Does foreign aid work?

Why a rise after a program proves nothing on its own, how a randomized trial with a control group measures a program's effect, what one result costs, what counts as aid and how big it is, and what real trials in Kenya found.

1 Before and after

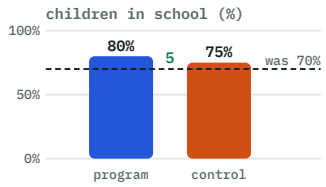
the trap

- Palmera · free school meals · **70** in 100 at school → a year later **80** in 100 · did the program do it? → **cannot tell yet**
- A good harvest, a new road, other changes → lift **every** village · one bar proves nothing
- Ask first · **compared with what?** → similar villages with **no** program
- **Control group** = the group that does **not** get the program → shows what would have happened anyway

2 The trial

let a coin decide

- **Randomized controlled trial** = chance (a coin, a lottery) decides who gets a program → groups alike in everything else
- **Treatment group** = gets the program · **control group** = does not
- Coin → groups alike → only the program differs → **gap = effect**
- `effect = treatment − control` · 200 villages, 100 + 100 · **80% − 75% = 5 points** (1 point = 1 child in 100), not the 10-point rise
- Practice · uniforms · 60% before · program **72%** · effect 6 → control **66%** · 6 of the 12 points came anyway



3 Price of a result

cost-effectiveness

- **Cost-effectiveness** = what one unit of result costs · e.g. $ per extra pupil in school
- `cost per extra pupil = total cost ÷ extra pupils` · divide by the **extra** pupils, not by all
- Lesson · meals · 100 villages × 200 = 20,000 pupils × $1 = $20,000 · 5 in 100 → 1,000 extra → **$20** each, not $1
- Practice · uniforms · 50 × 200 = 10,000 × $3 = $30,000 · 6 in 100 → 600 extra → **$50** each, not $3
- Practice · one budget, two programs · $10,000 ÷ $50 = **200** · ÷ $5 = **2,000** → 10 times · counts pupils in class, **not** learning

4 What is aid?

the official count

- **Official development assistance** (aid) = money **governments** give, or lend on **easy terms**, to low-income countries for development
- Counts · a government's school grant, vaccines, teacher training, drought food, a road loan at 1% for 40 years (banks: 8%)
- Does not count · **remittances** (family money from abroad) · a company's factory (investment) · a bank loan at the market rate
- 2024 · ≈ **$212 billion** from the donor governments of the OECD (club of mostly rich countries, Paris) = **0.33%** of their income (OECD, Apr 2025) · ÷ ≈ 820 million (2024) below the World Bank's $3-a-day line (extreme poverty, Lesson 1) ≈ $260 each · **scale only**: part pays for refugees in the donor country

5 The evidence

program by program

- **Deworming** (cheap pill that kills intestinal worms), western Kenya, late 1990s · 75 schools, 30,000+ pupils · pills in random order · absence **down by ≈ ¼** · ≈ **$2.92** per extra year of school (Miguel & Kremer, American economists, 2004) · 20 years on: ≈ **13%** more per hour as adults (Hamory et al., 2021) · how far it travels: debated
- **Free textbooks**, Kenya · in English, most pupils' 3rd language → no rise in **average** scores · best pupils gained (Glewwe, Kremer, Moulin, 2009)
- **For** more aid · Jeffrey Sachs, American economist, The End of Poverty (2005): more aid, well aimed → can end extreme poverty · **against** · William Easterly, American economist, The White Man's Burden (2006): aid nobody has to answer for → can keep bad governments going, miss the poor
- Nobel 2019 · Banerjee (b. India) & Duflo (b. France), MIT · Kremer, Harvard (US universities) · "does **this** program work, for whom, at what cost?" · overall verdict on aid: **still debated**

Watch out: a rise after a program ≠ its effect → subtract the **control** group · cost per extra pupil ÷ **extra** pupils, not all pupils · remittances and market loans are **not** aid · one trial ≠ proof for every country · one program's result ≠ "aid works" or "aid fails"