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International finance

Aid cannot make poor countries rich

For decades, officials have promised to raise economic growth. For decades, they have failed

Illustration: Rose Wong

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The capital of Malawi, one of the world's poorest countries, runs on aid. A city built in the 1970s by the World Bank, Lilongwe's straight streets are filled with charities, development agencies and government offices. Informal villages house cooks and cleaners for foreign officials; the entrance to each is marked with the flag of its national sponsor. Over the past five decades, policymakers have reached a division of labour: Britain funds schools, Japan backs energy projects, Europe supports agriculture and Ireland nurtures a cottage industry of justice activists. In the health ministry, maintained with Chinese money, doors are labelled by donor, not department. Many read "USAID".

When, just over a month ago, Donald Trump froze funding for the agency through which America doles out most of its aid, crucial work stopped overnight. Although a later waiver allowed "life-saving" projects to restart, it applied only to those with approval from local development diplomats, most of whom had been put on furlough. Few projects have restarted. In Malawi maternal-health and refugee-support charities have ceased work and do not expect to open their doors until after Mr Trump's 90-day order elapses. At the same time, however, many projects that stopped were of a different nature. They were not saving lives. Instead, they focused on a more material aim: to make Malawi richer.

Mr Trump's decision is an extreme example of a broader trend. On February 25th Sir Keir Starmer chopped Britain's aid budget from 0.5% to 0.3% of gross national income to spend more on defence. France, the most generous Western donor after America, will this year reduce aid by 35%. Germany is considering cuts, too. Polling indicates broad domestic support for these decisions. Most big-name economists, including at the IMF and the World Bank, still insist on the importance of development spending—that intended to make countries richer—but even this consensus is fraying: some influential development economists now question how much good such spending really does. Could something better emerge from the mess?

Paper trail

First consider where money currently goes. Rich countries spent $256bn (or 0.4% of GDP) on foreign aid last year—enough to provide sub-Saharan African governments with a sum as large as their total tax revenues. Only a sliver of the spending will have gone to cultural causes, funding the sort of pro-democracy charities and independent newspapers that MAGA types despise. Around a quarter will have been humanitarian aid (covering disaster relief and refugees) and health funding (such as HIV treatment, vaccines and so on). Cuts to American and British spending have mainly provoked concern about what will happen to recipients of this sort of aid.

But by halting USAID Mr Trump has also paralysed a much larger system dedicated to boosting economic growth. Development spending accounts for almost three-quarters of all aid. It most often subsidises favoured industries, frequently funds infrastructure construction and sometimes pays the salaries of teachers. The average Malawian has had more money spent on them by international agencies than by their own government every year since the country gained independence from Britain in 1964. Lilongwe's current state shows development aid's ambitions; the country's poverty reflects its failures.

Development agencies were first established to support newly independent colonies. Inspired by the Marshall Plan, which rebuilt post-war Europe with American money, President John F. Kennedy set up USAID in 1961. The promise was that a richer world would be both better for the worst-off and friendlier to the countries financing its growth. Aid economists treated poor countries as small rich ones that simply needed extra public investment. Some agencies of that era, supposedly temporary, are still doling out cash.

In the years after the cold war, bilateral aid often linked handouts to democratic reforms, since policymakers believed that autocratic rulers held their countries in poverty. Then, in the early 2000s, development took on a more universalist hue; the focus shifted to building human capital through improved schooling and health care. From 2004 to 2014, aid spending increased by 75%. "There was a real feeling," says Stefan Dercon of the University of Oxford, "that if there was a time things were going to get going, this was it."

Things did not get going. From 2014 to 2024, the world's 78 poorest economies grew more slowly than in the decade to 1970, when aid was first emerging. This is perhaps unsurprising, given earlier studies. In 2004 William Easterly of New York University and co-authors found that, from 1970 to 1997, aid was just as likely to shrink the world's poorest economies as to help them grow. A year later the World Bank produced a post mortem on two decades of development aid, poring over the history of its recipients. The researchers concluded that its grants and loans did not move the needle on growth. In 2019 the IMF reached a similar conclusion. As Charles Kenny of the Centre for Global Development, a think-tank, notes: "There is no country that has really grown from aid."

Each generation of development spending has failed in its own way. Early efforts built a lot of bridges, many to nowhere. In 2005 David Dollar and Jakob Svensson, both then of the World Bank, and Dani Rodrik of Harvard University, looked at disbursals tied to political reforms—and could not find a country where they had produced better policy. National leaders were concerned with staying in power; a desire strong enough to warp whatever advice, and however much money, aid bureaucrats provided. Earlier work by Dollar had found that aid simply magnified governments' existing tendencies, speeding growth in countries that were willing to push through macroeconomic reforms and slowing it in those which were not, of which there were just as many. The problem was simple: there was no way to tell which bucket a country would fall into before handing over the money.

Health spending has had some real successes. The provision of HIV treatment helped halve deaths from AIDS in the two decades to 2020, for instance. But it has not prompted economic growth. Similarly, research has found little link between primary-education aid and output. In 2015 Axel Dreher of Heidelberg University and Steffen Lohmann, then at the University of Göttingen, looked at local economic activity after the building of schools, social housing and other projects in a range of locations, and found no increase in the amount of electric light, their proxy for economic growth. There were not enough businesses to make use of locals' new skills, he theorised. And instead of strengthening recipient countries' ability to provide public services, aid often weakens it. The IMF has found that more development spending tends to result in lower taxes. Last year Avi Ahuja of New York University concluded that it produces less competitive political systems, as incumbents wield the cash to win votes.

More recently, disillusioned economists have turned to the work of Esther Duflo, a Nobel laureate at the Massachusetts Institute of Technology, who uses randomised controlled trials to study interventions. Yet she has come to a dispiriting conclusion: there is no reason why what works in one neighbourhood will do so in the rest of a district, let alone on another continent. In one Indian village, for instance, giving women pensions made their granddaughters (if not their grandsons) healthier; in another, handouts failed to improve health or even

raise household consumption. Ms Duflo's findings chime with other research. In Bangladesh free health care killed private provision. In Africa aid-funded hospitals struggled to absorb knowledge from American doctors.

Orphaned

What lies behind this failure? Aid organisations are often criticised for wasting money on bureaucracy. In reality, they face a more fundamental problem: they have no idea how to encourage economic growth. The theory behind most Western aid has been staunchly liberal (in the British sense) for decades. Officials hope to build a private sector that can export to global markets, schools capable of furnishing firms with workers and infrastructure that will attract investment. Recipients are encouraged to dismantle regulation that stands in the way of free markets and to curtail unnecessary spending.

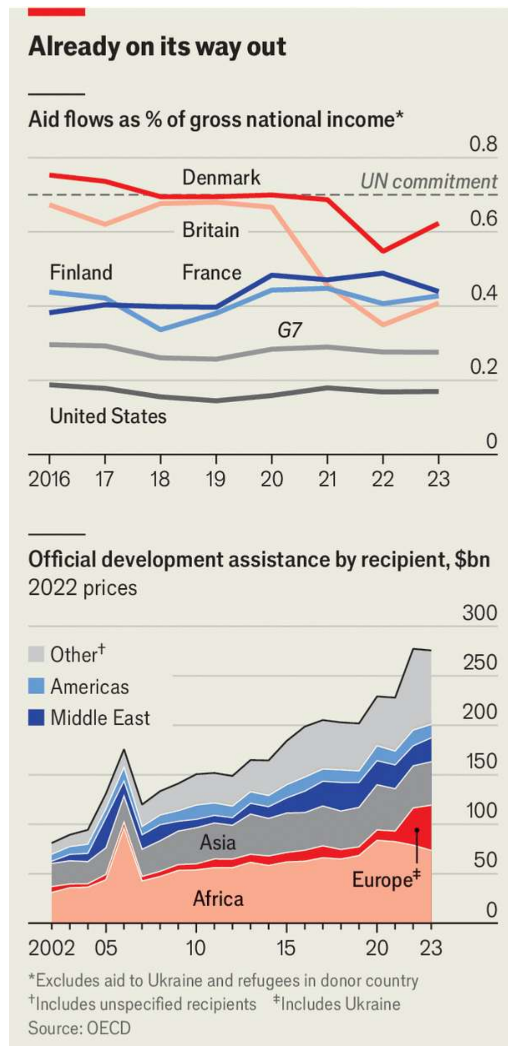

Chart: The Economist

Yet it is hard to hand out enormous sums without turning poor countries into miniature command economies. Development projects mostly attempt to build entire industries, such as dairy farming or fisheries, from scratch. Disbursal conditions can have a faintly Soviet air. In 2022 a typical grant to Tanzania's fishing industry, funded in part by America, demanded a fivefold increase in production over the next 15 years.

Many problems are similar to those that plague industrial policy in rich countries, not least when picking winners. In 2015 Lindsay Whitfield of Copenhagen Business School and co-authors looked at 14 African industries that received aid. They found that after handouts just two had raised output. Western aid officials often want to prevent local politicians, who control crucial industries, from profiting as a result of their projects, meaning they select obscure sectors for tax breaks, credit and subsidies. With few investors willing to stump up capital, and little interest from local politicians, the businesses duly flop.

Recipient countries have created entire bureaucracies devoted to planning, securing and documenting aid. The Malawian state, for instance, employs many more people to manage aid than to oversee trade. There is a reason

for this. After 60 years of disbursals, the world’s poorest countries provide public services beyond what would otherwise be possible with their tax revenues. Many also rely on assistance to keep foreign reserves cushioned, lifting living standards. “The first reason we can’t survive without aid is that it is all our dollars,” says an African official.

This makes any cuts to development spending, no matter how inefficient, a nightmare. National leaders protest that they will have to reduce spending on clinics or schools, or resist loosening a currency peg. Indeed, adroit politicians must both work with donors, so as to keep services running, and dodge the difficult reforms they seek, so as not to upset voters. The governments of Egypt, Kenya and Pakistan all find themselves caught in this pattern, with politicians punished when they fail to keep both sides happy. Protests have broken out in Cairo, Nairobi and Karachi in the past year when politicians have accepted reforms sought by development outfits. Ultimately, their survival depends both on receiving aid and not enacting the sort of policies that might, in time, reduce their dependence on such handouts.

Moreover, it is not just governments that are warped by aid. In many countries, everything from the banking system to import permits is designed to accommodate donors’ needs. Embryonic industries that are not favoured by aid officials barely stand a chance. Every year the best-connected and most-educated Malawians return from university abroad not to start a business, but to start a charity. On a weekday they pack out Lilongwe’s smarter dining spots, meeting with diplomats. Most live a stone’s throw away from downtown, on the site of offices paid for by aid agencies, and enjoy salaries far beyond those available in the private sector.

At the annual meetings of the UN, the World Bank and the IMF, which serve as informal AGMs for international policymakers, developing-world politicians admonish aid officials for granting them insufficient respect. The less aid works, the more stringent donors become—in the hope of turning things round—and so the larger recipient countries’ aid bureaucracies grow. Poor countries do not welcome the cash, which has become a fact of life; they resent the conditions with which it arrives. William Ruto, Kenya’s president, wants no-strings-attached money as compensation for decades of botched development.

Instead, the next generation of aid is likely to be even more strategic, and less concerned with saving lives. “I continue to support foreign aid,” Marco Rubio, America’s secretary of state, has said, “but foreign aid is not charity. It exists for the purpose of advancing the national interests of the United States.” This builds on earlier policy (under Barack Obama, USAID negotiated labour-migration agreements between Europe and Latin America to reduce pressure at America’s border) and mirrors moves in other parts of the rich world. In 2020 Britain merged its development agency with its foreign office.

Aid is about to be weaponised. The hard-nosed enforcers of the emerging approach are willing to sacrifice spending that did lots of good, including vaccination regimes, infectious-disease control and other interventions. In one of Lilongwe’s public gardens, a bureaucrat formerly in charge of USAID’s east Africa office lists the many clinics, schools and government offices now under threat. The idea that Malawi’s clinics might never re-open is agonising for aid workers, and uncomfortable for anyone who believes rich countries have an obligation to help the world’s poor. Nevertheless, that public life in many of the world’s poorest countries has ground to a halt on the whim of Mr Trump reflects how badly—rather than how well—much of the old system worked. ■