

Season 2. Episode 11: Aid cuts: Gamble on development or risky retreat? Insights from Professor Stefan Dercon.

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Hisham Allam: Hello everyone. Foreign aid is often seen as an act of generosity, a tool of diplomacy, or in some cases, a political liability. Today, however, it faces unprecedented challenges with the countries like the UK, the Netherlands, and the United States slashing their aid budgets. We are left to ask either just a financial decision or does it reflect a deeper shift in how nations see their global responsibilities.

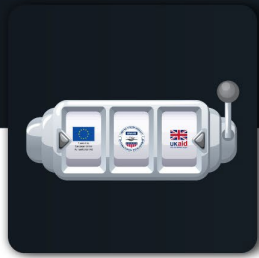
Welcome back to DevelopmentAid Dialogues, where we continue exploring the forces shaping humanitarian and development policies worldwide. I'm Hisham Allam. Today we are tackling a topic that has sparked intense debate. The drastic cuts to foreign aid by several major donor countries. With me as Stefan Dercon Professor of Economic Policy at the University of Oxford and the author of *"Gambling on Development: Why Some Countries Win and Others Lose"*. He has worked extensively on economic development and has advised policymakers on the impact of aid and international economic policies.

Today we'll examine what these aid cuts mean, whether foreign aid is as effective as critics claim, and what the future holds for global development efforts. Professor Dercon, welcome to the show.

Stefan Dercon: Thank you for having me.

Hisham Allam: I would like to start from your book. In the development aid situation right now, do you think that some countries are winning, and others lose?

Stefan Dercon: My book, *"Gambling on Development"* basically looks at the last three, four decades. Amongst countries that saw progress, you have some for whom progress was really fast. We typically think of the Chinese economy, but also like Indonesia or India in recent times, maybe some African economies like Ethiopia or Ghana. But actually, there's also countries that stayed behind. So, I think even just on the data, there are winners and losers and how to think about it is crucially my thesis. You need to understand what is the local constellation of power? What is the elite bargain? What is the deal between leading groups in politics, military business, academia, and civil society? What is that deal? And basically, is that broadly aligned with trying to develop and grow your economy or is this much more about an elite deal that seems to be bent on stagnation and status quo, happy with the way things work. Managing to channel resources to them and keep themselves in a powerful position and when I look at it in that way, there's this strong correlation that countries that ended up growing and developing were much more where an elite seems to



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have also taken interest in it. While in other places where there's much more stagnation or even a breakdown of cooperation between elite groups and we will have conflict.

We have either stagnation or indeed conflict and countries that somehow stay behind. Because the elites fundamentally don't seem to be interested in generally trying to progress their countries, but much more interested in keeping everything as it is.

Hisham Allam: I see what you mean. But now many countries, including the UK, Germany, and the Netherlands have cut their aid budgets. What do you see as the main reasons behind these decisions, and are they purely financial or political factors driving them?

Stefan Dercon: It's helpful when a question about how do understand today's aid cuts, to actually go back a little bit in time. Over the last few decades, ever since the late 1990s, actually, the aid given by Western countries has increased quite a lot. And this was a period where geopolitically, there was arguably very little competition. You know, it was only well into the 2010s that China started competing on the ground in the global south with Western aid donors. We had actually a couple of decades where there was no real geopolitical competition. Western countries were doing quite well and political opinion domestically they may not have been big fans of it, but they were quite aligned and they didn't mind too much that they were showing their generosity in other countries as well.

I think what has changed in the last decade is that geopolitics has slowly, and of course in recent years rapidly has changed where that means Western countries have competition on the ground. But meanwhile, western nations themselves have their own problem. The kind of political divisions as we saw in the United States, but we see in Europe bigger vocal groups of people that want to argue against foreign aid. So, this is a changing global world, a bigger suspicion domestically of some stagnation in Western countries as well. All kinds of political movements exploiting that. And then we seem to be getting a situation of a much larger and maybe more gradual political and geopolitical change.

Hisham Allam: That is an insightful perspective. Building on that, one of the loudest voices in the debate has been Elon Musk claiming foreign aid is unnecessary. How do you respond to these critics who argue that aid is ineffective or even harmful?

Stefan Dercon: Indeed, you know, Musk goes further and tries to say it's all part of a criminal corrupt organization and whatever, whatever. It's too easy to simply say all aid is effective, or all aid is ineffective. In fact, in practice I would strongly argue there is a lot of effective aid.

There's a lot of programs that actually deliver effectiveness in the way that people usually understand it, meaning delivering some good things for people, lifesaving support. There's a lot of humanitarian aid also in settings of conflict and displacement, and you know, there's a lot of good things being done for it. If you don't want to be a bit more demanding of it. And you want to say, is it an instrument of really development of change, of building up systems and resilience in countries? There is grants to say: "Hmm, the record is a little bit more mixed". And it links back to the point I made of how I also would look at the world as.



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There are countries in the global south in recent times where elites have put themselves behind the idea of progressing and growth and development. Now, if you were an aid donor working in some of these countries, aid actually was quite effective. So, I would say for many decades in places like Bangladesh or in Ethiopia or in Ghana, or indeed earlier in Indonesia, aid was quite effective because you had somehow constellations of powering both in government, business, military, and whatever, to actually say, we want to progress this nation, we want to grow this economy, want to make it stronger. So, it was actually quite effective there also as a source of supporting the kind of transformation we would hope for.

But then there's other places, and I fear I have to mention countries like Nigeria or the DRC or indeed, Malawi, or South Sudan where aid has been, broadly speaking, very ineffective and we are dealing there with regimes, with situations. Both regimes seem to show limited real commitment to make the hard choices, to try to progress their economies and to actually have change in these countries. Often also with elites that love to capture the natural resources and control or indeed don't mind creating situations where conflict is regularly raging, like in South Sudan. Now, in such places it's really hard to say that aid has really helped with development, with change. It may have done some good things, but clearly what we see at the moment as well, when aid gets withdrawn, everybody says, oh wow, people's lives are at risks and so on.

And then you have to ask yourself, we've been doing this for many, many decades as eight, what have we built as systems in such countries?

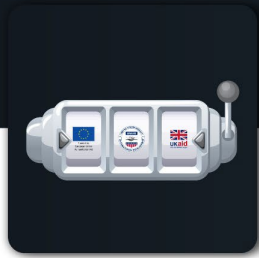
I think aid has not been very effective for the kind of change and development in places where local elites and local structures of power have not shown to be much interested in development at all.

Hisham Allam: That raises another important point as public opinion also plays a role in shaping these policies. In the UK, for example, 64% of the population supports cutting aid. What do you think has shaped this skepticism, and how can the case for aid be communicated more effectively?

Stefan Dercon: So, a first comment to make is that virtually in every country of the world there's always quite a vocal group it doesn't have to be a majority, that doesn't believe that the state can spend resources well. They're critical of the state of the way they function and so on. Now, aid, especially when it's given by states to other contexts, to other places outside their own borders, is a complicated matter. You know, this is not even just a state spending on its own population resources and then get a lot of criticism.

It's actually spending resources in other places where no of their own citizens really see what's happening. So, it's a complicated business. So, first of all, I'm not surprised that lot of people are always quite skeptical about it because it's, it's hard to imagine. The 64% you mentioned is something that is not new. The service have been done for many years, every month with more or less the same question around. Whether they would support cuts in AIDS and you get similar percentages. So, nothing has in itself changed that skepticism is there. Similar, if you go to Australia 10 years ago, there was service with similar results and indeed it's always a minority of the population that is strongly supportive of aid and the spending in other places.

So, we have to just respect that. It's a bit like classical music or theater or ballet, you know, you'll only get small, relatively speaking groups of population, definitely some minorities that actually support this because it's complicated. So, I'm not that surprised.



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What is most surprising is the leaders in countries in Europe and in the US happily act on it. You know, you would've expected them to have a better understanding of the role of foreign aid as part of their foreign policy, as part of their projection, as part of them showing themselves to the world in particular ways.

And that they now respond to it is of course very opportunistic and maybe a reflection of an inward-looking nature of a state. But I would make a more general point. The fact that these countries are doing it is a sign of weakness, of a sign of inability to know what their place in the world is and how they should project it, rather than any sign of strength. It is, it's a clearly a sense, we have no idea how we will project ourselves in the world looking for new narratives and withdrawing from something that, for many decades was an obvious thing as something that strong nations did.

Hisham Allam: That connects to something else I wanted to ask you about. Of course, not all aid programs are created equal. While some have saved millions of lives, the others have been criticized for inefficiency. What steps should be taken to ensure that aid funding is used effectively and delivers real impact?

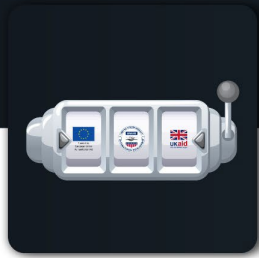
Stefan Dercon: One big lesson we'll have to have from these cuts that there were far too many countries where suddenly we said, oh, people will die. People will lose their life saving medicine and so on because it is cut. Now in some countries it was right at aid was providing this, you know, like in the form of humanitarian conflict settings displaced populations, places where the state cannot provide for anything. But we definitely made a mistake by actually thinking that in countries that are peaceful, that in principle could build up state institutions like Malawi's or the world or northern Nigeria where in principle states could function. Where actually it was providing this kind of life saving support and rather than actually it should have been either being used to build up the systems that are sustainable, or indeed, maybe we shouldn't have been there to actually make it to government's responsibility themselves to do it essential services.

They should, in every country that has a minimally sub functioning government be supplied by the governments itself and a should be maybe helping to develop them, set them up, build up the systems, or indeed provide help to provide the economic basis for all this. They shouldn't have been there. So, one of the lessons should definitely be is that aid was maybe effective in saving lives, but in too many places, it wasn't doing enough to get to support efforts for development. And one of the other lessons is maybe in some places, governments have so little interest in doing so that clearly aid should not be the one that substitutes governments in relatively peaceful settings to actually provide a good health, good education to their own population.

Hisham Allam: Speaking of challenges and opportunities in your book, *"Gambling on Development"*, you mentioned that list aid is a reality, but what is left can be used better? How can remaining funds be allocated more effectively to maximize impact? And I have another question. Why gambling?

Stefan Dercon: Right. Well, let me start with that, with that last point.

So, the title of the book was to refer to those countries where elite groups, powerful groups in society actually gambled on progressing on growth and development. Now, you could ask yourself. But why would



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I call that a gamble? You know, if I'm powerful or rich, a wealthy individual or group of people in a country with enough power, surely making my country richer will be a means for making me also richer.

Why don't I choose for economic growth? Why don't I choose for development? Well, the point is that if you're an elite, if you're part of the elite, you actually kind of like the status quo. You like the things as they are. If I'm a rich person, a well-connected person to government in Nigeria or in the DRC or in any other country, I don't necessarily want or need change. I'm fine and I can be powerful. I can be influential. I can have a really good life on my own. And in fact, we know that growth and development tends to challenge over time. In the economic terms, new firms emerge, new powerful groups will emerge and so on, who also want power and influence in the state.

Similarly, development gets people educated and they will expect certain things, and we know, in fact they often want political change as well. We know that economic growth has a strong correlation with leading subsequently also for demands for democracy and openness.

Put it differently. All these things are challenges to the status quo. What I find striking in the world that through history maybe first more in Western countries, but now in specific countries all over the globe, and not least in Asia, elites have actually said, look, we'll take on this gamble.

You know, we are confident enough that we actually will create the conditions that the economies can grow, that our people can be educated and, you know, we take this gamble and we'll see this and we'll see this true. And, and that's why, but it is a gamble because we know historically, if you look at Western countries, change started to happen when the land aristocracy allowed suddenly for innovation in agriculture, but also in innovation, in trade, in industrial development and so on. And fundamentally, if we think, for example, of England, that started challenging the land classes as well. And then new classes emerge in the cities and so on.

And if you look at the history of the last couple of centuries in many Western countries. There has been a change of the elite and new players have been able to commit.

Hisham Allam: Who are the potential new players.

Stefan Dercon: Well, let's take an example. India, they had a big economic reform. The biggest opponents of this biggest reform were a group called the Bombay Club, a group of business leaders including Burla and Baja, and basically people know Baja is all the rickshaw in the world, and Burla is a very diversified group now.

But they didn't want that change because they felt like their position may well be challenged. And if you look at it in India, new business families have emerged. New business conglomerates have emerged. A whole tech industry has emerged and is actually now quite powerful. That's a change, for example, in the business community of who is powerful.



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Similarly, you get new people to come up with education, new political forces also develop people that are challenging and so on. That's in the sense challenging the status of quo. So, in that sense, it is indeed a bit of a gamble for elites to actually allow openness, economic change, political change to happen in countries.

To come back to your earlier question, what does it mean for aid, it leads to something quite important. Aid tends to be most effective clearly if you have within the country, strong enough group of people who actually want to be, to progress to have growth and development. So, if you have a strong group and elite players also that is willing to say, look, let's open up, let's do the things.

Then you have really much more effective aid. So, if you want to go to a more effective development aid. We should be willing to be more selective and not simply say, there's a lot of needs. We are going to fix it all. It can do good things in places, but if it's a force for development, it needs to be able to be linked up to the local forces of change, and that also leads, if there are elites in certain countries that really want to stay to score only and look for stagnation, it's very hard to see that it can be that effective.

What I would say for aid in the future, we should be willing to be more selective. It's not self-evident where and exactly, but basically, we should look at it and saying, look, this whole idea that the aid community can fix it all from outside, that's just an illusion. We can only do it when there's local forces of change and unstrengthen them and that's what age should be doing.

Hisham Allam: Stefan, you have given us a lot to think about, but looking at the real-world consequences, what are the immediate effects of these aid cuts on the mostly vulnerable communities? Are we really seeing worsening humanitarian crisis?

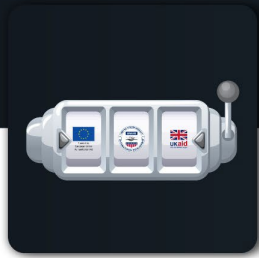
Stefan Dercon: Well, it'll take a little bit of time, but you can be sure that in the data we will see it in due course.

I mean, think of a big program like PEPFAR that was providing antiretroviral drugs in a lot of examples in Southern Africa. We will see it in the life expectancy figures because they were there. We know that there's a lot of humanitarian aid in a whole series of places that is really essential.

We know there were a lot of health and education interventions in places. So, we'll see it in affecting people very directly. Now, in the short term, we are going to see these shocks. At the same time, I regret to say that there's, in a lot of the places it shouldn't have been so dependent on USAID.

It shouldn't have been parallel systems outside the state that provided these systems. In fact, it would've been so much better that all these financial structures and strengths would've been used to really get systems to go.

But I think if we now with less money need to rebuild it, let's take a lesson to do something that can be resilient. And the only way to be resilient is to make sure that more and more of the crucial health services and other services in countries are less dependent on aid. That's the only way to get resilience that they can function. When random events like the aid cuts everywhere are happening. Meanwhile then focus our aid more on if we provide direct support in the places where clearly states are not functioning or not able



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to function. And otherwise just try to help to build up countries also, including with economic measures and other things to actually get them to become much more self-reliant for their financial resources so that they can provide themselves the services that people need.

Hisham Allam: That connects well to something else I wanted to discuss. You have argued in a recent article at the Independent that cutting aid is a sign of weakness, not a strength. Can you elaborate on how reducing aid affects a country's global and following and reputation?

Stefan Dercon: I think it's very clear, foreign aid when it came in its form as we know it now, it's probably the 1960s and then a big change again in the late 1990s in the way we were doing this, if you look at it, it was about showing your confidence in the world, showing that you are willing to support, to go out and show, the generous phase of the nation, the show that you actually can be there and be a force for good in the world.

Not being able to do this and stepping back and retreating inside your own borders is a real show that you are worried about your own strength, that you are not confident anymore to show this soft form, but it's a form of power, of ability to influence the world.

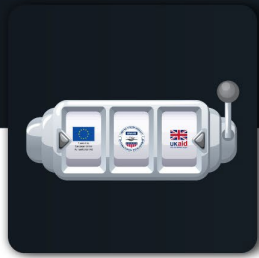
You certainly can't do it anymore. So, it's a size of weakness. It happens typically at times when you are less confident about yourself and maybe it is a bit of a reflection of a relative global weakness of Western countries at the moment. And it was not very expensive, so to speak, for the balance sheets of many of the countries. And I think it's that sense, a really unfortunate mistake. If we go back in time, all hip, back to the Roman Empire in fact, great nations have used it to show their generosity to the world.

Hisham Allam: Beyond humanitarian concern, as aid is also critical for global challenges like climate change, many climate initiatives rely on funding from development banks. What risks do aid costs pose for these efforts?

Stefan Dercon: We should first of all say maybe a word on the multilateral development banks, at the moment, maybe with a bit of luck, they won't be that much affected, but we'll have to see what it'll be.

They provide loans, and maybe they will still keep some of their firepower, but indeed for the poorer countries and the places where aid and grants had to be given also for these efforts, it'll definitely affect them.

And indeed, it'll probably affect in the first instance a lot the adaptation of efforts in some of the poorest countries. Meanwhile, for climate change and for global public goods, it's not just the aid cuts, but it's the general withdrawal of some powerful nations, including the US and also some tendency in some European countries to slow down on net zero commitments will of course also put a further burden on the developing world of some of the impacts that are happening.



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So yes, it is all going to be quite, quite a messy thing. And it is obviously something that the whole world will depend on better off nations, also fast-growing nations in Asia to make enough efforts to avoid an environmental or a climate catastrophic outcome.

Hisham Allam: That is a compelling point. On a related note, there is also an argument that aid helps preventing war on migration. While some say that this is difficult to prove, what does evidence suggest about aid's role in stabilizing regions?

Stefan Dercon: It's a difficult point to prove because actually, of course, the world, despite complex conflicts are complex. But one thing we can be very confident about is the existence of a positive correlation and most likely a strong causation in the following way that: better off countries have fewer wars.

GDP per capita is actually a very good predictor of whether conflicts will break out within countries or with neighboring countries. One of the things that is then quite important is that, you know, if aid is well spent and used effectively for those countries that try to grow and getting their economies in a good situation, then actually we will reduce conflict.

And conflict, of course, is one of the biggest causes of displacement and indeed of international migration. And migration will, in that sense, also be affected to the extent that we count through aid contribute to both stabilizing but also growing economies in a lot of places. Of course, there is another correlation that's a little bit more complicated is that to be able to move very far from where you started from, you usually need quite a bit of money.

International migration is not cheap, even for refugees. So, countries that get richer could also have more maybe people inclined to try to migrate, so it's a bit more complicated. But in any case, for an important part of migration and in any case for conflict, getting economies to function on the ground and see whether we can use it as part of real development and complementing countries that are trying to progress yes, by not doing this, will definitely increase the risks for more migration and the risks for more conflict.

Hisham Allam: Speaking of international aid strategies, China's Belt and Road Initiative was initially seen as a success, but later faced backlash due to debt concerns. What lessons can Western countries learn from China's approach to aid or vice versa?

Stefan Dercon: Let me briefly mention a few things on the China, on the Belt and Road and you know it started all very promising, as seen from China. It has created some problems. I'm not here going to say that it consciously tried to create a dead trap, but China had a wrong conception of how fast these infrastructures could deliver growth and indeed a return. So, these Belt and Road Initiative investments have resulted in quite a few places for high debts and arguably unsustainable debts. So, China will also have to learn quite a bit from its own efforts and, and rethink what it's doing because it has done its reputation in the global south, not necessarily a lot of good definitely in a lot of countries- it's also been politically exploited and I think they are learning and they will have to learn. Meanwhile, Western countries should just learn from the



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fact that in a lot of countries. Essential infrastructure and anything to do with building up these economies is just key.

Western countries should also not simply provide support and aid in areas that they will be directly maybe saving lives and building up and so on, but it should be development. It should strengthen these countries, and the economy is part of it as well.

And they should have definitely realized that there is a lot of interest in countries for actually building up. Whether it's infrastructure or just economic cooperation and trade, because in the end, development will have to come from private sector, from investment, from actually building up the economies of these countries because that will provide in a sustainable way the resources that also health and educational services can be paid for in other social services and so on. It can definitely learn somehow that there is a window of opportunity. What it shouldn't learn from China is that every country should be approached, you know, just as western countries, in my view, have not been selective enough in targeting the countries where there's a generating commitment for growth and development. A lot of the China's loans for infrastructure went to countries that it themselves didn't have that much interest in real development. Can only be reminded of conversations had with several finance ministers in African countries, in the previous decade when I was working for the UK Development Agency. That many of them would say: "Oh, if we can't repay these loans to China, they will just cancel them." Of course, that was never the case. And we know that China is not canceling loans at all from any country. It clearly was a mistake to give to some of these countries who had no intention ever to pay back the loans.

Clearly with an elite and leaderships that were very little interested in development, China was giving a lot of support to them as well. Not now necessarily. So Western countries shouldn't make that mistake. They should learn both from the pluses and the minuses from China's experience in this kind of domains.

Hisham Allam: That really puts things into perspective. But before we move on, many aid agencies, including the World Bank and the UN bodies face criticism for being overly bureaucratic and cause delay to development aid. How can these institutions improve their effectiveness?

Stefan Dercon: You mentioned it already the delays and the bureaucracies and so on. These institutions have all become too bloated. I must say, often you get a sense that they are first and foremost interested in their own self-preservation. There's lots of good individuals working in these institutions, very committed and occasionally also you have leaders in these organizations that mean well, but they're ripe for a real overhaul.

Actually, it would be really important and helpful if recipient countries offered support in the global south, we're a bit more vocal and a bit more critical of the way these organizations were functioning. Yes, they have a lot of firepower, but they should also be the ones that would need to encourage them to become more effective. In my view, as I can only repeat it, what I implied earlier on, be willing to be more selective.

For example, the World Bank has an important instrument, essentially concessional loans. It's called the IDA. And these IDA loans are the biggest source of subsidized credit really for developing countries. But if you then look at, say, the periods 2016 - 2019, of the five largest recipients, three of them were the DRC (Democratic Republic of Congo), Nigeria and Pakistan.



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And you don't have to know an awful lot about these countries to actually be willing to recognize at the time. Definitely they had leaderships and elites that were not that interested in really growth and development, but the largest loans went to them. Meanwhile, there were several different countries, including like Tiva and Ghana and others that were actually trying still to do something reasonable. Yes, imperfectly, but they were still doing something reasonable. It includes Ethiopia as well, and they were all told, oh no, you can't get more loans from the World Bank subsidized loans you need to go to the international bond markets. So basically, you need on to take on commercial loans, of course at a far higher cost. And indeed, many of the countries that in that time went to the bond market are now in debt to stress. That's actually clearly something wrong, that countries that were really trying to do something end up having to pay for very expensive credit while countries that were clearly not using the resources well.

We're actually getting the subsidized one from the global community. So clearly there are things like that we need to learn to think about it. How can we do this better? And just use it far more effectively.

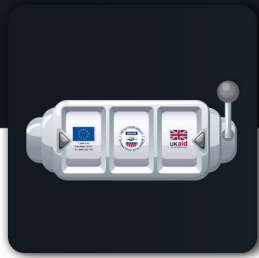
Hisham Allam: Sorry to jump in, but there is a crucial point I'd love to explore further here. A question that often comes up is whether aid should be given to authoritarian governments. Should foreign aid be tied to democratic reforms and governance improvements?

Stefan Dercon: Let me first make a point clear. I really like my democracy. Okay. I think it's really important. It would be really great in a lot of places that, that we have more democratic reforms, but I don't think it's up to aid where you actually want to look for development and a good use of resources for development of the country and the population that actually should link it to democracy or not. And in particular, I go from the evidence. If you look across the world and you look at capital growth, GDP, so the economic growth in these countries, there is actually in the data no difference into the extent of whether democracy or autocracies perform better.

Okay? There is a difference that actually some of the best performing countries are autocracies in this metric, but also some of the worst, or put it differently, there's much more variance. But on average, they perform reasonably well. But it's also important to recognize that there are places like, you know, Malawi, it's a democracy.

You know, it's stagnant essentially, and definitely doesn't use its aid resource as well. Nigeria is a democracy. It doesn't use the resource as well. DRC is more or less democracy as well. You can't really say it's using its resource as well. Okay? There are democracies that use them well, for example the periods of the most progress in Bangladesh, in and in Ghana were periods when democracy was really flourishing. Similarly, Indonesia, after 1997, there was a democracy flourishing and actually resources are being used really well.

The point is that actually you have democracies that use aid well, and you have democracies that don't use aid well, you have autocracies that use aid well, for development and for the population, and you have autocracies that don't do it well. And I don't see a difference between them, so I don't want to link it.



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Hisham Allam: As nationalist and populist politics rise, where do you see the future of foreign aid heading in the coming decades?

Stefan Dercon: Well, look I don't think that populist and the kind of regimes that we see in the US or in some European countries at least where pressures are rising.

There are waves here. This will not last forever. But one thing we can be quite sure of that, the shock that is given to the aid system, it'll not be easily restored. You know, in the UK it's a center left government doing this. In the US it's of course a very different type of government.

But basically aid as we knew it is gone. There will be less aid available. But let's not get the crisis go to waste here, let's actually really rethink, how can we be effective? And effectiveness will have to include in its definition resilience and sustainability.

And that will mean working as quickly as possible that we are dispensable, that we are not required for a lot of the things in lots of countries that things are provided by aid. So, it's actually more than ever before trying to find ways of supporting countries that want to build up their systems to make them function.

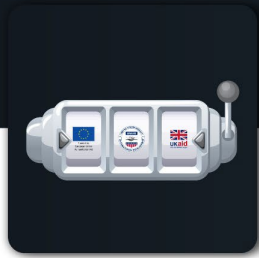
And actually, maybe having to be a bit more ruthless because we are not helping in the end current and especially future generations of populations, by creating dependencies again on aids it would be a massive mistake. So, there is an opportunity here, but it will be with much less aid. There is a chance, and I'm not saying we'll take it, but there is a chance that something better will come out of it in coming years. Meanwhile, of course it's going to hurt a lot of people and we have to be conscious of that, but maybe in five years or so, maybe a better system can emerge from that and it will have to be pushed from the ground, from countries themselves.

They need to think of how to set up their economies and, and their societies, to deal with this. Because you can't depend on outside forces, and that's what recent times are showing.

Hisham Allam: That's insightful. Another aspect to consider the private sector. Some argue that foreign aid should be replaced with private sector funding and corporate initiatives. Do you see this as a viable alternative?

Stefan Dercon: The first thing to say about is that, if you were to say government should depend much more on corporate initiatives and so on, that that would, for example, imply they should raise their money on global capital markets and pay market rates.

You know, there is still a virtue that poorer countries can have access to credit, for example, via the World Bank or from regional development banks. That is actually an advantageous raise. The other side to it though is that, all economic growth in the end is driven by private sector, and all successful nations in the world the state may have played a variable a role in different ways, but in the end, it comes down to private capital, private investment, and growing the economy.



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But you want to create and help countries to create circumstances, conditions that private sector can invest, because that's the only way where jobs will be created, is the only way where further tax revenues can be generated and indeed, in that way, also the only way to get both better living standards and better health education, other services for people.

Hisham Allam: Before we wrap up, I have one final question. If you had a direct message for policy makers considering further aid cuts, what would you say to convince them otherwise?

Stefan Dercon: Well, the first thing I would say is that it's just a sign of weakness. For the government budget these are relatively small sums. They're not at all substantial. They may be briefly popular with public opinion in some countries, but they undermined fundamentally how you project yourself and your place in the world.

You know, it's a very, very big mistake to do this and this is actually without having to refer what is of causing important, the damage you do to people's lives, shock you will give to systems. You know, yes, I'm in favor of much less a dependence, but doing this to shock therapy is absolutely not the way to do

Hisham Allam: Thank you, Stefan. As we have discussed today, foreign aid is not just a budgetary decision, it's a reflection of a nation's priorities, its role in the world and its commitment to global stability. But if these cuts continue, we must ask, what message are we sending to the world and what are the long-term consequences?

Professor Stefan Dercon, thank you for sharing your insights and to our listeners, what do you think, should wealthy nations, continue their aid commitment. Or is it time for a new approach? Let's keep this conversation going. Share your thoughts. Subscribe to DevelopmentAid Dialogues, and join us next time as we explore another critical issue shaping global development.

Until next time, stay informed. Stay engaged. Thank you.