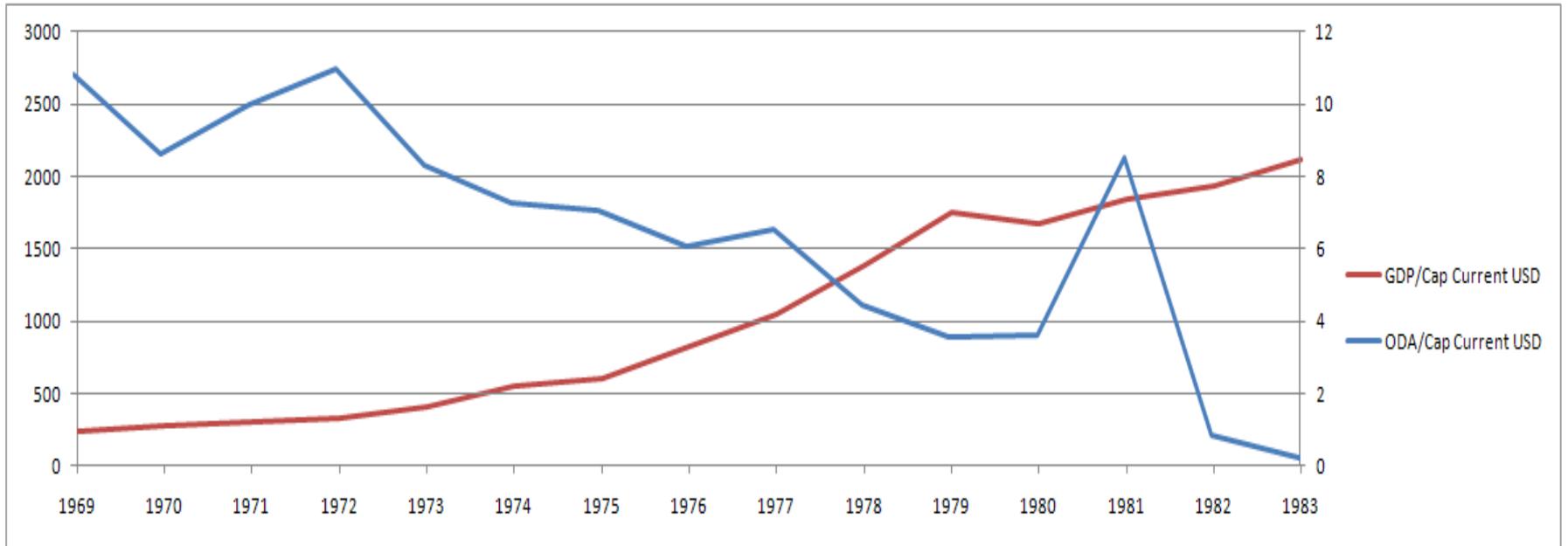
But...

The extent to which it does varies

And...

**Some good can be done in the absence of ED
(to a point)**

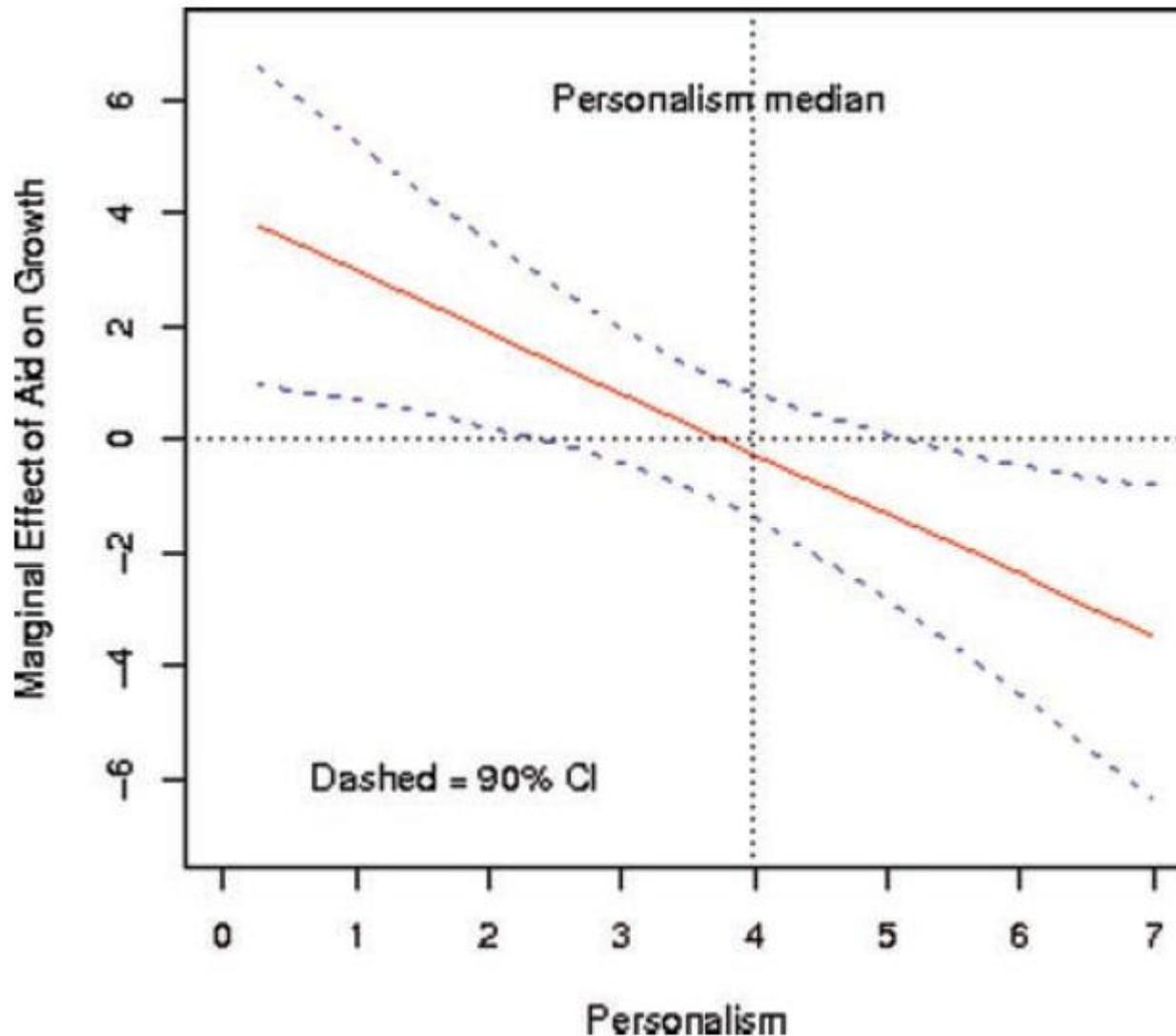
Sovereignty



Data Source: World Bank World Development Indicators

Question 2: Can aid promote economic development?

Can aid promote economic development?



Wright, J. (2010). "Aid Effectiveness and the Politics of Personalism." Comparative Political Studies **43**(6): 735-762.

Question 3: Aid's impact in other areas?

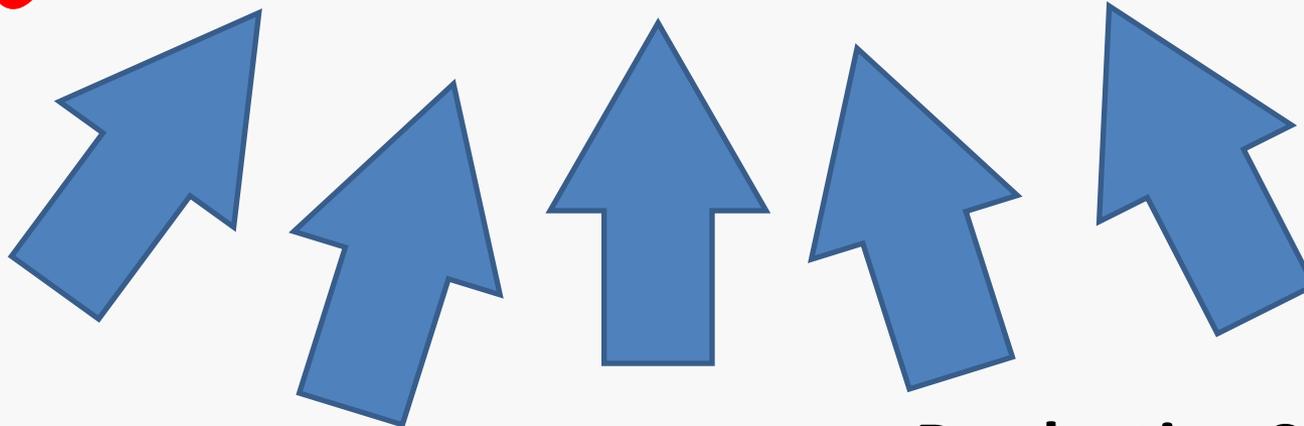
Aid and Health

“There are different ways to quantify the magnitude of Zambia’s recent success in health improvement. The reduction in under-five mortality represents approximately 25,000 children’s lives saved per year. To compare the mortality improvement with more “economic” outcomes, we can do a back of the envelope calculation using the Human Development Index (HDI), which weighs economic and non-economic characteristics into an overall measure of quality of life. Using the formula for the HDI, one can calculate the amount of income growth that would be equivalent to a particular rise in life expectancy at birth. A conservative estimate, using just the data on under-five mortality, is that life expectancy at birth in Zambia rose by 2.25 years over the period 2000-2007.² Plugging this into the HDI formula shows that an equivalent rise in HDI would be achieved if income per capita grew by 25%.” Ashraf et al. 2010

Ashraf, N., G. Fink, et al. (2010). "Evaluating the Effects of Large Scale Health Interventions in Developing Countries: The Zambian Malaria Initiative." National Bureau of Economic Research Working Paper Series No. 16069.

Ultimate Goal

Development



Health, Education

Governance

Productive Sector

Human Rights, Peace Building, Gender

Context

www.nzadds.org.nz