Does foreign aid help or hurt poor people?

In the early hours of 3 February 2025, Elon Musk posted that his Department of Government Efficiency (DOGE) had spent "the weekend feeding USAID into the wood chipper"; days later he brandished a chainsaw on stage as a symbol of cutting federal spending. USAID's website went dark, staff were locked out, and nearly all employees were cut. Musk called USAID "a ball of worms. There is no apple … it's beyond repair."[1] Yet studies estimated that those cuts cost 500,000 to a million lives just in the time until they were blocked.[2] Not worms, but people, mostly children. Without a doubt, waste and fraud were present, maybe rampant, amongst aid givers and takers alike, but how do we decide what aid is actually helping the impoverished?

There are many angles from which aid itself is argued to be ineffective. For one, fifty years after Official Development Assistance (ODA) programs began, there are few studies that report substantial growth in aid-receiving countries, and these face heavy criticism for methodological concerns. Most show no significant growth at all.[3] Africa, for example, sees aid as its highest share of income yet has the lowest growth of any continent.[4] Even sympathetic studies concede that evidence such as cross-country works show that the macro correlation is modest at best.[5]

However, addressing the question, we don't know how well GDP per capita reflects individual wellbeing and prosperity.[6] Additionally, the time between aid's arrival and its full impact on an economy might be far longer than we thought, and our measurements may be an effect of correlation (poorer countries would receive more aid) rather than causation: indeed, a causal effect of aid on growth has been shown.[7] Good fiscal, monetary, and trade policies that get bilateral aid from the government to the people allow people to break out of a poverty trap, coined by Jeffrey Sachs in *The End of Poverty*, to describe when successive generations are simply too poor to save.[8] GDP growth alone is therefore too ambiguous to settle the question.

Despite this, Mark Littlewood asserts that government aid "does more harm than good through crowding out private investment, investment which drives economic growth, and by fuelling corruption by local elites."[9] There's no accountability with government aid, so recipients grow a culture of dependency and entitlement and avoid private investment where those things exist. In *Dead Aid*, Dambisa Moyo argues that aid would only work if phased down over time.[10]

As Littlewood touched on, such aid often goes into the pockets of already wealthy local politicians. As the decision makers in the nation, those providing aid for strategic ties still receive that benefit, and the 'aid' just becomes a fee for that. The strategic nature of certain aid, such as US aid to Mauritania for recognizing the statehood of Israel, is also fundamentally not

'aid'.[11] Nobel Laureate Sir Angus Deaton argues that it's immoral to call such strategic bilateral payments philanthropic, yet this is what most aid is. He asserts that large-scale government-to-government aid undermines local governance, stifles domestic tax accountability, causes inflation, and fuels corruption, again concluding that it does little to sustainably help the poor.[12]

No representation without taxation also comes into effect, as the government's wealth and individuals' political success no longer depend on the people, so this could genuinely hurt the poor by giving rise to dictators who enjoy the aid and exploit the subjects. This may even lead to the formation of militant groups, coups, or outright civil wars to be the ones controlling and benefitting from the aid, further harming the common people.[13]

Valentina Finckenstein from the London School of Economics and Political Science (LSE) IDEAS research department documents a major aid-corruption case in Lebanon. Lebanon received $170 billion from 1993 to 2012, more than the entire Marshall Plan, to help with reparations after a 15-year civil war and to keep the government solvent. From 1992 to 1997, the aid was used for reparations, but after this point, aid was just to manage the government's debt and its servicing. Rather than doing the hard work of restructuring fiscal spending and curbing waste, Lebanon became dependent on aid, and received packages from conferences like Paris I, II, and III, as well as CEDRE and others following the Beirut explosion, to unlock money just before crises or elections. They lacked accountability to the people and to the funders, enacting only 22% of reforms – the country had electricity for a fourth of the day and no public transport or national rail – yet receiving over half of promised funding at Paris III regardless.[14]

This case study is a prime example of how aid can actively hurt the poor. The government not only did not enact promised reforms and got away scot-free, they intentionally continued to do so with that knowledge since more funds would pour in irrespective of their actions. The government, as its income was coming from abroad, was not at all accountable to the Lebanese population, with 92% of the people believing that corruption was on the rise in 2016, while 67% believed that the majority of political and economic elites were corrupt and 76% believed that the government was not doing enough to prevent it.[15] The top 1% in Lebanon receive about a quarter of the national income[16] while 300,000 are homeless and over half the country is under the poverty line, so the people are right to be sceptical. It's clear the aid has failed the poor.[17]

Meanwhile, $30 million in EU funding for composting was embezzled, producing not a single composting plant,[18] and a single individual siphoned $330 million of the funds overall.[19] NGOs on the ground ended up doing most of the work the funded local ministries and municipalities completely neglected. When discussing aid that does work, NGOs are a major example. The IMF found that NGOs do significantly better at helping the poor than bilateral aid in fields such as infant mortality. They talk about the 'substitution effect', where bilateral aid may cause the receiving government to pull out their funds and substitute it with the aid, showing no net improvement besides leaving more money in government coffers, which opens it up to waste, fraud, and corruption. Where bilateral aid fails, NGO and grassroots aid is able to make a real difference, especially on an individual level.[20]

Rather than handing money to the government, NGOs enter the scene and see to it that the poor are helped, and Finckenstein from LSE does recommend this route instead.[21] But there are times when bilateral aid gets deeply involved, which are the times when it really works. For example, in Lebanon, rather than being distant observers, the IMF forced Lebanon to amend its banking-secrecy laws and actually enact reforms after the major explosion in Beirut in 2020. Close oversight has seen some progress in Lebanon, albeit slowed by regional tensions in the Middle East.[22]

One type of aid that requires such engagement is urgent health and humanitarian crises. The famous smallpox eradication was a bilateral government vaccination effort, where countries came together and wiped out the disease over 11 years. The United States was the biggest funder, with $32 million, and it's estimated to have saved over 60 million lives since 1980.[23] Even Deaton exempts health aid from his case studies despite his otherwise harsh criticism of foreign aid across the board.[24] Cross-country analyses from Stanford show that when it comes to health aid, there is a genuine rise in life expectancies and a fall in child mortality.[25]

Such bilateral aid is effective because it's often delivered, at least in part, via an NGO model: funds bypass government coffers, volunteers get on the ground, help is given to the poor, and the job is done. PEPFAR, the US President's Emergency Plan for AIDS Relief, for example, is credited with saving 25 million lives; a study shows it saved 740,000 in nine countries from 2004 to 2008 alone, along with benefits to child and maternal mortality and immunization.[26]

The right aid push can indeed alleviate the poor stuck in a poverty trap, so the question is, as framed by Nobel Laureates Banerjee and Duflo, less about "does aid help the poor?", but "what aid helps the poor?". Case-by-case randomized controlled testing, documented in their book

Poor Economics, identifies scalable interventions like deworming, conditional transfers, etc. as being relatively effective. A key acknowledgement was that external validity was greatly limited, since techniques don't neatly transfer across contextual applications.[27]

This goes to show that aid itself is not the issue: it's the delivery mechanism that makes or breaks its impact. Handing money to political elite tempts and sustains a corrupt atmosphere, especially in emerging democracies when checks and balances are potentially weak.[28]

It is important to consider, however, where Lebanon would be without that initial aid package. Without help with reparations, fiscal restructuring, debt servicing, etc. would the country have been worse or better? I would argue that there is a genuine net negative caused by this aid. We can return to one of Deaton's key arguments: the countries that truly eradicate poverty don't do so through aid but through homegrown growth. China is a great example of this: after the fall of a millennium of imperial rule, an era of rule under warlords, a Japanese invasion, a brutal civil war between the Nationalists and the Communists, and two authoritarian government consolidations, it wasn't aid that gave rise to their incredible economic comeback and rapid eradication of poverty: homegrown growth, helped sustainably through trade deals, is what got them near-superpower status a mere 48 years since Deng Xiaoping opened the economy. Long term aid is simply not as effective in cultivating a nation of sustainable progress.

Back to DOGE, a 2025 study from the Lancet estimated that between 8.5 to 19.7 million deaths could be caused by Musk's rapid cuts from then to 2030; this data is historically backed, since USAID has been credited with saving 90 million lives, including 30 million children, a lot of which is health and humanitarian aid.[29] Between the America First isolationist craze and brandishing a real chainsaw at a government event, Musk's team didn't sort through which aid is helpful and which is not. Granted, DOGE made real, sustainable cuts, including prolonged strategic aid that entrenched corrupt, unaccountable, dependent governments, but it failed to see the benefits of rapid, targeted, and efficient aid that had a real impact on real people.

The question of "Does foreign aid help or hurt poor people?" appears as a simple binary, but not all aid is created equal. Especially in fiscal cut efforts, like Musk's operation last year, and undoubtedly many more to come, discerning between what works and what doesn't proves to be what keeps millions of hearts beating today. I hope my essay makes that question of paramount importance much easier to answer.

Endnotes

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13. Deaton, The Great Escape; see also Swanson, "Does Foreign Aid Always Help the Poor?" (on aid, taxation and the heightened risk of conflict).
14. Valentina Finckenstein, "How International Aid Can Do More Harm than Good: The Case of Lebanon," LSE IDEAS Strategic Update (February 2021).
15. Transparency International, Global Corruption Barometer: Middle East and North Africa 2016.
16. Lydia Assouad, "Rethinking the Lebanese Economic Miracle: The Extreme Concentration of Income and Wealth in Lebanon, 2005–2014," World Inequality Lab Working Paper 2017/13.
17. Finckenstein, "How International Aid Can Do More Harm than Good."

18. Ibid.
19. Organized Crime and Corruption Reporting Project, “Lebanese Court Releases Former Central Bank Governor on Bail,” and Al Jazeera reporting, 2023–2024 (investigators estimate up to US$330 million siphoned by Riad Salameh).
20. Masud and Yontcheva, “Does Foreign Aid Reduce Poverty?”
21. Finckenstein, “How International Aid Can Do More Harm than Good.”
22. “Lebanon Amends Banking Secrecy Law under IMF Pressure,” 2025; see “Economy of Lebanon,” Wikipedia.
23. F. Fenner et al., Smallpox and Its Eradication (Geneva: World Health Organization, 1988); USAID global-health programme figures.
24. Deaton, The Great Escape; Swanson, “Does Foreign Aid Always Help the Poor?”
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